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Summary

Our study analyses how corruption affects the equity entry modes when MNEs invest in emerging markets. Using the framework developed by Hill et al. (1990), we hypothesize that corruption will be a significant determinant of the entry mode decision on its own; moreover, we suggest that the industry’s likelihood of bribing and the technological sophistication of the company are predictors for the entry mode as well.

Few studies have properly investigated if corruption influences the entry mode decision of an MNE. The prior research on the topic has focused mainly on a limited number of industries if investigating in multiple countries. Furthermore, we look into several industries from the infrastructure sector, which is characterized by a high government involvement, to better assess any possible differences between one industry and another.

After gathering and analyzing data from 559 investment projects in 31 emerging markets, we conclude that although corruption and the technological sophistication level are not significant, contrary to prior research, the industry’s likelihood of bribing is. We also argue for the significance of other variables, since we believe they are somewhat embedded in the corruption-entry modes relationship.
1. Introduction

International capital flows have reshaped the whole international economic landscape in the last two decades. Accordingly, in the field of international business, the question regarding the choice of international entry modes has attracted a lot of attention from researchers. That can be easily explained if we think that, first of all, entry modes is one of the crucial concepts that is part of the internationalization process of firms, and secondly, it is one of the most critical decisions a company can make (Andersen, 1997). Thus, it is important to acknowledge that entry mode decisions are difficult and costly to reverse. Moreover, they influence the level of resource commitment, risk and control, and affect at the same time the firm’s performance (Hill et al. 1990; Uhlenbruck et al. 2006).

On the other hand, corruption is known to have a significant impact on the economy as a whole, as well as on firms. Because of the globalization process that increasingly interconnects markets and countries, companies are more likely to engage in corrupt practices. However, there are only a handful of studies that question the way firms respond and deal with corruption when entering a foreign market (Wei and Smarzynska, 2000; Uhlenbruck et al. 2006, Javorcik and Wei, 2009). Earlier research shows that firms from industrialized countries have a tendency to choose Joint Ventures (JV) over Wholly Owned Subsidiaries (WOS) when they choose an equity entry mode in emerging markets with high levels of corruption. However, the research conducted in the area has mainly focused on MNEs from developed countries, and is mostly restricted to emerging countries in Asia, Europe or the former Soviet Union. It is also important to note that prior research focuses in most cases on one industry only, when researched in multiple countries. As such, throughout the paper, we want to investigate how companies from developed and emerging countries adapt to the corrupt environments of 31 emerging markets when investing there, through their equity entry mode strategy, by focusing on six different industries in the infrastructure sector.
We look at equity investments only, because we know from the prior literature that corruption in general has a negative effect on foreign equity investments, and so, we want to see what entry mode do MNEs prefer when they do decide to make an equity investment. We believe that the best approach is to discuss several industries, in order to be able to better assess the differences that might exist between the various branches of the economy, since we expect to find notable discrepancies. We also believe that focusing on emerging markets presents real interest to the business community, since such states have attracted a large amount of equity investments the last decades, are expected to grow further (Cavusgil et al. 2008; Ranjan, 2011; World Bank, 2010), and in addition score high on corruption (Transparency International, 2011).

Thus, we consider that the paper will positively contribute to the limited number of studies that examine the relationship between MNE’s entry modes and host country corruption, since our research will focus on dynamic countries that present real opportunities for investors and companies. Additionally, we will contribute to the literature of entry modes by strengthening the theory further, or proving it wrong.

The thesis will be structured in the following way. In the next section, a theoretical description of the companies’ entry modes and corruption concepts will be provided, followed by a comprehensive literature review concerning the relationship between corruption and the choice of entry modes. Moreover, Hill et al.’s (1990) framework regarding the choice of entry modes will be our cornerstone for the development of the hypotheses. In the methodology section we will describe how the research was conducted and what variables we included. Following on from this, we analyse the data and discuss our results. In conclusion, limitations, potential implications of the study, and further research topics will be suggested.
2. Literature review

2.1. Foreign Investments and Entry Modes

Multinational enterprises (MNEs), the main agent of foreign direct investment (FDI), bring their know-how, as well as capital, to host countries in the process of managing their overseas operations and assets (Nam, 2011). When a firm decides to invest abroad, the important decision regarding which entry mode strategy to choose, needs to be taken. Entry mode strategies affect the foreign subsidiary’s likelihood of success and its probability of survival in a new market (Delios and Beamish, 1999). Previous research points out that entry modes, once established, are difficult to change, since in many cases the associated costs would be significant (Pedersen et al., 2002). Therefore, it is very important for MNE’s to identify the appropriate entry mode when investing abroad.

According to Pan and Tse (2000) (Figure 1), entry modes can be seen as a hierarchical model, where the firm first takes a decision between non-equity and equity, and then takes a further decision as to which specific mode within the equity or non-equity mode to adopt. The equity-based entry modes include wholly owned subsidiaries (WOS) and joint ventures (JV), while the non-equity-based entry modes include contractual agreements and export operations. Hennart (2000) also classifies modes of entry in two main categories: contracts and equity,
positioning JVs and WOSs in the latter one. For him, the main difference between the two consists of the method chosen to remunerate input providers.

Throughout our paper we will focus on the equity entry modes only, namely joint ventures and wholly owned subsidiaries, which represent the main means by which multinational enterprises operate internationally (Young et al., 1989). A joint venture we define as “the sharing of assets, risks and profits, and participation in the ownership of a particular enterprise or investment project by more than one firm or economic group defined as corporations, public corporations or government.” (p. 17-18). While partners’ relative shareholdings are commonly split 50/50 or 51/49, any distribution of shares is possible in what may be characterized minority or majority-owned joint ventures (Young et al., 1989). MNEs prefer joint ventures partnerships with local firms to other FDI arrangements when they enter emerging markets where substantial risk and uncertainty exist (Nam, 2011). Wholly owned subsidiary, on the other hand, is defined as a 100% ownership of a subsidiary, and are associated with strategies that require high control (e.g. global strategy, or when protecting proprietary rights are vital), or when implementation of policies from the headquarter is required in order to survive or grow in more competitive markets (Young et al., 1989).

Following, we are going to introduce a framework that we believe best explains the entry mode decision, and afterwards, we are going to thoroughly focus on equity entry modes.

2.1.1. Choice of Market Entry Modes: Theories and Conceptual Frameworks

The choice of entry modes is influenced by different types of factors, which according to Pan and Tse (2000), include firm-specific, industry specific, and country-specific factors. As such, a large number of theories have been advanced to explain what affects the entry mode choice decision, some being more comprehensive than others. Among the most commonly applied are transaction cost analysis (Williamson, 1985), the resource-based view (Luo, 2002; Tsang, 2000; Barney, 1991), institutional theory (Peng et al., 2008; K. D. Brouthers,
2002) and Dunning’s Eclectic Framework (Dunning, 2000), which is based on the previously mentioned theories (Brouthers and Hennart, 2007). Additionally, Hill et al. (1990) have further developed Dunning’s eclectic framework, by taking into consideration strategic variables as well (Andersen, 1997). As such, for the purpose of our research we are going to use and to present thoroughly Hill et al.’s framework (1990), since we believe it is easy to understand, and perhaps the most comprehensive one.

According to Hill et al. (1990), entry modes are characterized by different levels of control, resource commitment and dissemination risk. The level of control is defined as the influence over operational and strategic decision-making. In our case, for the equity operating modes, the lowest level of control is found in joint ventures, where it depends on the ownership split and the number of partners. In contrast, the highest level of control is found in wholly owned subsidiaries, where control of the daily activities could be delegated to the foreign subsidiary, but always, the final decision can be taken by the corporate office (Hill et al., 1990). A certain level of resource commitment is also required for each entry mode. The level of resource commitment represents the devoted assets that cannot be reorganized later to alternative uses without cost. The assets may be tangible, such as a physical plant, or intangible, such as know-how. In the case of a wholly owned subsidiary, the MNE has to bear all the costs of starting up and running the new operation, while in the joint venture this depends on the ownership split. Here it is also important to note that resource commitment may act as an exit barrier, and thus limit the flexibility of the firm (Hill et al., 1990). Therefore, in the case of high resource commitment an MNE cannot exit a foreign market without incurring sunk costs. Accordingly we can see that the strategic flexibility is greater in the case of a JV, than in the case of a WOS. Finally, the dissemination risk refers to the risk that firm specific advantages in know-how will be expropriated. This risk is higher in non-equity and in joint venture partnerships (Hill et al., 1990), and it is at its lowest in the case of wholly owned subsidiaries. It is important to note that in the case of a JV, greater control over the firm-specific know-how has the party with the higher stake.

A summary of how the levels of control, resource commitment and dissemination risk vary for equity entry modes, can be seen in the following table (Table 2a):
Accordingly, from the table we can see that if a company chooses to enter a market using a JV, it will have a medium level of control, resource commitment and dissemination risk. This means that the control and level of resource commitment are shared among partners, but at the same time the firm is more flexible than a WOS, and in case of difficulties it can divest more easily. Moreover, it is important to notice that the dissemination risk of firm specific know-how is much higher in the case of JVs, than in the case of WOSs.

Furthermore, the authors of the model believe that the elements said to have an influence on entry mode choice are strategic, environmental, and transaction specific variables. According to Hill et al. (1990), strategic variables influence the entry mode through the control requirements they bring along. Basically, different strategies call for different levels of control, and naturally, different entry modes. On the other hand, the environmental variables have an influence on the resource commitment level, and implicitly affect the strategic flexibility of the operation. Last but not least, the transaction specific variables affect the dissemination risks and the level of control, calling in the end for one or another entry mode.

**Strategic variables**

In the case of strategic variables, the main decision an MNE has to make is related to the use of a global, or a multi-domestic strategy, since they both entail different levels of control. Here we have to acknowledge that a multi-domestic strategy considers that national markets are very different in terms of consumer tastes and preferences, together with competitive conditions, political, legal and social structures (Hill et al., 1990). Accordingly, operating responsibilities will be given to the subsidiaries, which have considerable autonomy. Therefore, in the case of a multi-domestic strategy, a low degree of control is required (such as a JV in the case of equity investments).
On the other hand, because of the globalization phenomena, a convergence of tastes and preferences can clearly be seen (Cavusgil et al., 2008). Consequently, MNE’s have the opportunity to realize economies of scale by adopting a global strategy, where operations (such as production and marketing) are standardized. Because national subsidiaries usually specialize in this case in the production of only one part of the product line, coordination between the various subsidiaries is important, and so, a high degree of control seems to be the solution. As we can see, a wholly owned subsidiary is more likely to be adopted, in the detriment of a joint venture.

Furthermore, Hill et al. (1990) discuss what they call a global oligopoly: basically an industry with a limited number of players that have considerable power. In this situation, as Hill et al. (1990) argue, the strategy of the national operations has to be controlled by the corporate office. As such, the national subsidiaries have to accept imposed strategies, and in some cases might also be forced to run at a loss, just for the greater good of the whole company (for instance in cases where a company enters a rival’s home country, just to keep the rival busy in protecting its home market). Therefore, it can be concluded that a wholly owned subsidiary will be preferred, since it is unlikely that a partner (in the case of a JV) will accept all of the above mentioned “conditions”.

**Environmental variables**

Environmental variables include exogenous factors such as country risk and location familiarity, together with demand and competitive conditions in the host country, which have a significant impact upon the levels of resource commitment and strategic flexibility.

*Country risk* generally includes political risk (ex. government intervention, instability of political system), ownership/control risks (ex. expropriation, intervention), operations risk (ex. price control, local content requirements, bureaucracy, red tape, administrative delays and corruption), and transfer risk (ex. currency inconvertibility risk, remittance control) (Hill et al. 1990; Cavusgil et al. 2008). In the cases when these risks are at a high level, the firms should have increased flexibility so that they can exit the market fast, with low losses. This
translates as a low resource commitment approach, and so, we can argue that a JV will be favored to a WOS.

*Location familiarity* represents the perceived distance between the home and host countries in terms of cultural aspects and business practices. As we will see later on in our paper, previous studies have considered the “distance” between home and host countries, and have reached several conclusions.

*Demand conditions* according to Hill et al. (1990), influence the resource commitments an MNE is willing to make. When the demand in a host country is unknown, MNEs might favor low resource commitment modes, such as JVs, in the case of equity investments. But according to the authors of the model, when demand is more stable, it does not necessarily mean that the firms will favor one entry mode, or another.

*Competitive conditions* also have an influence on the entry mode choice. The authors of the framework is a situation of volatile competition, firms need to respond as quickly as possible. Thus, because high resource commitments limit flexibility, MNEs could favor entry modes such as JVs (in the case of equity investments).

