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Uluslararası Sosyal Bilimler Dergisi

The Impact of Corruption on Firm Financial Performance: Evidence from Nigeria

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Abstract

The purpose of this study is to investigate the impact of bribery on firm performance and provides quantitative estimates of the impact of corruption on the performance of the firm. Impact of bribery is checked through the questionnaire which is distributed among 100 respondents. In theoretical framework, firm performance is dependent variable and bribery is independent variable. The correlation between firm performance and bribery which is measure in obtaining more government contracts in questioner and bribery which is measure as cost of obtaining the contracts is (r = -0.8012) having negative association between them. The size value of correlation is (r = -0.0074 & -0.0056) showing that the size is not important in bribery and have subsequently have no affect on firm performance. The value of R-Square in table 2 is close to 0.649 which indicate very well fit to data. It means that almost 65 % change is due to the response variable (bribery). F-test value is very significant in both tables showing that the model is best fitted with the data. Sample size is one of the study limitations.

Keywords: Corruption, Bribery, Financial, Firm performance, Economic growth, Government contracts

1. Introduction

Corruption is increasingly making negative impact on firm performance and economic aspects of economies, especially in emerging economies and democratic countries of the world. Many organizations are examining the source and the solution for the corruption. The World Bank identified that corruption is a one of the greatest obstacle of firm performance and social

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development. Corruption in fact distorting the legal system of the country and in result weakens the foundation of institutions on which the firm performance depending a lot. International monetary fund states corruption is economic in nature because it directly effects the economic structure of the economy for example the bad governance clearly disturbs the economic activity and firm performance and corporate structure of the organizations of the world. The World Bank and international monetary fund support the anti-corruption program me in the member countries and organizing seminars and conferences and making publications to acknowledge the importance of anti-corruption activities. Although these organizations suggest that corruption effects the firm performance but the financial analysts also consider the results of empirical studies which shows the mixed results so here in this study careful review of theoretical and empirical studies so that causal effect of corruption on firm performance can be checked by survey instrument (questionnaire) which is adopted from Indonesia Corruption Perception Index 2008 and Bribery Index. The estimation of corruption on firm performance could only be more valid if data is for long span of time for the reason that in short run corruption may promote firm performance according to some theoretical studies.

One of the indicators or function of corruption is the government failure itself. In the long run corruption has detrimental effects on firm performance. While making the policies the long-term effect is given more consideration than short-term effect of corruption on performance. Theoretically, the literature has counter arguments about the corruption and performance of the firm. Some researchers suggest that corruption might be desirable (Leff, 1964; Huntington, 1968; Acemoglu and Verdier, 1998). Corruption works like piece-rate pay for bureaucrats, which induces a more efficient provision of government services, and it, provides a leeway for entrepreneurs to bypass inefficient regulations. From this perspective, corruption acts as a lubricant that smoothes operations and, hence, raises the efficiency of firm performance. On the other hand, corruption tends to hurt innovative activities because innovators need government-supplied goods, such as permits and import quotas, more than established producers do. Demand for these goods is high and inelastic; hence, they become primary targets of corruption. Moreover, innovators have no established lobbies and connections so that they are subject to particularly heavy bribes and expropriations.

2. Literature review

Various scholars have written about this phenomenon, and some of which will be reviewed in this chapter. However, there's no gain talking about corruption in Nigeria without mentioning some of the past administrations of which the paramount is Ibrahim Babangida's 1985 military government up to the 2010 civilian government of Goodluck Ebere Jonathan, in order to ascertain very vividly the devastated effect of corruption to the socio- economic development of Nigeria, and the efforts of different administrations in putting an end to corrupt practices by public office holders should as well be considered.

There is no single, comprehensive, universally accepted definition of corruption. Attempts to develop such definition invariably encounter legal, criminology and, in many countries, United Nations Convention against corruption began in early 2002, one option under consideration was not to define corruption at all, but to list specific types or acts of corruption. Senior (2006, p.24), it indicates that a particular action is one that a majority consensus of both elite and the mass opinion would condemn and would want to see punished on grounds of principle.

He indicates that some elements, usually elites, may want to see the action punished, others not, and the majority may well be ambiguous. It signifies that the majority of both the elites and the mass opinion probably would not vigorously support an attempt to punish any form of corruption that they regard tolerable. Johnston (1996) provides an attempt typology for the definition of corruption. He identifies two different groups in the literature on the subject. The first group, focuses on the behavioural aspects of corruption. These behaviour oriented researcher hold the opinion that corruption is the abuse of public office, power or authority for private gain.

