



# Digitalization level, corruptive practices, and location choice in the hotel industry<sup>☆</sup>

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## ABSTRACT

Based on institutional and agency theories, this paper examines the role of host corruptive practices on country choice for the hotel industry, as well as the power of digitalization as an anti-corruption tool. Digitalization level can boost transparency and can help monitor corruptive practices and other unethical behaviours. Relying on data from the Spanish hotel industry, the results confirm that the existence of corruptive or weak institutions has a significant impact on country choice, while a high digitalization level reduces the possibility of corruptive practices. We contribute by analysing the precise effect of host corruptive practices on country choice and the powerful effect of digitalization level as an anti-corruption instrument. This study is particularly interesting for the hotel industry, as a service sector, where multinationals need to carry out most of activities in the host country and maintain close interactions with foreign agents.

## 1. Introduction

Corruption is a perpetual human behaviour that has existed in every society over time (Barkemeyer et al., 2018; Kouznetsov et al., 2019). Corruptive practices may be prevalent in every country in different ways and with different intensities, and should always be considered negative (Gorsira et al., 2018; Mousavi & Pourkiani, 2013). According to the World Economic Forum (WEF), corruptive practices have caused a documented worldwide annual cost of more than 3.5 trillion dollars through bribes and stolen money (Johnson, 2018). The dramatic socio-economic consequences of corruption have increased societal and governmental concern about this issue (Gorsira et al., 2018), which has been intensified by globalization in all sectors (Petrou & Thanos, 2014). This phenomenon has gained much attention from business and management scholars over the last three decades (Farrales, 2005; Godínez & Liu, 2015; Wang et al., 2018), although empirical results about its impact on internationalization remain inconclusive (Helmy, 2013; Nguyen & van Dijk, 2012; Petrou & Thanos, 2014).

Corruptive practices such as bribery, fraud and financial crime consist of the abuse of (entrusted) power for private gain or benefit (Bahoo et al., 2020; Cuervo-Cazurra, 2006; Gorsira et al., 2018); such

practices take place because of information asymmetries and lack of transparency (Javorcik & Wei, 2009). Drawing on institutional theory (North, 1990), scholars consistently agree that the strength of institutions shapes opportunities and business practices in each country to reduce asymmetries and uncertainty (Nielsen et al., 2017). This may influence a firm's decisions, because they must adapt to the rules and values prevailing in the host country (DiMaggio & Powell, 1983). When the host country has weak or under-developed institutions, multinationals should be aware that corruptive practices could be rooted in that country (Godínez & Liu, 2015; Svensson, 2005). Weak formal institutions can lead to instability, market failures, uncertainty and information complexity in transactions, all of which entail higher costs and risks (Barkemeyer et al., 2018; Svensson, 2005).

Previous studies have concluded that corruption negatively influences economic growth (Fisman & Svensson, 2007; Mauro, 1995), investments (Cuervo-Cazurra, 2016; Lamsdorff, 2003), innovation and entrepreneurship (Anokhin & Schulze, 2009) and social development (Mauro, 1998). This issue has recently been studied in international business (IB) (Godínez & Liu, 2015), particularly in relation to emerging and transition economies (Hellman et al., 2000; Rodriguez et al., 2006). The IB literature confirms that corruption hinders foreign direct

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investment (FDI) and country choice (Brada et al., 2019; Brouthers et al., 2008; Doh et al., 2003; Donnelly & Manolova, 2020; Li et al., 2021; Uhlenbruck et al., 2006; Woo & Heo, 2009).

In accordance with the previous literature, in this paper we adopted the moralist view of corruption that condemns such unethical practices; this is currently the view most accepted by scholars (Javorcik & Wei, 2009; Petrou & Thanos, 2014). Although public officers may carry out corruptive practices, they have the capacity to build strong formal institutions to monitor and circumvent corruption (Petrou & Thanos, 2014). Due to market globalization, countries need to present favourable environments and strong institutions to attract foreign investment, so corruptive practices should be monitored and reduced. The level of digitalization for institutional rules, regulations and routines through information and communication technology (ICT) can play a positive role as an anti-corruption tool (Huang, 2015; Kim et al., 2009). Digitalization level improves public information, the flow of information between public and private agents and enables citizens to scrutinize public officers (Adam & Fazekas, 2018; Bertot et al., 2010; Davies & Fumega, 2014; Kossow & Dykes, 2018; Kuriyan et al., 2011).

To better comprehend how governments can reduce corruptive practices and increase international investments, we considered the following research questions: first, do host corruptive practices inhibit country choice? Second, is digitalization level an effective anti-corruption tool?

The hotel industry is an excellent field to test our hypotheses because establishing hotels abroad is a resource-intensive activity and multinationals have to interact with politicians and society in general. The Spanish hotel industry is a benchmark at the international hotel industry, because it is heavily involved in internationalization (Gémar et al., 2016). However, studies on location choice in the hotel industry are scarce. Some exceptions are Fang et al. (2019) and Puciato (2016), who identified relevant factors in country choice for the hotel industry, such as the hotel clustering and agglomeration, the level of economic development and the degree of internationalization at the location.

