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### How do foreign entrepreneurs adapt to local corruption norms in the Middle East? Institutional multiplicities and individual adaptation.

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#### Abstract

Foreign entrepreneurs encounter institutional complexities resulting from differences between their home and host countries. On one hand, foreign entrepreneurs must adapt to local norms in a host environment that might be novel and different; on the other, foreign entrepreneurs bring institutional legacies from their home environments. In this article, we critically examine how such tensions affect norm adaptation by foreign entrepreneurs, focusing upon their attitudes towards corruption, which are defined here as corruption propensity. While imprints from home institutions can be sticky and persistent, learning of host institutions requires foreign entrepreneurs to adapt their corruption propensity. We find that corruption propensity has an inverted U-shaped relationship with performance. Implications are discussed.

#### Keywords

International entrepreneurship, corruption, norm adaptation, emerging economies, corruption propensity

## Introduction

How an entrepreneur interacts with his or her environment is a central issue for entrepreneurship research (Amoako and Lyon, 2014; Lang, Fink and Kibler, 2014; Zahra, Wright and Abdelgawad, 2014). The entrepreneur is subject to isomorphic pressures from the institutional environment, which powerfully shapes how the entrepreneur perceives prevailing norms such as what constitutes behavioural standards and what actions are socially expected and acceptable (Manolova and Yan, 2002; Budak and Rajh, 2014; Vorley and Williams, 2016). In today's increasingly globalised business world, many entrepreneurs cross national borders to foreign host countries in search of entrepreneurial opportunities (Oviatt and McDougall, 1994; Knight and Cavusgil, 2004). These foreign entrepreneurs face a complex institutional environment in the sense that two sets of institutional influences—one from the home country and the other from the host country—affect them simultaneously.

However, prior research has not examined the institutional multiplicities and complexities that face foreign entrepreneurs (Zahra, et al., 2014), who have particular characteristics that complicate the mechanisms of isomorphism. Unlike local entrepreneurs who are familiar with the host environment and well-aligned with institutional norms, foreign entrepreneurs are challenged in two ways: first, they must adapt to local norms within the host environment, which might be unfamiliar and challenging; second, foreign entrepreneurs bring institutional legacies from their home environments. When isomorphic mechanisms differ between the home and host environments, foreign entrepreneurs are challenged with isomorphic inconsistency. Most entrepreneurship research has focused on domestic entrepreneurs whose business activities are limited to one country. By contrast, international business (IB) research (Kostova and Zaheer, 1999) that considers institutional multiplicities and complexities has

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3 focused on multinational corporations, leaving a research gap pertaining to foreign  
4 entrepreneurs. In this study, we investigate the following research questions: what factors  
5 facilitate and what factors impede foreign entrepreneurs' adaptation to local norms, and how  
6 does such norm adaptation translate into venture performance?  
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12 The purpose of this article is to investigate these questions by focusing on the attitudinal  
13 adaptations of foreign entrepreneurs in host countries where corruption is pervasive. We define  
14 corruption as seeking private gains at the expense of public interests (Helmke and Levitsky,  
15 2004). In many emerging economies, corruption is a prevailing norm in economic transactions  
16 (Doh, Rodrigues, Saka-Helmhout, and Makhija, 2017; Estrin, Korosteleva, and Mickiewicz,  
17 2013; Helmke and Levitsky, 2004). We focus on an individual-level psychological construct—  
18 corruption propensity, which refers to an individual's psychological tendency or willingness to  
19 engage in corruption (Agbo and Iwundu, 2016; Dickel and Graeff, 2018). Corruption propensity  
20 is not the actual act of corruption but rather an attitude regarding how acceptable, appropriate,  
21 and effective an individual considers corruption to be (Dickel and Graeff, 2018). The main thesis  
22 of this study is that such attitudes towards corruption are influenced by isomorphic mechanisms  
23 of both the home and host countries, which can in turn affect the economic performance of a  
24 venture.  
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42 We suggest that for foreign entrepreneurs, isomorphism emerges from two different  
43 sources: the home and host countries. These two contexts may have different and even  
44 countervailing effects as foreign entrepreneurs adapt their attitudes to local norms. While the  
45 home country provides early education, training, and values that 'imprint' foreign entrepreneurs,  
46 these may change as they are exposed to local norms. We suggest that home country imprints  
47 provide isomorphic 'stocks' or values and attitudes which have been accumulated over time in  
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3 the home country. As a legacy, home country imprints are likely to persist and influence  
4 corruption propensity. In contrast, exposure to local norms within the host country creates  
5 isomorphic 'flows' or attitudes and values that reflect the influence of host institutions.  
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7 Prolonged exposure to local prevailing norms will increasingly influence corruption propensity  
8 as foreign entrepreneurs become embedded within the host environment. We predict that  
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10 corruption propensity has an inverted U-shaped relationship with venture performance; we test  
11  
12 our hypotheses using a longitudinal, repeated-measure survey dataset of foreign entrepreneurs  
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14 operating in nine Middle Eastern countries between 2013 and 2017.  
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22 We contribute to the literature in several ways. First, this study fills an important void  
23 between the entrepreneurship and IB literature. We extend the theoretical reach of IB research on  
24 institutional multiplicities and complexities to include the context of foreign entrepreneurs. We  
25 critically analyse how foreign entrepreneurs manage institutional complexities in terms of  
26 corruption in the host environment. Whereas prior research on institutional isomorphism often  
27 assumes that this isomorphic influence is monolithic (DiMaggio and Powell, 1984), we argue  
28 that a significant conflict may occur between imprints from home institutions and adaptation to  
29 host institutions. This difference between two types of isomorphism presents challenges to  
30 foreign entrepreneurs, an important issue which remains under-researched in the IB field and the  
31 entrepreneurship literature.  
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44 Second, our study expands the literature on international entrepreneurship. While prior  
45 studies of international entrepreneurs have focused on international ventures that globally expand  
46 their value chains (Oviatt and McDougall, 1994; Knight and Cavusgil, 2004), our study  
47 complements their typology by exploring the experiences of foreign entrepreneurs who have left  
48 their home countries and whose entrepreneurial activities mostly take place within host  
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3 countries. Due to the limited scope of activities and resources of such entrepreneurial ventures,  
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5 challenges presented by the host environment can be critical to their growth and success.  
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8 The paper proceeds as follows. First, we review the relevant literature on isomorphism  
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10 and corruption, particularly in the context of entrepreneurship. We then develop hypotheses  
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12 regarding factors that facilitate or constrain attitudinal adaptation by foreign entrepreneurs. Next,  
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14 we discuss our sample and variables. The results of regression analyses are then presented.  
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16 Finally, we discuss the research and managerial implications of our findings.  
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### 19 **Literature review**

