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Foreign Ownership and Bribery in Chinese Listed Firms: An Institutional Perspective

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Foreign Ownership and Corporate Bribery in Emerging Markets: An Institutional Perspective

Abstract

While financial globalization serves to diffuse positive corporate practices worldwide, there remains a scarcity of studies investigating the potential of foreign ownership in alleviating corporate bribery—a pervasive illegal practice in emerging markets. This study, rooted in institutional theory, examines how foreign ownership affects corporate bribery expenditures in emerging markets, incorporating crucial factors that encapsulate local regulatory, normative, and cognitive pressures. Leveraging longitudinal panel data on Chinese listed firms, our findings reveal that foreign ownership significantly reduces corporate bribery expenditures, underscoring the disciplining role of foreign investors. Moreover, such effect is weakened by regional corruption and regional gambling prevalence, yet amplified by the overseas experience of top executives. These findings yield insights into how international investors affect bribery in investee firms, considering the intricate fabric of local institutional contexts.

Keywords: bribery; foreign ownership; regional corruption; regional gambling prevalence; overseas experience; emerging markets

INTRODUCTION

Bribery, defined as the provision of undue offerings or promises to government officials for personal gain, pervades global contexts (Martin et al., 2007; Xu et al., 2019). Within emerging markets, its prevalence is particularly pronounced due to rapid economic expansion juxtaposed with underdeveloped institutional frameworks (Jiménez et al., 2022; Zhou et al., 2022). Bribery obstructs equitable transactions, impedes market efficacy, and undermines societal equality. Hence, it is imperative to devise strategies for combating bribery (Sampath & Rahman, 2019; Yan & Qi, 2021). In accordance with institutional theory, institutional environments that consist of regulations, norms, and beliefs should significantly influence behaviors related to bribery (Spencer & Gomez, 2011; Zhou et al., 2013). Consequently, prior scholarship has identified diverse measures aimed at curbing bribery, including the implementation and enforcement of anti-bribery statutes (Cleveland et al., 2009), cultivation of ethical social norms (Zheng et al., 2013), and nurturing managerial attitudes averse to bribery (Collins et al., 2008).

The rise of financial globalization has spotlighted the pivotal role of international investors in shaping business ethics (Dyck et al., 2019; Yi et al., 2018). Existing scholarship suggests that foreign investment originating from advanced economies may act as a mechanism to curtail bribery in emerging markets (Kwok & Tadesse, 2006). First, foreign investors operate under legal constraints imposed by their home country or international statutes, prohibiting them from engaging in bribery within emerging market jurisdictions (Spencer & Gomez, 2011). Second, investors from advanced economies disseminate principles of strong governance and ethical business practices globally, thereby discouraging bribery within investee firms (Aggarwal et al., 2011; Fang et al., 2019). Third, foreign investments potentially reduce local firms' capital costs and foster regional economic development (Husted, 1999; Sanyal, 2005), thereby mitigating

incentives for illicit activities like bribery. However, empirical evidence in extant literature remains limited and presents contradictory outcomes; namely, foreign ownership may foster bribery among investee firms (Malesky et al., 2015; Yi et al., 2018). This inconsistency raises an unresolved research inquiry: does foreign ownership discourage or promote bribery activities within focal firms operating in emerging markets?

Furthermore, according to the perspective of institutional complementarity, local institutional environments should be considered when investigating the impact of foreign ownership on bribery (Jiménez et al., 2022; Yi et al., 2018). Foreign investors represent a segment within a broader array of institutional arrangements, thus their influence on firm behavior is contingent upon the quality of surrounding pertinent institutions. Notably, there exists substantial variation in institutional environments across regions in emerging markets (Xu et al., 2019). Three institutional pillars—regulative, normative, and cognitive (Scott, 1995)—exert distinct pressures that substantially shape firms' attitudes toward foreign investors and their inclination toward engaging in bribery (Zhou et al., 2013). Hence, it is important to consider local institutional pressures as critical boundary conditions.

To address these research gaps, this study builds on institutional theory to examine the impact of foreign ownership on a firm's engagement in bribery in China, the largest emerging market. *Foreign ownership* refers to a firm's shareholdings held by foreign investors (Aguilera et al., 2017; Yi et al., 2018).¹ We propose that, in general, foreign ownership acts as a deterrent against bribery in emerging markets, because investee firms may perceive regulatory, normative, and cognitive pressures emanating from foreign investors to constrain bribery practices.

¹ Firms with foreign ownership differ from foreign-owned enterprises (FOEs). Although some Chinese listed firms have shares held by foreign investors (i.e., foreign ownership), they are all domestic firms. During our sample period (2008-2012), 19.28% Chinese listed firms have foreign ownership; the average foreign shareholdings are 3.02% for all listed firms and 15.66% for firms with foreign ownership.

Furthermore, we suggest that the restraining impact of foreign ownership on bribery is contingent upon regional corruption (indicative of local regulatory pressure), regional gambling prevalence (reflective of local normative pressure), and the overseas experience of top executives (illustrating managerial cognitive pressure). Drawing upon a panel dataset on Chinese listed firms, our hypotheses receive strong empirical support.

Our selection of China as an empirical context is underpinned by two primary rationales. First, China has stood as one of the biggest recipients of foreign direct investment (FDI) globally over recent decades.² Second, China represents a pivotal emerging market, characterized by rapid market expansion with an underdeveloped institutional framework (Xu et al., 2019). In China, prevalent business norms, such as the emphasis on cultivating connections with government officials, are widely acknowledged to foster an environment conducive to bribery and corruption (Cai et al., 2011). Notably, several bribery studies in business ethics and management literature have employed China as a focal research context (e.g., Xu et al., 2019; Yan & Qi, 2021; Zhang, 2021; Zhou et al., 2022).

Our study makes three major contributions to the existing literature. First, our study contributes to institutional theory by unveiling the disciplining effect by foreign ownership on corporate bribery in emerging markets. Second, we examine the moderating roles of three salient factors that represent local regulatory, normative, and cognitive pressures. As such, this study enriches the perspective of institutional complementarity by highlighting a contingent view of the strategy of attracting foreign investors to discourage corporate bribery. Third, our study extends business ethics and international business research by suggesting a viable solution (i.e., openness to international investors) to mitigate bribery in China. Accordingly, our study provides novel

² Reports on foreign investment in China, released by Ministry of Commerce, People's Republic of China.

insights into the implications of financial globalization for business ethics and illegality in emerging markets.

CONCEPTUAL DEVELOPMENT

Institutional theory and foreign investment

Institutional theory emphasizes that firms face pressure to align their business strategies and practices with societal norms and expectations (DiMaggio & Powell, 1983). Institutions rest upon three foundational pillars: regulatory, normative, and cognitive (Scott, 1995). The regulatory pillar centers on a nation's legal frameworks, policies, and regulations, delineating mandates and prohibitions for firms (Scott, 1995). Non-compliance exposes firms to legal sanctions and penalties enforced by the government and authorities. The normative pillar encompasses shared beliefs, values, and norms that specify desirable behaviors within a given society; these norms delineate what firms should or should not do (Yang et al., 2012). The cognitive pillar comprises taken-for-granted conventions, customs, and interpretations internalized by social actors, guiding firms' typical behaviors in specific contexts (Yang et al., 2012). Firms adhering to regulations, societal norms, and ethical codes are more likely to gain acceptance and endorsement from pertinent actors in the institutional environment, and the resultant legitimacy can be critical for their survival and success (Spencer & Gomez, 2011).

Institutional environments differ widely between developed economies and emerging markets, yielding distinct business strategies and practices across nations (Yang et al., 2012). First, developed countries boast sophisticated and stringent legal frameworks that effectively safeguard market operations by upholding property rights, reducing transaction costs, and facilitating commercial exchanges (Li & Filer, 2007). Contrastingly, in emerging markets such as China, the lack of robust regulatory institutions and weak legal enforcement often compels

firms to rely on cultivating ties with the government in order to safeguard business interests and ensure survival (Sheng et al., 2011; Zhou et al., 2022).

Second, in advanced economies characterized by mature factor markets and market-driven resource allocation, firms adhere to high business norms and ethics to gain market and social legitimacy that constitutes fundamental sources of competitive advantage (Peng et al., 2008). In contrast, emerging economies grapple with underdeveloped market intermediaries and a dominant governmental role in resource allocation. Consequently, firms frequently rely on the government to acquire crucial resources and social acceptance, which unfortunately, often results in widespread corporate scandals, such as bribery (Liedong et al., 2023; Zhou et al., 2022). Third, managers from developed countries accumulate sophisticated management knowledge and business competences within well-functioning competitive markets. Conversely, managers in emerging economies often supplement immature market-based mechanisms with interpersonal relationships when handling business challenges (Sheng et al., 2011).

Existing literature highlights the substantial influence of international investors in shaping the practices of investee firms through the diffusion of norms and values, such as the rule of law, shareholder rights protection, good corporate governance, and strong management practices (Aggarwal et al., 2011; Kwok & Tadesse, 2006). One body of research underscores that foreign ownership contributes to enhanced firm practices, evident in bolstered governance mechanisms (Aggarwal et al., 2011; Kim et al., 2018), strengthened board monitoring (Desender et al., 2016), restrained earnings management (Aguilera et al., 2017), refined financial reporting practices (Fang et al., 2015; Fang et al., 2019), and increased voluntary information disclosure (Tsang et al., 2019). Another strand of research reveals the impact of foreign ownership on strategic decisions within investee firms, such as strategic investments (David et al., 2006), innovation

development (Luong et al., 2017), cross-border mergers and acquisitions (Ferreira et al., 2010), long-term investment (Bena et al., 2017), and corporate social responsibility (Dyck et al., 2019).

