Corruption and the Multi-National Corporation:

Antecedents to Bribery in a Foreign Country

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ABSTRACT

Corruption and the Multi-National Corporation: Antecedents to Bribery in a Foreign Country

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This research aims at determining the host country-specific antecedents which prompt MNCs to break the hyper-norm of anti-corruption and pay bribes abroad. Using anomie theory conjectures, antecedents are divided into opportunities and conditions. Data on more than 1000 MNCs operating in 26 countries was obtained from the World Bank's Business Environment and Enterprise Performance Survey (BEEPS). A Multi-level model was constructed and hierarchical linear modeling (HLM) was used to determine the effect of country-level and firm-level antecedents on the MNC bribery activity. The results show that opportunities including achievement of competitive advantage, host countries' transition periods, and natural resource abundance have positive significant effects on MNCs' propensity to pay bribes. Additionally, host country conditions, such as the law's rigidity and legal system incompetence, also have a significant positive impact on an MNC's propensity to pay bribes.

This study advances the literature on corruption in several directions. First, it studies the phenomenon from supply side (i.e. the bribe-payer). Second, it adopts the use of anomie theory which is still a novel approach for studying corruption. Third, it uses the MNC as the unit of analysis rather than country or local firms. Finally, it goes beyond recent studies by focusing on the host country's rather than home country's effect on a firm's bribery activity.

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To:

The greatest blessing I've ever had.... My wonderful Dad

The one who taught me how to respect the other....My caring Mother

The warmest gift of my life....My loving & supporting Wife

The one who makes my days brighter.... My amazing Daughter

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INTRODUCTION

Corruption is one of the oldest challenges facing humankind. Throughout history, this phenomenon has been a major factor in the fall of great civilizations (Aron, 1959 in Wertheim, 1964). People, institutions, and organized religions have historically sought many ways to fight corruption. Religions, in particular, introduced and tried to spread morals aimed at fighting corruption. For example, a count of the words "corrupt" and "corruption" in the Holy Quran, reveals that it is mentioned no less than 47 times, with severe warnings about the disastrous fate awaiting those who pick this path.

Islam as an economic system was a pioneer in providing a practical solution to curtail the corruption and bribery of public officials. In 630 AD, it was the first to create a payment system for granting the collectors of *Zakat* (equivalent to modern day taxes in the West) up to 12.5% of the total, thus achieving two goals: **1)** motivating the collectors to collect *Zakat* accurately in order to increase the total; **2)** preventing them from accepting bribes from the public in exchange for special treatment[1].

In the late seventeenth century, after a bitter fight with corruption, European nations created a system of payments for public officials in the hope of reducing "their dependency on the perquisites of the office" (Theobald, 1990: 43). Thus, it is evident that the fight against corruption has been a recurrent phenomenon throughout the history of human civilization. What has changed over time is the perception and implications of corruption, the means of fighting it, and the nature of the parties involved.

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[1] What prompted this policy is an incident where a *Zakat* collector returned from another town informing the Prophet that he had received this *Zakat* as a gift, to which the Prophet Muhammad responded with a public address saying: "If this person stayed in his home would he have been given a gift?" This indicates that a person's position as a public servant makes any type of gift a suspicious one.

1

Corruption defined in the contemporary literature as "abuse of public authority for private gain" (Husted, 1999; Jain, 2001; Shleifer & Vishny, 1993) has caught interest in various domains, including political science, sociology, economics, ethics, law and criminology, international business, and management. Nevertheless, the topic is still considered in its early stages of theoretical development and requires more in-depth and integrative studies in order for us to fully understand the corruption phenomenon, its causes, consequences, and remedies (Ashforth, Gioia, Robinson, & Trevino, 2008; Rodriguez, Siegel, Hillman, & Eden, 2006). The globalization outburst in the 70s and 80s has brought corruption to the center stage as a serious disease that not only affects national governments and the general public, but also affects Multinational Corporations (MNCs) and the global community as well (Hines, 1995; Rodriguez et al., 2006). Thus, the MNC is suggested as the optimal vehicle for studying corruption in the global context for several reasons: i) it operates under different and sometimes conflicting norms where legitimate behavior becomes complicated (Roth & Kostova, 2003); ii) its operations abroad are hard to monitor giving it a space of freedom unavailable to local firms, which are under the scrutiny and authority of their nation-states (Wei, 2000); and iii) unlike local firms and because of their vast resources, many MNCs have considerable bargaining power over the governments of host countries, especially underdeveloped ones, encouraging the MNC to bend the law in its advantage (Agmon, 2003; Rose-Ackerman, 1999).

Following the Watergate and Lockheed scandals in the 1970s, some significant efforts were targeted at studying the corruption phenomenon from the supply side perspective. Boulton (1978) documents all the actions taken by Lockheed top

management with an in-depth analysis of the external and internal factors that affected executives' decisions to bribe abroad. Similarly, Baucus & Near (1991) did an extensive longitudinal study on environmental, internal, and situational factors that lead to corporate illegality.

However, in the last couple of decades, it seems that the paradigm has shifted towards concentrating on the other side of corrupt transactions: the demand side. The literature from the political science and international business disciplines usually treats firms or MNCs as victims of the greed of corrupt politicians, legislators, or bureaucrats. While this view is not entirely misleading, it does not account for the whole picture of corruption. Research has been so keen on providing strategies for MNCs to avoid, cope with, or fight corruption (Ring, Lenway, & Govekar, 1990; Rodriguez, Uhlenbruck, & Eden, 2005; Uhlenbruck, Rodriguez, Doh, & Eden, 2006), causing many to overlook that there is another party that might be more than willing to initiate corruption in order to reap benefits, otherwise unattainable to it under an honest system (Rose-Ackerman, 1999).

Recent attempts have been directed towards going back to studying corruption from the supply side, i.e. the firm (Cullen, Parboteeah, & Hoegl, 2004; Martin, Cullen, Johnson, & Parboteeah, 2007). In their seminal work, Martin and colleagues (2007) managed to achieve two important feats: i) they were the first to apply anomie theory to the corruption literature opening the door for a huge potential in theory advancement; and ii) they studied the corruption phenomenon completely from the supply side of the firm and managed to capture the main drives behind firms' decision to bribe based on the surrounding culture and social institutions.

This research follows suit of Martin et al. (2007) in studying corruption from the supply side, i.e. the MNC using anomie theory. It specifically asks the question: **What are the antecedents of corruption that would prompt the MNC to break hyper-norms and engage in the anomic behavior of corruption in a host country?**

I start by providing a definition of corruption that encompasses the supply and demand sides of a corrupt transaction, then I move on to set the MNC as the level of analysis and define the opportunities and host country conditions (antecedents) that would encourage the MNC to pay bribes in order to exploit or overcome them. I identify three opportunities: i) the ability to achieve an unfair competitive advantage; ii) transitional periods, and iii) natural resource abundance. I also identify two host country conditions: i) the law's rigidity and ii) legal system incompetence. I hypothesize that the existence of such opportunities and circumstances will prompt the MNC to pay bribes in order to exploit available opportunities and protect its interests.

This research expands upon the current literature on corruption to various ends. It departs from the mainstream of studying corruption from the demand side to study it from the supply side, it uses anomie theory rather than institutional theory or legitimacy literature, and it uses the firm (MNC) as the level of analysis in contrast to using the country as a level of analysis. Furthermore, it extends the work of Martin et al. (2007) in three substantial dimensions: i) it uses the MNC as the research context because of the above-mentioned characteristics that set it apart from local firms and make it an interesting subject for the application of anomie theory; ii) unlike Martin et al. who only use Merton's notion of anomie stemming from the interplay between "institutional norms" and "cultural goals" (1938: 673), I use other sources of modern anomie theory

including Durkheim's (1951, 1984) and Srole's (1956) work that provide a better explanation for the MNC actions - specifically, I use Durkheim's notion of globalization in creating conflicted norms and complicating desires and Srole's typology of anomie components (economic, political, and legal) that affect MNC judgment; and iii) instead of studying causes of corruption stemming from the home country of the firm, I study antecedents of corruption specifically related to the host country in which the MNC operates.

The report starts in chapter one by providing an overview of the corruption phenomenon in the literature. Chapter two takes corruption to the global context, provides insights into the role of MNCs in advancing our understanding of the topic, and discusses the history of anomie theory and its application to the corruption framework. In chapter three, hypotheses on the antecedents of corruption are developed. Chapter four discusses data sources, variables operationalization, and the method of analysis. Results of cross-level correlations and hierarchical Linear modeling are presented in chapter five. Chapter six is dedicated to the discussion of the results, limitations, and future research, concluding with implications for both scholars and practitioners.

CHAPTER 1: THE CORRUPTION PHENOMENON

This chapter will be dedicated to the discussion of corruption; it starts by reviewing the development of corruption over time in the literature from the early work of historians, anthropologists and social scientists, to the more modern theories by social scientists, moralists, economists and business strategists. Next, a concise but encompassing definition of corruption is developed to aid me in the later arguments regarding the supply side of corruption. Then the forms, types, and models of corruption in addition to the most common and observed causes and consequences of corruption in the literature will be presented and discussed. The various efforts made at measuring and fighting corruption will be analyzed to complete the picture of the seriousness of the corruption threat.

1.1 Corruption in the Literature

The majority of contemporary researchers from various disciplines assume that the phenomenon of corruption came under public scrutiny as a direct result of the emergence of the modern state (Leys, 1965; Nye, 1967; Scott, 1972; Theobald, 1990). However, the recognition of corrupt behavior and practices can be dated to way before that period. Ancient Egypt, classical Athens, the Roman empire, ancient India, and mediaeval and early modern Europe all suffered from the bribery and corruption of public servants, and all sought to issue laws to fight and curb such behavior (Bardhan, 1993; Theobald, 1990: 40-41). Unfortunately, the charges of corruption were not usually brought up by a neutral regulatory body, nor were they carried out with the public interest in mind. Instead, they often stemmed from envy among the elite of anyone who would

"enrich himself too much and too quickly" (Van Klaveren, 1957 in Wertheim, 1964: 110). Moreover, these charges were used as a mechanism by competing parties in order to seize power, achieve self-enrichment, and eliminate the other (ibid).

Some anthropologists have argued that the notion of corruption is merely a change in the way the public views the tradition of gift-giving (Scott, 1972). This tradition was considered a normal and, in some cases, an obligatory act on behalf of the public to show their gratitude and loyalty to their rulers. Over the years, western norms and institutions collided with this gift-giving and acceptance tradition and conned labeled it as outright bribery or corruption.

Another point of view seeks to understand corruption as a conflict between loyalties. It is argued that the individual's loyalty, especially in collectivistic cultures, is mainly for the family or the tribe (Hofstede, 1993). Stemming from this principle, it is suggested that public officials' loyalty towards family and relatives overcomes their loyalty to the nation and their responsibility for the general public (Nye, 1967). Hence, doing favors for family and relatives, including nepotism and the awarding of contracts, used to be widely accepted in collectivistic societies and was only challenged and looked upon as corruption by the western lens of individualism (Scott, 1972; Wraith & Simpkins, 1963).

Hence, it can be safely proposed that corruption as we know it today has been a "product of the late eighteenth and nineteenth centuries" (Scott, 1972: 7), resulting from the emergence of the nation-state and its institutions and the "transformation of the view of government office . . . from a private right into a public responsibility" (ibid, Theobald, 1990). Nationalism, the ideology of shifting people's loyalty from the ruler or

tribe to the nation-state, not only gained popularity in the west, but it also quickly started to spread to underdeveloped countries (mostly colonies) with the turn of the twentieth century (Wertheim, 1964). In the fifties, political parties within underdeveloped countries started to realize the discrepancies between policy formation at the legislative level and its administration at the bureaucratic level. They became aware of the fact that the same bourgeoisie class that opposed the corruption of the colonialists was using the public office for their own gain. This first led to the rise of shy official committees to investigate corrupt behavior and, soon after, charges of corruption against politicians and public servants became the major announced drive behind revolutions and the seizure of power by opposing forces in many of these countries (Rose-Ackerman, 1978; Scott, 1972; Wertheim, 1964).

Although political scientists may agree with some of the theories advanced by other social scientists and anthropologists, many believe that such theories shed light on only one dimension of corruption. Political scientists are generally more interested in systematic corruption: what is practiced by politicians, legislators, and public officials within the political and bureaucratic system to pursue self-interests on a wider scope, regardless of "parochial" ties and "gift-giving" traditions (Scott, 1972: 12).

During the sixties, researchers tended to study and identify corruption only within the context of underdeveloped societies (ibid: 9). Examples include Greenstone (1966), who documented the self-interest politics practiced by public officials in two African countries - Uganda and Kenya, and Wraith and Simpkins (1963), who discussed the corruption phenomena in Nigeria and compared it to Britain in the eighteenth and nineteenth centuries, considering it a developing country by then until 1880. Nye (1967),

who agreed that "Corruption...is endemic in all governments" (417), postulated that corruption is more prevalent in underdeveloped countries because of certain characteristics including inequality, the monopolistic power of governments, public office benefits and gains, conflicts between incumbent and western institutions, the absence of strong regulatory and legal enforcement mechanisms, the vagueness of rules and general public ignorance, and the lack of loyalty to the nation because of its novelty (Leys, 1965).

Perhaps of most significance among these factors is the dominant role of governments or the public sector in many underdeveloped economies. When the government is the largest employer, regulator, provider of goods and services, and purchaser in the market, the "possibilities for corruption are greater . . . [since] government actions touch more facets of its citizen's lives" (Scott, 1972: 14).

Political science studies the corruption phenomenon from various points of view. It starts with the idea that corruption is only one of many ways of interaction between citizens and public officials. Rose-Ackerman for example (1978) identifies five modes of interaction in addition to paying bribes; these include being 'legalistic', that is abiding by the law, depending on social ties such as family and friendship, pursuing law suites, threatening officials, or waiting for future elections (4). Political scientists are interested in the phenomena of votes purchasing, the role of interest groups as educational for the public (public relations) and educational for legislators (lobbying), the complexity of political parties versus individual politicians (46), and the costs of corruption to the politician, bribers, and the general public.

Scholars of business ethics have dealt extensively with the corruption phenomenon. For these scholars, corruption tends to be defined as an unethical decision that is "illegal or morally unacceptable to a larger society" (Jones, 1991: 367). Thus, considering corruption first and foremost as a moral decision (Bird & Gandz, 1991), they set out to study the ethical dimensions of the different types of the phenomenon. Velasquez (1982) distinguishes between bribery to unfairly outcompete other firms in the market and bribery to achieve other purposes. While the first type clearly presents unethical action, he considers several factors to determine the ethical nature of the second type. He looks at the initiator of the transaction (supply vs. demand), illegality of the action, and the general acceptability of the transaction in the local culture.

The common ethical decision-making model stipulates that an organization's environmental factors (economic and social) present a moral issue; once it is recognized by the individual, moral evaluation/judgment is made which leads to moral behavior (Jones, 1991:371). Bird and Gandz (1991) propose a more concise model of "Ethical-decision making" which includes three phases: 1) "sizing-up", which involves identifying the problem, its effect on different stakeholders, and the social norms reflective of the issue; 2) "deliberating and deciding", which includes coming up with objectives, alternatives, and justifications for the decision; and 3) "enacting", which involves action, feedback, and sustainable ethical systems (7). Jones (1991), by introducing his "issue-contingent model", argues that all the above-mentioned steps are contingent on the characteristics of the moral issue itself, which he terms 'moral intensity'. Moral intensity has six major components: "magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect" (Jones, 1991: 374).

He proposes that as moral intensity increases, individuals become more aware of the moral issue and more willing to make ethical decisions. In light of this theory, one can realize why some MNCs find it acceptable to pay bribes to a public official in a foreign country, since it entails lower moral intensity than paying bribes to a public official at home. For example, in Boulton's (1978) analysis of the Lockeed scandal, he touches on the subject of moral intensity by stating that top executives paid huge sums of bribes abroad, fearing that "the alternative was the collapse of their company, with catastrophic consequences for employment and their country's defence capability" (xv).

The importance of the ethical school is that it deals with individuals within organizations, and their reaction to moral problems. Thus, the level of analysis is the one at which the actual corruption transaction occurs. Also, moralists' theorizing applies to both supply and demand sides, since they consider both parties encountered with the moral issue and their ethical decision-making.

Legal studies usually substitute the term 'corruption' with 'corporate crime' or 'illegal activities'. For an action to be considered criminal, it must break the laws and be prosecuted by the legal system. However, Baucus (1994) has introduced a new term to depict corruption more specifically. She uses the term 'corporate illegality', which encompasses all activities that are considered by the law as "unacceptable, unethical, and impermissible" (701). She argues against the popular view that corporate illegality solely occurs as a result of pressure or need and adds two dimensions: opportunities and predispositions. Baucus proposes environmental and internal factors that create opportunities of illegality such as turbulent and dynamic industry, scarcity of resources, firm size, complexity and innovativeness. Finally, she suggests internal and external

factors that may create predispositions for illegality including industry maturity, illegal activities, collusion with regulators, illegality-tolerant cultures, and executives' participation in illegality. Baucus and Near (1991) did a very innovative longitudinal study using the conviction of firms in lawsuits as a measure of corporate illegality. They studied the effects of three types of antecedents to corporate illegality (26-28): environmental (resource scarcity, heterogeneity, and dynamism), internal (performance, slack, and size) and situational (prior violations, industry, and type of violation).

Economists tend to study the corruption phenomenon through its direct effects on economic growth and development (Aidt, Dutta, & Sena, 2008; Bardhan, 1997). They are interested in understanding the impact of corruption on the "rates of savings, income distribution, [and] investment decisions" (Scott, 1972: 2). For example, Shleifer & Vishney (1993) compare the distortionary costs of corruption and those of taxation; they conclude that due to its illegality and secretive nature, corruption is "more distortionary than taxation" (612).

In international business, corruption has been studied extensively in order to understand its causes and effects on multinational corporations' strategies (Rodriguez et al., 2006). Researchers are basically interested in MNCs' strategies to cope with the corruption of host governments, specifically at the entry stage (Rodriguez et al., 2006). Ring et al. (1990) advocate the MNC use of several strategies such as "forestalling" and "absorption" to counter political and economic imperatives in host countries (142). Doh, Rodriguez, Uhlenbruck, Collins & Eden (2003) discuss the effects of corruption on the MNC, the government, and the society as a whole and suggest five strategies for coping with corruption including "avoidance", "adjusting [the] entry mode", and "internal

training" (120). Similarly, Rodriguez et al. (2005) introduce a model where the MNC can choose to enter a corrupt country either in the form of a "strategic partnership" or as a "wholly-owned subsidiary", depending on the level of arbitrariness and pervasiveness of corruption in the designated country. Finally, Uhlenbruck et al. (2006) find evidence from the telecommunication industry that the combined effects of corruption pervasiveness and arbitrariness lead the MNC to choose a "non-equity" entry mode into the corrupt country (405).

The other area of concentration of international business scholars is on the relationship between corruption in a host country and the flow of foreign direct investment (FDI). Wei (2000) finds a significant decrease in the level of inward FDI to host countries as a result of an increase in the level of corruption. Conversely, Kwok and Tadesse (2006) suggest evidence that higher levels of FDI reduce corruption in the host country. Their argument is that the MNC, through its presence in the host country (measured by FDI/GDP), can control corruption through dispersion of ethical business practices. Finally, Cuervo-Cazurra (2006) indicates that a higher level of corruption in the host country not only reduces the level of inward FDI, but rather, this also changes the origin of FDI, as he points to evidence that corrupt host countries attract investors from similarly corrupt countries.

Recently, scholars have realized the need to further advance the research on corruption in the MNC context in order to better understand and fight the phenomenon (Rodriguez et al., 2006). They suggest that a linkage between the "three lenses" on the MNC which are politics, corporate social responsibility (CSR), and corruption will open new venues in research especially on the role of political systems in the persistence of

corruption, the role of CSR in deterring MNCs from engagement in corruption, and the role of corruption at the individual level (p.738-739).

