MINES AND CORRUPTION: THE IMPACT OF NATIONAL INSTITUTIONS AND SUBSIDIARY STRATEGY

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We argue that the pressure MNE subsidiaries face to engage in corrupt practices in their host country varies positively with the institutionalization of corrupt practices in both host and home country environments. We further argue that the relationship between an MNE’s home country environment and the pressure it faces in the host country is moderated by its localization strategy. Results suggest a positive relationship between the host country corruption environment and the pressure subsidiaries face to engage in bribery locally. Mixed results emerged concerning MNEs from home countries participating in the OECD Convention for Combating Bribery. Results concerning the impact of the home country corruption environment are best viewed in light of significant moderating effects. When MNEs did not have local partners, firms from less corrupt home countries reported less pressure to engage in corrupt practices locally; however, the presence of local partners eliminated this relationship. Results will help managers understand the pressures their firm is likely to face when operating in corrupt host country environments, and also offer guidance concerning how the firm might reduce its exposure to those local institutional pressures. Copyright © 2010 John Wiley & Sons, Ltd.

INTRODUCTION

Despite the efforts of governments, non-governmental organizations, and multilateral institutions to reduce corruption levels worldwide, subsidiaries of multinational enterprises (MNEs) operating in emerging and developing countries regularly encounter pressure to engage in corrupt practices such as bribery (Beets, 2005). Indeed, since corruption remains the norm rather than the exception around the world today (Beets, 2005), managers often must make a critical strategic choice. Importantly, a decision on whether to violate or conform to the corruption norms that have been institutionalized locally will affect the MNE’s operations, reputation, and performance—both locally and worldwide.

The strategic implications of a subsidiary’s decisions regarding corrupt practices are particularly acute for MNEs from home countries in which anti-corruption norms have been institutionalized.

Keywords: corruption; multinational enterprises; bribery; institutional theory; alliances; developing countries

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Recent scholarship has suggested a lesser tendency for such MNEs to invest in more corrupt environments (Cuervo-Cazurra, 2006), possibly due to the challenges inherent in conforming to conflicting home and host institutional environments. But when MNEs do invest, what factors influence the degree of local pressure they face to engage in corrupt practices? And do strategic decisions made by the MNE have an impact on the level of that pressure?

Transparency International (2008) defines corruption, for purposes of their Corruption Perception Index (CPI), as the ‘abuse of public power for private gain’ and their measure includes questionable business practices such as bribery, kickbacks, and embezzlement of funds. In this paper, we link the CPI of an MNE’s home and host countries to a specific manifestation of corruption—the propensity of local government officials to impose pressure on firms to make ‘unofficial payments’ (i.e., bribes) to get business done. We begin our theory development with the notion that characteristics of corruption can become so institutionalized that they become fundamental components of a country’s institutional environment (Collins and Uhlenbruck, 2004). We further draw on the recognition that MNE subsidiaries face unique circumstances by virtue of their embeddedness in ‘multiple, fragmented, nested, or often conflicting institutional environments’ (Kostova, Roth, and Dacin, 2008: 998). Building on both perspectives, we argue that the pressure an MNE subsidiary faces varies according to the institutionalization of corruption in both its host and home countries. Further, we suggest that certain strategies that MNEs pursue to respond to local conditions will weaken the influence of the home country institutional environment, thereby increasing pressure on the subsidiary to conform to host country corruption norms.

To test our arguments, we use two independent sets of data. The first is an archival database of firm-level survey responses across a range of Eastern European countries. The second draws on primary survey data collected among MNE subsidiary managers in Ghana. We operationalize our dependent variable, local pressure to engage in corrupt practices, in two complementary ways in our two datasets. In the Eastern Europe dataset, this variable reflects the degree to which local corruption pressures—including government officials’ demands for bribes, a tendency for the subsidiary’s competitors to offer bribes, and a general perception of corruption among local officials—pose an obstacle to the firm’s performance, as perceived by the subsidiary’s manager. By drawing on complementary data sources, we demonstrate the robustness of results beyond the methodology and specific wording of items in a single survey, which provides a stronger test of our arguments.

In the next sections, we describe institutional theory in the context of the MNE, and develop hypotheses concerning the pressure subsidiaries face to engage in corrupt practices in their host countries and the influence of particular localization strategies. We then summarize the methodology, which employs hierarchical linear modeling, and present the results of our analysis. We end by discussing theoretical and practical implications.

THE ROLE OF NATIONAL INSTITUTIONAL ENVIRONMENTS

Institutional theory and the MNE

Firms face institutional pressure to conform to societal conventions and expectations by way of at least three processes (DiMaggio and Powell, 1983). Coercive processes reflect pressures imposed by an authority; normative pressures reflect established paradigms in the society; and mimetic processes reflect pressures for firms to imitate successful enterprises in their organizational field. Such conformity can legitimize a firm (Parsons, 1960) by contributing to its acceptance and endorsement by relevant actors in the institutional environment, and the resulting legitimacy can be critical to the firm’s survival and performance (Deephouse, 1999; Meyer and Rowan, 1977; Miller and Chen, 1995).

Because an MNE’s activities to achieve legitimacy in one country can affect its legitimacy elsewhere (Kostova and Zaheer, 1999; Westney, 1993), headquarters’ managers often impose pressure for subsidiaries to adopt practices used in home country (i.e., headquarters) operations (Kostova and Zaheer, 1999; Westney, 1993).
Zaheer, 1999). Indeed, Kostova et al. (2008) proposed that internal constituencies can exert stronger pressure on MNE subsidiaries than external host country constituencies. At the same time, subsidiary managers may resist such internal pressure when they perceive that the practices promoted by headquarters run counter to local expectations (Kostova and Roth, 2002). In the context of corruption, this means that a subsidiary may encounter significant host country pressure to engage in bribery, while facing a mandate from headquarters to conform to home country expectations by avoiding such corrupt practices.

Recent scholarship has noted the challenges arising for organizations striving to achieve legitimacy across diverse institutional environments (Kraatz and Block, 2008). Given conflicting pressures, Kostova et al. (2008) proposed that MNEs’ receipt of legitimacy can be viewed as a negotiated process between subsidiary managers and relevant local actors. Similarly, Kraatz and Block (2008) noted that organizations may deal with such conflicting pressures through one of four strategies. First, they may attempt to eliminate the conflict by denying the validity of one constituency’s demands or co-opting that constituency to control its expectations. Second, they can compartmentalize their identities in order to relate to each constituency independently. Third, they may attempt to balance demands, play constituencies against one another, or find cooperative solutions to tensions. And finally, firms may forge a strong enough identity to emerge as institutions in their own right, capable of legitimating their own actions (Kraatz and Block, 2008). Given the variety of ways in which firms may deal with institutional pluralism, it is important to understand the diverse pressures an MNE may face regarding corruption.

Impact of the host country institutional environment on local corruption pressure

When managers perceive that a corrupt practice such as bribery has become institutionalized in a society, they are more likely to conform to those societal expectations to obtain legitimacy. For instance, Collins and Uhlenbruck (2004) found empirical evidence that managers in India who perceived corruption to reflect ‘the way things are done’ locally were more likely to engage in corrupt practices, even when they personally viewed them negatively. In addition, as corrupt activities become more taken for granted in a country, government officials may impose more coercive pressure on MNE subsidiaries to participate in activities such as bribery. Moreover, the more that high performing local organizations engage in corruption, the greater will be the mimetic pressure on an MNE subsidiary to offer bribes in the course of its business operations. Therefore, as a baseline proposition, we suggest that,

Proposition 1: The more that corruption norms are institutionalized in a host country, the greater the pressure the MNE subsidiary will face to engage in corrupt practices such as bribery in the local environment.

