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„The Market Entry Modes of MNEs in Corrupt Environments: A literature review"

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CEE	Central and Eastern Europe
EQ	Equity entry mode
FDI	Foreign Direct Investment
GNP	Gross National Product
GDP	Gross Domestic Product
IPR	Intellectual Property Rights
IMD	International Institute for Management Development
JV	Joint Venture
MNEs	Multinational Enterprises
MNMEs	Multinational Manufacturing Enterprises
M&As	Mergers and Acquisitions
MENA	Middle East and North Africa
NEQ	Non-Equity entry mode
OLI	Ownership-Location-Internalization paradigm
SMMEs	Small-medium Manufacturing Enterprises
TI	Transparency International
TCA	Transaction Costs Approach
WOS	Wholly Owned Subsidiary

1 Introduction

The first chapter includes the problem statement, the primary objective and the research questions of the thesis. Moreover, the information regarding the structure and organization of this paper is provided.

1.1 Problem statement and objective

Rapid and dramatic changes, taking place in the economics and politics all over the world these days, force enterprises to respond properly and timely. One of the strategies to stay competitive in a globalized world is to internationalize in new markets in the search of competitive advantage. And indeed, internationalization is no longer an option but a must to prosper national economy since economic isolation leads to decline in country's economic capability. Moreover, it is evidenced that most of the Western markets reached the saturation phase which in turn induces the multinational companies to search for other potential markets with the huge customer base or cost-reducing resources. Accordingly, growing competition and globalization which is the new tendency in today's fast moving world, stimulate or even force MNEs to enter the emerging, transition and new industrialized economies. From the international managers' perspective, such markets are seen attractive for the MNEs with their international experience, knowledge and technological know-how, yet these markets are not without drawbacks. In comparison to developed countries, developing countries are characterized by a weak institutional environment and low quality of governance, and corruption is one of the main factors influencing it. Therefore, MNEs often encounter government corruption when operating in the host countries.

Despite the increasing number of studies on the entry strategies of MNEs and the corruption phenomenon in isolation, there is little research made on the relationship between these two. However, in the face of the economic situation occurring nowadays, scholars realized the need of understanding the distinct effects of corruption on the economy, and its significant implications for firms.

The main intention of this paper is not purely to provide the collection of papers, but to offer an integrated and unified overview of the subject in question and to highlight the significance of the topic.

The underlying thesis aims to answer to the following research questions:

1. What effect (positive/negative) does corruption have on the decision to enter a country characterized by high corruption?
2. How does the effect of corruption differ for MNEs from developed countries from MNEs from less developed or developing countries?
3. What entry mode (equity vs. non-equity, JV vs. WOS, M&As or Greenfield investments) would be chosen if the host country is highly corrupted?

1.2 Organization and structure

In order to facilitate readers understanding of the relationship between corruption and entry mode strategies selected by multinationals, the paper starts with the introduction on the main concept of corruption (Chapter 2). The focus of the chapter is on the peculiarities of the nature of corruption. Chapter 2 concludes with the answers to the first two research questions.

What follows is the main part of the thesis. Chapter 3 deals with the entry mode strategies implemented by multinational corporations in the uncertain environments. It begins with the brief overview of different types of entry modes and economic theories that could be applied to the survey of the relationship between corruption and expansion strategies of MNEs. The subchapters include the review and analysis of diverse academic papers related to the MNEs' entry mode choices in corrupt countries. At the end of this chapter the preliminary conclusion regarding the correlation between corruption and entry modes is provided.

Chapter 4 links the previous chapters, namely general definitions of corruption, its types and dimensions and the theoretical framework for strategic decision. It presents the summary of empirical studies and the direction for future research. The research method applied in this thesis focuses on the analysis of the secondary data provided in the past studies that were published in the last 18 years.

Finally, Chapter 5 presents a conclusion that addresses the research questions and discusses the main aspects of the thesis.

2 Corruption

The first step of understanding corruption and its effects on the standard of living of people, in general, and on the economy and investment, particularly, is the decision on how to determine corruption. This will be briefly explained in the subchapter 2.1. An illegal act to be considered as corruption must consists of certain elements which will be described in the subchapter 2.2. It is also worth to mention that corruption might exist in three different levels of government structure: bureaucratic, political and legal. The differences and similarities of these three types of corruption will be discussed in the part 2.3. Next, two dimensions of corruption – pervasiveness and arbitrariness – that are in different extent prevail in every country – will be briefly described in 2.4. In order to develop and implement effective strategies and programmes against corruption, first, it is essential to understand what might cause corrupt acts; second – what consequences might result from corruption. These two important aspects of corruption will be discussed in subchapters 2.5 and 2.6.

2.1 Definitions of corruption

An article on corruption (Jain 2001) claimed that the difficulty of studying corruption lies in its definition because what can be considered as corruption to some may not be corruption at all to others. Detzer (as cited in Teixeira & Grande 2012, p. 7943) stated that there exist a wide variety of definitions for this phenomenon.

Some scholars using the *public-interest-centred argument* defined corruption as the deviation from the behaviour in the public interest. However, this term is less specific since it is not clear who is responsible to decide what is in the public interest (Lancaster & Montinola 1997). Additionally, Theobald (as cited in Lancaster & Montinola 1997, p. 188) claimed that the complex societies are comprised of a ‘wide range of publics each with its own interests’. From other research studies, it was found that there exist some forms of corruption–the so-called honest graft– which may actually promote the public interests.

In order to be more specific, other researchers determined corruption as behaviour that deviates from legal norms. Based on this approach, Nye (1967, p. 419) defined corruption as

> behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence.

Using the complex definition of corruption of Friedman et al. (2000), Teixeira and Grande (2012, p. 7943) described corruption as ‘illegal activities that represent costs imposed on business by bureaucrats from which the government obtains no revenue and which do not generate any positive benefits for society’. One of the most often cited definition based on this concept was given by the World Bank, describing it as ‘the abuse of public power for private gain’. An international non-governmental organization, *Transparency International*, determined corruption in the same way as ‘the abuse of entrusted power for private gain’. However, this term, also known as the *public-office-centred or behaviour-focused definition*, has been criticized by one group of scholars for being too narrow. The argument of this group of explorers was that not all corrupt acts are illegal, and vice versa, not all illegal acts are corrupt. In this way, they proved that the corruption is the behaviour that deviates not only from formal duties but also from norms or moral standards of a given society. Even though this *norm-based definition* broadens the scope of the term, it raises the questions such as what could be done if public opinion is ambiguous or divided, or if public official is not forbidden by laws from receiving gifts, could we consider it as a corrupted act (Lancaster & Montinola 1997).

Alternatively, Theobald (as cited in Lancaster & Montinola 1997, pp. 189-190) in his paper compared patrimonial states with those within rational-legal administration to explain what corruption is. According to his exploration, in the patrimonial states, members of the administrative apparatus are persons whose compensations are made in form of cash or land at the ruler’s behest. It is also evident that there are no clear-cut decision procedures in such states, and all property belongs to the ruler. In contrast to the patrimonial states, the hierarchy of graded authority and fixed jurisdictional areas with clear-cut procedures are characteristics of states with rational-legal administration. Besides this, members of the administrative apparatus are recruited according to their experiences and knowledge, and compensated for their work by their salaries. In such states, there is also a strict separation between private and public spheres. Based on this argument, scholars of different studies contend that corruption is an essential feature of the patrimonial states. Nevertheless, it was also proved that some degree of patrimonialism is found in all bureaucracies; the issue is only to determine to what degree it persists in different administrations and to what extent corruption can be termed as patrimonialism.

Lancaster and Montinola (1997) discovered that the economists and economic historians, describing corrupt acts as the use of market mechanisms, stated that corrupt public officials regard their public offices as private businesses. Scholars should use this *market-oriented* *definition* of corruption if the goal of the study is to compare the incidence of specific behaviour in different countries or historical cases to identify whether or not these public offices are governed by similar norms or laws.

Rose-Ackerman (1978) used the agency-principal model to illuminate how corruption distorts the principal-agency relationships between the electorate, politicians and bureaucrats. This type of relationships is the characteristics of democratic states. To be more precise, Rose-Ackerman (1978) argued that in an ideal democratic government, politicians who are the agents of their political supporters, act on behalf of particular individuals or groups in exchange for political support or votes. On the lower level come bureaucrats – agents of the politicians, who undertake to execute certain activities in exchange for specified forms of compensation authorized by politicians. To sum up, the democratic government is a hierarchy of principal-agency relationships between the electorate, politicians and bureaucrats. It is the incident of corruption when agents perform activities in favour of their own interests by waiving their agreements with principals.

In sum, we could say that there are so many possibilities to define corruption, each one with its own strengths and weaknesses. The researcher must only decide what definition is more appropriate in his/her analysis of corruption. Nevertheless, all these definitions must be composed of three elements: discretionary power, economic rents associated with this power, low probability of detection and/or penalty for wrongdoing. These determinants of corruption will be explained in more detail in the next part. It is also worth to mention that corruption could occur not only in the public sphere but also within private individuals. In addition to this, it is also essential to remember that not all corrupt activities involve the payment of bribes (Tanzi 1998, p. 565). In his paper Tanzi (1998, p. 565) provided two examples of such corrupt acts: for example, going on vacation by pretending to be sick is the abuse of public position for personal use; airport construction in the small hometown of the president of a country is also an act of corruption which does not involve the payment of a bribe.

2.2 Determinants of corruption

Discretionary power

As it was mentioned above, the first condition of the existence of corruption is that someone must have the discretionary power over the allocation of resources. The differences in the discretionary powers of the three types of agents (the political elite/politicians, the administrators/bureaucrats, and the legislators) depend on the source of these powers and their principals' abilities to monitor their respective agents.

The principal of the political elite is the electorate, or in other words, populace. The populace chooses a certain party and its candidates by granting them broad powers not only to make policies but also to implement them. However, it is hard to identify whether the political elite acts in the best interest of its voters. Moreover, it is difficult to observe whether the politicians perform corrupt acts or not. Consequently, it has ample opportunities to use the discretionary powers (Jain 2001).

The political elite is the principal of the administrators or bureaucrats who accept the obligation to administer the policies made by the political elite. The scope of the bureaucrats' power depends on the politicians' ability to set precise rules and to monitor its agent. However, the costs of monitoring the activities performed by bureaucrats are high and it is difficult to set the rules that cannot be interpreted differently as they were intended to be. Hence, these factors will determine the extent of administrators' leeway for corruption (Jain 2001).

The legislators use their discretionary power to design the legislation in order to govern the behaviour of the other two agents. Though, the degree of the legislators' corruption is restricted by the ability of the populace– the principal of the legislators– to threaten not to re-elect corrupt legislators (Jain 2001).

Using the model developed by Grossman and Helpman (1994), it was argued (Jain 2001) that the uses of power by the politicians, bureaucrats and legislators that benefit someone else than their principals do not always lead to the occurrence of corruption. According to Grossman and Helpman (1994), there are some situations – the so-called rent-seeking behaviour – when the property owners with the aim of increasing the value of their property rights influence those with the discretionary powers. Sometimes, in such cases, the decisions made by the agents could meet the interests of their principals and the agents' desire to be re-appointed. Whether this is the case of corruption depends on time, the reason and the way the agent wants to be influenced by the property owner.

An article on corruption (Jain 2001) identified the following conditions that need to be violated (at least one of them) in order to consider legal sanctioned rent-seeking activities as illegal acts of corruption:

(i) The process of influencing the decision-makers can be modelled as a competitive game, and the rules of this game must be known to all the players.

(ii) It is prohibited to pay any side payments to the agent.

(iii) There must exist independence between the agent and the clients meaning that neither group can benefit from the income earned by the other group.

According to Rose-Ackerman (1978) discretionary powers are associated with regulations which by design locate powers with those who have the obligation to implement the regulations. Therefore, in contrast to the market economies, there are more discretionary powers, and hence more corruption, in regulated and controlled economies. Some scholars argue that the corruption level tends to decline with the liberalization of the economy, while others contend that liberalization is accompanied by more corruption, not less. An article on the politics of corruption in Latin America (Weyland 1998) provided one of the reasons for such a relationship between the liberalization and the level of corruption: even though the liberalization is aimed at the reduction of government's intervention in the economy, the liberalization process itself involves a high level of state's intervention, and this in turn will increase the opportunities for corruption. In addition to this, an article about corruption (Jain 2001) implied that in the process of privatisation which is an important aspect of liberalization, the discretionary powers associated with the transfer of large amounts of assets from public to private hands can create opportunities for corruption. The second explanation for such an ambiguous relationship between the level of corruption and the liberalization was given by Johnston and Hao (1995) who claimed that the reform process itself characterized by imperfections can create opportunities for opportunistic behaviour. Some of these relationships were tested in different empirical studies, for example, Kaufmann and Siegelbaum (1996) in their study examined the link between the privatisation process and the level of corruption in transition economies. Based on their results, Johnson, Kaufmann and Zoido-Lobaton (1998, p. 387) proved that more discretion and more regulations for officials 'leads to a higher effective burden on business, more corruption, and a greater incentive to move to the unofficial economy'.

Economic rents

The second condition to provide the existence of corruption in a certain country is the economic rents associated with the discretionary power of agents. It is obvious that the incentives of property owners to attempt to dodge the rules become greater as the rents become larger. In an article about corruption (Jain 2001) it was proposed that the higher the rents, the higher the value of side payments to the agents who hold the discretionary powers.

Given the difficulty in assessment of the size of these rents, it is difficult to conduct empirical tests for the importance of excess economic rents. Nevertheless, some researchers analysed how excess rents increase the level of corruption. For example, Goel and Nelson (1998) measured the potential gains from corrupt acts as the function of variables describing the size and scope of the public sector; the region of their analysis was various American states. Based on the argument that a government's active industrial policy will transfer rents to firms in favoured sectors, Ades and Di Tella (1997) directly supported that there is a positive relationship between the excess rents and the level of corruption meaning that the excess economic rents will foster corruption. Other studies claimed that within the globalization of markets, commercial banks and other financial institutions enhance their success by developing more their competitive strategies and less protective regulations. Using this argument, Jain and Tirtiroglu (as cited in Jain 2001, p. 80) by analysing the financial services industry in the United States provided an indirect support for the proposition that the excess rents may be related to the level of corruption.

<u>Deterrents of corruption</u>

The third requirement is that those engaged in corrupt acts must believe that there is a low probability of detection. In other words, they must believe that the utility of the income from corruption is worth the risks of being detected, prosecuted and punished. It is worth to remember that these risks are related to the values and structures of the society in which corrupt acts are present.

In a study about corruption (Jain 2001), the author developed an equation with *net utility of corruption* as dependent variable, and *income from corruption, legitimate income/fair wages, strength of political institutions, moral and political values of the society, probability of being caught and punished* as explanatory variables. The author used this equation to identify whether or not these factors have an influence on the level of corruption and if yes, what the relationship is between each of these variables and the incident of corruption.

Income from corruption: In their analysis, they stated that there are two thresholds (lower level and upper level) for the income from corruption. The corruption index below the lower threshold is acceptable in countries with some corruption, and it is called as petty corruption. But when the corruption level is above the upper threshold, corruption becomes unacceptable and causes large scandals in those countries.

Legitimate income/fair wages: It was assumed that fair wages of administrators or agents, in general, determines whether or not the populace of a certain country accepts corruption. Some scholars such as Chand and Moene (1997), Goel and Nelson (1998) examined this relationship. In their test, Goel and Nelson (1998) found that there is a negative relationship between the government officials' salaries and the corruption level in the United States. Chand and Moene (1997) argued that if there is a believe that the society and administrators themselves are paid fairly for their work, then there is a negative perception of a person who engages in corrupt acts with the aim to increase his/her income. However, Van Rijckeghem and Weder (1997) argued that the corruption will not reduce in the short run in the case of increased wages of public officials.

Strength of political institutions: As it was mentioned before, in the democratic societies, populace can use the threat not to re-elect corrupt officials, and thus, have an influence on the pervasiveness of corruption. In less democratic states, people can use other means of influence such as their families, friendships, patronage ties or control of resources to have an influence on the agents' behaviour. Even though the agents' corrupt behaviour is constrained by these mechanisms, they can use mechanisms under their control to reduce the effectiveness of these mechanisms. Therefore, the imbalances in the strengths of the mechanisms of the populace and of the agents tend to foster corruption (Johnston 1997; Rose-Ackerman 1999).

Moral and political values of society: It is evident that culture affects the way people perceive corruption. Different societies, like for example, Asian and Western countries, differ in terms of moral standards which in turn build our perception of what is good and what is bad. Asian societies tend to use their personal connections to influence the public officials in order to get what meets their needs, while in the United States, it is prohibited to create political action committees to influence legislators. Several papers (Johnston & Hao 1995; Klitgaard 1992; Rose-Ackermann 1999; Treisman 2000) discussed the relationship between the ethical or moral norms of the society and the behaviour of politicians and the public officials. Other scholars (Brunetti & Weder 2003; Giglioli 1996) analysed the importance of free press in determining the extent of corruption.

Penalties for corruption: In an article about corruption (Jain 2001) it was claimed that four factors (probability of being caught, enforcement, independence of the judiciary from politicians, equal access to the law for everyone) plus the balances between the political powers of the elite and those of the populace help to conduct the individual's assessment of the costs of engaging in corrupt acts. The details on how each of these variables affect the decision of the agents to engage in corruption are presented in the paper of Jain (2001, pp. 83-84). Other studies investigating the value of penalties are Goel and Rich (1989); Johnson, Kaufmann & Zoido-Lobaton (1998).