In management, attempts have been made to test the effects of managerial practices on the level of corruption. Wu (2005) finds a significant negative impact of governance mechanisms on the level of corruption. His findings suggest that increased accountability of the board to shareholders and higher financial disclosure standards deter firms from engagement in corruption. The work started by Cullen, Parboteeah, & Hoegl (2004) and continued by Martin, Cullen, Johnson & Parboteeah (2007) has managed to take this topic in a fresh direction with the application of anomie theory to analyze the impact of culture and social institutions on firms' decisions to engage in bribery.

A recent issue of *Academy of Management Review* was dedicated to stimulate theoretical development of corruption in the management literature. Ashforth et al. (2008) review the corruption phenomenon from various perspectives. These are comprised of: i) the 'micro view', which relates corruption to the attributes of individuals; ii) the 'macro view', which analyzes corruption at the organizational/industry level; iii) the 'wide view', which takes it across the whole system; iv) the 'long view', which studies corruption over time; and v) the least developed 'in-depth' view. They suggest that in order to advance our understanding of the phenomenon, we need to integrate all these views.

Pinto, Leana, and Pil (2008) distinguish between "Organizations of Corrupt Individuals" (OCI), where individuals with the organizations carry out corruption for their own benefits and "Corrupt Organizations" (CO), in which corruption is a top-down approach and top management engage in corruption for the benefit of certain stakeholders

(694). They manage to provide a model of antecedents that will lead to one of the approaches (OCI vs. CO).

Lange (2008) uses two dimensions of corruption control to introduce a comprehensive typology of corruption control. The 'orientation' dimension, which controls corruption either through outcomes or through the process, together with the 'transmission' dimension, which depends on either social or administrative values to limit corruption, can be combined to produce eight corruption controls ranging from bureaucratic to self- controls (715).

Pfarrer, Decelles, Smith, and Taylor (2008) are more concerned with the aftermath of corruption scandals facing firms. They propose a four-stage model of organizational actions: 'discovery', 'explanation', 'penance', and 'rehabilitation' to repair a firm's legitimacy and reintegrate it with its stakeholders (735).

Finally, Misangyi, Weaver, and Elms (2008) discuss the interplay between institutional logics, resources, and social actors and their effect on endorsing corruption. They then propose a multi-level model to fight corruption through institutional change. They posit that a change in identities and practices will transform social actors from "defenders of the status quo" to "institutional entrepreneurs" on both the micro level (politicians) and macro level (supranational organizations) (756).

Of all the rich literature developed over a period of 60 years by outstanding researchers, our study builds upon a combination of views from both management and international business scholars. It builds on Martin et al.'s (2007) premise in utilizing anomie theory to test cultural and social effects on corruption. It then applies it to the

international context manifested in the impact of host countries' opportunities and conditions on MNCs' decisions to engage in bribery.

1.2 Defining Corruption

Coming up with a unified definition of corruption is not a simple task. Due to the complexity of the notion and its interchangeability with other forms of social exchange it has posed a challenge for scholars from different domains; this has even led some of them to study the phenomenon while avoiding giving a definition (Jain, 2001; Theobald, 1990: 1).

Indeed by looking up the literal definition of the word 'corruption' one is faced with vague and general wording; in the Merriam Webster dictionary, corruption refers to: "(1) impairment of integrity, virtue, or moral principle, (2) inducement to wrong by improper or unlawful means (as bribery), (3) a departure from the original or from what is pure or correct". The problem is rendered more complicated when the question of who has the authority to set moral principles is considered. How can we differentiate between wrong and right? What means can be considered lawful or unlawful?

Scholars have sought to find answers to these questions by providing more concise definitions. For Scott (1972), corruption is the "behavior which deviates from the formal duties of a public role (elective or appointive) because of private-regarding . . . wealth or status gains" (4). Furthermore, Scott suggests three standards/norms against which an action can be measured for corruption. These norms are: public interest, public opinion, and legal standards. Leys (1963) reinforces this view further by arguing through a variety of seemingly different examples that all corruption cases have a common factor,

that is "a standard of behaviour according to which the action in question breaks some rule, written or unwritten, about the proper purposes to which a public office or a public institution may be put" (221).

The main problem with this argument is that norms vary widely among societies due to variations in public perceptions and legal standards (Philp, 1997). For example, while the notion of 'public interest' may hold the meaning of anything that opposes inequality to a moralist (Leys, 1965: 220), in many cases a government may choose to forego equality to achieve economic growth and stability and still consider itself as serving the public interest (Theobald, 1990). Similarly, public opinion as a norm does not mitigate the problem of defining corruption. In complex societies, public opinion is varied, which makes it hard to choose one opinion as a base; additionally there is the fear that only the elite's opinion will be conveyed and heard (Theobald, 1990). Moreover, the long-held notion by anthropologists that underdeveloped societies are well-integrated and that public interests are unified has been challenged by many scholars, and it is now established that such societies resemble developed ones in that they are comprised of many conflicting values and opinions (Wertheim, 1964).

Thus, many researchers have resorted to the legal norm as an appropriate way to define corruption (Rose-Ackerman, 1978; Theobald, 1990). Laws and legal enforcement provide a proper benchmark against which actions of public officials can be judged. However, when coming up with a definition based on the legality norm, one must take into consideration that there is a wide spectrum of actions that fit under the corruption umbrella but are still considered legal (e.g. lobbying).

With the above in mind, corruption has, thus, been defined as "the illegal use of public office or the process of selection to public office for private ends" (Theobald, 1990: 16). Needless to say, this definition of corruption cannot lead to a universal understanding of the phenomenon since what is considered 'illegal' varies widely not only among nations, but within the same nation over time (Scott, 1972). Another important issue to take into consideration is that corruption in this context always involves public officials as one party of the transaction; thus, "certain illegal acts such as fraud, money laundering, drug trades, and black market operations, do not constitute corruption in and of themselves" (Jain, 2001: 73). Recently, many researchers have reached the consensus that corruption refers to the "abuse of entrusted public power for private gain" (Bribe Payer Index 2008: 2) (Husted, 1999; Jain, 2001; Shleifer et al., 1993).

Definition From Supply Side

It is evident from the above that most of the definitions stem from the demand side of corruption. In other words, these definitions are mainly concerned with the actions of public officials, and they fail to fully inform us about other parties involved in the process.

My aim is to reach a definition that encompasses both the supply and demand side of the corrupt transaction, taking into consideration two facts: i) that corruption involves at least two parties - payer(s) and payee(s); and ii) that it could be initiated by any one of these - bribes vs. extortion (Wertheim, 1964).

Although Wertheim (1964) has avoided providing a definition for corruption, he comes very close by defining the corrupt person as the one who "accepts gifts bestowed by private person with the object of inducing him to give special consideration to the

interests of the donor" (105). Building on this definition, I can define corruption as: **the willingness and ability of a private party to present a benefit (monetary or non-monetary) to a public party with the object of inducing them to give special consideration to the interests of the donor(s).**

By providing this definition, I seek to achieve two goals: to eliminate the preliminary assumption that the private sector is always the victim of public officials' greed, and to assume a neutral position regarding who initiates the transaction, as the wording of the definition implies that either party could be the initiator.

1.3 Forms of Corruption

Since the definition of corruption entails the abuse of authority for private gains, the term itself encompasses various activities that lead to private gain. Giving gifts, asking for personal favors, or lobbying are some of the many actions that might be "legal" or conforming to the norms under certain political systems, yet they still constitute the same influence as other illegal forms of corruption such as bribery and extortion (Rose-Ackerman, 1978:4; Scott, 1972:21).

Gift-Giving

The act of giving monetary or in-kind gifts without asking for any service in return is a very common and legal practice in the private sector across the globe in both developed or underdeveloped countries (Rose-Ackerman, 1998). In fact, people use this type of social relations strategy in order to build their social capital, which is "the goodwill of others toward us" (Adler & Kwon, 2002:18). Indeed, social capital is a substantial resource that "influences career success . . . facilitates interunit resource

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exchange . . . reduces turnover . . . [and] strengthens supplier relations" (ibid: 17).

However, this practice of gift-giving is considered as a bribe when it involves a public

official and entails explicit terms of exchange or "quid pro quo" (Rose-Ackerman,

1999:93). Nevertheless, even if gifts or favors did not entail explicit terms of exchange,

many gifts to people in senior positions tacitly entail some kind of obligation that need to

be repaid sooner or later (Adler et al., 2002). Finally, gifts are similar to bribes in that

they do not necessarily guarantee full property rights to the giving party (Shleifer et al.,

1993) since they, like bribes, are given informally and compliance cannot be enforced

legally (Rose-Ackerman, 1998).

Lobbying

Although legitimate in various societies, many still consider lobbying more as a

form of "legalized corruption" (Jain, 2001). Lobbying takes place when a certain interest

group provides "political contributions" for the politician or legislator in exchange for

creating, passing, and maintaining certain policies that benefit this group (Coate &

Morris, 1999). However, these political contributions need not only be in the form of

bribes; in many cases the interest groups share their expertise with the less

knowledgeable politician or legislator by seeking to "educate the legislator to the merits

of special interest groups' positions", affecting their judgment and taking advantage of

their ignorance (Rose-Ackerman, 1978:43). In other cases, they may even threaten the

politician with the disclosure of harmful information about them to the public (Grossman

& Helpman in Compos & Giovannoni, 2007).

Lobbying can complement corruption if it is directed at weakening anti-corruption

legislations and law enforcement, or it can be a substitute for corruption if it is aimed at

successfully obtaining private benefits for interest groups (Compos et al., 2007). Lobbying may lead to the rigidity of policies and regulations as they continue to support policies that benefit them, even though these policies become outdated, inefficient, or benefit the interest groups at the expense of the public majority (Coate et al., 1999).

Bribery

Bribery is the most common form of corruption, and most researchers use the two words interchangeably (Martin et al., 2007; Mauro, 1995; Shleifer et al., 1993; Treisman, 2000). As mentioned above, suspicious activities are judged to be more corrupt the more they approximate bribery, as in the cases of gift-giving and lobbying (Rose-Ackerman, 1998). Other activities are considered corrupt since they start as bribes and take other forms, such as the case of extortion (see below).

Shleifer and Vishny (1993) argue that the level of bribery depends on several factors including the level of coordination among corrupt public officials, the level of pervasiveness of corruption among public officials, and public officials' discretionary power. Accordingly, three types of bribes can be identified: i) **minimal/no bribe:** when there always exists a "clean agent" that the client can go to when asked for a bribe by a corrupt agent; ii) **one-time bribe:** when the client bribes the official and has full access to the "property rights" he purchased with his bribe (605) due to monopoly or coordination among corrupt public officials; and iii) **not-guaranteed bribe:** when the size and number of bribes for a certain task is ambiguous, and bribing one public official does not guarantee full access to property rights of the service.

<u>Extortion</u>

Extortion is also a very common type of corruption, especially under the absence of effective legal protection. It occurs when public officials require payments or gifts in exchange for performing their duties (Wertheim, 1964). The main difference between bribes and extortions is that the former is provided in exchange for illegal rights and could be initiated by either the private or public party, while the latter is always initiated by the public party in exchange for legal rights.

Some fear that what may start as bribes to public officials might later turn into extortions, with the bribers having no choice but to comply in order to remain within the competition (Rose-Ackerman, 1978:11). In many of the cases, the business benefits are too attractive for the firm so it is better to cut the public official in rather than risk losing the whole benefit; Bliss and Di Tella (1997) call this form "surplus-shifting corruption" (1003).

1.4 Types of Corruption

<u>Political Corruption</u>

Sometimes referred to as "input" stage corruption (Scott, 1972:23), this type of corruption involves politicians and legislators, both groups being elected by the public to enact and vote on rules and regulations that serve the public interest. Input stage corruption has two phases. Phase one is initiated when the politician seeks to reach the office illegally by the act of buying votes to beat the competition. This practice is very common not only to new democracies, but also to established ones (Rose-Ackerman, 1978; Scott, 1972). The second phase, which could be related to or separate from the

first one, occurs when the politician or legislator, once elected, decides to pursue their own pecuniary or non-pecuniary gain (Rose-Ackerman, 1978; Theobald, 1990).

Politicians have power over resource allocation and major policies, while legislators have the voting power on rules and legislations (Jain, 2001). For the right price, private parties or interest groups can influence the corrupt officials' decisions on public spending, subsidies, economic reform, etc., to their advantage, which in most of the cases goes against the public interest (Della Porta & Vannucci, 1997).

This type of corruption is considered by many the most dangerous form (Jain, 2001) for various reasons. First, resource allocation and legislations affect every aspect of the society. Second, detecting corruption at this level is a very cumbersome task because some of the actions associated with politics are deemed legal, such as lobbying. Third, due to the complex nature of societies and the existence of many interest groups, politicians and legislators can always justify their decisions and actions in serving at least one segment of the public (Leys, 1965; Wertheim, 1964). Finally, due to their entrenchment in the system and immunity, the political elite rarely face legal sanctions and have the power to play favors and hide their activities (Rose-Ackerman, 1978:85).

However, as with any political figure, the unsatisfied public can punish corrupt officials by not reelecting them for another term or even worse, demanding, through the opposition, for an early election where the corrupt officials are guaranteed to lose their positions. Another threat is when interest groups that usually pay officials bribes gain formal access to legislation themselves (Wertheim, 1964); under this scenario they will no longer need the services of the official, and their revenue from corruption will diminish if not vanish (Scott, 1972:28).

Bureaucratic Corruption

Also referred to as "output" or "enforcement" stage corruption (Scott, 1972:23), this type of corruption is observed when bureaucrats adopt self-serving behavior, regardless of the legislators' position (Rose-Ackerman, 1978:60). This form of corruption is strengthened when the laws are very general or vague, granting bureaucrats more freedom in interpretation and administration. The bureaucrats can fall under two levels of corruption:

i)   *Low-level corruption:* when public officials decide to take bribes in exchange for quicker or illegal service. This has two major effects: i) it leads to more expenditure on regulatory budgets; and ii) it may lead to less expenditure by supplier (less quality goods, or less customs, less taxes) (Rose-Ackerman, 1978:66; Shleifer et al., 1993). Their effect is only valid when they have monopoly over the service they are providing. They face the risk of competitive bureaucracy as it may reduce or even eliminate the bribery activity because the client has the choice to go to another honest official (ibid: 138).

ii)   *High-level corruption:* sometimes called grand corruption (Jain, 2001), this occurs when public officials at high levels of government decide to pursue a self-serving behavior (Rose-Ackerman, 1999). Their influence can be realized through three main channels as follows: i) through the interpretation and application of legislations passed by legislators and politicians; ii) through major government transactions such as large-scale projects, procurements, and investments; and iii) through transitional programs such as privatization

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(Rose-Ackerman, 1978, 1999). Their unique position at the top of the pyramid in state-owned enterprises (SOE) gives them bargaining power with politicians, as they can adversely affect the impact and beneficiaries of laws advanced by politicians. This practice is so globally widespread that many surveyed managers of private firms rate it as a major constraint for the business environment, which leads to high levels of uncertainty regarding policy stability (Batra, Kaufmann, & Stone, 2003).

Public officials at senior positions also have the autonomy and discretion to control large amounts of government funds available for major projects. The official can control tendering and bids by setting the list of the prequalified bidders, informing certain firms of the tender ahead of time, writing the tender book in favor of a certain firm, informing one firm of the financial offers of competitors, and even awarding the bid to a firm of their choosing (Rose-Ackerman, 1999).

During the periods of major changes such as privatization, public officials at high levels have a unique opportunity to pursue self-gains. Specifically, when the privatization process is carried out as a direct sale to a foreign company (Molz & Gedajlovic, 1992), public officials can undervalue their enterprises and put them to sale for buyers who are willing to pay the highest bribe, or they can negotiate retaining their position and power or even an ownership stake in a newly-privatized enterprise (Walder, 2003).

However, senior public officials are also in a tight position facing threats from two sides. On one hand, politicians can seek to eliminate the corruption of public officials through their dismissal or legal sanctions. They can also limit the discretion of public

officials through a variety of mechanisms including "budget size, administrative procedures, and the identity of contractors and beneficiaries" (Rose-Ackerman, 1978:81). Additionally, they can establish regulatory bodies to govern economic reform processes such as privatization and closely-monitor the actions of SOE managers (AlHussaini & Molz, 2009). On the other hand, they face the threat of their employees who might report any abuse of authority by their managers, either because they are honest or because they want to be included in the corrupt process.

All-Level Corruption

The problem escalates when corruption is so pervasive that multiple levels of government contain corrupt officials. Here, the officials will either seek to curb the other's corrupt activities or collude among themselves to share illegal benefits. In the former case, the low-level bureaucrats would use legal sanctions against their seniors, such as reporting them to the authorities or to the media. Senior officials can curb the low-level corruption by overruling their employees' decisions or through administrative and criminal sanctions against them. Additionally, they can block any illegal benefits by politicians through controlling the interpretation and administrative application of policies and laws, thus altering the beneficiaries intended from such laws. Finally, politicians could use their power to restrain the corrupt activities of high-level bureaucrats, either through dismissal or other legal and administrative mechanisms as mentioned earlier.

Table 1. Political vs. Bureaucratic Corruption

	Political Corruption	Bureaucratic Corruption	
Level	Politicians & Legislators	High-level: SOE Heads	Low-level: employees
Opportunities	Legislation/ general policies	Control over the bureaucratic procedure Major government projects Special Events	Administration of public programs
Threats	Political sanctions Interest groups formal access to legislation	Dismissal Legal Sanctions	Budgetary sanctions Fear of detection Regulations Legal sanctions Dismissal Competitive bureaucracy
Strengths	Legislative and regulatory power to hide activities Political immunity from legal sanctions	Control over employees (overruling their decisions) Bargaining position with legislators	Isolated from political shifts Job security
Weaknesses	Law's interpretation is with bureaucrats Political shifts	Assignment control by politicians Higher visibility to authorities	Down the hierarchy Not immune to legal sanctions

In the case of collusion, each involved party will tolerate others in exchange of gaining favors, maximizing the outcomes through collaborations, and sharing the illegal gains (Rose-Ackerman, 1978). Politicians can always direct resources and economic policies towards enterprises where corruption flourishes and yields large illegal returns for all the levels involved (Della Porta et al., 1997). In turn, senior bureaucrats could implement laws and carry out policies as intended by the political elite. At the same

time, they may introduce mechanisms and complications in bureaucratic processes, such as quota systems and red tape, in order to guarantee for themselves and for their employees the generation of illegal income from clients who seek special treatment (Rose-Ackerman, 1978:82). This type of corruption, sometimes called "Grand-scale corruption", is considered the worst-case scenario, as everything increases drastically, including the amount of exploited public resources for private gains, the number of corrupt public officials who form complementary networks, and the frequency of corrupt actions (Carvajal, 1999).

1.5 Models of Corruption

In order to better understand the corruption phenomenon researchers have sought to develop several models to determine the main players, causes, motivations, deterrents, and outcomes of corrupt transactions. The two main models used in the literature are the 'agency' model and the 'resource allocation' model (Jain, 2001).

Agency Model

Rose-Ackerman (1978) was among the pioneers in applying this model to the corruption literature (Shleifer et al., 1993). She identifies several agency relationships; the politicians and legislators are the agents of the public who elect them into the office, while bureaucrats are agents of the government or politicians who appoint them. The agency problem occurs when the agents decide to pursue their self-interests instead of those of the principals (Jensen & Meckling, 1976). In the case of corruption, public officials will act in a manner that maximizes their own benefits regardless of the consequences for the public. However, one has to keep in mind that corruption is not

only the case where the agent pursues his or her own self-interest, rather it can also refer to when an agent "acts illegally or unethically albeit in his principal's interest" (Banfield, 1975 in Carvajal, 1999: 337). In other words, an agent should work in the interests of the principal and do so legally.

