Too Much of a Good Thing? The Concave Impact of Corruption on Firm Performance

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Abstract

We investigate whether the impact of corruption on firm-level performance exhibits a concave pattern. We measured corruption using a continuous variable of firm-level bribe payments from the World Bank Enterprise Surveys. Our dataset includes 23,327 firms from 140 developing and emerging countries from 2006 to 2020. Using four measures of firm performance and instrumental variables estimation, the results show a negative linear impact of corruption on measures directly linked to market performance, namely sales and productivity growths. Nevertheless, we also find that the impact of corruption on measures focusing on inner processes, that is, employment growth and innovation, is positive only up to a point; that is, there is a concave relation for these measures. Further, larger firms and foreign firms are less negatively impacted by corruption, which raises important policy implications as small and medium-sized firms are not only the vast majority of firms, but also typically concentrate a great share of employment in these countries. Importantly, controlling for a concave relationship amplifies the differences across different types of firms.

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