**Transactions specific variables**

Lastly, transaction-specific variables take into account the value of firm specific know-how, together with the tacit nature of this knowledge, thus being related to the level of dissemination risk (Hill et al. 1990). Accordingly, in cases of nonexistent transaction costs, firms will favor low resource commitment investments. But in real life situations, there always exists the risk of disseminating proprietary know-how to a partner (of the joint venture for instance). Very important to consider here are the quasi-rents that can be earned from the firms’ know-how. Hill et al. (1990) suggest that the greater these quasi-rents are, the more likely the MNE will favor an entry mode, which minimizes dissemination risk.

Additionally, the nature of know-how is also discussed. In most cases, a company’s proprietary know-how, is being embedded in its human capital and
routines. Therefore, transferring it to a partner might be very difficult to accomplish and to quantify. Consequently, entering a new market through a wholly owned subsidiary seems to be the appropriate solution.

An overview of the developed model can be seen in the figure below (Figure 2):

![Image](image_url)

**Figure 2: Hill et al.’s eclectic framework (1990)**

From the model we can draw the conclusion that there are many factors and elements affecting the choice of entry mode for the firm, which have to be thoroughly considered. We will further use the framework for our research paper, specifically for making assumptions about possible relationships and developing hypotheses. Moreover, we will mainly concentrate on one of the framework’s elements, namely the country risk environmental variable, which encompasses our next important concept, specifically *corruption*. 
2.2. Country Risk: Corruption

Another important concept in our paper is the corruption level of each country, which is positioned under the country risk strategic variable in Hill et al.’s framework (1990), and is also considered by Pan and Tse (2000) in their country risk analysis.

Corruption has received significant attention among economists and international financial institutions during the last few decades, given its implications for economic growth. The importance of corruption comes from the fact that it has the ability to influence the roots of an economy. For instance, it can erode property rights, restrain political institutions and threaten democracy together with the social, economic and political benefits that come with it. In support of the facts presented above, the World Bank President, James D. Wolfensohn, refers to corruption as a cancer, in his 1996 speech at the Annual Meetings of the World Bank and IMF, considering that corruption is “among the greatest obstacles to economic and social development” (Calhoun, 2011).

The concept is especially discussed in emerging markets, where the absence of strong formal institutions is conspicuous (Jiang et al. 2008; Demirbag et al. 2010) and the foreign equity investment is a rapid and unforeseen incoming cash flow that may surpass the speed of political and economic reform in these economies. This causes a gap between the new laws and legal system on one hand, and the reality of the local culture and people's awareness, on the other, and therefore creates an increase in corruption (Sato, 2009).

Throughout the literature about corruption, scholars find different classifications for corruption. In this sense, corruption can be separated into (i) grand corruption, which refers to situations where the political elite exploit their power for economic gain, for example where elected politicians allocate contracts or subsidies to the firms that provide them with an adequate bribe; (ii) bureaucratic corruption, which refers to bureaucrats who accept small bribes in exchange for releasing permits (also known as petty corruption); (iii) legislative corruption, which refers to the extent to which the voting behavior of legislators can be
influenced. Corruption may also occur in daily business life without direct intervention from public agents. In most instances these categories are interrelated; if the government is corrupt, it is likely that lower instances are too (Kain, 2001; Elliot, 1997).

Then, there is another important classification of corruption. Doh et al. (2003), argue that there is pervasive corruption (corruption that is certain and widespread) and arbitrary corruption (corruption that is uncertain). Both types of corruption have been seen as deterrents to FDI. However, in emerging economies, compared to developed, arbitrary corruption does not act as a deterrent because it simply creates higher uncertainty in the investment; but this uncertainty is already there in the emerging economies, since such countries have unclear rules about governing business operations, or simply put are characterized by a turbulent environment.

Additionally, one of the most popular views is that corruption can be seen as a tax that increases the costs of stakeholders. As such, Ali Al-Sadig (2009) considers that corruption can take various forms such as bribery, extortion, influence, fraud and embezzlement, but throughout its research chooses to see corruption as an “arrangement” that involves “a private exchange between two parties which (1) has an influence on the allocation of resources either immediately or in the future, and (2) involves the use or abuse of public or collective responsibility for private ends (Macrae, 1982)”.

Furthermore, there has been a strong debate in the literature regarding the usefulness of corruption. Therefore, there are two main currents regarding the connection between corruption and economic growth. One of them, states that corruption acts like grease to wheels, facilitating the economic growth, and helping government officials to make the process of project approval more efficient (Leff, 1964; Acemoglu and Verdier, 1998). For instance, in emerging economies, corruption enables the replication of the market mechanisms that are absent in situations of excessive or poorly designed regulation (Cuervo-Cazurra, 2008). In fact, in a business survey, Søreide (2007) found that Norwegian companies were willing to “adjust to the local business culture” if contracts were lost because competitors had offered bribes. Firms that value time or access to
goods more highly than others will pay the officials a bribe for such access. As a result, corruption in emerging economies will act as grease to facilitate transactions (Cuervo-Cazurra, 2008). Other researchers support this by arguing that bribery may be an efficient way of circumventing regulations and inefficient legal systems and may, in fact, help foreign investors to enter a market (Svaleryd et al. 2008). This stream of literature has only received partial support, and is more directed towards narrow areas of interest, such as the help of entrepreneurs in their start-up phase, or agents that are willing to pay bribes for property rights in environments that lack sufficient institutions. The second current argues that corruption can be seen as *sand to the wheels*, by impeding economic growth, because it increases the cost of doing business and introduces uncertainty in the decision making process. The proponents of this view include Mauro (1995), Mo (2001), Shleifer and Vishny (1993) and Wei (2000a). From this point of view, it is necessary for firms to devote human and financial resources in order to manage bribes, although these resources could be invested more profitably in other uses. Additionally, as pointed out by Krueger (1993), instead of speeding up procedures, corrupt officials actually have an incentive to cause greater administrative delays in order to attract more bribes.

As we can see, there are many definitions and opinions regarding corruption, some more narrow than others. Consequently, for the purpose of this study we have decided to adopt a broader perspective, and used Transparency International’s definition: “Corruption is the abuse of entrusted power for private gain” (Transparency International, 2011). Thus, by accepting this view, we perceive corruption as *sand to the wheels*, considering that it will cause more harm than good in the long term.
2.3. Corruptions’ Influence on the Entry Mode Strategy

The impact on corruption on international business did not occur as a separate topic for empirical studies before the 1990s. Earlier, corruption was implicitly combined with other elements in the merged index of political stability (Habib and Zurawicki, 2010). But later on, due to its importance, as we will see in the following paragraphs, the relationship between corruption and entry modes has been studied by various scholars, reaching different results.

In terms of managerial implications, foreign investors can either choose to stay away from corrupt environments, or adapt accordingly. But once they decide to enter a corrupt country, apart from allocating the responsibility for bribery to independent agents (Bray, 2004), foreign investors can benefit from different forms of partnerships with local businesses more skilled in dealing with corruption (Habib and Zurawicki, 2002), since corruption makes achieving local licenses and permits more costly for foreign investors. Therefore, having a local partner can lower the transaction cost, and so a joint venture may seem the natural choice. However, it is important to acknowledge that, at the same time, sharing the ownership may cause leakage of technology, which can be a real problem in a corrupt and turbulent environment (Javorcik and Wei, 2009).

Wei and Smarzynska (2000) focused on the impact of corruption when investing in a host country, on the foreign investors' choice between a joint venture, and a wholly owned subsidiary in emerging countries (Eastern Europe and the former Soviet Union). The dataset the studies used was a firm-level dataset, and they gathered information from questionnaires. They found that corruption shifts the ownership structure towards joint ventures. Nevertheless, the more technologically sophisticated the company was, the more the preference moved away from joint ventures, towards wholly owned subsidiaries in a corrupt country, (probably) to avoid the dissemination risk of technology and know-how. As an exception, US investors in similar companies were found to be more willing to make use of joint ventures in corrupt countries than investors of other nationalities. The authors wonder if this could happen because there is a strict
legislation in the US on corruption practices done abroad, and so, in the case of joint ventures the local partner could take responsibility for the “bureaucratic” aspects of the business (Wei and Smarzynska, 2000).

Uhlenbruck et al. (2006) focused explicitly on the telecommunications industry in 64 emerging and developing economies and investigated how different types of corruption affected the firms’ entry mode choices. The authors suggest the firms enter via short-term contracts or via joint ventures in corrupt markets. Firms shifted the preference from wholly owned investment projects towards joint ventures and then further to non-equity forms of operation. Thus, firms that entered via equity modes preferred JVs to WOSs in corrupt environments, but only where the arbitrariness associated with corruption was high. Arbitrariness reflects the degree of uncertainty and unpredictability associated with public sector corruption; while pervasiveness of corruption reflects the degree to which corruption is spread broadly throughout the public sector in a country. The authors identified arbitrariness, as a significant factor that increased the likelihood of firms (entering via equity entry modes), to engage in joint ventures, to overcome the problems connected with managing a foreign subsidiary in a corrupt host country. The results regarding pervasiveness suggested that this dimension of corruption represents not just another tax on entry, but is also an environmental threat to firms.

Tekin-Koru (2006) collected data on inward FDI in Turkey, originating from 88 countries between 1990 and 2000, attempting to find an answer to the question of whether corruption had an influence on the entry mode choice or not. The scholar used a number of different specifications for corruption, and found that as the difference between developed countries’ level of corruption and the receiving countries’ level of corruption widened, the number of WOSs increased and the level of JVs declined, the latter being the only significant one. They concluded with the opposite of Uhlenbruck et al. (2006) and Wei and Smarzynska (2000), namely that corruption influenced firms to choose WOS in more corrupt environments.

Later, Javorcik and Wei (2009) investigated how foreign direct investment and its ownership structure were affected by the degree of corruption. They researched
investments in Eastern Europe and the former Soviet Union, and investigated the manufacturing industry there. They found that the likelihood of foreign investment taking place is negatively related to the degree of corruption in a host country. Additionally, they argued that corruption shifts the ownership structure towards joint ventures. The latter finding supports the view that corruption increases the value of using a local partner to cut through the bureaucratic maze. However, R&D intensive firms are found to favor sole ownership.

Demirbag et al. (2009) looked at the FDI conducted by Turkey in other emerging economies of the Central Asian Republics. They investigated this because there already is an established literature on internationalization and entry mode choice of developed country MNEs to emerging countries (Brouthers and Hennart, 2007), while the behavior of emerging country MNEs when investing in other emerging countries is less investigated (Demirbag et al. 2009). They used primary data at firm level, gathered from questionnaires. The findings showed that the entry modes an emerging economy (Turkey) used, in a corrupt environment, were mostly joint ventures. There was a strong correlation between the perceived risk of intervention, particularly bribery, and joint venture as an entry mode strategy. They argued that selecting a joint venture over a wholly owned subsidiary would allow the investor to avoid or minimize the risk of corruption.

These studies that analyze the relationship between corruption and its impact on MNEs’ choice of entry mode, included multiple industries and focused mainly on Eastern Europe, the former Soviet Union (Wei and Smarzynska, 2000; Javorcik and Wei, 2009) and Asia (Demirbag et al. 2009), or took a general overview based on a cross country composition, in only one industry (Uhlenbruck et al., 2006). In our study we have adopted a cross-country composition, by focusing on 30 emerging countries; additionally, the equity investments are conducted by MNEs from both developed and emerging countries; moreover we consider multiple industries as well.
3. Hypotheses

From the previous chapters we can see that corruption influences the entry mode choice of companies. Therefore, we would like to test some of the previous theories and researches, using multiple industries and countries in our sample, and in that way contribute with possibly more generalizability in the field of corruption and entry modes. As such, for the development of our hypotheses we have used the Hill et al.’s (1990) framework to predict which types of equity entry modes a firm might choose in a corrupt environment. The framework combines different elements that are considered to affect the choice of entry mode, and we believe this gives us a good overview of the entry mode decision into our chosen countries.

3.1. Hypotheses Development

Several authors suggest that some industry sectors are more subject to international corruption than others (Cuervo-Cazurra, 2008; Zurawicki and Habib, 2010). In the survey “Bribe Payers Survey 2011”, which looks at the likelihood of firms in 19 sectors to engage in bribery, sectors such as contracts and construction, real estate and property development, oil and gas, heavy manufacturing, and mining were the ones seen to bribe officials most frequently. The cleanest sectors, in terms of bribery of public officials, were identified as information technology, fisheries, and banking and finance (Transparency International, 2011).

Therefore, given the different corruption levels from various sectors, and the influence that corruption could have on the entry mode choice of companies, we believe that firms’ entry modes will be differently affected by corruption, according to the industry where they are making the investment. In other words, if a firm is planning to invest in a foreign emerging country, in a certain industry where companies are more likely to engage in corrupt practices, we believe that firms will generally be more prone to use a lower commitment entry mode, such as a JV. Although, as we can see from the previous chapter, not all authors agree
on the choice of JV in a corrupt country, we are inclined to consider that in such cases, having a partner can be truly beneficial. There could be important cultural differences, different business practices and it could be close to impossible for some foreign firms to navigate through the bureaucratic maze, without local knowledge (especially if the firms come from developed nations, with lower corruption levels). Moreover, since we are discussing a turbulent environment, we can see from Hill et al.’s framework (1990) that it is easier to divest from a market in the case of a venture, as opposed to an owned subsidiary. Additionally, by conducting our analysis in multiple emerging countries, we will be able to see if there are any notable discrepancies, between them, or not.

