

## **Familiarity does not Breed Contempt: Curbing Subsidiary Corruption through a Legitimacy-enhanced Ownership Structure**

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### **ABSTRACT**

We analyze how the choice of firm ownership structure mitigates the effect of high dependence on a corrupt host government when investing abroad. We draw on a unique dataset of subsidiary-level engagement in corruption of 175 foreign subsidiaries entering three Central American countries. We found that there are two mechanisms to mitigate corrupt behavior when a subsidiary is dependent on a corrupt host government: internal legitimacy that accrues to wholly-owned subsidiaries, and external legitimacy built through a strong regional presence. The effect of dependency on a corrupt host government can be mitigated by enacting internal and external legitimacies.

## **RESUMEN**

En este trabajo analizamos cómo la elección de la estructura de propiedad de la empresa mitiga el efecto de la alta dependencia de un gobierno anfitrión corrupto, cuando se invierte en el extranjero. Utilizamos un conjunto de datos único sobre el nivel de participación en la corrupción, en base a 175 filiales extranjeras que ingresaron a tres países de América Central. Descubrimos que existen dos mecanismos para mitigar el comportamiento corrupto cuando una filial depende de un gobierno anfitrión corrupto: la legitimidad interna que se acumula para las filiales propias y la legitimidad externa construida a través de una fuerte presencia regional. El efecto de la dependencia de un gobierno anfitrión corrupto puede mitigarse promulgando legitimidades internas y externas.

## **RESUMO**

No presente trabalho analisamos como a escolha da estrutura da propriedade de uma empresa atenua o efeito da dependência elevada em um governo anfitrião, em investimentos no exterior. Utilizamos uma base de dados singular de envolvimento em corrupção, no nível de subsidiária, com 175 subsidiárias internacionais que ingressaram em três países da América Central. Descobrimos dois mecanismos para a redução do comportamento corrupto quando uma subsidiária depende de um governo anfitrião corrupto: a legitimidade interna que garante as subsidiárias integrais e a legitimidade externa construída por meio de uma forte presença regional. O efeito da dependência em um governo anfitrião corrupto pode ser atenuado com o estabelecimento de legitimidade interna e externa.

## **KEYWORDS**

Subsidiary-level corruption; ownership structure; resource dependence; Central America

### **1. Introduction**

Corruption, the abuse of public power for personal gain, is an important phenomenon that affects firms when entering a foreign location (Cuervo-Cazurra, 2006). The effects of

corruption include political instability (Yung & Root, 2019), environmental degradation (Daniel et al., 2012), poverty (Putrevu et al., 2012), decreased levels of foreign direct investment (FDI) (Cuervo-Cazurra, 2016), and the distortion of public policy for entire nations (Venard, 2009). On the business side, there are two competing views of the consequences of corruption: a negative and a positive view. The negative view sees corruption as the ‘sand in the wheels of commerce’ that hampers the efficiency of a firm’s operations (Cuervo-Cazurra, 2016). The positive view, that does not take into consideration ethical or moral considerations, sees corruption as the ‘grease in the wheels of commerce’ that allows firms to operate better (Cuervo-Cazurra, 2016). Despite the two competing views, most scholars agree that corruption has mainly negative effects on firms since it allows unfair competition (Godinez & Liu, 2018) and increases costs (Wei, 1997) and uncertainty (Sartor & Beamish, 2020a). The negative effects of corruption may increase if the firm is a multinational enterprise (MNE) because it may encounter it in many locations through its subsidiaries at once (Spencer & Gomez, 2011). Despite the efforts to reduce MNE engagement in this illegal behavior, participating in corruption remains the rule and not the exception, especially in emerging and developing markets (Spencer & Gomez, 2011). In our analysis, we propose that one of the most powerful predictors of MNE subsidiary participation in corruption is high dependence on a corrupt host government. We also argue that while MNEs might not be able to decrease the dependency on a corrupt host government, they can decrease the effects of such dependency by deploying legitimacy-enhanced structures.

Our research is grounded in the Resource Dependence Theory (RDT), which helps analyze power relationships among two parties in which one party can exercise power over the other because the latter depends on the former to acquire resources to operate (Pfeffer & Salancik, 1978). When analyzing MNE subsidiary participation in corruption, the RDT argues that subsidiary managers in the host country face a power imbalance with local government

officials who act as gatekeepers for access to resources in the host location (Casciaro & Piskorski, 2005). Hence, because of the power imbalance between the two parties, based on the RDT, we argue that MNE subsidiaries might comply with corrupt host government officials' illegal requests to gain access to critical resources. Nevertheless, MNE subsidiaries are not just seeking to maintain legitimacy with a corrupt host government but also with its parent company (Cuervo-Cazurra, 2016). Thus, we propose that MNE subsidiaries can focus on gaining internal (with headquarters) and external (with external stakeholders) legitimacies as a mechanism to decrease the effects of dependence on a highly corrupt host location to mitigate coercion in participating in corruption.

We propose that internal legitimacy can be enacted through having full control of the foreign subsidiary in the form of a wholly owned subsidiary (WOS). With a WOS, the MNE values can be better shared among internal constituents and therefore any possible non-legitimate corrupt deals would entail greater reputational costs. On the other hand, International Joint Ventures (IJVs) would allow for greater pressures from local partners to comply with local expectations, increasing the likelihood of engaging in corrupt behavior. Additionally, we argue that when MNEs have a strong international presence in the region, their anti-corruption efforts become more visible, which increases the awareness of external stakeholders of the MNEs' policies. There is, therefore, an interaction between these two legitimacies as the enactment of external legitimacy strengthens the internal efforts to avoid participating in corruption.

To test our hypotheses, we gathered a unique firm-level dataset collected from 175 managers involved in the decision of establishing operations in three highly corrupt host countries: Guatemala, El Salvador, and Honduras. Hence, the data gathered from those tasked to established operations in these locations can serve us to understand how MNEs create strategies to diminish the effects of government dependence in corrupt host countries. These three countries, also known as the Northern Triangle, are some of the least studied countries in

the business literature but are of great importance (Godinez & Liu, 2018). Indeed, the U.S. Department of State argues that the high levels of corruption in these countries are the main reason for instability and even violence, which incentivizes illegal immigration to North America (U.S. Department of State, 2021). Paradoxically, these countries also receive high levels of FDI from countries with strict anti-corruption abroad policies (World Bank, 2017), which allows us to understand how the MNE's choice of firm ownership structure can mitigate the effect of high dependence on a corrupt host government when investing abroad.

