

Corruption and the Multinational Corporations: Antecedents to Bribery in a Foreign Country

Wissam AlHussaini* · Byung Il Park** · Zafar U Ahmed***

Abstract

This research aims at determining the host country-specific antecedents which prompt MNCs to break the hyper-norm of anti-corruption and pay bribes abroad. Using anomie theory conjectures, antecedents are divided into opportunities and conditions. Data on more than 1000 MNCs operating in 26 countries was obtained from the World Bank's Business Environment and Enterprise Performance Survey (BEEPS). A Multi-level model was constructed and hierarchical linear modeling (HLM) was used to determine the effect of country-level and firm-level antecedents on the MNC bribery activity. The results show that opportunities including achievement of competitive advantage, host countries' transition periods, and natural resource abundance have positive significant effects on MNCs' propensity to pay bribes. Additionally, host country conditions, such as the law's rigidity and legal system incompetence, also have a significant positive impact on an MNC's propensity to pay bribes. This study advances the literature on corruption in several directions. First, it studies the phenomenon from supply side (i.e. the bribe-payer). Second, it adopts the use of anomie theory which is still a novel approach for studying corruption. Third, it uses the MNC as the unit of analysis rather than country or local firms. Finally, it goes beyond recent studies by focusing on the host country's rather than home country's effect on a firm's bribery activity.

* John Molson School of Business, Concordia University
** College of Business Administration, Hankuk University of Foreign Studies
*** School of Business, Lebanese American University

I. Introduction

Corruption defined in the contemporary literature as “abuse of public authority for private gain” (Jain, 2001; Shleifer and Vishny, 1993) has caught interest in various domains, including political science, sociology, economics, ethics, law and criminology, international business, and management. Nevertheless, the topic is still considered in its early stages of theoretical development and requires more in-depth and integrative studies in order for us to fully understand the corruption phenomenon, its causes, consequences, and remedies (Ashforth et al., 2008; Rodriguez et al., 2006).

In particular, the globalization outburst in the 70s and 80s has brought corruption to the center stage as a serious disease that not only affects national governments and the general public, but also affects Multinational Corporations (MNCs) and the global community as well (Rodriguez et al., 2006). Thus, the MNC is suggested as the optimal vehicle for studying corruption in the global context for several reasons: First, it operates under different and sometimes conflicting norms where legitimate behavior becomes complicated (Roth and Kostova, 2003).

Second; its operations abroad are hard to monitor giving it a space of freedom unavailable to local firms, which are under the scrutiny and authority of their nation-states (Wei, 2000). Third; unlike local firms and because of their vast resources, many MNCs have considerable bargaining power over the governments of host countries, especially underdeveloped ones, encouraging the MNC to bend the law in its advantage (Rose-Ackerman, 1999).

Following the Watergate and Lockheed scandals in the 1970s, some significant efforts were targeted at studying the corruption phenomenon from the supply side perspective. Boulton (1978) documents all the actions taken by Lockheed top management with an in-depth analysis of the external and internal factors that affected executives' decisions to bribe abroad. Similarly, Baucus and Near (1991) did an extensive longitudinal study on environmental, internal, and situational factors that lead to corporate illegality. However, in the last couple of decades, it seems that the paradigm has shifted towards concentrating on the other side of corrupt transactions: the demand side. The literature from the political science and international business discip-

lines usually treats firms or MNCs as victims of the greed of corrupt politicians, legislators, or bureaucrats. While this view is not entirely misleading, it does not account for the whole picture of corruption. Research has been so keen on providing strategies for MNCs to avoid, cope with, or fight corruption (Rodriguez, Uhlenbruck, and Eden, 2005; Uhlenbruck, Rodriguez, Doh, and Eden, 2006), causing many to overlook that there is another party that might be more than willing to initiate corruption in order to reap benefits, otherwise unattainable to it under an honest system (Rose-Ackerman, 1999).

Recent attempts have been directed towards going back to studying corruption from the supply side. For instance, in their seminal work, Martin and colleagues (2007) managed to achieve two important feats: i) they were the first to apply anomie theory to the corruption literature opening the door for a huge potential in theory advancement; and ii) they studied the corruption phenomenon completely from the supply side of the firm and managed to capture the main drives behind firms' decision to bribe based on the surrounding culture and social institutions.

In addition, the MNCs from developed countries are especially expected to bring ethical practices, better standards and business models. Kwok and Tadesse (2006) argue that the MNC can affect the corruption environment in host countries through 'demonstration effects' and 'professionalization' where they can disseminate ethical codes of conducts in business transactions not only in the public sector but also within domestic firms. Moreover, they are expected to bring prosperity and welfare through foreign direct investment (FDI) to the underdeveloped countries. Thus, it is interesting to understand what prompts the MNC to abandon their standards and codes of ethics to become part of the corrupt system and engage in transactions that benefit only themselves and a limited class of public officials. In this vein, by following suit of Martin et al. (2007) in studying corruption from the supply side (i.e., the MNC using anomie theory), we attempt to answer the question: What are the antecedents of corruption that would prompt the MNC to break hyper-norms and engage in the anomic behavior of corruption in a host country?

This research expands upon the current literature on corruption to various

ends. First, it departs from the mainstream of studying corruption from the demand side to study it from the supply side. Second, it contributes to anomie theory by using the firm (MNC) as the level of analysis in contrast to using the country as a level of analysis. Third, we extend Martin et al. (2007) who only use the notion of anomie stemming from the interplay between ‘institutional norms’ and ‘cultural goals.’

II. Theoretical Background

Scholars from the early ages have realized that anomie in essence paves the way for corruption. For example, Isocrates described how the Spartans’ rule over Athens created a state of normlessness that caused corruption to increase, corrupt people to climb the social ladder faster, and law-abiding people to die violently which “ruined ... their own country” (in Orru, 1987: 21). Similarly, Plato identified anomie as the main cause for injustice and disorder in the society. Indeed, when a society overemphasizes the accumulation of wealth and financial success as its main cultural goals, individuals are pressured to attain these goals

and remove all obstacles in their way regardless of the means they use, even if this entails corruption (Merton, 1938).

Nevertheless, explicit efforts of utilizing anomie as a theoretical and empirical tool in explaining corruption was first introduced by Cullen et al. (2004) and expanded later on by Martin et al. (2007). Cullen and his colleagues use institutional anomie theory to test the impact of several cultural values such as “achievement, individualism, universalism, and pecuniary materialism” and social institutions such as “economy, polity, family, and education” on the ethical behavior of managers, which includes “benefiting from government programs illegally, cheating on taxes, bribery” (2004: 412-415). Evidence is found that universalism and pecuniary materialism lead managers to justify their engagement in ethically-suspicious behaviors, and that stronger family ties and higher educational levels decrease the propensity of managers to justify their actions.

Martin et al. (2007), in their seminal work on firms’ decisions to bribe, take their previous effort (Cullen et al., 2004) into a new and more specific direction. First, they return to the foundations of anomie rather than constraining them-

selves to institutional anomie theory. Second, they use the firm as the level of analysis instead of focusing solely on manager's behavior; they thus, overcome difficulties stemming from stratification systems. Finally, they concentrate on the bribery activities of firms. In their multi-level analysis of bribery, they identify three cultural values, "achievement-orientation", "in-group collectivity", and "humane orientation", two social characteristics of political systems, "welfare socialism" and "political constraints", and two firm-level drivers, "financial constraints" and "competitive intensity" (Martin et al., 2007: 1404-1407). They find evidence supporting their hypotheses regarding both the negative impact of collectivism, social welfare, and political constraints and the positive effect of financial constraints and intense competitiveness on bribery level.

When applying the anomie theoretical framework to corruption in the firm level, it can be discussed from two angles; demand and supply. From the demand point of view, society does not only set the norms, but it also determines the social classes and the reward to each class. In other words, it sets the lower and upper limits of living standards for each

class (Durkheim, 1951: 249). However, the public official may aspire to progress beyond the limits assigned to him or her by the system or society either in terms of status, wealth or power. Other normative or legal venues may be unfeasible or undesired; the public official may not be able to accumulate desired wealth (or satisfactory income) through the weak compensation, may not be able to gain power and social recognition through the fair promotion scale, or does not desire to lose the job security associated with government positions. In this case, the public official may break the legal norms in order to pursue their self-interest through corruption.