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21 A central issue for entrepreneurship research concerns how entrepreneurs interact with  
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23 their environments (Zahra, et al., 2014). According to organisational theory, organisations are  
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25 ‘dependent on continuing exchanges with—and constituted by—the environments in which they  
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27 operate’ (Scott, 1998: 28). In addition to providing resources, the environment influences the  
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29 norms, structure, and strategies of an organisation (Pfeffer and Salancik, 1976). As organisations  
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31 face similar environmental conditions or occupy the same niche within a population, they tend to  
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33 be isomorphic with one another, since they face the same pressures, constraints, and resources  
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35 from the environment (DiMaggio and Powell, 1983; Oliver, 1988). As an organisation becomes  
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37 isomorphic with other organisations in its environment, such isomorphism is likely to confer  
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39 legitimacy, which in turn enhances the likelihood of survival, growth, and success (DiMaggio  
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41 and Powell, 1983; Deephouse, 1996).  
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47 Since entrepreneurial firms are typically small- to medium-sized enterprises with limited  
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49 resources, these enterprises are often more sensitive to external pressures for isomorphism  
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51 (Amoako and Lyon, 2014; Lang, Fink, and Kibler, 2014; Zahra, et al., 2014). In emerging  
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53 economies where institutions are less developed, entrepreneurs are more likely to use informal  
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3 approaches that are locally legitimate to manage entrepreneurial challenges. For example,  
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5 Amoako and Lyon (2014) showed that exporting enterprises in Ghana prefer to use alternative  
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7 institutions to secure business opportunities, i.e., via private channels rather than official, legal  
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9 approaches. Lang and colleagues (2014) found that for local entrepreneurs in Central Europe, the  
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11 effects of regulative institutions are tempered by normative and cognitive institutions. Williams  
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13 and Vorley (2014) showed that entrepreneurs in Bulgaria are willing to engage in illegal  
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15 approaches such as corruption to gain competitive advantage, since corruption is a widely  
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17 accepted local norm for businesses. In many emerging economies, corruption is an important  
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19 local business norm that can influence business practices. As a product of weak formal and  
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21 informal institutions, corruption has been defined as the abuse of delegated power for private  
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23 gains at the expense of public interests (Doh et al., 2003; Rodriguez, et al., 2005). Government  
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25 officials in particular may seek monetary or non-pecuniary private gains while exercising their  
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27 officially designated power.  
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33 These interesting studies have adopted a comparative institutional approach by focusing  
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35 on entrepreneurial activities in reference to a specific institutional context, i.e., domestic  
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37 entrepreneurs. Equipped with a strong understanding of local norms, values, cultures, and other  
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39 institutional nuances, these domestic entrepreneurs tread in their familiar territories and often do  
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41 not experience significant difficulty in terms of adaptation or inclusion into local communities  
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43 (Bailey and Spicer, 2007). Particularly with regard to corruption, domestic entrepreneurs are able  
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45 to understand, appreciate, and practise specific corruption-related acts to pursue their interests  
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47 (Budak and Rajh, 2014; Williams and Vorley, 2014). This comparative institutional approach  
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49 has not considered the institutional challenges faced by foreign entrepreneurs who travel to and  
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3 reside in a foreign host country in search of entrepreneurial opportunities, which are normally  
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5 beyond the concerns of domestic entrepreneurs.  
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8         Isomorphic pressures can be complex for firms that extend beyond national borders.  
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10        Businesses such as multinational corporations (MNCs) face multiple country-level institutional  
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12 environments, which respectively have their own sets of regulatory, cognitive, and normative  
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14 domains (Kostova and Zaheer, 1999). The MNC management must establish the legitimacy of  
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16 the whole and of its constituent parts in the midst of such multiplicities and varieties in  
17  
18 institutional environments (Kostova and Zaheer, 1999). Foreign entrepreneurs are faced with  
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20 similar forms of institutional multiplicities and complexities. Foreign entrepreneurs must manage  
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22 the liability of 'foreignness' (Zaheer, 1995). At the same time, foreign entrepreneurs must  
23  
24 understand the complexities associated with multiple institutional environments that require  
25  
26 different approaches to institutional isomorphism. Compared to MNCs, which can marshal  
27  
28 substantial resources, foreign entrepreneurs are smaller in size and more limited in resources,  
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30 meaning that institutional multiplicities and complexities may impact them more than MNCs.  
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32 However, current mainstream IB research has not embraced such issues of complexities affecting  
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34 foreign entrepreneurs.  
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40         In summary, foreign entrepreneurs must deal with institutional multiplicities and  
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42 complexities, an issue that has been neglected in prior research. The entrepreneurship research  
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44 has mostly examined domestic entrepreneurs, while IB research has focused on MNCs. This is  
45  
46 the research opportunity we embrace in this study. We seek to depart from prior research by  
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48 moving beyond a comparative institutional approach and examining how such institutional  
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50 multiplicities affect foreign entrepreneurs. We aim to appreciate complexities involving multiple  
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3 sources of isomorphic pressures, particularly when corruption is a salient and relevant norm in  
4 emerging economies.  
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## 7 **Hypothesis development**

### 8 **Institutional isomorphism: Stock and flow inconsistency**

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12 Isomorphic pressures are complex. This complexity can result from multiple contexts in  
13 which an organisation finds itself. For example, as an organisation diversifies into a new  
14 business, the new business context presents new requirements in terms of institutional norms and  
15 expectations that require the organisation to make internal adaptations from previous practices  
16 (Aunno, Sutton, and Price, 1991). The search for external legitimacy can therefore result in  
17 inconsistent beliefs (Meyer and Rowan, 1977; Aunno, et al., 1991). Similarly, such inconsistent  
18 pressures of isomorphism are shown to influence the parent-subsidary relationship, as some  
19 corporate venture capitalists establish new subsidiaries in overseas markets that present different  
20 isomorphic requirements (Soutitaris, Zerbinati, and Liu, 2012). For subunits, competing  
21 institutional forces come from parents and the industry or markets in which they seek to operate,  
22 where institutional inconsistency is uncoordinated and cannot converge towards a single logic  
23 (Soutitaris, et al., 2012).  
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40 For foreign entrepreneurs, institutional inconsistency may result from differences  
41 between home and host environments. In both environments, isomorphic pressures require that  
42 foreign entrepreneurs assimilate values, norms, and attitudes from external environments  
43 (DiMaggio and Powell, 1984). However, isomorphism in these two environments may affect  
44 foreign entrepreneurs via different mechanisms and produce different effects. Isomorphism in the  
45 home country affects foreign entrepreneurs as the 'stock' of institutionalised norms, values and  
46 beliefs, which often take time to accumulate, much like strategic asset stocks that are  
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3 accumulated over time (Dierickx and Cool, 1989). Values and norms are persistent and can be  
4 passed on from one generation to another through the socialisation of community members into  
5 societal norms (Robertson and Crittendon, 2003; Bailey and Spicer, 2007). The home  
6 institutional environment in which an individual was born and raised is likely to have a strong  
7 and long-lasting effect on the person's beliefs and attitudes (Bailey and Spicer, 2007). Foreign  
8 entrepreneurs are educated in early imprints of ethical attitudes regarding right or wrong and  
9 other deeply rooted belief systems. As Dierickx and Cool (1989) described in their seminal  
10 study, stocks cannot be quickly adjusted due to the lengthy process of accumulation involved. It  
11 is difficult to change or eradicate the influence of institutional imprints carried from an  
12 individual's early childhood.  
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26 Isomorphism in the host country, by contrast, influences foreign entrepreneurs as 'flows'  
27 of new values and norms. Flows refer to new increments (Dierickx and Cool, 1989). In the host  
28 country, foreign entrepreneurs are often exposed to a different set of local norms, ethical  
29 standards, ideas, and practices. These norms can be shown and understood via contact with local  
30 business partners, government officials, professional associations, and other business-relevant  
31 communities (Bailey and Spicer, 2007). Individuals are liable to change their attitudes,  
32 particularly when external institutional pressures are strong and consistent (Meyer and Rowan,  
33 1977).  
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45 Foreign entrepreneurs are simultaneously subject to two types of isomorphism—stocks  
46 and flows. Stocks of backward-looking isomorphic imprints represent historical legacies of the  
47 home country environment. Home country imprints are often persistent, and their influences can  
48 continue to affect how the foreign entrepreneur cognitively processes information and makes  
49 decisions. For example, Fisman and Miguel (2007) found that the effects of home institutions  
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3 can persist even when foreigners have gone to other countries. At the same time, foreign  
4 entrepreneurs live and work in the local host environment, where flows of isomorphic pressures  
5 influences how foreign entrepreneurs interact with local communities. While stock influences of  
6 home country isomorphism are backward-looking, the flow impacts of host country isomorphism  
7 are current and forward-looking. These isomorphic pressures can sometimes be inconsistent with  
8 each other in providing behavioural and moral guidelines to foreign entrepreneurs.  
9

