

**2024년 한국국제경영학회 추계학술대회**

**Private Corruption, Public Corruption and the Ownership  
Structure of Foreign Subsidiaries: the Moderating Effects of  
Institutional distance and Policy Stability**

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# Table of Contents

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- 1. Introduction
- 2. Background and Hypotheses Development
  - 2.1 Public corruption and Ownership Structure
  - 2.2 Private corruption and Ownership Structure
  - 2.3 The Moderating Effect of Institutional Distance
  - 2.4 The Moderating Effect of Policy Stability
  - 2.5 Research Model
- 3. Research Methods
  - 3.1 Sample and Data Collection
  - 3.2 Variables and Measurements
- 4. Empirical Results
  - 4.1 Host Countries Distribution
  - 4.2 Summary Statistics
  - 4.3 Logistic Regression Analysis
  - 4.4 Robustness Check
- 5. Discussion and Conclusions

# 1. Introduction (Research starting point for academic learning: Key paper)

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ORIGINAL PAPER



## Private Sector Corruption, Public Sector Corruption and the Organizational Structure of Foreign Subsidiaries

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### Abstract

Corporate anti-corruption initiatives can make a substantial contribution towards curtailing corruption and advancing efforts to achieve the United Nations' Sustainable Development Goals. However, researchers have observed that underdeveloped assumptions with respect to the conceptualization of corruption and how firms respond to corruption risk impeding the efficacy of anti-corruption programs. We investigate the relationship between the perceived level of corruption in foreign host countries and the organizational structure of subsidiary operations established by multinational corporations (MNCs). Foreign host market corruption is disaggregated into two components—private and public corruption. We employ an uncertainty-based perspective grounded in transaction cost theory to focus upon the distinct mechanisms through which private and public corruption can each be expected to impact a foreign subsidiary's organizational structure [wholly-owned subsidiary (WOS) or a joint venture (JV) with a local partner]. We expect that each type of corruption fosters a different type of uncertainty (environmental or behavioral) which predominates in shaping the MNC's choice of foreign subsidiary investment structure. Hypotheses are developed and tested with a sample of 187 entries into 19 foreign host markets. Each type of corruption was found to exert a distinct effect upon the organizational structure of foreign subsidiaries. More precisely, while heightened perceived levels of public corruption were found to motivate MNCs to invest through a JV with a local partner rather than a WOS, more pronounced private corruption precipitated the opposite outcome.

**Keywords** Corruption · Uncertainty · Multinational corporations · Foreign subsidiaries · Organizational structure

# 1. Introduction

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- ▶ IB researchers have investigated the relationship between host market corruption and the equity-based foreign entry strategies of multinational enterprises (MNEs). Prior studies proposed that corruption is an important determinant of the equity-based ownership decisions of foreign-investing MNEs (Rodriguez et al., 2005; Uhlenbruck et al., 2006; Sartor & Beamish, 2018; Sartor & Beamish, 2020).
- ▶ MNEs may invest through a local firm whose knowledge and network ties can help overcome differences in governance standards and institutional structures (Tekin-Koru, 2006).
- ▶ When investing through a local firm, MNEs may chose between a a **wholly owned subsidiary (WOS)** or **joint venture (JV)** as their ownership structure (Sartor and Beamish, 2020).
- ▶ Sartor and Beamish (2020) divided corruption into public corruption (government) and private corruption (non-government). Additionally, it uses an uncertainty-based perspective to focus on the distinct mechanisms through which MNEs chose between (**WOS**) or (**JV**) as their ownership structure.

# 1. Introduction

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- ▶ **Corruption** is recognised as a source of **uncertainty** because it varies across different locations (Rodriguez et al., 2005; Uhlenbruck, et al., 2006).
- ▶ When MNEs enter into corrupted foreign markets, public and private corruption are expected to generate different effects upon the ownership structure of their subsidiaries (Sartor and Beamish, 2020).
  - (1) **Public corruption** is defined as the abuse of public power or public office for private gain; this refers to making inappropriate donations to political parties, high-ranking public officials, or politicians in order to exert influence (Hardoon and Heinrich, 2011).
  - (2) **Private corruption** is related to abuse of power within non-governmental organisations (Argandoña, 2003). Private corruption occurs in companies, non-governmental organisations (NGOs), religious groups, and the media (Gutmann and Lucas, 2018). Common examples include commercial bribery, kickbacks, corporate fraud, collusions, and insider trading.

# 1. Introduction

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- ▶ While some of the earlier studies relied on a transaction cost approach to examine MNEs' ownership decision in corrupted foreign markets, it appears that there is a lack of emphasis on the empirical analysis of different types of corruption in relation to institutional factors.
- ▶ Since institutions provide the structure in which transactions occur, institutional factors must be integrated with transaction cost theory (North, 1990). This paper aims to extend research on the impact of both transactional and institutional determinants on different equity ownership structures.
- ▶ In particular, this study aims to integrate new institutional dimensions such as institutional distance and policy stability as moderating determinants of MNE's foreign subsidiaries' ownership structure when corruption is present in the host country.