Our findings extend the existing literature in four ways. First, we extend RDT by offering alternative mechanisms to curb subsidiary-level corruption under conditions of dependence on highly corrupt host governments. While previous literature suggests curbing subsidiary-level corruption should consist of abstaining from working with local governments (Godinez & Garita, 2016), these measures might not be optimal since MNE subsidiaries need government permits and licenses, all the more if the firm needs public contracts for survival. Thus, our results acknowledge that although there are situations in which a firm is dependent on a highly corrupt host government, such firm can still enact mechanisms to reinforce legitimate behavior, which decreases the effect of government dependence. Second, we extend our knowledge about the benefits of entering a foreign location via WOS. Specifically, we argue that if a foreign location presents high uncertainty created by corruption, MNEs can decrease the negative effects of corruption by having full control of all their operations. This control allows the MNE subsidiary to generate internal legitimacy to decrease the effects of high dependence on a corrupt host government. Additionally, if an MNE has other subsidiaries in the region, the anti-corruption efforts of such subsidiaries will be more visible to external actors, which will confer the external legitimacy to the MNE subsidiary to lessen the effects of dependence on the local government. Third, we model corruption as a long-term dependence issue that MNE subsidiaries operating in a highly corrupt location need to address. This result

departs from existing literature that has mainly looked at the transactional nature of corruption and its effects on firms (Cuervo-Cazurra, 2016). This approach allows us to better propose lasting mechanisms for firms to enact their anti-corruption efforts. Finally, we contribute empirically in responding to the calls for further studies drawing on Central America (Baena, 2012; Godinez & Liu, 2018) since this geographic area remains one of the least understood business settings.

## **2. Literature review and theoretical background**

### ***2.1 Corruption***

Corruption can be found in places that provide incentives for government officials to ask for bribes and for managers to provide one (Wang et al., 2018). When discussing the consequences of corruption, the general consensus is that although corruption might have some benefits for firms and countries (Godinez & Liu, 2015), overall corruption is detrimental for both businesses and societies (Cuervo-Cazurra, 2016). The consequences for societies include the undermining of public trust in the state (Ryan, 2000), as well as distortions in the distribution of country resources for the benefit of only a minority (Velasquez, 2000). The consequences for businesses include increased transaction costs (Habib & Zurawicki, 2002) and uncertainty, which is considered the most detrimental (Wei, 1997).

International Business scholarship has analyzed corruption based on the frequent demands for bribes from government officials (Doh, et al., 2003). However, extant literature considers uncertainty as the biggest challenge of operating in a highly corrupt foreign location since the MNE is never certain of whether the service for which it paid a bribe will be delivered as promised, or if additional bribes to other officials will be needed for the same service (Rodriguez et al., 2005; Sartor & Beamish, 2020a). High uncertainty created by corruption, or

arbitrariness, makes corrupt transactions less predictable (Uhlenbruck et al., 2006), and as such, it decreases the supposed benefits of corruption in firms (Petrou & Thanos, 2014).

Due to its opacity, the uncertainty created by corruption is difficult to assess, which adds to the complexity of creating mitigating strategies by MNEs. Grounded on the resource dependence theory, Petrou (2015) investigated the relationship between the uncertainty created by corruption and MNEs. In his study, Petrou (2015) empirically demonstrated that high uncertainty has negative effects on MNE subsidiary performance. Additionally, his study concluded that a strong headquarters-subsidary link can diminish this effect. Nevertheless, although current theory has analyzed the dependence link between MNEs and the uncertainty created by high corruption of host governments, to our knowledge there is a dearth of research analyzing how MNEs can diminish the effects of such dependence, which is the purpose of this study.

## ***2.2 MNE subsidiary dependence on a corrupt host government***

RDT proposes that an important issue MNEs face when operating in a foreign location is the power imbalance with local actors since they control most critical resources in those locations (Luo, 2003; Pfeffer & Salancik, 1978). Resources in this case means more than production inputs and physical resources, but also includes essential government-controlled resources like permits, licenses to operate, and public contracts (Bandeira-de-Mello et al., 2016). As a result, resource dependence on local players increases an MNE's subsidiary liability of foreignness (Zaheer, 1995). Hence, the RDT argues that this dependence creates uncertainty regarding the firm's survival (Pfeffer & Salancik, 1978) and that subsidiary managers utilize agency to decrease uncertainty and resource dependence (Hillman et al., 2009). Thus, to operate in a location, MNE subsidiaries comply with local business expectations and follow the practices of local competitors while adhering to local social norms and regulations (Scott, 1995). In the

case of resource dependence on a corrupt host government, we argue that government officials can coerce MNE subsidiaries to comply with corrupt demands in exchange for the resources needed to operate in a given location. Hence:

Hypothesis 1: The more dependence an MNE subsidiary has on a corrupt local government, the more likely the subsidiary is to participate in corruption

### ***2.3 The moderating effect of internal and external legitimacies on MNE subsidiary engagement in corruption***

We argue that MNE subsidiaries that depend on local governments for critical resources are more likely to participate in corruption. However, MNE subsidiaries can enact legitimacy-based mechanisms to mitigate the effects of dependency on a corrupt host government. Given the nature of this study, we propose that MNE subsidiaries are dependent not only on the local government but also on their headquarters. Hence, we follow the logic that MNE subsidiaries will prioritize legitimization with their headquarters because they are more dependent on them than on local governments (Cuervo-Cazurra, 2016; Godinez & Liu, 2018). Following Di Guardo et al. (2016) and Rodriguez et al. (2006), we acknowledge that both ownership structure and bargaining power of subsidiaries matter in determining whether an MNE engages in corruption. However, we focus on the marginal influence of entry mode and how it helps decrease the effects of high dependency on a highly corrupt host government by deploying legitimacy-enhanced structures. Hence, we argue that those firms that are under strict anti-corruption policies from their headquarters should utilize both internal and external legitimacies to minimize the effects of dependency on a corrupt host government.

### ***2.4 Internal legitimacy***



Internal legitimacy is defined as the perception among internal stakeholders that the actions of the firm are desirable and appropriate within the company's socially constructed systems of values and beliefs (Alvesson & Kärreman, 2007). Current literature proposes that the entry mode that the MNE chooses has a direct and long-term impact on the level of control that such a firm can exert over the processes and practices of its foreign subsidiaries (Buckley & Casson, 1998; Xu et al., 2020). Thus, to analyze how MNE subsidiaries can generate legitimacy-enhanced structures to decrease the effects of high dependence on a corrupt host government, we focus on the subsidiary's entry mode and how it can help the firm build the legitimacy needed to avoid participating in corruption by reducing the effects of high dependence on a corrupt local government.

The usual modes of entry are non-equity modes, such as exporting or licensing<sup>1</sup> and equity modes, such as IJVs or WOS (Yildiz, 2013). When deciding whether to use IJVs or WOS, scholars argue that firm-specific conditions, such as competitive advantage, resources, knowledge, and experience, have a direct effect on the entry mode choice (Brouthers & Hennart, 2007). By the same token, host country conditions such as industry structure, investment risk, and culture are among the most important determinants of the mode of entry (Ang et al., 2014). Thus, both country and firm-specific characteristics are important when determining if entry into a location will be profitable.

