

# **Influence of Corruption on Business Strategies**

## **- An explorative study of Swedish entrepreneurs in Tanzania**

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### **Abstract**

Limited amount of research has been done on how companies respond to corruption in developing countries apart from avoiding to entry. Even fewer studies concern strategies of international small and medium enterprises entering, for them unknown, African markets. The purpose of this thesis was to study the influence of host country corruption on business strategies of foreign companies both at the entry and post-entry stages, exemplified Swedish SMEs entering Tanzania.

In order to fulfill the purpose, a qualitative study was conducted where Swedish entrepreneurs doing business in Tanzania were interviewed. Their responses were compared to the results of the previous studies on corruption, after which differences and similarities were analyzed.

The main conclusion of the thesis is that it is possible for international entrepreneurs to successfully start and grow a business in a corrupt host country without taking part in corruption. Simply put, you have to make the decision to not be corrupt and never, under any circumstances, accept corrupt behavior. Taking part in corruption, even just once, you risk becoming a prisoner to it. In the study, a number of key strategies for avoiding corruption have been identified. For one, a local partner who has connections and knowledge of the market helps immensely. However, you have to put a significant amount of time and effort into the partner selection in order to ensure that the person shares your values and principles, including a negative attitude towards corruption. Other strategies that are effective against corruption is to spreading your investments, not outsourcing non-core activities, and performing micromanagement from upper management level.

*Keywords:* corruption, corruption distance, entry mode, partner selection, post-entry

# Table of Content

<b>1. INTRODUCTION.....</b>	<b>1</b>
1.1. Background .....	1
1.2. Definition of Corruption.....	2
1.3. Problem Discussion.....	2
1.4. Purpose .....	4
1.5. Research Questions.....	4
1.6. Contribution.....	5
1.7. Limitations.....	5
1.7.1. Regional Limitations .....	5
1.7.2. Retrospective Bias.....	5
1.7.3. Based on Trust.....	5
<b>2. THEORETICAL FRAME OF REFERENCE.....</b>	<b>6</b>
2.1. RQ1: How does corruption influence choice of Entry Mode when Establishing a Business? 6	
2.1.1. Political Corruption vs. Bureaucratic Corruption .....	6
2.1.1.1. Political Corruption .....	6
2.1.1.2. Bureaucratic Corruption .....	6
2.1.2. Grey Zones.....	7
2.1.2.1. Facilitation Payments .....	7
2.1.2.2. Marketing .....	7
2.1.2.3. Political Pressure.....	8
2.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery .....	8
2.1.4. Corruption Distance and the Choice between WOS and JV .....	9
2.1.5. Host Country Legal Environment and International JV Partner Selection.....	10
2.1.6. Corruption and administrative costs .....	13
2.1.6.1. Entry Approvals.....	13
2.1.6.2. Access to Land, Site Development, and Utility Connections.....	13
2.1.6.3. Operational requirements .....	13
2.2. RQ2: How does corruption influence business strategies at the post-entry stage? .....	14
2.2.1. Political Corruption vs. Bureaucratic Corruption .....	14
2.2.2. Grey Zones.....	14
2.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery .....	15
2.2.4. Companies' Response to Corrupt Actions of Competitors .....	15
2.2.5. Strategic Responses to Perceived Corruption in Emerging Markets .....	16
2.3. Summarizing the Theoretical Frame of Reference .....	19

<b>3. METHODOLOGY.....</b>	<b>21</b>
3.1. Literature Review .....	21
3.2. Research Design .....	21
3.2.1. Qualitative Approach .....	21
3.2.2. Exploratory Research .....	22
3.2.3. In-depth Interviews.....	22
3.2.4. Choice of the Participants.....	23
3.2.4.1. Anders Andersson.....	25
3.2.4.2. Sven Svensson .....	26
3.3. Data Collection.....	26
3.4. Data Analysis .....	27
3.5. Research Method Limitations .....	27
<b>4. EMPIRICAL DATA.....</b>	<b>29</b>
4.1. Anders Andersson .....	29
4.1.1. RQ1: How does corruption influence choice of entry mode when establishing a business?.....	29
4.1.1.1. Political Corruption vs. Bureaucratic Corruption.....	29
4.1.1.2. Grey Zones .....	30
4.1.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery	32
4.1.1.4. Corruption Distance and the Choice between WOS and JV .....	33
4.1.1.5. Host Country Legal Environment and International JV Partner Selection .....	34
4.1.1.6. Corruption and Administrative Costs .....	36
4.1.2. RQ2: How does corruption influence business strategies at the post-entry stage? .....	37
4.1.2.1. Political Corruption vs. Bureaucratic Corruption.....	37
4.1.2.2. Grey Zones .....	38
4.1.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery	39
4.1.2.4. Companies' Responses to the Corrupt Actions of the Competitors.....	39
4.1.2.5. Strategic Responses to Perceived Corruption.....	40
4.2. Sven Svensson .....	42
4.2.1. RQ1: How does corruption influence choice of entry mode when establishing a business?.....	42
4.2.1.1. Political Corruption vs. Bureaucratic Corruption.....	42
4.2.1.2. Grey Zones .....	43
4.2.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery	44
4.2.1.4. Corruption Distance and the Choice between WOS and JV .....	45
4.2.1.5. Host Country Legal Environment and International JV Partner Selection .....	46
4.2.1.6. Corruption and Administrative Costs .....	47

4.2.2. RQ2: How does corruption influence business strategies at the post-entry stage? .....	48
4.2.2.1. Political vs. Bureaucratic Corruption .....	48
4.2.2.2. Grey Zones .....	49
4.2.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery .....	49
4.2.2.4. Companies' Responses to Corrupt Actions of Competitors .....	50
4.2.2.5. Strategic Responses to Corruption.....	51
<b>5. ANALYSIS.....</b>	<b>53</b>
5.1. RQ1: How does corruption influence choice of entry mode when establishing a business?.....	53
5.1.1. Political vs. Bureaucratic Corruption.....	53
5.1.2. Grey Zones.....	54
5.1.3 Home Country Institutional Environment and Propensity to Engage into Bribery .....	55
5.1.4 Corruption Distance and the Choice between WOS and JV.....	56
5.1.5 Host-country Legal Environment and International JV Partner Selection.....	58
5.1.6. Corruption and Administrative Costs.....	59
5.2. RQ2: How does corruption influence business strategies at the post-entry stage? .....	60
5.2.1. Political vs. Bureaucratic Corruption.....	60
5.2.2. Grey Zones.....	61
5.2.3 Home Country Institutional Environment and Propensity to Engage into Bribery .....	61
5.2.4 Companies' Response to Corrupt Actions of Competitors .....	62
5.2.5. Strategic Responses to Corruption.....	63
<b>6. CONCLUSION.....</b>	<b>64</b>
6.1. RQ1: How does corruption influence choice of entry mode when establishing a business?.....	64
6.2. RQ2: How does corruption influence business strategies at the post-entry stage? .....	66
6.3. Managerial Implications.....	67
6.4. Concluding Remarks.....	67
6.5. Suggestions for Future Research .....	68
<b>REFERENCES.....</b>	<b>70</b>

## Appendices:

Appendix A – Interview Guide

# 1. INTRODUCTION

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*In this section of the thesis we discuss foreign direct investment (FDI) into developing countries in general and into Africa in particular. We also introduce the problem of corruption and its influence on business environment in emerging markets. The problem discussion leads to the purpose of this thesis and two main research questions also derive from it.*

## 1.1. Background

Companies today are more and more drawn to expand their businesses abroad in quest for lower costs, new opportunities and access to resources. In addition, those that are willing to enter new markets do not limit themselves just to developed countries: emerging country markets are becoming increasingly important grounds for the international business activities (Jansson, 2007). Succeeding in these markets, due to their large consumer population, fast economic growth, and increasing market openness, has become a priority for many multinational companies that are aiming for global leadership (Luo, 2011). Moreover, there is an increasing interest in the international activities of small and medium-sized firms that also enter developing markets (e.g., Andersson & Wictor, 2003; Javalgi & Todd, 2011). According to the United Nations World Investment Report (2012), foreign direct investment (FDI) into developing countries increased in 2011 by 11 percent and reached a record of US\$ 684 billion, which corresponds to 46 percent of global FDI that year. Moreover, the forecast of the UN Conference on Trade and Development (UNCTAD) says that these countries will maintain their high levels of investment over the next three years.

However, internationalization, despite the potential positive effects, is considered to be one of the most risky activities for a company (Bagelius, 2005). Risks are usually higher when entering markets characterized by high levels of uncertainty caused by cultural differences, poor infrastructure and institutions, political and social problems, and informal rules of the game that might contradict the law (Kinda, 2009; Daude & Stein, 2007). A good example of the latter would be corruption.

Extant literature suggests the existence of a negative correlation between FDI inflows and corruption (e.g., Mottaleb & Kalirajan, 2010; Javorcik & Wei, 2009), but there is limited evidence on how firms cope with corruption apart from avoiding entry (Uhlenbruck et al., 2006). However, there is a growing body of research that discusses how firms adapt to corrupt environments through the choice of appropriate entry mode (e.g., Doh et al., 2003; Rodriguez et al., 2005; Teixeira & Grande, 2012). Unfortunately most of the studies are done on the subsidiaries of big multinational companies and there are basically no studies on small and medium enterprises. In addition, the biggest part of the

literature about corruption discusses companies operating in Asia or Eastern Europe and none of the studies is focused on an African country or region.

## **1.2. Definition of Corruption**

Before moving on, it is important to have a clear definition of corruption. The definition we have chosen for the thesis is the definition given by Transparency International (2013a):

*“the abuse of entrusted power for private gain”*

Transparency International further discusses how corruption can be classified as grand, petty and political, depending on the amounts of money lost and the section in which the corruption occurs. Grand corruption is on governmental level where leaders for example distort the central functioning of the state in order to benefit at the expense of the public good. Petty corruption is everyday abuse of entrusted power to low- and mid-level public officials where they use their power to extort money from people trying to access basic goods or services. Political corruption is carried out by political decision makers who abuse their positions in order to sustain their power, status and wealth. While grand corruption and political corruption have some similarities, grand corruption is on higher level.

Furthermore, we realize that there is a difference between corruption that occurs between the governmental and private sector, and corruption that occurs only within the private sector. However, Transparency International do not even discuss private sector corruption on their web page. Generally, more corruption occurs in the governmental sector, and it is more of an issue because it is directly affecting tax payer money. In our thesis, we choose to include both and we do not focus specifically on either one of them. When we use the term corruption in our thesis, it can mean both governmental and private sector corruption.

## **1.3. Problem Discussion**

The volume of foreign direct investment that flows into Africa is very low as a share of the total global FDI flows and as a share of FDI flows into all developing countries (Wahid et al., 2005). Too often Africa has been associated only with pictures of civil unrest, starvation, deadly diseases and economic disorder, and this has given many investors a negative picture of Africa as a whole (UNCTAD Report, 1999). In addition, investors evaluate African countries as if the countries in the continent constitute one big country, not considering country-specific conditions (Asiedu, 2006).

According to the United Nations World Investment Report (2012), in 2008 FDI inflows into Africa reached almost US\$ 60 billion (3,2 percent of global FDI), and by 2011 it decreased till US\$ 42,5

billion (2,8 percent). However, the decrease is mostly linked to deterred investment in North Africa due to political instability.

Studies the past decade has emphasized that FDI in Sub-Saharan Africa tends to concentrate to a few countries that had an abundance of natural resources (e.g., Wahid et al., 2005; Asiedu, 2006): for example, Nigeria, Angola, South Africa, Ghana. In other word, FDI goes into oil-rich economies and leaves resource-poor countries with very small chances of attracting investment regardless of their policies. Also, FDI investments in natural resources driven industries seldom generates the positive spillovers (e.g., technological transfers, employment creation) associated with FDI (Asiedu, 2004).

Regarding determinants of FDI in Africa, research shows that large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system and investment framework promote FDI, and corruption and political instability have the opposite effect (Morris & Aziz, 2011). A decline in corruption from the level of Nigeria to that of South Africa has the same positive effect on FDI as increasing the share of fuels and minerals in exports by 35 percent (Asiedu, 2006).

Despite low investment inflows and, in the eyes of many businessmen, negative image of Africa, there are some indications that the situation might improve in the following years. African countries have taken steps to liberalize their economies that include FDI promotions, improvements in the legal and regulatory framework for FDI, removal of entry and foreign-owned restrictions and establishment of investment promotion agencies to publicize business opportunities (Morris & Aziz, 2011). Besides, Sub-Saharan Africa has started drawing FDI not only to its natural resources, but also to its emerging consumer markets (UN World Investment Report, 2012).

Before doing the actual foreign investment, it is important to consider the mode of entry. Ever since the beginning of international business research, one of the most important decisions in the process of internationalization has been the choice of entry mode (Morschett et. al 2010). Additionally, given the evidence of how corruption clearly affects the performance of MNCs choosing to invest in emerging markets, with disastrous situations as potential results, it is obvious that there is enormous importance of MNCs' choice of entry mode into said emerging market (Rashed, 2005).

Sharma and Erramilli (2004, p. 2) define entry mode as:

*“a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations).”*

In several high-quality studies it has been found that corruption affects the entry-mode for MNCs in the sense that they prefer non-equity modes or partnering rather than wholly-owned subsidiaries (Rodriguez et al., 2005; Uhlenbruck et al., 2006; Straub, 2008; Javorcik and Wei, 2009; Demirbag et al., 2010), but Demirbag et al (2010) discovered that in cases where there were historical and cultural ties between the home and host country the MNCs might prefer wholly-owned subsidiaries.

Many sources emphasize the importance of the entry mode choice for the companies involved in the process of internationalization (e.g., Morschett et al., 2010; Brouthers & Hennart, 2007). Those choices are costly and difficult to reverse or correct, and thus have long-term consequences for the firm and its performance (Hill et al., 1990; Rasheed, 2005; Pedersen et al., 2002). There are many different factors, both firm- and country specific, which were identified to affect entry mode: cultural distance, political risks, institutional characteristics, legal environment, competitive situation (Uhlenbruck et al., 2006; Morschett et al., 2010). However, not so many studies considered corruption as one of those factors. As Teixeira & Grande (2012) point out, a lot of literature on corruption and the entry mode choices of MNCs exist in isolation, however studies that explain in which ways host country corruption influences entry modes are scarce. Additionally, we have found very few studies (Søreide, 2006; Luo, 2011) that explore how companies, regardless if they are MNCs or SMEs, respond to corruption at the post-entry stage.

SMEs' entry modes in particular are very scarcely researched, as most studies focus on MNCs and discuss solutions that are only applicable for larger corporations with larger investment capabilities than SMEs. Thus, it would be interesting to delve into SMEs entries into corrupt countries, and compare studies that have investigated MNCs with SMEs and see if SMEs are capable to enter corrupt countries without either failing or turning corrupt.

#### **1.4. Purpose**

The purpose of this thesis is to study the influence of host country corruption on business strategies of foreign companies both at the entry and the post-entry stages through the example of Swedish SMEs in Tanzania.

#### **1.5. Research Questions**

In order to fulfill the purpose the following research questions have been formulated:

**RQ1:** How does corruption influence choice of entry mode when establishing a business?

**RQ2:** How does corruption influence business strategies at the post-entry stage?



## **1.6. Contribution**

Through an exploratory study that answers the purpose of this thesis, meaningful insights about Swedish entrepreneurs doing business in corrupt countries will be generated. As discussed earlier in this chapter, the subject of business strategies that allow coping with corruption is under-researched in general, and the sources on how corruption influences SMEs are even scarcer. Thus, it is an interesting and important subject to explore, since SMEs are much more vulnerable in the face of corruption. Especially compared to big multinational companies that have more financial resources and can exercise more influence.

In other words, we regard the research conducted on SMEs business strategies in corrupt countries as one of the main contributions of the thesis to the field of corruption studies. Moreover, there are only few of those studies that explore business strategies of companies in Africa even though there is a growing interest towards this continent in Sweden. For instance, the February 2013 issue of the magazine *DI Dimension* was dedicated to the African economic development. Thus, another important contribution of the thesis will be managerial implications that provides guidelines for entrepreneurs interested in doing business in corrupt East African countries.

Furthermore, as this is an explorative study, we believe that our study will both help through identifying issues that can be further examined during future qualitative studies, and through providing a basis for future quantitative studies. Thus, based on the results of our study we intend to suggest interesting areas for qualitative research and to develop hypotheses for quantitative studies.

## **1.7. Limitations**

### **1.7.1. Regional Limitations**

The study is done on one specific African country – Tanzania. However, corruption might be different from country to country and from region to region (Rodriguez et al., 2005). Hence, applying this study framework to the other regions would be a valuable direction for further research.

### **1.7.2. Retrospective Bias**

Part of the study, the questions addressing the entry-stage, refers to the past tense. In other words, the interviewees recall the events from their memory, in the way they remember them. Though none of them mentioned being hesitant or uncertain during the interviews.

### **1.7.3. Based on Trust**

We can only assume and trust that the participants were honest with us when claiming noninvolvement into corruption.

## 2. THEORETICAL FRAME OF REFERENCE

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*In this section of the thesis a theoretical frame of reference has been built from previous studies on corruption. The studies presented in this section will be used in order to form suitable theoretically motivated questions for the study. They are presented in two different sub-sections; 2.1 and 2.2. In the first sub-question studies regarding the first research question are presented and in the same manner the second research question is considered when explaining studies in the second sub-section. In the last sub-section, 2.3., we communicate how we inter-connect these studies together and to the theme of our thesis.*

### **2.1. RQ1: How does corruption influence choice of Entry Mode when Establishing a Business?**

#### **2.1.1. Political Corruption vs. Bureaucratic Corruption**

Texeira and Grande (2012) discuss corruption and how it is an integral part of many countries' governance. Corruption interferes directly with quality, institutional transparency and political stability. However, it is important to understand that corruption often has too broad of a definition. The dimensions can be affected by it in many ways. The authors chose to divide corruption into two different categories: *political corruption* and administrative, or *bureaucratic, corruption*.

##### **2.1.1.1. Political Corruption**

This type of corruption takes place when political decision-makers use the political authority that they have been entrusted with to sustain their power, status and wealth. As this type of corruption takes place on a high level in the political system, the impact generally is much stronger than bureaucratic corruption. Furthermore, political corruption is most often very pervasive and spread through-out a country's political instances.

##### **2.1.1.2. Bureaucratic Corruption**

While political corruption is high-level corruption, bureaucratic corruption is further down the hierarchy, often to the most remote local government public servant. Generally, bureaucratic corruption is reflected through the phenomenon commonly known as bribery; that is, when public officials accept or request payments into their own pockets in order for a private actor to receive a benefit or to avoid harm. Contrary to political corruption, bureaucratic corruption is often arbitrary and it is thus more difficult to know if and how officials act when approached by an organization.

### 2.1.2. Grey Zones

Søreide (2006) discusses the problem of defining corruption properly. Not only do the definitions of corruption vary in layman's language, but they also vary in legal terms. Furthermore, the forms of corruption differ, the consequences of corruption differ, and to add to that, the tolerance towards corruption often varies with circumstances. Complicating the situation further, there are many grey areas where the parties cannot even agree whether or not it is corruption. While the impact on public officials is very similar to corruption, the people involved might defend the practices stating that they are not corruption.