2.3 Types of corruption

This subchapter will consider three types of corruption that can prevail in the society. According to Jain (2001) the differences of these three types of corruption are decisions of the agents that are influenced by corruption, the source of entrusted power discussed above, and the models used to explain corruption.

A corrupt act involving a firm that wants to invest and a high-level government official is called *'grand corruption' or political corruption*. Several scholars (Barro 1973; Becker 1983; Dixit, Grossman & Helpman 1997; Grossman & Helpman 1994; Rose-Ackerman 1999) investigated the corrupt behaviour of politicians, and in accordance with their arguments, the main challenge faced by political elite is to balance the interests of various segments of society and their own desire to remain in power. As it was discussed previously, a corrupt political elite can increase its utility of corruption either by changing the national policies or by changing the way these policies must be implemented but at some cost to the populace. Given their broad scope of power, this type of corruption is the most difficult to identify. An article about corruption (Jain 2001) claimed that models based on the agency theory are the most appropriate to explain how political elite uses its power to supplement its income with the income from corruption.

The second type of corruption is *bureaucratic corruption*, usually known as *'petty corruption'*. This type of corruption occurs between the appointed bureaucrats and either their superiors who are the politicians or the public. People can use the bureaucratic corruption either to get the service to which they are entitled or to speed up a bureaucratic procedure. However, an earlier article on corruption (Kaufmann 1997) analysed the corrupted situation in India and found that officials in India can slow down the approval process for rival companies but cannot speed up the bureaucratic processes. In some cases, public may bribe administrators to get the service that was not planned to be provided. In a paper about development economics (Rose-Ackerman 1998) different variations of corruption were explored and was claimed that bribes (termed as 'bribes to buy judicial decisions') with which firms can lower either the costs or the chances of legal penalties may also be considered as bureaucratic corruption. An article about corruption and the firm's mode of entry (Straub 2008, p. 248) stated that petty bureaucratic corruption differs from the high-level political corruption in the way that 'the former takes the form of outright extortion and imposes a pure loss on the firm, while the latter generates the opportunity of a gain for both the government and the firm', who are thus jointly responsible for the corrupt transaction. In her paper, Straub (2008) developed a model supposing that bureaucratic officials do not have a specific information on the firms' profit, and thus they require the amount of the bribe by maximizing their return taking into account the risks of being detected and punished. According to her statements, in comparison to the local firms, foreign companies with no personal connections and no knowledge of local customs are at a disadvantage. Jain (2001, pp. 85-86) argued that the bureaucratic corruption or in other words 'petty corruption' could be best explained using the resources allocation model where 'corruption changes the relative costs of inputs and outputs as well as the penalties faced by decision-makers and, hence, the behaviour of the players as well as the output of an economy'.

And the last but not the least is the legislative corruption. It is used by interest groups to enact legislation that can change the economic rents associated with assets (Jain 2001). Rose-Ackerman (1998, 1999) in her research stated that legislators could use 'vote-buying' which is part of this type of corruption in order to be re-elected. As the political corruption, the legislative corruption could be explained using the agency model which is characterized by information asymmetry. However, according to Jain (2001), in the case of corruption, the problem arises not only because of information asymmetry between the principal and the agent, but also when the principal lacks mechanisms to fully hold the agent accountable for its behaviour.

There exist other categorizations of corruption: "autogenic" corruption, "transactive" corruption, "excoriate" corruption, "defensive" corruption, "supportive" corruption, "investive" corruption, "nepotistic" corruption (Alatas as cited in Jiang 2017, p. 13), "corruption without theft" and "corruption with theft", "professional corruption" and "amateur corruption", "corruption according to rule" and "corruption against rule" (Transparency International as cited in Jiang 2017, p. 13), "primary corruption" and "secondary corruption" (Welin as cited in Jiang 2017, p. 13), "extractive corruption" and "redistributive corruption" (Rose-Ackerman 1999).

2.4 Dimensions of corruption

Given the wide variety of corrupt behaviours, scholars used different approaches to characterize corruption in a way that distinguishes one environment from another one. Some scholars such as Elliott (1997a), Rose-Ackerman (1999) categorized corrupt acts by the parties and stakes involved, while others (Kaufmann 1998; Treisman 2000) employed single index which is an aggregate of all the categories of corrupt transactions. Using the characteristics of the participants in corrupt activities or based on the objectives of the parties involved, Hellman, Jones, Kaufmann, Schankerman (2000), Schacter and Shah (2001) differentiated various types of corruption. Most of the research studies (Doh et. al 2003; Demirbag, McGuinness & Altay 2010; Rodriguez, Uhlenbruck & Eden 2005; Uhlenbruck et. al 2006) used two dimensions of corruption (pervasiveness and arbitrariness) to analyse the impacts of corruption upon the decision of multinationals to entre a specific country at the first stage, and at the second stage– upon a certain type of entry mode. This part of paper will provide a brief explanation what these two dimensions are and how they relate to corruption.

All these researchers agreed on the definitions of two dimensions of corruption. The study about corruption in foreign markets (Doh et al. 2003, p. 118) provided a broad definition of pervasiveness of corruption:

> the pervasiveness of corruption reflects the number and frequency of transactions (and individuals) with which (whom) the firm deals over the course of a fixed time period that involve illicit activities.

In other words, 'pervasiveness of corruption reflects the degree to which corruption is dispersed broadly throughout the public sector in a country...' (Uhlenbruck et. al 2006, p. 403). Therefore, we could say that if the corruption of the foreign environment is highly pervasive, then it is predictable and its effects are similar to the tax, and thus, companies may be able to view this tax as business expenses.

The second main characteristic of corruption is called arbitrariness and defined as 'the inherent degree of ambiguity associated with corrupt transactions in a given nation or state' (Rodriguez, Uhlenbruck & Eden 2005, p. 385). Some scholars argue that such "disorganized" corruption regimes are more harmful to firm performance than "organized" regimes. An article on the corruption (Doh et. al 2003, p. 118) stated that in a such "disorganized" corruption network government agents act independently and capriciously; they aim to increase their own bribery income but disregard the effects of their efforts on other officials. Thus, foreign entrants are unware of whom to pay, what to pay, and whether they will receive the promised goods or services even if they bribed officials. One of the best examples of highly arbitrary corruption is that of Russia throughout the 1990s.

These two dimensions of corruption – pervasiveness and arbitrariness – could be examined independently from each other since they capture different aspects of corruption, but it is not sufficient to focus only on one of them to fully characterize the host environment; from the multiple empirical tests, it is evident that they are simultaneously experienced and must be considered together (Rodriguez, Uhlenbruck & Eden 2005).

2.5 Causes of corruption

Why is corruption widespread in some countries, but not in others? Several studies attempted to answer to this question in different ways, using different samples of countries, indexes of corruption and explanatory variables. In this part of paper, the analysis of different elements that might cause corruption will be provided.

Political approach:

Decentralization

Several models have been developed to investigate whether decentralization has a positive or negative impact on corruption. Fisman and Gatti (2002, p. 327) stated that these models emphasize several basic factors: (i) interjurisdictional competition; (ii) monitoring and direct accountability; (iii) dispersion of decision-making powers; (iv) competence and bureaucratic quality.

The article on decentralization and corruption (Fisman & Gatti 2002) claimed that political competition causes the same effects as competition in product markets; the ability of bureaucrats to extract rents and the amount of these rents in exchange for services are reduced by political competition. Therefore, interjurisdictional competition tends to lower corruption level in decentralized economies. Additionally, the analysis of political decentralization in Columbia, (Fiszbein 1997, p. 1030) elicited that 'competition for political office opened the door for responsible and innovative leadership' which in turn improved the service delivery and reduced corruption at the local level. However, based on the arguments provided in the study on public bureaucracy (Moe 1984), the discussion about the economics of corruption (Lambsdorff 2006) argued that competition for political positions is not sufficient to guarantee that honest officials will get the right to serve their offices, since those incumbents that have control over corrupt income, may use these resources to preserve their power.

Persson and Tabellini (as cited in Fisman & Gatti 2002, pp. 327-328) argued that decentralization enhances monitoring and holds politicians directly responsible for their actions. According to their logic, under decentralization, each politician is responsible for a specific task which in turn improves politicians' performance. In contrast, under centralization, there is an aggregate performance which in turn weakens the link between effort and rewards. However, decentralization may create multiple tiers of government which could weaken accountability because of the difficulty of attributing blame for failures and credit for success. An interesting view against decentralization was expressed by Wolfinger (as cited in Treisman 2000, p. 407) that:

> decentralized political systems are more corruptible, because the potential corrupter needs to influence only a segment of the government, and because in a fragmented system there are fewer centralized forces and agencies to enforce honesty.

In addition to the argument against decentralization, a paper about development economics and fiscal decentralization (Tanzi 1996), and an article on the danger of decentralization (Prud'homme 1995) claimed that since the interactions between private individuals and public officials are more frequent and characterized by greater intimacy at more decentralized levels, decentralization would cause greater corruption at the local level. Shleifer and Vishny (1993) in their study of corruption stipulated that decentralization could lead to overgrazing by police forces assumed that decentralization leads to greater dispersion of government decision-making powers. The same result was derived by Treisman (1999). Other scholars, Tanzi, Brueckner (as cited in Fisman & Gatti 2002, p. 328) claimed that there is a smaller likelihood that decentralized economies will attract high quality officials since their reward will be smaller in comparison to public officials at the central level.

Thus, we could conclude that the empirical results on the decentralization's effect on corruption are mixed and depend on how decentralization is measured and what types of decentralization (political or fiscal, revenue or expenditure) are considered in the analysis.

Democracy

The empirical results on the effect of democracy on corruption are ambiguous. Some researchers argued that democracy tends to reduce corruption because it produces competition among servants for a public office. In a more democratic society, voters are able to vote out of office those that perform poorly or who perform their self-interests at the expense of public interests. An article on the causes of corruption (Treisman 2000) provided the same argument in favour of democracy in combating corruption; he stated that there is a risk of exposure in the democratic regimes because of the freedom of association and of press. Freedom of association and of press stimulate public interest groups and reporters to publicize the incumbent's misuse of public office. Additionally, he claimed that there are enhanced incentives for candidates for a public office to discover and disclose the incumbent's illicit activities whenever it will be advantageous for them. The article on the causes of corruption (Goel & Nelson 2010) stated that public officials less often engage in corrupt activities in the democratic nations because of the threat of losing the public office which is their rent-seeking potential. Therefore, we could assume that there is a negative correlation between corruption and democracy. Nevertheless, it is evident that the positive consequences of democracy related to deterrence of corruption do not result from democracy in the short run and from democracy with little electoral participation (Lambsdorff 2006). Montinola and Jackman (2002) used a complex method to measure democracy; they employed the composite Gastil index and assessed the ability of opposition groups to organize the effective legislative body. In this way of measuring democracy and its relationship with the level of corruption, they found out that moderate levels of democracy do not lead to decreased levels of corruption; it is needed to pass a certain threshold in order to suppress corruption. Manow (as cited in Lambsdorff 2006, p. 11) confirmed this result, arguing that the incidence of corruption in medium-democratic regimes is even higher than in totally authoritarian countries.

As it was mentioned before, the effect of democracy on corruption level depends on its type. Scholars such as Lederman, Loayza and Reis Soares (2001), Panizza (2001), and a discussion about corruption (Lambsdorff 2006) showed that in contrast to the presidential systems where policy-making power is divided between the legislature and the president, parliamentarism tends to lower corruption. Even though parliament may follow its own self-interest, its independence can limit the executive's self-behaviour, and thus inhibit corruption. Kunicova (as cited in Lambsdorff 2006, p. 12) extended her analysis of presidential countries by using a dummy variable for presidents with term limits. Based on her empirical results, she argued that presidentialism with term limits increases corruption level significantly, since at the end of the term the incumbents have little to lose, therefore they use all their power to increase their private benefits during the term. According to her argument, the positive correlation between presidentialism with term limits and corruption is larger if the presidents are more powerful, which means that their power expands across both legislative and non-legislative functions. In addition to the examination of presidentialism versus parliamentarism, Kunicova together with

Rose-Ackerman (2005) tested in their study how plurality voting versus proportional representation affect the level of corruption. They came to the conclusion that proportional representation in conjunction with presidentialism are characterized by high corruption level. However, Adsera, Boix and Payne (2003) found a positive correlation between presidentialism and corruption. A discussion about corruption (Lambsdorff 2006) argued that the contradicting finding might be due to the differences in the measurement of presidentialism (Adsera, Boix & Payne 2003, p. 456 attached the value of 2 if the president is elected directly, 1 if the president is elected by assembly, but has substantial powers, and 0 if the system is purely parliamentarian), or it might be due to the inclusion of political instability which tends to increase corruption. In the result, the discussion about corruption (Lambsdorff 2006, p. 12) assumed that the 'presidentialism might be a second-best alternative in countries where political parties are not devoted to broad national interests'.

In a sum, as Tresiman (2000) in his study concluded, whether a certain country is democratic or not today does not say anything about its current perceived level of corruption, what matters is how long it is democratic. In other words, the current degree of democracy is insignificant, but the long duration of democracy tends to lower corruption levels.

Overregulation and bad regulation

It is evident that there is an enormous number of regulations or rules in developing countries and countries in transition. These regulations and rules are related to licences, permits and other sorts of authorization which are required to engage in any activity. As a result, these regulations give a kind of monopoly power to the officials, and thus, create greater opportunities for bribe-taking and bribe-giving behaviour. Goel and Nelson (2010, p. 438) gave the same argument by claiming that 'a constrained economy would create opportunities for engaging in corrupt practices'. Besides this, most of these rules, laws or processes are non-transparent, documents specifying them are not publicly available and written in confusing ways, especially about important aspects, so that they could be interpreted differently, and occasionally, the rules are changed without properly publicized announcements. These all creates incentives for bureaucrats, legislators or officials in general to be part of corrupt acts.

Another major cause of corruption is bad regulation. The debate about corruption and the economy (Lambsdorff 2006) stated that the ill-designed policies create a fertile ground for corruption. Broadman and Recanatini (2001) found out in their survey of transition countries in Europe and Central Asia that the higher barriers to market entry could explain high levels of corruption in these economies. A recent study to investigate the regulation of entry and its relationship with the unofficial economy (Djankov et al. 2002, pp. 18-19) got the same result in their analysis of 75 countries. An article about corruption (Svensson 2005) examined the number of days spent by businesses to get a legal status, and based on the results, stated that corrupt countries are characterized by strict and rigid regulations of market entry. From this perspective, a discussion about corruption and its causes (Lambsdorff 2006, p. 7) argued that 'entry regulation does not serve to correct for market failure but brings about problems for its own'. Gerring and Thacker (2005), Ades and Di Tella (1997, 1999) explored the relationship between regulatory quality and absence of corruption and deduced that policy intervention causes corruption. However, there might be an adverse relationship between these two variables, meaning that corruption may cause policy distortions. Therefore, based on the argument of the discussion about corruption (Lambsdorff 2006, p. 7) that 'policy distortions and corruption are quite often just two sides of the same coin', we could state that there is a two-sided causation run, from "bad" regulation to high corruption, and from corruption to "bad" regulation.

Globalization

Since the economy is at the stage of globalization now, it is interesting to investigate the influence of globalization on the incidence of corruption. A discussion about corruption and the global economy (Elliott 1997b) has argued that there is a positive relationship between these two variables because of the firms' need to stay competitive in a global market, while other scholars (Sung & Chu 2003; Williams & Beare 1999) claimed that globalization tends to reduce the number of corrupt practices and of bribes payed to public officials because of the need of firms to adhere to the international anti-corruption rules and regulations. Golden (as cited in Das & DiRienzo. 2009, p. 35) proved that the level of corruption decreased in Italy as it integrated into global economy. In favour of a positive correlation between globalization and corruption, an article on controlling the global corruption epidemic (Leiken 1997) and a discussion about corruption in the global economy (Elliott 1997b) stated that it gets harder to detect corrupt practices in a globalized world. Therefore, it is difficult to establish a linear relationship between these two variables. Nevertheless, Das and DiRienzo (2009) proved that there exist a non-linear or an inverted U-shape relationship between globalization and corruption. They stated that the way the globalization affects the level of corruption depends on what stage of globalization a country stands. To be more precise, countries that are at the lower levels of globalization, usually do not participate in anti-corruption practices as well are not integrated into global economy, and when the companies of these countries cross their national borders, it is more likely that they will engage in corrupt acts in an effort to remain competitive among active participants in the world economy. Therefore, the level of corruption tends to increase in countries which are at the initial stage of globalization. As these countries become more integrated into global economy, they face an obligation to follow anti-corruption rules and provide more accountability and transparency. A good example of countries that are at the point where corruption levels reach their peak/threshold, are post-Soviet countries since most of them are at the moderate levels of globalization. This is one of the reasons why firms in these countries more often report unofficial payments. Above or below the threshold are countries such as West-European countries that already shifted from moderate levels of globalization to high levels, and thus experience less corruption and related issues.