Despite the wealth of literature, scant attention has been directed toward the influence of foreign ownership on corporate bribery—a business malpractice prevalent in emerging markets such as China. Two exceptions, Malesky et al. (2015) and Yi et al. (2018), however, present conclusions that diverge from the above theoretical implications. Using a sample of Vietnamese firms in 2012, Malesky et al. (2015) reveal that firms with foreign investment are more likely to engage in bribery and adopt it as a means to gain entrance into sectors restricted by licensing requirements or business permits. Similarly, Based on a dataset of 38,673 firms from 113 countries collected by World Enterprise Surveys between 2006 and 2014, Yi et al. (2018) find a positive relationship between foreign ownership and a firm’s bribery-related payments. These surprising findings highlight a need to further examine how foreign ownership affects corporate bribery and necessitate the identification of critical boundary conditions.

Institutional contingencies

Hall and Soskice (2001) introduce the notion of institutional complementarity, where the efficacy of one institution is influenced by other institutions in the wider arrangement system. According to this view, the role of foreign ownership for corporate bribery should depend on local institutional environments (Jiménez et al., 2022). While foreign investors urge investee firms to adopt conventional practices that are routine in their home countries, the extent to which firms accommodate foreign investors’ requirements may be affected by regulatory, normative, and cognitive pressures in host countries (Martin et al., 2007; Spencer & Gomez, 2011). Therefore, we examine three salient contextual factors, namely regional corruption, regional gambling

prevalence, and top executive overseas experience, which respectively reflect regulatory, normative, and cognitive pressures in China.

First, *regional corruption* serves as an indicator of regulatory conditions, encapsulating the extent to which local government officials misuse their authority for personal gains (Jiménez et al., 2022; Zhu, 2017). China's uneven economic growth and institutional development have led to substantial variations in corruption levels among its regions and provinces (Giannetti et al., 2021). In China, local governments wield significant responsibility for law enforcement and possess the autonomy to formulate regional business regulations and policies (Yang et al., 2021). This discretionary power often results in frequent government intervention in economic activities and fosters rent-seeking behaviors among government officials (Jiménez et al., 2022; Zhou et al., 2022). Consequently, regional corruption reflects the local regulatory pressure compelling firms to comply with demands from government officials, thereby influencing their responsiveness to requests from foreign investors.

Second, *regional gambling prevalence*, defined as the inclination of local residents toward engaging in uncertain bets with hopes of substantial rewards (Wu & Lau, 2015), reflects local social norms and values. Gambling prevalence tends to foster a social environment featured by a high tolerance for risk-taking, impulsivity, and a diminished sensitivity to reputational loss (Alharbi et al., 2020; Chen et al., 2014; Mishra et al., 2017). Influenced by these prevailing social norms, firms develop predispositions toward speculative activities such as bribery, subsequently influence their receptiveness to governance and monitoring initiatives put forth by foreign investors.

Third, *top executives' overseas experience*, denoting whether a CEO or chairman has educational and/or professional experience abroad (Yuan & Wen, 2018; Zhang et al., 2018),

reflects their perceptions of ethical practices and cognitive pressures to address demands from foreign investors. In China, top executives possessing foreign experience are both scarce and highly sought resources (Wen et al., 2020). Since the 1990s, the Chinese government has implemented policies aimed at attracting highly skilled individuals with overseas experience to drive entrepreneurial ventures and foster economic advancement. These individuals predominantly acquire their overseas experience in developed nations such as the US and the UK (Giannetti et al., 2015; Zhang et al., 2018). Equipped with broadened worldviews (Le & Kroll, 2017; Powell et al., 2022), these leaders often exhibit high receptiveness and competencies in meeting the requirements of foreign investors.

HYPOTHESES

Foreign ownership and bribery

We posit that foreign ownership serves as a deterrent against corporate bribery in China. First, firms with foreign ownership face strong regulatory pressure to combat bribery. This stems from the requirement imposed by foreign investors for firms to adhere to regulations and legal codes in their home countries and the wider international business community (Kwok & Tadesse, 2006). For instance, a number of national governments have not only enacted regulations prohibiting bribery in overseas businesses (e.g., the US Foreign Corrupt Practices Act), but have also engaged in supranational initiatives aimed at discouraging bribery on a global scale, such as the Organization for Economic Co-operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Consequently, owing to the illegal nature of bribery across borders and governmental structures, foreign investors rooted in nations with stringent legal frameworks would monitor Chinese firms to avoid involvement in such illicit activities.

Second, foreign investors subject investee firms to strong normative pressure to adhere to standards of good business conduct, consequently restraining bribery. Accustomed to stringent governance norms and ethical standards prevalent in their home countries, foreign investors often perceive local practices in emerging markets like China as underdeveloped (Kim et al., 2018; Li & Filer, 2007). As a result, these investors often request that investee firms should enhance social responsibility and improve governance practices to protect shareholder rights. Mechanisms such as employing high-quality auditors (He et al., 2014), fostering board independence (Desender et al., 2016), and voluntary information disclosure (Tsang et al., 2019) are commonly urged upon. Consequently, foreign ownership exerts strong normative pressure on investee firms to achieve high governance and ethical standards, which curtails bribery.

Third, managers within firms under foreign ownership confront strong cognitive pressure to curtail expropriation activities such as bribery. Unlike domestic investors, who often maintain close business ties with local corporations and consequently align closely with firm management, foreign investors are less encumbered by ties with corporate insiders. This detachment enables them to effectively mitigate managerial entrenchment and foster the accountability among top executives (Ferreira & Matos, 2008). Because bribery is secretive and private in nature, it often provides opportunities for corporate insiders to extract private gains at the expense of foreign investors and shareholders (Cuervo-Cazurra, 2006). Empirical evidence substantiates that foreign investors adopt a more proactive stance compared to their domestic counterparts in monitoring corporate insiders and influencing strategic decision-making (Bena et al., 2017; Ferreira & Matos, 2008). For instance, underperforming CEOs face a higher probability of turnover in firms featuring foreign ownership (Aggarwal et al., 2011). Consequently, managers under the oversight

of foreign investors perceive strong cognitive pressure to curtail instances of bribery. Taken together, we propose that:

H1: Foreign ownership has a negative effect on corporate bribery in China.

Boundary conditions

Regional corruption reflects the demands made by local government officials for bribes, contingent upon officials' discretionary power, potential economic gains, and the risk of exposure (Jiménez et al., 2022). Since corruption increases the uncertainty and transaction costs associated with holdups and expropriation (Jiménez et al., 2022; Zhou et al., 2013), it causes inefficient resource allocation, hampers corporate performance (Sampath & Rahman, 2019), and hinders entrepreneurial entry (Giannetti et al., 2021).

We argue that regional corruption may weaken the negative relationship between foreign ownership and bribery. In regions where corruption has become deeply ingrained within institutional frameworks, local firms likely take bribery for granted as a way of doing business (Spencer & Gomez, 2011; Yang et al., 2021). For instance, firms might engage in practices like offering gifts or paying "facilitation fees" to access government services—such as license approvals, public procurement contracts, or grant applications—that would otherwise be inaccessible (Jiménez et al., 2022; Wu, 2009). Within these regulatory environments, such taken-for-granted practices make firms less responsive to the anti-bribery directives of foreign investors, thereby diminishing the regulatory pressure aimed at curtailing bribery.

In addition, corruption seriously disrupts firms' operations and threatens survival by introducing high levels of political uncertainty and costs (Jiménez et al., 2022). In highly corrupt areas, government officials enjoy significant discretionary power in interpreting and enforcing regulations, so they can impose arbitrary interventions and penalties (e.g., sanctions and unfair

punishments) (Wu, 2009). Within such contexts, firms likely prioritize compliance with the demands of corrupt local officials over adhering to requests from foreign investors. This is because firms may perceive the severe consequences of non-compliance with local regulatory authorities outweigh those stemming from non-compliance with foreign investors' directives (Spencer & Gomez, 2011). Consequently, these firms become less responsive to regulatory pressure from foreign investors, thereby diminishing the disciplinary impact of foreign ownership on bribery. Therefore, we posit that:

H2: The negative impact of foreign ownership on corporate bribery is weaker when regional corruption is high.

In regions where gambling is widespread, local residents typically display high risk tolerance, impulsiveness, sensation-seeking tendencies, and low levels of self-control (Mishra et al., 2017). These regional gambling norms significantly impact corporate investment choices and financial behaviors. Recent research shows that firms in gambling-prone areas are more likely to invest in risky and innovative projects (Chen et al., 2014), engage in financial misreporting (Christensen et al., 2018), and commit tax avoidance (Alharbi et al., 2020).

We argue that widespread regional gambling prevalence likely attenuates the negative impact of foreign ownership on bribery. The prevalence of gambling reflects a deeply ingrained culture with a high tolerance for risk within a region (Chen et al., 2014), which may reduce local firms' perceived normative pressure to curtail bribery from foreign investors. In regions where gambling is socially embraced, firms tend to adopt aggressive and high-risk practices, betting on high returns while downplaying potentially costly outcomes (Adhikari & Agrawal, 2016; Christensen et al., 2018). While bribery offers immediate gains through bureaucratic favoritism and protection, it also poses substantial risks related to legitimacy loss (Xu et al., 2019). With a risk-taking mentality reflected in a local culture, firms are more likely to forgo governance and ethical norms introduced

by foreign investors in the face of promising returns. Consequently, the monitoring role of foreign investors becomes less effective in curtailing bribery within such cultural contexts.

Moreover, a local culture that promotes gambling tends to cultivate an environment indifferent to societal welfare, disregard for the consequences of one's actions, and insensitivity to reputational damage (Alharbi et al., 2020). These social norms and values incubate a greater propensity to choose deviant means to achieve desirable ends (Martin et al., 2007). Thus, in regions with a prevalent gambling culture, local firms likely normalize the practice of bribery as a means to accomplish their goals, without invoking rational ethical judgments or moral considerations (Zhou et al., 2013). Accordingly, these firms are less concerned with normative pressure from foreign investors in terms of shareholder right protection and business ethics, resulting in a weaker impact of foreign ownership on bribery. Hence, we predict that,

H3: The negative impact of foreign ownership on corporate bribery is weaker when regional gambling prevalence is high.