## 2. Literature Review and Hypotheses Development

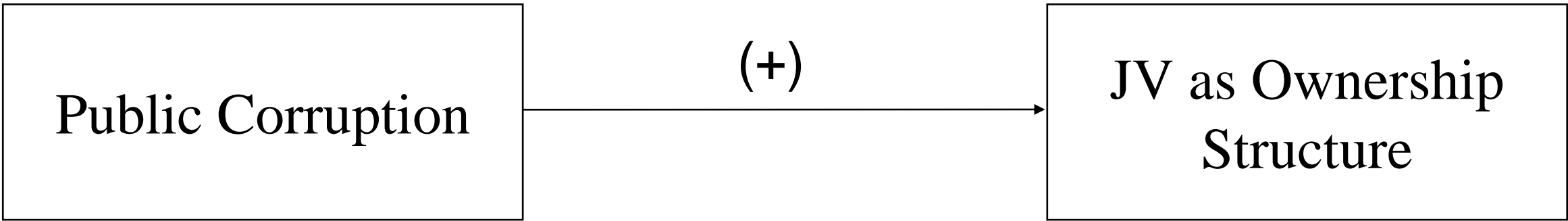
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- ▶ About **transaction-cost theory (TCE)**
  - Cost of contract negotiation and the cost of monitoring the performance and behaviour of partners included in the contract (Williamson, 1985).
  - TCE highlights different types of uncertainty and costs.
    - (1) **Environmental uncertainty** includes unpredictable situations in the business environment. The need for new knowledge about the external environment increases the *information cost* required to execute transactions in the local market (North 1990).
    - (2) **Behavioural uncertainty** is the uncertainty associated with predicting how other partners will behave. It increases the risk of opportunism from local partners and *monitoring costs* for MNEs (Brouthers and Brouthers, 2003)
- ▶ Different types of corruption can be distinguished based on different uncertainties (environmental uncertainty vs. behavioural uncertainty), different risks (knowledge-based risk vs. opportunism-based risk), and their distinct costs (information costs vs. monitoring costs).

# 2.1 Public corruption and Ownership Structure

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- ▶ **Public corruption:** when public officials utilise the ability to modify or change policies, regulations, and procedures at will.
- ➡ MNEs are exposed to **knowledge-based risks**
  - ➡ Generates **environmental uncertainty**
  - ➡ Increases **information costs**
- ▶ Local subsidiaries can increase the MNE's knowledge of the local market.
- ▶ Networks of local partners and their knowledge about corruption systems can help MNEs to reduce information-based transaction costs.  
(Meschi, 2009; Lambsdorff, 2002; Sartor and Beamish, 2020)



***H1:** There is a positive relationship between the level of public corruption in the host country and the choice of joint venture (JV) as the ownership structure of foreign subsidiaries.*

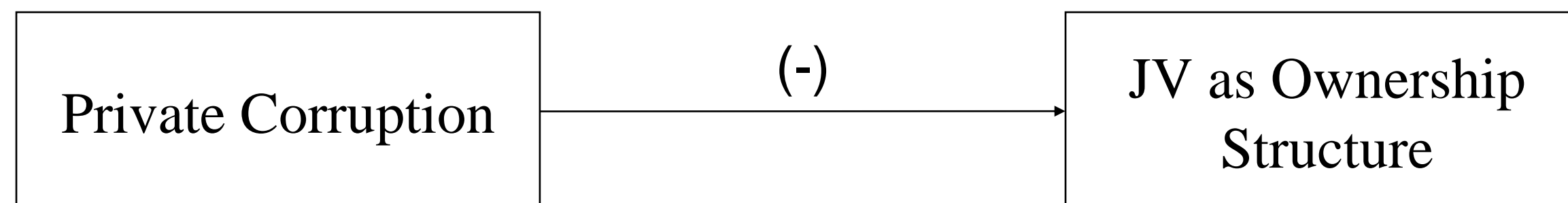


## 2.2 Private corruption and Ownership Structure

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- ▶ **Private corruption:** the abuse of power between non-governmental organisations.
- ➡ MNEs are exposed to **opportunism-based risks**
  - ➡ Generates **behavioural uncertainty**
  - ➡ Increases **monitoring costs**
- ▶ MNEs prefer to internalise transactions and protect themselves of additional costs from local partners.
- ▶ As MNEs engage in numerous transactions in the private sector, the risk of opportunistic behaviour can create mistrust in suppliers and local partners.

(Dikova and van Witteloostuijn, 2007; Sartor and Beamish, 2020)



***H2:** There is a negative relationship between the level of private corruption in the host country and the choice of joint venture (JV) as the ownership structure of foreign subsidiaries.*

