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Abstract

There is significant research on the outcomes of corporate political activity (hereafter CPA). However, despite a few prior studies acknowledging the negative externalities of political activity, little attention has been paid to CPA's dark side. In this paper, we draw on institutional and corporate governance insights to examine the relationship between CPA and bribery, which is arguably the greatest institutional failure in developing countries. Using pooled data from over 25,000 firms in 41 African countries, we find that lobbying and firm-level bribery are positively related. This relationship is weakened by in-country internet penetration and foreign ownership of firms. Taken together, the results suggest that business-government relations in weak institutional environments help to perpetuate corruption. They also suggest that internet penetration and foreign ownership help to illuminate the dark side of CPA. Leveraging this understanding, we make important contributions to the literature and highlight pertinent practical implications.

Keywords: Corporate political activity; bribery and corruption; institutions; developing countries; Africa

1. Introduction

Emerging and developing countries are characterised by weak institutions (Khanna, Palepu, and Sinha, 2005; Peng and Luo, 2000), uncertain and volatile environments, and high transaction costs (Nell, Puck, and Heidenreich, 2015; Puck, Rogers, and Mohr, 2013). These conditions, which are not conducive for business, motivate firms to engage in corporate political activity (hereafter CPA) to create or shape their operating environments in ways that favour their survival, performance, and competitive advantage (Acquaah, 2007; Hillman, Zardkoohi, and Bierman, 1999; Liedong and Frynas, 2018). CPA refers to “corporate attempts to shape government policy in ways favourable to the firm” (Hillman, Keim, and Schuler, 2004: 838) or “any deliberate firm action intended to influence government policy or process” (Getz, 1997: 32-3). In this study, we define CPA as firms’ efforts to favourably manage their policy environments whereby senior managers engage with government officials to change regulations or undermine regulatory enforcement.

CPA has received considerable scholarly attention, with the majority of studies focusing on its antecedents and outcomes (Barron, 2011; Hillman, 2003; Hillman and Wan, 2005; Lawton, McGuire, and Rajwani, 2013). The literature largely suggests that CPA positively impacts firm performance (Hillman *et al.*, 2004; Lux, Crook, and Woehr, 2011; Mathur and Singh, 2011; McWilliams, van Fleet, and Cory, 2002; Rajwani and Liedong, 2015) through its ability to draw institutional support, enhance opportunity recognition, and avail critical resources for innovation and investment (Guo, Guo, and Jiang, 2016; Guo, Xu, and Jacobs, 2014; Xin and Pearce, 1996). As much as the prevailing evidence paints a positive image of CPA, few studies have acknowledged its dark side (i.e., its negative effects and externalities), especially in developing and emerging countries (e.g., Johnson and Mitton, 2003; Lawton *et al.*, 2013; Liedong, Aghanya, and Rajwani, 2020a; Liedong and Rajwani, 2018; Sun, Hu, and Hillman, 2016).

The existing corpus on the dark side of CPA mainly attends to how CPA causes corporate governance problems (Bliss, Gul, and Majid, 2011; Chaney, Faccio, and Parsley, 2011; Effiezal, Mazlina, and Kieran, 2011; Sun *et al.*, 2016) and allows firms to capture regulatory processes or control policymakers (Hadani, Doh, and Schneider, 2016; Hong and Kim, 2017). Despite its merits, the existing trajectory raises questions about the mechanics through which these negative effects are realized. In developing countries, the dark side of CPA is propped up by weak institutions that fail to impose checks and balances on public governance, corporate governance, and business-government relations (Liedong, 2020; Liedong *et al.*, 2020a). Specifically, bribery and corruption may underpin CPA in these countries (Campos and Giovannoni, 2007; Harstad and Svensson, 2011; Idemudia *et al.*, 2019; Lawton *et al.*, 2013; Liedong, 2020), and may provide the conduit for politically connected firms to enjoy lenient regulatory enforcement, no or low penalties for corporate governance infractions, and unfettered power over policymaking processes (Dal Bo, 2006; Dal Bo, Dal Bo, and Di Tella, 2006; Fan, Rui, and Zhao, 2008; Fredriksson, Neumayer, and Ujhelyi, 2007).

A few studies have investigated lobbying and bribery, but they have not specifically studied the link between both phenomena. For instance, Campos and Giovanni (2007) and Yim, Lu and Choi (2017) examined the differential impact of bribery and lobbying on political influence and firm growth respectively, with both studies reporting that lobbying and bribery are substitutes or alternatives. In contrast, Damania, Fredrikson, and Mani (2004) argue that in countries where bribery is used to evade regulations, lobbying is also used to resist anti-corruption reforms, indicating co-existence and complementarity. What is common across these studies is that while they draw conclusions of complementarity or substitution between lobbying and CPA, they do not examine the direct relationship between lobbying and bribery, which obscures a deeper understanding of the dark (or bright) side of CPA.

Additionally, existing studies have largely overlooked the potential boundary conditions and contingencies of the relationship. Effects and relationships are likely to vary for different actors and under different circumstances. Hence, the lack of moderation analysis has left an important gap in scholars' understanding of the conditions that attenuate and accentuate the connection between engaging in CPA and paying bribes. Particularly, the factors that incentivize or affect the agency or behaviour of CPA actors, bribe-givers and bribe-takers have not received sufficient attention and will need to be considered for a better understanding of the contingent nature of the CPA-bribery relationship. More details on research gap and theoretical positioning are discussed in the next section.

To advance extant literature, this study attempts to answer the overarching research question: *what is the relationship between CPA and bribery?* We integrate institutional theory (North, 1990) and agency theory (Jensen and Meckling, 1976), particularly drawing from the literature on the inextricable relationship between institutions, agency, and corporate governance (Amaeshi, Adegbite, and Rajwani, 2016; Nakpodia *et al.*, 2018; Young *et al.*, 2008), to answer the above question within the context of Africa. We argue that due to weak regulatory institutions and the pervasiveness of corruption (Adeyeye, 2017; Doig, Watt, and Williams, 2007; Williams-Elegbe, 2018) and the lack of formal structures or frameworks for CPA in some developing countries (Liedong and Frynas, 2018), firms that engage in CPA are more likely to bribe public officials.

While we argue that weak regulatory institutions enable the dark side of CPA or specifically facilitate the high tendency to bribe when engaging in CPA, we also acknowledge that firms can make strategic decisions about whether to comply or defy institutional pressures (Clemens and Douglas, 2005; Oliver, 1991). Hence, engaging in (un)ethical CPA could be a choice determined by the agency of the firm. For instance, even in highly corrupt environments, some firms resist bribery (e.g., see Doh *et al.*, 2003). Also,

this choice could be discretionary or non-discretionary depending on external oversight. We therefore advance that the relationship between CPA and bribery is contingent on how prevailing cognitive and normative conditions in a country as well as corporate governance dynamics in a firm affect the behaviour of CPA actors, bribe-givers, and bribe-takers. In this respect, we examine the moderating impact of agency and internal governance through foreign ownership and the moderating impact of cognitive and normative institutional development through internet penetration.

We set our study in Africa for an important reason. Corruption is highly prevalent in the region and is a significant barrier to its socio-economic development (Idemudia *et al.*, 2019; Liedong, 2017). Common among political elites, the public, and the private sectors, corruption has evolved into an institution of its own in African societies (van den Bersselaar and Decker, 2011; Teorell, 2007), and is manifested through everyday bribery and graft. Data from Transparency International confirms how African countries rank poorly on the Corruption Perception Index (CPI). Hence, the region, which is arguably the most corrupt in the world, provides an appropriate context to investigate whether CPA contributes to the existence and perpetuation of corruption.

This paper makes significant contributions to the IB and CPA literatures. First, it highlights a positive association between CPA and bribery, suggesting that lobbying is an antecedent of corruption. Importantly, it adds to the debate about the mutual exclusiveness of bribery and lobbying (Campos and Giovannoni, 2007; Harstad and Svensson, 2011; Yim *et al.*, 2017), and shows that they are complements, not substitutes. This finding is an extension of the literature on the dark side of CPA (Liedong *et al.*, 2020a; Sun *et al.*, 2016) and marks a significant contradiction to the widely held notion that CPA reduces institutional constraints (Meznar and Nigh, 1995; Villa *et al.*, 2018). While we acknowledge the ability of CPA to ethically shape institutional environments (e.g., Liedong, 2017), insights from our findings

indicate that the bright side of CPA is dependent on the availability of formal institutional structures to guide and monitor business-government relations. In developing countries where CPA is unregulated and the prevailing institutions do not support transparent and ethical lobbying (Liedong, 2020), bribery and corruption become the prominent mechanisms in political markets.

Second, this paper shows that internet penetration and foreign ownership weaken the positive association between CPA and bribery, hence shedding invaluable light on how digital technology and ownership structure can brighten up the dark side of CPA. This is an important contribution to the literature, considering that only a few studies have explored the contingent nature of CPA's dark side (Sun *et al.*, 2016). We show that despite the overwhelming pressure for unethical CPA in weak institutional environments, technology enhances information flows and facilitates stakeholder monitoring of firms and political elites, which reduces the incidence of bribery in CPA. Essentially, we show the boundary conditions of the CPA-bribery relationship, and particularly highlight how institutional conditions and governance dynamics affect CPA's dark side.

2. Theoretical Background and Hypotheses

2.1 The Dark Side of CPA

The power of governments to shape institutional environments is unquestionable. They make rules and formulate policies, which invariably impact firms' operations and performance (North, 1990). Consequently, firms are highly dependent on the actions and inactions of politicians. This is particularly true in developing countries where inefficient institutions fail to check government behaviour, allowing politicians to arbitrarily apply regulations and direct the allocation of scarce productive resources (Acquaah, 2007; Peng and Luo, 2000; White, Boddewyn, and Galang, 2015). In these countries, political support is crucial for firm

survival and competitive advantage (Guo *et al.*, 2014). To manage this precarious dependency situation, firms exert efforts to develop political connections and deploy strategies and tactics to influence government policy (Getz, 1997; Hillman and Hitt, 1999; Liedong *et al.*, 2020a). These efforts and actions are collectively called CPA.

