Journal of Business Research 90 (2018) 26–39

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Developing country firms and the challenge of corruption: Do company commitments mirror the quality of national-level institutions?☆

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ARTICLE INFO

Keywords:
Codes of conduct
Corporate social responsibility
Corruption
Developing countries
Multi-stakeholder initiatives
National Business Systems

ABSTRACT

Corruption is an important topic for management scholars and practitioners. Given the rise to economic prominence of firms from developing countries, this paper investigates how developing country firms engage with this challenge. Based on a content analysis of 191 codes of conduct, issued by firms from 18 developing countries, we first investigate what anti-corruption commitments developing country firms make in their codes of conduct; we then determine contextual factors at national business system level that drive differences in firm engagement. We provide evidence for a "mirror view" of corporate social responsibility, according to which companies match the quality of national-level institutions in their own anti-corruption commitments. This result stands in contrast to the basic expectation underlying the concept of corporate social responsibility that companies step in to close governance gaps and address wider societal-level challenges. Our findings thus highlight limitations to purely private governance mechanisms aimed at combatting corruption.

1. Introduction

Corruption imposes enormous costs on firms and the societies they are embedded in; it is also a complex challenge that defies easy solutions (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Rose-Ackerman, 2006). Hence management scholars have increasingly devoted energy to studying this phenomenon. The prior literature on corruption predominantly falls into three categories: it either takes a conceptual approach (e.g. Doh et al., 2003; Lee & Oh, 2007); it discusses specific firm-level tools to combat corruption, like anti-corruption training or ethical leadership (Argandoña, 2003; Schwartz, Dunfee, & Kline, 2005); or it focusses on corporate engagement in specific countries, like China (Luo, 2011; Zhu, 2016). Much of the management literature has furthermore focussed on how multinational enterprises (MNEs) from developed countries deal with these challenges (e.g. Kwok & Tadesse, 2006; Murphy & Schlegelmilch, 2013). However, the last few decades have also witnessed the rise to economic prominence of firms that hail from developing countries (Guillén & Garcia-Canal, 2009).

Corporate anti-corruption engagement can be seen as a specific expression of corporate social responsibility (CSR) (Osuji, 2011). Here, the wider CSR literature has started to investigate how institutional contexts shape a company's CSR engagement (Koos, 2012; Matten & Moon, 2008; Vogel, 2006). A number of authors have argued that levels of CSR engagement mirror the general quality of governance in a given context (Campbell, 2007; Gjølberg, 2009); in contrast, others have found CSR engagement to act as a substitute in contexts that are characterized by the lack of functioning governance mechanisms (Hiss, 2009; Jackson & Apostolakou, 2010). However, whilst scholars have investigated the link between institutional contexts and either CSR more generally (Gjølberg, 2009; Jackson & Apostolakou, 2010) or with regard to specific issues such as labour rights (Jackson & Rathert, 2016; Rathert, 2016), few studies have specifically focussed on corporate anti-corruption engagement as part of companies' commitment to CSR.

Hence this paper will address two interrelated research questions: (1) What do developing country firms have to say about how they manage corruption? We will answer this more exploratory question through an analysis of the content of codes of conduct adopted by developing country firms from a total of 18 countries. (2) How is corruption-related code content shaped by a company's wider business environment? This question adopts a confirmatory perspective and

☆ This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.
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https://doi.org/10.1016/j.jbusres.2018.04.025
Received 6 June 2017; Received in revised form 19 April 2018; Accepted 22 April 2018
0148-2963/

builds on the literature on National Business Systems (NBSs) (Whitley, 1999) and Varieties of Capitalism (VoC) (Hall & Soskice, 2001).

Our paper makes several contributions to the existing literature. As a first contribution, we add a developing country firm perspective to the growing literature on the subject. Secondly, we explore the diversity of ways in which firms choose (not) to communicate their anti-corruption engagement. Thirdly, we explain how the wider business environment shapes these differences in anti-corruption engagement. Our study provides evidence of the "mirror view" of corporate social responsibility (Brown & Knudsen, 2015; Koos, 2012), according to which companies match the quality of national-level institutions in their own commitments. Therefore, whilst we also found participation in the UN Global Compact, as an example of an anti-corruption-related multi-stakeholder initiative, to have a positive impact on corporate anti-corruption commitments, our results generally highlight the limitations of initiatives that seek to simply subsume firms' anti-corruption engagements under an umbrella of voluntary, beyond-compliance CSR activities. Purely private governance mechanisms aimed at combatting corruption may ultimately be rendered ineffective by an inability or unwillingness of governments to regulate this aspect of economic activity.

The remainder of this paper is structured as follows. The next section focusses on the nature of and corporate approaches to corruption with particular emphasis on developing countries. In our theory development section, we apply a National Business Systems perspective and develop a set of hypotheses regarding factors that influence the extent to which developing country firms communicate anti-corruption engagement in codes of conduct. Thereafter we describe the research methods applied in this study. This is followed by the results of our content analysis of codes of conduct as well as a two-level Bernoulli regression analysis we use to test our hypotheses. Subsequently, we discuss key results of our analysis and potential implications for policymakers and corporate practitioners. The paper concludes with a discussion of its limitations as well as avenues for future research.

