The “grabbing hand” or the “helping hand” view of corruption: Evidence from bank foreign market entries

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Abstract

This study adopts a resource perspective to explore a non-linear relationship between corruption and two measures of bank foreign market commitment, the capital invested and the share of equity, on a sample of 131 bank entries in forty host countries. Our findings support a U-shaped relationship providing evidence of the “grabbing hand” view at low to moderate levels of corruption and, supporting the “helping hand” view at high levels of it. In addition, market-seeking motives are found to have a positive moderating effect on this relationship. This study contributes to the long-standing debate about the effects of corruption on FDI.

Keywords: Banking, corruption, foreign market commitment, market-seeking, liability of foreignness

1. Introduction

Corruption, defined as the abuse of public power for positive gain, is a prominent issue all over the world, intensified by the globalization of commerce. Even though corruption is believed prevalent in developing countries (Hellman et al. 2000), it is encountered at different degrees in all countries. Consequently, many international organizations and countries adopt coordinated measures to curb it. Nonetheless, reports from Transparency International show that corruption is still widespread.

Most of the scholars studying the effects of corruption on Foreign Direct Investment (FDI) support the "grabbing hand" view of the phenomenon, arguing that corruption creates significant costs for foreign entrants and, as a result, negatively affects investment flows into a host country (Javorcik & Wei, 2009; Mauro, 1995; Voyer & Beamish, 2004; Wei, 2000). This is a result of the uncertainty that surrounds corruption, which unpredictably increases the cost of setting up and operating in the host country and consequently the attractiveness of foreign investment (Demirbag et al., 2007; Uhlenbruck et al. 2006; Wei, 1997). Another stream of research advances the opposing view: that corruption acts as a "helping hand" to commerce, a bribing mechanism which facilitates transactions, speeds up procedures and ultimately helps FDI (Egger & Winner, 2005; Lui, 1985; Wheeler & Mody, 1992). Empirical findings are inconclusive, with studies reporting results in both directions (Barassi & Zhou, 2012; Egger & Winner, 2005; Habib & Zurawicki, 2002, Helmy, 2013; Nguyen & Van Dijk, 2012; Al-Sadig, 2009; Wheeler & Mody, 1992). An explanation which accommodates both theoretical arguments may be that the relationship between corruption and FDI is not linear and that, both theoretical views hold at different levels of corruption.

Moreover, the current literature mostly focuses on the impact of corruption on FDI patterns across countries (Brouthers et al., 2008; Egger & Winner, 2005; Habib & Zurawicki, 2002). Given that a key decisive attribute is the perceived uncertainty in the host country created by corruption, it may be appropriate to examine this relationship at firm level in order to consider firms' strategic motives and managers' perception of the local environment (Brouthers et al., 2008). Hitherto, scholars have paid little attention to MNE resource commitment strategies which deal with host country corruption (Rodriguez et al., 2005; Uhlenbruck et al., 2006). A firm level approach may also shed light on the findings of some country-level studies which suggest that highly attractive markets tend to mitigate the negative effect of corruption on FDI (Voyer & Beamish, 2004; Wei, 2000).

The setting of this study is the banking industry. In the last two decades, banks faced with saturated local markets have looked overseas for growth (Petrou, 2009). However, Multinational Banks (MNB's) are susceptible to host country corruption because their operations are supervised by local authorities (Buch, 2003); a state of affairs which gives corrupt officials the chance to engage in bribery. Moreover, government officials try to control banks in order to influence lending decisions. In light of this, scholars put forward the following two competing theoretical arguments: 1) the "political" view, suggesting that corrupt government officials influence the funding of projects in favor of politically connected firms, thus contributing to the increase of bad loans; and 2) the "development" view, proposing that government officials aim to direct projects in line with their strategy for economic development, which helps banks where corruption is prevalent and information asymmetries are high to identify the best projects

(La Porta et al., 2002). Despite the theoretical and managerial challenges identified above, current research is silent about the influence of corruption on bank commitment to foreign markets.

The objectives of the present study are two-fold: first, to investigate the effect of both views of corruption, the "grabbing hand" and the "helping hand," on the relationship between corruption and FDI at firm level; and, second, to explore how market-seeking motives moderate this relationship. We consider Pagano (2008), who investigates a non-linear relationship between corruption and lending rates in relation to the "political" and the "development" views, and we test a non-linear relationship between corruption and MNB market commitment. We adopt a resource perspective and draw on the resource dependence theory (Pfeffer & Salancik, 1978) and institutional theory (DiMaggio & Powell, 1983; Scott, 1995) to support our hypothesis that the effect of corruption on MNB commitment is U-shaped. In addition, we examine the moderating effect of market-seeking motivation, arguing that this dominates decisions about market commitment.

We test our hypotheses on a sample of 131 bank entries in forty host countries. Data on bank motives are collected through a mail survey sent to 385 multinational banks identified in the 2004 issue of the Banker's Almanac. Corruption is measured using the Transparency International CPI Index and market commitment is measured by the capital invested in the host country. The findings support a U-shaped relationship. A significant and negative linear coefficient suggests that, at low to moderate levels of corruption, the "grabbing hand" view prevails, and a significant and positive quadratic coefficient indicates that, at high levels of corruption, the "helping hand" view dominates. In addition, there is a significant and positive interaction between market-seeking and

corruption for both the linear and the quadratic terms, indicating that the relationship is positively moderated by market-seeking motives at both the descending and the ascending parts of the curve. Similar results are found when the share of equity is used as an alternative measure of market commitment, attesting to the robustness of our findings.

This study makes a number of contributions. First, the findings indicate that both opposing theoretical arguments hold, but at different levels of corruption, a finding which may contribute to the resolution of a long-standing debate on the effect of corruption on FDI. Second, responding to calls to investigate firm strategies for dealing with corruption (Rodriguez et al., 2005), the study draws on the resource dependence theory and the institutional theory to examine how banks manage the costs of corruption through their capital investment decisions. This approach complements the transaction cost or institutional theory arguments of those scholars who examine the choice of mode of entry in conditions of corruption. Third, this study adds to our understanding of the types of risk and cost involved in bank foreign entries and the way in which these interplay with growth motives to influence market commitment. This is the first study to investigate how corruption affects bank strategies regarding foreign markets contributing this way to the literature on bank internationalization.

2. Literature review and hypotheses

Corruption is seen as a tax on foreign firms (Mauro, 1995; Wei, 2000; Voyer & Beamish, 2004). Nevertheless, the greatest challenge for most MNEs is not the magnitude of the cost in itself but rather the difficulty to assess the actual cost the MNE will have to pay as a result of the uncertainty associated with corrupt conditions (Wei,

1997). Besides bribes to government officials, foreign firms may encounter transaction costs due to poor contract enforcement (Doh et al., 2003; Fisman, 2001), may face information asymmetries when vital information is withheld, and may encounter difficulties in gaining legitimacy due to reduced transparency (Javorcik & Wei, 2009). On this basis, two theoretical views have arisen on the influence of corruption on FDI: the "grabbing hand'' view, suggesting that corruption creates uncertainty about the use of resources in the host country, an obstacle to FDI; and the "helping hand" view, which supports that corruption, at a cost, assists transactions and speeds-up procedures, thus helping FDI (Egger & Winner, 2005).

