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**THE NEXUS BETWEEN DISCRETIONARY EXPENDITURES AND CORRUPTION: INDUSTRY LEVEL PERSPECTIVES FROM BRIC AND TURKEY****Abstract:**

The conflict of interest between the managers and owners within opportunistic behaviours' of managers has been a significant area of finance research. Uncontrolled moral hazard in management may result some typical forms of behaviours like excessive perquisite consumption, non-optimal investment decision, inefficient use of assets and discretionary expenditures. Their effects have a potential to destruct firm's financial performance and the shareholder's wealth.

Several studies revealed the measurement of this managerial moral hazard behaviour by using accounting-based performance ratios. In this study, firms' discretionary expenditures have been used as a proxy for managerial behaviour related to moral hazard. This problem can be more severe as a result of the bribery implications of firms and corruption issues. Taking all this account, this paper attempts to investigate the nexus between firms' discretionary expenditures and corruption giving industry level perspectives from emerging markets and identifies the sectors that are most affected.

The dataset constitutes 466 non-financial firms operating in four large emerging countries BRIC (Brazil, Russia, India, China) and Turkey covering the 10 year time span from 2005-2014. Results reveal that all industries in the sample countries with a high control of corruption tend to face less moral hazard related behaviour taking into account industrial differences. However, considering industrial breakdown reveal interesting findings. For some industries an upward sloping relationship has been seen between the control of corruption and the proxy for moral hazard related behavior, which indicates that the higher the level of corruption control, the higher moral hazard.

**Keywords:**

moral hazard, discretionary expenditures, corruption, emerging market, BRIC, Turkey