## 2.3 The Moderating Effect of Institutional Distance

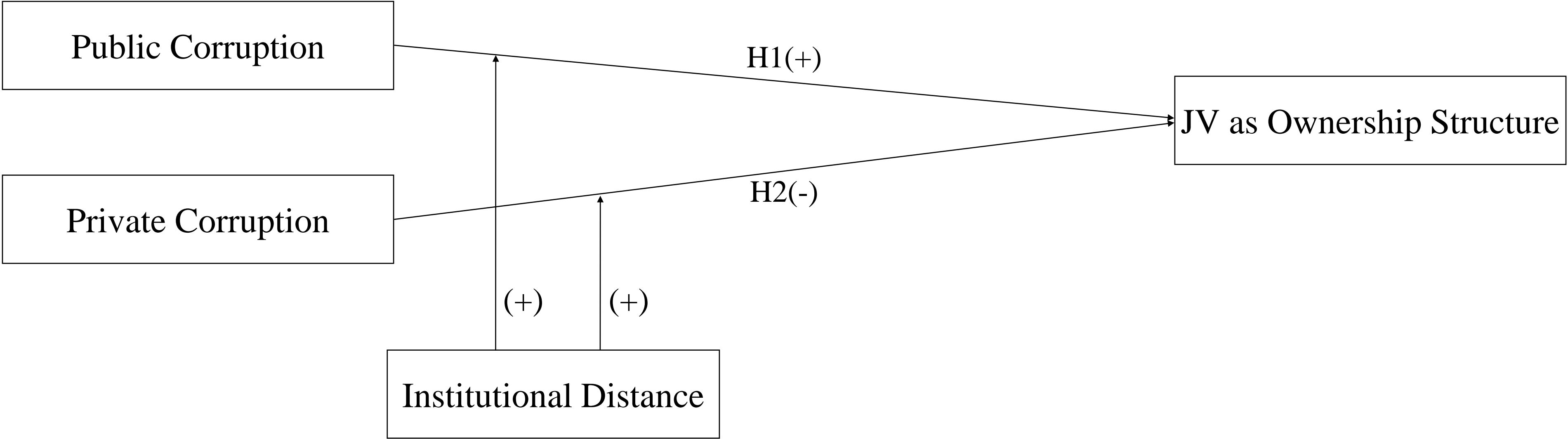
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- ▶ Institutional distance is the degree of differences in rules, laws and social norms between host country and home country.
- ▶ Larger institutional distance creates more difficulty for MNEs to build legitimacy and raises costs of interacting with new partners.
- ▶ Less developed formal institutions tend to increase additional costs due to the ineffectiveness of market transactions.
- ▶ One way to overcome regulatory impediments in the host country is through a joint venture with socially legitimate local partners.
- ▶ JVs can reduce costs by lessen regulatory requirements and liability of foreignness, acquiring social legitimacy, facilitating access to both institutional constituents and business relationships.
- ▶ Local companies are knowledgeable in dealing with the local business environment and are most likely to engage in corrupt dealings and form relationships with public and private institutions.

(Agarwal & Ramaswani, 1992; Anderson & Gatignon, 1986; Kostova et al., 2019; Yiu and Makino, 2002)

## 2.3 The Moderating Effect of Institutional Distance

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**H3a:** Institutional distance will strengthen the positive relationship between the level of public corruption in the host country and joint venture (JV) choice.

**H3b:** Institutional distance will weaken the negative relationship between the level of private corruption in the host country and joint venture (JV) choice.

## 2.4 The Moderating Effect of Policy Stability

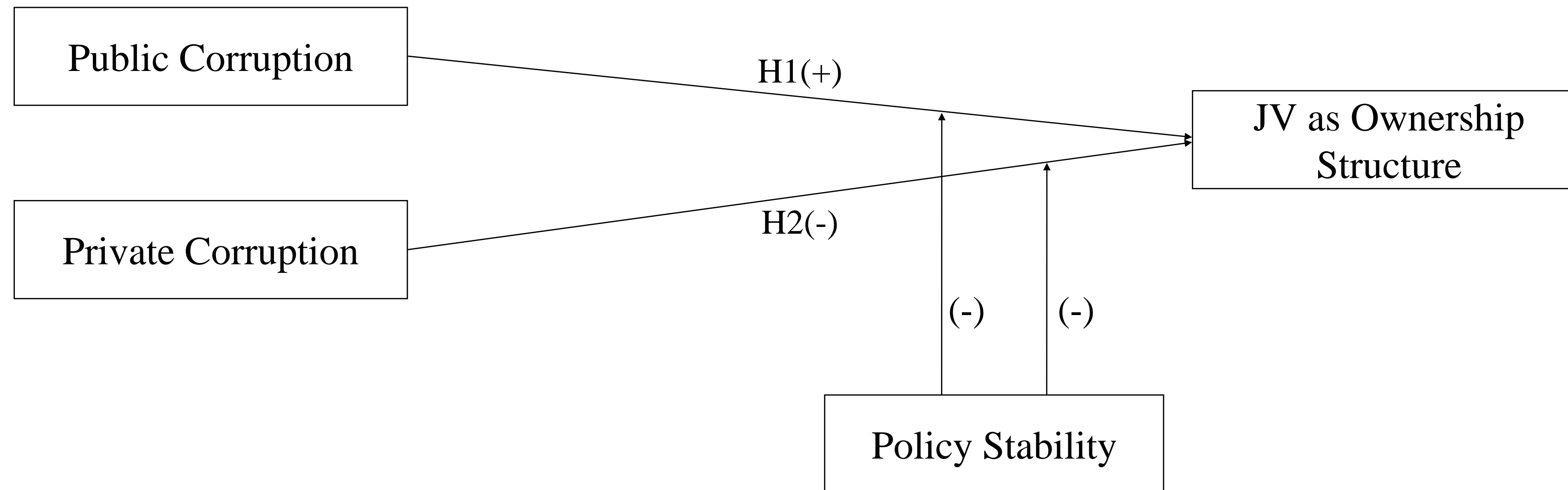
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- ▶ Policy stability is determined by the effectiveness of the legal and regulatory framework, the effective implementation of government decisions and fair administration of justice. Changes in existing policies can affect the firm's profitability.
- ▶ A country with unstable policy increase financial costs and the level of uncertainty firm's encounter in corrupt environments.
- ▶ On the other hand, a stable system of policies benefits contract enforcement and protection of property rights which can reduce costs of transacting with public and private agents, therefore MNEs will be motivated to retain ownership through a WOS.
- ▶ Foreign firms can reduce transaction costs and increase monitoring effectiveness by choosing to enter markets where the regulatory environment offers and impartial, efficient, and transparent policy system that would protect them and in which they can rely on.