Our findings indicate that corruptive practices in the host country reduce the number of hotel establishments in that country. The results also confirm the expected role of digitalization level as an efficient anti-corruption tool.

Our study contributes to the existing literature in several ways. First, we analysed the precise impact of corruptive practices on country choice, because previous authors have called for more research on this topic (Petrou & Thanos, 2014; Rodriguez et al., 2005). Dealing with corruption is especially interesting in the hospitality industry as a service sector, because multinationals need to carry out most of the activities in the host country due to the nature of the product, and accordingly, close and regular interactions with foreign governments and local agents are involved (Plá-Barber & Ghauri, 2012). Second, we defined corruption broadly, as a many-faceted phenomenon, going beyond previous biased perspectives, which yielded a broad and objective measure of corruption that goes beyond the perceptual Corruption Index (Cuervo-Cazurra, 2016). Third, we studied the role of digitalization level as an anti-corruption tool. Digitalization is a relatively new phenomenon and influences the activities of firms in foreign markets because it can make formal institutions stronger and transactions more transparent (Daude & Stein, 2007; Nielsen et al., 2017). To test the effect of digitalization level on corruptive practices, we distinguished between corruptive practices related either to formal institutional weakness or to socio-cultural values in favour of corruption (Barkemeyer et al., 2018; Kouznetsov et al., 2019). This distinction is necessary because governments may only act to reduce corruptive practices by strengthening formal institutions, at least in the short/medium-term. Finally, we have provided a comprehensive concept and measurement of digitalization level that takes into account e-government administration, the technical development level of infrastructures and the technical skills of citizens (Charoensukmongkol & Moqbel, 2014).

## 2. Theory and hypotheses

Based on institutional theory, institutions are structures that provide the basis for a society and affect the actions and behaviours of people, systems and organizations (Arregle et al., 2013; North, 1991). Institutions define the rules of the game between agents and influence the attractiveness of the host country (North, 1990). Institutions can be both formal – laws and regulations, policies, economic structures and enforcement measures – and informal – norms, values, beliefs, traditions, prevalent practices and codes of conduct (North, 1990). Accordingly, the economics literature allows us to go deeper into the analysis of the formal institutions. Agency theory states that the complexity of transactions determines the likelihood of conflict between agents (Williamson, 2000). Uncertainty and risk associated with the home and host agents' relationships entail costs that may inhibit country choice. If formal institutions are weak, transactions are characterized by high uncertainty and information asymmetries.

An increasing number of scholars have argued that corruptive practices should be studied in the context of the institutional structures in which they exist (Farrales, 2005). Corruption, red tape, excessive bureaucracy and political instability take place in poor formal institutional environments. Thus, weak formal institutions let corruption become a prevalent practice in societies (e.g., Daude & Stein, 2007; Nielsen et al., 2017; Wei, 1997; Wheeler & Mody, 1992).

### 2.1. Corruptive practices and location choice

Corruption is an important phenomenon that characterizes countries' development level (Rose-Ackerman, 2007), the relationships between different agents and cultural values in a society. Corruptive practices emerge when formal institutions are poor and inefficient and cultural values are prone to corruption (Godinez & Liu, 2015; Svensson, 2005). These circumstances support information asymmetries and opportunistic behaviour in transactions (Krueger, 1974). Corruption includes different practices such as bribery, fraud, extortion and nepotism (Elbahnasawy, 2014; Steidlmeier, 1999). Such corruption may damage the strength and solvency of a nation (Voyer & Beamish, 2004).

A review of the literature reveals that there are several definitions and conceptual views of corruption (Cuervo-Cazurra, 2006; Farrales, 2005; Godinez & Liu, 2015). A review of the definitions of corruption shows that this concept has mainly focused on the public sphere, because corruptive practices are a principal-agent problem, with citizens usually being principals and government officials or bureaucrats being agents that act on the citizens' behalf (Barkemeyer et al., 2018; Doh et al., 2003). Aguilera and Vadera (2008), Godinez and Liu (2015), Jain (2001), Roy and Oliver (2009) and Svensson (2005) defined corruption as acts or practices in which the power of public office is abused for personal or private gain in a manner that contravenes the rules of the game. Shleifer and Vishny (1993: 599) defined power abuse as "the sale by the government officials of government property for personal gain". Similarly Judge et al. (2011) and Akçay (2006) defined corruption as the misuse of public power for private benefit; it is most likely to occur where public and private sectors meet. Rose-Ackerman (1999, 2007) defined corruption in a similar way, focusing on the public agent, but also highlighting the illegal payments that corruptive practices entail. Other studies like those by Cuervo-Cazurra (2006) and Gorsira et al. (2018) kept this broad definition of corruption as the abuse of (entrusted) power for private gain or benefits.

There are two opposing theoretical approaches to corruption: moralist and revisionist. The moralists condemn corruptive practices because such practices are a plague in societies and destroy well-being (Javorcik & Wei, 2009; Petrou & Thanos, 2014). These practices form a threat that should be monitored and controlled legally (Rose-Ackerman, 1999). The revisionists, on the other hand, argue that corruption should be studied more objectively: corruptive practices are considered unavoidable in transactions (Bayley, 1966; Leff, 1964; Nye, 1967). Qi

et al. (2020) even stated that bureaucratic corruption could, in some cases, improve efficiency in a weak institutional environment.