Most scholars who examine the effect of corruption on aggregate patterns of FDI suggest that corrupt countries receive less foreign investment because the covert bribing system acts as a "grabbing hand", creating additional costs and risks for investors (Brouthers et al., 2008; Habib & Zurawicki, 2002). A number of empirical studies support these arguments (Habib & Zurawicki, 2002, Nguyen & Van Dijk, 2012; Voyer & Beamish, 2004; Wei, 2000). For example, Javorcik and Wei (2009) show that reducing corruption by 4.7 points (on a scale of 1 to 10) would increase FDI by 15%. Another stream of research suggests that high levels of corruption foster FDI, since corruption "greases the wheels" by facilitating transactions and investments which otherwise would not take place (Aidt, 2003; Leff, 1964; Lui, 1985; Wheeler & Mody, 1992). In contrast to the above empirical research, some studies support this positive perspective (Egger & Winner, 2005; Helmy, 2013; Barassi & Zhou, 2012). Egger and Winner (2005), for example, taking a sample of 73 countries over the period 1995-1999, find clear evidence of a positive relationship between corruption and FDI. These inconclusive empirical

findings about the effect of corruption on FDI are further supported by other studies, which they find insignificant results (Alesina & Weber, 2002; Al-Sadig, 2009; Wheeler & Mody, 1992).

As regards banking, scholars advance two contrasting theoretical arguments, the "political" view and the "development" view (La Porta et al., 2002). Proponents of the political view (Kornai, 1979; Becker, 1983; Shleifer & Vishny, 1994; 1998) argue that in corrupt countries government officials intervene to influence lending decisions in favor of politically connected firms, thus distorting lending rates (La Porta et al., 2002), and shifting funds towards bad projects (Stigler, 1975; Park, 2012). As a result, corruption contributes both to the increase of bad loans and to lowering the quality of private investments (Beck et al., 2006; Pagano, 2008). Some empirical studies testify to the "political" view (Beck et al., 2006; Pagano, 2002; Park, 2012). For example, Park (2012) in a cross-sectional study of data from over 76 countries finds that corruption contributes to the increase of bad loans and the re-direction of funds from normal to bad projects. The "development" view (Gerschenkron, 1962) suggests that, in corrupt countries, governments try to control the banking system so that they can influence the funding of socially desirable projects, thereby promoting financial development and growth. Pagano (2008) explores these two competing views by assessing the effects of corruption and government intervention on commercial lending rates, using a non-linear model. He finds that low to moderate levels of corruption relate to lower lending rates, providing evidence for the "development" view, whereas high levels of corruption are associated with higher credit rates, pointing towards the "political" view.

Given that the corruption-related uncertainty perceived in the host country may be an important factor for foreign investment, a firm level setting is required to capture the underpinning motivations, such as firms' strategies and managers' perception of the local environment (Brouthers et al., 2008). Most firm level studies focus on the effect of corruption on firms' decisions over the mode of entry, in particular the choice between wholly owned investments and joint ventures (Duanmu, 2011; Javorcik & Wei, 2009; Smarzynska & Wei, 2002; Tekin-Kory, 2006; Uhlenbruck et al. 2006). Nevertheless, firm level research says nothing about the way in which MNEs manage the effect of corruption on their operation in the host country through decisions on resource investment (Rodriguez et al. 2005).

2.1. Corruption and MNB host country commitment

Corruption entails problems for MNEs when managers cannot estimate bribery demands and when they are uncertain if the promised service will be delivered, posing a threat to the success of the foreign operation (Rodriguez et al., 2005). This is a result of the varying demands from an uncontrollable number of government officials, who, in their quest for bribes, randomly distort government policies and regulations (Doh et al., 2003; Javorcik & Wei, 2009) and reduce firm benefits from bribery thus, undermining the effectiveness of the bribing system (Shleifer & Vishny, 1993). Government officials may not be effective in collecting bribes if they are perceived to be unreliable, which in turn may reduce the level of corruption in a country (Wei, 1997). Thus, in highly corrupt countries where the potential pay-offs to government employees are high, corrupt officials may set normative controls which reduce the uncertainty of corruption for the

firm and maximize rents for themselves. Consequently, we argue that in a high corruption environment the 'rules of the game' are likely to be known, which reduces uncertainty for the MNE; whereas, at moderate levels of corruption, bribery may not be organized and the engagement of officials in corruption may be opportunistic and random, thereby increasing uncertainty.

To exercise their intermediation role effectively, banks which enter a host country may require locally-bound resources, such as know-how and the relational assets essential for providing access to consumers, businesses or institutions (Miller & Parkhe, 2002), together with information about regulations and markets (Buch, 2003). However, access to these resources may be conditional on the MNB's ability to gain external legitimacy with supervisory authorities and peer-institutions (Lensink et al. 2008). Firms experience institutional pressure to conform to society's expectations in the host country relating to regulative, normative and competitive practices (Kostova & Zaheer, 1999). Such conformity can legitimize a firm, ensuring that the relevant actors in the institutional environment will accept it. Consequently, the MNB's ability to access local resources may depend on the degree of its legitimacy with the supervisory authorities and peer institutions (Meyer & Rowan, 1977). To achieve legitimacy, firms pursue institutional isomorphism by complying with local regulations, following established social norms and imitating successful competitors (DiMaggio & Powel, 1983). However, gaining legitimacy is more difficult in countries with moderate levels of corruption, where bribery is not organized (Shleifer & Vishny, 1993). Corrupt officials may indiscriminately circumvent the information exchange process by reducing the availability of information to the MNB about the requirements of the legitimating actors

and/or by creating a false profile of the subsidiary (Uhlenbruck et al. 2006). MNBs are predictably less able to manage the external environment and gain legitimacy when faced with arbitrary distortions of policies and regulations (Vaaler & Schrage, 2009). This complex institutional environment compromises the MNE's ability to determine the process of legitimization, thus making compliance difficult. This may negatively affect the MNB's dealings with local institutions, possibly resulting in additional local supervision and in compromised transactions with peer institutions, including access to funds and to locally bound resources (Claessens & Van Horen, 2012). Moreover, as a condition for gaining acceptance, the MNB may have to surrender to political pressures and fund the less attractive projects of politically well-connected companies (Park, 2012). In an environment where corruption is arbitrary, the MNB may be unaware how peer institutions respond to these pressures and what the projections are for bad loans, thereby adding to its perceived uncertainty in the host country.

In addition, given that corruption compromises the functioning of key governance institutions, it may encourage the practices of interfacing agents such as auditors and lawyers (Chan & Makino, 2007), thus increasing the information asymmetries about transactions (Berger & DeYoung, 1997). Arbitrary corruption may weaken regulation and consequently contractual agreements (Uhlenbruck et al. 2006), since laws and regulations may be interpreted differently from government officials (Rodriguez et al., 2005). Consequently, the MNB may face first the risk of not properly assessing deals and, next, the consequent risk of not being able to exercise its contracts, exposing it to significant financial loss (Mian, 2006). In light of ill decisions, the foreign bank may find it difficult

to defend its soundness to the supervisory authorities and market participants, risking its exclusion from the host market (Tsai et al. 2011).

