Corporate Profitability and the Global Persistence of Corruption

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Abstract

We examine the persistence of corporate corruption for a sample of privately-held firms from 12 Central and Eastern European countries over the period 2001 to 2015. Creating a proxy for corporate corruption based on a firm's internal inefficiency, we find that corruption enhances a firm's profitability. A channel analysis further reveals that inflating staff costs is the most common approach by which firms divert funds to finance corruption. We conclude that corruption persists because of its ability to improve a firm's return on assets, which we refer to as the *Corporate Advantage Hypothesis.*

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