### 17 ***Stock and flow isomorphism in relation to corruption***

19 In many emerging economies, corruption is one of the most significant institutional  
20 norms that affect business transactions and entrepreneurship (Budak and Rajh, 2014; Manolova  
21 and Yan, 2002; Vorley and Williams, 2016). Foreign entrepreneurs differ in their attitudes  
22 towards corruption; some are more comfortable with corruption while others must make efforts  
23 to adapt. This variance of attitudes, behavioural intentions, and moral tolerance of corruption has  
24 been referred to as *corruption propensity* or as an individual's willingness or tendency to engage  
25 in corruption (Agbo and Iwundu, 2016; Dickel and Graeff, 2018). From a rational choice  
26 perspective, Dickel and Graeff (2018) suggest that this propensity depends on a rational  
27 calculation of expected economic gains and the probability of corruption being successful. This  
28 rational decision-making also depends on the individual's attitudes towards social norms and  
29 moral values where the pressures of social norms reward conforming behaviours and sanction  
30 those who do not conform (Dickel and Graeff, 2018). Whereas it is clear that social norms affect  
31 the rational calculation of risks and returns of engaging in corruption (North, 1990), the question  
32 concerns how this process operates. In the particular case of foreign entrepreneurs, we are  
33 interested in how multiple forms of isomorphic pressures can impact corruption propensity.  
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3 As foreign entrepreneurs come from home countries with different levels of corruption,  
4 their stocks of isomorphic legacies or prior understanding and tolerance of corruption may differ.  
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6 The home country provides early sources of and standards for ethical evaluation (Bailey and  
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8 Spicer, 2007). For example, countries such as the U.S. and the U.K. have passed laws that  
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10 specifically forbid companies from these home countries to bribe in a host environment, e.g., the  
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12 U.S. Foreign Corrupt Practices Act. Countries such as the U.S., the U.K., Sweden, and Norway  
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14 are also often perceived to have lower levels of corruption, and they have been reported by  
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16 Transparency International as having high scores on the corruption perception index (CPI)  
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18 (Godinaz and Liu, 2015). Foreign entrepreneurs from these home countries are educated to  
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20 believe that corruption is morally incorrect and sometimes incriminating, which may be  
21  
22 inconsistent with the local norms of emerging economies with high levels of corruption. When  
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24 foreign entrepreneurs come from home countries with lower levels of corruption (high CPI  
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26 scores), their prior stocks of understanding of corruption may constrain their adaptation to a  
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28 high-corruption environment.  
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35 By contrast, countries such as Sudan, Libya or Somalia may imprint their entrepreneurs  
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37 with different values and norms regarding corruption. Transparency International ranks these  
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39 countries with lower CPI numbers, indicating higher levels of corruption. Individuals from these  
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41 countries may bring with them prior knowledge of corruption tactics. Budak and Rajh (2014)  
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43 found that entrepreneurs with prior experiences with corruption tend to justify corruption as  
44  
45 'greasing the wheels', demonstrating an important variance shaped by countries of origin. These  
46  
47 individuals are more likely to consider corruption as an acceptable and effective approach to  
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49 solving business problems, leading to higher scores for corruption propensity. As these  
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51 individuals come to other emerging economies with corruption issues, their adaptation to local  
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3 norms should occur more easily than the adaptation for those from countries such as the U.S., the  
4 U.K., or Sweden. In other words, foreign entrepreneurs from these countries bring with them  
5 higher ‘stocks’ of understanding of corruption. Home country imprints, when foreign  
6 entrepreneurs come from corrupt countries with lower CPI scores, facilitate the adaptation of  
7 foreign entrepreneurs to local norms of corruption in other emerging economies.  
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15 **H1:** The effects of home country imprints depend on the corruption level of the home  
16 country: foreign entrepreneurs from home countries of lower CPI have higher corruption  
17 propensity; foreign entrepreneurs from home countries of higher CPI have lower corruption  
18 propensity.  
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21 Flow isomorphism, as discussed above, refers to the recent situational influence of the  
22 current environment on attitudes and understandings of foreign entrepreneurs. More specifically  
23 for our context, flow isomorphic influences come from the host country, where corruption as a  
24 norm is widely accepted. Attitudes may change depending on the circumstances and the broader  
25 environment in which individuals find themselves (Underwood, 2008). Helmke and Levitsky  
26 (2004) consider the learning of norms and other informal institutions as a process of social  
27 learning involving trial and error. Local corruption norms may pressure individuals to conform  
28 via normative, coercive, and mimetic mechanisms (DiMaggio and Powell, 1984). Exposure to  
29 local values and norms may gradually affect the attitudes of foreign entrepreneurs.  
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42 Such learning processes may take time and particularly when there are culture-specific  
43 nuances for foreign entrepreneurs to learn and understand. As local norms are assimilated into  
44 individuals’ business practices, these norms may be ‘taken for granted’, resulting in flow  
45 isomorphism achieving its effects. When a venture experiences longer exposure to local norms,  
46 foreign entrepreneurs are able to acquire more understanding of local norms regarding  
47 corruption. The longer history of the venture would mitigate the initial liability of outsidership  
48 (Fiedler et al., 2017) or foreignness (Zaheer, 1995). More experiences with the corrupt host  
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3 environment may allow entrepreneurs to develop locally oriented business practices, routines and  
4 capabilities. More learning associated with an older venture would increase, on average, the level  
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6 of corruption propensity of foreign entrepreneurs.  
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10 **H2:** The corruption propensity of the foreign entrepreneur increases with a venture's age.  
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### 12 *Corruption propensity and performance*

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15 A high level of corruption propensity has both benefits and costs for a venture's  
16 performance. A higher degree of corruption propensity mentally prepares foreign entrepreneurs  
17 for corrupt transactions in the local environment and reduces possible cognitive dissonance or  
18 resentment against corrupt officials or behaviours. Corrupt transactions allow foreign  
19 entrepreneurs to circumnavigate obstacles that arise due to corruption in the local environment  
20 (Alon and Hageman, 2013). They may 'buy their way' as solutions to some problems by, for  
21 instance, mobilising resources, obtaining loans, winning orders, and coping with bureaucratic  
22 constraints (Jong et al., 2012). To 'grease the wheels', resources spent on corruption can be  
23 considered investments that allow foreign entrepreneurs to operate successfully in a corrupt host  
24 environment (Peng and Heath, 1996), where a higher level of corruption propensity may enhance  
25 enterprise performance.  
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40 Costs of corruption may also increase with corruption propensity, and may increase even  
41 more than benefits. Corruption is a costly social vice that means extra costs for entrepreneurs  
42 (Doh, et al., 2003). According to the Organisation for Economic Cooperation and Development,  
43 the cost of corruption is typically 10% of the transaction value, where a middleman often takes a  
44 cut while the remainder goes to a government official (Henning, 2016). Corrupt officials may  
45 seek 'rent' and use the entrepreneur as an extra source of income. Maintaining amicable  
46 relationships with corrupt officials can be expensive. Corruption sometimes involves social  
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3 activities with corrupt officials in a public setting or at private parties, where the time and  
4 expenses spent on social exchanges can be substantial. Corruption may feed into officials'  
5 appetites for more payment without enforceable reciprocity, causing the marginal return of  
6 corruption to decline.  
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12 The deleterious effects of corruption on a venture are often less immediate or visible, but  
13 they may still affect the venture's fundamental strengths in the long run. The entrepreneur could  
14 have used the time and money to improve the efficiency or resource base of the enterprise by  
15 training or marketing, whereas corruption can crowd out these efforts (Jong et al., 2012).  
16  
17 Corruption lowers incentives for investments in innovation and for other complex economic  
18 activities where payoffs are not certain or are temporally distant (Baker, et al., 2005). The  
19 positive effects of corruption in terms of access to key resources can be offset by the inefficient  
20 allocation of resources (Jong et al., 2012). Therefore, the benefits of corruption should increase  
21 venture performance, but the costs associated with corruption propensity may also increase and  
22 even supersede the benefits.  
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35 **H3:** Corruption propensity has an inverted U-shaped relationship with venture  
36 performance.  
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## 38 **Methods**