Increasing uncertainty in moderate levels of corruption, about the bank's ability to gain legitimacy, access information and locally-bound resources and protect its capital, raises some doubts about investment returns (Miller & Parkhe, 2002). Consequently, banks become risk-averse and limit their business activity and resource investment in the host country (Claessens & Van Horen, 2012) as the literature on the internationalization behavior of the firm implies (Johanson & Valhne, 1977). In contrast, in highly corrupt countries, where the 'rules of the game' are known, corruption creates the means for foreign entrants to access more efficiently the political processes and resources of the host country (Uhlenbruck, et al., 2006). The MNB may perceive an opportunity to 'buy' legitimacy by acquiring government consent with their actions, consequently safeguarding contracts and obtaining the required infrastructure (Rodriguez et al., 2005). All these assets may be deemed valuable in the pursuit of growth in the host country, resulting in lower perceived uncertainty and higher market commitment. Therefore, the following hypothesis may be posited:

H1: The effect of host country corruption on MNB capital commitment is U-shaped such that as corruption increases from low to moderate levels, capital commitment in the host country decreases and as corruption increases from moderate to high levels, capital commitment increases.

2.2. Market-seeking strategies and host country commitment

A firm's foreign market-seeking strategies aim to exploit host country opportunities by capitalising on the firm's capabilities (Cui & Jiang, 2009; Makino et al., 2002). The resource dependence theory (Pfeffer & Salancik, 1978) suggests that foreign entrants may require local resources to overcome the liability of operating in a foreign market where local rivals possess market-oriented resources and information (Moran, 1985; Xu et al., 2006; Zaheer, 1995). Scholars have identified market-seeking strategies as an important motive for bank internationalization (Berger et al. 2000; Weller & Scher, 2001). MNBs faced with saturated markets at home and armed with product and technological know-how and surplus resources want to escape the growth constraints of their home countries and pursue opportunities in attractive foreign countries (Focarelli & Pozzolo, 2005) where they can leverage their ownership advantages (Tschoegl, 2002). For example, Khoury & Pal (2000) suggest that the presence of foreign banks in the US can be explained by the opportunities which exist in different market segments of the economy.

Market-seeking MNBs create rents in a foreign country by lending to local consumers, companies or institutions (Cerruti et al. 2007; Weller & Scher, 2001). To grow their loan portfolios, MNBs attract local deposits or use their own funds (Miller & Parkhe, 2002). As a result, a foreign bank pursues its growth motives by allocating capital to the host country to underwrite loans and access local complementary resources (Lensink et al., 2008; Petrou, 2007), including assets to support its operations, such as a distribution network and possibly a pool of deposits in local currency (DeYoung & Nolle, 1996).

Nevertheless, domestic banks enjoy certain advantages. They possess better information about the business environment (Claessens & Van Horen, 2012), they enjoy market-specific resources such as relationships with regulators and clients (DeYoung & Nolle, 1996) and they benefit from the local physical infrastructure such as distribution networks (Berger et al., 2000). It is not surprising therefore that Miller & Parkhe (2002), who studied bank foreign operations around the globe, find empirical evidence of liability of foreignness. Consequently, MNBs pursuing market-seeking strategies may require significant resources in the host country to overcome such a liability and develop a sizeable loan portfolio which far exceeds the resource requirements of market participation or following-the-client strategies of targeting niche and less competitive market segments (Luo, 2003). Previous studies confirm the positive relationship of local market strategies and market commitment (Gil et al. 2006; Luo, 2004; Makino et al. 2002). As a result, it is expected that:

H2: The greater the market-seeking motives of an MNB, the greater that MNB's commitment of capital in the host country.

2.3. The moderating effect of market-seeking strategies

A market-seeking bank which aims to develop and expand its loan portfolio in a host country may focus on managing loan defaults (Beck et al., 2006) by addressing the issue of unreliable information about the financial strength of borrowers and the legal status and value of collateral placed against loans (Tsai et al., 2011). To this end, the MNB may invest in providing itself with links to other financial institutions and support

organizations, such as credit agencies and property assessors. Moreover, the bank may allocate additional resources to lending by recruiting credit analysts and relationship managers locally, so that it is in a position to assess and monitor borrowers better (Berger & DeYoung, 1997). This additional resource investment tends to be higher in countries with moderate levels of corruption, where there is uncertainty about the reliability of information and consequently higher projections for non-performing loans.

In addition, market-seeking banks may invest more resources than non-market-seeking banks do to build legitimacy with local institutions by adopting the same sort of organization and operation practices as peer banks do, by building a local image, and by adhering to supervisory requirements. The conferring of legitimacy on the MNB is seen as a process of negotiation between managers and institutions (Kostova et al., 2008). However, the efficiency of the bank's management in communicating with the legitimating agents will be compromised and thus inefficient in an environment with moderate levels of corruption characterized by reduced regulatory transparency and random bureaucracy (Chan & Makino, 2007). To manage in these conditions, the bank may recruit more local staff with knowledge of local bank practices and staff who have access to regulators and incumbent bank management (Miller & Parkhe, 2002). Their task is to develop the bank's operating practices and liaise between the bank and the relevant agents so as to restore and maintain positive working relationships. In addition, the bank may invest additional marketing resources to indicate its commitment and legitimate standing in order to develop and sustain a positive local image (Eden & Miller, 2004).

Not investing the additional resources required may hinder the development of a sizeable, profitable loan portfolio and thus, limit the growth of the MNB. The potential losses from bad loans will constrain the bank's investment and hamper its legitimacy in the eyes of the local supervisory bodies and peer institutions (Berger & DeYoung, 1997). Furthermore, slowness in building legitimacy with local institutions may affect the development of a bank's distribution and operations infrastructure, since local banks may be unwilling to sell or share critical assets (Eden & Miller, 2004). Consequently, market-seeking MNBs will invest additional resources to ensure that the risks associated with moderate levels of corruption are properly mitigated; hence, "defensive" investment may rise as corruption increases from low to moderate levels.

Moreover, a market-seeking MNB may perceive higher rewards in countries with high levels of corruption where the "rules of the game" are known. Managers may take advantage of the reduced uncertainty and engage in more "offensive" investment in the host country than those in low market-seeking banks, by creating the capacity in their bank to acquire and service a larger loan portfolio (Voyer & Beamish, 2004). As a result, it is expected that:

H3: The corruption – capital commitment relationship is positively moderated by market-seeking motives at both the descending and the ascending portions of the U-curve.