Public officials, based on their level, face a tradeoff between pursuing self-interest and sanctions by their principals. Typical to any agency relationship there are several mechanisms to align the interests of public officials with those of the general public (Jensen et al., 1976; Oviatt, 1988). In the case of politicians the main mechanism at the public's disposal is reelection. A politician who does not deliver on promises or pursues narrow self-interests may not to be elected again by voters. However, there are serious challenges to this mechanism. To begin with, under information asymmetry, voters might not have full knowledge of politicians' actions and their consequences. Agents can hide their illegal activities and always appear to be serving a portion of the public. Second, when vote buying behavior is possible, politicians, instead of worrying about the public interest in exchange for their votes, pursue self gains through the purchase of votes to guarantee reelection. They usually target the poor directly or through special interest groups that are more concerned with the private benefits they might receive at the time of elections over politicians' performance (Rose-Ackerman, 1978; Scott, 1972). Finally, the outcomes of corruption may become very lucrative such that politicians become wealthy enough not to care about reelection altogether (Rose-Ackerman, 1978:27). Under these scenarios, the agency relationship becomes corrupt, as officials will not undertake any measure for public benefit for free, but rather, open the door for special interest groups to purchase their benefits. Thus, other mechanisms such as law enforcement and

organizational reform may come in handy. This is to be discussed in detail under the section "Fighting Corruption".

In the case of bureaucrats, the available mechanisms for aligning their interests with the public good are the use of legal sanctions and monitoring. Corrupt bureaucrats will, thus, face a trade-off between achieving private gains and being caught, dismissed or even jailed. The legal sanction mechanism is also challenged when: i) the government does not have sufficient resources to implement effective monitoring; ii) corruption is thrives through the system, meaning that the probability of getting caught by an honest superior is significantly diminished; and iii) legal enforcement is weak and the probability of being punished decreases considerably.

Similar to the case of agency theory, the corruption model incurs various agency costs (Jensen et al., 1976:308) including:

i)   *Monitoring costs:* the costs of establishing and running effective independent regulatory bodies to monitor public officials' behavior and to enforce sanctions in the case of corruption;

ii)   *Bonding costs:* incentives and increases in public officials' compensation to deter them requesting or accepting bribes; and

iii)   *Residual loss:* costs stemming from inequality of distribution among the public, as public resources are directed towards bribers and benefits are shared between public officials and a narrow portion of the public (Rose-Ackerman, 1978).

Other costs will be discussed in more details under the section "Consequences of Corruption."

<u>Resource Allocation Model</u>

This model analyzes the impact of the supply and demand of corruption and their relative costs and benefits on the pattern of resource allocation (Jain, 2001). On the demand side, public officials control resource allocation; they can direct public spending towards areas that create higher illegal returns for them but may not benefit the general public (Bardhan, 1997). For example, spending on a subsidy that benefits certain firms and industries who can afford bribes is more beneficial to corrupt public officials than investing in health care programs. However, the public official incurs various costs. First is the probability of being caught, which may entail administrative punishment, dismissal or even jail time. Second, the corrupt official may face competition from corrupt colleagues offering the same service or from honest colleagues who can offer the service for free (Shleifer et al., 1993). Finally, some firms may exit the market if asked for bribes or if the bribes increase (Bliss & Di Tella, 1997).

On the supply side, the firm also faces several costs. First, the bribe may not provide full property rights to the service and a firms may face uncertainty regarding the bribe cost and the number of public officials it needs to pay (Shleifer et al., 1993). Second, there is the risk of the public official defaulting on his or her promise and not honoring the agreement or deciding to increase the bribe for the same transaction. Finally, there may be increased competition in terms of bribery from other firms, until the profits generated by corruption do not cover bribery costs (Bliss et al., 1997).

Taking into consideration these risks and costs, each party will seek to increase its benefits at the expense of the other. In order to capture the largest possible share of bribery, public officials may seek to establish internal markets, achieve monopoly on the

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service, increase the number of competing firms in the market, or increase their demands in order to compensate for exiting firms. Similarlym, firms may increase bribes to drive competition out of the market, seek to achieve monopoly to gain bargaining power with public officials, or they may exit the market altogether and take their investment somewhere else (Bliss et al., 1997; Jain, 2001; Shleifer et al., 1993).

These actions adversely affect economic development and market stability, leading to a waste of resources in an unproductive manner and an increase in levels of ambiguity, and introduce "welfare costs by driving firms out of the market" (Romer, 1994 in Bliss et al., 1997:1005).

1.6 Causes of Corruption

One of the most important tasks that the current scholarship is tasked with is determining the factors that lead to the creation and spreading of corruption. As is the case with defining corruption, the literature is mostly concerned with the demand side of corruption; that is, it mainly focuses on the role of political, legislative, and administrative systems in creating or tolerating corruption. For the purpose of literature review, I will follow suit in discussing the causes from the demand side with the intention of revisiting the topic from a holistic point of view (supply and demand) in chapter three.

Since corruption always involves public officials as one party of the process, it is safe to assume that the larger the size of the public sector in relation to the economy, the more the opportunities for private gain will arise, the more the breaking of legal standards is likely to occur, and the higher the level of corruption becomes (Husted, 1999; Scott, 1972; Treisman, 2000). For many people, government employment entails job security,

guaranteed retirement benefits, and a certain image among peers, not to mention personal wealth. This, combined with the underdevelopment of the private sector, increases the demand on public jobs. Governments, due to their economic and social responsibilities, have tended to absorb this demand and their sizes have increased exponentially over the years (AlHussaini et al., 2009; Scott, 1972; Wertheim, 1964). As we will discuss below, many of the causes of corruption can be attributed in a way or another to the over-employment/under-resourced status of governments.

Weak Compensation for Public Officials

One of the earliest causes of corruption historically is the insignificance and sometimes absence of salaries for public officials. Since assuming public office was historically considered a privilege and a source of power, public officials were expected, and in some cases encouraged, to generate income from using public power to their own gain (Wertheim, 1964). This has changed with the turn of the eighteenth century as public officials' salaries and benefits became more competitive. The lucrative benefits and guaranteed life-time employment was historically seen as a big attraction for most work forces, and in many poor and underdeveloped countries, it became the government's responsibility to provide employment to the public. When governments become a country' largest employer, they become laden with many administrative and bureaucratic burdens, leading to increased inefficiencies, decreased productivity, and greater financial burdens.

Governments that face a trade-off between job security and the amount of pay, mostly sacrifice competitive salaries in exchange for guaranteed employment, as the fear is that unemployment may lead to greater problems (Stiglitz, 2002). So the public

official, willing to enjoy the job security and unsatisfied by the law wage, may create another venue for income through bribes, extortion, or any other form of corruption (Mauro, 1997). Unfortunately, a government's decision to sacrifice wages does not only lead to increased levels of corruption, but may also constitute a form of disguised unemployment (Wertheim, 1964) which may lead to the same adverse effects as unemployment. Far worse, this type of corruption may in many cases go unpunished, since the public is left tolerate such 'petty' corruption, and in fact, sympathize with underpaid officials (Van Risjckeghem & Weder, 1997 in Jain, 2001:107).

Administrative and Legal Burdens

Corruption is closely related to rules, government policies, regulations, and their enforcement (Mauro, 1997). Based on the work of La Porta et al. (1999) on the legal protection of shareholders, Treisman (2000) finds a significant relationship between the source of the law and the levels of corruption. He notes that countries with common law enjoy a lower level of corruption. His main argument is that legal systems based on common law, with its dependence on "judicial precedents", are better equipped to fight corruption than other systems which rely on precise codes (Treisman, 2000: 425).

Laws can also suffer from rigidity as they become outdated due to other reasons; governments may not have the proper resources to update such rules, and they may be lacking in legal and economic expertise. Also, as mentioned earlier, some interest groups may be standing in the face of change as the current rules serve them even of at the expense of the public majority (Coate et al., 1999).

Another persistent problem is red tape, where public officials or bureaucrats put into effect unnecessarily time-consuming bureaucratic procedures aimed at encouraging

clients to pay bribes. Corruption under these circumstances is justified from the briber's point of view. Since the system suffers from bureaucracy and the laws and regulations do not accommodate the continuous evolution of the economy in terms of licensing, trade restrictions, and price controls (Carvajal, 1999; Mauro, 1997), firms and individuals find it more efficient and less time consuming to bribe their way into finding loopholes in the system, bending the law to acheive their goals (Shleifer & Vishny, 1993). But in reality, these complex regulations allow the public official discretionary power to always demand bribes; in other words, they can always find reasons to further sanction the clients (Bliss et al., 1997). Thus, due to continuous legal and bureaucratic restrictions, clients continue to comply until a point is reached where the costs exceed the benefits and they decide to quite the whole affair (Rose-Ackerman, 1978).

Although Tresiman (2000) indicates that certain legal systems are better than others in curbing corruption, he stresses the point that if enforcement is not effective, legal systems may in fact aid the flourishing corruption (425). Weak monitoring systems and weak enforcement encourage public officials to engage in corruption as the probability of being caught diminishes (Jain, 2001).

Weak monitoring occurs largely due to two reasons: i) the government does not have the proper resources for monitoring and detection, and ii) when the corruption involves high-level bureaucrats who become partners in the process and defy any attempt at monitoring (Shleifer et al., 1993), weak legal enforcement can be attributed to the inefficiency or corruption of the legal system (Shelley, 1998).

Political Non-Competitiveness/ Instability

Even though corruption flourishes under both democracies and dictatorships, Montinola & Jackman (2002) argue that levels of corruption are higher under non-competitive political structures. Non-competitive political systems, such as dictatorships, allow public officials to exercise high discretionary powers and unchallenged authority, leading to higher levels of corruption (Jain, 2001). In the case of competitive political systems, there is room for economic development, which reduces corruption significantly (Treisman, 2000). Moreover, there is the possibility of detection by opposing political parties and independent regulatory bodies and of punishment through legal sanctions, fair elections, and the free press (Rose-Ackerman, 1978; Shleifer et al., 1993). In the case of non-competitive systems, politicians, who are appointed rather than elected, and bureaucrats, who are appointed based on their loyalty to the regime, become invincible and can engage in corrupt practices until a transfer of power occurs (Scott, 1972).

Furthermore, there is evidence that federal governments, especially in underdeveloped countries, are more corrupt than unitary ones because they can establish more intimate relationships with bribers and they are harder to control (Treisman, 2000). Finally, political instability plays a major role in nourishing corruption, as it negatively affects bureaucratic efficiency and drives away investments leading to higher levels of corruption (Mauro, 1995).

Cultural Values

The impact of cultural values such as religion, family ties, and other dimensions on the level of corruption has been discussed extensively in the literature (Husted, 1999). Religion per se has no significant effect on corruption, however, through other variables,

it helps curb corrupt activities (Treisman, 2000). Countries with religions that do not emphasize economic development and growth, do not play a role in creating and sustaining democracy, or do not bear "tolerance for challenges to authority", experience higher levels of corruption (ibid: 427).

As mentioned earlier, many consider family ties and loyalty to families and tribes major causes of corruption (Nye, 1967; Scott, 1972). Lipset and Lenz (1999) provide evidence that collectivism and loyalty to the family have a positive relationship with corruption. They relate the effect of religion to that of family ties, arguing that the emphasis of some religions on the familism is what drives unethical behavior such as "amoral familism and nepotism" (in Treisman, 2000: 428). Thus, under collectivist cultures, people perceive exchanging favors as normal, even if the public office is involved. Recently, Martin et al. (2007) have tackled the issue from another point of view. Using the firm rather than individuals as their unit of analysis, they suggest evidence that "in-group collectivism" reduces bribery activity since an individual firm is discouraged from pursuing its self-interest at the expense of the group (p.1404-1405).

Husted (1999) has studied the relationship between the other cultural dimensions defined by Hofstede (1993) and corruption; he concludes that higher power distance, a greater level of certainty avoidance, and masculinity lead to higher levels of corruption.

In some countries, people find it easier to bribe officials, or the officials themselves consider it normal to do their relatives favors at the expense of the state, and thus the public movement to fight corruption falters and corruption becomes the norm.

Table 2. Major Causes of Corruption

Cause	Description
Weak Compensation	Government incurring large level of employment Public officials compensate for low salaries through bribery and extortion
Administrative and legal burdens	Outdated legislations because of lack of resources or lobbying Bureaucratic complexity and red tape Weak monitoring systems Weak legal enforcement
Political non-competitiveness/instability	Absence of democracy endows politicians with unchallenged discretionary power Instability creates bureaucratic inefficiencies
Cultural Values	Religions that discourage democracy, economic development, and authority challenge Loyalty to family creating "amoral familism" High power distance, uncertainty avoidance, and masculinity

1.7 Consequences of Corruption

Some researchers argue that under bureaucratic systems, public services-related corruption may have positive consequences for both the agency (government) and the public. Some of these consequences include:

i) *Increased efficiency:* it is argued that corruption plays a role in increasing efficiency and economic growth. This is especially applicable under rigid laws and inefficient bureaucracies that drive global and local private investment away (Rose-Ackerman, 1978: 61). Public officials have the discretionary power to cut through the red tape (Leys, 1965) by reducing the complexity of the administrative process, thus minimizing administrative queues and increasing efficiency (Bardhan, 1997; Theobald, 1990: 119). The motivation

for public officials is to increase their illegal income by increasing the number of served clients who are willing to pay bribes in exchange for service. Another venue to achieve efficiency is government tenders; when a public official awards a government contract to the highest briber, "allocation efficiency" is achieved because the highest briber must have the lowest cost to afford the bribe (Bardhan, 1997: 1322).

ii) *Compensation for low salaries*: this helps the government in attracting more of the workforce at lower salaries. The lower salaries will be balanced by the knowledge of the potential employees that they can make up with money from bribes (Rose-Ackerman, 1978:61). This practice is common in developing countries, where the government is the main employer in the economy. Moreover, it helps in attracting competent public officials who were declining because of the low compensation. But with the lucrative bribes they become interested, and this is reflected in the overall "administrative capacity" (Theobald, 1990:122).

iii) *Transfer of burden:* not only can the government compensate for low salaries, but it also does not have to carry the burden of corruption. This is applicable only to public-related services, where the government budget is not affected by this type of corruption as the suppliers/clients are the ones bearing the burden of extra payment (Rose-Ackerman, 1978:61).

iv) *Alternative to Violence:* many leaders across history have pragmatically used corruption as a safer way to share power with opposing parties instead of rebellions, civil wars, or revolutions. This notion has been shared by both

developed and underdeveloped countries. For example, Wraith and Simpkins (1963) discuss how this option in England in the seventeenth century helped stop the shedding of blood over power and the "settlements of 1660 and 1688 inaugurated the age of reason, and substituted a system of patronage, bribery, and corruption for the previous methods of blood-letting" (60). However, this solution is merely a sedative that leads eventually to disastrous results when corruption reaches intolerable levels and revolutions and massacres are committed under the notion of fighting corruption (see ch.1: Corruption in the Literature).

Nevertheless, the positive effects mentioned above, if they qualify as positive, have a very limited scope of impact and are not valid when bribes are made in exchange for the avoidance of certain obligations, such as taxes and customs. Corruption is still widely depicted as the worst disease that can plague an economy and drain its resources to deterioration (Carvajal, 1999). Accordingly, in what remains of this section, we will discuss the negative effects of corruption. It is important to note that corruption is a vicious cycle. In other words, many of the consequences of corruption become causes for further levels of corruption in the society (Scott, 1972: 15).

Table 3. Major Consequences of Corruption

Consequence	Description
Allocation Inefficiency	Tamper with supply of public service Increase administrative burdens Allocate resources on non-efficiency basis Drive away efficient firms from market
Diminished Entrepreneurial Activity	Entrepreneurs are attracted to corrupt public office Entrepreneurs are driven away by high administrative burdens for startups
Detection and enforcement costs	The government spends numerous resources on detecting and punishing corrupt officials Corrupt bureaucrats waste public resources to avoid detection Increased costs with increased corruption
Inequality of distribution	Increasing tax burden on honest citizens Reduce government revenue and eventually spending Misdirecting spending on social programs
Deterioration of the system	Loss of interest in the corrupt political process Exclusion of competent honest individuals from the corrupt administrative system Advent of organized crime entrenched in and protected by the legal system
Increased pervasiveness and tolerance of corruption	Increase in the number of corrupt public officials Increase in firms' illegal interactions with the government Public tolerate corruption due to its pervasiveness and their incapacity for action
Arbitrariness	Paying one official does not guarantee full property rights to the transaction Illegal contracts cannot be enforced in courts Fierce competition among corrupt public officials to gain clients
Market uncertainty and economic decline	Information asymmetry Investment in unproductive sectors Reduction of FDI levels Attracting corrupt investors from corrupt countries Corruption and economic decline create a vicious cycle

Allocation Inefficiency

Public officials in pursuit of illegally maximizing their private gain may either decrease the supply of services in order to achieve higher prices or increase the supply in order to achieve a larger number of sales, leading to inefficiency in service allocation (Rose-Ackerman, 1999: 14). They also might deliberately increase red tape in order to attract more clients to the bribery queue to increase their illegal income. Additionally, public officials may award government contracts without concern for the most efficient firm (Jain, 2001). Through various techniques, including pre-qualified bidder lists, tailored tender-books, and lower technical requirements, a firm may be awarded a government contract, even if it not the most efficient player in the market (Bardhan, 1997). Finally, competition on a non-efficiency basis (bribery) can drive away honest efficient firms from the market due to their inability to compete, leaving the market infested with inefficient firms or worse, a monopoly (Jain, 2001).

Diminished Entrepreneurial Activity

Diminished entrepreneurial activity occurs mostly due to two factors: i) many entrepreneurs might be attracted to the corrupt public office instead of wasting energy and resources on starting a new business; and ii) when faced with persistent corruption and administrative burdens to start and maintain a new business, entrepreneurs may give up or take their investment and ideas elsewhere (Theobald, 1990). In the Knowledge Assessment Methodology (KAM) which is conducted by the World bank, it is noted that the higher the administrative burdens for startups, the lower the level of innovation and entrepreneurial activities in that country (AlHussaini, 2003).

Detection and Enforcement Costs

The government and general public incur numerous costs in order to detect corrupt behavior and punish corrupt individuals to prevent such practices. The costs include those of setting regulations, establishing and maintaining independent regulatory bodies, and enforcing administrative and legal penalties (Jain, 2001). Similarly, public officials spend much of their time and resources in order to keep their corrupt transactions secret. As mentioned earlier, a corrupt official can avoid detection by becoming extra cautious, increasing entrenchment within the system, benefiting from a lack of coordination between the government agencies, requesting bribes in undetectable forms (cash or transfers abroad), involving family members and assistants in bribes receiving, or by resorting to immunity in the case of politicians and legislators (Rose-Ackerman, 1978: 36).

Inequality of Distribution

Corruption negatively affects the distribution of income and wealth within societies (Jain, 2001). Public officials who receive bribery enjoy benefits and income far exceeding their honest counterparts.; a segment of the society receives privileges and exploits public resources at the expense of "law-abiding citizens" (Rose-Ackerman, 1978: 8). Moreover, resorting to corruption for avoidance of legal obligations, such as tax evasion, has two negative effects: i) it is usually accessible only to the rich and powerful class who can afford to pay bribes and easily hide their legal activities, thus, increasing and transferring the burden on to the "wage-earning sector" (Theobald, 1990:83), mostly public sector employees; and ii) it significantly reduces the government's revenue, and thus, government spending, especially on vital services such as education (Mauro, 1998).

Additionally, corruption may affect the targeting of government social programs through "siphoning of funds from poverty-alleviation programs by well-connected individuals [which] diminish[es] the impact of social programs on income distribution" (Gupta, Davoodi, & Alonso-Terme, 2002: 25-26). Finally, economic reform programs, such as privatization, under corrupt systems, lead to an unequal distribution of assets, as corrupt public officials determine whom to sell the assets too, leaving the majority of the public out of the equation (AlHussaini et al., 2009; Birdsall and Nellis, 2003). All of the above leads a widening the gap between the society's strata and to increased poverty across the majority of the society (Gupta et al., 2002).