### 39 ***Sample***

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42 Our sample includes nine Arab League members as host countries—Bahrain, Egypt,  
43 Jordan, Kuwait, the Kingdom of Saudi Arabia (KSA), Lebanon, Oman, Qatar, and the United  
44 Arab Emirates (UAE). These countries are selected for several reasons. First, corruption is a  
45 widespread phenomenon in Arabic-speaking countries (Hafez, 2009; Tomass, 2012; Touati,  
46 2014). Corruption in these countries finds its historical roots in a culture of factionalism (Hafez,  
47 2009) and sectarianism (Tomass, 2012) where people concern themselves more with local  
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3 parochial interests rather than with a unified national goal, weakening the authority of  
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5 government agencies as formal institutions. Legal institutions, in the Western sense of the rule of  
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7 law, are less developed because legal entities are more puppets than real decision-making  
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9 entities. Corruption provides a 'useful' alternative, as no accountability, responsibility, or  
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11 transparency can generally be found (Hafez, 2009; Touati, 2014). Corruption distorts economic  
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13 structures in Arabic countries and erodes moral standards (Hafez, 2009). Therefore, these Arabic  
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15 countries provide an appropriate setting for studying the impacts of corruption.  
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19 Second, these countries share the same religion, culture and history, providing a good  
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21 control for unobserved variances that may relate to other informal institutions. From an  
22  
23 accounting point of view, Arab League members are supportive of International Public Sector  
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25 Accounting Financial Standards (IPSAS), international accounting standards that provide a  
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27 global language of accounting, in requiring firms to report their financial performance. Jordan,  
28  
29 Kuwait, Lebanon, Saudi Arabia, and the UAE have either officially adopted IPSAS or are in the  
30  
31 process of doing so (Deloitte, 2016). This broad adoption of IPSAS enhances the compatibility  
32  
33 and reliability of the performance results reported in this study.  
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37  
38 Third, these countries, while very similar, vary considerably on the dimension of  
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40 corruption. Transparency International, a prestigious watchdog that monitors corruption  
41  
42 throughout the world, rates all countries on corruption every year on a scale of one hundred (the  
43  
44 least corrupt) to one (the most corrupt). According to Transparency International, the least  
45  
46 corrupt country in our sample is the UAE, which is rated at 71, and the most corrupt is Lebanon,  
47  
48 which is rated at 27. The mean of the sampled countries is 45, which is roughly the midrange of  
49  
50 all countries. Our sample includes desirable variances of corruption at the country level. We  
51  
52 present the CPI scores in Table 1.  
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-----Insert Table 1 here-----

We collected our data from several sources. To construct control variables for the home and host countries in our sample, we collected institutional variables from multiple sources, including the World Bank, Transparency International, the World Economic Forum, and the Lauder Institute.

Our primary data source was a survey of foreign entrepreneurs administered by the Economic and Social Council of the Arab League countries, which is a joint institution that coordinates economic integration among Arab-speaking countries. The survey was created to understand what drives corrupt business transactions—the individuals themselves or the business environment. To facilitate anti-corruption campaigns within these Arabic countries, the survey is administered annually to provide updated information. The structure of the survey is very similar to data on corruption collected by the World Bank and prior studies (Cull and Xu, 2005; Iriyama, Kishore and Talukdar, 2016).

An electronic survey was conducted in either English or Arabic during annual business licence renewal. The administrators of the survey took several steps to enhance the integrity of the data:

- 1) The survey was administered anonymously and did not collect primary personal information, such as names or addresses.
- 2) Survey respondents were guaranteed that their answers to the survey would not be used against them in a court of law or to instigate criminal investigations against them.
- 3) The questions were randomly assigned to individual respondents. For example, respondent 1 may have seen Q1, Q2, and Q3 and then Q9, Q6, and Q4 and so on. However,

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3 another respondent may have seen these questions in a different random order, minimising issues  
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5 such as bias.  
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8 4) To check for any irregularities in the survey answers, the administration system  
9  
10 recorded the amount of time each respondent took to complete the survey. The administrators  
11  
12 then reviewed each survey answer carefully and examined response times to determine whether  
13  
14 the answers were genuine. Generally, respondents spent 14 minutes answering all of the survey  
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16 questions on average. When a person completed the survey in less than 14 minutes,  
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18 administrators checked for problems, and when they found any, they removed corresponding  
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20 responses from the database.  
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23  
24 The surveys provided repeated measures from 2013 to 2017, as the *same* entrepreneurs  
25  
26 responded annually during the business license renewal period. Survey collections began in 2013  
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28 and the council took several steps to arrive at the current number of observations in the sampling  
29  
30 phase. First, the survey was attached to all new business licence applications in the nine host  
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32 countries. The council limited the survey's scope to newly established firms with no prior local  
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34 environment-related influence in 2013, with 55,876 surveys administered. Second, the council  
35  
36 targeted sole proprietors, reducing the sample to 22,933 newly established firms with sole  
37  
38 proprietors. Third, the survey also provided a 'no response' option next to each survey question,  
39  
40 which reduced the sample to 10,756 surveys.  
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45 After removing surveys with irregularities, the sample included 2,215 individuals,  
46  
47 representing a 21% response rate. We then removed responses from local entrepreneurs, as the  
48  
49 focus of this study was on foreign entrepreneurs, resulting in a final sample of 989 foreign  
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51 respondents in our sample. We analysed the distribution of the foreign entrepreneurs based on  
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53 their home country information. We present the distribution information in Table 2, including the  
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3 number of entrepreneurs from the same country, corresponding percentages in the sample, the  
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5 CPI of each home country, and whether a home country also happens to be one of the nine host  
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7 countries. While one might expect most entrepreneurs in the sample to be from countries  
8  
9 bordering the host nations, the sample is quite diverse, as the entrepreneurs came from 60  
10  
11 countries. India had the largest number of entrepreneurs, with 171 or 17.29% of the sample,  
12  
13 followed by the U.K. with 110 individuals or 11.12% of the sample. Among the nine Middle  
14  
15 Eastern native countries, Qatar had 32 entrepreneurs working in other countries followed by  
16  
17 Egypt with 21 individuals. In other words, most entrepreneurs in our sample came from outside  
18  
19 the region. Similarly, considerable diversity was also found in terms of the CPIs of home  
20  
21 countries among the 'least corrupt' countries such as New Zealand and Denmark (CPI of 90)  
22  
23 followed by Finland (CPI of 89) and countries at the low end of the CPI such as Somalia (CPI of  
24  
25 10), Libya (CPI of 14), and Syria (CPI of 13).  
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31 -----Insert Table 2 here-----  
32

33 We compared the respondents to the non-respondents to determine whether they were  
34  
35 significantly different. Because our sample is composed of panel data for which respondents  
36  
37 repeatedly participated as our sample, thus violating the *t*-test independence assumption (Pandis,  
38  
39 2016), we conducted F-tests with observations clustered around host countries. The F-test based  
40  
41 on venture size generated an F value of 0.45 with a probability value of 0.52, showing no  
42  
43 statistically significant difference between the respondent sample and non-respondents.  
44  
45 Similarly, we obtained an F-value of 0.09 with a probability of 0.7 when the distinction between  
46  
47 respondents and non-respondents was based on profits divided by sales of ventures. The tests  
48  
49 show no significant difference between them. The final sample is thus an unbalanced panel  
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60 dataset.

