

# The Effect of Corruption on Foreign Direct Investment Survival in Emerging Economies

Empirical evidence from Indonesia

Frédéric Prévot (\*), Virginie Vial  
Euromed Management

[frederic.prevot@euromed-management.com](mailto:frederic.prevot@euromed-management.com), [virginie.vial@euromed-management.com](mailto:virginie.vial@euromed-management.com)

## Abstract

In this paper, we analyze the effect of corruption on foreign wholly-owned subsidiary survival in an emerging country. Contrary to previous studies that have focused on international comparison of government corruption, we use single-country firm-level corruption data. Applying an event history analysis to a population of 3 764 MNE wholly-owned subsidiaries in Indonesia over a 33-year period (1975-2007), we test the influence of bribes and indirect taxes on survival. Results show that corruption moderates the hazard rate for young subsidiaries, but this corruption effect disappears for older ones.

## Introduction

The relationship between corruption and FDI survival is paradoxical. On the one hand, corruption is an indicator of institutional inefficiency and is generally seen as detrimental to economic growth, entrepreneurship, and FDI because of the waste of resources in bribes and non-productive activities. On the other hand, in a corrupted environment, the payment of bribes may grease-the-wheel and moderate the effect of excessive and inefficient regulations. It may also compensate for the liabilities of foreignness in that it can alleviate complex procedures, delays and lack of social capital [1, 2, 3].

In this study, we test the influence of plant-level corruption on the survival of foreign wholly-owned subsidiaries in emerging economies. Former studies have investigated the influence of corruption on entry strategies [e.g. 4, 5, 6, 7] and some have analyzed the relationship between corruption and the survival of MNE subsidiaries in emerging economies [8, 9]. However, all these studies focus on government corruption and do not test the influence of the payment of bribes at the subsidiary level. Our perspective is unique in that it integrates two measures of corruption at the plant level across a large population (3764 subsidiaries) and over a long period (1975-2007). Testing the effect of plant-level corruption on FDI survival in emerging economies provides new insight on the role of corruption as a business practice in these countries.

## Literature review and hypothesis

### Foreignness in Emerging Economies: Liability or Premium?

Some studies identify no influence of foreignness on survival. In their assessment of new firm survival in Portugal, Mata and Portugal [10] find that foreign and domestic firms do not exhibit different survival rates. Delios and Beamish [11] report no difference in survival rate

between wholly-owned subsidiaries and joint ventures. Chung and Beamish [12], Papyrina [13], and Dhanaraj and Beamish [14] present contrasted results, they show that wholly-owned subsidiaries survival relative to joint ventures survival is contingent upon the institutional and economic environment, and depends on political openness, institutional reforms, and crisis.

On the other hand, some studies identify an influence of foreign ownership on survival, be it positive or negative. Zaheer and Mosakowski [15], in an analysis covering 47 different countries, identify a liability of foreignness for trading rooms. They however show that this liability of foreignness is lower for older companies. On the contrary, other research findings emphasize a foreign survival premium. Li and Gusinger [16] identify that, on average, foreign controlled firms have lower exit rates than domestically owned firms. In their recent paper comparing domestic and foreign-owned firms in Denmark, Kronborg and Thomsen [17] show that foreign subsidiaries have higher survival rates than domestically owned companies. This foreign survival premium is higher for older companies.

Despite the agreement on the fact that foreign survival premium is higher for older subsidiaries, results of empirical studies on the influence of foreignness on subsidiary survival remain inconclusive. More particularly, one still needs to tackle the problem of lower foreign survival premium (or higher liability of foreignness) for newly established subsidiaries. This calls for the introduction of more explanatory variables to identify factors on which the relationship between foreign ownership and subsidiary survival may be contingent.

