Regulator Vulnerabilities to Political Pressures and Political Tie Intensity: The Moderating Effects of Regulatory and Political Distance

George O. White III¹ · Jean J. Boddewyn² · Tazeeb Rajwani³ · Thomas A. Hemphill¹

Received: 10 March 2016 / Revised: 9 August 2016 / Accepted: 5 November 2016 /
Published online: 3 September 2018
© Springer-Verlag GmbH Germany, part of Springer Nature 2018

Abstract This study applies the institution-based view and neo-institutional theory in addressing how managerial perceptions of regulator vulnerabilities to political pressure, and institutional distance, influence intensification of political ties. Our analysis of 181 wholly owned foreign subsidiary (WOFSs) operating in the Philippines suggests that managerial perceptions of regulator vulnerability to political pressures positively enhance the intensification of political ties. Our results also reveal that regulatory distance and, more importantly, the simultaneous presence of political and regulatory distance diminish the positive relationship between managerial perceptions of regulator vulnerability to political pressures and a WOFS's propensity to enhance the intensification of political ties. Managerial implications and future research directions are discussed.

Keywords Political tie intensity · Political pressure · Government interference · Regulatory distance · Political distance · Institution-based view · Neo-institutional theory

1 Introduction

Uncertain regulatory environments represent a key source of concern for wholly owned foreign subsidiaries (WOFSs) since they often inefficiently govern and constrain critical transactions, resources and opportunities in a host country (Luo

✉ George O. White III
gowwhite@umflint.edu; gowwhite@umich.edu

¹ School of Management, University of Michigan-Flint, Flint, USA

² Zicklin School of Business, Baruch College, The City University of New York, New York, USA

³ Essex Business School, University of Essex, Colchester, UK

and Peng 1999; Peng and Heath 1996; Puck et al. 2013). WOFSs can be seriously affected by uncertain host-country regulatory environments as they are often subject to unpredictable policy shifts and inconsistent quality of administrative enforcement (Hoskisson et al. 2000; Kingsley et al. 2012; Luo 2004, 2007). For example, formal regulatory constraints in a host country may “change overnight as the result of political and judicial decisions” (Peng and Heath 1996, p. 504). Consequently, government interference will often force inexperienced, ill-equipped, and ill-informed public administrators to erratically enforce regulatory policies (Bevan et al. 2004; Folsom et al. 2002; Luo 2002; Meyer 2001). These policy shifts have serious consequences for WOFSs because laws and regulations established by a host government affect transactions within a specific market (Kobrin 1978; Rodriguez et al. 2005) due to their shaping the formal rules that determine the reward structures and character of commercial activity (North 1997; Rosenzweig and Singh 1991).

Past research has generally revealed that government interference through the regulation of WOFSs creates the risk of government property expropriation (Kobrin 1978), the repudiation of property contracts (Delios and Henisz 2003; Henisz 2000a, b, 2004), the limitation of licensing and/or company ownership (Davidow 1980), and/or the imposition of capital controls (Shen and Lin 2012). Therefore, government interference manifested through laws, regulatory policies and administrative rules enforced by civil servants in regulatory agencies can cause market imperfections that negatively influence and impede WOFS operations in a foreign market (Brewer 1993).

Due to such unstable operating environments, several researchers have suggested that WOFSs will be substantially motivated to find ways of strategically minimizing the influence of host-country regulatory and political uncertainty—for example, through the intensification of political ties with regulators—in order to safeguard investments and operations (Boddeyn and Brewer 1994; Lawton et al. 2012a, 2012; Sun et al. 2012; White et al. 2015). However, the intensification of political ties may benefit WOFSs if their target—namely government regulators—exhibit vulnerabilities to political pressure. Further, previous research has revealed that political distance (Malik 2013) and regulatory distance (Gaur and Lu 2007) have moderating effects concerning the handling of regulatory hazards by foreign subsidiaries.¹ Moreover, when WOFS’ home and host countries differ significantly in terms of political and regulatory institutions, these foreign subsidiaries will experience greater difficulties in intensifying political ties with host-country government actors in order to mitigate government interference manifested through regulatory enforcement (Henisz and Zelner 2005).

Therefore, we argue that political and regulatory distances will cause WOFSs to be less capable of leveraging institutional similarities between home and host country political and regulatory institutions when WOFSs intensify political ties. However, research has yet to empirically investigate how political and regulatory

¹ Distance between political institutions concerns differences in politically-motivated instability concerning public policy standards (Malik 2013); while distance between regulatory institutions concerns differences in monitoring rules and laws through sanctioning by legal and administrative bodies in order to enforce prescribed behavior (Xu and Shenkar 2002).

distances between a WOFS's home and host country will influence the relationship between managerial perceptions of regulator vulnerabilities² to political pressure and the ability of WOFSs to intensify political ties. Hence we ask the following research questions: (1) How will managerial perceptions of regulator vulnerability to political pressure influence a WOFS's propensity to develop political ties, and (2) how will political and regulatory distances between a WOFS' home and host country moderate the relationship between managerial perceptions of regulator vulnerabilities to political pressure and the intensification of political ties?

For this purpose, we apply the institution-based view to better understand how foreign-subsidary strategies are influenced by managerial perceptions of the institutional environment (Peng 2002). The institution-based view suggests that "institutional frameworks signal to managers [...] which strategic decisions are suitable in a host country" and that these "strategic decisions concern 'rational choices' that managers may or may not exercise in order to mitigate adverse effects associated with formal institutions" (White et al. 2015, p. 343; Peng et al. 2009). Thus, we suggest that increasing the intensity of political ties with key government actors in the nonmarket arena represents an attempt to proactively mitigate the uncertainty associated with perceived regulator vulnerability to political pressure. It is our contention that enhanced intensity of political ties with key government actors will serve as a nonmarket strategic attempt to influence the regulatory oversight process (Bonardi et al. 2005; Oliver and Holzinger 2008), thereby creating opportunities for the WOFS to proactively shape how it is regulated (Bonardi 1999). However, we also apply neo-institutional theory (Scott 1995) in suggesting that political distance (Malik 2013) and regulatory distance (Gaur and Lu 2007) will have moderating effects on regulatory hazards, negatively influencing a WOFS' ability to identify regulators vulnerable to political pressure and diminishing a WOFS' capability of leveraging regulatory and political similarities between home and host countries to enhance the intensity of political ties.

With this in mind, recent reviews of the CPA literature concludes that firm governance, as one of the identified less examined CPA antecedents, is especially in need of further theoretical development and empirical research. For example, Lux et al. (2011, p. 240, 242) review of the corporate political activity (CPA) literature has stated that "of the less examined CPA antecedents [...] firm governance is one antecedent that especially requires theoretical development and empirical investigation" and "institutional theory is not yet a central theory guiding CPA inquiry [...]" (see also Doh et al. 2012). CPA scholars have also observed that strategic choices often differ markedly but little is known about the role of managerial cognition concerning strategic decision-making, particularly how management's leadership, motives, judgement, and choices influence their firm's proactive nonmarket

² We define regulator vulnerabilities as (1) public (civil) service vulnerability to political pressure, (2) independence of public (civil) service from government interference, and (3) strength and expertise of the civil service to avoid interruptions during times of instability.

strategies (Mellahi et al. 2016). These observations are of particular salience for CPA scholars conducting international management research in that an “up-and-coming challenge for CPA scholars is to understand non-market activity in emerging economies [...]” (Lawton et al. 2012, p. 14) yet the reliance by scholars “on secondary data and perceived difficulty in collecting primary data also likely contribute to the lack of stronger support for current theoretical perspectives” (Lux et al. 2011, p. 241).