The extant literature shows that CPA advances firms' interests. The majority of studies that have examined the instrumentality of CPA show that political strategies improve firm performance (Lux *et al.*, 2011; Rajwani and Liedong, 2015). This is suggestive of the bright side of CPA whereby firms pursue their interests or governments serve firms' interests without significant ramifications for other interests or stakeholders. However, this is not always true, as a small body of literature has documented the dark side of CPA, especially noting how political embeddedness negatively impacts corporate and public governance. In Ghana, Liedong and Rajwani (2018) found that political connections are associated with low financial reporting quality, low non-financial disclosures, and low board independence. These outcomes are attributed to weak institutions and the enormous and unchecked power wielded by politicians, which allow politically connected firms to evade rules as well as penalties for infractions. In Nigeria, Liedong *et al.* (2020a) reported how political strategies exploit female employees and support money laundering practices due to poor enforcement of corporate governance principles, the lack of CPA regulation, and the absence of formal institutional structures for business-government relations. Similarly, in China, Sun *et al.* (Sun *et al.*, 2016) found that due to massive corporate governance enforcement failures and weak legal protection of minority investors, board political capital enables large blockholders to appropriate firm wealth at the expense of minority shareholders.

In the U.S., Hadani and Schuler (Hadani and Schuler, 2013) argue that managers, under the guise of CPA, may use scarce financial resources to pursue personal imperatives rather than firms' interests. Other studies have noted excessive risk taking, higher chances of

financial reporting fraud, and other governance issues among politically active firms (Bliss and Gul, 2012; Chaney *et al.*, 2011; Effiezal *et al.*, 2011; Guedhami, Pittman, and Saffar, 2014; Gul, 2006; Hadani, 2011). Due to the equivocal impact of CPA, there is an ongoing debate about whether CPA should even be allowed (Alzola, 2013). While there are valid arguments from the pro-CPA and anti-CPA camps, there is a considerable appreciation of the need for firms to be involved in policy making. There is also the admission that CPA can have negative externalities for firms and societies, hence the need for it to be regulated.

In developed countries such as the U.S. and U.K., exchanges in political markets are transparent and regulated. For instance, there are rules on how political parties and candidates should spend financial donations. In contrast, political markets are largely opaque and unregulated in developing countries, creating room for unethical exchanges between firms and the polity (Liedong, 2020). In these countries, politicians may demand bribes to provide political favours, or firms may offer bribes to sway policy decisions or extract political rent. This comparison does not intend to portray all CPA in developed countries as ethical and same in developing countries as unethical. There are bright and dark sides to CPA in both contexts. However, the dark side is more prominent in developing countries. In this paper, we examine the relationship between CPA and bribery, which is important for advancing our understanding of CPA's dark side but has been overlooked.

2.2 Institutions, Agency & the Dark Side of CPA

Institutions are a basic framework constituting a set of norms, rules, and beliefs that influence behavior in society, therefore determining the 'rules of the game' (North, 1990) and creating stable social structures (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). They prescribe appropriate activities, relationships, conduct, and interactions for and between social actors, including individuals and organizations (Busenitz, Gómez, and Spencer, 2000;

Stenholm, Acs, and Wuebker, 2013). According to Scott (2001), institutions are comprised of three dimensions or pillars, namely regulatory, cognitive, and normative. Together, these dimensions provide meaning to social life. The regulatory dimension concerns the formal and ‘hard’ rules that regulate society through coercion and sanction while the normative dimension guides behaviour through ‘soft’ norms of acceptability and morality. The cognitive dimension focuses on shared conceptions, frames, social knowledge, and skills that facilitate meaning and understanding in society. Institutional theorists have linked these institutional dimensions to several macro-level issues such as institutional voids (Liedong *et al.*, 2020b) and corruption (Dal Bo *et al.*, 2006; Idemudia *et al.*, 2019; Liedong, 2017) as well as other organizational outcomes related to entrepreneurship, strategy and international business (Brown, Yaşar, and Rasheed, 2018; Liedong, Peprah, and Eyong, 2020c; Stenholm *et al.*, 2013; Yiu and Makino, 2002).

Early works on institutional theory considered actors and their agency to be independent of or subordinate to institutions (e.g., Meyer and Rowan, 1977). DiMaggio’s (1988) critique of this view has since spurred an evolution of institutional theory towards an ‘agentic turn’ whereby social actors are recognized to play greater roles in enacting, interpreting, and changing institutional patterns and frameworks (Abdelnour, Hasselbladh, and Kallinikos, 2017). Evidence of this evolution is reflected in the literature on institutional entrepreneurship, institutional work, and institutional change (Battilana, Leca, and Boxenbaum, 2009; Garud, Jain, and Kumaraswamy, 2002; Greenwood and Suddaby, 2006). Essentially, institutions and social actors’ agency are inextricably linked, with the latter fundamental to the fluidity and change of the former (Dacin, Goodstein, and Scott, 2002). This ‘agentic turn’ of institutional theory has brought agency theory to the fore of a holistic understanding of institutions. Agency theory argues that firms are a nexus for contractual relationships between social actors, namely principals and agents (Jensen and Meckling,

1976). These contractual relationships prescribe or affect the governance and behaviour of organizational social actors, consequently shaping firms' agency within their institutional environments. The link between institutions and agency has inspired the integration of institutional and agency theories to probe CPA practices and outcomes (see Mellahi *et al.*, 2016 for a review). This study also uses an integrated institutional and agency theoretical lens for examining the relationship between CPA and bribery.

We build our theoretical model on the logic that institutional weakness gives impetus to the dark side of CPA. This logic is informed by, and situated within the broader literature about the institutional antecedents of CPA (Hillman *et al.*, 2004), such as national culture (Barron, 2011; Hillman and Hitt, 1999), political systems (Hillman and Keim, 1995), investment climate constraints (Liedong and Frynas, 2018), legal system inconsistencies (White *et al.*, 2015), economic freedom (Blumentritt, 2003), and regulatory quality (Wan and Hillman, 2006). At the same time, our model acknowledges that corporate governance and agency relations between managers and owners/shareholders shape CPA (Hadani, Dahan, and Doh, 2015; Ozer, 2010; Ozer and Alakent, 2012) and imposes constraints on lobbying behaviour. Therefore, while institutional weaknesses may give impetus to CPA's dark side, firms' choice or ability to engage in unethical CPA could be affected by corporate governance structures.

Our theoretical model advances that firms that engage in CPA are more likely to pay bribes to public officials due to the lack of legitimate institutional structures for business-government relations in developing countries (Liedong and Frynas, 2018). Essentially, weak regulatory institutions and the nature of business systems in developing countries imposes coercive and isomorphic pressures on firms, which increases their tendency to bribe when engaging in CPA. At the same time, we note that technology affects institutions by shaping institutional logics, cognitive development, and normative orientations of societies (Faik,

Barrett, and Oborn, 2020). This subsequently influences citizens' agency and attitudes against corruption, thereby constraining the behaviours of CPA actors, bribe-givers, and bribe-takers. Accounting for this view, our model postulates that internet penetration weakens the relationship between CPA and bribery through its effects in highlighting corruption, strengthening anti-corruption actions and behaviours, and de-legitimizing corruption in ways that amplify the adverse consequences of bribery for CPA actors and public officials.

Moreover, our model acknowledges that firms' response to institutional conditions is affected by their internal governance structures (Lau, Lu, and Liang, 2016; Tibiletti *et al.*, 2021). Hence, despite institutionally borne pressures that may increase the likelihood of firms to bribe when they engage in CPA in developing countries, governance dynamics may present opportunities or pose constraints for firms' agency relationships with public officials, with attendant implications for the CPA-bribery relationship. Along this logic, we advance that foreign ownership avails high bargaining power and strong oversight to curb the tendency for firms to bribe public officials when engaging in CPA. We illustrate our theoretical model in Figure 1.

[Insert Fig. 1 here]

2.3 CPA and Bribery

As presented earlier, CPA is affected by institutions (Barron, 2011; Wan and Hillman, 2006; White *et al.*, 2015). This is because firms must adapt their political strategies to their business environments, which are in turn shaped by both formal and informal institutions (North, 1990; Scott, 2001). Leveraging this insight, we argue that the lack of CPA-supporting formal institutions as well as the institutionalization or normalization of corruption in some developing countries makes politically active firms more likely to use bribes to influence

their regulatory environments. The premise of this argument is two-fold – i.e., firm channel and government channel.

The first premise - i.e., the firm channel - relates to why firms pay bribes when they engage in CPA. We recognize that there are various strategies and tactics for influencing government policy. Among them, information, financial, and constituency building strategies are the most common (Hillman and Hitt, 1999). Information strategy, or lobbying, involves the use of data to shape policy outcomes. Users of this strategy provide information about policy preferences and consequences to policy makers to ensure that policy outcomes are favourable to them. (Marsh, 1998; McKay and Yackee, 2007). In the financial strategy, firms use monetary incentives, such as PAC contributions or donations to create access to the polity and influence policy outcomes (Ansolabehere, de Figueiredo, and Snyder, 2003; Claessens, Feijen, and Laeven, 2008; Hadani and Schuler, 2013; Hillman and Hitt, 1999). The constituency building strategy entails grassroots mobilization of stakeholders to support or oppose public policy. Firms use tactics including advocacy advertising, press conferences, and political education programmes to garner constituent support for their policy preferences (Baysinger, Keim, and Zeithaml, 1985; Lord, 2003).

What is notable is that the above political strategies and tactics thrive on, and are supported by well-founded and strong institutional structures, which explains why they are mostly used in developed countries where CPA is regulated. In the U.S. for instance, comment windows exist for firms to submit their views on policy proposals and white papers (McKay and Yackee, 2007). With established processes for receiving and dealing with interest group comments, the information strategy is viable. Similarly, there are rules for financial donations and appointments to corporate boards, which also ensure sanity and transparency in the orchestration of the financial strategy (Hersch, Netter, and Pope, 2008). In some developing countries such as those in Africa, however, CPA is largely unregulated

(Liedong, 2020; Liedong and Frynas, 2018). Institutional structures and processes for the deployment of political strategies are uncommon, as formal channels for business-government relations and policy consultations are often lacking.

