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THE EFFECTS OF BRIBES PAYMENT ON THE LIABILITY OF NEWNESS IN A CORRUPTED ENVIRONMENT

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Principal Topic
Since the introduction of the fundamental concept of liability of newness by Stinchcombe (1965), a large body of literature in entrepreneurship research has shown that new venture survival highly depends on the ability to overcome internal as well as external hurdles (Aldrich, Ruef, 2006; Morse, Fowler, Lawrence, 2007; Wiklund, Baker, Shepherd, 2010). These are mainly related to a limited development of an internal organizational system, and to the lack of trust relationship, social capital, economic capital and legitimacy. In this paper, we examine if the payment of bribes helps firms to overcome the liability of newness in a corrupted environment.

Method
Applying an event history analysis to a population of manufacturing firms in Indonesia over the period 1993-2007, we use two databases to test the relation between corruption and new ventures survival at two levels: government level corruption (comparison of the levels of corruption in different regions of Indonesia) and firm level corruption (firms’ payment of bribes). The first panel dataset is the Indonesia Family Life Survey (Frankenberg, Thomas, 2000; Strauss et al., 2004). It provides data on the perception of government level corruption in the different regions of Indonesia. The second database is the Statistik Industri which is a census of Indonesian industrial plants, with an average 22,000 plant-year observations per year over the period 1993-2007. Two items provide data on the actual payment of bribes by the firms, one is titled “gifts, charities and donation”, the other is titled “indirect taxes”. These two items are admitted as proxy indicators of bribe payments by Indonesian plants (Behrman and Deolalikar 1989).

Results and Implications
Our results show that a high level of government corruption increases the exit rate of new ventures. This is consistent with previous studies that have underlined the detrimental effect of corruption and of poor quality institutions on entrepreneurship (Anokin, Schulze, 2009). However, our study also provides insights on the question of the efficiency of bribes payment by the firms in a corrupted environment. We found that in a corrupted environment, paying the bribes has a positive effect on new venture survival only for larger firms, which have higher level of resources. Firm-level corruption compensates for the liabilities of newness in a corrupt environment but only for the larger new ventures. For smaller newly established firms with lower level of resources, the payment of bribes wastes resources by reallocating them to non-productive activities and it thus increases the liability of newness.

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