(Demirbag et al., 2010; James et al., 2020; Lam et al., 2020; Wang and Chang, 2023)

## 2.4 The Moderating Effect of Policy Stability

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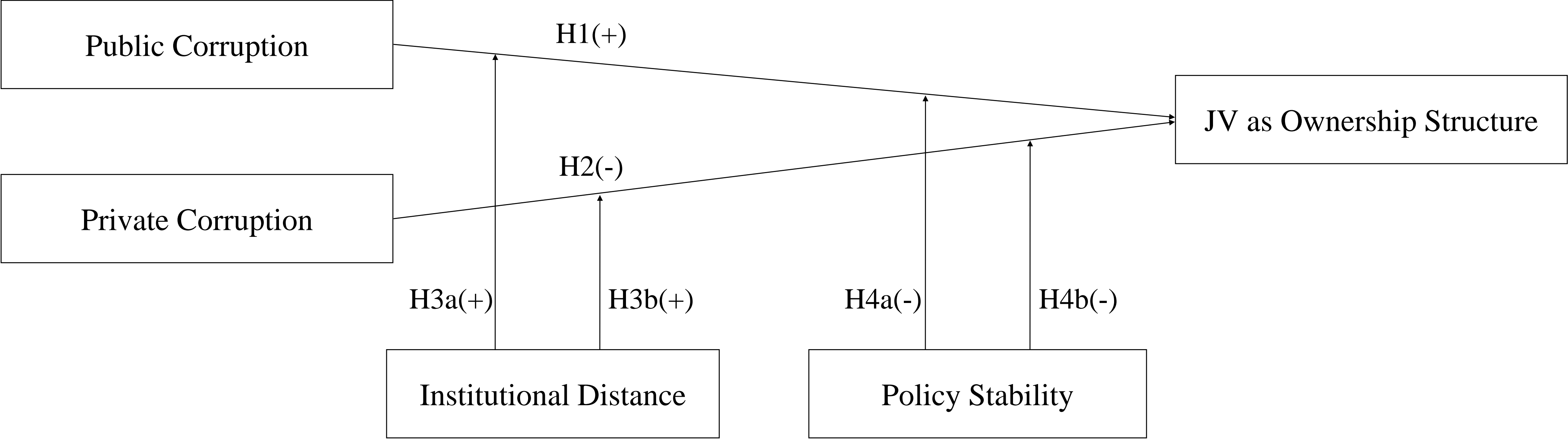


***H4a:*** Policy stability will weaken the positive relationship between the level of public corruption in the host country and joint venture (JV) choice.

***H4b:*** Policy stability will strengthen the negative relationship between the level of private corruption in the host country and joint venture (JV) choice.

# 2.5 Research Model

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## **3. Research Methods**

### **3.1 Sample and Data Collection**

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- ▶ Sample includes 347 foreign subsidiaries established in 29 foreign markets between 2005 and 2008.
- ▶ A 95% and 90% ownership cut-off are employed to distinguish between JVs and WOSs (Yiu and Makino, 2002).
- ▶ Distribution of number of subsidiaries per country is shown in Table 2.
- ▶ Corporate-level data was obtained from TS2000 Database which includes financial and managerial activity of Korean MNEs.
- ▶ Korean parent companies are constituted by manufacturing and service firms listed in KOSDAQ and KOSPI.
- ▶ The Global Corruption Barometer (GCB) from Transparency International's database is employed to constitute measures of public corruption and private corruption.

## 3.2 Variables and Measurements

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### <Dependent Variable >

- ▶ Ownership structure (choice between a WOS and JV with a local partner). A 95% equity ownership cut-off point is used in order to distinguish between WOS (coded “0”) and JV (coded “1”) in the sample. Using the 95% cut-off, 203 were categorised as WOSs and 144 as JVs.

### <Independent Variable >

- ▶ Independent variables were measured using items from the Global Corruption Barometer. Public corruption (police, political parties, tax revenue) and private corruption (businesses, NGOs, religious bodies, media).

### <Moderating Variables >

- ▶ Institutional distance was measured using 6 items from World Governance Indicators (voice and accountability, political stability and absence of violence/terrorism; government effectiveness, regulatory quality, control of corruption, rule of law).
- ▶ Policy stability was measured using the most recent value prior to foreign entry available from Henisz’s (2002) data.