Consequently, it can be difficult for firms to participate in policymaking processes in some developing countries. They are largely unable to contribute to regulations, and their input or preferences are usually absent in policy outcomes. Therefore, most firms in these countries are policy takers as opposed to policy players, in the sense that they merely respond to policy after it has been formulated rather than influence the content of policy during its formulation. A consequence of firms' absence in the policy process is that regulations create more cost than benefits, eventually necessitating CPA. Generally, when firms try to manage or deal with regulation, they bribe to circumvent rules or lobby the government to change regulation (Harstad and Svensson, 2011). Doing the latter requires the deployment of information strategy or lobbying (Campos and Giovannoni, 2007; Damania *et al.*, 2004), which is either unsupported or poorly supported by the fledgling and low participatory policymaking processes in some developing countries. Therefore, when firms engage in CPA to evade regulation or benefit arbitrary application of regulation, they are more likely to pay bribes to public officials. Indeed, previous studies in developing countries have noted that firms are more likely to pay bribes in exchange for favourable ad hoc regulatory enforcement or preferential arbitrary treatment from politicians and bureaucrats (see Collins, Uhlenbruck, and Rodriguez, 2009; Lawton *et al.*, 2013; Liedong, 2020).

The likelihood to bribe when engaging in CPA in some developing countries is a function of national business systems. Whitley (1992) propounded the concept of business system to conceptualize the close connection between social institutions and economic activity. A business system simply refers to the external institutional configurations that constrain organizations in their adoption of organizational forms (Venard and Hanafi, 2008).

By limiting available strategic choices or compelling the adoption of certain choices, business systems affect the way firms respond to their social and political environments (Ioannou and Serafeim, 2012; Lawton *et al.*, 2013). We argue that the lack of formal structures for CPA, coupled with the central role informal networks play in the interactions of state and market actors in some developing countries (Acquaah, 2007), gives rise to cronyism in business-government relations, makes CPA mainly about undermining rules, and increases the extent to which firms that engage in CPA are likely to bribe public officials.

The likelihood to bribe when engaging in CPA is further exacerbated by the pervasiveness of corruption in these countries which puts isomorphic pressures on firms to imitate the corrupt behaviours of other firms (Liedong, 2017; Venard and Hanafi, 2008), thus making bribery a normal behaviour. In Africa, for instance, corruption is normal (Agbibo, 2012; Mulinge and Lesetedi, 2002). Success in political markets therefore hinges on firms doing what other competing interests are doing – i.e., paying bribes. Isomorphic pressures therefore create bandwagon effects whereby firms conform to the norm of buying political or regulatory favours.

The second premise - i.e., the government channel - is about why public officials demand bribes from firms that engage in CPA. Both bribery and CPA involve dyadic relationships between givers and takers (Frei and Muethel, 2017), and thus between firms and government officials, respectively. This brings the role of government officials to the fore of the CPA-bribery relationship. Firms and government officials operate in political markets where both parties conduct exchange (Bonardi, Hillman, and Keim, 2005; Capron and Chatain, 2008; Kingsley, Vanden Bergh, and Bonardi, 2012; Liedong, Rajwani, and Lawton, 2020d). In this exchange, firms provide incentives in return for policy and regulatory favours. The most important incentives for government officials are often money and information (Hillman and Hitt, 1999). Information is mostly useful in policy formulation, but as firms in

some developing countries are rarely consulted about policy proposals, this incentive is not attractive to government officials. Insights from previous studies (e.g., Liedong *et al.*, 2020a) suggest that in Ghana and Nigeria, the attractive incentives are things that can provide personal financial security or increase the re-election chances of government officials.

Therefore, we argue that firms seeking to manage their regulatory exposure in developing countries are likely to experience bribery demands from government officials. We advance that in exchange for providing favours to firms, the polity will request monetary incentives to finance their re-election and clientelism (Vicente and Wantchekon, 2009). Firms, in their own quest to navigate the challenging regulatory environments and institutional voids in developing countries, are likely to succumb to these requests. The foregoing indicates coercive isomorphism whereby firms may face forceful pressures to comply with demands or requirements (i.e., bribes) imposed by institutional actors (i.e., government officials) on whom they are dependent (DiMaggio and Powell, 1983). Such isomorphism is a pre-requisite for gaining legitimacy (Meyer and Rowan, 1977) and legitimacy is a pre-requisite for organizational success in economic and political markets (Guo *et al.*, 2014; Wang and Qian, 2011). This makes it compelling for firms that engage in CPA to bribe.

Two institutional conditions facilitate the ability of public officials to demand bribes. First, poor checks and balances and weak rule of law in developing countries make it possible and easy for public officials to ‘sell’ favours without regard for the consequences. While this practice may seem similar to the way regulations in developed countries are ‘sold’ to the highest bidders (Evans and Sherlund, 2011; Grossman and Helpman, 1994), it is different because it is unregulated. Second, across several developing countries in Africa, the prevalence of gift-giving cultures and reciprocity blurs the line between bribes and gifts (Idemudia *et al.*, 2019; Liedong, 2017). It is therefore common for government and public

officials to try to legitimize bribes as gifts, thus reinforcing the normality of requesting informal payments before or after providing policy or regulatory favours that are not supported by formal institutional structures (in the case of policymaking) or are illegal and unethical (in the case of undermining regulation). Therefore, we hypothesize that:

H1: In developing countries, corporate political activity is positively associated with firm-level bribery.

2.4 The Moderation of Internet Penetration

Technology and institutions are inter-related in two ways. First, institutional forces affect the development, adoption, and effectiveness of technology among organizations and individuals (Butler, 2011; Teo, Wei, and Benbasat, 2003). Several studies have documented how values, norms, and taken-for-granted assumptions within society hamper or facilitate the acceptance and use of technology and innovation (Ashraf, Thongpapanl, and Auh, 2014; McCoy, Galletta, and King, 2007; Muk and Chung, 2015; Veiga, Floyd, and Dechant, 2001). Second, technology shapes institutional change – i.e., the process through which an institution or set of institutions are replaced or transformed (Orlikowski and Barley, 2001; Yang and Li, 2015). It contributes to societal change across state, profession, market, corporation, family, religion and, community institutional logics (Faik *et al.*, 2020). Our study draws from this latter relationship between technology and institutions to argue that internet penetration weakens the association between CPA and bribery through its impact on shaping the agency of social actors and the cultures and values of society to de-legitimize bribery in developing countries.

We previously argued (in H1) that the lack of formal structures for CPA, the informal nature of business systems, the poor checks and balances, and the normalization of corruption in some developing increase the extent to which firms that engage in CPA are likely to bribe public officials. Both the government and firm channels in H1 touch on how the

pervasiveness and institutionalization of corruption in developing countries facilitate the use of bribes in CPA. Now, we argue that the CPA-bribery relationship will be weaker in developing countries with higher internet penetration. We advance that institutions undergo changes that can challenge the normalization of corruption, with specific emphasis on how digital technology and specifically internet penetration can shape normative and cognitive institutional domains (thus, culture) to change social actor's agency and weaken the acceptance of corruption in a country and the use of bribes in CPA. In doing so, we acknowledge the impact of the internet on cultural and institutional change (Wessels, 2010) and the role of culture in corruption (Idemudia *et al.*, 2019) to propose mechanisms through which internet penetration weakens the CPA-bribery relationship. Our proposal is not intuitive, because some studies (e.g., Kanyam, Kostandini, and Ferreira, 2017) have reported an insignificant direct impact and a significant moderating (i.e., strengthening) impact of internet penetration on corruption in some sub-Saharan countries. We unpack the logic of our proposal as follows.

First, internet penetration increases the rate of information diffusion. This facilitates learning, helping individuals and organizations to gain knowledge of issues that affect them. Websites and social media offer platforms for citizens to assess and reflect on information (Leonardi and Meyer, 2015; Valenzuela, Kim, and Gil de Zúñiga, 2012), which subsequently inform their enlightenment. We argue that the normalization of corruption in developing countries (e.g., van den Bersselaar and Decker, 2011) is perpetuated due to the lack of knowledge about its harmful effects on wider society. Research shows that education creates corruption-free economies by equipping citizens with knowledge to be vigilant and apply unbiased information propagated by the media, including social media (Dutta and Roy, 2013; Hunady, 2019). Greater access to online media avails information about the actions of public officials and firms, which subsequently reduces information asymmetry between institutional

actors (Elbahnasawy, 2014; Lio, Liu, and Ou, 2011; Srivastava, Teo, and Devaraj, 2016) and increases awareness of public governance.

Basically, the internet improves a country's cognitive institutional domain – i.e., the schemas used to interpret information and make sense of the world (Scott, 2001; Yiu and Makino, 2002), leading to changes in acceptable norms and culture. This domain is affected by citizens' education and knowledge (Stenholm *et al.*, 2013), which makes us argue that the information and knowledge diffusion that the internet facilitates helps citizens to push for accountability and probity (Goel, Nelson, and Naretta, 2012). As knowledge and awareness contributes to the de-normalization of corruption in society, institutional actors are threatened with legitimacy and reputation losses if they are caught in illicit exchanges. Hence, we argue that higher internet penetration in developing countries changes the institutional conditions that facilitate the use of bribes in CPA, and thus weakens the extent to which firms that engage in CPA are likely to bribe public officials.

Second, the internet makes the monitoring and scrutiny of firms, managers and public officials easier (Kanyam *et al.*, 2017). For instance, the internet allows citizens to share their expectations and views about government performance online, thereby imposing greater scrutiny on government officials. The literature on e-government particularly highlights how the internet imposes checks and balances on the transactions between governments and other institutional actors (Kim, Kim, and Lee, 2009; Smith and Bertozzi, 1996), ensuring that administrative processes are transparent, ethical, legal, and trustworthy (Wescott, 2001). It is important to note here that e-government is mainly viable in countries with high internet penetration (Chadwick and May, 2003). Online scrutiny of public governance helps to shape culture and fill voids that allow corruption to thrive (Elbahnasawy, 2014; Kim *et al.*, 2009). Consequently, higher internet penetration weakens the government channel of the CPA-bribery relationship, in that it deters and discourages public officials from requesting bribes

from lobbying firms. Therefore, higher internet penetration in a country reduces the extent to which firms that engage in CPA are likely to bribe.