Our study sets-out to answer these calls by filling important gaps in the CPA literature through the application of both the institution-based view and neo-institutional theory in exploring the relationship between (a) managerial perceptions of regulator vulnerabilities to political pressures in the regulatory oversight process and (b) WOFS intensification of political ties in a host country’s operating environment. Second, we also contribute to the CPA literature by considering how managerial perceptions of regulator vulnerabilities to political pressures and institutional (political and regulatory) distance affects WOFS intensification of political ties in an emerging market environment. Our findings suggest that: (1) Perceived regulator vulnerability to government interference will influence a WOFS’s propensity to develop political ties, (2) regulatory distance negatively moderates the relationship between perceived regulator vulnerability to political pressures and the intensification of political ties, and (3) the simultaneous, and moderating, impact of both political and regulatory distances will further diminish the relationship between perceived political pressures and the intensification of political ties. Third, we contribute to the CPA literature by testing our hypotheses via unique survey data gathered from the rarely explored context of the Philippines.

Our study is organized as follows. In the next section we discuss the theoretical foundations and hypotheses of our study. We then empirically assess our theory and model. Subsequently, we summarize the study’s results. Finally, we conclude with a discussion of the study’s results, limitations, and implications for future research.

2 Theory Development and Hypotheses

2.1 Regulator Vulnerability to Political Pressures

Government regulation is imposed to address market imperfections or failures in order to benefit the economy and the general public within a society. However, some governments are less independent than others as when, for instance, they become beholden to powerful interests that want administrative rules written to benefit private interests through government regulatory interference acquired through rent-seeking activities (Stigler 1971; Peltzman 1976; Posner 1974). When government regulators are independent and there is a lack of government interference, there will be an improvement in overall market competition on account of the lack of regulatory bias in favor of powerful interests such as incumbent firms and state-owned enterprises.

However, host-country governments frequently make long-term regulatory policy commitments, only to later renege on their commitments and expropriate rents

generated by foreign subsidiaries (Chung and Beamish 2005; Luo 2003). These indeterminate public policy shifts fashioned by high-level government officials and enforced through lower-level civil servants are often designed to extract rents from foreign subsidiaries operating in their sphere of influence (Djankov et al. 2003; Heidenreich et al. 2015). This approach has been termed the ‘tollbooth theory of regulation’ which posits that the regulation of foreign entities is largely pursued for the benefit of high-ranking politicians and bureaucrats through bribery and extortion, thereby serving no real social purpose. However, a host government may provide a consistent set of regulatory policies and administrative rules that is crucial for the viability of a WOFS (Luo 2004). With this notion in mind, nonmarket strategy research has established that developing political resources through ties with government officials provides opportunities for strategically influencing and thereby shaping regulatory policies (Hillman et al. 2004). Consequently, Lawton et al. (2012, p. 6) argued that “[d]eveloping political resources in specific policy settings implies that the impact of a policy will be unequal across different firms” thereby causing these firms to develop “different responses to expectations [...] in political situations [...]”

Therefore, drawing from the CPA literature and applying the institution-based view (Meyer et al. 2009; Peng 2002; Peng et al. 2008), we posit that WOFS managerial perceptions of regulator vulnerabilities to political pressures associated with government interference are a primary strategic determinant in the decision to intensify political ties. These strategic responses will prompt WOFS’ to intensify engagement with key government actors as intermediaries in changing the nature of their firms’ regulatory environment (Holburn and Zelner 2010; Hoskisson et al. 2000; Oliver 1997). For example, Zhou and Peng (2010) have suggested that firms must take into account the combination of monitoring costs and problems concerning ineffective enforcement by a regulatory regime when protecting resources from appropriation hazards. Zhou and Poppo (2010) also found that managers who perceived the regulatory environment as being non-credible (i.e., as being arbitrary in nature) were more likely to utilize informal relationships when trying to safeguard assets in a host country environment.

Hence, we argue that the managers of WOFSs that perceive regulatory actors to be vulnerable to political pressures will attempt to intensify political ties and other rent-seeking activities with key government actors as a strategic response to circumvent the threat of erratic regulatory policy shifts. These WOFSs will engage in and benefit from rent-seeking activities by influencing the regulatory process through the intensification of political ties (Sun et al. 2010; White et al. 2015). Through this intensification of political ties, management will create deeply embedded relationships with key government actors who can grant privileged treatment to WOFSs by regulators vulnerable to high levels of political pressures and government meddling (Li et al. 2008; Sun et al. 2010). Further, there will be practical nonmarket benefits associated with the intensification of political ties since “most rules and regulations are ambiguous and their enforcement is subject to the personal interpretations of government officials” (Park and Luo 2001, p. 465). Therefore, these strategic responses in nonmarket political space will offer an WOFS the opportunity to influence the regulatory oversight process (Bonardi et al. 2005; Kingsley et al.

2012; Oliver and Holzinger 2008), thereby creating opportunities for the WOFS to proactively shape how their subsidiary is regulated and thereby mitigate uncertainty associated with regulator vulnerabilities to political pressure. Hence, we therefore propose the following hypothesis:

Hypothesis 1: WOFSs that perceive regulator vulnerabilities to political pressures as high will intensify political ties.

2.2 Moderating Effects of Political and Regulatory Distances

Following neo-institutional theory research, we define regulatory and political distance as the extent or difference between the political and regulatory institutions of home and host countries (Gaur and Lu 2007; Pogrebnyakov and Maitland 2011; Scott 1995; Xu et al. 2004). On one hand, *political institutions* impose public policy standards set through consensus building activities in a nonmarket environment (Boddewyn 1988; Malik 2013). Differences in the level of politically-motivated instability concerning public policy standards can have a tremendous impact on a WOFS' ability to predict political behavior and to "[push public] policies towards their preferred points" (Bonardi 1999, p. 165; Bonardi et al. 2005; Kobrin 1978). On the other hand, *regulatory institutions* monitor rules and laws by imposing reporting requirements and sanctions in order to enforce prescribed behavior (White et al. 2015; Xu et al. 2004; Xu and Shenkar 2002). Thus, differences in home and host country regulatory contexts may influence a WOFS's understanding concerning "the extent of laws protecting investors' rights [...] the efficiency and integrity of a country's judicial system, [and] the tradition of law and order" (Landi 2011, p. 91) that "determines the extent to which economic transactions between [or among] organizations are [formally] governed" (Fainshmidt et al. 2014, p. 190). For example, Luo and Zhao (2013, p. 7) have argued that "in the presence of large regulatory distance, MNC subsidiaries will perceive greater deterrence and higher transaction costs escalated by [...] regulations" enforced by legal bodies that, "from an institutional perspective, elevates environmental impediments and increases information search costs".

In general, neo-institutional theory suggests that environmental familiarity will result in competitive advantages for WOFSs whose institutional distance is less (Luo and Zhao 2013). This is because "MNEs embedded within different institutional contexts develop distinct logical frameworks in order to overcome uncertainty and gain legitimacy" (Fainshmidt et al. 2014, p. 190). For example, WOFSs must adapt operations to "differences in laws, regulations, [public] policies, [and] enforcements [...] that promote certain types of [...] strategic behavior" (Chao et al. 2012, pp. 671–672). This adaptation can be problematic for WOFSs with parent companies from very different regulatory and political environments, in that their ability to counteract institutional isomorphic pressures for the purpose of achieving external legitimacy in the host country will be more difficult and costly (Chao and Kumar 2010; Xu et al. 2004).

