

# Which Firms Benefit from Bribes and by How Much? Evidence from Corruption Cases Worldwide

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# Contribution of the paper

- Looks at the important question of bribery which is becoming of increasing concern of governments worldwide
  
- Looks at three questions:
  - ❖ Who bribes
  - ❖ By how much and
  - ❖ The benefits from bribing
  
- In particular:
  - ❖ Examines the characteristics of firms that pay bribe
  - ❖ Identifies the factors that determine the magnitude of bribes
    - The characteristics of the bribing firm
    - The hierarchical position of the politician receiving the bribe
    - The legal and political systems of the country where the bribing firm is located and incorporated
  - ❖ Estimates the benefits that firm get from bribing

# Contribution of the paper

- Uses hand collected data of 166 prominent bribery cases from 52 countries over a long period of 1971-2007
- Makes significant effort in documenting the details of each bribery case.
- Traces the actual date of award of contract as opposed to the date of bribery revelation to understand the characteristics of firms that pay bribes and the benefits from bribery
- Use of the actual contract award data, as opposed to the bribery revelation date, makes it possible to estimate the clean market value of winning the contract that is untainted by factors related to bribe as is characteristics of other studies in the literature

# Contribution of the paper

- Obtains some results which are different from that of existing studies
- Bribing firms under perform their peers both in the earlier and later period of winning the contract
- Bribing firms gain net benefits in form of higher cumulative abnormal returns than their peers around the period of winning the contract, thereby providing the justification for bribe giving
- The magnitude of the bribe depends on the hierarchical position of the bribe taking politician
- The magnitude of the bribe also depends on the political and legal system of the countries where the bribe giving firms are incorporated and located

# How can we strengthen these findings?

- Reconciling the empirical findings with the ability and incentive to give bribes
- Addressing sample selection issues
- Refining the estimation methodology

# Reconciling the empirical findings with the ability and incentive to give bribes

- Ability to pay bribe depends on
  - Financial performance of the firm: more efficient firms have higher ability to pay
  - Political connection
  - **The bribe giving firms performed worse than their peers. Did they have better political connections?**
- The incentive to give bribes comes from the expectation of getting a contract with valuation that is higher than the assumed cost
  - Then firm performance should improve after winning the project
  - This is especially so because markets did not know that bribe was given at the time the contract was awarded
  - **Did firm performance improve? Can we do a before and after study?**
- If net bribe benefits are high then why did not other firms pay bribes?
  - **Were the bribe paying firms operating in concentrated industries?**

# Addressing sample selection issues

## ➤ Selection bias

- Bribing by definition is clandestine. Detection could be motivated by political reasons. The bribe sample involves high level politicians like Prime Ministers → Sample is likely to be non-random

## ➤ The analysis of actual and expected frequency is a good attempt but not entirely satisfactory as

- Bribing is a function of many factors
- Better investor protection, high detection probability, better rule of law etc. could lead, *ceteris paribus*, to higher number of detected cases even with lower amount of corruption.
- Even with market capitalization and corruption index, the relation may not be linear
- Matching does not solve the problem as the bribe sample is not representative of the population to begin with



# Addressing sample selection issues

- The sample is overtly dominated by four countries: France, Germany, Japan and the US
- Emerging economies like China, India, Taiwan where incidence of bribing is likely to be higher, have only one observation each
- The time period of 1971-2007 may be too long. Many emerging economies did not have an well functioning stock market until the 1990s.



# Refining estimation methodology

- If you includes all countries in the sample then recognize that observations are not independent
- Can possibly restrict to only three to four countries. Has many advantages.
  - CAR makes more sense as considering all countries over 40 years may not be good as markets may have evolved over time
  - Can put country fixed effects to control for unobserved factors
- Some firms do repeated bribing
  - Can we look more closely to these firms
  - Why do they keep on bribing if they cannot improve their performance?
- Run Probit/Logit model to see what determines the probability of bribing.
  - Can identify relative importance of factors



THANK YOU