The overseas experience of top executives is acknowledged as a valuable and rare resource in emerging markets (Wen et al., 2020). Equipped with international knowledge and competencies, top leaders possessing extensive foreign experience are more willing and capable to initiate strategic changes and foster innovation (Le & Kroll, 2017; Yuan & Wen, 2018). Furthermore, the presence of such executives often leads to enhanced corporate performance (Giannetti et al., 2015) and reduced controversial activities such as aggressive tax practices (Wen et al., 2020).

We propose that top executives with overseas experience may strengthen the negative effect of foreign ownership on bribery because these executives perceive strong cognitive pressure from foreign investors to discourage bribery. Attributed to their broad global perspectives and expansive worldviews cultivated during the time abroad, top executives can be fully aware of the detrimental consequences—both for the firm and their personal standing—should foreign

investors uncover and penalize acts of bribery (Powell et al., 2022; Wen et al., 2020). Such punishments not only impede the firm's internationalization efforts, but also cause reputational damage for these executives that harms their prospects in global markets (Wen et al., 2020; Yuan & Wen, 2018). Consequently, compared to their counterparts, top executives with overseas experience are subject to stronger pressure from foreign investors, compelling them to refrain from engaging in bribery.

Furthermore, top executives with international exposure can fully recognize and effectively utilize the cognitive pressure exerted by foreign investors to curtail bribery. With previous exposure to diverse sets of governance practices and ethical organizational climates, top executives can recognize the importance of business ethics and social responsibility for long-term corporate valuation (Slater & Dixon-Fowler, 2009; Zhang et al., 2018). Thus, they are willing to address demands by foreign investors to refrain from bribery. With overseas study or work experience, top executives accumulate advanced management knowledge, strong business competencies, and global networks (Giannetti et al., 2015; Le & Kroll, 2017). Armed with these resources, top executives are capable of meeting the expectations of foreign investors through legitimate market-based efforts rather than resorting to deviant means such as bribery. Therefore, we develop the following hypothesis and use Figure 1 to illustrate our conceptual model.

H4: The negative impact of foreign ownership on corporate bribery is stronger when their top executives have overseas experience.

*** Insert Figure 1 about here. ***

RESEARCH METHOD

Our sample comprises all publicly listed Chinese companies on the Shenzhen and Shanghai stock exchanges (A shares). We derived our measure of bribery from firms' entertainment and travel expense (ETE) records. Our sample period for the dependent variable (i.e., corporate

bribery) spans from 2009 through 2013. It begins in 2009 since few firms revealed ETE before that year. In 2012, the Chinese government implemented a nationwide anti-corruption campaign aimed to curtail government officials' involvement in extravagant entertaining activities (such as travel, meals, and gift exchanges). As a result, many companies decided to cease disclosing ETEs in their annual reports post-2013 (Xu et al., 2019). To mitigate reverse causality, we set the dependent variable at time $t+1$. Therefore, data concerning the dependent variable span the 2009–2013 period, while data on all explanatory and moderating variables pertain to the 2008–2012 period.

We collected data from several sources. First, we obtained data on foreign ownership, bribery, and other firm- and industry-level characteristics from firms' annual reports, the Chinese Securities Market and Accounting Research (CSMAR) database, and the WIND database (Xu et al., 2019; Zhou et al., 2017). Second, we collected city-level data (e.g., city FDI) from the China City Statistical Yearbook and provincial-level data (e.g., province population) from the China Statistical Yearbook (Ning et al., 2016). Third, we obtained the number of civil servants being investigated and prosecuted for corruption and crimes of malfeasance from the Procuratorial Yearbook of China published by the Supreme People's Procuratorate. Fourth, we obtained lottery sales data from the website of the Ministry of Finance of China.

To mitigate the influence of outliers, we winsorized all continuous variables at the first percentile in both tails. After deleting observations with missing values, we obtained a final sample of 8,280 firm-year observations involving 2,389 firms. To address potential selection biases, we employed a propensity score matching (PSM) model (refer to the "Estimation method" section). Following PSM, our post-matching sample consisted of 3,096 firm-year observations including 1,548 with foreign ownership and 1,548 without.

Measures

Corporate bribery. Following prior studies (Xu et al., 2019; Zhou et al., 2022), we used ETE to estimate a firm's potential expenditure on bribery activities. According to Cai et al. (2011), ETE consists of three components: (1) normal business spending (e.g., necessary entertainment activities with suppliers, distributors, and customers), (2) managerial excesses, and (3) bribery expenses for government officials. Hence, to obtain possible bribery expenses, we needed to tease out the first two components from ETE. Initially, we conducted a regression of the ETE ratio (i.e., ETE/total sales) employing five variables: total assets, total sales, capital intensity, marketing intensity, and the average remuneration of the three highest-paid managers scaled by total sales (Xu et al., 2019). We used the first four to estimate normal entertainment spendings and the fifth variable to capture managerial excesses. Consistent with prior research (Liu et al., 2018; Zeng et al., 2016; Zhou et al., 2022), we adopted ETE ratio instead of its absolute value to account for the variance in firm size. We took the log transformation of total sales and total assets to reduce the influence of extreme values (Davis et al., 2019; Zhou et al., 2022). The estimation model is as follows:

$$ETE\ ratio = \alpha_1 + \beta_1 \text{Log}(total\ asset) + \beta_2 \text{Log}(total\ sales) + \beta_3 \text{Capital intensity} + \beta_4 \text{Marketing intensity} + \beta_5 \text{average remuneration} + \varepsilon.$$

Subsequently, we utilized the residual derived from the aforementioned model (i.e., abnormal ETE) to estimate expenditures on government officials' bribes. As prior research (Xu et al., 2019; Zhou et al., 2022) suggests, a large and positive residual value implies a firm's ETE level surpasses the normal standard, which indicates a high level of abnormal entertainment spending and thus greater likelihood of bribery.

Foreign ownership. We adopt two proxies to capture this construct: foreign dummy and foreign share. We measured foreign dummy as a binary variable that equals to one if there was at least one foreign investor among the top ten shareholders, and zero otherwise. Additionally, we calculated the foreign share by dividing the total number of shares held by foreign investors within the top ten shareholders by the firm's total outstanding shares (He et al., 2014). Disclosure requirements mandate listed firms to disclose information regarding their top ten shareholders, such as shareholders' name and their corresponding shareholding proportions. We first identify foreign investors among a listed firm's shareholders and then aggregate all their shareholdings. We focused on foreign investors among the top ten shareholders because (1) only investors with substantial shares can exert a significant impact on firms' strategic decisions and behaviors, and (2) shareholder details beyond the top ten are often absent in annual reports.

Regional corruption. Consistent with prior studies (Butler et al., 2009; Jha et al., 2020), we measured regional corruption by calculating the ratio of civil servants under investigation or prosecution for corruption and malfeasance to the total provincial population. Compared with survey-based measures, this measure provides advantages in terms of objectivity and comparability across regions (Glaeser & Saks, 2006).

Regional gambling prevalence. Following prior studies (Christensen et al., 2018; Kumar et al., 2011), we assessed regional gambling prevalence on a province level by calculating per capita lottery sales adjusted by residents' per capita income. This adjustment accounts for variations in local purchasing power across provinces.

Top executive overseas experience is measured as a binary variable, taking the value of one if a CEO or board chair possesses international study or work experience, and zero otherwise (Yuan & Wen, 2018; Zhang et al., 2018).

Control variables

We included four types of control variables that might affect bribery expenditures. We controlled for three variables at the top management team level, namely *CEO age*, *board size*, and *duality*, all of which may affect decision-making and behavioral patterns in a firm (Lewis et al., 2014; Martin et al., 2016). We measured *board size* as the natural logarithm of the number of directors. We coded *duality* as one if a firm's CEO is the chairman of the board.

At the firm level, we used the natural logarithm of the total number of employees to measure *firm size* (Xu et al., 2019). Considering the potential impact of external supervision on bribery, we measured *media attention* as the natural logarithm of the number of newspaper articles referencing a firm's name in a given year (Kim et al., 2019). We controlled for *SOE* (state-owned enterprises), indicating whether a firm's ultimate controller is the government or its agencies, given that SOEs may act differently because of their economic and political status (Zhou et al., 2017). To mitigate the confounding effects of financial situations, we controlled for *ROA* (return on assets), *Tobin Q* (market value divided by total assets), and *leverage* (total liabilities divided by total assets). In addition, we included *firm OFDI*, captured as a binary variable that equals to one if a firm has established subsidiaries in developed countries and zero otherwise (Li et al., 2018). We also controlled for *export intensity* using the ratio of foreign sales to total sales, to signify a firm's dependence on foreign markets (Xu et al., 2019; Zhou et al., 2017).

We further controlled for industry- and regional-level characteristics. To measure industry competition, denoted as *competition*, we calculated the Herfindahl-Hirschmann Index (HHI) as the sum of the square of each firm's market share in a specific industry. We then reverse-coded it as "1 – HHI", such that a larger value indicates a higher level of industry competition (Zhou et al., 2017). Moreover, we controlled for *city FDI*, measured as the ratio of a city's total inward FDI to its Gross

Domestic Product (GDP). Additionally, we controlled for year, industry, and province dummies in all regression analyses to account for further variations. Table A1 in the Appendix summarizes the measurement of all variables.

Estimation method

Given that foreign ownership is not a randomly assigned treatment, we employed the propensity score matching (PSM) model to mitigate the inherent differences between the treatment group (i.e., firms with foreign ownership) and the non-treatment group (i.e., firms without foreign ownership).

In the first stage, we used a probit model to estimate the probability that a firm-year observation being classified as a treatment observation, using a set of predictors that include all moderators, controls, year dummies, and industry dummies. The dependent variable in the first stage was *foreign dummy*. We then calculated the propensity scores for each firm-year observation, and used the 1:1 nearest-neighbor matching without replacement strategy to identify a statistical twin from the non-treatment group for each observation in treatment group. To enhance matching quality, we further excluded observations that are farther away than a caliper of 0.25 standard deviation. After PSM, we obtained a matched sample comprising 1,548 observations with foreign ownership and 1,548 observations without foreign ownership.