We assume that the institutionalization of corruption corresponds with the prevalence of corruption in a given country, as measured by Transparency International’s CPI, and we test this relationship using the Eastern Europe dataset. Thus,

Hypothesis 1: The corruption level of an MNE’s host country will relate positively to its subsidiary’s need to engage in bribery in that host country.

Impact of the home country institutional environment on local corruption pressure

Stinchcombe (1965) described how firms are ‘imprinted’ by the conditions present at their founding, and argued that organizational characteristics acquired in response to these initial environmental pressures tend to be retained even as the environment changes. Institutional pressures are particularly salient at the time an organization is created, and the organizational practices that founders devise generally reflect this institutional environment (Dacin, 1997). Because these organizational practices become taken for granted as ‘the way things are done’ (Berger and Luckmann, 1966), they tend to persist in the organization over time, even in the face of environmental changes (Scott, 1991).

Applying this concept to MNEs, we expect that organizational practices devised at founding will persist as the MNE expands abroad into new institutional environments (Kogut, 1993). In this way, an MNE’s response to corruption pressure in its
foreign subsidiaries will partially reflect practices devised to conform to its home country institutional environment. Additionally, researchers have documented MNEs’ efforts to foster common organizational cultures (Jaeger, 1983) and implement common organizational practices in their worldwide subsidiary networks (Kostova and Roth, 2002). Since the corruption domain is subject to intense worldwide scrutiny, often couched in moral, ethical, and legal arguments, a violation of home country expectations can create substantial negative publicity for an MNE—what Kostova and Zaheer (1999: 64) called negative ‘legitimacy spillovers.’ Given that MNEs from less corrupt institutional environments are more exposed to potential legitimacy spillovers by virtue of the greater disdain for corruption present in their home environments, they will be more likely to consciously invest in an internal culture and organizational policies and practices that discourage corruption worldwide. These effects should have important implications at the country level, with systematic differences in MNEs’ behavior across home countries translating into reputation effects that can influence the pressure all subsidiaries from that country face to engage in corrupt practices in a host country.

Increasingly, government officials face uncertainty when they demand bribes due to expanded enforcement efforts (Gyimah-Boadi, 2004; Wijjabrata and Zachea, 2004). Given that some firms acquiesce quietly to bribe requests and others are more likely to report the demands or appeal to other officials or agencies for protection (Uhlenbruck et al., 2006; Rodriguez, Uhlenbruck, and Eden, 2005), we believe that local officials will adjust their tactics and level of pressure based on their assessments of the targeted firm’s likely reaction. Supporting this idea, anecdotal evidence suggests that individual firms can build reputations for uncorrupt behavior, and that such reputations have allowed some MNEs to avoid engaging in bribery, even within environments in which corruption is strongly institutionalized. For example, Habib and Zurawicki (2002) suggested that McDonalds’ worldwide image helped it take a stand against corruption in Russia, and Gratchev (2001) reported a similar effect among 3M’s subsidiaries overseas. Likewise, a manager with extensive experience doing business in some of the most corrupt countries in the world noted that firms that make it absolutely clear that they will not engage in corrupt practices tend to receive far fewer bribe requests than firms that appear more willing to pay (Pingle, 2009).

Many times, however, firm-specific policies are not visible externally; in these cases, government officials must resort to heuristics such as stereotypes (Kostova and Zaheer, 1999) to assess a subsidiary’s likely behavior. Hence, when the subsidiary’s home country has a reputation for anticorruption norms, officials may rely on this stereotype. In this way, we argue that officials will be more aggressive when targeting firms from relatively corrupt home countries, and less aggressive in pressuring MNEs from countries in which anticorruption norms have been institutionalized. In addition, when subsidiary managers from less corrupt countries refuse an initial overture out of conformity with MNE policy, they may be subjected to less subsequent pressure, making firms from these countries better able to resist demands to pay a bribe. For these reasons, we propose that when operating in corrupt environments,

Proposition 2: The less that corruption norms are institutionalized in the MNE’s home country, the weaker the pressure the MNE subsidiary will face to engage in corrupt practices such as bribery in its host country.

More specifically, we expect that within the Eastern Europe sample, fewer bribe requests and less aggressive tactics by host country officials will mean that subsidiaries of MNEs from less corrupt home countries will face a lesser need to engage in bribery. Thus,

Hypothesis 2a: The corruption level of an MNE’s home country will relate positively to its subsidiary’s need to engage in bribery in its host country.

Likewise, this same restraint by government officials suggests that in the Ghana sample, corruption will pose a smaller obstacle to business performance among subsidiaries of MNEs from less corrupt home countries. Thus,

Hypothesis 2b: The corruption level of the MNE’s home country will relate positively to the degree to which local corruption pressure poses an obstacle to its host country subsidiary’s performance.
A number of national governments have chosen to participate in supranational efforts to reduce corruption levels worldwide, such as the Organisation for Economic Co-operation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This convention calls for home countries to prosecute bribery of foreign officials as crimes. Empirical evidence has suggested that these laws deterred foreign direct investment so that MNEs from signatory countries engage in less investment in corrupt host countries (Cuervo-Cazurra, 2006). In addition, countries that have entered into the force of the OECD convention effectively send a signal that their MNEs will resist bribery, which may insulate subsidiaries from local corruption pressure. Hence, we expect that within the Eastern Europe sample, subsidiaries of MNEs from home countries that have entered the OECD convention will face fewer bribe requests and less aggressive tactics by host country officials, and they will thus encounter less need to engage in local bribery. Thus,

Hypothesis 2c: Home country participation in the OECD convention will relate negatively to the MNE subsidiary’s need to engage in bribery in its host country.

This same restraint by local officials should mean that, in the Ghana sample, corruption pressures will pose a smaller obstacle to business performance for subsidiaries of MNEs from home countries that have entered the OECD convention.

Hypothesis 2d: Home country participation in the OECD convention will relate negatively to the degree to which local corruption pressure poses an obstacle to an MNE subsidiary’s performance in its host country.

THE ROLE OF LOCALIZATION STRATEGIES

Firms engage in localization strategies in order to adapt to host country conditions. Such strategies include taking on local partners (e.g., local firms or investors with partial stakes in the host country subsidiary; strategic alliance partners), and localizing control (e.g., decentralizing decision making to the host country subsidiary; using locals as managing directors). We suggest that when MNEs hail from countries in which anticorruption norms have been institutionalized, such localization strategies will reduce the insulation afforded by the firm’s home country institutional environment.

Local partners

Just as local government officials may assume that an MNE subsidiary will conform to the expectations of its home country environment, they may also conclude that local partners will exhibit behavior more consistent with host country conventions and expectations. Thus, when an MNE comes from a home country in which anticorruption norms have been institutionalized, government officials may find it safer to target their coercion toward the local partner, which is less likely to resist, and less likely to appeal or report the impropriety. Indeed, in interviews in Ghana, multiple managers noted that when MNEs from less corrupt home countries work with local partners, it is the partner that generally undertakes the corrupt transaction. In this way, the presence of a local partner provides an avenue for host country officials to pressure the subsidiary to engage in corrupt practices. The presence of a local partner should have a smaller impact when the MNE comes from a country in which corruption is more institutionalized, since officials would see little risk in directly pressuring the MNE subsidiary itself.

Consequently, we propose that the relationship between an MNE’s home country environment and local pressure to engage in corruption will be weaker when a local partner is present. Thus,

Proposition 3: The presence of a local partner will moderate the relationship between the institutionalization of corruption in the MNE’s home country and the pressure its subsidiary faces to engage in corrupt practices such as bribery in the host country.

More specifically, we expect that in the Eastern Europe sample, there will be a weaker relationship between the home country corruption environment and the degree to which the subsidiary needs to engage in bribery among MNEs that have partial local ownership than among those that are fully foreign owned. Hence,
Hypothesis 3a: Partial local ownership will reduce the effect of an MNE’s home country corruption level on the degree to which its subsidiary needs to engage in bribery in the host country.