Economic approach:

Lack of economic competition

In the same way as the interjurisdictional competition reduces rents, and thereby reducing incentives of public officials and politicians to take part of these rents through extortion or corruption, the same logic applies to the relationship between economic competition and corruption. In other words, lack of economic competition tends to rise corruption. This result was confirmed by several studies (Goldsmith 1999; Paldam 2002). Ades and Di Tella (as cited in Lambsdorff 2006, p.8) employed in their study two indicators of competition (market dominance and anti-trust laws) taken from the IMD survey. The first indicator was used to measure the negative effect of the dominance of a limited number of firms on the development of new business. The second one was used to assess the effectiveness of anti-trust laws in checking non-competitive practices. Authors draw a conclusion that there is no clear evidence for the negative correlation between economic competition and corruption based on the assumption that corruption itself may induce politicians to support monopolies. Furthermore, a discussion about the economics of corruption (Lambsdorff 2006) claimed that if companies compete on quality of goods rather than on price, then these companies may bribe inspectors in order to allow to deliver a substandard quality. Thus, in such cases competition does not reduce corruption, but increases it. Other studies (Gerring & Thacker 2005; Sung & Chu 2003; Treisman 2000) defined international economic competition as the degree to which market is open to foreign trade; openness to foreign trade was measured as the ratio of import to GDP. Except for the analysis of causes of corruption in a cross-national study (Treisman 2000: no significant result), all others confirmed the negative correlation between openness to trade and corruption. However, a debate about the economics of corruption (Lambsdorff 2006, p. 9) criticized these studies by arguing that this ‘variable depends to a larger extent on the size of the country, measured for example by its total population’, and large countries might have lower ratio of import to GDP in comparison to other countries but have high level of competition within their own country. Hence, the effect of this variable is not beyond doubt. Nonetheless, using other measurement of openness as the number of years a country has been opened to trade, scholars (Leite & Weidmann 1999; Treisman 2000) proved that there is a negative correlation between openness to trade and the level of corruption.

All in all, we could assume that the lack of competition leads to widespread corruption.

Endowment of natural resources

There existed an assumption that countries that have abundant natural resources, are relatively highly corrupted. Leite and Weidmann (1999) tested the level of corruption, and found out that the endowment of natural resources measured as the ratio of exports of fuels and minerals to GNP gives the rise of rent-seeking behaviour, and thus increases corruption. Ades and Di Tella (1999) in their survey confirmed this result and stated that large endowments of natural resources create incentives for public officials who have the right over the resources allocation to seize the rents through corrupt acts. A recent study to investigate the varieties of resource experience (Isham et al. 2005, pp. 142-143) stated that the abundance of natural resources such as oil, minerals, and plantation crops (“point source natural resources”) are the sources of weak institutions and slower economic growth and not part of the solution for development in 90 developing countries. Moreover, Aslaksen (2007) argued that the positive correlation between the abundant oil fields and corruption is present in both democratic and nondemocratic states. An article on corruption (Treisman 2000) explained such a positive relationship between raw materials and rents; it is known that countries with abundant natural resources tend to grow slower than their resource-poor counterparts, and it is evident that as well as poverty leads to corruption, corruption leads to poverty. Additionally, he claimed that ‘dependence on raw materials exports, by centralizing economic power, may also reduce democratic stability, increasing corruption by this pathway’. Bhattacharyya and Hodler (2010) extended the simple analysis of the relationship between natural resources endowment and corruption, and proved that the effect of natural resources abundance on corruption level depends upon the quality of democratic institutions. They empirically proved that natural resources abundance leads to high incidence of corruption in countries with poor democratic institutions, but not in countries with comparatively better democratic institutions. Thus, the article on the institutions and resources

(Mehlum, Moene & Torvik 2006) concluded that the effect of natural resources on the economic performance depends on the quality of institutions: resources rise income in countries where institutions are producer friendly, but when institutions are grabber friendly, natural resources tend to lower the aggregate income. Additionally, the study on the curse of natural resources (Hodler 2006) stated that the effect of natural resources on the economic performance depends not only on the quality of institutions but also on country-specific characteristics such as whether a country is a homogenous society or is composed of ethnically fractionalized societies. However, the recent empirical study on the determinants of corruption (ElBahnasawy & Revier 2012) found that there is no significant effect of natural resources abundance on the level of corruption. Hence, we cannot state with certainty that an abundance of natural resources leads to the prevalence of corruption.

Economic development

Most of the research studies (ElBahnasawy & Revier 2012; Goel & Nelson 2010; Lambsdorff 2006; Serra 2006; Treisman 2000) employed in their analysis per capita GDP as one of the explanatory variables to test how the stage of economic development impacts on the level of corruption. They suggested that there is a negative correlation between these two variables, though the causality is not unambiguous. The reason why there is a two-sided causation run is that corruption negatively impacts on the way the economy develops, but at the same time poor countries have less resources to fight corruption effectively.

As we know any corrupt activity involves risk of getting caught and of being punished, thus more wealthier individuals have more to lose. Another reason why per capita GDP tends to lower corruption is that it reduces the discount rates of both the bribe-givers and bribe-takers, and thus weakens their motives to engage in any illegal activity. In addition to this, more developed countries have resources to educate their populace about their rights and duties as well as provide them knowledge about anti-corruption policies and procedures. Hence, whatever the effect of corruption on economic development, there is a less perceived corruption in rich countries than in poor countries.

Economic freedom

According to Goel and Nelson (2005), economic freedom consists of different aspects such as monetary policy, fiscal policy, the existence and enforcements of rules and regulations etc., and all of them have an impact on the level of corruption in a certain country.

As it was proved in the previous section that government intervention into the economy increases the incidence of corruption, it is reasonable to expect that regulation of financial sector (e.g. currency controls, restrictions on entry of foreign financial intermediaries etc.) which is a key feature of economic freedom or lack thereof, would lead to the spread of corruption. However, it is evident that the financial openness tends to increase corruption. Because of the risk of getting caught, public officials transfer capital extracted by corruption to another country, thus national capital is invested abroad but the officials' country is the one which bears the costs of corruption (Neeman, Paserman & Simhon 2008). Therefore, on one hand, regulation of financial sector might help to deter corruption, but on the other hand, it decreases economic freedom, and thereby reducing economic competition among different players and providing opportunities to servants in extraction of bribes.

The interesting point related to the relationship between the inflation rate and corruption was found by Goel and Nelson (2005) who stated that the high inflation creates greater economic uncertainty, and thus provides incentives for public officials to supplement their earnings through bribe-taking activities. Therefore, there is no doubt that high inflation rate is another major cause of corruption.

Inward FDI

Most of the research studies have focused their attention on the impact of corruption on foreign direct investment. There exists an evidence that corruption distracts multinational companies to enter countries which are perceived to be more corrupt than their home countries. But what effect might have inward FDI on corruption level in different countries?

Based on the argument that the intense competition among active participants in the economy reduces rents of both bribes-payers and bribes-takers, and thereby reducing their incentives to engage in corrupt practices, there is an assumption that inward FDI should be associated with lower levels of corruption in host countries. However, Pinto and Zhu (2016) argue that the relationship between inward FDI and corruption depends upon the economic and political environment of host countries. Hence, we should consider all the above mentioned variables as well as other country specific features such as religion, culture or geographic expanse, etc. that might create rents, and thereby increasing the number of corrupt acts in order to establish how foreign direct investment influences the level of corruption. Previous empirical literature tested how economic and political factors change costs and benefits associated with corrupt acts for all participants; economic environment affects the potential opportunities for corrupt behaviour, whereas political environment changes its costs. Based on the previous findings, Pinto and Zhu (2016) proved that in countries with less diversified markets and weak political institutions, it is more likely that a rise in FDI inflows would result in higher levels of corruption, while in more diversified economies and more competitive political regimes, higher levels of FDI inflows would decrease the level of corruption. Further, Hellman, Jones and Kaufmann (2002) in their survey analysis of transition economies in Eastern Europe and the former Soviet Union stated that foreign investors engage in corrupt acts with the same likelihood as domestic investors. Moreover, foreign investors tend to bribe officials more likely when policy making process had been captured by large, domestic operations. The same argument was provided in the discussion about corruption and the global economy (Soreide 2006). The reason for such a behaviour by foreign investors is the constrained competition and the desire of gaining the market share. In addition, it was discovered that the incidence of corruption of public officials by foreign investors is higher in extractive industries (Ross 2001). Gueorguiev & Malesky (2012, p. 113) stipulated in their article that 'multinational corporate investors in extractive industries have been accused of supporting the administration of corrupt elite or, at times, even financing civil wars and regional instability'. Therefore, there is a two-sided effect of FDI on corruption. On one hand, it creates competition among domestic and foreign firms, and thus decreases the rate of corruption. On the other hand, it might increase the number of corrupt participants, and hereby increasing the size of corruption.

<u>Country-specific factors:</u>

Culture

It is well known that culture shapes the way people think, see and perceive some acts as immoral or illegal. It forms our attitudes towards corruption. Thus, it is not a surprise that some scholars argued that culture has an impact on the perceived level of corruption.

Trust among different groups of people is one of the main components that form our culture. There are some societies that are characterized by high levels of trust among its people, while in other societies people tend to use each other for their own interests. Previous empirical literature (Adsera, Boix & Payne 2003; Björnskov & Paldam 2004; La Porta et. al. 1996; Uslaner 2005) proved that there is a negative association between "generalized trust" and corruption. However, Anderson and Tverdova (2003) tested the opposite causality run and established that corruption tends to reduce trust in civil servants and in the political system. Besides this, there exists a difference between "generalized trust" and strategic trust.

"Generalized trust" as it was described above, is a trust among different groups of people as well as trust in civil servants, while strategic trust is about trust between "partners in crime". In an earlier work (Lambsdorff & Cornelius 2000 as cited in Lambsdorff 2006, p. 20) as well as in another research study (Lambsdorff 2002) it was empirically found that the incidence of corruption increases in countries where corrupt partners are confident that their favours will be reciprocated.

Values are another major component that helps to differentiate one culture from another one. The societies that support more particularistic or family values are perceived to have higher levels of corruption in comparison to those countries where people cultivate secular-rational attitudes towards authority that means in societies where impersonal values are more important. Lipset and Lenz (as cited in Lambsdorff 2006, p. 20) tested the relationship between "familism" and corruption and proved that "familism" is associated with high levels of corruption. Additionally, some scholars argued that in countries such as post-communist societies where people are focused on personal and economic security, the level of "survival" leads to a widespread corruption.

Hence, we could state that some countries or nationalities have a culture where firms are culturally more or less inclined to participate in corrupt activities. For example, an article on the causes of corruption (Treisman 2000) used in his study of corruption an expression of Argentine playwright Mario Diament describing Latin America as a continent where corruption is not a deviation from social norms but a way of life.

Religion

It is argued that religion might have an impact on the costs of engaging in corrupt acts through its influence on the people's attitudes towards social hierarchy (Treisman 2000). Indeed, Treisman (2000) in his study confirmed that countries with Protestant traditions are perceived to have lower levels of corruption in comparison to other religious traditions. In contrast to more hierarchical religions – Catholicism, Eastern Orthodoxy and Islam – Protestantism accentuates individualism and self-reliance, and thus weakens the tendency towards nepotism. Another difference between hierarchical and non-hierarchical religious traditions is that non-hierarchical religions are evolved independent from a state, while in hierarchical traditions, the church and state are closely intertwined. Besides this, an article on the causes of corruption (Treisman 2000) it was stipulated that Protestantism stimulates economic growth (Weber's argument) since people with Protestant tradition tend to be workaholic. The same negative effect of Protestantism on corruption was found by Gerring and Thacker (2005) but was not confirmed by Sandholtz and Gray (2003). However, an article about religion and corruption (Gokcekus 2008) examined how the relationship between Protestantism and corruption changed over time, and empirically proved that its negative effect diminished over time (it had a more robust impact on corruption in the past). In addition to this, one of the latest study found a non-significant effect of religion on corruption (Shadabi 2013). According to Shadabi (2013), the reason why there is a contradicting result found in her study is that because Treisman (2000) and La Porta et. al (1999) ignored some important control variables related to countries' structures. The same insignificant result was found in the study about religion, corruption, and the rule of law (North, Orman & Gwin 2013). However, the insignificant result obtained by North, Orman & Gwin (2013) was only for the religious measures of 2000 but significant for the measures of 1900 (cultures with the Protestant religion are associated with lower levels of corruption). Therefore, it is still not clear whether religion could be one of the explanatory variables of high corruption in some countries.

Colonial heritage and origin of legal system

One of the first studies that investigated the relationship between colonial heritage and corruption is a study of Treisman (2000) who argued that former British colonies and Britain tend to have developed governance structure generally, and lower levels of corruption particularly. La Porte et. al. (as cited in Treisman 2000, p. 402) explained such a relationship based on the origin of legal system. Most of the former British colonies have acquired the legal system of Britain, particularly common law system. According to the article on the causes of corruption (Treisman 2000) common law system developed from precedents established by judges, while civil law system developed from codes drawn up by jurists at the sovereign's bidding. Thus, common law system provides the greater degree of protection against the state, and therefore, it improves different aspects of government performance, including reducing corruption. Besides this, common law system is different from civil law system in the greater degree of flexibility which also helps to reduce the incidence of corruption. Additionally, the cross-national study on corruption (Treisman 2000) claimed that the legal systems differ not only in terms of formulations of laws but also in the way the law must be administered, which the author of the article on corruption in a cross-national study (Treisman 2000) termed as "legal culture": preoccupation with procedural fairness even at the expense of social hierarchy is a key characteristic of common law system. Nevertheless, it is worth to state that the main condition for effective function of legal system that relies on judicial precedent rather than on codes is the existence of an effective system of enforcement, like for example in Australia or Singapore. In countries where judges are themselves corrupt, giving them a greater authority may even increase corruption rather than decrease it.

Other studies focused their attention on the socioeconomic consequences of colonialism. Some researchers turned their focus on the long-term effects of colonialism on institutional quality and economic development (Acemoglu, Johnson & Robinson 2001; Hall & Jones 1999; Rodrick, Subramanian & Trebbi 2004), while others explored the relationship between colonialism and legal system (La Porta et. al. 1997, 1998). Angeles and Neanidis (2009, 2015) in their previous work as well as in the latest presented an evidence that the effects of colonialism depend on the degree of the European settlement. In some colonies, Europeans settled down in small numbers, like for example in sub-Saharan Africa, India and South-East Asia, while in other parts of the world, they settled down in larger numbers (Latin America, southern Africa) or became the vast majority of the population (the USA, Canada, Australia and New Zealand). Acemoglu, Johnson and Robinson (2001) explored the positive effects of the Europeans settlement on the quality of institutions, and thereby on the economic development in the long-run. Based on the result received in the study about the colonial origins of comparative development (Acemoglu, Johnson & Robinson 2001) it is reasonable to assume that colonialism through its positive effect on the level of economic development would lead to the lower corruption. However, Angeles and Neanidis (2009, 2015) argued that the larger degree of the European settlement engenders a more powerful elite at the top of social structure which uses its political and economic control over the country's resources for its own interest but at the expense of the rest of the society without any punishment, and thereby increasing the level of corruption in the colonies. But this positive relationship between the European settlement and corruption changes its direction when it comes to the case where Europeans became the majority of the population, also known as "New Europes" (Angeles & Neanidis 2009, 2015). Since there was no difference in ethnic composition in those countries (the USA, Australia, Canada and New Zealand), the elite had no power over the rest of the society. It is worth to note that authors considered acts of "major corruption" (embezzlement of foreign aid funds or the mispricing of government projects). All in all, they proved that the level of corruption in a certain country does not depend upon whether a country was colonized or not; there is no importance what country was a colonizing country (France or Spain), what matters is the extent of the European settlement that implies a degree of power of the local elite over the country's resources; there is no clue to think that Europeans are more intend to engage in acts of corruption than any other ethnicity, they just had a chance to do so with impunity and when all the negative consequences fall on the non-elite group.

Gender

There are two theories that can be employed to explore the gender differences in attitudes toward illicit activities. The first theory explains the contradicting attitudes toward corruption between males and females based on the fundamental differences at the cognitive, emotional, and behavioural levels due to biological, psychological, and experiential realities. According to this theory, risk-averse women are less prone to corruption in comparison to risk-loving men. The second theory uses different degrees of involvement of men and women in the labour market and in government in order to examine the correlation between gender and corruption. Based on this theory, it is reasonable to assume that women are less corrupt than men because women occupy less positions of power, and thus have different opportunities and capacities to become corrupt.

One of the first studies that analysed the relationship between women participation in the high hierarchical levels of government as well as the increased share of women in the labour force and the acknowledgment of corruption is the survey of Swamy et. al. (2001). Using the World Values Surveys, authors compared how women and men differ in terms of acceptability of corruption as justified or never justified act: 77.3% of women agree that any illegal act is "never justified", while only 72.4% of men agreed that this behaviour is "never justified" (Swamy et. al. 2001, p. 28). This result was robust to tests within different control variables, such as age, marital status or religion of the respondents. In addition to this, the study to investigate corruption and gender (Swamy et. al. 2001) made an enterprise survey in Georgia, and deduced that female owners or managers are less likely to offer a bribe than male owners/managers. According to the article about the correlation between gender and corruption (Swamy et. al. (2001), there are at least two ways how women in parliament can affect the level of corruption. First, if we assume that the share of female bribe-takers is smaller than male's, then the legislative corruption would be lower in a government where women hold more seats. Second, they could reduce the level of corruption by creating laws designed to deter bribery or by enforcing the existing rules and procedures, or through placing corruption on the public agenda. Additionally, Dollar, Fisman and Gatti (2001) argued that females in parliament could restrain illegitimate behaviour of their male colleagues. Given that lower-level government officials are selected by ministers and sub-ministers, the incidence of corruption at lower-levels of bureaucracy could also be reduced by the increasing number of women in government.