We reported the first stage probit regression results and PSM validity test results in Appendix Table A3. In the post-match sample, all p -values of t -test exceed 0.1, indicating nonsignificant differences in the matching predictors between treatment and non-treatment groups. Additionally, both the median and mean bias between the two groups fall below the commonly utilized 5% threshold (Rosenbaum & Rubin, 1983). These results suggest high matching quality.

RESULTS

Table 1 presents the descriptive statistics and correlations of key variables based on the post-PSM sample. The correlations of all key variables are lower than 0.4, mitigating concerns related to multicollinearity. For a comprehensive overview, Table A2 in the Appendix offers the descriptive statistics and correlations derived from the full sample.

Insert Table 1 about here

Our study involves firm-level dependent and independent variables alongside regional-level moderators (e.g., regional corruption and gambling prevalence). We evaluated the intraclass correlation coefficient (ICC) using the post-PSM sample to determine the need for multilevel analysis. The resulting ICC of 0.01 indicates that variations predominantly occur at the firm level, suggesting that multilevel estimation is unnecessary (Yang et al., 2021). Therefore, our post-matching regressions employ ordinary least square (OLS) estimation, aligning with prior research involving firm-level variables and regional-level moderators (Shen et al., 2022; Zhou et al., 2022). In Table 2, we used foreign dummy as the independent variable in the regressions. Model 1 served as the baseline model with control variables and moderators only, and Model 2 introduced our independent variable. Models 3 through 5 added each interaction term in turn. Model 6 represented the full model with the independent variable, all interactions, and controls. We mean-centered the moderators before generating their interaction terms (Aiken & West, 1991).

Insert Table 2 about here

*** Insert Figure 2 about here ***

H1 proposes that foreign ownership negatively impacts corporate bribery. In Table 2, the coefficient of foreign dummy is negative and significant ($b = -0.03$, $p < 0.01$ in Model 2; $b = -0.02$, $p < 0.01$ in Model 6), providing support for H1. Regarding the effect size, when foreign dummy increases from zero to one, bribery decreases by 257%.

H2 predicts that the negative impact of foreign ownership on bribery is weakened by regional corruption. As results in Table 2 show, the interaction term of *Foreign dummy* \times *Regional corruption* is significantly positive ($b = 0.21, p < 0.05$), supporting H2. To further illustrate the interaction effect, we conducted the marginal analysis and plotted the moderating effect in Figure 2 Panel A. The negative effect of foreign ownership on corporate bribery is significant in regions with low corruption (because 2SD below the mean is out of data range, we used the minimal value) ($b = -0.05, p < 0.01$), but non-significant in high corruption regions (i.e., 2 SD above the mean) ($b = 0.01, p > 0.1$). In addition, we conducted sub-sample analysis by splitting firms into two groups based on the median value of regional corruption (Bertrand & Morse, 2011). As shown in Table 4, the negative effect of foreign dummy on bribery is significant in both low (below median) ($b = -0.03, p < 0.01$, Model 1) and high corruption regions (above median) ($b = -0.02, p < 0.05$, Model 2). Following Cleary (1999) and Efron and Tibshirani (1994), we utilized bootstrapping methods to assess the significance of coefficient difference. Bootstrapping results, conducted over 500 iterations, confirm a significant difference in the coefficients of foreign dummy between high and low corruption sub-samples ($p < 0.05$), providing additional support for H2.

H3 examines the moderation effect of regional gambling prevalence on the relationship between foreign ownership and bribery. As results in Table 2 show, the interaction term of *Foreign dummy* \times *Regional gambling prevalence* is positive and significant ($b = 0.05, p < 0.05$), supporting H3. Figure 2 Panel B illustrates that the negative effect of foreign ownership on bribery is significant in regions with low gambling preference (because 2SD below the mean is out of data range, so we used the minimal value) ($b = -0.06, p < 0.01$). However, this effect diminishes and becomes non-significant in regions where gambling preference is high (i.e., 2 SD above the mean) ($b = 0.01, p > 0.10$). Sub-sample analysis, detailed in Table 4, show a significantly negative

coefficient of foreign dummy for firms in low gambling prevalence regions (below median) ($b = -0.04, p < 0.01$, Model 5), while it is not significant for those in high gambling prevalence regions (above median) ($b = -0.02, p > 0.05$, Model 6). Bootstrapping further validates this difference in coefficients between high and low gambling prevalence sub-samples ($p < 0.05$), reinforcing the support for H3.

H4 proposes that top executive overseas experience strengthens the negative effect of foreign ownership on bribery. The interaction term of *Foreign dummy* \times *Top executive overseas experience* is negative and significant ($b = -0.05; p < 0.05$), supporting H4. Illustrated in Figure 2 Panel C, the negative effect of foreign ownership on bribery is stronger in firms whose top executives have overseas experience ($b = -0.08, p < 0.01$) compared to those without such experience ($b = -0.02, p < 0.01$).

Among the control variables outlined in Table 2, several factors significantly impact corporate bribery. In specific, board size positively relates to bribery. Larger firms are associated with reduced bribery because they are less incentive to bribe and less vulnerable to the corrupt requests of officials. Media attention emerges as an external governance mechanism that decreases instances of corporate bribery. Firms with sound financial conditions, indicated by higher return on assets (ROA) and Tobin Q, demonstrate a decreased likelihood of engaging in bribery. Interestingly, export intensity exhibits a positive, albeit marginal, impact on corporate bribery in the full model. This finding suggests that firms with higher export involvement might resort to bribery to secure necessary public services, permits, licenses, or expedite government approvals for export projects in emerging markets (Martin et al., 2007).

We report the regression results using foreign share as the independent variable in Table 3 and Table 4, which are highly consistent with those drawn from foreign dummy.

Insert Table 3 and Table 4 about here

Robustness tests

We conducted several tests to check the robustness of our results (Table 5). In Model 1, we adopted an alternative measure of foreign share by focusing on the foreign shareholdings among top five shareholders. In Model 2, we examined the impact of foreign share solely from developed economies, excluding holdings from investors registered in tax havens (e.g., Cayman Islands) and emerging nations (e.g., Malaysia). In Model 3, we employed an alternative measure of top executive overseas experience by using the ratio of board members that have overseas experience. In model 4, we adopted an alternative measure of corporate bribery. In the first stage estimation model for bribery, we incorporated year and industry dummies to account for time and sectoral variances.

In Model 5, we addressed the endogeneity concerns by applying the treatment effect model. This model is a selection model used to address the endogeneity problem associated with the independent variable (Kim & Zhang, 2016; Lennox et al., 2012). We first included *distance to coast* as the instrumental variable (exclusion restriction) in the first-stage regression. Distance to coast is measured by the distance from a city to the nearest coastline, which indicates a firm's geographic proximity or distance from foreign economies (Jensen & Rosas, 2007). Greater distance from a coast suggests reduced likelihood of foreign investment. Geographic distance is relatively exogenous and is unlikely to directly affect bribery activities. In the subsequent step, we included the *Inverse Mills Ratio* (IMR) obtained from the first stage in the second stage to control for potential sample selection bias in our analyses.

Finally, we re-test all hypotheses using the full sample. We report the results of OLS regression using foreign dummy as the independent variable in Model 6 and results drawn from foreign share in Model 7. The above results again support our hypotheses.

Insert Table 5 about here

DISCUSSION

Theoretical contributions

Our study builds on institutional theory to examine the role of foreign ownership for corporate bribery in emerging markets. We find that foreign ownership reduces bribery expenditures in Chinese listed firms. Moreover, such effect is mitigated by regional corruption and gambling prevalence, but becomes stronger for firms having top executives with overseas experience. These findings contribute to extant research in three ways.

First, our study contributes to institutional theory by demonstrating the disciplinary impact of foreign ownership on corporate bribery in emerging markets. Prior research has highlighted that cross-border investors diffuse good business norms and practices around the world, for instance improving governance, transparency, and accountability in investee firms (e.g., Aggarwal et al., 2011; Bena et al., 2017; Kim et al., 2018; Tsang et al., 2019). Extending this literature strand, our study examines how foreign ownership affects corporate bribery. Building on institutional theory, we argue that investee firms may face regulatory, normative, and cognitive pressure from foreign investors to curb bribery activities because those investors may urge firms to conform to rules, norms, and beliefs that prevail in their home countries. Our empirical evidence drawn from panel data on Chinese listed firms reveals that firms featuring foreign ownership exhibit significantly lower bribery expenditures compared to their counterparties. Therefore, our study underscores that

distant institutions significantly constrain corporate misconduct (e.g., bribery) in emerging markets through the presence of international investors.

Second, our study enriches the perspective of institutional complementarity (Hall & Soskice, 2001; Jiménez et al., 2022) by shedding light on the crucial role of local institutional environments in shaping the impact of international investors. Extant studies have primarily investigated how country-level institutional discrepancies influence the monitoring function of foreign ownership (e.g., Aggarwal et al., 2011; Kim et al., 2018; Yi et al., 2018). With the rise of financial globalization, foreign investors from advanced economies are viewed as “agents of change to host institutions” in emerging markets (Kwok & Tadesse, 2006, p. 769). Yet, how local institutional pressures influence the efficacy of foreign investors’ oversight has gone largely under-researched. Adding to this line of inquiry, our study examines the moderating effects of three salient factors reflecting local regulatory, normative, and cognitive pressures. Our findings indicate that the negative impact of foreign ownership on corporate bribery becomes non-significant in regions characterized by high levels of corruption or gambling propensity, whereas, it is stronger in firms where top executives possess overseas experience. These results align with the co-evolutionary perspective, suggesting that international investors would adapt to or co-evolve with local institutional environments (Cantwell et al., 2010; Dieleman & Sachs, 2008; Jiang et al., 2016).³ In other words, in less corrupted/gambling-prone regions or under greater cognitive pressure (e.g., from top executives), foreign investors actively drive better corporate governance and improve host institutions. However, in seriously corrupted or gambling-prone regions where bribery is highly institutionalized in regulatory and normative systems, foreign investors may adapt to local moral standards and adopt local practices. As such,

³ We would like to thank one reviewer for suggesting this insight.

our study emphasizes that the impact of foreign ownership on corporate bribery in emerging markets is highly contextual on local institutional environments.