The second group defines corruption by roping in the relationship between and among the principal agent-client to the interactions between and among the parties involved: a principal, an agent and a client.Readers who turn to the Oxford Advanced Dictionary will find decomposition; moral deterioration, use of corrupt practices (bribery, etc.); perversion (language, etc.) from its original state.

The Oxford Unabridged Dictionary defines corruption as "inducement to wrong by improper or unlawful means (as bribery)." Curzon (1997, p.90) defines corruption as "an inducement by means of an improper consideration to violate some duty." Garner (2004, p.370) defines corruption as "The act of doing something with an intent to give some advantage inconsistent with official duty and the right of others, a fiduciary's official's use of a station or office to procure some benefit either personally or for someone else contrary to the rights of others." The Lectric Law Library's Lexicon defines it as "An act done with intent to give advantage inconsistent with the official duty and the rights of others. It includes bribery, but is more comprehensive; because an act may be corruptly done, though the advantage to be derived from it is not offered by another.

Neild (2000) defines corruption as "the breaking public persons, for the sake of private financial or political gain, of the rules of conduct in public affairs prevailing in a society in the period under consideration."Transparency International (TI) defines corruption as "the misuse of entrusted power for private gain". According to TI (2007, p.xxi) in its Global Corrupt Report 2007: Corruption in Judicial System, private gain means "both financial and material gain and non- material gain, such as the furtherance of political or professional ambitions." This is similar to the definition by United States Agency for International Development (USAID) in its Anti-corruption strategy; it also defines corruption as "the abuse of entrusted authority for private gain" the succinct definition of the World Bank is "the abuse of public office for private gain."

According to the United Nations Development Programme (UNDP) in its Anti- corruption practice note, corruption is defined as "the misuse of public power, office or authority for private benefit- through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement."According to the Report of the Common Wealth Expert Group on Good Governance and the Elimination of corruption, in the book fighting corruption- Promoting Good Governance, produced by the Common Wealth Secretariat 2000, corruption is generally defined as "the abuse of public office for private gain." Victor. B. E Abia (2003) Revised Edition of Understanding Nigerian Government And Politics defined corruption as "Unethical behaviour, which runs counter to the accepted social norms and moral values. He also sees it as a behavioural pattern, which seriously hurt public morality and leaves the society worse for it."

2. These Are Constituents Of Corruption In Nigeria

Corruption has eaten into every spheres of Nigeria's public life, from top to bottom, cutting across almost every office or organization of all governments, local, state or federal. It has been argued that Nigeria's current economic mismanagement, corruption, fraud and theft by the rules and those who control the vital sectors of the nation's economic institutions.

According to Alemika (1983), corruption is an economic crime against the society, as we will see under discussion on the effects of corruption. Theft, fraud, and corruption are "Comrades- in-arms", and are rampant among, and committed by persons from all the strata of the society. The monetary value, socio- economic and political consequences associated with the incidence of fraud and corruption perpetrated by the powerful and wealthy, are far greater than those economic offences committed by the poor in the society. Corruption and its associate economic crimes appear in diverse ways, such as:

Bribery, fictitious names are included in salary vouchers, and the proceeds converted to personal use, kick- backs, political pay offs, extortions and demanding/ receiving all kinds of gratifications; unlawful payments for contracts either not executed or poorly executed because the pay officers have been induced; collaboration with contractors to inflate costs of contract value; the "Ghost workers" syndrome; "sorting out" teachers/ lecturers and examiners for better grades, etc.; illegal enrichment of oneself using one's official position, at the expense of the public; alteration of official documents to derive personal benefits at the expense of the public i.e. forgery; demanding offering and acceptance of any form of gratification to obtain unmerited favours or advantages, and such gratification could be material or monetary; using one's official position to influence policies and decisions, or offering wrong advice for the purpose of personal advantage, or for some other person's advantage, at the expense of the larger public interest; condoning indiscipline and other unwholesome behaviour (e.g. drugs faking, violation of ethics governing certain business operations) because the official has compromised his position; aiding and abetting examination malpractices or other related offences.