An MNE will choose to enter a foreign market via WOS when it needs to retain “maximum control and [is] willing to make maximum commitment and take on maximum risk” (Brouthers & Hennart, 2007). By entering via WOS, MNE subsidiaries are more likely to conform to the norms and practices of the parent firm (Delios & Beamish, 1999), which includes establishing anti-corruption practices (Sartor & Beamish, 2020b) and can increase their internal legitimacy (Chan & Makino, 2007). Indeed, Sartor and Beamish (2020b) argue

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<sup>1</sup> While non-equity entry modes and their relation with corruption are important, they are outside the scope of this study.

that an increase in the equity ownership share of an MNE subsidiary moderates negatively the positive relationship between corruption and the likelihood that foreign subsidiaries established by developed market MNEs will exit host emerging markets characterized by high corruption. Thus, Sartor and Beamish (2020b) propose that MNE subsidiary anti-corruption systems lessen the uncertainty precipitated by foreign market corruption and that this relation is ultimately contingent upon the MNE's equity share in the subsidiary investment. Hence, an MNE choosing to enter a highly corrupt location via WOS can leverage its internal legitimacy to send strong signals to show its commitment to not comply with illicit requests by the host government and increase the reputational costs of any agent engaging in wrongdoing (Yiu & Makino, 2002), even if the MNE subsidiary depends on the local government for critical resources.

In contrast, IJVs are preferred when the levels of inter-country differences, such as cultural differences, require more cooperation between the MNE subsidiary and local partners (Contractor & Kundu, 1998). Also, IJVs facilitate operations in an uncertain environment, such as an environment characterized by high corruption, because the MNE lowers its resource commitment levels in the host country through resource sharing with partners and learns about the host country institutional arrangement through its local partners (Yiu & Makino, 2002). However, forming an IJV with a local firm in a highly corrupt host location can also cause a subsidiary to try to mimic the local partners' practices, which may include engaging in corruption (Luiz & Stewart, 2014). Because subsidiary control is shared in an IJV, if a local partner in a highly corrupt host location participates in corrupt activities, the MNE subsidiary might also find itself compelled to participate. Additionally, if the MNE subsidiary begins mimicking the corrupt practices of the local partner in an IJV and these practices are very different from what is considered desirable and appropriate by the MNE, then the internal legitimacy of the subsidiary decreases (Kostova & Zaheer, 1999). Hence:

Hypothesis 2a: MNEs entering a highly corrupt host country via WOS are more likely to decrease the effects of host government dependence on subsidiary participation in corruption.

## 2.5 *External legitimacy*

External legitimacy can be described as the process through which outside actors develop their perceptions of an organization (Kostova & Zaheer, 1999). External legitimacy is thus conferred upon an organization by external stakeholders who validate the worthiness of its competence to achieve designated objectives (Zimmerman & Zeitz, 2002). External legitimacy is important for an MNE subsidiary since it enhances its acceptance by a foreign environment and lowers the subsidiary's vulnerability to host country uncertainty (Luo, 2003).

External legitimacy can strengthen the MNE subsidiary efforts in decreasing the effects of high dependency on a corrupt host government in three specific manners. First, gaining external legitimacy has become crucial for MNEs because of changes in global governance since the institutional environments where they operate have become more complex, and information has become more fluid and shared among numerous individuals (Doh et al., 2015). These changes are especially salient for larger firms, as they are more visible and are the preferred targets for external stakeholders. Therefore, these firms need to comply with stronger pressures to conform to external demands (Darnall et al., 2010), which includes abstaining from participating in corruption. Second, MNE subsidiaries operating in a foreign location characterized by high uncertainty might be restricted to accessing critical local resources (Gupta & Govindarajan, 2000), and may need to rely on their own operational networks to secure them (Luo, 2003). Finally, MNE subsidiaries can claim that they are under the power of the headquarters' policies, which will limit the power of local officials to extort illegal payments (Cuervo-Cazurra, 2016). Thus, we argue that MNEs with strong presence in the region can

leverage their external legitimacy (see Figure 1 showing our theoretical model), which in turn can strengthen the effect of their internal legitimacy aimed at curbing subsidiary participation in corruption. Thus,

Hypothesis 2b: The greater the presence of MNE subsidiaries in a highly corrupt region the greater the corruption mitigating effects of WOS.

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**Insert Figure 1 about here**

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### **3. Data and methods**

#### **3.1 *Empirical setting***

We chose three Central American countries (Guatemala, El Salvador, and Honduras) as the setting to study how high levels of corruption in host countries affect the corrupt behavior of foreign subsidiaries. According to Transparency International's 2017 Corruption Perception Index (CPI), El Salvador ranked 112<sup>th</sup>, out of 168 countries, in a ranking where the first is the cleanest country in the world Honduras ranked 135<sup>th</sup>, and Guatemala 143<sup>rd</sup> (Transparency International, 2017). The average index from 2002 to 2017 indicates that the average CPI for Honduras (28.83) and that of Guatemala (29.66) are closer to the first quartile of all countries (28.75) in a scale that ranges from zero (corrupt) to 100 (clean). The CPI of El Salvador (37.16) is slightly higher. These countries are not only perceived as highly corrupt today but also have been consistently considered to be corrupt in the past. Despite their high levels of corruption, however, these three countries represent 62.73% of the region's GDP and account for 52.72% of the FDI received in Central America from 2011 to 2015 (World Bank, 2017). During this period, El Salvador received \$474,801,761 in FDI, Honduras received \$1.29 billion, and Guatemala received \$1.2 billion (World Bank, 2017).

Despite their economic performance, the institutional environments of Honduras, Guatemala, and El Salvador have deteriorated in the past few decades due to the expansion of government spending and taxation avoidance, as well as drug trafficking and the violence that it represents (Heritage Foundation, 2015). The deterioration in these institutional environments has made obtaining settlements by corrupt means more attractive for all businesses operating in these locations.

### **3.2 Sample**

To test the effects of host country corruption on the corrupt behavior of foreign subsidiaries, we gathered survey data focusing on managers with decision-making responsibilities (Finkelstein, et al., 2009). We polled the upper-level managers of 175 subsidiaries of 175 MNEs (one subsidiary per MNE) operating in Guatemala, El Salvador, and Honduras<sup>2</sup>. All respondents were qualified top-level managers with at least five years of experience in managing foreign subsidiaries. The work experience required ensured that the respondents had sufficient knowledge about the operations of the subsidiaries. According to the Guatemalan Chamber of Commerce, as of 2015, 256 of the 377 MNEs operating in Guatemala, 158 out of 314 in El Salvador, and in Honduras 149 out of 351 met our criteria. We contacted these individuals through the Guatemalan Chamber of Commerce, and although not all the invited firms participated in our study, a mixed group of respondents agreed to answer the questionnaire, which minimized the non-response bias. The complete list of the country of origin of the MNEs in our sample is provided in the Appendix.