In contrast, Martin et al. (2007) applied anomie theory in the supply side of corruption in societies that emphasize performance and profitability ends, regardless of the legitimacy of means (Merton, 1938). They are able to explain the firm's decision to bribe in light of cultural values, social institutions, and the firm's-related constraints. Starting from the notion that firms in general may violate the social norms for achieving desirable ends (i.e. financial success), we build on their seminal model and expand the literature in the new direction: we apply anomie

theory in the global context relating to the MNC's decision to bribe.

We seek to identify what we call 'antecedents of corruption', which we define as global opportunities and the host country-specific conditions that drive the MNC to engage in anomic deviant behavior (i.e., corruption) and risk breaking hypernorms and maybe obtain sanctions from the global community in order to exploit such opportunities. Globalization and development of global trade has liberated the desires of individuals and made them infinite (Durkheim, 1951). Numerous opportunities are present for the MNC to exploit and maximize profitability and financial success. Unfortunately, most of these opportunities cannot be exploited without engagement in corruption; this is either because they are usually tied to corrupt host countries or because their very nature encourage corruption. Wars, whether external or civil, economic reform programs in the absence of proper regulation, natural resource abundance in underdeveloped countries, and local government intervention in the economy that restrains competition are all opportunities that would help MNCs maximize their benefits but at the same time almost definitely in-

volve corruption (Ades and Di Tella, 1999; AlHussaini and Molz, 2009; Stiglitz, 2002; Treisman, 2000; Walder, 2003).

Most of the host countries (especially underdeveloped ones) suffer from a severe absence of legal protection for investors resulting from outdated laws, corrupt legal systems, and/or weak legal enforcement mechanisms. Building on Srole (1956), anomie arises when MNCs are faced by legislators' and leaders' indifference to their needs, when the laws are unpredictable, and when they perceive that the whole situation is preventing them from achieving their goals. The MNC, facing these conditions of normlessness, will have to conform with them in an anomic behavior (corruption), even if it is in conflict with its home country's norms or the hypernorms in the global community, if it is to attain its goals and exploit the opportunities. We identify two main conditions: inefficiency of the legal system and rigidity/unpredictability of laws.

III. Model and Hypotheses Development

Antecedents of corruption are oppor-

tunities and circumstances specific to host countries that encourage MNCs to adopt an anomic behavior in order to exploit them and/or protect their interests. This section identifies three opportunities: unfair competitive advantage, transitional periods, and natural resource abundance; and two circumstances: laws rigidity and legal system incompetence.

1. Opportunities

Unfair Competitive Advantage: Firms usually strive to achieve a competitive advantage, especially in their groups or industries, in order to outperform competitors, protect their profits, or guarantee sustainable growth (Hitt et al., 2005). However, not all firms possess the capacity to attain and sustain competitive advantage in their home market, especially if it's non-corrupt, and instead try to look for another country where they can achieve this advantage. MNCs fail to compete effectively in their home countries because of various reasons, including the lack of "equal access to the opportunity-structure" (Merton, 1964: 218) due to the availability of resources, strength of capital structure, and the severe competition over resources. Hence, it is

argued that "the more unequal the opportunities, the higher the strain and, in consequence, the level of criminal offending" (Savolainen, 2000: 1022). Additionally, there is evidence that as firms face more constraints from competitors they seek to make up through illegal behavior such as bribery (Bliss and Di Tella, 1997; Martin et al., 2007). For example, as Lockheed was approaching the edge of bankruptcy in the early 1970s, its overseas bribery activity was expanded in order to save its operations (Boulton, 1978). As anomie theory postulates, MNCs "who would not fare so well in an honest system" would be willing to engage in deviant behavior somewhere else (i.e., corrupt host country) and pay bribes to be able to compete with other firms (Rose-Ackerman, 1999: 185) or even drive them away from the market to achieve a monopoly (Velasquez, 1982). Moreover, in many cases the MNC's bribes abroad aid it in lowering its costs due to many loopholes in the anti-foreign corrupt laws that range from allowing 'grease' money, to tolerating bribery in exchange of 'government routine work', to even consider bribes paid abroad as tax-deductible (Rose-Ackerman, 1999). So not only the can MNC unfairly compete in the

corrupt country, but it can also do so with someone else's money.

On the other hand, even if the MNC did not enter the corrupt host country in order to achieve a competitive advantage, by the very notion of pervasiveness of corruption, the MNC can safely assume that firms within the system are paying bribes in order to carry on business. So, if at least one firm is paying bribes in exchange for cheaper government services or other privileges it will manage to outperform its competition through either reducing their costs or achieving exclusivity with the government (Shleifer and Vishny, 1993). Lockheed and Northrop both claimed that they were paying bribes abroad to secure defense contracts because they were convinced that the other, in addition to other rivals, were bribing too (Boulton, 1978: 162). Eventually, the MNC has to engage in the anomic behavior of bribery in order to compete with others and achieve its goals.

It is important to note that the MNC bribes to protect its position and competitive advantage will prompt new entrants also to pay bribes in order to gain entry to the market (Djankov et al., 2002) which forces the MNC to either increase

its bribes or to find another way to sustain its advantage.

From the above it can be hypothesized that an MNC that is pressured towards achieving financial success in terms of competitive advantage will be motivated to overcome intense competition and achieve unfair competitive advantage through bribery.

Hypothesis 1a: *The more anti-competitive practices of MNC's local competitors are seen as an obstacle to its operations and growth objectives, the more the MNC is willing to pay bribes.*

Hypothesis 1b: *The higher the number of competitors in a host country is, the higher is the willingness of the MNC to fend off competition through paying bribes.*

Transitional Periods: In their continuous strive for economic and social development and political freedom and sovereignty most countries have to go through abnormal periods of times. These periods of time, regardless of what started them or their expected results, have a common denominator: the passing of power, ownership, and property rights, etc., from one party or state to another. Hence,

we call these periods of time ‘transitional periods.’

These transitions are usually accompanied by dramatic social changes that according to anomie theory cause fast and vast erosion of norms and morals leaving the affected society in an almost normlessness state. Durkheim (1951) suggests that crises or disturbances in the equilibrium, although they might bring prosperity with them, often open the door for norm-breaking. Even though in most countries rules and regulations are the norm governing individuals, many individuals may consider them unjust and when the transition occurs especially in the case of wars, these regulations are rendered worthless and anomie prevails (Durkheim, 1951: 252).

There are numerous events that qualify as transitional ones that affect the political, economic, and social status of a nation. However, wars and economic reforms have had the most impact on nations. Durkheim (1951) stresses that disruptions are not limited to crisis but also to a sudden influx of wealth and power which drives individuals to break the norms. For instance, the privatization process in Russia has changed the face of the country, created new billionaires, drained the

state assets, allowed corrupt officials to gain incredible wealth in bribes, and changed the major economic players in the country (Stiglitz, 2002).

It is argued that privatization especially in transition economies characterized by weak governance leads to increased level of corruption (Kaufmann and Siegelbaum, 1997). Privatization, if not handled properly in terms of planning, regulations, timeframe, and monitoring, will lead to unfavorable results of social injustice, asset-stripping, economic inefficiency, and increased corruption (AlHussaini and Molz, 2009; Stiglitz, 2002; Walder, 2003).

Building on the argument of ‘Cultural lag’, rapid transitions such as shock-therapy privatization, lead to the quick erosion of older norms and leave societies struggling to develop or embrace new ones to adapt to the new environment (Durkheim, 1984). This state of anomie, or lack of clear norms, is what encourages MNCs to engage in the deviant behavior of bribery in order to exploit the opportunity. In a typical setting, an MNC is always willing and fiercely competing with other firms to acquire state-owned enterprises (SOE), especially in highly profitable industries. Therefore, it is only

normal that MNC will be more than willing to acquire this SOE for a below-the-market price even if it entails paying huge bribes to corrupt bureaucrats, knowing that if they do not take advantage of the opportunity competitors will.

