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Theoretical Understandings of Corruption in Iceland
Assessing the Fit of Principal-Agent and Collective Action Theory

Lindsey Mitchell

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Advisor: Gunnar Kristinsson

Faculty of Political Science

School of Social Sciences

University of Iceland

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Abstract

The field of corruption research for much of its existence has had its strongest theoretical underpinnings in principal-agent theory. More and more, authors in this field have begun criticizing principal-agent theory and the lack of effectiveness of anti-corruption policies that are based on said theory, given that they often seem to take a one-size-fits-all approach. Collective action theory, an alternative theory for explaining the causes and persistence of corruption in a state, has been rising in popularity. Neither of these theories have been fully explored in regard to corruption as it exists in Iceland. The purpose of this research is to attempt to establish whether either or both of these theories may be relevant in Iceland, based on core assumptions of each theory. This paper presents findings from an original survey in which data was compiled from members of the Icelandic public who were asked questions related to corruption, and more specifically their willingness to partake in corruption as well as their perception of whether or not others were partaking in corruption. Data indicates that a portion of the public is willing to take part in corruption, challenging the assertion of principal-agent theory that principals are incorruptible. Additional data indicates that individuals widely believe that others would take advantage of opportunities to engage in corruption if given the opportunity, pointing to the possibility that corruption in Iceland may be a collective action problem. Findings are analysed with the state of the developing Icelandic anti-corruption regime in mind in order to highlight potential future ways in which theoretical insights may be taken into account to create a more robust and corruption-resistant system.

Keywords: corruption; principal-agent theory; collective action theory; Iceland
Preface

My initial studies at the University of Iceland began as a student in the Graduate Diploma in Small States program. While my bachelor’s degree was focused in the area of global politics, very few of my courses ever covered the perspectives or unique challenges faced by small states. Being able to study this field from Iceland, a small state itself, was thus especially appealing to me. After completing the diploma program, I was so satisfied with my studies that I decided to enroll in the MA program in International Affairs. As my professional interests lie in the field of law, with a special interest in public international law, the program was a natural fit as it has built upon my undergraduate academic background and also provided me with a much more advanced understanding of the international affairs field. I am certain this will serve me well as I continue on to law school.

When I learned of the opportunity to work with Gunnar on his project exploring the effect of legitimacy on compliance and how that relates to corruption, my interested was piqued as this is an area of research I have become more interested in throughout my graduate studies. I was fortunate enough to be chosen to work under the project’s umbrella while completing my master’s thesis.

This thesis accounts for 30 ECTS credits towards a Masters of the Arts degree in International affair from the University of Iceland. While this project required perseverance, especially in working with statistical analysis software that was unfamiliar to me, I feel very fortunate to have been selected to work on it and hopefully make a small contribution. Because of this, I would like to first thank my advisor Gunnar Kristinsson for working with me and providing me with exactly the kind of hands-off, but available support that I most appreciate. I would also like to thank my friend Olli-Pekka Kinnunen who provided me with valuable support and feedback on this research, especially in regard to the statistical analysis portion. Additionally, three of my classmates and friends – Stefan Jovic, Vittorio Orlando, and Jimena Klauer –have been a constant support system during the often-confusing thesis process. I feel fortunate to have been able to complete the MA program alongside such intelligent and hardworking individuals, as they elevated the experience beyond merely an academic pursuit.
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1 Introduction

Over the past two decades, the international academic community has begun paying more attention to the topic of corruption, in tandem with an increase in the strength of the global anti-corruption regime. As states and governments seek to identify and rid themselves of corruption through a variety of measures to varying degrees of success, scholars have also highlighted how merely the action of adopting anti-corruption measures and establishing institutions designed to monitor and curb corruption does not necessitate that corruption itself will decrease. One of the reasons for this failure that has been discussed by some scholars is that many anti-corruption efforts and policies may have the tendency to take a one-size-fits-all approach.

Anti-corruption policy prescriptions are often developed on the basis of a specific theoretical framework. Bo Rothstein writes that “corruption research within economics and especially anti-corruption policy…have to a large extent been guided by an economic approach called the ‘principal-agent theory’ (Rothstein & Varraich 2017, p. 19). This theory largely developed by Robert Klitgaard (1988) and Rose-Ackerman (1999), focuses on the relationship between the principal and the agent. While there are multiple interpretations of who plays the role of the principle and who plays that of the agent depending on the field in which theory is being applied, in corruption theory specifically, the principals are generally thought to be honest and ethical actors interested in establishing and maintaining a non-corrupt system, and the agent thought to be an actor who has in some way been entrusted to act on behalf of the principal and to serve their interests. Discussed at greater length below, principal-agent theory indicates a specific dynamic that has had an effect on the development of the global anti-corruption regime. Principal-agent theory is so well-established, especially in the earlier years of corruption research and literature, that much of the good governance regime, made up of various international institutions including those that are specifically designed to reduce corruption, prescribes policies to states who are seeking guidance in the development or strengthening of their individual anti-corruption regimes that are based on principal-agent theory, thus implying the assumed accuracy of said theory (Ugur & Dasgupta 2011; Bukovansky 2006; Harrison 2006).

However, this has become a problem, as some scholars have rather recently begun highlighting how principal-agent theory simply does not properly characterize how corruption exists in all states. It then logically follows that policies based on corruption as it is understood through the principal-agent theoretical framework may have a more challenging time of being successful, if they are at all, in states where this theory does not provide a sufficient explanation.
for the existence of corruption there. For states where this theory does not hold, the assumed resulting failure of these policies could be costly and may ultimately do little in the way of corruption reduction or prevention.

Other academics have focused their analysis on the shortcomings of principal-agent theory in either underdeveloped states that suffer from very high levels of corruption or those that already have well-established anti-corruption regimes and are generally thought to have low levels of corruption, which will be covered in greater detail below. There are thus still significant gaps in this body of research, given the relative youth of corruption research in general and the even more novel critique of principal-agent theory. If academics have only recently begun second-guessing the accuracy of principal-agent theory and only in relation to some types of states, could there be other states where this theory does not provide an accurate assessment of corruption?

This paper seeks to answer this general question by providing an analysis of the fit of both principal-agent theory and another commonly referred to theory, that of collective action, in the state of Iceland. Iceland is an appealing subject given that it neither suffers from high levels of corruption, as other states do that have been analyzed in relation to principal-agent theory do, nor does it have a robust and well-established system of anti-corruption institutions in place as of yet, though there has been some movement in this area recently.

In order to assess the adequacy of principal-agent and collective action theory in Iceland, it is necessary to attempt to gain a better understanding of the nature of corruption in the state. Due to the notorious difficulty of being able to accurately assess just how much corruption is actually occurring and who precisely is participating in this corrupt behavior, considering the secretive nature of corruption itself, this paper will not make any attempt to judge how much or what type of corruption is occurring in Iceland. Instead, this paper will first focus on one of the core assumptions of principal-agent theory: the assumed incorruptible principal. As mentioned, principal-agent theory relies on there being a certain dynamic between the principals, taken to mean the general population for the purposes of this paper, and the agents, who are entrusted to act on the behalf of the principals given that they are typically in positions of political or bureaucratic power. One of the major premises of the theory is that corruption exists because agents are not properly incentivized to resist partaking in corrupt behavior. If the system can be rearranged and institutions put in place that make engaging in corruption an activity that yields a low benefit, as monitored by the honest principals, then corruption would
decrease. However, the theory rests on the idea that the principals are honest and ethical. How does this idea hold in Iceland?

An alternative theory is that of collective action, which focuses much more heavily on group dynamics and the role that the beliefs an individual holds about other people’s actions may have in determining that individual’s actions. In regard to corruption in Iceland, is it possible that Icelanders believe that their fellow citizens are engaging in corruption if given the opportunity, regardless of whether they are or not. Such an errant belief could potentially create a society in which the persistence of corruption becomes even more challenging to alter.

This paper will proceed as follows in order to answer the above questions. First an overview of corruption in general will be provided, discussing what it is, why it is challenging to define, and some ways that corruption is typically measured. This will provide greater context for understanding how corruption exists in Iceland, as well as highlight some of the questions that are typically asked in the field of corruption research, in addition to some of the shortcomings in this field. Then principal-agent theory will be discussed by providing an overview of what other academics and researchers have already contributed to this field concerning the theory and its applications, as well as how well-established this theory is in the current global anti-corruption regime. A discussion on some of the weaknesses of principal-agent theory will then follow in which some of the major criticisms of this theory that have been put forth by other authors will be summarized, followed by a discussion on an alternative theoretical framework—collective action theory—that many of these same authors have begun favoring more recently to explain the causes, existence, and persistence of corruption. A discussion on the state the anti-corruption regime in Iceland follows, along with an overview of the research that has been done thus far on corruption in Iceland specifically, and a presentation of the three hypotheses of this paper. An explanation of the research design and methodology of this paper follows, as well as a small discussion on Iceland in which the ways that Iceland makes an appealing research subject will be highlighted, as well and how this study provides greater breadth to the existing body of research in which principal-agent and collective action theory have already been analyzed. This is then followed by a presentation of the data as obtained through a survey conducted in Iceland concerning topics relevant to this discussion. An analysis of the data follows in which beliefs and tendencies of the ‘principals’ in Iceland are discussed in an effort to provide evidence to assess the overall fit of principal-agent and collective action theory in the state, as well as gain a greater understanding of other variables that may affect survey respondent behavior. In light of the findings, the hypotheses are reviewed. Finally, I will
provide a chapter concerning the implications of this analysis before providing some concluding remarks.
2 Theoretical Perspectives and Definitions

2.1 What is Corruption?

2.1.1 Defining Corruption

In 1966, Bayley provided a relatively expansive definition of corruption, describing it as “the misuse of authority, as a result of considerations of personal gain” (Bayley 1966, p. 720). While perhaps in line with some of the more contemporary definitions of corruption today, academics rarely focused on this field as a research topic in 1966, leading award-winning economist Gunnar Myrdal to describe corruption as “…almost taboo as a research topic and is rarely mentioned in scholarly discussions of the problems of government and planning” (Myrdal 1968, p. 937). Since then, the body of corruption research has vastly expanded, particularly since the 1980s. As author Michael Johnson pointed out, the major reason for this is that states, scholars, and lawmakers finally began paying more attention to corruption as a worthwhile area on which to focus and the relative explosion in academic literature followed suit (Johnson 2005, xi).