Therefore, unfamiliarity hazards generated by differences between operating environments will increase the costs associated with WOFS' abilities to align norms

with host country institutions, thereby influencing their strategic choices and practices (Kostova and Zaheer 1999; Yiu and Makino 2002). It is therefore argued that WOFSs with parents from home countries with more distant political and regulatory environments will be less capable of leveraging institutional similarities (Cuervo-Cazurra and Genc 2008). Consequently, these WOFSs will possess disadvantages associated with increased environmental impediments and increased information search costs due to a lack of political and regulatory similarities (Luo and Zhao 2013). These search costs and institutional impediments will make it more difficult for WOFSs from politically and regulatory distant environments to recognize when the government is intervening in the regulatory oversight process and applying political pressure in a host country's civil service administration.

On the other hand, it is likely that WOFSs from less distant political and regulatory institutional environments will have a greater ability to identify when political pressures are being placed on civil servants regulating the daily operations of their subsidiary. Therefore, when these WOFSs identify the presence of political interference (or government meddling) associated with enhanced political pressures placed on civil servants, they will have a heightened proclivity to exploit their competitive advantages associated with political and regulatory familiarities by intensifying political ties with key actors in government agencies. We therefore suggest the following hypotheses:

Hypotheses 2a–2b: The positive relationship between the intensification of political ties and perceived regulator vulnerabilities to political pressures will be weaker when (a) political distance and (b) regulatory distance between a WOFS's home and host country is high rather than low.

Beyond their individual moderating effects, the confluence of political distance and regulatory distance will likely have additional effects on the relationships between WOFS perceptions regarding regulator vulnerabilities to (1) political pressures and (2) the intensification of political ties. First, as suggested in hypothesis 2a, when political distance is high, a WOFS will have less understanding of the formulation and configuration of public policies in a host country institutional environment (Malik 2013). Holburn and Zelner (2010) suggested that this is because “in the political realm, the knowledge that firms develop about how the policy-making process operates when governed by a particular institutional configuration can [more easily] be applied to other countries with similar institutional configurations [...]”. Second, as suggested in hypothesis 2b, when regulatory distance is high, an understanding of how the monitoring and enforcement of laws and rules increases environmental barriers, including enhanced impediments such as information search costs (Luo and Zhao 2013; Pogrebnyakov and Maitland 2011) that make it more difficult for these WOFSs to gain external legitimacy (Chao and Kumar 2010). For example, Xu and Shenkar (2002) argued that regulatory distance will create uncertainty leading to a heightened threshold for firms in learning how legal provisions associated with property rights will be enforced by regulators in a host country. As previously noted, these unfamiliarity hazards will lead to competitive disadvantages, in that it will be much more difficult for WOFSs to leverage nonmarket capabilities when originating from more distant political or regulatory institutional environments.

However, the CPA literature has yet to specifically take into account how the interaction of political distance and regulatory distance will effect that perceptions of regulatory vulnerability to political pressures have on the intensification of political ties by WOFSs. We argue here that, taken together, the interaction between political distance and regulatory distance will have mutually reinforcing, complementary effects (i.e., effects beyond their individual moderating effects) when present simultaneously. In essence, the confounding nature of the interaction between political distance and regulatory distance will exacerbate unfamiliarity hazards, making it more difficult for these WOFSs to: (1) identify when regulators, as civil servants, are susceptible to political pressures (Boddewyn and Brewer 1994; Bonardi and Keim 2005), and when regulator vulnerabilities to pressures are identified how to (2) align nonmarket capabilities with the local institutional environment in order to effectively intensify political ties that can be used to mitigate and strategically exploit political pressures for competitive advantages (Holburn and Zelner 2010; Oliver and Holzinger 2008).

The heightened nature of these institutional dissimilarities will cause difficulties in identifying opportunities associated with regulator vulnerabilities to political pressure and the “leveraging [of] [...] institutional advantages arising from environmental” familiarities when pursuing the intensification of political ties (Luo and Zhao 2013, p. 8), thus making it more difficult for the foreign subsidiary to proactively manage relationships with government regulators in order to mitigate risks posed by rapid and erratic regulatory policy shifts. In summary, the interaction between political and regulatory distances will further diminish the positive relationship that perceptions of regulator vulnerabilities to political pressure will have on a WOFS’s propensity to intensify political ties with key government actors. Consequently, we propose the following hypothesis:

Hypothesis 3: The simultaneous presence of high political distance and high regulatory distance will further diminish the positive relationship between WOFS perceptions of regulator vulnerability to political pressures and the intensification of political ties.

3 Methodology

3.1 Sample and Data

This study was conducted on a sample of WOFSs operating in the Philippines. The Philippines provides an ideal context for the study of political ties, given its status as a typical middle-income country that is negatively impacted by significant corruption and government inefficiency. While the Philippines attracts significant foreign investment, these figures are surpassed by the investment inflows into its Southeast Asian neighbors, such as Indonesia, Malaysia, and Thailand. Thus, while its Southeast Asian neighbors have experienced significant economic growth despite governance issues, this has not been the case for the Philippines (Lim and Stern 2003). Several international business studies have ascribed the economic difficulties

experienced by the Philippines as having been caused by issues relating to institutional quality (Balisacan and Hill 2003; Nye 2011).

The data for this study was obtained through a survey of senior leaders such as chief executive officers, managing directors, country managers, vice-presidents, and senior managers in charged with managing WOFSs operating in the Philippines. Although the use of multiple informants is preferable in such a data collection process in our research design, we chose a single senior executive that had primary responsibility for the WOFS operation or had a direct reporting relationship with the senior executive. Previous management research validates that key informants in senior leadership, decision-making, positions offers equally reliable data to that obtained from multiple informants or secondary data (Gong et al. 2007; Miller et al. 1997). These key informants were familiar with the environment within which their WOFS operated (Luo 2007); strategies employed by their WOFS; and had access to hard data as a point of reference (Julian and Ofori-Dankwa 2008).

The survey questionnaires were designed and implemented according to the tailored design method (Dillman 2000). Measurement items were based on theoretical considerations and generated through a review of the relevant international business literature. All measurement items used in this study were validated in previously published peer reviewed journal articles. The questionnaire was designed and developed in English, a primary language universally spoken in Philippine business circles. Moreover, the clarity of the questionnaire items was verified through initial interviews and pre-tests with managers operating in the Philippines.

Our survey sample consists of 540 WOFSs selected from the Foreign Companies in the Philippines Yearbook (2007), compiled and published by the Commercial Intelligence Service of Business Monitor International, London, United Kingdom. The selected sample of WOFSs consists of firms established for a minimum of 3 years, since the survey questions referred to the past 3 years as the relevant time frame for responses to “avoid capturing biased responses based on particular episodes of peak performance or even one-time negative relational experiences” (Mesquita and Lazzarini 2008, p. 365). We conducted data collection from August through December of 2007 in the Philippines by administering a questionnaire on-site (through field visits) rather than through the use of archival data or mail surveys (due to the lack of reliable archival data) and because the unreliability of the Philippine postal system made the use of these methods extremely difficult. On-site data collection methodology also helped gain access to the right informants, ensured the correct use and understanding of terminology, and provided the opportunity for enhanced response rates (Fang and Zou 2009; Lee and Miller 1999; Li and Zhang 2007). To solicit maximum participation in the study, telephone calls were made in advance to targeted informants at each WOFS explaining the purpose of the study and requesting their participation. Immediately after phone calls were made, the researcher in charge of managing the data collection process delivered the questionnaires to key informants and mutually agreed on a date to collect the completed questionnaires (see generally Acquah 2007).

