

Multinational Investment in Corrupt Environments through Social Brokers: The Good, the Bad, and the Ugly

Jose Godinez

University of Massachusetts, Lowell, USA

Mahmoud Khalik

University of St Andrews, UK

Luis Javier Sanchez-Barrios

Universidad del Norte, Colombia

Abstract

Western multinationals investing in highly corrupt regions often depend on intermediaries to navigate local complexities. This article introduces “social brokers” — individuals or firms with social legitimacy who help foreign companies gain acceptance and access in such environments. We categorize social brokers into three types: the good, the bad, and the ugly, based on their formality, uncertainty of outcomes, and costs. We also offer governance recommendations for managers and policymakers to reduce corruption risks. Additionally, we highlight how Western firms can actively contribute to improving governance — an often overlooked component of the Environmental, Social, and Governance (ESG) framework.

Introduction

ESG is a framework that stands for environmental, social, and governance, and is utilized to assess an organization's performance and business practices on sustainability and ethical issues. Extant literature emphasizes the significance in addressing ESG concerns, highlighting its role in identifying key business-relevant issues and focusing on sustainability. However, amid the complex landscape of sustainability, where environmental and social issues often take center stage, one fundamental

pillar remains crucial yet underappreciated — governance, the silent force that underpins the very framework of ESG. A strong governance system helps firms increase transparency and fosters industries' best practices. Governance refers to the framework of rules, policies, and practices that guide a company's management in an ethical, responsible, and transparent way. It encompasses the interactions between a company's leadership, board of directors, investors, and other stakeholders to whom it is accountable. Thus, a healthy and functional governance system that focuses on internal and external controls to maintain compliance is necessary for a company to fulfill its responsibilities to various sets of stakeholders.

Western multinational firms struggle with implementing proper governance mechanisms because they navigate more complex environments compared to purely domestic companies. Western multinationals are significantly influenced by the policies and conditions of the host markets in which they operate. In our article, we explore how Western multinationals can create robust governance policies to deal with corruption in foreign locations. We follow this approach since most analyses dealing with corruption focus on its causes or consequences but rarely on what firms can do to fight this problem. We carried out this research because despite the need for strong governance systems, many Western multinationals have relaxed their organizational controls designed to prevent participation in corruption abroad. Indeed, the erosion of anti-corruption measures has increased significantly since the COVID-19 pandemic and because of a recent pause on anti-corruption law enforcement by the United States government.¹ However, corruption matters, and some of its consequences to the wider society include slow economic growth, impediments to development, destabilization of governments, and erosion of democracy.² Likewise, Transparency International, a leading anti-corruption NGO, argues that participation in corruption increases poverty and social divisions while aggravating the environmental crisis.³

Due to higher global interconnectedness and freer flow of capital and ideas, corruption has increasingly spread internationally. This means that Western multinationals have become more dependent on a wide network of suppliers, distributors, customers, and governments, which has increased the opportunities for individuals or groups to obtain advantages from illegal payments and incentives. Thus, due to its negative consequences, several governments and non-governmental organizations have intensified their efforts to combat corruption abroad. Nevertheless, the response from many Western multinationals to laws against corruption abroad was not to create strong governance systems to avoid engaging in this activity, but to externalize corruption by utilizing third parties to carry out their corrupt

biddings.³ By doing this, Western multinationals created the appearance of abiding by laws and regulations in their home country while still participating in corruption abroad. Accordingly, legislation explicitly made firms liable for engagement in corruption abroad involving third parties. Despite efforts to curb corruption instances involving a local third party, this is still a common practice, with the Securities and Exchange Commission (SEC) issuing at least \$2.013 billion in fines to firms for violating the US FCPA since 2020.⁴ This raises the question of how firms are circumventing the anti-corruption laws and conventions, and most importantly, what governance systems should be put in place to prevent this?

The existing literature clearly outlines the static causes and effects of corruption, but offers less insight into how this dynamic process unfolds, which is a reality that Western Multinationals often face in more corrupt host countries. To remedy this shortcoming, we argue that some Western multinationals are circumventing anti-corruption laws with the help of Social Brokers⁵ and present guidance on how to deal with this problem. Social brokers are intermediaries that include individuals, public relations agents, consultants, as well as law and accounting firms who facilitate connections between Western multinationals and local firms prepared to engage in corruption on behalf of the multinationals. This arrangement allows the Western multinationals to benefit from corruption in the host country without directly participating in corrupt deals themselves. We conducted our analysis and derived our recommendations from informal interviews with key informants to explore how Western multinationals engage in corruption in emerging markets through intermediaries. Specifically, we relied on six participants who provided accounts of their experiences, helping to uncover the processes and mechanisms through which corruption unfolds.