Deterioration of the System

Corruption has adverse effects on all aspects of the society; it plays a major role in the deterioration of the political, administrative, and legal systems. In the case of political systems, normally when corrupt politicians pursue their self-interests and do not deliver on their promises, the public can bring them down in future elections. However, as corruption flourishes, politicians may become affiliated with strong interest groups, or accumulate enough wealth to purchase votes and guarantee reelection. In this case, the general public lose interest in the political process and seek their own benefits, suggesting an increased tendency to sell their votes (Rose-Ackerman, 1978: 40). Of course, opposing parties may find the disseminated corruption in the existing regime an opportunity to seize power in the only other way possible which is violence (Scott, 1972).

On the administrative end, as the competition among public officials to achieve the highest perks and control the largest contracts intensifies, they seek either to achieve monopoly or collusion with peers, superiors and subordinates. Thus, appointment and

promotion processes become dependent on loyalty and compliance rather than on merit and performance (Theobald, 1990), leading to the exclusion of competent honest officials from the administrative system.

Finally, the legal system suffers from corruption when it expands to law enforcement organizations such as the police and judiciary systems. This encourages the creation of organized criminal syndicates who become entrenched in the legal system and protected from prosecution (Rose-Ackerman, 1999). Unfortunately, these syndicates may decide to invest part of their illegally accumulated wealth in legitimate businesses too; they will rely on their connection with the legal enforcement organizations among other illegal methods to drive legitimate competition out, as was the case in Ukraine after the fall of the Soviet Union (Shelley, 1998).

Pervasiveness and Tolerance of Corruption

Rodriguez et al. (2005) define 'pervasiveness' as "the average firm's likelihood of encountering corruption in its normal interactions with state officials" (385). They suggest that the pervasiveness of corruption within a country have a significant impact on the entry strategy of multinational corporations.

It was mentioned earlier that consequences of corruption become further causes to pervasive corruption. On the one hand, as the number of corrupt officials at different levels of the system increases, corrupt activity increases not only because of the number of corrupt individuals, but also because of weaker monitoring and decreased costs of detection, since being detected by a corrupt senior is cheaper than being detected by an honest one (Andvig & Moene, 1990). On the other hand, once a firm bribes its way into a competitive position and manages to fend-off major competitors, it becomes

encouraged to "invest" its illegal profits to "obtain more economic profits" (Rose-Ackerman, 1978: 53). These investments expand to new territories and systems, from avoiding custom duties when importing products to evading taxes when reporting revenues.

Although the pervasiveness of corruption is a dire consequence in itself, its most dangerous impact is when it becomes so prevalent that it becomes tolerated. Rose-Ackerman (1999) provides numerous examples where access to any government service (from issuing a passport to tax evasion) cannot be achieved without paying bribes, leading the general public to consider corruption as the "routine" or norm. Carvajal (1999) warns against the situation where corruption becomes so grand that it "generates a sense of impunity for the corrupt persons and impotency for the public" (342).

Arbitrariness of Corruption

'Arbitrariness' can be defined as "the inherent degree of ambiguity associated with corrupt transactions in a given nation or state (Rodriguez et al., 2005). As mentioned earlier, as corruption becomes more pervasive, it attracts more public officials from different levels. These officials may be in coordination amongst themselves or may be operating independently (Shleifer et al., 1993). Arbitrariness is especially prevalent under "fragmented" and "sequential" bureaucratic systems (Rose-Ackerman, 1978: 169) where the applicant has to deal with several public officials for the same transaction and bribing or purchasing one public official does not guarantee property rights for the whole transaction. Moreover, because of the illegal nature of the corrupt transaction, the briber cannot enforce commitment from the public official in court nor can the bribery receiving public official guarantee the compliance of his or her colleagues in honoring the contract.

This creates an environment of uncertainty and mistrust and leads to fierce battles between public officials and agencies in their struggle for larger "illegal perquisites" (Theobald, 1990: 128).

Market Uncertainty and Economic Decline

Due to the secrecy and shrouded nature of corruption, a market plagued with corrupt activity would be highly uncertain, as prices will not be available, the highest bribers will have insider information, and honest firms would be left in the dark and may decide to leave (Rose-Ackerman, 1999: 12). Additionally, limiting information and transactions to the elite (those who are willing to pay) leaves the majority of the players outside the game, eventually creating a market missing out on a "large reservoir of local potential, ingenuity and information" (Bardhan, 1993: 47).

Under these conditions, firms, local or foreign, that are required to pay bribes in exchange for their investments and continued operations, facing uncertainty due to information asymmetry, or fearing detection and legal sanctions, will be discouraged to continue their investment and might decide to take their investment elsewhere (Bardhan, 1997). This of course leads to unfavorable effects on the economy in terms of investment, employment, and economic growth.

Also, instead of accumulating capital through legal means (taxes, customs, licenses) and spending it on economic development, public officials accumulate personal wealth through illegal means (bribes, extortion) and spend it on personal perks and benefits (Theobald, 1990: 125). Finally, as mentioned earlier, under the resource-allocation model, instead of investing resources in productive projects that lead to

economic growth, corruption prompts public officials to direct spending towards projects that produce the highest personal returns without concern for productivity (Mauro, 1995).

It is important to note that economic decline is not only a consequence of corruption, as it also becomes a major cause of corruption. Not only is economic development crippled by corruption that drives away local investments and FDI (Cuervo-Cazurra, 2006; Mauro, 1995; Wei, 2000), but corruption also attracts investors from other corrupt countries who are experienced in bribery and willing to engage in the corrupt system (Cuervo-Cazurra, 2006). Additionally, the lack of economic development nourishes corruption due to the absence of "countervailing actions", such as enhanced wages, a modern educational system, free media, and improved management and accountability (Alam, 1995 in Husted, 1999: 342).

1.8 Measuring Corruption

Understanding the corruption phenomenon and determining its causes and consequences requires a measurement of some sort for analysis and comparison. However, due to the sensitive nature of corruption, measuring it has been one of the most challenging tasks, hindering theoretical development (Husted, 1999). Many researchers have resorted to case studies and country-specific incidents and scandals in order to compensate for the lack of data and appropriate corruption measures (Greenstone, 1966; Leys, 1965; Nye, 1967; Wertheim, 1964; Wraith et al., 1963). Although these efforts have aided in advancing the theory on corruption, generalizabilty and cross-cultural analysis seems to still be unattainable (Treisman, 2000). Over the past two decades, various attempts have been made to construct "perceived" indices of corruption in order

to expand empirical research based on surveys and polls directed towards politicians, economists, and business experts in their respective countries. These measures suffer from two main shortcomings: i) they are subjective since they depend on experts' perceptions and observations, and ii) they do not account for the different types of corruption (Mauro, 1997). Nevertheless, after proving quite valuable for private clients, they started to gain popularity among researchers in the nineties and were widely used for several reasons. First, they are the only measures available that approximate reality (Mauro, 1995). Second, these measures, albeit produced by different organizations, tend to be highly correlated amongst each other and the results are consistent through time (Knack & Keefer, 1995; Mauro, 1997; Treisman, 2000). Finally, firms and individuals seem to base their decisions on subjective assessments of corruption levels in a given country regardless of objective characteristics (Mauro, 1995).

Below are the major organizations that have developed indices to measure perceived corruption across countries.

Business International Corporation (BI)/Economist Intelligence Unit (EIU)

BI is a private firm that developed the country risk reports for 57 countries from 1971 to 1979 and later developed more measures for 68 countries from 1980 to 1983 (Mauro, 1995). It was the first to provide an index that measures corruption and illegal payments in business transactions at the country level. Its reports were filled by experts from their respective countries and were complied and checked by BI. In 1986, BI was acquired by the Economist and merged with EIU (Tanzi & Davood, 1997). The BI survey was first used by (Mauro, 1995) to test for the impact of corruption in a country on the level of economic growth. Treisman (2000) used it in combination with other

indices in his cross-national study on the causes of corruption. EIU defines corruption as "the misuse of public office for personal (or party political) financial gain" and asks its experts across the globe to rate corruption between 0 and 4, with 0 being the least corrupt (Lambsdorff, 2008: 4). EIU continues to sell its indices to private investors and banks and is used as one of the surveys in Transparency International's (TI) Corruption Perception Index.

Political Risk Services Group (PRS)

Since 1980, PRS has provided a monthly country risk measure called the International Country Risk Guide (ICRG). This guide comprises a comprehensive analysis using 22 components grouped into three indicators which are political risk, economic risk, and financial risk. According to PRS, "the political risk assessments are made on the basis of subjective analysis of the available information, while the financial and economic risk assessments are made solely on the basis of objective data." (PRS website). Corruption in government is one out of 22 components for assessing political risks at the country level. Many researchers have used this indicator and have found it reliable and correlated with other corruption indices (Knack et al., 1995; Tanzi et al., 1997). However, Treisman (2000) highlights some major oddities in this measure, such as considering Malawi under Hastings Banda's reign "less corrupt than either Greece or Portugal" (409), and, has thus, decided against using it. Moreover, after being used as one of the sources for Transparency International's Corruption Perception Index from 1996 to 2000, ICRG was removed from the surveys in 2001. TI realized that it does not measure the overall level of corruption, but rather "the political risk involved in

corruption" and the effects of corruption on political stability only (Lambsdorff, 2001:1; 2002).

Transparency International (TI)

Since its establishment in 1993, TI has sought to increase awareness of corruption in a global setting. They introduced several indices aimed at quantifying corrupt behavior and comparing nations according to level of corruption (TI website).

Corruption Perception Index (CPI):

This is an annual composite index that was first introduced in 1996. It includes 13 international surveys on corruption from 11 well-known organizations including the Economist Intelligence Unit and the World Economic Forum (Lambsdorff, 2008). The criteria for including an index or survey is that it must provide a ranking of nations and it must measure the overall level of corruption (ibid: 2-3). It gives corruption a score from 0 (highly corrupt) to 10 (highly clean). The most important achievement of the CPI is that it has helped to bypass the general categorization of countries into developed and underdeveloped. It is important to note that the differences among underdeveloped countries are so wide that, at least from a corruption point of view, "lumping them together seems quite unsatisfactory" (Theobald, 1990: 81). Thus, under the CPI, countries became categorized according to corruption level regardless of development status. Another strength of the CPI is that its method of using several surveys that are standardized and averaged increases the reliability of the measures by reducing any bias present that may be present in a single survey, such as the above-mentioned case of ICRG (Husted, 1999; Lambsdorff, 2008; Treisman, 2000).

The main shortcomings of the CPI can be summed as follows: i) TI does not have the same number of surveys for each country (the rule is at least 3 surveys is enough) which affect reliability for some countries; and ii) the number and sources of surveys change from year-to-year, leading to changes in scores. Nevertheless, the CPI is the most popular country level index of corruption used by researchers. Husted (1999) has used the CPI to test for the relationship between 'culture' and 'corruption', Wei (2000) has used it to measure the relationship between 'FDI' and 'corruption', Treisman, (2000) has used it to determine the causes of corruption, and Wu (2005) has used it to determine the impact of 'governance mechanisms' on 'corruption'.

Bribe Payers Index (BPI):

One of the criticisms faced by the CPI is that "it does not reflect the activities of business people who refrain from corrupt activities at home, but engage in them abroad" (Husted, 1999:347). The BPI was designed to solve this problem and shed some light on the supply side of corruption. It started in 1999 and was produced on a bi-yearly basis from 2002 to 2008. TI chooses several countries based on their incoming level of FDI and interviews top experts and business people from these countries about firms from foreign countries and the frequency of bribes paid by those firms when operating in the experts' countries (Riaño & Hodess, 2008). The scores are used to rank 22 countries (chosen on the base of outward FDI and level of development) according to the likelihood of firms originating from these countries to pay bribes when operating abroad. Another advantage of the BPI is that it differentiate between three types of bribes: i) bribes to politicians; ii) bribes to low-level public officials to overcome bureaucracy; and iii) the use of social connections to secure government contracts (Riaño et al., 2008: 7).

The BPI is yet to be utilized by researchers interested in analyzing the supply side of corruption.

World Bank

World Business Environment Survey (WBES:)

This survey was conducted in 1998 and 2000 as part of the World Bank Governance and Anti-Corruption Initiative. The main difference between this survey and other surveys is that the WBES measures perceived corruption at the firm level. It has been conducted for more than 10,000 firms operating over 80 countries. The survey collects information on the perceptions of managers and businesspeople regarding bribe frequency, judicial system functions, and corruption as a constraint for their firms' development. Uhlenbruck et al. (2006) have used the WBES to determine the impact of 'corruption pervasiveness' and 'arbitrariness' on the 'multinational corporations'' entry strategies, and Martin et al. (2007) has used it to conduct a multi-level analysis of the causes of corruption.

Enterprise Surveys

Business Environment and Enterprise Performance Survey (BEEPS):

Unfortunately, the World Bank has discontinued publishing WBES beyond the year 2000. Alternatively, it now publishes corruption-related surveys under the entitled 'enterprise surveys'. Using results from their Business Environment and Enterprise Performance Survey (BEEPS), to be discussed in detail in chapter four, enterprise surveys have developed five indicators, four of them to measure the level of corruption and one for the impact of corruption at the country level.

The indicators measuring the level of corruption provide the percentage of firms within a country that: i) pay informal payments to public officials in general; ii) give gifts or informal payments to obtain licenses (enter the market); iii) make informal payments to tax agents; and iv) make informal payments to secure government contracts. Finally, the indicator on the impact of corruption reports the percentage of firms that consider corruption as a major constraint for establishing and successfully running a business (Enterprise Surveys Website).

Overall, corruption indices suffer from various drawbacks such as being subjective, ignoring many substantial variables when correlating corruption to economic development, and not being able to distinguish between the different types of corruption (Mauro, 1997:3). Nevertheless, the consistency among these indices has encouraged many researchers to use them in their empirical studies. Mauro (1997) also uses the BI survey and the CPI in addition to other sources to measure the impact of corruption on investment and economic growth. Also, Montinola and Jackman (2002) have used the BI survey and the CPI to determine the source of corruption. Calhoun (2005) has used a combination of the ICRG and the CPI to test hypotheses regarding country-risk measures, finding high levels of correlation between the different measures. Finally, Martin et al. (2007) have used the CPI to assure the validity of their bribery index constructed from WBES.

Table 4. Measures of Perceived Corruption

Corruption Index	Organization	Period covered	Number of countries covered now	Description
Corruption	Business International /Economist Intelligence Unit	1971-1983 (BI) 1986-now (EIU)	68 (BI in 1983) 200 (EIU)	Measures corruption and questionable payments in business transactions
International Country Risk Guide (ICRG)	Political Risk Services Group	1980-now	140	Corruption measure is one of 22 measures aimed at evaluating the economic and political risk of each country
Corruption Perception Index (CPI)	Transparency International	1995-now	180	A composite index of 13 measures standardized and averaged
Bribe Payer Index	Transparency International	1999-now (biyearly)	22	An index that measures the likelihood of firms from the world's industrialized countries to bribe abroad Distinguishes between different types of bribe
World Business Environment Survey	The World Bank	1998-2000	80 (in the year 2000)	Includes several measures of bribery activity at the firm level Distinguishes between different types of bribery
Business Environment and Enterprise Performance Survey (BEEPS)	Enterprise Surveys	2002-now	Different each year	Includes several measures of bribery activity at the firm level Distinguishes between different types of bribery

1.9 Fighting Corruption

It can be observed that early research on corruption has avoided prescribing remedies for corruption. This can be attributed to the inability of reaching a universal definition for corruption, the secrecy associated with the phenomenon, and the difficulties involved in measuring corrupt activities. As a consensus has been reached on the definition of corruption as the "abuse of public power for private gain", and as credible organizations such as Transparency International are seeking to expose corruption across the globe and provide credible measures of corruption, many remedies have been prescribed to eliminate or minimize corruption activities, with each solution reflecting the background of the party prescribing it. Lawyers, for example, argue that the problem lies in the lack of proper law enforcement, and thus, suggest that increasing efficiency of courts would help limit corruption (Ades and Di Tella, 1999). Economists believe that minimizing the government involvement in economic activities through reform programs such as privatization is the perfect solution (Theobald, 1990:156). Political scientists prescribe several solutions revolving around sanctions: political, administrative, legal or criminal, through regulatory efforts or through organizational reforms (i.e. choosing the least corrupt form of bureaucracy) (Rose-Ackerman, 1978: 181). International business scholars point to evidence that the institutional effects of foreign direct investment and adjusting MNCs' entry strategies help limit exposure to and engagement in corruption (Kwok et al., 2006; Rodriguez et al., 2005; Uhlenbruck et al., 2006). Management scholars prescribe good governance, transparency, and internal codes of ethics as preventive actions against engagement in corruption (Doh et al., 2003; Kaufmann, 2005; Wu, 2005).

However, as Rose-Ackerman (1999) puts it, fighting corruption boils down to two methods: "reducing incentives and increasing costs" (39). She introduces various reform options in this regard including reforming public programs: this entails introducing new mechanisms that would minimize the illegal benefits for public officials such as cutting the red tape or reducing bureaucratic burdens, introducing competitive bureaucracy aimed at reducing the discretion of bureaucrats, accommodating for clients requiring a faster service, etc. Moreover, if a public program becomes a source of corruption such as ineffective subsidies that, Rose-Ackerman suggests eliminating the whole public program such as inefficient subsidies if they become merely a way to generate illegal income for corrupt officials. Finally she discusses a reform of the whole civil service through revising pay scales and recruitment and promotion schemes within state-owned enterprises to eliminate any justification for corruption[2]. The following table provides some of the remedies for corruption with a brief description.

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[2] This section draws heavily on Rose-Ackerman's (1999) work. See 39-88.

Table 5. Suggested Remedies for Corruption

Remedy	Effect on Corruption	Description
Public programs reform	Reduce incentives	Reduce bureaucracy and red tape Minimize bureaucrat's discretion Enhance procurement processes Accommodate for clients needs (e.g. Speed)
Public program elimination	Reduce incentives	Remove corruption-infested programs when illegal outcomes outweigh benefits (e.g. inefficient subsidies)
Privatization	Reduce incentives	Transfer the authority from public officials to market-driven private sector Enhance salaries
Anti-corruption laws	Increase costs	Laws and regulations that entail criminal, and administrative sanctions (e.g. jail time, dismissal)
Efficient law enforcement	Increase costs	Fair, honest, quick, and affordable courts system Enforceable decisions
Civil service reform	Reduce incentives	Revise pay scale Update recruitment and promotion schemes

CHAPTER 2: CORRUPTION AND THE MNC

This chapter discusses the global dimension of corruption. It provides an overview of the global community attitudes towards the phenomenon and its various efforts at combating it. In the second section the MNC is identified as a research context with its unique characteristics that sets it apart from the local firm. The third section details the history of anomie theory from ancient Greece to our modern times, which is then applied to corruption after a comparison to the mainstream theoretical framework of legitimacy.

2.1 Corruption in the Global Context

Attention to corruption as a global phenomenon caught interest after the Watergate scandal in 1974 where many U.S. firms were discovered to pay bribes locally and abroad (Hines, 1995). Globalization, defined as the outcome of "the interface between firm and state" (Agmon, 2003:417) has made the threat of corruption clearer and more serious as it usually facilitates global crimes such as money laundering, drug trafficking, and terrorism (USAID website). It also necessitated the advent of global authority in the form of supranational organizations (e.g. UN, World Bank) and large industrial countries (e.g. U.S., OECD countries) to set global norms and monitor the behavior of MNCs across the globe. In their fight against global corruption, the global community mainly followed suits of local governments with some adjustments to prevent corruption from both the MNC and the host country's government (i.e. supply and demand).

Foreign Corrupt Practices Act (FCPA)

The United States was the first country to pass a Foreign Corruption Practices Act (FCPA) in 1977. It was all triggered by two concurrent incidents. First was the establishment of a sub-committee on MNCs in 1972 to investigate ITT, the telecommunication giant, and its interference in Chile's political affairs. The second was the Watergate scandal which exposed numerous corporations' illegal contributions to Nixon's campaign in 1973-74 (Boulton, 1978; Hines, 1995). Eventually, the shocking findings necessitated further investigation into American MNCs' activities aboard which brought to light the systematic and regular bribery activities of MNCs in foreign countries. Among the MNCs that were convicted including oil giants such as Exxon, defense contractors such as Northrop, telecommunication corps such as ITT, and even food companies such as United Brands (Eli Black-United Fruits Merger) ; Lockheed was the largest scandal with estimated bribes equaling $38 million in the period 1970-75 in Japan, Europe, Saudi Arabia, and Indonesia (Boulton, 1978).