With the help of the Guatemalan Chamber of Commerce, one of the authors administered personally the survey in three rounds of data collection between 2010 and 2014. During this time no meaningful changes occurred in the corruption levels of the countries

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<sup>2</sup> Although these MNEs had other subsidiaries in the region, they did not have other subsidiaries in the three host countries utilized for our analysis.

analyzed (Transparency International, 2017). Also, we minimized the effects of the collection period on the respondents by requiring at least five years of experience. Each respondent was initially approached by the Guatemalan Chamber of Commerce, which asked all potential participants if they were willing to participate in this academic study. During the initial communication, the Guatemalan Chamber of Commerce assured potential respondents that the information gathered would be utilized with the strictest privacy protocols. Once the potential respondents were convinced that their privacy was assured, they allowed the lead researcher to administer the surveys. During the data-gathering phase, the lead researcher visited all three countries and personally administered the questionnaires to the respondents (in either English or Spanish depending on the preference of the participant)<sup>3</sup>. In addition, there is no significant difference between the early and late respondents because the respondents were identified at the beginning of the study and remained in their post until they finished their participation. The delay in gathering the responses was the result of conflicting schedules between the respondents and the researchers.

Due to the sensitive nature of the topic of corruption, it is possible that the respondents provided responses that are socially acceptable instead of truthful ones (Lee et al., 2010). To account for this potential bias, we followed Hitt et al. (2002) and Collins et al. (2009), who suggest that the data collector should have personal relations in the countries where data was gathered. These relationships provide the social capital needed in emerging markets to mitigate this possible bias (Godinez et al., 2021). Additionally, we followed Collins et al. (2009), who suggest wording questions about corruption in a manner that avoids implicating respondents in wrongdoing. Also, while 39 other respondents agreed to participate in our study, we did not utilize their responses because their surveys were incomplete since they claimed to not recollect

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<sup>3</sup> The questionnaires in Spanish were translated from English to Spanish and then back to English to ensure their accuracy.

certain data. However, their partial responses did not differ from the completed surveys, which indicates that non-response bias was non-existent.

### **3.3 *Variables and model***

The questionnaire utilized in this study includes three sections as presented in Exhibit A1 in the Appendix. The first section collects objective information about firm operations, such as the ownership structure of the subsidiary, the size of the investment, the sector, and the number of subsidiaries the MNE operates in Latin America. The second section asks the respondents how they perceived corruption in the host country. The last part of the survey collects information about the modus operandi of the subsidiary concerning corrupt behavior such as bribe payments, as well as steps taken to combat corruption such as relying on trusted stakeholder networks. These last two sections consist of items measured using a semantic scale. For example, respondents could answer the item “Has a member of the host country government elite ever asked for a bribe ‘to get things done’?” ranging from “not at all” (1) to “yes” (5). Exhibit A1 lists all modeled variables and their operational definitions. Additionally, we measured corruption with the aid of the Corruption Perception Index (CPI) published by Transparency International, which has been highly cited as an adequate measure of this problem (e.g., Habib & Zurawicki, 2002; Leite et al., 2020; Sartor & Beamish, 2018).

One typical source of bias in this type of data collection is ‘common method bias.’ To check for this bias, we carefully analyzed the data that was collected during a three-year period, and no considerable changes in the responses was observed. We also used Harman’s single factor score to check whether all variables were loading in one factor that represented more the 50% of the extracted variance. The results for common and principal factor analysis are 24.7% and 29.8%, respectively. In addition, the principal component extraction of 10 factors does not

indicate that all variables are loading on a single factor. These results suggest that common method bias is not a problem.

Additionally, another common problem in this type of research when most of the variables are measured by the same instrument is the Common Method Bias (CMB). We assess CMB using Harman's single factor score. We loaded all variables (excluding industry) into one factor. If the proportion of the total variance for a single factor is less than 50%, the test suggests that CMB is not significant. Figure 2 shows the variance extracted for 10 components in the principal component analysis. The proportion of the variance of the first component is 29.89%. In the common factor analysis, the proportion of the variance extracted by the first factor is 24.7%. These results suggest that CMB is not a relevant issue.

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**Insert Figure 2 about here**

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*Dependent variable.* We measure the subsidiary engagement in corruption using two questions referring to bribe payments given to government officials (Exhibit A1) following Collins et al. (2009), who proposed that responses should be strictly confidential and should be worded as to not implicate the respondent of wrongdoing. We summed the results of these two items to determine the final results for the dependent variable (ranging from 2 to 10).

*Variables of interest.* We measure government dependence by asking how likely the company is to do business with the local government. The measures for subsidiary control include the declared mode of entry, which was coded “1” for either greenfield or full acquisitions (WOS) and “0” for IJVs. Finally, to measure the presence of the company in the region, the variable number of subsidiaries measures the number of subsidiaries the parent firm operated in Latin America.

*Covariates.* We control for several factors that might correlate with the dependent variable and with the variables of interest. Investment size is a variable that uses ordinal levels



reflecting ranges from up to USD 5 million to more than USD 30 million. Home country corruption directly measures the CPI, which is published by Transparency International, of the multinational's home and host countries (Transparency International, 2017). Experience with corruption is measured as the difference between the number of subsidiaries the MNE has in countries that are more corrupt than its home. Corruption uncertainty measures the respondent's confidence that bribing government officials will lead to a better deal (ranging from one to five). Since corruption is difficult to observe, model, and measure (Uhlenbruck et al., 2006), we relied on two perceptions of corruption to conduct our analysis at the firm level, following Collins et al. (2009). National corruption measures the overall perception of whether national-level politicians are corrupt (ranging from one to five). Bribe culture measures the perception of the respondent regarding whether bribing government officials is a common business practice in the country (ranging from one to five). We also control for industry and country effects. Exhibit A1 presents a detailed description of the covariates.

We utilized an OLS regression to test our hypotheses. Equation 1 describes the general model specification. The variable  $Y_i$  represents MNE subsidiary  $i$  engagement in corruption in the host country, and variables  $X_1$  and  $X_2$  represent government dependence and subsidiary control. Vector  $I$  is the set of two-way (Hypothesis H2a) and three-way interaction (Hypothesis H2b). Vector  $C$  is the set of covariates. The terms  $\beta_0$  and  $\epsilon_i$  are the intercept and the error component. Additionally, the variance inflation factors (VIFs) did not suggest multicollinearity issues between variables (mean VIF = 4.5), which is significantly lower than the conservative threshold of 5 proposed in the corruption literature (Godinez & Liu, 2015).

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + I + C + \epsilon_i \quad (1)$$

#### 4. Results

Table 1 provides the descriptive statistics and the correlation matrix. The mean value of the subsidiary engagement in corruption of the subsidiary is 6.76 on a scale ranging from 2 to 10. This result suggests that engaging in corruption is a common practice in the three countries analyzed. The level of government dependence has a mean value of 3.25 on a 5-point scale. Of the firms under study, 67% chose to have more control over their subsidiaries by establishing WOS. Each of the 175 MNEs in the sample has approximately 9 subsidiaries in Latin America. The mean of home country corruption suggests that these firms have home countries that are less corrupt than the host countries. The negative value for experience with corruption suggests that the sampled firms have more subsidiaries in less corrupt countries than in countries with higher corruption levels than El Salvador, Honduras, and Guatemala.