In the past studies there is significant body of literature that shows empirical relation among corruption and performance of the firms. Foundation for this provided by Mauro (1995) by using corruption index and growth rate for per capita income from 1960 to 1985, same variables are also used by Summers and Heston in 1988. According to Mauro decrease in one-standard diviation increases the annual growth rate of GDP per capita at 8 % per year these results are based on simple regression without considering the control variables. Long term economic growth rate of per capita real GDP during 1970 to 1985 is measured by Mo (2001). Mo uses the regression taking data from Transparency Internationals corruption index but he included the control variables he got marginal effect of variables on corruption by running three separate regressions and defines the total effect of corruption by summing up the three marginal effects of transmission variables. This method of using marginal variables shows that 1 unit increase in corruption decreases the growth rate at 0.545 % points. However the validity of instrument is not properly checked because the direct effect of corruption on growth by controlling the variables the results are insignificant in both OLS and 2SLS estimations. In a recent study same method used by Pellegrlini and Gerlagh (2004) applies the same method suggested by Mo (2001) but the time span is long for measuring firm performance from 1975 to 1996 and shows transmission channel of trade policies and consider the endogenity problem. The valid instrumental variable passes through Hausman test their conclusion is similar to Mo (2001) because transmission variables are significantly influenced by the level of corruption. However (Pellegrlini and Gerlagh 2004) shows that corruption has a significantly negative effect on firm performance and this negative effect become insignificant in a 2SLS regression one thing which is notable that with all control variables the direct effect of corruption is insignificant in both regressions and even it shows the positive effect in 2SLS regression. Two other relevant studies don't rely on the decomposition method and run the standard OLS regression by considering the control variables but without considering the instrumental variables.

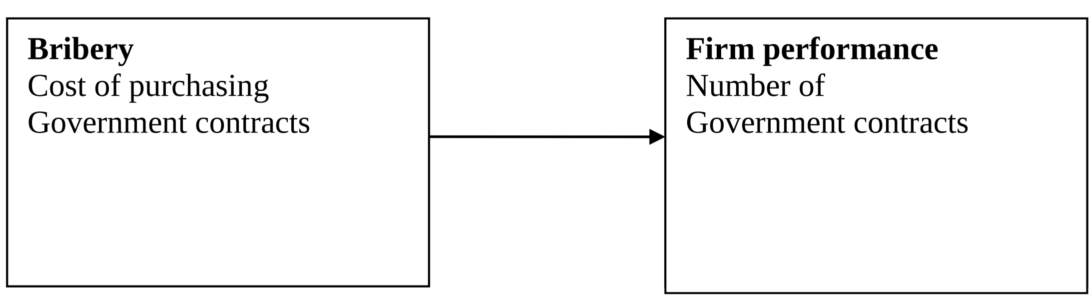
Rock and Bonnett (2004) also check robustness of conventional argument which is negative effect of corruption on growth and investment. Even by considering 4 corruption indices there are a same result that shows negative impact of corruption firm performance and economics growth but the specification of model is very important for these effects (Rock and Bonnett (2004). They show that corruption in large East Asian economies likewise China, Indonesia, Japan, Thailand, Korea are significantly promotes firm performance. Abed and Davoodi (2002) also run a standard multivariate regression. They use panel and cross-sectional data for 25 countries over the period 1994–98, and examine the roles of corruption in transition economies. Compared with other studies, their study uses data with a much shorter time span. The results (Abed and Davoodi 2004) show that higher growth is associated with lower corruption in both panel and cross-sectional regressions and denoted significance at one per cent level. But this effect is insignificant with panel data when their structural reform index, which may in part measure the degree of government failure, is included. From the empirical studies the results are of mixed nature because the some present the unbiased estimates while some presents biased the reasons behind this mixed type of results is in fact the possible methodological problems.

3. Theoretical framework

In this study, the theoretical model is composed of bribery as independent variable and firm performance as dependent variable. The bribery is the cost of purchasing government contracts or simply the involuntary tax paid by the firms to government officials for purchasing different contracts. Performance of firms depending upon the economic activities they undertake. It is very obvious for the firms to purchase the contracts and previous study revel that the firms that have higher approach to government officials win the most of the contracts from the competing firms and hence these firms increase their market share and have good repute and optimum level of performance. Figure 1 shows the theoretical framework of bribery and firm performance. In this theoretical model there are two basic hypotheses. H1: cost of purchasing government contracts have positive effect on the number of contract firm achieved and second hypotheses is H2: cost of purchasing government contracts has negative effect on number of government contracts.