Likewise, we propose that in the Ghana sample, a weaker relationship will emerge between an MNE’s home country corruption environment and the degree to which corruption pressure poses an obstacle to performance when the firm has an alliance partner. Thus,

Hypothesis 3b: The presence of a local alliance partner will reduce the effect of an MNE’s home country corruption level on the degree to which local corruption pressure poses an obstacle to performance in the host country.

Localizing control of operations

MNEs also make strategic decisions regarding the level of control and coordination that they impose from headquarters (Martinez and Jarillo, 1991) based on their needs for global integration versus local adaptation (Bartlett and Ghoshal, 1989). These strategies correspond to different levels and types of interdependence among the MNE’s subsidiaries (Kostova and Roth, 2002). For example, an MNE striving to achieve global integration will have stronger subsidiary interdependence, and thus may strengthen headquarters’ control through formal mechanisms such as centralized decision making.

Centralized decision making should help MNEs from less corrupt countries in their efforts to enforce policies reflecting the anticorruption expectations of the home institutional environment. In turn, MNEs that impose strong anticorruption policies via headquarters’ control are more likely to display their credible commitment toward uncrupt activities, and thus develop firm-specific reputations for avoiding corrupt activities. This should complement the MNE’s home country reputation to deter government officials from aggressively demanding payments. Even when officials are not aware of an MNE’s internal control mechanisms, subsidiary managers in these firms will likely display greater resistance to initial requests. Such resistance can confirm officials’ expectations regarding the risks or payoffs from applying pressure on firms from less corrupt home countries, and thus strengthen the deterrent effect.

In contrast, when major decisions are localized to host country managers, a home country’s anticorruption norms will likely be less internalized by local decision makers, and organizational policies prohibiting bribes are less likely to be monitored and enforced by the global organization. Government officials may anticipate the presence of relatively weaker anticorruption norms when they know that local managers hold greater levels of autonomy; or, these norms may become evident when subsidiary managers display weaker resistance to initial requests or even offer payments on their own initiative. Thus,

Proposition 4: Localized control will moderate the relationship between the institutionalization of corruption in the MNE’s home country and the pressure its subsidiary faces to engage in corrupt practices in the host country.

Given data constraints, we are only able to test this argument with the Ghana dataset. Therefore, we propose that in the Ghana sample, a weaker relationship will emerge between the level of corruption in an MNE’s home environment and the degree to which local corruption pressure poses an obstacle to performance when the firm decentralizes decision making rather than imposing strong control from headquarters.

Hypothesis 4a: Decentralized decision making will reduce the effect of an MNE’s home country corruption level on the degree to which local corruption pressure poses an obstacle to performance in its host country.

Another strategy to localize control is reflected in the use of host country managers rather than home country nationals to head the subsidiary. Home country nationals are more likely to have been exposed to the MNE’s organizational norms, and to have internalized the norms of the home country institutional environment; they are thus more likely to implement the anticorruption directives imposed by headquarters. In contrast, host country nationals will have had less exposure to the MNE’s home country norms by virtue of fewer ties to the home country and professional networks there, and are therefore less likely to have internalized anticorruption norms into their own
philosophies. We argue that managers who have internalized home country norms will mount stronger resistance to bribe requests (reinforcing the home country reputation effect), whereas managers who have not internalized the MNE’s organizational norms will be more likely to acquiesce or volunteer bribes (compromising the home country reputation effect). Therefore, we propose that in the Ghana sample, a weaker relationship will emerge between an MNE’s home country corruption environment and the degree to which corruption pressure poses an obstacle to performance when a local rather than expatriate manager heads the subsidiary.

Hypothesis 4b: The use of a local national to head the subsidiary will reduce the effect of an MNE’s home country corruption level on the degree to which corruption pressure poses an obstacle to performance in the host country.

METHODOLOGY

As noted above, we drew from two distinct datasets. Hypotheses concerning whether managers perceived a need to engage in bribery were tested using the Business Environment and Enterprise Performance Survey (BEEPS) database. The BEEPS database, developed jointly by the World Bank and the European Bank for Reconstruction and Development, contains survey responses from firms in Eastern European countries from 1999–2000. Because of lack of availability of contemporaneous data for some countries, this study was conducted using data on MNEs that had operations in: Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Turkey, Ukraine, and Uzbekistan. Each country displays a relatively high level of corruption, with ratings on Transparency International’s CPI ranging from 1.5 to 5.7 (with 10 reflecting the least corrupt environment). The database is publicly available on the World Bank Web site and contains 3,565 foreign- and locally owned firms in the above countries (after excluding public agencies, charities, non-governmental organizations, and farms). In this analysis, we considered only firms with foreign ownership, leading to an effective N, after deleting observations with missing values, of 151 firms.

Hypotheses regarding the degree to which corruption poses an obstacle to business performance were tested using data from firms operating in Ghana. Interviews of foreign and domestic firms were undertaken by one of the authors in Accra and Tema, Ghana in order to pretest a survey instrument and gain deeper insight into the phenomenon. Data were obtained from surveys that were administered to foreign- and locally owned firms operating in Ghana at two different times: the first in 2004–2005 and the second in 2007. Participant firms were randomly identified through data provided by the Ghana Investment Promotion Center, the Ghanaian Chamber of Commerce, and the Ghanaian Yellow Pages. Graduate students at the University of Ghana and Ashesi University in Ghana, employed as research assistants, hand delivered surveys to managing directors at the firms, and either waited while they were completed or scheduled a date for an unlabeled, sealed survey envelope to be picked up. All respondents were managing directors, vice presidents, or accountants in the Ghanaian organization. In 2004–2005, 400 firms were sampled and 174 usable responses were received. In 2007, 365 firms were sampled and 141 usable responses were received. This yielded a response rate of 41 percent overall. This study relates only to foreign-owned firms that listed their headquarters country to be outside of Ghana. Fifty-five responses met this criterion, and listwise deletion of responses with missing values yielded an effective N of 46 firms.

Although the response rate was high, we explored for nonresponse bias by testing for differences among those completing the survey in full and those refraining from participation on the corruption variables, the most sensitive questions in the survey. We explored differences in ownership, home country CPI score, participation in a strategic alliance, and origin of managing director, as well as the more general variables of age and size. Means between respondents and nonrespondents were not significantly different at the 0.10 level.

2 This data collection mechanism was used due to the poor reliability of the postal system. In three cases, the manager chose a second option of mailing the survey back to the author in the United States. However, all other respondents relied on manual pick up from research assistants.
Dependent variables

The level of local pressure a firm faces to engage in corruption in its host country was operationalized in two complementary ways. In the study of Eastern European firms, the dependent variable (a subsidiary’s need to engage in bribery) took the form of six items in which respondents were asked their perceptions with respect to the question, ‘How often do firms like yours nowadays need to make extra, unofficial payments to public officials...’ across a range of activities (see Appendix 1 for all items). As with other research on corruption, the items were phrased indirectly and, thus, the respondents were not implicating themselves of wrongdoing (Svensson, 2003). Such phrasing should reduce concerns about social desirability. In its original form, responses ranged from 1, ‘always,’ to 6, ‘never.’ For ease of interpretation, we reverse coded this variable so that higher numbers indicated a greater need to offer bribes. A factor analysis using varimax rotation of survey items with common anchors confirmed the presence of a corruption factor; Cronbach’s alpha was 0.89.

In the study of Ghanaian firms, subsidiary managers were asked to report their perceptions concerning whether corruption pressures posed an obstacle to their firm’s business performance. The wording of this scale not only provides a complementary perspective to the other dataset, but also frames the question in a manner that is less sensitive to socially desirable responses. Respondents were not asked to divulge whether they had actually participated in corrupt transactions, but the extent to which they viewed the country’s corruption environment as an obstacle to their business activities. Because these questions do not imply that the MNE did or did not engage in bribery, managers should be less concerned about indirectly revealing sensitive information. (See Appendix 1 for the scale.)