Therefore, based on the opportunity theory, the study on corruption and gender (Swamy et.al. 2001, p. 36) concluded, that women are less likely to engage in and approve of corruption because 'women are less likely to belong to bribe-sharing old boy networks, and hence, may be less prone to be asked for bribes', or they could have little experience in engaging in corrupt acts. It is worth noting that scholars tested the 'gender differences in acknowledgement of corruption, rather than in incidence of corruption' (Swamy et. al. 2001, p. 27). Nevertheless, the same result was presented by Dollar, Fisman and Gatti (2001) using the ICRG corruption index. The same results were also provided by some experimental studies, like for example the experiment of Rivas (2013) who also investigated how the result changes depending on the gender of both players, the firm and the public official. And at the end of her experiment, she draws a conclusion that males in businesses offer a larger amount of bribe and more often than females; there is a higher frequency of acceptance of bribe if it comes from a man working in a firm, while there is a lower rate of acceptance when both the person in a firm and public official are women; the corrupt act which is beneficial for a firm but has a negative consequences for the rest of society is chosen more frequently among male participants, but less frequently when only women are playing.

As it was discussed above, the two influential studies (Swamy et. al. 2001, Dollar, Fisman & Gatti 2001) based their arguments on the opportunity theory which states that the gender differences in terms of attitudes toward corruption could be explained by different sets of external opportunities and constrains faced by women and men. Therefore, it was interesting to explore whether the association between gender and corruption changes, if women and men face the same opportunities for illegal behaviour. This question was tested by Torgler and Valev (2010) who using World Values Survey and European Values Survey discovered that women are more inclined to comply with laws and less likely to be involved in any crime activities. Therefore, there is a little support for the opportunity theory that a growing equality status between men and women would lead to reduction in gender differences.

A recent study to investigate the relation between gender and corruption (Debski et. al. 2018, p. 527) criticized these studies by arguing that the researchers did not account for country fixed-effects (institutional, geographic, and cultural variables) that may have an impact on the link between gender and corruption. In their study, they found out that the positive relationship between gender and the absence of corruption holds when the institutional and geographic variables are incorporated in the regression tests. However, using the Hofstede's cultural dimension, they found that power distance and masculinity eliminate the negative influence of the increased share of women in the public sphere on the level of corruption. This implies that there is no direct effect of the share of women in politics and businesses on the incidence of corruption, and thus corruption cannot directly be alleviated by the number of women in the work environment.

Notwithstanding, Jha and Sarangi (2018) tested whether this were true that there is no effect of women's presence in politics on corruption level once the country-specific fixed factors are included in the analysis. In addition to this, they also examined whether a negative correlation between women's share in the economic and political arenas and corruption could only be explained by gender differences in social status. As a result, they found out that 'women's presence in the labor force, in clerical positions, and in senior-level, decision-making positions are not significantly associated with corruption in a country' (Jha & Sarangi 2018, p. 231). But there is a significant negative relationship between women in parliament and corruption even when country-specific fixed effects, including power distance, are accounted for. Besides this, authors proved that this correlation holds when other variables (openness to trade, education, ethnic division, liberal democracy, gender-biased institutions) are controlled for, and that this negative correlation between women in parliament and corruption becomes even stronger when women approach the same social status as men. It is worth to note that there could be a reverse relationship; it could be that not only women in parliament are associated with lower corruption, but also that corruption discourages women from participating in politics (Jha & Sarangi 2018). The evidence for such a reverse relationship was presented by Sundström and Wängnerud (2016).

In a sum, we could state that women's representation in the public sphere not only helps to obtain gender equality, but also brings some social benefits for society, like for example by shifting public spending to the areas with different degree of corruption occurrence.

Conclusion

All in all, there are so many aspects to take into consideration by determining the factors and conditions that might cause corruption to be high in one country, but not in another. While there is a plethora of theories and numerous case studies examining the details of corruption in particular countries or regions, the conclusions regarding the causes of corruption are sometimes contradicting each other. The difficulty of this type of research lies in the causality run. It could be that some variables might be a product of high corruption, but at the same time corruption itself might be a negative consequence of them. The second issue related to this subject is that most of the studies investigated how the levels of corruption change when certain domestic factors are present in a country, but it is also essential to take into account the role of global players. There exists an evidence that some international organizations or countries identify the level of corruption in a certain country before providing the foreign aid, while others transfer huge amount of capital regardless of the levels of corruption there, and thus create potential opportunities and incentives for rent-seeking behaviour, and increase corruption by this pathway. A discussion about the economics of corruption (Lambsdorff 2006) stated that Scandinavian countries and Australia tend to avoid countries with high levels of corruption when considering what countries or regions to assist, while the USA favours countries with high corruption in providing aid funds. The third problem faced by academics is that many determinants of corruption are interrelated in complicated ways.

Hence, we could state that it is not enough to focus only on one field of analysis (political, economic, sociological, cultural or historical, internal or external environments) in order to define the real causes of corruption and to develop effective policies and programmes against corruption.

2.6 Consequences of corruption

As it was mentioned before, there exist factors that might be the causes and consequences of corruption at the same time. Thus, some possible consequences of corruption were presented in the previous section. Besides this, some scholars argue that corruption might be beneficial for companies, while others stick to the opposite opinion. Specifically, that it distorts the allocation of resources and assets, reduces the incentives of firms to invest abroad, generally, and affects the strategies of entering in a host country, particularly, leads to financial instability, and causes an unfair income distribution. Hence, there are two sides of corruption – “grabbing hand” and “helping hand” which will be briefly discussed in this part of thesis.

Positive effects

There are some advantages realized via bribing public officials: preferential tax treatment, reduced costs for licences and permits, time saving, lower start-up cost. In an earlier article (Bardhan 1997) it was proposed that corruption helps to speed up bureaucratic procedures and contributes to the allocation efficiency if there is a competition between bribers, but not between officials. Additionally, in the study about an equilibrium queuing model of bribery (Lui 1985) it has been argued that corrupt acts help to save time for those individuals and firms for whom time has the greatest value which in turn might generate higher levels of bureaucratic efficiency. It is worth noting that these benefits are of cost-reducing kind for larger enterprises because they get monopoly rents and enjoy scale economies via corrupt acts; while for SMEs they are often of cost-increasing kind because the payment of bribes does not contribute to the productivity or profitability of the firm but it is needed for the SMEs' survival in a highly competitive environment. Nevertheless, there is an argument against the "grease-the-wheels" characteristic of corruption. An article on the corruption (Jain 2001) indicated an evidence that the benefits obtained from overcoming bureaucratic rigidities vanish as soon as the bureaucratic agents realise the potential to supplement or augment their earnings through petty corruption. In this case, the administrative agents have the incentives to increase the number of interactions between the official and the firm, thus, even though the corruption helps to speeds up bureaucratic procedures of an individual transaction, it might increase the number of required transactions. Moreover, corruption with small payments usually tends to transform into a corruption with large amounts of bribery paid to the servants. Except this, the discussion about corruption and the global economy (Rose-Ackerman 1997) affirmed that bureaucratic corruption not always leads to the efficient resource allocation. It could be the case that a producer who wants to compromise on the quality of his or her goods and services might be able to overbid a more efficient producer, in other words, he or she might be able to offer a larger bribe than the most efficient producer. Thereby, the discussion about corruption in the global economy (Rose-Ackerman 1997, p. 42) stipulated that 'corruption favors those with no scruples and those with connections over those who are the most productively efficient'. Further, in the article about corruption and the economic development (Houston 2007) it has been discovered that the effect of corruption on economic performance of a country depends on the quality of rule of law: there is a positive effect of corruption on economic performance in a country with a weak rule of law, while it has negative effects in countries which developed strong institutions. Additionally, Swaleheen and Stansel (as cited in Al-Sadig 2009, p. 269) stated that corruption might lead to the increase in economic growth if a country has a high degree of economic freedom, while it tends to hinder economic growth in countries with low economic freedom.

Hence, all in all, the negative effects of corruption counterweight the positive ones.

Negative effects

Human capital/ the allocation of entrepreneurial talent

A discussion about the political economy of corruption (Tanzi and Davoodi 2001) stated that Baumol (1990), Murphy, Shleifer, Vishny (1990), Ehrlich and Lui (1999) were the first scholars who argued that there is a connection between corruption and the allocation of talents. Based on their arguments, several scholars (Jain 2001; Lambsdorff 2006; Tanzi & Davoodi 2001) stated that corruption because of its rent-seeking nature stimulates highly talented individuals to go toward unproductive activities since such activities yield high returns than other activities. This would in turn affect the economic growth if these individuals became rent-seekers. The debate about the political economy of corruption (Tanzi and Davoodi 2001) tested how corruption encourages students to choose the faculty of law rather than the engineering faculty, since this field of study provides them knowledge to get prepared for future challenges. Using the data from UNESCO for fifty-three countries, they determined the ratio of college enrolment in law relative to college enrolment in engineering in 1980, and established a significant negative effect of corruption on human capital.

Investment

As it was noticed before, corruption has a significant negative impact on the institutional quality which in turn makes it difficult for the government with the history of high corruption incidence to commit to trustworthy, non-extortionate policies and to convince investors of its dedication (Lambsdorff 2006). The low credibility of policy, therefore, reduces both the domestic and foreign direct investments. Some studies measured the attractiveness of the investment climate of a country as a ratio of investment to GDP, while others argued that the foreign direct investment (FDI) better reflects its attractiveness. The first studies (Alesina & Weder 1999; Okeahalam & Bah 1998) of different countries and regions identified a non-significant effect, while other studies provided a positive association between the two (Egger & Winner 2005; Tekin-Koru 2006) arguing that corruption "greases the wheels of commerce". An article on the impact of corruption on FDI (Helmy 2013) in the analysis of 21 countries in the Middle East and North Africa (MENA) over the period from 2003 to 2009 found out that there is no negative effect of corruption on FDI flow coming to this region. Based on the results, author reported that first, corruption is the way of overcoming ineffective regulations and poor developed institutions in MENA region such that benefits achieved through corrupt acts exceed the costs of corruption supporting the "grease" hypothesis; second that other determinants of FDI are more important than low corruption. Hence, the article on the impact of corruption on

FDI (Helmy 2013, p. 491) suggests that governments in this region should implement legal procedures that ‘infringe neither on the rights, freedom and security of FDI nor on the degree of openness and freedom of the economy, which are the real stimulants of FDI in MENA’. The study on the connections between FDI, Corruption Index and Country Risk Assessments in Central and Eastern Europe (Iloie 2015) found no connections between the afore-mentioned variables. Although, other factors (e.g. similar cultural systems of countries covered in the sample) or the period of time (2008-2014 involving the onset of the economic crises) analysed within this study could explain such a non-significant result. However, the recent studies (Aizenman & Spiegel 2006; Barassi & Zhou 2012; Castro & Nunes 2013; Habib & Zurawicki 2001, 2002; Javorcik & Wei 2009; Qian & Sandoval-Hernandez 2016; Smarzynska & Wei 2000; Woo & Heo 2009; Zhao, Kim & Du 2003) established that there exists a negative correlation between these two variables. Authors argued that corruption creates additional costs such as time spent negotiating with corrupt civil servants or the size of the bribery which could otherwise be spent on more effective activities, and additionally, because of its nature, corruption creates uncertainty imposed on the firms. It functions as an additional tax levied on firms. Besides this, the payment of bribery or kickbacks does not guarantee that the promised goods or services will be delivered or provided, and there is no way of enforcement as bribery is illegal payment. In this way, corruption discourages firms to invest abroad, especially in countries with a weak legal system. Moreover, Habib and Zurawicki (2001) demonstrated that the negative effect of corruption is larger for foreign investors than for domestic, which indicates that foreign investors are more sensitive to corruption. In addition to this, Hakkala, Norbäck and Svaleryd (2008) stipulated that scholars need to distinguish between the effects of corruption on two types of investment, horizontal and vertical. Horizontal or market-seeking FDI is an investment when a foreign entrepreneur establishes a factory in a host country, produces and sells its products to consumers of the host country, while vertical or resource-seeking FDI is an investment which is used to get access to lower production costs and to produce either inputs or final goods for export destinations outside the host country. Using a firm-level data on Swedish MNEs, authors provided an evidence that corruption has a negative impact on horizontal FDI, whereas the effect of corruption on either affiliate exports to Sweden or exports to third-country markets was not robust. The reason why corruption tends to reduce the level of horizontal FDI is that such an investment involves an engagement with local government officials, and thus it might entail the acts of bribery, which in turn increases the overall costs and uncertainty, thereby disinclining horizontal FDI inflow to the countries where corruption is present. Except this, researchers also explored how firm-level characteristics influence the impact of corruption on FDI, and using the bargaining approach concluded that R&D intensive firms have an enhanced bargaining power over the public officials demanding bribes. There is also a difference in how countries with different levels of corruption are influenced by the corruption level of a host country, and how different types of corruption lead to different rates of investment. Cuervo-Cazurra (2008a) is one of the academics who explored the differences in effects of arbitrary and pervasive corruptions on FDI inflow in countries, especially in the economies in transition. Based on the results, the author presented the following inferences: (a) corruption negatively impacts on FDI but the effect of corruption on FDI is smaller in transition countries than in other countries; (b) both the pervasive and the arbitrary corruption tend to reduce the rate of FDI but the impact of pervasive corruption on FDI inflow in transition countries is larger than in other countries, while the effect of arbitrary corruption in transition countries compared to other regions is smaller. This study (Cuervo-Cazurra 2008a) provided explanations for such different influences of two types of corruption on the investment coming into the transition countries. An article about different types of corruption and FDI in transition economies (Cuervo-Cazurra 2008a) stated that the pervasive corruption increases the already existing costs of operating in a country that arise from implementing a project in an environment with a weak established institutional framework (Meyer 2001). Hence, pervasive corruption represents additional known, unofficial costs which in turn further discourages investors from investing in transition countries beyond the general negative influence of pervasive corruption on FDI. While as Bevan, Estrin and Meyer (2004) argued, the arbitrary environment reflects the uncertainty, which is already present in transition economies since governments in such countries have not yet developed, applied or both the new rules and institutions representing the transition from an economic system of public ownership and government allocation of resources to an economic system of private ownership and market allocation of resources. Therefore, the study about corruption and FDI inflow in transition economies (Cuervo-Cazurra 2008a) assumed that if investors were not deterred by the already existing uncertainty in transition economies, then the uncertainty created by arbitrary corruption does not play an additional role in the investment decision since it is not quantifiable. In sum, this study (Cuervo-Cazurra 2008a, p. 25) concluded that 'it is easier to deal with an unknown evil – arbitrary corruption – rather than a known one– pervasive corruption'. Furthermore, an article on corruption and foreign direct investment (Habib & Zurawicki 2002) hypothesized that the negative impact of corruption on FDI will continue to be present even if watchdogs like Transparency International is included as an independent variable in the regression analysis, and proved that if corruption is deeply rooted in a country, then the positive influences of TI as a deterrent to corrupt officials and as a reassurance to the investors that the situation is getting better, will not help to combat corruption in that country, though it can help to improve the current situation with FDI. Additionally, Habib and Zurawicki (2002) provided an evidence that if the absolute difference in corruption levels between the home and host countries is too large, then the share of FDI tend to decline in the host country. However, other studies (Duanmu 2011; Godinez & Liu 2015) stated that it is not enough to consider only the difference in levels of corruption between the investing and invested countries, there is also a need to look at *the corruption distance and its direction* in order to establish how corruption of a host country differently affects the investment decisions of MNEs from developed and less developed countries. Godinez and Liu (2015) employed the findings of previous research papers which used the combination of institutional theory and the OLI-paradigm in the analysis of the relationship between corruption distance and its direction, and inward FDI by including in their study the implications of transaction costs theory. Cuervo-Cazurra and Genc (2008) stated that firms founded in countries with higher levels of corruption than the host countries' corruption levels might use the knowledge of coping with corruption as a competitive advantage when internationalising. A recent study to explore the determinants of outbound investments of Chinese firms (Buckley et al. 2007, pp. 502-503) named such an advantage as location-bound-ownership advantage. Based on this argument, Godinez and Liu (2015) stipulated that corruption could have an influence on the location-advantage of a host country either as a deterrent or as a stimulation to inward FDI since in the case of encouragement, the location-bound-ownership advantage helps to lower costs associated with dealing corruption abroad. In this way, Godinez and Liu (2015, pp 38-39) suggest that

> corruption distance might negatively affect the attraction of FDI to a highly corrupt host region when the home country has lower levels of corruption than the host country. However, when the home country has higher levels of corruption than the host country, corruption distance might not have an effect on the attraction of FDI; it may even have a positive effect.

Malhotra, Zhu and Locander (2010, p. 492) in their analysis of cross-border acquisitions by U.S. and Chinese firms found out that 'while U.S. and Chinese firms make a greater number of acquisitions in less corrupt countries, Chinese firms, in contrast to the U.S. firms, make larger acquisitions in more corrupt countries' which supports the proposition that the knowledge of dealing in corrupt settings might help to overcome costs and risks associated with such transactions, and thus corruption does not function as a huge impediment to investments for companies from countries with the same institutional environment. The same argument was provided by Cuervo-Cazurra (2006). Except this, a recent study to investigate the effect of corruption on FDI and its mode of entry (Luu et al. 2018, p. 8) found an empirical support that corruption had a detrimental effect on foreign investment during the pre-crisis period (2003-2006), while had no effect on inward FDI after the crisis time (2009-2015). Furthermore, the study on outward FDI from the East European transition economies after 1995 (Brada, Drabek & Perez 2012) examined not only the effect of host country corruption but also the effect of home country corruption on the FDI flow. The authors provided a support for the previous findings related to the negative linear relationship between host country corruption and inward FDI, while the relationship between home country corruption and FDI outflow was found to be non-linear. More precisely, Brada, Drabek and Perez (2012) stipulated that there is a lower likelihood of direct investment from countries that perceived to be least and most corrupt, whereas the investments undertaken by firms from countries at intermediate levels of corruption are more likely to happen.