Social brokers can either support or threaten Western multinationals sustainability, depending on their nature, either good, bad, or ugly. Formal social brokers (the good) provide reliable outcomes and should be encouraged through strong governance systems, whereas informal (the bad) or unethical (the ugly) social brokers pose risks that could undermine corporate sustainability. Effective governance should acknowledge and prevent the use of harmful intermediaries. While ESG remains a work in progress, our proposed governance framework enables Western multinationals to engage with trusted intermediaries, reducing corruption risks while strengthening environmental and social responsibility. Additionally, our recommendations benefit expatriates in developing countries by enhancing their awareness of different types of social brokers, helping them navigate business transactions ethically and confidently. This awareness fosters better decision-making, ultimately reinforcing

multinational governance and ethical practices. Overall, this research highlights the governance component of ESG within international business, promoting sustainable operations in emerging markets.

ESG

ESG began as an effort to incorporate environmental, social, and governance factors into investment decisions. However, it has evolved beyond the financial sector, influencing political discourse and becoming a contentious yet often unclear concept in business and society. The ESG literature merges various related terms, resulting in a complex and ambiguous discourse. This has led to an indistinct concept that can be molded to support a wide range of agendas. Although ESG became part of the business vocabulary only in the past two decades, its underlying principles have existed for much longer through concepts like corporate social responsibility (CSR) and socially responsible investment (SRI). However, ESG's most significant shift has been reframing CSR and responsible investment from an ethics-driven approach, rooted in the moral obligations of businesses and investors, to a performance-driven perspective focused on financial outcomes. This transformation has integrated CSR into the language of investors, who increasingly take into account information related with sustainable practices when investing on publicly listed companies.⁶

Amid the complexities of sustainability, where environmental and social issues often take center stage, governance remains a crucial yet often overlooked pillar—serving as the backbone of ESG. Governance refers to the framework of rules, policies, and practices that ensure a company is managed responsibly, ethically, and transparently. It defines the relationship between a company's management, board of directors, investors, and other stakeholders to whom it is accountable. As a fundamental component of ESG, governance not only constitutes one-third of the framework but also serves as the foundation for achieving all ESG objectives. Every failure to uphold environmental or social commitments can often be traced back to governance shortcomings, whether in the form of weak anti-corruption policies, misaligned incentives, contradictory lobbying efforts, inadequate board oversight, or unprepared leadership. Ultimately, strong governance is essential to the ESG agenda and neglecting it can significantly hinder a company's sustainability efforts.⁷

Integrating governance practices with ESG principles is becoming standard practice, but effective governance extends beyond mere compliance. Boards must balance regulatory adherence with performance, prioritizing organizational growth through strategic planning and policy

development. Clearly defining the board's role in relation to management is key to fostering a strong and effective board-management dynamic. Additionally, creating a strong governance is not an easy task if a firm has operations in several different locations.

Western multinational firms are often criticized for neglecting social responsibility. For instance, Zhang and So in 2024 provide evidence that multinational firms face fines or operational suspensions due to their failure to disclose social and environmental risks or for causing environmental harm in host countries.⁸ Recognizing these concerns, recent research has proposed policy recommendations to enhance the social performance of Western multinational firms. Such concerns are derived from the argument that once a western firm becomes a multinational their social performance often deteriorates, especially if a firm internationalizes to a location with weaker ethical expectations than those of their home country. One reason for this phenomenon is that multinationals face more complex issues compared to domestic firms. Indeed, host markets exert significant influence over multinational practices, creating challenges that purely domestic firms do not encounter.⁹ Thus, unlike local businesses, that are only accountable to their home country's expectations, multinationals must engage with diverse stakeholders across multiple countries. This means that what might be considered appropriate in one location may be deemed inappropriate in another. As a result, policy formulation and implementation should consider the perspectives of the host countries in which these firms operate. Nevertheless, there is a difference between adapting to local cultures and expectations and participating in downright illegal activities. In our article, we argue that Western multinational firms need a strong governance to avoid engaging in corruption abroad even if corrupt acts are accepted or expected.