Unlike the earlier measure, this measure was framed as a criticism of the country’s business environment. Sometimes managers with bad feelings toward a local environment may display a perception bias, termed a propensity to “kvetch”...the Yiddish expression for habitual complainer” (Kaufman and Wei, 1999: 13), which can create systematic biases. In this dataset, managers of foreign enterprises perceived greater obstacles to business performance across a wide range of issues than did local, Ghanaian, firms (p < 0.01). This difference may stem from variations in tendencies to express criticism, additional challenges reflecting MNEs’ liability of foreignness, or differences in frames of reference. To account for these potential systematic biases, the corruption scale was standardized to account for respondents’ perceptions regarding obstacles created by 17 different issues (such as the uncertainty about property rights, the importance of family relationships in the business environment, difficulty understanding local customers’ needs, government bureaucracy, and difficulty hiring skilled workers). Thus, this construct reflects the degree to which corruption creates more or less of an obstacle to business performance than other factors in the Ghanaian environment; Cronbach’s alpha was 0.86.

Independent variables

Country-level (level 2) variables

Host country corruption level. The host country corruption environment was measured using Transparency International’s CPI, which draws on 18 separate surveys administered by twelve independent organizations pertaining to 146 countries, and reflects the perceptions of resident and non-resident managers and country analysts. The CPI asks respondents questions related to the misuse of public office for personal benefit and includes items related to bribery, kickbacks, embezzlement, and the strength and effectiveness of anticorruption efforts. As it is published, high scores indicate a less corrupt national environment; for ease of interpreting our results, we reverse coded and standardized this variable (using z-scores). Thus, in tables and figures in the next section, higher numbers reflect more corrupt institutional environments. Countries’ scores from 2003 (Transparency International, 2003) were used because several Eastern European countries made their first appearance in Transparency International’s CPI in 2003, affording the ability to include a greater number of countries and observations.3

Home country corruption level. Similarly, an MNE’s home country corruption level was operationalized by the CPI score of its home country. As above, CPI scores were reversed and standardized by the CPI score of its home country. As above, CPI scores were reversed and standardized.

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3 The correlation between 2000 and 2003 CPI scores (Transparency International, 2000, 2003) was 0.93 for the countries in this dataset.
standardized so that higher numbers reflect more corrupt environments. Since the BEEPS survey was administered in 1999–2000, and no additional observations were able to be included by using later data, the home country CPI variable was operationalized using the CPI scores for 2000. Foreign firms in the Eastern Europe sample came from: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Japan, Russia, Turkey, the United Kingdom, and the United States.

Data for the Ghana sample were collected in 2004–2007; thus Transparency International’s 2004 CPI scores were used (Transparency International, 2004). This analysis included data on firms from: Belgium, Botswana, Brazil, Canada, China, Cyprus, Denmark, Finland, France, Germany, Guinea, Hong Kong, India, Israel, Italy, Ivory Coast, Japan, Kenya, Korea, Lebanon, Mauritania, the Netherlands, Nigeria, Russia, Senegal, Singapore, South Africa, Spain, Sweden, Switzerland, Syria, Thailand, the United Kingdom, and the United States.

**Home country entry into force of the OECD convention.** For the Eastern Europe sample, MNEs’ home countries were coded as ‘1’ if they had entered into the force of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions on or before 1 January, 1999, and as 0 otherwise. By 1999, eight of the 12 home countries represented in our sample had entered into the force of the convention. For the Ghana sample, home countries were coded as ‘1’ if they had entered into the force of the OECD Convention in or before June, 2007, and as ‘0’ otherwise. Sixteen of the 34 home countries represented in our sample had entered into the force of the convention by this time, and no country entered between 2004 and August, 2007.

**Firm-level (level 1) variables**

**Partial local ownership.** For the Eastern European firms, partial local ownership was measured as a dichotomous variable; firms with any local ownership were coded as ‘1’ and those that were fully foreign owned were coded as ‘0.’ MNEs that report partial local ownership could fall into two categories. On the one hand, the firm could have a single local equity partner that plays a role in the firm’s strategy and operations. On the other hand, the subsidiary could have more dispersed local ownership, with controlling interest held by the MNE, but a noncontrolling portion of shares held by local stockholders. Due to data constraints, we were unable to identify the composition of this local ownership. We therefore assume that firms reporting partial local ownership in the Eastern Europe sample fall into the first category. To the extent that some firms in the sample have more dispersed local ownership, less significant results should arise in the empirical analysis.

**Local alliances.** In the Ghana dataset, managers were asked to report the number of strategic alliances and joint ventures in which their firm had participated with Ghanaian-owned companies. Since few firms reported more than one local alliance, this variable was dummy coded as ‘1’ when an alliance was present and as ‘0’ when no alliances were reported.

**Local decision making.** In the Ghana dataset, decentralized decision making was operationalized based on a three-item scale (see Appendix 1) in which subsidiary managers were asked if strategic decisions were decentralized to the host country subsidiary. A factor analysis using varimax rotation of survey items with common anchors confirmed the presence of a decision making factor; Cronbach’s alpha for this scale was 0.70.

**Nationality of managing director.** In the Ghana dataset, this variable was coded as ‘1’ when the managing director was Ghanaian and as ‘0’ otherwise.

**Control variables**

In the Eastern Europe sample, we controlled for industry, MNE’s worldwide employment (more than 500 employees, 100–499 employees, 50–99 employees) and engagement in international trading activities. The analysis of Ghanaian firms included similar controls including industry dummy variables and subsidiary size (number of employees in Ghana).

Although country-level independent variables were drawn from distinct sources, the dependent variables in our analyses came from the same sources as the firm-level explanatory variables; thus, we assessed the potential for common method bias. First, we noted that the form of the questions measuring the dependent and moderator...
variables was quite different, with the questions operationalizing the moderator variables asking for objective information such as the percentage of capital owned by various categories of owners, the number of alliances with local firms, and whether the subsidiary’s managing director was a home-, host-, or third-country national. In both surveys there were multiple pages separating these objective questions from the perception-based dependent variables. In the Ghana sample, since one of the moderator variables (local decision making) was measured on the same Likert scale as the dependent variable, we performed Harman’s single factor test. We entered all scaled variables and no general factor was apparent; thus the possibility that common method bias drives the empirical results is not of great concern.

Analysis

We used hierarchical linear modeling (HLM) for our analysis. HLM is used to predict values on a dependent variable when independent variables occur at more than one level so that some independent variables are embedded within higher levels of analysis—in our case, firms embedded within country contexts. In the Eastern Europe dataset, we have a hierarchical crossed-and-nested design in which each subsidiary is embedded within two independent contexts—that of its home country and that of its host country. Consequently, we employed a cross-classified random-effect model (HCM2) and thus estimated models using full maximum likelihood (FML) estimation of HCM2 using the software program HLM 6.02a. Given that group mean centering is not viable in HCM2, all level-1 variables entered the equations uncentered; level-2 variables were grand-mean centered. When employing grand mean centering, the country-level coefficients show the relationship between country-level predictors and bribery, absent the influence of firm-level predictors. HCM2 models can employ either fixed or random effects. Fixed effects would assume that the relationship between firms’ characteristics and perceived need to bribe is invariant across national contexts. Random effects do not impose this assumption on the model. We tested each of our level-2 variables against this assumption and found fixed effects to be appropriate for the host country CPI and home country OECD convention variables, but not for the home country CPI. Therefore, we use the random-effects specification for home country CPI.

For the Ghana sample, we had only one country context—that of the MNE’s home country. Thus, we estimated models using an HLM2 model. We performed a test to assess whether the model required a full maximum likelihood (FML), rather than restricted maximum likelihood (REML), estimation given that we had a moderate number of level-2 observations, and FML produced a better fit ($p < 0.000$). All level-1 variables entered the equations group-mean centered, as is preferred in HLM2 models with interaction effects (Hofmann and Gavin, 1998). All level-2 variables were grand-mean centered.