In IB literature most scholars consider that corruptive practices in a host country have a negative impact on internationalization (Bardhan, 1997; Campos et al., 2010; Cuervo-Cazurra, 2016; Lambsdorff, 2006; Mauro, 1998). It appears that, with some exceptions like Barassi and Zhou (2012) and Helmy (2013), the revisionist view has much less empirical support than the moralist one (Aidt, 2009). Drawing on a moralist approach, we consider that weak formal institutions yield to corruptive practices, while strong institutions hinder them.

Corruptive practices can negatively influence location choice for multinational organizations (Donnelly & Manolova, 2020; Holmes et al., 2013). Solid/developed formal institutions reduce uncertainty for the collective (North, 1991) and create obstacles for corruptive behaviour. Mature legal and judicial systems improve market efficiency and control over government discretion (Williamson, 2000), thus reducing uncertainty and facilitating fair transactions (Globerman & Shapiro, 2003; Petrou & Thanos, 2014). Inefficient formal institutions, meanwhile, boost risk in terms of information asymmetries, opportunity costs (Contractor et al., 2014; Hutzschenreuter & Voll, 2008) and lack of transparency (Javorcik & Wei, 2009).

Corruptive practices lead to an increase in costs because companies must not only pay fair prices but also pay bribes to government officials. Some authors consider corruptive practices as a tax on foreign firms (Kouznetsov et al., 2019; Mauro, 1995; Petrou & Thanos, 2014; Voyer & Beamish, 2004; Wei, 2000), and corruptive practices can promote unequal treatment of agents depending on their position in society and who can pay more (Gaur et al., 2007; Gupta et al., 2002; Mungiu-Pippidi, 2006). An additional cost is derived from the managerial and employee time devoted to dealing with corrupt government officials (Cuervo-Cazurra, 2016; Kaufmann, 1997; Svensson, 2005).

Previous studies have confirmed that corruptive practices do in fact have a detrimental impact on FDI and country choice (Brada et al., 2019; Cole et al., 2009; Collins et al., 2009; Du et al., 2008; Habib & Zurawicki, 2002; Jain, 2001; Voyer & Beamish, 2004; Wei, 1997, 2000; Wilhelm, 2002; Zhao et al., 2003). According to the institutional and agency theories, inefficient formal institutions can create significant uncertainty and restrict the behaviour of foreign firms (Bailey, 2018; Brouthers, 2002; Eden & Miller, 2004; Li et al., 2018; White et al., 2018), making corruptive practices more likely and reducing the presence of multinational enterprises (MNEs) in that country (Barkemeyer et al., 2018). Consistent with these arguments, we propose the following hypothesis:

**Hypothesis 1.** Corruptive practices in the host country negatively influence foreign firms' location choice.

## 2.2. Digitalization level as an anti-corruption policy

Digitalization level involves the use of ICT, such as electronic data management systems, the internet and communication infrastructure, which facilitates the processing, transmission and display of information (Charoensukmongkol & Moqbel, 2014). This also includes seeking permissions and demonstrating compliance with the rules, which would be done electronically. ICT improves efficiency through automated services and by simplifying administrative procedures (Davies & Fumega, 2014). Consequently, effective implementation of digitalization requires the adaptation of administrative governmental processes and users' digital knowledge (Adam & Fazekas, 2018).

One of the main contributions of digitalization is its use as an anti-corruption tool. Regarding the institutional context, a higher level of digitalization improves the flow of information and increases the transparency of formal institutions by monitoring information asymmetries and discretionary behaviours, reducing uncertainty and fostering unbiased citizen participation (Bertot et al., 2010; Chêne, 2012; Grönlund et al., 2010; Klitgaard, 1988). Level of digitalization therefore contributes to making public institutions more efficient and responsible

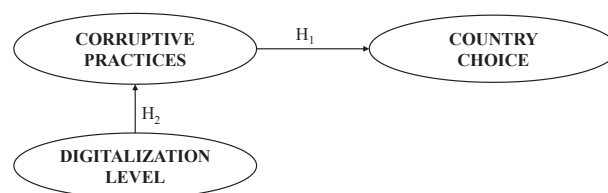


Fig. 1. Model of analysis.  
Source: Authors' own work.

(Davies & Fumega, 2014), as well as ensuring their activity is more easily legally controllable (Rose-Ackerman, 1999).

Drawing on agency theory, the effect of ICT on corruptive practices can be analysed from two points of view: the demand side of “citizens to government” (or “upward transparency” or “push”) and the supply side of “government to citizens” (or “downward transparency” or “pull”) (Adam & Fazekas, 2018; Avila et al., 2011; Grönlund et al., 2010; Heald, 2006; Kossow & Dykes, 2018). Regarding the demand side, a high level of digitalization reduces corruptive practices by monitoring public officials more effectively (Pathak et al., 2007; Shim & Eom, 2008), because greater digitalization lets citizens inform or complain about corruptive practices. There are also fewer face-to-face encounters between public officials and citizens with digitalization, which means less intermediation and the recording of all transactions in public data sets (Charoensukmongkol & Moqbel, 2014). Concerning the supply side, automation of the administrative process hinders public officials' discretionary actions and makes all public initiatives more accessible and visible (Castells, 2000; Soper, 2007). Accordingly, thanks to digitalization, the bidirectional distribution of information is more efficient between citizens and government, which makes digitalization level a valuable anti-corruption tool (Adam & Fazekas, 2018). In any case, the ICT development level of the country and citizens' digital skills play a key role, because they are the necessary requisites to transparent transactions (Davies & Fumega, 2014).