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3 We present summary statistics on the sampled respondents in Table 3. Among the  
4  
5 respondents, 86% were male, and 14% were female. Individuals between 20 and 29 years of age  
6  
7 formed the largest age group at 40%. The cohorts aged 30 to 39 and 40 to 50 each represented  
8  
9 22% of the sample. Those older than 50 formed the smallest group at 13%. The size of ventures  
10  
11 ranged from 4 to 16 with 53% of ventures employing 6 to 10 people, 32% of ventures with fewer  
12  
13 than five employees, and 15% of ventures with between 11 and 16 employees. The entrepreneurs  
14  
15 came from seven different industries: construction (18%), import/export (19%), real estate  
16  
17 (21%), consulting (11%), general trade (13%), tourism (2%), and IT (15%). The respondents  
18  
19 responded to the same surveys administered every year, allowing us to use an unbalanced panel  
20  
21 dataset across years.  
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26 -----Insert Table 3 here-----  
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### 28 ***Dependent Variable***

29  
30 We used the annual sales (in U.S. Dollars) of each venture as the dependent variable. For  
31  
32 entrepreneurial firms, sales provide relevant information for evaluating the viability and growth  
33  
34 of ventures. This variable was taken from the financial section of the survey. Because the survey  
35  
36 was completed at the same time as business license renewal, this number had to be consistent  
37  
38 with official business performance data. While this variable was taken from a survey, the process  
39  
40 of collection helped ensure that the variable was objective. We then log-transformed this variable  
41  
42 in our regressions.  
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### 46 ***Explanatory Variable***

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48 To predict H1 from the *home country corruption level*, we used the CPI, which is  
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50 annually published by Transparency International (Godinez and Liu, 2015). The index is  
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52 calculated based on perceived levels of corruption. A high index score indicates a relatively low  
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3 level of corruption whereas a more corrupt country has a low index score. We expect individuals  
4 from less corrupt home countries, i.e., those with relatively high CPI scores, to exhibit lower  
5 levels of corruption propensity while those from more corrupt home countries should exhibit  
6 higher levels of corruption propensity. This variable is expected to be negatively related to  
7 corruption propensity. In empirical tests not reported here, we also used alternative measures  
8 with data from the World Bank and obtained similar results. These results are available upon  
9 request.

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19 To test H2, we used a *venture age* variable. Because the survey was first administered to  
20 ventures newly formed in 2013, the ages of ventures increased in our sample period from 1 to 5  
21 (in 2017). The purpose was to test whether the passage of time is accompanied by an increase in  
22 corruption propensity. This variable can capture the effects of time. While the dataset does not  
23 provide information on how long an entrepreneur has worked in a host country, the length of  
24 time since a venture's founding provides the best available proxy for exposure to the host  
25 country environment.

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35 A measure of *corruption propensity* should reflect cost/benefit deliberation and norm  
36 internalisation (Dickel and Graeff, 2018). We used survey items based on prior research on  
37 corruption propensity (Agbo and Iwundu, 2016; Dickel and Graeff, 2018; Iriyama et al., 2016;)  
38 with survey items measuring entrepreneurs' perceptions of corruption, its effect on their  
39 ventures, and their propensity to engage in corruption to further their ventures (see Appendix 1  
40 for further details). The emphasis of this construct is *not* on the *actual* act of corruption, but on  
41 attitudes towards corruption or tendencies to engage in corruption (Agbo and Iwundu, 2016;  
42 Dickel and Graeff, 2018). Items contained such statements as "I actively gauge people's  
43 propensity to engage in corruption through the disclosure of possible profits of potentially  
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3 corrupt deals” and “I actively exploit people's willingness to increase their personal income by  
4 accentuating the potential income from corrupt opportunities.”. Using the eleven items, we  
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6 conducted a multilevel exploratory factor analysis involving three steps to account for the  
7  
8 repeated measures and longitudinal nature of the survey items (Reise, Ventura, Nuechterlein and  
9  
10 Kim, 2005). The process involved applying a regular exploratory factor, calculating intraclass  
11  
12 correlations for each of the eleven items, and portioning the total correlation matrix into a ‘within  
13  
14 and between’ component (Reise et al., 2005). The analyses reveal a Cronbach  $\alpha$  of 0.97,  
15  
16 suggesting high reliability. We used this factor as our measure of corruption propensity. A higher  
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18 score indicates a stronger attitude in favour of corruption while a lower score denotes a less  
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20 receptive attitude.  
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### 26 ***Control Variables***

27  
28 We applied several firm-, individual-, industry-, and country-level variables as control  
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30 variables. The firm-level control variable was *venture size*, measured by the number of  
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32 employees employed by a firm. Individual-level control variables included *the number of*  
33  
34 *contacts* each entrepreneur has dealt with in the host country, such as officials or middlemen  
35  
36 (Miller, Steier and Breton-Miller, 2016) and entrepreneurial experience *prior venture*, which is  
37  
38 measured as the number of prior ventures the entrepreneur has undertaken (Toft-Kehler,  
39  
40 Wennberg and Kim, 2014). We also controlled for the *entrepreneur's age*. We included two  
41  
42 industry control variables. The first is the *Industry Growth Rate of the Host Country* to account  
43  
44 for industry munificence, as industries that grow rapidly indicate a favourable environment and a  
45  
46 low need for corruption (Zhou, Han, and Wang, 2013). The second variable is the *Industry*  
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48 *Percentage of the Host Country GDP* to control for the importance of a given industry in the host  
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3 country. We also controlled the *Host Country GDP Change* to measure the economic growth of  
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5 the host country.  
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8 Next, we created several institution-level variables. The informal economy distance  
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10 variable was created from Schneider and Williams' (2013) informal economy measure.  
11  
12 Schneider and Williams (2013) estimated the sizes of informal economies of 162 countries (Frey  
13  
14 and Weck-Hannemann, 1984), including monetary (cash) and labour market indicators such as  
15  
16 the labour force participation rate. The informal economy was estimated as a percentage of the  
17  
18 sampled countries' official GDP values. We subtracted the home country informal economy  
19  
20 level from the host country informal economy level to create the informal economy distance  
21  
22 variable. We controlled for informal economy distance, as most corrupt transactions are cash-  
23  
24 based and should end up in the informal economy (Mathias, Lux, Crook, Autry and Zaretzki,  
25  
26 2015).  
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31 Furthermore, we created a general institutional distance variable between the home and  
32  
33 host countries from the annual economic, financial and administrative distance variables  
34  
35 developed by Berry and Colleagues (2010). These variables denote how two countries are  
36  
37 institutionally different on a variety of dimensions (Berry et al., 2010), and we considered three  
38  
39 important dimensions—economic, administrative, and financial distance. Since these variables  
40  
41 are highly correlated, we used a factor analysis to reduce the data and generated a single factor—  
42  
43 *general institutional distance*. All models controlled for fixed effects of the nine host Arabic  
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45 countries.  
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### 49 ***Empirical Strategy***

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51 We took several steps to execute our empirical analyses. First, we examined the effects of  
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53 home country corruption level (H1) and temporal isomorphism (H2) on corruption propensity for  
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3 individual entrepreneurs. Following the prior literature, we examined effects of the gender of  
4 entrepreneurs, their age, and prior venturing experiences; the industry growth rate in the host  
5 country; the industry percentage of the host country's GDP; and host country's change in GDP.  
6  
7  
8 The rationale is that males tend to bribe more than females (Agbo and Iwundu, 2016). More  
9  
10 corruption is expected for older entrepreneurs and for those with more venturing experience.  
11  
12 When an industry grows fast, performance pressure may be lower and lead to less corruption to  
13  
14 'grease the wheels'. A growing economy puts less pressure on entrepreneurs to engage in  
15  
16 corruption. The outcome of this process is the generation of a predicted value of corruption  
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18 propensity to be used in the second stage of the two-stage least square (2SLS) procedure (Haans,  
19  
20 Pieters, and He, 2016).  
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26 In the second stage of the 2SLS procedure, we used the predicted value of corruption  
27  
28 propensity to predict the performance variable (H3). Here, we first ran regressions within one  
29  
30 level using STATA's xtreg command because we had an unbalanced panel dataset while we  
31  
32 fixed the country-level variables. To account for multiple levels in our data (individual  
33  
34 entrepreneurs being the first level and the host countries the second level), we next used  
35  
36 STATA's xtmixed tool to examine our panel dataset via two-level hierarchical linear modelling  
37  
38 (HLM), as our country-level variables were of the second level while our individual and firm-  
39  
40 level variables were of the first level. Five variables used in the first stage were not covered in  
41  
42 the second stage (venture age, gender, industry growth, and industry percentage of GDP) to be  
43  
44 consistent with standards of 2SLS use (Bowden and Turkington, 1984).  
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## 49 **Results**

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51 Table 4 presents the descriptive statistics. Table 5 presents the correlations for all  
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53 variables. Most correlations are lower than 0.5, alleviating concerns of multicollinearity. For all  
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3 models reported, we checked all OLS versions for the size of VIFs. The only variable with a VIF  
4 of over 10 is Entrepreneur Age, which we needed to remove from the regression analyses. All  
5  
6 other VIFs are below 3, suggesting that multicollinearity is not present.  
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9  
10 -----Insert Tables 4, 5, and 6 about here-----  
11