Therefore, if we consider the industry’s likelihood to bribe (as mentioned before, we refer to the companies’ likelihood to bribe from a specific sector), as a moderator variable between corruption and entry modes, we propose the following hypothesis:

**H1: Foreign companies investing in industries with higher likelihood of bribing, in countries high on corruption, will choose JV as an entry mode.**

For the development of our second hypothesis, we will consider the technological sophistication of the investing company. From our previous literature review regarding corruption and entry modes, we can see that in general, corruption determines companies to rely on joint ventures, instead of wholly owned subsidiaries (Wei and Smarzynska, 2000). Using local partners simplifies the process of achieving all the necessary licenses and permits; however at the same time, this can lead to a dissemination of technology and know-how (Javorcik and Wei, 2009). Therefore, we believe that the *transaction variables* from Hill et al.’s framework (1990) are important to consider when discussing technology sophistication. Firms from industries with high technology hold firm-specific knowledge, which could be their main ownership advantage. Accordingly, they need to protect it against dissemination risk, and so, a *high ownership and control* structure is preferred. In line with the previous statement, we can see from previous research that the more technologically sophisticated a company is, the more it tries to avoid joint ventures (Javorcik and Wei, 2009; Wei and Smarzynska, 2000; Hill et al. 1990).
As discussed before, it is still important to have a local partner in a turbulent environment, but since emerging markets are usually characterized by instability and a lack of a clear and comprehensive legislation, keeping safe the know-how prevails.

Therefore, if we consider company technological sophistication as moderator variables between corruption and entry modes, we propose the following hypothesis:

**H2:** Foreign companies characterized by a high level of technological sophistication (R&D), investing in countries high on corruption, will adopt a WOS entry mode.

### 3.2. Control Variables for Hypotheses 1 and 2

Additionally, for both our hypothesis we will include other variables as well, which could have a significant influence upon the relationship between corruption and entry modes. All these variables, together with their effect, will be presented in the following part of the paper.

#### 3.2.1. Cultural Distance

Culture is defined by Hofstede (2001) as ‘the collective programming of the mind which distinguishes the members of one human group from another’ (p. 21). Most people in the same culture carry the same values (Hennart and Larimo, 1998). The cultural distance between a home and a host country is suggested to have an influence on the firms’ internationalization strategy and their entry mode (Johanson and Vahlne, 1977; Hennart, 1988). However, earlier studies focusing on the relationship between equity entry modes and cultural distance show contradicting results. While some studies find that in cases with high cultural distance the firms show a preference towards WOSs, due to the risk and uncertainty of cooperating with local partners (Sim and Pandian, 2003; Mulok,
2010; Chang et al. 2012), some do not find any significant relationship between cultural distance and entry mode choice (Tihany et al. 2005), while others suggest the total opposite: that firms will choose JVs in countries exhibiting large cultural distance. They argue that the uncertainty increases the cost, and sharing the cost with a partner reduces the risk, and in addition a local partner could be more useful in an unfamiliar environment (Brouthers & Brouthers, 2001; Hennart and Larimo, 1998: Kogut and Singh, 1988; Erramilli and Rao, 1993). Interestingly though, the latest studies tend to conclude with the WOS choice.

From the ideas presented above we believe that cultural distance between states could bring along higher or lower commitments from investing companies (Kirkman et al. 2006), which translates in more WOSs or JVs. Accordingly, we choose to control for it, in this way avoiding any possible biased results.

### 3.2.2. Openness to Trade

Another important aspect to take into account is represented by the restrictions on foreign investments, which can certainly affect the entry modes of companies. In a country with an open economy, there should be no constraints on the flow of investment capital. Both the firms and individuals should be allowed to move and invest, as they consider appropriate, without restriction. Unfortunately, in practice, most countries have plenty of restrictions on investment. In some cases, they have different rules for foreign and domestic investment; some restrict access to foreign exchange; some impose restrictions on payments, transfers, and capital transactions; in some, certain industries are closed to foreign investment (Heritage Foundation, 2011). In our case, we are mainly interested in the restrictions against foreign equity investments, countries adopt either in all sectors or in particular ones. Most of the times, equity investments in collaboration with a local partner are accepted, thus rendering the joint venture the only feasible approach.

In order to measure these formal restrictions, we have gathered data from the Heritage Foundation’s annual Index of Economic Freedom (2011), and we have labeled our variable **openness to trade**.
3.2.3. Home country legislation - United States and United Kingdom (from year 2010)

It is important to note that even though corruption is illegal in every country, laws against bribery acts done in foreign countries, are a relatively new phenomenon (Søreide, 2007). In this respect, some of the toughest anti-corruption legislations in the world, are found in the United States (law from 1977), and in the United Kingdom (law from 2010) (Buchanan, 2011; Baker & McKenzie, 2010; Roberts, 2011). The principle that states it is illegal to bribe foreign officials was first established in the US Foreign and Corrupt Practices Act of 1977, and since then, similar principles have gained legal standing in the United Kingdom.

Due to these laws, US investors in companies high on technological sophistication were found to be more prone to choose joint ventures in corrupt countries than investors of other nationalities, which contradicts the results Wei and Smarzynska found in 2000, where firms high on technological sophistication normally would choose WOS. Moreover, we believe that the same outcome can be identified in firms from the UK investing after 2010 as well. Thus, we will control for the cases where the investing firm is either American or British, but only for the projects starting from 2010, or later in the case of British firms (as mentioned before, the law was adopted in the UK in 2010).

3.2.4. Home Country Corruption

Hill et al.’s (1990) framework takes into account strategic, environmental, and transaction variables regarding the firm and the host country. Nevertheless, factors concerning the home country are not considered. Moreover, in some cases, it is not corruption as such which acts as a barrier to FDI, but the risk of being punished if the briber is exposed by the home country authorities (Habib and Zurawicki, 2010). According to GIACC/TI (2008) individuals and companies involved in corruption practices are nowadays facing an increased risk of prosecution, due to an increased awareness of corruption and the damage it is causing, increased pressure from NGOs, civil society, and the government, better
laws, and an increased risk of detection. For companies, the criminal penalty will normally be a substantial fine. But lately, governments, funders, project owners, competitors, and employers are less tolerant of corruption, and therefore the company is facing other long-term effects (GIACC/TI, 2008 and UNGC, 2011). Therefore, we use the home country level of corruption as an indication of home country norms regarding corruption, and as a measure of how severe the consequences would be in the home country. We believe that a company from a country low on corruption will face greater consequences if it gets involved in corrupt practices (either at home or abroad), than a company from a country with a high corruption level. Moreover, companies coming from countries with high corruption could be better accustomed to dealing with instability and bureaucracy, and therefore, might make a different choice than a company from a corruption free environment. Accordingly, this might have an influence on choice of entry mode, and therefore we choose to control for it.

3.2.5. Firm Size

Peter Drucker (1974) suggests that there is an association between firm size and public scrutiny. Therefore, according to him, increased exposure does not reflect a higher degree of hostility towards large scale organizations, but it is in many cases the price of success and the result of exaggerated expectations from various stakeholders, such as government, NGO’s, employees and the public. As such, all these stakeholders might be more likely to take (legal) action against big scale companies.

Dalton and Cosier (1982) support the same idea, saying that “the larger the organization becomes, the more actual and potential influence it commands over society. Society, necessarily, takes a greater interest in the affairs of such organizations”.

Rindova et al. (2006) also note that larger firms face greater scrutiny from the media, than smaller companies because of their higher profiles. Simply put, with each increase in the influence of the organization, comes a greater public scrutiny and greater expectations.

Given all of the above, we theorize that size could play an important role when a company chooses to make an equity investment in a corrupt environment, and has
to choose between JV and WOS. We expect large firms to enter using a JV, because they could “delegate” the corrupt practices to their partner, at least partially. Doing so would help them avoid public scrutiny and condemnation.
4. **Methodology**

4.1. **Research Methodology**

For the purpose of our study, specifically investigating and testing the relationship between corruption and entry modes in emerging markets, we have chosen to focus on a time span of 11 years, from 2000 to 2011. Most of the previous mentioned research analyzed data gathered before the year 2000 (Habib and Zurawicki, 2002; Wei and Smarzynska, 2000; Uhlebruck et al. 2006), and since we are considering more recent investments, we hope to be able to bring new insight. We also have to mention that for a few of variables we have gathered data from one year only, since no additional information was offered in the databases we have used, nor in the companies annual reports/websites. But further details about this will be presented later on, when we discuss the process of gathering data for each variable.

A quantitative method is preferred to conduct the analysis and test the hypotheses, since we believe corruption is a comprehensive and sensitive subject to discuss. Therefore a method based on numbers and statistics seems more appropriate. Moreover, in the case of quantitative research, the findings can usually be generalized to a greater extent, than in the case of qualitative research (Easterby-Smith et al. 2008). The total list of home and host countries is included in Appendix 1.

4.2. **Data collection**

In order to investigate the relationship between corruption and entry modes in emerging markets, and to test all our proposed hypotheses, we have gathered data for our variables from various international databases, which we will present further on.

First, we have acquired a data set of 559 projects in 31 emerging markets, from the World Bank’s Private Participation in Infrastructure Database (PPI). This was the database used by Uhlenbruck et al. (2006) in their study, where they investigated entry modes in corrupt environments in the telecommunication
industry. What differentiates our study from theirs are not only the years taken into account, and the fact that we focus on different and multiple industries, but also the countries investigated. We chose to include only countries listed in one or more of the following emerging countries lists: Next Eleven/BRIC, CIVETS, FTSE, MSCI, The Economist, S&P, Dow Jones, BBVA EAGLE List (O’Neill, 2001; Economist, 2009; FTSE, 2010; S&P, 2010; Dow Jones Indexes, 2011; MSCI, 2011; BBVA, 2012).

The PPI database has the purpose of identifying and disseminating information on private participation in infrastructure projects, in low and middle-income countries. The availability of efficient infrastructure services is an important determinant of the pace of market development and output growth in emerging markets (Kirkpatrick et al. 2006). Thus, the demand for infrastructure in emerging markets gives us reason to expect a stable flow of equity investments in these sectors, which makes them suitable for our study. Another reason why infrastructure projects are appropriate for our research is due to the projects in the database, that do not have to be entirely privately owned, financed or operated; therefore, some have public participation as well. This means that they are characterized by high involvement of public officials, which can mean they are more prone to engage in corruption (Transparency International - Bribe Payers Index, 2011). The database focuses on sectors with some monopoly or oligopoly characteristics. More competitive sectors, such as airlines and gas production, are not included. The database classifies infrastructure projects into four sectors with under sectors:

| 1. Energy | - Electricity generation, transmission and distribution  
|           | - Natural gas transmission and distribution |
| 2. Telecommunications | - Fixed or mobile local telephony  
|                      | - Domestic long distance telephony  
|                      | - International long distance telephony |
| 3. Transport | - Airport runways and terminals  
|              | - Railways  
|              | - Toll roads, bridges, highways and tunnels  
|              | - Port infrastructure, superstructures, terminals and channels |
| 4. Water | - Portable water generation and distribution  
|          | - Sewerage collection and treatment |
4.2.1. Variables

In the following part, we will present all the variables included in the analysis, and the way we measure them. An overview of all variables can be seen in Table 4b.

**Dependent variable**

Throughout the study, our dependent variable, entry mode (known as EntryModeCode in our regression), which can take two values, JV (Joint Venture) and WOS (Wholly Owned Subsidiary), will be based on information gathered from the aforementioned dataset. Ownership in the project from 1 up to 99% is considered a JV, whereas in a WOS, the investing firm has a 100% ownership. We have chosen to use a dummy variable, and code JV to 1 and, WOS to 0.

**Independent variables**

Regarding host country corruption (known as HostCountryCorruption in our regression), we have used the Transparency International Global Corruption Perception Index (CPI), which is based on data collected from 17 data sources, from 13 institutions worldwide. The corruption indicator is divided on a scale from 1 to 10, 1 representing the most corrupt country, and 10 the least corrupt country. The countries are ranked annually by their perceived level of corruption, as determined by expert assessments and opinion surveys. The index is built upon the perception of corruption because the concept is to a great extent hidden and difficult to measure (Transparency International Web Site). We are using data regarding corruption from only one year, specifically 2011, since we have checked the variation of corruption over the years, and the values are very much alike (Transparency International, 2011). Therefore, we believe this will not bias our results.