The institutional environment strongly influences the survival of foreign investments [14; 15]. Emerging economies provide a very interesting environment for the study of FDI survival because they are considered as being characterized by higher institutional risk than developed economies [18]. Considering the hostility of environments in emerging economies and its influence on FDI survival [14; 15], wholly-owned subsidiaries may suffer from liability of foreignness, as they are not aware of the particularities of the local environment. They also experience liability of outsidership [19]: they do not participate to business networks and do not know how business actors relate to each other. The hostility of environments in emerging economies may be defined by different characteristics such as high inflation, lack of skilled workers, lack of infrastructure, excessive governmental intrusion, political uncertainty and corruption [20, 21]. However, holding other things constant, the effects of liability of foreignness are supposed to decline over time as the foreign parent acquires host country experience [15, 22]. Thus, older subsidiaries benefit from a survival premium [16, 17].

Hypothesis 1. In general, wholly-owned subsidiaries have a lower survival probability than local firms. But older wholly-owned subsidiaries have a higher survival probability than local firms.

### **The Moderating Role of Corruption on Foreignness Effect**

The question of the consequences of corruption on firm performance leads to the confrontation of the “grease the wheel” and the “sand the wheel” hypothesis derived from a macro-level to a micro-level point on view. The “grease the wheel” hypothesis suggests that corruption, though generally detrimental to growth, may have positive effects because it contributes to increase efficiency in the presence of excessive regulatory barriers and inefficient bureaucracies [23, 24]. This hypothesis can be translated at the firm level: corruption would help overcoming difficulties associated with entering new markets [25] and would compensate for some kinds of liability of foreignness such as the lack of legitimacy and the lack of knowledge about the local business environment [26]. On the other hand, the “sand the wheel” hypothesis emphasizes the detrimental effects of corruption. The results of

the rare past studies testing the effect of the payment of corruption by the firms on their performance have been contradictory. McArthur and Teal [27] and Fisman and Svensson [28] challenge the “grease the wheel” hypothesis, as they respectively find a negative effect of corruption on productivity and output growth. On the other hand, Vial and Hanoteau [29] find a positive influence of bribes payment on plant output and labor productivity growth. To date, we are not aware of existing empirical studies on the link between corruption payment and survival.

Corruption implies numerous direct and indirect costs [30]. At the firm level and with a performance point of view, one of the biggest negative effects of corruption is that it diverts both human and financial resources from productive activities. It thus threatens the firm’s performance and survival. It may however alleviate some of the aspects of the liability of foreignness: lack of legitimacy, lack of information, bureaucracy and regulatory requirements. Thus, there is a tradeoff between the costs of corruption and those associated with the liability of foreignness.

We have previously hypothesized that there is a higher impact of liability of foreignness on the newly established subsidiaries. Corruption may moderate the effect of this liability for newly established subsidiaries. Thus, corruption is supposed to have a positive effect on the survival probability of foreign subsidiaries during the first years. However, as liability of foreignness decreases over time, the moderating effect of corruption fades away. We propose to assess the moderating effect from two complementary perspectives. First, we test the effect of corruption payment on subsidiary survival regardless of the monetary level of payments – we compare corruption payment versus nonpayment. Second, we measure the influence of the level of bribe payments on survival probabilities, accounting for the aging of the establishment. Foreign subsidiaries paying corruption are supposed to have higher survival rate than the non-paying subsidiaries. Subsidiaries with higher level of corruption are supposed to have higher survival probabilities. This corruption effect is supposed to decline with age.

Hypothesis 2a. Foreign subsidiaries paying corruption have a higher survival probability

Hypothesis 2b. Foreign subsidiaries paying higher level of corruption have a higher survival probability

Hypothesis 3. The older the foreign subsidiaries, the lower the influence of corruption on survival

## **Data and methodology**

### **Description of data**

We use the unique *Statistik Industri* dataset that is a census of the entire population of manufacturing establishments with 20 employees and more in the Indonesian manufacturing sector. The manufacturing sector includes nine 2-digit industries that are Food, beverages & tobacco (31), Textiles, garments & leather (32), Wood products (33), Paper, printing & publishing (34), Chemicals, rubber & plastics (35), Non-metallic minerals (36), Basic metals (37), Metal products & machinery (38), and Other manufacturing (39).