Besides this, the discussion about the economics of corruption (Lambsdorff 2006, p. 32) argued that corrupt public officials are inclined to choose the 'capital-intensive, technologically sophisticated and custom-built products and technologies' that offer a high potential for rent-seeking behaviour. Tanzi and Davoodi (1997) established that there is a high likelihood that corruption will increase the public investment, but reduce its productivity. And indeed, corruption tends to lower government spending on education or healthcare provision because these sectors offer little opportunities for bribe collection (Mauro 1998). Furthermore, the quality of public sector becomes lower through the reduced level of productivity as the result of high corruption. Tanzi and Davoodi (1997) tested how cost-enhancing corruption lowers the quality of investments using five proxy variables: the percentage of total paved roads of good quality, electrical power system losses measured as a percentage of total power output, faults in the telecommunication system, losses of water, and the percentage of railway diesel engines that are in working conditions. Additionally, scholars (Damania, Fredriksson & Mani 2003; Pellegrini and Vujic 2003; Welsch 2004) provided an evidence that countries with high incidence of corruption have lower degree of compliance with international environmental agreements.

In sum, corruption may affect investment in four ways (Tanzi & Davoodi 2001): (a) total investment, (b) the size and composition of FDI, (c) the size of public investment, and (d) the quality of investment projects.

The findings of these studies provide answers to the first two research questions of this thesis:

1. What effect (positive/negative) does corruption have on the decision to enter a country characterized by high corruption? Negative effect because corruption represents additional direct and indirect costs imposed on firms which makes FDI less likely to occur.
2. How does the effect of corruption differ for MNEs from developed countries from MNEs from less developed or developing countries? MNEs from developed countries have established strong institutions and rules against corruption, and thus they possess little knowledge of how to deal with high corruption, or it could be the case that the developed home countries of MNEs have signed international anti-corruption agreements which forbid the multinationals to engage in corrupt activities. As a result, foreign investors originating from developed countries tend to avoid countries with high corruption. While MNEs from developing/emerging/transition economies might use an advantage of knowing how to cope with corrupt civil servants in countries with a similar environment, and therefore, they are not discouraged by high risks and uncertainty associated with corrupt activities.

3 Corruption and MNEs' entry mode

From several research studies, it is evident that the multinational company's choice of market entry is an essential factor which influences its future performance. According to Tian (as cited in Teixeira & Grande 2012, p. 7944), there are, basically, two categories of entry modes: equity and non-equity (see Figure 1). While equity entry modes include entry modes with either full ownership (establishing a wholly owned greenfield subsidiary, or engaging in full acquisition), or partial ownership (setting up a greenfield joint venture, or making partial acquisition), non-equity entry modes involve exporting and contractual agreements such as licensing/franchising, turnkey projects and R&D contracts (Teixeira & Grande 2012). The entry mode decision of the multinational firm was analysed from different theoretical perspectives such as resource-based view, institutional theory or within cultural differences between home and host countries. While the Transaction Costs Approach accentuates on the costs associated with operating in the foreign markets, the Dunning's eclectic paradigm is based on the realized benefits. Drawn on the TCA, the multinational firm incurs direct and indirect costs when investing in a foreign country. The direct costs include fixed investment, entry and exit costs, while indirect costs are costs related to trade barriers and market imperfections. In relation to the choice between FDI and exporting, the trade barriers imposed on the foreign firms complicate the exporting, and thus giving rise to FDI (Eicher & Kang 2005), whereas indirect costs associated with market imperfection stimulate the MNE to conduct its overseas business through non-equity entry modes (Mok, Dai & Yeung 2002). An article on the entry mode decision between Greenfield investment, M&A and JV (Raff, Ryan & Stähler 2009) stipulated that the higher fixed costs associated with Greenfield investment and M&A, the higher the likelihood of engaging in JV. Besides this, JV involves fewer resource commitment, and thus entails lower exist costs (Slangen & van Tulder 2009). Based on the research study about investment liberalization (Fatica 2010) it could be stipulated that the MNEs would prefer full acquisition to Greenfield investment when the investment entails high entry costs. Further, Tseng and Lee (2010) based on the transaction costs theory argued that the MNEs would favour WOS over JV because in case of JV, firms need to exert more efforts and time to find the appropriate partners and insure that these partners have provided all the local information and connections, in other words do not behave opportunistically. This in turn induces high transaction costs. The same preference will occur if the foreign firm's competitive advantage lies behind its firm-specific assets and skills. In other words, if the multinational firm owns R&D- intensive resources, or has acquired an international experience, then it would select WOS (Chiao, Lo & Yu 2010; Javorcik & Wei

2009). However, in the article on market entry (Hennart 2009) using the OLI and internalization models, it was argued that when there is a need in local knowledge, the foreign firm might choose low equity entry modes such as JV to complement its own assets with the resources of the local firm. Drawn on the Dunning's OLI-paradigm, the articles on firms' choice of ownership strategies (Chun 2009; Demirbag, Tatoglu & Glaister 2009) asserted that the more socio-cultural/linguistic distant source and target countries are, the more likely the foreign firm will choose JV. However, Slangen and van Tulder (2009) argued that the impact of cultural distance is ambiguous because it relates not only to the external uncertainty associated with WOS but also to the internal uncertainty experienced in JV. Therefore, authors proposed that the quality of the overall governance structure better reflects the risks associated with the firms' external environment. More precisely, Slangen and van Tulder (2009) maintained that MNCs prefer to conduct its business through JV rather than through WOS in a country with low quality of governance structure. Hence, all in all, the implications of these theories could be applied to the analysis of the relationship between corruption and the MNEs' entry mode choice.

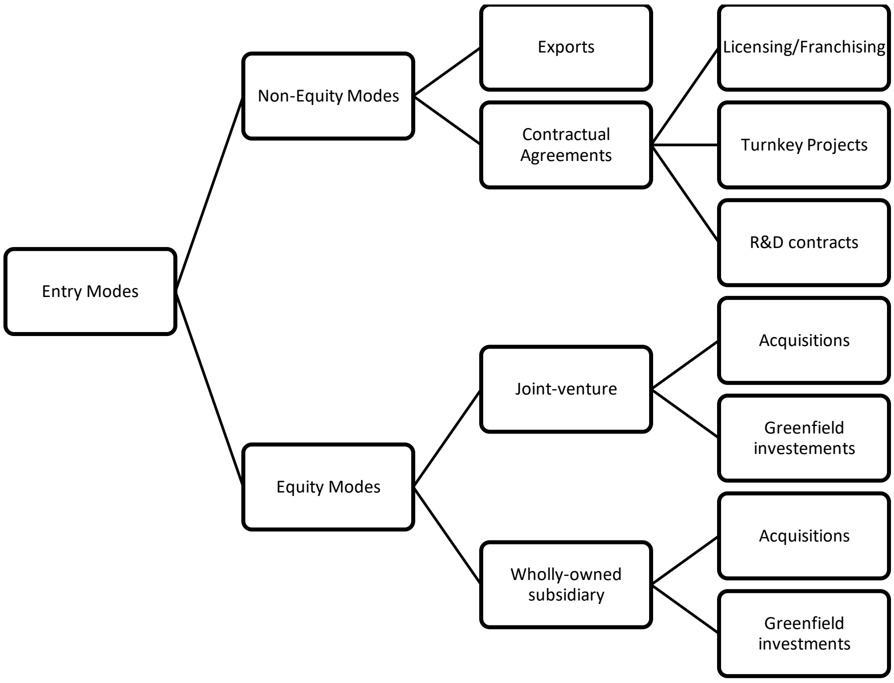

Figure 1 Taxonomy of entry modes (adapted from Teixeira & Grande 2012, p. 7945)

3.1 Equity versus non-equity entry modes

As we have discovered, corruption is one of the main characteristics of developing and emerging countries, and countries in transition. Nevertheless, it is worth noting that corruption is present everywhere, but the difference lies in its nature, the understanding of which is especially important for multinational enterprises (MNEs). According to Rodriguez, Uhlenbruck and Eden (2005), the understanding of the essential characteristics of corruption helps multinationals differentiate corruption in one country from corruption in other countries and decide what entry mode is more appropriate. Several research studies employed the institutional theory in order to explain 'how corruption, through its impact on organizational legitimacy, can alter the entry decisions of multinationals' (Rodriguez, Uhlenbruck & Eden 2005, p. 384). It is also evidenced that corruption has an impact on formal as well as on informal institutions which in turn affects the organizational legitimacy of multinational firms. The main elements of the institutional theory are external and internal environments of firms, the factors of which might influence each of these environments.

The article on government corruption and entry strategies of multinationals (Rodriguez, Uhlenbruck & Eden 2005) used the institutional distance (differences among regulatory, normative and cognitive institutions) between home and host countries of the multinational firm in order to explain how corruption affects the decision between equity (FDI) and non-equity (exporting, contracting, franchising, licensing) entry modes. The environment where corruption is highly pervasive affects the most the institutional distance between the MNE's home and host countries because in such an environment, foreign firms as well as local firms more often encounter pressures of engaging in corruption, and thus, are enforced to comply with corrupt practices. However, in attaining the external legitimacy in a foreign country, firms might create distortions in their internal environments. Moreover, it could be that the MNEs' governments have adopted the international institutional anti-corruption rules which forbid its subunits to engage in any corrupt activity. Therefore, Kostova and Zaheer (1999) stated that the institutional distance between the subsidiary and the rest of the MNE network gets larger with the greater extent of the subsidiary's compliance with norms, rules and practices of corruption in a host country. One of the ways of overcoming the dissimilarities between the internal and external environments of the firm is the adoption of non-equity entry since 'this entry mode does not require establishing subsidiaries, but still exploits otherwise attractive markets' (Uhlenbruck et al. 2006, p. 404). Indeed, scholars (Doh et al. 2003; Rodriguez, Uhlenbruck & Eden 2005; Uhlenbruck et al. 2006) confirmed that as corruption gets more widespread (highly pervasive) in a foreign country, the multinational firms should engage in non-equity rather than in equity entry modes.

The second feature characterizing corruption is the arbitrariness which increases the uncertainty of operating in a foreign country. Furthermore, laws and rules might be interpreted differently by judges and government officials in a country where corruption is arbitrary. Hence, Uhlenbruck et al. (2006, p. 405) suggest that the arbitrariness of corruption creates incentives to comply with the corrupt practices in order to increase predictability. However, as in the case of pervasiveness of corruption, the engagement in an arbitrary corruption will cause MNE-internal inconsistencies. Therefore, the authors hypothesized that companies should choose non-equity entry modes in a country with arbitrary corruption. Nevertheless, authors failed to confirm their hypothesis related to the relationship between the arbitrary corruption and non-equity entry. Rodriguez, Uhlenbruck and Eden (2005) provided an explanation for a non-significant result. They argued that the effect of arbitrariness on the choice of arm's-length modes of entry is complex. On one hand, arbitrary corruption increases the environmental uncertainty which in turn stimulates firms to conform to the conditions of the local environment. On the other hand, based on the arguments in the study of Oliver (1991), Rodriguez, Uhlenbruck and Eden (2005) asserted that in an environment where corruption is arbitrary, the perceived economic and legitimacy gains are reduced because the private firms are not certain whether they will get the promised goods or services even if they bribed the officials. This in turn discourages firms to engage in corruption. Therefore, it is hard to identify the effect of arbitrary corruption on the institutional distance between the MNE's home and host countries. In addition to this, the study on the impact of corruption on entry strategy (Uhlenbruck et al. 2006, p. 405) explored how the interaction of pervasiveness and arbitrariness enhances the incentives of firms to choose non-equity entry. As it was described in the second chapter, the pervasiveness of corruption reflects the frequency of meeting corrupt officials in the normal settings, while the arbitrariness is associated with the uncertainty created by corruption. Therefore, Uhlenbruck et al. (2006, p. 405) stated that 'if an entire court system is corrupt (high pervasiveness), arbitrary decisions create more uncertainty than if only some courts are corrupt (low pervasiveness)'. The arbitrariness of corruption rises time and effort spent on negotiations with the corrupt officials, and with the increase in the level of pervasiveness, increases the number of corrupt public servants with whom firms will have to negotiate. Thus, 'as either of the two dimensions of corruption increases, the marginal effect of the other dimension also increases' (Uhlenbruck et al. 2006, p. 405). This in turn increases the likelihood that foreign firms will engage in corruption. But as it was explained before, the values, norms and practices of the external environment might be inconsistent with the values, norms and practices of the internal environment of the firm. Therefore, the non-equity entry is the best option for a firm entering a country with high corruption. The interesting view was expressed by Grande and Teixeira (2012) in their study of the Portuguese MNEs entering the Portuguese-speaking African countries. Grande and Teixeira (2012) stipulated that the MNEs entering countries with which their home country shares historical and linguistic ties might prefer equity entry modes despite the fact, that there could be very high, high or intermediate levels of corruption. However, they found out that corruption is still a major obstacle to foreign direct investment, though the vast majority of the firms investigated in their study argued that the historical and cultural ties between the home and host countries were and are important. Therefore, we could state that the cultural and historical ties are not sufficient to mitigate the negative effect of corruption on the foreign direct investment which contradicts the arguments of previous studies, like for example, the study of Cuervo-Cazurra (2008a) or Demirbag, Mcguinness and Altay (2010). Besides this, Kouznetsov, Dass and Schmidt (2014) investigated how corruption and the quality of law enforcement differently impact on the choice of entry mode for large multinational manufacturing enterprises (MNMEs) and small-medium sized manufacturing enterprises (SMME) investing in Russia. One of the differences between this study and others is that the authors examined how the results related to the entry mode decision would change after acquiring some experience of dealing in the Russian market. To put it another, how the entry modes decisions differ at the time of entry and after some time spent operating in a host country. Using the location-advantage dimension of the OLI-paradigm, Kouznetsov, Dass and Schmidt (2014) proposed that SMMEs would prefer low commitment modes of entry if the political environment of a host country (Russia) is characterized by high corruption level and weak law enforcement, while large sized MNMEs would choose high commitment entry modes such as WOS or JV because of their global brand name which gives them opportunity to complain to high-level officials when it is needed. Furthermore, authors argued that in comparison to small-medium sized firms, large sized multinational firms are seemed to be able to improve the Russia's economy. This in turn improves the business environment of large sized multinationals, and thus provides protection against corrupt public servants.

Nevertheless, all in all, based on the results of the above mentioned studies, we could conclude that corruption in general, discourages firms to choose high control and high risk entry modes.

3.2 Franchising

Franchising is a contractual form of entry where the franchiser transfers his/her management and marketing practices and technologies to the local entrepreneurs, termed as franchisee who also invests his/her own funds. Additionally, the franchisee gets the right to use the franchisor's trade-mark or trade-name which in turn provides the local entrepreneur with the immediate name recognition in the eyes of local customers. Except this, the franchisee can get from the franchiser the ongoing help in training the employees, and in promoting and upgrading the products. In return, the franchisee pays a one-time franchise fee and a percentage of sales revenue as royalty. Usually, this form of entry was used by firms in developed countries such as the United States, Canada and Western Europe. However, in today's situation in the economy, these markets reached the saturation phase, and the diminishing profit potential is one of the negative consequences of it. This all forces the multinational companies to search for other potential markets. According to this evidence, the fastest growing emerging markets are a good destination for franchising companies. However, franchising entails some interdependent transaction costs such as the monitoring costs, the searching and evaluating the potential local buyers, property rights protection costs after the agreement has expired, transportation costs associated with the transport of franchisor's technology (Baena 2011, 2012a). Nevertheless, the franchising mode of entry provides some benefits, like for example, limited resource commitment and the local firm's or the franchisee's knowledge of the institutional environment in the host market that is especially important in countries characterized by high incidence of corruption. Hence, the article on the market conditions driving international franchising in emerging markets (Baena 2012a) suggests that the expansion of franchising is positively associated with corruption, or low transparency across emerging countries. It is also worth to differentiate between the two types of franchising (direct and master) and their relationship with corruption in the target market. An article on international franchising (Baena 2013) defined direct franchising as an agreement between two parties (franchiser and franchisee), each of them providing certain benefits to each other, while the master franchising is an agreement between the franchiser and independently owned sub-franchiser who acts as a franchisor in the target market, on one hand, and as a franchisee, on the other. The master gains the right from the franchiser to use the business practices for a particular period of time in a particular geographical region in order to establish a certain number of franchisees in the target country. Based on the findings of previous studies investigating the negative consequences of corruption, the study on global franchising of 36 Spanish franchisors in 26 emerging countries from different continents (Baena 2011) stipulated that franchisers entering markets with low transparency or high corruption would select either direct franchising, master franchising or JV, and avoid direct investment as an entry mode. However, the results obtained in this study failed to confirm the positive association between direct franchising and the level of corruption in the host market. In contrast, the study on the Spanish franchisors establishing the franchising chains in Latin America (Baena 2013) found a positive and significant result for the relationship between the corruption and the likelihood of direct franchising. The reason for such a positive result obtained for the establishment of direct franchising in contrast to the previous study of Baena (2011) could be the similar cultural and linguistic characteristics shared between Spain – home country of the franchiser – and the target countries of Latin America. In order to examine how the relationship between corruption and the entry mode preferred by franchising companies using the different set of countries change, the study about master franchising as an entry mode (Baena 2012b) conducted the analysis of the Spanish franchisors operating through 96 franchisee outlets across Middle East countries: Bahrain, Cyprus, Israel, Jordan, Saudi Arabia, and United Arab Emirates. The author using this study confirmed her previous findings, and suggests that as the level of corruption in a host country rises, increases the likelihood of direct and master franchising as the preferred entry modes since these forms of entry provide the international company with the resources and location-specific knowledge required to successfully operate in a foreign country, and save the operational costs in virtue of the limited resource commitment.