Despite Bayley’s early definition of corruption, Johnson recognized that the commonly used definition for corruption in the literature so far has remained quite limited in scope, focusing primarily on bribery as the predominant form of recognizable corruption (Johnson 2006, p.6). Using such a definition could easily lead one to miss other forms of corruption, like nepotism, cronyism, or extortion, among others, all of which can be damaging to a society. The definition used by the prominent anti-corruption organization, Transparency International (TI), provides greater breadth. According to TI, “corruption is the abuse of entrusted power for private gain” and may be classified as either political, petty, or grand in nature depending on the circumstances (TI 2019).

While perhaps obvious at this point in the literature, there has been some disagreement over the extent to which corruption can actually damage a society, as some in the past have argued that small amounts of corruption may actually be beneficial in a state. These arguments are primarily based on the “grease the wheels” hypothesis that was advanced by several different scholars, including Leys (1965), Huntington (1986), and Leff (1964). According to this hypothesis, some corruption can potentially raise economic efficiency in societies that have large and inefficient bureaucracies due to low-functioning institutions. When corruption in the form of bribes occurs, this flow of money through the system may provide some “grease” that is necessary to get the system moving again, leading to growth (Méon & Sekkat 2005).
However, this view has been generally rejected, as other researchers have outlined that studies show there is actually a negative relationship between corruption and economic growth, as well as the many other ways in which corruption is detrimental (Méon and Sekkat 2005; Rose-Ackerman 1999). To name a few of its negative effects, corruption can be hard to contain, making what could have once been a sector-specific problem a widespread issue affecting multiple sectors; corruption can contribute to an uncertain business environment, negatively impacting the interest of foreign investments; and ingrained corruption in a state can also lead to an increasingly challenging environment in which state reform can occur, as those in power who benefit from corruption may wish to create laws and regulations that protect their corrupt behavior. Of course, there are a multitude of other negative effects of corruption, many of them trickle-down effects of some of the most glaring problems mentioned above.

2.1.2 Measuring Corruption

Though it has taken the better half of a century to arrive at a place where it is generally agreed upon that corruption is both generally bad for society and a topic worth talking about, given the harm it can cause a society, as well as having at least some coherence on what corruption actually is, the debate still continues in regard to how exactly to measure the frequency or severity of corruption in a state. While a definition provides clarity in terms of what types of activities are considered corrupt, this is not practically helpful if it is not possible to determine at what frequencies these types of activities are occurring. The best and most objective way to measure the amount of corruption that is occurring in a state would be by taking an accurate measure of direct experience with corruption (Erlingsson & Kristinsson 2016). However, this is obviously difficult given that those who have experience with corruption may very well have actively participated in corruption, which could result in legal ramifications if brought to the light.

Again, turning to TI, this organization annually releases the Corruption Perceptions Index (CPI), which ranks states around the world according to their levels of corruption. In order to determine this ranking, the CPI report relies on peoples’ perceptions of corruption, given the challenge of accurately assessing how much corruption is actually occurring in a state. As has been discussed by other authors (Arndt & Oman 2006; Andersson & Heywood 2009; Erlingsson & Kristinsson 2016), relying on the CPI report as a way of assessing the presence of corruption in a state is at least somewhat problematic. The CPI report is formulated by relying on the perceptions of experts and executives who are often foreign and operating outside of the state in question. These indices may also be limited in scope, reflecting the often-limited bribe-
focused definition of corruption, as they primarily seem concerned with the exchange of bribes in a state. While relying on indices like that of the Corruption Perceptions Index do provide some valuable information, they perhaps should not be the only metric that is used when trying to assess the level and nature of corruption in a state.

These criticisms do not preclude the CPI ranking from providing useful insight, as experts’ perceptions of corruption are still valuable data and can certainly provide some insight into the existence and extent of corruption in a state. However, it is becoming apparent that corruption is an increasingly complex issue, given that there are different types of corruption, it can vary across industries, and there may be many state-specific factors that affect how corruption persists in a certain state that cannot be summarily explained through only one perspective, like that of these designated experts.

Similarly, as will be highlighted in greater detail below during the discussion on principal-agent theory, using one theoretical approach to understand and resolve corruption can yield little positive results if that approach is not properly tailored to the state in question. Sofie Schutte of the CHR Michelsen Institute, an independent development research institute that seeks to study various economic and political issues through cross-disciplinary approaches, calls for the new approaches in the field of corruption research. “We have identified a need for iterative, problem-based approaches, which take an experimental approach from the outset and have a specific focus on learning” (Schutte 2017). Using such an approach could allow for researchers to gain a broader and more in-depth snapshot of corruption.

One way of broadening the scope of how corruption is understood in a given state is by asking questions that are perhaps not typical in this field so far. An example of this, in terms of corruption perceptions, would be to not exclusively focus on expert perceptions of corruption, but also take into account the perceptions of the general public. In Iceland, three original surveys were conducted in 2016 by Erlingsson and Kristinsson that studied corruption perceptions in the state among three different groups of people: the public, experts, and practitioners. They were primarily concerned with gaining a greater understanding of whose perceptions matter about what corruption-related topics specifically when concerned with how much of a problem corruption plays in any particular country. In their analysis of the survey results, they were able to make several valuable conclusions about perceptions of corruption in Iceland specifically. These conclusions simply would not have been possible if they had only been concerned with asking ‘traditional questions’ or were merely employing a one-size-fits-all approach, like only attempting to understanding corruption in a state through the lens of one
of the commonly accepted corruption theoretical frameworks, regardless of whether that theory has been shown to apply to the state in question.

Of course, as Erlingsson and Kristinsson point out, using perception measures to evaluate corruption in a state “calls for a critical evaluation of the factors which may influence or bias results” (2016, p. 231). One of their findings confirms that “public perceptions would deviate considerably from those of groups with an information advantage” (2016, p. 220), making it clear that using public perceptions of a corruption as a way of trying to draw conclusions about the frequency or severity of corruption in Iceland should be ‘approached with caution’ (2016, p. 232). However, they further argue that they should not be completely discarded, as they do help create a more detailed and nuanced picture of corruption in Iceland that likely more accurately reflects the complexity of the subject at hand and provides important contextual clues that may speak to various emotive factors that exist in a state.

Beyond needing more innovative ways of exploring measurements of corruption, Bo Rothstein (2011) points out that much of the prevailing research in the field of corruption barely focuses on why corruption is actually occurring or researching the causes of corruption in specific states, which is quite surprising as this seems like the most important question of all if proposed solutions are to be effective. Instead many authors instead primarily focus on what types of institutions have been successful in reducing corruption in some states (Rothstein 2011, p. 235), assumedly in an attempt to create a sort of ‘best practices’ list that could then be applied to all. It seems only logical that in an attempt to solve any problem, corruption or not, applying a standardized solution without first understanding the problem is likely to fail.

Given the increasing complexity of corruption, it seems necessarily appropriate that the methods employed to study it are equally as complex and adaptable, designed with the intention of being able to accurately capture and study the many different types of corruption that exist across various industries, while also taking into account that there is extreme variance amongst states. Additionally, diverging from asking ‘traditional questions’ seems necessary if a true understanding of corruption in a state is to be achieved.

It is with this philosophy in mind that this paper seeks to provide even greater insight into the state of corruption in Iceland, with the hope that as more information is gathered, more informed policy decisions regarding the establishment of a stronger anti-corruption regime in Iceland can be made. Following Schutte’s (2017) suggestion of taking an experimental approach that is focused on learning, this thesis will continue to focus on public feedback via survey results in Iceland as a way of expanding the body of research that exists in order to
identify possible existing theoretical frameworks that help provide an explanation for corruption in Iceland. To begin this, a discussion on one of the most well-established corruption theories, principal-agent theory, follows.

2.2 Principal-Agent Theory
Principal-agent theory approaches corruption both from the rational choice perspective, as well as an economic standpoint, entailing that considerations of personal gain play a central role in this theory. Primarily developed by Klitgaard (1988) and Rose-Ackerman (1999), the theory focuses on the relationship between two actors: the principals and the agents. As the theory has been developed and applied over the years in various disciplines, there have been several ways of interpreting who plays the role of the principal and who plays that of the agent. Klitgaard and Rose-Ackerman interpret the agent as being a corrupted official, while the principal is the agent’s superior. In this standard model, it is assumed that while both the principal and the agent are interested in maximizing their own welfare, their overall interests diverge, and the agent represents the interests of the principal in some way and is endowed with more information. Given this informational asymmetry, the agent may act in ways that are actually against the interests of the principal if the benefits received by the agent are higher than the associated costs. Because the principal lacks information in this model, they have no way of truly knowing whether or not the agent is representing their interests accurately. One way that the principal can increase the chances that the agent actually is acting in ways that are aligned with their own interests is by creating an incentive system. While incentives cannot decrease the informational asymmetry dynamic, incentives do enable the principal to add factors that may alter the cost-benefit relationship, either decreasing the benefits or increasing the costs associated with engaging in corruption, and thus encouraging the agent to make choices that are aligned with the interests of the principal, given that these choices are more likely to maximize the agent’s welfare as well. Given this ability, the principal can use incentives to hold the agent more accountable in some way.

Other scholars continued to develop this basic principal-agent model in order to make it applicable to more types of corruption, as the basic model described above was originally applied to understand mainly bureaucratic types of corruption. To explain political corruption, for example, the model can be adjusted so that the agents are considered to represent appointed political officials while the principals could be considered the voters (Groenendijk 1997). Still however, the dynamic between the principal and agent is similar and the information asymmetry dynamic favoring the agent still exists. Groenendijk writes that even in principal-agent
relationships in which a hierarchal relationship does not exist, as in the agent is in a position of
greater power than the principle, the agent is always endowed with a greater amount of
information than the principal (1997).

Regardless of the interpretation, principal-agent theory as it is used in the field of corruption
research assumes that there is a clear difference of interests between the agents and the
principals, with the agents being generally self-interested actors who seek to maximize their
rewards, while the principals are “principled” and can decrease corruption occurring in a system
by offering and managing a system of incentives that increases the costs or decreases the
benefits for agents who could choose to partake in corruption. The overall idea is that agents
will continue behaving in ways that are corrupt unless they are properly incentivized not to.
Properly structured incentives are key in order to reduce corruption, as is the oversight role that
the principals are supposed to play in managing these incentives and making sure agents are
transparent and accountable. In order for an incentive system to be effective and for principals
to play the oversight role, the establishment of strong and honest anti-corruption institutions are
also generally considered necessary according to principal-agent theory.