**Table 3** Variables and Measurements.

<i>Variable</i>	<i>Measurement</i>	<i>Source/Reference</i>
1. Ownership Structure	Distinguished by using a 95% equity ownership cut-off points.	TS2000 Database
2. Public Corruption	Prevalence of corruption in the police, political parties and tax revenue. Scores range between 1 (not at all corrupt) and 5 (extremely corrupt).	Global Corruption Barometer, Transparency International Sartor and Beamish (2020)
3. Private Corruption	Prevalence of corruption in businesses, NGOs, religious bodies and media. Scores range between 1 (not at all corrupt) and 5 (extremely corrupt).	Global Corruption Barometer, Transparency International Sartor and Beamish (2020)
4. Institutional Distance	Six (6) indicators of voice and accountability, political stability and absence of violence/terrorism; government effectiveness, regulatory quality, control of corruption, rule of law.	Lahiri (2014) Global Competitiveness Report, World Economic Forum
5. Policy Stability	Most recent value prior to foreign entry available.	Political Constraint Index, Henisz (2002)
<i>Control Variables</i>		
6. Parent Size (log)	MNE's total sales.	TS2000 Database
7. Parent Profitability	MNE's Return on Assets (ROA).	TS2000 Database
8. Parent Host Market Experience	MNE's total number of subsidiary years of prior experience in the host market.	DART Database
9. Subsidiary Size (log)	Ratio of the subsidiary's total assets to the MNE's total assets.	TS2000 Database
10. Host Market Size (log)	Gross Domestic Product (GDP) in the host country.	World Bank Database
11. Host Market Growth Rate	GDP Growth rate in the host country.	World Bank Database
12. FDI Restrictions	Regulatory restrictions in the host country.	Economic Freedom Index, The Heritage Foundation
13. Entry Year Dummy	Entry year 2005, 2006, 2007 and 2008.	
14. Industry Dummy	Manufacturing companies (coded 1), and service companies (coded 0).	

# 4. Empirical Analysis

## 4.1 Host Countries Distribution

**Table 2** Host countries distribution.

<i>Country</i>	<i>3-digit code</i>	<i>Freq.</i>	<i>%</i>
Argentina	ARG	1	0.29
Brazil	BRA	2	0.58
Canada	CAN	11	3.17
Czech Republic	CZE	4	1.15
Denmark	DNK	1	0.29
France	FRA	6	1.73
Germany	DEU	10	2.88
Great Britain	GBR	12	3.46
Hong Kong	HKG	30	8.65
India	IND	28	8.07
Indonesia	IDN	31	8.93
Ireland	IRE	2	0.58
Italy	ITA	2	0.58
Japan	JPN	27	7.78
Kenya	KEN	1	0.29

*Continued.*

**Table 2** Host countries distribution.

<i>Country</i>	<i>3-digit code</i>	<i>Freq.</i>	<i>%</i>
Luxembourg	LUX	1	0.29
Malaysia	MYS	10	2.88
Mexico	MEX	8	2.31
Netherlands	NLD	11	3.17
Nigeria	NGA	4	1.15
Norway	NOR	1	0.29
Philippines	PHL	9	2.59
Poland	POL	10	2.88
Russia	RUS	8	2.31
Singapore	SGP	11	3.17
Switzerland	CHE	1	0.29
Taiwan	TWN	7	2.02
Turkey	TUR	8	2.31
United States	USA	90	25.94

Total		347	100
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## 4.2 Summary Statistics

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**Table 4** Descriptive Statistics.

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>s.d.</i>	<i>Min</i>	<i>Max</i>
1. Ownership Structure	347	0.41	0.49	0	1
2. Public Corruption	347	3.46	0.53	1.73	4.43
3. Private Corruption	347	3.00	0.35	2.15	4.00
4. Institutional Distance	347	0.75	0.34	0.01	1.79
5. Policy Stability	347	0.35	0.21	0.00	0.62
6. Subsidiary Size (log)	347	-2.02	1.27	-6.38	0.81
7. FDI Restrictions	347	71.11	12.56	48.40	90.60
8. Parent Size (log)	347	8.87	1.17	6.51	12.36
9. Parent Host Market Experience	347	0.30	0.46	0	1
10. Parent Profitability	347	0.05	0.09	-0.31	0.35
11. Host Market Size (log)	347	12.18	0.71	10.41	13.17
12. Host Market Growth Rate	347	3.69	2.60	-4.48	9.02
13. Industry Dummy	347	0.95	0.23	0	1
14. Entry Year Dummy	347	2006.60	1.13	2005	2008

