

# Influence of Globalization on Corruptions in Companies of Emerging Nations

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**ABSTRACT.** *Based on data from World Bank's Entrepreneurs Survey, it examines the influence of globalization on corruptions in companies of five emerging nations (China, Brazil, India, Russia, and Indonesia). Under the guidance of institutional theory and organizational learning theory, an data analysis was made which reveals that corruptions in companies of emerging nations is decreasing once they enter the global market.*

**KEYWORDS:** *Globalization; Corruption; Emerging Nations; Institutional Theory; Organizational Learning Theory*

## 1. Background

Today the globalization of companies has become a hot topic since the economic globalization has been accelerated in 21<sup>st</sup> century. For a company, globalization is the process by which it increase its awareness of the direct and indirect influences of global transactions on its future while conduct business with companies of other countries (Beamish, 1990). In recent years, globalization was taken by those companies in developed countries firstly and then immediately followed by more and more companies in emerging nations. At last, globalization in emerging nations has grown unprecedentedly and attracted the eyes of the whole world. Nevertheless, some weaknesses in the process of globalization became apparent after the companies of emerging nations expanded into new markets in foreign countries. Corruption in these companies is such a typical problem. As EY's research shows that 42% of the companies of emerging nations thought that in their daily operations, fraud and corruption are the main barriers. 52% of these companies believed that corruption behaviors are fast growth in emerging nations(Anca, 2018).

When entering new markets, those companies from emerging nations will alter their business strategies and behaviors to adapt to new markets and institutions. Then will the corruption behaviors in them accordingly be influenced to decrease during the process of globalization?

## **2. Theories and Hypothesizes**

Hypothesis in this paper is built on both institutional and organizational learning theory.

Institutional theory examines organizational forms to explain why organization possess similar characteristics or forms within same 'organizational fields'. In the organizational field, organization likely to adjust their behaviors and forms under institutional pressures. Firms are "rewarded for changing through increased legitimacy, resources, and survival capabilities" (Scott, 2001). Then will the organizations in this study, companies of emerging nations, will be strongly influenced by the market environment where these companies operate in.

According to Cyert and March (1963), organizational learning is defined as during operating in different markets, organizations as collectives can learn from internal and external environment. Previous studies analysis globalization and organizational learning theory discovered that firms' globalization performance can be greatly affected by organizational learning (Hsu and Pereira, 2006). The globalization of a company is conducive to make it highly involved in organizational learning. Meanwhile, organizational learning can also contribute to make a company perform better. Just as Zhu et al. (2012) have found that in globalization processes, Chinese companies can learn more environmental-related regulations and rules from international organizations or other markets' institutions and then reduce their un-environmental friendly behaviors.

Based on the combination of the institutional theory and organizational learning theory, this research hereby raises the hypothesis that when companies of emerging nations enter global markets, they will under more pressures from international or markets' institutions. Thus these firms can get more institutional or regulation-related knowledge and limit their corrupt behaviors.

## **3. Data and Methodology**

World Bank's Enterprise Surveys is the source of this papers' data. This Surveys was established in 2002, through direct interviews with entrepreneurs in different companies around the world, the survey collected various qualitative and quantitative information. The dataset in this study observes five representative emerging countries, which are China, India, Brazil, Russia, and Indonesia. Compared with developed countries, policy environments in these countries are relatively instable, political institutions are incomplete, and market related regulations and rules are inadequate. The five emerging nations selected here play more and more important roles in international market and are releasing greater and greater growth potential. Hence, the analysis result based on companies of the five nations are highly representative. In Table 1 the number of samples and the time of collecting data in each country are provided. It can be seen that 11,213 firms are included as samples in this research. Foreign-owned companies are excluded in the samples, because according to institutional theory and organizational learning theory,

they have already learned more from their daily business and may exert a negative influence on the hypothesis.

*Table 1. Sample description*

Nation	Year	Number	Percent
Brazil	2009	1,029	9.18
China	2012	1,506	13.43
India	2014	5,449	48.59
Indonesia	2009	795	7.09
Russia	2012	2,434	21.71
Total		11,213	100.00

### **3.1 Data**

#### **3.1.1 Dependent variable**

In this study, payment expectation of companies to bribe will be selected as a dependent datum. There are two values for data collected here: 0% stands for no paying to public bureaucrats and 100% stands for paying. Hence, the analysis of this study use dummy variables to describe these results: 1=100% and 0=0%.