This theory is very well-established in corruption literature and research (Rothstein 2011;
Aidt 2003; Teorell 2007), even years after it was originally developed. However, while well-
established and used as the framework for many anti-corruption policies, principal-agent theory
has been scrutinized more closely in recent decades, with some scholars rejecting its fit in
certain states entirely, as will be discussed below. This is not to say that principal-agent theory
as a whole is ‘incorrect’ or that it cannot provide valuable insight into the nature of corruption
in some states, as well as ways in which to decrease corruption in those states, assuming that
the principal-agent relationship dynamic exists in those places as described in the theory. In
general, using principal-agent theory to attempt to make sense of corruption in a state may work
in some scenarios. For example, in large democracies with robust anti-corruption institutions
where a proper incentive system can be developed and managed by principals who are
interested in reducing corruption, the principal-agent approach may provide an acceptable
theoretical framework. As stated, many contemporary approaches to reducing corruption are
based on the idea that if incentives can simply be structured correctly and institutions developed
to play a monitoring role, then corruption could be successfully reduced (Rothstein 2011), and
these approaches have had some success in some states. So, throwing the theory out the window
is not the solution, nor the intention of this paper.
However, there are some clear limitations associated with this theory. In a paper, Martin Zapata enumerates some of these major limitations: it relies on principled principals who will actually monitor and punish corrupt agents, it allows for a multitude of different principals, complicating the theory, and it relies on a state effectively implementing anti-corruption policies through various institutions (Zapata, 2018, p. 6). In regard to the first limitation, it is also unclear in the literature as to what exactly it means to be a principled principal. As definitions of corruption generally describe the behavior of individuals in positions of power, either through election or appointment, is it possible to just assume that if private individuals behave similarly, this indicates that they are unprincipled? Could behavior performed in some societies be described as unprincipled but not in others, depending on social norms and expectations? This remains unclear. Additionally, to what extent, if at all, can unprincipled principals exist in a state and principal-agent theory still hold? This also is unclear and perhaps makes the theory more vulnerable, given that the presence of a very small minority of corruptible principals could assumedly lead to the rejection of this theory when all other theoretical assumptions hold true.

Some of principal-agent theory’s other limitations have been explored by other authors. Persson, Rothstein, and Teorell examined the failure of the principal-agent theory in respect to explaining corruption as it exists in some sub-Saharan African states that struggle with high levels of corruption (2013). They argue that though both Uganda and Kenya have sought to curb corruption through the adoption of a variety of anti-corruption measures and institutions under the guidance of various global anti-corruption institutions, such as the Group of States Against Corruption (GRECO), these efforts have been largely unsuccessful, explaining that, “anticorruption reforms in countries plagued by widespread corruption fail is that they are based on a theoretical mischaracterization of the problem of systemic corruption” (Persson, Rothstein, and Teorell 2013).

Rothstein has also previously challenged the application of principal-agent theory in general, specifically in states that struggle with systemic corruption, where he instead categorizes corruption as a collective action problem (2011), as will be discussed below. For example, he makes the point that in states where corruption is very severe and runs throughout all levels of society, the assumed benevolent or honest principal cannot be trusted to act in ways that are honest, regardless of whether the principal is interpreted to be the agent’s superior/part of the political elite, as in the basic model as put forward by Klitgaard and Rose-Ackerman, or interpreted to be the public. Given that the principals in the theory are supposed to be able to
create and manage an incentive system to prevent agents from engaging in corruption, this assumption falls apart if the principals themselves also gain from allowing the system to stay corrupt or if they too are willing to engage in corrupt behavior themselves, as the costs associated with being the “only honest player in a rotten game” may also affect principal behavior, not just that of the agent.

There do seem to be some logical inconsistencies with principal-agent theory. If a properly structured incentive system is what is primarily necessary in order to reduce corruption, then solving the corruption problem would be seemingly simple. Principals could make it more and more costly to engage in corruption by creating a system in which the fear of getting caught outweighed the projected benefits of corruption. However, this does not account for societies in which the process of creating such an incentive system in itself (through the establishment of anti-corruption institutions, good governance organizations, and stronger legal ramifications, among others) also becomes a potential corruption problem. In a thoroughly corrupt state, who would be responsible for setting up such a system? Not only would some states struggle with a lack of honest individuals to set up the system, the institutional environment in that state may be so fragile that such institutions and more anti-corruption regulation could potentially create more problems than solutions (de Soto 2000).

It seems clear that beyond just a theoretical mischaracterization, the practical implications of using a theoretical framework that either does not accurately capture the dynamic of corruption in a state or prescribes policies that are simply unrealistic given the low institution-building capacity in that state can be costly. If the policies prescribed to a state that is battling or trying to actively prevent corruption before it becomes a serious problem are based on principal-agent theory, and that framework simply is not a good fit, it both seems, and has been shown, unlikely that those policies will succeed.

It is worth considering why states agree to try to implement anti-corruption policies that are prescribed to them by outside organizations if they know they are likely to fail. Most obviously, this assumes that those in positions of power in states that are suffering from corruption have a clear understanding of the type and severity of the corruption occurring in their state. It is very common that states, especially developing ones, seek outside help when implementing reforms of any kind, as these reforms may be tied to aid and policy implementation assistance (Bracking 2007). The global good governance regime has grown massively in the past decades, with many large international organizations having creating subgroups devoted to entirely to anti-corruption. Large and reputable organization, like the United Nations, the World Bank, or the
International Monetary Fund (IMF), organizations that use the principal-agent approach to reducing corruption (Walton & Jones 2017; Bukovansky 2006; Harrison 2006), may recommend policies to states that are struggling to address internal problems of corruption on their own and provide the resources necessary to help implement these policies. For the state to accept this aid and assume the effectiveness of the recommended policies seems then like the most reasonable option, especially given the positive reputation that many of the aforementioned organizations enjoy.

Though critiqued, principal-agent theory remains firmly entrenched in the field of corruption research, and many anti-corruption policies are ‘overwhelmingly influenced by principal-agent theory’ (Marquette & Peiffer 2015, p. 6). While some academics may have rejected the theory in some states, given its limitations, this approach seems too extreme, as principal-agent theory does have the potential to provide some valuable insight, especially if a state has the resources and ability to enact the structural reforms that policies and solutions following principal-agent theory typically would entail. However, as Rothstein (2011) points out, it is also important that when attempting to reduce corruption in a state, the causes of corruption are also explored, a factor that is generally not heavily explored in principal-agent theory, but is at the center of collective action theory.

2.3 Collective Action Theory
An alternate framework that can be used to understand corruption in a state is by framing corruption as a collective action problem. A collective action problem in general is the idea that when a group of people has some sort of common goal, achieving that goal becomes a challenge due to conflicting interests among group members, regardless of whether achieving the goal would be of an overall benefit to each member in the group.

One common way of understanding collective action problems is by employing game theory, specifically the idea of the prisoner’s dilemma. In this imaginary situation, two prisoners are held, both accused of a crime. If both were to confess, then both would be held in jail for a brief period of time. If one confesses but not the other, the confessor will be released while the other must remain in jail for a long time. If neither confesses, both will remain in jail for a long time. It is clear that it is in both of their interests and least risky if each were to decide to confess, essentially cooperating for the best outcome for both. However, if both prisoners were to pursue their self-interest (confessing in order to be freed), then they both would end up much worse. However, the prisoners are not allowed to communicate and have no way of trusting that the other prisoner will also choose to confess, thereby making it risking to confess.
Through game theory, it becomes clear that while working together may be in the best interest of the group, the choice to do so is challenging for actors to make on the individual level. One of the reasons for this is that making this choice may entail some sort of negative consequence in the short-term, like spending a short period of time in jail. While individuals may be willing to accept these negative consequences given the long-term benefit, they are hesitant to do so given that they lack trust and confidence that other group members will also make the same choice, as would be necessary in order to earn the long-term benefit.

When applying this thinking to the field of corruption, it’s easy to imagine a multitude of ‘prisoner’s dilemma’ scenarios. For example, imagine that a particular state’s police department suffered from corruption. Individual police officers regularly accept small bribes from citizens in order to avoid receiving traffic tickets, resulting in an overall increase in traffic offenses and unsafe driving. The officers enjoy being able to earn this extra income. To decrease the number of illegal bribes circulating in the system, the state’s government decides to create a system to oversee the number of citations written each week. Officers can earn points for each citation they give, allowing them to qualify for quarterly bonuses that would be of greater value in the money they currently earn in bribes. However, in order for this new system to be effective and for there to be enough money for the bonuses, the majority of individual officers must participate. While it would be to each individual officer’s benefit if the system were effective, as they would be able to legally earn more money, there is some risk involved that makes the decision to begin writing citations challenging. If an individual officer participates but the majority of officers do not, they will lose out on the income they previously earned in bribes and they will not benefit from the potential bonuses offered in the new citation system. It would be to all the officers’ benefit if they chose to participate, as well as society as a whole given that roads may become safer, but they lack trust in each other to make this choice simple.

Dilemmas like the one described above are at the heart of collective action theory. Many of the same authors who have criticized principal-agent theory embrace collective action theory, both as a way of providing insight into the actual causes of corruption in a state, a factor that is often paid little attention by principal-agent theory, and as a way to understand why the policies that generally go hand-in-hand with principal-agent theory often fail in states that suffer from systemic corruption. Collective action theory highlights the importance that societal norms may play in the existence and persistence of corruption, with Marquette and Peiffer explaining that ‘systemic corruption persists because corruption is widely perceived to be the norm…and
individuals gain little from abstaining from or resisting corruption if they cannot trust that others with do the same (Marquette & Peiffer 2015, p. 6).