## 4.2 Summary Statistics

**Table 5** Correlation Matrix

<i>Variable</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>12</i>
1. Ownership Structure	1											
2. Public Corruption	0.13*	1										
3. Private Corruption	0.04	0.37***	1									
4. Institutional Distance	0.08	0.19***	-0.40***	1								
5. Policy Stability	-0.03	0.16**	0.31***	-0.50***	1							
6. Subsidiary Size (log)	-0.04	-0.13*	0.02	-0.10	-0.02	1						
7. FDI Restrictions	-0.12*	-0.69***	0.13*	-0.50***	-0.004	0.10	1					
8. Parent Size (log)	-0.02	0.01	-0.10	0.23***	-0.11	-0.42***	-0.19***	1				
9. Parent Host Market Experience	-0.02	0.07	-0.08	0.08	-0.04	-0.06	-0.07	0.14**	1			
10. Parent Profitability	-0.02	0.04	-0.01	-0.11*	0.03	-0.06	-0.002	0.22***	-0.009	1		
11. Host Market Size (log)	-0.05	0.18***	0.51***	-0.38***	0.60***	0.01	0.30***	-0.28***	0.03	-0.03	1	
12. Host Market Growth Rate	-0.02	0.13*	-0.44***	0.37***	-0.44***	0.07	-0.43***	0.04	-0.005	0.06	-0.59***	1
13. Industry Dummy	-0.05	0.05	-0.07	0.05	-0.08	-0.0009	-0.12*	0.05	-0.07	0.05	-0.16**	0.10

Correlations are significant at \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

**Table 6** Results of multilevel logistic regression analyses using a 95% equity ownership cut-off point.

Variables	JV as ownership structure <sup>a</sup>							
	Base model	Main effect	Main effect	Interaction effect	Interaction effect	Interaction effect	Interaction effect	Full model
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	9.052*	7.808*	8.811*	8.721	11.370*	4.638	12.491**	13.188+
	(3.727)	(3.811)	(3.767)	(5.314)	(4.704)	(4.275)	(4.383)	(6.772)
Parent size (log)	-0.169	-0.15	-0.174	-0.151	-0.188	-0.147	-0.166	-0.144
	(0.119)	(0.120)	(0.120)	(0.120)	(0.121)	(0.120)	(0.121)	(0.126)
Parent Profitability	0.513	0.391	0.502	0.397	0.525	0.576	0.483	0.592
	(1.391)	(1.400)	(1.394)	(1.400)	(1.394)	(1.411)	(1.399)	(1.431)
Industry Dummy	-0.705	-0.735	-0.704	-0.736	-0.699	-0.652	-0.715	-0.63
	(0.499)	(0.499)	(0.499)	(0.499)	(0.500)	(0.500)	(0.503)	(0.510)
Parent Host Market Experience	-0.092	-0.112	-0.079	-0.094	-0.054	-0.102	-0.104	-0.114
	(0.254)	(0.255)	(0.256)	(0.257)	(0.258)	(0.257)	(0.257)	(0.267)
Subsidiary Size (log)	-0.091	-0.065	-0.093	-0.066	-0.097	-0.058	-0.097	-0.057
	(0.099)	(0.101)	(0.099)	(0.101)	(0.099)	(0.101)	(0.100)	(0.104)
Host Market Size (log)	-0.352	-0.557*	-0.393	-0.573*	-0.418	-0.680*	-0.520+	-1.031**
	(0.241)	(0.277)	(0.258)	(0.285)	(0.260)	(0.288)	(0.271)	(0.332)
Host Market Growth Rate	-0.207**	-0.207**	-0.198*	-0.208**	-0.209**	-0.156+	-0.180*	-0.116
	(0.077)	(0.077)	(0.079)	(0.077)	(0.080)	(0.084)	(0.080)	(0.095)
FDI Restrictions	-0.034**	-0.013	-0.032*	-0.012	-0.034**	0.006	-0.027*	0.027
	(0.013)	(0.019)	(0.013)	(0.019)	(0.013)	(0.022)	(0.013)	(0.024)
Institutional Distance	0.14	0.266	0.206	-0.798	-2.598	0.131	0.418	-3.742
	(0.461)	(0.471)	(0.484)	(4.342)	(3.122)	(0.478)	(0.505)	(5.294)
Policy Stability	-0.936	-0.642	-0.851	-0.546	-0.833	7.375	-10.131+	-5.118
	(0.790)	(0.814)	(0.811)	(0.902)	(0.813)	(4.938)	(5.496)	(6.867)
Public Corruption (H1)		0.580		0.351		1.456*		2.786+
		(0.383)		(1.004)		(0.674)		(1.462)
Private Corruption (H2)			0.199		-0.488		-0.851	-3.857**
			(0.433)		(0.870)		(0.753)	(1.458)
Public Corruption x Institutional Distance (H3a)				0.293				-0.811
				(1.190)				(1.367)
Private Corruption x Institutional Distance (H3b)					0.972			2.463*
					(1.070)			(1.221)
Public Corruption x Policy Stability (H4a)						-2.195+		-3.512*
						(1.333)		(1.431)
Private Corruption x Policy Stability (H4b)							3.374+	6.212**
							(1.975)	(2.342)
Pseudo R2	0.040	0.045	0.040	0.045	0.042	0.051	0.046	0.071

*n* = 347

Standard errors in parentheses.

Entry year dummies are included but not shown.

\*\*\* p<0.001, \*\* p<0.01, \* p<0.05, + p<0.1

<sup>a</sup>The dependent variable *JV as ownership structure* is coded as follows: *1: joint venture; 0: wholly owned subsidiary*.