2. Literature review

2.1. The nature of corruption

Corruption has been defined as the "misuse of an organizational position or authority for personal or organizational (or subunit) gain, where misuse in turn refers to departures from accepted societal norms" (Anand, Ashforth, & Joshi, 2004, p. 40). Corruption is an important topic for management studies because of the high costs and greater risks it imposes on firms and the societies they operate in (Doh et al., 2003; Jain, 2001; Svensson, 2005). Corruption imposes direct costs on firms they otherwise would not face, such as bribes for corrupt government officials (Doh et al., 2003). The World Bank estimated that world-wide bribery amounts to at least US$ 1 trillion a year (Rose-Ackerman, 2004).

At societal level, corruption fosters inefficiency by distorting market signals and misallocating resources (Langseth, Stapenhurst, & Pope, 1997). Corrupt governments have less funds available to spend on education, welfare and infrastructure (Mauro, 1995), which further reduces opportunities for economic growth (Svensson, 2005). Corruption can also influence the distribution of income within a society, often to the detriment of its less powerful members (Jain, 2001). Additionally, corruption weakens key societal institutions, like courts and regulatory agencies (Doh et al., 2003). Last but not least, corruption has a dynamic quality: it is not the corrupt act by an individual official that is problematic; rather, if left unchecked, corruption can lead to further erosion of existing governance structures (Ashforth, Gioia, Robinson, & Trevino, 2008).

A number of authors have argued that corruption is a particular challenge in developing countries (Treisman, 2007; Venard & Hanafi, 2008).[1] Developing countries have a greater need for generating economic growth through attracting international investment, yet corruption poses a direct threat to achieving that growth (Svensson, 2005) as well as significantly higher transaction costs for firms wishing to operate in these markets (Doh et al., 2003; Luo, 2011). In many such countries, corruption results from deficiencies in the quality of political institutions, under-developed legal systems and low salaries of civil servants (Venard & Hanafi, 2008).

2.2. Anti-corruption in the context of corporate social responsibility

Historically, the main way of addressing corruption has been through government legislation. Some countries have enacted legislation that aims to curb the supply of bribes abroad by increasing the cost of doing so at home (Cuervo-Cazurra, 2008), such as the Foreign Corrupt Practices Act (FCPA) in the United States or the Bribery Act 2010 in the United Kingdom. However, many of these regulatory tools suffer from serious implementation problems and have not managed to significantly deter global bribery (Weismann, Buscaglia, & Peterson, 2014). Hence legislation has recently been supplemented by self-regulatory instruments. At a collective level, these include important multi-stakeholder initiatives, such as the UN Global Compact, the Publish What You Pay Initiative (PWYP), the Extractive Industries Transparency Initiative (EITI), the World Economic Forum's Partnering Against Corruption Initiative (*Pac*I) or the Wolfsberg Principles. At the level of the individual company, these self-regulatory efforts blend into corporate activities that are commonly subsumed under corporate social responsibility (CSR).

Anti-corruption emerged as a relatively recent addition to the CSR discourse, as for example illustrated by its late inclusion as a UN Global Compact principle in 2004 (Côté-Freeman & Fagan, 2010) or, even more recently, by its belated integration into the GRI Guidelines as well as the FTSE4Good criteria (Branco & Delgado, 2012). In line with the wider topic of CSR, both ethical and instrumental motives can drive a company's anti-corruption engagement (Osuji, 2011). Whilst CSR and anti-corruption have typically been dealt with in different departments of a company (Côté-Freeman & Fagan, 2010; Rodriguez, Siegel, Hillman, & Eden, 2006), there is a link between the two in that CSR tools such as corporate codes of conduct or CSR disclosures can help to align employee behaviour and thus limit ethical discretion (Rose-Ackerman, 2002).

2.3. Corporate approaches to addressing corruption

Given the implementation deficits of regulatory and self-regulatory initiatives, a key question with regard to corruption is how companies themselves address this challenge (Gordon & Miyake, 2001). A company could simply refuse to enter a highly corrupt market; however, given the tremendous growth in international trade and investment, avoiding corrupt markets is not always an option (Baughn, Bodie, Buchanan, & Bixby, 2010). For example, firms in the extractive industry are limited in their location choices by the availability of the respective natural resources. For companies that do not have the option to ignore corrupt markets, Doh et al. (2003) propose a range of strategies. These range from including anti-bribery principles in their training and development through adopting a complementary strategy of investing in host country CSR initiatives to supporting host government initiatives to combat corruption (see also Di Guardo, Marrocu, & Paci, 2016). The

[1] This should *not* be read to mean that corruption in the global economy might be the fault of developing country governments alone. Indeed, some authors have pointed to a stigmatising tone in the anti-corruption movement where the difference between public practices in some developing countries and private practices of individuals and corporations in some developed countries becomes blurred: "Imelda Marcos' shoes are a scandal, but Bill Gates' house is simply part of the idiosyncratic lifestyle of the rich and famous" (Kennedy, 1999, p. 458).