One of the authors who has written extensively on the topic of collective action theory as a way of understanding corruption is Bo Rothstein. His criticism of the principal-agent framework centers on the idea that this theory simplifies corruption solutions without first exploring causes of corruption. He explains that in their focus on the anti-corruption institutions in various non-corrupt and corrupt states and how successful each of them has been in curbing corruption, proponents of principal-agent theory have missed a critical component that plays a large role in corruption: group dynamics (2011). The motivation of an individual according to the collective action framework is fundamentally different than it is described in principal-agent theory. Rather than being focused on maximizing utility by way of rational choice, as in principal-agent theory, an individual instead must consider what they think other individuals in their society will do when faced with choices. According to this line of thought, as has been put forward by a number of different researchers (Fehr & Fischbacher 2005; Rothstein 2011 & 2016), the willingness to choose to engage in corrupt behavior or not stems from whether an individual believes that other individuals are also participating or abstaining from such behavior, not from an analysis of the various individual costs and benefits of engaging in corruption, as is the case in principal-agent theory. This belief regarding the anticipated behavior of the group has huge implications for individual behavior. As explained by Fehr and Fischbacher: “If people believe that cheating on taxes, corruption and abuses of the welfare state are widespread, they themselves are more likely to cheat on taxes, take bribes or abuse welfare state institutions” (Fehr & Fischbacher 2005, p. 167).

Just as the motivations for explaining individual behavior differ from that of principal-agent theory, collective action theory also suggests much different policies for preventing and combatting corruption, especially in states that suffer from systemic corruption. Rather than an incentive-based approach which generally is built up over a period of time to curb behavior and requires a sturdy institutional environment, some argue that collective action theory would suggest more robust, comprehensive, and swift-acting reform in order to be effective. Referred to as the ‘indirect big-bang’ approach by Rothstein (2011, 2016), this method would not involve focusing on altering how individual’s make choices, but rather on changing an individual’s perceptions about what they believe other people are doing. According to Rothstein’s ‘big bang’ method, such an approach has two key implications in terms of policy, the first being that there is not a specific institution or set of institutions that must function effectively in order for
corruption to be reduced, diverging drastically from the principal-agent approach. The second implication is that directly targeting corruption is only likely to be as effective as the degree to which the entire public institutional system is altered via an indirect approach (2011). Because peoples’ perceptions are challenging to alter, this type of large-scale societal change is necessary in order to reach the necessary ‘tipping point’ (Schelling 1978) that must be achieved in order to make the shift to a new, non-corrupt system sustainable (Rothstein 2011).

In addition to Rothstein, a substantial number of other researchers have written on the benefits of using collective action theory to better understand corruption (Persson, Rothstein, and Teorell 2013; Zapata 2018; Persson et al. 2013), highlighting how employing this theory provides a much fuller picture of the societal dynamics that may contribute to corruption and why many traditional ways of combatting corruption, often through the lens of principal-agent theory, are not effective. However, while principal-agent theory may have experienced an uptick in criticism lately by proponents of collective action theory due to its limitations, it is important to remember that despite its current popularity, collective action theory also suffers from limitations in terms of how well it can be used to practically combat corruption. While collective action may provide us with greater insight into the actual root of the corruption problem, it still struggles to provide tangible ways to reduce corruption, especially in societies that suffer from a lack of resources or political will to reduce corruption. Marquette and Peiffer point out that in societies in which corruption is a collective action problem, the real issue at hand is not identifying the corruption but actually “the formation of a strong coalition that can coordinate efforts to tackle it” (Marquette and Peiffer, 2015, p. 5). Additionally, if, as Bo Rothstein suggests, a ‘big bang’ approach is necessary to radically shift and decrease the persistence of corruption in a society, how could a state that has few experts, money, or willing politicians and leaders go about pursuing such a drastic approach?

Furthermore, collective action theory holds that it is not an errant belief in what is right or wrong among members of a society that impacts an individual’s choice to engage in corruption, but rather their belief about whether or not other society members are engaging in corruption. However, how does this belief hold in societies where norms and morals may vastly differ among different groups in society? In a multicultural society that may include many different ethnic and religious groups who may have differing ideas about what is morally permissible, does collective action theory provide us with ways of combating corruption? In order to answer these questions and provide greater clarity on how effective collective action based theory policies actually are, more research is needed.
2.4 Corruption in Iceland

In order to assess how principal-agent theory and collective action theory may apply in Iceland, this research will first provide a brief overview of the state of the current anti-regime in Iceland as well as a summary of the research that has thus far been done in regard to corruption in Iceland.

First, it is important to acknowledge that in general, Iceland does not struggle with systemic corruption, as the rule of law is strong in Iceland and thus tolerance for high-profile corruption is generally low. Additionally, it is a small state and thus has comparatively few resources in relation to much larger states that have the resources that are likely necessary to establish a robust and effective anti-corruption regime. Much of the legislation related to corruption that is in effect in Iceland is part of larger European legal frameworks that Iceland then adopted into its own General Penal Code. For example, in terms of bribery, Article 6.10 & 12 of the General Penal Code criminalizes “conduct covered by the Convention of 21 November 1997 on Combating Bribery of Foreign Public Officials in International Business Transactions,” a convention developed by the Organization for Economic Cooperation and Development (OECD) and adopted by its members (OECD Convention 1997). Additionally, Iceland is a signatory to the OECD Anti-Bribery Convention, the Council of Europe’s Criminal Law Convention against Corruption, the United Nations Convention Against Corruption (UNCAC), and is a member of GRECO, as mentioned.

Iceland has been a member of the Group of States Against Corruption (GRECO) since 1999 and has in that time been subject to five rounds of evaluations, each of which resulted in recommendations designed to help Iceland reduce corruption and opportunities for corruption to occur by strengthening their anti-corruption regime. The most recent round of recommendations was published in mid 2018. So far, Iceland has a relatively positive record in implementing past GRECO recommendations designed to reduce corruption in the state. GRECO reports in its fifth evaluation report that 67% of the recommendations form the first evaluation report have been fully implemented, 50% of the recommendations from the second round, 73% of recommendations from the third round, and 50% of recommendations from the fourth round. Other recommendations from all four rounds have also been partially implemented (GRECO, 2018).

However, Iceland still lags behind in the development of their anti-corruption regime. They lack specific policy documents on corruption and the Inter-Ministerial Steering Group on corruption that was established in 2015 in an effort to monitor corruption and promote integrity
in various governmental institutions ultimately produced few concrete results and has largely stalled since its creation. The lack of more forward movement in this area is somewhat surprising, given Iceland’s signatory status in the above-mentioned anti-corruption bodies, and perhaps even more because of the 2008 Icelandic financial crisis that “revealed how the excessive intermingling of private interests with the management of public affairs can generate structural vulnerabilities in a country of that size” (GRECO, 2018, p. 4). This dramatic event rocked Icelandic political life and the effects have been long-lasting, with corruption remaining a contributing factor in the two successive government resignations since the crisis. It was also following the 2008 crisis that Iceland slipped in TI’s CPI ranking, yet relatively few concrete measures have been put into place since then to safeguard against similar events occurring again in the future.

While there are strong spots in regard to corruption in Iceland, notably law enforcement agencies which are reported to enjoy a high amount of trust from the public, GRECO also describes the system of rules that govern much of the conduct among government officials to be rather informal, with no regulation mechanisms designed to monitor codes of conduct and a lack of consistency as to how various rules apply to different corrupt behaviors. For example, there is no regulating body to monitor the relationships between lobbyists and governmental officials, nor is there a way of monitoring whether revolving door issues occur, according to GRECO (2018, p. 4). All of this is to say that while some anti-corruption rules and institutions exist Iceland, they are simply not robust enough, making it easier for corrupt behavior to persist. Even in law enforcement, which GRECO reports to be one of the most highly-trusted institutions in Iceland, a lack of resources devoted to this department has resulted in a structural framework that remains vulnerable to problems like cronyism, nepotism, and the ‘code of silence’ given a lack of firmly-established internal reporting and whistleblowing mechanisms.

It is curious that Iceland has thus far remained sluggish in building a more robust anti-corruption framework. Given that it was once ranked the least-corrupt state in the world according to the CPI ranking and that it suffered from a very public and financially devastating crisis in 2008 in which corruption played a role, it would seem as though Iceland would be more motivated than ever to confront its corruption problem head-on.

One possible explanation for the relatively few anti-corruption measures or established institutions that are designed to curb corruption specifically is described by Professor Daniel Treisman (2019). He hypothesizes that some countries who are reported to suffer from low levels of corruption, such as Iceland as indicated by CPI, and thus able to enjoy the benefits of
this reputation are perhaps able to sustain these low levels of corruption by having created a system that makes it easy for officials to remain relatively honest, given that the rewards they can achieve are similar to those that they maybe could have earned by engaging in corrupt practices. He provides several examples of how such a system would manifest. For example, a politician may be less willing to accept a bribe if they are operating in a revolving-door system that ensures they will always have a high-paying and influential position in government (Treisman 2019). This theory could help clarify why Iceland has remained sluggish in implementing more robust anti-corruption mechanisms and institutions.

Other authors have written about corruption specifically in Iceland, especially in relation to the 2008 financial crisis, which drew international attention. More recently, some studies have explored perceptions of corruption and tolerance of corruption in Iceland specifically. Erlingsson and Kristinsson (2018) studied tolerance of corruption in Iceland and Sweden and concluded that Iceland may struggle with weak administrative norms, making it more vulnerable to forms of corruption like patronage and clientelism (Erlingsson & Kristinsson 2018, p. 22). Additionally, they found that in general the public may overall be more tolerant of various forms of corruption than the political elite, challenging the assumed ‘purity’ of the public as described in principal-agent theory (p.19), though they did not explore this idea in-depth.

A 2016 paper, as mentioned earlier, by the same authors asserts that corruption in Iceland is ‘highly contested’ given that Iceland was ranked the least corrupt country in the world in 2005 by TI but then experienced the devastating financial crisis of 2008, in which corrupt behaviors like cronyism and nepotism were likely factors (Erlingsson & Kristinsson 2016, p. 216). The paper goes on to focus on whose perceptions regarding what types of activities should be relied on when attempting to measure the amount of corruption in Iceland. They found that while the majority of the Icelandic public had no personal experience with corruption, the public still believed corruption was occurring at a much higher frequency than did those with an information advantage, like experts (Erlingsson & Kristinsson, 2016, p. 232). They theorize that this belief could have to do with emotive factors, such as whether or not the respondent was a supporter of the ruling political party or not, as non-supporters were shown to perceive corruption occurring at higher rates than supporters (p. 228). This belief could also be rooted elsewhere, as there could possibly be a connection between an individual’s perception of others participating in corruption and their own willingness to do so, or vice versa, as discussed in collective action theory.
There is certainly more to be learned about corruption in Iceland. This thesis will explore the broad topic by attempting to learn more about the fit of principal-agent and collective action theory in Iceland.