Each establishment can be tracked thanks to the same identification number over time. Since we deal with a census rather than a sample, we count the appearance of a new identification number as an entry and the disappearance of an identification number as an exit. We cover a 33-year long period starting in 1975 and ending in 2007. We are able to spot entries from 1976 onwards, and exits up to 2006. The period covers six different macroeconomic episodes: from 1975 through to 1980 the economic takes off and is fuelled by

oil revenues, in 1981-83 the country experiences a first crisis due to a windfall in oil revenues, triggering a series of deregulatory reforms in 1984-89 aiming at opening up the economy so as to attract foreign investments, the 1990-96 period witnessed massive domestic and foreign investment that translated into high economic growth rates, and the period was put to an end with the 1997-98 Asian crisis and the end of the 33-year Suharto dictatorship. Followed a period of transition and recovery from 1999 through to 2007, that preceded the current worldwide economic crisis.

The data presents information on ownership type for each establishment in the form of the percentage of the capital held by two type of ownership: local and foreign ownership. Over the entire period we have 447 974 observations which represent 60 713 local firms and 3 764 foreign wholly-owned subsidiaries. The total population of manufacturing firms in Indonesia over the period 1975-2007 is made of 67 721 firms. We have voluntarily kept only the local firms and the WOS, and not the joint ventures (3 244)

## Variables

Thanks to the date of entry, we are able to compute the age of the establishments in number of years. The current size of establishments is accounted for with the logarithm of the yearly number of employees ( $\log\_W$ ).

Both the theoretical and empirical literature underlines the importance of the industrial life cycle in market dynamics: establishments in start-up industries are less likely to exit during the first few years following mass-entry, follows a shake-out period that usually happens towards maturity, and establishments in declining industries are more likely to exit, at least in purely competitive settings [31]. We combine this industry feature with a plant-level indicator of performance that is plant output growth, and compute plant output growth relative to industry output growth ( $\text{outputG\_2Drel}$ ). In other word, we measure the establishment's output growth adjusted for the industry life cycle.

We decide to compute the labor productivity (output per worker) of plants in order to account for overall performance. Indeed, this measure captures plants' technical efficiency while conditioning financial performance. In order to account for industry specificity, we calculate labor productivity relative to the yearly 2-digit industry average labor productivity ( $\text{LP\_2Drel}$ ).

We use two specific indicators of industry structure and dynamics that influences survival. The first one is the yearly Herfindhal Index of concentration of each industry, which is calculated as the sum of the squares of each establishment output market share for each 2-digit industry ( $\_2\text{DHHoutput}$ ). The second variable is the yearly share of foreign subsidiaries in the total number of establishments for each 2-digit industry.

As presented earlier, we examine a 33-year long period of time marked by six macroeconomic episodes. Two marking episodes are likely to affect survival probabilities, namely the two different crisis that occurred in 1981-83 and 1997-98 respectively. We account for this by constructing two dummies -  $\text{crisis1}$  and  $\text{crisis2}$ . The dummy  $\text{crisis1}$  equals 1 if the year of observation is 1981 or 1982 or 1983 and zero otherwise, while the dummy  $\text{crisis2}$  equals 1 if the year of observation is 1997 or 1998 and zero otherwise. We expect all plants to have lower survival probabilities during those two periods.

Turning to our main moderator, following both by Behrman and Deolalikar [32], and Vial and Hanoteau [29], we use two alternative proxies for plant-level corruption. The two variables, respectively labeled "gifts, charities, donations" and "indirect taxes", represent a sub-section of the "other expenses" category. "Gifts, charities, donations" represent payments plants make to *yayans*, which are local associations and charities that are tax exempt and unaudited, and which are traditionally run by individuals who are well connected to the ruling