### 4.3 Logistic Regression Analyses

Institutional Distance	0.14 (0.461)	0.266 (0.471)	0.206 (0.484)	-0.798 (4.342)	-2.598 (3.122)	0.131 (0.478)	0.418 (0.505)	-3.742 (5.294)
Policy Stability	-0.936 (0.790)	-0.642 (0.814)	-0.851 (0.811)	-0.546 (0.902)	-0.833 (0.813)	7.375 (4.938)	-10.131+ (5.496)	-5.118 (6.867)
Public Corruption	H1(+)	0.580 (0.383)		0.351 (1.004)		1.456* (0.674)		2.786+ (1.462)
Private Corruption			H2(-)	0.199 (0.433)		-0.488 (0.870)	-0.851 (0.753)	-3.857** (1.458)
Public Corruption x Institutional Distance				H3a(+)	0.293 (1.190)			-0.811 (1.367)
Private Corruption x Institutional Distance					H3b(+)	0.972 (1.070)		2.463* (1.221)
Public Corruption x Policy Stability							H4a(-)	-2.195+ (1.333)
Private Corruption x Policy Stability								H4b(-)
							3.374+ (1.975)	6.212** (2.342)
Pseudo R2	0.040	0.045	0.040	0.045	0.042	0.051	0.046	0.071

*n* = 347

Standard errors in parentheses.

Analysed under 95% ownership cut-off. Entry year dummies are included but not shown.

\*\*\* *p*<0.001, \*\* *p*<0.01, \* *p*<0.05, + *p*<0.1

<sup>a</sup>The dependent variable *JV as ownership structure* is coded as follows: 1: joint venture; 0: wholly owned subsidiary.

*Hypothesis 1* — partially supported

*Hypothesis 2* — partially supported

*Hypothesis 3a* — not supported

*Hypothesis 3b* — partially supported

*Hypothesis 4a* — fully supported

*Hypothesis 4b* — rejected

**Table 7** Results of multilevel logistic regression analyses using a 90% equity ownership cut-off point.

Variables	JV as ownership structure <sup>a</sup>							
	Base model	Main effect	Main effect	Interaction effect	Interaction effect	Interaction effect	Interaction effect	Full model
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	8.229*	7.022+	7.911*	7.537	9.850*	3.377	11.612**	11.308+
	(3.746)	(3.831)	(3.789)	(5.352)	(4.741)	(4.318)	(4.399)	(6.797)
Parent size (log)	-0.123	-0.104	-0.13	-0.105	-0.14	-0.102	-0.12	-0.102
	(0.120)	(0.120)	(0.120)	(0.120)	(0.121)	(0.120)	(0.121)	(0.126)
Parent Profitability	-0.284	-0.407	-0.301	-0.404	-0.28	-0.2	-0.325	-0.176
	(1.400)	(1.409)	(1.404)	(1.409)	(1.404)	(1.420)	(1.410)	(1.437)
Industry Dummy	-0.55	-0.579	-0.548	-0.58	-0.545	-0.486	-0.558	-0.455
	(0.497)	(0.497)	(0.498)	(0.497)	(0.499)	(0.499)	(0.502)	(0.510)
Parent Host Market Experience	0.03	0.023	0.047	0.026	0.065	0.023	0.022	0.017
	(0.255)	(0.256)	(0.256)	(0.257)	(0.258)	(0.257)	(0.257)	(0.268)
Subsidiary Size (log)	-0.052	-0.026	-0.054	-0.027	-0.058	-0.019	-0.058	-0.021
	(0.100)	(0.101)	(0.100)	(0.101)	(0.100)	(0.101)	(0.100)	(0.105)
Host Market Size (log)	-0.342	-0.540+	-0.396	-0.549+	-0.415	-0.680*	-0.522+	-1.032**
	(0.242)	(0.278)	(0.259)	(0.287)	(0.262)	(0.290)	(0.272)	(0.333)
Host Market Growth Rate	-0.198**	-0.197*	-0.186*	-0.198*	-0.194*	-0.139+	-0.168*	-0.085
	(0.077)	(0.077)	(0.079)	(0.077)	(0.080)	(0.084)	(0.080)	(0.096)
FDI Restrictions	-0.033**	-0.012	-0.031*	-0.012	-0.032*	0.009	-0.026+	0.029
	(0.013)	(0.019)	(0.013)	(0.019)	(0.013)	(0.022)	(0.013)	(0.024)
Institutional Distance	0.235	0.357	0.322	-0.241	-1.786	0.201	0.54	-2.918
	-0.464	-0.474	-0.488	-4.368	-3.143	-0.48	-0.51	-5.318
Policy Stability	-0.858	-0.575	-0.749	-0.521	-0.736	8.576+	-10.161+	-4.065
	(0.791)	(0.816)	(0.812)	(0.905)	(0.814)	(5.020)	(5.531)	(6.952)
Public Corruption (H1)		0.560		0.431		1.563*		2.837+
		(0.385)		(1.009)		(0.686)		(1.473)
Private Corruption (H2)			0.258		-0.259		-0.806	-3.588*
			(0.434)		(0.878)		(0.757)	(1.466)
Public Corruption x Institutional Distance (H3a)				0.165				-0.809
				(1.197)				(1.376)
Private Corruption x Institutional Distance (H3b)					0.729			2.210+
					(1.076)			(1.223)
Public Corruption x Policy Stability (H4a)						-2.504+		-3.901**
						(1.355)		(1.451)
Private Corruption x Policy Stability (H4b)							3.422+	6.378**
							(1.988)	(2.371)
Pseudo R2	0.037	0.042	0.038	0.042	0.039	0.050	0.044	0.069

*n* = 347

Standard errors in parentheses.