3.3 Joint venture versus wholly-owned subsidiary

Despite the fact, that multinationals prefer non-equity over equity entry modes in countries with high corruption, scholars identified that, in some cases, foreign firms make a choice between a whole ownership and a partial ownership modes of entry when internationalizing in highly corrupt environments. Therefore, there is a need to provide a critical literature overview of the effect of corruption on the entry decision between JV and WOS.

As it was explained before, corruption creates additional uncertainty of operating in a foreign country and rises the transaction costs because of dealing with corrupt government officials. In other words, corruption makes the external environment less transparent and costly. This in turn creates incentives for multinational enterprises to rely on a local partner. Local partner can help to overcome these external uncertainties by providing the knowledge of how to manage the business practices in a foreign country. Additionally, engaging in a JV with a local firm may protect the foreign investor from directly engaging in corrupt activities, and thus from being blamed for corrupt acts and its negative consequences. Besides this, local firm may provide the investing firm the access to local networks. Moreover, in a JV, resources and investment risks are divided among partners (Beamish & Banks 1987; Hill, Hwang & Kim 1990; Yiu & Makino 2002). However, Smarzynska and Wei (2000, p. 3) argued that 'sharing ownership may lead to technology leakage'. In other words, JV with a local partner may provide access to location-specific knowledge and local networks, but does not protect from opportunistic behavior of a partner. Based on these arguments, Smarzynska and Wei (2000) and Javorcik and Wei (2009) in their studies of the effect of corruption on the investment decisions of US multinationals and firms from other developed countries entering the emerging economies, stated that if there is a constant level of technological sophistication, the foreign firms are more inclined to choose the JV as a preferred entry mode in a more corrupt country, taken into account that the investment is taking place. But if a multinational firm is a R&D intensive, then it prefers WOS over JV 'because of the concern that intellectual property protection becomes problematic in a more corrupt country' (Javorcik & Wei 2009, p. 622). The same argument was provided by Driffield et al. (2010) in their study of the effect of the absolute and relative corruption (corruption distance between home and host countries) on the entry mode choice of firms investing in CEE (Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Russia, Slovakia and Ukraine). However, this paper (Driffield et al. 2010) failed to find significant result for the interaction term of corruption level in a host country (absolute value) with the high-tech dummy, which means that the corruption level in a host country itself does not have an impact on the entry mode choice of high-tech parent firms, but the relative level of corruption, on other hand, increases the likelihood of selecting high control entry modes in contrast to JV. In addition to the choice between JV where foreign equity ownership ranges from 10% to 90%, and WOS with over 90% of foreign ownership, Demirbag, Glaister and Tatolgu (2007) tested how equity share among partners differ if the JV was selected: minority foreign-owned (10-49%), co-ownership (50-50%), and majority foreign-owned (51-90%). In their analysis of Turkish market, the authors found out that even though the JV was favored over the WOS, it takes the form of majority foreign-owned. Demirbag, Glaister and Tatolgu (2007, p. 430) explained such a choice in a country with high moral hazards as the appropriate mode of entry where 'the foreign investor gains both equity control and external legitimacy'. In a study of the foreign investments in the CEE region during the 2002-2008, Pal (2013, p. 17) points out that the foreign ownership held by the multinational firm increases if the corruption level of its home country is similar to the corruption level of its host country. To put it another, when the corruption distance between the home and host countries is small, the MNEs tend to increase its ownership share in the foreign affiliate. The same proposition was tested by Driffield, Mickiewicz, Temouri (2016) who hypothesized based on the property rights theory that as the corruption level increases in the host country, the ownership shift from majority to minority will be less likely to occur, whereas the opposite hypothesis was based on the combination of TCA and Agency approach. Based on the combined Transaction costs and Agency approach, the equity share of the local partner need to be increased in order to motivate him or her to behave fairly. However, the results obtained in the study on ownership control of foreign affiliates (Driffield, Mickiewicz & Temouri 2016) found a support for Property Rights Theory. Except this, Pal (2013) explored how the result regarding the entry mode choice between sole-owned and partial-owned subsidiary might change if the MNE's home and host countries are the members of the EU or OECD. Based on the results obtained in this study (Pal 2013, p. 20) it could be concluded that the effect of corruption vanishes when the source and target countries are the members of the EU or OECD. And according to Pal (2013, p. 20) in this case, it is more likely that the foreign firm would choose WOS over JV. An interesting view was expressed by Grythe and Dumitrascu (2012, p. 35) that it is not the host country corruption itself influences the entry mode of a firm, but the industry's likelihood of bribery impacts on the choice between WOS and JV. To be more precise, Grythe and Dumitrascu (2012, p. 35) argued that the likelihood of a foreign company to choose the JV as an entry mode increases if it decides to invest in an industry where the payment of bribery is solicited. Hence, the authors concluded that the industries' characteristics regarding the bribery are more important for firms investing in those industries rather than the general level of corruption in a host country. In addition to this, the article on the effect of local corruption on ownership strategy in cross-border mergers and acquisitions (Di Guardo, Marrocu & Paci 2016) asserted that if the acquiring firm invests in the target firm's industry similar to its own, then the foreign firm would select the whole acquisition, while at low levels of industry relatedness, the partial control mode would be selected by the acquiring firm. Thus, Di Guardo, Marrocu and Paci (2016, p. 4233) argued that 'industry relatedness acts as a moderating factor with respect to the adverse effects produced by corruption'.

Nevertheless, it is not sufficient to examine only the corruption level, some evidence that it is needed to explore how corruption distance and its direction influence the choice between high (WOS) and low commitment (JV) modes of entry. An article on corruption and ownership composition of MNEs (Tekin-Koru 2006) compared the implications of two approaches – Bargaining and Transaction Costs – related to the entry mode decision between JV and WOS. In accordance with the Bargaining approach, the bargaining power of the foreign firm enhances if the foreign firm's tangible and intangible assets are more important for the investment. In contrast to this, the MNE's bargaining power weakens if the local resources such as local knowledge and personal connections with policymakers are more essential for the success of the investment. Consequently, based on the Bargaining approach we could assume that if there is a lack of knowledge and experience of operating in an uncertain host environment, then the

JV is a preferred mode of entry. Transaction costs approach compares the perceived costs of engaging in a JV with a local partner (free riding by partners, theft of intellectual property, reduced incentives, harmonizing the existing technologies) with the possible benefits of having a local partner (access to local knowledge and networks). Thus, based on the propositions of TCA, the foreign firm should select the WOS in contrast to JV in a corrupt host country because of the concern of opportunistic behavior of a local partner and because of the related increased monitoring costs of such a partner. In the analysis of the investment flow between developed countries and Turkey as a host country, the study about the relationship between ownership composition of firms and corruption (Tekin-Koru 2006) established that as the corruption distance between MNEs' home and host countries gets wider, the preference for WOS over JV gets greater which supports the propositions of TCA. However, the results should be interpreted with caution since the author got the significant result only for the inverse relationship between the corruption distance variable and the number of JV. Notwithstanding, the article on the effect of corruption on ownership composition of multinationals investing in China (Duanmu 2011) using the institutional theory together with the resource-based view deduced that as the corruption distance between less corrupt countries and China gets wider, the WOS will be selected as a preferred entry mode, while the corruption distance for the MNEs from the equally or more corrupt countries than China is not an important predictor of entry mode. In contrast to the previous studies, this study (Duanmu 2011) explained such a result as the need of multinationals to protect their global image and the desire to conduct the business in their own correct way. Additionally, the author examined how the local market orientation itself as well as its interaction with corruption distance change the impact of corruption on the choice of entry mode. According to the article on the effect of corruption distance (Duanmu 2011), the preference for WOS for MNEs from less corrupt countries than China is mitigated by the local market orientation. Duanmu (2011) explained this change as the desire of the multinational firm to access the local partner's know-how, which is especially important in the case of extraordinary potential of the Chinese market. Except this, Karhunen and Ledyaeva (2012) investigated how the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of 1997 might impact on the corruption's effect on the entry mode of firms investing in Russia. Based on the arguments of Cuervo-Cazurra (2008b), the authors hypothesized that the foreign firms, in the home countries of which the OECD Anti-Bribery Convention has entered into force within the home country's legislation, would select a WOS as a preferred entry mode. However, the result obtained in this study was the opposite; Karhunen and Ledyaeva (2012) proposed that the impression of the OECD Anti-Bribery

Convention is the reason why the multinational firms prefer JV over WOS in Russia. In contrast to the US Foreign Corrupt Practices Act of 1977, the OECD Anti-Bribery Convention does not punish the corrupt acts performed by the local joint venture partners of the MNEs. Thus, Karhunen and Ledyaeva (2012, p. 201) concluded that 'the benefits of having local partners to deal with the corrupt environment in Russia exceed the corresponding costs'. It is worth noting that two studies (Javorcik & Wei 2009; Smarzynska & Wei 2000) have not established any proof that US firms less invest in corrupt countries, though they are less inclined to select JV as an entry mode.

Some scholars instead of focusing on the corruption distance between the MNEs' source and host countries, employed the two main characteristics of corruption – arbitrariness and pervasiveness – in their analysis of the effect of corruption on entry mode decision.

As it was described in 2.4 subchapter, the arbitrariness represents ambiguity associated with corruption. Based on the research study of the effect of corruption on entry strategies of firms in the telecommunication industry (Uhlenbruck et al. 2006, p. 406), it could be elicited that the arbitrariness of corruption raises the environmental uncertainty and increases the foreign liability which in turn makes the institutional environment more complex and hard to conform. Thus, in an environment with highly arbitrary corruption, foreign firms need to find another source of external legitimacy. Based on this argument, Rodriguez, Uhlenbruck and Eden (2005) proposed that the local firm is an appropriate source of information and legitimacy. Hence, as the arbitrariness of corruption in a host country increases, increases the likelihood of a foreign firm choosing the JV as an entry mode. The study on the impact of corruption on entry strategies (Uhlenbruck et al. 2006, pp. 407-410) tested this proposition on the telecommunication projects in 96 emerging countries, and found a positive and significant result. The same conclusion was provided by Demirbag, McGuinness and Altay (2010) in their study of Turkish MNEs investing in transition economies of the Central Asia Republics.

The pervasiveness of corruption, on the other hand, reduces the incentives of foreign companies to select JV as an entry mode (Rodriguez, Uhlenbruck & Eden 2005; Uhlenbruck et al. 2006). Pervasiveness reflects the degree of encountering the corrupt government officials in normal operations in a foreign country, in other words, pervasiveness of corruption reflects the degree to which corruption is institutionalized in the country. In an environment where corruption is highly pervasive, local as well as foreign firms face pressures to comply with corrupt agents. Therefore, partnering with a local firm neither protects from the bribery demands nor reduces the costs of confronting corruption where it is highly pervasive. Conversely, compliance with the corrupt practices may help the foreign firm to acquire the external legitimacy and being provided with needed permits, licenses and other resources. Moreover, Rodriguez, Uhlenbruck and Eden (2005, p. 390) stipulated that ‘the costs of partnering, such as sharing profits, are not reduced by pervasiveness but are likely to rise if MNEs increase profits because of effective exploitation of government corruption’. Thus, Rodriguez, Uhlenbruck and Eden (2005) proposed that WOS should be selected in a country where corruption is highly pervasive. However, the study on the impact of corruption on entry strategies (Uhlenbruck et al. 2006, pp. 409-411) failed to find the significant result for the positive relationship between pervasive corruption and WOS. This study (Uhlenbruck et al. 2006, p. 411) provided two possible explanations for such a non-significant result: (a) anti-corruption practices of the MNEs’ home countries which make the multinationals not willing to exploit opportunities created by pervasive corruption; (b) the source of high pervasiveness of corruption could be either weak regulatory institutions which stimulates the foreign firms to choose WOS, or weak normative institutions that encourages to engage in a JV with a local partner. Moreover, the article on FDI flow between developing countries (Demirbag, McGuinness & Altay 2010) found an empirical support for the positive association between the pervasiveness of corruption and JV as equity entry mode. In contrast to the developed country MNEs where the regulations (e.g. US Foreign Corrupt Practices Act of 1977) hold them accountable not only for theirs but also for their JV partners’ corrupt acts, the regulations in home countries of emerging market MNEs may not punish them for the corrupt acts made by their JV partners, thus providing the emerging market MNEs the means of limiting foreign liability and gaining local legitimacy. However, the study on the effect of corruption distance on the ownership composition of firms investing in China (Duanmu 2011) argued that corruption does not have a major impact on the entry mode choice of firms from equally or more corrupt countries than China since they might have accumulated knowledge of dealing with corrupt agents in their home countries, such that the MNEs from high corrupt countries might even rely on their own capabilities and choose the whole ownership entry mode (acquisition or greenfield investment) instead of engaging in a JV with a local firm. The reason for such contradicting results might lie behind factors other than corruption, such as firm-level characteristics or because of different samples of countries investigated in these studies. Additionally, Rodriguez, Uhlenbruck and Eden (2005) proposed that the relationship between pervasive corruption and WOS as an entry mode will be weakened as arbitrariness of corruption increases since as corruption becomes more arbitrary, it gets harder for the MNEs to access the benefits created by pervasive corruption. The second reason why the arbitrariness of corruption moderates the positive association between pervasive corruption and WOS is that the arbitrary corruption weakens the comprehension of the foreign environment, and therefore, there is a need in a local partner who provides the needed local knowledge and experience. Nevertheless, the empirical study on the entry strategies of firms in telecommunication industry (Uhlenbruck et al. 2006, p. 410) failed to find the significant result for the interaction term. Sartor and Beamish (2018) went one step further, and investigated how the pervasiveness of two types of corruption – grand and petty – differently influences on the ownership entry strategies of foreign firms. Based on the uncertainty-oriented framework, authors stipulated that foreign firms face environmental uncertainty under *pervasive grand corruption*, while there exists a behavioral uncertainty under *pervasive petty corruption.* According to Griffith, Harmancioglu and Droge (as cited in Sartor & Beamish 2018, p. 350) behavioral uncertainty is related to the uncertainty in behavior of transaction partners; the higher the degree of behavioral uncertainty, the higher the monitoring and safeguarding costs against the risk of opportunism. While the environmental uncertainty is associated with external uncertainty of the foreign firms; the higher the degree of environmental uncertainty perceived by foreign multinationals, the higher the expected information costs spent to get the local knowledge. Thus, in order to test what entry mode will be chosen under *pervasive petty corruption*, the *trust-based mechanisms* need to be implemented, whereas under *pervasive grand corruption*, there is a need in *learning-based mechanisms*.

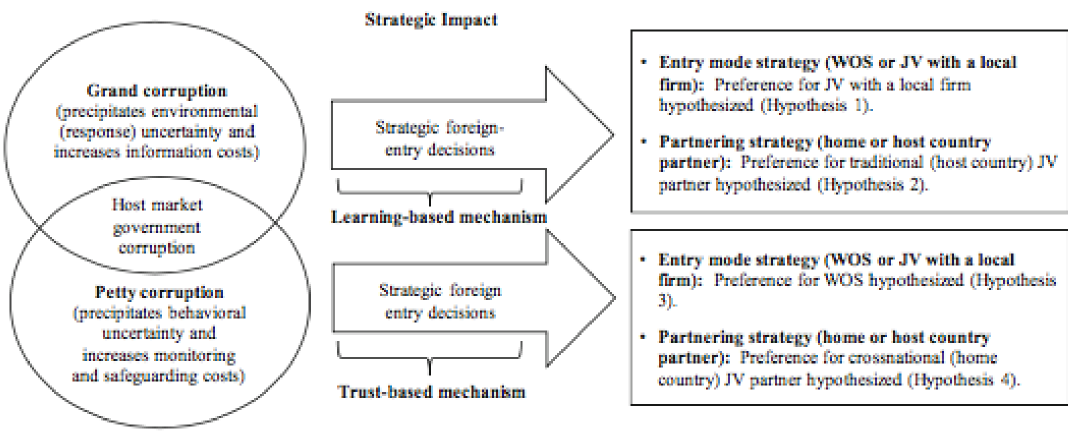

Figure 2 Uncertainty-based conceptualization of the relationship between host market government corruption and MNE foreign entry strategy (Sartor & Beamish 2018, p. 350).

Therefore, in a foreign country which is characterized by high pervasive grand corruption, the multinational firm will perceive high environmental uncertainty, and thus, select those entry modes that assist to minimize the information costs. In this case, partnering with a local firm is the best option to get access to local knowledge and to mitigate the risks associated with corruption. While, in an environment which suffers from pervasive petty corruption, foreign firms experience mistrust in government institutions, and therefore, the multinationals would prefer to form a WOS in order to save monitoring costs against the possible opportunistic behavior of a local firm. And indeed, Sartor and Beamish (2018) in their analysis of 643 Japanese investments in 30 countries, found a support for the positive relationship between the pervasiveness of grand corruption and JV with a local partner (traditional JV). Nevertheless, it is empirically proved that the positive association between more pervasive grand corruption and JV with a local partner is weakened as pervasive petty corruption increases. The result for the pervasive petty corruption and WOS was found to be insignificant, though with the right sign. Conversely, the foreign firms investing in countries with high pervasive petty corruption should select cross-national JV, in other words, should engage in JV with the home country partner. In order to explain why there are inconsistencies in the results obtained in studies conducted in different countries, Karhunen and Ledyaeva (2012) compared their study on Russia with the study of Duanmu (2011) on China and of Demirbag, Glaister and Tatolgu (2007) on Turkey. In Russia, corruption is known to be both highly pervasive and highly arbitrary, while in Turkey, the corruption is high in arbitrariness but low in pervasiveness, whereas China is high in pervasiveness but low in arbitrariness. Surprisingly, the results obtained in the study on Russia are the same as in the study (Demirbag, Glaister and Tatolgu 2007) on Turkey, while they are in opposition to the results obtained by Duanmu (2011) in the study on China. Thus, the article on corruption distance and international ownership strategies (Karhunen & Ledyaeva 2012) stipulated that the high arbitrariness of corruption is of more importance for foreign firms from less corrupt countries such that they prefer JV over WOS in order to be able to cope with heightened uncertainty.