#### **3.1.2 Independent variable**

In this study, the proportion of total sales that are exported directly is taken as the independent variable in order to measure the degree of globalization. As we know, the number of exporting sales and profits can straight illustrate exporting businesses' profit and slaes. Hence, as Shankar (2010) points out that researchers always take these data as a tool to measure globalization,

#### **3.1.3 Controlled variables**

In this research, the first controlled variable is percent of companies believing the court system is fair, impartial, and uncorrupted. There are two values for the data collected: 0=firmly disagree and be likely to disagree; 1=be likely to agree and powerfully agree.

The second controlled variable is percent of companies identifying the courts as a major constraint. There are two values for the data collected: 0=entrepreneurs take other factors as main barriers, 100=entrepreneurs take courts as foremost or very serious barrier. These data are converted into dummy variables: 1=100, 0=0.

The third controlled variable is the depth of bribery. The depth of bribery refer to the percentage of institutions that expect or request firms to provide a gift or informal payment during their operation terms. There are also two values for the data collected: 100=expected or requested to provide a gift or informal payment; 0=neither expected or requested to provide a gift or informal payment. These data are also converted into dummy variables in regression analysis: 0=0, 1=100.

The fourth controlled variable is proportion of state ownership in a company (%), which refers to the proportion of the company ownership controlled by the state. This is a variable to manage the ownership of a company. Compared with non-state-owned companies, SOEs (state-owned entrepreneurship), as China's state-owned enterprises have huge concessions in financing and government support (Cheung et al, 2015). This variable of proportion will be controlled in the following analysis.

The fifth controlled variable is the size of a company. The definition of SME (small medium enterprise) is the amount of workers in the company is lower than 100. The study converts firms size into dummy variables: 1=the firm is SME; 0=the firm is not SME. Avram and Kühne (2008) believe that, compared with sizable firms, SMEs relatively have restricted resources and scarce formal procedures, and most of their CSR guidelines are informal and undisclosed. When they enter the global markets, it is hard for them to learn and practice CSR related principles.

The last control variable is the percentage of companies with female ownership. The answer maybe yes or no. The study transfer answers into dummy variables: 0=No and 1=Yes. Numerous papers have confirmed a significant relationship within the percent of female participation in firms and small amounts corruption in various social background (Dollar et al., 2001).

### 3.2 Methodology

On account of the fact that bribery expectation of companies is a probability of an event and among independent and control variables there are dummy variables, so the linear probability model will be adopted.

Original model is shown as following:

$$\text{Corruption} = \alpha + \beta_1 * \text{Export} + \beta_2 * \text{courtsys} + \beta_3 * \text{ccrt} + \beta_4 * \text{sme} + \beta_5 * \text{Bd} + \beta_6 * \text{Own} + \beta_7 f_0 + \epsilon$$

$$F_{\text{corr}} = \begin{cases} 0 \\ 1 \end{cases}$$

corruption=firms' expectation for bribery (to get things done)

Export= firms' exported directly sales occupied percentage in total sales(%)

Courtsys=the operating markets' court system is fair or not

Ccrt= the courts is major barrier or not

Sme=small and medium size firms or not

Bd=Bribery depth (officials want firms to give bribery or not)

Own= percentage of firms' ownership with government engage

Fo=female engage in firms' ownership or not

Because there are dummy variables in independent variables and dependent variables, logit regression will be adopted to analyze data collected in this study.

Following is the model after regression:

$$\text{Ln}(\text{Corruption}/(1-\text{Corruption})) =$$

$$\alpha + \beta_1 * \text{Export} + \beta_2 * \text{courtsys} + \beta_3 * \text{ccrt} + \beta_4 * \text{sme} + \beta_5 * \text{Bd} + \beta_6 * \text{Own} + \beta_7 \text{fo} + \varepsilon$$

#### 4. Data Analysis and Result

Multicollinearity will be tested first by figuring out the Pearson correlation whose value is between -1 and 1. Cohen (1988) define there is no collinearity when the absolute value of Pearson correlation coefficient  $|r| < 0.1$ ;  $0.1 < |r| < 0.3$  shows small correlation; moderate correlation when  $0.3 < |r| < 0.5$ ; and  $|r| > 0.5$  means sharp correlation. Table 2 illustrates coefficient values are all under 0.3, so there are no signs of correlation.