Corruption

Corruption, usually defined as the abuse of public power for personal gain, can be found in locations with a weak rule of law where government officials have an incentive to ask for a bribe and those in charge of businesses have incentives to provide one.⁸ From a theoretical standpoint, corruption can be viewed as a governance issue since it involves unrecorded or undocumented transactions. Scholars relying on agency theory propose that corruption can be understood as a scenario where a public official (the agent) acts against the interests of the public service recipient (the principal).¹⁰ However, the principal faces significant challenges in detecting or preventing this misuse of public office for personal gain due to high monitoring costs. Corrupt practices include bribery, kickbacks from public procurement, embezzlement, nepotism, and the allocation of civil service jobs, among

others. Corruption is widely recognized as an obstacle to social development as it is linked to slow economic growth, weak law enforcement, inadequate public services, and negative effects on social morality.¹¹ On an individual level, corruption diminishes personal subjective well-being across countries by eroding social cohesion and increasing frustration.¹¹ While some degree of corruption can be found in any country, it is in developing and emerging markets where this issue is more prevalent.¹² In locations considering developing or emerging, corruption poses a significant barrier to economic stability and social progress, as it disrupts development by compromising the rule of law and weakening the institutional structures essential for economic growth. In these locations, corruption leads to reduced investment and slower economic expansion, diminished foreign direct investment, and lower company stock values. Context is, however, key to understanding the impact of sustainable practices on stock performance.

Participation in corruption is a serious problem that needs attention as the costs of participation in this illicit activity have significant negative consequences on shareholders, as well as other stakeholders in society. Engaging in corrupt acts abroad also results in serious consequences for firms. The most obvious effect of corruption on firms is that it increases operational costs due to the frequent bribes paid. Additionally, once a foreign firm has paid a bribe, there is no assurance that the service promised will be delivered or that additional bribes will not be requested, which increases the uncertainty of operating in an already volatile location.¹³ However, one of the most important consequences for firms that engage in corrupt activities is their reputational damage. Recent international bribery scandals such as those of Airbus,¹⁴ Drummond Company,¹⁵ and Wal-Mart,¹⁶ to name a few, remind us of the long-lasting corporate reputation damage that accompanies participation in corruption.

Intermediaries and Corruption

Western multinationals entering locations with relatively high corruption levels face two distinct pressures: pressures from their home country's stakeholders to not engage in corruption abroad, and pressures in the host country by local agents to engage in corruption. The problem is that some Western Multinationals try to solve this tension by establishing working relations with local firms or individuals who help them navigate local expectations, which can include helping with indirect engagement in corruption. Intermediary agents can facilitate corruption by acting as guarantors between clients and bureaucrats. Corrupt transactions involve significant costs, such as finding partners, negotiating contract terms, and ensuring compliance. Intermediaries help reduce these costs by offering

clients insights into a bureaucrat's reliability in delivering the desired service.¹⁷ Since bribed officials may fail to fulfill their promises due to either incompetence or unwillingness, intermediaries with established credibility and knowledge of the bureaucrat's trustworthiness become crucial. Unlike the bureaucrat providing the illicit service, an intermediary can publicly demonstrate a history of successful deals, reinforcing their reputation. Their ongoing relationship with the bureaucrat can also encourage the cooperation in completing corrupt exchanges.

Since Western multinationals are increasingly relying on intermediaries to indirectly participate in corruption abroad, appropriate governance systems are important to decrease this practice. However, the need for proper governance systems is more pressing for Western multinationals, since they face greater scrutiny at home. Also, Western multinationals are increasingly relying on multiple businesses operating in locations with high corruption levels along their value chain. Indeed, in their most recent Global Integrity Report, Ernst & Young surveyed 4,752 managers and concluded that an important consequence of the COVID-19 pandemic is the heightened pressure that managers of Western multinationals face to relax normal vetting processes that govern third-party relations. Specifically, this report highlights that 18% of surveyed multinational board members are prepared to mislead external auditors and authorities, 42% agree that senior-level unethical behavior is tolerated, and only 28% of respondents were confident that third parties abide by relevant laws and regulations.¹⁸

The aforementioned business surveys and anecdotal reports suggest that intermediary agents contribute to rising corruption in developing countries. However, despite growing concern among businesspeople, policymakers, and the general public, understanding intermediary-aided corruption abroad and hence, identifying possible solutions to that issue, has received limited attention until now. This is the aim of our paper.