All in all, it could be concluded that the relationship between corruption and ownership entry strategies of firms is a complex decision which involves a lot of aspects that must be taken into consideration (corruption distance and its direction, types of corruption and its dimensions, specific firm-level features, source and destination countries' characteristics other than corruption, etc.). Di Guardo, Marrocu and Paci (2016) proposed that the relationship between the host country government corruption level and the mode of entry is U-shaped: at low levels of corruption in the host country, the benefits of whole ownership exceed the costs because of the firm's accumulated international experience in operating in countries similar to its home country's environment; as the corruption increases from low to moderate levels, the benefits of shared ownership outweigh the costs because of greater environmental uncertainty associated with corrupt acts; and after a certain threshold is passed, the preference for whole ownership gets greater because of the concern of law quality of intellectual property rights (IPR) protection in the target market.

3.4 M&As and Greenfield investments

There is a little research made on the impact of the phenomenon investigated in this thesis upon the mergers and acquisitions as well as upon the greenfield investments. Greenfield investment is a type of foreign direct investment where the parent firm invests in a foreign country from scratch, while acquisition is the purchase of an existing company. Greenfield investment enables the foreign firm to profitably utilize the internal mobile firm-specific assets (R&D, product newness and complexity, product differentiation, etc.) without a concern of opportunistic behavior of a local partner, while acquisition provides direct access to the existing tangible and intangible assets of the acquired firm. A discussion on multinationals and corruption (Tekin-Koru 2017) suggests that the relationship between the host country corruption and the likelihood of established greenfield investment is inconclusive. On one hand, the likelihood that the foreign firm builds its operations in a target market from ground up lowers as the corruption situation in a host country gets worse. The reason for such an inverse relationship between greenfield investment and corruption is the reduced return on investment because of the possible high start-up costs such as time wasted to get the required permits, or an increase in operating costs, like for example, costs associated with red-tape in the daily activities (Tekin-Koru 2017). On the other hand, the recent study to investigate the effect of corruption on FDI and its mode of entry (Luu et al. 2018, p. 5) provided some arguments in favor of greenfield investment in highly corrupted markets such as the opportunity to overcome bureaucratic procedures via bribery of government agents which in turn helps to obtain scarce resources and shortens the entry time. While the relationship between the corruption level in a host country and the entry mode choice of M&As is non-linear, or U-shaped: when the corruption increases in less corrupt countries, the number of M&As reduces up to the certain point where the relationship between these two gets again positive. In other words, in more corrupt countries, an increase in corruption leads to the increased likelihood of mergers and acquisitions undertaken by foreign firms in a target market (Di Guardo, Marrocu and Paci 2016). Nevertheless, the research on the investment decisions of multinational firms from 131 countries over the 2003-2015 period (Luu et al. 2018, p. 11) recognized that corruption detrimentally impacts on the number of M&As conducted by foreign firms. The authors explained their result based on the information asymmetry inherent to M&As: the sellers might use the bribery to hide the real value of the target domestic firm which in turn increases the searching and evaluating costs for the acquiring firm. Thus, the foreign acquiring firm is unable to gain advantages associated with first-mover strategy inherent to M&As which shifts the preference against the M&As as an entry mode. The results on the negative effect of corruption on M&As are consistent with the study on U.S. and Chinese cross-border acquisitions (Malhotra, Zhu & Locander 2010). Malhotra, Zhu and Locander (2010) provided evidence that both the U.S. and Chinese firms make larger number of acquisition in less corrupt countries, though, unlike the U.S. cross-border acquisitions, the Chinese firms make larger acquisitions in more corrupt countries because of the similar institutional environments in equally corrupt countries. Moreover, Malhotra, Zhu and Locander (2010, p. 491) found 'a significantly positive relationship between the transaction value of Chinese CBAs and the level of perceived corruption in the target country'. Further, a recent study to investigate the joint effect of investment motives and institutional context (Dikova et al. 2016, p. 682, 687) concluded that the high corruption distance encourages the market-seeking M&As launched by Russian firms, while resource-seeking and strategic asset seeking M&As are discouraged by high corruption distance. However, it is worth noting that the researchers of this study (Dikova et al. 2016, p. 674) examined the role of institutional distance which composes of corruption perception distance, political distance and cultural distance. Thus, the direct impact of corruption distance on the M&As established by Russian firms was not investigated in this paper. In contrast to the proposition provided by Tekin-Koru (2017) related to the relationship between corruption and Greenfield investment, the study on the choice between M&As and Greenfield investment in corrupt countries (Luu et al. 2018, p. 11) identified the positive and significant coefficient for the *Corruption* variable which indicates that under the prevalent of corruption, foreign firms use bribery to speed up all the bureaucratic procedures needed to construct new production facilities as well as new distribution hubs, offices and living quarters. Therefore, an article on investment decisions of MNEs in corrupt countries (Luu et al. 2018, p. 11) maintained the positive association between corruption and Greenfield investment. It is worth noting that the results obtained in this study (Luu et al. 2018, p. 13) were significant for developing countries subsample, while nonsignificant – for the set of developed countries. Furthermore, the article on the family-owned enterprises and its mode of entry (Yamanoi & Asaba 2018) stipulated that the high host country corruption level enhances the propensity/likelihood of family-owned firms to favor greenfield investments over acquisitions. The researchers of this study (Yamanoi & Asaba 2018) contend that through greenfield investment, first, the family owners may employ their own trustworthy managers instead of retaining locals who might be inclined to engage in corrupt practices, second, they may instill their organization culture which hinders any corrupt practices. Thus, greenfield investment decreases the risk of reputation loss which is of greater importance for family-owned enterprises compared to nonfamily firms. Based on the same logic, authors hypothesized that the high degree of corruption in a host country would increase the likelihood of choosing full ownership of foreign subsidiary by family firms. However, such a relationship was found to be insignificant, and Yamanoi and Asaba (2018) explained it as the increased need in subsidiary's social network to survival in the inefficient corrupt markets. However, the results obtained in this survey (Yamanoi & Asaba 2018) should be considered with cautions since the authors examined only the moderating effect of corruption on the relationships between family ownership and greenfield investment, and full ownership of foreign subsidiary. Nevertheless, both these types of entry mode involve high risks and high resources commitment that need to be taken into account before making any decision. Moreover, the costs associated with each of these entry modes might be increased by perceived corruption level in a target country. Based on the arguments of scholars, it could be stated that entry decision between M&As and Greenfield investment depends on the experience and capabilities of firms in dealing with corrupt agents. In some cases, corruption may act as a "helping hand" providing the means of overcoming rigid government regulations, while in other cases it acts as a "grabbing hand" adding additional costs and uncertainty.

3.5 Preliminary Conclusion

In sum, it could be argued that corruption is a broad concept which entails many different aspects that need to be taken into consideration before making any decision. In the last subchapter of the second chapter (2.6), it was established that in overall, corruption negatively impacts on the decision to invest in countries perceived to be highly corrupt. Nevertheless, if the multinational firm decided to make an investment in a country despite high incidence of corruption there, it would prefer to choose low control entry modes, the non-equity entry modes (exporting, licensing, contracting, franchising: direct and master), particularly. However, when the equity entry modes were selected, the decision between JV or WOS takes the U-shaped form (Di Guardo, Marrocu and Paci 2016): at lower levels of corruption, the high control entry mode (WOS) is preferred, while when it increases from low to intermediate levels, the shared ownership is more desirable, and once again when the corruption increases from moderate to high levels, the preference for WOS gets greater. The result related to the choice between M&As and Greenfield investment in corrupt environments is still difficult to identify since these types of entry mode were little investigated in conjunction with the incidence of corruption. Based on the recent studies (Di Guardo, Marrocu and Paci 2016), it could be argued that there is a U-shaped relationship between M&As and corruption, whereas the effect of corruption on the decision to invest from ground up is two-sided. On one hand, corruption provides means of attaining government concern, and thus enables firms to gain access to the scarce resources of the local environment. On the other hand, it increases the start-up costs associated with the direct costs of bribery, and time spent on the negotiations with corrupt agents. Nevertheless, all in all, the findings of studies conducted in different countries and in different periods of time provide answers to the questions surveyed in this thesis.

4 Summary of empirical studies and future research recommendations

This thesis aims to overview and find inconsistencies in studies regarding the MNEs' entry mode choices in countries with high corruption. Previous chapters have firstly defined the main concept of corruption, its types and dimensions, causes and consequences, and how this all is related to the multinationals' entry strategies. This chapter aims to provide possible factors that might explain the contradictions in results obtained in different research studies, and make suggestions for future research in order to allow future researchers to develop a comprehensive model that could explain the relationship between corruption and preferred entry mode.

In order to do so, this paper reviews reverse academic papers on corruption and entry strategies of firms. The review does not include primary data, and thus is focused on exploring of secondary data.

The following criteria is used for choosing studies for this paper:

1) Survey studies published in the last 18 years.
2) Empirical research with statistical analysis of one or more hypothesis.

The goal of this chapter is then to summarize main research findings and classify them into a table that will be presented in the following next pages.

Table 1 Corruption and Entry Mode: an abbreviated literature overview.

Entry mode	Corruption & its type	Studies	Sample	Key Findings
EQ vs. NEQ	**Level**	Grande, Teixeira (2011)	562 Portuguese firms entering 5 PALOP (Portuguese-speaking African countries).	Although the vast majority of firms claimed that the historical and linguistic ties between home and host countries matter, the Portuguese companies prefer NEQ in corrupt countries.
		Kouznetsov, Dass, Schmidt (2014)	31 Western firms invested in Russia were interviewed n 2010.	Because of high corruption and weak law enforcement, SMMEs prefer NEQ, while large-sized MNMEs are less exposed to corrupt practices and weak law enforcement, and thus select EQ (JV/WOS).
	Pervasive & Arbitrary	Uhlenbruck et al. (2006)	Data set of over 400 telecommunications projects in 96 emerging countries.	While the pervasiveness of corruption increases the likelihood of choosing NEQ, the arbitrariness of corruption has no significant impact on the choice between FDI and arm's-length entry modes.
Franchising	**Level**	Baena (2011)	768 outlets established abroad by 34 Spanish franchiser companies in 26 emerging countries.	Franchisers entering foreign markets with low transparency (high corruption) would select either master franchising or JV, and avoid FDI.
		Baena (2012a)	2,836 outlets established abroad by 63 Spanish franchiser companies in emerging nations.	There is a positive association between low transparency (high corruption) and the expansion of franchising across emerging nations.
		Baena (2012b)	96 franchisee outlets across 6 Middle East countries in Jan.2010: Bahrain, Cyprus, Israel, Jordan, Saudi Arabia, United Arab Emirates.	Franchiser seeking to expand its businesses in countries with high corruption prefer to rely on an intermediary who purchases from franchiser entrant the right to develop their own network of outlets in the host markets. In other words, master franchising would be selected.
		Baena (2013)	604 outlets across the 20 Latin American nations.	Spanish franchiser companies prefer to enter through either direct or master franchising into Latin American nations.

JV vs. WOS	**Level & distance**	Smarzynska, Wei (2000); Javorcik, Wei (2009);	9,500 companies received questionnaires; responses obtained from 1,405 US and other developed countries firms invested or planning to invest in Eastern Europe and the former Soviet Union between 1989 and 1995.	If there is a constant level of technological sophistication, the MNEs would prefer JV over WOS taken into account that the investment is taking place. But more technological sophisticated firms would select WOS because of the concern of technology leakage.
		Driffield et al. (2010)	Home-host firm-level panel data-set for 1998-2006 from CEE transition countries: Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Russia, Slovakia, Ukraine.	Foreign firms entering countries with high corruption level tend to reduce the share of foreign ownership. The coefficient on the interaction term of the absolute corruption and high-tech dummy and WOS is insignificant. But if the host country corruption level is higher than the home country, JV would be chosen. However, high-tech parent firms would select WOS if the host country corruption is higher than the home country (relative corruption/distance).
		Driffield, Mickiewicz; Temouri (2016)	Data sample includes 122 home countries and 125 host countries, 53,625 foreign affiliates for the period of 2002-2012 from ORBIS (rich firm-level data) provided by Bureau van Dijik.	As the corruption situation in the host countries worsens, the shift from majority to minority foreign ownership is less likely to occur.
		Pal (2013)	Data set drawn from ORBIS and includes 2,458 host firms operating in 12 CEE countries during 2002-2008: Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Poland, Romania, Russia, Slovakia, Ukraine.	The share of foreign ownership increases if there is similar home-host corruption environment. If both the MNE's home and host countries are members of the EU/OECD, the corruption effect vanishes suggesting that the WOS would be favoured.
		Demirbag, Glaister, Tatolgu (2007)	Database of the General Directorate of Foreign Investment consists of all foreign equity investments in Turkey and as of 2003 includes 6,838 foreign equity ventures.	Although the foreign firms from home countries with lower levels of corruption than in Turkey prefer JV over WOS, it takes the majority foreign-owned form (51-90%).

		Tekin-Koru (2006)	FDI in Turkey from 88 countries between 1990 and 2000. Data obtained from the General Directorate of Foreign Investment in Ankara.	First, the corruption difference between the source country and Turkey reduces the number of JV at a decreasing rate. Additionally, as the skill differences between the home country and Turkey gets larger, the negative impact of corruption on JV becomes even more so. Second, as the sophistication of production process rises, both costs of harmonizing the activities and risks of intellectual property theft will be much higher, especially in the presence of high corruption differences. In this case, the MNEs from developed countries would prefer WOS over JV. However, in the case of developing country MNEs, corruption may not be a big concern since the differences in corruption level between these countries and Turkey are not that large.
		Karhunen, Ledyaeva (2012)	Dataset of 1341 firms entering Russia was takes from ROSSTAT (Russian State Statistical Agency)	As the corruption distance between the home country and Russia gets larger, the likelihood of choosing JV increases. The OECD Anti-Bribery Convention implemented in home countries of MNEs does not change its preference of JV over WOS when investing in Russia. In other words, the benefits of shared ownership exceed the costs.
	Distance and its direction	Duanmu (2011)	Dataset from the government survey on foreign direct activities in 2005; all entry permits to foreign investors in Suzhou between 1981-2005.	First, companies from less corrupt countries than China prefer WOS over JV compared to their peers from equally or more corrupt countries than China. Second, the more transparent the home country of MNE, the more likely it will select WOS. Third, corruption distance is not an important predictor of entry mode for MNEs from equally or more corrupt countries than China. Fourth, when the corruption distance is considered together with the local market orientation, its significant influence on the preference of WOS over JV declines. In other words, local market orientation reduces the tendencies for MNEs from less

				corrupt countries to select WOS since JV provides access to the local specific assets which is especially important in the case of the Chinese market.
	Arbitrary	Uhlenbruck et al. (2006)	Data set of over 400 telecommunications projects in 96 emerging countries.	Firms entering countries characterized by high uncertainty (highly arbitrary), tends to select JV because of the reduced risk exposure of their investments, and because of the access to local networks.
		Demirbag, McGuinness, Altay (2010)	Firm-level data set: the final sample contained 104 Turkish companies operating in CARs (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan)	In markets where "ethical uncertainty and arbitrariness" are high, firms will prefer JV over WOS.
	Pervasive	Uhlenbruck et al. (2006)	Data set of over 400 telecommunications projects in 96 emerging countries.	There is no significant effect of pervasive corruption on entry mode choice between WOS and JV.
		Demirbag, McGuinness, Altay (2010)	Firm-level data set: the final sample contained 104 Turkish companies operating in CARs (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan)	The higher the pervasiveness of corruption, the higher the likelihood of choosing JV because the regulations in home countries of emerging MNEs may not keep them accountable for corrupt practices of their JV partners, thus partnering helps to limit further the liability of foreignness for these MNEs.
	Pervasive & arbitrary	Uhlenbruck et al. (2006)	Data set of over 400 telecommunications projects in 96 emerging countries.	The increase in arbitrariness does not change the preference from JV towards WOS in an environment with highly pervasive corruption.
	Pervasive petty & grand corruption	Sartor, Beamish (2018)	643 Japanese firms investing in 30 countries between 2004 and 2007.	Under high pervasive grand corruption, the MNEs will perceive high environmental uncertainty, and thus choose JV with the local partner, while under high pervasive petty corruption, the MNEs perceive high behavioural uncertainty, and therefore should choose WOS. However, the result regarding the positive association between pervasive petty corruption and WOS was found to be insignificant, whereas the relationship between pervasive petty