Table 2. Pearson correlation coefficient

	export	fo	courtsys	ccrt	sme	bd	own
export	1						
fo	0.027***	1					
courtsys	0.085***	0.067***	1				
ccrt	0.034***	0.060***	-0.015**	1			
sme	0.214***	0.044***	0.086***	0.012*	1		
bd	0.011	0.012	0.068***	0.132***	0.004	1	
own	-0.009	0.084***	0.048***	0.049***	0.049***	-0.015**	1

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.1

logistic regression analysis was shown in table 3. Model 1 is the original regression model. At  $\alpha=0.05$  the poe shows no significant relationship with the log-odds of fcorr. If the independent or control variables related less to dependent variable in logit regression, the regression result may not correct. From the result of model 1, it can be discovered that when  $\alpha=0.05$ , sme and own are also not significantly correlated with the log-odds of corruption( $p=0.074 > 0.05$ ;  $p=0.690 > 0.05$ ). Consequently, model 2 was adopted in this study for regression, sme and own are deleted in model 2. Result of model 2 in Table 3 shows that the independent variable export is significantly link to the log-odds of corruption when  $\alpha=0.1$ ( $p=0.068 < 0.1$ ).

Result of model 2 also illustrate that when the export increases by 1 unit, the log-odds of the probability of corruption will decrease by 0.0023. This illustrates that export has a negative influence on the probability of corruption. In this paper, international level is measured by the percentage of exporting sales in firms' total sales, and the probability of a firms likely to give bribery to officials is adopted to measure the probability of its corruption. Hence, the hypothesis in this paper can be accepted.

Table 3. Logistic regression result

	<b>Model 1</b>	<b>Model 2</b>
	Coefficient	Coefficient
export	-0.0023(0.158)	-0.0029*(0.068)
fo	0.2167***(0.000)	0.2140***(0.000)
courtsys	-0.3483***(0.000)	-0.3551***(0.000)
ccrt	0.7463***(0.000)	0.7444***(0.000)
sme	0.1168*(0.074)	---
bd	0.0180***(0.000)	0.0181***(0.000)
own	0.0023(0.690)	---
cons	-1.9388***(0.000)	-1.8437***(0.000)

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.1

## 5. Discussion

The relationship between the globalization of companies in emerging nations and their corruption behaviors is examined in this research. In the context of economic globalization, progressively more companies in emerging nations have started their internationalization. Simultaneously, their corporate behaviors have become more and more obvious. In many emerging markets, firms corruption is still a serious

CSR issue, thus to analysis how firms change these behaviors during their globalization is necessary.

Through the above analyses, it is clear that globalization of a company has a negative correlativity with its corrupt behaviors. It shows that when a company increases its globalization level, they will likely to limit their corrupt behaviors. Therefore, the hypothesis of this paper can be accepted. Through applying institutional theory and organizational learning theory in illustrating the result, reasonable explanation of positive influence of globalization on the corrupt behaviors of companies in emerging nations can be given. Compared with developed nations, the market supervision systems of emerging nations are comparatively imperfect. Entrepreneurs may even asked by market executives for providing bribes to ensure their corresponding benefits and privileges. According to institutional theory, a company may alter its behaviors under pressures of institutions. A company will be willing to corrupt if it can get more resources and capabilities for surviving and social acceptance through their change. The same view also given in Organizational learning theory that for surviving and getting more resources, firms are eager to learn and apply more knowledge from their operating markets. In emerging nations, influenced by government working practices, bribery has already be seen as a normal way for firms to obtain market resources. Consequently, companies in emerging nations are more likely to make a bribe. After conducting business outside their nations, more pressures will be given by new market and national institution to emerging nations' firms. These pressures and obstacles push firms to acquire more institutional related knowledge and adjust their behavior to better suit the requirements of markets and societies. Thus, firms' corruption behaviors will be reduced in the process of learning and changing.

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