Method

Due to the nature of this topic, we utilized an interview study, whereby we drew on informal interviews undertaken with key informants. Informal interviews foster low-pressure interactions and allow respondents to speak more openly and freely.¹⁹ This is particularly important when the topic at hand is complex and delicate. Informal interviews can help build rapport and gain respondent trust as well as their thoughtful insights on a particular topic.²⁰ The aim of the informal interviews was to gain an initial understanding about the role individuals can play in emerging markets, which aid the interests of Western Multinationals. Little is known about the dynamic processes that unfold when operating in emerging markets due to

the high reliance on informal institutions to carry out operations in such locations. Hence, our aim was to understand the process by which Western multinationals engage in corruption in emerging markets through informal interviews with 6 actors, who helped us understand the rules of the game that unfold. Interview participants were asked to describe their experiences and the key events that have taken place in their country.

The intent of our analysis was to identify and understand how Western multinationals operate in emerging markets through intermediaries, and to uncover how corruption unfolds and what can be done to prevent this from happening. The literature is clear on the static causes and consequences of corruption, but less so on the unraveling of this dynamic process. The aim of our analysis was to uncover emerging themes inductively about the complex nature taking place in volatile environments. This is essential to expand the understanding of corruption as a topic and to uncover recommendations for creating governance systems aimed at combating and alleviating participation in corruption abroad with the aid of intermediaries. While we acknowledge that the limited number of interviews and small sample of primary interviews in various emerging markets impacts the generalizability of our inferences, we consider this limitation to be acceptable as it is an important step to unearthing the dynamic nature of corruption and starting the discussion on a relevant yet unexplored topic that impacts Western Multinationals' sustainability in different contexts.

Results

Social Brokers

While expanding our research in several developing and emerging countries, we confirmed that many Western multinationals doing business in these locations circumvent anti-corruption regulations by using intermediaries who help them find local firms willing to help through corrupt practices. We call these intermediaries 'social brokers', a term coined in a Columbia FDI Perspectives publication.²¹ Such intermediaries include individuals, public relations agents, consultants, and law and accounting firms, among others, who do not directly form a partnership with multinationals but instead help them find local firms willing to form a partnership. These local firms deal with social brokers and are ready to engage in corruption to benefit the Western multinational, making it unnecessary for Western multinationals to directly craft a deal with the local firms.

During our informal interviews, we had the opportunity to discuss the idea of social brokers with several businesspeople responsible for the operations of Western multinationals doing business in emerging and

developing countries. One of them, a manager of a US multinational operating in Costa Rica (interviewee 1), was very candid when arguing that: “The issue is that the way in which corruption usually happens is through a delegation in the value chain of illicit practices. So, it is never the multinational that is going to pay a bribe directly. You are going to hire a small consultant to find you a supplier, a partner that would do the deed and you just need to add a surcharge in the payment to this partner.” We also discussed the idea of social brokers with experts in the global fight against corruption. When we asked Alonso Cerdan (interviewee 2), Open Government Partnership Director and Regional Lead for the Americas, he argued that “foreign companies are utilizing sophisticated personal networks to find willing partners to carry out corrupt practices for their own benefit to circumvent anti-corruption legislation.”

During an interview with a consultant based in Miami (interviewee 3) we were able to understand how this individual helped a Western multinational find a local company in Guatemala to form a joint venture in order to secure a government contract in exchange for a substantial fee. In this case, the local firm would directly pay bribes to the local government, and the arrangement would give the Western multinational enough distance from home-country regulators to not be directly implicated in corruption abroad. When we asked the business consultant about the deal he had just made, the answer was unequivocal: That is how business is done. He then went on to say that his role is to create and nurture relationships with different kinds of businesses in different locations so that he can be prepared to pair them with appropriate partners in the future when they need to circumvent legislation that includes anti-corruption norms and rules. Of course, his services are not free, and he said that he could make up to 15% of the total of the deal. He then went further and explained that the high commission he charged was justified because his clients expect secrecy and reliability regarding his role.