Third, the internet facilitates virtual whistleblowing of corrupt practices in governments and firms (Fleming *et al.*, 2020; Goel and Nelson, 2014) and facilitates social movements that can help to de-normalize corruption. With the advent of the internet, it has become easier to report corporate and government misbehaviour. For instance, websites such as Wikileaks are repositories of vast information about government malpractices. YouTube and other social media platforms are also sources of revealing and viral videos that bring sensitive and disturbing socio-economic issues to the attention of the public (Lam and Harcourt, 2019). One of the biggest cascading effects of whistleblowing is its ability to galvanize strong online social movements for institutional change. Several examples of protests borne out of online disclosures and revelations abound. Notable among them is the recent viral video about the death of African American George Floyd at the hands of U.S. police. It sparked global protests against police brutality, resulting in institutional changes to eradicate racism in several spheres of society.

Research and anecdotal evidence have shown that internet penetration and social media inform political activism (Bekkers *et al.*, 2011; Salge and Karahanna, 2016). For instance, Twitter and Facebook shape protest behaviour and provide platforms for expressing political opinions and joining political groups (Bennett and Segerberg, 2011; Valenzuela, 2013). In South Africa, the internet helped sensitize and mobilize people to protest corruption in the business-controlled government of Ex-President Jacob Zuma. This protest led to his resignation from the Presidency and the fall of his cronies and their business empire. In North Africa and the Middle East, the internet shaped the Arab spring that saw mass protests bring down authoritarian and powerful governments (Khondker, 2011; Wolfsfeld, Segev, and Sheaffer, 2013).

We draw from the literature and leverage real-life examples to argue that the internet helps to create powerful social movements to buffer the institutions that facilitate corruption. Essentially, the acceptance of bribery as a societal norm in developing countries (van den Bersselaar and Decker, 2011) is weakened and shaped by whistleblowing and speedy online mobilization of anti-corruption social groups. The resultant institutional change and anti-corruption awareness increase the adverse consequences of bribery for culpable parties, thereby either reducing the extent to which politically active firms are likely to bribe public officials or attenuating the extent to which public officials will accept or demand bribes from lobbying firms, or both. Effectively, we argue that in developing countries with higher internet penetration, the CPA-bribery relationship is weaker.

H2: Internet penetration weakens the positive relationship between corporate political activity and firm-level bribery in developing countries.

2.5 The moderation of Foreign Ownership

Firms' response to institutional conditions is a function of their internal governance structures (Filatotchev and Toms, 2003; Lau *et al.*, 2016; Tibiletti *et al.*, 2021). Agency attributes influence their adaptation to, entrepreneurship of, and interactions with their institutional environments. Several previous studies have examined and explored how the likelihood of firms paying bribes is affected by corporate governance issues such as CEO duality (Tuliao and Chen, 2017), shareholder-manager relationships (Ramdani and van Witteloostuijn, 2012), anti-bribery policies (Spencer and Gomez, 2011), compliance procedures (Frei and Muethel, 2017; Rabl, 2011), and ownership structures (Pelizzo *et al.*, 2016; Wu, Jiang, and Shi, 2019; Yi, Teng, and Meng, 2018). Besides affecting how firms manage and respond to their institutional environments, corporate governance also affects CPA choices (see Hadani, 2012;

Ozer, 2010; Ozer and Alakent, 2012). Drawing on this literature, we argue that foreign ownership weakens the CPA-bribery relationship.

Previously in H1, we presented a government-channel argument that CPA and bribery are positively related because: 1) public officials demand bribes from lobbying firms and; 2) these firms experience coercive pressures that make them bribe when they engage in CPA. This argument assumes that public officials have power over firms, which is not always the case. Firms that are fully or partially owned by foreigners can have higher bargaining power over public officials and governments, especially in developing countries (Fagre and Wells, 1982; Nebus and Rufin, 2010; Svensson, 2003). Bargaining power represents a firm's ability to withstand pressures and the 'grabbing hand' of government officials. Conventionally, the greater the bargaining power, the less the vulnerability to corruption (Lee, Oh, and Eden, 2010). We advance that foreign firms have bargaining power because host governments are usually keen to attract foreign capital. To encourage inward foreign investment, governments aim to create positive images of their countries by providing supporting and enabling conditions that reduce the exposure of foreign capital to bribery incidents. Also, the bargaining power of foreign firms could emanate from their stronger capabilities, less reliance on host government assistance, and lower levels of dependency (Rodriguez, Uhlenbruck, and Eden, 2005).

Moreover, foreign firms have more investment alternative options than local firms. With a higher propensity to quit their host countries, these firms pose a formidable threat to governments (Kogut and Kulatilaka, 1994) and weaken the residual control that public officials have over them (Svensson, 2003). Foreign firms may therefore have more negotiating leverage and high refusal powers over bribery demands. Consequently, even in weak institutional contexts where corruption is pervasive and bribery is common, foreign firms are less likely to bribe when they engage in CPA, mainly as government officials will

exempt them from illicit financial demands. Essentially, when a foreign firm engages in CPA, it is more likely to have the power to refuse bribery requests from public officials, thereby weakening the government channel of the CPA-bribery relationship.

Furthermore, the firm channel of the CPA-bribery relationship, as argued in H1, advances that firms engaging in CPA are more likely to bribe due to the lack of formal CPA interfaces in developing countries. It also assumes that the decision to bribe when engaging in CPA is at the discretion of the firm and its managers. However, not all firms have that discretion, even when formal CPA interfaces are absent. Foreignness imposes constraints on firms' choice to bribe when they do CPA. This is because foreign firms or foreign subsidiaries are subjected to regulations and scrutiny from their home governments, which may deter them from bribing public officials in host countries (Park, Hong, and Xiao, 2021). Those from developed countries experience tighter corporate governance requirements, especially in relation to corruption. For instance, U.S firms are expected to comply with the Foreign Corrupt Practices Act. Consequently, foreign firms are likely to have zero tolerance policies against corruption and robust accounting practices to prevent illicit transactions (Hellman, Jones, and Kauffmann, 2000). This constrains managers discretion to use informal payments in their lobbying activities. Hence, even if corruption is prevalent in developing countries, foreign firms that engage in CPA are less likely to bribe.

While the foregoing arguments may seem intuitive, they are not. Some scholars have advanced that most bribe payments are made by MNEs to foreign government officials and that a significant proportion of global corruption is the explicit product of multinational corporations from leading industrialized countries (Frei and Muethel, 2017; Mokhiber and Weissman, 1999; Osuji, 2011). Hence, good governance principles and systems are not always necessarily transferred from headquarters to subsidiaries, as real-life cases of MNE corruption in foreign countries continue to reveal. Thus, we contend that the higher

bargaining power at the disposal of foreign firms will enable them to overcome bribery pressures while adhering to good governance codes.

H3: Foreign ownership weakens the positive relationship between corporate political activity and firm-level bribery in developing countries.

3. Methodology

3.1 Data

To test our hypotheses, we used secondary, pooled, and firm-level data from World Bank Enterprise Surveys (WBES)¹. These surveys provide in-depth firm-level information covering a wide array of issues, including technology and infrastructural development, ownership structures, crime, corruption, access to finance, legal obstacles, and other investment climate conditions for about 164,000 firms in 144 countries. The World Bank has conducted Enterprise Surveys since the early 2000s. The data (which are not panel data) and the survey instrument are publicly available online, at the World Bank website.

There are advantages of using WBES data. First, the survey employs a stratified random sampling technique ensuring greater representation. Second, the data capture information from several firms of different sizes in rural areas and large cities, which makes findings and conclusions robust to selection biases. Third, the World Bank uses experienced researchers to administer the survey, which increases the accuracy of the data. Fourth, by using the same survey instrument and a standard sampling methodology, WBES data has high comparability across countries (World Bank Group, 2014). Due to these merits, WBES datasets have been used in several empirical research, including studies in corporate finance (e.g., D'Souza, Megginson, Ullah & Wei, 2017), development economics (e.g., Chauvet & Ehrhart, 2018),

¹ Available at <http://www.enterprisesurveys.org/>

and business (e.g., Ding, Qu & Wu, 2016; Ufere et al., 2020). We collected other country-level data, such as gross domestic product Per Capita (GDPPC) and internet penetration (IP), from the World Development Indicators database and control of corruption quality (CCORRUP) from the World Bank Governance Matters dataset. In this study, we used WBES data for 41 African countries, from 2002 and 2018. The initial sample comprised 36,613 observations. After removing cases with missing values, our final sample comprised 25,528 firms. The top ten countries contributed over 70% of the sample (see Table 1 for sample distribution).

[Insert Table 1 here]

3.2 Dependent variable

Variables and their measures are presented in Table 2. To evaluate the impact of CPA on bribery, we measure our dependent variable using two proxies: *BRIBE* and *DMBRIBE*. The construct (*BRIBE*) captures bribery and was operationalised using WBES data on the percentage of total annual sales paid as informal payment, with higher percentages indicating higher levels of bribe payments. The use of this indicator as a proxy for bribery is consistent with corruption-related studies (e.g., Bai et al., 2017). Similar to Wu (2009), we operationalized the second proxy (i.e., *DMBRIBE*) as a dummy variable that takes the value of 1 if firms indicate that they are involved in any of the following nine WBES measures: 1) Percentage of sales paid as bribes; 2) Bribe to get an operating license; 3) Bribe to get an import license; 4) Bribe to tax inspectors; 5) Bribe to obtain construction permits; 6) Bribe to get electrical connection; 7) Bribe to get water connection; 8) Bribe to get telephone connection; and 9) Percentage of contract value paid as bribe. Except for items 1 and 9, WBES measures the above using binary scales (i.e., using yes or no questions).

3.3 Independent and moderation variables

We operationalized *CPA* as the natural log of 1 + the percentage of time senior management spends dealing with regulations. This variable comes from managers' response to the WBES question: *Senior management's time spent on dealing with regulations*. CPA entails several strategies, including financial, information, and constituency building strategies (Hillman and Hitt, 1999). In emerging and developing countries where institutional conditions do not support the above strategies (Liedong and Frynas, 2018), firms tend to use informal social connections to government officials, commonly referred to as political ties, for managing regulatory and policy environments (Acquaah, 2007; Peng and Luo, 2000; Rajwani and Liedong, 2015). Definitions of political ties mostly capture the amount of time senior managers spend on cultivating relationships and socializing with government and regulatory officials (Liedong, Rajwani, and Mellahi, 2017; Zhang, Tan, and Wong, 2015), which makes our use of senior management time an appropriate measure of CPA. Other studies have used the same or similar question to measure CPA (e.g., Krammer and Jiménez, 2020).