Another independent variable is the level of technological sophistication of the company (known as RDSalesPercentage in our regression), which as we have seen in the previous chapter, can have an impact upon the choice of entry mode. To properly assess the level of technological sophistication of a firm, we use the ratio of a firm’s R&D expenditure to the value of sales (Javorcik and Wei, 2009). To gather the numbers, we accessed the annual reports of the firms, on the online
version of Bloomberg Businessweek, and the “2011 EU Industrial R&D Investment Scoreboard”. Just as for the corruption variable, we have gathered data only from 2011, since we were not able to find older values on online databases, or company annual reports/websites.

As mentioned in Chapter 3, we have seen from the Bribe Payers Survey 2011, that there are differences regarding the likelihood of bribes being paid by companies in 19 different business sectors. Therefore, we consider our next independent variable to be industry’s likelihood of bribery (known as IndustryRate in our regression), which can take values between 0 and 10, where a maximum score of 10 corresponds with a view that companies from that industry never engage in bribery when doing business abroad, and the minimum score of 0 indicates they always do. The sectors we used in our paper are transportation and storage, telecommunications, power generation and transmission, mining, oil and gas, and mining with the corresponding values of 6.7, 6.7, 6.4, 6.3, 6.2, and 6.1 (Bribe Payers Survey, 2011). Moreover, all these sectors are usually characterized by high government involvement. The cleanest sectors, in terms of bribery of public officials, were identified as information technology, fisheries, and banking and finance (Bribe Payers Survey, 2011). As such, the sectors we are investigating are more likely to engage in corruption, which in turn is more prone to affect the entry mode. At the same time, there is still a difference between the sectors we are including, which will give us an indication if there are any discrepancies between the industries likelihood of bribing and entry mode.

We placed the projects we have gathered data for in different sectors, as shown in the following table (Table 4a):

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Sector Type (Bribe Payers Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Electricity generation, transmission and distribution</td>
<td>Power generation and transmission</td>
</tr>
<tr>
<td>- Wind energy</td>
<td></td>
</tr>
<tr>
<td>- Hydro energy</td>
<td></td>
</tr>
<tr>
<td>- Solar energy</td>
<td></td>
</tr>
<tr>
<td>- Sewerage collection and treatment</td>
<td>Utilities</td>
</tr>
<tr>
<td>- Portable water generation and distribution</td>
<td></td>
</tr>
<tr>
<td>- Waste management</td>
<td></td>
</tr>
<tr>
<td>- Airport runways and terminals</td>
<td>Transportation and storage</td>
</tr>
</tbody>
</table>
Control Variables

We also included a few additional variables, which we believe can influence the relationship between corruption and entry mode, and therefore need to be controlled for. They have been explained in detail in Chapter 3, therefore we will now only mention how we measured them.

Cultural distance (known as CulturalDistanceCode in our regression) we will base on Hofstede’s research. In line with many previous statistical studies investigating entry modes, considering also cultural distance, we believe it is appropriate to measure the cultural distance through Kogut and Singh (1988) index. The index is based on Hofstede’s (1980) cultural dimensions of uncertainty avoidance, power distance, individualism and masculinity.

The proposed mathematical equation by Kogut and Singh's is the following: $CD_j = \sum \frac{(I_{ij} - I_{ih})^2}{V_i}/4$, where $I_{ij}$ is the index for the $i$th cultural dimension (for instance Power Distance) and $j$th country (for instance Poland), $h$ is the comparison country (for instance US), $V_i$ is the variance of the index of the $i$th dimension, and $CD_j$ stands for the cultural distance of the $j$th country from $h$ country (Kogut and Sing, 1988). Further on, in our analysis we have recoded the values obtained by applying Kogut and Singh’s Index in the following way: values under 1 were coded as 1, values between 1 and 2 were coded as 2, values between 2 and 3 were coded as 3, values between 3 and 4 were coded as 4, values between 4 and 5 were coded as 5, and values between 5 and 7 were coded as 6.
Although we acknowledge the limitations of the index (such as being based on Hofstede’s dimensions which have not been updated for over 20 years), we believe it is one of the best measures for cultural distance, since Hofstede’s dimensions can be found for many countries and they have been widely accepted inside the research community.

**Openness to trade** is another important aspect to take into account, and it is represented by the restrictions on foreign investments, which can certainly affect the entry modes of companies. Our measure of the formal restrictions is taken from the Heritage Foundation’s annual Index of Economic Freedom (2011), and we labeled it openness to trade (known as OpenesstotradeCode in the regression). The index is graded on a scale from 0 to 100, where 0 represents no openness, and 100 complete openness to trade. For our regression we have further recoded the values from 1 to 5, in the following way: values from Heritage Foundation’s website under 50 were coded with 1, values between 50 and 60 were coded with 2, values between 60 and 70 were coded with 3, values between 70 and 80 were coded with 4, and finally, values between 80 and 100 were coded with 5.

Regarding **home country legislation** (known as Legislation in the regression), we will look at investments from the United States in particular, and investments from the United Kingdom after 2010, to see if there have been any changes after the strict legislation was implemented. We used a dummy variable where we coded firms from the United States and United Kingdom (only investments after 2010) 1, and the other firms 0.

For **home country corruption** (known as HomeCountryCorruption in the regression) we used the Transparency International Index and inserted the level of corruption for the host country according to the scale, where 1 represents the most corrupt country and 10 the least corrupt one.

Our last control variable is **size of firm** (known as FirmSize in the regression), which can be measured in various ways. According to Drucker (1974), perhaps the best measurement for the size of the company is employment, considering other measurements of the size such as sales and value added to be quite misleading in many cases. He argues that a chemical company with $30 million of
sales may be fairly big, but on the other hand, a metalworking company with the same volume of sales is barely viable. Additionally, value added can prove to be improper as well, since it is meaningless for retail firms, as well as for the banking and life insurance sectors.

Furthermore, we believe employment is an appropriate measure since in the case of a corruption scandal, the company is going to be affected, and implicitly employees as well, being one of the most vulnerable categories of stakeholders. For our study we have decided to use the natural logarithm of the number of the employees in order to account for the fact that the median number of employees for firms in a certain industry, is less than the mean. This is due to the fact that the distribution of employees is skewed and not normal (Becker-Blease et al. 2010).

All the variables included in our study are summarized in the following table (Table 4b):

<table>
<thead>
<tr>
<th>Type</th>
<th>Variable</th>
<th>Measure</th>
<th>Value</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>EntryModeCode</td>
<td>Type of entry mode of a company in host country</td>
<td>JV (1) or WOS (0)</td>
<td>PPI Database</td>
</tr>
<tr>
<td>Independent</td>
<td>HostCountryCorruption</td>
<td>Host Country Corruption by CPI Index</td>
<td>0-10</td>
<td>Transparency International (2011)</td>
</tr>
<tr>
<td>Independent</td>
<td>RDSalesPercentage</td>
<td>Firm’s R&amp;D Expenditure divided to Value of Sales</td>
<td>Percentage</td>
<td>Company websites, The 2011 EU Industrial R&amp;D Investment Scoreboard, Bloomberg</td>
</tr>
<tr>
<td>Independent</td>
<td>IndustryRate</td>
<td>Likelihood of bribes being paid by companies in different sectors</td>
<td>0-10</td>
<td>Transparency International (2011)</td>
</tr>
<tr>
<td>Control</td>
<td>CulturalDistanceCode</td>
<td>The degree of cultural distance between home and host countries. Ratio between the cultural dimensions</td>
<td>Number</td>
<td>Based on Hofstede’s Cultural Distance Research</td>
</tr>
</tbody>
</table>
Table 4b

4.3. Analysis of data

Due to our dependent variable, Entry Mode, which is dichotomous and categorical, being able to take the values of JV coded as “1”, and WOS coded as “0”, we consider logistic regression to be appropriate for analyzing our data. Additionally, according to Burns and Burns (2008) in situations where the independent variables are categorical, or a mix of continuous and categorical, and the dependent variable is categorical, logistic regression is necessary.

Additionally, we prefer the logistic regression because of its similarity to multiple regression, having a set of straightforward statistical tests and a wide range of diagnostics (Hair et al. 2010; Field, 2009). Moreover, our sample size is appropriate, since sample sizes greater than 400 are ideal for logistic regression (Hair et al. 2010).
Correlation Test

However, before going any further we analyzed the correlation matrix for all our independent variables, which reports the correlation between the included variables.

Table 4c

From our correlation matrix we can see that there is a certain amount of correlation between some variables, especially between Cultural Distance (CulturalDistanceCode) and Legislation (Legislation(1)). To better assess the multicollinearity between our predictors, we checked the Tolerance and VIF values since they are the two most common measures for assessing variables collinearity. Tolerance is defined as the amount of variability of the selected independent variable not explained by the other independent variables, and the variance inflation factor (VIF), is calculated simply as the inverse of the tolerance value (Myers, 1990; Menard, 1995). In order to obtain these values, we conducted a linear regression analysis with all our variables.

The results can be seen in table 4d in Appendix 2. The tolerance value should be high, which means a small degree of multicollinearity. As Menard (1995) suggests, a tolerance value less than 0.1 almost certainly indicates a serious collinearity problem. While for the VIF, Myers (1990) states that a VIF value greater than 10 is a real cause for concern, but even values between 3 and 5 can be a problem for the researcher. Thus, instances of high degrees of multicollinearity are reflected in lower tolerance values and higher VIF values. Since our VIF values are under 3, and tolerance values are higher than 0.1, we concluded that we do not have a problem with multicollinearity.
5. Results and Discussion

Our analysis includes in total 559 cases (infrastructure projects). From Table 5a we can see detailed descriptive statistics of our dependent variable, together with our independent variables. As can be seen from the table, the mean for our dependent variable named here *EntryModeCode* is 0.70. As mentioned before, we have coded the entry mode with 1 in the case of JV, and 0 in the case of WOS. Therefore, given the mean value, we can see that on average, 70% of the entries are implemented as JVs, this representing the majority.

Regarding the level of corruption in the country where the investment is taking place, named here *HostCountryCorruption*, we can see that the variable takes values from 1.5 to 7.2, meaning that the observations have a wide range, encompassing emerging countries with high, and quite low levels of corruption. Further on, a similar situation can be seen for the corruption level in the investing country, named *HomeCountryCorruption*. The variable ranges from a minimum of 2.4, up to a maximum of 9.4, which means that investing countries are characterized by high, respectively low levels of corruption.

Moreover, for hypothesis 2 we include one additional variable, specifically *RDSalesPercentage*, which shows the level of investments in R&D, the companies made. Here we have information for 242 cases, but since the hypothesis will be tested separately, it will not influence the other regression analysis. From the Table 5a we can see that R&D investments represent between 0% and 7.5% of the company’s sales, while the mean is very low, reaching 0.81%. Additionally, it is important to mention that for *HomeCountryCorruption* there are 8 missing cases (1.4%), for *Openness to trade Code* 10 (1.8%), for *Cultural Distance Code* 34 (6.1%) and for lnFirmSize 107 (19.1%). According to IBM SPSS Missing Values 20 (2011) when there are few missing cases (around 5%), simply excluding those cases from the analysis is considered safe. Therefore, since we are missing a considerable number of cases for the Firm Size, we will run two regressions, one without the variable, and one with it.
Table 5a

5.1. Regression Results

In this part of the paper we are going to present the results of the conducted regressions for each hypothesis individually. But first, we want to test for any possible direct relationship between host country corruption and entry modes, as suggested in previous literature. Therefore, our first regression will be a general one, which will include only the two aforementioned variables.

After running the logistic regression in SPSS, we can see from Table 5b that host country corruption is insignificant at 5% significance level (the significance level is much larger than 0.05). Before drawing any conclusions we want to test out two hypotheses as well, and see if anything changes after adding our independent variables.

Table 5b

For testing hypothesis 1 we decided to run three separate logistic regressions: for the first one, we took into account only our two main independent variables (host country corruption and the industry likelihood of bribing), while for the second one we include some additional variables, which we believe we have to control.
for, and for the third one we control for Firm Size as well. An overview can be seen in the table below (Table 5c):

<table>
<thead>
<tr>
<th>Regression 1</th>
<th>Regression 2</th>
<th>Regression 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td>Entry Mode</td>
<td>Entry Mode</td>
</tr>
<tr>
<td>Independent variables</td>
<td>HostCountryCorruption</td>
<td>HostCountryCorruption</td>
</tr>
<tr>
<td>Industry Rate</td>
<td>Industry Rate</td>
<td>Industry Rate</td>
</tr>
<tr>
<td>Additional independent variables that we control for</td>
<td>HomeCountryCorruption</td>
<td>HomeCountryCorruption</td>
</tr>
<tr>
<td>Openness to trade</td>
<td>Openness to trade</td>
<td></td>
</tr>
<tr>
<td>Cultural Distance</td>
<td>Cultural Distance</td>
<td></td>
</tr>
<tr>
<td>Legislation</td>
<td>Legislation</td>
<td></td>
</tr>
<tr>
<td>lnFirmSize</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5c

**Regression 1:**

The regression showed the impact host country corruption and the likelihood of bribery in each sector have on the entry mode choice of the investing companies. After running the logistic regression, we obtained the following results:

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
<th>95% C.I. for EXP(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HostCountryCorruption</td>
<td>.089</td>
<td>.118</td>
<td>.570</td>
<td>1</td>
<td>.450</td>
<td>1.093</td>
<td>.867</td>
</tr>
<tr>
<td>IndustryRate</td>
<td>1.253</td>
<td>.440</td>
<td>8.096</td>
<td>1</td>
<td>.004</td>
<td>3.501</td>
<td>1.477</td>
</tr>
<tr>
<td>Constant</td>
<td>-7.420</td>
<td>2.852</td>
<td>6.771</td>
<td>1</td>
<td>.009</td>
<td>.001</td>
<td>8.298</td>
</tr>
</tbody>
</table>

a. Variable(s) entered on step 1: HostCountryCorruption, IndustryRate.