elite. These associations and charities are said to serve as vehicles for collecting bribes [see in particular 29 for a thorough discussion]. We construct two variables. The first is a dummy that equals 1 if the establishment pays bribes for the current year, zero otherwise (pay\_bribes). This allows testing the effect of bribe payment versus non bribe payment regardless of the amount paid. The second variable is the share of bribes in value added, that accounts for both payment versus non-payment and the amount of bribes paid (bribe\_share). Alternatively, and in order to conduct robustness checks of the effect of plant-level corruption on survival, we use plant-level data regarding indirect taxes. This item covers sales taxes, establishment licenses, building and land taxes, annual motor vehicle taxes (SWP3D), import duties, as well as custom fees. This set of taxes represents a good proxy for corruption in the context of Indonesia, as it used as vehicles for rent extraction by officials and bureaucrats [33, 34, 35]. We also construct two variables. The first one is a dummy that indicates whether a plant pays indirect taxes (pay\_tax equal 1) or not (pay\_tax equals zero). The second one gives the share of indirect tax payments in plant value added (tax\_share). The alternative use of both proxies offers a particularly powerful test for the influence of plant-level corruption on survival, as it accounts for both privately channeled bribes through associations and charities, as well as bribes channeled through official transactions by way of indirect taxes.

Table 1: Summary Statistics

Variable	Domestic		WOS	
	Observations	Mean	Observations	Mean
Age (years)	504856	7.21	10778	6.26
Nbr of workers	501052	152	10617	459
outputG_2Drel	422189	0.32	9087	-0.86
LP_2Drel	493465	-0.08	10524	0.93
pay_bribes	504856	0.75	10778	0.56
pay_tax	504856	0.82	10778	0.63
bribe_share	504856	0.8%	10778	0.6%
tax_share	504856	3.2%	10778	2.9%
_2DHHoutput	504856	1.51	10778	1.57

Legend: Table 1 shows summary statistics for the main variables of interest. We present total number of observations (number of establishments times number of years observed) as well as the 1975-2007 average of each variable for each of the ownership category.

## Methodology

We use the Cox proportional hazard function in order to test for our hypotheses. The model writes:

$$h\{(t), (z_1, z_2, \dots, z_n)\} = h_0(t) \cdot \exp(b_1 z_1 + b_2 z_2 + \dots + b_n z_n) \quad (1)$$

where  $h\{(t), (z_1, z_2, \dots, z_n)\}$  indicates the resultant hazard depending on the values of the  $n$  explanatory variables for the respective case  $(z_1, z_2, \dots, z_n)$  and the respective survival time  $(t)$ . The term  $h_0(t)$  represents the baseline hazard; i.e. the hazard in the case where all explanatory variable values equal zero. Dividing both sides of the equation by the baseline hazard and using natural logarithms on both sides, the linear model writes:

$$\log[h\{(t), (z_1, z_2, \dots, z_n)\} / h_0(t)] = b_1 z_1 + b_2 z_2 + \dots + b_n z_n \quad (2)$$

Our initial empirical specification is as follows:

$$\log \left[ h \left\{ (t), \left( \begin{array}{l} \text{wos, wos\_age, log\_W, outputG\_2Drel,} \\ \text{LP\_2Drel, \_2DHHoutput, sumWOSshare, crisis1, crisis2} \end{array} \right) \right\} / h_0(t_0, i) \right] =$$

$$b_1 \text{wos} + b_2 \text{wos\_age} + b_3 \log\_W + b_4 \text{outputG\_2Drel} \quad (3)$$

$$+ b_5 \text{LP\_2Drel} + b_6 \text{\_2DHHoutput} + b_7 \text{sumWOSshare} + b_8 \text{crisis1} + b_9 \text{crisis2}$$

where  $t_0$  is the year of entry and  $i$  is the 2-digit industry and allow to stratify estimations;  $wos$  is a dummy that identifies wholly-owned subsidiaries (those dummies allow to compare the effect of ownership on survival probability);  $wos\_age$  is the interaction term between the  $wos$  dummy and the age of the subsidiary (this interaction allows to test for the age-varying survival probability of wholly-owned subsidiaries and is supported by a violation of the proportional hazard assumption on the  $wos$  dummy);  $\log\_W$  is the log of the number of workers and accounts for size;  $outputG\_2Drel$  is the plant output growth relative to its 2-digit industry average;  $LP\_2Drel$  is the plant labor productivity relative to its 2-digit industry average;  $\_2DHHoutput$  is the 2-digit industry Herfindhal concentration index;  $sumWOSshare$  is the ratio of the number of foreign subsidiaries in the total number of establishments in each 2-digit industry;  $crisis1$  and  $crisis2$  are a dummies identifying the years of the first and second economic crisis (1981-83 and 1997\_98 respectively).