Previous empirical evidence on the link between digitalization level and corruptive practices is scarce and inconclusive; however, some results indicate the significant positive role of digitalization level as an anti-corruption measure (Adomako et al., 2021; Andersen, 2009; Kim et al., 2009; Shim & Eom, 2008). Mistry and Jalal (2012) and García-Murillo (2013) have studied corruption perception and confirmed that, as the digitalization level of public administration increases, corruption perception decreases. Mistry and Jalal (2012) found that the relationship was even stronger in developing countries. More specifically, authors such as Kleven et al. (2011) and Pomeranz (2013) confirmed that modern electronic tax reporting systems reduced fraud and corruptive practices. Similarly, Krolkowski (2014) examined the use of mobile payment methods on corruptive practices and found the same effect.

Digitalization level allows the host country to provide higher quality digital public services. A well-developed digital environment can help to reduce communication problems by providing a positive and transparent formal institutional context in which foreign firms can feel protected. This transparency reduces information asymmetries and uncertainty, discretionary behaviour decreases and corruptive practices are less likely to occur. Accordingly, our second hypothesis is:

**Hypothesis 2.** Digitalization level in a host country reduces corruptive practices.

Fig. 1 shows the analysis model with the proposed hypotheses. Hypothesis 1 proposes the negative effect of corruptive practices on location choice and hypothesis 2 sets out that digitalization level is an anti-corruption tool in a host country.

**Table 1**

Top six internationalized Spanish hotel chains in 2018 with more than 50 international hotels.

Hotel Chain	International hotels	Number of foreign countries
NH Hotel Group	253	28
Barceló Hotel Group	181	21
Meliá Hotels International	145	33
AC by Marriott	76	16
Eurostars Hotel Company	63	18
RIU Hotels & Resorts	58	15

Source: Authors' own work from (2018).

### 3. Method

#### 3.1. Data and population

This study was based on the entire population of the 64 internationalized Spanish hotel chains. The Spanish industry is concentrated around the top six chains according to the global number of hotels: Meliá Hotels International, NH Hotel Group, Barceló Hotel Group, RIU Hotels and Resorts, Eurostars Hotels and Resorts and AC by Marriot. In 2018, the top five most attractive destinations for the Spanish hotel industry were (see Table 1): the USA (181 establishments), Germany (113 establishments), Italy (100 establishments) Mexico (93 establishments) and the Dominican Republic (66 establishments).

We created our dataset from two complementary secondary sources on the Spanish tourism industry: Hosteltur and the Global Competitiveness Index (GCI) of countries from the WEF report. Because we have adopted an institutional country characteristics approach, the unit of analysis is the host country. Some countries where Spanish hotel chains operate were not included in the GCI, however, so those location choices were eliminated from the empirical analysis (Andorra, Aruba, Bahamas, Cuba, Puerto Rico and Saint Martin).

Hosteltur, as the Spanish mass media leader for specialized professional tourist information, publishes the International Presence Ranking (2018) of Spanish hotel chains. The reliability of this information source is supported by several academic researchers (i.e. Andreu et al., 2017; Escobar-Rodríguez & Carvajal-Trujillo, 2013; García-Muñia et al., 2020; Quer et al., 2007; Romero-Martínez et al., 2019). The WEF GCI assesses the competitive capacity of 138 economies, providing insight into the

drivers of their productivity and prosperity. The GCI is one of the data sets most often used when studying corruption (Cuervo-Cazurra, 2016). Before undertaking measurement of variables and testing the hypotheses, data were standardized when needed.

#### 3.2. Measures

**Dependent variable.** The dependent variable, host location choice, considers the international presence of Spanish hotel chains in each country. We included the number of Spanish hotel establishments in every country where the hotel chains are present. We used data from the international presence ranking (2018).

**Independent variables.** We measured corruptive practices, according to the broad conception of corruptive practices adopted in this paper, by means of seven items from the GCI (Collier, 2002): legal framework efficiency (regulation), legal framework efficiency (dispute), strength auditing, judicial independence, reliability of police services, organized crime and intellectual property. We built our measures by drawing on the previous literature (Godínez & Liu, 2015; Shelley, 1998; Varese, 1997). We obtained a one-dimension factor through exploratory factor analysis (EFA). Corruptive practices are latent complex phenomena and non-directly observed, so they are measured by several items that can be observed. EFA simplifies the interrelated measures and identifies the underlying factor structure. The analysis results are shown in Table 2. All items loaded on a single factor, confirming a one-dimension construct. The Cronbach's alpha value shows that the scale created is reliable. Moreover, KMO and Bartlett tests show that the data are valid to run the factor analysis.