As the committee had concluded that corrupt acts of American MNCs "subverted the free world and weakened America's international standings" (ibid: p.261), the congress in the subsequent years enacted FCPA in an effort to combat corruption. This law penalizes MNCs originating from the United States for engaging in any corrupt transactions abroad. Punishments include taxes, fines, or even jail time for the management of the MNC (Hines, 1995). However, it allows MNCs to pay "grease" money for "routine government actions" for low level bureaucrats to speed things up (Hines,1995, p.5). The main argument against FCPA is that it negatively affected the competitiveness of American MNCs specifically in highly corrupt countries since other

MNCs did not have similar laws (Bird et al., 1991; Cuervo-Cazurra, 2006; Hines, 1995). Evidence in the literature is contradictory regarding the effectiveness of FCPA, ranging from studies that show no effect of the law on engagement in corruption, to those that suggest a minimal effect in curbing American MNCs from engaging in corruption globally, finally to those that claim a significant impact of the law in limiting corrupt behavior. Henisz, (2000) did not find any effect of the law on the American investment levels in corrupt countries. Similarly, Wei (2000) and Smarzynska and Wei, (2000) concluded that although American investors are averse to engagement in corrupt transaction, they are not necessarily more averse than other MNCs from OECD countries that do not have similar laws. On the other hand, Hines (2000) found evidence that after FCPA, FDI to corrupt countries from the US has decreased significantly; however, he could not solely contribute this decline to FCPA.

OECD Convention on Combating Bribery

The Organization for Economic Cooperation and Development's (OECD) 30 members in addition to five non-member countries (Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic) also signed a convention against bribery both locally and globally in 1997 and started its application in 1999 (Smarzynska et al., 2000). The convention requires all member countries to change their laws to criminalize bribery of foreign public officials and amend the laws that allowed MNCs' foreign bribes to be tax-deductible (OECD website). The OECD convention has managed successfully to increase the number of signatory countries over the years (38 in 2009) thus overcoming the above-mentioned limitation of FCPA. Still, the convention does not include "payments to

political parties and party officials" in its definition of bribes (Rose-Ackerman, 1999:186) leaving the door open for suspicious activities in the political domain.

As with FCPA, evidence of the effectiveness of the OECD convention varies between those who suggest that the convention did not drastically affect corruption and others who concluded that the convention managed to limit corruption. Kaufmann, (2004) notes that although corruption from OECD countries has somewhat decreased as a result of the convention, the same pattern has not been noticed when it comes to MNCs operating in non-OECD countries. As a matter of fact, in the latest Bribe Payer Index none of the OECD countries scored 9 or 10 indicating that all of them "to some degree are exporting corruption" and several OECD countries came at the bottom of the index (the lower the score the more corruption originating from the designated country) (Riaño et al., 2008) (4). On the other hand, recent research by Cuervo-Cazurra (2006) deduced that MNCs from countries that signed the OECD convention have avoided investment in corrupt countries after the convention took effect.

Other Efforts

There have been numerous efforts by supranational organizations to combat global corruption with various degrees of success.

The World bank: Although the World Bank's main purpose is to give loans to countries and aid in economic development, it learned the hard way that corruption and development never go hand in hand (Stiglitz, 2002). After bitter experiences of hyperinflation, capital out-flow, asset-stripping, and other corruption-related activities the World Bank now refuses to provide financial aid to countries that do not take serious

steps towards minimizing corruption and increasing efficiency such as "legal reform, tax reform, privatization..and governmental efforts to eliminate corruption" (Mikesell, 2000:409). However, the World Bank is only concerned with the demand side of corruption and does not require any actions on behalf of the MNC or private sector.

The United Nations: In 2003 the United Nations Convention against Corruption (UNCAC) was put into effect aiming at combating corruption from the public and private ends. The convention requires preventive measures against corruption, promoting code of ethics in the public sector, criminalization of bribery, etc. (UN Website). The convention has managed to attract 140 state parties but was only ratified by 117 (ibid). However, the convention's effect on corruption is yet to be recognized since it faces some major challenges including the absence of implementation enforcement and monitoring mechanisms (Heimann & Dell, 2008).

Many countries consider these activities of the international community as interference in their local government practices; they argue that it is the imposition of "western" ideologies and institutions on developing countries. Moreover, some of them accuse those organizations and countries of serving their own agenda rather than caring about those developing countries (Rose-Ackerman, 1999; Stiglitz, 2002). Nevertheless, one cannot ignore the fact that the international community has set the wheels of reform and fighting corruption in motion. Efforts by the US, OECD countries, UN, and Transparency International have paid off, although to a limited effect, in at least increasing the costs of corruption and make it quite risky for both the MNC and public officials. In order to make the global standards more effective in fighting corruption, global efforts must be unified to include a wider spectrum of countries to avoid the

discrepancy of MNC behavior between countries that have anti-corruption laws and countries that do not (Kaufmann, 2004) and to discourage the attraction of corrupt MNCs to corrupt countries (Cuervo-Cazurra, 2006).

2.2 Why the MNC?

Over the past two decades, interest in the multinational corporation (MNC) as a research context has increased significantly and expanded from international business journals to most of the main stream management publications (Roth et al., 2003). In their extensive review of the top five management journals, Roth & Kostova (2003) have identified three major roles for the MNC as a research context: i) "study MNC-specific phenomena", ii) "validate or expand established theories", iii) "develop new theory" (885).

As mentioned above, the vast and rapid globalization movement in the 1980s and 1990s has brought the attention of MNC managers and scholars to the magnitude of corruption and its diverse effects on the MNC activities (Rodriguez et al., 2006). Hence, the MNC provided a substantial research context to advance the development of corruption literature through extensive research that deals basically with MNCs response to corruption in host countries (Doh et al., 2003; Rodriguez et al., 2006; Rodriguez et al., 2005; Uhlenbruck et al., 2006).

This study utilizes the MNC as a research context for the purpose of further developing our understanding of the antecedents of corruption in the global community. The MNC possesses unique characteristics that differentiate it from local firms and further increase our understanding of the relationship between norms and corruption.

First, the MNC presents the unique situation where they can operate under different and sometimes conflicting norms, cultures, institutions, and regulative pressures (Kwok et al., 2006; Roth et al., 2003). According to Bird and Velasquez, (2006), in order for MNCs to successfully operate in diverse cultures they need to "invoke[..] common standards" and "work[..] with diverse local moral traditions" (5). So while MNCs whose home countries may have lower levels of corruption and effective anti-corruption laws, they still can operate in host countries where corruption is rampant and still engage in bribery (Rose-Ackerman, 1999:21).

Additionally, because of their global nature MNCs activities abroad usually go undetected or they require considerable amount of resources and follow-up on behalf of its home countries' authorities and the supranational organizations in order to be detected. This in turn makes it much easier for the MNCs compared to local firms to engage in corrupt behavior and avoid legal sanctions. Mixed findings of researchers stress the point that these anti-foreign corruption laws have yet to play an effective role in preventing corruption. For example Wei (2000) found evidence that the U.S. Foreign Corrupt Practices Act (FCPA) did not make American-originated MNCs more averse to corruption than MNCs from other countries that do not have anti-foreign corruption laws, while Cuervo-Cazurra (2006) found evidence that these laws actually reduce FDI from countries that enact them.

Moreover, the MNCs from developed countries are especially expected to bring ethical practices, better standards and business models (Doh et al., 2003). Kwok & Tadesse (2006) argue that the MNC can affect the corruption environment in host countries through "demonstration effects" and "professionalization" where they can

disseminate ethical codes of conducts in business transactions not only in the public sector but also within domestic firms (770). Moreover, they are expected to bring prosperity and welfare through FDI to the underdeveloped countries. Thus, it is interesting to understand what prompts the MNC to abandon their standards and codes of ethics to become part of the corrupt system and engage in transactions that benefit only themselves and a limited class of public officials.

Finally, the MNC has the resources and the host country government has the monopoly over its market (Agmon, 2003). Because of their valuable resources, "many MNCs are larger and more powerful than the states with which they deal [and] they often have considerable leverage with governments" (Rose-Ackerman, 1999:178). This powerful bargaining position may be tempting for the MNC to bend the laws and seek to achieve a favorable position in the market that might not be available to it elsewhere.

2.3 Anomie Theory

What Is Anomie Theory

Anomie is derived from the Greek word "Anomia" which literally means: without norms or "the absence of laws or norms" (Orru, 1987: 2). The notion itself carries different meanings to different people.

Writings on anomie dates back to Greece in the fifth century B.C. where "Anomia" was used to describe either the defiance of religious teachings and dictations, or refusal of rules and laws in the society (Orru, 1987: 15). Anomia was also heavily referenced in religious books and teachings. In Judaism and early Christianity, anomia usually referred to iniquity and rebellion against the divine rules set by God (ibid).

Indeed, the old and new testaments warn against pursuing one's own desires against the norms set forth by God. Similarly, Islam considered truth as the definite result of abiding by the rules and individuals who break the rules following their own desires would fail in attaining this cultural and social goal. Moreover, it is mentioned in the Quran that this state of anomia will definitely lead to corruption, "If the Truth had been in accord with their [the nonbelievers] desires, truly the heavens and the earth, and all beings therein would have been in confusion and corruption" (The Holy Quran, 23:71).

After a lengthy absence from western culture, Durkheim resurrected the modern anomie theory. His work was originally published in French in 1893 and 1897 and later translated to English in 1984 and 1951 respectively. He first introduced the concept in his book *Division of Labor* (Durkheim, 1984) where he argued that individuals are governed by the rules imposed upon them by the society (including stratification systems), and anomie is any violation of this social order. Additionally, he emphasized the major role of religion in setting the norms in societies, adding the spiritual and moral dimension to material desires, and encouraging individuals into compliance by choice (Durkheim, 1951: 254-255). Finally, as industrialization and modernization increased and religious power weakened and diminished in the western culture, the government took over from religion and introduced regulations instead and coerced individuals into compliance. Durkheim used his theory to explain the breaking of an important norm that is voluntary death. The economic progress and weakening of norms left the individual with infinite desires unattained (i.e. lack of specific social ends) and put him in an unsatisfied status vulnerable to any disturbance in the equilibrium (e.g. war, financial crisis) (ibid.:246), (Orru, 1987).

Perhaps one of the major contributions of Durkheim's work is his introduction of the phenomenon that was later termed as "Cultural lag" (Catton Jr., 2002). Durkheim, in *The Division of Labor*, argued that the structure of our societies has gone through tremendous changes over a short period of time and these changes have rendered the influence of older norms and institutions useless. Nevertheless, because of the rapidity of the change, newer norms do not develop in time to succeed older and "the new life that all of a sudden has arisen has not been able to organise itself thoroughly" (1984: 339). In other words, cultural lag is the period in time that takes place between the erosion of old norms and the development and appearance of new ones (Tilman, 2002: 15). Chorney (1990), by using Georg Simmel's work (1902), argues that this cultural lag between the "evolution of individuals" and the "evolution of the physical and technological environment" usually leaves individuals "powerless when confronted by their environment" (63).

However, Drukheim by no means suggests the revival of old norms; on the contrary, he admits that such "traditions and practices...no longer correspond to present day social conditions" (ibid) and anomie could be stopped when the "interests in conflict have... had time to achieve equilibrium" (Lukes, 1973: 173).

Although Durkheim's writings have contributed significantly to the advancement of anomie theory, they were not without shortcomings. The first criticism is that Durkheim's overemphasis on the social solidarity and collectivistic point of view collective rather than individual has led some to accuse him of "idealism" (Merton, 1934) and led others to believe that his concentration on "normative ethics" runs the risk of "elevating social conformity into the supreme moral virtue" (Parsons, 1937 in Orru,

1987:131). Tilman (2002), in his comparison of Durkheim's and Veblen's (1857-1929) work, argues against Durkheim's assumption of equilibrium as the normal state (leading to term anomie as a state of disequilibrium) using Velben's argument that postulates that "science, technology and the cultural and institutional superstructure of society are assumed to be at odds with one another most of the time" leaving a state of equilibrium almost irrelevant (59).

In general, many scholars agree that at the theoretical level Durkheim's anomie was "legitimately normative, theoretically sound..., historically grounded, [and] conceptually...distinctive" (Orru, 1987:137). Neverheless, on the on the empirical side many sociologists have criticized Durkheim's anomie as being "empirically unverifiable" (Orru, 1987:133).

Durkheim's theory advances that with modernization and industrialization old social controls (mainly represented by religion) were weakened and "less needed as a structural source of solidarity for society" (Tilman, 2002:55) which necessitated the introduction of new norms (legal, scientific). While this argument is valid in the West experience with Christianity, generalizations are quite limited when it comes to other cultures and religions. Over the course of history, religions like Islam have survived the challenges of wars, transitions, occupations, wealth and knowledge influxes, and recently modernization. I am not implying that these societies have not faced anomie, on the contrary they suffered from prolonged periods of normlessness, until the proper institutions and pioneers would re-innovate the norms to adapt to a new environment[3]. Although Durkheim refuses the notion that "religion evolve from period to period"

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[3] The Prophet Mohamad (PBUH) said: 'Allah will raise for this community [Muslims] at the end of every century the one who will reform its religion for it.'

(Lukes, 1973:510), it will be interesting to expand on Durkheim's theory by studying the cases of societies that resorted to renovating existing norms instead of adopting completely new ones.

Merton has played a major role in establishing anomie theory in the American sociology literature through his seminal paper on social structure and anomie (Clinard, 1964; Orru, 1987). Unlike Durkheim, who blames anomie on the unspecific social ends and weakening social controls, he sought to explain anomie in light of interaction between two phases of the social structure, that is institutional means and cultural goals (Merton, 1938). Accordingly, he identifies three groups within the society including the groups that consider the means as ends in themselves and abide by them unconditionally regardless if they achieve the ends of not, the second group is the one that tries to strike a balance between ends and means, and the last group is the one that seeks to achieve the ends regardless of the means. For Merton, the last case constitutes anomie which he defines as the imbalance between cultural ends and institutional means. He argues that when the society overemphasizes certain cultural goals such as "monetary success and material prosperity", groups and individuals might look for other efficient means regardless of their appropriateness to achieve such goals (ibid: 673). Additionally, based on the two social phases (institutional means and cultural goals), Merton introduces five "modes of adaptations" for groups and individuals. i)"conformity": when the group accepts both means and ends, ii) "innovation": when they accept the ends but reject the means, iii) "ritualism": when they cannot reach the goals but still abide by the means, iv) "retreatism": when they reject both goals and means and they become outcasts in the

society, and finally v) "Rebellion": when the groups reject the current social order (means and ends) and decide to introduce a new one (Merton, 1938: 676).

Merton has managed to expand on Durkehiem's application of anomie to the suicide phenomenon in order to explain "crime, delinquency, mental disorder, alcoholism, drug addiction, and many other phenomena" (Clinard, 1964:11). Nevertheless, Merton was criticized mainly for two reasons, first for assuming a "value-free" position and second for issues of generalizability (Orru, 1987: 138). Merton argument that anomie is a result of overemphasis of monetary success does not take into consideration that success in itself is a desirable goal for almost everyone. Similarly, his research context is the "mainstream American culture" that makes his findings not applicable to other cultures or subcultures that may differ significantly (ibid.:139).

Srole (1956) was the first to introduce a measurement to the anomie phenomenon. Building on Durkheim's concept of anomie as the weakening of social norms that control individual desires, he defined anomie as a "self-to-others alienation" or "social malintergartion" (Srole, 1956: 711-712). He identified five components that constitute anomie and used them to test for the hypotheses on the relationship between anomie and attitude towards the society. The five measures are i) "the sense that leaders are detached from and indifferent to individual needs", ii) "the perception that the social order is fickle and unpredictable", iii) "the sense that the individuals are retrogressing from their goals", iv) "the loss of internalized social values", and v) "the perception that close relationships are no longer predictive or supportive" (ibid: 713). The importance of Srole's work stems from the fact that he managed to operationalize anomie and paved the road for it to be used as an "exploratory variable" (Orru, 1987: 127).

Institutional anomie was developed later on by Messner & Rosenfeld (Messner & Rosenfeld, 1997). Institutional anomie shifted the interest from the imbalance between institutional means and cultural ends (Merton, 1938, 1964), to focus on the interaction between the competing social institutions such as economy, political systems, and family (Cullen et al., 2004; Messner et al., 1997). They argue that the integration among such institutions is "inherently problematic" and when one institution is prevalent at the expense of others, anomie may occur (Messner et al., 1997:1396). One of the criticisms faced by institutional anomie theory is that it does not take into consideration the role of stratification systems in limiting aspirations (Merton, 1968 in Cullen et al., 2004). As mentioned earlier in Durkheim's anomie, social stratification (stemming from educational, familial, or economic status) is considered as one of the norms in limiting aspirations of individuals (Durkheim, 1951). Cullen et al. give an example of top management aspirations not pressured by cultural values such as individualism and achievement (Cullen et al., 2004). Nevertheless, during the past decade, institutional anomie theory has proven to be a valid theoretical framework for testing the effects of institutional forces such as economic-ordination on deviant behavior such as violence and homicide (Messner et al., 1997; Savolainen, 2000).

Table 6. Anomie Theory in the Literature

	Author	Description
Anomia, *Anomos*	Plato & Socrates (5000B.C.) Religions (1000B.C.-630A.D.)	"Anomia" is the absence of laws The defiance of norms dictated by religions (divine) and rules imposed by society Leads to corruption and deviation from truth
Modern Anomie Theory	Durkheim (1893/1897)	Norms control unlimited social ends Modernization and industrialization caused lack of specified social ends Weakened norms and social controls Anomie leads to deviant behaviors such as suicide
Anomie and Social Structure	Merton (1938/1964)	Anomie is the imbalance between cultural goals and institutional means Overemphasizing cultural ends at the expense of legitimate means Five modes of adaptation: conformity, innovation, ritualism, retreatism, rebellion
Measuring Anomie	Srole (1956)	Anomie is the "social malintegration" It can be measured by individuals' perception of politician actions, economic crises, and weakness of social norms
Institutional Anomie Theory	Messner & Rosenfeld (1994/1997) Sovalainen (2000)	Anomie results from imbalance between social institutions (economy, family, polity) Anomie leads to deviant behaviors such as violence and homicide
Anomie and Corruption	Cullen et al. (2004) Martin et al. (2007)	Anomie theory as an explanation for local firms to bribe

2.4 Anomie, Corruption, and the MNC

<u>Anomie and Corruption</u>

Scholars from the early ages have realized that anomie in essence paves the way for corruption. For example, Isocrates described how the Spartans' rule over Athens created a state of normlessness that caused corruption to increase, corrupt people to climb the social ladder faster, and law-abiding people to die violently which "ruined...their own country" (in Orru, 1987: 21). Similarly, Plato identified anomie as the main cause for injustice and disorder in the society (ibid: 28).

Indeed, when a society overemphasizes the accumulation of wealth and financial success as its main cultural goals, individuals are pressured to attain these goals and remove all obstacles in their way regardless of the means they use, even if this entails corruption (Merton, 1938).

Nevertheless, explicit efforts of utilizing anomie as a theoretical and empirical tool in explaining corruption was first introduced by Cullen et al. (2004) and expanded later on by Martin et al. (2007). Cullen and his colleagues use institutional anomie theory to test the impact of several cultural values such as "achievement, individualism, universalism, and pecuniary materialism" and social institutions such as "economy, polity, family, and education" on the ethical behavior of managers, which includes "benefiting from government programs illegally, cheating on taxes, bribery" (2004: 412-415). Evidence is found that universalism and pecuniary materialism lead managers to justify their engagement in "ethically-suspicious behaviors", and that stronger family ties and higher educational levels decrease the propensity of managers to justify their actions (ibid:418).