We continued our research and confirmed that Western multinationals, in many cases, not only utilize intermediaries that help them set up partnerships with local businesses in developing countries, but that these intermediaries help the Western firm engage in corruption indirectly. In another instance, we talked with a Turkish businessperson (interviewee 4) who said that at the beginning of the COVID-19 pandemic, he learned that many Canadian multinationals were desperate to find manufacturing firms that could produce industrial articles previously manufactured in China. The reason for the sudden change in suppliers was due to the complete shutdown of Chinese firms due to the pandemic. Since the Turkish businessperson had contacts in Turkey and Canada, he contacted the Canadian multinationals and the local firms to start operations immediately. Due to the urgency of the

deal, local Turkish firms had to bribe several local officials to expedite official approvals; this was done with the full knowledge of the multinationals, but without their direct involvement. For his services, the local Turkish businessperson received compensation from the Canadian firms, which was funneled through the local firms. We argue that not all Social Brokers are detrimental for Western multinationals. For that reason, we divided them into three categories, the good, the bad, and the ugly.

The good are individuals or groups who have registered their businesses and have all the required licenses and permits to operate in a given location, and their main activities are related to providing consultancy services for Western multinationals. These social brokers can be located in the country where the multinational is headquartered or in the country where the multinational needs a local partner, and their services are billed as consulting. These firms provide legal services to the Western multinational to properly operate in a location characterized by high corruption.

The bad are also firms that have their business registered in the host location and have a list of contacts in the local market. They often put the foreign companies in touch with a local firm that is not only a suitable business partner, but also one that can cut through the red tape and even participate in corrupt deals to benefit the Western firm. These social brokers know whom to bribe or who can do this on the Western firm's behalf and, as a result, they take a percentage of the illicit deal.

The ugly are informal social brokers who can reside in the formal economy but operate informally – without registering their social broker services with the authorities. These social brokers are mainly found in developing countries and may be part of legal and registered law or accounting firms, or could be part of a business, but they operate as individuals who network and accumulate contacts rather than as representatives of their businesses. These individuals do not utilize offices for their dealings but hold their meetings in public places such as restaurants and cafes to put foreign companies in touch with local companies to help them participate in corrupt deals. These social brokers also take a percentage of the corrupt deals.

As shown in Table 1, the use of registered consultancy firms (the good) as social brokers entails the lowest uncertainty for multinationals. They operate under clear contract terms with third parties and hence, fees are agreed, and multinationals can benchmark them against the usual fees charged by similar brokers in the market. This not only reduces outcome uncertainty, but also in case the broker does not deliver, multinationals can openly and transparently negotiate clauses that minimize marginal expenses. In

contrast, the bad and the ugly operate under informal conditions that lead to uncertain outcomes and potentially to high marginal expenses.

We acknowledge that Western multinationals investing in foreign locations need intermediaries to help with a myriad of issues that the multinational cannot solve on its own. However, we strongly recommend multinationals utilize registered and legitimate (“good”) social brokers to decrease the possibility of third-party participation in corruption. In contrast, “bad” and “ugly” social brokers exhibit low ethical standards and levels formality when interacting with multinationals. This is because social brokers classed as “the bad” rely partly on business networks, which, depending on context conditions of the host country, might prevent them from not delivering, yet outcome uncertainty is still present given their informal nature. Finally, “ugly” social brokers are the least formal as they rely on individual contacts that transcend formal business settings and therefore anything could happen in terms of outcomes. Ultimately, informal social brokers involve marginal expenses related not only to known discretionary fees that could easily exceed the initial agreed fees due to informality, but also unknown (in advance) expenses related to potential fines and various types of financial risks. Therefore, due to the high level of uncertainty alone, Western multinationals should restrain from using this kind of social brokers.

Table 1. Characterizing types of social brokers

Social Broker	Degree of Formality	Outcome Uncertainty	Marginal Expenses
Good	High	Low	Standard market rates/fees
Bad	Low	High	High (discretionary fees+ potential fines+ financial risks)
Ugly	Lowest	Highest	

Dealing with Social Brokers Governance Recommendations

Strengthen internal controls and increase traceability in services provided by external firms

The first step for a firm to create an internal governance system in which social brokers are not used to circumvent anti-corruption requirements is for Western multinationals to keep records of their meetings with potential local partners as well as the steps taken to generate the first contact with them, and the specifics regarding the services they are looking for these partners to provide. If firms follow these recommendations, they will likely utilize formal and recognized social brokers, which would decrease their chances of

participating in corrupt deals abroad. Likewise, these practices also enhance sharing best practices at different levels while improving knowledge transfer in support of long-term sustainability of Western multinationals.