12 Table 6 presents regression results for H1 and H2, the antecedents of corruption  
13 propensity. In Model 1, which shows effects of the control variables, entrepreneurs who are  
14 male, have more prior venturing experience, and with more business contacts often exhibit high  
15 degrees of corruption propensity. The industry growth rate reduces corruption propensity. A  
16 positive host country GDP change lowers corruption propensity, and a higher industry growth  
17 rate lowers corruption propensity. Model 2 includes home country CPI values to test H1. The  
18 coefficient is negative with a  $p$  value of less than 0.001, supporting H1. As predicted by H1,  
19 entrepreneurs from less corrupt home countries (higher CPI values) exhibit lower levels of  
20 corruption propensity whereas entrepreneurs from more corrupt countries (lower CPI values)  
21 show higher levels of corruption propensity. Model 3 accounts for venture age to show the  
22 temporal change in corruption propensity. The coefficient of venture age is positive and the  $p$   
23 value is below 0.001, supporting H2. Model 4 accounts for both home country CPI and venture  
24 age, confirming the results of prior models. We used Model 4 to generate a predicted value of  
25 corruption propensity. We call this variable *corruption propensity hat* and use it in the second  
26 stage of the 2SLS model.  
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47 -----Insert Tables 7 and 8 about here-----  
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49 Table 7 shows single-level analyses of how corruption propensity influences venture  
50 sales. At this individual level, we include dummy variables for each host country as fixed effects.  
51 Model 1 includes all control variables where more business contacts and prior venturing  
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3 experiences increase profits while a larger venture size decreases sales. Model 2 includes the  
4 corruption propensity hat, which is positive and significant with a  $p$  value of below 0.001. Model  
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8 3 includes the squared term of the corruption propensity hat, which is negative and significant  
9  
10 with a  $p$  value below 0.001. Model 3 supports H3, showing that corruption propensity has an  
11  
12 inverted U-shaped relationship with sales. Figure 3 shows the inverted U-shaped relationship  
13  
14 between corruption propensity and sales as described by H3. The curve first rises as corruption  
15  
16 propensity increases. The curve peaks at a propensity factor of 0.6 with log sales at roughly 12.2.  
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18 Then, as corruption propensity continues to increase from 0.6 to 1, the curve starts to drop and  
19  
20 sales decrease.  
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24 -----Insert Figure 1 about here-----  
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26 Table 8 shows HLM analyses of both the individual and country levels. Country-level  
27  
28 variables are random at the second level, including informal economy distance and general  
29  
30 institutional distance. The first level analyses include the same set of variables as that applied in  
31  
32 Table 7 with the only difference being that country fixed effects are removed. Model 1 includes  
33  
34 all controls and the effects are consistent with those shown in Table 7. Models 2 and 3  
35  
36 incrementally add the corruption propensity hat and its quadratic term. The results are also very  
37  
38 consistent with corresponding results given in Table 7. In Model 2, the coefficient of the  
39  
40 corruption propensity hat is positive and significant at below the 0.001 level. Model 3 shows the  
41  
42 inverted U-shaped relationship between corruption propensity and profits. The coefficient of the  
43  
44 corruption propensity hat is positive and significant at the 0.001 level while the squared term is  
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46 negative and significant at the 0.001 level, supporting H3.  
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## 51 Discussion

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3 Isomorphism is an important mechanism through which the environment influences  
4 entrepreneurship. For foreign entrepreneurs who cross national borders in search of  
5 entrepreneurial opportunities in a different host country, this external influence of isomorphism  
6 may take on more complex forms and mechanisms than those within the home country. In this  
7 study, we focus on how foreign entrepreneurs react to pressures of corruption under institutional  
8 multiplicities, i.e., from both home and host countries. Our results confirm our thesis that foreign  
9 entrepreneurs are subject to the influences of both home and host environments. While host  
10 country institutions represent current isomorphic pressures on foreign entrepreneurs, home  
11 country institutions provide 'stocks' or legacies, whose influences may persist beyond national  
12 borders.  
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26 From novel panel survey data collected from the Middle East we find that home countries  
27 leave important 'imprints' on foreign entrepreneurs: entrepreneurs from countries with higher  
28 CPI values exhibit lower levels of corruption propensity whereas those from countries with  
29 lower CPI values exhibit higher levels of corruption propensity. At the same time, corruption  
30 propensity increases as a venture grows older, indicating that foreign entrepreneurs adapt to local  
31 norms and become isomorphic with the host environment over time. Our results show that  
32 corruption propensity has an inverted U-shaped relationship with venture performance.  
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### 42 ***Research contributions and implications***

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44 Our study makes a unique contribution by connecting IB research on institutional  
45 complexities with the context of entrepreneurship. Whereas much entrepreneurship research has  
46 discussed the issue of corruption, most of these studies only focus on domestic entrepreneurs  
47 whose business activities are limited to one country. We extend the IB literature on institutional  
48 multiplicities and complexities (Kostova and Zaheer, 1999) to the context of foreign  
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3 entrepreneurship by highlighting the challenges created by multiple and sometimes conflicting  
4 institutional pressures. We fill this important gap between the entrepreneurship research and IB  
5 literature by analysing how foreign entrepreneurs can deal with institutional complexities  
6 regarding corruption in the host country. We suggest that societal imprints from home countries  
7 can serve as ‘stock’ isomorphism, whose effects may persist beyond national borders. When  
8 foreign entrepreneurs come to a host country where corruption is socially acceptable, this ‘flow’  
9 of isomorphism that occurs through conformance with norms of the host environment may  
10 gradually change their attitudes towards corruption. We extend prior research by highlighting the  
11 institutional inconsistencies posed by stock and flow isomorphic mechanisms. Whereas prior  
12 research on institutional isomorphism has often assumed that this isomorphic influence is  
13 monolithic (DiMaggio and Powell, 1984), our study shows the potential for significant conflict  
14 between ‘stock’ and ‘flow’ isomorphic pressures and demonstrates that this qualitative difference  
15 between the two presents important challenges to foreign entrepreneurs.  
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33 Our research also contributes to international entrepreneurship. Prior research on  
34 international entrepreneurship has been primarily interested in how entrepreneurs strategically  
35 internalise the global market in pursuing entrepreneurial opportunities. Some international  
36 entrepreneurship research focuses on how value chain activities can be strategically configured  
37 and internalised (Oviatt and McDougall, 1994), while other studies examine those ‘born-globals’  
38 who, from the very beginning, pursue a vision of becoming global without any domestic or  
39 international preparation (Knight and Cavusgil, 2004). Our study complements these studies by  
40 examining foreign entrepreneurs whose activities are geographically confined in the foreign host  
41 environment. Our study contributes a new aspect to the typology of international  
42 entrepreneurship. The unique theoretical insights we offer here centre on how such institutional  
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3 setups present unique challenges to foreign entrepreneurs that have not yet been examined by  
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5 prior international entrepreneurship research.  
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8 The notion of corruption propensity denotes a psychological tendency or behavioural  
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10 intention, which is a useful complement to institution-level concepts. For individual  
11  
12 entrepreneurs, such willingness to engage in corruption is a double-edged sword. On one hand, a  
13  
14 certain level of corruption propensity is useful and can benefit a venture, as corruption helps to  
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16 'grease the wheels'. On the other hand, corruption constitutes a short-term solution to  
17  
18 performance problems because it diverts entrepreneurs' attention from long-term goals such as  
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20 R&D, marketing, and other strategies that contribute to sustainable competitive advantage (Jong  
21  
22 et al., 2012; Xu, Zhou, and Du, 2019). Instead, corruption traps entrepreneurs in the social  
23  
24 community of corrupt government officials and can encourage entrepreneurs to exploit what is  
25  
26 currently available. Whereas corruption propensity presents adaptive advantages to foreign  
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28 entrepreneurs in corrupt environments, such advantages can be temporary and exploitative (Xu et  
29  
30 al., 2019). Foreign entrepreneurs become victims and perpetrators at the same time (Vorley and  
31  
32 Williams, 2016), which may perpetuate the vicious cycle present in the corrupt host  
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34 environment. Foreign entrepreneurs must therefore strike a balance between short- and long-term  
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36 benefits when they engage in corruption.  
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43 Our study also enriches research on corruption by utilising information taken from a  
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45 unique context. We focus our study on the Middle East, unlike prior research that has examined  
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47 corruption in former socialist countries (Budak and Rajh, 2014; Doern and Goss, 2011). The  
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49 Middle East presents an unconventional research context. Prior research has often found a strong  
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51 relationship between lower per capita incomes and higher corruption levels in society (Treisman,  
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53 2000). However, several countries included in our sample are affluent, oil-producing countries,  
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3 such as Saudi Arabia, Kuwait and the UAE, which are exceptions to the rule in the sense that,  
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5 even though they are economically rich, corruption remains an important societal issue that  
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7 affects entrepreneurship. In this sense, it is clear that corruption at the societal level is more  
8  
9 likely a function of norms, values, and cultures and not necessarily driven by the level of  
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11 economic wealth.  
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### 14 ***Implications for practice***