3. Methods

3.1. Sample and Data Quality

Hypotheses in the present study are tested on a dataset compiled from primary and secondary sources. Data on bank motives were collected through a mail survey, MNB financial data were accessed from the Banker's Almanac and information on institutions was gathered from the survey and country reports. A list of 385 multinational banks was compiled from the 2004 issue of the Bankers' Almanac and the survey was sent to management committee executives with international business responsibilities, as identified in the Banker's Almanac and the banks' web-sites. One or more surveys were sent to each bank, depending on the number of its foreign operations (one for every five foreign operations, up to a maximum of five surveys). Executives were asked to provide information about a recent foreign entry made by their bank in which they were personally involved. Phone calls were made 10 days after this request to confirm receipt and a second and third round of reminders followed, at three-week intervals. Of the 562 questionnaires sent, a total of 147 were returned (a response rate of 26%) of which 131 responses were usable for the study. The respondents were mostly members of the executive committee, managing directors of foreign operations or directors of international operations. Comparing the characteristics of the focal bank sample – country of origin, size and number of countries present – with the multinational bank population compiled from the Banker's Almanac indicated no significant differences, which attests to the representativeness of the sample. To further probe any self-selection bias, the Heckman's two-stage procedure was adopted by first running a probit model on the probability of foreign entry within five years, the period defined by the sample, using size, country of origin and Return on Equity (ROE) as the identifying variables. The

model and the variables were not significant. The Inverse Mills ratio calculated from this procedure was entered in subsequent analysis, but it was also insignificant.

The banks surveyed entered 40 different host countries with varying scores for corruption, based on Transparency's International CPI Index (Table 1).

Table 1 about here

Moreover, post-hoc data quality checks were performed. The data were tested for consistency by comparing the information on nine ventures, provided by two different respondents familiar with the particular entry decision, across all 7-point scale responses. 89% of the responses were within an interval or less, which is in line with the researcher guidelines (Shortell & Zajac, 1990). Non-response bias was assessed by asking thirty randomly selected non-respondents to complete a shorter version of the questionnaire. The responses and the organizational demographics of the sixteen participants were compared with the rest of the sample, indicating no statistically significant differences on any of these dimensions (p-values were above 0.21). Furthermore, those who responded to the first mailing were contrasted to those who responded to the second mailing across the same organizational demographics. Again, no statistically significant differences were found (p-values were above 0.26), thereby indicating that no non-response bias was present in the sample **(**Armstrong & Overton, 1977).

In addition, several measures were adopted in accordance with the suggestions by Podsakoff et al. (2003) to eliminate common method variance. To avoid situations where respondents could make a connection between exploratory and dependent variables, the

questions pertaining to market commitment and bank motivation were placed in different sections and pages of the questionnaire. Moreover, the dependent variable was calculated by combining primary and secondary data and corruption, the main exploratory variable, was derived from the secondary sources. Finally, confirmatory factor analysis verified construct validity for all three perceptual measures used. All the above preventive actions and the results of post-hoc investigation may indicate that common method bias posed no problems in this study (Chang et al. 2010).

4. Measures

4.1. Dependent variables

Market commitment is measured by the MNB's capital investment in the host country scaled by the bank's total capital (Pedersen & Petersen, 1998). The data on the capital committed in the host country at the time of the investment were provided by the respondents and, for most of the acquisitions (29 cases), were verified with data from public announcements. In 20 additional cases it was possible to cross-reference this information with a second executive. The bank's total capital at the time of the investment was taken from the Banker's Almanac. An alternative measure of the dependent variable, the percentage of the *Share of Equity* owned by the bank in the foreign venture at the time of entry (Chari & Chang, 2009), was measured from the data provided by the respondents (49 entries were cross-checked with a second source).

4.2. Exploratory variables

Three types of corruption measures are available, but all of these are subjective, since the elusive nature of corruption renders quantification difficult (Wei, 2000). The first type is based on ratings given by in-house experts, such as the ICRG ratings; the second type is based on surveys of business executives in the country under evaluation, for example, the Global Competitiveness Report; and the third type is an average of existing measures, such as the CPI Index. The latter is the most common measure used in corruption studies (Habib & Zurawicki, 2002; Judge et al., 2011; Weitzel & Berns, 2006). It is worth noting, however, that all corruption measures are highly correlated (Tanzi, 1998). In this study, *Corruption* is measured using the CPI Index, which incorporates expert surveys conducted by 12 different organizations. The score which takes values from 0 to 10 (0 indicating the highest degree of corruption) is reversed so as to be more intuitive. As a robustness test, the analysis was run using the Heritage Foundation's Corruption Freedom score derived from data originating from sources such as the U.S. Department of Commerce, the Country Commercial Guide, and the Economist Intelligence Unit. Corruption was measured at the year before the establishment of the foreign venture.

Market seeking motivation (Cronbach's alpha = 0.807) was measured by a four-item construct capturing the importance of the following motives at the time of the investment (on a Likert scale from 1-7): achieving growth through a local opportunity, lending to local customers, accessing deposits in local currency, and exploiting the bank's competitive advantage in the local market. Confirmatory factor analysis supported the validity of the construct (CMIN/DF= 0.474).

4.3. Control variables

A number of institutional and firm-specific variables found in previous studies to influence foreign market commitment were included in the analysis. Formal institutional factors may increase information asymmetries and transaction costs and consequently, create legitimacy constraints for the MNB and increase the costs of defaulting loans (Claessens & Van Hoven, 2012). Aggregate formal institutional measures were found to be highly correlated with corruption measures from secondary sources and, as a result, it was thought appropriate to develop perceptual measures for two commonly used factors, formal institutional differences between the home and the host country and country stability (Dikova et al., 2009; Duanmu, 2011; Uhlenbruck et al., 2006). *Institutional Differences* (Cronbach's alpha = 0.903) was measured by asking respondents to evaluate, on a Likert scale from 1-7, the differences between the home and host country across four formal institutional systems: legal, economic, political and business (Salomon & Wu, 2012). Confirmatory factor analysis confirmed the robustness of the construct (CMIN/DF= 0.635). *Country Stability* (Cronbach's alpha = 0.824) was measured by asking respondents to evaluate the political, economic and social stability at the time of the investment (Oetzel et al., 2001; Root, 1987). Confirmatory factor analysis validated the construct (CMIN/DF= 0.441).

The informal institutional environment was measured by two of Hofstede's cultural dimensions, Power Distance (PDI) and Uncertainty Avoidance (UAI), using the Kogut and Singh (1988) distance measure (Parboteeah et al., 2008; Weitzel & Berns, 2006). This approach was taken in response to criticism of the composite index for its

lack of theoretical relevance in foreign entry studies and its conflicting results (McSweeney, 2002; Kirkman et al., 2006).

Given the highly regulated nature of banking, the study controlled for both home and host country restrictions on foreign entry (Cerutti et al., 2007; Venzin et al., 2008). *Host Country Restrictions* and *Home Country Restrictions* were both dummy variables established by asking respondents to indicate whether the constraints in the host (home) country were imposed by state regulation or whether the local banking system regulator restrained the MNB from achieving its desired level of investment or share of equity in the host country. Responses were cross-checked with public information on country restrictions on foreign bank entry and on home bank investments in foreign countries.

Three firm level variables were included in the analysis. *Experience* measured by the number of years of presence in the host country, *Size* measured by the firm's total number of employees, and finally, *Acquisition*, a dummy variable capturing the type of entry in the host country.

5. Results

Table 2 shows the descriptive statistics and correlations. Most variables, consistent with prior literature, correlated with the dependent variable and exhibited the expected sign. The highest correlation was 0.395 which may indicate that multicollinearity did not pose a problem for the analysis. This was further supported by the variance inflation factor values from the regression analysis, which were lower than the threshold of 10, and, the tolerance values which were higher than the threshold of 0.10 (Hair et al., 1998).