To enhance participation and maximize accurate responses, an attached cover letter explained to potential survey potential informants that (1) they would not have to identify themselves when answering the questionnaire, (2) their responses would

be kept confidential, and (3) they would receive a summary of the research findings upon completion of the study (Lee and Miller 1999; Podsakoff et al. 2003). After several follow-up, we received responses from 194 foreign subsidiaries. Other than 13 questionnaires deemed unusable, we concluded our survey collection with a final response rate of 33.5% (i.e., 181/540). This response rate was comparable to other studies that have performed similar data collection methods (e.g., Acquaah 2007, 53%; Li and Zhang 2007, 38.6%).³

In order to provide survey result triangulation, semi-structured interviews were conducted with 15 key informants in order to check the accuracy of their answers (Krishnan et al. 2006; Luo 1999). As with Krishnan et al. (2006) and Luo (1999), randomly selected key informants were interviewed a second time, several months after the initial administration of the survey instrument randomly selected key informants were asked to identify, per the original survey instrument, specific aspects of their WOFS's strategic behavior, political ties, and perceptions of the Philippine legal system. Using a three-point Likert scale (for parsimony and ease of interpretation), we then categorized the solicited responses. The results displayed strong consistency between interview and survey answers (Pearson correlations were above 0.83, $p < 0.01$; Guttman split-half Rs were above 0.71).

We also used the Foreign Companies in the Philippines Yearbook (2007) to check for non-response bias. From this source we were able to check for non-response bias, and were able to compare some attributes WOFSs identified from the code numbers written on each questionnaire. Employing an unpaired t-test, the mean difference between responding key informants and non-responding key informants with respect to the number of employees (size), number of years operating in the Philippines (experience), and business sector (manufacturing or service industry) was analyzed. The results established that the two groups were not significantly different ($p > 0.05$ level). This result was further confirmed by running a logistic regression analysis using the same archival variables as predictors with the dependent (dichotomous) variable being coded as 1 for responding key informants and 0 for non-responding key informants; the regression coefficients did not sizably differ and none of the predictor variables were significant at the $p < 0.05$ level.

Of the survey responses, 54% were from chief officers, country managers, managing directors, general managers, and executives, while the rest (46%) were from senior vice presidents, directors, regional heads, and other senior managers with direct reporting relationships to the head of the WOFS. Moreover, regarding key informants, 44% were foreign expatriates and 56% were local nationals. The sample consisted of a wide array of manufacturing and service industries, including electronics and electrical equipment (10.48%), construction and engineering (8.29%), chemicals (7.86%), various consultancies (7.42%), trade (7.42%), pharmaceuticals and medical care (6.98%), machinery and heavy equipment (6.98%), and banking/finance/insurance (6.55%). WOFS countries of origin (from highest to lowest number) included the USA (49), Japan (45), the U.K. (17), France (12), and Germany (10). Regions of origin included the Americas (29.8%), Asia

³ Due to missing data the sample size for this study = 175.

(33.1%), and Europe (36%). Further, their mean number of employees (size) was 460.54 and mean number of years (experience) operating in the Philippines was 29.42 years.

3.2 Variables and Measurement

3.2.1 *Dependent Variable*

Political tie intensity (Cronbach's alpha 0.80; communality loadings 0.87–0.53) was measured by four items adapted from White et al. (2015). This measure identifies the “overall level of interaction a WOFs has with government officials” (White et al. 2015, p. 348). Using the past three years as a reference point, respondents were asked to rate their WOFs informal ties and connections to (1) regulatory authorities, (2) political leaders in various levels of government, and (3) commercial administration bureaus on a seven-point Likert-type scale (1 = ‘very little’ to 7 = ‘very much’). We also included an item that asked senior managers the extent of time spent dealing with government officials during this same time-frame (1 = ‘very low’ to 7 = ‘very high’). We factor analyzed these four items via principle component analysis employing varimax rotation.

3.2.2 *Predictor Variable*

The primary variable of interest in this study is regulator vulnerability to political pressure. We developed the regulator vulnerability to political pressure construct (hereinafter also ‘regulator vulnerability’) based on theoretical ideas derived from several studies in the institutions and nonmarket strategy literatures (Delios and Henisz 2003; Luo 2004, 2005, 2007; Peng and Heath 1996; Rosenzweig and Singh 1991). Regulator vulnerability (Cronbach's alpha 0.90; communality loadings 0.86–0.83) was employed as the primary variable of interest in order to explain how regulator vulnerability to political pressures would influence the intensification of political ties by WOFs. A multi-item measure was created by adapting measures taken from Kaufmann et al. (2007). Using the past three years as a reference point, informants were asked to rate the extent to which they perceived government regulator vulnerability to be with regard to (1) public (civil) service vulnerability to political pressure, (2) independence of public (civil) service from government interference, and (3) strength and expertise of the civil service to avoid interruptions during times of instability on a seven-point Likert-type scale (1 = ‘very low’ to 7 = ‘very high’).

3.2.3 *Contingency Variables*

Political distance and regulator distance were employed as contingency variables in this study. Political distance (Malik 2013) assesses the differences in political

instability concerning public policy standards set through consensus building activities in a WOFS's home and host country (the Philippines). In order to capture differences in home and host country political stability, we employed the political stability and absence of violence indicator from the World Governance Indicators database, published by the World Bank. This indicator measures politically-motivated instability of government institutions. For each foreign subsidiary we coded the respective indicator score (ranging from 0 to 100) based on its country of origin. To ensure stability and temporal precedence in our research design, we obtained and averaged regulatory quality data for 4 years, with the last one being the year of the survey. The political distance between a particular home country and the Philippines was then measured as the absolute difference between the two countries' political stability scores.

Regulatory distance (Xu et al. 2004) assesses the differences in monitoring and enforcing rules and laws through sanctioning by legal and administrative bodies that exist in a WOFS's home and host country (the Philippines). This multi-item construct was adopted from Xu et al. (2004). The items used in this construct were originally taken from *The Global Competitiveness Report* (1997), published by the World Economic Forum, which documented country civil system differences using over 170 different items. Six items were averaged together by Xu et al. (2004) in order to create a country's score for its regulative dimension, including (1) how anti-trust or anti-monopoly policies effectively promote competition; (2) how effective is the legal system in enforcing commercial contracts; (3) can private businesses readily file suits at independent and impartial courts if there is a breach of trust on the part of the government; (4) can citizens willingly accept legal means to adjudicate disputes rather than depending on physical force or illegal means; (5) there is little chance that legal and political institutions will drastically change over the next five years; and (6) being an important business activity consideration, police are effective in safeguarding personal security. The regulatory distance between a particular home country and the Philippines was then measured as the absolute difference between the two countries' regulative scores (taken from Appendix 2a of Xu et al. 2004, p. 302).

3.2.4 Control Variables

Informant nationality, informant host country experience, cultural distance, WOFS experience, WOFS size, market orientation, industry, and perceived competitive position were used as control variables. The dummy variable informant nationality (coded 1 = Filipino, 0 = otherwise), as identified in the survey, was used as a control due to the likelihood that host country local and foreign expatriate respondents may differ in their perceptions of their subsidiary's formulation of strategic practices in the nonmarket arena and perceptions of host country regulative institutions, possibly biasing the analysis (Luo 2002). Informant host country experience was added to the analyses along similar theoretical line. This variable was taken from the survey instrument and referred to the number of years that a senior executive or manager spent working in the Philippines. We controlled for cultural distance by using Kogut and Singh's (1988) formula which is based on Hofstede's (1980) four cultural

dimensions (individualism, masculinity, power distance, and uncertainty avoidance), to compute the distance between the Philippine's national culture and the national culture of the country of origin of each WOFS.