Thus, it can be hypothesized that MNCs seeking lucrative opportunities would be attracted to operate in host countries passing through transitions even if it involves corruption. Their main drive is to achieve abnormal profits and competitiveness by taking advantage of the absence of accountability, huge demand on certain commodities and services, poverty, and greed of old/new corrupt public officials and politicians.

Hypothesis 2: *If the host country is passing through privatization the MNC is more willing to take advantage of the opportunity through paying bribes.*

National Resource Abundance: Natural resource endowment such as oil, gas, or minerals can open the door widely for corruption especially if they are under the direct control of corrupt governments (Mauro, 1997). From the demand side, Durkheim (1951) argues that “with incre-

ased prosperity desires increase” (p.253) which leads public officials who exert authority over such resources to exploit such opportunities and maximize their self-gain even if it resulted in breaking the norms and engaging in corruption.

Ades and Di Tella (1999) argue that in the case of natural resource endowment, corrupt bureaucrats tend to give some of their control over resources for firms in exchange for bribes. They found a positive relationship between the level of natural resources and corruption. Similarly, Treisman (2000) found evidence that countries rich with natural resources have higher levels of corruption.

On the supply side, host countries that enjoy natural resources such as oil, gas, or mines provide very attractive investment opportunities for the rent-seeking MNC with abnormal return on investment (Mauro, 1997). Following Bliss and Di Tella (1997) discussion of ‘Surplus-shifting corruption’, it can be argued that when the opportunity is so lucrative the MNC finds it better to pay bribes rather than lose the whole thing. Hence, even if exploiting these resources is fraught with corruption, MNCs are willing to engage in corrupt transactions in order to “obtain the concessions at low prices”

and “[appropriate the rents] associated with the natural resources” (Stiglitz, 2002: 72).

Thus, assuming that natural resources are correlated with high levels of corruption, they provide attractive opportunities for MNCs seeking abnormal profits, and they cannot exploit such resources without engaging in deviant behavior. It can be hypothesized that:

Hypothesis 3: *The more abundant the natural resources in a host country are, the more is the willingness of the MNC to exploit these natural resources through paying bribes.*

2. Host Country Conditions

Law Rigidity: One of the main causes of corruption is the rigidity of laws and regulations and how they force firms to cut around them (Rose-Ackerman, 1999). Indeed, rigidity of laws and regulations with its adverse effects on the MNC’s decision to enter a country or to continue its operations within it, negatively affect the economic development of the country. Huntington, 1986 expressed this point by stating that “in terms of economic growth, the only thing worse than a so-

ciety with rigid ... dishonest bureaucracy is one with rigid ... honest bureaucracy” in (Bardhan, 1997: 1322).

Corrupt public officials usually resort to complicate the administrative process, create lots of red tape, withhold vital information on laws and regulations from the investors, or even manipulate the interpretation of laws and regulations in order to extract larger sums of bribes from affected firms. Brunetti et al. (1998) argue that when laws lack credibility it negatively affects economic growth and increases levels of corruption. In the same manner, where corruption is arbitrary, laws and informal policies can be subject to capricious and varied interpretation (Ahlstorm and Bruton, 2001 in Rodriguez et al., 2005).

Many managers of MNCs suggest that the lack of clear information regarding laws and regulations affecting their firms, in addition to discrepancies between the laws themselves and their interpretations force them to allocate part of their time to deal with public officials leading to inefficiency and negatively affecting firm performance. In various surveys it was found that up to 30% of managers’ time is spent with public officials for various issues including inspections, taxes, li-

censes, etc. (Rose-Ackerman, 1999).

When the MNC is faced with unpredictable laws and regulations, when they feel that the leaders (politicians and legislators) at the host country are not working in their interests they will feel alienated (Srole, 1956) and will be engaged in corruption.

Hypothesis 4a: *The more inconsistent and unpredictable the laws and regulations in a host country are, the more willing the MNC is to protect its interests through paying bribes.*

Hypothesis 4b: *Senior management's time spent in dealing with public officials about the application and interpretation of laws and regulations is positively related to the MNC bribing activity.*

Hypothesis 4c: *The more the uncertainty of regulatory policies present an obstacle to the MNC operations and growth in the host country, the higher the MNC bribing activity.*

Legal System Incompetence: The legal system is the main authority that the MNC resorts to in order to solve business disputes and protect its interests in

the host country. It is argued that as the legal system becomes less efficient, suffers from longer judicial processes, lacks consistency and fairness, it becomes more infested with corruption (Djankov et al., 2003). La Porta et al. (1998) in their seminal work on the civil vs. common legal systems mention that common law is better at protecting the interests of investors than civil law. Building on their work, Treisman (2000) has found evidence that countries with a common law system provide more effective legal systems and enjoy lower levels of corruption.

The absence of an honest and competent legal system aids in increasing corruption levels in two main dimensions. First, when the legal system is not independent and can be controlled by corrupt politicians, it decreases the risks for corrupt public officials of being sanctioned thus allowing for their corrupt activities to go unchecked (Jain, 2001). Second, the firms that lose faith in the legal system may look for other ways that might be illegal in order to protect their investments. Such is the case in Ukraine where public distrust of the legal system led them to resort to organized crime to provide a better protection for them

(Shelley, 1998).

According to anomie theory, even if the MNC is not willing to engage in corruption, when it realizes that its interests are at stake stemming from the weakness or corruption of the legal system (Srole, 1956), they will be ready to break the norms; pay bribes to resolve their business disputes, and protect their investments.

Hypothesis 5a: *The more the functioning of the judiciary system presents an obstacle to the MNC operations and growth in the host country, the higher the willingness of the MNC to pay bribes.*

Hypothesis 5b: *When the MNC loses confidence in the legal system's ability to protect its interests, it becomes more willing to protect its interests through paying bribes.*

IV. Methodology

1. Data Source

The main data source is 'Business Environment and Enterprise Performance Survey 2005' (BEEPS 2005). The BEEPS

survey is conducted jointly by the World Bank and the European Bank for Reconstruction and Development. This survey which was carried out on a yearly basis from 2002 to 2005 is a continuation of the 'World Business Environment Survey 2000' (WBES 2000) which was conducted in the late 1999 early 2000 on more than 10,000 firms in eighty countries. BEEPS is being handled by the Enterprise Analysis Unit of the World Bank (www.enterprisesurveys.org) which includes members of the team that previously handled WBES. Thus, they used the same methodology and questionnaire. BEEPS 2005 covers 34 countries (mainly European) with almost 9000 firms. The choice of this particular survey can be attributed to two main reasons. First, after the year 2005 BEEPS have shifted its concentration to deal more with infrastructure issues and access to financing, and some of the variables measuring corruption and legal system effects have been dropped from the survey. Second, since BEEPS is conducted in different countries each year and the participating firms are anonymous and may differ from year to year, using longitudinal data was not feasible.

The BEEPS survey includes 74 ques-

tions with the purpose of understanding the various factors that constrain business development. These questions are distributed over ten sections aimed at evaluating the managers' views on corruption, effectiveness of laws and regulations and government policies, the competence of the judiciary system and law enforcement, the quality of public services, and bureaucracy and red tape and their impact on the investment environment and their firms' performance (Enterprise Survey Website).

The main difference between BEEPS/WBES and other corruption surveys is that it measures corruption at the firm level (Martin et al., 2007). The validity and reliability of corruption measures in WBES has been tested extensively (Uhlenbruck et al., 2006). They found the correlation between WBES 1998 and 2000 to be '0.96 and 0.94', and they found the correlations between WBES and other highly-credible measures such as Transparency International's Corruption Perception Index (CPI) to be '0.80 and higher' (pp.407-408).