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17 From a practical point of view, our study has useful implications for foreign  
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19 entrepreneurs. Prior research is less specific on what challenges foreign entrepreneurs are likely  
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21 to encounter. Our study recommends that foreign entrepreneurs heed ‘fit’ issues at both the  
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23 country and individual levels. Country-level fit concerns how the host country differs from the  
24  
25 home country in terms of prevailing norms. Since norms regarding corruption are often implicit,  
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27 foreign entrepreneurs must make special efforts to understand and be able to manoeuvre in the  
28  
29 host environment. The second level is at the personal level, where foreign entrepreneurs must  
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31 find a personal ‘fit’ with local informal institutions. Norms from home countries regarding  
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33 corruption continue to affect foreign entrepreneurs as persistent and ‘sticky’ values. From a  
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35 moral and ethical point of view, entrepreneurs must find a balance between seeking economic  
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37 interests and maintaining ethical or moral standards.  
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### 41 ***Limitations and avenues for future research***

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44 One important limitation of our study is attributable to the survey data used on  
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46 psychological propensities to engage in corruption. Our survey instrument measures perceptions,  
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48 attitudes, and beliefs about corruption and not actual acts of corruption. The extent to which  
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50 corruption propensity is correlated with actual acts of corruption may depend on pressures to  
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52 conform to local norms of corruption—the stronger the pressure, the stronger the correlation  
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3 between psychological propensity and actual acts. Future research might benefit from more  
4 direct measures of actual acts of corruption than those that could be applied in the current study.  
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8 Future research may also examine the effects of industry imprints on corruption  
9 propensity. Imprints are not limited to home country influences and may also include industry  
10 effects. For example, some prior research (Cohn et al., 2014) shows that banking employees may  
11 be more prone to corruption due to their industry identity. While our dataset limits our ability to  
12 explore this interesting question, future research may consider how such industry affiliations  
13 may affect entrepreneurs' attitudes towards corruption.  
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22 Future research may explore similar effects of norms in different contexts. While our  
23 focus on the Middle East provides many benefits, some idiosyncrasies of this area may limit the  
24 generalisability of our results. Since corruption is pervasive in many countries, future studies  
25 based on data from other emerging economies can provide additional insights. While we focused  
26 on corruption as a very relevant norm for entrepreneurs coming to the Middle East, future  
27 research may enrich our understanding by focusing on other types of norms.  
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### 35 **Conclusion**

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37 In today's increasingly globalised business world, norm adaptation is an important issue  
38 for foreign entrepreneurs. This study examines how stock and flow isomorphic mechanisms  
39 drive the process of norm adaptation. Our study extends prior literature on entrepreneurship and  
40 international business by focusing on issues of institutional inconsistency and norm adaptation  
41 for foreign entrepreneurs.  
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For Peer Review



Figure 1. The inverted U-shaped relationship between corruption propensity and performance

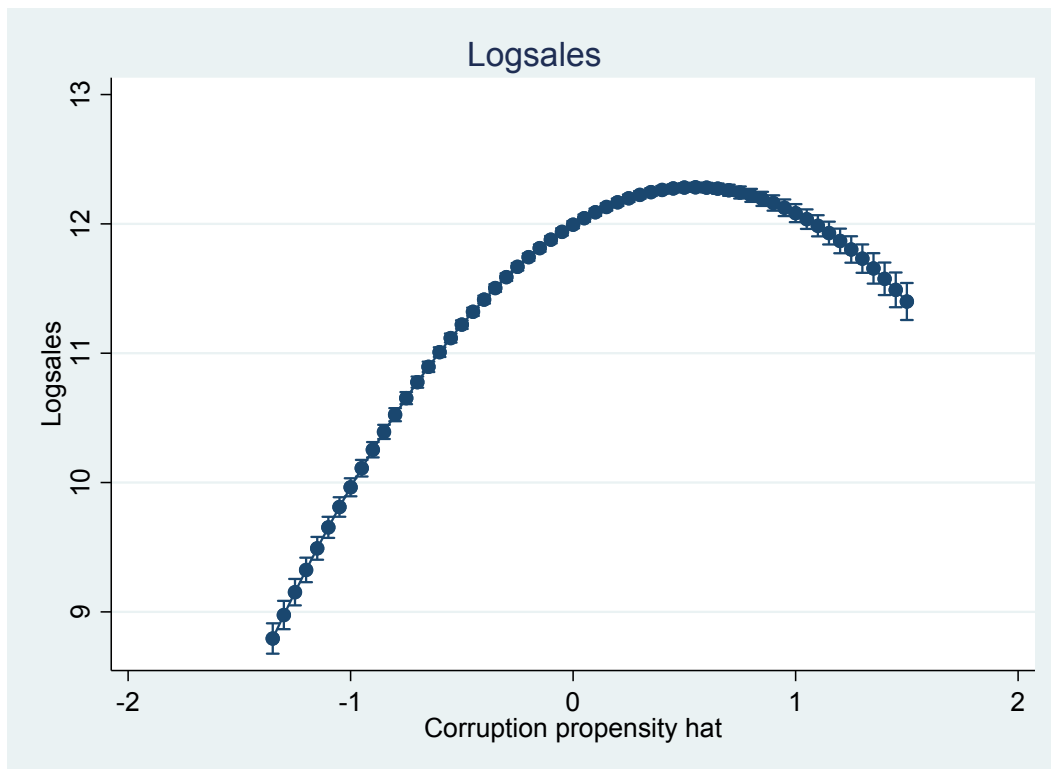


Table 1. CPI scores of host countries in our sample for 2013 to 2017

Country	2013	2014	2015	2016	2017
Bahrain	48	49	51	43	36
Egypt	32	37	36	34	32
Jordan	45	49	53	48	48
Kuwait	43	44	49	41	39
KSA	46	49	52	46	49
Lebanon	28	27	28	28	28
Oman	47	45	45	45	44
Qatar	68	69	71	61	63
UAE	69	70	70	66	71

Information source: Transparency International.