Table 5d

As we can see from the results, contrary to our expectations based on previous research, host country corruption was insignificant at a 5% significance level. On the other hand, our variable *IndustryRate* was highly significant, which means that the industry’s likelihood of bribery influences the entry mode choice, as we have hypothesized. More specifically, companies will be more likely to rely on JVs when investing in industries where bribes are common.
Regressions 2 and 3:

In order to see any potential differences, and to avoid any potential bias of our results, we included control variables in our analysis as well. Therefore, we ran regressions 2 and 3. The results for regression 2 can be seen in the table 5e in Appendix 2. At first glance, after including the control variables, we could easily observe that the log-likelihood value of our model improved. As such, the initial value was 634.302 and reached 614.585, which means that the additional predictors contribute positively to the model. Additionally, we observed that Industry (the industry’s likelihood of bribery) and Openness to Trade were all significant at a 5% significance level, which means that they have an impact on the entry mode decision a company makes when investing in a corrupt environment. The other independent variables (Host Country Corruption, Home Country Corruption, Legislation and Cultural Distance) were, however, not significant, which means that they do not have a significant contribution on a company’s entry mode decision in an emerging country.

Before properly analyzing the results, we included Firm Size as a control variable as well, to see if any modifications occur. As a short reminder, we considered it necessary to conduct a separate analysis when including Firm Size variable because we were missing around 19% of the cases for this factor. As such, in order to avoid a wrong generalization of our results, we considered it necessary to separate the analyses. The results when we also included Firm Size, measured as natural logarithm of the number of employees in each company, can be seen in table 5f. After adding our last control variable, the log likelihood of the model further improves from 497.595 to 477.816, which means that the additional predictor positively contributes to the model.

### Table 5f

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
<th>95% C.I. for Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1° HomeCountryCorruption</td>
<td>-0.004</td>
<td>0.671</td>
<td>0.003</td>
<td>1</td>
<td>0.957</td>
<td>0.995</td>
<td>0.866 - 1.146</td>
</tr>
<tr>
<td>HostCountryCorruption</td>
<td>0.307</td>
<td>0.161</td>
<td>3.626</td>
<td>1</td>
<td>0.057</td>
<td>1.359</td>
<td>0.991 - 1.863</td>
</tr>
<tr>
<td>IndustryRate</td>
<td>1.496</td>
<td>0.575</td>
<td>6.764</td>
<td>1</td>
<td>0.039</td>
<td>4.484</td>
<td>1.446 - 13.782</td>
</tr>
<tr>
<td>Legislation</td>
<td>2.623</td>
<td>0.372</td>
<td>4.97</td>
<td>1</td>
<td>0.028</td>
<td>1.300</td>
<td>0.627 - 2.694</td>
</tr>
<tr>
<td>OpennessToTradeCode</td>
<td>-0.310</td>
<td>0.106</td>
<td>8.478</td>
<td>1</td>
<td>0.004</td>
<td>0.735</td>
<td>0.593 - 0.904</td>
</tr>
<tr>
<td>CulturalDistanceCode</td>
<td>0.500</td>
<td>0.118</td>
<td>1.179</td>
<td>1</td>
<td>0.673</td>
<td>1.651</td>
<td>0.533 - 2.323</td>
</tr>
<tr>
<td>InfirmSize</td>
<td>0.112</td>
<td>0.054</td>
<td>4.360</td>
<td>1</td>
<td>0.037</td>
<td>1.119</td>
<td>1.007 - 1.243</td>
</tr>
<tr>
<td>Constant</td>
<td>-10.357</td>
<td>3.755</td>
<td>7.591</td>
<td>1</td>
<td>0.006</td>
<td>0.000</td>
<td></td>
</tr>
</tbody>
</table>

Moreover, we can observe that in this case, Industry Rate (the industry’s likelihood of bribery), Openness to Trade Code and lnFirmSize were all significant at a 5% significance level, which means that they do have an impact on the entry mode decision a company makes when investing in a corrupt environment. The other independent variables (Host Country Corruption, Home Country Corruption, Legislation and Cultural Distance) were still not significant, which means that they do not have a significant contribution on a company’s entry mode decision in an emerging country.

For **hypothesis 2** we included the technological sophistication of the firm, measured as the ratio of a firm’s R&D expenditure to the value of sales (Javorcik and Wei, 2009). We conducted this analysis separately due to the fact that we do not have data for all cases (226 cases are included for hypothesis 2).

For testing the hypothesis we ran two regressions, one without the Firm Size variable, since we have some missing cases there as well. As such, an overview can be seen in the table 5g:

<table>
<thead>
<tr>
<th></th>
<th>Regression 4</th>
<th>Regression 5</th>
</tr>
</thead>
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<tr>
<td>Dependent Variable</td>
<td>Entry Mode</td>
<td>Entry Mode</td>
</tr>
<tr>
<td>Independent Variables</td>
<td>HostCountryCorruption</td>
<td>HostCountryCorruption</td>
</tr>
<tr>
<td></td>
<td>RDSalesPercentage</td>
<td>RDSalesPercentage</td>
</tr>
<tr>
<td>Additional Independent Variables that we control for</td>
<td>HomeCountryCorruption</td>
<td>HomeCountryCorruption</td>
</tr>
<tr>
<td></td>
<td>Openness to trade</td>
<td>Openness to trade</td>
</tr>
<tr>
<td></td>
<td>Cultural Distance</td>
<td>Cultural Distance</td>
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<tr>
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<td>Legislation</td>
<td>Legislation</td>
</tr>
<tr>
<td></td>
<td>lnFirmSize</td>
<td>lnFirmSize</td>
</tr>
</tbody>
</table>

**Table 5g**

**Regressions 4 and 5:**

Regression 4 shows the impact corruption in a host country and the technological sophistication of the firm have on the entry mode choice of the investing companies. The results can be viewed in table 5h in Appendix 2. Cultural Distance was significant at a 5% significance level, which means that they have an impact on the entry mode decision a company makes when investing in a corrupt environment. The other independent variables (Host Country Corruption, RDSalesPercentage, Home Country Corruption, Legislation, Openness to trade,
and Cultural Distance) are not significant, which means that they do not have a
significant contribution on a company’s entry mode decision in an emerging
country.

In the final regression (regression 5) we included Firm Size as a control variable
as well, to see if any modifications occurred, like we did in regression 3. The
results can be seen in the following table (Table 5i):

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
<th>95% C.I.for EXP(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1*</td>
<td>.026</td>
<td>.120</td>
<td>.048</td>
<td>1</td>
<td>.827</td>
<td>1.027</td>
<td>.811 - 1.300</td>
</tr>
<tr>
<td>HomeCountryCorruption</td>
<td>-.038</td>
<td>.233</td>
<td>.926</td>
<td>1</td>
<td>.872</td>
<td>.903</td>
<td>.609 - 1.522</td>
</tr>
<tr>
<td>HostCountryCorruption</td>
<td>-.476</td>
<td>.577</td>
<td>1.597</td>
<td>1</td>
<td>.440</td>
<td>1.131</td>
<td>.828 - 1.545</td>
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<tr>
<td>CulturalDistanceCode</td>
<td>.123</td>
<td>.159</td>
<td>.597</td>
<td>1</td>
<td>.440</td>
<td>1.131</td>
<td>.828 - 1.545</td>
</tr>
<tr>
<td>RDSalesPercentage</td>
<td>.054</td>
<td>.125</td>
<td>.187</td>
<td>1</td>
<td>.666</td>
<td>1.056</td>
<td>.826 - 1.349</td>
</tr>
<tr>
<td>OpennessstotradeCode</td>
<td>-.155</td>
<td>.160</td>
<td>.943</td>
<td>1</td>
<td>.331</td>
<td>.856</td>
<td>.626 - 1.171</td>
</tr>
<tr>
<td>InFirmSize</td>
<td>.313</td>
<td>.093</td>
<td>11.421</td>
<td>1</td>
<td>.001</td>
<td>1.367</td>
<td>1.140 - 1.639</td>
</tr>
<tr>
<td>Constant</td>
<td>-.193</td>
<td>1.583</td>
<td>1.498</td>
<td>1</td>
<td>.221</td>
<td>.144</td>
<td></td>
</tr>
</tbody>
</table>


Table 5i
After adding this additional control variable we can see that the log-likelihood of
the model improves, which means that Firm Size positively contributes to the
model (log-likelihood reaches a minimum value of 256.154). In this case we can
see that Firm Size is significant, while all the other variables were not.

5.1.1. Interpretation of the Results

We are going to interpret the coefficients of all our logistic regressions together,
since the sign of them and most of the significance is the same.

Industry Rate is significant in regressions 1 – 3, and shows a significant and
positive relationship, which means that the higher the likelihood of bribery in a
given sector, the more likely the investing companies will rely on JVs, which is
just as we hypothesized in hypotheses 1.

Host Country Corruption although it is insignificant at 5% significance level,
has a positive coefficient in the results for Hypothesis 1, which is in accordance
with most of the previous literature regarding corruption and entry modes. Thus, it
can be said that firms will be more prone to choose a JV when investing in a
corrupt environment (Wei and Smarzynska, 2000; Javorcik and Wei, 2009; Demirbag et al. 2009; Uhlenbruck et al. 2006). On the contrary, the results for Hypothesis 2 bring a negative coefficient, and so, it can be said that firms will favor a WOS when investing in a corrupt environment.

**Home Country Corruption** proves also to be insignificant, and it has a negative coefficient for regression one, two, three and four, which suggests that the higher the home country corruption, the more likely the investing firms will choose a WOS as an entry mode. On the contrary, the sign for the variable for regression number five is positive, which suggests that the higher the home country corruption, the more likely firms will choose a JV as an entry mode.

**Openness to trade** is significant, and its coefficient has a negative sign, which tells us that the variable does influence the choice of entry mode, in the following way: when restrictions to equity investments are low, companies will favor WOS, while in the opposite case they will be prone towards a JV with a partner (Re-interpretation: When openness to trade is high, companies will favor WOS).

**Legislation** as well proves to be insignificant, and its positive coefficient (Hypothesis 1) suggests that the odds of a company from a country with legislation against corruption, to choose JV as an operating mode, are higher. Which to a certain degree supports the assumption made by Wei and Smarzynska (2000) regarding US firms. On the other hand, in Hypothesis 2, Legislation has a negative coefficient, which suggests the contrary. The odds of a company from a country with legislation against corruption, to choose WOS as an operating mode, are higher.

**Cultural distance** seems to be insignificant in regression 3 (hypotheses 1), but is has a positive coefficient. At regression 4 (hypotheses 2) cultural distance is significant, and has a positive coefficient, which means that the higher the cultural distance between the home and the host country, the higher the odds for a company to enter the market using a JV. Accordingly, we find support for some of the previous research regarding this matter (Brouthers & Brouthers, 2001; Hennart and Larimo, 1998: Kogut and Singh, 1988; Erramilli and Rao, 1993), and we contradict the studies arguing that the higher the cultural distance, the more
WOS we will see due to the risk and uncertainty of cooperating with local partners (Sim and Pandian, 2003; Mulok, 2010; Chang et al. 2012).

Our last variable, **firm size**, added in regression 3 and 5, and measured as the number of employees proves to be highly significant and it has a positive coefficient. Therefore, it can be concluded that the number of employees of a firm, clearly influences its entry mode choice. More specifically, in our case, the larger the firm (in terms of employment), the more likely it will enter an emerging and corrupted market using a joint venture, instead of a wholly owned subsidiary, because in this case they can delegate the responsibility for eventual corrupt practices to their partners. As such, we are finding support for previous research (Drucker, 1974; Dalton and Cosier, 1982; Rindova et al. 2006).

### 5.1.2. Discussion of the Results

After seeing the results, we can say that **hypothesis 1** is only partly supported, since we find the industry’s likelihood of bribery to be significant and have an influence on the entry mode choice, but on the other hand, host country corruption is proven to be insignificant. **Hypothesis 2** is not supported, since both host country corruption and R&D ratio are insignificant. Our results regarding corruption contradict previous studies, which argue that corruption has an influence on the entry mode choice and concludes with a preference for either joint ventures (Wei and Smarzynska, 2000; Uhlenbruck et al. 2006; Javorcik and Wei, 2009; Demirbag et al. 2009), or for wholly owned subsidiaries (Tekin-Koru, 2006).