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**Insert Table 1 about here**

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Table 2 presents the OLS coefficient estimates for Equation 1. The estimates for government dependence are positive and significant in all models; this result holds when controlling for the interaction terms. An increase in 1 point in government dependence increases the measure of engagement in corruption the subsidiary by 0.34 points (Model 1,  $\beta = 0.28$ ,  $p < .05$ ). This result lends support to Hypothesis 1, which argues that the more dependence an MNE subsidiary has on a corrupt host government, the more likely is this subsidiary to engage in corruption in the host location.

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**Insert Table 2 about here**

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Model 2 in Table 2 indicates that the estimated coefficient of the interaction between government dependence and subsidiary control is negative and significant (Model 2,  $\beta = -0.53$ ,  $p < .05$ ). This result suggests that when the mode of entry increases the control of MNEs over their subsidiaries by establishing WOS via “greenfield” investments or full acquisition, the

effect of government dependency on engagement in corruption by the subsidiary decreases. That is, under high dependency on a corrupt local government, an MNE that enforces internal legitimacy via establishing WOS will be more efficient in curbing subsidiary-level corruption. Conversely, IJVs lead to increased subsidiary-level corruption (Model 2,  $\beta = 0.063$ ,  $p < .01$ ). This result provides evidence of the moderation effect of building internal legitimacy through subsidiary control, as proposed in Hypothesis 2a, which argues that those MNEs that enter a highly corrupt location via WOS will exert more internal legitimacy which will lessen the dependency on the local government. Figure 3 illustrates the effect of the interaction.

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**Insert Figure 3 about here**

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Model 3 in Table 2 sheds some light on how external legitimacy affects the mechanism through which the control over the subsidiary curbs local corrupt behavior under high government dependency. The coefficient of the interaction between government dependence, subsidiary control, and the number of subsidiaries in Latin America is negative and significant (Model 3,  $\beta = -0.24$ ,  $p < .01$ ). MNEs that have a greater presence in the region are even more vigilant about engagement in corruption by their wholly owned subsidiaries and seek to avoid damage to their reputation and a subsequent cost increase for accessing valuable resources from their network of partners. Interestingly, as the coefficient of the interaction between government dependence and the number of subsidiaries shows (Model 3,  $\beta = 0.12a$ ,  $p < .05$ ), when the MNE decides to enter the country using IJVs, a stronger presence in the region yields the opposite effect. It seems that the effect of building a good image in the region through reducing the corrupt behavior of local subsidiaries is carried out only when the company is fully responsible for the subsidiary. These results lend support for Hypothesis 2b, which states that the more presence an MNE has in a highly corrupt region the more efficient such MNE will be in

reducing the effects of government dependency on subsidiary engagement in corruption. Figure 4 illustrates the effects of the interaction.

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**Insert Figure 4 about here**

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#### **4.1 Robustness tests**

We ran a series of robustness tests to rule out alternative explanations. We particularly sought to determine whether subsidiary control was actually driving the hypothesized effects or if there were alternative explanations. Table 3 shows the estimates of the robustness tests. First, it is worth noting that in all model specifications in Table 3, the coefficients for government dependence are positive and significant and that all coefficients for the interaction between government dependence and subsidiary control are negative and significant. These results increase the robustness of our results supporting Hypotheses 1, and 2a.

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**Insert Table 3 about here**

---

Second, Model 4 in Table 3 shows that we removed acquired subsidiaries from the sample to compare only “greenfield” subsidiaries with JV subsidiaries to measure subsidiary control. Because MNEs might have more control over “greenfield” operations than over subsidiaries, which can be fully or partially acquired, the results confirm the expectation that the coefficient of its interaction with government dependence (Model 4,  $\beta = -0.68$ ,  $p < .05$ ) is slightly higher than the original one shown in Model 2 in Table 2 (Model 2,  $\beta = -0.53$ ,  $p < .05$ ).

Third, we tested for alternative explanations. Models 5 to 7 in Table 3 show that we checked whether the effect of the interaction between government dependence and subsidiary control varies with the degree of home country corruption, industry, or the size of the investment. As expected, these estimates do not show any significance. This result suggests that the mechanism through which subsidiary control curbs local engagement in corruption under

the dependency on corrupt governments is not related to being based in a less corrupt country or sector or having made large investments in the host country. The results appear to support the explanation that the larger the presence a company has in the region (external legitimacy), the better the monitoring of the subsidiary, as stated in Hypothesis 2b.

Also, although we do not make any strong claims regarding causality, we ran additional tests to address omitted variable bias and reverse causality. First, even though we control for industry and country effects and some important firm-level covariates, such as experience with corruption, there may be some firm-level unobserved variables that are related to the hypotheses or the dependent variable. For example, firms with a distinctive culture or governance are more likely to enter by retaining full control over the subsidiary. We try to mitigate this problem by using a matching approach for the observable variables. We matched the propensity scores calculated for a set of observed variables to achieve the best overlap between the “treated” and “control” samples (Angrist & Pischke, 2009). We used the nearest method with replacement to match the sample, setting the caliper to zero. Both treatment and control groups showed good covariate balance based on mean differences and in the distribution of the propensity scores. The estimated coefficients using the matched sample (average treatment of the treated) are positive and significant for government dependence ( $\beta = 0.74, p < .01$ ), and negative and significant for the interaction between government dependence and subsidiary control ( $\beta = -0.68, p < .01$ ).

Second, it is possible that the level of subsidiary control is a function of the intention to carry out corruption activities, rather than the converse as we hypothesized. We use the interactions of three variables in the dataset as instruments: industry, home country corruption, and experience with corruption. These three variables are fairly exogenous to the relationship between subsidiary control and engagement in corruption by the subsidiary, and it seems plausible that these three variables affect the engagement in corruption by the subsidiary only

through the type of mode of entry used (greenfield, acquisition, or joint venture). Subsidiary control, which is measured by the ownership structure of the mode of entry, allows for more or less control over subsidiary operations (that is, more or less internal legitimacy) and is central in the chain of effects connecting these three exogenous instruments to the dependent variables. We estimate a second stage IV regression (2SLS) in which subsidiary control is instrumented by the interaction of industry, home country corruption, and experience with corruption. The results, which are available upon request, suggest that the instruments are strong and exogenous and the effect of the interaction effect of government dependence and subsidiary control on engagement in corruption is still significant and negative ( $-1.79, p < .01$ ). In addition, the effect of government dependence is still positive and significant ( $1.53, p < .01$ ). These results provide additional support to the internal legitimacy of the mechanism (Hypothesis H1). The more control an MNE has over its subsidiaries, which is provided by the ownership structure of the mode of entry, the better the internal legitimacy of the subsidiary and therefore the less likely it will be to engage in corruption.