Besides corruptive practices due to the weaknesses of formal institutions, such practices can also be favoured by socio-cultural informal aspects highly rooted in society values (Collier, 2002; Judge et al., 2011; Svensson, 2005). According to the literature, however, digitalization level only affects corruptive practices due to poor formal institutions (Charoensukmongkol & Moqbel, 2014). Therefore, we removed the socio-cultural dimension from the whole corruptive practices factor.

To measure the digitalization level of a country, we built a one-dimension variable using EFA. Several items from the GCI were selected, taking into consideration the adoption of digital initiatives by governments (the e-participation index), the digital infrastructure available to the population (mobile and fixed broadband availability)

**Table 2**

Measurement of corruptive practices: Factor analysis results.

Total variance explained						
Items	Initial auto-value			Sums of extraction of squared loads		
	Total	% of variance	% accumulated	Total	% of variance	% accumulated
Legal framework efficiency (regulation)	5.503	78.615	78.615	5.503	78.615	78.615
Legal framework efficiency (dispute)	0.613	8.757	87.371			
Strength auditing	0.477	6.814	94.186			
Judicial independence	0.158	2.254	96.440			
Reliability of police services	0.093	1.332	97.772			
Organized crime	0.085	1.209	98.981			
Intellectual property protection	0.071	1.019	100.000			
Items	Factor loads					
Legal framework efficiency (regulation)	0.913					
Legal framework efficiency (dispute)	0.911					
Strength auditing	0.788					
Judicial independence	0.949					
Reliability of police services	0.913					
Organized crime	0.787					
Intellectual property protection	0.929					
Cronbach's Alpha	0.918					
KMO	0.877					
Bartlett test						
Approx.	1175.997					
Fd	21					
Sig.	0.000					



**Table 3**  
Measurement of digitalization level: Factor analysis results.

Total variance explained						
Items	Initial auto-value			Sums of extraction of squared loads		
	Total	% of variance	% accumulated	Total	% of variance	% accumulated
E-participation index	3.062	76.554	76.554	3.062	76.554	76.554
Mobile broadband subscription	0.422	10.548	87.102			
Fixed broadband internet	0.319	7.975	95.077			
Internet users	0.197	4.923	100.000			

Items	Factor loads
E-participation index	0.856
Mobile broadband subscription	0.842
Fixed broadband internet	0.883
Internet user	0.917
Cronbach's Alpha	0.799
KMO	0.816
Bartlett test	
Approx.	331.078
Fd	6
Sig.	0.000

and the proportion of internet users in the country. Internet and telecommunication digital infrastructures are possibly as important as e-government practices (Adam & Fazekas, 2018; García-Murillo, 2013), so our measurement of digitalization level includes all of these aspects. Other related items were eliminated (digital skills of population or fibre-optic internet) because the reliability of the complete scale was significantly reduced when including them (Cronbach's alpha < 0.7).

The main results are presented in Table 3. The Cronbach's alpha value shows that the scale created is reliable. Moreover, the KMO and Bartlett tests show that the data are valid to run the factor analysis.

**Control variables.** With a view to removing any interference that might overshadow the analysis of the results, the control variables chosen are those corresponding to some factors that may affect foreign location choice in the hospitality industry. We have included variables referring to geographic location, socio-economic development and international openness. We used data from GCI. The Geographic location was operationalized by time zones differences. The higher the time zones differences, the more complex communication (Dow & Karunaratna, 2006; Stein & Daude, 2007). Socio-economic development was measured through the unemployment rate, income GINI (a measure of inequality of wealth, from 0 to 100) and gender gap (from 0 to 100). Then, socio-economic development of the country refers to the stability of the country and determines its attractiveness (Antonio & Tuffley, 2014; Bimber, 2000; Gillwald et al., 2010; Hilbert, 2011). Finally, international openness is operationalized by FDI inward flow over GDP. The openness entails a more attractive country to international investors (Cuervo-Cazurra, 2008; Wei, 2000).

#### 4. Results

The empirical verification of the hypotheses was undertaken using multiple linear regression models. The regression model is a statistical technique widely used for prediction and forecasting in this field and for estimating dependent relationships. This technique is suitable for testing the causal relationships stated in the hypotheses because the impact of some of the independent variables (digitalization level and corruptive practices) on the dependent variable (country choice) is studied (Hair et al., 1999). Data do not present any multicollinearity problems, because correlations are lower than 0.9 (see Appendix, Table A), VIF (Variance Inflation Factor) values are below 4.0 and tolerance indicators are far from 0.01.

