

# Firm-level theory and evidence of corruption

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# Summary

Corruption is more rampant and detrimental in poorer countries where most citizens and businessmen tend to tolerate it. In addition, far too many attempts have been made to fight corruption by national governments and international organizations without success. Understanding the antecedents and consequences of both national and transnational corruption will shed light in the battle against corruption. Building on a holistic and multidisciplinary perspective, this dissertation provides empirical and theoretical evidence of corruption which address three unresolved challenges in the literature on corruption.

Following a general introduction, chapter 2 provides various validation exercises in order to examine the measurement validity of cross-country corruption measures including perception-based and survey-based approaches. A new empirical protocol is disclosed which assesses measurement validity of corruption measures in particular as well as measures of other abstract and complex constructs by using media content analysis and the instrumental variable method. One key finding of this chapter is diverging responsiveness of perception-based and survey-based measures to anti-corruption news coverage. Chapter 2 also provides one of the first empirical evidence on media influence on perception-based measures. The second key finding of this chapter is that an exogenous increase in anti-corruption news coverage caused by media infrastructure changes leads to a higher incidence of perceived corruption (measured by either the Transparency International's Corruption Perception Index or the World Bank's Control of Corruption Index). The findings suggest that researchers should be skeptical about adopting the widely used perception-based indexes of corruption in empirical studies and move to more objective

and micro-level measures of corruption whenever possible.

Chapter 3 uses the cross-country firm surveys and the instrumental variable method in order to identify the causal link running from firm growth to corruption burdens faced by firms. The result shows that corruption burdens are not homogeneous among firms regarding their growth state. In particular, firm growth leads to higher informal payments paid by firms to facilitate bureaucratic burden or to secure government contracts, higher time costs of corruption, as well as more likelihood to hire outside consultants to deal with public officials. The finding of chapter 3 contributes to the growing literature on micro-level evidence of firm heterogeneity and bargaining powers centering on those who make corrupt payments (the supply side of corruption).

The emerging trend of multilateral anti-corruption efforts to regulate the supply side of corruption in business and corporate liability increasingly demands a comprehensive understanding of corruption at the micro-level. Chapter 4 develops a model of transnational corruption aiming to understand the multiplex interactions between multinationals' subsidiaries and public officials under both host-country and home-country regulations. Building on two different literature strands: the incomplete contract theory and the industrial organization perspective on corruption, the model deduces conclusions regarding both the demand and supply side of transnational corruption.