WOFS experience, referring to the number of years the subsidiary had been operating (from initial year of establishment) in the Philippines and taken from the Foreign Companies in the Philippines Yearbook (2007), was added in the analysis since the number of years a foreign subsidiary operates in a host country will play a major role in its learning, adapting (or not adopting) to, and strategically positioning itself in a host country environment (Li and Zhang 2007). We included WOFS size, based on the total number of full-time employees of the subsidiary taken from the Foreign Companies in the Philippines Yearbook (2007), because larger WOFSs will normally have greater resources and a greater number of formal contractual relationships. We then logged WOFS size in order to eliminate potential skewness associated with this variable (Ismail et al. 2013). We controlled for market orientation (Luo 2007) since local market dependence (versus being export oriented) should have an effect on contracting propensities of foreign subsidiary operations. This measure was obtained from the Foreign Companies in the Philippines Yearbook (2007) and coded 1 = local market focused, 0 = export-oriented.

We controlled for several industry effects by employing dummy variables for technology oriented (coded 1 = technology and 0 = otherwise), oil and gas oriented (coded 1 = oil and gas, and 0 = otherwise), and banking and finance oriented (industry dummy 2; coded 1 = banking and finance and 0 = otherwise) industries. These variables were derived from the Philippine Statistical Yearbook (2007). Finally, we added managerial perceptions of competitive position to the analysis as a control in determining a WOFS's satisfaction with qualitative performance. This variable is a single item taken from our survey instrument. In using the past three years as a reference point respondents were asked to rate how satisfied they were with their WOFS's competitive position on a seven-point Likert-type scale (1 = 'very dissatisfied' to 7 = 'very satisfied').

4 Data Analysis and Results

4.1 Reliability and Validity

A principal component factor analysis was performed on all key survey items to determine their construct validity, dimensionality, internal consistency, and item appropriateness. All item loadings for the multi-item constructs were significantly related to their underlying factor and were well above the cut-off point of 0.45 (ranging from 0.84 to 0.75) (Hair et al. 1998). Also, all constructs displayed high levels of reliability, as indicated by Cronbach's alphas ranging from 0.90 to 0.80 (Hair et al. 1998).

The majority of data used in this study was derived from survey instruments questioning single key informants holding leadership positions in WOFSs. Therefore, we used several procedural and statistical remedies outlined in Podsakoff et al. (2003) and Chang et al. (2010), and implemented in studies using similar methods

(Krishnan et al. 2006; Li and Zhang 2007; Peng and Luo 2000) to minimize and control for potential common method bias and single informant bias. Specifically, we undertook the procedural remedies of protecting informant anonymity, reducing item ambiguity, separating scale items for the dependant variables and predictor variables, and obtaining data from secondary sources for most control variables (Podsakoff et al. 2003). We also included reverse-phrased items which will reduce informant bias (Field 2005). Lastly, we inspected the results for significant interactions, “which are less likely to occur in the presence of single informant bias” (Krishnan et al. 2006, p. 903), since informants will normally not “have an ‘interaction-based theory’ in their minds to produce” (Li and Zhang 2007, p. 803) such results (Aiken and West 1991).

Statistical tests for bias effects included triangulation of survey data using field interviews, observing Harman’s (1967) one-factor test, and performing confirmatory factor analysis. To provide triangulation with some of the survey results, selected informants were interviewed and asked to identify specific traits regarding informal personal ties and connections with government actors and the nature of the Philippine regulatory environment (e.g., Luo and Peng 1999). The results exhibited high consistency between their verbal reports and their answers on the questionnaire (see Sect. 3.1). Harman’s one-factor test is often used to check whether or not common method bias is a serious problem in survey data (Krishnan et al. 2006; Podsakoff and Organ 1986).

A principal components factor analysis was run on the two survey items that were the primary variables of interest, yielding two distinct factors with eigenvalues greater than one. Also, no single factor accounted for a majority of the variance. We also examined the scree plot, which showed no sign of common method bias (Li and Zhang 2007). Lastly, to further substantiate that common method bias is not a serious problem and to confirm the dimensionality of the variables of interest in our study, a confirmatory factor analysis was performed on all items and all latent variables (two factor model), as well as on all items and a single latent variable (single factor model). There was a significant improvement in change in the Chi square statistic from the single factor model to the multiple factor model, establishing better model fit for the multiple factor model ($p < 0.001$). Thus, while common method and single informant bias is unlikely to be totally mitigated, these procedures have left us confident that neither type of bias was a serious problem in our study (Chang et al. 2010).⁴

4.2 Tests of Hypotheses

Table 1 reports the means, standard deviations, and correlation coefficients among all variables in this study. The correlation matrix indicates consistently significant relationships between the variables of interest and dependent variables. The

⁴ We performed a Breusch-Pagan test in order to check for heteroscedasticity. The results of the test were insignificant suggesting that heteroscedasticity is not a serious problem. Further, we observed the P-plots for all continuous variables employed in the study and found there to be no pattern of abnormal distribution.

Table 1 Descriptive statistics and correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Political tie intensity	3.79	2.80	–													
2. Regulator vulnerability	3.27	1.87	0.37	–												
3. Political distance	67.39	14.89	–0.21	–0.15	–											
4. Regulatory distance	1.51	0.33	–0.29	–0.14	0.05	–										
5. Competitive position	4.82	1.24	0.32	–0.28	–0.16	–0.12	–									
6. Banking and finance	0.08	0.28	–0.16	0.20	–0.05	0.22	–0.21	–								
7. Oil and gas	0.20	0.40	0.12	–0.16	–0.07	0.12	0.16	–0.15	–							
8. Technology	0.19	0.40	0.01	–0.08	–0.09	0.08	–0.02	–0.10	0.28	–						
9. Market orientation	0.74	0.43	0.25	0.22	–0.08	0.06	–0.21	0.18	–0.18	–0.08	–					
10. WOFS size ^a	2.32	0.54	–0.01	–0.02	–0.04	–0.03	0.06	0.05	–0.09	0.02	–0.22	–				
11. WOFS experience	29.42	25.30	–0.15	0.06	–0.23	0.17	–0.03	0.18	0.04	0.05	–0.01	0.23	–			
12. Cultural distance	29.22	26.53	0.16	–0.02	0.50	–0.39	0.09	–0.04	–0.18	–0.13	–0.01	0.02	–0.19	–		
13. Informant experience	14.53	8.05	–0.09	0.01	–0.11	0.10	–0.08	0.05	0.07	0.14	0.04	0.01	0.15	–0.07	–	
14. Informant home country	0.56	0.49	–0.11	–0.02	–0.10	0.09	–0.09	0.11	0.05	0.19	0.05	0.01	0.11	–0.06	0.69	–

N = 175. Correlations that are 0.15 or higher are significant at the 0.05 level (two-tailed significance tests)

^aLogged variable

variance inflation factors (VIFs) for all variables were well below 10, indicating that multicollinearity is not a serious problem (Hair et al. 1998).

We performed a series of regression analyses in order to test hypotheses 1 through 4. Table 2 presents these results. The predictive power of the models were found to be strong with model fit (Model F) and change in variance explained (change in R^2) significantly improving from model to model. Model 1 reports the impact of all control variables on political tie intensity. Cultural distance ($\beta=0.15$, $p<0.05$), market orientation ($\beta=0.21$, $p<0.01$), banking and finance ($\beta=-0.14$; $p<0.10$), and competitive position ($\beta=0.29$, $p<0.01$) were found to have a significant effect on WOFS political tie intensity. Hypothesis 1 stated our prediction that WOFS perceptions of regulator vulnerability to political pressure will enhance the development of political tie intensity. The positive and significant coefficient ($\beta=0.51$, $p<0.01$) on the regulator vulnerability measure in Model 2 supports this hypothesis.