In a large survey Søreide investigated the main grey areas of corruption. Executives in seven large firms (of which three were on the Financial Times' 500 list of the largest companies) were interviewed, and executives in 82 firms headquartered in Norway together with 24 Norwegian embassies outside of the OECD region responded to a survey. Through the research, the authors found three areas where the judicial status of corruption is unclear; facilitation payments, marketing and political pressure.

#### 2.1.2.1. Facilitation Payments

These kinds of payments are basically small bribes paid to get things done, sometimes defined as petty corruption. Many companies have defended the need for facilitation payments in instances where they have had a lack of bargaining power. In many, if not most, cases, the payments are not being issued to manage to accomplish something that is against the law, but simply means in which to secure that what they already have the right to will happen. Transparency International refers to facilitation payments as "payments made to secure or expedite the performance of a routine or necessary action to which the payer of the facilitation payment has a legal or other entitlement".

Furthermore, there is a difference between active and passive bribes. An active bribe is when a firm offers a bribe where payments are not requested, while a passive bribe means acquiescing to a demand for a bribe. However, it is important to understand that the difference between these two can often be unclear as it can be difficult to assess whether or not a payment was requested; it might have been indirectly, not openly, requested.

#### 2.1.2.2. Marketing

Many firms in the study claimed that marketing targeted at specific individuals, where things such as expensive gifts and excursions were offered to improve informal relations with the potential client, were essential. Among the respondents in the survey, 26 percent had offered valuable tickets to clients while 36 percent had offered excursions. Furthermore, these kinds of practices are clearly more common in sectors perceived to be more exposed to corruption.

A problem is that the distinction between a gift and a bribe can be very small, and if a firm misinterprets the culture they may offer a gift that in fact is regarded as a bribe. In some cultures a gift can be as small as a cheap souvenir or chocolate, and anything above that will be regarded as a bribe. In that case, if something more valuable is offered, the firm is indirectly encouraging corruption and disturbing the local business culture.

#### **2.1.2.3. Political Pressure**

Contrary to facilitation payments, this is grand corruption. In the case of political pressure, the government of the seller may be involved to put pressure on the buying government. For example, if the Norwegian government is heavily involved in subsidies, export-credit deals or aids of some kind, then perhaps the buying government feels obliged, or threatened, to buy from the Norwegian firm.

The amount of political pressure varies between countries. While the Norwegian government does not help their domestic firms with much political pressure, another survey, The TI Bribe Payers Survey found that for example the U.S.A., France and the UK are particularly active. In fact, the Norwegian firms from Søreide's survey complained about disadvantages compared with other international companies due to the fact that they did not receive as much help from the Norwegian government in form of political pressure.

#### **2.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery**

In their paper Spencer and Gomez (2011) discuss the pressure that Multinational Companies' (MNCs') subsidiaries face to engage into bribery in corrupt host countries. They try to define the factors influencing the level of this pressure and how it might be affected by an MNC's strategic decisions. The propositions made are tested on two independent sets of data – database of survey responses from MNCs operating in East European countries and first-hand data collected among MNC subsidiaries in Ghana.

First, the authors link the Corruption Perception Index of home and host countries to the tendency of local bureaucrats to put pressure on firms to give bribes. They suggest that foreign subsidiaries tend to respond to corruption according to the MNC's home country institutional environment and norms. Moreover, violation of these norms can lead to negative publicity for an MNC and undermine its reputation worldwide. In other words, MNCs from less corrupt countries are more likely to refuse engaging in corrupt activities.

In addition to that the article proposes that local officials adjust their levels of pressure based on their estimation of the firm's most likely reaction. If a firm is known for uncorrupt behavior and unwillingness to make unofficial payments in order to get things done, it will receive far fewer

requests for bribery even in very corrupt countries. In case an MNC's attitude towards bribery is not well known externally, officials may rely on its home country's reputation for anticorruption norms. According to this logic if Sweden is ranked among the least corrupt countries in the world and has signed OECD Anti-Bribery Convention, Swedish companies abroad should experience much less pressure to engage into corrupt behavior.

However, according to Spencer and Gomez, there are certain strategies of MNCs that can weaken the positive influence of the home country reputation. For instance, in order to adapt to local conditions companies might cooperate with local partners whose behavior might be more in line with host country expectations and institutional environment. For instance, interviews with managers in Ghana showed that in case of MNCs from less corrupt countries it is usually their local partner that complies with illegal requests of government officials.

There is also an alternative explanation of the local partners involvement considered in the article: foreign companies might use them in order to outsource the corrupt activities. In this case though one would expect MNCs from less corrupt countries to use partnerships more often comparing to the companies from more corrupt countries. However, there is no such evidence in the study conducted by Spencer and Gomez: in the Ghana sample no differences appeared, and in the Eastern Europe sample the opposite was true. Thus there is no confirmation that MNCs use joint ventures or strategic alliances to get around anticorruption laws.

#### **2.1.4. Corruption Distance and the Choice between WOS and JV**

The article by Karhunen and Ledyeva (2012) examines the impact of corruption distance between companies' home and host countries on their entry mode choices. The aim of the study was to look at ownership strategies chosen by foreign firms, coming from countries with a low level of corruption, entering Russia, one of the world's most corrupt countries according to Transparency International.

The common opinion presented in the literature is that greater institutional distance, including corruption distance, makes companies more likely to choose Joint Venture (JV) over Wholly Owned Enterprise (WOS) when entering a new country. In an uncertain environment the local partner is considered to be a good source of reliable information about business culture and legislation. The traditional view is that a partnership with a local company in a developing country allows minimizing transaction costs associated with starting a new business.

However, P. Karhunen and S. Ledyeva address another study – the one by J.L. Duanmu (2011) – that provides evidence that the bigger the corruption distance between home countries and China as a host country, the bigger are the chances that an international firm will choose a WOS over a JV.

There are several explanations that could justify such a choice. First of all, resource-based view of strategy points out that firm-specific resources are very important for companies entering new markets and allow them successfully compete with local firms. However, it requires effective transfer of organizational capabilities to the foreign subsidiary, and this might be hard if distance in business norms and practices increases as a result of a JV with an external partner. Secondly, the choice of a WOS over a JV allows avoiding uncertainty regarding the costs of controlling a local partner's behavior. The control would be necessary since corrupt behavior of a partner could significantly damage reputation of the foreign company.

The article shows that in case of a significant corruption distance between host and home country the choice of the ownership strategy is a trade-off between the need for a partner who has an experience of local business culture and the costs of operating with this partner and controlling its actions. In case of China it made more sense for the foreign companies to establish WOSs, but the study of companies in Russia showed that a JV was the most common choice.

#### **2.1.5. Host Country Legal Environment and International JV Partner Selection**

In their research Roy and Oliver (2009) attempt to understand how a host country's legal environment affects the criteria for partner selection in International Joint Ventures (IJV). This paper is in line with the previous studies emphasizing the important role of institutional context in partner selection strategy.

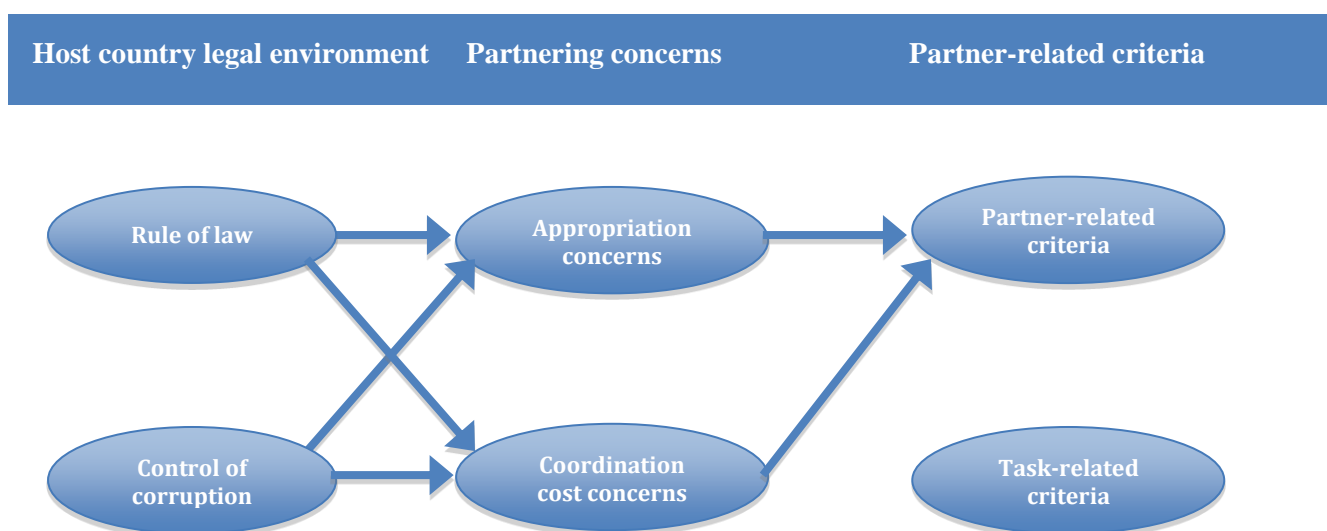
Among different institutions that comprise a country's institutional environment Roy and Oliver choose to focus on two that seem to be especially important for the strategies of MNCs: *rule of law* and *control of corruption*. Rule of law stands for "the extent to which agents have confidence in and abide by the rules of society" (Kaufmann, et. al.; 2006). Control of corruption is defined in the article as "the extent to which public power is exercised for private gain" (Kaufmann, et. al.; 2006). In other words, a firm's control of corruption determines how likely it is for an average firm to face corruption in its interactions with local officials. The authors also see the rule of law as an indicator of certainty and protection of the company's interests and control of corruption as a pointer to the cost of doing business.

In order to clarify how host-country rule of law and control of corruption can affect IJV partner selection criteria the concept of *partnering concerns* was introduced. Roy and Oliver distinguish between *appropriation-* and *coordination cost concerns*. Appropriation concerns reflect the possibility of the IJV partner to engage into opportunistic behavior and violate promises, which can result in the other partner being not able to appropriate the rents from the venture. Coordination cost

concerns derive from expected interdependence with another firm (partner) followed by a need to closely coordinate activities with a partner.

The partner selection criteria in the article are divided in two main categories: task- and partner-related criteria. *Task-related criteria* are connected with different resources and skills required to compete effectively and focus mostly on a strategic fit between partners: e.g., facilities, managerial or labor skills, permits, licenses, connections to government organizations, access to raw materials, and so on. *Partner-related criteria*, in its turn, have more emphasis on effective cooperation between partners and include, for instance, firm's reputation, transparency and goals, commitment to the partnership, market share, successful partnering record with other firms.

In order to connect all the concepts mentioned above and demonstrate how relationship between partner selection criteria and host-country legal environment is mediated by partnering concerns Roy and Oliver developed a conceptual model (Figure 2.1.). The initial proposition was that all the concepts in the model are interrelated. Perceived host-country rule of law and control of corruption were supposed to negatively influence both appropriation and coordination cost concerns. However, when it comes to partner selection criteria the proposition was that both appropriation and coordination cost concerns would influence positively partner-related criteria, but not task-related criteria, at least not to the same extent. This is based on the view that both potential for opportunistic behavior and high coordination costs are more likely to be diminished by a partner's trustworthiness and cooperative orientation than by physical assets or skills.



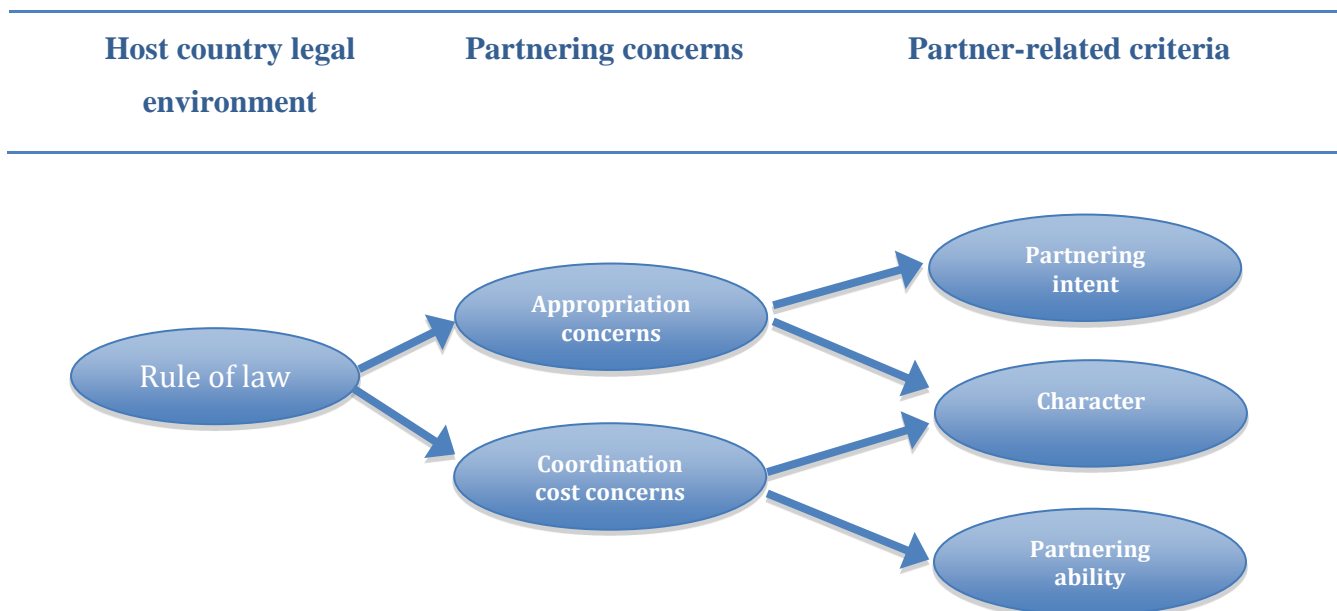
**Figure 2.1. Conceptual model (Roy & Oliver, 2009)**

When testing the model Roy and Oliver decided to split partner-related criteria into several different categories. The following three turned out to be the most significant for the results interpretation:



- character, or the attributes defining a partner’s moral and ethical values;
- partnering intent, or goals, objectives, commitment and enthusiasm for the partnership;
- partnering ability, or a partner’s capability of developing and preserving a relationship (measured, for instance, by the partnering record);

The central finding of the study is that host-country legal environment is a factor that significantly influences the choice of partner selection criteria. The study found that both appropriation and coordination cost concerns of executives were higher if the institutional environment of their host-country was perceived as unreliable, or ineffective at offering protection from possible crimes and opportunistic behaviors. The research also demonstrated that both types of concerns have the most influence on partner-related criteria; appropriation concerns positively influence character and partnering intent criteria, while coordination cost concerns positively influence partnering ability and character. The biggest surprise was that poor control of corruption did not significantly increase partnering concerns. One of the possible explanations provided by Roy and Oliver is that the risks of pervasive corruption may not be avoided by cooperating with a partner till the same extent as the risks of weak rule of law. On other words, if the rule of law is weak, searching for the right partner, who will not behave opportunistically, is more rewarding than in a situation with weak control of corruption where the threat is coming from outside the partnership (local officials and politics). Figure 2.2. represents the improvements made in the conceptual model after the research was done.



**Figure 2.2. Post-study conceptual model (Roy & Oliver, 2009)**



### **2.1.6. Corruption and administrative costs**

In their research working paper Morriset and Neso (2002) discuss administrative procedures in developing countries and associated with them administrative costs that investors have to face when wanting to establish and operate a business. They argue that the size of administrative costs depends on how prevalent corruption is, and how invasively certain governments behave. Administrative costs decrease as the quality of governance, degree of openness and public wages improve.

Despite the fact that countries significantly differ in the ways in which they regulate business entry the paper identifies 26 most common administrative procedures usually required to establish and operate a business (Table 2.1). For simplicity they were grouped into three primary categories.

#### **2.1.6.1. Entry Approvals**

For a foreign investor new market entry starts with legal, statistical, labor, pension, and fiscal registration. Often, the investor also applies for monetary incentives. The requirements for these procedures differ significantly between countries depending on their institutional structure. Some countries have simplified the process by using one application form, one identification number, or one agency (so called “one-stop-shop”), while others still have more diffuse procedures.

#### **2.1.6.2. Access to Land, Site Development, and Utility Connections**

After the entry registration, or sometimes in parallel to it, the investor has to obtain land and access to main utilities, e.g. electricity, water, telephone. The authors of the article emphasize that land ownership is a sensitive issue, especially in Eastern and Central Europe and in Africa with its local communities. Due to this reason investors often lease land from the government rather than purchase it. The process of buying or leasing land can be long and costly, since it involves interaction with multiple agents, both public officials and local communities. Another challenge is to obtain permits for site and building developments that usually imply multiple inspections (health, security, labor, and so on) and several stages in approval process.

#### **2.1.6.3. Operational requirements**

The last set of procedures consists of operational requirements that investors have to fulfill when operating their businesses. The main requirements discussed in the paper consist of import-export procedures, foreign exchange controls, tax and social security payments, labor and health inspections. These operational requirements, especially the one for import-export, are primary for the firms interacting with foreign markets.

Morriset and Neso also emphasize that together with the number of procedures the level of corruption and poor governance are expected to increase administrative costs as bureaucrats and politicians are more likely to pressure investors for unofficial payments.

Categories					
A	Entry Approvals	B	LAND, SITE DEVELOPMENT, UTILITY	C	OPERATIONAL REQUIREMENTS
1	Company Registration	12	Access to Land (State Land)	20	Import-Export Intention and Permits
2	Investment Code Registration	13	Town Planning Certificate	21	Import-Export Clearance Process
3	Initial Bank Deposit	14	Site Inspections and General Approvals	22	Foreign Exchange Controls
4	Residence and Working Permit	15	Building Permits	23	Fiscal Situation Certificate (Quitux)
5	Tax Office Registration	16	Electricity and Power Connection	24	Health and Safety Inspections
6	Foreign Investment Licensing	17	Telephone and Telex	25	Labor Inspections
7	Business and Trading Permit	18	Water and Sewage	26	Social Welfare Plan Payments
8	Statistical Office Registration	19	Post Box and Private Bag		
9	Existence, Conformity, Opening Reporting				
10	Health Care & Pension Plans				
11	Social Security Registration				

**Table 2.1. Summary of administrative procedures (Morriset & Neso, 2002)**

## 2.2. RQ2: How does corruption influence business strategies at the post-entry stage?

### 2.2.1. Political Corruption vs. Bureaucratic Corruption

We believe that the literature regarding political corruption vs. bureaucratic corruption that was discussed in *section 2.1.1.* is applicable not only when looking at businesses at the entry stage, but also – at the post-entry stage. Furthermore, the authors of the article had looked at the entry stage specifically, and we want to see if it is applicable at a post-entry stage as well. Thus, we include the Texeira and Grande's (2012) article when formulating questions in the interview guide for the second research question as well. However, they are altered to focus on the post-entry in order to determine if and how political and bureaucratic corruption is perceived at a later stage, and if and how businesses handle the different types of corruption at this stage.

### 2.2.2. Grey Zones

The study about grey zones that was explained in *section 2.1.2.* is interesting to look at not only at the entry-level stage, but also at a post-entry stage. We speculate that there is a risk that the way a company views grey zones differs between the entry stage and the post-entry stage. Furthermore, the way that officials and other companies treat corruption might also change as a company moves from the entry stage to the post-entry stage. Perhaps the way political pressure is exerted is different when a company is established in the market compared to when it is new. Therefore, this theory will be

used in order to develop the questions in the interview guide that will help answer second research question as well.

