

# Just Pay It?

## Bribery and Higher Education in the Czech Republic

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**ABSTRACT:** *The fall of communism in the Czech Republic brought great opportunity in higher education. New legislation allowed for legally recognized private colleges and universities. However, the legal changes did not erase the entrenched structures of political corruption and bribery. What does it “cost” to pay a bribe? On the other hand, what does it cost not to pay the bribe? That was the question facing Richard Smith. As a Christian administrator of a secular college in post-communist Czech Republic, Smith had to decide whether to pay the relatively small bribe to the judge for the much-needed accreditation.*

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### INTRODUCTION

Charles Bridge is a definitive landmark for the Czech people. There are several important bridges that cross the Vltava River in Prague, but Charles Bridge is the old one, the one with the statues, the one linking the past to the present. However, Richard Smith was almost unaware of the bridge as he crossed it, deep in thought, on his way to a meeting with his board of directors. What should he do about paying the “bribe” for accreditation? How can the mission of Anglo American College move forward without the college being officially recognized by the government? How can the academic ministry to Czech students continue without the legitimization of accreditation? Or is the payment of a “bribe,” in fact, a necessary transaction fee that facilitates the doing of business? Would paying a bribe (transaction cost? facilitation fee?) undermine the very ministry he came to do?

### RICHARD SMITH AND ANGLO AMERICAN COLLEGE

Upon finishing his Ph.D. at Westminster Seminary, Richard Smith and his wife, Karen, found the perfect overseas opportunity for teaching and ministry. They discovered the International Institute for Christian Studies (IICS), a Christian mission organization which places Christian professors in secular universities outside North America.

Smith’s training was in theology, and he was eager to share his knowledge and his faith with university students. IICS placed Smith in Prague, Czech Republic, to teach at Anglo American College (AAC), a small, independent college with departments of humanities and business. Smith immediately began teaching classes and building the Christian Studies Program (CSP) at AAC, a program which would allow humanities students to minor in Christian studies. The program was his “baby” and he poured his energy into it.

In a short amount of time, an IICS team was formed to teach in Prague. This team consisted of six professors and their families. Four of those professors taught in the CSP at AAC and two of them taught in the business school. As IICS team leader in Prague, Smith focused his attention on building the CSP, teaching classes, and spending time with students, in that order. He viewed the CSP as the centerpiece of the IICS ministry in Prague. He was, therefore, carefully protective of it. In 2001, the AAC Board of Directors removed the AAC president for embezzling funds and asked Smith to serve as interim president. This was a huge decision for Smith. His vision for IICS at AAC was focused on the CSP and did not necessarily include an administration position for himself, though it did appear to be a God-given opportunity for influence. He was honored to be asked to take the responsibility and yet there were only so many hours in a day. To be president sounded very attractive, but how could he do that job and

continue to build the CSP? He and others (faculty, some students, even team members) wondered, "Is there a conflict of interest here somewhere?"

Ultimately, Smith agreed to be interim president of AAC. This added another "hat" to the many that he already wore. He was determined to fulfill the responsibilities of president with integrity. Richard Smith was a Christian man, he represented a Christian organization, he was establishing a CSP, and he was actively evangelizing students. He felt a responsibility to behave in an ethical manner which was transparent to all. Adding to this importance was the knowledge that the prior president of AAC was asked to leave because of clear unethical behavior, the embezzlement of college funds.

Almost immediately, as acting president, Smith was instrumental in removing the dean of the school of business and replacing him with another IICS appointee, David Whitney. The outgoing dean was seen as ineffective and unprofessional but not lacking integrity. The newly appointed dean had impressive experience in teaching and administration in higher education in the United States. With Smith as president, Whitney as dean of the school of business, and the majority of the IICS team teaching in the CSP, the potential impact of IICS on AAC and its students was tremendous. After all, AAC had a total of approximately 300 students, 5 administrators, and approximately 20 full-time and part-time instructors.

Indeed, even within the team, there were those who believed that the IICS mission would be somehow compromised if the team held too much concentrated power at AAC. Maybe it was better to operate in a minority position. A few students noticed the increasing presence of IICS professors and administrators with one student commenting, "I think this school is becoming AACCC, Anglo-American Christian College."