Furthermore, Cantwell et al. (2010) suggest that institutional adaptation may involve efforts to “intentionally emulate the behavior, commercial culture and institutional artifacts that are most desirable in the host country context” (pp. 575-576). Foreign investors thus likely resort to bribery for pursuing extra rents as a result of local learning and adaptation in highly corrupted regions. Given the profit-maximizing orientation often associated with foreign investors (Fang et al., 2015), their profit-seeking incentive may lead to a positive impact on bribery in such circumstances. Along this line, our research can possibly explain the results of two prior studies we have mentioned (Malesky et al., 2015; Yi et al., 2018). Specifically, Malesky et al.’s (2015) research context is Vietnam, where corruption is much more widespread and frequent than it is in China.⁴ And the level of corruption is even higher in restricted sectors where bureaucrats and officials have strong authority to interfere economic activities. Similarly, most nations in Yi et al. (2018) are developing countries, and the two with the most observations (i.e., Nigeria and Russia) are highly corrupt.⁵ Drawing on samples from highly corrupted regions, both studies find a positive effect of foreign ownership on corporate bribery.

Third, our study contributes to business ethics and international business research by addressing the bribery problem in the largest emerging market—China. The challenges posed by underdeveloped legal systems and inadequate enforcement mechanisms in emerging markets provide fertile ground for bribery practices (Wu, 2009). Previous research exploring solutions to

⁴ According to Transparency International’s Corruption Perceptions Index (CPI), in 2012 out of 180 countries, Vietnam ranks 123rd and China ranks 80th; in 2022, Vietnam and China rank 77th and 65th, respectively.

⁵ CPI indicates that in 2014 both Nigeria and Russia rank 136th of 180. In 2022, Nigeria and Russia rank 150th and 137th, respectively.

combat bribery in these contexts has focused on enhancing legal frameworks, social structures, and professional environments (Collins et al., 2008; Tian, 2007; Wu, 2009; Zhang, 2021). Enriching this line of research, our study unveils the role of foreign ownership as a viable mechanism to mitigate bribery in China. Furthermore, our findings highlight the increased efficacy of this mechanism when firms appoint top executives with overseas experience. As such, our findings emphasize a synergistic perspective on the globalization of both shareholder structures and executives' expertise in combating bribery in China. Accordingly, our study underscores the pivotal role of globalization for improving business legality and ethicality in emerging markets.

Managerial implications

This study provides important insights into mitigating bribery in emerging markets, particularly in countries like China. First, given the negative effect of foreign ownership on corporate bribery expenditures, stakeholders may consider adopting ways of attracting foreign investment to protect their interests. Policymakers can devise policies aimed at attracting international investors from advanced economies. These initiatives could involve measures that facilitate access for domestic firms to global capital markets, thereby enhancing their potential to attract foreign investment.

Second, policymakers need to be aware of the limitations of the impact of foreign investors on bribery. The diminished impact of foreign ownership in regions characterized by high corruption or gambling cultures underscores the need for targeted policy practices. In specific, policymakers need to take measures to constrain local corruption and discipline officials' arbitrary interventions into business activities. In regions with pro-gambling cultures, policymakers need to adopt alternative strategies such as bolstering regulatory oversight and empowering social stakeholders

(e.g., the media and special interest communities) to monitor business misconduct. This approach is essential for complementing the influence of foreign ownership in regions where its impact on curbing bribery might be limited.

Third, relevant stakeholders should understand that the positive implications of foreign ownership vary across firms. A key facilitator in enhancing the disciplinary influence of foreign investors on bribery involves the recruitment and engagement of top executives with international experience. These executives tend to be more adaptable to the norms and expectations of foreign investors, amplifying their role in curbing bribery practices within firms. At the same time, governments should devote more effort into promoting policies that encourage firms to attract and retain highly skilled talents from abroad, as those qualified professionals contribute to the dissemination of ethical business practices in emerging markets.

Limitations and future research

Our study is subject to several limitations that pave the way for future investigations. First, while our research focuses on the impact of foreign ownership through the lens of foreign investors' shareholdings in domestic listed firms, an intriguing avenue for expansion involves exploring potential differences in bribery behaviors between foreign-owned enterprises (FOEs) and domestic firms. FOEs often involve the transfer of proprietary assets (e.g., physical assets, human resources, and technologies) beyond capital flows (Zhu, 2017). This distinction between foreign owners and investors could yield their diverse pressures, perceptions, and incentives regarding bribery practices. Moreover, existing literature presents conflicting logics of FDI inflows—both spillover and crowding out effects—that result in contradictory impacts on

corruption in host countries (Kwok & Tadesse, 2006; Pinto & Zhu, 2016).⁶ Therefore, an even more interesting attempt would be investigating how the presence of FOEs differentially affects bribery activities in different categories of domestic firms (firms with and without foreign ownership) as well as the boundary conditions.

Second, given that majority foreign investment in China comes from developed countries, we follow prior research (Desender et al., 2016) to treat foreign investors from advanced economies as a homogeneous group. However, foreign investors originated from various countries likely operate under distinct legal frameworks, cultural norms, and ethical standards (Bena et al., 2017). An enriching extension is to explicate the origins of foreign investment and examine how institutional distance between the host and home countries (Dau et al., 2022) of these investors influences their impact on bribery in domestic firms.

Third, although our ETE-based measure of corporate bribery has been widely adopted across multiple disciplines, for instance, economics (Cai et al., 2011), accounting and financing (Zeng et al., 2016), management and business research (Xu et al., 2019; Zhou et al., 2022), it may not capture all forms of corporate bribery. Bribery can take various forms, such as kickbacks, gratuities, baksheesh, facilitation payments, expediting fees, and personal expenditures like expensive gifts, meals, and travel (Zhou et al., 2022). To advance our understanding of bribery, future research could adopt a mixed-methods design or develop a multi-proxy measure of bribery involving alternative indicators.

⁶ To explore the possible two competing logics, we conducted a preliminary analysis regarding the impact of city FDI on corporate bribery using two sub-samples (i.e., firms with and without foreign ownership). Adopting the PSM matched sample in our main analysis, results show that the effect of city FDI_{*t*} on corporate bribery_{*t+1*} is marginally significant for firms with foreign ownership ($b = -0.54, p < 0.10$); yet, such effect is not significant for firms without foreign ownership ($b = 0.10, p > 0.10$). Therefore, our preliminary findings possibly imply the differential impacts of FDI on these two types of domestic firms. We encourage future research to further investigate this interesting topic.

Fourth, we identify three moderators that reflect local institutional pressure on the link between foreign ownership and bribery (i.e., regional corruption, regional gambling prevalence, and top executives' overseas experience). There are other important institutional factors that may affect firms' responses to foreign investors' monitoring efforts, such as legal development (Xu et al., 2019) and collectivism (Martin et al., 2007). Moreover, prior research indicates that personal experiences of top executives, for instance, childhood adversity (Cheng et al., 2021), educational background (Xu et al., 2021), prior government (Liang et al., 2015) and military service (Koch-Bayram & Wernicke, 2018), significantly affects their cognitions and perceptions and in turn shape corporate strategic behaviors including internationalization and misconduct. Hence, we encourage future studies to explore additional boundary conditions to further elucidate the impact of foreign ownership on corporate bribery.

Lastly, as our study adopts a sample of Chinese listed firms, we acknowledge the potential limitations in generalizing the findings to other contexts. Conducting cross-country research encompassing various emerging markets would help validate our results and offer a broader understanding of how foreign ownership impacts bribery across diverse settings. Additionally, because we only focus on listed firms, future research could investigate anti-bribery strategies tailored specifically for non-listed firms given their unique operational dynamics and potential differences in bribery practices. This extension would contribute to a more comprehensive understanding in addressing bribery across a wider spectrum of organizational structures.

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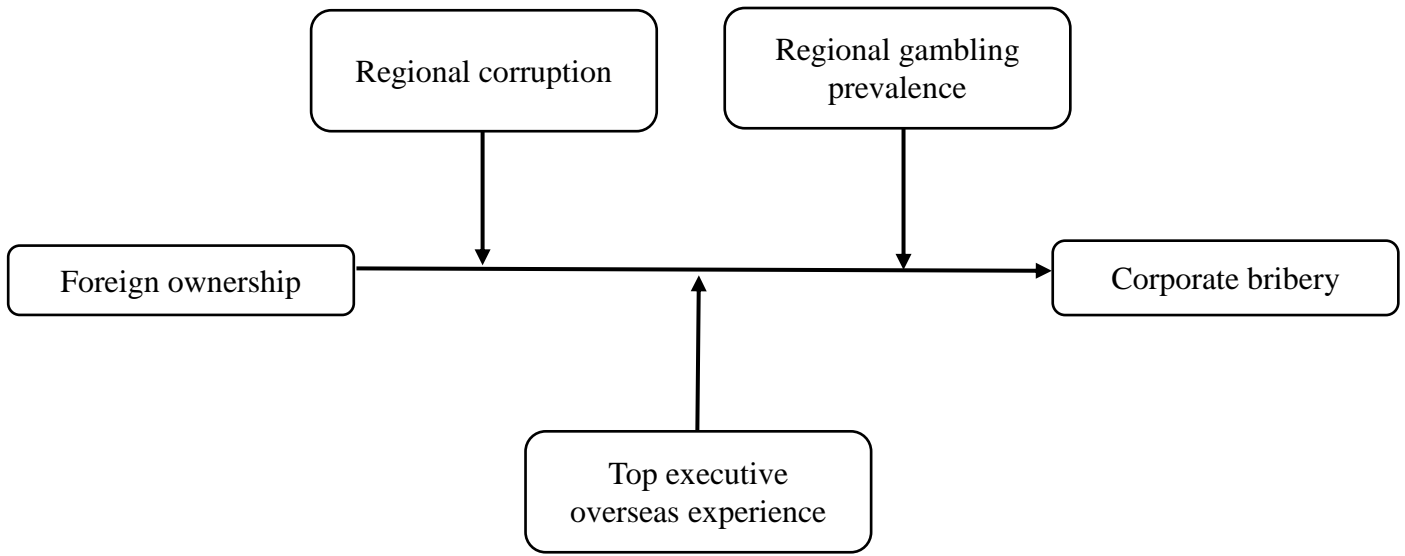