2.5 Presentation of Hypotheses

It is clear that both principal-agent theory and collective action theory have strengths and weaknesses as they are applied to the study of preventing and reducing corruption. Some authors write about the two theories in a mutually exclusive way, as though by accepting the validity of one theory it is then necessary to reject the other. This author is not of that opinion and seeks neither to reject or accept either theory, but rather use the available data to assess the fit of both principal-agent theory and collective action theory in Iceland. It is possible, in this research’s view, that both of these theories may be valuable in analyzing corruption in Iceland, as well as in the ultimate goal of theorizing how Iceland could develop the most effective anti-corruption regime possible.

To assess the fit of these two theories, this thesis will begin by focusing on principal-agent theory and one of its core assumptions – the idea of the principled principal – in order to answer the general research question of whether or not principal-agent theory provides a good fit for explaining corruption in Iceland. It has already been shown by other authors that principal-agent theory is not a good fit for states that suffer from systemic corruption. Past research done on corruption in Iceland has suggested that the idea of the ‘pure’ or ‘principled’ public may not hold in Iceland, as the public has shown itself to be more tolerant of corruption than the political elite. Based on this, this research expects that principal-agent theory will not provide a complete theoretical fit in Iceland. In order to explore this hypothesis, empirical data will be used to further test one of the core assumptions of principal-agent theory: that the principals in Iceland can be described as unreservedly ‘principled.’

In order to explore the fit of collective action theory in Iceland, this thesis will again explore one of the assumptions of this theory – the idea that an individual’s beliefs about other people’s willingness to participate in corruption are an important factor in understanding the persistence of corruption in a state. Based on the collective action literature explored above, this research expects that corruption in Iceland may at least in part be explained by collective action theory. In order to explore this hypothesis, empirical data will be used to test one of the core beliefs of collective action theory: the idea that individuals believe that other individuals are more likely than not to engage in corruption if given the opportunity, as shown by their willingness to take advantage of personal connections for the purposes of this paper.
It is important to highlight that while this thesis does seek to assess the fit of both principal-agent and collective action theory, the research is not operating under the assumption that either theory will provide a complete and perfect fit and it is not this research’s goal or intention to accept one theory and reject the other. Instead, the main goal of this research is gaining greater insight into how one or both of these theories may help explain corruption in Iceland and recognize that it may be appropriate to conditionally or partially accept one or both theories. Furthermore, it is essential to acknowledge that in the attempt to assess the fit of both principal-agent and collective action theory, only one major aspect of each theory will be explored, given the constraints of this people and in an effort to remain focused. Because of this, it is possible that while the data may provide evidence to accept or reject one or both of the theories, such an acceptance or rejection would be in the context of the aspect of that theory that this thesis focuses on.

In addition to focusing on the two major research questions of this paper concerning the theories, this thesis is also interested in exploring some possible variables that may affect how individuals responded to the survey: legitimacy, impartiality, and compliance. As will be further explained in the research and methodology section that follows, does the presence of any of these variables have a significant effect on how survey respondents answered the questions (i.e. does the presence of legitimacy affect whether an individual would be willing to engage in corruption, as related to the idea of the principled-principal in principal-agent theory)? This thesis expects that the presence of these variables, either presented singularly or in combination with one or both of the others, will have a statistically significant effect on how participants responded to the survey. In order to test this hypothesis, empirical data will be used.
3 Research Design and Methodology

3.1 Research Purpose
The major purpose of this paper is to expand the body of corruption literature that currently exists, as there is not any current research that explores how corruption theories apply to Iceland. The goal is not to attempt to understand the amount of corruption that exists in Iceland or the type of corruption that is occurring, but rather provide insight into whether or not the general public is willing to engage in corruption themselves and whether or not they believe others are engaging in corruption. Thus far, there has not been research conducted specifically in this area. Additionally, this research hopes to identify if there are variables that may affect the aforementioned willingness or beliefs about others’ willingness to engage in corruption, as the identification of such variables could provide steps forward to further research.

In light of the to-be-discussed findings, this paper also hopes to discuss implications of these findings in relation to the state of the anti-corruption regime in Iceland. If corruption is found to be a collective action problem or if the principals in Iceland are to be found as unprincipled, what does this mean for the future of corruption in Iceland?

3.2 Iceland as a Research Subject
Iceland makes an attractive research subject for a number of reasons. This paper makes use of the results of a survey that was distributed to a stratified sample of Icelandic citizens. The survey, discussed in greater detail in the following research design and methodology section, asks questions that primarily deal with respondents’ perceptions, rather than their actual experiences. Given that perceptions are constructed and influenced over time by a large number of factors, it is key that any research endeavor that attempts to draw conclusions based on perceptions take these various factors into account as possible variables.

There are a large number of variables that may affect perceptions, including direct experience, as well as various cultural and societal factors like a state’s population demographics or the media landscape. It would be essentially impossible to control for all of these variables in any state, though some of these variables are perhaps less of ‘problem’ in Iceland, given a few of this state’s characteristics.

First, Iceland is quite homogenous, with a population of almost 357,000 people as of early 2019, the majority of whom have a very similar heritage and cultural background. While there has been a relatively recent, as in over the past decade, influx of immigrants who seemingly plan to permanently stay in Iceland, 86% of the population remains ethnically Icelandic
(Statistics 2019). This is worth mentioning because similar cultural background and heritage may help in mitigating some of the variables that could affect how respondents answer survey questions. Beyond being ethnically homogenous, Iceland also enjoys a very high level of gender equality among men and women, according to both the World Economic Forum and the World Bank (World Economic Forum 2017; World Bank 2014). Any significant variance between how men and women respond to the surveys then would likely not be due to income inequality.

Additionally, and quite importantly considering that this paper is interested specifically in better understanding corruption in Iceland, the media landscape in Iceland is not particularly large, nor diverse in terms of the way it delivers the news, in comparison to much larger states like the United States or France. While of course Icelanders have access to all types of media via the Internet, the number of agencies and organizations reporting on Icelandic-specific news remain few. This is noteworthy when combined with the fact that the majority of Icelanders have reported that they do access these Icelandic media sources regularly in order to stay informed, according to Gallup. Because there are only a few major media outlets in Iceland, it is not likely then that Icelanders will receive completely different interpretations of the same events, like a corruption scandal. Unlike in the United States, where the same event could be reported on in vastly different ways, thus influencing the perceptions of the consumers in vastly different ways. Again, in Iceland, the potential for this extreme media influence is mitigated given the media landscape (Erlingsson &Kristinsson 2016).

All of these factors allow us to simplify the research design to some extent, as it is not necessary as it would be in other states to take into account all of the various factors that could have created biases among respondents due to vastly different upbringings or experiences living in the state in question.

Studying corruption in Iceland is also appealing because Iceland has experienced a somewhat significant slide over the past decade and a half on the Transparency International’s Corruption Perceptions Index, as discussed. The organization has most recently ranked Iceland as the fourteenth least corrupt state in the world as of 2018. While a far cry from Somalia or Sudan, it is also clear that corruption in Iceland is far more evident or at least acknowledged now than it was in 2004 and 2005, when Iceland earned the spot as the least corrupt nation in the world according to the CPI reports. Iceland also stands apart from the other Nordic states, at it by far is the most corrupt of the Nordics, with Denmark, Finland & Sweden, and Norway ranking first, tied for third, and seventh, respectively. Is there something peculiar about Iceland specifically that makes it easier for corruption to exist there? The Reykjavik Grapevine, an
Icelandic news publication, reported in early 2019 that in regard to corruption in Iceland, “Nepotism and a lack of transparency, especially when it comes to conflict of interest between politicians and business, are both known phenomena in Iceland” (2019).

Finally, Iceland represents a type of state that has not previously been heavily studied in regard to corruption. It currently lacks robust or numerous anti-corruption measures and institutions, unlike some large democratic states that have spent years and many resources developing such institutions. It also does not suffer from the type of systemic corruption that pervades every level of society, as do other states that have been studied in reference to collective action theory as discussed above. Instead, Iceland is a small but developed state with high-functioning democratic institutions that has been generally thought of to suffer from low levels of corruption. Attempting to establish how well both principal-agent theory and collective action theory apply in Iceland is thus particularly compelling.

3.3 Research Method and Design
In order to gain greater insight into whether or not principal-agent theory and/or collective action theory provide a good fit for understanding corruption in Iceland, this thesis utilized the survey results of a large survey that was distributed to 6,400 individuals in Iceland who fit the target population of age 18 and older. These individuals were all selected randomly from the Social Science Research Institute (SSRI) Online Panel, which is administered by the SSRI at the University of Iceland. The Online Panel was formed and recruited for from 2010 to 2018 by telephone by using a random sample from the National Population Register, as provided by Registers Iceland. After concluding interviews, individuals were invited to participate in the Online Panel and then a sample of these individuals were invited to take part in the study. This sample was stratified according to age, residence in Iceland, and gender in an attempt to most accurately reflect that population in Iceland. Statistics Iceland provided information on general population demographics.

The survey was conducted in four waves: the 14th of March 2019, the 12th of April, the 9th of May, and the 6th of June. All of the data was collected by the 7th of July 2019. Individuals who had been include in the stratified sample received an email with a link to the survey. They were incentivized to complete the survey by offering various gift certificates. Of the 6,400 in the sample, a total of 4,564 individuals participated in at least one wave of the survey, for a completion rate of 71.3%.
The survey itself was designed as a component in a large research project primarily concerned with studying the effect of legitimacy on compliance in several major theme areas: corruption, taxation, and system support. The 6,400-person stratified sample was randomly split into three groups, each of which received questions pertaining to one of the theme areas. This paper makes use of responses from the group who received questions on corruption. This group was further split into eight subgroups, each of which received a different version of the same vignette to test for three experimental factors: legitimacy, compliance, and impartiality. The basic vignette is provided below for context, followed by the additions to the vignette that correspond to legitimacy, compliance, and impartiality, respectively.

Many people find it difficult to obtain suitable housing and service options when they get old. The government announces plans to offer a limited amount of funding to increase the number of service apartments available and the plan will be implemented by the municipalities. Imagine that you were in the position of seeking solutions of this nature in the public sector for a close family member. Blueprints of the plan suggest that in terms of apartment size and services the new apartments would fit perfectly for your purposes. Your municipality decides that the allocations will be handled by a politically appointed committee, but the order of priorities will be in favor of low-income groups, which reduces the chances of an allocation to your relative.