### HIGHER EDUCATION IN THE CZECH REPUBLIC

"In Czech history, education has always maintained a good tradition and, until 1939, it was considered one of the best in Europe." (Sebkova, 1996, p. 275) Education has long held an esteemed position in Czech culture. Indeed, Czech national self-identity is based on the notion of being educated and cultured, and most Czech heroes and leaders throughout history have been seen as intellectuals (Holy, 1996).

The four decades of communism following WWII had a major impact on all aspects of Czech life, including higher education. During this time, the number of students enrolled and the fields of study were tightly controlled

according to the central plan, which was not necessarily related to the current needs of society or the economy. Following the "velvet revolution"<sup>1</sup> of 1989, the system changed rapidly with new legislation and internationalization (Stastna, 2001). Virtually all of Central and Eastern Europe were inundated with foreign advisers, teams of experts, representatives of foundations, and representatives of numerous universities who influenced educational reform. A certain initial acceptance of these foreign educational models occurred; however, the attractiveness of those foreign ideas was partially offset by a "restoration trend" (Cerych, 2002), which was rooted in national history and the education tradition of Comenius. Johanne Amos Comenius was known to all Czechs as the "Father of Modern Education" (Jakubec, 2003). He had enormous influence on Czech attitudes towards education and was considered a national hero. Especially in the early 1990's, the Czech Republic's internal conflict consisted of the need to "catch up with the rest of Europe" and, simultaneously, to defend and protect Czech educational tradition.

While most Czechs viewed their educational system as solid or even quite good, there were nonetheless many (internal) calls for reform immediately after the fall of communism in 1989 (Perry, 2005). The Higher Education Acts of 1990 and 1998 had a profound effect on higher education by granting universities a great amount of freedom in self-government and autonomy and also by allowing for further creation of new programs and institutional diversification. The government no longer dictated enrollment and courses of study. Applications to universities increased. Attention to the humanities was revitalized (math and science had been heavily promoted during communism). Tuitions and fees were introduced for the first time. Programs and methodologies were examined and adjusted. Market forces were considered in program design.

Particularly relevant to this case, these legislative acts allowed for the establishment of private institutions of higher learning and allowed the introduction of the bachelor degree as the first step to diversification of higher education. (Prior to this, university study was at least a five year plan, leading to a degree comparable to a Master's degree in the United States). One innovative start-up was AAC which was the dream of a small group of Czech and American visionaries. The dream began in the mid to late 1980's. The concept was to create a new college (or university) which would use Western-style instructional techniques with courses taught in English. It was expected that this college would attract Czech and Slovak students, as

well as students from other parts of Europe. In 1990, the AAC began offering classes and degree programs in the humanities and business administration (see Appendix for timeline). Within a few years they added degree programs in international relations and legal studies. The students who studied at AAC came from Czech Republic and Slovakia, as well as other countries in central Europe, the former Yugoslavia, and a few from outside Europe.

AAC experienced its own growing pains within the context of post-communist Czechoslovakia (which became the Czech Republic in 1993), a nation in transition, while Czech society grappled with which higher education changes to embrace. Generally, they hoped to modernize and protect their heritage simultaneously. Nevertheless, it was one of the very first private, secular institutions of higher learning in the Czech Republic following the communist era.

It was one thing to pass laws to liberalize higher education and yet another thing to interpret and apply them. It was during this period of confusion and hope that AAC applied for accreditation with the Czech Ministry of Education. Generally, accreditation is sought for legitimacy and recognition for adhering to certain standards. In this case, accreditation was, perhaps, even more important as the private university concept was brand new and needed validation.

### **INTERNATIONAL INSTITUTE FOR CHRISTIAN STUDIES (IICS)**

While these tumultuous changes were occurring in central Europe, another start-up was launched across the Atlantic (see Appendix for timeline). In 1987, the International Institute for Christian Studies signed its first contract with Rivers State University in Nigeria to establish a Department of Christian Studies. The first IICS professor, Danny McCain, was assigned to teach in that program and thus, the IICS ministry was born. The distinctive mission of IICS is “to teach all subject matter from a Christian worldview in secular university classrooms.” More specifically, IICS “places faculty from a wide range of disciplines in teaching positions at secular universities outside North America and the United Kingdom. We also establish Departments of Christian Studies provide library collections, sponsor business and teacher training seminars, and provide curriculum consultation” (<http://www.iics.com>).