We examined our hypotheses related to subsidiaries’ embeddedness in home and host country contexts using an incremental approach. For each dataset, we first specified a null model (Model 1), that included only the intercept—no firm- or country-level variables. Model 2 then added firm-level variables but no country-level variables. The next models added country effects, including host country context (for the Eastern Europe sample) and home country context. The last column of Table 3 and the last two columns of Table 4 provide results for each of the interaction terms. Appendix 2 contains equations for both the main effects and fully specified models.

RESULTS

Tables 1 and 2 provide descriptive statistics and correlation matrices for both samples. We first assessed normality, heteroskedasticity, the presence of systematic variation across groups, and multicolinearity. No issues were found in either sample. In the Ghana sample, the bivariate correlation between the two home country variables—home country CPI and home country participation in the OECD Convention—was high at 0.667 ($p < 0.05$). For this reason, we entered these variables into the analysis separately. The home country variables did not exhibit a significant correlation (0.371; n.s.) in the Eastern Europe dataset; thus, variables were not separated in the analysis presented here, though robustness checks showed no substantial differences when the variables entered the analysis separately.

Results for tests of Hypotheses 1, 2a, 2c, and 3a using Eastern European firms are presented in
Table 1. Descriptive statistics and correlations for Eastern Europe sample

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>St. dev.</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) More than 500 employees</td>
<td>0.03</td>
<td>0.17</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) 100–499 employees</td>
<td>0.10</td>
<td>0.30</td>
<td>−0.06</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) 50–99 employees</td>
<td>0.05</td>
<td>0.23</td>
<td>−0.04</td>
<td>−0.08</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Partial local ownership</td>
<td>0.34</td>
<td>0.48</td>
<td>0.22</td>
<td>0.35</td>
<td>−0.04</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Manufacturing industry</td>
<td>0.06</td>
<td>0.24</td>
<td>0.01</td>
<td>−0.05</td>
<td>0.09</td>
<td>−0.18</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Construction industry</td>
<td>0.02</td>
<td>0.15</td>
<td>−0.04</td>
<td>−0.01</td>
<td>0.15</td>
<td>−0.11</td>
<td>−0.04</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Mining industry</td>
<td>0.72</td>
<td>0.45</td>
<td>0.09</td>
<td>0.11</td>
<td>0.02</td>
<td>0.22</td>
<td>−0.05</td>
<td>−0.07</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>(8) Import/export orientation</td>
<td>0.70</td>
<td>0.46</td>
<td>0.05</td>
<td>0.03</td>
<td>0.03</td>
<td>0.17</td>
<td>0.11</td>
<td>0.02</td>
<td>0.02</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Correlations above 0.18 are significant (p < 0.05). Bivariate correlations at country level between home country CPI and home country OECD participation are 0.37 (nonsignificant).

Table 2. Descriptive statistics and correlations for Ghana sample

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>St. dev.</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Construction</td>
<td>0.03</td>
<td>0.17</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Manufacturing</td>
<td>0.31</td>
<td>0.46</td>
<td>−0.11</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Service</td>
<td>0.38</td>
<td>0.49</td>
<td>−0.13</td>
<td>−0.53</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Employees</td>
<td>118.19</td>
<td>235.84</td>
<td>0.06</td>
<td>0.17</td>
<td>−0.19</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Local alliance</td>
<td>0.33</td>
<td>0.47</td>
<td>0.00</td>
<td>−0.01</td>
<td>0.06</td>
<td>−0.01</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) LDM</td>
<td>3.07</td>
<td>0.91</td>
<td>−0.09</td>
<td>−0.17</td>
<td>0.48</td>
<td>−0.18</td>
<td>0.12</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>(7) Ghanaian</td>
<td>0.45</td>
<td>0.50</td>
<td>0.16</td>
<td>−0.10</td>
<td>0.18</td>
<td>0.02</td>
<td>0.10</td>
<td>0.01</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Correlations above 0.48 are significant (p < 0.05). Bivariate correlations at country level between home country CPI and home country OECD participation are 0.67 (p < 0.05).

Table 3. Results for tests of Hypotheses 2b, 2d, 3b, 4a, and 4b using the Ghana data, are presented in Table 4.

**Firm-level main effects**

Table 3, Model 2 shows that among the firm-level control variables in the Eastern Europe sample, only two variables—importing/exporting and one of the size variables—were marginally related to the dependent variable (p < 0.10). In the Ghana sample, Table 4, Model 2 shows that only the variable for Ghanaian managing director emerged as significant (p < 0.05). The negative coefficient here suggests that subsidiaries with Ghanaian managing directors found corruption to be less of an obstacle than other subsidiaries.

**Propositions 1 and 2: country-level determinants**

Table 3, Model 3 presents results testing hypotheses in the Eastern Europe sample. Host country CPI emerged as a significant main effect (p < 0.001), indicating that subsidiaries operating in more corrupt host countries faced a larger need to offer bribes. This result supports Hypothesis 1. However, neither home country CPI (Hypothesis 2a) nor home country participation in the OECD Convention (Hypothesis 2c) emerged as significant direct effects. Results from similar models in the Ghana sample are presented in Table 4, Models 3 and 4. Home country CPI emerged as positive and significant (p < 0.05), indicating that subsidiaries of MNEs from more corrupt home countries faced greater obstacles from corruption pressures in Ghana and, likewise, subsidiaries from home countries in which corruption was less institutionalized faced lesser obstacles from local corruption pressures; thus, Hypothesis 2b was supported. The OECD convention variable emerged as negative and significant (p < 0.01), indicating that subsidiaries of MNEs from home countries that had entered the force of the OECD convention faced lesser obstacles from corruption pressures in Ghana, and providing support for Hypothesis 2d. Thus, the general proposition that subsidiaries of MNEs from countries in which anticorruption norms...
Table 3. Results of HCM2 estimation for need for MNE bribery in Eastern Europe sample

<table>
<thead>
<tr>
<th>Variable (coefficient)</th>
<th>Model 1 Intercept only</th>
<th>Model 2 Firm-level main effects</th>
<th>Model 3 Country-level main effects</th>
<th>Model 4 Local ownership by home CPI interaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>2.13 (0.16)***</td>
<td>1.87 (0.24)***</td>
<td>1.86 (0.22)***</td>
<td>1.98 (0.22)***</td>
</tr>
<tr>
<td><strong>Firm-level variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 500 employees</td>
<td>−0.23 (0.31)</td>
<td>−0.19 (0.30)</td>
<td>−0.18 (0.30)</td>
<td></td>
</tr>
<tr>
<td>100–499 employees</td>
<td>−0.16 (0.21)</td>
<td>−0.06 (0.20)</td>
<td>−0.06 (0.20)</td>
<td></td>
</tr>
<tr>
<td>50–99 employees</td>
<td>0.41 (0.24)+</td>
<td>0.48 (0.23)+</td>
<td>0.48 (0.23)+</td>
<td></td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>−0.02 (0.20)</td>
<td>0.01 (0.19)</td>
<td>0.02 (0.19)</td>
<td></td>
</tr>
<tr>
<td>Construction industry</td>
<td>0.33 (0.32)</td>
<td>0.24 (0.31)</td>
<td>0.25 (0.31)</td>
<td></td>
</tr>
<tr>
<td>Mining industry</td>
<td>0.69 (0.51)</td>
<td>0.56 (0.50)</td>
<td>0.58 (0.49)</td>
<td></td>
</tr>
<tr>
<td>Import/export</td>
<td>0.31 (0.17)+</td>
<td>0.35 (0.17)+</td>
<td>0.38 (0.17)+</td>
<td></td>
</tr>
<tr>
<td>Partial local ownership (PLO)</td>
<td>0.00 (0.17)</td>
<td>−0.06 (0.17)</td>
<td>−0.21(0.19)</td>
<td></td>
</tr>
<tr>
<td><strong>Country-level variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host country CPI</td>
<td></td>
<td></td>
<td>0.47 (0.11)***</td>
<td>0.45 (0.11)***</td>
</tr>
<tr>
<td>Home OECD participation</td>
<td></td>
<td></td>
<td>0.01 (0.26)</td>
<td>0.07 (0.27)</td>
</tr>
<tr>
<td>Home country CPI</td>
<td></td>
<td></td>
<td>0.09 (0.16)</td>
<td>0.60 (0.34)+</td>
</tr>
<tr>
<td><strong>Interaction terms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PLO X home country CPI</td>
<td></td>
<td></td>
<td>−0.53 (0.31)+</td>
<td></td>
</tr>
<tr>
<td><strong>Model fit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deviance (−2 log likelihood)</td>
<td>516.58</td>
<td>503.20</td>
<td>484.49</td>
<td>481.66</td>
</tr>
<tr>
<td>Δ Deviance</td>
<td>13.38173+</td>
<td>18.70652**</td>
<td>2.83+</td>
<td></td>
</tr>
</tbody>
</table>