Figure 1: Conceptual model

Table 1: Descriptive Statistics and Correlations (post-PSM sample)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
1 Corporate bribery	1																			
2 Foreign dummy	-0.06*	1																		
3 Foreign share	-0.12*	0.57*	1																	
4 Regional corruption	0.04*	0.00	-0.03	1																
5 Regional gambling preference	0.07*	-0.01	0.03	0.10*	1															
6 Top executive overseas experience	-0.01	0.02	0.19*	0.02	0.07*	1														
7 CEO age	0.03	0.00	0.00	0.02	0.08*	-0.01	1													
8 Board size	0.10*	-0.02	-0.04*	0.02	-0.05*	-0.05*	0.07*	1												
9 Duality	-0.06*	-0.00	0.04*	-0.05*	0.09*	0.01	0.18*	-0.17*	1											
10 Firm size	-0.07*	0.03	0.03	0.12*	0.02	-0.03	0.08*	0.24*	-0.16*	1										
11 Media attention	-0.09*	-0.01	0.02	0.05*	0.06*	-0.03	0.02	0.13*	-0.08*	0.34*	1									
12 SOE	0.10*	0.01	-0.18*	0.05*	-0.01	-0.12*	0.14*	0.26*	-0.34*	0.26*	0.11*	1								
13 ROA	-0.10*	-0.00	0.05*	0.00	0.03	0.04*	-0.02	0.01	0.03	0.06*	0.13*	-0.13*	1							
14 Tobin Q	-0.12*	-0.01	-0.09*	-0.10*	-0.09*	-0.02	-0.02	-0.11*	0.02	-0.27*	0.01	-0.05*	0.15*	1						
15 Leverage	0.03	-0.00	-0.12*	0.02	-0.08*	-0.07*	0.02	0.13*	-0.19*	0.26*	0.14*	0.31*	-0.45*	-0.04*	1					
16 Firm OFDI	-0.03	0.01	0.13*	-0.02	0.17*	0.18*	-0.01	0.03	0.04*	0.21*	0.11*	-0.08*	0.01	-0.11*	-0.00	1				
17 Export intensity	-0.02	-0.00	0.09*	-0.06*	0.04*	0.09*	-0.04*	-0.04*	0.12*	0.03	-0.13*	-0.14*	-0.04*	-0.06*	-0.12*	0.27*	1			
18 Industry competition	-0.04*	-0.00	-0.02	-0.06*	0.02	0.00	0.01	-0.00	0.05*	-0.02	0.03	0.01	0.03	0.06*	-0.01	0.03	0.06*	1		
19 City FDI	0.03	0.01	-0.01	-0.07*	0.12*	0.05*	0.01	-0.09*	0.00	-0.13*	-0.05*	-0.01	-0.02	0.03	-0.02	0.02	-0.00	-0.03	1	
Mean	-0.00	0.50	0.08	0.31	0.93	0.10	48.34	9.07	0.24	7.67	86.75	0.46	0.05	1.89	0.44	0.36	0.16	0.89	0.03	
SD	0.23	0.50	0.14	0.08	0.38	0.30	6.24	1.85	0.43	1.36	174.50	0.50	0.06	1.23	0.23	0.48	0.25	0.09	0.02	

N = 3,095, * p < 0.05 (two-tailed).

Table 2: The Impact of Foreign Dummy on Corporate Bribery_{t+1}

Model	(1)	(2)	(3)	(4)	(5)	(6)
Foreign dummy (FD)	(H1)	-0.03**	-0.03**	-0.03**	-0.02**	-0.02**
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
FD×			0.21*			0.19*
Regional corruption	(H2)		(0.09)			(0.09)
FD×				0.05*		0.04*
Regional gambling prevalence	(H3)			(0.02)		(0.02)
FD×					-0.05*	-0.06*
Top executive overseas experience	(H4)				(0.02)	(0.02)
Regional corruption		0.12*	0.12*	0.01	0.12*	0.02
		(0.05)	(0.05)	(0.07)	(0.05)	(0.07)
Regional gambling prevalence		0.05**	0.05**	0.05**	0.03+	0.03+
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Top executive overseas experience		-0.00	-0.00	0.00	-0.00	0.03
		(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
CEO age		0.00	0.00	0.00	0.00	0.00
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Board size		0.01*	0.01*	0.01*	0.01*	0.01*
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Duality		-0.02	-0.02	-0.01	-0.02	-0.02
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Firm size		-0.01**	-0.01**	-0.01**	-0.01**	-0.01**
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Media attention		-0.00+	-0.00+	-0.00+	-0.00+	-0.00+
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
SOE		0.01	0.01	0.01	0.01	0.01
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
ROA		-0.32**	-0.33**	-0.33**	-0.32**	-0.32**
		(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Tobin Q		-0.02**	-0.02**	-0.02**	-0.02**	-0.02**
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Leverage		-0.02	-0.03	-0.02	-0.03	-0.02
		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Firm OFDI		-0.00	-0.00	-0.00	-0.00	-0.00
		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Export intensity		0.03	0.03	0.03	0.03	0.03+
		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Industry competition		-0.14	-0.14	-0.16	-0.15	-0.14
		(0.17)	(0.17)	(0.17)	(0.17)	(0.17)
City FDI		-0.16	-0.15	-0.14	-0.16	-0.13
		(0.22)	(0.22)	(0.22)	(0.22)	(0.22)
Constant		0.14	0.15	0.20	0.18	0.21
		(0.16)	(0.16)	(0.16)	(0.16)	(0.16)
Year/industry dummies		YES	YES	YES	YES	YES
Observations		3,095	3,095	3,095	3,095	3,095
R-squared		0.244	0.248	0.249	0.249	0.252

Standard errors in parentheses, + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$ (two-tailed)