Two other databases were used to collect data on privatization and natural resources. The 'Privatization Database' of the World Bank which collects data on

privatization processes a minimum of US\$1Million in developing countries between 2000 and 2007. The data covers more than 1,000 privatization transactions in 95 countries from various regions such as Eastern Europe, Latin America and the Caribbean, Middle East and North Africa. The transactions cover all vital sectors such as energy, financial, infrastructure, and manufacturing and services (The World Bank website). For Natural resources we used the United Nations Commodity Trade Statistics Database 'UNComtrade' which collects data on annual exports and imports for countries all over the world. It contains over one billion detailed trade records since 1962 of the commodities exported and imported classified by the Harmonized System (HS) Code (UNComtrade website).

2. Sample

The research context is the MNC facing corruption in a host country. BEEPS 2005 survey asks respondents to state if their firm has foreign ownership its percentage. In order to restrict the sample to MNCs, all firms that do not have foreign ownership of at least 5% were eliminated from the sample. According to

the literature, external parties that controls 5% and more of the shares are considered large blockholders, can control voting, affect the policies of the firm and the board, control compensations of CEOs and management, and are required by the law to disclose their shares (i.e., legally recognized as blockholders) (Core, Holthausen, and Larcker, 1999). Furthermore, all the cases that do not provide any data on any of the bribery variables (discussed below under dependant variable) were also eliminated. The final sample was 26 countries with 1014 MNCs.

3. Variable Measurement

The dependent variable is ‘MNC’s propensity to pay bribes.’ In order to operationalize the MNC’s engagement in corruption we follow the steps of Martin et al. (2007) in establishing a multiple-item measure out of the survey items that relate directly to the MNC’s act of paying bribes in general and to obtain access to government services. Paying bribes measure is addressed in the survey by a direct question, “How common is it for firms in your line of business to pay irregular ‘additional payments’ to get

things done?.” Other measures deal with transactions that require bribes such as “public services, licenses and permits, dealing with taxes, securing government contracts, dealing with customs, and dealing with courts” (BEEPS 2005 Survey). Principal components analysis (PCA) was conducted in order to construct the measure by choosing the components with the highest factor loading. PCA is one of the most effective methods in capturing the highest amount of information from the data while reducing the dimensions at the same time (Lattin, Carroll, and Green, 2003). Moreover, PCA has the advantage of eliminating multicollinearity when using the results in an analysis of dependence.

Upon running the analysis using seven variables, one measure was constructed that explained 57.41 of the variance, with high loadings from components. The multiple-item measure (MNC’s propensity to pay bribes) was reliable with Cronbach’s Alpha = .871. According to the literature, an alpha > .80 shows a high internal consistency among the items creating the factor (Ho, 2006; Nunnally, 1967). The resulting variable is a standardized one that ranges between -1.96446 and 4.43325.

Independent variables include the following constructs:

Anti-competitive behavior by local competitors: this variable was taken from BEEPS 2005. The survey asks managers to state how problematic the Anti-competitive behavior by competitors is to their operations and business growth.

Number of competitors: this variable was taken directly from BEEPS 2005 survey. The survey asks managers to state the exact number of competitors in the national market.

Privatization: using the World Bank's privatization database, a dummy variable was constructed and was given the value "0" if there was no privatization activity in the host country in 2005 and the value "1" if there was privatization activity.

Natural Resources Abundance: we follow the steps of Ades and Di Tella (1999) and Treisman (2000) in using the percentage of oil/gas/minerals of total exports in order to operationalize this variable. The UNComtrade database was used to build this variable, which provides data on exported minerals, ores, and fuels in addition to data on total exports.

Laws interpretations inconsistency/unpredictability: this reflects how interpretations of laws are perceived by man-

agers to be predictable and consistent with the laws themselves. This variable is used from BEEPS 2005 survey which asks managers to state their opinion on the consistency and predictability of laws interpretations.

Managers' time spent with public officials: this variable measures the percentage of MNC managers' time spent with public officials about the application and interpretation of laws and regulations (Rose-Ackerman, 1999). This variable is used from BEEPS 2005, which asks managers to provide this percentage.

Uncertainty of Regulations: this is measured using a variable from BEEPS 2005, which measures how managers perceive the regulatory policies uncertainty as an obstacle to their operations and business growth.

Functioning of the Judiciary: this is measured by a variable in BEEPS 2005, which measures how managers perceive the judiciary system as an obstacle to their operations and business growth.

Legal system protection: this is measured using a variable from BEEPS 2005 that asks managers whether they feel that the interests of their business are protected by the systems in any legal dispute.

4. Analysis

Hierarchical Linear Modeling (HLM):

The proposed model is a cross-level model which means that “predictors on one level of analysis have an effect on a [...] lower level of analysis” (Klein and Kozlowski, 2000: 218). The model has two predictors on the country-level namely, privatization and natural resources, affecting the outcome at the MNC-level which includes the rest of the variables. Thus, in order to simultaneously estimate the effects of country and MNC-levels on the MNC propensity to bribe, we must resort to methods other than standard linear regression procedures such as Ordinary Least Squares (OLS) (Hofmann, 1997).

HLM has the advantage of simultaneously analyzing the relationship between level-1 predictors (i.e., MNC) within level-2 units (i.e., country) and analyze the effect of level-2 variables on the lower level variables (Hoffman et al., 2000 in Klein et al., 2000). HLM also differs from OLS in two major regards. First, unlike OLS which treats predictors as fixed effects, HLM treats level-1 predictors as random effects that vary between groups. Second, HLM estimates the var-

iance components (residuals) for each level separately while OLS treats the individual and group variance components as one (Hofmann and Gavin, 1998). Hence, HLM is the most appropriate procedure for this model.

In order to run HLM analysis two models are needed. The first model estimates the relationships between variables at the level-1 (within-countries). It can be expressed with the following equation:

$$Y_{ij} = \beta_{0j} + \beta_{1j} \cdot X_{ij} + r \quad (1)$$

where “ Y_{ij} ” is the MNC’s propensity to pay bribes, “ β_{0j} ” and “ β_{1j} ” are intercept and slopes estimated for each country, “ X_{ij} ” represents level-1 predictors, and “ r ” is the residual, which is normally distributed with a variance of “ σ^2 .”

The level-2 model or country-level model uses the intercept and slopes of the level-1 model as dependent variables. It is expressed using the following equation:

$$\beta_{0j} = \gamma_{0_0} + \gamma_{0_1} \cdot G_j + U_{0j} \quad (2)$$

$$\beta_{1j} = \gamma_{1_0} + \gamma_{1_1} \cdot G_j + U_{1j} \quad (3)$$

where “ $\gamma_{0_0}, \gamma_{0_1}, \gamma_{1_0}, \gamma_{1_1}$ ” are “second-

stage intercept terms” which relate level-2 predictors to level-1 slopes and intercept (Hofmann, 1997: 728). “ G_j ” represents level-2 predictors, and “ u_{0j}, u_{1j} ” are level-2 residuals.

Unconditional Model: First of all we begin the multilevel analysis by testing a model without level-1 and level-2 predictors or what is called the unconditional model (Hofmann, 1997; Stevens, 2007). The aim of this model is to check for variability in the MNC bribing activity between countries, and thus the justification for multilevel modeling. The model can be expressed by the following equations:

$$MNCBRIBE = \beta_{0j} + \gamma \quad (4)$$

$$\beta_0 = \gamma_0 + u_0 \quad (5)$$

The variance component of level-1 and level-2 (i.e., residuals) were estimated using maximum likelihood estimation (Hofmann and Gavin, 1998). These components are used to calculate the Intra-Class Correlation (ICC) which informs us of the degree to which the group has an effect on the outcome (Stevens, 2007). In the proposed model, ICC can be interpreted as the proportion of the total

variance in the MNC propensity to bribe that occurs between countries (Stevens, 2007: 323). It can be calculated using the following equation:

$$\rho_{ICC} = \frac{\tau_{00}}{(\tau_{00} + \sigma^2)} \quad (6)$$

where:

$\sigma^2 = \text{var}(\gamma) = \text{level-1 residual variance}$

$\tau_{00} = \text{var}(u_0) = \text{level-2 residual variance}$

Then we calculate the intra-class correlation (ICC) using Eq. (6):

$$\rho_{ICC} = 0.11308 / (0.11308 + 0.61048) = .16$$

This indicates that 16% of variance in the MNC bribery activity is between countries and 84% of variance lies within countries. Therefore, the multilevel model is justified (Hofmann, 1997; Stevens, 2007).