### **2.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery**

In our opinion, the findings of the study described in the *section 2.1.3* are also worth to look at from the post-entry stage perspective. Though more probable at the entry-stage due to the abundance of administrative procedures, requests for bribery can also occur later on when a company is already established. Moreover, according to Spencer and Gomez (2011), there is a link between a company's reaction when first faced with corruption and frequency of bribery requests it will get in the future. In other words, your behavior at the entry stage to some extent defines how much corruption you are going to face at the post-entry stage. We believe it is interesting to investigate this connection further.

### **2.2.4. Companies' Response to Corrupt Actions of Competitors**

In her research Søreide (2006) tried to obtain a better understanding of corruption through exploring the perspectives of big international firms of Norwegian origin. One of the main questions was which strategy these companies prefer when their competitors offer bribes.

The study showed that there are several different scenarios that reflect choices of the firms. It was either to leave the market completely and shift to another region or one of these two other options:

*(a) try to improve the situation by making complaints and speaking out;*

In the study 5 percent of the companies that claimed losing a contract due to corruption would submit an appeal to the customer or the tender authorities if they suspect a competitor of bribery. Some others would require a formal explanation from the client in those circumstances. However, such a request is a regular part of any formal tendering process, so it cannot be seen as an active response to corruption. In case formal complaints are ignored or turned down, only 13 percent would try to go further, for instance, through political channels or journalists. Overall, the firms in the study were reluctant to speak out, even when convinced that they had lost business because of competitors' corrupt actions. Among those who claim that corruption is never acceptable, 35 percent say that they prefer not to report or react against it. In other words, these responses question the reported intolerance of corruption.

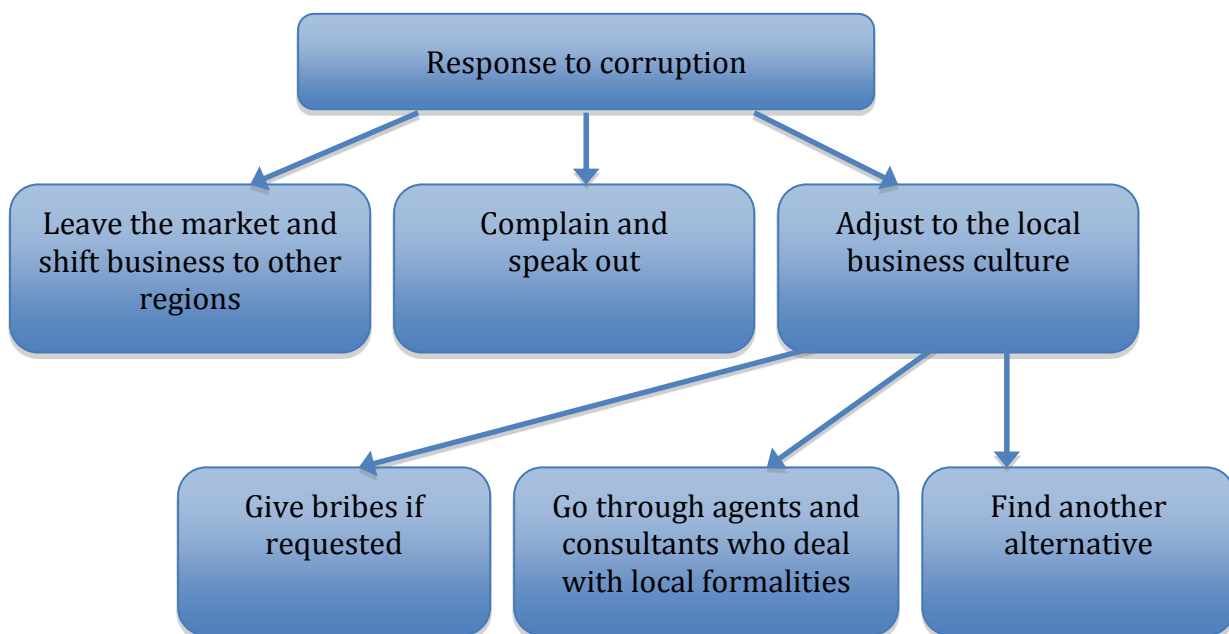
*(b) adjust to the local business climate which may also include active bribery;*

The survey found a strong tendency among firms to “adjust to the local business culture” if they had lost contracts due to corruption. Many of them seem to take corruption for granted and consider it a fact of life where their own actions will most likely have a limited impact.

“Adjustment to the local culture” can of course refer to legitimate ways of doing business, but it does also include the possibility of active bribery. One way to avoid anti-corruption laws is to go through consultants and joint-venture partners. The firms were clearly most interested in the agents with connections to decision makers and able to deal with local formalities. Others included international or local business advisers, country analysts, lawyers, bureaucrats and politicians. In addition, almost half of the firms said that they had contacts positioned at, or with access to, a high level of the government in the countries where they operate.

Although Søreide mentions that giving a bribe if that was requested is only one of the ways of adjusting to local climate, she never elaborates on that and provides no alternative strategies used by the firms except for already mentioned exiting the market or speaking out in case competitors are suspected of bribery.

Responses to corruption discussed by Søreide are summarized in Figure 2.3.



**Figure 2.3. Companies’ response to corrupt behavior of their competitors**

#### **2.2.5. Strategic Responses to Perceived Corruption in Emerging Markets**

Luo (2011) investigated how the subunits of MNCs respond to perceived corruption in the foreign emerging markets they were present in through investments and operations. The focus of the study

was to understand how host-country corruption affects MNCs' business conduct and strategies at a post-entry stage. Luo developed three different strategic responses to corruption that he tested against MNCs. These strategic responses were *investment commitment*, *workforce localization* and *export market focus*. They are elaborated further down.

The author also discussed three types of corruption; sectorial corruption, locational corruption and longitudinal corruption. They are explained in Table 2.2 below. The hypothesis was that they all affect the choice of strategic response in somewhat different ways.

Type of corruption	Explanation
<b>Sectorial corruption</b>	The level of perceived corruption in an industrial setting relative to other industries.
<b>Locational corruption</b>	The level of perceived corruption at a regional setting relative to other regions.
<b>Longitudinal corruption</b>	The change of intensity of corruption over time.

**Table 2.2. Different types of corruption (Luo, 2011)**

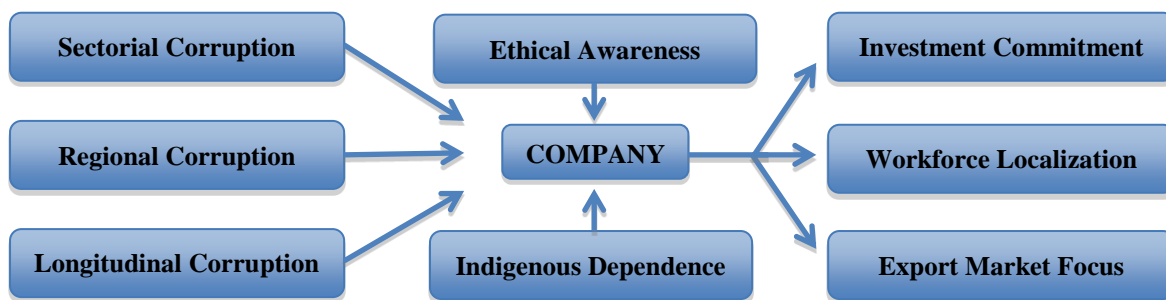
However, important as the type of corruption may be, one must consider the organizations' *sensitivity* and *vulnerability* to corruption. The sensitivity and vulnerability of an organization affects them regardless of what type of corruption they are mainly exposed to. An organization's sensitivity to external corruption can be measured by their level of *ethical awareness*, while an organization's vulnerability to external corruption is measured by their level of *indigenous dependence*.

A key component of strategic planning and a crucial dimension of quality management, *ethical awareness* is a good bridge between the business environment and the strategic decision making. Ethical awareness, a sense of what is "right" and what is "wrong", is often manifested in ethical codes and compliance programs. General precepts and specific practices help clarify information and expectations, and dealing with ethical concerns becomes easier. Furthermore, it increases the likelihood of detection, assures the punishment of transgressions and rewards desired behaviors. A good ethical awareness also helps in drawing a distinction between the acceptable networking that is often necessary in order to develop good business relationships, and corrupt behavior.

*Indigenous dependence* can be defined as the extent to which an organization must rely on local resources and business stakeholders controlling these resources in order to be successful. In organizations with high indigenous dependence, the host country performance is very important to

the organization's global success. An organization with a high indigenous dependence often invests more even though corruption may affect them, simply because they have no choice as, as the word dependence implies, they have less control over the situation but still have to invest because the global success is dependent on it.

Based on the type of corruption an organization is exposed too, sectorial, locational or longitudinal, as well as the level of ethical awareness and indigenous dependence, the strategic response will vary. Below in Figure 2.4 you can see three different strategic responses; *investment commitment*, *workforce localization* and *export market focus*.



**Figure 2.4. An integrated framework of strategic responses to perceived corruption (Luo, 2011)**

Clearly, corruption affects legitimate businesses negatively through increased transaction costs, environment uncertainty and complexity, and liabilities of foreignness. Together, these cause greater external hazards and deterrence, and can affect the willingness to commit resources to projects. Thus, it is fair to say that organizations will adjust their level of *investment commitment* in projects according to the factors described in Figure 2.4. The investment commitment choices may vary over time depending on if the abovementioned factors change, for better or worse, setting a different situation.

In order to alleviate the liabilities of foreignness, an organization can choose to *localize the workforce and management*. The use of an indigenous workforce can make networking with the local business community easier, local management or workers can build inter-organizational relationships with business partners and government officials differently from foreigners. A legitimate network with local business stakeholders can help reduce pressure on the firm to bribe officials to get things done. Furthermore, workforce localization may help the organization to understand the difference between legitimate business culture and illicit commercial practices. Additionally, a local workforce may improve the organization's image as an organization committed to the host country's economic and social development.

If an organization both has sales internationally and in the host country, having a thought-through and flexible *market orientation* can help through allowing short-term focus on the export market if the host country market becomes increasingly difficult. This strategic response will obviously not work if you are only present in the host-country or only present with exports, unless you want to enter a new market.

An effect of perceived corruption was that the investment commitment decreased and that the export market orientation increased. The author found that variation in industrial setting, so called sectorial corruption, has a stronger effect on market orientation. However, changes in perceived corruption over time, so called longitudinal corruption, exert a greater influence on the investment commitment of companies. Furthermore, it was found that high ethical awareness strengthened the strategic response to corruption and that the indigenous dependence clearly weakened the strategic response.

### **2.3. Summarizing the Theoretical Frame of Reference**

We believe that the article by Texeira and Grande (2012) on political versus bureaucratic corruption provides good directions for understanding the business environment of a corrupt country. By distinguishing between political and bureaucratic corruption we are better able to comprehend the problems that the companies going to corrupt countries are exposed to at the entry level. Understanding the specific problems tied to political and bureaucratic corruption, one can expect a company to act differently depending on what type of corruption they are exposed for. Furthermore, it is interesting to see whether or not businesses experience specific political or bureaucratic corruption when they move from the entry stage to the post-entry stage, and if they approach problems any differently.

Knowing what political and bureaucratic corruption problems the companies are exposed to, it is interesting to see how and if the challenges are viewed on a black or white level or if they are seen in different shades of grey. Furthermore, in order to understand how to best navigate business in a corrupt environment, it is valuable to find out whether or not the shades of grey, if existing, change over time.

As pointed out by Spencer and Gomez (2011), a company's view on corruption and the attitude towards it can be shaped by its home country institutional environment. They suggest that the level of corruption in the home country defines how a company would respond to corruption when acting abroad. Moreover, same authors point out that initial responses to corruption actually define how the company will be treated later on, after the entry phase is over.

The concept of the corruption distance is also used by Karhunen and Ledyeva (2012), who claim that this distance influences a company's choice of the entry mode. Most often the home country is the one that is less corrupt and thus the entry mode is an adjustment to the high corruption level of the host country. We believe that for the purposes of this thesis the companies that entered Tanzania via equity modes, i.e. wholly owned subsidiary or joint venture, are more relevant since they actually operate in the corrupt environment and get to experience corruption first-hand unlike the ones that entered via non-equity modes. It is interesting for us to study the influence of the corruption level on the choice between WOS and JV since it is crucial for the future of a company and is hard to reverse. The question is also if any of these entry modes allow handling corruption better. Moreover, in case a company chooses a JV as its entry mode, the selection of a partner figure is of high importance. We consider it a big strategic decision and want to investigate the process of how such a decision is made.

After the entry mode is chosen and a partner, if needed, found the companies entering new markets face a whole load of administrative procedures in order to, for instance, register themselves, obtain necessary permits and licenses, buy or lease land. From the article by Morriset and Neso (2002), we draw a conclusion that the administrative procedures create a lot of instances for corruption, therefore we intent to explore this issue in our study.

When a company moves from the entry to the post-entry stage, other corruption related problems might occur: for instance, the competitors that get unfair advantages by giving bribes. We consider it important to investigate possible responses to unethical actions of competitors since losing contracts to corrupt players in the market can significantly influence a company's performance.

Additionally, a company that is already established in a corrupt country can develop other ideas on how to fight corruption on a strategic level. For instance, Luo (2011) suggests three different possible strategic responses to corruption: investment commitment, workforce localization and export market focus. We are going to investigate if these strategies are something used by the foreign companies operating in Tanzania. Furthermore, we would like to find out if it is rewarding to have a clear ethical awareness and if it is positive or negative to have a high indigenous dependence.



## 3. METHODOLOGY

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*In this section of the thesis, the choices regarding research method are presented. First the literature review is described, then the research design chosen together with the specific interviewees chosen for the study. Furthermore, the manner of how the data collection occurred is explained followed by a review of how we analyzed the data. Finally, the limitations to the research method are put forth.*

### 3.1. Literature Review

After we chose the area of interest, namely companies' business strategies in corrupt countries, we started to search for relevant literature that could help us build a better understanding of the subject. The search focused mainly on scholarly articles and relevant books, but also included reports from organizations like United Nations and World Bank. We started with broader concepts like foreign direct investment into developing countries, corruption and bribery and later narrowed down our search requests to, for instance, *corruption and entry modes*, *corruption and business strategy*, *corruption and ownership strategy*, *international joint venture partner selection*, *corruption distance*. The main tools used during the literature review stage were different databases available through Stockholm School of Economics Library resources (e.g., Business Source Premier, Emerald, Elsevier, ProQuest) and the search engine Google Scholar. The reference lists of some of the articles found were used to find more relevant sources. After sifting through the material we chose eight articles that formed the theoretical frame of the study.

### 3.2. Research Design

#### 3.2.1. Qualitative Approach

For the purpose of this thesis we chose to conduct qualitative research rather than quantitative, in a way "sacrificing scope for detail" (Silverman, 2010, p. 104). This choice was made for several reasons that are explored in the following paragraph.

As it was mentioned before, the amount of studies on business strategies and corruption is somewhat limited and those that exist mostly use quantitative methods (e.g., survey send-outs) that, according to Bryman and Bell (2007, p. 426), put an emphasis on checking interrelations between variables and often create forced and unnatural settings. In a number of studies no primary data was collected at all and they mostly analyzed available statistical information about companies or foreign investments together with various corruption indexes. None of the studies we found used a qualitative approach

that usually gives richer information and a better chance to discover unique insights (Zikmund et al., 2013, p. 132).

Moreover, one of the goals with the research was to find out if the already existing theories on corruption in developing countries could offer credible explanations of business strategies chosen by companies operating in East Africa. Not just the choices made were of interest to us but also why they were made and if the logic behind them was in line with the previous studies. We wanted to understand the process of thinking which preceded the companies' entry and see how corruption affected the business strategy from the entry stage up to today. Quantitative research, however, focuses only on a certain point in time and provides little opportunity to see dynamics.

### **3.2.2. Exploratory Research**

We define the study conducted for this thesis as exploratory study. As the name suggests, the goal of exploratory research is to explore a phenomenon or situation and help to define a research problem and/or generate hypotheses (Mooi & Sarstedt, 2011, p. 13). An exploratory study is undertaken when not much is known about the situation at hand or no information is available on how similar research issues have been solved in the past. As Zikmund and Babin (2013) point out, "exploratory research does not provide conclusive evidence from which to determine a particular course of action". In other words, it should not be expected to give answers to the problem researched, but can provide rich insights and important information about it. Exploratory studies should almost always be relatively small in size and thus cannot provide definitive answers for the overall population. Thus generalization is not an objective of exploratory studies.

### **3.2.3. In-depth Interviews**

Based on the nature of our research questions, which are both "how"-questions seeking deep understanding of the phenomena, we chose conducting personal in-depth interviews as the research method. This approach allowed establishing personal connection with the people we interviewed, which was very important due to the sensitivity of the issues discussed. Personal contact gave us a better guarantee that interviewees would be honest and open about their experiences since they got to know us and could trust us to handle the sensitive information they provided.

By conducting personal interviews we could also avoid confusion associated with different possible definitions of corruption and make sure that we were on the same page with the interviewees regarding what is seen as an act of corruption and what is not. The interviews also allowed us to capture variation that a more standardized format would not capture. Moreover, in order to understand the nature of corruption in the region in question it was important for us to collect

examples of the situations when the participants faced corruption or examples of the corrupt situations typical for their environment. We considered interviews to be the best way to do it.

#### **3.2.4. Choice of the Participants**

According to Cassell and Simon (2004, p. 16), when it comes to the criteria for recruitment, most qualitative studies prioritize diversity and seek to show the range of different ways in which a phenomenon is experienced. Though diversity was an important factor for us, we also wanted our participants to have some common ground, which would actually allow comparison between them within the chosen context. We defined several criteria that were important for us when choosing participants for the study.

First of all, we chose Swedish entrepreneurs doing business in a developing country. We believed that common cultural background of the interviewees would ensure more or less the same understanding of corruption and attitude towards it; something we confirmed in the beginning of the interviews. Sweden is one of the least corrupt countries in the world (Corruption Perceptions Index, 2012) and Swedes abroad often have a reputation of people with extremely low tolerance to corruption. Therefore selecting Sweden as a home country of the study participants gave us better chances to find entrepreneurs who actively chose not to engage into corrupt activities. It also provided a good opportunity to test the theories based on significant corruption distance between home and host countries.

Secondly, to make the comparison possible we wanted the participants to do business in the same country or, at least, the same region. This was important since the nature of corruption might differ between various regions (Rodriguez et al., 2005), and for our purposes we needed all of our interviewees to be put into the same conditions. Due to our personal interests and also working experience of one of the authors, Anton Israelsson, we were initially interested in companies operating in India or in Sub-Saharan Africa.

Thirdly, we had some criteria regarding the age of enterprises we were looking for. We were interested in the companies that had operated in the market for at least a couple of years after the entry, since not only the entry, but also the post-entry stage was supposed to be analyzed.

In the end it was a combination of circumstances that influenced our final choice of the interview participants. During an event at Stockholm School of Economics we got a chance to establish a contact with several entrepreneurs doing business in that region. For anonymity's sake their real names are replaced with pseudonyms here and further in the thesis.

We met Anders Andersson when we attended his workshop where he spoke about his companies in Tanzania and, after we introduced our thesis idea to him, agreed to be interviewed. We met Sven Svensson during the mingle hours where we first discussed corruption on a general level, and then presented our thesis idea to him. We believe that in our case finding participants for the research via personal contacts or establishing personal contact with them prior mentioning our research was preferable since we chose to study a sensitive topic that a random person might have refused to discuss with us. Andersson and Svensson, on the other hand, were already interested in sharing their experiences of business and corruption with students.