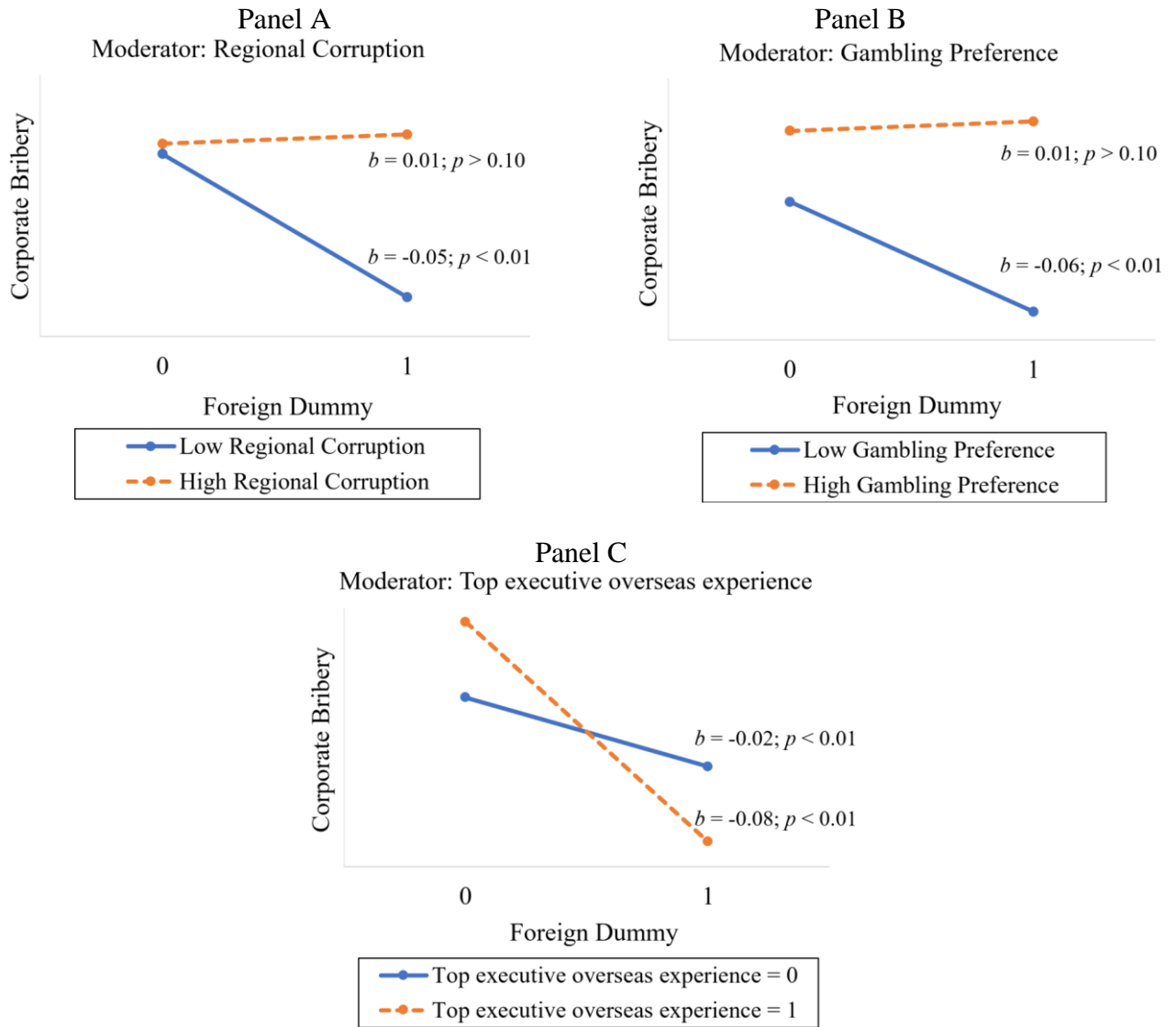


Figure 2: Marginal effects of foreign ownership on corporate bribery

Table 3: The Impact of Foreign Share on Corporate Bribery_{t+1}

		(1)	(2)	(3)	(4)	(5)
Foreign share (FS)	(H1)	-0.21** (0.03)	-0.19** (0.03)	-0.21** (0.03)	-0.17** (0.03)	-0.16** (0.03)
FS × Regional corruption	(H2)		0.89* (0.38)			0.67+ (0.38)
FS × Regional gambling prevalence	(H3)			0.30** (0.09)		0.31** (0.09)
FS × Top executive overseas experience	(H4)				-0.18** (0.07)	-0.20** (0.07)
Regional corruption		0.10* (0.05)	0.07 (0.05)	0.10+ (0.05)	0.10+ (0.05)	0.07 (0.05)
Regional gambling prevalence		0.05** (0.01)	0.04** (0.01)	0.04** (0.01)	0.05** (0.01)	0.04** (0.01)
Top executive overseas experience		0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.03* (0.01)	0.03* (0.01)
CEO age		0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Board size		0.01* (0.00)	0.01* (0.00)	0.01* (0.00)	0.01* (0.00)	0.01* (0.00)
Duality		-0.02+ (0.01)	-0.02+ (0.01)	-0.02+ (0.01)	-0.02+ (0.01)	-0.02+ (0.01)
Media attention		-0.00 (0.00)	-0.00+ (0.00)	-0.00 (0.00)	-0.00+ (0.00)	-0.00+ (0.00)
Firm size		-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)
SOE		0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)
ROA		-0.33** (0.08)	-0.33** (0.08)	-0.31** (0.08)	-0.32** (0.08)	-0.31** (0.08)
Tobin Q		-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)
Leverage		-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)
Firm OFDI		-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)
Export intensity		0.03+ (0.02)	0.03+ (0.02)	0.03+ (0.02)	0.03+ (0.02)	0.03+ (0.02)
Industry competition		-0.14 (0.17)	-0.14 (0.16)	-0.14 (0.16)	-0.13 (0.16)	-0.14 (0.16)
City FDI		-0.16 (0.22)	-0.16 (0.22)	-0.17 (0.22)	-0.13 (0.22)	-0.14 (0.22)
Constant		0.16 (0.15)	0.18 (0.15)	0.18 (0.15)	0.15 (0.15)	0.18 (0.15)
Year/Industry dummies		YES	YES	YES	YES	YES
Observations		3,095	3,095	3,095	3,095	3,095
R-squared		0.257	0.258	0.260	0.259	0.263

Standard errors in parentheses, + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$ (two-tailed)

Table 4: Sub-sample Regression Results (DV = Corporate bribery $t+1$)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Level	Regional corruption				Regional gambling prevalence			
	Low	High	Low	High	Low	High	Low	High
Foreign dummy	-0.03** (0.01)	-0.02* (0.01)			-0.04** (0.01)	-0.02 (0.01)		
Foreign share			-0.24** (0.04)	-0.17** (0.04)			-0.28** (0.04)	-0.14** (0.04)
Test of difference	$p < 0.05$		$p < 0.05$		$p < 0.05$		$p < 0.05$	
Regional Corruption	0.25 (0.22)	0.08 (0.09)	0.25 (0.21)	0.05 (0.09)	0.05 (0.08)	0.16* (0.08)	0.02 (0.08)	0.15+ (0.08)
Regional gambling prevalence	0.04* (0.02)	0.05** (0.02)	0.04* (0.02)	0.05** (0.02)	-0.03 (0.03)	0.07** (0.02)	-0.03 (0.03)	0.06** (0.02)
Top executive overseas experience	-0.01 (0.02)	0.01 (0.02)	0.01 (0.02)	0.02 (0.02)	0.02 (0.02)	-0.02 (0.02)	0.04* (0.02)	-0.01 (0.02)
CEO age	-0.00+ (0.00)	0.00** (0.00)	-0.00 (0.00)	0.00** (0.00)	0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)
Board size	0.01* (0.00)	0.01+ (0.00)	0.01* (0.00)	0.00 (0.00)	0.01** (0.00)	0.00 (0.00)	0.01** (0.00)	0.00 (0.00)
Duality	-0.00 (0.01)	-0.03* (0.01)	-0.01 (0.01)	-0.04* (0.01)	-0.03+ (0.01)	-0.00 (0.01)	-0.03* (0.01)	-0.00 (0.01)
Firm size	-0.01* (0.01)	-0.02** (0.01)	-0.01* (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.01* (0.01)	-0.02** (0.01)	-0.01* (0.01)
Media attention	-0.00* (0.00)	-0.00 (0.00)	-0.00* (0.00)	-0.00 (0.00)	-0.00+ (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
SOE	0.02 (0.01)	-0.00 (0.01)	0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	0.02+ (0.01)	-0.02 (0.01)	0.02 (0.01)
ROA	-0.08 (0.11)	-0.62** (0.11)	-0.08 (0.11)	-0.61** (0.11)	-0.28** (0.10)	-0.42** (0.13)	-0.27** (0.10)	-0.43** (0.13)
Tobin Q	-0.01* (0.01)	-0.02** (0.01)	-0.01** (0.00)	-0.03** (0.01)	-0.02** (0.00)	-0.01* (0.01)	-0.02** (0.00)	-0.01* (0.01)
Leverage	-0.04 (0.03)	-0.02 (0.03)	-0.06+ (0.03)	-0.02 (0.03)	-0.03 (0.03)	-0.05 (0.03)	-0.04 (0.03)	-0.05 (0.03)
Firm OFDI	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)	-0.01 (0.01)	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)
Export intensity	0.01 (0.03)	0.04 (0.03)	0.02 (0.02)	0.04 (0.03)	-0.00 (0.03)	0.06* (0.02)	0.00 (0.03)	0.06* (0.02)
Industry competition	-0.19 (0.24)	-0.04 (0.26)	-0.15 (0.24)	-0.05 (0.26)	-0.28 (0.24)	-0.40 (0.43)	-0.23 (0.24)	-0.41 (0.43)
City FDI	-0.32 (0.38)	-0.01 (0.29)	-0.40 (0.38)	0.02 (0.29)	0.23 (0.31)	-0.37 (0.35)	0.20 (0.30)	-0.38 (0.35)
Constant	0.23 (0.23)	0.02 (0.24)	0.20 (0.23)	0.05 (0.24)	0.36 (0.23)	0.36 (0.39)	0.34 (0.22)	0.38 (0.39)
Year/Industry dummies	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,631	1,460	1,631	1,460	1,577	1,512	1,577	1,512
R-squared	0.227	0.335	0.241	0.339	0.256	0.294	0.270	0.300

Standard errors in parentheses, + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$ (two-tailed)

Table 5: Robustness Tests (DV = Corporate bribery_{t+1})

Notes		(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Foreign share among top 5 shareholders	Foreign share from developed economies	Alternative measure of overseas experience	Alternative measure of corporate bribery	Endogeneity: Treatment effect model	Full sample: Foreign dummy	Full sample: Foreign share
Foreign ownership (FO)	(H1)	-0.14** (0.03)	-0.14** (0.04)	-0.16** (0.03)	-0.02** (0.01)	-0.19** (0.03)	-0.02** (0.01)	-0.17** (0.03)
FO ×		0.65+ (0.38)	0.73+ (0.42)	0.69+ (0.38)	0.14+ (0.08)	0.56+ (0.30)	0.14* (0.06)	0.57+ (0.30)
Regional corruption	(H2)	0.29** (0.09)	0.27** (0.10)	0.32** (0.09)	0.04* (0.02)	0.29** (0.07)	0.04** (0.01)	0.29** (0.07)
FO ×		-0.20** (0.07)	-0.38** (0.08)	-0.54** (0.20)	-0.17* (0.08)	-0.12* (0.05)	-0.04* (0.02)	-0.13* (0.05)
Top executive overseas experience	(H4)	0.08 (0.05)	0.07 (0.05)	0.07 (0.05)	0.05 (0.06)	0.10** (0.02)	0.08** (0.03)	0.10** (0.02)
Regional corruption		0.04** (0.01)	0.04** (0.01)	0.03** (0.01)	0.01 (0.01)	0.03** (0.01)	0.03** (0.01)	0.03** (0.01)
Regional gambling prevalence		0.03* (0.01)	0.04* (0.01)	0.06 (0.04)	0.09 (0.06)	0.02+ (0.01)	0.01 (0.01)	0.01+ (0.01)
Top executive overseas experience		0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00+ (0.00)	0.00+ (0.00)	0.00+ (0.00)
CEO age		0.01* (0.00)	0.01** (0.00)	0.01* (0.00)	0.00+ (0.00)	0.01** (0.00)	0.01** (0.00)	0.01** (0.00)
Board size		-0.02+ (0.01)	-0.02+ (0.01)	-0.02+ (0.01)	-0.00 (0.01)	-0.01+ (0.01)	-0.01 (0.01)	-0.01+ (0.01)
Duality		-0.00+ (0.00)	-0.00* (0.00)	-0.00+ (0.00)	-0.00 (0.00)	-0.00* (0.00)	-0.00* (0.00)	-0.00* (0.00)
Media attention		-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.02** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)
Firm size		0.00 (0.01)	0.01 (0.01)	0.00 (0.01)	0.01 (0.01)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
SOE		-0.31** (0.08)	-0.32** (0.08)	-0.31** (0.08)	-0.20** (0.07)	-0.12** (0.04)	-0.12** (0.04)	-0.12** (0.04)
ROA		-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)	-0.02** (0.00)
Tobin Q		-0.03 (0.02)	-0.03 (0.02)	-0.03 (0.02)	-0.03+ (0.02)	-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)
Leverage		-0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)
Firm OFDI		0.03+ (0.02)	0.03+ (0.02)	0.03+ (0.02)	0.01 (0.02)	0.02* (0.01)	0.02+ (0.01)	0.02* (0.01)
Export intensity		-0.14 (0.16)	0.12* (0.05)	-0.13 (0.16)	-0.10 (0.17)	-0.05 (0.09)	-0.05 (0.09)	-0.05 (0.09)
Industry competition		-0.13 (0.22)	-0.25 (0.22)	-0.13 (0.22)	-0.28 (0.19)	-0.21+ (0.12)	-0.20+ (0.12)	-0.21+ (0.12)
City FDI						0.00 (0.00)		
Inverse Mills ratio		0.18 (0.15)	-0.08 (0.06)	0.17 (0.15)	0.23 (0.16)	0.06 (0.09)	0.07 (0.09)	0.05 (0.09)
Constant								
Year/Industry dummies		YES	YES	YES	YES	YES	YES	YES
Observations		3,095	3,095	3,095	3,095	8,280	8,280	8,280
R-squared		0.261	0.231	0.262	0.291	0.196	0.190	0.196