Intercepts-and-Slopes-as-Outcomes Model: In order to determine the number of estimated parameters, only level-1 predictors were entered into the model. Upon running the analysis it was determined that the intercept’s variance component “ τ_{00} ” was statistically signifi-

cant, which means that there is variability between countries, and level-2 variables can be entered into the equation to help explain this variability (Hofmann, 1997). On the other hand, of all the slopes' variance components “ τ_{1_1} ” → “ τ_{7_7} ” only “ τ_{2_2} ” and “ τ_{6_6} ” were statistically significant and thus retained in the level-2 equations. Additionally, cross-interaction effects between level-2 and level-1 predictors were not statistically significant so they were removed from slopes equations (Eqs. (3)) (Stevens, 2007).

The final model equations for both level-1 and level-2 are as follows:

$$\begin{aligned}
 MNCBRIBE = & \beta_{0j} + \beta_1 \cdot ANTCOMP \quad (7) \\
 & + \beta_2 \cdot COMPTNO + \beta_3 \cdot LAWINTRP \\
 & + \beta_4 \cdot MNGTME + \beta_5 \cdot LAWUNCRT \\
 & + \beta_6 \cdot JUDCRY + \beta_7 \cdot LAWPRCT + \gamma
 \end{aligned}$$

$$\left. \begin{aligned}
 \beta_0 &= \gamma_{0_0} + \gamma_{0_1} \cdot Priv + \gamma_{0_2} \cdot NATRES + u_0 \\
 \beta_1 &= \gamma_{1_0} \\
 \beta_2 &= \gamma_{2_0} + u_2 \\
 \beta_3 &= \gamma_{3_0} \\
 \beta_4 &= \gamma_{4_0} \\
 \beta_5 &= \gamma_{5_0} \\
 \beta_6 &= \gamma_{6_0} + u_6 \\
 \beta_7 &= \gamma_{7_0}
 \end{aligned} \right\} (8)$$

Level-1 independent variables are “ANTICOMP”: Anti-competitive behavior of

competitors, “COMPTNO”: number of competitors, “LAWINTRP”: Unpredictability of laws interpretations, “MNGTME”: manager’s time spent dealing with bureaucracy, “LAWUNCRT”: uncertainty about laws and regulations, “JUDCRY”: functioning of the judiciary, and “LAWPRCT”: legal protection of MNCs interests.

Level-2 independent variables are “Priv”: privatization and “NATRES”: natural resources abundance.

All level-1 predictors except “COMPTNO” and “MNGTME” were centered at the group-mean which is the country in this case in order to make interpretations more meaningful. For example, if the independent variable “LAWPRCT” was centered around the country mean, then the intercept “ β_0 ” would be interpreted as the MNC’s propensity to bribe with an average perception of lack of law protection (Stevens, 2007). In accordance with previous research, it was found out that group-centered level-1 parameters yielded stronger results than uncentered parameters although the pattern of results was the same (Hofmann and Gavin, 1998; Martin et al., 2007). Because number of competitors and time spent by managers can still provide meaningful interpreta-

tions when they assume the value of zero, the decision was made to add them to the model uncentered. Similarly, level-2 parameters were added to the model uncentered since “Priv” is a dummy variable and may assume the value of zero and Natural resources abundance “NAT RES” is a continuous variable, which still provides meaningful interpretations when assuming values of zero. However, it is important to mention that, in line with previous research, the results were identical between grand-centered and uncentered level-2 parameters (Martin et al., 2007).

Unlike linear regression models, it is not possible to obtain a single total explained variance “R²” for the whole model in hierarchical linear models (Snijders and Bosker, 1994). Alternatively, “R²” can be obtained for each level variance separately to reflect the explained between-group and within-group variance. The within-group explained variance can be obtained by comparing the error terms “σ²” between the unconditional model (i.e. no level-1 predictors) and the restricted model (i.e. with level-1 predictors). It can be obtained by the following equation (Hofmann, 1997):

$$R_{level-1}^2 = \frac{\left(\begin{array}{c} \sigma_{unconditional}^2 \\ - \sigma_{Randomregression}^2 \end{array} \right)}{\sigma_{unconditional}^2} \quad (9)$$

Similarly, the between-group modeled variance can be obtained by comparing the error terms between the restricted model and the intercepts-as-outcomes model (i.e., with level-2 predictors). The formula is as follows:

$$R_{level-2}^2 = \frac{\left(\begin{array}{c} \tau_{00-randomregression} \\ - \tau_{00-intercepts-sa-outcomes} \end{array} \right)}{\tau_{00-randomregression}} \quad (10)$$

V. Results

<Table 1> presents the means, standard deviations and correlations for the variables used in the model. Of intercorrelations between variables, none exceeded 0.50. Despite the presence of some intercorrelations, the effect sizes and patterns of significance generally remained robust and stable across models.

1. Hierarchical Linear Model

<Table 2> reports the results of the HLM. Using Eq. (9) from the previous

<Table 1> Descriptive Statistics and Correlations^a

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9
1. MNCBribe	2.46	.85									
2. Anti-Competition	2.33	1.08	.102**								
3. Competitors	10.29	21.55	.029	.059**							
4. Privatization	.61	.49	.132**	.042*	.080**						
5. Natural Resources	17.67	19.53	.100**	-.130**	-.075**	-.159**					
6. Laws Interpretation	3.81	1.38	.047*	.078**	-.054**	.053*	-.047*				
7. Managers time	6.19	10.22	.166**	.074**	.024	.054*	-.013	.104**			
8. Laws Uncertainty	2.55	1.07	.142**	.314**	.055	.192**	-.157**	.270**	.041		
9. Judiciary	2.11	1.06	.177**	.369**	.127**	.197**	-.193**	.151**	.107**	.434**	
10. Legal Protection	3.36	1.30	.156**	.150**	.073**	.057**	-.020	.298**	.054*	.192**	.254**

Note) ^a N_{Level-1} = 1014, N_{Level-2} = 26.
 * Correlations are significant at $p < .01$.
 ** Correlations are significant at $p < .05$.

section, the MNC-level variables explained 12% of the variance within countries. Hypothesis 1a which assumes a positive effect of anti-competitive behavior by competitors on the MNCs propensity to bribe was supported. The number of competitors did not have a significant effect on the MNC bribery activity ($\gamma_{00} = 2.3, p < .1$) although the relationship was positive as predicted, and Hypothesis 1b was not supported. Privatization has a significant positive effect on the MNC's propensity to pay bribes and Hypothesis 2 was supported. Hypothesis 3 postulates that natural resources abundance has a positive effect on the MNCs propensity to pay bribes; this Hypothesis was also supported ($p < .05$).

<Table 2> HLM Results for MNC's Propensity to Pay Bribes

Variables	Estimates	
	Coefficient	Standard Error
Intercept	2.2960*	0.121
Anti-Competitive behavior	0.0548**	0.021
Number of Competitors	0.0007	0.002
Privatization	0.2405***	0.123
Natural Resources	0.0041**	0.002
Laws Interpretation	0.0338**	0.016
Managers Time	0.0025	0.003
Laws Uncertainty	0.0631**	0.029
Judiciary	0.0949**	0.040
Legal Protection	0.0484*	0.018

Note) * $p < .01$.
 ** $p < .05$.
 *** $p < .1$.