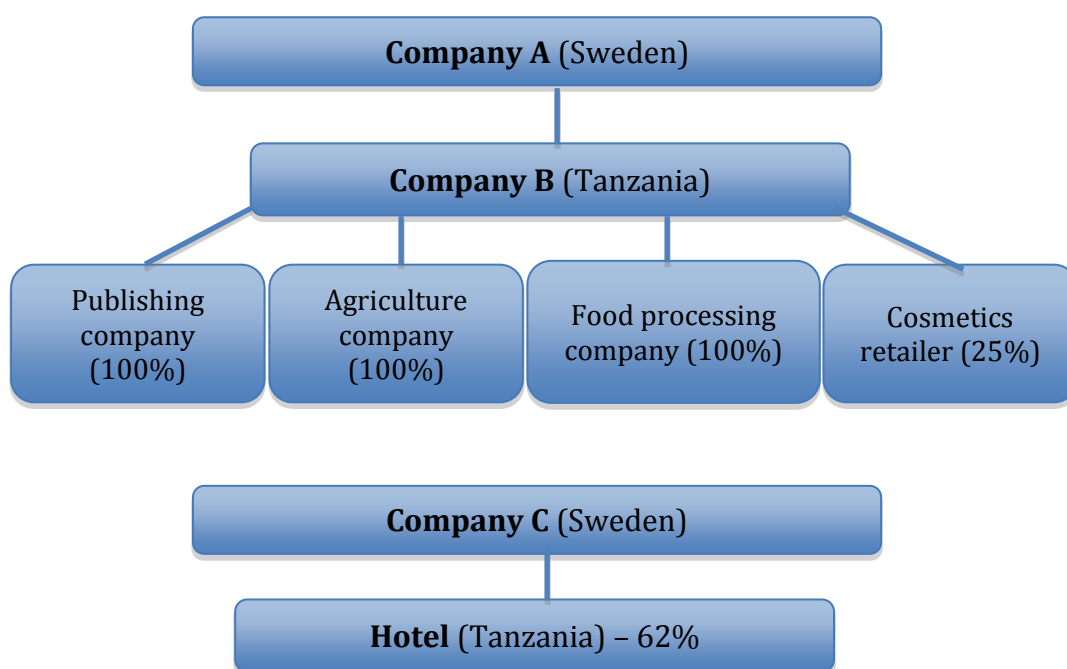
In a way, the crucial factor that in the end determined our choice of the interviewees was their accessibility. This goes in line with what Bryman (2007, p. 114) calls a choice based on convenience, or a choice among people that just happen to be available for a researcher. However, this choice was not absolutely random, since we made sure that the interview candidates met all the criteria discussed above.

Initially no special requirements regarding the size of the companies were set. However, we considered it a good thing that both Andersson's and Svensson's businesses belonged to the small and medium enterprises (SMEs) category. Common sense also suggests since big MNCs have more money monetary losses due to corruption are probably less harmful for them than for smaller enterprises that often simply have no money to, for example, bribe officials. SMEs seldom have the financial muscle to push through complicated situations. In addition, since most of the literature discussing corruption and business strategies focuses on MNCs, we found it interesting to explore if those theories were applicable to SMEs as well.

When it comes to deciding how many participants to recruit, according to Cassell and Symon (2004, p. 16), the amount of time and resource at hand is a crucial factor. In our case receiving detailed information about the companies that would allow developing a proper interview guide took significant time. We had to ask for it from Anders Andersson and Sven Svensson themselves, since no Internet resource could provide us with the data we needed. At a later stage, finding time and place for the interviews was problematic as well. Many personal factors contributed to that, most prominently; Andersson's long sickness and the fact that he resides abroad, Svensson's other full-time job. The depth of the interviews required for our study together with the restricted amount of time made it impossible to cover more than a very limited number of cases.

### 3.2.4.1. Anders Andersson

The first participant is a businessman Anders Andersson, a CEO and a chairman of the company A in Sweden, which is a majority shareholder in a Tanzanian parent company B. Company B in its turn owns a publishing company, an agriculture company and a food processing company. In addition, B owns 25 percent of a cosmetics retailer. Andersson is also a chairman of the board of a company C registered in Sweden, which is a majority shareholder of a hotel in Zanzibar. Figure 3.1 illustrates the ownership structure and Table 3.1 contains the information regarding the turnover and number of employees for all the companies.



**Figure 3.1. Ownership structure of Anders Andersson's companies.**

Company name	Company B	Publishing company	Cosmetics retailer	Agriculture company	Food processing company	Hotel
<b>Turnover (forecast for 2013)</b>	>SEK 15 mln	>SEK 15 mln	SEK 2 mln	SEK 1 mln	SEK 3 mln	SEK 10 mln
<b>Number of employees</b>	1	60	6	3	4	70

**Table 3.1. Data for Anders Andersson's companies.**

#### 3.2.4.2. Sven Svensson

The second participant is Sven Svensson, a businessman of Swedish origin who was born in Tanzania. Before starting his business, Svensson worked for an NGO in there. He has three different companies, one in Tanzania and two in Sweden. The Tanzanian one is a manufacturer of clothing, where Svensson and his wife have 25 percent of the shares each. In the beginning there were 7 people employed at this company and the turnover was SEK 150 000. Later the company reached a turnover of SEK 500 000, however, today they are back where they started. In Stockholm Svensson owns a shop together with his wife and two other Swedes, where they hold 25 percent each. In addition, he owns one more company in Sweden together with his mother where they sell African paintings called Tinga Tinga. Since 2010 Svensson lives and works in Stockholm while his representative is taking care of the Tanzanian company.

### 3.3. Data Collection

In this section we discuss in detail how the interviews with Anders Andersson and Sven Svensson were conducted.

We prepared for the interviews by developing an interview guide with the questions based entirely on the theoretical concepts and models presented in the section two of the thesis. See *Appendix A* for the interview guide. However, we also included some more general open questions in the beginning in order to warm up the discussion and put the participants in the right mood. Another goal with the general questions was to gain the interviewees' perspectives on corruption and talk about their own experiences with it. After the participants put together their own definitions of corruption we provided them with the one formulated by Transparency International and used for this thesis. In both cases, their own definitions were very close to the official one, and the conclusion was made that we were on the same page with the participants regarding understanding of corruption.

The interviews were semi-structured and based on the interview guide with specific questions defining our areas of interest. However, the interview process was flexible. The order of the questions could be changed and questions other than those written in advance could be asked if we wanted the participants to elaborate on something they had brought up. We also accepted if the interviewees wanted to discuss a certain issue for a longer time and in more details. That allowed us to later determine what was the most important for the interviewees when it came to understanding and explanation of the subjects and events discussed (Bryman, 2007, p. 301).

In both cases we found that one interview was not enough since we did not want to strictly limit the participants' answers time-wise but wanted them to express their thoughts freely instead. Therefore

we conducted two interviews with Andersson and three with Svensson having around two weeks between them, which also allowed adjusting the interview guide based on the information that came up during the first interviews. The overall interview time was 2 hours and 45 minutes with Anders Andersson and 3 hours and 30 minutes with Sven Svensson.

Our preferable way was conducting face-to-face interviews, however it was not possible with Anders Andersson since he resided in Tanzania during the data collection stage. We arranged a Skype interview with Andersson instead. Unfortunately some technical difficulties occurred during the first interview – a power cut in Tanzania – and we were forced to finish earlier than planned. Due to the bad quality of connection during the second interview it was conducted on the phone instead of Skype. With Svensson we had the chance to meet him in person for both of the interviews

### **3.4. Data Analysis**

All the interviews conducted were transcribed and then summarized in the empirical part of the thesis. The structure of the empirical part was the same as that of the theoretical chapter. In other words, all the information we got was assigned to a certain topic discussed by the literature selected. The goal was to make the comparison between the literature and the empirical data easier. Due to the sensitivity of the issues brought up in the interviews some information shared by the participants was not included into the empirical data in accordance with their wishes. For the same reason the transcripts of the interviews were not attached to the thesis. The empirical part was also sent to the interviewees so that they could make comments, suggest changes and give their approval for including it into the thesis that would be published and publicly accessible, something that both did.

In the fifth section, analysis, we made a comparison between the literature reviewed and the data from the interviews. In the sixth section, the discussion, the research questions are answered, final conclusions are drawn and suggestions for further research are made.

### **3.5. Research Method Limitations**

As we see it, there are a number of factors that can influence the quality of our research.

The research was supposed to study the influence of corruption on business strategies provided that the companies studied chose not to comply with corruption. However, we can only assume that the participants were completely honest with us when claiming noninvolvement into corruption. It was not possible for us to talk to any third parties like family, friends or business partners that could confirm that. Nonetheless, we believe that the circumstances of how we met Anders Andersson and

Sven Svensson, their readiness to participate in the research and also their Swedish origin give us good reasons to trust their words.

Another factor that could limit the research quality is a so-called retrospective bias. A big part of the interviews, the one dedicated to the entry stage of the companies, discussed the events that took place in the past – although some start-ups for Andersson are more recent. But generally, the interviewees had to recall those from their memories the way they remembered them. However, none of the participants seemed to be unsure or hesitant of what they were saying during the interviews.

One more limitation of the research is that its findings are only known to be applicable to a certain geographical region – East Africa and Tanzania in particular – since they depend on the business milieu and nature of corruption in that particular area.



## 4. EMPIRICAL DATA

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*In this section of the thesis the empirical data that was collected from the interviews with the entrepreneurs are presented. The empirical data is divided according to the thesis' research questions and the theoretical frame of reference discussed in chapter 2. The respondents' answers are kept separately from each other in this chapter.*

### 4.1. Anders Andersson

#### 4.1.1. RQ1: How does corruption influence choice of entry mode when establishing a business?

##### 4.1.1.1. Political Corruption vs. Bureaucratic Corruption

According to Anders Andersson, both types of corruption, political and bureaucratic, are present in Tanzania. There are basically everyday attempts to involve you in one or another type of corrupt activity: sometimes it is an active request for bribery from clerks, sometimes you become a victim of a sophisticated fraud plot with high-level officials involved.

As stated by Andersson, public officials in countries like Tanzania sometimes act on behalf of themselves instead of acting on behalf of their organizations. He says that when dealing with high-level politicians and bureaucrats you have to be aware of the risk of corruption.

When asked about his own experiences with political corruption, Andersson gave an example from his publishing business where he suspected corruption to be involved. Half a year after they registered the company the Ministry of Education changed regulations and decided that the government would be the only ones allowed to publish books for the secondary school, which ruined the well-functioning system of independent publishers. As a result that year the schools did not receive enough books and Andersson in his turn had to close his project for a while till the regulations were changed.

Regarding bureaucratic corruption Andersson confirms that he has faced plenty of it in Tanzania: for instance, when dealing with building permits, residence and work permits. A civil servant might say something like: "Yes, I have it. But unfortunately it is in the bottom of the pile," – hinting that you should pay him a bribe if you want your papers on top of that pile. In many cases it was, however, enough to talk to a civil servant's supervisor in order to avoid giving bribes.

Moreover, a lot of problems occur when clearing products imported from the UK for Andersson's cosmetics company. The people at the airport are trying to cut in-between and refuse to release the

packages for one or another reason when in reality they just expect to get a small bribe for that. However, Andersson emphasizes that they always follow the law, because long-term it is the only way to do it. By complying with corruption you become a part of the system and end up a hostage in it.

Andersson points out that corruption in East Africa is quite pervasive: “It is all throughout society, on all levels. Whenever anyone can smell a little bit of money, the risk of corruption is there.” The only country in the region that does not have this kind of institutionalized corruption is Rwanda, the rest of the countries are very much the same: Kenya, Burundi, Uganda.

Despite that Rwanda is rather clean from corruption, Andersson has no intentions of moving his investments there. He says that though it might sound hard you can still work in a corrupt environment. Even if you lose some money paying a “learning fee” in the beginning, after that you will adjust and learn to do things in a different way and still without taking part in corruption. According to Andersson, most people who participate in it are those who do not want to follow laws, rules and agreements. He also believes that if everything were easy in Tanzania, then he would not be needed: there would be a lot of other companies there and the margins would be much lower. In addition, Andersson is sure that the situation will eventually change for the better. Nowadays more and more global enterprises are establishing themselves in Tanzania. They have auditors and accountants and they do not have an account for bribes. That makes the economy more transparent. Andersson would like more Western companies to come, because their business ethics seems to be better than many Chinese, Middle Eastern and Indian investors.

#### **4.1.1.2. Grey Zones**

Anders Andersson believes that if you have done international business for a while, you know that the legislations around it are very similar between countries. He personally does not see any grey zones and it is very clear for him what is right and what is wrong: “I see issues regarding corruption normally as black and white; it is very seldom that we have a problem in judging whether it was corruption or not.”

Nevertheless Andersson thinks that the local people more or less expect officials to steal and bureaucrats to take bribes and do not always know that it actually does not have to be so. They do not understand the concept of no or minimal amount of corruption because they were brought up with it. Andersson believes that they do not get as upset as people in the Western world when they hear about corruption cases, they might not even regard those actions as illegal.

Another important aspect is that in Tanzania with 45 million people there are only around 700–800 thousand taxpayers in total. This way when the officials and others steal, they only steal from 1,5 percent of the population. The others are not paying tax and that means they do not put pressure on the politicians, neither on central nor on regional level. According to Andersson, one of the most important things in reducing corruption is getting more taxpayers, because then more people will actually be interested in the country becoming less corrupt.

Regarding facilitation payments and differences between a bribe and a gift in various cultures Anders Andersson asserts that if you know how systems are built up, you understand what is a bribe and what is not. When asked about his employees and their ability to see that difference, Andersson says that things might happen and that is why so few people are allowed to handle money and do payments. Normally the payments are done by only one person, the managing director of the company.

Andersson does not see the U.S.A. inserting political pressure on the host-country's government in order to gain advantages for the domestic firms as corruption. He defines it as an "American way of doing business". He points out that the U.S.A. foreign department is much more trade oriented than the Swedish one. Unlike Americans who are very trade positive and strive to help their companies, Swedish embassies do not see helping Swedish companies as a prioritized part of their job. Due to the way the people who work at the embassies are recruited they often not understand the private sector at all and normally few or no one has any private sector experience. In addition, embassies in Africa are usually led by people from Sida (Swedish International Development Cooperation Agency), and this organization till recently was reluctant to work with the private sector.

Apparently Chinese companies do business in a similar to Americans way: they have big delegations coming to discuss an infrastructure project and then negotiate entire packages, which in practice excludes other vendors for several projects.

However, Anders Andersson himself does not think his companies suffer from that so much. He thinks that you can actually get even bigger advantages if your business appears to be local, not foreign. In case with the printing company where the managing director and the co-founder are Tanzanian, the company is perceived to be local, African. Andersson believes that because of that clients tend to come to them instead of, for instance, their Indian competitors if the price is the same. Andersson points out that another reason for that might be that they are also doing a better job. Nonetheless he would not call this approach corruption, but rather a good marketing and understanding of people's emotions.

#### 4.1.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery

Anders Andersson believes that due to the long tradition of Swedish aid in East Africa a Tanzanian executive or a high-level civil servant would first of all consider Sweden a donor and an aid partner, but not someone to do business with. However, he points out that being Swedish in East Africa is something that is seen positive, because Swedes have been there with the good hearts for so long. Moreover, Scandinavians have never tried to colonialize the country, and being a Swede is an advantage comparing to being a German or an American whose homelands historically have had much more aggressive foreign politics for centuries.

Andersson confirms that there are some people in Tanzania who view Sweden as a country with zero tolerance towards corruption. However, there are also those who do not have this view, because they just do not understand that a country can actually have a very low level of corruption. In spite of that Andersson still believes that sometimes people do not even try to require bribes from them, since they know that it is not common in Swedish culture. But he also thinks that there might be other reasons for that: a lot depends on how you treat those requests from the very beginning. For instance, Andersson personally tries not to put himself into the situations where he can expect corruption. And his representatives are taught to not giving bribes by always requiring a receipt and motivating that by being a Swedish company that does not have a no-receipt-payments account. Andersson says that it is becoming less and less common for them to be asked for bribes. He also states that being from Sweden made it a bit easier for them in Tanzania, since there are still people in the country who are actually interested in fighting corruption and they want honest businesses to establish themselves.

Anders Andersson believes that other foreign companies receive more bribery requests at the entry stage than Swedish companies and they are also more willing to make illegal payments. Usually they come from the countries with a little bit or even a lot of corruption and are used to the system. According to Andersson, the problem is that once you start participating in corruption in Tanzania it is very hard to get out of it, because then the corrupt officials can threaten you, for instance, by saying that they will write a report about your previous bribes or you avoiding tax. He mentions that there are a lot of accusations in Tanzania, and the juridical system is often used to achieve advantages or give disadvantages to your competitors. He provides an example of a company that is planning to deliver a proposal for a public tender by 8 a.m. on Monday. What can happen is that on Friday afternoon the police enters their premises and arrests the CEO based on false accusations – all done by the people who do not want the company to be able to deliver that tender.

Anders Andersson thinks that his local partner receives far more bribery requests than him personally. But it is mostly linked to the fact that he is doing much more of the relationship work

than Andersson does, just because they want to be a Tanzanian company and look Tanzanian. In the case with the farming company neither Anders Andersson nor the European CEO and co-founder, meet authorities or villagers before all the agreements are set. Before that they are a Tanzanian company represented by their local partner, their partner. Andersson says that if a European shows up, it would immediately lead to the increase in price, just because of their skin color, and then the authorities will also try to get them into the position where they will be forced to pay a bribe in order for anything to happen.

Anders Andersson has also shared with us why he thinks that not participating in corruption and being transparent is so important. He explains that you can regard a company in two different ways: either as a cash flow that brings money into your personal wallet or as an asset you have built that should have a market value. Andersson himself wants to build values, not just cash flows and he believes that there is only a value in your company if you can positively respond to the question: “Is your business legal?” According to him, taking part in corruption destroys not only your emotional values, but also the monetary value of the company. Andersson says that it is common among companies in Africa have two or three sets of books in the bookkeeping: the official ones used for taxation, the unofficial ones for themselves and perhaps one for the partners. Then many businessmen grow older, want to sell their companies for a good price and contact potential buyers. However, when the latter find out about tax evasion and the company being not transparent they do not want to have anything to do with the transaction. In other words, these businessmen destroy the value of their companies together with the possibility to sell shares in that company in the future. Andersson as well warns that trying to convert an illegitimate asset into something that is legitimate is a very hard process that can take up to five-ten years.

#### **4.1.1.4. Corruption Distance and the Choice between WOS and JV**

Anders Andersson’s printing company is a joint venture with a Tanzanian business man. However, Andersson’s parent company is the majority shareholder who has the control. He believes though that to find a partner was his the most important business decision when preparing to enter the Tanzanian market and says: “If you come here and do not have any connections at all, and just try to do it by yourself, the probability that you will fail is quite big.” In other words, you need to have a person who is well-connected, honest and understands the system.

As stated by Andersson, back then, at the entry stage he could not choose a wholly owned subsidiary due to the lack of connections and knowledge of the market. However, he believes that now when he is more established in Tanzania he could consider that form of ownership. He mentions also that it depends a lot on what kind of business you are in. For instance, with a retail store where you just

need to fill an already existing building with goods, WOS could work. But if you want to put up a more complicated business, a factory, a farm or a hotel, that requires big investment and depends on a lot of different permits in order to exist, then, according to Andersson, he would be very careful to do it on his own.