Standard errors in parentheses, + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$ (two-tailed)

APPENDIX

Table A1: Measurement

Variables	Measures
<i>Dependent variables</i>	
Corporate bribery	Abnormal entertainment expenses, calculated as the residual of entertainment and travel expenses (ETE) regressed on sales, assets, ratio of marketing expenses to sales, capital intensity, and average compensation of the three highest paid executives
<i>Independent variables</i>	
Foreign dummy	Coded as 1 if there is at least one foreign investor among the top ten shareholders
Foreign share	The number of shares held by foreign investors, who are listed in the top ten shareholders, divided by a firm's total number of shares outstanding
<i>Moderators</i>	
Regional corruption	The number of civil servants who have been investigated for duty-related crimes (corruption and malfeasance) divided by total population (every 10 thousand) in the province
Regional gambling prevalence	Lottery sales (sum of welfare lottery and sports lottery) divided by province residents' per capita income
Top executive overseas experience	Coded as 1 if the CEO or board chair has overseas working or learning experience
<i>Controls</i>	
CEO age	The age of CEO
Board size	Total number of directors on board
Duality	Coded as 1 if the CEO and the board chair are the same person
Firm size	Natural log of the total number of employees of the firm
Media attention	Natural log of the number of newspaper articles in which the firm's name is reported
SOE	Coded as 1 if the firm's ultimate controller is the government or its agencies
ROA	Return of asset, which equals to net profit divided by total asset
Tobin Q	Market value divided by total assets
Leverage	Total liabilities divided by total assets
Firm OFDI	Coded as 1 if a firm has at least one foreign subsidiary in developed countries
Export intensity	Foreign sales divided by total sales
Industry competition	1-HHI. Herfindahl-Hirschman Index (HHI) equals to the sum of squares of the percentages of sales of individual firms in each industry based on 3-digit SIC.
City FDI	Ratio of actual foreign investment inflows to GDP for each city

Table A2: Descriptive Statistics and Correlations (Full sample)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Corporate bribery	1																		
2 Foreign dummy	-0.05*	1																	
3 Foreign share	-0.08*	0.66*	1																
4 Regional corruption	0.08*	-0.09*	-0.08*	1															
5 Regional gambling prevalence	-0.00	0.05*	0.06*	0.07*	1														
6 Top executive overseas experience	-0.03*	0.08*	0.18*	-0.01	0.05*	1													
7 CEO age	0.03*	0.06*	0.04*	0.07*	0.04*	-0.03*	1												
8 Board size	0.07*	0.03*	0.00	0.03*	-0.05*	-0.04*	0.07*	1											
9 Duality	-0.10*	0.01	0.03*	-0.02	0.08*	0.00	0.14*	-0.16*	1										
10 Firm size	-0.09*	0.13*	0.10*	0.08*	-0.04*	-0.02	0.10*	0.26*	-0.12*	1									
11 Media attention	-0.06*	0.11*	0.10*	0.04*	0.06*	-0.01	0.04*	0.13*	-0.05*	0.30*	1								
12 SOE	0.14*	-0.00	-0.11*	0.06*	-0.07*	-0.11*	0.13*	0.26*	-0.30*	0.26*	0.10*	1							
13 ROA	-0.17*	0.04*	0.05*	-0.05*	0.08*	0.03*	0.01	0.00	0.06*	0.04*	0.10*	-0.15*	1						
14 Tobin Q	-0.17*	-0.01	-0.06*	-0.07*	-0.07*	-0.03*	-0.03*	-0.10*	0.02*	-0.28*	-0.01	-0.07*	0.07*	1					
15 Leverage	0.15*	-0.02*	-0.08*	0.07*	-0.12*	-0.07*	0.01	0.13*	-0.20*	0.20*	0.12*	0.30*	-0.45*	0.00	1				
16 Firm OFDI	-0.05*	0.16*	0.18*	-0.07*	0.17*	0.13*	-0.01	0.03*	0.02*	0.20*	0.12*	-0.06*	0.04*	-0.08*	-0.01	1			
17 Export intensity	-0.01	0.13*	0.16*	-0.07*	0.04*	0.08*	-0.02	-0.02*	0.09*	0.08*	-0.07*	-0.11*	-0.02	-0.06*	-0.10*	0.27*	1		
18 Industry competition	-0.12*	-0.05*	-0.05*	-0.02	0.04*	-0.01	0.01	-0.05*	0.07*	-0.06*	-0.03*	-0.05*	0.04*	0.01	-0.06*	0.01	0.03*	1	
19 City FDI	-0.01	0.08*	0.04*	-0.10*	0.16*	0.02	0.03*	-0.07*	0.05*	-0.12*	-0.02	-0.02	0.02	0.01	-0.04*	0.08*	0.01	0.01	1
Mean	0.02	0.19	0.03	0.32	0.88	0.07	47.6	8.98	0.23	7.41	66.9	0.47	0.04	1.91	0.46	0.24	0.11	0.9	0.03
SD	0.35	0.39	0.09	0.09	0.39	0.26	6.11	1.78	0.42	1.36	138.51	0.5	0.06	1.22	0.25	0.43	0.2	0.09	0.02

N = 8,280; * $p < 0.05$ (two-tailed).

Table A3: Propensity Score Matching Test

	Pre-match	Pre-match Difference	Post-match Difference
Dependent variable	Foreign dummy	<i>p</i> value of <i>t</i> -test	<i>p</i> value of <i>t</i> -test
Regional corruption	-1.62** (0.22)	0.00	0.90
Regional gambling prevalence	0.15** (0.05)	0.00	0.45
Top executive overseas experience	0.27** (0.06)	0.00	0.21
CEO age	0.01** (0.00)	0.00	0.83
Board size	0.00 (0.01)	0.02	0.36
Duality	-0.04 (0.04)	0.37	0.87
Firm size	0.13** (0.02)	0.00	0.13
Media attention	0.00** (0.00)	0.00	0.75
SOE	-0.02 (0.04)	0.73	0.72
ROA	-0.09 (0.34)	0.00	0.83
Tobin Q	0.05** (0.02)	0.13	0.75
Leverage	-0.29** (0.09)	0.01	0.79
Firm OFDI	0.26** (0.04)	0.00	0.68
Export intensity	0.65** (0.09)	0.01	0.82
Industry competition	-0.27 (0.78)	0.00	0.90
City FDI	5.54** (0.99)	0.00	0.63
Constant	-2.68** (0.69)		
Year dummies	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Observations	8,280	8,280	3,095
Log Lik.	-3642.27		
Mean bias (%)		16.3	1.7
Median bias (%)		16.5	1.2

Appendix A4: Calculation Process of Simple Slopes

Taking Hypothesis 2 as an example, we report the step-by-step calculating process to interpret the effect of foreign ownership on corporate bribery at different levels of regional corruption.

- (a) As shown in Model 3 of Table 2, the direct effect of foreign dummy on corporate bribery is negative ($b_1 = -0.03, p < 0.01$) and the effect of interaction term (foreign dummy*regional corruption) on corporate bribery is positive ($b_2 = 0.21, p < 0.05$).

Please note that we mean-centered regional corruption when generating the interaction term (Aiken & West, 1991).

- (b) To interpret the effect of foreign dummy on corporate bribery as well as the moderation of regional corruption, we use the following formula:

$$\text{Corporate bribery} = b_1 * \text{Foreign dummy} + b_2 * \text{Foreign dummy} * \text{Regional corruption} + \text{control.}$$

- (c) Following Aiken & West (1991), we calculate the slopes of foreign dummy on corporate bribery when regional corruption is high (i.e., 0.18, two standard deviations above the mean) and low (i.e., -0.14, two standard deviations below the mean is out of data range, so we use the minimal value). We compute this process using Stata command “margins” and report the slopes in Figure 2 Panel A.

High regional corruption: $b = -0.03 + 0.21 * 0.18 \approx 0.01, p > 0.1$ (indicated by the dotted line)

Low regional corruption: $b = -0.03 + 0.21 * -0.14 \approx -0.05, p < 0.01$ (indicated by solid line)

- (d) To better illustrate the moderating role of regional corruption, we calculate the slope of foreign dummy on corporate bribery at four different levels of regional corruption and report the statistics in three decimals in the following table.

<i>Values of regional corruption</i>	<i>Slope of foreign dummy on corporate bribery</i>
The minimal value	$b = -0.055, p < 0.01$
1 SD below the mean	$b = -0.045, p < 0.01$
1 SD above the mean	$b = -0.007, p > 0.1$
2 SD above the mean	$b = 0.011, p > 0.1$

According to the above results, the negative effect of foreign dummy on corporate bribery is significant in regions with low levels of regional corruption (i.e., the minimal value) ($b = -0.05, p < 0.01$), but become non-significant in regions with high levels of regional corruption (i.e., 2 SD above the mean) ($b = 0.01, p > 0.1$). Hence, regional corruption weakens the negative impact of foreign ownership on corporate bribery, supporting Hypothesis 2.