				corruption and JV with the home country partner is significant. The relationship between pervasive grand corruption and JV with the local partner is weakened by the increasing pervasive petty corruption as the mistrust in behaviour of the local partner increases (concern of the opportunistic behaviour of local partner becomes greater).
M&As and Greenfield investments	**Level**	Malhotra, Zhu, Locander (2010)	The final sample contained 9,638 acquisitions (467 by Chinese firms, 9,171 by the U.S. firms) over the period of 1990-2006.	Both the U.S. and Chinese firms make large number of acquisitions in less corrupt countries, though, unlike the U.S. firms, the Chinese companies make larger number of acquisitions in more corrupt countries because of the similar institutional environment in more corrupt countries.
		Di Guardo, Marrocu, Paci (2016)	20,034 M&As completed by the acquiring firms located in 7 largest European countries (France, Germany, Italy, Netherlands, Sweden, Spain, the United Kingdom)	The relationship between the level of corruption and the probability of choosing full control entry mode is U-shaped. If the industry of the target and acquiring firms are highly related to each other, then it is more likely that the acquiring firm will choose high control entry mode on an equal corruption basis, while at lower levels of industry relatedness, the acquiring firm would favour shared control entry modes.
		Dikova et al. (2016)	Panel data with 322 observations of Russian cross-border M&As established in 46 countries during 2007-2013	The role of institutional distance consisting of corruption perception distance, political distance and cultural distance explored, thus only moderating effect of corruption distance investigated. The high corruption distance stimulates market-seeking M&As, and discourages resource-seeking and strategic asset seeking M&As.
		Tekin-Koru (2017)	The dataset contains information on Swedish MNEs in manufacturing industry operating in 42 countries over the period of 1987-1998.	First, in more corrupt countries, it is less likely that the MNEs would select greenfield investment because of the high start-up costs and costs associated with red-tape in the daily activities. MNEs with high endowments of mobile skills (technological know-how,

				managerial capabilities) are more likely to conduct greenfield investments. However, as the level of corruption increases, the tendency weakens because of the poor IPR protection. Second, the relationship between corruption and M&As is non-linear, U-shaped.
		Luu et al. (2018)	Sample contains 131 countries for the period of 2003-2015.	Corruption impedes M&As because of the information asymmetry between the acquiring and target firms: the target firm may hide the real value of the firm using bribery, and thus increase the searching and evaluation costs for the acquiring firm. The effect of corruption on Greenfield investment is positive, indicating that in the presence of corruption, foreign firms may use bribery as the means of overcoming rigid bureaucratic procedures in establishing new plant in the host countries. Nevertheless, the results related to the relationship between corruption and Greenfield investments, M&As are robust for developing countries set, while insignificant for the set of developed countries.
		Yamanoi & Asaba (2018)	Sample contains 770 foreign subsidiaries established by 117 Japanese public firms in the electronic machinery industry from 1996 to 2007.	The moderating effect of corruption examined. The high host country corruption level enhances the propensity of family-owned firms to favour greenfield investments over acquisitions with the aim to protect the reputation of the firm. The high host country corruption level does not strengthen the positive association between family ownership and full ownership of foreign subsidiary.

From the table above, it can be seen, that the results obtained in the recent studies on the relationship between corruption and the decision between equity and non-equity entry modes are consistent with each other, suggesting that in countries with either highly pervasive, arbitrary or both types of corruption, the multinationals would prefer to choose less risky entry modes. However, the authors of these studies investigated only the impact of corruption level in a host country on the MNEs' entry strategies. Therefore, it is suggested to examine how the relationship would change if the corruption distance and its direction between the source and target markets were taken into consideration. Additionally, Sartor and Beamish (2018) suggested to analyse distinct impacts of grand and petty corruption on the MNEs' choice between equity and non-equity entry modes instead of conceptualizing the host government corruption broadly as it was done by studies mentioned in the table above.

The studies on the international franchising in corrupt countries (Baena 2011, 2012a, b, 2013) came to the single conclusion, suggesting that the foreign franchising companies seeking to expand their businesses in countries perceived to be highly corrupt, should avoid direct investment and select either master or direct franchising since these entry modes require little economic resource commitment as well as provide the means of protection from corrupt government agents. However, it is worth noting that the franchiser companies investigated in these studies come from Spain, therefore, it is suggested to explore the entry strategies of franchising companies coming from other nations and interested in investing in regions with a high profit potential but with a weak institutional environment.

The results of three studies (Driffield et al. 2010; Javorcik & Wei 2009; Smarzynska & Wei 2000) investigating the relationship between the corruption in the transition economies and the entry mode choice of JV versus WOS can be perceived to be the same, though the time-spans explored in these studies are different. Nevertheless, the studies of Javorcik and Wei (2009) and Smarzynska and Wei (2000) differ from the study of Driffield et al. (2010) in terms of the nature of corruption and its impact on the entry mode choice between partial and full control entry modes of MNEs which are technologically sophisticated: the results of the first two studies suggest that there is a significant negative impact of the *absolute corruption* on the preference of JV over WOS undertaken by R&D-intensive firms, whereas the results obtained in a more recent study was found to be insignificant, suggesting that the *relative corruption* is a way more important for companies with the technological know-how in the entry mode decision between JV and WOS. The results obtained in the study on corruption, knowledge and foreign ownership (Driffield et al. 2010) are in line with the results obtained by Karhunen and Ledyaeva (2012) who explored the effect of corruption distance between the MNE's home country and Russia as the host country on the preference of JV over WOS. In contrast to these studies, the study of Tekin-Koru (2006) stipulated that as the corruption difference between the MNE's home and host countries gets larger, the JV is less likely to be chosen. The contradicting results might lie behind the distinct nature of the data set used in these studies. While the study on the foreign-investing firms in Turkey (Tekin-Koru 2006) employed an aggregated count data due to insufficient firm-level detail, the paper on the investment decisions of firms in transition and CEE countries (Driffield et al. 2010; Javorcik & Wei 2009; Smarznyska & Wei 2000) used the firm-level data in its analysis. Another difference between the studies of Tekin-Koru (2006) and of Javorcik and Wei (2009) and Smarzynska and Wei (2000) is the host countries explored. While Tekin-Koru (2006) examined the effect of corruption distance on the entry mode choices of firms investing in Turkey, Javorcik and Wei (2009) and Smarzynska and Wei (2000) explored the Eastern Europe and the former Soviet Union countries. In contrast to the Eastern Bloc countries, Turkey has had established its trade and financial liberalization years before which in turn led to the increased foreign direct investment from OECD countries, and the reduced importance of having a local partner in Turkey as a result (Tekin-Koru 2006). Furthermore, the studies on the foreign investments in the Eastern Bloc countries (Javorcik & Wei 2009; Smarzynska & Wei 2000) investigated the data in the earliest 1990s, whereas the study on the foreign-investing firms in Turkey (Tekin-Koru 2006) employed the data set including the 2000 year. Hence, it might be interesting to explore how the results might change if the recent years were considered in the analysis of the transition economies since these countries experienced certain development progresses after the collapse of the Soviet Union and during the time of globalization. The results obtained in the article on the foreign investments in China (Duanmu 2011) are in line with the results obtained by Tekin-Koru (2006) but in oppositions with the results received in the studies on the CEE countries (Driffield et al. 2010) and on the Russian market (Karhunen & Ledyaeva 2012). However, it is worth noting that the study of the Chinese market (Duanmu 2011) analysed not only the corruption distance but alto its direction, distinguishing between equally/more and less corrupt countries than China. Nevertheless, the findings obtained in the article on China (Duanmu 2011) could be China specific.

The results of surveys related to the effects of arbitrary and pervasive corruption on the entry choice between JV and WOS are to some extent concordant. Notwithstanding, scholars exploring the effects of pervasive corruption on the MNEs' equity-based entry strategies could not come to a single conclusion. On one hand, it is argued that there is no significant impact of pervasive corruption on the entry mode choice (Uhlenbruck et al. 2006). On the other hand, the more widespread the corruption is, the higher the likelihood of engaging in a JV with the local partner (Demirbag, McGuinness & Altay 2010). There are several reasons for such contradicting results. First, the survey on the investment climate in the CARs (Demirbag, McGuinness & Altay 2010) measured corruption using the Transparency International Index which is built upon questions related to the likelihood and frequency of illicit payments to high-ranked public officials (grand corruption), while the research on the investment strategies in telecommunications industry (Uhlenbruck et al. 2006) employed an index which asked the executives about their perceptions with respect to the likelihood of having to do unofficial payments in order to get licences or permits to operate or expand businesses (petty corruption). Second, the article on the entry strategies in the CARs (Demirbag, McGuinness & Altay 2010) focused on the firms originating from one single country – Turkey. Third, while the research on the equity-based entry strategies in the emerging countries (Uhlenbruck et al. 2006) investigated only one industry – telecommunications industry – Demirbag, McGuinness and Altay (2010) covered 17 different sectors. Nevertheless, results received in these studies are in line with the investigation of Japanese firms (Sartor & Beamish 2018): pervasive grand corruption induces the foreign firms to engage in a JV with the local firms, while the effect of pervasive petty corruption on the choice between WOS and JV was found to be insignificant. Although, it is worth to mention that Sartor and Beamish (2018) explored the entry strategies of firms headquartered only in Japan. Therefore, there is still a need of doing a more comprehensive survey of this question. Furthermore, the article on the internationalizing strategies conducted by Japanese firms (Sartor & Beamish 2018) suggests doing the research on the distinct impacts of *arbitrary grand and petty corruption* on the entry mode strategies.

Unfortunately, there are only three recent studies (Demirbag, Glaister & Tatolhu 2007; Driffield, Mickiewicz & Temouri 2016; Pal 2013) investigating the foreign ownership share selected by multinationals when investing in countries with high corruption incidence. Nevertheless, there are some differences existed in between these three studies. The former one explored the entry mode decisions of foreign firms invested in Turkey, and stipulated that the multinationals from home countries with less corruption than in Turkey prefer majority foreign-owned JV **at the time of entry**, while the second one, examined how the ownership structure of foreign affiliates **changes** depending on the changes in the institutional environment of the host country. Besides this, more recent study (Driffield, Mickiewicz & Temouri 2016) covered 125 different host countries, whereas the earlier one investigated just one host country – Turkey. Whereas Pal (2013) explored the foreign ownership structure of the manufacturing firms investing in the Central and Eastern Europe during 2002-2008. Therefore, in order to get more deep understanding of the ownership structure established in the foreign affiliates by firms entering in countries perceived to be highly corrupt, there is a need to do further the research in this field of studies.

There is a small number of academic papers investigating the effects of corruption on M&As and greenfield investments, and on the choice between these entry modes. Therefore, it is highly recommended to conduct research in this area of study. Further, the article on the ownership strategy in cross-border M&As in corrupt host countries (Di Guardo, Marrocu & Paci 2016) suggests examining how the firms' past experiences in acquiring foreign firms moderates the effect of corruption on the ownership and control composition in M&As.

All in all, based on the analysis of studies presented in this paper following research direction can provide substantial interest for the future research:

- Conducting empirical studies on the relationship between corruption distance and its direction on the entry decision between equity and non-equity entry modes;
- Developing a theoretical model and empirically testing the effect of arbitrariness of grand and petty corruption on the entry strategies between equity and non-equity entry modes (Sartor & Beamish 2018);
- Testing the effect of corruption, corruption distance and its different types and dimensions on the choice between different types of non-equity entry modes (exporting, contractual agreements);
- Investigating the effect of corruption on the entry mode choices of franchiser companies originating in nations other than Spain (Baena 2011; Baena 2012a);
- Collecting more recent data on the entry mode choices of MNEs investing in the former Soviet Union countries as well as in the CEE countries, and making the comparisons with the previous studies;
- Empirically exploring the ownership composition between joint venture partners in corrupt environments;
- Investigating the learning effect with the respect to the MNEs' entry strategies in corrupt environments: whether the MNEs choose different entry modes in their repeated investment in the same target country; whether they select the same entry mode as did their successful peers in the same industry or from the same home country (Duanmu 2011);
- Conducting empirical studies on the entry strategies of family-owned enterprises in corrupt countries, and comparing their strategies with the non-family firms;

- Exploring the impact of host market private corruption on the strategic behaviour of foreign-investing MNEs (Sartor & Beamish 2018).

5 Discussion and conclusion

The aim of this paper was to analyse and understand the distinct impacts of corruption on entry strategies of multinationals. The existing literature has been found, studied, compared and the main findings have been discussed. The main objective of this paper was to combine existing research contributions into a concise systematic and easily comprehensible overview that would allow future researchers to quickly assess the research gaps and areas of improvement, as well as arose interest of the corruption phenomenon among diverse scholars, governments agents, policy makers, international organizations, multinationals and other global players.

First of all, corruption is a broad concept that encompasses many aspects inherent to a certain country or even part of a country. The problem lies in its nature given that corruption is usually a secret act. This in turn results in measuring issues which might lead us to establish wrong conclusions. Nevertheless, detecting the major negative consequences of corruption on the development of a country, this phenomenon has increased attention among international development experts. Increasing number of academic papers exploring different kinds and dimensions of corruption, and specific country-level characteristics that might cause corruption to be prevalent in some parts of the world were being published. Scholars agreed that corruption is an illegal act where one person or group of people use their entrusted power either for their own benefits or for the benefits of their relatives. Corruption usually occurs between public and private individuals, but can also happen just between private individuals. It could be caused by different external as well as internal factors. The factors leading to pervasive corruption could be decentralization, lack of economic competition, overregulation or underdeveloped legal system, culture, and even religion. Evidently, corruption is a negative feature of any country. It destroys the well-being of humans, distorts the allocation of resources and assets, reduces the government spending in different areas such as education or healthcare provision, and leads to unfair income distribution. Furthermore, based on the results of recent studies, it could be established that corruption in overall acts as a deterrent to investment. However, some scholars argued that corruption could be employed as the means of overcoming overregulated procedures and can assist multinationals achieve their goals, while others claimed that corruption might not be perceived by firms as a big concern given the huge potential of a certain country such as the Chinese market which attracts a huge amount of FDI despite the widespread corruption. Therefore, it could be stipulated that corruption does not reduce the amount of foreign investment but changes its composition – the entry strategies of multinationals, particularly. Moreover, it is worth noting that the multinationals' resources and capabilities shape the way the firm responds to corruption. Corruption usually threatens the multinationals established in countries with the developed institutional framework, and as consequence these MNEs tend to reduce their investments into corrupt countries, whereas the MNEs headquartered in countries with the similar institutional environment are not discouraged by corruption. In contrast, MNEs originating in relatively corrupt countries might profit from the competitive advantage realized from the knowledge of dealing with the corrupt individuals (Q 1, Q 2). However, it does not imply that the risks and uncertainty associated with corruption are reduced for developing country MNEs comparing to developed country MNEs. Consequently, developed country MNEs as well as emerging country MNEs need to develop and select appropriate entry strategies when internationalizing in corrupt countries. According to recent studies, foreign firms should choose non-equity entry modes in order to minimize the risks and costs of operating in corrupt host country and to ease the exit in case of failure. However, taking into account that a large part of research was carried out on the study of the entry mode decision between JV and WOS, it could be stipulated that MNEs might prefer to decide between different equity entry modes in order to preserve control over their foreign operations even in the presence of high host market corruption. Based on the arguments provided in different studies, it could be assumed that there is a non-linear relationship between the full and partial ownership entry modes: at low levels of corruption, the WOS would be favoured over JV because of a similar corruption situation in the MNE's home and host countries, but when corruption increases from low to intermediate levels, the MNEs might prefer to select to engage in a JV with the aim of attaining local networks and knowledge through the local partner, and when corruption reaches its peak, the WOS would be established in order to preserve control over the foreign affiliates and to protect its tangible and intangible assets from opportunistic behaviour of the local partner. The same argument could be applied to the relationship between corruption and M&As. Based on the results obtained in surveys of Spanish franchising companies, it could be concluded that franchisers would choose direct or master franchising in corrupt markets. However, this question as well as the relationship between greenfield investment and corruption need to be investigated further.

All in all, we could argue that the study of corruption and its effect on the entry strategies of multinationals is still in its infancy, and a lot of work needs to be done in order to maintain what expansion strategy should be implemented to achieve success and stay competitive in a global and dynamic economic environment.

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Appendix

Abstract

Given its significant impacts, corruption attracts a lot of attention among different experts and academics. However, the extensive body of literature lacks consistency and uniformity which makes the understanding of this major phenomenon more difficult. The primary goal of this paper is to provide a structured overview of the literature in this field of study. The thesis surveys and discusses the main concept of corruption, its causes and consequences. This is followed by an examination of the effects of corruption on the investment decisions of firms and their entry strategies. The paper ends with suggestions for future research and summarizes the main findings of academic papers published in the last 18 years.

Keywords. Corruption; Entry Mode; Investment.

Deutsche Zusammenfassung

Angesichts ihrer erheblichen Auswirkungen, zieht die Korruption bei verschiedenen Experten und Wissenschaftlern eine große Aufmerksamkeit auf sich. Dennoch fehlt es der umfangreichen, zu dem Thema vorhandenen Literatur an Konsistenz und Einheitlichkeit. Dies erschwert das Verständnis dieses Phänomens. Das Hauptziel dieser Arbeit ist es, einen strukturierenden Überblick über die Literatur in diesem Studienbereich zu vermitteln. Das Hauptkonzept der Korruption, ihre Uhrsachen und Folgen werden in dieser Arbeit untersucht und behandelt. Anschließend wird untersucht wie die Korruption auf die Investitionsentscheidung von Unternehmen und ihre Eintrittsstrategien auswirkt. Die Arbeit endet mit den Vorschlägen für die zukünftigen Forschungen und fasst die wichtigsten Ergebnisse der in den letzten 18 Jahren veröffentlichten wissenschaftlichen Arbeiten zusammen.

Schlüsselwörter. Korruption; Eintrittsform; Investition.