Regarding control variables, socio-economic development level (measured by gender gap and income GINI) of the host country appears to be inversely related to corruptive practices. In addition, the greater the international openness, operationalized by FDI inward flow over

**Table 4**  
Corruptive practices and country choice: Main results.

Model I	Standard coefficients	Standard error	t	Sig.
(Constant)		1.715	1.057	0.293
Gender Gap	-0.211	2.491	-1.853	0.067*
5-year average FDI inward flow (% GDP)	-0.173	0.015	-1.694	0.094*
Income GINI	0.380	0.019	2.867	0.005***
Unemployment rate	-0.115	0.024	-1.000	0.320
Time zone differences	-0.138	0.053	-1.158	0.250
Digitalization level	0.096	0.256	0.478	0.634
<b>Corruptive practices</b>	<b>0.488</b>	<b>0.296</b>	<b>2.369</b>	<b>0.020**</b>

Resume of Model I				
R	R <sup>2</sup>	Standard error	F	Sig.
0.457	0.210	1.11637329	3.125	0.006***

\* Relationship is significant at 0.1 level.  
 \*\* Relationship is significant at 0.05 level.  
 \*\*\* Relationship is significant at 0.01 level.

**Table 5**  
Digitalization level and corruptive practices: Main results.

Model II	Standard coefficients	Standard error	t	Sig.
(Constant)		0.613	-2,090	0.040
Gender Gap	0.127	0.883	2,217	0.029**
5-year average FDI inward flow (% GDP)	0.112	0.005	2.153	0.034**
Income GINI	-0.082	0.007	-1.222	0.225
Unemployment rate	0.001	0.009	0.011	0.991
Time zone differences	0.114	0.019	1.890	0.062*
<b>Digitalization level</b>	<b>0.782</b>	<b>0.057</b>	<b>12.253</b>	<b>0.000***</b>

Resume of Model II				
R	R <sup>2</sup>	Standard error	F	Sig.
0.881	0.777	0.41184	49.258	0.000***

\* Relationship is significant at 0.1 level.  
 \*\* Relationship is significant at 0.05 level.  
 \*\*\* Relationship is significant at 0.01 level.

GDP, the lower the level of corruptive practices in the host country. Model I shows the relationship between corruptive practices and location choice. Results confirm the significance of the relationship between

**Table 6**  
Digitalization level and country choice: Main results.

Model III	Standard coefficients	Standard error	t	Sig.
(Constant)		1.301	0.754	0.452
Gender Gap	−0.167	1.857	−1.634	0.10*
5-year average FDI inward flow (% GDP)	−0.132	0.009	−1.453	0.149
Income GINI	0.301	0.015	2.570	0.012**
Unemployment rate	−0.091	0.019	−0.892	0.374
Time zone differences	−0.045	0.044	−0.438	0.663
<b>Digitalization level</b>	<b>0.495</b>	<b>0.132</b>	<b>4.199</b>	<b>0.000***</b>
Resume of Model III				
R	R <sup>2</sup>	Standard error	F	Sig.
0.392	0.154	1.02620665	3.277	0.005***

\* Relationship is significant at 0.1 level.

\*\* Relationship is significant at 0.05 level.

\*\*\* Relationship is significant at 0.01 level.

them, as expected. Therefore, Hypothesis 1 is accepted.

Model II shows the role of digitalization level in corruptive practices. As shown in Table 5, the digitalization level of the foreign country significantly reduces the country's level of corruptive practices, as predicted. Accordingly, Hypothesis 2 is accepted.

It is interesting to observe how a higher digitalization level significantly reduces corruptive practices (Model II); however, digitalization does not have a significant impact on location choice (Model I). This surprising result led us to explore a possible mediation role of corruptive practices between digitalization level and country choice. To analyse the existence of a mediated relationship between digitalization level and location choice by corruptive practices, we conducted an additional linear regression (Model III) to verify the fulfilment of the three basic conditions that prove the existence of a mediation relationship (Baron & Kenny, 1986).

The first condition implies that the mediator variable – corruptive practices – must significantly affect the dependent variable – that is, the location choice (Model I). Verification of Hypothesis 1 confirms this first condition for the mediation relationship. The second condition is that digitalization level must affect corruptive practices in the foreign country (Model II). The verification of Hypothesis 2 confirms this second condition for the mediation relationship. The third condition indicates that digitalization level must affect country location choice (Model III). The results are consistent with this condition, because the relationship between digitalization level and country choice is significant. Accordingly, the greater the digitalization level of the host country, the greater the number of establishments of Spanish hotel chains in that location.

The three previous conditions all hold in the predicted direction. To confirm the mediation effect, the direct effect of the digitalization level on country choice must be less in Model I (including the mediating variable) than in Model III (excluding the mediating variable). Indeed, perfect mediation exists if digitalization level has no effect when the corruptive practices variable is also controlled. As shown in Table 4 (Model I), there is no impact of digitalization level on location choice when corruptive practices are included in the regression model; however, digitalization level is highly significant for country choice in Model III, when corruptive practices are not included (Table 6). For the population of hotel chains being analysed, we can thus observe a perfect mediator role for corruptive practices between digitalization level and country choice. Nevertheless, this relationship demands more research in the future.

## 5. Discussion and conclusions

### 5.1. Discussion

Based on a moralist perspective of corruption, in this paper we studied whether host corruptive practices hinder country choice; we then analysed the role of digitalization level as a potential anti-corruption tool to make the host country more attractive for international investors. We showed that developed socio-economic and internationally open environments are inversely related to corruptive practices. The socio-economic development of the host country determines the strength of the country and its attractiveness (Antonio & Tuffley, 2014; Hilbert, 2011), and international openness boosts attractiveness of the country as well (Cuervo-Cazurra, 2008).

