Abstract
Prior research attempting to link Corruption and MNE performance tends to focus exclusively on formal institutional measures of corruption like those coming from Transparency International (CITES). Theoretically, it ignores the role that informal institutional measures can play in the corruption-performance relationship. This is unfortunately because as Keig et al. (2015) point out ignoring the Informal Corruption Environment (ICE) and focusing exclusively on Formal Institutional Environments (FCE) can result in MNEs erroneously concluding that host country institutional environments are not as corrupt as they actually are, undermining MNE performance. Methodologically, prior studies tend to primarily rely on home/host country dyadic corruption differences in evaluating performance rather than examining the totality of an MNE’s foreign investment choices; this prior approach can also bias results by selectively choosing specific host country environments. Here we build on prior scholarship both theoretically and methodologically. Theoretically we draw upon Keig et al.’s theoretical perspective on the importance of ICE (which has been largely ignored in the literature). We propose and find: (1) high ICE tends to reduce MNE performance to a greater extent than FCE and (2) ICE reduces MNE performance whether it is measured as Tobin’s Q or ROA while FCE only influences ROA. Methodologically, we use a portfolio approach to measure an MNE’s FCE/ICE examining the totality of an MNE’s foreign investments rather than arbitrarily selecting a single host country.