<Table 3> Summary of Results

Hypothesis	Result
H1a: Anticompetitive practices and MNC propensity to pay bribes	Supported
H1b: Number of competitors and MNC propensity to pay bribes	Not supported
H2: Privatization and MNC propensity to pay bribes	Supported
H3: Natural resources abundance and MNC propensity to pay bribes	Supported
H4a: laws inconsistency/unpredictability and MNC propensity to pay bribes	Supported
H4b: Management's time spent on government bureaucracy and MNC propensity to pay bribes	Not supported
H4c: Regulatory policies uncertainty and MNC propensity to pay bribes	Supported
H5a: Judiciary system incompetence and MNC propensity to pay bribes	Supported
H5b: Lack of legal system protection and MNC propensity to pay bribes	Supported

Hypothesis 4a suggests that the unpredictability/inconsistency of laws interpretations have a positive effect on the MNC propensity to bribe; this effect was found positive and statistically significant and Hypothesis 4a was supported. Although the manager's time spent on dealing with public officials on rules and regulations had a positive relationship with the MNC's propensity to pay bribes as predicted, the effect was not statistically significant and Hypothesis 4b was not supported. The uncertainty regarding regulations affecting the MNC has a positive significant effect on the MNC propensity to pay bribes and Hypothesis 4c was supported. Hypothesis 5a suggested that manager's perception of judiciary system as an obstacle has a positive ef-

fect on the MNCs propensity to pay bribes. This Hypothesis was supported. Finally, lack of legal protection for MNCs interests has a positive significant effect on the MNCs propensity to pay bribes and Hypothesis 5b was supported. <Table 3> summarizes the results of hypothesis testing.

VI. Discussions and Conclusion

Although corruption has been studied in the literature for over 45 years, the phenomenon is still elusive to both scholars and practitioners. During the past decade, many researchers have started to introduce different perspectives, new the-

ories, innovative methodologies in order to advance the study of corruption (Ashforth et al., 2008; Cullen et al., 2004; Martin et al., 2007; Uhlenbruck et al., 2006). In order for us to fully understand the corruption phenomenon, it is time to make the shift from country-level to firm-level (Ashforth et al., 2008), which is the main player in the process. The main purpose of this study is to utilize the rich literature of anomie theory in identifying the host country-related antecedents that encourage MNCs to break the global hypernorm of anti-corruption and pay bribes.

This research extends the literature on corruption on three ends. First, it departs from the conventional perspective of studying corruption from the demand side to study it from the supply side. Since adopting the demand side perspective is only telling half the story, this model has stressed the supply side (i.e., MNC) role in the corruption/bribery process. Second, this study uses anomie theory. Anomie theory has two advantages over legitimacy literature in explaining corruption; it acknowledges 'anti-corruption' as a global hypernorm that cannot be considered legitimate regardless of the society local norms, and it takes into consid-

eration the supply-side as the potential initiator of corruption. Third, it uses the firm as the level of analysis in contrast to using the country as a level of analysis. Due to the lack of reliable firm-level data on corruption in the last century, researchers were limited to country level indices. However, this study managed to employ recent firm-level surveys on corruption such as WBES 2000 and BEEPS 2002 in order to advance our understanding of the phenomenon at a more meaningful level.

Furthermore, this study has managed to extend the supply-side/anomie theory direction in addition to two substantial dimensions. First, instead of studying local firms it uses the MNC as the research context because of the unique characteristics that sets it apart from local firms and makes it an interesting subject for the application of anomie theory. Unlike the local firms that operate under one set of norms, MNCs by definition operate under different norms and it is intriguing to understand how the MNC would react to contradicting norms. Second, instead of studying corruption causes stemming from the home country of the firm, antecedents of corruption in this study are specifically related to the

host country the MNC operates in. Attractive opportunities that constitute corruption but are lucrative enough for MNC to justify breaking the norms and host country conditions that pose threats to the MNC's operations and interests are examined as antecedents to the MNC's decision to engage in corruption in a foreign country.

One of the major opportunities that attract MNCs to foreign countries even if they suffer a high level of corruption is the willingness to achieve competitive advantage. According to the results of our study, when the MNC wants to out-compete local competitors in a host country they sometimes have the propensity to do so through bribery. These findings support previous theories positing that firms which cannot compete under a fair system would seek out illegal means to achieve their goals (Bliss and Di Tella, 1997; Rose-Ackerman, 1999). In line with anomie theory propositions, unequal opportunities coupled with a stress on achievement leads the MNC to accomplish the required results of profitability and sustainable growth through breaking the norms and paying bribes (Merton, 1964; Savolainen, 2000). The MNC faced by tough competition in a host country that

tolerates bribery will utilize the system in its advantage and reap the opportunity towards achieving a competitive advantage against competitors.

Although the quality of action (i.e., competitors behavior) had a significant impact on the MNC decision to bribe, quantity did not have the same effect. Martin et al. (2007) found a significant effect of rivalry intensity (measured by number of competitors in main firm's product market) on firm bribery activity; however, the case was not the same for MNCs. HLM did not show a significant relationship between number of competitors and MNC's propensity to bribe. In measuring the 'number of competitors' variable, managers were asked to state the number of competitors in the national market. This approach may have entailed two disadvantages: First, although our research context is the MNC and one would assume that MNCs would compete nationally in a host country, still national competitors may not constitute a direct threat as much as the local ones. Second, the competitors were identified in general and not in the strategic group of the MNC (i.e., main product or service line). This may also have weakened the effect of those competitors on the

MNC propensity to bribe.

Another attractive opportunity that had significant impact on the MNC's decision to engage in corruption was transitional periods. Privatization, chosen as an indicator of transitions had the strongest significant impact on the MNC propensity to bribe. This finding supports implications stressed in the literature on both anomie and privatization. First, in line with anomie theory, disturbances in equilibrium or a sudden influx of wealth and power in a society or a group due to transitions create the ideal setting for norm-breaking behavior (Durkheim, 1951). Thus, this study shows that privatization which in nature changes the distribution of wealth and power indeed attracts many MNCs to break the norms in order to reap maximum benefits. Second, in line with privatization literature, 'big bang' or 'shock therapy' privatization which is usually prescribed for developing countries already suffering from weak governance, encourages foreign investors such as MNCs to engage in bribery in order to achieve higher gains (Hoff and Stiglitz, 2004; Stiglitz, 2002). Indeed, this study supports what the majority of privatization literature postulates: that privatization, if not handled properly, will

almost always open the door for corruption and its adverse effects such as inequality of distribution, undervaluation of SOEs, and asset-stripping (AlHussaini and Molz, 2009; Kaufmann and Siegelbaum, 1997).

Natural resources abundance constitutes the final lucrative opportunity that had a significant impact on the MNCs propensity to pay bribes. This finding falls in line with previous studies which found evidence that higher levels of natural resources had a positive impact on the overall level of corruption (Ades and Di Tella, 1999; Mauro, 1997; Treisman, 2000). Most importantly, our model shed light on the strength of anomie theory in explaining the relationship between the two phenomena from both supply and demand side. From the demand side, our model supports Durkheim's (1951) proposition that increased prosperity leads to increased desires which in turn justifies (in the individual's own opinion) norms-breaking. On the other hand, MNCs that desire to achieve profitable ends through the exploitation of the host country resources at the lowest cost possible are willing to break the norms and pay bribes rather than jeopardizing the whole opportunity (Bliss and Di Tella, 1997;

Merton, 1964). In relation to the latter point, our model takes the effect of natural resources on corruption in a new interesting direction. By using CPI which mainly measures the government level of corruption, previous research established the resources abundance effect on resources owners (Treisman, 2000). However, this research stresses the point that MNCs as much as governments are affected by the abundance of resources and may initiate the corrupt transaction by using firm-level analysis. This contributes to our understanding that MNCs may initiate bribes themselves in order to exploit resources at a lower cost, even if the governments may not demand them (Stiglitz, 2002).

In addition to opportunities that may create a state of normlessness or encourage the MNC to engage in the anomic behavior of corruption, MNCs may face certain conditions in host countries that may threaten the MNC performance, growth, and interests in general. Our model found evidence that laws rigidity have a significant positive impact on the MNC bribery activity. This finding provides empirical support for previous studies suggesting adverse effects of bureaucracy and red tape on corruption (Bardhan,

1997; Brunetti et al., 1998; Rose-Ackerman, 1999).