Table 2. The distribution of foreign entrepreneurs in different home countries

Home country	Home CPI	No. of entrepreneurs	Percentage	Host country
Algeria	34	3	0.30%	
Australia	79	81	8.19%	
Brazil	40	4	0.40%	
Canada	82	38	3.84%	
Chad	20	3	0.30%	
China	40	34	3.44%	
Colombia	37	3	0.30%	
Cyprus	55	6	0.61%	
Czech Republic	55	1	0.10%	
Denmark	90	9	0.91%	
Egypt	34	21	2.12%	1
Finland	89	32	3.24%	
France	69	18	1.82%	
Georgia	57	3	0.30%	
Germany	81	55	5.56%	
Greece	44	29	2.93%	
Hong Kong	77	7	0.71%	
Hungary	48	1	0.10%	
India	40	171	17.29%	
Iran	29	1	0.10%	
Ireland	73	18	1.82%	
Italy	47	1	0.10%	
Japan	72	2	0.20%	
KSA	46	2	0.20%	1
Kazakhstan	29	1	0.10%	
Kenya	26	6	0.61%	
Korea	53	5	0.51%	
Kuwait	41	1	0.10%	1
Libya	14	8	0.81%	
Lithuania	59	3	0.30%	
Macedonia	37	1	0.10%	
Malaysia	49	1	0.10%	
New Zealand	90	9	0.91%	
Nigeria	28	1	0.10%	
Norway	85	22	2.22%	
Oman	45	5	0.51%	1
Pakistan	32	3	0.30%	
Poland	62	3	0.30%	
Portugal	62	3	0.30%	
Qatar	61	32	3.24%	1
Romania	48	5	0.51%	
Russia	29	6	0.61%	

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Scotland	81	1	0.10%	
Senegal	45	26	2.63%	
Serbia	42	1	0.10%	
Slovakia	51	2	0.20%	
Slovenia	61	4	0.40%	
Somalia	10	4	0.40%	
South Africa	45	15	1.52%	
Spain	58	4	0.40%	
Sudan	14	4	0.40%	
Sweden	88	17	1.72%	
Switzerland	86	27	2.73%	
Syria	13	11	1.11%	
Tunisia	41	3	0.30%	
Turkey	41	24	2.43%	
UAE	66	31	3.13%	1
U.K.	81	110	11.12%	
USA	74	46	4.65%	
Ukraine	29	1	0.10%	
Total: 989				



Table 3. Summary statistics of sampled respondents

Respondent profile	%
1. Gender:	
Male	86
Female	14
2. Respondent age:	
20-29 years	40
30-39 years	22
40-49 years	22
50 years or older	13
3. Venture size:	
1-5 employees	32
6-10 employees	53
11-16 employees	15
4. Industry type	
Construction	18
Import/export	19
Real estate	21
Consulting	11
General trade	13
Tourism	2
IT	15

(N=4627).

Table 4. Descriptive statistics

	Mean	Std. Dev	Min	Max
Logsales	11.68	1.09	9.33	13.51
Corruption propensity	-0.001	0.98	-2.64	1.97
Home CPI	60.41	21.04	10	90
Gender	0.86	0.34	0	1
Venture size	7.25	2.88	4	16
Entrepreneur age	35.71	11.12	18	64
No. of contacts	10.61	6.13	0	28
Prior venturing experience	3.00	1.70	0	11
Informal economy distance	2.80	11.22	-46.1	28.1
General institutional distance	0.001	0.92	-2.46	1.97
Industry growth rate	2.09	0.96	0.1	3.6
Industry percentage in GDP	4.82	4.32	0.01	18
GDP change	2.67	1.83	-3.48	5.42
Venture age	2.95	1.42	1	5

Table 5. Variable correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13
1.Logsales													
2.Corruption propensity	0.43												
3.Home CPI	-0.28	-0.41											
4.Gender	0.10	0.18	-0.31										
5.Venture size	-0.27	-0.43	0.11	-0.07									
6.Entrepreneur age	-0.07	-0.17	0.45	-0.16	-0.01								
7.No. of contacts	0.53	0.27	-0.15	0.05	-0.16	-0.04							
8.Prior venturing experience	0.19	0.25	-0.50	0.18	-0.07	-0.15	0.10						
9.Informal economy distance	-0.13	-0.17	0.39	-0.09	0.03	0.13	-0.07	-0.25					
10.General institutional distance	0.04	0.08	-0.05	0.08	-0.02	-0.08	0.03	0.10	0.26				
11.Industry growth rate	-0.15	-0.35	0.21	-0.09	0.13	0.05	-0.14	-0.11	0.06	-0.05			
12.Industry percentage in GDP	-0.02	-0.04	0.12	-0.04	-0.01	0.01	-0.005	-0.05	-0.01	-0.10	0.05		
13. GDP change	-0.33	-0.14	0.02	0.03	0.12	-0.11	-0.08	-0.005	0.10	0.05	0.06	-0.05	
14.Venture age	0.75	0.35	-0.03	0.005	-0.32	0.10	0.46	0.02	-0.02	-0.02	-0.28	0.002	-0.38

Correlations of larger than 0.04 are significant at or above the 0.05 level in two-tailed tests.

Table 6. Predicting entrepreneur corruption propensity

VARIABLES	(1)	(2)	(4)	(3)
Home country CPI		-0.01*** (0.00)		-0.02*** (0.00)
Venture age			0.13*** (0.01)	0.14*** (0.01)
Gender	0.31*** (0.04)	0.15*** (0.04)	0.32*** (0.04)	0.16*** (0.04)
Prior venturing experience	0.10*** (0.01)	0.03*** (0.01)	0.10*** (0.01)	0.03*** (0.01)
No. of contacts	0.03*** (0.00)	0.03*** (0.00)	0.02*** (0.00)	0.01*** (0.00)
Industry growth rate	-0.28*** (0.01)	-0.25*** (0.01)	-0.24*** (0.01)	-0.21*** (0.01)
Industry percentage in GDP	-0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Host country GDP change	-0.10*** (0.01)	-0.11*** (0.01)	-0.05*** (0.01)	-0.05*** (0.01)
Host country dummies	Some significant	Some significant	Some significant	Some significant
Constant	0.00 (0.08)	1.39*** (0.10)	-0.58*** (0.09)	0.82*** (0.11)
Observations	4,627	4,627	4,627	4,627
Number of entid	989	989	989	989

\*\*\* p<.001, \*\* p<.01, \* p<.05, two-tailed t-tests

Table 7. The effects of corruption propensity on venture performance, single-level analyses

VARIABLES	(1) logsales	(2) logsales	(3) logsales
Corruption propensity hat		1.06*** (0.03)	1.06*** (0.03)
Corruption propensity hat squared			-0.97*** (0.03)
Venture size	-0.07*** (0.00)	-0.03*** (0.00)	-0.01*** (0.00)
No. of contacts	0.09*** (0.00)	0.05*** (0.00)	0.03*** (0.00)
Prior venturing experience	0.06*** (0.01)	-0.03*** (0.01)	-0.03*** (0.01)
Informal economy distance	-0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
General institutional distance	0.02 (0.02)	0.02 (0.01)	0.04** (0.01)
Host country dummies	Some significant	Some significant	Some significant
Year dummies	One significant	One significant	Year dummies
Constant	11.11*** (0.07)	11.48*** (0.06)	11.90*** (0.06)
Observations	4,627	4,627	4,627
Number of individuals	989	989	989

\*\*\* p<.001, \*\* p<.01, \* p<.05, two-tailed t-tests

Table 8. HLM analyses of effects of corruption propensity on venture performance

	Logsales		
	Model 1	Model 2	Model 3
First-level analyses:			
Corruption propensity		1.07***	1.07***
hat		(0.03)	(0.03)
Corruption propensity			-0.98***
hat squared			(0.03)
Venture size	-0.07***	-0.03***	-0.01***
	(0.004)	(0.004)	(0.004)
No. of contacts	0.09***	0.05***	0.03***
	(0.002)	(0.002)	(0.002)
Prior venturing	0.06***	-0.03***	-0.03***
experience	(0.008)	(0.008)	(0.007)
Informal economy	-0.01***	0.007**	0.007**
distance	(0.001)	(0.003)	(0.003)
General institutional	0.02	0.04*	0.06***
distance	(0.02)	(0.02)	(0.02)
Year dummy	One	One	One
	significant	significant	significant
Second level analyses:			
Informal economy	0.00	0.006**	0.006**
distance	(0.00)	(0.002)	(0.002)
General institutional	0.03	0.04*	0.04*
distance	(0.02)	(0.02)	(0.02)
No. of individuals	989	989	989
No. of observations	4627	4627	4627
Wald chi square	2339.07***	4148.21***	6006.62***

\*\*\* p<.001, \*\* p<.01, \* p<.05, two-tailed t-tests