According to press interviews with representatives of the local government the decision to prioritize low income groups is the result of extensive consolations with local residents and reflects the wishes of a great majority, according to local surveys.

During the application process you notice that other applicants are using personal or political connections to improve their chances of being allocated a flat.

To oversee the process a group of external experts is appointed to prevent that some people will be given preferential treatment at the cost of others, e.g. because of personal or political ties.

After reading the vignette, the survey respondents received the same set of questions pertaining to the vignette, as well as general demographic questions. Given the scope of this thesis, two of these questions are taken into consideration: the seventh and the eighth questions, the results of which are then used to help answer the two main research questions. The seventh question corresponds to the question regarding the fit of principal-agent theory in Iceland while the eighth corresponds to the question regarding the fit of collective action theory in Iceland.

The seventh question reads as: “Supposing you could improve your chances of getting a flat for your family members by using personal contacts on the municipal council. How likely or unlikely would you be to take advantage of such an opportunity?” Survey respondents are then asked to indicate their answer on a scale from 0 to 10, with 0 being very unlikely and 10
being very likely. Because principal-agent theory relies on the idea of a “principled” agent who is incorruptible, the presence of individuals in Iceland who are willing to engage in corruption would then indicate that this theory does not entirely fit as a way of explaining the corruption dynamic in Iceland. It must be noted that some may take issue with the idea that question seven indicates corruption at all, as private individuals do often take advantage of private connections that they have for personal gain. This is neither illegal nor does this necessitate corruption, especially given that corruption implies an action performed by someone who has been elected or appointed to act in the interests of the public and instead seeks to maximize their own gain. However, given the conditions of the vignette and the nature of the question that this research is interested in exploring in regard to whether principal-agent is a good theoretical fit in Iceland, it is believed that this question does provide adequate insight into principal tendencies in Iceland in order to at least assess the fit of this theory from the perspective of the principal. Additionally, it is challenging to use any existing definition of corruption and apply it to citizens, as this is not the group that is being accused of corruption. However, if question seven were to be posed to a group of bureaucrats or politicians, they would be clearly engaging in corruption if they were to indicate a ‘very likely’ response.

The eighth question reads as: “How likely do you think the other applicants have used personal or political connections to improve their chances of being allocated a flat?” Survey respondents are then asked to indicate their answer on a scale from 0 to 10, with 0 being very unlikely and 10 being very likely. This question will provide insight into whether or not corruption in Iceland fits the description of a collective action problem, implying that the value of collective action theory should be further explored as it applies to Icelandic corruption. It is important to note that in neither the vignettes, nor the two questions that this thesis explores, was the concept of corruption explicitly mentioned. Instead, an activity that could be considered corruption was described in order to avoid any negative associations that respondents may have with the term corruption, which could potentially lead to less accurate question responses.

Finally, the responses to these two questions will again be explored, broken down by the eight experimental groups in order to analyze if the presence of one or a combination of the three variables – compliance, legitimacy, and impartiality – significantly affected how respondents answered questions seven and eight. If there is a significant difference amongst groups, possible explanations for these differences will be explored.
4 Results and Analysis of Data

4.1 Question 7

4.1.1 Principal-Agent Theory

The figure below shows the response distribution among all respondents of question 7 by percentage who indicated that response, with percentage rounded to the nearest whole number.

As stated, a response of 0 indicates that the respondent is very unlikely to take advantage of the opportunity while a response of 10 indicates a very likely to advantage of the opportunity. As shown, the response distribution is spread quite randomly across the possible options and there is no definitive way of determining if the percentage of respondents who report that they are either very unlikely or very likely to take advantage of the opportunity (i.e. engage in corruption for the purposes of this paper) are high or low. However, the data is still valuable and does indicate some possible tendencies among survey respondents that are at least worth considering as they relate to the topic at hand - the fit of principal-agent theory in Iceland.

Principal-agent theory as generally applied in the field of corruption research assumes the existence of ‘principled principals’ who are not corrupt. The literature on principal-agent theory does not provide an explicit guideline for how many principals must be ‘principled’ in order for this theory to apply. If this research was to take a rather extreme interpretation of the theory, one could assume that all principals must be unwilling to engage in corruption, which would...
correlate to a response of ‘0’ on question 7. As shown, only 12% of respondents specified that they would be very unlikely to engage in corruption, which seemingly indicates that this theory should be rejected, if such an extreme interpretation were taken.

Given that even the lowest corrupt societies likely struggle with some corruption (there is not a state on Transparency International Corruption Perceptions Index with a perfect score), this type of extreme approach does not seem ultimately helpful in determining how well principal-agent theory fits in explaining corruption in Iceland, as this paper is more interested in asking questions that open up further levels of analysis rather than close doors with simple and definitive ‘yes’ or ‘no’ answers.

Potentially more helpful is to focus not just on the extreme ends of the response options (0 and 10), but to group some of the responses together. Assuming that a response of 5 is somewhat of a neutral response and perhaps one that survey participants select if they do not have strong feelings one way or the other regarding the question at hand allows for groups to be organized. The respondents who answered in the range from 0-4 and respondents who answered in the range from 6-10 could be grouped together to provide us with a more general look at the response distribution.

If this approach is taken, then the 0-4 group, which could be interpreted as respondents who are generally unlikely to take advantage of the opportunity to use personal connections (or engage in corruption for the purposes of this paper), accounts for a total of 48% of respondents. The 6-10 group, which could be interpreted as respondents who are generally likely to take advantage of this opportunity, accounts for a total of 40% of respondents. It seems clear then that even though the majority of survey respondents are report that they are unlikely to engage in corruption, nearly half of respondents would be willing or even very likely to do so.

While again it is challenging to assign any scale to these figures in terms of what should be considered high or low, the fact that 40% of survey respondents, the apparent principals according to some explanations of principal-agent theory, would be willing to participate in a practice that is widely considered to be corrupt should definitely cause some pause in the full acceptance of the accuracy of principal-agent theory in Iceland.

4.1.2 Variables Affecting Response

Given the stated scope of this paper, this research was also interested in further understanding responses to question 7 by exploring whether there were differences among responses according to what experimental group they belonged to in order to gain insight into possible variables that
may affect responses. For all respondents, the mean response score to question 7 was 4.54, with mean responses broken down further by the eight experimental groups shown in the figure below. All respondents received question 7, regardless of the experimental group they were in.

![Figure 2. Question 7 - Mean Response by Experimental Group](image)

In looking at the figure above, it would appear as though the presence of one or more of the variables did little to affect how respondents answered question 7, with the greatest apparent difference being between the experimental group that received only the ‘impartiality’ variable (4.1) and the experimental group that received only the ‘compliance’ variable (5.01). In order to test to see if any of the differences among the groups was significant, a one-way ANOVA test was run in order to indicate whether the null hypothesis or the alternative hypothesis should be accepted. The null hypothesis in this case being that there is no statistically significant difference among groups while the alternative hypothesis indicates that there is a statistically significant difference among groups. The results are shown in the table below.

<table>
<thead>
<tr>
<th>Table 1. Question 7 – One-way ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Squares</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Between Groups</td>
</tr>
<tr>
<td>Within Groups</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
There was a statistically significant difference between groups as determined by a one-way ANOVA, as the significance was less than .05 at .013. This result leads this research to reject the null hypothesis and accept the alternative hypothesis.

Following this result, this research was then interested in determining between which groups there was a statistically significant difference by running a post-hoc test. Given that the data met the assumption of homogeneity, a Tukey HSD test was run, with the statistically significant results presented in the table below. The full results of this test are available in the accompanying appendix.

When compared, there are only two sets of experimental groups that exhibit any statistically significant difference between them - compliance vs. impartiality and compliance vs. legitimacy and impartiality. However, the differences between each of the sets in the two groups are not very substantial, with the former set displaying barely any statistically significant difference.

Though the differences are minimal, it is still worth making observations about this data and exploring some possible explanations as to why respondents in the experimental group sets that display some statistical difference answered question 7 differently than one another. It is evident that the compliance group appears in both sets of experimental groups. The compliance variable tested for whether or not the knowledge that other people were taking advantage of personal connections affected participant response. The idea that this factor could have some effect on whether or not respondents indicated that they would be more willing to take advantage of personal connections does not provide support for principal-agent theory, but does at least point to the possibility corruption in Iceland is in part a problem of collective action. Though a small indication, the idea that Icelanders may be more or less inclined to participate in corruption if they are under the impression that their peers are is definitely worth taking into consideration when trying to gain a more in-depth understanding of the nature of corruption in Iceland.

<table>
<thead>
<tr>
<th>Group 1</th>
<th>Group 2</th>
<th>Mean Difference</th>
<th>Std. Error</th>
<th>Significance</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>Impartiality</td>
<td>.903*</td>
<td>0.262</td>
<td>0.013</td>
<td>0.11 - 1.7</td>
</tr>
<tr>
<td>Compliance</td>
<td>Legitimacy &amp; Impartiality</td>
<td>.790*</td>
<td>0.257</td>
<td>0.044</td>
<td>0.01 - 1.57</td>
</tr>
</tbody>
</table>
While this research recognizes that there could be legitimate reasons for the statistically significant differences between the two set of groups, as highlighted above, it ultimately acknowledges that further research must be done in order to reach more definitive conclusions regarding the practical significance of these differences. Given the small degree of significance present between the two sets of experimental test groups that displayed any statistically significant difference, this thesis cannot definitively conclude that the presence or absence of the variables tested, or a combination of these variables, played a significant role in whether or not respondents were willing to engage in corrupt behavior in a way that is practically meaningful, as detailed by question 7. The results of the one-way ANOVA test may point to a direction for future research, especially given that this conclusion is the result of the analysis of only one question in the survey and of only one statistical test. It is possible that through other more in-depth means of statistical analysis, more evidence could be collected to come to a more definitive conclusion regarding these variables.

4.2 Question 8

4.2.1 Collective Action Theory
The figure below shows the response distribution among all respondents of question 8 by percentage who indicated that response, with percentage rounded to the nearest whole number.

![Figure 3. Question 8](image-url)
As stated, a response of 0 indicates that the respondent believes it is very unlikely that other applicants have used personal or political connections while a response of 10 indicates that respondents believe it is very likely that other applicants have used these connections. As shown, the response distribution for question 8 is concentrated much more heavily to one side, markedly different than the response distribution for question 7.