Martin et al. (2007), in their seminal work on firms' decisions to bribe, take their previous effort (Cullen et al., 2004) into a new and more specific direction. First, they return to the foundations of anomie rather than constraining themselves to institutional anomie theory. Second, they use the firm as the level of analysis instead of focusing solely on manager's behavior; they thus, overcome difficulties stemming from stratification systems (see the discussion of institutional anomie theory in the previous section). Finally, unlike the previous paper they concentrate on the bribery activities of firms. In their multilevel analysis of bribery, they identify three cultural values, "achievement-orientation", "in-group collectivity", and "humane orientation", two social characteristics of political systems, "welfare socialism" and "political constraints", and two firm-level drivers, "financial constraints" and "competitive intensity" (Martin et al., 2007: 1404-1407). They find evidence supporting their hypotheses regarding both the negative impact of collectivism, social welfare, and political constraints and the positive effect of financial constraints and intense competitiveness on bribery level.

Anomie or Legitimacy?

It is important to mention here that legitimacy, as part of institutional theory, has been used as a theoretical framework for studying corruption in the MNC context (Kwok et al., 2006; Rodriguez et al., 2005; Uhlenbruck et al., 2006). The main argument here is that the MNC, when operating in a host country, has to gain legitimacy through abiding by the norms of its host country (Glynn & Abzug, 2002; Kostova & Roth, 2002). However, problems arise when certain notions such as corruption might be considered legitimate in some form within the host country. Weber (1947) identifies four methods for a political or administrative process (even if corrupt) to gain legitimacy. First is

tradition: the longer the process has been with the society the more legitimated and widely accepted it becomes. Second is *legality*: when a process is legal, then it automatically becomes legitimate. However, the problem with this method is that laws come from legislators, who in turn may be corrupt and selling legislation to an elite group than can afford it and benefit from it (Rose-Ackerman, 1978). Third is *emotional belief in a new process*: a wide acceptance of the political order/leader that set the new process awards the administrative process legitimacy. Fourth is *rational belief in the new process*: this is directed more at gaining legitimacy after evaluating the outcomes of the process (Scott, 1972: 19). Out of these methods, legitimacy through traditions and legality presents the major threat to MNCs. So some MNCs might view corruption as the only method to gain legitimacy and come into harmony with the government of a corrupt host country, following the rule that "the greater the corruption, the greater the harmony between corruptor and corruptee" (McMullen, 1961 in Leys, 1965: 219). In other words, it might choose one of several strategies ranging from compliance (entry and operation) to defiance (retreat) (Oliver, 1991; Ring et al., 1990; Rodriguez et al., 2005; Uhlenbruck et al., 2006).

Indeed, there are several similarities between the application of anomie and legitimacy theoretical frameworks when it comes to studying corruption. For example, one needs only to look at the parallels between Merton's "modes of adaptation" towards cultural goals and institutional means (1938) and Oliver's "strategic responses to institutional processes" (1991:152). Both of them discuss behavior towards the society ranging from conformity/acquiesce to rebellion/defiance. Additionally, it is argued that anomie is a state of "illegitimacy" where the rampant breakdown of norms on a large

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scale within the society (i.e. pervasive corruption) creates confusion regarding what is legitimate and what is not (Merton, 1964).

However, in the MNC context, legitimacy literature has two main limitations: i) it builds on the idea of conflicts between norms of different societies; and ii) it assumes that the corrupt transaction is initiated by the demand side (i.e. corrupt government of the host country).

Norms and Hypernorms

Sociologists argue that the human being has unlimited needs and desires that cannot be all pursued and that satisfaction cannot be attained. Thus, if individuals remain unchecked, they would be incapable of achieving their desires, as the more they have the more they want. Thus, an external force must interfere to limit and regulate individuals' passions and desires. This force is usually reflected in the norms advanced by society that have the authority to "stipulate law and set the point beyond which the passions must not go" (Durkheim, 1951: 249). The very basic type of norm comes from public opinion. Public opinion serves as a general guide to what is accepted by the majority and what is not. It also helps in the classification of individuals within social classes along with the expected merits, duties, and rewards for each class (ibid: 250). However, as mentioned earlier in defining corruption, public opinion may change over time, may be at odds among different parties in complex societies, and cannot guarantee individuals' compliance on its own (Durkheim, 1951; Scott, 1972). Thus ,other types of norms must arise to regulate the social structure. Merton suggests "institutional norms" as the means of regulating and governing the behavior of individuals within the society to achieve their desires or "cultural goals" (Merton, 1938: 673). He stresses the moral aspect of these

norms through clearly distinguishing between these norms and "technical and efficiency norms" as the latter may include unethical behavior (ibid: 673). Thus, scholars have agreed that legal norms are the most appropriate ones in governing individuals' behavior within societies (Leys, 1965; Rose-Ackerman, 1978; Scott, 1972; Theobald, 1990).

However, the picture changes completely when moving into the global context. Norms that are applied in one culture are frowned upon or even not valid in others (Scott, 1972). So how can MNCs operate in the global community without clear norms to guide their behavior? Donaldson and Dunfee (1994) provide the answer in the shape of "hypernorms [which] by definition, entail principles so fundamental to human existence that they serve as a guide in evaluating lower level moral norms. As such, we would expect them to be reflected in a convergence of religious, philosophical, and cultural beliefs, and, indeed, such convergence is a handy clue to use in attempting to specify hypernorms" (265). They give an example of gift-giving, which they do not believe breaks a hypernorm since it is not only prevalent in some cultures but rather mandatory; bribery on the other hand, has been considered as breaking the hypernorms (ibid). Thus, in theory, conflicts between norms in the global context should not exist. For example, if a bribery is demanded by a government of a corrupt host country from an MNC in exchange for the awarding a contract, the MNC compliance with the bribery demand cannot be justified in light of conflicting norms since bribery violates established hypernorms.

This approach has been criticized by many scholars who believe these comprehensive ethics are more of a "moral imperialism", and recognize the unfeasibility of enforcing such hypernorms (Bird et al., 2006: 6). Alternatively, they suggest an

interaction between common and local norms (ibid.). Nevertheless, corruption is one of the unique actions, which even if practiced by large and powerful groups within societies (e.g. underpaid public officials, politicians, bureaucrats) it has never been regarded as a normatively acceptable convention (Bird, 2006: 121). Following this argument, it can be shown that legitimacy's explanation for MNCs' engagement in corruption is not valid in this context since large developed nation-states such as OECD countries and supranational organizations such as the UN and the World Bank, in their efforts of setting anti-global corruption laws, have set a hypernorm of "anti-corruption", that should hold true regardless of the host country's norms.

For the second limitation, when used to explain corruption in the case of the MNC, legitimacy assumes that corrupt behavior, especially bribes, is solely initiated by the corrupt government and justifies MNCs' engagement in such behavior through the efforts of gaining legitimacy. It fails to account for the fact that the MNC itself might initiate and encourage bribes in order to achieve its own goals and exploit rare and lucrative opportunities. Thus, if one were to resort to legitimacy alone in explaining the corrupt behavior of the MNC, only half the story would be told. In conformity with the definition of corruption developed earlier which stressed the idea that either parties can initiate the transaction, anomie theory with several aspects of legitimacy provide a powerful explanatory tool to analyze the factors that drive the supply side (MNC) to engage in corruption.

The MNC and Anomie

When applying the anomie theoretical framework to corruption in the local firm context, it can be discussed from two angles; demand and supply. From the demand point

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

Nevertheless, the concern of this study is the supply side of corruption. Thus, firms faced with rigid laws, market uncertainty, weak legal protections, corrupt systems, lucrative opportunities, or stiff competition may be forced to break the norms and engage in corruption, and in some cases initiate the corrupt transaction.

Martin et al. (2007) applied anomie theory in the context of local firms in societies that emphasize performance and profitability ends, regardless of the legitimacy of means (Merton, 1938). They are able to explain the firm's decision to bribe in light of cultural values, social institutions, and the firm's-related constraints. Starting from the notion that firms in general may violate the social norms for achieving desirable ends (i.e. financial success), I build on their seminal model and expand the literature in two new directions. First, I apply anomie theory in the global context relating to the MNC's decision to bribe. Second, rather than relying on Merton's anomie theory of social institutions and cultural values, I draw from other sources of modern anomie theory

including Durkheim's and Srole's work that provide a better explanation for MNC actions.

I seek to identify what I call "antecedents of corruption", which I define as global opportunities and the host country-specific conditions that drive the MNC to engage in anomic deviant behavior (i.e. corruption) and risk breaking hypernorms and maybe obtain sanctions from the global community in order to exploit such opportunities.

So the main question is: Why do some MNCs that abide by the norms in their home countries break the norms and engage in corrupt behavior in other corrupt host countries?

The short answer is that in the state of globalization, desires and opportunities are unlimited, the stress on "worldly success" is more eminent (Merton, 1964:217), norms are multiple and many of the times conflicting, and anomie is "constant and,...normal" (Durkheim, 1951: 256).

Lucrative Opportunities

Globalization and development of global trade has liberated the desires of individuals and made them infinite (Durkheim, 1951). Numerous opportunities are present for the MNC to exploit and maximize profitability and financial success. Unfortunately, most of these opportunities cannot be exploited without engagement in corruption; this is either because they are usually tied to corrupt host countries or because their very nature encourage corruption. Wars, whether external or civil, economic reform programs in the absence of proper regulation, natural resource abundance in underdeveloped countries, and local government intervention in the economy that

restrains competition are all opportunities that would help MNCs maximize their benefits but at the same time almost definitely involve corruption (Ades et al., 1999; AlHussaini et al., 2009; Stiglitz, 2002; Stiglitz & Bilmes, 2008; Treisman, 2000; Walder, 2003).

Host Country Conditions

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

Ineffective Norms/Hypernorms

If the MNC can now reap benefits and increase its profits in a global context, the norms of its home country can no longer suppress its desires and aspirations. Even the various attempts mentioned earlier by developed nations and supranational organizations to set "hypernorms" against corruption has not been quite effective in restraining MNCs' desires since the monitoring of MNCs' activities is costly and enforcement of legal

sanctions is weak (Kaufmann, 2004). Thus, the risks of detection and punishment are minimized for the MNC.

CHAPTER 3: ANTECEDENTS OF CORRUPTION

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

3.1 Opportunities

Unfair Competitive Advantage

Firms usually strive to achieve a competitive advantage, especially in their groups or industries, in order to outperform competitors, protect their profits, or guarantee sustainable growth (Hitt, Ireland, Rowe, and Sheppard, 2005; Porter, 1996). However, not all firms possess the capacity to attain and sustain competitive advantage in their home market, especially if it's non-corrupt, and instead try to look for another country where they can achieve this advantage. MNCs fail to compete effectively in their home countries because of various reasons, including the lack of "equal access to the opportunity-structure" (Merton, 1964: 218) due to the availability of resources, strength of capital structure, and the severe competition over resources. Hence, it is argued that "the more unequal the opportunities, the higher the strain and, in consequence, the level of criminal offending" (Savolainen, 2000: 1022). Additionally, there is evidence that as firms face more constraints from competitors they seek to make up through illegal behavior such as bribery (Bliss et al., 1997; Martin et al., 2007). For example, as Lockheed was approaching the edge of bankruptcy in the early 1970s, its overseas

bribery activity was expanded in order to save its operations (Boulton, 1978). As anomie theory postulates, MNCs "who would not fare so well in an honest system" would be willing to engage in deviant behavior somewhere else (i.e. corrupt host country) and pay bribes to be able to compete with other firms (Rose-Ackerman, 1999: 185) or even drive them away from the market to achieve a monopoly (Velasquez, 1982). Moreover, in many cases the MNC's bribes abroad aid it in lowering its costs due to many loopholes in the anti-foreign corrupt laws that range from allowing "grease" money, to tolerating bribery in exchange of "government routine work", to even consider bribes paid abroad as tax-deductible (Rose-Ackerman, 1999). So not only the can MNC unfairly compete in the corrupt country, but it can also do so with someone else's money.

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

It is important to note that the MNC bribes to protect its position and competitive advantage will prompt new entrants also to pay bribes in order to gain entry to the market

(Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2002) which forces the MNC to either increase its bribes or to find another way to sustain its advantage.

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

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

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

Transitional Periods

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

These transitions are usually accompanied by dramatic social changes that according to anomie theory cause fast and vast erosion of norms and morals leaving the affected society in an almost normlessness state. Durkheim (1951) suggests that crises or disturbances in the equilibrium, although they might bring prosperity with them, often open the door for norm-breaking. Even though in most countries rules and regulations

are the norm governing individuals, many individuals may consider them unjust and when the transition occurs especially in the case of wars, these regulations are rendered worthless and anomie prevails (Durkheim, 1951: 252).

There are numerous events that qualify as transitional ones that affect the political, economic, and social status of a nation. However, wars and economic reforms have had the most impact on nations. Durkheim (1951) stresses that disruptions are not limited to crisis but also to a sudden influx of wealth and power which drives individuals to break the norms. For instance, the privatization process in Russia has changed the face of the country, created new billionaires, drained the state assets, allowed corrupt officials to gain incredible wealth in bribes, and changed the major economic players in the country (Stiglitz, 2002).

It is argued that privatization especially in transition economies characterized by weak governance leads to increased level of corruption (Kaufmann & Siegelbaum, 1997; Wu, 2005). Privatization, if not handled properly in terms of planning, regulations, timeframe, and monitoring, will lead to unfavorable results of social injustice, asset-strapping, economic inefficiency, and increased corruption (AlHussaini et al., 2009; Birdsall et al., 2003; Stiglitz, 2002; Walder, 2003).

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

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

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

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

Natural Resource Abundance

Natural resource endowment such as oil, gas, or minerals can open the door widely for corruption especially if they are under the direct control of corrupt governments (Mauro, 1997). From the demand side, Durkheim (1951) argues that "with increased prosperity desires increase" (p.253) which leads public officials who exert authority over such resources to exploit such opportunities and maximize their self-gain even if it resulted in breaking the norms and engaging in corruption.

Ades and Di Tella (1999) argue that in the case of natural resource endowment, corrupt bureaucrats tend to give some of their control over resources for firms in exchange for bribes. They found a positive relationship between the level of natural

resources and corruption. Similarly, Treisman (2000) found evidence that countries rich with natural resources have higher levels of corruption.

On the supply side, host countries that enjoy natural resources such as oil, gas, or mines provide very attractive investment opportunities for the rent-seeking MNC with abnormal return on investment (Mauro, 1997). Following Bliss and Di Tella (1997) discussion of "Surplus-shifting corruption" (1003), it can be argued that when the opportunity is so lucrative the MNC finds it better to pay bribes rather than lose the whole thing. Hence, even if exploiting these resources is fraught with corruption, MNCs are willing to engage in corrupt transactions in order to "obtain the concessions at low prices" and "[appropriate the rents] associated with the natural resources" (Stiglitz, 2002: 72).

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

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

3.2 Host Country Conditions

Law Rigidity

It has been mentioned earlier that one of the main causes of corruption is the rigidity of laws and regulations and how they force firms to cut around them (Rose-

Ackerman, 1999). Indeed, rigidity of laws and regulations with its adverse effects on the MNC's decision to enter a country or to continue its operations within it, negatively affect the economic development of the country. Hunington, 1986 expressed this point by stating that "in terms of economic growth, the only thing worse than a society with rigid...dishonest bureaucracy is one with rigid... honest bureaucracy" in (Bardhan, 1997: 1322).

Corrupt public officials usually resort to complicate the administrative process, create lots of red tape, withhold vital information on laws and regulations from the investors, or even manipulate the interpretation of laws and regulations in order to extract larger sums of bribes from affected firms (See Chapter 1, types of corruption). (Brunetti, Kisunko, & Weder, 1998) argues that when laws lack credibility it negatively affects economic growth and increases levels of corruption. In the same manner, "where corruption is arbitrary, laws and informal policies can be subject to capricious and varied interpretation" (Ahlstorm and Bruton, 2001 in Rodriguez et al., 2005).

Many managers of MNCs suggest that the lack of clear information regarding laws and regulations affecting their firms, in addition to discrepancies between the laws themselves and their interpretations force them to allocate part of their time to deal with public officials leading to inefficiency and negatively affecting firm performance. In various surveys it was found that up to 30% of managers' time is spent with public officials for various issues including inspections, taxes, licenses, etc. (Leys, 1965; Rose-Ackerman, 1999: 16).

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

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

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

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

Legal System Incompetence

The legal system is the main authority that the MNC resorts to in order to solve business disputes and protect its interests in the host country. It is argued that as the legal system becomes less efficient, suffers from longer judicial processes, lacks consistency and fairness, it becomes more infested with corruption (Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2003). La Porta, Lopez-De-Silanes, Shleifer, and Vishny (1998) in their seminal work on the civil vs. common legal systems mention that common law is better at protecting the interests of investors than civil law. Building on their work, Treisman (2000) has found evidence that countries with a common law system provide more effective legal systems and enjoy lower levels of corruption.

The absence of an honest and competent legal system aids in increasing corruption levels in two main dimensions. First, when the legal system is not independent and can be controlled by corrupt politicians, it decreases the risks for corrupt public officials of being sanctioned thus allowing for their corrupt activities to go unchecked (Jain, 2001). Second, the firms that lose faith in the legal system may look for other ways that might be illegal in order to protect their investments. Such is the case in Ukraine where public distrust of the legal system led them to resort to organized crime to provide a better protection for them (Shelley, 1998).

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

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

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

CHAPTER 4: DATA & METHODOLOGY

4.1 Data Sources

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

The BEEPS survey includes 74 questions with the purpose of understanding the various factors that constrain business development. These questions are distributed over ten sections aimed at evaluating the managers' views on corruption, effectiveness of laws and regulations and government policies, the competence of the judiciary system and law enforcement, the quality of public services, and bureaucracy and red tape and their

impact on the investment environment and their firms' performance (Enterprise Survey Website).

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

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

4.2 Sample Size

The research context is the MNC facing corruption in a host country. BEEPS 2005 survey asks respondents to state if their firm has foreign ownership its percentage. In order to restrict the sample to MNCs, all firms that do not have foreign ownership of at least 5% were eliminated from the sample. According to the literature, external parties that controls 5% and more of the shares are considered large blockholders, can control voting, affect the policies of the firm and the board, control compensations of CEOs and management, and are required by the law to disclose their shares (i.e. legally recognized as blockholders) (Core, Holthausen, and Larcker, 1999; Shleifer and Vishny, 1986; Wright, Ferris, Sarin, and Awasthi, 1996). Furthermore, all the cases that do not provide any data on any of the bribery variables (discussed below under dependant variable) were also eliminated. The final sample was 26 countries with 1014 MNCs. (see Appendix A for a full list of the countries).

4.3 Variables

Dependent Variable

MNC's Propensity to pay Bribes: In order to operationalize the MNC's engagement in corruption we follow the steps of Martin et al. (2007) in establishing a multiple-item measure out of the survey items that relate directly to the MNC's act of paying bribes in general and to obtain access to government services. Paying bribes measure is addressed in the survey by a direct question, "How common is it for firms in your line of business to pay irregular 'additional payments' to get things done?". Other measures deal with transactions that require bribes such as "public services, licenses and permits, dealing

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with taxes, securing government contracts, dealing with customs, and dealing with courts" (BEEPS2005 Survey). Principal components analysis (PCA) was conducted in order to construct the measure by choosing the components with the highest factor loading. PCA is one of the most effective methods in capturing the highest amount of information from the data while reducing the dimensions at the same time (Lattin, Carroll, & Green, 2003). Moreover, principal components analysis "has the advantage of eliminating multicollinearity when using the results in an analysis of dependence" (ibid: 84).

Upon running the analysis using seven variables[4], one measure was constructed that explained 57.41 of the variance, with high loadings from components. The multiple-item measure (MNC's propensity to pay bribes) was reliable with Cronbach's Alpha = .871. According to the literature, an alpha > .80 shows a high internal consistency among the items creating the factor (Ho, 2006; Nunnally, 1967). The resulting variable is a standardized one that ranges between -1.96446 and 4.43325 (see Appendix B for the full analysis).

Independent Variables

Anti-competitive behavior by local competitors: this variable was taken from BEEPS 2005 (check Appendix C for all variables derived from BEEPS). The survey asks managers to state how problematic the Anti-competitive behavior by competitors is to their operations and business growth.