+ p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001.

have been institutionalized are insulated from host country corruption pressures was supported in the Ghana sample, but not in the Eastern Europe sample.

Propositions 3 and 4: localization interaction determinants

Hypothesis 3a proposed that partial local ownership would moderate the relationship between an MNE’s home country corruption environment and the perceived need to engage in bribery in the host country. Table 3, Model 4 presents results from the Eastern Europe sample. The partial local ownership by home country CPI interaction term emerged as negative and significant (p < 0.05); thus, Hypothesis 3a was supported. Hypotheses 3b, 4a, and 4b predicted moderating effects of alliances, decentralized decision making, and the use of a local managing director in Ghana. Results are presented in Table 4, Models 5, 6, and 7. The alliance by home country CPI interaction term was a negative and significant predictor (p < 0.05), indicating support for Hypothesis 3b. Neither the localized decision making by home country CPI interaction (Hypothesis 4a) nor the managing director by home country CPI interaction (Hypothesis 4) emerged as significant.4

Figures 1 and 2 illustrate the significant interactions for partial local ownership in the Eastern Europe sample and alliances in the Ghana sample. Only the solid black line in each figure emerged as significantly different from zero (p < 0.05) (Preacher, Curran, and Bauer, 2006).

DISCUSSION

Building from recent discussions on the implications of MNEs’ embeddedness in diverse institutional environments (Kraatz and Block, 2008; Phillips and Tracey, 2009), our results support the argument that MNE subsidiaries can and do face conflicting institutional pressures in their various national environments. Indeed, our results suggest that home and host country institutions interact in

4 Because the BEEP sample contains a relatively small number of level-2 (i.e., country-level) observations, we verified the results using a Score Test I (Berkhof and Snijders, 2001), which provides a conservative test of variance components at smaller level-2 sample sizes. Results of the Score Test I were consistent with the findings presented above for both row and column coefficients (i.e., home and host country effects).
Table 4. Results of HLM2 estimation for perception that corruption is an obstacle in Ghana sample

<table>
<thead>
<tr>
<th>Variable (coefficient)</th>
<th>Model 1 Intercept only</th>
<th>Model 2 Firm-level main effects</th>
<th>Model 3 Home country CPI</th>
<th>Model 4 OECD participation</th>
<th>Model 5 Home CPI X alliance</th>
<th>Model 6 Home CPI X decision making</th>
<th>Model 7 Home CPI X managing director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1.05 (0.04)***</td>
<td>1.08 (0.06)***</td>
<td>1.09 (0.05)***</td>
<td>1.10 (0.05)***</td>
<td>1.09 (0.05)***</td>
<td>1.09 (0.05)***</td>
<td>1.09 (0.05)***</td>
</tr>
<tr>
<td><strong>Firm-level variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction ind.</td>
<td>−0.08 (0.34)</td>
<td>−0.08 (0.35)</td>
<td>−0.08 (0.34)</td>
<td>0.09 (0.33)</td>
<td>−0.08 (0.35)</td>
<td>−0.10 (0.36)</td>
<td></td>
</tr>
<tr>
<td>Manufacturing ind.</td>
<td>−0.07 (0.14)</td>
<td>−0.07 (0.14)</td>
<td>−0.07 (0.14)</td>
<td>−0.04 (0.13)</td>
<td>−0.07 (0.14)</td>
<td>−0.07 (0.14)</td>
<td></td>
</tr>
<tr>
<td>Service ind.</td>
<td>−0.15 (0.15)</td>
<td>−0.15 (0.15)</td>
<td>−0.15 (0.15)</td>
<td>−0.15 (0.15)</td>
<td>−0.15 (0.15)</td>
<td>−0.15 (0.15)</td>
<td></td>
</tr>
<tr>
<td>Employees in Ghana</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
</tr>
<tr>
<td>Local alliance</td>
<td>0.06 (0.11)</td>
<td>0.06 (0.11)</td>
<td>0.06 (0.11)</td>
<td>−0.02 (0.11)</td>
<td>0.06 (0.11)</td>
<td>0.05 (0.12)</td>
<td></td>
</tr>
<tr>
<td>Localized decision making (LDM)</td>
<td>0.09 (0.07)</td>
<td>0.09 (0.07)</td>
<td>0.09 (0.07)</td>
<td>0.08 (0.07)</td>
<td>0.09 (0.08)</td>
<td>0.09 (0.08)</td>
<td></td>
</tr>
<tr>
<td>Ghanaian managing director (GMD)</td>
<td>−0.27 (0.12)*</td>
<td>−0.27 (0.12)*</td>
<td>−0.27 (0.12)*</td>
<td>−0.24 (0.11)*</td>
<td>−0.27 (0.12)*</td>
<td>−0.23 (0.21)</td>
<td></td>
</tr>
<tr>
<td><strong>Country-level variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home country CPI</td>
<td></td>
<td>0.13 (0.06)*</td>
<td></td>
<td>0.13 (0.06)*</td>
<td>0.13 (0.06)*</td>
<td>0.13 (0.06)*</td>
<td></td>
</tr>
<tr>
<td>Home OECD participation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interaction terms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliance X home CPI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>−0.22 (0.12)*</td>
<td>0.00 (0.08)</td>
<td></td>
</tr>
<tr>
<td>LDM X home CPI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GMD X home CPI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.05 (0.24)</td>
<td></td>
</tr>
<tr>
<td><strong>Model fit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deviance (-2 log likelihood)</td>
<td>54.47</td>
<td>9.21</td>
<td>5.13</td>
<td>1.63</td>
<td>1.75</td>
<td>5.13</td>
<td>5.09</td>
</tr>
<tr>
<td>Δ Deviance**</td>
<td>45.26***</td>
<td>4.08*</td>
<td>7.59**</td>
<td>3.38+</td>
<td>0.00</td>
<td>0.04</td>
<td></td>
</tr>
<tr>
<td>R²₁/R²₂**</td>
<td>0.11/0.00</td>
<td>0.26/0.17</td>
<td>0.33/0.25</td>
<td>0.28/0.16</td>
<td>0.26/0.17</td>
<td>0.27/0.17</td>
<td></td>
</tr>
</tbody>
</table>

+ p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001. Δ Deviance for Model 4 offers comparison with Model 2. Δ Deviance for Models 5, 6, and 7 offer comparisons with Model 3. b The difference between Models 3 and 4 is nonsignificant. c In an HLM2 model, R²₁ is interpreted as the proportional reduction in error for predicting an individual-level (level-1) outcome, and R²₂ is interpreted as the proportional reduction of error for predicting a group (level-2) mean (Luke, 2004).
MNEs and Host Country Corruption

Figure 1. Partial local ownership by home country corruption level

sophisticated ways depending on the MNE’s localization strategy.