#### ***4.2 The endogeneity problem of the model of entry***

MNEs willing to participate in corruption might have self-selected into these countries using ownership structures with low levels of internal control and legitimacy, thus allowing for corruption practices to take place. Despite the fact we are not making causal claims, we can address this problem of simultaneity bias using a simple instrumental regression analysis. We take advantage of three variables in the dataset to use as instruments Industry, Home country corruption, and Corruption experience. Table 4 shows the estimates of the IV regression. When the Subsidiary control is instrumented by the interaction between Industry, Home country corruption, and Corruption experience, the coefficient of the interaction Government dependence\*Subsidiary control (Greenfield vs others) is still significant and negative ( $-1.79,$

$p < .01$ ). The statistical tests for the instruments also show good results. The weak instrument test is rejected ( $p < .02$ ) indicating that there is a good correlation between the instruments and the endogenous regressor. The Wu-Hausman exogeneity test rejects the hypotheses that the instrumented variable Subsidiary control is not endogenous ( $p < .10$ ). Finally, the Sargan test does not reject the null hypotheses that the instruments are exogenous ( $p < .43$ ).

---

**Insert Table 4 about here**

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## **5. Discussion and conclusion**

In this study, we explore legitimizing mechanisms that help decrease the effects of long-term dependency of MNE subsidiaries on highly corrupt host governments. Our research focuses on the long-term power relationships among the MNE subsidiary and a local corrupt government, the entry mode utilized to operate in such a location, and the influence that the presence of the MNE has in a region. Our analysis uses a unique dataset collected from MNEs investing in three countries with high corruption. Our results indicate that subsidiaries that are highly dependent on a corrupt host location are more likely to engage in corrupt acts, even if these firms are headquartered in locations with strong anti-corruption laws and policies. Our results also state that to decrease the effects of dependency on a highly corrupt host government, MNE subsidiaries can enter a foreign location via WOS to build internal legitimacy and can rely on a strong geographical presence to gain external legitimacy, which also strengthens their internal legitimacy. In this study, we depart from established scholarship by modeling corruption as a long-term relationship between MNE subsidiaries and local governments. Our results build on the recent literature acknowledging that MNE subsidiaries face considerable pressure to engage in corruption when operating in locations characterized by high corruption levels (Spencer & Gomez, 2011).

In our analysis, we propose that those firms that have high dependence on a corrupt host government are more likely to engage in corruption. Subsequently, we propose mechanisms to decrease the effects of the dependency on a corrupt host government. To do this, we introduce the moderating effects of internal and external legitimacies. Internal legitimacy, in this study, refers to strong signals showing that a subsidiary is committed to not engaging in corruption activities (Luo, 2003) and that the parent company maintains control over the operation of its subsidiaries. Here, we expand extant theory by arguing that MNEs can build internal legitimacy depending on the level of control they exert over their foreign operations. In the context of engaging in corruption, we propose that if an MNE enters a highly corrupt foreign location by WOS, it can prevent engaging in corrupt activities by maintaining total control over their foreign operations. This autonomy is possible because a WOS does not have pressure from a local partner to participate in corrupt deals. Moreover, by developing strong internal legitimacy, MNE subsidiaries can send strong signals to show their commitment to not engaging in corrupt activities in the host country.

External legitimacy, conversely, is the process by which the environment creates its perceptions of an organization (Kostova & Zaheer, 1999) and, we argue, can be achieved by having a strong regional presence. Here, we extend the existing literature by proposing that a large number of subsidiaries in a given location make MNE anti-corruption activities more visible, which legitimizes these actions and as such, can reduce the effects of dependence on a corrupt host government. Additionally, firms that have well-positioned networks in the region can access critical resources from these networks (Gaur et al., 2007), which can reduce dependency on other actors who might be more prone to engaging in corruption activities. Therefore, MNEs that have strong a commitment to operating ethically in a foreign location characterized by corruption rely not only on other subsidiaries of their parent company but also on trustworthy local and regional stakeholders to obtain the necessary resources for their



operations. These networks can also help provide the communication and coordination needed to acquire the resources to operate their subsidiaries (Miao et al., 2016). In the case of corruption, our results indicate that a strong regional presence can help MNEs obtain the resources they need to not be utterly dependent on a corrupt local government.

The results of this study provide three main contributions to the literature. First, we model corruption as a long-term problem that MNE subsidiaries operating in a highly corrupt location face. Second, we propose specific mechanisms to decrease dependency on a highly corrupt host country. To this end, MNE subsidiaries can enact internal and external legitimacy simultaneously. Internal legitimacy can be enacted by entering a highly corrupt host country via WOS. External legitimacy can be enacted by leveraging an MNE's presence in a geographic region. Third, we expand the RDT by providing mechanisms for firms to decrease the effects of dependency on a highly corrupt host government.

Our findings have significant implications for business practitioners, policymakers, and society in general. For business practitioners, this study shows that MNEs must assess the degree to which their subsidiaries are dependent on governments in locations characterized by high corruption. As our study indicates, the more dependent a firm is on a local government, the more likely it is that the firm will have to engage in corruption abroad. Additionally, our results suggest that MNE subsidiaries are not passive institutional takers, and as such, they can enact mechanisms to decrease the effects of dependence on corrupt host governments. These mechanisms include retaining full control of subsidiaries, having a strong presence in a region, and having a well-developed network of collaborators that can help decrease the dependence on a corrupt local government.

For policymakers, our results show that the common practice of encouraging foreign firms to partner with local firms can actually be detrimental to decreasing the corruption levels of the host country. Instead, policymakers should attract investment from MNEs with high anti-

corruption standards to help institutionalize corruption-free practices. For the general society, our results show that firms can have an active role in the fight against corruption. Corruption is an endemic problem that diminishes trust in the state (Ryan, 2000) and creates instability in a location by rewarding unproductive practices (Jensen et al., 2010) and by distorting the distribution of limited resources (Velasquez, 2000). Our results show that firms can have an active role in reducing corruption, and the general society should reward firms that lead the fight against corruption.

This study has limitations, particularly due to the nature of the data. Corruption is secretive by nature, and no publicly available data can verify the veracity of the responses of the participants. However, due to this limitation, we make every effort to minimize the disadvantages of utilizing self-reported data on corrupt activities. These efforts include testing for inter-rater reliability and cross-validating the findings. Another limitation is that this survey included only three countries. Corruption is different and varies across countries (Rodriguez et al., 2005). Therefore, different results should be expected in different regions. However, analyzing how corruption affects MNE subsidiaries in a geographical area characterized by high corruption levels and high FDI is an important step to shedding light on how managers adapt their strategies to address corruption abroad. Additionally, our results only analyzed MNEs that by definition are large corporations with considerable resources at their disposal. Hence, they can leverage their internal networks and their regional presence. Future studies should study how smaller firms can enact mechanisms to decrease the effect of dependence on highly corrupt host governments.