The second empirical specification tests the moderating effect of corruption and focuses on foreign wholly-owned subsidiaries. It writes as follows:

$$\log \left[ h \left\{ (t), \left( \begin{array}{l} wos, wos\_age, \log\_W, outputG\_2Drel, \\ LP\_2Drel, \_2DHHoutput, sumWOSshare, crisis1, crisis2 \end{array} \right) \right\} / h_0(t_0, i) \right] =$$

$$b_1 wos + b_2 wos\_age + b_3 \log\_W + b_4 outputG\_2Drel + b_5 LP\_2Drel + b_6 corr \quad (4)$$

$$+ b_7 corr\_age + b_8 corr\_wos + b_9 corr\_wos\_age + b_{10} \_2DHHoutput + b_{11} sumWOSshare$$

$$+ b_{12} crisis1 + b_{13} crisis2$$

Where  $corr$  is a corruption variable that is alternatively the dummy  $pay\_bribes$ , the dummy  $pay\_tax$ , the continuous variable  $bribe\_share$  or  $tax\_share$ . The corruption variable is interacted with the dummy  $wos$  in order to capture the effect of corruption on foreign subsidiaries. The  $corr$  variable is also interacted with both foreign subsidiary dummy and age so as to capture the time-varying effect of corruption on foreign subsidiaries. We allow the baseline hazard to vary by 2-digit industry, and year of entry, offering a non-parametric account of their potential variations. Industry-specific hazard rates might exist because of specific industrial policies, factor intensity, or market structure. The cohort effect covers capital vintage effect, year-specific economic policy effect, and year-specific economic conditions effect.

## Results

Table 2 present the results of the Cox proportional hazard model with five alternative models. Hypothesis 1 is supported by all different specifications: the coefficients on the wholly-owned subsidiaries ( $wos$ ) dummy and its interaction with age both are statistically significant and have the expected signs. Wholly-owned subsidiaries have lower survival probabilities than local plants, but older wholly-owned subsidiaries have higher survival probabilities than their domestic counterparts.

Our results validate Hypothesis 2a and 2b. Wholly-owned subsidiaries that pay corruption have a higher survival probability. Ad a higher level of corruption increases the survival probability. This moderating effect of corruption on survival exists specifically for foreign wholly-owned subsidiary, and not for domestically-owned firms. Furthermore, we validate Hypothesis 3, showing that the corruption effect disappears with the aging of the wholly-owned subsidiary. Those results are robust to the different measurements used for corruption except for indirect taxes as a percentage of value added. The results using the gifts, charities, and donations share in value added show however that higher proportional payments can

affect positively the survival probability for wholly-owned subsidiaries, but that this effect fades with age.