In order to understand why we get different results from previous studies, and why our hypotheses are not supported, we will look at different possible explanations:

First of all, we will quickly summarize the methodologies and main focus of the studies conducted in the area of corruption and entry mode strategy. The earlier studies generally focus on one industry, in multiple countries (Wei and Smarzynska, 2000; Uhlenbruck et al. 2006; Javorcik and Wei, 2009). Uhlenbruck et al. (2006) focus on 64 emerging countries, while Javorcik and Wei (2000) and
Wei and Smarzynska (2009) both include 22 emerging countries from Europe and the former Soviet Union. The industries investigated are telecommunications (Uhlenbruck et al. 2006), and manufacturing (Wei and Smarzynska, 2000; Javorcik and Wei, 2009). Moreover, the studies that are investigating multiple industries are only focusing on one country, namely inward FDI to Turkey (Tekin-Koru, 2006), or outward FDI from Turkey (Demirbag et al. 2009). Thus, what differentiates this study from existing studies are that we are looking at investments from both emerging and developed countries, we include multiple industries, look at multiple countries in one study, and we are using the Transparency International’s Corruption Index (CPI).

As mentioned, for measuring the corruption level in different countries we used the Transparency International’s Corruption Index, which has been used in previous research as well (Cuervo-Cazzura, 2008; Habib and Zurawicki, 2002, Uhlenbruck et al. 2006). But unlike other researchers, our approach was a general one, and we have not divided the concept of corruption in arbitrary and pervasive corruption (Cuervo-Cazzura, 2008; Uhlenbruck et al. 2006) We considered the general index measuring corruption, offered by Transparency International, to be the most appropriate because we adopted a very general definition for corruption (“Corruption is the abuse of entrusted power for private gain” - Transparency International, 2011); we wanted to see how all forms of corruption affect the entry mode decision, and as such, we did not want to split the concept, or to narrow it down.

For home country corruption, we believe the insignificance could be explained in a similar way, since we used the same index for it, as for host country corruption. Furthermore, perhaps it would have been useful to split the home countries in two subsamples, one for developed countries and one for the emerging ones.

Furthermore, we consider that another reason for the insignificance of corruption is related to the possible global concentration of the industries where the firms are investing, as explained by Hill et al.’s framework (1990). For instance, the authors of the framework argue that in cases of global oligopolies when “MNEs enter a foreign market, especially the home markets of their global rivals, they may have strategic objectives that go beyond the narrow calculus of choosing the most
efficient entry mode for that particular market” (Hill et al. 1990). From their statement we can see that in some situations, the MNEs could ignore country related risks such as corruption, and invest based on their own “criteria’/objectives. This could have been one of the causes for the insignificance of corruption.

It seems that the **likelihood of bribery in each industry**, which is a form of corruption, is way more important to firms investing in those specific sectors, than is the general corruption level of the host country. Perhaps in our case, since we have included many sectors with high government involvement, which are usually characterized by frequent bribes, seeing corruption as a “process of bribing” would have been more appropriate. Apparently, questions such as “How often do firms in each sector: a) engage in bribery of low-level public officials, for example to speed up administrative processes and/or facilitate the granting of licenses?; b) use improper contributions to high-ranking politicians or political parties to achieve influence?; and c) pay or receive bribes from other private firms?”(Bribe Payers Index, 2011) seem to be more influential for the firm’s entry modes than the country level of corruption.

Moreover, for hypothesis 2, as Hill et al. (1990) suggest in their framework, environmental variables such as ownership/control risks (e.g. expropriation, intervention) is important to consider. As discussed before, it is important to have a local partner in a turbulent environment, but since emerging markets are usually characterized by instability and a lack of a clear and comprehensive legislation, keeping safe the know-how prevails. Especially in our case, since we have discussed about investments in research and development, which bring along the notion of firm specific and tacit know-how. Perhaps by controlling for these additional factors (ownership/control risks), and by including a greater number of companies (including firms with high R&D levels), the results would have been different.
In the following we will briefly discuss the other variable’s implication to the study:

**Openness to trade:** In this case the variable is significant, and we believe the results are clear. As long as we do not take into account other factors that influence operating modes, firms prefer to use high commitment entry modes in an economically free country, where there are no restrictions to equity investments. In the opposite case, if there are restrictions, then collaborating with a local partner will be the only solution for equity investments.

**Cultural distance** between states can bring along higher or lower commitments from investing companies (Kirkman et al. 2006), which could translate in either more WOSs or JVs. In our case, the cultural distance is insignificant in regressions 1, 2, 3 and 5, obtaining the same result as some previous studies (Tihanyi et al. 2005). On the other hand it is significant in regression 4 (Hypothesis 2), which means that the higher the cultural distance between the home and the host country, the higher the odds for a company to enter the market using a JV. As mentioned before, this brings support for some of the previous research (Brouthers & Brouthers, 2001; Hennart and Larimo, 1998; Kogut and Singh, 1988; Erramilli and Rao, 1993), and at the same time contradicts the studies arguing that the higher the cultural distance, the more WOS we will see due to the risk and uncertainty of cooperating with local partners (Sim and Pandian, 2003; Mulok, 2010; Chang et al. 2012).

The insignificance of the variable for the other regression could be related to the fact that the companies from our sample come from both developed and emerging countries, and are investing in the emerging ones. Perhaps we should have developed two subsamples, one with developed home countries, and one with emerging home countries. Moreover, according to Tihanyi et al. (2005), culture is a concept difficult to define precisely, and it is perhaps unrealistic to expect to encompass all the discrepancies between nations by using one single measure. Following the same line of reasoning, some researchers have proposed different additions to already developed indexes for cultural distance. For example, Shenkar (2001) recommended the supplementation of Kogut and Singh (1988) index by considering the Long Term Orientation (Confucian Dynamism) part as
well, especially in the case of East-Asian countries. As such, all these elements could have biased in one way or another our results.

**Home country legislation** is not significant, so it means that firms do not really take it into account when entering a foreign emerging and corrupt market. We believe that the variable should be discussed mainly for the second hypothesis, where the technological sophistication level of the companies’ variable is added. We argue so because US investors in companies high on technological sophistication were found to be more prone to choose joint ventures in corrupt countries, than investors of other nationalities, which contradicts the results Wei and Smarzynska found in 2000, where firms high on technological sophistication normally would choose WOS. We can see that Legislation has a negative coefficient in the results for hypothesis 2, but it is still insignificant. Apparently, the companies included in our study do not consider the possible punishments they could suffer in their home countries (US and UK only), when investing abroad, in corrupted and emerging economies. As such, perhaps one could argue that when a firm opts for an equity investment in a corrupted country, it bases its entry mode decision on other criteria, such as the other variables included in our analysis.

**Firm size**, as we measured it as the number of employees is highly significant in our study. This means that large firms are more likely to enter emerging markets using a joint venture, instead of a wholly owned subsidiary, because in this case they can delegate the responsibility for eventual corrupt practices to their partners. As previous authors have suggested (Drucker, 1974; Dalton and Cosier, 1982; Rindova, Pollock and Hayward, 2006), large companies are more exposed to public scrutiny, and so the risk of being sued for corrupt practices (in our case) is higher. As such, it seems natural that they prefer a low commitment equity investment, such as the JV, where they can exit the market more easily, and they have a local partner that can handle the bureaucratic aspects of the business.
6. Conclusion

According to our data, the general perception of corruption as a whole does not have an influence on the entry mode. This means that when researching the influence on corruption on entry modes, a more thorough measure of corruption, which categorizes corruption more precisely, should be used.

Neither of our hypotheses was fully supported. However, we found that the industry’s likelihood of paying bribes had an influence on the entry mode, which gave us partial support for hypothesis 1. We found that the higher the likelihood of bribery in a given sector, the more likely the investing companies would rely on JVs. This is interesting because, this specific topic has not been investigated before, and since corruption in the host country was not significant, it can mean that the influence of corruption depends more on the specific industry where the investment is taking place. It seems that the likelihood of bribery in each industry, which is a form of corruption, is way more important to firms investing in those specific sectors, than is the general corruption level of the host country.

Additionally, we found that the factors that did influence the entry mode were the size of the firms, and the openness to trade in the host country. Thus, we consider that managers should be aware of the size of the firm, measured as the number of employees, when opting for an equity entry mode in an emerging and corrupted environment. Perhaps the key point here is that the more employees are in a firm, the more socially responsible the company is/should be. Therefore, when investing in a turbulent environment (such as a corrupt economy), bigger companies should choose a JV, because having a local partner means in a way less responsibility, and in the end less risk (in the case of corrupt practices, they could be delegated to the JV partner).

6.1. Limitations and Future Research Topics

Our study together with previous studies, have mostly used quantitative, secondary data, with a big sample size. Thus, the results might be too general, and in our case they do not turn out to be significant. As corruption and entry
modes are complex and sensitive topics to investigate, we believe more qualitative studies should be done in the area, in addition to the quantitative ones. Doing so, new perspectives on the relationship between corruption and entry modes could be discovered.

Moreover, some of the data used in our research is taken from one year only, which could have an influence on the results, since there could have been major changes from one year to another. We tried to avoid this limitation, but in some cases we found it impossible to gather data from various years, since it was unavailable in the companies annual reports/websites, or in the online databases we had access to.

Furthermore, the fact that we found industries’ likelihood to bribe to be highly significant, tells us that the type of corruption, in addition to where the corruption (or bribing) takes place, matters more to firms than the general corruption, as we have also seen in previous studies investigating arbitrary and pervasive corruption (Cuervo-Cazzura, 2008; Uhlenbruck et al. 2006). As mentioned before, our goal was to have a general perspective on corruption and its effects on the entry mode choice. But perhaps a more narrow definition for corruption would have offered better insight. As such, we believe that future research should dig more into what type of corruption affects the entry mode choice, and in what circumstances. Additionally, this analysis should be done in various industries, to see if there are any notable differences.

We also acknowledge that our study has focus on a limited number of industries. Therefore, we think it is important that future papers will take into account various other industries, both the high-tech, and the less technology focused ones.

Last but not least, we hope that Hill et al.’s framework (1990) will be investigated further. The environmental and the transaction variables have been researched already, but the strategic variables have not been paid much attention in relation to corruption. As such, we are confident that by continuing the analysis and development of the model, valuable new insight regarding the influence corruption has on entry modes, could be gained.
# Appendix

## Appendix 1 – Home and Host Countries

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Home Countries</th>
<th>Host Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Argentina</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>2.</td>
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<td>Argentina</td>
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<tr>
<td>3.</td>
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</tr>
<tr>
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<td>China</td>
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<tr>
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## Appendix 2 - Tables

### Table 4d

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*Dependent Variable: EntryModeCode*

### Table 5e

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<th>Exp(B)</th>
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### Table 5i

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*Variable(s) entered on step 1: HomeCountryCorruption, HostCountryCorruption, Legislation, Cultural Distance Code, R&D Sales Percentage, Openness to trade Code.*

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49
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Websites:


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Supervisor:
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MSc in International Management
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1. Introduction

International capital flows have reshaped the whole international economic landscape in the last two decades. One of the main components of these flows is foreign direct investment (FDI), which has grown at a faster rate than most other international transactions (Bloningen, 2005), and which has led to the economic development of many nations (Doh et al. 2003). Previous research has found that corruption has a negative impact on foreign direct investment (FDI), influencing also the choice of companies’ entry modes. Still, emerging markets, that rank high on the corruption index, attract large amounts of FDI. Since MNE’s still choose to enter foreign markets high on corruption, this gives us a reason to believe that those companies will choose an alternative way to handle the corruption.

Therefore, throughout the paper, we will investigate if corruption has an impact on the companies’ choice of entry mode. Earlier research shows that firms from industrialized countries have a tendency to choose Joint Ventures (JV) over Wholly Owned Subsidiary (WOS) when they enter emerging markets ranking high on corruption. However, the research conducted in the area has mainly focused on American MNE’s and is restricted to emerging countries in Asia or former Soviet Union, and those who are comparing countries being restricted to one industry. Therefore, the objective of this paper is to analyse the relationship between the choice of MNE entry modes, and corruption, in several sectors from Brazil, Russia and Mexico to enrich the literature and see if this theory also counts in multiple industries and countries.

We have chosen to discuss several sectors, in order to be able to better assess the differences that might exist between the various industries of the economy, since it is plausible to find notable discrepancies. Additionally, we believe previously enumerated countries, are appropriate for our research question since they have attracted a large amount of FDI the last decade(s) (Ranjan 2011; World Bank 2012), are expected to grow further, and in addition score high on corruption (Transparency International). Moreover, they all have open economies in which a 100% foreign ownership is possible, this being also the reason for why we have
excluded China and India, where the government imposes several restrictions towards foreign FDI (World Bank Group, 2010).