Insert Table 2 about here

To investigate the hypothesis about the U-shaped relationship between corruption and *Capital Invested*, a number of diagnostic tests were performed namely, the Chow test to identify structural break points in the data and a scatter plot fitted with a quadratic equation. The Chow test, which is a variation of the F-test for a restriction, establishes whether two regression lines fit the data better than one regression line at a particular point by calculating an F-statistic using the residual sum of squares of the regression lines. A significant F-statistic indicated that there was a structural break at this point. Table 3 shows that there are break points in our data around the corruption level of 5. Moreover, the scatter plot shown in Figure 1 indicates that a quadratic U-shaped curve fits the data.

Insert Table 3 about here

Insert Figure 1 about here

Given that the diagnostic tests point towards a non-linear relationship, we proceed to test our hypotheses by running Tobit models, since the dependent variable *Capital Invested* is constrained. Table 4 shows the results of the Tobit analysis. Model 1 considers the effect of the control variables, except for the two formal institutional

factors, *Institutional Differences* and *Country Stability*, which are examined separately in Model 2 so that their influence is contrasted with corruption to provide unambiguous evidence regarding the factors associated with *Capital Invested* (Weitzel & Burns, 2006). Model 3 investigates a non-linear relationship between *Corruption* and *Capital Invested* by including a linear term and a quadratic term. Model 4 assesses separately the effect of *Market Seeking* motivations and Model 5 and Model 6 consider the moderating effect of *Market Seeking*. All the models are statistically significant ($p<0.01$), as indicated by the Likelihood Ratio X^2, and the addition of variables of interest significantly improves the explanatory power of each model ($p<0.05$), as indicated by the change in the Likelihood Ratio X^2.

Insert Table 4 about here

Models 3-6 in Table 4 show that the linear coefficient of corruption is negative and significant ($p<0.01$), whereas the quadratic coefficient is positive and significant ($p<0.05$) providing evidence of a U-shaped relationship, in support of Hypothesis 1. These findings indicate that, as corruption changes from low to moderate levels, the *Capital Investe*d falls to its minimum level (at around the corruption level of 5) and, as corruption changes from moderate to high levels, investment increases. These findings provide evidence at low to moderate levels of corruption for the "grabbing hand" view (Habib & Zurawicki, 2002, Wei, 2000) and, at high levels of corruption, for the "helping hand" view (Lui, 1985; Wheeler & Mody, 1992). Moreover, the addition of the corruption terms increases the significance of Model 3 ($p<0.01$), revealing that corruption

has a significant effect on capital commitment, in addition to the effects of the formal institutional factors. Models 4-6 of Table 4 display coefficient estimates for *Market Seeking* motivations, which show a positive significant effect ($p<0.01$) on *Capital Invested*, providing support for Hypothesis 2 and are in line with the scholarly arguments about the liability of foreignness (Eden & Miller, 2004; Luo, 2004). Models 5 and 6 in Table 4 show respectively that the interaction of *Market Seeking* motivations with the linear coefficient of *Corruption* is positive and significant (p-value<0.01), and the interaction of *Market Seeking* motivations with the quadratic coefficient of *Corruption* is positive and significant (p-value<0.01). These findings provide support for Hypothesis 3, that market-seeking motives positively moderate the *Corruption-Capital Invested* relationship at both low to moderate levels of corruption and at high levels of corruption.

A number of control variables are shown in Model 1 and 2 in Table 4 to significantly influence the MNB's capital Investment. PDI and UAI distance, home and host country restrictions and bank size are all found to have a negative effect on MNB market commitment. Moreover, country stability has a positive effect.

5.1. Robustness analyses

Additional analysis was performed to investigate the robustness of the findings by employing *Share of Equity* as an alternative measure of market commitment (Chari & Chang, 2009). The diagnostic tests show results which are similar to the previous analysis (please see Table 5 and Figure 2).

Insert Table 5 about here

Insert Figure 2 about here

Subsequently, we employed Tobit analysis on the same exploratory and control variables as shown in Table 6. The results remained qualitatively similar to those presented above, supporting all three hypotheses. The sensitivity of the non-linear findings was further investigated by using an alternative measure of corruption, the Heritage Foundation's Corruption Freedom score. Results indicate a U-shaped relationship, which further supports the robustness of the findings (the results are not presented here, but are obtainable from the authors).

Insert Table 6 about here

A central theme of this study is that the uncertainty perceived in the host country due to corruption interacts with the bank's growth motives to determine the level of market commitment. Our findings suggest that growth motives dominate because market-seeking banks invest more capital than non market-seeking banks do for similar levels of corruption. To investigate the robustness of this finding, we replaced the corruption and market-seeking motives in our models with two ex ante variables which measure the perceived risk and opportunity in the host country: the percentage of non-performing banking loans and the average ROE in the banking sector respectively. Data were gathered from the IMF's Global Financial Stability Report through the World Bank's

Databank. The average for the three years before entry was calculated for these two variables. The results reported in Table 7 show that non-performing loans have a negative and significant effect on capital investment ($p<0.05$) and the ROE has a positive and significant effect on capital investment ($p<0.01$). These findings are in line with our risk-return argument. We also assess the importance of these two variables by estimating the change of the dependent variable when a variable of interest changes from low values (25^{th} percentile) to high values (75^{th} percentile) while all other variables are taken at their average value. This analysis shows that increasing the ROE contributes to a 33% increase in *Capital Invested*, whereas increasing non-performing loans contributes only to a 13% decrease in *Capital Invested*. These results provide support for our findings of the dominant effect of market-seeking motives on market commitment.

Insert Table 7 about here

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6. Discussion and conclusion

The findings indicate a U-shaped relationship between corruption and two measures of market commitment: the capital invested and share of equity. At low to moderate levels of corruption, there is evidence of the "grabbing hand" view and at high levels of corruption there is support for the "helping hand" view. We argue that the determining factor is the perceived uncertainty (Rodriguez et al., 2005), which is higher at moderate levels of corruption where bribery is opportunistic and random (Shleifer & Vishny, 1993) and lower at high levels of corruption where the bribing system is more

organized and the "rules of the game" are known (Wei, 1997). MNBs which enter a host country find it hard to access resources (Mian, 2006), depending on the level of corruption in the host country. Moderate levels of corruption may be associated with the highest level of difficulty, thus constraining MNB capital commitment. However, at a high level of corruption it may be more obvious to the bank how to minimize the risks of entry, thereby committing more resources. These findings may raise important issues for host countries with moderate levels of corruption, such as Hungary and Malaysia, which may need to address corruption more radically than highly corrupt countries, such as Indonesia and Vietnam, as the potential loss of MNB capital is high (Clarke et al., 2003).