Fig1. Impact of bribery on firm performance in Nigeria

Independent variable **Dependent variable**



4. Methodology

The research philosophy in this research is positivist and the approach is the deductive because the author deduces from previous studies the practical situation of different countries of the world about bribery and firm performance and developing the deductive statement about the relation of firm performance and bribery.

Research strategy is survey and time horizon is cross-sectional and for survey purpose the instrument used is questionnaire which is adopted from Indonesia Corruption Perception Index 2008 and Bribery Index. The initial sample is 100 university graduates from four different universities of University of Ilorin, Nasarawa State University Keffi, University of Abuja and Federal University Laffia. The questionnaire is designed in licker scale.

Correlation Analysis of Data

Table 1 shows the correlation analysis between firm performance and bribery. It shows that there is negative significant correlated of firm performance with bribery. The correlation between firm performance which is measure in obtaining more government contracts in questioner and bribery which is measure as cost of obtaining the contracts is (r = -0.8012) having negative association between them. The size value of correlation is (r = - 0.0074 & -0.0056) showing that the size is not important in bribery and have subsequently have no affect on firm performance. The correlation result if this study is supported by (Jessie Qi Zhou and Mike W. Peng 2011).Their finding suggest that there is a significant negative effect of bribery on firm performance.

Table 1 showing Pearson Correlation

	Firm Performance*	Bribery**	Size
Firm performance*	1.000	-0.8012	-0..0074
Bribery**	-0.8012	1.000	-0.0056
Size	-0..0074	-0.0056	1.000

* High performance means more government contracts,

*High cost brings more government contracts

5. Regression Result

Regression is applied to the model and result of which have been shown in table 2. Empirical evidence suggests that bribery has the negative impact on firm performance. It means that increase in cost of brings contract have the negative effect on performance. Many studies in past that bribery has the negative impact on financial performance of firm (Uhlenbruck and Eden, 2005). The value of R-Square in table 2 is close to 0.649 which indicate very well fit to data. It means that almost 65 % change is due to the response variable (bribery).F-test value is very significant in both table showing that the model is best fitted with the data. The value of Durbin test is just above 2 showing that there is almost no serial correlation among the variable. T test statistics shows that our hypothesis H1 that bribery has the negative impact on firm performance is accepted which is supported by (Wang, Jiang, Yuan and Yi, 2011;Uhlenbruck and Eden, 2005; Shaffer, 1995).

Table 2 Showing Regression Result

Model	R	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.83[a]	0.649	.570	.03906	.0649	7.306	2	88	.00276	2.187
T-test result					t = 2.34					

6. Conclusion

Corruption is increasingly making negative impact on firm performance and economic aspects of economies, especially in emerging economies and democratic countries of the world. Many organizations are examining the source and the solution for the corruption. In this study the theoretical model is composed of bribery as independent variable and firm performance as dependent variable. The bribery is the cost of purchasing government contracts or simply the involuntary tax paid by the firms to government officials for purchasing different contracts. Performance of firms depending upon the economic activities they undertake so it is very obvious for the firms to purchase the contracts and previous study revel that the firms that have higher approach to government officials win the most of the contracts from the competing firms. Table 1 shows the correlation analysis between firm performance and bribery. It shows that there is negative significant correlated of firm performance with bribery. The correlation between firm performance which is measure in obtaining more government contracts in questioner and bribery which is measure as cost of obtaining the contracts is (r = - 0.8012) having negative association between them. The size value of correlation is (r = -0.0074 and -0.0056) showing that the size is not important in bribery and have subsequently have no affect on firm performance.

Recommendations

The following recommendations are made to help in fighting against corruption in Nigeria for socio-economic development to flourish:

1) Public servants should have their proper pay package and appropriate incentives as at when due in order to discourage them from preferring corrupt practices to discharge their responsibility.

2) Governments should carry out reorientation and moral education campaign from the primary level of education to the highest level of education

3) There is great need for the general improvement in the character of the citizenry through moral education. Government sincerity in building better character in the society would appear to influence positively the future politicians and bureaucrats.

4) Public servants should have their proper pay package and appropriate incentives as at when due in order to discourage them from preferring corrupt practices to discharge their responsibility.

5) Those that are actually going to hold any form of leadership position in the country should be meant to realize that they are called to serve not to plunder. And leadership by example should be adhered to.

6) Every government should deliver to the people good governance and management.

7) The political process should be made to accommodate not only the rich, but people of great integrity. The death of monetization of the political process is the death to the license of corrupt practices in the country.

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