After entering Nigeria in 1988, IICS expanded to central Europe and the former Soviet Union. In the early 1990's, IICS had professors teaching in universities in

Russia, Ukraine, Romania, Poland, and Belarus, as well as parts of Asia. In 1997, IICS had 22 professors teaching in eight nations. By 2005, IICS had 37 professors teaching in 15 nations, reaching even into Afghanistan and other Middle Eastern countries. It was during this time of growth the IICS board approved Richard Smith's appointment as interim president of AAC.

IICS co-founders, Danny McCain and Daryl McCarthy, led IICS from the very beginning. McCain led the ever-expanding ministry in Nigeria as well as other parts of Africa. McCarthy was CEO of the organization which was headquartered in Kansas City, Kansas. The entrepreneurial spirit of these two men was a significant driver in practically every IICS decision. McCarthy spent a great deal of time traveling and speaking in the U.S. and abroad, introducing people to the mission of IICS. One of his primary roles was to bring together professors, donors, and university placements. In a very organic fashion, IICS (via Daryl McCarthy) monitored world events, made contacts, followed up on connections, and sought universities that would be receptive to IICS professors. Once a contract was signed between a university and IICS, then a professor was appointed to a teaching placement. In some placement locations, there was a single professor. In other placement areas, a team evolved. Placement arrangements varied greatly. The universities sometimes, but not always, provided a small stipend, an apartment, or administrative assistance. In every case, the professor was expected to find his or her own way regarding housing, schooling for his or her own children, and other living arrangements. It was assumed that each placement was unique, and therefore, professors were given a great deal of latitude and responsibility regarding day-to-day decisions of how to conduct their ministry. At the same time, professor accountability was high. Several eyes were watching every IICS professor who was accountable to IICS headquarters, financial supporters, the university placement, students, and so forth. Ultimately, the IICS professor went to live and teach in another culture and represent Christ in an appropriate way.

### **IICS TEAM IN PRAGUE**

The IICS team (professors and their families) were living in Prague on a long-term basis. These families lived among Czechs, using local shops, banks, and transportation. The motivation of these professors and their families was two-pronged. They wanted to teach their disciplines as fully as possible from a Christian worldview, and they wanted to share their lives (and faith) with students. They called themselves academic missionaries. They were moti-

vated by an enthusiasm to teach from a Christian worldview, to uphold scholarship with great integrity, and to represent Christ in their universities and to their students. Along with the other IICS professors, they were inspired by the words of Dr. Charles Malik, former president of the United Nations General Assembly and Security Council, who said, "The university is a clear-cut fulcrum with which to move the world. Change the university and you change the world" (<http://www.iics.com>).

In Prague, the six professors and their families (with children ranging from a new-born baby to a high school senior to fully grown adults) met regularly for social events, to discuss team business and to pray together. They shared their lives with one another in many ways. In addition to teaching at AAC, the professors taught classes at universities spread across Prague, including Charles University and University of New York in Prague. The lives of the team members overlapped a great deal, and yet, each professor's family found its own niche within the Czech community.

After the first six months or so, most professors settled into daily life in the Czech Republic. There were plenty of ongoing adjustments, but they became less stressful and more manageable. However, teaching and living in another country is not a static experience and is never totally settled. Additional teaching and ministry opportunities arose frequently, such as an invitation to a neighboring country to teach a short course or the opportunity to assist with the translation and publishing of Christian literature or the chance to speak at European conferences and workshops. IICS professors carefully considered how they might participate in each opportunity, knowing that they could not realistically participate in all of them.

Other dilemmas presented themselves, as well. For example, IICS professors had to decide about paying income taxes in the Czech Republic. It was regarded as an individual (family) decision, though the Prague team chose to work through it together. Technically, IICS professors living and working in Prague could get around paying income taxes in either the U.S. or the Czech Republic. This, of course, was quite tempting. However, as a group, they decided that they should and would pay income taxes in the country where they reside, which meant paying Czech taxes. Financially, this was an expensive choice. However, it was seen by the group as the ethical and moral thing to do since they were, in fact, using and enjoying certain public benefits, such as transportation.