The findings also show that market-seeking motives positively moderate the relationship at both low to moderate levels of corruption and at high levels of corruption. We argue that, at moderate levels of corruption where uncertainty is high, the investment may be defensive in nature, aiming to protect the bank from the difficulties of corruption and safeguard the MNB's growth aspirations; whereas, at high levels of corruption where uncertainty is lower, investment may be offensive, aiming to develop the capacity to increase the loan portfolio and potential rewards. This finding is in line with country-level studies showing that market-seeking investment compensates for the costs of corruption (Brouthers et al., 2008; Egger & Winner, 2005). However, this firm level study identifies the specific challenges for entrants. Banks may face problems with the quality of information, with gaining legitimacy, and with protecting contracts which may lead to higher loan defaults (Lensink et al., 2008; Mian, 2006). This is a bigger problem at moderate levels of corruption and banks may invest in additional staff to enhance their ability to assess and monitor loans and in marketing to build external legitimacy.

This study makes a number of contributions. First, it sheds light on the debate about the effects of corruption on FDI. The findings that both views hold but at different levels of corruption may help consolidate the current theoretical arguments and better interpret empirical findings. Moreover, the results suggest that depending on the level of corruption, multinationals may need to make different choices in managing corruption in host countries, thus opening up a new avenue of research on MNEs' selection of a country and their foreign market entry strategies.

Moreover, the study advances the firm internationalization literature by extending the limited research on the influence of corruption on foreign entry strategies. Drawing on the resource dependence theory and the institutional theory, we provide an explanation of resource commitment to the risks of host country corruption. By theorizing that banks' growth motives dominate the risks of corruption and that banks invest additional resources in corrupt countries to mitigate these risks, the study advances our understanding of the types of risk and cost that MNBs experience in host countries and how the firms respond. This study complements current studies which employ transaction cost analysis or institutional theory to evaluate choices of mode of entry and acknowledges that government corruption is an important determinant of foreign entry decisions.

Finally, this study contributes to the banking literature by examining corruption, a little studied phenomenon with significant implications for MNB growth. Corruption may create high potential costs for bank foreign operations, and this study discusses how banks manage at different levels of corruption through managing their resource allocations. This is an important issue for investors and host countries alike, given that

MNBs through their capabilities and resources contribute to the efficiency of local banks and the funding of local institutions and businesses (DeHaas & Naaborg, 2006).

6.1. Managerial relevance

The study finds evidence for both the "grabbing hand" view and the "helping hand" view of corruption. Therefore, managers may need to decide how to manage corruption in the host country. Highly corrupt countries may pose an advantage for MNBs which are prepared to consider bribery demands. However, in countries with moderate levels of corruption, bribing is less effective and corruption carries a high price for all MNBs. Nevertheless, banks which pursue growth strategies may face bigger challenges since corruption significantly increases the liability of foreignness and exposes a firm's investment to systematic risk, i.e. to volatility in performance which managers cannot control. In this environment, entry strategy may not be driven solely by managers' growth aspirations, but rather, by a pragmatic interplay of costs and benefits to establish the level of market commitment. The study identifies potential corruption costs which bank managers may consider when pursuing market-seeking strategies.

6.2. Limitations and future directions

This study is not without weaknesses. First, due to the study's cross-sectional design, firms' motivations and decisions are captured before each MNB experiences corruption in the host country. A longitudinal study may benefit from examining different stages of commitment as the MNB learns how to deal with corruption. The second weakness is that corruption is measured using the traditional notion of corruption, the

bribery of government officials, which is too narrow to capture fully how corruption surfaces in private party dealings. Consequently, the demand to collect corruption data not only at government level but also at firm level is well substantiated (Reinikka & Svensson, 2005). Finally, the study examines a single industry and this may limit the generalization of the findings. As discussed above, banking is a highly regulated industry and corruption may significantly increase the risks and potential costs; our results may therefore present a worst case scenario.

Given that this is the first study to examine a non-linear relationship between corruption and foreign market commitment more studies may follow this approach to assess the salient factors which affect entrants' perception of the "grabbing hand" and the "helping hand". Is there a learning effect? Do entrants change their market commitment strategies as they accumulate experience from entering other corrupt countries? And which countries may seem to be better learning grounds? Moreover, in this study we suggest that the potential costs of corruption may differ according to firm-specific factors such as firms' strategic motivation, their monitoring of agency relationships and their level of legitimacy. Establishing empirically which parent characteristics may influence the magnitude of the corruption costs encountered by a local subsidiary may help foreign entrants to assess and manage corruption more effectively.

In conclusion, we find evidence for both the "grabbing hand" view of corruption and the "helping hand" view. In addition, we find that corruption does not deter bank managers seeking growth from investing additional resources in the host country.

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Table 1 Host Countries and corruption

Country	CPI Rating 2002
Brazil	4.0
Canada	9.0
Chile	7.5
China	3.5
Columbia	3.6
Czech Republic	3.7
Egypt	3.4
France	6.3
Ghana	3.9
Germany	7.3
Greece	4.2
Hong Kong	8.2
Hungary	4.9
Indonesia	1.9
Ireland	6.9
Israel	7.3
Italy	5.2
Kenya	1.9
Luxemburg	9.0
Malaysia	4.9
Mexico	3.6
Netherlands	9.0
Philippines	2.6
Poland	4.0
Russia	2.7
Singapore	9.3
Slovakia	3.7
South Africa	4.8
South Korea	4.5
Spain	7.1
Sweden	9.3
Switzerland	8.5
Tunisia	4.8
Turkey	3.2
UAE	5.2
UK	8.7
US	7.7
Uruguay	5.1
Vietnam	2.4
Zambia	2.6