The MNC that suffers from uncertainty about regulatory policies and perceives it as a threat to its growth and sustainability would seek to bribe its way through politicians and regulators who have power over resource allocation and major policies affecting the MNC (Jain, 2001).

Similarly, the inconsistency/unpredictability of laws and regulations' interpretations is one of the major problems faced by the MNC when operating in a foreign country. Even if laws are clear and in favor of the MNC, bureaucrats that are responsible for providing laws interpretations still hold a strong bargaining power over the MNC.

Therefore, as anomie theory postulates, the MNC engages in anomic behavior because it realizes a diversion between its interests and those of the politicians, regulators and bureaucrats in power (Srole, 1956); one form of this anomic behavior is bribery.

The time senior managers spent with public officials regarding interpretation and application of laws and getting/maintaining access to public services had a positive impact on the MNC's propen-

sity to pay bribes. Nevertheless, contrary to our hypothesis, the effect was not significant. This could be attributed to two reasons. First, the survey asks specifically about the time spent by senior management, and in many cases senior management rarely deals directly with public officials. It is usually handled by middle management or outsourced to specialized local agencies that can do the negotiations (Rodriguez et al., 2005). In order to get more meaningful results, future surveys could be amended to ask about the resources dedicated to handle public officials (e.g., different-level-management time, costs of outsources agents, etc.). Second, the survey sets the past 12 months (in 2005) as the timeframe for spending time on laws interpretations. It could be argued that the year 2005 did not present too many laws and regulations that directly affect the MNC. Since it is unfeasible to control for this variable (number of regulations affecting the MNC enacted in 2005), future surveys could ask management to state the average time spent annually on dealing with laws applications and interpretations.

The final condition that affects the MNC decision to bribe is the legal system's competence. Our model supports

anomie theory postulations that when an entity's interests are threatened by the incompetence of the legal system it engages in anomic behaviors (Srole, 1956). When the MNC becomes convinced that the judicial system does not operate properly, perceives its functioning as an obstacle to its operations and growth, and is not confident in its ability to protect the MNC's property rights and contracts then the MNC will be enticed to bribe in order to protect its interests (Shelley, 1998). The dissatisfaction of MNC with the legal system stems mainly from the perception that the system is dishonest, inefficient, unfair, costly, or generally unable to protect its interests in business disputes.

One interesting point is that our model indicated that the combined effect of privatization and legal system incompetence had a positive impact on the MNC propensity to pay bribes albeit not significant; this combined effect has been discussed in the corruption literature by Hoff and Stiglitz (2004). They argue that the absence of 'rule of law' due to privatization may further increase the scope of corrupt activities such as asset-stripping.

These findings have significant implications for the MNC, governments of

host countries, governments of home countries, and supranational organizations. In line with the majority of corruption literature that prescribes different strategies for MNCs to cope with or combat corruption in host countries; this research provides MNCs with the proper tools to analyze opportunities and conditions in the host countries and understand what they entail in terms of corruption either before entry or during operations. The MNC would know in advance that operating within a country passing through a transitional period would most certainly require bribery on the MNC's part in order to exploit the opportunity successfully. Thus, the MNC would either avoid entry or seek other opportunities that do not involve bribery to make the best use of the opportunity.

Government of host countries that are keen on economic development would use these findings as tools to interpret the signals they are sending to MNC all over the world. By continuing to have bureaucracy, red-tape, incompetent legal system, governments are sure to repel MNCs that oppose paying bribes and attract MNCs that are ready to bribe their way through the system to protect their interests and remove obstacles. If the

host countries fail to realize these signals they will end up with pervasive corruption that leads to the devastating consequences of reduction in FDI, economic decline, and deterioration of the system.

It is costly for home countries governments and supranational organizations to monitor MNCs' operations abroad and detect corruption activities. Our findings help those bodies to determine where to concentrate their monitoring efforts. MNCs operating in countries with natural resources abundance are more likely to pay bribes than MNCs operating in less resources-endowed countries. This saves resources for governments and supranational organizations and may aid in increasing the efficiency of anti-foreign bribery laws.

Finally, supranational organizations who keep pushing developing countries to adopt economic reform programs such as privatization, may utilize the findings of this study in analyzing the effects of their propositions on corruption levels in those countries. Their analysis might yield results on the optimal method of handling privatization in order to minimize corrupt activities and maximize economic benefits.

Although our findings contribute to the

current literature and suggest practical implications, limitations should be acknowledged. Data sources had some shortcomings that, if resolved, may enhance the overall findings of the study. The sample used for the study consists of 26 developing Eastern European countries and some Asian countries. The majority of these countries share similar economic, political and even cultural conditions. For future research it would be more interesting to add MNC from other developing countries that differ in terms of their economic standings and views regarding corruption, examples include MENA (Middle East and North Africa), and Latin American countries. This would further enrich the study and strengthen generalization of our findings.

The elimination of all firms that do not have foreign ownership has reduced the sample size considerably. Moreover, the data had many missing values for major variables (e.g., bribery) that could not be imputed and required further elimination. Thus, the overall sample was reduced from 8,000 to 1,000 cases. The main reason for missing data is that questions regarding bribery and corruption are only one part out of five (see a section, data source), thus missing data on

bribery items could go unnoticed. A future survey could adopt BEEPS innovative and effective methodology but concentrate more on bribery-related questions.

Due to technical constraints, BEEPS is not performed for the same countries and same firms from year to year. Each year, new countries are added or removed, and available firms are surveyed. Interviewed firms' identities are obviously confidential to assure privacy, nevertheless, these firms are not even assigned an identification code. So even if the same firm of the same country has been interviewed for consecutive years there is no method to identify them. Unlike country-level corruption surveys such as CPI, BEEPS does not allow for longitudinal studies on the effect of various variables on the MNC bribery activity. Unfeasibility of longitudinal analysis is a major limitation to our study since some variables such as privatization need more than one year in order to realize their full effect on the market and firms' operations and decisions.

In line with criticisms faced by other well known corruption measures, BEEPS provides a measure of 'perceived' rather than 'actual' corruption. The questions directed towards executives ask them to

report their perception of bribery in their line of business in general. Some may argue that this perception might be interpreted as a bias rather than reality which may affect generalizability. However, as mentioned earlier BEEPS/WBES show high correlations with various well-established measures such as CPI (Martin et al., 2007) and even if this correlation “might indicate ... a widely shared bias ... it is a bias that seems to be shared by the populations of the countries studied” because responses of local and expatriate managers and businesspeople are highly correlated with those of “risk analysts and country experts” (Treisman, 2000: 411-412). The other point concerning the corruption measures in BEEPS is that they do not report the size and frequency of the bribes which the respondents mention. However, in a recent study, Uhlenbruck et al. (2006) manage to extract variables from WBES/BEEPS that correspond directly to ‘pervasiveness’ and ‘arbitrariness’ of corruption (Rodriguez et al., 2005). By using principal component analysis they were able to identify six variables that load highly on pervasiveness and three that load heavily on arbitrariness (p.412). These findings show that the data source actually is capable

of measuring these dimensions of corruption in order to distinguish between the different types of corruption (e.g., bribery vs. grease money).

One final limitation of the data is the absence of a variable that measures the government intervention in competition. In WBES 2000, managers were asked to state their perception of government intervention in competition and its effect on their operations. Unfortunately, this variable was removed in BEEPS and replaced with anti-competitive behavior of other firms. This variable would have been vital in strengthening the unfair competitive advantage hypotheses, as the literature emphasizes the effect of government anticompetitive behavior on the competitive landscape in an economy, granting the MNC a competitive advantage unattainable for it under fair competitive circumstances (Makhija, 2003).