Andersson's partner, is also the one influencing everyone inside the companies not to take part in any corruption and ensuring that everything the company does is according to the laws and regulations. It is easier for him to speak to the local employees, because people express themselves differently in Tanzania and for someone with a westernized mindset it is often hard to understand their logic. Andersson explains that with the Tanzanians you have to use a language filled with pictures: talk about a lion or a wild beast, use examples from nature. If you use an abstract language, the majority of the population cannot understand you. That is why Anders Andersson normally explains things to his partner, and he in his turn explains them to the staff.

Another interesting thing Andersson mentions when it comes to doing business in Africa is that you cannot outsource non-core activities like warehousing, accounting or logistics, to the same extent as it is done in the evolved economies. In Africa you often have to do everything yourself so that you have less interaction with other companies and partners, because each relationship imposes additional risk and that risk should be reduced.

#### **4.1.1.5. Host Country Legal Environment and International JV Partner Selection**

Anders Andersson states that he was determined to find a good partner from the very beginning because he saw and still sees it as a key success factor when doing business in a country like Tanzania. He points out that when you do business in Africa what matters is not what you know but whom you know. Andersson was looking for someone who would be well-connected, honest and share his values. The right person was also supposed to have experience and be able to show that he or she had been successful before – in business and possibly partnerships. Andersson was also looking at a track record to see if a person was handled money well before. Regarding corruption he emphasizes that if he feels that a person could comply with it, it is a no-go for him immediately: he does not want to do business with them neither as a partner nor as a customer. He explains, however, that to find out about person's values it is not enough to just meet him or her a couple of times – you need to know their families, their children, talk to the former spouses, in other words, do your research.

In Tanzania there is no public system where you can look up people the way you can look them up in Europe. That is why in order to find the right partner Anders Andersson acquired references from

Tanzanians in Sweden and he talked to people at informal dinners where others would sometimes point towards a suitable person. But that was only the beginning. After he found his Tanzanian partner, Andersson wanted to check if they would actually be able to work together and he wanted to figure that out before putting any money into the relationship. So Andersson and the partner to be started writing their joint business plan together in every detail, and one could say that it was a kind of a mutual job interview. They discussed their values and non-corruption policy, how they would structure the companies, how they would assure transparency between them, and so on. Now they have been partners for eight years, and, according to the former, they are both perfectly happy and do more and more projects together. One of the reasons for the partnership being so successful might be that the Tanzanian partner lived in Sweden for a bit more than ten years, knew Swedish values and that most people there want to do honest business. And that was what he wanted as well. A similar approach he had with the CEO and the co-founder of the farming company, when they went away to get pilot certificates and talked every day for four months about the company they wanted to build together. And this partnership is also working really well for both of them. Andersson believes that many people tend to spend way too much time business planning and business modeling instead of checking their partners and relationships. And he and his partners usually say that a good business plan with the wrong people always fails, but a less good business plan with the right people always becomes a success.

Anders Andersson mentions that now when it comes to choosing right people he much more relies on his gut feeling than before. When he started off as a businessman he often had long check-lists and did quite a lot of evaluation work with assigning numbers to different qualities, adding them up and then making a decision based on that. Some of them, he says, were really bad decisions. Andersson believes that they have been much more successful when using the gut feeling comparing to any HR approved methods they used before. However, finding right people is still a challenge for his companies, especially when it comes to searching for those whom you can trust with money. Andersson adds that it happens often that they do not do business with someone because they do not feel they can trust that person or organization.

When asked to evaluate the rule of law in Tanzania, Anders Andersson states that the legal system is corrupt: people are bribing judges in order to influence their decisions and there is always a risk for illegitimate behavior in the court system. He adds, however, that normally you can handle the court if they know that the Chief Justice has an eye on them, in that case they are forced to take care of your case in the appropriate manner. Andersson's best advice is to stay out of court if you can or if you do end up there, make sure it is only about some minor things. In Sweden Andersson had

approximately 9000 living agreements and had around one court case every three or four years. In Tanzania they have less business, less agreements, and can easily be involved into three court cases at the same time.

#### **4.1.1.6. Corruption and Administrative Costs**

According to Anders Andersson, the procedures needed in Tanzania to start a business are quite simple and it is in fact much easier to start a company in Tanzania than in Sweden. It took them two days to have all the legal issues solved. And, for instance, registration of the company name took around five minutes: Andersson and his partner suggested a name to the lawyer who send a text to the authorities dealing with that and then in five minutes received a confirmation that the name was free and they could use it. Andersson explains that Tanzania's business center is a one-stop shop: you can register your business, get your residence and work permits – all at one place. He says that the procedures were significantly facilitated and it works quite well now.

Anders Andersson mentions that during the registration process they did not encounter any corruption at all. However, according to him, they definitely did face corruption during the entry stage if we define the latter as a time from when they registered the company till when they were up and running. The first thing needed to be done for the printing company was to buy land where the factory could be built. The first two plots that Andersson looked at were illegitimate: someone was trying to sell the land they did not own with the help of an employee at the Departement of Land. Luckily, he found out about that and bought another plot that was legitimate. However, what happened was that the owner of that plot did not transfer all the land she was supposed to. In addition, some crooks tried to steal it from Andersson five times, but they did not succeed.

Another example of a corrupt situation provided by Andersson was the shipment of the equipment for the printing factory from Sweden to Tanzania. When the containers arrived, the port authorities refused to release them because they wanted to get bribes. As a result, they had 12-14 containers just sitting in the harbor.

Andersson gives another example about the land purchase in Tanzania. He wanted for quite some time to buy the plot next to the hotel they owned, and suddenly the villagers were about to sell it to some British investors. It turned out that one public official wanted to force sell it and taking the major part of the money. However, Andersson and his partner managed to intervene, get the title deed for the plot and register it without any problems.

When it comes to starting a new company and doing business in Tanzania, Anders Andersson recommends making sure that you put in money only when you get something or after you got



something, never before. He also mentions that it is very important to do things in the right order. For example, if you were to build a factory, do not start to invest your money in hydrogeological studies for water supply or any other studies before you actually have the land, otherwise you will become a hostage of your own project. Andersson tells a story about a company who had an agricultural project. They put many millions into that project before they got the land they were promised. And then the other part, Tanzanian officials, knows that they have put in so much money that they absolutely must have the land in order to recover that investment. What happened there is that negotiation power was transferred from the investors to local officials, businessmen and people which made them an easy target for corrupt actions. Andersson emphasizes again that you should not put in money before you have the approvals, the permissions, the land – everything you need in order for the project to become successful.

Another piece of advice concerns those situations when you need a certain minister to sign something, for instance, transfer of land. Anders Andersson points out that it is very important to understand that you are going to need ministers already in the very beginning before you are too involved into a project financially. You present it to the officials and say that you are ready to do this project and create employment and tax income for the government, but you need certain permissions and documentations for that. Usually at that stage ministers actually want things to happen unlike later stages of the project when they would see permits and signatures as perfect opportunities to get bribed. Andersson comments: “Avoid putting yourself into positions where you are without power.”

#### **4.1.2. RQ2: How does corruption influence business strategies at the post-entry stage?**

##### **4.1.2.1. Political Corruption vs. Bureaucratic Corruption**

Regarding political corruption Anders Andersson says that he feels that it has a little bit decreased comparing to ten years ago. He believes that part of the reason is the fact that opposition has become stronger. People who are in power today feel that they can lose it after the next elections and understand that now corruption cannot be as obvious as it used to be. Andersson also supposes that Tanzanian politicians were influenced by the events in the North Africa when Ben Ali, Mubarak and Gaddafi were suddenly overthrown and killed or put to jail.

Andersson can also see a small improvement in the levels of bureaucratic corruption. He thinks that it is to a large extent because more and more international companies move in: Ernst & Young, PwC, KPMG. And those are the companies that cannot participate in corruption and positively influence the Tanzanian system. Andersson does not think that bureaucratic corruption in Tanzania could decrease to the Swedish level, but it might go down to the level of, for example, Spain or Portugal.

He believes that they are less exposed to corruption now than before and there are two main things that contributed to that. First is that they have learned to handle it better. Another reason is that at a post-entry stage you do not need things like land and permits anymore, you do not interact with the authorities to the same extent as earlier. Andersson explains that it is the entry stage, the transitive stage, where they have power over you and you can be victimized. Once you are up and running it is much harder to make you participate in corruption.

In general Anders Andersson observes that Tanzania is going in a right direction, but it is not exactly a straight line, more of a bumpy curve in the right direction.

#### 4.1.2.2. Grey Zones

Regarding the grey zones Andersson believes that the shaded area has shrunk and things are a little bit more black and white now. People start to understand what is corruption and what is not. He also does not think he is getting a lot of advantages out of being Swedish at this stage, he is more Anders Andersson, the businessman, and often people do not even know where he comes from. Andersson is convinced that your origin can play a part in the beginning, but when you already have established relationships, they are based on other values like trust or friendship.

In Andersson's opinion, the U.S.A. nowadays is exerting less political pressure in Africa towards benefits for their companies, because they have less relative power in the region. He points towards the trade statistics where you can see which regions are growing when it comes to trade in East Africa. It is China, India and Middle East, while Europe and the U.S.A. show almost no change at all, because they mostly see the region as a place to do charity work, not as an interesting market for business. Andersson connects trade to a long-term commitment, long-term relationship and, most important, influence. He believes that the reason why policymakers in the U.S.A. and Europe are starting to talk about importance of business in Africa is because they fear China seeing as a big economic power. And it gains power every day.

Andersson considers the Chinese to be the main contributor to the rise of Africa now and its biggest financier. He points out that the Chinese on a national level have a strategy where they want to increase their ties with Africa. Andersson believes that most of the things the Chinese do are positive: their work results in improved infrastructure, tax income, employment and better life style for many Africans. He admits though that they can be ruthless and in a way racist, since they often only employ Chinese people for their projects. Andersson agrees that they are not flawless, but is convinced that people exaggerate when they accuse the Chinese of being "land-grabbers", since they are doing investment in agriculture that actually requires buying land. To sum up, Andersson says

that he is not afraid of China and sees it as a positive thing that the Chinese investments into Africa force Europe and the U.S.A. to get more involved into business and trade in the region.

Concerning Swedish entrepreneurs and businessmen, Anders Andersson is convinced that some of those who started in Tanzania last several years did that because of him and his wife, since he is engaged into promoting business in Africa and gives lectures in Sweden to inspire people. He also mentions the recent articles in Dagens industri and other newspapers that are more correct in the way they describe Africa and show that it is something more than only diseases and starving children.

#### **4.1.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery**

Anders Andersson says that it is becoming less and less common for them to be asked for bribes. He thinks that one of the main factors that contributed is that they were decisively negative towards corruption from the very beginning and made it clear that they were not going to participate in it. Andersson believes that now his Swedish origin does not play such a big role anymore in signaling to the officials that he is not going to give them bribes – people just know that it is not the way he or his partners or employees work. The fact that he is Swedish also does not matter as much because his partner does the most of the relationship work and meets local officials himself. Besides, Andersson personally is more established in Tanzania and adjusted to the culture, so people see him as a Tanzanian businessman rather than someone who came from Sweden.

#### **4.1.2.4. Companies' Responses to the Corrupt Actions of the Competitors**

According to Anders Andersson, he has not experienced a lot of competition in Tanzania and poor competition is one of the reasons to invest there. He adds that there are some competitors in printing, but they normally have wrong equipment, lower quality and do business in a corrupt and dishonest way. They are not all as skilled as competition Andersson would meet in Europe.

Anders Andersson says that he suspects that some of their competitors give bribes when they hand out tender documents, because they get the contracts despite their offer and equipment being worse.

Regarding the response to the corrupt actions of the competitors, Andersson explains that they store the information until the next time and then give that information to the appropriate channels – influential people in the bureaucracy that have fighting corruption on their agenda. He adds that they do not do it in order to put people to jail or start an investigation, but to prevent it from happening again.

Anders Andersson is convinced that foreign players in the market can influence the level of corruption in Tanzania a lot. Moreover, he believes that having more of these non-corrupt actors is

the only thing that can actually sustainably reduce corruption. Andersson also provides the example of the Rwanda prime minister who managed to almost abolish corruption in a very short time. He says that you can actually fight it by legal means but that is extremely hard.

#### **4.1.2.5. Strategic Responses to Perceived Corruption**

Anders Andersson names several sectors that are the most affected by corruption.

The first one is logistic: places like harbor and clearing stations, where normally you are completely in the hands of the people doing the paperwork. Andersson says that they know that you have a container, which is sometimes worth millions, and that they have the power over it. And if they do not release it, you have to pay around \$500-600 per day just as a storage fee until you eventually pay the entire value of the container. Those officials know that you want to get your containers and packages out as soon as possible, and they are the only ones who can release them. Andersson believes that the harbor in Dar es Salaam is one of the most corrupt places in Tanzania and he also mentions that is controlled by officials instead of a professional harbor managing company, because they do not want to lose this opportunity to be corrupt.

Another corrupt sector Andersson talks about is mining where 30% of all the taxes paid by the mining companies disappear. He supposes as well that some of the small-scale miners do not declare what they dig or pick up, and bureaucrats on different levels often cut in. Andersson gives an example of a friend of his who was working for a gold-mining company that was going to open a new mine in one of African countries and the president was coming to open it. He came, sat down and said: "I will not inaugurate this until there is a gold bar on my desk." They had to give him a gold bar and then the inauguration took place.

The third corrupt sector, according to Anders Andersson, is building and construction. He also points out that it is like that in all the countries and that the sector often is rather mafia like.

Regarding the region specific corruption, Andersson thinks that it is pretty much spread all throughout the bureaucratic system in all the regions. On the other hand, he would say that the closer you get to the money, the more corruption exists there and assumes that Dar es Salaam is the most corrupt place in the country.

Anders Andersson suspects, but emphasizes that he speculates, that corruption often is initialized by the Middle East and Indian business communities, because they are used to corruption.

Concerning ethical awareness, Andersson confirms that they have an ethical code and always include their ethical policy when writing the business idea and the core values for the companies. However, the one who handles ethics on a daily level is the upper management. In Sweden you often have an organization that is very flat with redistributed power, but in Tanzania that would lead to more people being able to do illegitimate things.

According to Andersson's assessment their indigenous dependence is quite high: they only have local staff and very few managers who are expatriates. Despite that, Andersson is confident that they still have control over the situation due to a thorough and careful hiring process. He explains that they rarely hire random people; they rather get references, so that someone – friend or family member – could confirm that a person is honest and trustworthy. This way those who are hired also have more to lose by being dishonest.

Anders Andersson explains that though a big part of his business has a local market focus, they also do export and Andersson believes that this part will increase over the next couple of years. In addition, he sees the hotel as an export facility as well: it is the experience of a tropical island that is exported, and people pay for that experience in dollars. That is why tourism is a very efficient way of getting foreign currency into the country. The hotel also has around 10% of local sales.

Andersson is spreading his investment commitment between several different projects and sees it as a way to treat risks and corruption in Tanzania. He thinks though that in the future he is more likely to commit more money to the agriculture sector, because the market is enormous and the needs are enormous. If the things go well with the first factory, then they will build another one, not for cashew nuts, but for sesame seed or chicken, or pork. Andersson believes that the food and agriculture sector will become more and more important for them over time. Moreover, in his opinion, there is less corruption in the agriculture sector comparing to the other areas mentioned above. Corruption is not so obvious in the countryside since you are not so exposed to it.

Regarding work force localization Anders Andersson feels like most of the Swedish managers would not be able to do a good job for his companies, because they do not understand that you are supposed to manage people in a different way in Tanzania. For example, they have developed a management concept, which is based on their own experience but also on experiences of other people, that is called “kwanini” – “why” in Swahili. Andersson believes that it is hard to just take people from Sweden to work in Tanzania. To sum up, he is mostly convinced that when you build companies in that part of the world, you should have as much as possible local management.

## 4.2. Sven Svensson

### 4.2.1. RQ1: How does corruption influence choice of entry mode when establishing a business?

#### 4.2.1.1. Political Corruption vs. Bureaucratic Corruption

Sven Svensson feels that at the entry stage political corruption in Tanzania was more of a problem than bureaucratic corruption. Political corruption hinders the development and makes actors afraid to make a move. Bureaucratic corruption, on the other hand, proves to be particularly disturbing at the entry stage partly because you might be not used to operating in a corrupt country, but also because you have to go through more bureaucratic formalities in the beginning, like registering and licensing processes, renting or buying land, and so forth.

As mentioned, Svensson thinks that political corruption is a big problem, both at the entry and at the post-entry stage. He sees it as rather pervasive, present throughout the system on all levels and in all regions, and adds that it makes it more difficult for a small actor like himself and discourages entrepreneurs to invest.

To elaborate on his view on political corruption, he provides an example of when he was working as a consultant for a hospital. In that case a minister was giving the hospital fake invoices in the end of each month, thus robbing them for money.

Another example of political corruption that Svensson gives is when he was working for an NGO arranging Zanzibar International Film Festival. For the festival, they wanted to use the fort on Zanzibar. However, as the process went on, they noticed an obstacle – a minister was holding them back. The minister wanted to make sure that he would own a bar within the fort and was making it hard to arrange a tender process, because then some other player could be given an opportunity to run that bar. Additionally, one particular month the rent for the fort was increased by 4000 percent in order to cover payments to high-ranking officials in one of the neighboring countries.

Svensson thinks that this kind of high-level corruption is a hinder for the development of Tanzania in general and small businesses in particular; it is very difficult to stand up against politicians as a small actor. The best way to handle political corruption, according to Svensson, is to be prepared and to make sure, to the greatest extent possible, that you do not put yourself into the position where you have no other choice than to comply with corruption.

While bureaucratic corruption was not as big of a problem for Svensson when starting business in Tanzania, it was definitely something that slowed things down. There were requests for bribes at

every step of the process. However, the main difference between political and bureaucratic corruption is that a businessman has more strength to exert. When high-ranked civil servants are corrupt, there might be no man higher up to go to and complain, but for low-ranked officials you can always threaten to report the case to their superior. Svensson states that it might be also a good strategy to pretend that you do not understand what the clerks are actually asking for. Often by acting like that you can get around petty corruption, because they seldom say out loud that they expect a bribe. Svensson gives an example from the first bribery request that he could remember. He was taken to the police station for the unclear reasons. For two hours he was held at the station until an officer, at the presence of other officers, blurted out “Don’t you understand that we want a bribe?” Svensson simply explained that no, he did not and no, he would not even be able to pay a bribe because he worked for a Swedish NGO.

Basically, Svensson views bureaucratic corruption as something annoying that can make you more reluctant to invest in Tanzania due to the hassle of getting through all the different administrative instances. But if you are really determined to invest, you can get around corruption through a combination of acting naive, threatening with informing the superiors about bribery requests, and through stating that with the policies you are acting under, there is no way that a bribe can be paid.

#### 4.2.1.2. Grey Zones

When asked about grey zones, Svensson concluded that the scale of corruption definitely has more shades of grey in Tanzania than in Sweden. Even though Svensson spent some of his childhood years in Tanzania, doing business there proved to be a challenge in terms of the cultural differences and expectations. However, Svensson emphasizes that while Sweden is more black and white, there definitely are shades of grey in Sweden too, and there definitely are cases of corruption.

