STATES OF NATURE AND INDICATORS OF MANAGER’S CORRUPTION IN INDONESIA

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ABSTRACT

This research investigates private sector corruption. The research focuses on a firm’s life cycle as it relates to corruption. Free cash flows to dividends and leverage are used as indicators of private sector corruption. The research examines Non-financial firms listed on the Indonesia Stock Exchange from 1994 to 2006 including 1,680 observation years. Six hypotheses are tested using the Generalized Methods of Moments and Wald tests. The results demonstrate that leverage policy is a major indicator of firm micro level corruption while dividend policy is not. The results show maturity stage firms have the highest corruption levels and declining stage firms have the lowest levels.

JEL:  G3; G30; G38

KEYWORDS: Growth, maturity, star, decline, free cash flow, dividend, leverage, corruption