Recently, Kostova et al. (2008) suggested that by virtue of their foreignness and distinctive contributions, MNEs may be shielded from pressure to conform to host country institutions. However, in this study we found support for our hypothesis that, at least in the corruption domain, MNE subsidiaries indeed encounter pressure to conform to host country conventions and expectations. These empirical findings may stem from our focus on a single host country constituency (local government officials), rather than a broader set of institutional actors. They may also arise from our consideration of the specific domain of corruption, which may be subject to different dynamics than domains in which the focal activity is not inherently illegal. Nevertheless, these results point to the need for further empirical inquiry into the pressures that MNE subsidiaries face to conform to their varied institutional environments.

Several other interesting results emerged from the empirical tests. First, in terms of the direct effect of the home country’s corruption environment on pressures faced by subsidiaries in their host country, results were mixed—the direct effect was statistically significant in the Ghana sample, but not the Eastern Europe sample. However, these results must be considered in light of interaction effects. In both samples, when MNEs had no local partner or local ownership, the home country corruption environment was a significant predictor of the pressure the subsidiary faced to engage in corrupt practices locally, and in both samples the presence of a local partner eliminated that relationship.

Additionally, in the Ghana sample but not the Eastern Europe sample, results suggested that MNEs from countries participating in the OECD Convention for Combating Bribery faced less local pressure to engage in corruption than MNEs from nonparticipating countries. The presence of significant results for the OECD convention variable in the Ghana sample but not the Eastern Europe sample may reflect a timing issue. The survey of Eastern European firms took place in the middle of the primary ratification time frame for OECD member countries. Thus, if some countries simply completed their legislative procedures and entered into the force of the convention more quickly than others, then the cut-off date used here may be
problematic. In contrast, data collection for the Ghana sample took place several years after countries had entered into the force of the convention; thus, a country’s participation may have held greater signaling power to local officials. Together, these home country institutional effects offer some support for our arguments that when countries have institutionalized anticorruption norms at home or implemented legal constraints on their MNEs, they may establish reputations and send signals that their MNEs will resist bribery, even when operating in corrupt host countries.

Kostova et al. (2008: 998) argued that, especially in areas such as social responsibility, MNEs may comprise their own ‘metainstitutional field.’ This suggests that, rather than belonging to organizational fields in each of their home and host countries, MNEs should be seen as a ‘recognized’ category in themselves with expectations and, thus, demands regarding their behavior, established as a class. If key constituencies recognize MNEs as comprising their own metainstitutional field, we would expect those actors to impose similar expectations upon all MNEs, regardless of a particular firm’s attributes. The empirical findings in this paper do not provide strong support for this notion in the corruption domain, however. The constituency considered here—host government officials—does not appear to expect all MNEs to operate according to shared rules or norms. Instead, we found empirical support for our arguments that government officials impose different levels of pressure on subsidiaries based on the MNE’s home country institutional environment.

Although our results cast doubt on the notion that this particular constituency recognizes MNEs as belonging to a common metainstitutional field, it is feasible that such a field forms around a narrower set of MNEs with particular characteristics. For example, the fact that an empirical distinction arose in the Ghana sample between MNEs coming from home countries that had implemented the OECD convention and those that had not suggests that a metainstitutional field may form, not around all MNEs, but around MNEs that are bound together by certain institutional constraints.
In addition, other key constituencies such as consumers may view MNEs as belonging to a common field.

Our empirical results also suggest that firms do not have equal capabilities to navigate pluralistic institutional environments. We found that firms with local partners and with partial local ownership faced greater pressure to engage in corrupt practices than their counterparts without such local relationships. This suggests that when they expect that an MNE subsidiary will react negatively to a bribe request, local government officials may identify alternative access points into the subsidiary. A local alliance partner or local individual or firm that has an equity stake in the subsidiary would serve as an ideal access point for the corrupt official, since that entity is likely more dependent on the local institutional environment.

In other words, an MNE’s localization strategy may compromise the firm’s ability to implement some of the strategies that Kraatz and Block (2008) proposed for firms encountering conflicting institutional pressures. For example, by virtue of its foreignness, an MNE may be able to effectively deny the validity, or escape the jurisdiction, of local officials’ demands. Subsidiary managers may also be able to convince local officials that the MNE had made such a strong worldwide commitment to anticorruption policies that the firm would withdraw from the host country or incur a large expense rather than violate internal policies. Either strategy may allow MNE subsidiaries to stand up to the pressure imposed by host country officials. However, once the MNE has taken on a local partner, the official’s authority becomes more difficult to deny—particularly when pressure is placed on the local partner directly. The MNE, then, may instead need to pursue strategies of compartmentalizing its national identities or balancing demands imposed by its various institutional environments.

An alternative interpretation of the empirical results is that when MNEs find themselves in situations in which they believe corruption will be a particular obstacle, they tend to take on a local partner to either smooth the way or outsource the corrupt activities. In this alternative explanation, taking a local partner would not cause more demands for bribes, but would instead serve as a mechanism for the MNE to compartmentalize its identities in its home and host country environments. Although in violation of many MNEs’ home country laws and norms, such practices would be less transparent to stakeholders, offer subsidiary managers greater deniability, and serve as a form of ceremonial adoption of the MNE’s practices.

The differences in these two explanations should be reflected in which firms choose to take on local owners and alliance partners. If MNEs tend to take on local partners to deliberately outsource corrupt activities, one would expect that MNEs from less corrupt countries, in an effort to maintain a clean public image, would use local partners more often than MNEs from more corrupt countries. However, in the Ghana sample, no differences emerged across these groups, and in the Eastern Europe sample, the opposite was true. Firms with no local ownership came from less corrupt home countries than firms with partial local ownership (p < 0.05). Although based on a simple analysis, this finding is compatible with Smarzynska and Wei’s (2002) observation that U.S. firms appear averse to joint ventures in corrupt countries.

Contrary to our expectations, there was no significant interaction effect between an MNE’s home country corruption environment and either localized decision making or use of host country nationals as managing director. The lack of support for these hypotheses may result from the fact that MNEs are increasingly using controls such as organizational culture (Martinez and Jarillo, 1989) to guide the behavior and strategies pursued by their managers. Thus, if firms in our Ghana sample use a preponderance of behavioral and cultural controls, then local managers, regardless of their nationality or formal decision making authority, should internalize the organization’s core values.

The findings in this study have important implications for managers of MNEs. Managers have a strong interest in understanding what kinds of pressure their firms will likely face to engage in corruption in a given host country environment and what they might do to reduce that pressure. Although some have argued that the presence of corruption may increase firms’ efficiency by allowing them to avoid red tape, empirical evidence suggests that firms that encounter prevalent bribery see greater unpredictability and higher costs in business operations (Kaufmann and Wei, 1999; Wei, 1997). Indeed, in a study across 73 countries, Kaufmann and Wei (1999) found that a firm’s
payment of bribes corresponded with more management time wasted with government bureaucrats and a higher cost of capital. Thus, instead of facilitating business operations, firms operating in environments in which corruption is prevalent may well see lower economic efficiency. In addition, the costs likely go beyond these immediate inefficiencies to include the negative effect such actions can have on the firm’s image and reputation worldwide.

In particular, MNE managers should be aware of the implications of their localization strategies for the image building process in which they are engaged. Although MNEs may aim to take on local partners to gain legitimacy and build social capital (Rodriguez et al., 2005), this strategy may also unintentionally increase their exposure to host country corruption pressure. Therefore, MNEs with strong corporate social responsibility goals or a major concern about legitimacy spillovers may consider foregoing other strategic benefits from taking on local partners in more corrupt host countries. Indeed, if one subsidiary’s decision to engage in bribery—even indirectly by way of the local partner—becomes widely known, it could compromise the ability of the MNE as a whole to build a reputation for standing up against corruption in its other markets. The fact that our post hoc analysis indicates that firms from less corrupt countries seem to engage in fewer alliances in very corrupt host countries indicates that some managers may recognize this issue.