Table 2: Results of the Cox Proportional Hazard Model

		MODEL 1	MODEL 2	MODEL 3	MODEL 4	MODEL 5
wos	H1	0.499*** [0.0758]	0.749*** [0.105]	0.717*** [0.121]	0.534*** [0.0774]	0.486*** [0.0802]
wos_age	H1	-0.0875* [0.0367]	-0.243*** [0.0525]	-0.202*** [0.0580]	-0.104** [0.0376]	-0.0791* [0.0393]
log_W		-0.186*** [0.00547]	-0.195*** [0.00551]	-0.194*** [0.00550]	-0.186*** [0.00547]	-0.184*** [0.00548]
outputG_2Drel		0.00830*** [0.00146]	0.00859*** [0.00145]	0.00835*** [0.00145]	0.00829*** [0.00146]	0.00815*** [0.00146]
LP_2Drel		-0.0805*** [0.00438]	-0.0881*** [0.00438]	-0.0909*** [0.00440]	-0.0805*** [0.00439]	-0.0799*** [0.00438]
_2DHHoutput		0.0466*** [0.00455]	0.0465*** [0.00455]	0.0461*** [0.00455]	0.0467*** [0.00455]	0.0465*** [0.00455]
sumWOSshare		-70.17*** [3.302]	-67.73*** [3.382]	-65.84*** [3.401]	-70.03*** [3.304]	-70.13*** [3.302]
crisis1		0.898*** [0.0781]	0.856*** [0.0775]	0.827*** [0.0770]	0.895*** [0.0782]	0.899*** [0.0780]
crisis2		1.467*** [0.0640]	1.464*** [0.0634]	1.500*** [0.0636]	1.468*** [0.0639]	1.468*** [0.0640]
pay_bribes			0.0760* [0.0312]			
pay_bribes_wos	H2a		-0.431** [0.150]			
pay_bribes_age			-0.122*** [0.0130]			
pay_bribes_wos_age	H3		0.261*** [0.0727]			
pay_tax				0.224*** [0.0352]		
pay_tax_wos	H2a			-0.299 [0.153]		
pay_tax_age				-0.206*** [0.0144]		
pay_tax_wos_age	H3			0.148* [0.0743]		
gift_share					1.125** [0.350]	
wos_bribes_share	H2b				-6.662* [3.321]	
bribes_share_age					-0.490** [0.176]	
wos_bribes_share_age	H3				3.021* [1.487]	
tax_share						0,0992 [0.182]
wos_tax_share	H2b					0,254 [0.842]
tax_share_age						-0.184* [0.0772]
wos_tax_share_age	H3					-0,232 [0.466]
Observations		447974	447974	447974	447974	447974
Plants		62086	62086	62086	62086	62086
Exits		33003	33003	33003	33003	33003
Chi-square		3618,27	4059,36	4282,46	3639,98	3661,26

All models are stratified by 2-digit industry and year of entry

Robust standard errors are clustered on plants (in brackets)

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

## Discussions and Conclusion

Our results do support the existence of a liability of foreignness for young foreign subsidiaries. The literature underlines that the liability and benefits to foreignness may however evolve with the age of the subsidiary. We indeed do uncover the existence of a

foreign survival premium for older wholly-owned foreign subsidiaries. This tends to confirm the results of previous studies which show that the benefits of foreignness are higher for older companies [15, 16, 17]. The literature identifies many different explanations for the higher foreign survival premium for older companies. Zaheer & Mosakowski [15] argue that getting to know a foreign environment takes time. Environment learning includes both upstream and downstream network formation, adaptation to the economic, social and institutional environment.

The obvious question of interest then revolves around the moderators for the liability of foreignness in the early years of foreign establishment. Our study, supported by empirical evidence, reveals the strong moderating effect of corruption payments on foreign wholly-owned subsidiaries survival in an emerging economy characterized by widespread corruption and red tape. Our empirical results support the hypothesis that corruption contributes to decreasing the negative effect of foreignness for new subsidiaries. We however also show that the moderating effect of corruption fades with the age of the subsidiary. Hence, corruption plays a moderating role on liability of foreignness only for newly established subsidiaries. Indeed, those payments help constructing a local network of useful contacts in the domains of permits and licenses delivery, thereby facilitating and speeding up operations. But it also helps firms learn faster about their environment in terms of familiarity with the local culture, legitimacy or information networks, and thereby contributes reducing new market entry transaction costs. Interestingly, the moderating effect of corruption disappears over time, supporting the hypothesis of successful environment learning by surviving wholly-owned subsidiaries.

Our study addresses the question of subsidiary survival in a particular environment. Emerging economies are indeed characterized by hostile environments [18]. This hostility influences FDI survival [14]. The effects of the liabilities of foreignness are stronger for foreign subsidiaries in complex and hostile local conditions. In this kind of environments, coping with local corrupt practices helps reducing the main negative impacts of foreignness and outsidership such as lack of knowledge about the local environment and lack of network relationships [19]. This may be the reason why the liability of foreignness is fully borne by younger wholly-owned subsidiaries, unless they enter the corruption system while older subsidiaries do not experience liabilities of foreignness.