Hypothesis 2 stated our prediction that the positive relationship between political tie intensity and WOFS perceptions of regulator vulnerability to political pressure will be weaker when political distance is high rather than low. The interaction term between regulator vulnerability to political pressure and political distance in Model 4 was not significant, thereby not supporting hypothesis 2. Hypothesis 3 stated our prediction that the positive relationship between political tie intensity and WOFS perceptions of regulator vulnerability to political pressure will be weaker when regulatory distance is high rather than low. The significant coefficient ($\beta=0.12$, $p<0.05$) between political tie intensity and regulator vulnerability in Model 4 supports this hypothesis.

To further validate and gain insight into the nature of this moderation effect we plotted the interaction where regulatory distance is treated as contingency variable affecting the relationship between perceived regulator vulnerability to political pressure and a WOFS's propensity to intensify political ties (Fig. 1). Corroborating the moderated hierarchical regression results, the slopes of the regression lines vary significantly (grow positively or negatively steeper) and reflect the change in regulatory distance values from low (mean – one standard deviation) to high (mean + one standard deviation) (Aiken and West 1991). Therefore, the positive effect of perceived regulator vulnerability to political pressure on WOFS intensification of political ties becomes weaker when regulatory distance is high rather than low.

Hypothesis 4 predicted that simultaneous presence of political distance and regulatory distance will have mutually reinforcing effects in further diminishing the positive relationship between perceived regulator vulnerability to political pressures and a WOFS's intensification of political ties. Partial empirical support for this hypothesis can be seen in Model 5 of Table 2. When the three-way interaction between political distance, regulatory distance, and regulatory vulnerability was introduced in Model 5, the interaction term was significant at the 0.10 level ($\beta=-0.11$, $p<0.10$) and explained significant variance over the previous models (change in R^2 , $p<0.10$; change in F, $p<0.10$).

We plotted the three-way interaction in order to better understand and explain the three-way interaction results in Model 5 (see Fig. 2). Values of political distance and regulatory distance were set from low (mean – one standard deviation) to high

Table 2 Results of moderated hierarchical regression analyses

Variables	Political tie intensity				
	Model 1	Model 2	Model 3	Model 4	Model 5
Control variables					
Informant host country	-0.04 (-0.32)	-0.07 (-0.73)	-0.06 (-0.68)	-0.10 (-1.10)	-0.10 (-1.08)
Informant experience	-0.03 (-0.29)	-0.02 (-0.20)	0.01 (0.10)	0.02 (0.23)	0.02 (0.17)
Cultural distance	0.15 (2.05)*	0.14 (2.30)*	0.03 (0.37)	-0.02 (-0.20)	-0.05 (-0.67)
WOFs experience	-0.07 (-0.85)	-0.06 (-0.89)	-0.03 (-0.42)	-0.04 (-0.63)	-0.06 (-0.88)
WOFs size ^a	-0.08 (-0.99)	-0.11 (-1.70) [†]	-0.09 (-1.39)	-0.07 (-1.00)	-0.05 (-0.68)
Market orientation	0.21 (2.85)**	0.16 (2.47)*	0.14 (2.29)*	0.13 (2.11)*	0.13 (2.06)*
Technology	-0.01 (-0.13)	-0.02 (-0.34)	-0.01 (-0.08)	-0.01 (-0.07)	-0.01 (-0.04)
Oil and gas	0.04 (0.51)	0.01 (0.08)	0.02 (0.32)	0.05 (0.85)	0.07 (1.06)
Banking and finance	-0.14 (-1.83) [†]	-0.02 (-0.22)	-0.01 (-0.06)	-0.02 (-0.33)	-0.01 (-0.17)
Competitive position	0.29 (4.07)**	0.11 (1.58) [†]	0.09 (1.42)	0.08 (1.25)	0.07 (1.16)
Predictor variables					
Regulator vulnerability (RV)		0.51 (7.33)**	0.44 (6.46)**	0.46 (6.91)**	0.47 (7.05)**
Political distance (PD)			-0.18 (-2.27)*	-0.14 (-1.86) [†]	-0.14 (-1.89) [†]
Regulatory distance (RD)			-0.27 (-3.79)**	-0.23 (-3.19)**	-0.25 (-3.44)**
Interactions					
RV × PD				-0.06 (-1.10)	-0.06 (-1.10)
RV × RD				-0.12 (-1.99)*	-0.12 (-1.98)*
RD × PD				0.14 (2.39)*	0.10 (1.63) [†]
RV × RD × PD					-0.11 (-1.71) [†]

Table 2 (continued)

Variables	Political tie intensity				
	Model 1	Model 2	Model 3	Model 4	Model 5
R ²	0.29	0.46	0.51	0.54	0.55
Adjusted R ²	0.24	0.43	0.47	0.50	0.51
Change in R ²		0.17**	0.05**	0.03**	0.01 [†]
Change in F		53.79**	7.42**	3.77**	2.91 [†]
Model df	170	169	167	164	163

N = 175. Values in this table represent standardized coefficients (β s)

Mean-centering was used for all independent variables and interaction terms

WOFs wholly owned foreign subsidiary

[†] $p < 0.10$

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$ (two-tailed significance tests)

^aLogged variable

Fig. 1 Regulatory distance moderates the relationship between perceived regulator vulnerability to political pressures and WOFS intensification of political ties

Fig. 2 Interaction between perceived regulator vulnerability to political pressures, regulatory distance, and political distance on WOFS intensification of political ties

(mean + one standard deviation) (Aiken and West 1991). As shown in Fig. 2, the nature of the interaction indicates that when political distance and regulatory distance are both high, the relationship between perceived regulator vulnerability to political pressures and WOFS intensification of political ties will decrease. On the other hand, when political distance and regulatory distance are both low, the higher manager perceptions of regulator vulnerability to political pressure, the more likely a WOFS will enhance the intensification of political ties. Thus, this figure further supports our theoretical argument leading to hypothesis 4.

5 Discussion and Conclusions

Our study attempts to answer (1) Doh et al.'s (2012) and Lux et al.'s (2011) calls for greater application of institutional theory in CPA literature by investigating the antecedents of firm governance, and (2) Mellahi et al.'s (2016) call for applying primary data to extend current theoretical perspectives by investigating how managerial cognition influences variation in strategic decision making within the nonmarket arena. Building on these calls, our study theoretically and empirically extends the current state of the CPA literature by employing the institution-based view (Peng 2002) and neo-institutional theory (Scott 1995) to investigate the direct effect of managerial perceptions as they relate to regulator vulnerabilities to political pressures and government interference in the governing of WOFSs. We therefore contribute to the CPA literature by finding that managerial perceptions of regulator vulnerability to political pressures do directly influence WOFS intensification of political ties with key government actors. We have discovered that intensifying political ties with key government actors provides nonmarket opportunities for the WOFS by strategically engaging in the regulatory oversight process in an attempt to shape favorable regulatory policies (see generally Bonardi et al. 2005; Oliver and Holzinger 2008). This is a very important finding in that our study is the first to indicate how senior managers perceive political pressures placed on regulators will directly influence their WOFS's propensity to intensify political ties with key government actors.

From a contingency perspective, we found that regulatory distance, but not political distance, moderated the relationship between perceived regulator vulnerability to political pressure and WOFS development of political ties. This is a very important finding establishes that there is significant variation in how different forms of formal institutional distance influences the 'sticky' relationship between managerial perceptions of political pressures placed on government regulators and a foreign subsidiary's intensification of political ties with government actors. In other words, differences in home and host country regulatory, but not political, institutions play a significant role in this evaluative strategic process. Subsequently, we also found that the simultaneous presence of political and regulatory distance between a WOFS's home and host country further diminished the positive relationship between perceived regulator vulnerability to political pressure and the propensity for a WOFS to intensify political ties. Moreover, these findings extend the CPA literature by shedding light on how the interaction between managerial perceptions concerning

host country regulatory institutions, and distance between a WOFS's home and host country institutional environment, effect a WOFS's intensification of political ties.