In general, Svensson did not deem facilitation payments as a big problem. He states that before even starting the first business he chose to take a stance against corruption and to not offer or take any bribe. Rather than paying, he would back away. This is something that was communicated to all their employees in order to ensure that they understood how Svensson wanted to run his businesses and so that they could all act unanimously. However, it is of course impossible to know for sure that employees do not at some point in time pay either an active or a passive bribe. Coming from another culture, a Tanzanian might think they are doing Svensson a favor by paying what he would not pay himself; perhaps more common in the case of passive bribes, where they are forced to pay in order to proceed. However, even if Svensson could not be sure, at least he had done what he could in order to ensure that employees and local partners do not take part in corruption in the name of the company.

Differences between bribes and small gifts are, according to Svensson, a difficult grey zone. For instance, it can be hard to know if it is seen as a bribe when you are paying somebody's lunch. Typically, that could best be spotted through noticing what comes after the lunch: a request for further benefits, or genuine friendship. However, it is important to understand that there are other aspects of culture here than just corruption. For example, some people in Tanzania might deem it as a sign of strength to be able to pay for a white man's lunch.

Svensson states that he has definitely seen country of origins effects on businesses. Businesses from the U.S.A. often receive much support from their embassy, and much pressure and sometimes obligations come with governmental aid. Businesses from Sweden sometimes have more discreet advantages that will be discussed further below in the section about home country institutional environment.

#### **4.2.1.3. Home Country Institutional Environment and Propensity to Engage into Bribery**

Due to the long tradition of donor aid, but also personal relations between former Swedish prime minister Olof Palme and former Tanzanian prime minister Julius Nyerere, the image of Sweden in Tanzania is very positive. That goes all throughout the population of Tanzania, but probably even more so among people that are above 40 years old.

The positive image of Sweden was definitely something that Svensson found helpful. Also, been born in Dar es Salaam Svensson has additional connecting points when starting his businesses. Additionally, his family lived and acted in Tanzania, to various extents, in the 70's up until today, and he has often been able to leverage this fact when doing business.

According to Svensson, Sweden is seen as a country with zero tolerance towards corruption. However, many people have a quite skewed view of Sweden and they think that everybody there has extreme riches and wealth. Svensson states that when he tells Tanzanians about, for example, costs of living in Sweden, they do not believe him.

Being white, and Swedish in particular, has had many positive sides for Svensson. For one, people trust him more easily. This happens for two reasons: coming from a rich country, and more importantly, coming from a donor country. The fact that Svensson has represented a Swedish NGO in Tanzania gave him further strength when conducting business: if needed, he could get a meeting with the president because.

Moreover, trust is one of the most, if not the most, difficult components when doing business in Tanzania. Svensson sees Sweden and Tanzania as two distinctly different countries when it comes to



trust capital: Sweden has very high trust capital, higher than most others, and Tanzania has a very low trust capital. Often the corrupt behavior stems from people not being able to trust other people. Svensson had one experience where a partner deceived him because he was thinking that Svensson would cheat him at some point anyways, and he thus wanted to do it first. Basically, when no one trusts anyone, it is impossible to do transparent and honest business. If Svensson came from a country with a lower trust capital, like India, Spain or Russia, he thinks, he would be better at understanding the Tanzanians and doing business with them.

Svensson also thinks that with time, you can build trust capital for yourself. Once people start to know you and understand the way you are doing business, they know that you are honest and that you will not accept any corrupt behavior. For that reason, Svensson thinks that it is of utmost importance to never ever take part in corruption. Once you have participated in it, you have destroyed your image and lured yourself into a trap.

#### **4.2.1.4. Corruption Distance and the Choice between WOS and JV**

Although joint ventures (JVs) have been planned, Svensson has only run his businesses through wholly-owned subsidiaries (WOS). Svensson states that the reason for why he chose to work mainly through WOS was, at least in the beginning, that the first partners he wanted to work with were working through limited company structure. At the moment, two out of three businesses Svensson is involved in are 100% owned by Swedes. The only people he co-owns with are his own family members and close friends.

While Svensson stated that the main reason for why he started out with WOS was because others he knew were doing it, he would still do it that way if he wanted to start a new business now. After some run-ins with local partners Svensson mentions that he would rather start on a very small level and build it bit by bit on his own than to try and launch a big project together with someone else.

In one of the planned JVs that in the end did not take place, more money than before was involved, and thus greater trust was needed. Here, Svensson learned a valuable lesson in terms of trust and character reading in Tanzania: just because you enjoy the company of someone, and that they are pleasant, intellectual, have the right contacts and business experience, it does not mean that you should be doing business with them. Perhaps, the biggest anxiety Svensson ever felt during his many years in Tanzania occurred when he understood that his JV partner was doing a multitude of things on the wrong side of the law that Svensson did not want to get dragged into. For Svensson, it is entirely clear now that you need to properly distinguish trusting someone on a personal basis and trusting someone on a business basis.

#### 4.2.1.5. Host Country Legal Environment and International JV Partner Selection

When starting a business in Tanzania, Svensson looked for a partner that would have knowledge about the culture in general and about the industry specifically. The idea was basically to have someone who would be able to help with developing the businesses. However, Svensson did not apply any particular partner selection criteria for any of the partnerships that he has had. Mostly, Svensson would go on gut feeling when selecting whether or not to work with someone.

The first partnership that Svensson tried was with a Swedish missionary couple. The couple, like Svensson at that time, lived in Tanzania. The idea they had was to establish a dialogue between the Christian and Islamic societies in Tanzania. Practically, they wanted to set up a sewing school with the missionary money. The students at the school would then produce items for sale that would help keep the school running. The problem was that the couple saw business and profit as evil, though he tried to persuade them that in order for the business to be sustainable, it had to be profitable. The couple had a good initial idea, but perhaps not the best idea of how to put it into practice.

The second partnership attempt was with a Swedish man who had a Tanzanian wife. The man was already working on his own projects, and wanted to activate his wife. However, the problem here was that the wife did not wish to work. During ten months' time, the woman did not accomplish much at all, and the project was ended.

The partnership attempt with a local tailor also ended badly. The idea was good, and the tailor seemed like a good guy that understood the values that Svensson and his wife shared regarding corruption. In this project, they were going to produce designer clothing. The problem was that the tailor did not like the idea of conducting business with a woman, and since Svensson's wife who was the co-owner and designer, that was a big problem. In the end, the tailor started his own project on the side, similar to Svensson's, and ended the partnership serving false accusations on Svensson. The former also believes that the tailor's bad English was another reason why the partnership failed – Svensson thought the tailor understood more than he actually did, and the miscommunication caused deeper cracks.

Another partnership attempt by Svensson was a partner network. Svensson still believes that this is a great idea in itself, but apparently it is very difficult to actually launch because none of the members and potential members are interested in doing anything that might gain someone else if it does not yield good profits for themselves first.

The worst attempt, in terms of emotional commitment, was the attempt to partner up with an experienced businessman with much industry knowledge. It looked like the perfect fit, except he

apparently had criminal ties. The businessman was not conducting his business in a way that fit Svensson's ethical code, so Svensson had to back out.

Looking back at all these partnerships, Svensson's main conclusion is that just trusting your initial gut feeling is not enough. You have to give it more time and to investigate more properly whether or not they do share the same values and ethical code as you, or if yours is transferable; because if not, then a partnership is simply not plausible. Svensson mentioned that many businesses in Tanzania are run in a manner where the managing director himself goes around collecting the money from, for example, the different petrol stations he owns. This is done because nobody believes they can trust anyone. Even family members are often shown a lack of trust.

#### **4.2.1.6. Corruption and Administrative Costs**

Regarding corruption during the administrative process of registering a company and obtaining land, Svensson states that people often think it is harder and more corrupt than it actually is. Svensson goes as far as to say that it is easier to start a business and to obtain land in Tanzania than in Sweden. Of course, there is a lot of corruption during these processes, but Svensson means that this kind of corruption is on a rather low scale and that it is rather easy to get around it.

The main problem that Svensson experienced was with getting an investment permit on Zanzibar. Since he wanted to run a production company he had to get an investment permit for production. However, had he focused on the design side of it he would only have needed a tenth of the funds to get a design permit.

Mostly the hold-ups came from his own side because he was busy working full-time with a Sida (Swedish International Development Agency) project at that time, but there were also some hold-ups coming from the government side. The way that it was solved was through Svensson hiring a consultant that looked over the business plan and signed it off where it needed to be signed, and brought it to the right people. While this could be considered an advantage it would be unfair to call it a bribe. But of course, somehow, he bought this consultant's network and knowledge of how to get papers through rather than what he thought he was buying the consultant for – getting feedback on his business plan.

Regarding land issues, Svensson did not experience much trouble. Rather than trying to buy or lease from the government, Svensson rented from locals. No issues of corruption in this case, but there were other obvious issues such as very poor service whenever anything happened, like for example the water not functioning.

## 4.2.2. RQ2: How does corruption influence business strategies at the post-entry stage?

### 4.2.2.1. Political vs. Bureaucratic Corruption

Svensson is positive about the future in Tanzania. The locals are to a greater extent demanding limited corruption from the officials, and Svensson believes that there is more power in the locals demanding this than foreign businesses. People are being more vocal about corruption now, and more people have been caught. But this does not necessarily mean that corruption has gone down. However, the change has not been that big since when he entered Tanzania a decade ago, but he believes that the tendency is that it is, albeit slowly, changing for the better.

As Svensson does not presently live, and has not for the last few years lived, in Tanzania, he does not experience or notice as much political corruption. He is of course hoping for less political corruption, and dreaming about politicians that can stand up for what is right for the population, but he firmly states that corruption or no-corruption, he does not intend to draw out of Tanzania completely. However, the level of corruption definitely affects his willingness to do business, even if corruption right now is not what is holding him back.

When it comes to bureaucratic corruption at the post-entry stage, Svensson states that he has countless of examples. As earlier mentioned, bureaucratic corruption might not be as difficult as political corruption, but it is definitely something that makes conducting business harder. While Svensson thinks there are ways to get around bureaucratic corruption, it is impossible to avoid it completely since it is all spread all through-out the society.

An example of the perhaps most annoying and difficult kind of bureaucratic corruption is according to Svensson the port of Dar es Salaam. The main problem with the port is that the customs office has physical control over the goods being imported or exported. It does not matter if you have all the correct papers, the employees at the customs office knows that you need to get your goods out of the port area quickly, that it is costly for you to have the goods stalled there over days, weeks or even months. Thus, they know that they have power in the situation and they will do their best to leverage it. Svensson further mentions that the port has such a history of corruption, that even when instances of the port are cleaned from corruption, people continue to pay. Before, to enter the port area, everybody had to pay a sum of money to the person at the gate. Later, it became possible to pay a legal fee which was even smaller than the bribe requested for by the person at the gate. However, people continued to pay the person at the gate rather than paying the lower legal fee.

A change in political corruption is what Svensson believes is the first stage towards a change in total corruption in Tanzania. He thinks that when decisions are made on top level, laws are passed,

regulations are created, a change that has impact occurs. In order to change bureaucratic corruption it must start with the political corruption, and in order to change the political corruption there must command a demand from the people for transparency and better use of the tax money.

#### **4.2.2.2. Grey Zones**

Regarding the grey zones and how they have changed, Svensson was cautiously positive. While things might have, to some degree, changed for the better, the most important changes have come on a personal level through Svensson gaining more experience in Tanzania. Svensson explains that in, in a social context, you cannot say a distinct yes or no. You have to somehow make your way without being too definitive. It is better to avoid something, work your way around it, rather than to say a distinct no. The way that you deliver the no is more important than that it actually is a no; the way it is delivered can turn into an insult.

When asked if there has been a change in the way Tanzanians view what is a gift and what is a bribe Svensson mentioned that he thinks there has been some law defining it, but much more importantly there has been an economic growth. While Svensson understands that as the normal economy grows, so does the shady economy, but because of the growth there are more people now paying money into the tax system. As there are more people contributing with their own money, there are thus more people with demands for how the money is used.

Svensson also mentions that more and more international companies coming into are also changing the situation. With more big and international players, the demands for transparency will rise. When there are more big players, it is easier for Svensson to follow their lead and more Tanzanians will be willing to comply with demands of doing business without corruption.

#### **4.2.2.3. Home Country Institutional Environment and Propensity to Engage into Bribery**

Over the years Svensson has noticed a shift in how Tanzanians view Sweden and people coming from Sweden to do business. A decade ago Swedish people were basically only known to the common man in Tanzania as people coming with aid money. More and more Swedish companies are entering Tanzania, and Tanzanians are getting a better view of the world partly through internal education but also through more Tanzanians having lived abroad.

Not only has the view of Sweden and its people changed to some extent, but also the view of Sven Svensson. He states that after spending years in Tanzania doing business people have started to know him more and more as Sven Svensson rather than just another Swede. Thus, he claims that the more you are present in the host country environment, Tanzania, the less the home country environment, Sweden, matters to the people you do business with.

However, the view of Sweden as a country with zero tolerance towards corruption stands. While some people might have a better understanding of how Sweden actually works, there has been no change from zero tolerance to some tolerance. Although, Svensson mentioned that given that it has moved from Sweden being viewed as only a donor country to also a country that enters Tanzania to do for-profit projects, perhaps some people views the Swedish individuals there doing business as different from the donor people from Sweden that have no interest nor capability to take part in the corruption. Thus, perhaps some people might be more prone to try and force corruption upon Swedish businesses.

The trust capital that Svensson mentioned was very low when he entered Tanzania has remained quite low. Svensson would rather say that the difference has been in Sweden where we have had a few scandals the past few years. However, Svensson still claims that trust is still on a highly personal level, and that perhaps some Tanzanians have gained more trust capital than others. Furthermore, Svensson means that he himself has built his own trust capital over the years in Tanzania and that when people do business with him they trust him more now than they did a decade ago. Thus, the individual trust capital, which can only be gained over time, is much more important than the country-based trust capital.

Hand-in-hand with the fact that the individual trust capital is more important than the country-based trust capital, and that Svensson currently is not present in Tanzania, comes the fact that no matter what image Sweden might have nor what image Svensson might have, he can never be entirely sure of how his business is being run in terms of corruption or no corruption right now. The current partner, a Tanzanian woman that has lived in the UK for many years, is a partner that Svensson trusts. But as she is Tanzanian and as she is running the business in Zanzibar right now, the fact that the owner of the company is Swedish and is named Sven Svensson, and whatever image that comes with that, plays less and less role.

#### **4.2.2.4. Companies' Responses to Corrupt Actions of Competitors**

Corrupt actions of competitors are, according to Svensson, a very delicate matter. Often you find out about the corruption after it has taken place and after a competitor has signed a new contract. However, not seldom do you know about it when it is, or even before it is, in fact taking place. The problem is that knowing about it and having evidence for it are two totally different things. Svensson mentions how he often knows that the corruption is there, but he has no way of proving it. Furthermore, even if he could prove it, it is not certain that a case can be won through it. He compares the legal system in Tanzania with the legal system in Sweden. In Sweden, he says, you can be quite sure that as long as you are right and have done correctly while others have not, you will

win the case. However, this is not the case in Tanzania. Svensson states that the legal system in Tanzania is too corrupted to be able to ensure that being right also means getting right. Thus, it is impossible to know for sure that making a move against a competitor in a corrupt case will be something that benefits you.

Furthermore, Svensson mentioned that even if you are right and you get right, it can be detrimental to your business situation in Tanzania. By being rough on the way that the Tanzanian culture has worked and run businesses for decades, you might scare away potential collaborators, partners, and customers.

As a result, Svensson has taken a stance where he does not act on competitors' corruption unless it is something that directly harms Svensson and his businesses. The risk of negative effect on Svensson's businesses is too great to take active stances.

However, Svensson claims that it might be different if you are coming from a large organization. For Svensson personally, it is risky since he runs small businesses and does not have that much financial muscles to flex. A large multinational corporation on the other hand would better be able to enter Tanzania with a more aggressive stance towards competitors' corrupt actions. They would more easily be able to force the government to take action when competitors are corrupt without risking as much as Svensson. Personally, Svensson might become shunned by the social society and become a person that people fear and do not want to neither conduct business with nor have a social life with. The biggest loser would thus be Svensson. For a large organization on the other hand, it would be easier since with the strength that they have the government will have to work hard in order to ensure that the organization wants to stay in Tanzania since that would be a great factor of economic growth for the country as a whole.

Svensson does not think that foreign players will be the key drivers of less corrupt behavior though. In order for the real change to happen it will have to come through local Tanzanians demanding a change. The big problem with that is that for a Tanzanian to reach a place where he or she would be able to have a large and changing effect on the situation, the risk of being corrupted on the way up is very large.

#### **4.2.2.5. Strategic Responses to Corruption**

When Svensson was asked whether or not he had experienced much industry-specific, sectorial, corruption, he said no. He explained that the signing bonuses that people would request were something that was quite pervasive all through-out every industry sector. Svensson mentioned that

the signing bonus system was very common and that people even would be called “Mr. 10%” or “Mr. 4%” depending on what sum they usually requested.

Region-specific corruption was something that Svensson was more used to. The prime example for this is according to Svensson the port of Dar es Salaam. But Svensson also said that Dar es Salaam, which is the capitol of both the government and of the country’s business sector, is more corrupt than the country side of Tanzania. In the cities, corruption can more often be pervasive while on the country side it is more likely to be arbitrarily.

Regarding longitudinal change in corruption, Svensson states that since the independency in 1961 it has become worse, but over the last decade the corruption has lessened a bit. The main reason for the corruption lessening over the last decade is according to Svensson the fact that more and more Tanzanians are paying tax and that they thus start demanding value for the money that they pay. Svensson mentions that when more of the population reach a certain point they will be less inclined to participate in corruption because they will deem it not worth the risk of being caught.

For Svensson personally, none of these specific corruptions nor the longitudinal change of corruption has affected his business decisions long-term much. Of course, if the corruption grows and it gets out of hand, then he will have to re-evaluate his standpoint. But for now, he both has strong bonds to Tanzania and he sees no immediate threat to doing business. He is currently looking at possibly closing down the production part of his textile factory and focus on the design, but that has more to do with that he feels he does not have the right managers to take care of that presently. Svensson mentioned that the corruption has not caused him to shift his focus to exporting more to Sweden.

Svensson states that the ethical awareness in his companies is quite high. They have talked over what is allowed and what is not allowed to do, but they have not formulated specific ethical codes and codes of conducts. However, Svensson claims that if a potential manager does not agree to submit to and work with the same ethical values as Svensson, then they cannot be hired. If small problems exist and they become a pattern, it can be very difficult to break free.

The indigenous dependence has always been high for Svensson’s companies, and the dependence has definitely affected his business decisions. When the dependence has caused Svensson to not have control over situations where values and interests do not mix between Svensson and his partners or managers, there has been failure. From these experiences Svensson has learned that you really need to be sure that who you are working with is right for the position. However, he does not believe that it cannot work with indigenous people – it just needs to be the right ones.



## 5. Analysis

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*In this section of the thesis a comparison between the theoretical data studied and the empirical data collected is conducted. The two respondents are compared to each other in order to find similarities and differences between them and the literature. The analysis has been divided into the two research questions.*

### **5.1. RQ1: How does corruption influence choice of entry mode when establishing a business?**

#### **5.1.1. Political vs. Bureaucratic Corruption**

Texeira and Grande (2012) discuss how corruption is an integral part of many governments' governance quality, institutional transparency and political stability. They divide corruption into two general parts, political corruption and bureaucratic corruption. Both Andersson and Svensson state that they have experienced significant amount of both political and bureaucratic corruption.

