

The Impact of Corruption on Exports and Innovation in Small and Medium-Sized Enterprises: The Case of Tunisia

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Abstract : Corruption is a phenomenon that increases uncertainty and risk of SMEs as it undermines the quality of the business environment and the easy access to public services. Our research builds on existing research on corruption's effects on economic growth at the firm level. Several papers have analyzed the effect of firms' payments of bribes on their performance; however, only limited research has investigated the link between corruption, innovation, and exports. Drawing on principal-agent theory, we explore how corruption weakens the institutional context and makes the business environment unsound and not conducive to innovation and exports. This study employs data from The Enterprise Surveys conducted in Tunisia between March 2013 and July 2014 by the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). The main objective of this survey was to gain a better understanding of Tunisian firms' perception of the environment in which they operate. Since 2011, the country's political situation has become fragile and unstable, and public services are perceived as inefficient and corrupt. We test our hypotheses on a sample of 537 Tunisian manufacturing SMEs using structural equation modeling and path analysis. We find that political instability leads to higher level of corruption, and that excessive business licensing regulations create a fertile ground for bribery. Our findings do not support the greasing hypothesis suggesting that corruption can reduce the negative effect of bureaucratic delays and the hard access of companies to public services related to innovation and exports. Instead, our results support the sanding hypothesis according to which corruption hinders innovation activities and exports. Furthermore, corruption is found to, negatively and significantly, impact firms' ownership of quality certificates. Our results suggest that, in an environment with a high level of corruption, governments and policymakers interested in assisting SMEs with their innovation and export activities should have a better control on corruption to allow them developing those activities without being forced to bribe government officers.

Keywords : corruption, innovation, exports, SMEs

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