Yet another dilemma arose in deciding whether to pay (or not) a "transaction cost" to get residency permits processed. The annual event of renewing residency permits was a time consuming, frustrating process for any non-

Czech person living in the Czech Republic. In Prague, there was a small window of time, only two weeks, in which a foreigner could renew a residency permit. The application had to begin and end not too early and not too late. If the renewal deadline passed, then the foreigner would have to begin the process from scratch which was even more time consuming. Generally, individual families would pay a Czech person to do the paperwork and handle translation issues. These assistants, usually young Czech women with good English skills, would learn their way around the foreign police, gather papers, wait in line, and generally do the leg work for a fee of about 5,000kc2 (approximately \$140) per person/family member.

The whole process was extremely bureaucratic and also subject to the whims or moods of those processing the paperwork. Arbitrary delays, especially in the foreign police office, were costly and frightening for foreigners and even Czechs. For example, at the foreign police office, a number system was instituted where an individual would get a numbered ticket dispensed by a machine and then wait in line until his or her number was called. This attempt at fairness (first come, first served) was circumvented by a group of intimidating fellows who would bully their way to the front of the line, collect most of the tickets for the day from the ticket machine, and then "sell" them to those who needed to do business with the foreign police. It was suspected that these bullies were a part of the Ukrainian mafia. In any case, they were not Czech. They intimidated the Czech assistants. And they were not monitored by the Czech police. The "selling" price for those very essential tickets was 500kc (approximately \$15). Complaints were filed, but the Czech police were unwilling to address the problem. Therefore, the Czech assistants made the decision to pay for the tickets and get the permits processed. After the fact, the assistants who knew the ethical standards of the members of the team reported to the team their experiences and expressed concern about being essentially forced to pay for the tickets. However, given the situation, the team members determined that, as foreigners, they really had no other options (except to let their residency permits expire). Certainly, they had no time for options. In the end, even though it was unfair and something of a bribe, they chose to treat it as a transaction cost, part of the cost of getting residency renewals.

## **BRIBERY IN CENTRAL EUROPE**

"Under communism, citizens could expect neither serious consideration nor fair treatment without some means of 'interesting' the official in the case" (Grodland et al., 1997,



p. 515). One study in 1994 showed that 61% of the citizens and 79% of the MP's (military police) in the Czech Republic would personally expect fair treatment from officials without recourse to contacts or bribery. In post-communist Europe, certain perceptions persisted. Grodeland et al. (1997) compared the perceptions of corruption in the transition years following 1989 in four countries; the Czech Republic, Slovakia, Bulgaria, and Ukraine. Based on their research, they found the following ways to "deal with" officials: acceptance, persistence, argue/threaten, appeal, bribery, and using contacts. Bribery was the most frequently mentioned strategy in all four countries and also the most frequently denied at a personal level. Using contacts and argument was also high in the Czech Republic. Interestingly, the study showed that in all countries acceptance, persistence, argument, and appeal were mentioned more frequently when attempting to get fair treatment. Bribes and contacts were more frequently mentioned in attempts to get favorable treatment. Thus, a distinction emerged between obtaining rights and in seeking favors.

According to Grodeland and colleagues (1997), bribery was hardly limited to the police, law enforcement, and political figures. Health care workers and teachers/professors were also cited as encouraging or at least accepting "a little token" from patients and students. In relation to the other three countries (Slovakia, Bulgaria, and Ukraine), the Czech Republic exhibited what the authors believed to be an "exaggerated suspicion and criticism" of officials in the area of bribes. This finding suggested two things. First, the perceived level of bribery was higher than the actual level of bribery. Second, most people blamed the officials for extorting bribes. Even so, some of those surveyed acknowledged the citizens' role in perpetuating bribery. As Cabelkova and Hanousek pointed out, "If corruption becomes ingrained in a society it is very difficult to root it out, even if the best legislation is in place and people perceive corruption to be a serious problem" (2004, p. 383).

At the conclusion of the study, Grodeland et al. (1997) ranked official corruption in those four countries, from lowest bribery level to highest bribery level, as follows: Czech Republic, Slovakia, Bulgaria, and Ukraine.