Previous studies have highlighted the detrimental effect of corruption and its numerous costs for foreign subsidiaries [30]. Corruption diverts resources from productive activities. And the problems associated with corruption are not limited to costs, the main stakes being law, ethics, and fairness in business practices. However, our results reveal that corruption increase the survival probability for young foreign subsidiaries. A simple explanation could be that foreign subsidiaries are forced to pay corruption in order to survive because subsidiaries that refuse to pay are penalized by local authorities. Yet, our results reveal that this explanation is not valid. Corruption has an influence on survival only for young subsidiaries. Conversely, it has a negative effect on older subsidiaries survival. We explain the influence of corruption on young subsidiary survival by its moderating effect on the liability of foreignness. This is consistent with the age effect. Younger subsidiaries face higher liabilities of foreignness as they enter a new unknown environment and corruption acts as a moderator of the liabilities of foreignness. Yet, corruption has a negative effect on older wholly-owned subsidiaries because the liabilities of foreignness have already been compensated by environmental learning at the subsidiary level. Our results emphasize one of the reasons why corruption may lay dominant and even develop. Managers of foreign subsidiaries may explain why they cope with corrupt practices using social Darwinism as a justification: paying is a condition to survive. This is morally unacceptable. However,

managers face a dilemma between moral standards and business imperatives. If corruption conditions survival, it is thus difficult to squarely refuse to pay bribes individually. The solution of the dilemma can only be found through a collective behavior with the support of institutions.

## References

1. Dreher, A., & Grassebner, M. (2007), "Greasing the wheels of entrepreneurship? The impact of regulations and corruption on firm entry", June 2007, CESifo Working Paper No 2013.
2. Ngujiri, I. (2010), "Corruption and entrepreneurship in Kenya". *The Journal of Language, Technology & Entrepreneurship in Africa*, Vol. 2, Issue 1, pp: 93-106.
3. Tonoyan, V., Strohmeyer, R., Habib, M., & Perlitz, M. (2010), "Corruption and entrepreneurship: How formal and informal institutions shape small firms behavior in transition and mature market economies". *Entrepreneurship Theory and Practice*, Vol. 34, Issue 5, pp: 803-831.
4. Habib, M., & Zurawicki, L. (2002), "Corruption and foreign direct investment". *Journal of International Business Studies*, Vol. 33, Issue 2, pp: 291-307.
5. Henisz, W. J. (2000), "The institutional environment for multinational investment". *Journal of Law, Economics and Organization*, Vol. 16, Issue 2, pp: 334-364.
6. Javorcik, B. S., & Wei, S.-J. (2009), "Corruption and cross-border investment in emerging markets: Firm-level evidence". *Journal of International Money and Finance*, Vol. 28, Issue 4, pp: 605-624.
7. Rodriguez, P., Uhlenbruck, K., & Eden, L. (2005), "Government corruption and the entry strategies of multinationals". *Academy of Management Review*, Vol. 30, Issue 2, pp: 383-396.
8. Meschi, P.-X. (2009), "Government corruption and foreign stakes in international joint ventures in emerging economies". *Asia Pacific Journal of Management*, Vol. 26, Issue 2, pp: 241-261.
9. Mezas, J. M., & Mezas, S. J. (2010), "Country level corruption as a liability of foreignness: Effects on staffing, incentives, and activities", in *The Past, Present and Future of International Business & Management, Advances in International Management*, Emerald Group Publishing, Volume 23, 267-291.
10. Mata, J., & Portugal, P. (2002), "The survival of new domestic and foreign-owned firms". *Strategic Management Journal*, Vol. 23, Issue 4, pp: 323-343.
11. Delios, A., & Beamish, P. W. (2001), "Survival and profitability: The roles of experience and intangible assets in foreign subsidiary performance". *Academy of Management Journal*, Vol. 44, Issue 5, pp: 1028-1038.
12. Chung, C. C., & Beamish, P. W. (2005), "The impact of institutional reforms on characteristics and survival of foreign subsidiaries in emerging economies". *Journal of Management Studies*, Vol. 42, Issue 1, pp: 35-62.
13. Papyrina, V. (2007), "When, how, and with what success? The joint effect of entry timing and entry mode on survival of Japanese subsidiaries in China". *Journal of International Marketing*, Vol. 15, Issue 3, pp: 73-95.
14. Dhanaraj, C., & Beamish, P. W. (2009), "Institutional Environment and Subsidiary Survival". *Management International Review*, Vol. 49, Issue 3, pp: 291-312.
15. Zaheer, S., & Mosakowski, E. (1997), "The dynamics of the liability of foreignness: A global study of survival in financial services". *Strategic Management Journal*, Vol. 18, Issue 6, pp: 439-464.