Entry year dummies are included but not shown.

\*\*\* p<0.001, \*\* p<0.01, \* p<0.05, + p<0.1

<sup>a</sup>The dependent variable *JV as ownership structure* is coded as follows: *1: joint venture; 0: wholly owned subsidiary*.

4.4 Robustness Check

Institutional Distance	0.235	0.357	0.322	-0.241	-1.786	0.201	0.54	-2.918
	-0.464	-0.474	-0.488	-4.368	-3.143	-0.48	-0.51	-5.318
Policy Stability	-0.858	-0.575	-0.749	-0.521	-0.736	8.576+	-10.161+	-4.065
	(0.791)	(0.816)	(0.812)	(0.905)	(0.814)	(5.020)	(5.531)	(6.952)
Public Corruption	H1(+)	0.560		0.431		1.563*		2.837+
		(0.385)		(1.009)		(0.686)		(1.473)
Private Corruption		H2(-)	0.258		-0.259		-0.806	-3.588*
			(0.434)		(0.878)		(0.757)	(1.466)
Public Corruption x Institutional Distance			H3a(+)	0.165				-0.809
				(1.197)				(1.376)
Private Corruption x Institutional Distance				H3b(+)	0.729			2.210+
					(1.076)			(1.223)
Public Corruption x Policy Stability					H4a(-)	-2.504+		-3.901**
						(1.355)		(1.451)
Private Corruption x Policy Stability						H4b(-)	3.422+	6.378**
							(1.988)	(2.371)
Pseudo R2	0.037	0.042	0.038	0.042	0.039	0.050	0.044	0.069
<i>n</i> = 347						Hypothesis 1 — partially supported		
Standard errors in parentheses.						Hypothesis 2 — partially supported		
Analysed under 90% ownership cut-off. Entry year dummies are included but not shown.						Hypothesis 3a — not supported		
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1						Hypothesis 3b — partially supported		
ªThe dependent variable <i>JV as ownership structure</i> is coded as follows: 1: joint venture; 0: wholly owned subsidiary.						Hypothesis 4a — fully supported		
						Hypothesis 4b — rejected		



# 5. Discussion and Conclusions

## 5.1 Key Summary and Contributions

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- ▶ Analysed how different types of corruption affect MNE's ownership decisions according to its prevalence in different sectors.
- ▶ Leveraged conceptualisation of public and private corruption in order to investigate whether or not Korean MNEs would react to differently when expanding their businesses into foreign markets,
- ▶ Included institutional distance and policy stability to explore its influence upon ownership choices in the face of corruption.
- ▶ Hypothesis 1 anticipated the positive relationship between public corruption and the preference for JVs, offers corroboration that MNEs are subject to environmental uncertainty when they are not familiar with reaching corrupt deals and face dangers of choosing the inadequate response which increases information costs.
- ▶ Hypothesis 2 predicted the non-choice of JV and did not provide a significant result to the main effect of private corruption.
- ▶ Hypothesis 3a, did not find support for the interaction between institutional distance and public corruption, whereas its interaction with private corruption in Hypothesis 3b did strengthen the preference for JVs.
- ▶ While Hypothesis 4a confirmed that the interaction of policy stability with public corruption would weaken the choice of JVs, in terms of private corruption it exert a contrasting effect. Therefore, rejecting Hypothesis 4b.

# 5. Discussion and Conclusions

## 5.1 Key Summary and Contributions

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- ▶ The integration of institutional dimensions offered the opportunity to examine how to deal with weak (or strong) institutional systems in foreign markets and provided evidence that the negative and positive effects of institutional variables are worth considering when building managerial strategies to enter international markets.
- ▶ Our findings help to shed light on the results of prior research as well as to improve our theoretical understanding of the relationship between perceived levels of host market corruption and the MNEs' foreign subsidiaries' ownership structures.
- ▶ The use of a broader conceptualisation of host market corruption developed by Sartor and Beamish (2020), highlights the importance of the continuous integration of private-to-private corruption in future studies and advance its understanding on the role it plays in MNE's ownership decisions.
- ▶ Expansion of the study of corruption and MNE's strategies in a global context, particularly South Korean, may encourage future scholars to the discovery of potential highlights and characteristics of Asian foreign-investing MNEs when responding to distinct types of corruption overseas.

## 5. Discussion and Conclusions

### 5.3 Limitations and Directions for Future Research

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- ▶ Empirical analysis is based on a sample of foreign-investing MNEs from a single country (South Korea).
  - Use of samples consisting by foreign firms headquartered in one or more home countries.
- ▶ Data concerning the host countries' measurements of public and private corruption is still limited.
  - Corruption data is not available for countries with a vast amount of FDI from South Korea (e.g. Australia, **China**, Cambodia, Saudi Arabia and **Vietnam**).
- ▶ Inconsistent coverage of the corruption data measurements reported by in the Global Corruption Barometer limited the extension of our study period. After 2007, the report was no longer released on an annual basis.

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Thank you.