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## Corruption, Governance and Firm Performance: Evidence from Indian Enterprises

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and

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### *Abstract*

Rising incidence of corruption and tax evasion in India in the recent years have attracted a great deal of attention and initiated intense debate on these issues. Motivated by this, the present study intends to examine two important research issues. First, we test the impact of bribe payment on firm's performance. Specifically, from an empirical point of view, we investigate two important but alternative hypotheses, namely 'grease the wheels' and 'sand the wheels'. Second, we intend to identify firms that must pay bribe. The study is based on the enterprises survey data of the World Bank. The findings on the effects of bribe on firm's performance are rather mixed. We noted that bribe works as tax on profitability of firms and reduces efficiency. However, the evidence is inconclusive relating to productivity. On the other hand, bribing shows a positive effect on the firms' export and product innovation. Therefore, the evidence provides support to both the hypotheses. Findings regarding who must pay bribe reveal that tax-evading firms are likely to pay greater bribes to the government officers. Furthermore, policy impediments are an important cause of bribe payment. Thus, it is the complexity in the system (policy or bureaucratic) which tends to raise the probability of paying bribes and dampen performance. In the light of these findings, policy implications are brought out.

JEL classification: D73, H26, H32, L25

Keywords: Corruption; Technical Efficiency; Labor Productivity, Tax compliance, India

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