Table 2 Descriptive statistics and correlations between the variables

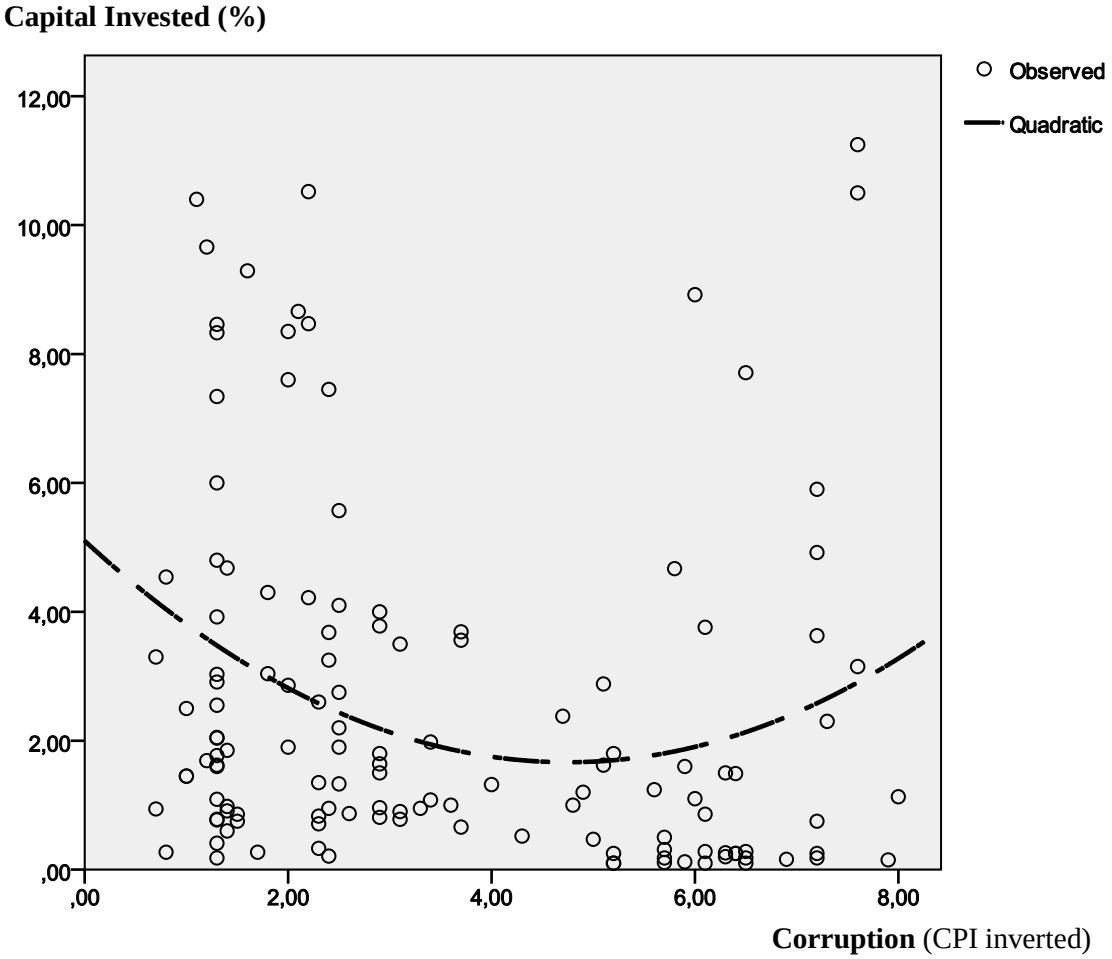
Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. Capital Invested (ratio)	0.036	0.037											
2. Size (# of employees 00s)	180	240	-0.050										
3. Local Experience (Years)	12.24	34.80	0.109	0.126									
4. PDI Distance	1.34	2.71	-0.179*	-0.090	-0.087								
5. UAI Distance	1.64	2.25	-0.144	0.036	-0.131	0.000							
6. Institutional Differences	4.02	1.45	-0.177*	-0.130	0.132	0.237**	-0.148						
7. Country Stability	4.40	1.38	0.183*	0.023	-0.104	0.221	0.126	-0.329					
8. Host Country Restrictions	0.12	0.32	-0.246**	-0.114	-0.114	0.050	0.091	-0.042	0.156				
9. Home Country Restrictions	0.076	0.26	-0.180*	-0.298**	-0.092	0.082	-0.084	0.177*	0.042	0.202*			
10. Acquisition	0.33	0.47	0.066	0.195*	0.058	-0.059	-0.136	0.035	-.006	-0.030	0.110		
11. Market Seeking	4.65	1.19	0.219**	0.144	0.068	0.172*	0.056	- 0.194*	-0.126	-0.151	-0.296**	0.217*	
12. Corruption (CPI reversed)	3.49	2.12	-0.226**	0.093	-0.138	0.334**	0.057	0.395**	-0.258**	0.346**	0.220**	-0.080	0.169

*p<0.05 level (two-tailed); **p<0.01 level (two-tailed); n=131

Table 3 Chow test for structural change on the Corruption – Capital Invested relationship

Structural Change Test					
Break Point		Num DF	Den DF	F Value	Pr > F
Corruption	Capital Invested				
5.0	0.47	2	127	3.38	0.037
5.1	1.62	2	127	3.52	0.032
5.2	1.80	2	127	3.61	0.030

F**igure 1** Scatter plot with quadratic equation fit



Fit statistic: F(2,128)= 4.3, p=0.01

Table 4 Results of Tobit regression analysis on Capital Invested

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Log Size	-0.613*	-0.703**	-0.563*	-0.575*	-0.451	-0.478
	(0.351)	(0.344)	(0.337)	(0.330)	(0.322)	(0.320)
Local Experience	0.004	0.006	0.006	0.004	0.005	0.004
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
PDI Distance	-0.134	-0.201**	-0.214**	-0.238***	-0.284***	-0.289***
	(0.086)	(0.087)	(0.086)	(0.085)	(0.083)	(0.083)
UAI Distance	-0.146	-0.177*	-0.239**	-0.245**	-0.207**	-0.216**
	(0.105)	(0.102)	(0.099)	(0.097)	(0.095)	(0.095)
Host Country Restrictions	-1.577**	-2.222**	-2.074**	-1.730**	-0.161	-0.114
	(0.766)	(0.790)	(0.787)	(0.784)	(0.779)	(0.778)
Home Country Restrictions	-2.409**	-2.082**	-1.431	-0.891	0.358	0.411
	(0.998)	(0.986)	(0.980)	(0.986)	(1.033)	(1.034)
Acquisition	0.463	0.492	0.567	0.736	0.735	0.680
	(0.503)	(0.490)	(0.473)	(0.469)	(0.455)	(0.455)
Institutional Differences		-0.184	-0.286	-0.287	-0.222	-0.219
		(0.173)	(0.180)	(0.176)	(0.172)	(0.172)
Political stability		0.391**	0.531***	0.527***	0.486***	0.476***
		(0.188)	(0.197)	(0.193)	(0.188)	(0.188)
Corruption			-4.179***	-4.230***	-3.364***	-3.277***
			(0.169)	(0.147)	(1.143)	(1.146)
Corruption Squared			3.819***	3.706***	2.634**	2.497**
			(1.157)	(1.136)	(1.149)	(1.158)
Market Seeking				0.581**	0.641***	0.661***
				(0.240)	(0.234)	(0.234)
CorruptionXMarketSeeking					0.824***	
					(0.260)	
CorruptionSquaredXMarketSeeking						0.873***
						(0.268)
Log Likelihood (LL)	-306.03	-302.54	-296.31	-293.42	-288.51	-288.24
Likelihood Ratio X^2	21.34***	28.33***	40.79***	46.56***	56.39***	56.92***
Δ Likelihood Ratio X^2		6.99***	12.46***	5.77**	9.83***	10.36***

N=131

***p<.01; **p<.05; * p<.1 (two-tailed); unstandardized regression coefficients with standard errors in parenthesis are reported

Table 5 Chow test for structural change on the Corruption – Share of Equity relationship

Structural Change Test					
Break Point		Num DF	Den DF	F Value	Pr > F
Corruption	Share of Equity				
4.7	80	2	127	3.08	0.049
4.8	37	2	127	3.44	0.035
4.9	50	2	127	3.14	0.046
5.0	10	2	127	3.08	0.049