Our study helps managers to better understand how political ties can be used where current logic discounts reasons for the intensification of political ties. In general, our paper contributes to management practices as how to make decisions on nonmarket strategies to enhance a firm's position and influence in obtaining WOFS's opportunities with key government actors by reducing perceived regulator vulnerability to political pressure. It is our contention that enhanced intensity of political ties with key government actors will serve to create opportunities for the WOFS to proactively shape how the foreign subsidiary is regulated (Bonardi 1999; Kingsley et al. 2012). However, managers should be mindful of the fact that political and regulatory differences between their home and host countries will have an impact on their foreign subsidiary's nonmarket strategic decision-making and planning; as a WOFS's propensity and capability of leveraging political ties may be determined by managerial perceptiveness.

Our findings also lend to the discussion concerning managerial implications associated with the dynamics and contested value of political embeddedness in emerging markets (e.g., Siegel 2007; Sun et al. 2010, 2012). Managers should be cognizant that investing resources in and leveraging political ties with regulators (who are perceived to be vulnerable to political pressures) may result in declining or even negative outcomes over a long-term time horizon (see generally Sun et al. 2010). For example, positive outcomes associated with the leveraging of embedded relationships with government regulators through the intensification of political ties may quickly change to a liability due to government regime change which may lead to negative discriminatory government practices (Dieleman and Boddewyn 2012; Siegel 2007). However, identifying and determining the nature of outcomes associated with the intensification of political ties and the value of political embeddedness is firm specific and largely based on the strategic goals established by a MNE within a host country's nonmarket arena. Our study alludes to the notion that differences in a foreign subsidiary's home and host country regulatory and political environments may attenuate managerial assessment of these temporal outcomes.

This paper has a few limitations that point to potential new directions in future research. First, the data employed in this study is almost a decade old and is based on survey responses from single key informants. The use of single key informant data may pose potential problems such as the limited recall of informants, biased perceptions of past actualities, and common method issues. However, we consider these key informants to be highly knowledgeable about their WOFSs' operations and represent a reliable source for information. More research is needed to investigate how the 'sticky' relationship between managerial perceptions of regulative institutions influences foreign subsidiary nonmarket strategy formulation (see generally White et al. 2015). For example, how will these relationships influence the choice between 'good' or 'bad' government actors as targets in cultivating and intensifying political ties? Also, how will these choices impact strategic performance outcomes of foreign subsidiaries intensifying such political ties? From a qualitative perspective, how will the presence of an in-house government affairs manager or consultation with external advisers influence top management perceptions concerning regulator

vulnerabilities to political pressure? Also, our study focused on the moderating effects of regulative forms of institutional distance (i.e., political and regulatory distance). Thus, future research could build from our study in delving deeper into how other form of institutional distance influences these relationships.

Second, we have also endeavored to extend the CPA literature by investigating how managerial perceptions influence the *intensification*, rather than *extent*, of political ties as WOFS nonmarket strategies. However, the primary variable and dependent variables of interest in this study were subjective measures. The choice of using perceptual measures was driven by the problematic nature of obtaining objective data in the Philippines. While efforts to obtain objective data on WOFSs were unsuccessful, the use of perceptual measures is consistent with foreign subsidiary literature in other country contexts (Acquaah 2007; Krishnan et al. 2006; Li and Zhang 2007). This perspective is also consistent with calls in the international management literature to more closely investigate how and why managerial perceptions of the institutional environment influence strategic behavior of firms (Mellahi et al. 2016; Peng 2002; Peng et al. 2009; White et al. 2015). With this mind, we consider our study to be novel to the CPA literature by employing a measure exploring managerial perceptions concerning the nature of government intervention relating to political pressure placed on civil service officers regulating foreign subsidiary operations in host country environments. Further, while outside the scope of this study, future research could explore the antecedents concerning how educational background (i.e., field of specialization; did the manager study abroad?), region where originally from within their home country (i.e., most countries exhibit within country variations across regions concerning institutional development, ethnic make-up, and religious backgrounds), as well as international management experience and exposure to different forms of regulative institutional environments affect managerial perceptions of regulator vulnerabilities to political pressure.

Third, our dataset is cross-sectional rather than longitudinal, thereby making it difficult to gauge the complete causal relationships between perceived regulator vulnerabilities to political pressure, political and regulatory distance, and WOFS intensification of political ties. For example, would the positive relationship between perceived regulator vulnerability to political pressures and the intensification of political ties by a WOFS hold over time as the foreign subsidiary gains experience or grows in size in the host country where it operates? Interestingly, WOFS experience was negatively related to the intensification of political ties and not related to managerial perceptions of regulator vulnerabilities to political pressures (see Table 2). On the other hand, WOFS size was not significantly related to either the intensification of political ties nor managerial perceptions of regulator vulnerabilities to political pressures in the regression analysis or in the correlation matrix of our study. Further, WOFS size became significant at the .10 level only once when the primary variable of interest (regulator vulnerability) was added to the analysis in Model 2, Table 3. Thus, a natural extension of this study would be to investigate these casual relationships from a longitudinal perspective. Also, as previously mentioned, further research (both quantitative and qualitative in nature) is needed to investigate exploring potential reasons for variance in declining or negative outcomes associated with

leveraging political ties over a long-term time horizon. Would these longitudinal results hold in other less developed country contexts or contexts crisis zones?

Fourth, the empirical setting of this study was a single country, the Philippines. Although using a single country setting helps control for environmental factors, we do not know the extent to which the relationship between managerial perceptions of regulator vulnerability to political pressures and the intensification of political ties by a WOFS is context-specific. We argue that our results extend prior research and are generalizable across multiple country settings, particularly to other under-explored country contexts such as Southeast Asia and Africa, and provide greater insight into the drivers and outcomes associated with the intensification of political ties by foreign subsidiaries (i.e., as they relate to managerial perceptions of regulator vulnerability to political pressures). In conclusion, we hope that future research can build on our study by further exploring how the interaction between various forms of institutional distance and managerial perceptions of government actors regulating foreign subsidiary business practices play a role in influencing nonmarket strategic decision-making.

Appendix: Political distance moderates the relationship between regulatory distance and WOFS development of political ties

References

- Acquaah, M. (2007). Managerial social capital, strategic orientation, and organizational performance in an emerging economy. *Strategic Management Journal*, 28(12), 1235–1255.
- Aiken, L. S., & West, S. G. (1991). *Multiple Regression: Testing and Interpreting Interactions*. Thousand Oaks: Sage Publications.