Again, it is challenging to determine whether or not these numbers are to be considered low or high – there is no scale that assigns such value and a scale created independently by this research would be somewhat arbitrary and runs the risk of misinterpreting the data for the explicit purpose of presupposing the acceptance or rejection of a hypothesis. However, keeping in mind that one of the goals of this research is to assess the fit of collective action theory in Iceland, analyzing the response distribution within this theory’s framework allows some notable observations to be made.

As done in question 7, let us assume that a response of 5 is a neutral response and then group respondents who answered in the range from 0-4 together and respondents who answered in the range from 6-10 together in order to provide us with a more general look at the response distribution, with the 0-4 group representing respondents who do not think it is very likely that others have taken advantage of personal or political connections and with the 6-10 group representing respondents who do think it is very likely that others have taken advantage of these connections. Of all survey respondents, only 11% report believing that it is not likely that these connections have been taken advantage of while 76% of respondents that they think it is very likely. Even with no existing scale or way of determining whether these figures are low or high, 76% is objectively a large majority of survey respondents.

In summary, the data from question 8 does seem to suggest that people do largely believe that their peers will take advantage of opportunities to engage in corruption if it will be of benefit to them. Coupled with the results from the one-way ANOVA and Tukey HSD test in question 7 that indicated that other people’s behavior can make a difference (again taking into that drawing definitive practical conclusions from minor statistically significant different results should be approached with caution) in determining an individual’s personal behavior and willingness to engage in corruption, it would seem that corruption in Iceland may be, at least in part, a collective action problem. This would imply that collective action theory should be more carefully explored when seeking to understand corruption in Iceland as it could provide greater insight into the cause and persistence of corruption in the state.
4.2.2 Variables Affecting Response

This research was also interested in further understanding responses to question 8 by exploring whether there were differences among responses according to what experimental group they belonged to in order to gain insight into possible variables that may affect responses. For all respondents, the mean response score indicated for question 8 was 7.19, with mean responses broken down further by the eight experimental groups shown in the figure below. All respondents received question 8, regardless of the experimental group they were in.

![Figure 4. Question 8 - Mean Response by Experimental Group](image)

In looking at the figure above, it would again appear as though the presence of one or more of the variables did little to affect how respondents answered question 8, with the greatest apparent difference being between the experimental group that received only the ‘impartiality’ variable (6.88) and the experimental group that received only the ‘compliance’ variable (7.45). In order to test to see if any of the differences among the groups was significant, a one-way ANOVA test was run in order to indicate whether the null hypothesis or the alternative hypothesis should be accepted. The null hypothesis in this case being that there is no statistically significant difference among groups while the alternative hypothesis indicates that there is a statistically significant difference among groups. The results are shown in the table below.
Given that the significance between the groups was 0.064, higher 0.05, there was no statistically significant difference between groups in their response to question 8, as determined by a one-way ANOVA test. This result leads this research to accept the null hypothesis that there that there is no statistically significant difference between groups.

### 4.3 Review of Hypotheses

This thesis set out to explore the fit of both principal-agent and collective action theory as they apply to corruption in Iceland. To do so, two hypotheses were developed and then addressed by analyzing two survey questions, each of which dealt with a core tenet of each respective theory. The third hypothesis dealt with possible variables that could have affected survey participant response and was addressed by performing one-way ANOVA tests on both question 7 and question 8.

The first hypothesis stated that this research expected that principal-agent theory would not provide a complete theoretical fit in Iceland based on the belief that the principals in Iceland cannot be described as unreservedly ‘principled.’ After reviewing the data this research suggests that this hypothesis should be accepted. As stated, while there is no real way of knowing how many principals must be shown to be ‘principled’ in order to accept the validity of principal-agent theory, 40% of respondents did suggest that they would likely (by indicating a response on the upper end of the scale from 6 to 10) take advantage of personal or political connections available to them, bypassing the legitimate process described in the vignette, in the pursuit of personal gain. As described, this research has chosen to interpret this type of scenario as an instance of corruption. Because 40% of survey respondents indicated willingness to participate in corruption, it then seems appropriate to reject the idea that the principals in Iceland are truly ‘principled’ in the sense that is necessary to accept the fit of principal-agent theory, without reservations.

**Table 3. Question 8 - How likely do you think the other applicants have used personal or political connections to improve their chances of being allocated a flat?**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>68.815</td>
<td>7</td>
<td>9.831</td>
<td>1.909</td>
<td>0.064</td>
</tr>
<tr>
<td>Within Groups</td>
<td>12843.957</td>
<td>2494</td>
<td>5.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12912.772</td>
<td>2501</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The second hypothesis stated that this research expected that individuals in Iceland believe that other individuals are more likely than not to engage in corruption as shown by their willingness to take advantage of personal connections, suggesting that corruption in Iceland may at least in part be explained by collective action theory. After reviewing the data, this research suggests that this hypothesis should also be accepted. Again, even though there is no pre-established or meaningful way of determining at what point a value as indicated by a respondent should be considered low or high, given that 76% of respondents indicated that they thought it was likely to very likely that other individuals would take advantage of personal connections, it does seem plausible to suggest that corruption in Iceland may be explained at least in part by collective action theory. An additional factor that provides conditional support for this conclusion is that the only sets of experimental groups in question 7 that displayed some statistically significant differences between them, however minor, support the idea that the knowledge that others are participating in corruption increasing the chance that an individual would personally engage in corruption themselves.

The third hypothesis stated that this thesis expected that the presence of the variables of compliance, legitimacy, and impartiality, either presented singularly or in combination with one or both of the others, will have a significant effect on how participants responded to the survey. Given the results of the one-way ANOVA tests that were run on both question 7 and question 8, this thesis ultimately does not unconditionally accept this hypothesis, as there was no statistically significant difference among 14 of the 16 experimental groups, and the difference between the two sets of groups in question 7 that did show some statistically significant difference was quite low, and likely not meaningful in a practical sense.

While it is this thesis’s opinion that the data is not conclusively strong enough to accept the third hypothesis definitively, it also seems too extreme to completely reject the hypothesis as there are some indications from the data that some of the variables explored may affect survey participant response. The variable of compliance was present in both sets of these groups that displayed statistically significant differences, though not all groups in which compliance was present were statistically different from one another. The practical significance of these results may be very minor on its own, but perhaps increases slightly when analyzed in the context of the other findings of this paper. Further research into these variables, which could be done through other means of analysis or by utilizing more of the survey results, seems like the logical next step in order to gain a clearer understanding of how variables of compliance, legitimacy, and impartiality affect willingness to participate in corruption. This seems especially feasible
considering that this thesis was primarily focused on the fit of principal-agent theory and collective action theory in Iceland, rather than providing an in-depth study of these variables.

4.4 Possible Limitations
There are a number of limitations associated with this research and data analysis that should be taken into account. One of the most overarching limitations is that this research has taken somewhat of a liberal interpretation of the concept of corruption, which was necessary in order to properly explore one of the major research questions of whether principal-agent theory properly reflects the dynamic of corruption in Iceland. Definitions of corruption generally only apply to elected officials, bureaucrats, or other individuals who have been entrusted to act on behalf of another individual or group like the public. However, as this thesis was interested in looking at the willingness of the public to engage in corruption, it assumed that the public’s willingness to engage in similar types of behavior that would generally be considered corrupt if done by those entrusted to act on behalf of the public should also be considered corruption, for the purposes of this paper. However, it could likely be argued that private individuals often take advantage of personal connections in their day to day life and labeling these instances corruption is extreme. One way of possibly overcoming this limitation is by conducting further studies to ascertain exactly what type of behavior the Icelandic population considers to be corrupt.

Additionally, there are some assumptions that are made when a one-way ANOVA test is used that also indicate possible limitations of this study. This test assumes that the data sample is taken from a normally distributed population, that the variance of data in the various groups is the same, and that the samples have all been drawn independently of each other. While care was taken in the design of the original survey to ensure that these assumptions hold true, it still remains possible that one or more of these assumptions is not completely accurate.

Another limitation of this thesis concerns the narrow focus of the two main research questions regarding the fit of principal-agent and collective action theory in Iceland. This research focused on the assumption that the principals described in principal-agent theory are principled and upon establishing that a large minority of survey respondents indicated that they would be willing to engage in corrupt behavior, rejected principal-agent theory as a way of best understanding corruption in Iceland. However, while a major assumption of this theory, it is only one aspect of a rather firmly-entrenched theoretical framework that has been popular in anti-corruption literature, research, and practice over the past decades. So, while this thesis did reject the theory, it is important to establish that it did so based on the results of only one survey.
question in order to begin to provide more clarity into the nature of the corruption dynamic in Iceland. This rejection should not be interpreted as an indication that principal-agent theory could provide nothing of value to Iceland, nor to mean that the theory should be completely disregarded as Iceland moves forward in establishing a stronger anti-corruption regime. Rather, this research merely suggests that principal-agent theory is not a perfect fit.

Similarly, though this thesis found that the data supports the idea that corruption in Iceland may be a collective action problem, it again cannot suggest that this theory is a perfect fit in explaining corruption in Iceland, as the responses from only one survey question (in addition to the statistically significant differences in the two sets of experimental groups from question 7) were used to draw this conclusion. More research is needed to make more definitive conclusions.

Additionally, anytime data collected from a survey in which people are asked to indicate their feelings on different topics is used, there is a risk that respondents are not answering honestly, simply misunderstand the questions asked, or carry preconceived notions that affect their response in a way that then affects the results. It is therefore necessary to take this into account as another possible limitation, in addition to the size of the overall sample. While the number of participants was substantial at 5,464, it is still possible that this sample is not truly representative of the entire Icelandic population, or that respondents did not answer according to their true inclinations.

4.5 Further Research
The findings of this research lend themselves to further study. The data analyzed in this thesis points to the idea that principal-agent theory may not be the best fit for describing and understanding corruption in Iceland based on the idea that unprincipled principals do exist in Iceland. However, to arrive at a more definitive conclusion regarding this theory, more extensive surveys could be conducted that were more specifically focused on corruption. This thesis was fortunate to make use of the results of a survey that was primarily concerned with studying the effect of legitimacy on compliance in several major theme areas: corruption, taxation, and system support. Though respondents did receive questions that were specific to the topic of corruption, a study that was designed with the express purpose of determining which theory (principal-agent, collective action, another, or a combination) best described corruption in Iceland would likely provide greater insight into this topic. Similar surveys could also be conducted in other countries that are generally considered to suffer from low levels of
corruption to expand the body of research that has already challenged the assumptions of principal-agent theory in states that suffer from systemic corruption.