For policy makers, the implications are twofold. First, a host government policy that has historically been fairly common in developing countries—that of encouraging foreign firms to work with local partners—may actually run counter to an objective of reducing corruption in the host country. The fact that our post hoc analysis indicates that firms from less corrupt countries seem to engage in fewer alliances in very corrupt host countries indicates that some managers may recognize this issue.

As with any study there are certain limitations that should be acknowledged. First, it is important to note that our dependent variables are perceptual in nature. Given the sensitive nature of the dependent variable, particularly in the BEEPs dataset, it is conceivable that managers of MNEs from less corrupt home countries misrepresent their honest perceptions concerning the need for bribery in the host country, perhaps out of a fear of indirectly implicating their firm in wrongdoing. The fact that the partial local ownership variable moderates the relationship runs counter to this explanation, however, since there is little reason to believe that managers’ misrepresentations would depend upon their MNE’s strategy to take on a partial local owner. In addition, the variable measured in the Ghana sample was less likely to prompt such misrepresentations. Managers of MNEs operating in Ghana were asked to report the degree to which local corruption pressure poses an obstacle to their firm’s attempts to increase profits. Because these survey items do not indicate how the MNE navigates such obstacles (i.e., whether it actually engages in bribery), managers should view these questions as less sensitive. It should be noted that while the indirect wording of the dependent variable prevented managers from implicating themselves, it may have led to a different response than if managers were noting how often their firm actually pays bribes. Thus, the data presented here should not be interpreted as an indication of how much a given firm actually engaged in bribery, but rather the pressures they faced to do so.

This paper begins to shed light on how an MNE’s host and home country institutional environments influence the pressure its subsidiaries face to engage in corruption. It suggests that in some cases, conflicting institutions may accommodate one another, so that the intensity of institutional pressure imposed by actors in the local environment varies in response to the firm’s institutional pressure in other environments. It also reveals that the relationship is a complex one, influenced by the localization strategy that the firm adopts in the host country. Thus, once again, MNEs are caught in the delicate balancing act of managing their diverse institutional environments.

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**APPENDIX 1: SURVEY MEASURES**

**Dependent variable in BEEPS survey of Eastern European firms: (1–6 scale)**

How often do firms like yours nowadays need to make extra, unofficial payments to public officials for any of the following?

1. To get connected to public services (electricity, telephone)
2. To get licenses and permits
3. To deal with taxes and tax collection
4. To gain government contracts
5. When dealing with customs/imports
6. When dealing with courts
7. To influence the content of new laws, decrees, or regulations.

**Dependent variable in survey of Ghanaian firms**

This was measured using a five-point Likert scale with anchors ‘no obstacle’ and ‘major obstacle.’

Please report whether the following issues create obstacles/problems to your company’s efforts to increase profits:

1. A tendency for government administrators to request unofficial payments
2. A tendency for my company’s competitors to offer unofficial payments to government administrators
3. Corruption among government officials

**Decentralized decision making in survey of Ghanaian firms**

This was measured using a five-point Likert scale with anchors from 'strongly disagree' to 'strongly agree.'

Please indicate the extent of your agreement with the following statements regarding your company’s strategy.

1. In my company, managers in each country make major strategic decisions about operations in their country.
2. My company gives managers in Ghana authority to make decisions about our strategy in Ghana.
3. Managers of our Ghanaian subsidiary have discretion to do what they think is best without getting approval from headquarters.

**APPENDIX 2 EQUATIONS FROM HIERARCHICAL LINEAR MODELS:**

**Model for Eastern Europe dataset (with firm and country main effects):**

**Level-1 model**

\[ Y = P_{0} + P_{1} \times (\text{partial local ownership}) + P_{2} \times (\text{manufacturing industry}) + P_{3} \times (\text{construction industry}) + P_{4} \times (\text{mining industry}) + P_{5} \times (\text{import/export orientation}) + P_{6} \times (500 + \text{employees}) + P_{7} \times (100–499 \text{ employees}) + P_{8} \times (50–99 \text{ employees}) + e \]

**Level-2 model**

\[ P_{0} = \theta(0) + b_{00} + c_{00} + \left( G_{01} + c_{01} \right) \times CPI \text{ home country} \]
\[ + \left( G_{02} \right) \times \text{Home country OECD participation} \]
\[ + \left( B_{01} \right) \times CPI \text{ host country} \]

\[ P_{1} = \theta(1) \]
\[ P_{2} = \theta(2) \]
\[ P_{3} = \theta(3) \]
\[ P_{4} = \theta(4) \]
\[ P_{5} = \theta(5) \]
\[ P_{6} = \theta(6) \]
\[ P_{7} = \theta(7) \]
\[ P_{8} = \theta(8) \]

**Model for Eastern Europe dataset (full model specification for local ownership interaction)**

**Level-1 model**

\[ Y = P_{0} + P_{1} \times (\text{partial local ownership}) + P_{2} \times (\text{manufacturing industry}) + P_{3} \times (\text{construction industry}) + P_{4} \times (\text{mining industry}) + P_{5} \times (\text{import/export orientation}) + P_{6} \times (500 + \text{employees}) + P_{7} \times (100–499 \text{ employees}) + P_{8} \times (50–99 \text{ employees}) + e \]

**Level-2 model**

\[ P_{0} = \theta(0) + b_{00} + c_{00} + \left( G_{11} + c_{1} \right) \times CPI \text{ home country} \]

\[ P_{1} = \theta(1) + \left( G_{11} \right) \times CPI \text{ home country} \]
\[ P_{2} = \theta(2) \]
\[ P_{3} = \theta(3) \]
\[ P_{4} = \theta(4) \]
\[ P_{5} = \theta(5) \]
\[ P_{6} = \theta(6) \]
\[ P_{7} = \theta(7) \]
\[ P_{8} = \theta(8) \]
Model for Ghana dataset (with firm-level main effects and home country CPI main effect)

Level-1 model
\[ Y = B_0 + B_1 \times \text{(localized decision making)} + B_2 \times \text{(employees in Ghana)} + B_3 \times \text{(construction industry)} + B_4 \times \text{(manufacturing industry)} + B_5 \times \text{(service industry)} + B_6 \times \text{(Ghanaian managing director)} + B_7 \times \text{(local alliance)} + \epsilon \]

Level-2 model
\[ B_0 = G_{00} + G_{01} \times \text{(Home country CPI)} + U_0 \]
\[ B_1 = G_{10} \]
\[ B_2 = G_{20} \]
\[ B_3 = G_{30} \]
\[ B_4 = G_{40} \]
\[ B_5 = G_{50} \]
\[ B_6 = G_{60} \]
\[ B_7 = G_{70} \]

Model for Ghana dataset (full model specification for alliance interaction)

Level-1 model
\[ Y = B_0 + B_1 \times \text{(localized decision making)} + B_2 \times \text{(employees in Ghana)} + B_3 \times \text{(construction industry)} + B_4 \times \text{(manufacturing industry)} + B_5 \times \text{(service industry)} + B_6 \times \text{(Ghanaian managing director)} + B_7 \times \text{(local alliance)} + \epsilon \]

Level-2 model
\[ B_0 = G_{00} + G_{01} \times \text{(Home country CPI)} + U_0 \]
\[ B_1 = G_{10} \]
\[ B_2 = G_{20} \]
\[ B_3 = G_{30} \]
\[ B_4 = G_{40} \]
\[ B_5 = G_{50} \]
\[ B_6 = G_{60} \]
\[ B_7 = G_{70} + G_{71} \times \text{(Home country CPI)} \]