With respect to the hypotheses, the results confirmed that corruptive practices negatively affect country choice. Spanish hotels prefer going to those countries with lower levels of corruptive practices (Hypothesis 1). The evidence is consistent with prior research that showed the harmful effect of corruption on FDI and country choice (Brada et al., 2019; Cole et al., 2009; Collins et al., 2009; Javorcik & Wei, 2009; Nguyen & van Dijk, 2012; Wei, 2000).

Moreover, our findings supported the expected role of digitalization level. We confirmed that a higher digitalization level significantly reduces corruptive practices (Hypothesis 2). This result is coherent with scarce previous empirical research that found the effective role of digitalization as an anticorruption tool that can positively influence the monitoring of corruptive practices (Andersen, 2009; García-Murillo, 2013; Kim et al., 2009; Mistry & Jalal, 2012; Shim & Eom, 2008).

Although studying the effect of digitalization level on country choice was not the objective of this paper, we observed the absence of a significant relationship between the two variables. This was an unexpected result, because governments have recently been making efforts to enhance digitalization levels to improve competitiveness. This interesting finding led us to carry out an exploratory test on the mediation effect of corruptive practices between digitalization level and country choice. The results confirmed a perfect mediation role for this variable. This result is consistent with previous research that acknowledges the strategic role of digitalization level strengthening the institutions of the host country and monitoring corruptive practices (Adam & Fazekas, 2018; Davies & Fumega, 2014).

### 5.2. Conclusions

Corruptive practices are rooted in every society, albeit to different degrees (Godinez & Liu, 2015). They describe the country context (Kouznetsov et al., 2019) and influence its attractiveness for foreign investment (Brada et al., 2019; Javorcik & Wei, 2009; Judge et al., 2011; Rodriguez et al., 2006). In the current globalized context, governments are aware of the harmful socio-economic effects of corruption and devote significant resources to fighting this scourge (Gorsira et al., 2018; Petrou & Thanos, 2014).

Accordingly, IB scholars have increasingly paid attention to this issue, but empirical results are far from conclusive (Farrales, 2005; Nguyen & van Dijk, 2012). The existence of two conflicting theoretical perspectives to corruptive practices – moralist and revisionist (Rose-Ackerman, 1999) – may serve to explain the lack of compelling results, at least in part. While the moralists punish corruptive practices (Javorcik & Wei, 2009), the revisionists consider them unavoidable or even necessary in transactions (Helmy, 2013). This paper was based on the predominant moralist perspective of corruption, given the importance that ethics and corporate social responsibility have in today's decision-making (Ghoul et al., 2019). In line with this, the attractiveness of the host country depends on the absence of corruptive practices (Rose-Ackerman, 2007). When MNEs are not accustomed to corruptive practices in their home countries, they are not willing to accept uncertainty and lack of transparency in the host country (Javorcik & Wei, 2009;

**Table A**  
Correlation matrix.

		1	2	3	4	5	6	7	8
1. Gender Gap	Pearson correlation	1							
	Sig.								
2. 5-year average FDI inward flow %GDP	Pearson correlation	0.023	1						
	Sig.	0.793							
3. Income GINI	Pearson correlation	-0.036	-0.062	1					
	Sig.	0.700	0.496						
4. Unemployment rate	Pearson correlation	-0.057	-0.009	0.283**	1				
	Sig.	0.517	0.918	0.002					
5. Time zone differences	Pearson correlation	0.056	-0.088	0.252**	-0.287**	1			
	Sig.	0.530	0.306	0.005	0.001				
6. Digitalization level	Pearson correlation	0.369**	0.161	-0.466**	-0.220*	0.073	1		
	Sig.	0.000	0.062	0.000	0.011	0.400			
7. Corruptive practices	Pearson correlation	0.280**	0.149	-0.313**	-0.209*	-0.019	0.742**	1	
	Sig.	0.001	0.083	0.000	0.015	0.824	0.000		
8. Country choice	Pearson correlation	0.052	-0.077	0.031	-0.034	0.041	0.231**	0.103	1
	Sig.	0.559	0.371	0.733	0.697	0.636	0.007	0.231	

\*\* Correlation is significant at 0.01 (2-tail).

\* Correlation is significant at 0.05 (2-tail).

Petrou & Thanos, 2014), which involves costs and risks (Barkemeyer et al., 2018).

Our empirical evidence is consistent with the general hypothesis that, all else being equal, firms from developed countries (such as Spain) prefer countries with more efficient and strong formal institutions, where corruptive practices are less common. Spain is among the less corrupt countries worldwide, as it is in the highest quartile (30/198) in the Corruption Index (Transparency International (2019) (2019, 2019). MNEs from developed countries may choose to avoid foreign countries with inefficient formal institutions because of uncertainty and lack of transparency (Arregle et al., 2013; Nielsen et al., 2017), because these countries incur agency costs in transactions between MNEs and local agents in host countries. Thus, the results of this study confirm that a host country requires a favourable environment and solid institutions to attract FDI.