Effective anti-corruption internal controls are built on several key elements that work together to create a culture of integrity and accountability. First, the "tone at the top" is critical. This means that senior management must demonstrate a clear commitment to rejecting corruption and actively promote ethical behavior. This is supported by a comprehensive Code of Conduct and Anti-Corruption Policy that clearly defines bribery and corruption, setting firm guidelines on gifts, hospitality, charitable donations, and political contributions. Risk assessment plays a vital role through regular evaluations of corruption vulnerabilities across markets, industries, and third-party relationships. Robust third-party due diligence processes are essential to vet and monitor suppliers, agents, consultants, and partners, making sure to utilize only formal social brokers to ensure ethical practices. Financial controls, including proper documentation, approval processes, segregation of duties, and reconciliations, help safeguard against fraudulent activities. Regular training and open communication ensure employees understand anti-bribery laws, corporate policies, and how to safely report concerns through whistleblower channels. Monitoring and auditing systems identify red flags and drive continuous improvement by learning from audit findings and emerging risks. Finally, strict enforcement and disciplinary measures, with clear consequences for violations and prompt investigations of allegations, reinforce the organization's commitment to a zero-tolerance stance against corruption. On a more micro-level, Western multinational managers and expatriates operating in emerging markets can significantly enhance their effectiveness by gaining a clear understanding of the various types of social brokers present in these markets. With robust anti-corruption internal controls in place, they can easily identify which brokers to engage with and which to avoid, minimizing the risk of encountering corruption and unethical practices. This increased awareness not only protects the multinational's reputation but also could contribute to reduced stress and improved wellbeing for managers and expatriates as they are able to navigate the complexities of the market with greater confidence.

Strengthen external controls on transactions with firms along the value chain

Western Multinationals subject to anti-bribery legislation abroad are aware of their limitations in utilizing a local firm to participate in corruption indirectly, and so they can be tempted to make deals with 'social brokers' who could arrange the terms of illicit partnerships between themselves and

a local firm. By doing this, Western multinationals can claim plausible deniability since they never made an agreement to directly participate in corruption abroad. Nevertheless, if Western multinationals are serious about enacting a strong governance system to avoid engagement in corruption, besides having strong internal controls, they should also create external controls. External controls in this context includes inviting home-country governmental oversight, independent audits, and citizen participation, to minimize temptation to utilize social brokers to indirectly participate in corruption. Also, Western firms should make transparent all formal deals made with formal consultants, lawyers, and accounting firms (formal) that could serve as social brokers and avoid informal individuals promising to help them circumvent existing laws and regulations.

External controls for anti-corruption are mechanisms outside a company that help prevent, detect, or punish bribery and corruption by acting as independent checks on corporate behavior. These controls include laws and regulations, such as the U.S. Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, the OECD Anti-Bribery Convention, and various local laws, which impose criminal, civil, and financial penalties for corrupt practices. Thus, Government enforcement agencies from the Western Multinational home country, including prosecutors and regulators, should conduct investigations and impose sanctions. Industry standards like ISO 37001, the UN Global Compact, and the World Economic Forum's PACI Principles also offer voluntary frameworks for Western Multinationals to strengthen their anti-bribery programs. External auditors, through independent annual audits, help detect fraud and assess the effectiveness of financial controls. Market pressures, including shareholder activism, ESG ratings, and stock exchange requirements, encourage firms to prioritize ethical conduct to maintain their reputation and value. Whistleblower channels, such as the SEC Whistleblower Program and NGO hotlines, can also provide secure ways for insiders or outsiders to report misconduct. Public disclosure rules requiring transparency around political contributions, lobbying, and donations further deter secret bribery. Finally, media and civil society, through investigative journalism and NGO efforts, expose corrupt practices and force companies to be accountable to the public. Thus, Western multinationals engaging with strong external controls on transactions can also promote the use of "the good" social brokers instead of "the bad" and "the ugly."

Strengthen institutional relations by collaborating with external stakeholders

While we believe that those in charge of firms should be proactive in creating effective governance systems to avoid participation in corruption, we acknowledge that rooting out corruption is a difficult endeavor that needs collaboration between firms, governments and civil society. This sentiment is echoed by Christoph Kowalewski, a Germany-based compliance and integrity consultant with experience working in Transparency International and PWC, who points out that Western multinationals keep engaging in corruption in developing countries because they take advantage of the lack of external pressures from local stakeholders to not engage in corruption, lax compliance programs, and the lack of requirements to disclose the services provided by external accountants, lawyers, and consultants. Local governments should strengthen their local associations, such as their chambers of commerce, where legitimate consultants can advertise their services that can then be verified by law enforcement and civil society at large from both the home and host countries. Western multinationals could also benefit from information on the various types of social brokers shared among institutional actors (e.g. embassies, departments of commerce, tax authorities, and in general, regulators) in home and host countries.