Figure 2 Scatter plot and quadratic equation fit

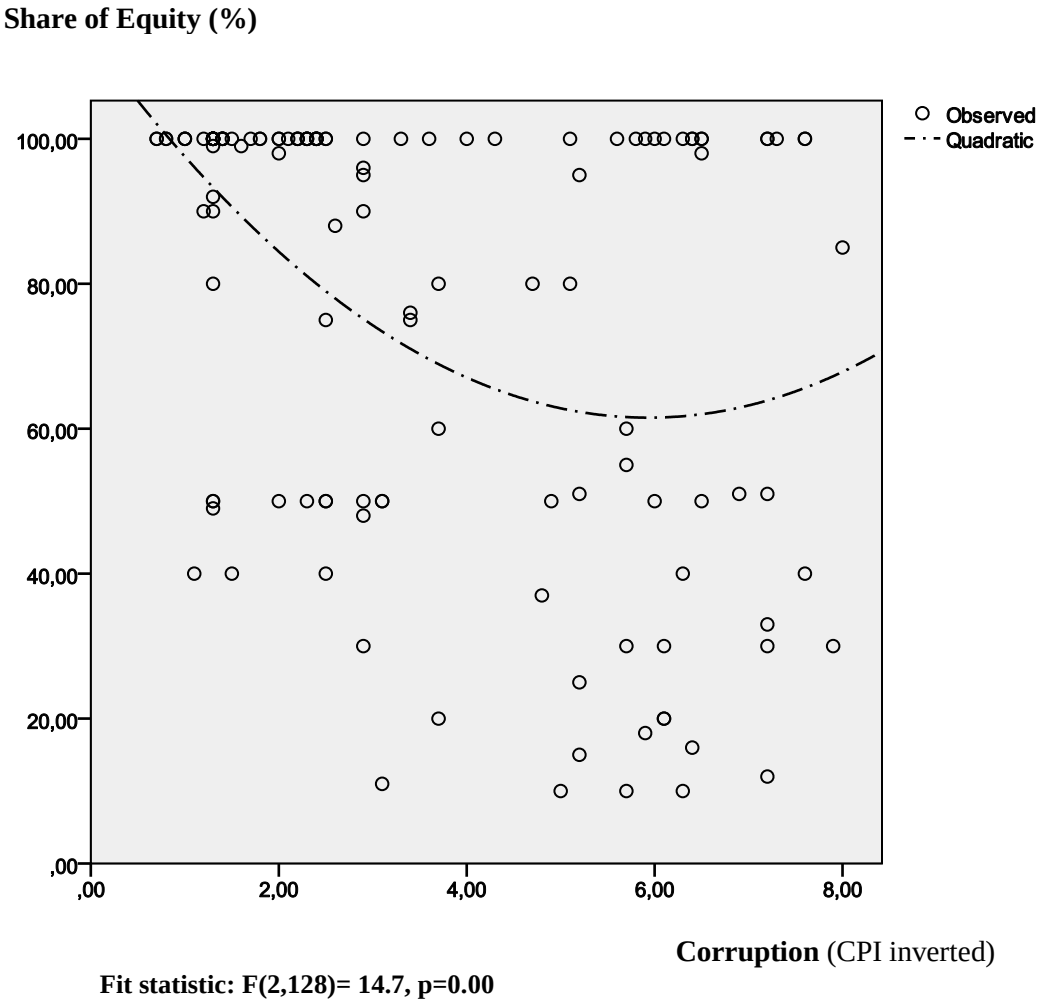


Table 6 Results of Tobit regression analysis on Share of Equity

	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
Log Size	-8.716	-9.164	-4.363	-4.533	-3.677	-3.909
	(6.979)	(6.922)	(6.662)	(6.456)	(6.327)	(6.303)
Local Experience	-0.105	-0.087	-0.107	-0.121	-0.119	-0.122
	(0.123)	(0.122)	(0.115)	(0.112)	(0.109)	(0.109)
PDI Distance	-3.066*	-3.239*	-2.901*	-3.370**	-4.018**	-4.068**
	(1.608)	(1.658)	(1.593)	(1.557)	(1.557)	(1.567)
UAI Distance	0.088	0.0278	-1.040	-1.032	-0.086	-0.963
	(2.091)	(2.086)	(2.061)	(2.002)	(1.929)	(1.928)
Host Country Restrictions	-50.673***	-55.325***	-47.206***	-41.836***	-36.162***	-36.288***
	(13.516)	(14.337)	(14.016)	(13.736)	(13.581)	(13.574)
Home Country Restrictions	-50.192***	-46.468**	-29.121*	-19.402	-4.886	-4.421
	(17.858)	(17.856)	(17.414)	(17.277)	(18.032)	(18.187)
Acquisition	-7.713	-8.878	-6.827	-3.498	-3.766	-4.105
	(9.615)	(9.520)	(9.124)	(8.956)	(8.695)	(8.702)
Institutional Differences		-4.405	-7.715**	-7.534**	-6.676**	6.650**
		(3.371)	(3.525)	(3.406)	(3.320)	(3.317)
Political stability		-3.953	0.999	1.128	0.709	0.654
		(3.700)	(3.907)	(3.859)	(3.747)	(3.752)
Corruption			-79.875***	-76.822***	-66.698***	66.426***
			(23.277)	(22.511)	(22.293)	(22.318)
Corruption Squared			64.290***	59.289***	48.177**	47.565**
			(22.431)	(21.759)	(21.727)	(21.815)
Market Seeking				10.376**	9.857**	10.352**
				(4.467)	(4.353)	(4.348)
CorruptionXMarketSeeking					10.372**	
					(4.874)	
CorruptionSquaredXMarketSeeking						10.508**
						(5.081)
Log Likelihood (LL)	-362.83	-361.69	-354.21	-351.53	-349.28	-349.40
Likelihood Ratio X^2	40.34***	42.61***	57.57***	62.93***	67.43***	67.20***
Δ Likelihood Ratio X^2		2.27	14.96***	5.36**	4.50**	4.27**

N=131

***p<.01; **p<.05; * p<.1 (two-tailed); unstandardized regression coefficients with standard errors in parenthesis are reported

Table 7 Results of Tobit regression analysis of ROE and Loan Defaults on Capital Invested

	Model 1	**Model 2**	**Model 3**
Log Size	-0.695**	-0.653**	-0.626*
	(0.333)	(0.326)	(0.317)
Local Experience	-0.006	-0.006	-0.005
	(0.006)	(0.006)	(0.006)
PDI Distance	-0.205**	-0.179**	-0.215**
	(0.085)	(0.083)	(0.082)
UAI Distance	-0.183*	-0.153	-0.110
	(0.099)	(0.098)	(0.096)
Host Country Restrictions	-2.035***	-1.574**	-1.284*
	(0.760)	(0.766)	(0.751)
Home Country Restrictions	-1.994**	-1.675*	-1.732*
	(0.952)	(0.940)	(0.913)
Acquisition	0.498	0.405	0.498
	(0.475)	(0.466)	(0.453)
Institutional Differences	-0.178	-0.222	-0.221
	(0.167)	(0.165)	(0.160)
Political stability	0.399**	0.514***	0.432**
	(0.181)	(0.183)	(0.180)
Non-performing loans		-0.626**	-0.596**
		(0.254)	(0.254)
ROE			0.632***
			(0.224)
Log Likelihood (LL)	-304.99	-302.03	-298.17
Likelihood Ratio X^2	28.45***	34.36***	42.09***
Δ Likelihood Ratio X^2		5.91**	7.73***

Predicted value (ROE at 75%)/Predicted value (ROE at 25%) = 1.329

Predicted Value (N.P. Loans at 25%)/Predicted value (N.P. Loans at 75%) = 1.132

N=131

***p<.01; **p<.05; * p<.1 (two-tailed); unstandardized regression coefficients with standard errors in parenthesis are reported