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## APPENDIX

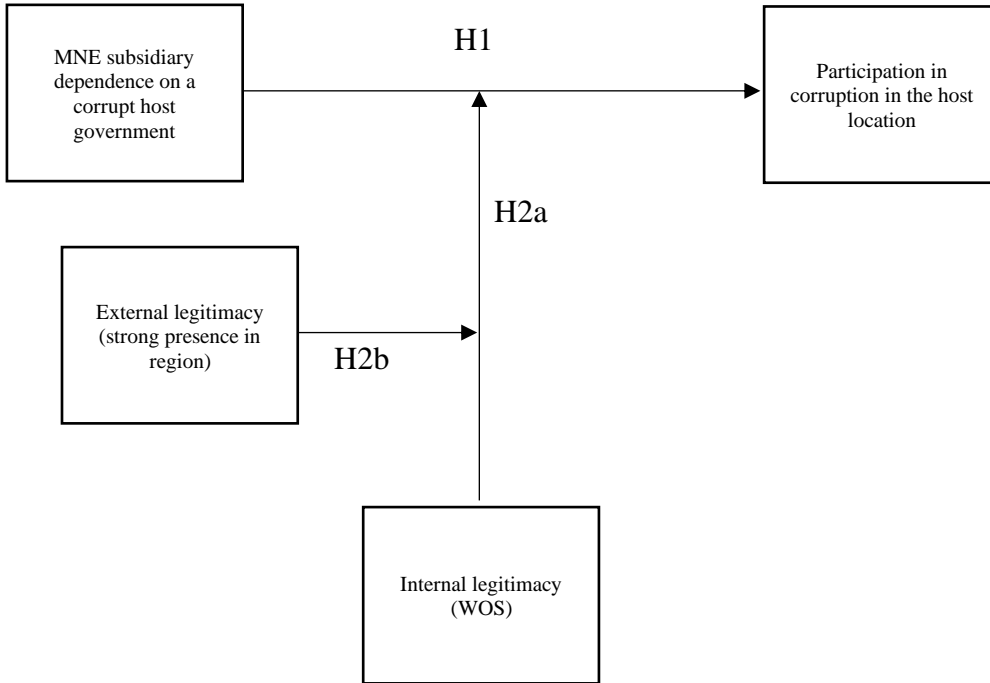
### MNE country of origin

Argentina, Bahamas, Bermuda, Brazil, Canada, Chile, China, Colombia, Costa Rica, Ecuador, El Salvador, France, Guatemala, Germany, Honduras, Italy, Japan, Luxembourg, Mexico, Netherlands, Nicaragua, Norway, Panama, Peru, Republic of Korea, Spain, South Africa, Switzerland, United States, United Kingdom, Uruguay, Venezuela.

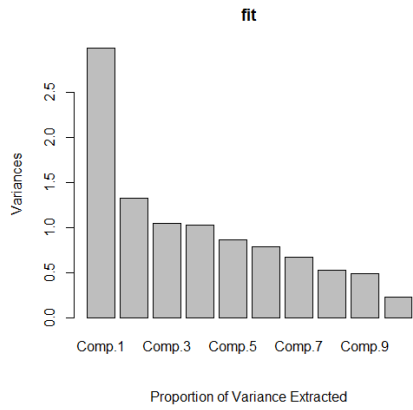
### Exhibit A1. Description and measurement of modeled variables.

Variable name	Survey item description	Metrics	
Engagement in corruption	(1) Have you ever seen anyone in your line of business give a bribe to a bureaucrat in the host country to “get things done”?	(1 to 5) 1: Never 5: Yes	Summated scale (2 to 10)
	(2) Has a member of the host country’s government elite ever asked for a bribe “to get things done”?	(1 to 5) 1: Never 5: Yes	
Government dependence	How likely is your firm to have long-term contracts with the local government?	(1 to 5) 1: Not Likely 5: Very Likely	
Subsidiary control	What is the ownership structure of the host country subsidiary?	1: Greenfield or Acquisition 0: Joint Venture, or other	
Number of subsidiaries	How many subsidiaries does the company have in Latin America?	The number of subsidiaries in Latin America	
Investment size	What is the amount invested in the host country in the past 5 years?	1: Up to \$5 million 2: \$5 million - \$10 million 3: \$10 million - \$20 million 4: \$20 million - \$30 million 5: Above \$30 million	
Home country corruption	Where is the home country of the parent company of the subsidiary you work for?	The home country is more corrupt than the host country (according to the CPI index) 1: Yes 0: No	

Experience with corruption	Please, list the countries where the parent company of the subsidiary you work for has subsidiaries?	Number of subsidiaries in more corrupt countries than host country <b>minus</b> the number of subsidiaries in less corrupt countries than host country	
Corruption uncertainty	(1) Do you have advance knowledge of how much an unofficial payment for government service will be?	(1 to 5) 1: Not at all 5: Yes	Summated scale (3 to 15)
	(2) Do you have advance knowledge of whether any additional payments will be required after a payment has been made to other public officer?	(1 to 5) 1: Not at all 5: Yes	
	(3) Do you know if after making an unofficial payment to a public officer the service will be received as agreed?	(1 to 5) 1: Not at all 5: Yes	
National corruption	To what extent are national-level political leaders likely to be corrupt?	(1 to 5) 1: Very unlikely 5: Very likely	
Bribe culture	Is corruption part of business culture in the host country?	(1 to 5) 1: Not at all 5: Yes	
Industry	Manufacturing, service, or agriculture	Dummy coding (reference is Agriculture)	



**Figure 1.** Theoretical model.



**Figure 2:** Percentage of total variance extracted by each component.

**Table 1.** Descriptive statistics.

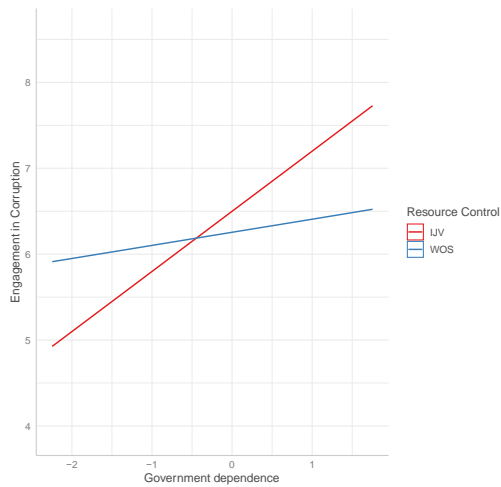
	<b>mean</b>	<b>sd</b>	<b>min</b>	<b>max</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
1. Engagement in corruption	6.76	1.39	2.00	10.00												
2. Government dependence	3.25	0.89	1.00	5.00	0.14											
3. Subsidiary control	0.67	0.47	0.00	1.00	-0.03	-0.01										
4. Number of subsidiaries	9.72	1.99	5.00	18.00	0.14	-0.30	0.04									
5. Investment size	2.99	1.15	1.00	5.00	0.10	-0.04	0.11	0.25								
6. Home country corruption	0.39	0.49	0.00	1.00	-0.23	0.19	-0.23	-0.49	-0.44							
7. Experience with corruption	-1.16	3.69	-9.00	10.00	-0.10	0.13	-0.07	-0.27	-0.21	0.53						
8. Corruption uncertainty	3.06	0.94	1.00	4.67	-0.17	0.22	-0.05	-0.27	-0.25	0.62	0.41					
9. National corruption	3.73	0.90	2.00	5.00	0.22	-0.18	0.07	0.18	0.22	-0.43	-0.14	-0.40				
10. Bribe culture	4.41	0.62	3.00	5.00	0.22	0.02	0.04	0.08	0.09	-0.18	0.11	0.03	0.14			
11. Manufacturing	0.29	0.46	0.00	1.00	-0.21	-0.05	-0.08	-0.02	-0.00	0.02	0.11	-0.04	-0.03	0.00		
12. Service	0.81	0.98	0.00	2.00	0.18	0.06	-0.04	-0.02	-0.06	0.10	0.09	0.09	0.01	-0.06	-0.53	
13. Agriculture	0.91	1.38	0.00	3.00	0.02	-0.01	0.12	0.05	0.07	-0.12	-0.20	-0.05	0.02	0.06	-0.42	-0.54