It is also essential to note that in the last two decades, the world has changed a lot in terms of geopolitics and economics, emerging countries such as Brazil and Russia acquiring an important role in the world economy (Ranjan 2011). Likewise, Mexico has a significant importance, being Latin America’s second largest recipient of FDI, and reporting inflows in 2010, up with 22 per cent over their 2009 level (the World Bank 2012). Thus, we consider that the paper will positively contribute to the limited number of studies that examine the relationship between MNE’s entry modes and host country corruption, since our research will focus on dynamic countries that present real opportunities for investors and companies. Additionally, we will contribute to the literature of FDI and entry modes by strengthening the theory further, or proving it wrong. Regarding the methodology part, we will choose a quantitative approach, where we will gather data regarding corruption indices and entry modes from various databases, which we will later employ in our regression analysis.

The thesis will be structured in the following way. In the next section, a short theoretical description of the foreign direct investment, companies entry modes and corruption concepts will be provided, together with the connection between the three, and afterwards a comprehensive literature review concerning the relationship between corruption and the choice of entry modes will be presented. In the methodology section we will shortly present how the research is going to be conducted, mentioning also the main variables that we will include in the analysis. In conclusion, limitations, potential implications of the study, and further research topics will be suggested.
2. **Background Information**

2.1 **Foreign Direct Investment (FDI)**

FDI has been highly discussed in both academic and policy-making environments during the last decades, and therefore a vast amount of studies and published articles regarding both the determinants and effects of the phenomena exist. One of the reasons is perhaps the fact that vast amounts of capital are involved, and FDI is very important for the recipient countries, having in some cases positive spill over effects (Meyer and Sinani 2009). Developing as well as developed countries seek to attract FDI due to its many advantages for economic development, FDI inflows bringing in some cases not only capital to an economy, but also transferring knowledge, technology and skills, as well as generating employment (UNCTAD 2009; Zhang et al. 2010).

According to Dunning (2000), FDI is an activity that is designed to satisfy a particular foreign market (market seeking or demand oriented FDI), to gain access to natural resources (resource seeking or supply oriented FDI), to promote a more efficient division of labour (rationalized or efficiency seeking FDI), to protect or augment the existing of specific advantages of the investing firm (strategic asset seeking FDI). While OECD came with a definition for the multinational activities that fall under the umbrella of FDI: “Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise” (OECD, 2008).

Due to the limited space and scope of the thesis, we will restrain the theoretical analysis of the FDI to one of the most widely used frameworks in this area, specifically Dunning’s eclectic paradigm. The OLI framework rests on three pillars (Dunning, 2000). First, ownership-specific advantages (O) which represent
certain assets, unique to specific firms and not available to the others. These ownership advantages can determine firms from one country to supply foreign markets. The extent to which a firm possesses and exploits the ownership advantages is the first determinant of the level and structure of a firm’s FDI. Second, there are the location-specific advantages (L), which are available to all types of firms, but are specific to a particular location. In this case we can refer to capital and labour, but also cultural, political, legal, and financial aspects of a certain location. The distribution of the aforementioned location-type resources and capabilities is not the same among different countries. Third, market internalization advantages may exist. Given that a firm has a set of ownership specific advantages, and that there are location advantages in a certain country, then the company may choose to internalize its activities. As long as the transaction and coordination costs of using external arm’s length transactions are low, then it will be proper for a firm to engage in FDI, rather than rely on a licensing contract, or another market arrangement.

By applying the OLI paradigm as a theoretical foundation of the thesis, we have a basis concerning the FDI. We will further focus on the mode of entry a firm chooses in new environments.

An extensive literature review exists on the flows of FDI towards developing markets worldwide. The usual proposed determinants of FDI in these countries are domestic economic environment, market size, infrastructure, labour cost, economic openness, return on capital and many others (Quazi 2007; Cavusgil et al. 2008). Throughout our paper we are going to look at Brazil, Russia and Mexico, countries that are familiar with significant foreign investments yearly. The high FDI inflows that take place in these countries, despite of the high levels of corruption, can be explained by common characteristics such as large population, potential customer market, fast economic growth and trade openness (Ranjan 2011; World Bank 2012). More specifically, geographical position and cheap labour cost are making Brazil a major destination for FDI. A similar situation is in Russia, where the abundance of oil and gas resources are attracting specialized investments, Russia being considered a central hub for oil and gas import to Europe (Ranjan, 2011). In the case of Mexico, geographical location together with growing integration into the production and distribution systems of
the US industry since the NAFTA agreement, have acted as true magnets towards FDI inflows (Country Commerce Mexico).

![Diagram of entry modes]

**Fig. 1**

### 2.2 Entry Modes

Entry mode strategies affect the foreign subsidiaries likelihood of success and its probability of survival (Delios and Beamish 1999). Therefore, it is very important for MNE’s to identify the appropriate entry mode when investing abroad. Previous research points out that entry modes once established are difficult to change, since in many cases the associated costs would be significant (Pedersen, Petersen and Benito 2002).

There is no consensus in the field about the relationship between the three main modes of entry, specifically contracts, JVs and WOSs, but in our paper we will adopt the perspective articulated by Hennart (2000) who classifies modes of entry in two main categories: contracts and equity, positioning JVs and WOSs in the latter one. For him, the main difference between the two consists in the method
chosen to remunerate input providers. In the case of equity, the business partners are paid ex-post, whether in the case of non-equity contracts, payments are specified ex-ante. Additionally, according to Brouthers and Hennart (2007), the establishment mode can be seen as an important variable in the case of JVs and WOSs. Therefore, companies have to choose between Greenfields or Acquisitions, each having its pros and cons.

A large number of theories have been used to explain the entry mode choice decision. Among the most commonly applied are transaction cost analysis (TCA), the resource-based view, institutional theory, and Dunning’s (2000) eclectic framework. Throughout our paper, we are going to use Dunning’s (2000) OLI framework (Fig. 1) presented before, since it is a tool that combines insights from resource based (firm-specific), institutional (location), and transaction cost (internalization) theories (Brouthers and Hennart 2007). While the OLI paradigm section successfully assesses a firm’s capacity to invest abroad, considering also the location characteristics together with the internalization options, we will complement this with Hill et al.’s (1990) framework, which is perhaps more specific when it comes to entry mode choice.

According to Hill et al. (1990), entry modes are characterized by different levels of control, resource commitment and dissemination risk (Table 1). The level of control can be defined as the authority over operational and strategic decision-making; the level of resource commitment represents the dedicated assets that cannot be redeployed to alternative uses without cost (loss of value); finally, the dissemination risk refers to the risk that firm specific advantages in know-how will be expropriated by a licensing or joint venture partner (Hill et al. 1990).

<table>
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<td>High</td>
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Wholly Owned Subsidiary | High | High | Low
---|---|---|---

Table 1

**Strategic, location and transaction variables (Hill, Kwang and Kim 1990)**

In order for a firm to choose the right mode of entry, several variables have to be considered, since they have a great impact on the choice of entry. Hill et al. (1990) have developed a framework that identifies three underlying constructs that impact the entry mode decision. These are specifically strategic, environmental and transaction variables.

The main point here is that diverse strategies, location aspects and firm specific assets, all require varying levels of control, commitment and protection against dissemination risk. Considering also corruption levels when deciding for one entry mode or another, it is important to take into account the type of industry, since there may be notable differences from one sector to another.

### 2.3 Corruption

Corruption has received significant attention among economists and international financial institutions during the last few decades, given its implications for economic growth. The importance of corruption comes from the fact that it has the ability to influence the roots of an economy. For instance, it can erode property rights, restrain political institutions and threaten democracy together with the social, economic and political benefits that come with it. In support of the facts presented above, the World Bank President, James D. Wolfensohn, refers to corruption as a cancer, in his 1996 speech at the Annual Meetings of the World Bank and IMF, considering that corruption is “among the greatest obstacles to economic and social development” (Calhoun, 2011).

Throughout the literature, scholars find different classifications for corruption. In this sense, Kain (2001) argues that corruption can be separated into (i) grand corruption, which refers to situations where the political elite exploit their power for economic gain; (ii) bureaucratic corruption, which refers to how appointed
bureaucrats handle their responsibilities and their relation with their superiors (also known as petty corruption); (iii) legislative corruption which refers to the extent to which the voting behaviour of legislators can be influenced. Corruption may also occur in daily business life without direct intervention from public agents. In most instances these categories are interrelated; if the government is corrupt it is likely that lower instances are that too.

On the other hand, Shleifer and Vishny (1993) distinguish between corruption without theft and corruption with theft. In the first case, the official provides the government with the price of the good and only saves for himself the additional bribe, whereas in the second case, the official saves the whole payment made by the firm. They also distinguish between organized corruption, where the payment of the bribe ensures the delivery of the goods, and disorganized corruption, where the payment of the bribe does not ensure this. In his research, Elliot (1997) recognizes petty corruption, characterized by bureaucrats who accept small bribes in exchange for releasing permits, and grand corruption, where elected politicians allocate contracts or subsidies to the firm that provides them with an adequate bribe.

There has been a strong debate in the literature regarding the usefulness of corruption. Therefore, there are two main currents regarding the connection between corruption and economic growth. One of them, states that corruption acts like grease to wheels, facilitating the economic growth, and helping government officials to make the process of project approval more efficient (Leff 1964; Acemoglu and Verdier 1998). For instance, in transition economies, corruption enables the replication of the market mechanisms that are absent in situations of excessive or poorly designed regulation. Firms that value time or access to goods more highly than others will pay the officials a bribe for such access. As a result, corruption in transition economies will act as grease to facilitate transactions.

The second current, argues that corruption impedes economic growth, because it increases the cost of doing business and introduces uncertainty in the decision making process. The proponents of this view include Mauro (1995), Mo (2001) and Shleifer and Vishny (1993) and Wei (2000a). From this point of view, it is necessary for firms to devote human and financial resources in order to manage
bribes, although these resources could be invested more profitably in other uses. Additionally, as pointed out by Krueger (1993), instead of speeding up procedures, corrupt officials actually have an incentive to cause greater administrative delays in order to attract more bribes.

Then, there is another important classification of corruption. Doh et al. (2003) argue that there is pervasive corruption (corruption that is certain and widespread) and arbitrary corruption (corruption that is uncertain). Pervasive corruption can be seen as a strong deterrent to FDI in transition economies because it creates an additional, known cost to investors. In contrast, arbitrary corruption does not act as a deterrent because it simply creates higher uncertainty in the investment, but this uncertainty is already there in the transition economies, since these have unclear rules about governing business operations. In the case of pervasive corruption, the firm will encounter corruption whenever it deals with government officials, and in the case of arbitrary corruption, the firm faces uncertainty regarding the request for and type of bribes and the delivery of the promised services (Doh et al., 2003).

One of the most popular views is that corruption can be seen as a tax that increases costs of stakeholders. As such, Ali Al-Sadig (2009) considers that corruption can take various forms such as bribery, extortion, influence, fraud and embezzlement, but throughout its research chooses to see corruption as an “arrangement” that involves “a private exchange between two parties which (1) has an influence on the allocation of resources either immediately or in the future, and (2) involves the use or abuse of public or collective responsibility for private ends (Macrae 1982)”.

In our research, we are going to include the two levels of corruption suggested by Doh et al. (2003), specifically pervasive and arbitrary corruption, where the first one increases the cost, and the second one the uncertainty level.
3. Literature review on FDI and Corruption

Because of globalization and the growth of the emerging economies, multinational enterprises confront corruption on a daily basis. As we will see in the following part, previous literature has demonstrated that corruption affects negatively FDI inflows, and that firms adjust their strategy for entering foreign corrupt markets (Uhlenbruck et al. 2006). But contrary to general expectations, in emerging markets there are high levels of corruption, together with high FDI inflows. The punishment expected in their respective home countries, the consequences if they get caught may be fatal. Therefore, we have a theory that the companies find alternative ways of dealing with the corruption, namely through entry modes. In this sense, further on we will present a literature review related to FDI and corruption, and entry modes and corruption.

3.1. Emerging economies and corruption

In emerging economies the market-supporting institutions are lacking, causing a poorly working market. The absence of strong formal institutions in these countries is conspicuous (Jiang et al. 2008; Demirbag et al. 2010). In emerging markets, foreign investment is a rapid and unforeseen incoming cash flow that may surpass the speed of political and economic reform in these economies and causes a gap between the new laws and legal system on the one hand, and the reality of the local culture and people’s awareness on the other, is filled with an increase in corruption. Thus, from the host countries’ view, corruption is not considered as something criminal but rather as a sort of customary law and practice of maintaining congruence in their community, which contributes to their entrusted interests. In this sense, corruption could be considered a necessary contradiction within the transitional stage towards free market or market-oriented economies (Sato, 2009). Sato (2009) considers this a normal indicator and phenomenon, rather than a failure of this kind of transitional governance, a consequence or side effect of a rapid transition.
3.2. FDI and corruption

Based on studies displaying the negative effect of corruption on economic growth, productivity, and investment, the logic would most likely apply to foreign investors as well. The impact of corruption on international business did not occur as a separate topic for empirical studies before the early 1990s. Earlier, corruption was implicitly combined with other elements in the merged index of political stability (Habib and Zurawicki, 2010).