Political corruption is, according to Texeira and Grande, corruption on a grand scale. The authors define political corruption as politicians abusing their power in order to sustain personal power, status and wealth.

In the interviews, Andersson mentioned having to close down a project temporarily after the government decided on new rules shortly after Andersson's company was registered. The new rules benefited some people in the government, as they would be the ones publishing books instead. This is a clear example of the abuse of political power in order to sustain and build personal wealth. Additionally, given that schools did not receive enough books this is a good example of how corruption harms not only specific companies, but also the country as a whole. For Andersson this experience and his other experiences have taught him that politicians sometimes act on behalf of themselves instead of acting on behalf of their organizations.

The example Svensson provided was similar in the sense that a minister wanted to try to use his political power and slow down things for Svensson's project in order to get the rights for the bar during the film festival.

It is clear that both Andersson and Svensson have experienced the situations when politicians wanted to abuse their power in order to gain personal advantages. Both interviewees mean, though, that as long as you prepare yourself and act openly and with caution ensuring that you do things in the right order, you can manage projects without too much trouble. However, unlike bureaucratic corruption,

when it comes to political corruption there will be some instances where you simply are unable to make a move.

Regarding bureaucratic corruption, Texiera and Grande mention that it often occurs very arbitrarily. Both Andersson and Svensson agree with the authors and mention how it is perhaps even more different when you compare big business areas like Dar es Salaam with villages outside of the city regions. However, both interviewees do not seem to think that bureaucratic corruption is a big issue. They state that as long as you are clear about not taking part in the corruption game you can avoid having to pay bribes to corrupt bureaucrats. It is not always easy to avoid it though. The harbor was mentioned by both interviewees as an instance where it can be very difficult and costly to not comply to bribe requests; at the harbor the officials feel as if they have the power since they are able to physically hold the goods, claiming they need to go over details, and charge the owners of the goods for having them at the harbor.

#### 5.1.2. Grey Zones

Søreide (2006) discusses how doing business in some countries can be more black and white than in other countries. They discuss three different areas where they deem the business environment to be in different shades of grey in corrupt countries: *facilitation payments*, *marketing* and *political pressure*. Andersson and Svensson both agree that things indeed seem greyer in Tanzania than in Sweden, but Andersson is firm in his belief that if you have done international business for a while then you know the legislations and that there are actually no grey zones when it comes to corruption – it is all black and white. However, he, just like Svensson, agrees with that even if the officials know that they are being corrupt and in fact are doing something wrong, but people in the country see it as a cultural thing and do not get as upset about corruption as people in Sweden would get.

The authors discuss facilitation payments as small bribes that are paid in order to get things done. They separate them into two different kinds; active bribes, and passive bribes. The first type means offering a bribe that has not been requested, and the second means acquiescing to a demand for a bribe. Andersson and Svensson both state that, since they have a clear policy towards not accepting or paying any bribe whatsoever, neither of these two kinds of bribes have been a problem or something that has occurred within their organizations to their knowledge. However, since they cannot control every employee's every move, they cannot for sure know that no bribe has ever been paid. But they have been vocal in communicating the policy against corruption, and both have, when asked by employees about payments, declined to pay any bribes.

Another area that the authors discuss is marketing targeted at specific individuals, for instance, giving presents or doing favors in order to get something in return later. Neither Andersson nor Svensson think this was very troublesome. Svensson however discussed how small things such as paying for somebody's lunch can lead to further expectations. In general though, this was not a big problem.

The third area that the authors discussed was political pressure. They mentioned that some countries exert more political pressure than others when it comes to the organizations from their motherland. When the two interviewees entered Tanzania a decade ago to do business, they both felt that the U.S.A. was exerting pressure on Tanzania to make things easier for their organizations – both NGOs and normal businesses. Both Andersson and Svensson state that they do not regard this as corruption. However, they do realize that this gives some companies an advantage over others.

### **5.1.3 Home Country Institutional Environment and Propensity to Engage into Bribery**

Spencer and Gomez (2011) propose that companies from less corrupt countries are more likely to refuse engaging in corrupt activities, and, according to Transparency International, Sweden is one of the least corrupt countries in the world. Both Anders Andersson and Sven Svensson claim non-participation in corruption because it contradicts their moral principles and the ways they want to run their companies. In the case with Andersson he also owns a company in Sweden, so we can say that he has transferred his experience of doing honest business to his African enterprises. Svensson, however, had not been involved in any business before he started his company in Zanzibar. Moreover, he was born and raised in Tanzania, but despite that Swedish values prevailed when he decided to go into business.

In addition, the theory claims that local officials adjust their levels of pressure based on their estimation of the firm's most likely reaction: if a firm is known for uncorrupt behavior it will receive far fewer requests for bribery. Andersson believes that in trying to stay clean of corruption much depends on how you treat those requests from the very beginning: if you firmly say no and explain that it is impossible for your company to participate in these kind of affairs, the corrupt officials tend to back out and eventually bother you less and less. Svensson also thinks that it is of utmost importance to never ever take part in corruption, since once you have done it, you have destroyed your image and lured yourself into a trap. Both Andersson and Svensson mention that if you have started participating in corruption, it is very difficult to find your way out of it, since corrupt officials already have you on the ropes.

In their article Spencer and Gomez state that if a company's attitude towards bribery is not well known externally, officials may rely on its home country reputation when estimating the company's propensity to engage into bribery. Anders Andersson confirms that there are some people in Tanzania who view Sweden as a country intolerant towards corruption. He also believes that sometimes officials do not even try to require bribes from them, since they know that it is not common in Swedish culture. Andersson is convinced that other foreign companies than Swedish receive more bribery requests at the entry stage and they are also more willing to make illegal payments since they are more used to corruption and less negative towards it. He also states that this way being from Sweden made it a bit easier for them in Tanzania, since there are some people in the country who want honest businesses to establish themselves. According to Svensson, Sweden is seen as a country with zero tolerance towards corruption. He says that being white, and Swedish in particular, produced many positive effects for him: for instance, people tended to trust him more easily. Svensson is convinced that there are two reasons for that: a positive image of Sweden as a donor country and a perception of Swedes as people with extreme riches and wealth. He, however, does not mention being less bothered by corrupt officials by reason of his Swedish origin.

Regarding local partners Spencer and Gomez (2011) write that in the case of companies from less corrupt countries it is usually their partner that receives most bribery requests and possibly complies with corruption. Andersson thinks that his local partner receives far more bribery requests than him personally, since the partner is doing much more of the relationship work since they want to be seen as a Tanzanian company. According to Andersson, his partner, is also very good at handling those requests and letting people understand that their companies are not going to be involved in any corrupt activities. Svensson admits that he cannot be completely sure that no employee or partner has taken any corrupt action. He points out that trust is one of the most difficult components when doing business in Tanzania: people tend not to trust each other and expect to be deceived. Svensson had an experience where a partner behaved opportunistically because he expected Svensson to cheat him sooner or later, so he decided to do it first.

#### **5.1.4 Corruption Distance and the Choice between WOS and JV**

The common opinion presented in the literature is that greater corruption distance makes companies more likely to choose joint venture (JV) over wholly owned subsidiaries (WOS) when entering a new country. However, the choice of a WOS over a JV can be justified by avoiding uncertainty regarding the costs of controlling a local partner's behavior. Below we discuss the ownership choices of our interviewees and compare those to the situations described in the literature. Despite the fact that it mostly discusses MNCs and thus their foreign WOSs, we believe that it is applicable to wholly

owned companies (WOC) as well. The main difference is strictly legal, and regardless of an enterprise being a WOS or a WOC the definition still grasps the distinction between these companies and a JV, which our discussion is focused on.

In our case Sweden was assigned number 4 in Transparency International's corruption perception ranking while Tanzania was ranked 102 (Transparency International, 2013b). In other words, the corruption distance between the countries is significant. All the companies Anders Andersson has in Tanzania are joint ventures with his business partners since they own together the parent Company B and the parent company C (see 3.2.3.1). Andersson states that at the entry stage he could not choose a wholly owned company due to the lack of connections and knowledge of the market. In the other case Sven Svensson has only run his businesses as wholly owned companies (WOC) though joint ventures were planned. Svensson states that the main reason for choosing WOCs was that the first partners he wanted to work with were operating through limited company structure, so he assumed it was best.

According to Karhunen and Ledyeva (2012), the local partner is usually considered to be a good source of reliable information about business culture and legislation. Anders Andersson believes that having a local partner was his most important business decision and the key success factor, since businesses like his (a factory, a farm or a hotel) require big investment and depend on various permits issued by the local officials. His partner is the one ensuring that everything the companies do is in line with the laws and regulations. Sven Svensson in his turn has made several attempts to engage into a joint venture in order to have someone who could help to develop his businesses. However, the attempts were not successful for various reasons, mostly because the partners did not share Svensson's values and ideas about conducting a business or because their actions were on the wrong side of the law.

Anders Andersson is very positive about his partnership, but admits that now when he is more established in Tanzania, he could consider choosing a WOS. However, he has not mentioned anything like that in his plans for the closest future. At the moment, the businesses Sven Svensson is involved in are 100% owned by Swedish companies and Swedish people, and other co-owners are his family members. He says that if he wanted to start a new business now, it would only be a WOS: he would rather start on a very small level and build it bit by bit on his own than engage in any partnerships.

### 5.1.5 Host-country Legal Environment and International JV Partner Selection

In their research Roy and Oliver (2009) connect perceived rule of law and control of corruption in the country to the partnering concerns and partner selection criteria a company can have when choosing a partner for a joint venture.

Anders Andersson states that the legal system is corrupt: people are bribing judges in order to influence their decisions and there is always a risk for illegitimate behavior in the court system. Moreover, the risks to end up in court are much higher than in Sweden where Andersson had approximately 9000 living agreements and had around one court case every three or four years. In Tanzania he can easily be involved into three court cases at the same time. When it comes to corruption, both Andersson and Svensson describe it as very pervasive on all the levels through all the regions. In other words, the chances to encounter corruption are very high, and it characterizes control of corruption as weak and insufficient.

The partner selection criteria in the theory are divided in two main categories: task- and partner-related criteria which are further divided into character, partnering intent and partnering ability. According to Andersson, his was mostly searching for a well-connected and honest person who would share their values including negative attitude towards corruption. The right person was also supposed to have experience and be able to show that he or she had been successful before – in business and possibly partnerships. Andersson was also looking at track records to see if a person was capable of handling money before. Sven Svensson in his turn did not apply any particular partner selection criteria for any of the partnerships that he has had. Mostly, Svensson would follow his gut feeling when selecting whether to work with someone or not. He admits now though that it is not always enough and you have to investigate if potential partners have the same values and ethical code as you have. Andersson was getting references about the people he was interested in and also had several months or even years long interview processes where he and a potential partner could get to know each other. Andersson mentions, however, that nowadays he relies much more on his gut feeling when choosing partners than before when he used various checklists and HR approved methods. He also talks about the importance of chemistry between people.

Both Andersson and Svensson bring up the trust issues in the business relationships. Svensson explains that he has learned that just because you enjoy the company of someone who is pleasant, kind, caring and intellectual, it does not mean that you should be doing business with them. He also points out that in Tanzania people sometimes do not even trust their own family members. On a business level it leads to the managing directors of the companies themselves walking around and collecting money from, for example, petrol stations. Andersson also mentions that when it comes to

doing business in Africa you cannot outsource non-core activities, like warehousing, accounting or logistics, to the same extent as it is done in the evolved economies. You often have to do everything yourself so that you have less interaction with other companies and partners, because each relationship imposes additional risk and that risk should be reduced.

#### **5.1.6. Corruption and Administrative Costs**

Morriset and Neso (2002) discuss the administrative procedures with establishing new businesses in developing countries, and the administrative costs tied to them. The authors claim that as the quality of governance, degree of openness and public wages increase, the administrative costs go down. However, Andersson states that he in fact believes it is easier, faster and cheaper to establish a new business in Tanzania compared to in Sweden. With only two days to solve all legal issues and not more than five minutes to secure the name for a company, he is very impressed. Both Andersson and Svensson state that there is less corruption in the administrative procedures of starting a business than you would think. Andersson did not encounter any corruption at all during the registration process. The problems Svensson had in the entry approvals section of starting up a business had more to do with a complex system and perhaps stubbornness to apply for investment permit for production when an investment permit for design would have been enough.

Morriset and Neso further discuss how the access to land can be a complex matter. In Africa, land ownership is a sensitive matter and governments often rather lease the land than let businesses buy it. In Svensson's case this did not matter since they rented their production facility from a local. The problems they had was rather with getting the landlord to take responsibility for fixing whenever there were problems such as no access to water. Thus, that was not a case of corruption but rather a case of poor management. Andersson has had some more difficult and corrupt experiences. Several times he experienced corruption with people trying to sell land they did not own, owners not transferring the entire land that they claimed they were selling, crooks trying to steal the same land, through the legal system, several times.

Conclusively, Andersson and Svensson were both satisfied with the administrative processes of registering and starting a business in Tanzania. While they both experienced some level of corruption and some level of complexity, they were both convinced that it was just as easy, if not easier, than doing the same thing in Sweden. The difference between Tanzania and Sweden is that you need to better plan ahead in which order you do things. Andersson mentioned several times that you should never invest money into a project before you have the power to push it through. He recommends that you get promises and documents signed before you have made any actual investment. Because if you spend money before you have everything secured, then the officials know that they have the power

to cost you a lot of money unless you concede into paying bribes. From Svensson's experience, he recommends hiring the right people to help you with the processes. He mentioned the consultant he hired that helped him getting the signatures that he needed, and he states that networks are important everywhere, but in Tanzania they can often make an even bigger difference in whether or not you are successful.

## **5.2. RQ2: How does corruption influence business strategies at the post-entry stage?**

### **5.2.1. Political vs. Bureaucratic Corruption**

Texeira and Grande (2012) discuss how corruption is an integral part of many governments' governance quality, institutional transparency and political stability. They divide the corruption into two general parts, political corruption and bureaucratic corruption. Svensson is positive about the future in Tanzania and Andersson agrees with him, stating that the corruption has decreased over the last decade.

The political corruption that Teixeira and Grande discuss is on a grand scale, and Andersson mentions that the political corruption is in fact being challenged on a grand scale. As the opposition is growing, it scares the sitting party and forces them to act more transparently and less corrupt. Furthermore, both Andersson and Svensson mention that as the amount of the population that pays tax grows – they mention that only 1,5 percent pay tax now – the amount of people that will demand a change, in the use of the money that they have paid as tax, will increase. Combined, this forces the government to pervasively change the way they do things and to implement better guidelines and rules for everybody.

The bureaucratic corruption that according to Teixeira and Grande occurs very arbitrarily will, according to both Andersson and Svensson, change along with the political corruption changing. As political corruption decreases, so does bureaucratic corruption. A change in the political corruption forces a change in bureaucratic corruption to occur and both of these steps are good because they help change the country's culture.

While decreases in both the political and bureaucratic corruption is good, Andersson states that the biggest change compared to when he launched his first businesses in Tanzania and up until now is the growth that he personally has had in understanding how corruption works. Through knowing how corruption works, and having had personal experiences of it, Andersson claims that you are in a



better position before you even get into a corrupt situation; with using past experiences from cases of corruption, new situations of corruption can be handled in a better way or even avoided completely.

### 5.2.2. Grey Zones

Søreide (2006) discusses how doing business in some countries can be more black and white than in other countries. They discuss three different areas where they deem the business environment to be in different shades of grey in corrupt countries; *facilitation payments*, *marketing* and *political pressure*.

As mentioned in section 5.1.2., Andersson and Svensson agree that things are greyer in Tanzania. However, they both believe that the definitions of black and white are becoming more distinct and that it is becoming a bit harder for people to move in the grey areas.

Neither Andersson nor Svensson think that there has been any major changes in any of the three areas that the authors discuss. Facilitation payments are still handled in the same way, the only difference is that there are some more regulations and clear guidelines in how things should be handled. Marketing towards specific individuals still occurs, but for the interviewees this is not important except to the extent that they need to be wary of accidentally taking part in it. Political pressure is still being exerted by countries, like for example the U.S.A. Andersson expresses that he would actually like to see the Swedish embassy get more involved in the dealings of Swedish companies in Tanzania. Not in order to exert unfair political pressure, but to better back up and support the Swedish entrepreneurs that are present in Tanzania.

### 5.2.3 Home Country Institutional Environment and Propensity to Engage into Bribery

According to Spencer and Gomez (2011), there is a link between a company's reaction when first faced with corruption and the frequency of bribery requests it will get in the future. Andersson emphasizes that both he and his partner chose not to comply with corruption from the very beginning and were clear with their employees about how they want to run their businesses. Andersson mentions also that after the local officials and bureaucrats realized that he and his partner are not planning to comply with corruption, many of them stopped trying to require bribes. Now, at the post-entry stage, they receive fewer and fewer requests for bribery also because they do not need so many permits and licenses anymore and as a consequence do not interact as much with the officials.

The literature also suggests that the home country image matters more when local officials are not familiar with a company's attitude towards bribery and corruption. Thus it should not play such a big role at the post-entry stage when a company is more established in the host country and better known

to the authorities. Sven Svensson states that after he had spent several years in Tanzania doing business people got to know him better and treat him more as an individual rather than just another Swede. Thus, he claims that the longer you are present in the host country environment, in this case Tanzania, the less the home country environment, Sweden, matters to the people you do business with. Anders Andersson also claims that now when he is more established in Tanzania and has adjusted to the culture, people mostly see him as a Tanzanian businessman, rather than someone who came from Sweden. And people who work with them assume that they do not give bribes because of their personal values, not just because they come from somewhere where the level of corruption is very low.

In addition, the image of Sweden in Tanzania has somewhat shifted compared to ten years ago. A decade ago Swedish people were mostly known in Tanzania as people who come with the aid money. Sven Svensson points out that nowadays, when more and more Swedish companies are entering Tanzania, people are getting better at seeing Swedes as those who come to Africa to do business and earn profits. The downside of that, however, according to Svensson, is that some Tanzanians assume that Swedes who do business are different from Swedes who do charity, and thus the former might be less negative towards corruption than the latter.

#### **5.2.4 Companies' Response to Corrupt Actions of Competitors**

Søreide (2006) claims that when a company suspects its competitors of giving bribes, it usually acts in one of the three ways: leaves the market, complains and speaks out or adjusts to the local culture which might also mean active bribery. Anders Andersson says that he has not encountered much competition in Tanzania, but every now and then his publishing company participates in public tenders. Sven Svensson has participated in some tenders with his tailoring business. Both Andersson and Svensson suspect that some of their competitors get unfair advantages during the tender processes by bribing public authorities. Andersson points out that in those cases corruption is very obvious, since offers, prices and quality of the competitors are worse, however, they manage to win a tender. Svensson mentions that he often knows that the corruption is there, but he has no way of proving it.

Regarding the response to the corrupt actions of the competitors, Andersson explains that they store the information until the next time and then give that information to the influential people in the bureaucracy that have fighting corruption on their agenda. He adds that they do it not in order to put people in jail, but to prevent it from happening again. Sven Svensson in his turn does not act on competitors' corruption unless it is something that directly harms him or his businesses. He says that the risk of negative consequences for his businesses is often too big to take action. In Svensson's

opinion, it is impossible to know for sure that making a move against a competitor will be something that benefits you because the legal system is too corrupt to ensure that being right is enough to prove yourself right. He also believes that bigger companies in Tanzania might have better chances at fighting corruption than him with his small businesses since they have more financial resources and more power to exercise.