Develop a long-term financial mindset instead of maximizing profits in the short-term

Decision makers at all levels in multinationals should reflect the long-term effects of using “the ugly” and “the bad”. This goes beyond the motivation of solely generating short-term gains at all costs, after accounting for bribes as operational expenses in the Profit and Loss Statement or even accounting for provisions or contingent liabilities as per the situation.²² They should also consider the potential impact of being held accountable for corrupt practices, including potential fines, such as the \$2.013 billion imposed to firms for violating the US FCPA since 2020,⁴ discontinued operations, and the deterioration of shares’ values of Publicly Listed Companies, among others. Under a prudent mindset, such events should exceed the lost marginal income resulting, for instance, from new business deals and cost savings if Western multinationals do not engage in corrupt practices.

We believe that these recommendations reduce information asymmetry that might result from using “the bad” and “the ugly”. Likewise, they promote the implementation of managerial governance adaptations in the interaction between multinationals and Global Value Chains (GVCs) at the intra-firm, inter-firm, and at a broader level.²³ Moreover, they allow multinationals operating in emerging and established markets to be strategically agile in

terms of sensing local opportunities; enacting global complementarities; and appropriating local value more efficiently.²³

Closing Remarks

This article is one of the first attempts to unpack the dynamic process of corruption through a special kind of intermediaries, social brokers, while also presenting a possible solution to this problem. Social brokers can present either opportunities or threats to Western multinationals in terms of sustainability. Formal social brokers are ideal as using them entails less uncertainty in terms of outcomes for multinationals without compromising their sustainability. Strong governance systems should promote their use. In contrast, relying on bad/ugly informal social brokers could negatively impact multinationals to such an extent that unforeseen results could compromise their sustainability. In-context and adequate governance systems should acknowledge them and prevent their use. We acknowledge that ESG is a work in progress and firms need time and effort to develop sound programs in each of its three aspects. However, the governance system we propose allows Western multinationals and expatriates entering emerging and developing countries to rely on trusted intermediaries to carry out operations while minimizing engagement in corruption. This article should help firms further develop their environmental and social responsibilities. This should also result in lower avoidable expenses related with corruption and hence, benefit Western multinationals' financial sustainability in the long term.

Also, our four recommendations are beneficial for expatriates working in developing countries as they enable them to be aware of the three types of social brokers. Our recommendations help those in charge of local subsidiaries navigate their way in developing countries with more confidence and less stress by being aware of the viable choices that are more ethical and sustainable when conducting business transactions. Managers and Expatriates that are well informed of the three types of social brokers will be able make more ethical decisions that therefore strengthen a multinationals governance and practices in developing countries. Overall, this research avenue sheds light on the governance aspect of the ESG framework in the world of international business.

Authors

Jose R. Godinez (PhD, University of Edinburgh) is the Richard and Nancy Donahue Faculty Research Fellow in Business Ethics and Corporate Social Responsibility and Associate Professor of Management at the Robert J. Manning School of Business at the University of Massachusetts Lowell. His work lies at the intersection of strategy, international business, entrepreneurship, and business ethics disciplines, and he

focuses on strategies for firms to operate ethically in locations characterized by high corruption levels. His articles have been published in such journals as Harvard Business Review, International Business Review, Journal of Business Ethics, Journal of International Business Policy, and Journal of International Management.

email: jose_godinez@uml.edu

Mahmoud Khalik, PhD, MSc, MA (Hons), FHEA, TEFL is a Lecturer in International Business and Management at the University of St Andrews Business School. Dr Khalik currently serves as the Director of Teaching (DoT) for the Department of Management at the University of St Andrews Business School. He holds a PhD in International Business and Management from The University of Edinburgh. Dr Khalik's research interests are Firm Internationalisation from Developed Countries and Emerging Markets, Formal and Informal Lending to Informal Entrepreneurs and Migrants at the Base of the Pyramid (BoP) in Emerging Markets, and Corruption and FDI in Emerging Markets. Dr Khalik has presented at International Conferences, such as the Academy of Management (AoM) and the Academy of International Business (AIB). He has published his research in outlets such as Journal of International Management, International Journal of Entrepreneurship and Small Business, The Service Industries Journal, and Columbia FDI Perspectives.