One may argue why we do not frame the time spent on dealing with regulations as a specific strategy such as lobbying, but instead call it CPA. Unlike other political strategies that are labelled according to their specific mechanisms or underpinning resources (e.g., information exchange in information strategies, money in financial strategies), time spent on dealing with regulations is opaque in terms of the specific exchanges that occur between managers and government officials. Importantly, it may comprise several things. For instance, the time may be spent on providing (receiving) information to (from) government officials, donating money to politicians and political parties, meeting and dining with government officials, or sponsoring governments' priorities (e.g., Li, Zhou, and Shao, 2009; Okhmatovskiy, 2010; Wu, 2011). In this sense, the time spent on dealing with regulations may encapsulate other political strategies (e.g., information, financial, political ties), which makes it appropriate to broadly frame it as CPA.

The time spent on dealing with regulations may also entail obtaining regulatory approvals and licenses, adhering to reporting requirements, or overcoming bureaucracy, which can provide the impetus for CPA (Liedong and Frynas, 2018). Extant research has shown that highly regulated firms and industries are more likely to engage in CPA (Grier, Munger, and Roberts, 1994; Hadani and Schuler, 2013), suggesting that senior managers who spend more of their time dealing with regulations are more inclined to engage in CPA. This confers measurement validity on the operationalization of our predictor variable.

Turning to boundary conditions, we used internet penetration and foreign ownership as moderators. Following Fisman and Svensson (2007), we operationalised foreign ownership (*DFOREIGN*) as a dummy variable with a value of 1 if a foreign company or investor owns more than 50% of the focal firm and 0 if otherwise. We operationalized internet penetration (*IP*) by utilizing one-year lagged country-level internet usage levels obtained from World Bank's World Development Indicators.

3.4 Control variables

We included two variables related to firms' institutional environments and four indicators associated with firm heterogeneity to control for the influence of CPA on bribery. The first institutional environment variable is firm local market rivalry (*DINF*), which captures the extent to which business operations are affected by competition from the informal sector (*to what degree are practices of competitors in the informal sector an obstacle to the current operations of this establishment?*). Prior studies show that the level of market rivalry pressures firm to engage in corruption (Ufere et al., 2020). Our second indicator is trade regulation (*CTRD*), which measures the extent to which trade-identifying regulations affect business operations (*To what degree is customs and trade regulation an obstacle to the*

current operations of this establishment?). Arguably, heavier trade regulations can motivate firms to act illegally (Meon and Weill, 2010).

Firm heterogeneity is represented by four variables: *SIZE*, *AUDITED*, *AGE*, and *MANAGR*. To control for the influence of firm size, we utilise the natural logarithm of the number of employees (*SIZE*) (Krammer et al., 2016; Wu, 2009). The rationale is that smaller firms have a higher tendency to bribe to keep up with the requirements of the operating environment when faced with predatory officials' demands (Wu, 2009). *AUDITED* is a binary variable that equals 1 if the firm is audited and 0 if otherwise. Auditing financial statements can protect against corruption (Wu, 2009). Firm age (*AGE*) is included and is computed as the natural logarithm of 1 plus the difference between the year of the survey and the year the firm began operations. We operationalise managerial capabilities (*MANAGR*) using the number of years of industry experience of the top manager working in the organization. This operationalisation is consistent with existing literature that argues that firms with higher managerial capabilities may be less prone to corruption (Krammer et al., 2018).

We also controlled for country-level effects. First, following Treisman (2000), we used the natural logarithm of one-year lagged GDP Per Capita (*GDPPC*) to control for the effects of national wealth level on corruption. Low-income levels incentivise bribery, making the marginal benefit of corruption higher in developing and emerging economies than in more developed economies (Treisman, 2000). Second, we included one-year lagged *Control of Corruption* (*CCORRUP*) to capture the extent to which the governments in the sample countries are fighting and controlling corruption (Cuervo-Cazurra, 2008). Prior literature suggests anticorruption efforts can deter corruption (Berg et al., 2012).

[Insert Table 2 here]

3.5 Empirical model

To investigate the association between corporate political activity and firm-level bribery (H1), we follow Qi et al. (2020) and build the following econometric model:

$$DV_{it} = \alpha + \beta_1 LOBBY_{it} + \gamma Controls_{it} + \sum \beta_m Fixed\ Effects_t + \varepsilon_{it}$$

where the dependent variable, DV_{it} , is one of two measures of firm-level bribery (*BRIBE* and *DMBRIBE*) for firm i at time t . *Fixed Effects_t* constitute country dummies to control for time-invariant country-level characteristics, industry dummies to control for sector effects, and year dummies to control for time factors (Chen and Zhang, 2019). We created industry dummies based on a firm's primary business, including textiles, garments, food, metal, fabricated metal, machinery, wholesale, food, electronics, chemicals, plastics, construction services, retail, services of motor vehicles, transportation, information technology, hotel, and restaurant, etc.² Standard errors were adjusted for heteroskedasticity and clustered at the country level (e.g., Shevlin et al., 2019). Finally, to alleviate the impact of outliers, we winsorized the data at the 1% and 99% levels for all variables except for dummy variables. Given that the first dependent variable, *BRIBE*, is bounded between zero and one, we tested the hypothesized relationships using fractional response regression proposed by Papke and Wooldridge (1996). Standard models (e.g., OLS) are not appropriate estimation techniques for fractional dependent variables (Qi et al., 2020). Thus, to fit our dataset, we used Stata 15-fracreg program, as done by Qi et al. (2020). For the second dependent variable, given that *DMBRIBE* is a dummy variable, we run a logistic regression – a technique commonly used for predicting a binary dependent variable as it provides robust results when compared to other methods (Neslin, Gupta, Kamakura, Lu, & Mason, 2006). See Table 5. To remove huge

² In unreported analyses, we used three WBES general categories of industries (manufacturing, retail, and other services) to control for sector effects, and the results were qualitatively similar.

outliers, lessen skewness and normalize the data, we added the natural log of 1 to the operationalization of CPA and AGE.

4. Results

Table 3 reports the summary statistics for our main variables. In Panel A, the mean value of *BRIBE* is 2.03, indicating that 2.03% of sales are paid as informal payments or gifts. The average of *CPA* is 8.3% with a large standard deviation. *DFOREIGN* has a mean value of 0.190, indicating that 19% of the sample firms are foreign-owned. The sample firms have a mean value of 54 employees, suggesting they are relatively medium-size firms. On average, managers have over 14 years' experience. Panel B presents the correlations matrix of variables used in the study. As none of the correlation coefficients is greater than 0.6, multicollinearity does not seem to be an issue with the estimates (Hair et al., 2009). An analysis of the mean variance inflation factors (VIFs) of all the parameters did not exceed 2, suggesting that multicollinearity is unlikely to be a problem (Hair et al., 2009).

[Insert Table 3 here]

Table 4 presents the main results when the dependent variable (i.e., bribe) is a percentage of sales. Model 1 reports the regression results with the exclusion of country-level control variables. The coefficient of *BRIBE* is positive and statistically significant at 1% ($\beta=0.295$, $p<0.01$), suggesting that bribery increases with the level of CPA. This supports hypothesis 1. Model 2 analyses the effect of CPA while controlling for country effects and the moderating variables. The results remained stable, providing evidence of robustness and showing that intense CPA is associated with a greater tendency to engage in bribery. In model 3 we estimated the interaction terms - CPA and internet penetration (CPA*IP) and CPA and foreign ownership (CPA*DFOREIGN). The coefficient CPA*IP is statistically

negative at the 5% level ($\beta=-0.143$, $p<0.05$), suggesting that internet penetration weakens the positive relationship between CPA and bribery. Similarly, the coefficient of CPA*DFOREIGN is negative and highly significant at the 1% level ($\beta=-0.126$, $p<0.01$). To further probe these findings, we plot the interactions in Figures 2 and 3. Overall, these results provide empirical support for our three hypotheses.

[Insert Table 4 and Figs. 2 & 3 here]

4.1 Additional analyses and robustness test

To further investigate CPA-bribery relationship, we used the dummy variable for bribe (i.e., *DMBRIBE*) and run a logistic model. The results of the logistic regressions are reported in Table 5. As shown in model 3, the coefficient of the interaction variable *CPA*IP* is negative and highly significant ($\beta=-0.009$, $p<0.01$). Likewise, the interaction *CPA*DFOREIGN* is significantly negative ($\beta=-0.058$, $p<0.05$). Both results show that foreign ownership and internet penetration weaken the positive relationship between CPA and firm-level bribery, which is consistent with the main results in Model 3 of Table 4.

To check the robustness of the results, we removed firms from Nigeria and Egypt to control for the possibility that these two countries are influencing the results. Both countries account for about 37.4% (9,550) of the sample. We rerun the analyses to see the effect. The results of this robustness test are presented in Models 4 to 6 of both Tables 4 and 5 (under the sections: *without Nigeria and Egypt*). Regardless of the econometric model used, the coefficients for *CPA* are positively significant at the 1% level. The interactions are also significant and consistent with prior findings: *CPA*IP* is negative and marginally significant ($\beta= -0.183$, $p< .10$ for Table 4 and $\beta= -0.006$, $p< .10$ for Table 5); and *CPA*DFOREIGN* is also significantly negative ($\beta= -0.171$, $p< .01$ for Table 4 and $\beta= -0.203$, $p< .01$ for Table 5). Summarily, these findings support our hypotheses.