So, why worry about paying a relatively small bribe, especially when it appears that business cannot move forward without it? Some have suggested that though corruption has moral implications, the paying of bribes may simply be required to "facilitate privatization." However, most would agree that corruption distorts. It degrades economic efficiency and civil rights, it and creates instability (Grodeland et al., 1998).

## BACK TO RICHARD SMITH'S DECISION

Crossing Charles Bridge on that foggy evening, Smith pondered the decision he must make. His sense of urgency competed with his sense of justice as he considered the situation and his options. The application for accreditation apparently was being ignored by the Ministry of Education. It had neither been denied nor was it moving forward in the process. Smith's sense of urgency was based on the academic calendar and the need for accreditation in recruiting students. Additionally, the very existence of the CSP was tied to the future of AAC. AAC would most likely get accreditation, eventually. But could Smith afford to wait? Could AAC afford to wait? Could the CSP afford to wait? The judge who would make the final decision had a reputation as a tough traditionalist who probably would not look favorably on a new college like AAC. Perhaps a transaction cost of 2,000 kc (approximately \$55) was worth it and necessary, even though everyone knew that money would go directly into the judge's pocket. Perhaps, considering the times, it was a justifiable way to facilitate the privatization of higher education. The AAC administration, knowing how things get done, pressed Smith to pay it. However, Smith's sense of justice told him that it was a true bribe and that its "price" was too high.

Richard Smith entered the AAC building in Mala Strana ready to meet with his board of directors. He was still contemplating his decision.

## SUGGESTED TEACHING APPROACHES AND QUESTIONS

This case is a true story written with the intention of helping students better understand the complexities of the difficult decisions often confronting those in cross-cultural leadership positions. It is intended for use at the undergraduate level in business courses which deal with ethical issues, such as principles of management, leadership, or business ethics. Some or all of the suggested questions listed below can be used depending on the issues being addressed. The suggested questions also do not represent an all inclusive list, as many others can be added at the discretion of the instructor. In addition to the questions below, a comprehensive set of teaching notes with suggested answers is available from the author.

1. Describe the constituencies to whom Richard Smith was accountable. Which, do you believe, were his top priorities? Do you see any conflicts of interest?

2. How were the two decisions (1) whether to pay the bullies for the tickets for residency permits and (2) whether to pay the judge to expedite the accreditation process similar? How were the two decisions different?

3. What difference, if any, is there between a bribe, a transaction cost and a facilitation fee?

4. What were Richard Smith's options? What were the pros and cons of each choice? How should his faith inform his decision-making process?

5. What should Richard Smith do? Why?

6. (Optional) At the time of this case, the Czech Republic was in transition from communism to a democracy and free market system. Describe how that fact (timing) affected this case.

#### ENDNOTES

<sup>1</sup>The term "velvet revolution" applies to the nonviolent collapse of communism in Czechoslovakia in 1989. See *The Coasts of Bohemia: Czech History*, by Derek Sayer for further insight into Czech history and culture.

<sup>2</sup>The currency of the Czech Republic is the Czech crown (kc), or koruna. At this time, the exchange rate was approximately 35 Czech crowns to one U.S. dollar.

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**APPENDIX****Timeline: Czech Republic, AAC and IICS Events**


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1987	IICS begins - signs first university contract - Nigeria
1988	IICS placed first professor – Nigeria
1989	Velvet Revolution - democracy in Czechoslovakia
1990	IICS begins - signs first university contract - Nigeria
1991	IICS professors placed in Russia, Romania, Ukraine.
	AAC offers International and Legal Studies
1992	Czechoslovakia separates into Czech Republic and Slovakia
1993	IICS professors placed in Hungary, Poland, Belarus, Asia
1997	IICS has 22 professors in 8 countries
1998	Higher Education Act passed in Czech Republic
2000	Richard Smith appointed interim president
2001	IICS has 24 professors in 7 countries
2004	Czech Republic enters the European Union. IICS has 32 professors in 12 countries.
2005	IICS has 37 professors in 15 countries
2007	IICS has 40 professors in 16 countries
2009	IICS has 43 professors in 16 countries