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[4] The variables are: "How common is it to pay bribes", bribery to: "obtain licenses", "secure government contracts", "avoid taxes", "reduce customs", "deal with courts", and "affect laws".

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

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

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

Laws interpretations inconsistency/unpredictability: this reflects how interpretations of laws are perceived by managers to be predictable and consistent with the laws themselves. This variable is used from BEEPS 2005 survey which asks managers to state their opinion on the consistency and predictability of laws interpretations.

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

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

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

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

Below is a summary of the hypotheses, measures of independent variables and the data source for each variable.

Table 7. List of Hypotheses and Independent Variables

Hypothesis	Independent Variable	Level of Analysis	Data Source
H1a. Anti-competitive practices of MNC's local competitors are positively related to MNC's propensity to pay bribes	Anticompetitive practices by competitors	Firm	BEEPS 2005
H1b. Intense rivalry is positively related to MNC's propensity to pay bribes	Number of competitors	Firm	
H2. Privatization in host country is positively related to MNC's propensity to pay bribes	Dummy variable: Privatization in 2005=1 No privatization in 2005=0	Country	World Bank's Privatization Database
H3. Natural resource abundance is positively related to MNC's propensity to pay bribes	Percentage of natural oil/gas/minerals out of total exports	Country	UNcomtrade Database
H4a. Inconsistency/unpredictability of laws interpretations is positively related to MNC's propensity to pay bribes	Predictability and consistency of laws interpretations	Firm	BEEPS 2005

H4b. Manager's time spent dealing with laws and regulations is positively related to MNC's propensity to pay bribes	Percentage of manager's time spent on government bureaucracy	Firm	
H4c. Uncertainty of regulatory policies is positively related to MNC's propensity to pay bribes	Regulation uncertainty as an obstacle to MNCs operations and growth	Firm	
H5a. Malfunctioning of judiciary system is positively related to MNC's propensity to pay bribes	Functioning of judiciary as an obstacle to MNCs operations and growth	Firm	BEEPS 2005
H5b. Lack of legal protection is positively related to MNC's propensity to pay bribes	Protection of MNCs interests in legal disputes	Firm	BEEPS 2005

4.4 Analysis

4.4.1 Hierarchical Linear Modeling (HLM)

The proposed model is a cross-level model (Klein & Kozlowski, 2000; Rousseau, 1985) which means that "predictors on one level of analysis have an effect on a [...] lower level of analysis" (Klein et al., 2000:218). The model has two predictors on the country-level namely, privatization and natural resources, affecting the outcome at the MNC-level which includes the rest of the variables. Thus, in order to simultaneously estimate the effects of country and MNC-levels on the MNC propensity to bribe, we must resort to methods other than standard linear regression procedures such as Ordinary Least Squares (OLS) (Hofmann, 1997).

HLM has the advantage of simultaneously analyzing the relationship between level-1 predictors (i.e. MNC) within level-2 units (i.e. country) and analyze the effect of level-2 variables on the lower level variables (Hoffman et al., 2000 in Klein et al., 2000). HLM also differs from OLS in two major regards; first, unlike OLS which treats

predictors as fixed effects, HLM treats level-1 predictors as random effects that vary between groups. Second, HLM estimates the variance components (residuals) for each level separately while OLS treats the individual and group variance components as one (Hofmann & Gavin, 1998). Hence, Hierarchical Linear modeling (HLM) is the most appropriate procedure for this model.

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

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

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

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

$$\beta_{0j} = \gamma_{00} + \gamma_{01} * G_j + u_{0j} \qquad (2)$$
$$\beta_{1j} = \gamma_{10} + \gamma_{11} * G_j + u_{1j} \qquad (3)$$

where "$\gamma_{00}, \gamma_{01}, \gamma_{10}, \gamma_{10}$" are "second-stage intercept terms" which relate level-2 predictors to level-1 slopes and intercept (Hofmann, 1997:728). "G_j" represents level-2 predictors, and "u_{0j}, u_{1j}" are level-2 residuals.

4.4.2 Unconditional Model

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

$$MNCBRIBE = \beta_{0j} + r \tag{4}$$

$$\beta_0 = \gamma_{00} + u_0 \tag{5}$$

The variance component of level-1 and level-2 (i.e. residuals) were estimated using maximum likelihood estimation (Hofmann et al., 1998). These components are used to calculate the Intra-Class Correlation (ICC) which informs us of the degree to which the group has an effect on the outcome (Norusis, 2007; Stevens, 2007). In the proposed model, ICC can be interpreted as the proportion of the total variance in the MNC propensity to bribe that occurs between countries (Stevens, 2007:323). It can be calculated using the following equation:

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

where:

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

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

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

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

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

4.4.3 Intercepts-and-Slopes-as-Outcomes Model

In order to determine the number of estimated parameters, only level-1 predictors were entered into the model. Upon running the analysis it was determined that the intercept's variance component "τ_{00}" was statistically significant, which means that there is variability between countries, and level-2 variables can be entered into the equation to help explain this variability (Hofmann, 1997, SDSU website). On the other hand, of all the slopes' variance components "$\tau_{11} \rightarrow \tau_{77}$" only "$\tau_{22}$" and "$\tau_{66}$" were statistically significant and thus retained in the level-2 equations. Additionally, cross-interaction effects between level-2 and level-1 predictors were not statistically significant so they were removed from slopes equations (equations (3)) (Stevens, 2007).

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

$$MNCBRIBE = \beta_{0j} + \beta_1 * ANTCOMP + \beta_2 * COMPTNO + \beta_3 * LAWINTRP + \beta_4 * MNG \quad (7)$$

$$
\begin{aligned}
\beta_0 &= \gamma_{00} + \gamma_{01} * Priv + \gamma_{02} * NATRES + u_0 \\
\beta_1 &= \gamma_{10} \\
\beta_2 &= \gamma_{20} + u_2 \\
\beta_3 &= \gamma_{30} \\
\beta_4 &= \gamma_{40} \\
\beta_5 &= \gamma_{50} \\
\beta_6 &= \gamma_{60} + u_6 \\
\beta_7 &= \gamma_{70}
\end{aligned}
\quad (8)
$$

Level-1 independent variables are "ANTICOMP": Anti-competitive behavior of competitors, "COMPTNO": number of competitors, "LAWINTRP": Unpredictability of laws interpretations, "MNGTME": manager's time spent dealing with bureaucracy, "LAWUNCRT": uncertainty about laws and regulations, "JUDCRY": functioning of the judiciary, and "LAWPRTCT": legal protection of MNCs interests.

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

All level-1 predictors except "COMPTNO" and "MNGTME" were centered at the group- mean which is the country in this case in order to make interpretations more meaningful. For example, if the independent variable "LAWPRTCT" was centered around the country mean, then the intercept "β_0" would be interpreted as the MNC's propensity to bribe with an average perception of lack of law protection (Stevens, 2007). In accordance with previous research, it was found out that group-centered level-1 parameters yielded stronger results than uncentered parameters although "the pattern of results was the same"(Hofmann et al., 1998; Martin et al., 2007:1411). Because number of competitors and time spent by managers can still provide meaningful interpretations when they assume the value of zero, the decision was made to add them to the model uncentered. Similarly, level-2 parameters were added to the model uncentered since "Priv" is a dummy variable and may assume the value of zero and Natural resources abundance "NATRES" is a continuous variable, which still provides meaningful interpretations when assuming values of zero. However, it is important to mention that, in line with previous research, the results were identical between grand-centered and uncentered level-2 parameters(Martin et al., 2007).

Unlike linear regression models, it is not possible to obtain a single total explained variance "R^2" for the whole model in hierarchical linear models (Snijders & Bosker, 1994). Alternatively, "R^2" can be obtained for each level variance separately to reflect the explained between-group and within-group variance. The within-group explained variance can be obtained by comparing the error terms "σ^2" between the unconditional model (i.e. no level-1 predictors) and the restricted model (i.e. with level-1 predictors). It can be obtained by the following equation (Bryk & Raudenbush, 1992; Hofmann, 1997; Singer, 1998):

$$R^2_{level-1} = \frac{\left(\sigma^2_{unconditional} - \sigma^2_{Random\ regression}\right)}{\sigma^2_{unconditional}} \tag{9}$$

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

$$R^2_{level-2} = \frac{\left(\tau_{00-random\ regression} - \tau_{00-intercepts-as-outcomes}\right)}{\tau_{00-random\ regression}} \tag{10}$$

CHAPTER 5: RESULTS

In this chapter, descriptive statistics, cross-level correlations and hierarchical linear model results are reported. Presence or absence of support for the study hypotheses was summarized in Table 10.

5.1 Descriptive Statistics and Cross-Level Correlations

Table 8 presents the means, standard deviations and correlations for the variables used in the model in order to obtain cross-level correlations between country-level and MNC-level variables. Country-level variables (privatization and natural resources abundance) were assigned to each MNC within countries. Since number of MNCs within each group (i.e. country) varied among countries, it was important to weigh the variables in proportion to each country sample size. This was done in accordance with previous studies (Cullen et al., 2004; Martin et al., 2007). Table 8 shows significant positive correlations between the MNC propensity to bribe and all independent variables except for number of competitors where the correlation is positive but not statistically significant.

Table 8. Descriptive Statistics and Correlations[a]

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

[a] $N_{Level-1}$= 1014, $N_{Level-2}$= 26. **Refer to Appendix A for a full list of country names.**
* Correlations are significant at $p < .01$
** Correlations are significant at $p < .05$

5.2 Hierarchical Linear Model

Table 9 reports the results or the Hierarchical Linear model. Using equation (9) from the previous chapter, the MNC-level variables explained 12% of the variance within countries. Hypothesis 1a which assumes a positive effect of anti-competitive behavior by competitors on the MNCs propensity to bribe was supported. The number of competitors did not have a significant effect on the MNC bribery activity (γ_{00} =2.3, $p < .1$) although the relationship was positive as predicted, and Hypothesis 1b was not supported. Privatization has a significant positive effect on the MNC's propensity to pay bribes and Hypothesis 2 was supported. Hypothesis 3 postulates that Natural resources abundance has a positive effect on the MNCs propensity to pay bribes; this Hypothesis was also supported ($p < .05$).

Table 9. HLM Results for MNC's Propensity to Pay Bribes

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

[*] $p < .01$
[**] $p < .05$
[***] $p < .1$

Hypothesis 4a suggests that the unpredictability/inconsistency of laws interpretations have a positive effect on the MNC propensity to bribe; this effect was found positive and statistically significant and Hypothesis 4a is supported. Although the manager's time spent on dealing with public officials on rules and regulations had a positive relationship with the MNC's propensity to pay bribes as predicted, the effect was not statistically significant and Hypothesis 4b was not supported. The uncertainty regarding regulations affecting the MNC has a positive significant effect on the MNC propensity to pay bribes and Hypothesis 4c was supported. Hypothesis 5a suggested that manager's perception of judiciary system as an obstacle has a positive effect on the MNCs propensity to pay bribes. This Hypothesis was supported. Finally, lack of legal protection for MNCs interests has a positive significant effect on the MNCs propensity to pay bribes and Hypothesis 5b was supported. Table 10. summarizes the results of hypothesis testing.

Table 10. Summary of Hypothesis-testing Results

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

CHAPTER 6: DISCUSSION & CONCLUSION

6.1 Implications

Although corruption has been studied in the literature for over 45 years, the phenomenon is still elusive to both scholars and practitioners (Clinard, 1964; Greenstone, 1966; Leys, 1965; Wertheim, 1964; Wraith et al., 1963). During the past decade, many researchers have started to introduce different perspectives, new theories, innovative methodologies in order to advance the study of corruption (Ashforth et al., 2008; Cullen et al., 2004; Martin et al., 2007; Uhlenbruck et al., 2006). In order for us to fully understand the corruption phenomenon, it is time to make the shift from country-level to firm-level (Ashforth et al., 2008), which is the main player in the process.

The main purpose of this study is to utilize the rich literature of anomie theory in identifying the host country-related antecedents that encourage multi-national corporations to break the global hypernorm of anti-corruption and pay bribes.

This research extends the literature on corruption on three ends. First, it departs from the conventional perspective of studying corruption from the demand side to study it from the supply side. Since adopting the demand side perspective is only telling half the story, this model has stressed the supply side (i.e. MNC) role in the corruption/bribery process.

Second, this study uses anomie theory rather than institutional theory or legitimacy literature. Anomie theory has two advantages over legitimacy literature in explaining corruption; it acknowledges "anti-corruption" as a global hypernorm that cannot be considered legitimate regardless of the society local norms (Donaldson et al., 1994), and it takes into consideration the supply-side as the potential initiator of

corruption. Third, it uses the firm as the level of analysis in contrast to using the country as a level of analysis. Due to the lack of reliable firm-level data on corruption in the last century, researchers were limited to country level indices such as CPI and BI (see Chapter 1 for details on corruption measures). However, this study managed to employ recent firm-level surveys on corruption such as WBES2000 and BEEPS 2002 in order to advance our understanding of the phenomenon at a more meaningful level.

Furthermore, this study has managed to extend the supply-side/anomie theory direction started by Cullen, Parboteeah, & Hoegl (2004) and continued by Martin, Cullen, Johnson, & Parboteeah (2007) in addition to three substantial dimensions. First, instead of studying local firms it uses the MNC as the research context because of the unique characteristics that sets it apart from local firms and makes it an interesting subject for the application of anomie theory. Unlike the local firms that operate under one set of norms, MNCs by definition operate under different norms and it is intriguing to understand how the MNC would react to contradicting norms (see chapter 2 for details). Second, unlike Martin et al. who only use Merton's notion of anomie stemming from interplay between "institutional norms" and "cultural goals" (1938: 673), other sources of modern anomie theory are used including Durkheim (1951, 1984) and Srole (1956) that provide a better context for studying the MNC actions. Durkheim's notions of transitions creating normless status, the effect of sudden influxes of wealth on individual desires, coupled with Srole's findings regarding insecurity and lack of justice impact on society's behavior in addition to Merton's concept of ends justifying means are combined to provide a profound analysis of the MNC propensity to bribe in a foreign country. Finally, instead of studying corruption causes stemming from the home country of the firm, antecedents

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

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

Although the quality of action (i.e. competitors behavior) had a significant impact on the MNC decision to bribe, quantity did not have the same effect. Martin et al. (2007) found a significant effect of rivalry intensity (measured by number of competitors in main firm's product market) on firm bribery activity; however, the case was not the same for MNCs. Neither correlation nor HLM showed a significant relationship between number of competitors and MNC's propensity to bribe. Nevertheless, the relationship

between the two variables was positive as hypothesized (see tables 8 and 9). In measuring

the "number of competitors" variable, managers were asked to state the number of

competitors in the national market. This approach may have entailed two disadvantages:

i) although our research context is the MNC and one would assume that MNCs would

compete nationally in a host country, still national competitors may not constitute a direct

threat as much as the local ones; ii) the competitors were identified in general and not in

the strategic group of the MNC (i.e. main product or service line). This may also have

weakened the effect of those competitors on the MNC propensity to bribe.

Another attractive opportunity that had significant impact on the MNC's decision

to engage in corruption was transitional periods. Privatization, chosen as an indicator of

transitions had the strongest significant impact on the MNC propensity to bribe. This

finding supports implications stressed in the literature on both anomie and privatization.

First, in line with anomie theory, disturbances in equilibrium or a sudden influx of wealth

and power in a society or a group due to transitions create the ideal setting for norm-

breaking behavior (Durkheim, 1951). Thus, this study shows that privatization which in

nature changes the distribution of wealth and power indeed attracts many MNCs to break

the norms in order to reap maximum benefits. Second, in line with privatization literature,

"big bang" or "shock therapy" privatization which is usually prescribed for developing

countries already suffering from weak governance, encourages foreign investors such as

MNCs to engage in bribery in order to achieve higher gains (Hoff & Stiglitz, 2004;

Stiglitz, 2002). Indeed, this study supports what the majority of privatization literature

postulates: that privatization, if not handled properly, will almost always open the door

for corruption and its adverse effects such as inequality of distribution, undervaluation of

SOEs, and asset-stripping (AlHussaini et al., 2009; Birdsall et al., 2003; Kaufmann et al., 1997).

Natural resources abundance constitutes the final lucrative opportunity that had a significant impact on the MNCs propensity to pay bribes. This finding falls in line with previous studies which found evidence that higher levels of natural resources had a positive impact on the overall level of corruption (Ades et al., 1999; Mauro, 1997; Treisman, 2000). Most importantly, our model shed light on the strength of anomie theory in explaining the relationship between the two phenomena from both supply and demand side. From the demand side, our model supports Durkheim's (1951) proposition that increased prosperity leads to increased desires which in turn justifies (in the individual's own opinion) norms-breaking. On the other hand, MNCs that desire to achieve profitable ends through the exploitation of the host country resources at the lowest cost possible are willing to break the norms and pay bribes rather than jeopardizing the whole opportunity (Bliss et al., 1997; Merton, 1964). In relation to the latter point, our model takes the effect of natural resources on corruption in a new interesting direction. By using CPI which mainly measures the government level of corruption, previous research established the resources abundance effect on resources owners (Treisman, 2000). However, this research stresses the point that MNCs as much as governments are affected by the abundance of resources and may initiate the corrupt transaction by using firm-level analysis. This contributes to our understanding that MNCs may initiate bribes themselves in order to exploit resources at a lower cost, even if the governments may not demand them (Stiglitz, 2002).

In addition to opportunities that may create a state of normlessness or encourage the MNC to engage in the anomic behavior of corruption, MNCs may face certain conditions in host countries that may threaten the MNC performance, growth, and interests in general. Our model found evidence that laws rigidity have a significant positive impact on the MNC bribery activity. This finding provides empirical support for previous studies suggesting adverse effects of bureaucracy and red tape on corruption (Bardhan, 1997; Brunetti et al., 1998; Coate et al., 1999; Rose-Ackerman, 1999).

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

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

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

The time senior managers spent with public officials regarding interpretation and application of laws and getting/maintaining access to public services had a positive impact on the MNC's propensity to pay bribes. Nevertheless, contrary to our hypothesis, the effect was not significant. This could be attributed to two reasons. First, the survey

asks specifically about the time spent by senior management, and in many cases senior management rarely deals directly with public officials. It is usually handled by middle management or outsourced to specialized local agencies that can do the negotiations (Boddewyn, 1988; Rodriguez et al., 2005). In order to get more meaningful results, future surveys could be amended to ask about the resources dedicated to handle public officials (e.g. different-level-management time, costs of outsources agents, etc.). Second, the survey sets the past 12 months (in 2005) as the timeframe for spending time on laws interpretations. It could be argued that the year 2005 did not present too many laws and regulations that directly affect the MNC. Since it is unfeasible to control for this variable (number of regulations affecting the MNC enacted in 2005), future surveys could ask management to state the average time spent annually on dealing with laws applications and interpretations.

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

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

6.2 Limitations

Data sources had some shortcomings that, if resolved, may enhance the overall findings of the study.

The sample used for the study consists of 26 developing Eastern European countries and some Asian countries. The majority of these countries share similar economic, political and even cultural conditions. For future research it would be more interesting to add MNC from other developing countries that differ in terms of their economic standings and views regarding corruption, examples include MENA (Middle East and North Africa), and Latin American countries. This would further enrich the study and strengthen generalization of our findings.