References

- [1] Ades, A. and R. Di Tella, “Rents, Competition, and Corruption,” *The American Economic Review*, Vol.89, No.4(1999), pp.982-993.
- [2] AlHussaini, W. and R. Molz, “A

- Post-Keynesian Regulatory Model of Privatization,” *Journal of Socio-Economics*, Vol.38, No.2(2009), pp. 391-398.
- [3] Ashforth, B.E., D.A. Gioia, S.L. Robinson, and L.K. Trevino, “Re-Viewing Organizational Corruption,” *Academy of Management Review*, Vol.33, No.3(2008), pp.670-684.
- [4] Bardhan, P., “Corruption and Development: A Review of Issues,” *Journal of Economic Literature*, Vol. 35, No.3(1997), pp.1320-1346.
- [5] Baucus, M.S. and J.P. Near, “Can Illegal Corporate Behavior be Predicted? An Event History Analysis,” *Academy of Management Journal*, Vol.34, No.1(1991), pp.9-36.
- [6] Bliss, C. and R. Di Tella, “Does Competition Kill Corruption?,” *Journal of Political Economy*, Vol. 105, No.5(1997), pp.1001-1023.
- [7] Boulton, D., *The Grease Machine*. New York: Harper and Row, Publishers, 1978.
- [8] Brunetti, A., G. Kisunko, and B. Weder, “Credibility of Rules and Economic Growth: Evidence from a Worldwide Survey of the Private Sector,” *The World Bank Economic Review*, Vol.12, No.3(1998), pp.353-384.
- [9] Core, J.E., R.W. Holthausen, and D.F. Larcker, “Corporate Governance, Chief Executive Officer Compensation, and Firm Performance,” *Journal of Financial Economics*, Vol.51(1999), pp.371-406.
- [10] Cullen, J.B., K.P. Parboteeah, and M. Hoegl, “Cross-National Differences in Managers’ Willingness to Justify ethically Suspect Behaviors: A Test of Institutional Anomie Theory,” *Academy of Management Journal*, Vol.47, No.3(2004), pp.411-421.
- [11] Djankov, S., R. La Porta, F. Lopez-De-Silanes, and A. Shleifer, “The Regulation of Entry,” *The Quarterly Journal of Economics*, Vol.117, No.1(2002), pp.1-37.
- [12] Djankov, S., R. La Porta, F. Lopez-De-Silanes, and A. Shleifer, “Courts,” *Quarterly Journal of Economics*, Vol.118, No.2(2003), pp.453-517.
- [13] Durkheim, E., *Suicide: A Study in Sociology*, New York: Free Press, 1951.
- [14] Durkheim, E., *The Division of Labor in Society* New York: Free Press, 1984.

- [15] Hitt, M., D. Ireland, G. Rowe, and J. Sheppard, *Strategic Management Concepts: Competitiveness and Globalization* (2nd Canadian Edition ed.): Thomson-Nelson, 2005.
- [16] Hoff, K. and J.E. Stiglitz, "After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies," *The American Economic Review*, Vol.94, No.3 (2004), pp.753-763.
- [17] Hofmann, D.A., "An Overview of the Logic and Rationale of Hierarchical Linear Models," *Journal of Management*, Vol.23, No.6(1997), pp.723-744.
- [18] Hofmann, D.A. and M.B. Gavin, "Centering Decisions in Hierarchical Linear Models: Implications for Research in Organizations," *Journal of Management*, Vol.24, No.5(1998), pp.623-641.
- [19] Jain, A.K., "Corruption: A Review," *Journal of Economic Surveys*, Vol. 15, No.1(2001), pp.71-121.
- [20] Kaufmann, D. and P. Siegelbaum, "Corruption and Privatization In Transition Economies," *Journal of International Affairs*, Vol.50, No.2 (1997), pp.419-458.
- [21] Klein, K.J. and S.W.J. Kozlowski, "From Micro to Meso: Critical Steps in Conceptualizing and Conducting Multilevel Research," *Organizational Research Methods*, Vol.3, No.3 (2000), pp.211-236.
- [22] Kwok, C.C. and S. Tadesse, "The MNC as an Agent of Change for Host-Country Institutions: FDI and Corruption," *Journal of International Business Studies*, Vol.37(2006), pp.767-785.
- [23] La Porta, R., F. Lopez-De-Silanes, A. Shleifer, and R. Vishny, "Law and Finance," *Journal of Political Economy*, Vol.106, No.6(1998), pp. 1113-1155.
- [24] Makhija, M., "Comparing the Resource-Based and Market-Based Views of the Firm: Empirical Evidence from Czech Privatization," *Strategic Management Journal*, Vol. 24, No.5(2003), pp.433-451.
- [25] Martin, K.D., J.B. Cullen, J.L. Johnson, and K.P. Parboteeah, "Deciding to Bribe: A Cross-Level Analysis of Firm and Home Country Influences on Bribery Activity," *Academy of Management Journal*, Vol.50, No.6(2007), pp.1401-1422.
- [26] Mauro, P., *Why Worry about Corruption?*: International Monetary Fund,

- 1997.
- [27] Merton, R.K., "Social Structure and Anomie," *American Sociology Review*, Vol.3, No.5(1938), pp.672-682.
- [28] Merton, R.K., "Anomie, Anomia, and Social Interaction: Contexts of Deviant Behavior In M.B. Clinard (Ed.)," *Anomie and Deviant Behavior: A Discussion and Critique*. New York: The Free Press, 1964.
- [29] Orru, M., *Anomie: History and Meanings*. Boston: Allen and Unwin, 1987.
- [30] Rodriguez, P., D.S. Siegel, A. Hillman, and L. Eden, "Three lenses on the multinational enterprise: politics, corruption, and corporate social responsibility," *Journal of International Business Studies*, Vol.37, No.6(2006), p.733.
- [31] Rodriguez, P., K. Uhlenbruck, and L. Eden, "Government Corruption and the Entry Strategies of Multinationals," *Academy of Management Review*, Vol.30, No.2(2005), pp.383-396.
- [32] Rose-Ackerman, S., *Corruption and Government: Causes, Consequences, and Reform*, New York: Cambridge University press, 1999.
- [33] Roth, K. and T. Kostova, "The Use of Multinational Corporation as a Research Context," *Journal of Management*, Vol.29, No.6(2003), pp. 883-902.
- [34] Savolainen, J., "Inequality, Welfare State, and Homicide: Further support for the Institutional Anomie Theory," *Criminology*, Vol.38, No.4 (2000), pp.1021-1042.
- [35] Shelley, L.I., "Organized Crime and Corruption in Ukraine: Impediments to the Development of a Free Market Economy," *Demokratizatsiya*, Vol.6, No.4(1998), pp.648-663.
- [36] Shleifer, A. and R. Vishny, "Corruption," *The Quarterly Journal of Economics*, Vol.108, No.3(1993), pp.599-617.
- [37] Snijders, T.A.B. and R.J. Bosker, "Modeled Variance in Two-Level Models," *Sociological Methods Research*, Vol.22, No.3(1994), pp.342-363.
- [38] Srole, L., "Social Integration and Certain Corollaries: An Exploratory Study," *American Sociological Review*, Vol.21, No.6(1956), pp.709-716.
- [39] Stiglitz, J.E., *Globalization and its Discontent*, New York: W.W. Norton and Company, INC, 2002.

- [40] Treisman, D., "The Causes of Corruption: A cross-national Study," *Journal of Public Economics*, Vol. 76, No.3(2000), pp.399-457.
- [41] Uhlenbruck, K., P. Rodriguez, J.P. Doh, and L. Eden, "The Impact of Corruption on Entry Strategy: Evidence from Telecommunication Projects in Emerging Economies," *Organization Science*, Vol.17, No.3 (2006), pp.402-416.
- [42] Velasquez, M.G., *Business Ethics: Concepts and Cases*, Englewood Cliffs, N.J.: Prentice-Hall, Inc, 1982.
- [43] Walder, A.G., "Elite Opportunity in Transitional Economies," *American Sociological Review*, Vol.68, No.6 (2003), pp.899-916.
- [44] Wei, S.-J., "How Taxing is Corruption on International Investors?," *The Review of Economics and Statistics*, Vol.82, No.1(2000), pp.1-11.