16. Li, J., & Guisinger, S. (1991), "Comparative business failures of foreign-controlled firms in the United States". *Journal of International Business Studies*, Vol. 22, Issue 2, pp: 209-224.
17. Kronborg, D., & Thomsen, S. (2009), "Foreign ownership and long-term survival". *Strategic Management Journal*, Vol. 30, Issue 2, pp: 207-219.
18. Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000), "Strategy in emerging economies". *Academy of Management Journal*, Vol. 43, Issue 3, pp: 249-267.
19. Johanson, J., & Vahlne, J.-E. (2009), "The Uppsala internationalization process model revisited: from liability of foreignness to liability of outsidership". *Journal of International Business Studies*, Vol. 40, Issue 9, pp: 1411-1431.
20. Covin, J. G., & Slevin, D. P. (1989), "Strategic management of small firms in hostile and benign environments", *Strategic Management Journal*, Vol. 10, Issue 1, pp: 75-87.
21. Puffer, S. M., & McCarthy, D. J. (2001), "Navigating the Hostile Maze: A Framework for Russian Entrepreneurship". *Academy of Management Executive*, Vol. 15, Issue 4, pp: 24-38.
22. Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996), "Foreign entry, cultural barriers, and learning". *Strategic Management Journal*, Vol. 17, Issue 2, pp: 151-166.
23. Bardhan, P. (1997), "Corruption and development: A review of issues". *Journal of Economic Literature*, Vol. 35, Issue 3, pp: 1320-1346.
24. Méon, P.-G., & Sekkat, K. (2005), "Does corruption grease or sand the wheels of growth?" *Public Choice*, Vol. 122, Issues 1-2, pp: 69-97.
25. Boddewyn, J. I., & Brewer, T. L. (1994), "International-business political behavior: New theoretical directions". *Academy of Management Review*, Vol. 19, Issue 1, pp: 119-143.
26. Ahlstrom, D., & Bruton, G. D. (2001), "Learning from successful local private firms in China: Establishing legitimacy". *Academy of Management Executive*, Vol. 15, Issue 4, pp: 72-83.
27. McArthur, J., & Teal, F. (2002), "Corruption and firm performance in Africa". *CSAE working paper, WPS/2002.10*, Oxford University.
28. Fisman, R., & Svensson, J. (2007), "Are corruption and taxation really harmful to growth? Firm level evidence", *Journal of Development Economics*, Vol. 83, Issue 1, pp: 63-75.
29. Vial, V., & Hanoteau, J. (2010), "Corruption, manufacturing plant growth, and the Asian paradox: Indonesian evidence". *World Development*, Vol. 38, Issue 5, pp: 693-705.
30. Doh, J. P., Rodriguez, P., Uhlenbruck, J., Collins, J., & Eden, L. (2003), "Coping with corruption in foreign markets", *Academy of Management Executive*, Vol. 17, Issue 3, pp: 114-127.
31. Horvath, M., Schivardi F., & Woywode M. (2001), "On industry life-cycles: delay, entry, and shakeout in beer brewing". *International Journal of Industrial Organization*, Vol. 19, Issue 7, pp: 1023-1052.
32. Behrman, J. R., & Deolalikar, A.B. (1989), "Of the fittest? Duration of survival of manufacturing establishments in a developing country". *Journal of Industrial Economics*, Vol. 38, Issue 2, pp: 215-226.
33. Henderson, J.V., & Kuncoro, A. (2006), "Corruption in Indonesia". Unpublished manuscript.
34. Kuncoro, A. (2004), "Bribery in Indonesia: Some evidences from micro-level data". *Bulletin of Indonesian Economic Studies*, Vol. 40, Issue 3, pp: 329-354.
35. McLeod, R. (2000), "Soeharto Indonesia: A better class of corruption". *The Indonesian Quarterly*, Vol. 28, Issue 1, pp: 6-27.