The elimination of all firms that do not have foreign ownership has reduced the sample size considerably. Moreover, the data had many missing values for major variables (e.g. bribery) that could not be imputed and required further elimination. Thus, the overall sample was reduced from 8,000 to 1,000 cases. The main reason for missing data is that questions regarding bribery and corruption are only one part out of five (see chapter 4 for data sources), thus missing data on bribery items could go unnoticed. A

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

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

In line with criticisms faced by other well known corruption measures, BEEPS provides a measure of "perceived" rather than "actual" corruption. The questions directed towards executives ask them to report their perception of bribery in their line of business in general. Some may argue that this perception might be interpreted as a bias rather than reality which may affect generalizability. However, as mentioned earlier BEEPS/WBES show high correlations with various well-established measures such as CPI (Martin et al., 2007) and even if this correlation "might indicate..a widely shared bias...it is a bias that seems to be shared by the populations of the countries studied" because responses of local and expatriate managers and businesspeople are highly correlated with those of "risk analysts and country experts" (Treisman, 2000:411-412). The other point concerning the corruption measures in BEEPS is that they do not report the size and

frequency of the bribes which the respondents mention. However, in a recent study, Uhlenbruck et al. (2006) manage to extract variables from WBES/BEEPS that correspond directly to "pervasiveness" and "arbitrariness" of corruption (Rodriguez et al., 2005). By using principal component analysis they were able to identify six variables that load highly on pervasiveness and three that load heavily on arbitrariness (p.412) . These findings show that the data source actually is capable of measuring these dimensions of corruption in order to distinguish between the different types of corruption (e.g. bribery vs. grease money).

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

6.3 Future research

Although this study adds to our understanding of the MNC bribery activity in a foreign country, it constitutes the foundation for an ambitious research program aimed at furthering our knowledge of the corruption phenomenon. In this regard, two sets of implications for future research have been identified. The first one discusses future

venues for research on the topic in general; the other set discusses implications specific to our model.

General implications

This research is concerned with host-country-related antecedents that affect the MNC's propensity to pay bribes. However, it is important to take into consideration the effect of the MNC's home country on its response to host countries' opportunities and conditions. Martin et al. (2007) have concentrated their attention on the home-related effects of bribery activity; they discussed variables such as cultural values, welfare socialism, and political constraints on the firms' bribery activity. However, their context was the local firm operating in its home country. Other scholars have attempted to measure home country effect, specifically anti-foreign corruption laws, on the MNC bribery activity abroad (Cuervo-Cazurra, 2006; Henisz, 2000; Hines, 1995; Smarzynska et al., 2000; Wei, 2000). However, our interest is in future research that studies the combined effects of home and host countries on the MNC propensity to pay bribes. In addition to the abovementioned home country effects, (AlHussaini, 2006) identifies two other conditions that might affect the MNC decision to bribe aboard: i) if the "MNC's activities are subject to scrutiny in its home country" (e.g. health- or environmental-hazardous), and ii) if it is "burdened by strict legislations and active non-governmental movements" (e.g. watchdog groups) (5). This direction will build on our model and expand our view to encompass both sources affecting the MNC's decisions.

Our findings are the first step in studying the corruption phenomenon with the main target of coming with remedies to combat it. A typical future direction will deal with deterrents to corruption. In addition to anti-corruption laws that have been discussed

earlier (see chapter 2), a comprehensive model needs to take into consideration internal deterrents. Using country-level data Wu, (2005) suggests that effective governance mechanisms such as board of directors accountability and higher standards of financial disclosure have a negative impact on the levels of corruption. Similarly, AlHussaini (2005) proposes well-defined codes of ethics as an internal deterrent to corruption. A future study that uses firm-level data in order to test the effect of various deterrents on the MNC's propensity to pay bribes will definitely be an important step in determining the most effective remedies and solutions for combating bribery.

Specific implications

A future research might strive to improve on the variables used in the current study. Instead of using the number of national competitors and its effect on the MNC's propensity to bribe, competitors can be narrowed down to those in the same strategic group as the MNC (i.e. its main product or service line). Moreover, another variable can be used to check the intensity of rivalry on the MNC's bribery activity. BEEPS asks MNCs to state the number of competitors currently and 36 months ago. A future research can create a variable representing the change in rivalry intensity over three years and test its effect on MNC's bribery activity. These two considerations may provide significant predictions of the MNC actions.

Our model found a significant effect of the existence of privatization on the MNC's propensity to pay bribes. A future study could expand in this direction and add more variables in order to obtain more meaning of the relationship between privatization and bribery. First, the amount of privatization can be used as an indicator for corruption. Additionally, since some industries (e.g. telecommunications, oil) are more attractive for

private investors than others, this concentrated interest turns the privatization process into a very intensive rivalry. A future study can control for the sector or industry being privatized and test its effect on the MNC's bribery activity. Second, it is important to check the effect of the privatization type on MNC's corruption. On one hand, gradual privatization allows for more control over the process by regulatory bodies (AlHussaini et al., 2009), thus minimizing the opportunity for corruption. On the other hand, "big bang" or "shock therapy" privatization open the door for both public officials and investors to engage in corruption (Stiglitz, 2002).

Finally, another variable can be used to strengthen the effect of transitional period on the MNC's propensity to pay bribes. Wars are recognized as one of the most important transitions that create a disturbance in the political, economical, and social norms (Stiglitz et al., 2008). Moreover, they are usually accompanied by absence of rule of the law and high levels of corruption (Hedgepeth, 2007) (Halliburton Watch website; AlterNet Website). A future study can choose a different sample of countries of which a reasonable number have witnessed wars in the year of analysis and test its effect (a dummy variable) on the MNC's decision to bribe. It must be taken into consideration that wars take place over a long period of time (e.g. wars on Iraq and Afghanistan), and in order to test its full effect one must use longitudinal analysis.

6.4 Conclusion

This research has managed to identify unfair competitive advantage, transitions, natural resources abundance, laws rigidity, and legal system incompetence as the antecedents of corruption that prompt the MNC to break the hypernorms and engage in

the anomic behavior of corruption in a host country. These findings have significant implications for the MNC, governments of host countries, governments of home countries, and supranational organizations.

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

Government of host countries that are keen on economic development would use these findings as tools to interpret the signals they are sending to MNC all over the world. By continuing to have bureaucracy, red-tape, incompetent legal system, governments are sure to repel MNCs that oppose paying bribes and attract MNCs that are ready to bribe their way through the system to protect their interests and remove obstacles. If the host countries fail to realize these signals they will end up with pervasive corruption that leads to the devastating consequences of reduction in FDI, economic decline, and deterioration of the system (see chapter 1 or detailed discussion).

As it mentioned in chapter 2, it is costly for home countries governments and supranational organizations to monitor MNCs' operations abroad and detect corruption activities. Our findings help those bodies to determine where to concentrate their

monitoring efforts. MNCs operating in countries with natural resources abundance are more likely to pay bribes than MNCs operating in less resources-endowed countries. This saves resources for governments and supranational organizations and may aid in increasing the efficiency of anti-foreign bribery laws.

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

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APPENDICES

Appendix A. Countries used in Study from BEEPS 2005

Country Code (BEEPS)	Country Name
1	Macedonia
2	Serbia
3	Albania
4	Croatia
5	Turkey
6	Bosnia
7	Slovenia
8	Poland
9	Ukraine
10	Belarus
11	Hungary
12	Czech
13	Slovak
14	Romania
15	Bulgaria
16	Moldova
17	Latvia
18	Lithuania
19	Estonia
20	Georgia
21	Armenia
22	Kazakhstan
23	Azerbaijan
26	Russia
28	Kyrgiz
33	Greece

Appendix B. Principal Components Analysis

Total Variance Explained

Compo nent	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.019	57.414	57.414	4.019	57.414	57.414
2	.816	11.652	69.066			
3	.524	7.489	76.555			
4	.480	6.860	83.415			
5	.440	6.286	89.702			
6	.380	5.426	95.128			
7	.341	4.872	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component
	1
Common to Pay Bribes	.672
Bribe-License	.796
Bribe-Government Contract	.731
Bribe-Taxes	.809
Bribe-Customs	.794
Bribe-Courts	.789
Bribes-Laws	.702

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Reliability Statistics

Cronbach's Alpha	N of Items
.871	7

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MNC Propensity to Pay Bribes	1014	-1.96446	4.43325	.0000000	1.00000000
Valid N (listwise)	1014				

The variable can be categorized similar to the seven variables that comprise it from "1" to "6" as follows:

MNCs propensity to pay bribes "Y" as categorical variable

Category		Value Range
1	Never	$-1.96 \leq Y < -0.89$
2	Seldom	$-0.89 \leq Y < .17$
3	Sometimes	$.17 \leq Y < 1.24$
4	Frequently	$1.24 \leq Y < 2.3$
5	Usually	$2.3 \leq Y < 3.37$
6	Always	$3.37 \leq Y \leq 4.44$

Appendix C. BEEPS 2005 Survey Questions

MNC Propensity to Pay Bribes

Q.39	Thinking about officials, would you say the following statements are always, usually, frequently, sometimes, seldom or never true?

	Never	Seldom	Sometimes	Frequently	Usually	Always	
"It is common for firms in my line of business to have to pay some irregular "additional payments/gifts" to get things done " with regard to customs, taxes, licenses, regulations, services etc	1	2	3	4	5	6	Don't know

Q.41	Thinking now of unofficial payments/gifts that a firm like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes

	Never	Seldom	Sometimes	Frequently	Usually	Always	Don't know
To obtain business licenses and permits	1	2	3	4	5	6	7
To obtain government contracts	1	2	3	4	5	6	7
To deal with taxes and tax collection	1	2	3	4	5	6	7
To deal with customs/imports	1	2	3	4	5	6	7
To deal with courts	1	2	3	4	5	6	7
To influence the content of new legislation rules decrees etc.	1	2	3	4	5	6	7

Anti-Competitive Practices

Q.54t	Can you tell me how problematic are these different factors for the operation and growth of your business.				
	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Don't Know
Anti-competitive practices of other competitors	1	2	3	4	5

Number of Competitors

Q.12c	Please give me the exact number of your competitors in the national market

Laws Interpretation Inconsistency/Unpredictability

Q.34	To what degree do you agree with the following statements?

Strongly disagree	Disagree in most cases	Tend to disagree	Tend to agree	Agree in most cases	Strongly agree	Don't know
Interpretations of the laws and regulations affecting my firm are consistent and predictable	1	2	3	4	5	6	7

Management Time Spent with Public Officials

Q.35a	What percent of senior management's time over the last 12 months was spent in dealing with public officials about the application and interpretation of laws and regulations and to get or to maintain access to public services?

Laws Uncertainty

Q.54n	Can you tell me how problematic are these different factors for the operation and growth of your business.				
	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Don't Know
Uncertainty about regulatory policies	1	2	3	4	5

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Judiciary System

Q.54p	Can you tell me how problematic are these different factors for the operation and growth of your business.				
	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Don't Know
Functioning of the judiciary	1	2	3	4	5

Legal Protection

Q.28	To what degree do you agree with this statement? "I am confident that the legal system will uphold my contract and property rights in business disputes".

Strongly disagree	Disagree in most cases	Tend to disagree	Tend to agree	Agree in most cases	Strongly agree	Don't know
1	2	3	4	5	6	7

Appendix D. HLM analysis
Model Equations

$$Y_{ij} = \beta_{0j} + \beta_{1j} * X_{ij} + r \qquad \text{(1) Level-1}$$

$$\beta_{0j} = \gamma_{00} + \gamma_{01} * G_j + u_{0j} \qquad \text{(2) Level-2 Intercept}$$
$$\beta_{1j} = \gamma_{10} + \gamma_{11} * G_j + u_{1j} \qquad \text{(3) level-2 Slopes}$$

$$MNCBRIBE = \beta_{0j} + r \qquad \text{(4) Unconditional Model}$$
$$\beta_0 = \gamma_{00} + u_0 \qquad \text{(5)}$$

$$\rho_{ICC} = \frac{\tau_{oo}}{(\tau_{00} + \sigma^2)} \qquad \text{(6) Intraclass correlation}$$

$$MNCBRIBE = \beta_{0j} + \beta_1 * ANTCOMP + \beta_2 * COMPTNO + \beta_3 * LAWINTRP + \beta_4 *$$
$$MNGTME + \beta_5 * LAWUNCRT + \beta_6 * JUDCRY + \beta_7 * LAWPRTCT + r \qquad \text{(7)}$$

$$\beta_0 = \gamma_{00} + \gamma_{01} * Priv + \gamma_{02} * NATRES + u_0 \qquad \text{(8)}$$
$$\beta_1 = \gamma_{10}$$
$$\beta_2 = \gamma_{20} + u_2$$
$$\beta_3 = \gamma_{30}$$
$$\beta_4 = \gamma_{40}$$
$$\beta_5 = \gamma_{50}$$
$$\beta_6 = \gamma_{60} + u_6$$
$$\beta_7 = \gamma_{70}$$

$$R^2_{level-1} = \frac{\left(\sigma^2_{unconditional} - \sigma^2_{Random\,regression}\right)}{\sigma^2_{unconditional}} \qquad \text{(9) Explained variance}$$

$$R^2_{level-2} = \frac{\left(\tau_{00-random\,regression} - \tau_{00-intercepts-as-outcomes}\right)}{\tau_{00-random\,regression}} \qquad \text{(10)} \qquad \text{Explained}$$
variance

Appendix E. HLM analysis- Unconditional Model

Summary of the model specified (in equation format):
Level-1 Model

$$Y = B0 + R$$

Level-2 Model
$$B0 = G00 + U0$$

Final estimation of fixed effects (with robust standard errors)

Fixed Effect	Coefficient	Standard Error	T-ratio	Approx. d.f.	P-value
For INTRCPT1, B0					
INTRCPT2, G00	2.482505	0.070107	35.410	25	0.000

Final estimation of variance components

Random Effect		Standard Deviation	Variance Component	df	Chi-square	P-value
INTRCPT1,	U0	0.33627	0.11308	25	149.15227	0.000
level-1,	R	0.78134	0.61048			

Appendix F. HLM analysis- Random Coefficient Model-All level2 residual

Summary of the model specified (in equation format)

Level-1 Model

$$Y = B0 + B1*(ANTICOMP) + B2*(COMPTNO) + B3*(LAWINTRP) + B4*(MNGTME) + B5*(LAWUNCRT) + B6*(JUDCRY) + B7*(LAWPRTCT) + R$$

Level-2 Model
>   B0 = G00 + U0
>   B1 = G10 + U1
>   B2 = G20 + U2
>   B3 = G30 + U3
>   B4 = G40 + U4
>   B5 = G50 + U5
>   B6 = G60 + U6
>   B7 = G70 + U7

Final estimation of fixed effects (with robust standard errors)

Fixed Effect	Coefficient	Standard Error	T-ratio	Approx. d.f.	P-value
For INTRCPT1, B0					
INTRCPT2, G00	2.437593	0.067159	36.296	25	0.000
For ANTICOMP slope, B1					
INTRCPT2, G10	0.054233	0.021851	2.482	25	0.020
For COMPTNO slope, B2					
INTRCPT2, G20	0.000788	0.001650	0.477	25	0.637
For LAWINTRP slope, B3					
INTRCPT2, G30	0.037809	0.014653	2.580	25	0.016
For MNGTME slope, B4					
INTRCPT2, G40	0.004272	0.003276	1.304	25	0.204
For LAWUNCRT slope, B5					
INTRCPT2, G50	0.059184	0.029961	1.975	25	0.059
For JUDCRY slope, B6					
INTRCPT2, G60	0.093932	0.035536	2.643	25	0.014
For LAWPRTCT slope, B7					
INTRCPT2, G70	0.036378	0.016673	2.182	25	0.039

Final estimation of variance components:

Random Effect		Standard Deviation	Variance Component	df	Chi-square	P-value
INTRCPT1,	U0	0.30975	0.09594	24	66.22268	0.000
ANTICOMP slope,	U1	0.05257	0.00276	24	17.59009	>.500
COMPTNO slope,	U2	0.00585	0.00003	24	35.83258	0.057
LAWINTRP slope,	U3	0.03074	0.00095	24	16.80992	>.500
MNGTME slope,	U4	0.01150	0.00013	24	31.77382	0.133
LAWUNCRT slope,	U5	0.09439	0.00891	24	32.81470	0.108
JUDCRY slope,	U6	0.12486	0.01559	24	33.72293	0.090
LAWPRTCT slope,	U7	0.05470	0.00299	24	21.91606	>.500
level-1,	R	0.71901	0.51698			

Appendix G. HLM analysis- Random Coefficient Model

Summary of the model specified (in equation format)

Level-1 Model

Y = B0 + B1*(ANTICOMP) + B2*(COMPTNO) + B3*(LAWINTRP) +
B4*(MNGTME) + B5*(LAWUNCRT) + B6*(JUDCRY) + B7*(LAWPRTCT) + R

Level-2 Model

        B0 = G00 + U0
        B1 = G10
        B2 = G20 + U2
        B3 = G30
        B4 = G40
        B5 = G50
        B6 = G60 + U6
        B7 = G70

Final estimation of fixed effects (with robust standard errors)

Fixed Effect	Coefficient	Standard Error	T-ratio	Approx. d.f.	P-value
For INTRCPT1, B0					
INTRCPT2, G00	2.457680	0.073478	33.448	25	0.000
For ANTICOMP slope, B1					
INTRCPT2, G10	0.055134	0.021169	2.604	1006	0.010
For COMPTNO slope, B2					
INTRCPT2, G20	0.000867	0.001887	0.460	25	0.649
For LAWINTRP slope, B3					
INTRCPT2, G30	0.034670	0.015673	2.212	1006	0.027
For MNGTME slope, B4					
INTRCPT2, G40	0.002467	0.003253	0.758	1006	0.448
For LAWUNCRT slope, B5					
INTRCPT2, G50	0.062665	0.028588	2.192	1006	0.028
For JUDCRY slope, B6					
INTRCPT2, G60	0.088015	0.040233	2.188	25	0.038
For LAWPRTCT slope, B7					
INTRCPT2, G70	0.047612	0.017980	2.648	1006	0.009

Final estimation of variance components:

Random Effect		Standard Deviation	Variance Component	df	Chi-square	P-value
INTRCPT1,	U0	0.35004	0.12253	25	130.25976	0.000
COMPTNO slope,	U2	0.00648	0.00004	25	46.32066	0.006
JUDCRY slope,	U6	0.15238	0.02322	25	53.93253	0.001
level-1,	R	0.73524	0.54058			

Appendix H. HLM analysis- Intercept-as-outcomes Model

Summary of the model specified (in equation format)

_____

Level-1 Model

$$Y = B0 + B1*(ANTICOMP) + B2*(COMPTNO) + B3*(LAWINTRP) + B4*(MNGTME) + B5*(LAWUNCRT) + B6*(JUDCRY) + B7*(LAWPRTCT) + R$$

Level-2 Model

    B0 = G00 + G01*(PRIV) + G02*(NATRES) + U0
    B1 = G10
    B2 = G20 + U2
    B3 = G30
    B4 = G40
    B5 = G50
    B6 = G60 + U6
    B7 = G70

Final estimation of fixed effects (with robust standard errors)

Fixed Effect	Coefficient	Standard Error	T-ratio	Approx. d.f.	P-value
For INTRCPT1, B0					
INTRCPT2, G00	2.296047	0.120939	18.985	23	0.000
PRIV, G01	0.240547	0.123303	1.951	23	0.063
NATRES, G02	0.004147	0.001690	2.454	23	0.022
For ANTICOMP slope, B1					
INTRCPT2, G10	0.054808	0.021151	2.591	1004	0.010
For COMPTNO slope, B2					
INTRCPT2, G20	0.000745	0.001888	0.394	25	0.696
For LAWINTRP slope, B3					
INTRCPT2, G30	0.033823	0.015646	2.162	1004	0.031
For MNGTME slope, B4					
INTRCPT2, G40	0.002486	0.003214	0.773	1004	0.440
For LAWUNCRT slope, B5					
INTRCPT2, G50	0.063130	0.028629	2.205	1004	0.028
For JUDCRY slope, B6					
INTRCPT2, G60	0.094915	0.039739	2.388	25	0.025
For LAWPRTCT slope, B7					
INTRCPT2, G70	0.048474	0.017823	2.720	1004	0.007

Final estimation of variance components:

Random Effect		Standard Deviation	Variance Component	df	Chi-square	P-value
INTRCPT1,	U0	0.34503	0.11904	23	126.21325	0.000
COMPTNO slope,	U2	0.00641	0.00004	25	46.36812	0.006
JUDCRY slope,	U6	0.15030	0.02259	25	53.67352	0.001
level-1,	R	0.73485	0.54001			