

To Bribe or not to Bribe? Corruption Uncertainty and Corporate Practices

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Abstract

Using a large sample of private firms over the period from 2001 to 2013, we study the effect of corruption uncertainty on corporate investments and cash holdings. We find that a higher uncertainty about the level of corruption is associated with lower corporate investments and lower cash holdings. These results are sensitive to the ownership structure of a firm. Firms with no foreign majority ownership appear to be more sensitive to corruption-induced uncertainty than majority-controlled foreign firms. They significantly decrease their investments and cash holdings. We hypothesize that they move their cash off-balance-sheet to create cash reserves as the uncertainty of when, whom, and how much to bribe increases.

JEL Classification: C33, D24, G32, L60, L80, M21

Keywords: corporate investment; corruption; uncertainty; cash holdings; firms; panel data; Europe

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