[Insert Table 5 here]

We conducted further tests to check if the CPA-bribery relationship might be influenced by endogeneity. In this study, we hypothesized that doing CPA causes a firm to bribe. However, one could also argue that a firm that experiences bribery demands may do CPA to mitigate its exposure to rent-seeking government officials. Hence, BRIBE and CPA may be endogenous. To address this concern, we run two-stage least square (2SLS) regressions using the *average of CPA* across all firms in the country and year to which a focal observation relates as the instrument for CPA. Using country-level average CPA to instrument a firm's CPA seems appropriate because we assume that this variable is dependent on country-specific characteristics and is thus exogenous to the firm. This assumption is similar to how other studies have conceived and used country-level averages as instrumental variables (e.g., Lee and Weng, 2013; Qi et al., 2020). As such, the average CPA in a country-year is correlated with the variable of interest (i.e., CPA) but has no direct effect on the dependent variable (BRIBE). The results of the endogeneity tests (available from the authors) remain similar to what we report in Tables 4 and 5. In all the models, the signs of all instrumental variable estimators indicate a positive relationship between CPA and Bribe. Similarly, the coefficients of the interaction terms *CPA*IP* and *CPA*DFOREIGN* are negative and statistically significant, confirming earlier results. A summary of the hypotheses testing is presented in Table 6.

[Insert Table 6 here]

5. Discussion and Conclusion

In this paper, we examine the dark side of CPA by investigating the association between political activity and bribery in African countries. Our findings reveal a significant and positive relationship between firms' CPA and the bribes they pay. This relationship is

weakened by country-level internet penetration and the presence of foreign investors in a firm. Leveraging these findings, we make significant contributions to the IB literature. First, our paper suggests that lobbying is an antecedent of corruption. This finding is an extension of the literature on the dark side of CPA (Liedong *et al.*, 2020a; Sun *et al.*, 2016) and a significant contradiction to the widely held notion that political strategies reduce institutional constraints and uncertainty (Meznar and Nigh, 1995; Villa *et al.*, 2018). The reasons for this contradiction are already explicated in hypothesis 1. Whilst we acknowledge the ability of CPA to ethically shape institutional environments, insights from our findings indicate that the bright side of CPA is dependent on the availability of formal institutional platforms and configurations to control business-government relations. In developing countries where CPA is unregulated and the prevailing institutions do not support transparent and ethical lobbying (Liedong, 2020), bribery and corruption become the prominent mechanisms in political markets.

Consistent with institutional theory's tenets that institutions determine the 'rules of the game' (North, 1990) and that firms' strategic behaviour and choices are affected or conditioned by the state and nature of the institutions within their operating environments (Oliver, 1991; Peng, 2003), our findings suggest that the association between CPA and bribery is underpinned by absent or weak institutional frameworks that manifest through the lack of formal CPA interfaces and limited opportunities for formal participation in policy processes (Liedong and Frynas, 2018). Based on the notion that firms are likely to use bribes in their lobbying when they seek exemptions from regulation (Campos and Giovannoni, 2007; Doh *et al.*, 2003; Harstad and Svensson, 2011), we advance that institutional constraints and voids push firms into engaging in passive CPA aimed at illegally circumventing or undermining rules and policies that were formulated without their inputs. With corruption characterizing institutions in some developing countries, especially in Africa,

(Adeyeye, 2017; Doig *et al.*, 2007; Williams-Elegbe, 2018), mimetic and coercive isomorphism bolster firms' willingness to initiate bribe payments or succumb to bribe demands when they engage with government officials.

Second, our paper shows the boundary conditions of the CPA-bribery relationship, and particularly highlight how institutional conditions and governance dynamics affect the dark side of CPA. It sheds invaluable light on how internet penetration can brighten up the dark side of CPA. This is an important contribution to the literature, considering that only a few studies have explored the contingent nature of CPA's dark side (e.g. Liedong *et al.*, 2020a). We show that despite the overwhelming pressure for unethical CPA in weak institutional environments, technology enhances information flows, facilitates learning, spurs anti-corruption cultural changes, and eases monitoring of firms and political elites, which reduces the incidence of bribery in CPA. Acknowledging that institutions undergo changes and transitions (Child and Tse, 2001; Dacin *et al.*, 2002; Dieleman and Sachs, 2008; North, 1990; Seo and Creed, 2002; Yang and Li, 2015) and that institutional change and deinstitutionalization may arise from changes in social expectations and values that might make certain practices unacceptable (Oliver, 1992), our paper unpacks how internet penetration fosters institutional changes that delegitimize corruption, escalate the consequences of corruption for firms and government officials, and thus deters the use of bribes in CPA.

Our paper also sheds light on how internal agency dynamics influence firms' adaptation to, entrepreneurship of, and interactions with their institutional environments. Through examining the moderating role of foreignness in the CPA-bribery relationship, we show that firms' strategic response to institutional conditions are affected by their internal governance structures (Filatotchev and Toms, 2003; Lau *et al.*, 2016; Tibiletti *et al.*, 2021). Previous works have reported the links between agency, corporate governance, and CPA

(Aggarwal, Meschke, and Wang, 2012; Dahan, Hadani, and Schuler, 2013; Hadani, 2012; Ozer, 2010), particularly about how ownership structure affects CPA choices (Ozer and Alakent, 2012) and bribery (Pelizzo *et al.*, 2016; Yi *et al.*, 2018). However, there is still limited scholarly understanding of how foreignness affects the extent to which lobbying firms engage in bribery. Our findings suggest that the bargaining power and alternative investment options that foreign firms have, coupled with their stronger governance and capabilities (Pelizzo *et al.*, 2016; Svensson, 2003), give them refusal power over bribery demands from government officials in host countries. Therefore, our paper shows that foreign ownership curtails the power of institutions in determining the ‘rules of the game’ (North, 1990), and more specifically the power of normative conditions and regulatory actors in shaping the (un)ethical conduct of CPA. In essence, even when institutions prescribe behaviour, firms’ ownership structures and governance systems may impose constraints on adherence and compliance.

Peering in from international business, our work suggests that the liability of foreignness could be a positive phenomenon for ethical CPA and broader institutional strengthening in developing countries. Foreign-owned firms experience the so-called liability of foreignness in host countries (Zaheer, 1995), which manifests through discrimination and other adverse treatment due to their non-native status (Newenham-Kahindi and Stevens, 2018). To address this liability, foreign firms do CPA in order to gain local legitimacy and reduce the political risks they face (Puck *et al.*, 2013; Sojli and Tham, 2017). However, the dilemma for most foreign firms, especially large MNEs from developed countries, is that while they see CPA as necessary, they do not want to be seen as trying to influence politics in host countries (Hansen and Mitchell, 2000). This, coupled with the restrictions and conditions regarding bribery and corporate governance that home governments and other stakeholders

impose on MNEs may reduce isomorphic pressures and constrains managerial discretion to 'buy' political and policy favours.

This may further suggest that foreign firms are less likely to engage in questionable transactions with government officials in developing countries. In fact, some studies have proposed and shown how MNEs help fight corruption (Doh *et al.*, 2003; Kwok and Tadesse, 2006). In reality, this is not always the case. Some of the largest corruption scandals in the developing world allegedly involved large MNEs from developed countries bribing politicians for cheap and preferential access to resources and markets. Hence, our finding that foreign ownership weakens the CPA-bribery relationship is encouraging. However, as figure 2 reveals, the gentle (and almost flat) slope indicates that the moderating effect is weak, reflecting the reality surrounding MNEs and corruption in developing countries.

More importantly, our study joins an interesting debate about whether digital technology reduces corruption (Charoensukmongkol and Moqbel, 2014; DiRienzo *et al.*, 2007; Shim and Eom, 2009). In Africa, prior works have reported equivocal findings about the role of mobile phone penetration in combatting corruption (Asongu and Nwachukwu, 2016; Bailard, 2009; Kanyam *et al.*, 2017). We do not examine this direct relationship in our study, but we leverage our findings to argue that the effect of mobile phones is reportedly contentious in previous studies because phones are less effective in information diffusion as compared to the internet. We contend that high mobile phone penetration without high internet penetration does not increase information diffusion, cultural change, and monitoring. Hence, our examination of internet penetration provides a more proximate mechanism through which mobile phones can help anti-corruption efforts.

Besides theoretical contributions, this paper has important practical implications. First, the regulation of CPA should be taken seriously in developing countries. In Africa,

business-government relations underpin rampant corruption, as firms and politicians engage in unethical exchanges that benefit them at the expense of the State (Liedong, 2020; Liedong *et al.*, 2020a). To address corruption in the region, international development agencies and civil society organizations should advocate for the regulation and formalization of political interactions. Rules on campaign financing and lobbying must be enforced in ways that make CPA transparent enough for other stakeholders to reach informed conclusions on accountability (Liedong, 2017).

Second, the findings of this paper suggest that the implementation of e-governance could help to curb the incidence of bribery in CPA, as supported in previous studies (Elbahnasawy, 2014; Kim *et al.*, 2009; Lio *et al.*, 2011; Srivastava *et al.*, 2016). Again, international development partners should support the governments of developing countries to institute online processes for public governance, including business-government relations. With human interface reduced in online transactions, requests for informal payments will decline, helping to eradicate bribery and corruption and sanitize CPA.

5.1 Limitations and Future Research

We recognize that our paper has some limitations. First, not all African countries are represented in this study due to data unavailability. Future research could aim to expand the scope of the sample. Second, our data is limited to emerging economies in Africa and so is geographically limited. Thus, caution should be exercised when generalising the results to other regions beyond Africa. Future work could enlarge the scope to include other emerging economies with relatively higher levels of policy risk (i.e., some Latin American and Asian countries). This will help to increase generalizability. Further, our use of pooled data makes it untenable to make strong claims of causality. While we find a significant association between CPA and bribery, we can only weakly suggest that lobbying leads to corruption because

reverse causality is also possible – i.e., demands for informal payments can cause firms to do CPA to buffer or bridge corruption (Liedong and Frynas, 2018). Therefore, future research could use panel data sets and models to establish robust causality claims.

There are other important topics related to the dark side of CPA that are worth investigating. Prior research has examined the links between CPA and risk-taking, poor financial reporting, and blockholder appropriation among others (Boubakri, Mansi, and Saffar, 2013; Liedong and Rajwani, 2018; Sun *et al.*, 2016) but there are other dark issues that require research attention. For instance, how does CPA affect collusion among firms and between firms and politicians? Contestability of politics, an important metric of ethical CPA whereby all firms should have equal access to the polity (Oberman, 2004), also presents an interesting future research direction. Does CPA reduce contestability, and under what circumstances? Moreover, previous works have suggested that the ability of technology to reduce corruption is dependent on the level of education and literacy in a country (Kolstad and Wiig, 2009; Charoensukmongkol and Moqbel, 2014). Without education to empower people to process information or harness technology, internet penetration may not help reduce corruption. Future works could therefore explore three-way interactions of CPA, internet penetration, and education. Alternatively, scholars may pursue mediated moderation models to account for the mediating role of citizens' education in the moderating impact of internet penetration on the CPA-bribery relationship.