The control of corruptive practices by the extended implementation of ICT should be a priority for governments and policymakers (Adam & Fazekas, 2018). Accordingly, we analysed the effect of digitalization level as an anti-corruption tool. A higher digitalization level provides an opportunity to monitor and control corruptive practices, because it is a means to reduce information asymmetries and discretionary behaviours, as digital systems record every transaction between agents (Davies & Fumega, 2014; Kossow & Dykes, 2018). Public officers' activities are also better controlled and revealed because face-to-face interactions are remarkably reduced (Charoensukmongkol & Moqbel, 2014; Shim & Eom, 2008).

In addition to testing the two hypotheses of this study, we observed a mediation effect of corruptive practices between digitalization level and country choice. We concluded that investment in digitalization should be oriented towards monitoring corruptive practices, because digitalization level is an instrument or tool that must be adjusted to reach a strategic objective, such as reducing corruptive practices. This interesting exploratory finding deserves greater attention from academics, practitioners and policymakers.

Our study makes some theoretical contributions to the IB literature. First, the paper analysed the effect of corruptive practices on country choice, because IB researchers have called for more attention to the causes of country selection (Goerzen et al., 2013; Kim & Aguilera, 2016; Rugman et al., 2011). Corruptive practices are more hazardous for service industries, such as the hospitality sector, because companies must establish a physical presence in the host country and operations and distribution take place simultaneously (Plá-Barber & Ghauri, 2012). These service businesses therefore require regular interaction with local agents, who are more vulnerable to corruptive practices. Second, we go beyond the previous literature by defining corruption in a wide and

multi-faceted sense (Cuervo-Cazurra, 2016). Similarly, we presented a broad definition of digitalization level that includes e-government administration, technical development level of infrastructure and the technical skills of citizens (Charoensukmongkol & Moqbel, 2014). Finally, we studied the role of digitalization level by distinguishing between corruptive practices related either to formal institutional weakness or to socio-cultural values (Kouzes et al., 2019). In this paper we only focused on formal institutions, because governments may only influence them through ICT like digitalization.

We also offer interesting practical implications for governments, policymakers and MNEs. Due to globalization, monitoring corruptive practices is essential in every country, but particularly in developing ones, as companies from developed countries are more reluctant to invest there (Doh et al., 2003; Frei & Muethel, 2017). Indeed, from an economic point of view, corruption can be considered a sort of tax that may inhibit MNEs from choosing developing countries (Kouzes et al., 2019). This issue should be a preferential point in every governmental agenda, especially in developing countries that are more dependent on foreign funds (Johnson, 2018). Digitalization level has emerged as an effective anti-corruption technical tool that can assist the government and policymakers (Adam & Fazekas, 2018; Bertot et al., 2010; Qian & Sandoval-Hernandez, 2016; Schuppan, 2009). Moreover, activities such as the engagement of citizens with e-government, the training of public officers and the redefinition of administrative procedures are examples of complementary resources to control corruptive practices (Davies & Fumega, 2014).

This study has some limitations that we would like to overcome in future research. On the one hand, organizational variables regarding hotel chains were not included in this paper, so hotel industry behaviour is mainly explained by exogenous variables. On the other hand, the study is based on the Spanish hotel industry, so the results may be biased by the local idiosyncrasy of Spanish MNEs.

In combatting corruptive practices, governments should focus on strengthening formal institutions because the stronger the political, legal and judicial systems, the fewer the corruptive practices in the short/middle term. Moreover, in the long term, well-developed formal institutions may produce societies and citizens that are more reluctant to be involved in corruptive behaviours, thus creating a kind of virtuous cycle when these new socio-cultural values against corruption reinforce the role of solid formal institutions. Studying this virtuous cycle could be a promising line for future research.

From a longitudinal approach, future research should study the interaction between formal institutions, socio-cultural values and corruptive practices, as well as its effect on country choice (Godínez & Liu, 2015; Murphy et al., 1993; Svensson, 2005). Another line for future

research could be the analysis of corruption distance between home and host country to test the possible difference between MNEs from developed and developing countries when choosing foreign countries. Some MNEs choose corrupt host countries because they feel comfortable in corrupt environments because they are used to such climates in their home countries. It can therefore be expected that MNEs from corrupt home countries would be less reluctant to enter corrupt host countries (Brada et al., 2019; Godínez & Liu, 2015, 2018; Qian & Sandoval-Hernández, 2016; Zhao et al., 2003). MNE decisions could also depend on other host country characteristics that make those destinations attractive, regardless of the presence of corruptive practices.

Future studies could also extend location choice by including the mode of entry in the foreign country, because some authors suggest that the effect of corruptive practices changes depending on the type of investment (Cuervo-Cazurra, 2016). Certain organizational characteristics could be added to the study as well, specifically those related to corporate social responsibility and reputation, to determine if firms that are more aware of the importance of business ethics are more reluctant to invest in corrupt countries (Ghoul et al., 2019). Additional organizational factors to study could be the international experience of managing in poor institutional contexts. Finally, non-linear relationships between digitalization level, corruptive practices and country choice could be analysed (Charoensukmongkol & Moqbel, 2014).

### Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

### Appendix A

See Table A.

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