**Table 2.** Model estimates for subsidiary engagement in corruption.

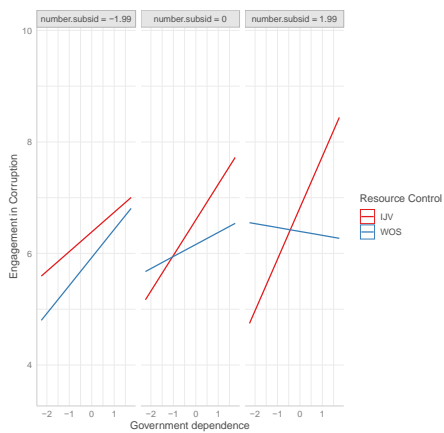
	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Government dependence	0.28**(0.12)	0.63***(0.19)	0.52**(0.21)
Subsidiary control (WOS vs JV)	-0.30(0.21)	-0.29(0.21)	-0.45**(0.21)
Number of subsidiaries	0.09(0.06)	0.10*(0.06)	0.07(0.10)
Investment size	0.01(0.09)	0.08(0.10)	0.09(0.10)
Home country corruption	-0.37(0.34)	-0.26(0.34)	-0.27(0.33)
Experience with corruption	-0.02(0.03)	-0.02(0.03)	-0.02(0.03)
Corruption uncertainty	-0.01(0.14)	-0.03(0.14)	-0.02(0.14)
National corruption	0.19(0.12)	0.22*(0.12)	0.21*(0.12)
Bribe culture	0.26(0.17)	0.24(0.17)	0.34*(0.17)
Government dependence*subsidiary control		-0.53**(0.24)	-0.35(0.26)
Government dependence*number of subsidiaries			0.12**(0.06)
Subsidiary control*number of subsidiaries			0.09(0.12)
Government dependence*subsidiary control*number of subsidiaries			-0.24**(0.10)
Constant	4.74***(0.97)	4.75***(0.96)	4.48***(0.95)
Industry effects	Yes	Yes	Yes
Country fixed effect	Yes	Yes	Yes
Observations	175	175	175
Adjusted R <sup>2</sup>	0.19	0.21	0.24
Residual std. error	1.25	1.23	1.21
F Statistic	4.17***	4.31***	4.17***

\*  $p < 0.10$  \*\*  $p < 0.05$  \*\*\*  $p < 0.01$

Note: Subsidiary control is instrumented by the interaction between Industry, Home country corruption, and corruption experience. Robust standard errors reported in parentheses.



**Figure 3.** Interaction government dependence and engagement in corruption.



**Figure 4.** 3-way interaction government dependence, subsidiary control, and investment.

**Table 3.** Robustness test.

	<b>Model 4</b>	<b>Model 5</b>	<b>Model 6</b>	<b>Model 7</b>
Government dependence	0.74***(0.21)	0.90***(0.31)	0.82***(0.25)	0.90***(0.23)
Subsidiary control (WOS vs JV)	-0.23(0.25)			
Subsidiary control		-0.24(0.31)	-0.43(0.28)	-0.35(0.23)
Service			0.10(0.17)	
Number of subsidiaries	0.12*(0.07)	0.10(0.06)	0.10*(0.06)	0.10*(0.06)
Investment size	0.15(0.12)	0.09(0.10)	0.05(0.10)	0.30*(0.17)
Home country corruption	0.31(0.43)	0.02(0.48)	-0.09(0.35)	-0.16(0.35)
Experience with corruption	-0.04(0.04)	-0.01(0.03)	-0.02(0.03)	-0.01(0.03)
Corruption uncertainty	-0.17(0.17)	-0.17(0.14)	-0.17(0.14)	-0.15(0.14)
National corruption	0.22(0.15)	0.24*(0.12)	0.23*(0.12)	0.22*(0.12)
Bribe culture	0.46**(0.20)	0.46**(0.17)	0.42**(0.17)	0.40**(0.17)
Government dependence*subsidiary control (WOS vs JV)	-0.68**(0.29)			
Government dependence*subsidiary control		-0.92**(0.37)	-0.75**(0.30)	-0.71***(0.26)
Government dependence*home country corruption		-0.34(0.40)		
Subsidiary control*home country corruption		-0.17(0.45)		
Government dependence*subsidiary control*home country corruption		0.78(0.52)		
Government dependence*service			-0.09(0.19)	
Subsidiary control*service			0.26(0.21)	
Government dependence*subsidiary control*service			0.20(0.24)	

Government dependence*investment				0.13(0.15)
Subsidiary control*investment				-0.34*(0.20)
Government dependence*subsidiary control*investment				-0.09(0.19)
<hr/>				
Constant	4.35***(1.15)	4.50***(1.04)	4.64***(1.04)	4.90***(0.98)
Industry effects	Yes	Yes	No	Yes
Country effects	Yes	Yes	Yes	Yes
Observations	121	175	175	175
Adjusted R <sup>2</sup>	0.17	0.17	0.17	0.17
Residual std. error	1.31	1.26	1.27	1.26
F Statistic	3.11***	3.40***	3.47***	3.44***

\* $p < 0.10$  \*\* $p < 0.05$  \*\*\* $p < 0.01$

Note: Subsidiary control is instrumented by the interaction between industry, home country corruption, and corruption experience. Robust standard errors reported in parentheses.



**Table 4.** Instrumental regression estimates for engagement in corruption.

	Model 8
Government dependence	1.53***(0.42)
Subsidiary control (WOS vs others)	-0.60(0.64)
Investment size	0.26*(0.13)
National corruption	0.33**(0.13)
Corruption uncertainty	-0.19(0.13)
Bribe culture	0.30*(0.17)
Number of subsidiaries	0.12**(0.06)
Government dependence*subsidiary control (WOS vs JV)	-1.79***(0.65)
Constant	5.20***(1.15)
IV diagnostic tests	<i>p</i> value
Weak instruments	0.02
Wu-Hausman	0.10
Sargan	0.43
Observations	175
Residual std. error	1.38

\*  $p < 0.10$  \*\*  $p < 0.05$  \*\*\*  $p < 0.01$

Note: Subsidiary control is instrumented by the interaction between industry, home country corruption, and corruption experience. Robust standard errors reported in parentheses.