

The Impact of Bribery on Firm Performance: Evidence from Central and Eastern European Countries*

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Abstract

I examine the relation between bureaucratic corruption ('to get things done') and firm performance in Central and Eastern European countries. While previous research relies on data from the BEEPS survey, which suffers from excessive non-reporting of corporate performance, I combine the information on bribery practices from the BEEPS with reliable firm performance data from the Amadeus database. The estimates, identified from within-firm variation, suggest that bureaucratic corruption negatively affects both the sales and labor productivity growth of firms. However, conditional on a given level of bribery in a narrowly defined local market, a higher dispersion of firms' bribing behavior within such a market appears to facilitate firm performance. I provide an explanation for this finding and also investigate the effect of bribery with respect to the heterogeneity of firms in terms of their size, inclusion in the manufacturing or service sector, stability, and countries' overall institutional environments.

KEYWORDS: Bureaucratic corruption; Firms' bribing behavior; Firm performance; CEE countries.

JEL CLASSIFICATIONS: D22; D73; O12; P37.

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