Trust and Efficiency in Public Procurement under Imperfect Institutions: Post-socialist Experience of Russia and Slovakia

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In developed economies, good institutions are associated with higher trust, which in turn increases the efficiency of economic relations and influences the level of economic development (Dyer and Chu, 2003). In transition economies, a low level of trust is combined with imperfect institutions and problems in economic development. We question, what type of institutions in relation to transitional economies can contribute to the formation of trust between economic agents and create preconditions for economic development.

We study this question analyzing the trust and efficiency in public procurement in Russia and Slovakia. The choice of these two countries is due to the fact that they represent two former planned economies, which then followed different institutional trajectories. Slovakia has taken the path of importing institutions from EU, while Russia formed institutions that are more responsive to the legacy of socialist economies. Our study considers public procurement, as it is a large sector, accounting for a significant share of GDP[[1]](#footnote-1). In transition economies, the problem of corruption in public procurement is typical, so this sector attracts a lot of attention from the government and regulators. We focus on public officials as they are responsible for the formation of conditions through which the resources are distributed.

There is a lot of evidence that institutional environment influences the specifics of contracting in public procurement (Kundmüller Caminiti, 2015; Treumer, 2018), but this issue in the context of buyer-supplier relations is not well studied. Of particular interest are emerging markets, where various institutional problems are more pronounced. Our study analyzes the influence of institutional environment, in particular regional specifics of public procurement, on the customers’ choice to trust new suppliers basing on their business reputation.

The empirical basis of the study is the surveys of public buyers in Russia and Slovakia, conducted in 2020. From customers’ responses the information about the inclination to trust new suppliers basing on their corporate reputation, the assessment of suppliers’ reputation importance, the assessment of the procurement effectiveness was obtained. With the help of information about the region of the respondents, we supplemented the study with variables, characterizing the quality of procurement implementation in regions where organizations operate. The methodology involves quantitative analysis of data using correlation and regression analysis.

We empirically prove on the case of two countries with imperfect institutions and high perceived corruption, that trust could improve the performance of procurement. While trust in new counterparties is positively correlated with procurement efficiency in both countries, the relationship in Russia is stronger than in Slovakia. We explain this by differences in established institutions and regulatory systems with help of second-best institutions concept (Rodrik, 2008). Although a significant relationship between trust and reputation is found only in Russian data, the assessment of the importance of reputation is positively correlated with efficiency in both countries. The study allows us to determine the key factors of procurement implementation at the regional level that influence building reputation-based trust with new suppliers. Our study contributes to public procurement research that examines the impact of institutional environment on various aspects of the functioning of the public procurement system in developing economies.

1. https://www.globalpublicprocurementdata.org/gppd/ [↑](#footnote-ref-1)