Furthermore, we have assumed in this paper that foreign investors increase monitoring. However, this may be dependent on the origins or base of the investors. Investors in other developing countries may not be as vigilant as their counterparts in developed countries where corporate governance standards are higher. Our data did not allow us to explore this contingency. Future works could therefore investigate whether the moderating impact of foreign ownership depends on the home country of the largest shareholders. We

believe that addressing these issues will further increase our understanding of the links between foreignness, information technology, and CPA's dark side.

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Table 1. Sample Distribution by country, year, and amount of bribery among firms across African countries

Country	Year of survey	Freq.	Percent	Amount of bribery payments as % of sales			
				0 - 2%	3 - 10%	11- 25%	Above 25%
Nigeria	2007,2009,2014	6,120	23.97	4,505	1,326	207	82
Egypt, Arab Rep.	2013,2014,2016,2017	3,430	13.44	3,216	153	21	40
Kenya	2007,2013,2018	1,835	7.19	1,488	285	45	17

South Africa	2003,2007	1,563	6.12	1,480	60	9	14
Mozambique	2007,2018	1,091	4.27	986	69	24	12
Ethiopia	2011,2015	991	3.88	971	17	2	1
Zambia	2007,2013	978	3.83	909	51	9	9
Ghana	2007,2013	782	3.06	655	101	18	8
Dem. Rep Congo	2006,2010,2013,2014	776	3.04	480	236	48	12
Mali	2003,2007,2010,2016	753	2.95	623	107	19	4
Senegal	2007,2014	742	2.91	652	73	14	3
Uganda	2006,2013	692	2.71	471	160	35	26
Tanzania	2006,2013	617	2.42	481	99	28	9
Cameroon	2006,2009,2016	552	2.16	425	93	24	10
Angola	2006,2010	543	2.13	392	114	28	9
Malawi	2009,2014	476	1.86	448	24	2	2
Botswana	2006,2010	450	1.76	413	29	5	3
Namibia	2014,2015	293	1.15	272	20	1	0
Benin	2004,2009,2016	282	1.10	185	73	19	5
Cote d'Ivoire	2009,2016	226	0.89	117	65	37	7
Chad	2009,2019	198	0.78	129	53	10	6
Togo	2009,2016	183	0.72	173	9	1	0
Burkina Faso	2009	173	0.68	166	6	1	0
Morocco	2007	165	0.65	158	5	2	0
Niger	2005,2009,2017	147	0.58	106	24	4	13
Rwanda	2011	137	0.54	133	4	0	0
Djibouti	2013	136	0.53	132	2	2	0
Cape Verde	2006,2009	120	0.47	116	3	0	1
Lesotho	2009,2016	120	0.47	110	8	2	0
Liberia	2009,2017	120	0.47	74	32	11	3
Gambia	2018	118	0.46	105	10	2	1
Sierra Leone	2009,2017	117	0.46	63	33	11	10
Burundi	2014,2015	116	0.45	107	6	3	0
Central African Republic	2011	114	0.45	79	29	3	3
Madagascar	2008,2009,2012,2013,2014	98	0.38	64	22	7	5
Swaziland	2016	92	0.36	89	1	0	2
Eritrea	2009	89	0.35	89	0	0	0
Mauritania	2014,2015	57	0.22	47	6	4	0
Guinea	2016	21	0.08	20	1	0	0
Gabon	2008	8	0.03	4	3	0	1
Congo	2008	7	0.03	2	3	1	1
Total		25,528	100.00	21,163	3415	659	319

Table 2 Description of variables

Variables	Definition and measurement
BRIBE	Proxy for extent of bribery, measured as the proportion of informal payments or gifts to total annual sales (J7A). Source: WBES

DMBRIBE	Takes the value of 1 if the firm is involved in any kind of bribery and 0 if the firm has never been involved in corruption (similar to Wu, 2009). World Bank Enterprise Survey questions capturing corruption are: Percentage of sales paid as bribes (J7A), Bribe to get an operating license (dummy) (J.15), Bribe to get an import license (dummy) (J.12), Bribe to tax inspectors (dummy) (J.5), Bribe to obtain construction permits (dummy) (G.4), Bribe to get electrical connection (dummy) (C.5), Bribe to get water connection (dummy) (C.14), Bribe to get telephone connection (dummy) (C.21), and percentage of contract value paid as bribe (J6). Source: WBES
CPA	Proxy for CPA, measured as natural logarithm of 1 + percentage of senior management's time spent on dealing with regulations (J2). Source: WBES
SIZE	The size of the firm, measured as the natural logarithm of number of employees (I1). Source: WBES
AGE	The age of the firm, measured as the natural logarithm of 1 + (the difference between year of the survey and year the firm was established) (B5). Source: WBES
DINF	The variable measures the extent to which business operations are affected by competition from the informal sector, on a five-point scale (ranging from 0 to 4) (E30). Source: WBES
CTRD	Industry-region level measure of trade identifying regulations affecting business operations, on a five-point scale (ranging from 0 to 4) (D30B) Source: WBES
MANAGR	The number of years of industry experience of top manager working in the firm (B7). Source: WBES
AUDITED	Dummy variable takes the value of 1 if firm account is audited and zero otherwise (K21). Source: WBES
DFOREIGN	Dummy variable takes the value of 1 if percentage of the firm that is owned by private foreign individuals, companies or organizations is greater than 50 or zero otherwise (Fisman and Svensson, 2007) (B2B). Source: WBES
CCORRUP	Country's control of corruption index that captures perceptions of the extent to which public power is exercised for private gain. Source: Source: World Bank's World Governance Indicators
GDPPC	Country's GDP Per Capita. Source: World Bank's World development indicators
IP	Percentage of Individuals using the Internet in a country. Source: World Bank's World Development Indicators.

Table 3. Summary statistics
Panel A Descriptive statistics

Variable	N	Mean	Std.	Q1	Median	Q3
BRIBE (%)	25528	2.031	6.449	0.000	0.000	0.500
CPA	25528	8.327	15.901	0.000	2.000	10.000
AGE	25528	14.865	13.929	6.000	11.000	19.000

SIZE	25528	54.053	134.454	7.000	14.000	37.000
MANAGR	25528	14.552	10.098	7.000	12.000	20.000
AUDITED	25528	0.501	0.500	0.000	1.000	1.000
CTRD	25528	0.807	1.165	0.000	0.000	1.000
DINF	25528	1.340	1.382	0.000	1.000	2.000
GDPPC	25528	7.312	0.827	6.549	7.541	8.078
CCORRUP	25528	-0.664	0.507	-1.032	-0.663	-0.450
DFOREIGN	25528	0.190	0.392	0.000	0.000	0.000
IP	25528	11.847	11.990	2.600	7.008	15.500

See Table 2 for detailed definitions of the variables. SIZE and AGE are presented in the original units (number of employees and age. The logs of these figures are used in correlation matrix and in the regression analysis.

Panel B Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	
1. BRIBE (%)	1												
2. CPA	0.12*	1											
3. DMBRIBE	0.03*	0.49*	1										
4. AGE	-0.03*	0.06*	0.03*	1									
5. SIZE	-0.06*	0.09*	0.06*	0.34*	1								
6. MANAGR	-0.06*	0.06*	0.02*	0.51*	0.24*	1							
7. AUDITED	-0.06*	0.05*	-0.01	0.21*	0.42*	0.19*	1						
8. CTRD	0.09*	0.12*	0.07*	0.07*	0.14*	0.02*	0.10*	1					
9. DINF	0.05*	0.04*	0.00	0.02*	-0.07*	0.01*	-0.04*	0.28*	1				
10. GDPPC	-0.07*	0.00	-0.04*	0.08*	0.09*	0.07*	0.09*	-0.04*	-0.03*	1			
11. CCORRUP	-0.14*	-0.04*	-0.05*	0.02*	0.14*	0.08*	0.25*	-0.14*	-0.12*	0.26*	1		
12. DFOREIGN	-0.01	0.06*	0.44*	0.03*	0.11*	0.01	0.03*	0.07*	-0.03*	-0.07*	0.01	1	
13. IP	-0.06*	0.04*	-0.02*	0.19*	0.15*	0.25*	0.19*	0.01	0.01	0.53*	0.02*	-0.06*	1

Pearson correlation coefficients and their levels of significance.

* represents the 5% significance level.

Table 4. Fractional logit regressions estimates for Bribe (as a % of sales)

	All firms			Without Nigeria and Egypt		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
CPA	0.295*** (10.42)	0.292*** (10.37)	0.346*** (9.32)	0.301*** (6.55)	0.301*** (6.65)	0.361*** (7.97)
AGE	0.001 (0.04)	-0.004 (-0.11)	-0.005 (-0.14)	-0.024 (-0.54)	-0.028 (-0.62)	-0.029 (-0.65)
SIZE	-0.081 (-1.37)	-0.078 (-1.32)	-0.078 (-1.35)	-0.205*** (-5.57)	-0.207*** (-5.55)	-0.206*** (-5.58)
MANAGR	-0.007** (-2.36)	-0.007** (-2.19)	-0.007** (-2.23)	-0.003 (-0.74)	-0.003 (-0.73)	-0.003 (-0.76)
AUDITED	-0.009 (-0.15)	-0.007 (-0.12)	-0.019 (-0.31)	0.010 (0.11)	0.018 (0.20)	0.012 (0.13)
CTRD	0.113*** (4.99)	0.103*** (4.41)	0.102*** (4.44)	0.114*** (3.04)	0.113*** (3.22)	0.112*** (3.25)
DINF	0.009 (0.47)	0.010 (0.54)	0.009 (0.49)	0.033 (1.30)	0.034 (1.29)	0.032 (1.22)
DFOREIGN	-0.101	-0.138	0.113	-0.019	-0.018	0.312

	(-0.78)	(-1.07)	(0.57)	(-0.16)	(-0.15)	(1.11)
GDPPC		0.375	0.398		-0.562	-0.546
		(0.59)	(0.62)		(-1.15)	(-1.14)
CCORRUP		-1.045**	-1.036**		-0.335	-0.303
		(-2.08)	(-2.05)		(-0.58)	(-0.53)
IP		0.015	0.018		0.024	0.027
		(0.88)	(1.04)		(1.43)	(1.37)
CPA*IP			-0.143**			-0.183*
			(-2.27)			(-1.75)
CPA*DFOREIGN			-0.126***			-0.171***
			(-2.85)			(-4.86)
Intercept	-4.374***	-8.481*	-8.733*	-3.591***	0.224	0.039
	(-4.92)	(-1.71)	(-1.73)	(-6.03)	(0.05)	(0.01)
Country Dummies	YES	YES	YES	YES	YES	YES
Year Dummies	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES
N	25528	25528	25528	15978	15978	15978
Chi ²	1.52e+11	4.96e+10	1.12e+10	6.75e+09	6.69e+10	2.64e+12
P	0.000	0.000	0.000	0.000	0.000	0.000
Pseudo R ² (%)	6.36	6.47	6.53	8.29	8.35	8.44

Notes. BRIBE is the dependent variable. z-statistics in parentheses. Robust z-statistics based on standard errors clustered by country are reported in parentheses. *, ** and *** denote significance 10%, 5% and 1% significance levels, respectively. Variables are described in Table 2.