#### 5.2.5. Strategic Responses to Corruption

Luo (2011) investigated subunits of MNCs' strategic responses to perceived corruption in emerging markets. The focus of the study was to understand how the corruption affects strategies at a post-entry stage. Luo developed three different strategic responses to corruption that he tested against MNCs. These strategic responses were *investment commitment*, *workforce localization* and *export market focus*.

Neither Andersson nor Svensson applied much workforce localization and export market focus as an answer to perceived corruption. The focus for both Andersson and Svensson is the present market and to produce and sell locally. Svensson sells to some extent in Sweden through the shop in Stockholm, but the focus is still on the local market.

Both Andersson and Svensson mentioned that their investment commitment definitely is affected by corruption. However, most of the time the investment commitment is rather affected on the basis on whether or not to invest into a project at the start-up phase or not, and is based more upon industry-specific, sectorial, corruption than region-specific corruption or longitudinal change. A specific example where investment commitment was affected is the case of the publishing company that Andersson was starting which had to be put on pause because corruption affected it. Also, Andersson mentioned that he was moving into the agricultural business, a business that he deemed less infected by corruption.

Both the interviewees stated that they had a high level of ethical awareness and that it has, just like Luo had found in his research, helped them in meeting and dealing with corruption. When it comes to indigenous dependence they both stated that they had a high level of dependence. This was mostly seen as something positive by the interviewees. However, through-out the interviews it was very obvious that they believe that the dependence has to be on the right people; people that you can trust share and act according to the same ethical values that you do.

## 6. CONCLUSION

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*In this last section of the thesis, concluding discussions regarding the results of the study are conducted; the research questions are answered, the differences between this study and previous research are put forth and the results are connected to the thesis' purpose. Furthermore, this thesis' contribution is discussed followed by our suggestions for future research based on our findings.*

### **6.1. RQ1: How does corruption influence choice of entry mode when establishing a business?**

Our study has shown that it is possible to start a business in a developing country without complying with corruption. The participants considered corruption in Tanzania to be pervasive but none of them saw it as a problem significant enough to force them to leave the market. All of them, however, admitted that while it is not impossible to work in a corrupt environment, it is harder and requires some adjustment and good strategies.

The entry stage is the time when a company is the most exposed to corruption. The main reason for that is frequent interaction with public authorities and civil servants in order to obtain the necessary licenses and permits. However, as we found out, bureaucratic corruption is relatively easy to fight at this point if you do it the right way. If you do not want to take part in it, it is important to make it clear from the very beginning and make no exceptions. When you decisively refuse to give bribes several times explaining that your company is transparent and has no account for bribes, it is likely that after a while you will receive less and less requests for bribery. Political corruption though is usually more sophisticated and thus more difficult to handle. The study has shown that in Tanzania a lot of frauds and attempts to involve you into corruption occur when dealing with land purchase. That is why it is important to do things in the right order and not invest too much into your project before you have land, licenses, and permits – everything that is necessary for it to exist. Otherwise you give all the power to politicians and civil servants and end up a hostage to your own project.

We have also found that when starting a business in a developing country it might be very beneficial to engage into a joint venture with a local partner who has connections and an understanding of the market. One of the study participants considers having a partner to be his most important business decision. However, in case you partner up with the wrong person there is a risk that all the benefits will be canceled by his or her unethical or even illegal actions. The latter can vary from giving bribes on behalf of your company, staining its reputation, to appropriating the business and forcing you out of the country. That is why it is of high significance to dedicate time and effort to finding a proper partner, and it takes more than just a couple of dinners and mutual sympathy. Since Tanzania, as

probably the majority of the developing countries, lack a public system where you can look up a person, you have to take references, talk to the families and friends, look at track records – in other words, research to find the evidence that the potential partner can be trusted. The participants mentioned honesty, connections and shared values as the most important criteria when choosing a partner. A feeling that a person could comply with corruption was mentioned as an immediate no-go. However, negative attitude towards corruption without other qualities was not considered to be enough to make a successful partner.

Both our interviewees admitted that they relied on their gut feeling to a big extent when choosing a partner. However, only Anders Andersson had a partner he was happy about while Sven Svensson after several partnership attempts in Tanzania decided that he would rather do everything on his own. The possible reason for that was that Andersson had had more business experience before he started in East Africa, and his gut feeling developed after many years of trial and error. In Svensson's case, he equated a person being nice and friendly to him or her being a good business partner, which turned out to be a mistake.

The study has proven that a local partner who is reliable and shares your moral values can be a great tool in resisting corruption. The partner is more likely to possess the skills necessary both to handle the local officials and to influence the employees to not take part in corruption. The latter is important since people in Tanzania think and express themselves differently in comparison to the Western world, thus it might be hard for a western person to make oneself understood. However, each additional relationship, if it is a partner or an intermediary, in a country like Tanzania exposes you to additional risk and bigger need of controlling that person. That is why you cannot outsource your non-core activities, i.e. warehousing, accounting or logistics, to the same extent as you would do it in the evolved economy. Moreover, as a chief executive manager you have to do much more micromanaging work yourself instead of delegating it as it would be done in a Swedish company. This approach also lowers the risk for the company to become involved in corruption.

Another way of managing corruption and uncertainty in a developing country would be to spread your investment instead of focusing on doing one thing really well as it is often recommended in business literature. Anders Andersson's companies, for instance, operate in hospitality, agriculture and publishing industries. The point with that is to have an ability to be flexible and shift the focus of investment from one industry to another if the business climate changes for the worse.

## **6.2. RQ2: How does corruption influence business strategies at the post-entry stage?**

Based on the research we have conducted it seems as the interviewees experience less corruption at the post-entry stage than at the entry stage. One reason for this is, as mentioned in the previous section, that there is not as much exposure to corruption as during the entry stage; there are simply not as many officials to deal with. Another reason why the interviewees experienced this is because the amount of corruption in the country has, to some extent, lessened as a result of economic growth. What exactly the reason for the growth is did not become clear. More foreign players have entered the market and larger parts of the population are now able to pay taxes. This in combination with more foreign players in Tanzania, and the recent revolutions in North Africa, has led to a stronger government opposition and higher demand for transparency. This forces the government to change, add regulations, guidelines and transparency, unless they want to be moved from their positions. However, more important than fewer officials to deal with and a somewhat lessened corruption is the fact that after years of dealing with the corruption the interviewees have become better at fighting it.

There are two ways in which they fight corruption. First, after countless situations where they have been exposed to corruption they have learned how to handle the corruption and make it as small a problem as possible. Examples of going to court, with success, have been mentioned. However, also mentioned was that it is more difficult to go to court in Tanzania compared to Sweden considering the fact that often in Tanzania being right does not necessarily mean getting right. Second, and perhaps more important, they have become much better at avoiding the corruption altogether. Perhaps more important than going to court is to note the corrupt behavior that has happened in order to be ready to use that, in similar situations where cases of corruption may occur, to avoid or discourage corruption. Showing that you are aware of how the corruption has taken place might incentivize people to not take part of the corruption. But avoiding corruption is mainly done through, as mentioned in the discussion for the first research question, doing things in the right order and not leaving any room for corrupt behavior.

When it comes to strategic responses to perceived corruption it seems as if adjusting the investment commitment is a good path to take; avoid the most corrupt areas if possible. However, a strategic decision that was not discussed in any of the literature used for this thesis but that came as a result from the interviews was the importance of conducting micromanagement. From the interviews it became obvious that the best way of avoiding petty corruption, which might grow into grander corruption, was to not give people the chance to be corrupt. In a country that is riddled with corruption it is important to not give too many people the chance of direct involvement with physical

money. To the extent possible, control everything from the smallest purchase to the biggest purchase. While it may sound as an ineffective way of controlling the business, it can help with steering clear of corruption.

Perhaps most important of all, though, and as mentioned in the discussion of the first research question, is to have a good local partner. Without a local partner that can be trusted to a hundred percent, it becomes very difficult to run the business long-term and still have growth. In the cases of the interviewees one was very happy with his partner decisions, and the other was not. It was clear that the one whose business had grown by far the most was the one who had a trustworthy local partner. If there is no good local partner then the entrepreneur will have to face a corrupt government and take care of all the micromanagement alone, something that simply takes too much time and energy and decreases the chances to be able to successfully grow the business.

### **6.3. Managerial Implications**

As seen in the discussion regarding the research questions above, some managerial implications can be drawn. First of all, contrary to the belief that you cannot do business in a corrupt society without corrupting yourself, we have found that it is possible to start and grow a business without taking part in the corruption. If you do not wish to take part in the corruption, you have to make sure you never, under any circumstances, accept corrupt behavior; if you take part in corruption just once, you risk becoming a prisoner to it.

One specific way of avoiding this is to have a good local partner that shares your values and principles, including a negative attitude towards corruption; crucial if you want to avoid corruption. A good partner will be able to provide you with connections and market knowledge. However, you need to ensure that you have spent enough time and effort in the partner selection so that you can be sure that they will conduct business in the way that you, ethically, want to conduct business.

Further strategies that are effective against corruption is to spread your investment, keep non-core activities in-house, and perform micromanagement from upper management level since whenever money, even small amounts, is involved the risk of corruption becomes more prominent.

### **6.4. Concluding Remarks**

The purpose of this thesis was to study how corruption in developing countries influences the business strategies both at the entry and post-entry stage for companies coming from a country with smaller degree of corruption. Through studying previous research within the area and conducting

interviews regarding how companies adjust their strategies to corrupt markets at both the entry and post-entry stage this thesis shines some light on how companies practically can adapt to corrupt markets. Through analyzing and comparing previous studies and other researchers' theory to the deep interviews that we conducted with Swedish businessmen that have years of experience in the Tanzanian market, we feel that the purpose of this thesis has been achieved.

We have concluded that some of the results of this study differ from what previous research stresses and that those differences can be seen as the thesis' theoretical contribution. Perhaps the differences stem from that we let the respondents answer via qualitative deep interviews while most other research has been conducted on a quantitative basis. One of these differences lie within how the interviewees emphasizes that, with tact in how you approach officials, you can solve matters without turning to corruption. Furthermore, it is evident that the character, personality, experience and connections of a potential partner is much more important than their specific industry knowledge and competencies. Another finding from the study is that micromanagement is crucial when running a company; few people should be allowed to handle the money because else the risk of corrupt behavior rises. Finally, it is clear that you should be careful with investing too narrowly considering that corruption can change the environment rapidly. It is better to spread investments than to invest everything in one project.

The possibility to generalize this thesis' results is somewhat limited as the cases studied are specifically companies run by Swedish businessmen in the Tanzanian market, and the businesses practices, according to previous research, differs on basis on which host country you come from and also on which country you enter. Thus, we consider the results to be applicable for businessmen from the Nordic countries entering East African countries.

## **6.5. Suggestions for Future Research**

After studying how businesses fit their strategies to corrupt markets we have found some problem areas. First of all, this thesis studied two cases where people moved from one specific home country to do business in another specific host country. Perhaps through a bigger study including more host countries as well as more corrupt countries, a better answer can be provided for our research questions.

Stemming from our findings, we have some additional suggestions for future research. First, in the country we explored the level of corruption has not significantly changed. According to the interviewees it has declined a little bit. If the corruption would escalate, one can expect the possibilities to run businesses would significantly change for the worse. Another issue was that it is



difficult to find good partners and managers to help with the interaction with employees and officials. Therefore we have two suggestions for what further research could be conducted on: the consequences for businesses if there is escalated corruption; and how to best incentivize partners and managers to steer clear of corruption.

Furthermore, it is possible to formulate hypotheses in order to quantitatively test our findings regarding the importance of having a good partner, spreading your investment, keeping non-core activities in-house and micromanaging whenever money is involved. An example of possible hypotheses can be seen in table 6.1 below.

<b>Hypothesis #1</b>	<i>When choosing a local partner in a corrupt country, partner-related criteria are more important than task-related criteria.</i>
<b>Hypothesis #2</b>	<i>If there is a significant difference in home and host country corruption, it is better to do a joint venture with a local partner than to start a wholly-owned subsidiary/company.</i>
<b>Hypothesis #3</b>	<i>If there is a significant amount of corruption in the country a company is present in, it is better to spread the investments over many industries.</i>
<b>Hypothesis #4</b>	<i>If there is a significant amount of corruption in the country a company is present in, it is better to keep non-core activities within the company instead of outsourcing them.</i>
<b>Hypothesis #5</b>	<i>If there is a significant amount of corruption in the country a company is present in, it is better that upper level management conduct a high level of micromanagement when it comes to money handling.</i>

**Table 6.1. List of hypotheses for future research**

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### **Personal Communication**

Anders Andersson	2013-04-12	14.00-15.00
	2013-04-27	09.00-11.00
Sven Svensson	2013-04-16	10.30-11.45
	2013-04-26	10.45-12.00
	2013-04-30	12.00-13.00

# Appendix A. Interview Guide

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## **Open questions:**

What is corruption to you?

Exemplify.

Can you exemplify different instances of corruption that you have experienced first-hand or have observed?

In Tanzania?

Did the corruption level affect your choice of entering Tanzania or not?

Did you expect to experience corruption?

Did you prepare for this?

To what extent are you aware of corruption even if you may want to steer clear of it yourself?

## **Transparency International's definition of corruption:**

Generally speaking as “*the abuse of entrusted power for private gain*”. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

Grand corruption consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public good.

Petty corruption refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.

Political corruption is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.

## **How does corruption influence the choice of entry mode when establishing a business?**

### **Political corruption vs. bureaucratic corruption:**

Did you experience any type of political corruption when establishing your business?

How did you experience the pervasiveness (the filling or spreading) of corruption?

Did you experience any type of bureaucratic corruption when establishing your business?

How did you experience the arbitrariness (determined by chance, whim, or impulse – different between different people, depends on what person you meet) of corruption?

Did corruption influence your entry?

How?

Which type of corruption do you feel affected you the most?

How?

Why?

**Grey zones:**

Have you experienced any difficult grey zones when establishing business in your country?

Have you been exposed to facilitation payments in any way at the entry stage?

Have you experienced active bribes at the entry stage?

Have you experienced passive bribes at the entry stage?

What was the difference between a gift and a bribe at that time?

Did you find this problematic?

Have you ever been in a position where this has been problematic?

Have you been given unfair advantages at the entry stage based on that you are a Swedish company?

Have competitors been given unfair advantages based on political pressure at the entry stages?

**Home country institutional environment and propensity to engage into bribery:**

How did people in Tanzania view Sweden?

Did it affect the way you did business in Tanzania?

Was there an image of Sweden as a country with “zero tolerance towards corruption”?

How much did this influence your relationship with local officials at the entry stage?

Do you think it protected you to some extent from requests from bribery?

Do you think that being from Sweden made it easier or more complicated to establish business in Tanzania?

In what ways?

Do you think other foreign companies operating in Tanzania get bribery requests more often at the entry stage?

What was your reaction to the first request for bribery if you have received one?

How do you think the presence of a local partner influenced the amount of bribery requests you got?

Did your partner receive bribery requests?

How did you make sure that your partner is not complying with bribery requests?

**Corruption distance and the choice between WOS and JV:**

If a company is a WOS:

Why did you choose to establish a WOS?

Did you consider JV with a local partner?

Which disadvantages, if any, do you see in JVs with locals?

If a company is a JV:

Why did you choose a JV with a local partner?

Did you consider establishing a WOS?

Which disadvantages, if any, do you see in establishing a WOS?

Are you trying to make sure that your partner is not engaged in corruption?

How?

If an entrepreneur has a local partner (advisor, consultant) but not a JV:

Why did you choose to work with a local partner?

How did you make sure that it was a “right person” you can trust?

Have you discussed corruption issues?

Did you make your attitude towards corrupt behavior clear to your partner?

How much did corruption influence your choice of ownership?

How?

### **Host country legal environment and international JV partner selection:**

What was your main purpose with having a partner?

Which criteria did you have when looking for a right person?

Were they more focused on personal traits and character?

Were they more focused on resources and skills?

How did you find your partner? (through other connections, by somebody’s advice, etc)

What were your main concerns when choosing a partner?

How did perceived control of corruption in the host country influence your partner selection criteria?

Were there any criteria derived from the high corruption level?

### **Corruption and administrative costs:**

Which procedures were needed to start a business in Tanzania?

Group them according to this article.

How much corruption (pressure from local officials to give bribes) did you encounter on each stage?

How complicated was it to obtain land in Tanzania?

Did you buy or lease?

Did it imply interaction with local communities?

Did you experience corruption when dealing with the land issues?

## **How does corruption influence business at the post-entry stage?**

### **Political corruption vs. bureaucratic corruption:**

Have you experienced any type of political corruption while running your business?

How have you experienced the pervasiveness (the filling or spreading) of corruption?

Have you experienced any type of bureaucratic corruption while running your business?

How have you experienced the arbitrariness (determined by chance, whim, or impulse – different between different people, depends on what person you meet) of corruption?

Does corruption affect you now?

How?

Which type of corruption do you feel affects you now?

How?



Why?

**Grey zones:**

Have you experienced any difficult grey zones when doing business in your country?

Have you been exposed to facilitation payments in any way at any time?

Have you experienced active bribes?

Have you experienced passive bribes?

Has the difference between a gift and a bribe changed?

Do you find this problematic?

Have you ever been in a position where this has been problematic?

Have you been given unfair advantages based on that you are a Swedish company?

Have competitors been given unfair advantages based on political pressure?

**Home country institutional environment and propensity to engage into bribery**

How do people in Tanzania view Sweden?

Does it affect the way you do business in Tanzania?

Is there an image of Sweden as a country with “zero tolerance towards corruption”?

How much does this influence your relationship with local officials now?

Do you think it protects you to some extent from bribery requests?

Do you think that being from Sweden makes it easier or more complicated to establish businesses in Tanzania?

In what ways?

Do you think other foreign companies operating in Tanzania get bribery requests more often?

How do you (would you) react to requests for bribery?

How do you think the presence of a local partner influences the amount of bribery requests you get?

Does your partner receive bribery requests?

How do you make sure that your partner is not complying with bribery requests?

**Companies' responses to corrupt actions of competitors**

Have you experienced a lot of competition in the host country?

Have you ever had reasons to believe that your competitors were giving bribes?

If yes:

Why?

How?

When?

Where?

What was your response to that?

What actions did you take?

If no:

Do you feel like there is something you could do if you actually encountered a competitor giving bribes?

Do you think there are ways to punish the competitor?

Do you see corruption as a part of the game?

Can it be influenced by foreign players in the market?

Are you aware of OECD convention against bribery?

Do you consider that Sweden is a part of it when you make business decisions?

### **Strategic responses to perceived corruption**

Have you experienced any kind of sectorial (industry-specific) corruption?

Elaborate.

Have you experienced any kind of locational (region-specific) corruption?

Elaborate.

Have you experienced a change in corruption over time (longitudinal)?

Is corruption changing in Tanzania?

How has that affected you?

Elaborate.

Does longitudinal change affect your decisions long-term (expectations of more, or less, corruption in the future)?

Elaborate.

Do you have a high level of ethical awareness?

How has that affected your strategic responses?

Investment commitment?

Workforce localization?

Export focus?

Do you have a high indigenous dependence?

How has that affected your strategic responses?

Investment commitment?

Workforce localization?

Export focus?