

Short-term gain, long-term drain? Bribery in business

In Africa and Latin America, paying bribes is associated with lower levels of investment, stunting longer term growth prospects for companies.

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Corruption is not only an ethical issue, it's also a business matter. According to previous studies, the presence of corruption may have a negative effect on firm productivity, sales growth and return on investment. On a country level, corruption takes a bite out of tax revenue, reduces public investment and compromises infrastructure.

However, some studies have noted that the practice of bribery, while corrupt, offers effective "speed money" that helps firms cut through red tape in highly bureaucratic countries. But does this quicker start, via bribes, support long-term growth, an issue of vital importance in emerging economies?

The short answer is "no."

The longer answer appears in "[Bribery and Investment: Firm-level Evidence From Africa and Latin America](#)," published in the *Strategic Management Journal*, by professors Addis G. Birhanu, Alfonso Gambardella and IESE's [Giovanni Valentini](#). They examine how companies offering kickbacks to government officials go on to behave and perform. The study finds that bribery does not reduce the short-term performance of firms in Africa and Latin America. However, due to strategic and environmental reasons, it does frustrate investments in fixed assets — the foundation of firms' long-term growth.

Bribery stunts investment

In the co-authors' words: "bribes exert a negative, statistically significant effect on investment."

Decision-makers take note: bribery's dampening effect on investment is not only statistically significant, it is also "economically meaningful." A mere 1 percent point increase in the amount of bribes paid, relative to a firm's sales volume, decreases its investment in fixed assets by 3.3 to 11.3 percent. As investments in fixed assets are the basis of long-term growth in firms, bribery can significantly undercut firms' long-term potential.

The fact that bribery impedes investment may not seem surprising — after all, it might seem intuitive that corruption would divert resources that could otherwise be used to invest. But the co-authors found that paying bribes and being financially constrained are not interrelated in a statistically significant way.

So why the chilling effect on investment? For firms, bribery may actually be a question of strategy. The study found evidence that long-term oriented firms invest in fixed assets in order to reap long-term returns, while short-term oriented firms bribe to receive short-term returns.

The long shadow of short-term thinking

But what leads some firms to favor a short-term approach? For one thing, previous research shows that the uncertainty produced by violent or tumultuous environments encourages firms to focus on short-term survival strategies instead of more comprehensive, long-term planning. Whatever the reason, these findings suggest that emerging economies are paying a significant price for corruption.

However, there is a silver lining: combatting corruption may offer a way to change firms' focus to a more long-term approach, driving investment and growth. On the flip side, promoting long-term strategies for growth may help clean up corruption. Either way, it won't be easy, but as any good manager knows, identifying the problem is the first step.

Methodology, very briefly

The co-authors analyze data from two extensive World Bank surveys of firms, conducted from 2005 to 2006 and from 2009 to 2010, which included questions about whether firms paid

bribes to government officials. In the thousands of firm-year observations in eight Latin American and five African countries, the co-authors were able to study some dynamic relations in the data and conduct robustness checks.

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