Table 5. Logit regressions estimates for Bribe (as a dummy)

	All firms			Without Nigeria and Egypt		
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
CPA	0.111*** (2.74)	0.111*** (2.77)	0.260*** (4.86)	0.267*** (6.74)	0.269*** (6.98)	0.353*** (7.37)
AGE	-0.175*** (-4.20)	-0.170*** (-4.08)	-0.170*** (-4.11)	-0.065 (-1.46)	-0.067 (-1.43)	-0.068 (-1.47)
SIZE	-0.489*** (-4.43)	-0.496*** (-4.58)	-0.495*** (-4.61)	-0.063*** (-3.89)	-0.071*** (-3.66)	-0.068*** (-3.60)
MANAGR	0.001 (0.31)	0.002 (0.57)	0.002 (0.58)	0.004 (1.05)	0.005 (1.17)	0.005 (1.19)
AUDITED	-0.083 (-0.90)	-0.069 (-0.72)	-0.076 (-0.80)	0.027 (0.34)	0.047 (0.56)	0.040 (0.48)
CTRD	-0.138*** (-5.53)	-0.126*** (-5.40)	-0.124*** (-5.35)	-0.183*** (-4.23)	-0.184*** (-4.31)	-0.183*** (-4.30)
DINF	0.037* (1.83)	0.037* (1.80)	0.039* (1.95)	0.024 (0.92)	0.026 (0.95)	0.024 (0.86)
DFOREIGN	-0.092 (-0.27)	-0.161 (-0.46)	-0.075 (-0.23)	-0.196 (-1.41)	-0.183 (-1.28)	0.148 (0.75)
GDPPC		-1.044** (-2.55)	-1.055*** (-2.61)		-1.379*** (-2.75)	-1.378*** (-2.78)
CCORRUP		-0.866** (-2.11)	-0.865** (-2.17)		-1.104 (-1.46)	-1.097 (-1.47)
IP		0.029 (1.10)	0.043* (1.72)		0.031 (1.71)	0.041** (2.19)
CPA*IP			-0.009***			-0.006*

			(-5.37)			(-1.80)
CPA*DFOREIGN			-0.058**			-0.203***
			(-2.17)			(-3.56)
Intercept	-1.885**	-11.006***	-11.345***	-0.223	8.876*	8.721*
	(-2.04)	(-3.57)	(-3.07)	-0.23	(1.71)	(1.92)
Country Dummy	YES	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES
N	25520	25520	25520	15977	15977	15977
Chi ²	2655	2676	2722	2619	2721	2993
P	0.000	0.000	0.000	0.000	0.000	0.000
Pseudo R ² (%)	26.56	26.81	27.06	18.16	18.43	18.83

Notes. *DMBRIBE* is the dependent variable. z-statistics in parentheses. Robust z-statistics based on standard errors clustered by country are reported in parentheses. *, ** and *** denote significance 10%, 5% and 1% significance levels, respectively. Variables are described in Table 2.

Table 6. Summary of Hypothesis Testing

Hypothesis #	Hypothesis Statement	Result
H1	In developing countries, corporate political activity is positively associated with firm-level bribery	Supported
H2	Internet penetration weakens the positive relationship between corporate political activity and firm-level bribery in developing countries	Supported
H3	Foreign ownership weakens the positive relationship between corporate political activity and firm-level bribery in developing countries	Supported

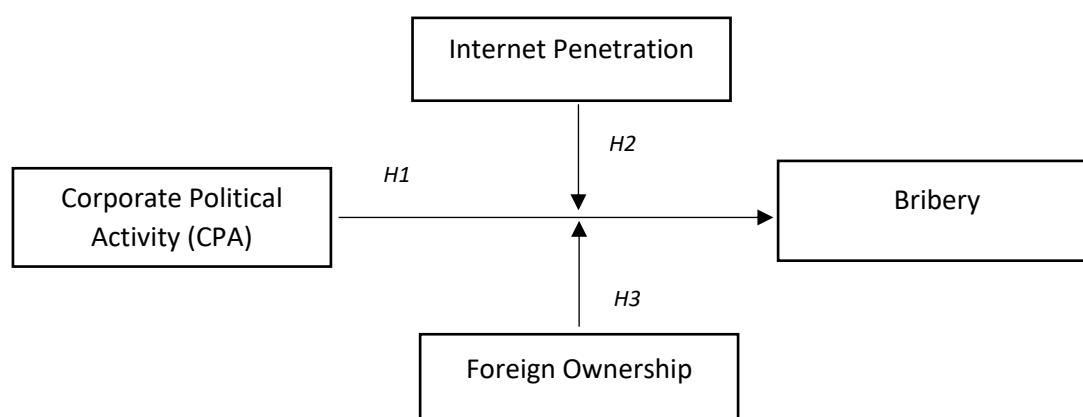


Fig 1. Research Model

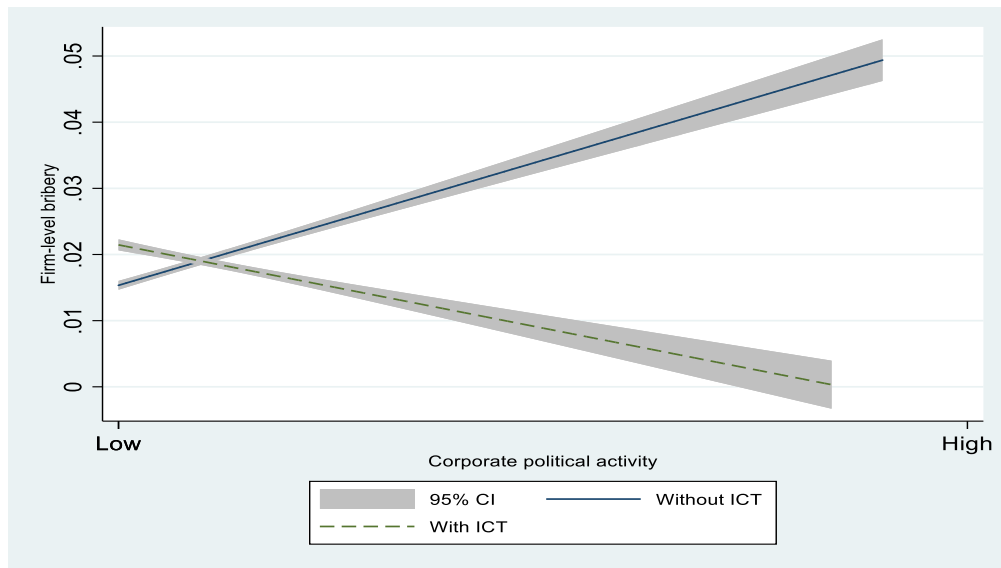


Fig. 2 CPA-bribery relationship moderated by internet penetration (IP).

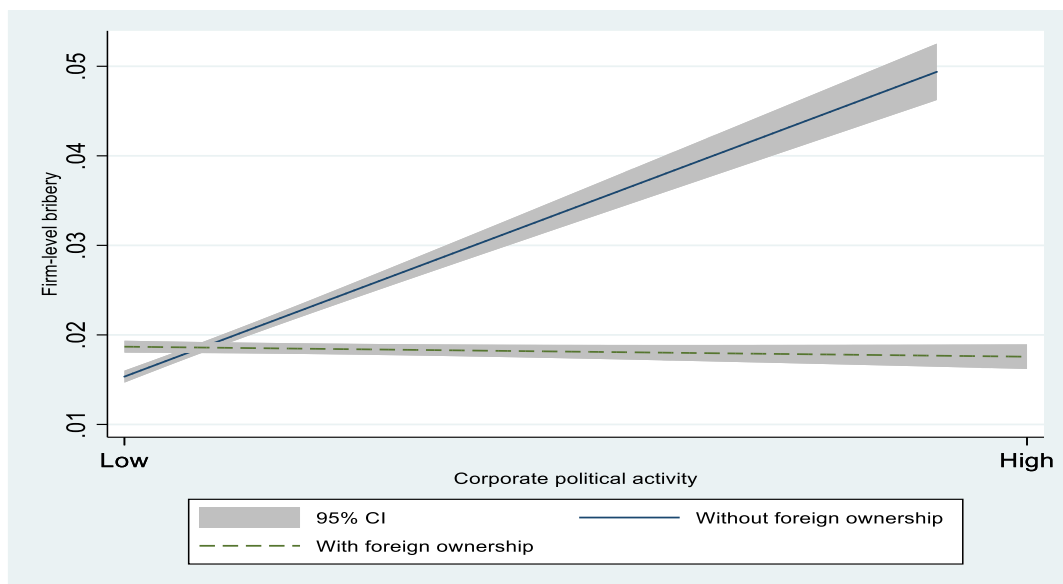


Fig. 3 CPA-bribery relationship moderated by foreign ownership.