Later studies of corruption and FDI have found that the relation of the two is negatively correlated (Javorcik and Wei, 2009; Cuervo-Cazurro, 2008, 2006; Lambsdorff, 2003). The increases in cost and uncertainty that corruption generates result in a reduction in the level of FDI coming into a country (Cuervo-Cazurro, 2008). Corruption is generally revealed as a significant barrier to foreign direct investment (FDI), with a negative effect on the business environment. An explanation is that corruption may exploit as a tax on investments, or increase uncertainty about costs, thus preventing foreign direct investments (Svaleryd et al. 2008). Another resolution to why foreign investors avoid countries with corruption is because it is considered wrong and it can create operational inefficiencies (Habib and Zurawicki, 2006).

Paradoxically, transition economies have high levels of corruption and have similarly received large amounts of FDI. This creates an empirical irregularity that seems to challenge existing theoretical arguments. One explanation to this challenge is that in emerging markets, the absence of regulations and institutions corruption enables the repetition of the market mechanisms (Cuervo-Cazurra, 2008). In fact, in a business survey Søreide (2007) found that Norwegian companies were willing to “adjust to the local business culture” if contracts were lost because competitors had offered bribes. Companies that value time or access to commodities more highly than others will pay the officials a bribe for such access. As a result, corruption in transition economies will exploit as “grease” to enable transactions and could have a positive impact on levels of FDI inflows (Cuervo-Cazurra, 2008) or, in fact, might jumpstart financial development in developing countries (Habib and Zurawicki, 2002). Other researchers support this by arguing that bribery may be an efficient way of circumventing regulations and...
inefficient legal systems and may, in fact, help foreign investors to enter a market (Svaleryd et al. 2008).

Hines (1995) conducted a study that pointed to a negative impact of corruption on the FDI originating from the US after 1977 as a result of the efficiency of the US Foreign Corrupt Practice (FCPA). Accordingly, it was not the corruption as such which acted as a detriment to the US outgoing FDI but rather a perception of being penalized if being exposed by home country authorities. This distinction is still significant nowadays as it indicates why corruption is a deterrent. One possible explanation would be that it is not (only) the corruption as such which acts as a barrier nonetheless the risk of being punished if the briber is uncovered (Habib and Zurawicki, 2010). One of the most common claims in the international corruption debate is that companies repeatedly bypass anti-bribery legislation by using intermediaries – such as commercial agents or joint venture partners – to pay bribes on their behalf (Bray, 2004).

3.3. Different Ways on how Corruption Affects FDI

A stream of literature regarding FDI and corruption has focused on the impact of corruption in specific contexts: geographic regions, industries, host-home country relations, types of FDI (for example, market-seeking vs. efficiency-seeking) (Habib and Zurawicki, 2010). Starting out from the theory of FDI, corruption can have different effects on horizontal investments, which are predominantly aimed at sales to the local market, compared with vertical investments, which are created to access lower factor costs for export sales. (Svaleryd et al. 2008) An alternative idea is that it is not the level but rather the type of corruption that deters or facilitates FDI in transition economies. Corruption has a negative influence on FDI because it increases costs and uncertainty. However, different types of corruption have a different influence on FDI in transition economies (Cuervo-Cazurra, 2008).
3.4. Corruption Affecting the Type of Ownership and the Mode of Entry

MNEs may generate internal institutional pressures when adapting to various institutional environments, conceivably decreasing internal regularity when subsidiaries adapt to local conditions that conflict with norms or rules in other parts of the organization. An example is the way the company is handling corruption. To handle such conflicting pressures companies may engage in strategic behavior, such as the regulation of entry modes (Uhlenbruck et al. 2006). In terms of managerial implications, foreign investors can either choose to stay away from corrupt environments or adapt accordingly. Apart from allocating the responsibility for bribery etc. to independent agents (Bray, 2004), foreign investors can benefit from different forms of partnerships with local businesses more skilled in dealing with corruption (Habib and Zurawicki, 2001).

The more widespread corruption is the more likely MNE subsidiaries are to encounter such pressures to participate in corruption (Uhlenbruck et al. 2006). Corruption makes achieving local licenses and permits more costly for foreign investors. Having a local partner lowers the transaction cost. However, at the same time, sharing the ownership may cause leakage of technology (Javorcik and Wei, 2009).

Wei and Smarzynska (2000) focused on the impact of corruption in a host country on foreign investors' choice between a joint venture and a wholly owned subsidiary. They found that corruption shifts the ownership structure towards joint ventures. Nevertheless, the more technological sophisticated the company was, the more the preference moved away from joint ventures in a corrupt country (Wei and Smarzynska, 2000; Javorcik and Wei, 2009). As an exception, US investors in similar companies were found to be more reluctant to joint ventures in corrupt countries than investors of other nationalities. The authors speculate if this could be because they have a strict legislation in the US on corruption if caught (Wei and Smarzynska, 2000).
Javorcik and Wei (2009) investigated how foreign direct investment and its ownership structure were affected by the degree of corruption. They found that the likelihood of foreign investment taking place is negatively related to the degree of corruption in a host country. Additionally, they argue that corruption shifts the ownership structure towards joint ventures. The latter finding supports the view that corruption increases the value of using a local partner to cut through the bureaucratic maze. However, R&D intensive firms are found to favor sole ownership.

Uhlenbruck et al. (2006) focused explicitly on the telecommunications industry in 64 emerging economies. Their analysis reveals that corruption in the telecom markets shifts the preference of foreign businesses away from the wholly owned investment projects towards joint ventures and further to non-equity forms of operation. Firms that enter via equity modes prefer joint ventures over wholly owned subsidiaries in corrupt environments, nonetheless only where arbitrariness is high. Arbitrariness increases the likelihood that firms entering via FDI engage in joint ventures to overcome the problems connected with managing a foreign subsidiary in a corrupt host country. Firms sometimes adapt to corruption not by avoiding entry altogether, but by choosing non-equity entry instead. Non-equity entry provides an opportunity for firms to participate in economies where corruption is high, while avoiding some of the costs of corruption. The results regarding pervasiveness suggest that this dimension of corruption represents not just another tax on entry, but is also an environmental threat to firms (Uhlenbruck et al. 2006).

These studies that analyse the relationship between corruption and its impact on MNCs’ choice of entry mode focused mainly on Eastern Europe (Javorcik et al., 2009) and Asia (Demirbag et al., 2010) or took a general overview based on a cross country composition, but only in one industry (Uhlenbruck et al., 2006). We will compose a cross country composition focusing on Brazil, Russia and Mexico and consider multiple industries.
4. Research Objective

From the literature review, we can see that corruption negatively correlates with FDI, nevertheless this does not seem to be relevant in emerging markets; there, despite the high levels of corruption, FDI inflows are increasing at amazing levels. The strict legislation in their respective home countries, e.g. the UK Bribery Act that came into force in 2011, contributes to the consequences of getting caught for a MNE by the home country in involvement of corruption could be severe. This gives us a reason to believe that since the firms present in the countries choose to adapt accordingly to the environment, they find alternative methods of handling corruption. One of the methods are entry methods in the country scoring high on corruption. Previous studies uncover the fact that in general, when facing high corruption, companies from non-high tech sectors favor a joint venture, instead of a wholly owned subsidiary. However, these studies are limited in number, and some of them focus on only one specific industry or one specific country.

Consequently, we want to bring our contribution to the literature by focusing on multiple industries and multiple countries. We will investigate what type of entry modes do companies employ, when choosing to invest in emerging countries such as Brazil, Russia and Mexico, which are high on corruption, and are among the top emerging markets in terms of FDI inflows, according to CIA WorldFactbook. To go more in depth, our analysis will include several sectors, to better assess the potential differences that might exist. In particular, we will look at the legislation of the home countries investing in the emerging countries to see if there is a correlation between strict home legislation against corruption and entry modes.

In the next part of the paper, we will give an introduction of how we are going to conduct our research, by presenting our variables and data collection methods.

5. Methodology

In this part of the paper, we are going to present an overview of the methods used to conduct our research and to try to find an answer to our research question. As mentioned before, we will investigate the causal relationship between the entry mode choice of MNEs, and corruption, by focusing on several sectors from
Brazil, Mexico, and Russia. We believe that these countries are relevant for our topic, since all of them are characterized by a high level of corruption and high FDI inflows (Ranjan 2011), and additionally have the possibility of full ownership for foreign firms. Therefore, we are going to gather data regarding corruption, and also FDI related information, the unit of analysis being the industry sector.

Corruption is by its nature a concept difficult to measure (Javorcik and Wei 2009), but even more so, it is a sensitive subject that could be avoided during an interview. Additionally, FDI related data, such as information about the form of the project (Equity or Non-Equity, Acquisition or Greenfield) can be found in online datasets. As such, we have decided to employ a quantitative approach, gathering our empirical data from a firm level compendium, which have been included in a worldwide database called PPI (World Bank’s Private Participation in Infrastructure Databank).

For measuring the corruption level, there are a few indices available, but perhaps the most popular is the Transparency International Global Corruption Perception Index, in which countries are ranked annually by “their perceived level of corruption, as determined by expert assessments and opinion surveys (Transparency International Web Site)”. Previous research has in addition to this index used a junction of several indicators (Javorcik et al. 2009; Slangen et al. 2009). In concrete, Javorcik et al. (2009) employ the corruption index from the World Development Report, which is based on a survey undertaken by the World Bank, completing it with the corruption index used in Kaufmann et al. (1999) and a corruption perception index reached by a questionnaire. This, according to Javorcik et al. (2009), provides more precise results regarding different types of corruption.

Another crucial variable for our model is represented by the technological sophistication of the investing firm, since it is know from the literature that usually, in the case of high technological sophistication, WOS are preferred, in the detriment of JVs (Javorcik 2006). Another variable is how “strict” the legislation in the home country is, referring to Wei and Smarzynska (2000) who found that regardless of the technological sophistication, US firms tend to choose Joint Ventures. Additionally, we will control for the size of the firm and the country
characteristics, since both constructs could have significant influence. Regarding the first, larger firms have more financial resources, therefore are more likely to invest abroad; following the same reasoning, Kogut and Singh (1988) argue that in the case of high cultural distance, companies tend to rely on JVs, considering that a local partner could be more useful in an unfamiliar environment. We believe, based on the literature review, this would apply to countries with a high degree of uncertainty and corruption as well. Furthermore, we will also control for the various sectors of the economy, since we expect to find notable differences in this sense. All the data for each of the specific variables will be gathered from the PPI Database.

Several additional variables will be taken into account, such as the host’s country GPD and GDP per capita, together with the level of corporate tax rates. High levels of the first two are expected to encourage FDI, meanwhile the taxes could act as a deterrent. Moreover, our investigation will include a time span of five years, from 1996 to 2011.

For the econometrics part, we are going to conduct a regression analysis, and estimate the parameters using the SPSS software. The independent variable will be Corruption, and the main dependent ones will be Contract, JV and WOS. The dummy variables will be the ones we are going to control for, such as GDP and GDP per capita, technological sophistication, size of firm and several country characteristics. The results will then be presented using tables and graphs, so that the provided information can be easily understood.

5. Conclusion

Limitations, Implications and Future Research Topics

Throughout our paper we are going to investigate the way MNEs choose certain entry modes, when operating in emerging countries with high corruption, and high FDI inflows.

We will be focusing on three emerging economies which both has a high degree on corruption, fdi and an open legislation regarding ownership, namely Brazil, Russia and Mexico, but we are deliberately excluding China and India, which are
the most attractive FDI destinations globally (Ranjan 2011). We have done this because in both countries there are several limitations concerning 100% foreign investment, and we considered that our results could be biased. However, perhaps future research should analyze the BRIC countries altogether, and also other high profile developing economies, considering multiple sectors, and controlling for all the factors that might bias results. Such an approach could perhaps signal certain differences or similarities that might prove useful for the business community.

Another potential limitation could be due to the fact that governments tend to support and be more interested in certain sectors and industries of the economy than in others. We will try to control for this factor, but still, the outcome of the study could be partially distorted.

Additionally, future studies should also try to find out how the corporate culture of the MNEs, and its views towards corruption influence the way the firms deal with foreign corruption, and decide upon one entry mode or another. In the same sense, the nationality of the employees, which could have various perspectives towards “subversive methods” should be investigated. Of a particular interest could be the general manager that “directs” the investment of a multinational in a corrupted country, since his background, beliefs and habits could lead to the acceptance of rejection of corruption, and could also affect the choice of operation in that specific region.

There are still many variables to be taken into account and studied, but we hope that our research paper will add valuable information to the previous studies regarding the way firms choose to operate in markets characterised by high levels of corruption. We also hope that our findings will heighten the attention of governments, investors and managers, towards corruption and its effects.
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