Additionally, this thesis briefly explored some factors that may affect an individual’s willingness to participate in corruption as well as their perception regarding how likely it is that other people are participating in corruption (legitimacy, compliance, and impartiality). There is definitely more work that could be done in this area, especially given that the factor was compliance was shown to cause a statistically significant difference, however minor, among two sets of experimental groups.

In taking a step back to look at the state of the global anti-corruption regime in general, there are also some problem areas that have been identified by organizations like Transparency International that could be studied in Iceland. For example, TI highlights how the rise of populism across many states in Europe, particularly in Hungary and Poland, has led to a decrease in democracy, in large part because of strong anti-immigration rhetoric (TI 2019). As transparent democratic institutions are generally thought to be necessary to maintain a system in which corruption is low, there potentially could be a strong connection between the rise of populism and an increase in corruption. While physically isolated from the rest of Europe, this isolation has not completely stopped the populist movement in Iceland, though it is certainly not as strong as in other states like Poland and Hungary. However, as more and more immigrants arrive and settle in Iceland, there is the potential that populist leaders could continue gaining ground in Iceland. More research could be done to explore populism in Iceland specifically, as well as the relationship between populism, decreases in democracy, and resulting increases in corruption.
5 Implications of Analysis and Conclusion

The major research questions of this thesis were designed with the overarching goal of coming to a better understanding of the fit of both principal-agent theory and collective action theory in explaining corruption in Iceland. As stated, it was not this research’s intent to accept one theory and reject the other, as both theories may be able to contribute something of value in terms of understanding corruption in Iceland, as well as in informing the further development of the anti-corruption regime in Iceland in order to more clearly connect theoretical understandings to practice.

This thesis concludes that in order to explain the persistence of corruption in Iceland, relying on the principal-agent theory alone is faulty. There are a number of different ways of describing the principal-agent relationship in terms of who plays the role of the principal and who plays the role of the agent. The interpretation that is most often used in corruption research assumes the presence of an incorruptible principal. As shown in the data, there appear to be both corruptible and incorruptible principals in Iceland. Accepting that the agents in Iceland are not the only ones who are susceptible to corruption then implies that principal-agent theory simply does not provide a full picture of the nature of corruption in Iceland.

GRECO’s recommendations for what Iceland should do in order to bolster their anti-corruption are quite clear. However, as previously discussed, GRECO is part of the good governance regime, which in general has been shown to base policy recommendations off of the validity of principal-agent theory. A potential problem in the successful implementation and ultimate effectiveness of these recommendations in Iceland then lies in the potential misfit of principal-agent theory in Iceland. In briefly analyzing the types of recommendations that GRECO has suggested, many would seem to fall in line with a principal-agent framework. For example, GRECO highlights the importance of regulatory bodies and stronger incentive systems (GRECO 2018), both policies that very much seem to be pulled from the principal-agent playbook. As established based on the data analyzed in this thesis, principal-agent theory likely does not provide a perfect theoretical fit in Iceland, given the presence of unprincipled principals. This does not mean that GRECO’s recommendations would not be helpful in curbing corruption, nor necessarily counterproductive, but it does potentially suggest that implementing the suggested recommendations would not solve the whole problem if corruption in Iceland is also a collective action problem. While more robust regulatory bodies may curb corruption in high-level governmental institutions and agencies, it is not guaranteed that this top-level change will necessarily be reflected in the other levels of society – among the Icelandic public – or in
their beliefs regarding the amount of corruption occurring in the system, which could then affect their own willingness to participate in corruption themselves, according to collective action theory. The results of the data analyzed in this research also lean in this direction, as survey respondents did believe others were more likely to participate in corruption than not and the only statistically significant variable, though minor, found to influence an individual’s own choice to participate in corruption dealt with compliance, represented in the survey as the idea that others were also engaging in corruption.

It thus seems important to at least take into account a collective action approach to combatting corruption in Iceland. This is easier said than done, as collective action theory may be more well-suited to understanding underlying causes of corruption but has yet to fully develop strong policy recommendations. Even when other authors have suggested routes forward following a collective action approach, the practical implications remain unclear. “For change to occur, this has important implications. Changing norms about what is good or bad is of little relevance since most people already know this. The important thing will be to change agents’ beliefs about what ‘all’ the other agents are likely to do when it comes to corrupt practices” (Rothstein 2011, p. 118). The specific types of concrete policies that could be created and enforced or methods implemented that successfully reach this end remain unclear.

Additionally, there are a number of common barriers associated with collective action approaches that may be of particular relevance to Iceland. The Anti-Corruption Resource Centre enumerates a number of these, including lack of incentive to change the system, high costs associated with the change, and limited discernable benefits (ACRC, 2015). Given Iceland’s small size, it may suffer from both a lack of resources and an inability to sustain reform efforts, as shown in the practical failure of the Inter-Ministerial Steering Group. Created in 2015, this group has not been able to sustain momentum less than five years after its creation. While Iceland is not a developing country by any standard, it could possibly be argued that the institutional capacity in Iceland is lower than in other developed states, merely due to its size and lack of access to large funds, resources, and the number of personnel necessary to establish and maintain robust anti-corruption institutions. Given that Iceland has somewhat limited resources, in terms of both finances and manpower, the type of large-scale societal and institutional that is called for by ‘the big bang’ collective action approach may not be entirely realistic.

However, it is also worth considering the severity of corruption in Iceland when considering such large-scale change. Bo Rothstein’s rather definitive statement of not being able to “find
benevolent ‘principals’ at the bottom or at the top” (Rothstein 2011, p. 100) in a system struggling with systemic corruption certainly does not apply in Iceland, as it would be an extreme overstatement to label corruption in Iceland as systemic. Iceland is not a society in which illegal activity pervades all aspects of everyday life. Police officers, legal officials, and doctors do not require bribes in order to provide services or perform their job and citizens can feel confident in the strong rule of law in Iceland that has low tolerance or corruption.

That being said, a state does not need to suffer from extreme levels of corruption in order for corruption to still be considered a problem, especially when considering the perspective of the people living in that state. It has been shown that there is some willingness among Icelanders to engage in corruption themselves if given the opportunity, and more significantly, Icelanders do believe that other members of society are even more willing to engage in corruption if given the opportunity. Past research has also shown the Icelandic public generally believes corruption is occurring at a high frequency, despite rarely have direct experience with corruption (Erlingsson & Kristinsson 2016). Iceland’s fall on TI CPI index is also notable, especially in reference to the 2008 financial crisis. So it is clear that corruption in Iceland is a problem and attention to the area is definitely warranted.

However, the way forward remains confusing, as neither collective action nor principal-agent theory seems to be a perfect fit for explaining or combatting corruption in Iceland. Rather than trying to alter deeply-entrenched institutions that may have a history of being wrought with corruption, as other states must, the relatively empty field in Iceland in terms of anti-corruption institutions perhaps indicates that ‘the big bang’ collective action approach is not only not realistic in Iceland, but not necessary, as this approach may be too drastic. At the same time, it is challenging to put too much faith in principal-agent-based policies alone, when taking their less than effective history in other states, as well as the now confirmed existence of ‘unprincipled principals’ in Iceland. Perhaps the answer lies not in one approach or the other, but rather a combination of the two.

This suggestion highlights an important point. Traditionally, anti-corruption policies generally have taken a one-size-fits all kind of approach to combatting corruption (Johnson 2005, p. 1). These policies were often based on principal-agent theory, as has been discussed, and even when state-specific factors were taken into account in regard to the causes of corruption, the resulting policy recommendations often remained the same, as Johnson points out, “Finally, while much has been said about understanding diverse settings, reform recommendations tend to vary rather little” (Johnson 2005 p. xi). The resulting failure of these
policies has led to somewhat of a backlash against the validity of principal-agent theory among authors who are increasingly turning to collective action theory as a way of better combatting corruption, as has been discussed in this thesis.

In Iceland, where it does seem clear that corruption is in part a collective action problem, it may be tempting to hastily copy and paste the few concrete collective action theory-based policy recommendations that do exist that have been previously attempted elsewhere. However, taking this approach seems essentially like a repeat of the same mistake that was made in regard to principal-agent theory – a one-size-fits all approach to combatting corruption. The failure of principal-agent based anti-corruption policies in some states seems to have occluded the value of this theory in the eyes of some authors, when this theory is effective in explaining the nature of corruption in some states and institutions. Perhaps the real solution to effectively combating corruption in in Iceland is not one that requires selecting one overarching theory to influence all policy and institution-building, but rather a more considered approach that takes the time to understand the various causes of corruption, contexts in which corruption may occur, and attitudes and perceptions of corruption before selecting the appropriate theoretical framework, which the knowledge that potentially more than one theory may apply.

As Iceland considers moving forward in terms of developing a more robust anti-corruption regime, likely through the creation of stronger anti-corruption institutions and monitoring bodies as recommended by GRECO, it may also be helpful to step back and assess the general direction in which the field of corruption research is moving. In 2015, Marquette and Peiffer acknowledged the frustration that many authors working in the field of corruption research had at the lack of progress made in reducing corruption in systemically corrupt countries. Many blamed principal-agent theory for this ineffectiveness, as this was the theoretical framework within which many of these policy recommendations had been devised. In hopes of more effective solutions, the popularity of collective action theory began flourishing. They argue against this false dichotomy, that there is value in both theories and the approach to reducing corruption should not center around selecting one theory or the other, but rather taking the time to fully understand and explore the role that corruption plays in a society. “Effective anti-corruption initiatives will be driven by the context, not the theory. Different perspectives on corruption may be most useful in particular contexts and circumstances.” (Marquette & Peiffer 2015, pp. 5). There is no one-size-fits-all approach.
References


### Appendix A – Question 7 Turkey HSD

<table>
<thead>
<tr>
<th>Group 1</th>
<th>Group 2</th>
<th>Mean Diff.</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
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<td>Compliance</td>
<td>Impartiality</td>
<td>.903*</td>
<td>0.262</td>
<td>0.013</td>
<td>0.11</td>
<td>1.7</td>
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<tr>
<td>Impartiality</td>
<td>Compliance</td>
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<td>0.013</td>
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<tr>
<td>Compliance</td>
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<td>.790*</td>
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<td>0.044</td>
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<td>-1.38</td>
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<td>Compliance</td>
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<td>0.256</td>
<td>0.43</td>
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