email: mafak@st-andrews.ac.uk

Luis Javier Sanchez-Barrios, PhD, MSc, MBA, BSc Eng, is an Associate Professor in Accounting and Finance at Universidad del Norte Business School. Previously he served as Interim Dean, Assistant Dean for Academic Affairs, and Head of Department at Universidad del Norte Business School. He holds a PhD in Management (Credit Scoring) from The University of Edinburgh. His research interests are BoP and SME Finance in Emerging Markets, Scoring Models in Emerging Markets, and Corruption and FDI in Emerging Markets. He has published his research in outlets such as International Journal of Entrepreneurship and Small Business, the International Review of Economics and Finance, Journal of Services Marketing, and the European Journal of Operational Research.

email: lsanchez@uninorte.edu.co

Endnotes

1. White House. (2025, February 10). *Pausing Foreign Corrupt Practices Act enforcement to further American economic and national security* [Press Release].
2. Godinez, J., & Liu, L. (2018). Corruption and its effects on FDI: Analysing the interaction between the corruption levels of the home and host countries and its effects at the decision-making level. *Journal of Business Ethics*, 147, 705-719.
3. Transparency International. (2025). What is corruption? [Organization website]. *Transparency International*.
4. U.S. Securities and Exchange Commission. (2023, September 13). Foreign Corrupt Practices Act (FCPA) [Organization website]. *U.S. Securities and Exchange Commission*.

Multinational Investment in Corrupt Environments

5. Godinez, J., & Khalik, M. (2023). *Corruption and FDI: The role of social brokers* (Columbia FDI Perspectives No. 349). New York, NY: Columbia University, Columbia Center on Sustainable Investment (CCSI).
6. Durand, R., Paugam, L., & Stolowy, H. (2019). Do investors actually value sustainability indices? Replication, development, and new evidence on CSR visibility. *Strategic Management Journal*, 40, 1471-1490.
7. Buchholz, L. (2023, July 7). Governance: The overlooked foundation of ESG success. *Sustainability Magazine*.
8. Zhang, J. F., & So, J. Y. (2024). The effect of corruption exposure on the ESG performance of multinational firm. *Pacific-Basin Finance Journal*, 86, 102433.
9. Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24, 64-81.
10. Cuervo-Cazurra, A. (2016). Corruption in international business. *Journal of World Business*, 51, 35-49.
11. Nye, J. (1967). Corruption and political development: A cost-benefit analysis. *The American Political Science Review*, 61, 417-427.
12. Anderson, T. (2016). A global examination of the relationship between corruption and well-being and happiness. *Journal of Politics and Democratization*, 1, 1-22.
13. Doh, J., Rodriguez, P., Uhlenbruck, K., Collins, J., & Eden, L. (2003). Coping with corruption in foreign markets. *Academy of Management Perspectives*, 17, 114-127.
14. Shepardson, D. (2023, July 28). US seeks to end 2020 Airbus criminal case over bribery, export controls. *Reuters*.
15. United States Attorney's Office Northern District of Alabama. (2021, May 28). *Appellate court affirms convictions of lawyer and coal company executive for bribing state legislator* [Press Release].
16. Bose, N. (2019, June 20). Walmart to pay \$282 million to settle seven-year global corruption probe. *Reuters*.
17. Lambsdorff, J. G. (2013). Corrupt intermediaries in international business transactions: Between make, buy and reform. *European Journal of Law and Economics*, 35, 349-366.
18. EY Global. (2024, June 6). *Global Integrity Report 2024. How can trust survive without integrity?*
19. Davis, L., & Brown, A. (2024). Advocating the use of informal conversations as a qualitative method at live events. *International Journal of Qualitative Methods*, 23.
20. Swain, J., & King, B. (2022). Using informal conversations in qualitative research. *International Journal of Qualitative Methods*, 21(3), 1-10.
21. IFRS Foundation. (2025). IAS 37 Provisions, contingent liabilities and contingent assets [Organization website]. *IFRS Foundation*.
22. Kano, L., Narula, R., & Surdu, I. (2022). Global value chain resilience: Understanding the impact of managerial governance adaptations. *California Management Review*, 64, 24-45.
23. Fourné, S. P. L., Jansen, J. J. P., & Mom, T. J. M. (2014). Strategic agility in MNEs: Managing tensions to capture opportunities across emerging and established markets. *California Management Review*, 56, 13-38.