- Balisacan, A. M., & Hill, H. (2003). *The Philippine Economy: Development, Policies, and Challenges*. Oxford: Oxford University Press.
- Bevan, A., Estrin, S., & Meyer, K. (2004). Foreign investment location and institutional development in transition economies. *International Business Review*, 13(1), 43–64.
- Boddeyn, J. J. (1988). Political aspects of MNE theory. *Journal of International Business Studies*, 19(3), 341–363.
- Boddeyn, J., & Brewer, T. L. (1994). International business political behavior: new theoretical directions. *Academy of Management Review*, 19(1), 119–143.
- Bonardi, J. P. (1999). Market and nonmarket strategies during deregulation: The case of British Telecom. *Business and Politics*, 1(2), 203–231.
- Bonardi, J. P., Hillman, A., & Keim, G. D. (2005). The attractiveness of political markets: Implications for firm strategy. *Academy of Management Review*, 30(2), 397–413.
- Bonardi, J. P., & Keim, G. D. (2005). Corporate political strategies for widely salient issues. *Academy of Management Review*, 30(3), 555–576.
- Brewer, T. L. (1993). Government policies, market imperfections, and foreign direct investment. *Journal of International Business Studies*, 24(1), 101–120.
- Chao, M. C. H., & Kumar, V. (2010). The impact of institutional distance on the international diversity - performance relationship. *Journal of World Business*, 45(1), 93–103.
- Chao, M. C. H., Kim, S. H., Zhao, H., & Hsu, C. C. (2012). Performance implications of MNE's diversification strategies and institutional distance. *Thunderbird International Business Review*, 54(5), 667–681.
- Chung, C. C., & Beamish, P. W. (2005). The impact of institutional reforms on characteristics and survival of foreign subsidiaries in emerging economies. *Journal of Management Studies*, 42(1), 35–62.
- Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957–979.
- Davidow, J. (1980). Multinationals, host governments and regulation of restrictive business Practices. *Journal of World Business*, 15(2), 14–19.
- Delios, A., & Henisz, W. J. (2003). Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980–1998. *Strategic Management Journal*, 24(11), 1153–1164.
- Dieleman, M., & Boddeyn, J. J. (2012). Using organization structure to buffer political ties in emerging markets: A case study. *Organization Studies*, 33(1), 71–95.
- Dillman, D. A. (2000). *Mail and Internet Surveys: The Tailored Design Method*. New York: Wiley.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2003). The regulation of entry. *The Quarterly Journal of Economics*, 117(1), 1–37.
- Doh, J. P., Lawton, T. C., & Rajwani, T. (2012). Advancing nonmarket strategy research: Institutional perspectives in a changing world. *Academy of Management Perspectives*, 26(3), 22–39.
- Fainshmidt, S., White, G. O., & Cangioni, C. (2014). Legal distance, cognitive distance, and conflict resolution in international business intellectual property disputes. *Journal of International Management*, 20(2), 188–200.
- Fang, E. E., & Zou, S. (2009). Antecedents and consequences of marketing dynamic capabilities in international joint ventures. *Journal of International Business Studies*, 40(5), 742–761.
- Field, A. (2005). *Discovering statistics using SPSS*. Thousand Oaks: Sage Publications.
- Folsom, R. H., Gordon, M. W., & Spanogle, J. A. (Eds.). (2002). *International Business Transactions: A Problem Oriented Coursebook*. St. Paul: West Group.
- Foreign Companies in the Philippines Yearbook. (2007). London: Business Monitor International.
- Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management*, 33(1), 84–110.
- Gong, Y., Shenkar, O., Luo, Y., & Nyaw, M. (2007). Do multiple parents help or hinder international joint venture performance? The mediating roles of contract completeness and partner cooperation. *Strategic Management Journal*, 28(10), 1021–1034.
- Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. (1998). *Multivariate Data Analysis* (5th ed.). Delhi: Pearson Education.
- Harman, H. H. (1967). *Modern Factor Analysis*. Chicago: University of Chicago Press.
- Heidenreich, S., Mohr, A., & Puck, J. (2015). Political strategies, entrepreneurial overconfidence and foreign direct investment in developing countries. *Journal of World Business*, 50(4), 793–803.

- Henisz, W. J. (2000a). The institutional environment for multinational investment. *Journal of Law Economics and Organization*, 16(2), 334–364.
- Henisz, W. J. (2000b). The institutional environment for economic growth. *Economics and Politics*, 12(1), 1–31.
- Henisz, W. J. (2004). Political institutions and policy volatility. *Economics and Politics*, 16(1), 1–27.
- Henisz, W. J., & Zelner, B. A. (2005). Legitimacy, interest group pressures, and change in emergent institutions: The case of foreign investors and host country governments. *Academy of Management Review*, 30(2), 361–382.
- Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management*, 30(6), 837–857.
- Hofstede, G. (1980). *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills: Sage Publications.
- Holburn, G. L. F., & Zelner, B. A. (2010). Political capabilities, policy risk, and international investment strategy: Evidence from the global electric power generation industry. *Strategic Management Journal*, 31(12), 1290–1315.
- Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal*, 43(3), 249–267.
- Ismail, K. M., Ford, D. L., Jr., Wu, Q., & Peng, M. W. (2013). Managerial ties, strategic initiatives, and firm performance in Central Asia and the Caucasus. *Asia Pacific Journal of Management*, 30(2), 433–446.
- Julian, S. D., & Ofori-Dankwa, J. C. (2008). Toward an integrative cartography of two strategic issue diagnosis frameworks. *Strategic Management Journal*, 29(1), 93–114.
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2007). Governance matters VI: Aggregate and individual governance indicators 1996–2006. In *World Bank Policy Research Working Paper WPS 4280*. Washington: World Bank.
- Kingsley, A. F., Vanden Bergh, R. G., & Bonardi, J. P. (2012). Political markets and regulatory uncertainty: Insights and implications for integrated strategy. *Academy of Management Perspectives*, 26(3), 52–67.
- Kobrin, S. J. (1978). When does political instability result in increased investment risk? *Columbia Journal of World Business*, 13(3), 113–122.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411–432.
- Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under condition of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1), 64–81.
- Krishnan, R., Martin, X., & Noorderhaven, N. G. (2006). When does trust matter to alliance performance? *Academy of Management Journal*, 49(5), 894–917.
- Landi, J. A. (2011). Japanese MNEs and host countries' legal institutions. *Asian Business & Management*, 10(1), 87–112.
- Lawton, T., McGuire, S., & Rajwani, T. (2012a). Corporate political activity: A literature review and research agenda. *International Journal of Management Reviews*, 15(1), 86–105.
- Lawton, T., Rajwani, T., & Doh, J. (2012b). The antecedents of political capabilities: A study of ownership, cross-border activity and organization at legacy airlines in a deregulatory context. *International Business Review*, 22(1), 228–242.
- Lee, J., & Miller, D. (1999). People matter: commitment to employees, strategy and performance in Korean firms. *Strategic Management Journal*, 20(6), 579–593.
- Li, J. J., Poppo, L., & Zhou, K. Z. (2008). Do managerial ties in China always produce value? Competition, uncertainty, and domestic vs. foreign firms. *Strategic Management Journal*, 29(4), 383–400.
- Li, H., & Zhang, Y. (2007). The role of managers' political networking and functional experience in new venture performance: Evidence from China's transition economy. *Strategic Management Journal*, 28(8), 791–804.
- Lim, L. Y. C., & Stern, A. (2003). State power and private profit: The political economy of corruption in Southeast Asia. *Asian-Pacific Economic Literature*, 16(2), 18–52.
- Luo, Y. (1999). Time-based experience and international expansion: The case of an emerging economy. *Journal of Management Studies*, 36(4), 505–534.
- Luo, Y. (2002). Capability exploitation and building in a foreign market: Implications for multinational enterprises. *Organization Science*, 13(1), 48–63.
- Luo, Y. (2004). Building a strong foothold in an emerging market: A link between resource commitment and environment conditions. *Journal of Management Studies*, 41(5), 749–773.

- Luo, Y. (2005). Transactional characteristics, institutional environment and joint venture contracts. *Journal of International Business Studies*, 36(2), 209–230.
- Luo, Y. (2007). Are joint venture partners more opportunistic in a more volatile environment? *Strategic Management Journal*, 28(1), 39–60.
- Luo, Y., & Peng, M. W. (1999). Learning to compete in a transition economy: Experience, environment, and performance. *Journal of International Business Studies*, 30(2), 269–295.
- Luo, Y., & Zhao, H. (2013). Doing business in a transitional society: Economic environment and relational political strategy for multinationals. *Business & Society*, 52(3), 515–549.
- Lux, S., Crook, T. R., & Woehr, D. J. (2011). Mixing business with politics: A meta-analysis of the antecedents and outcomes of corporate political activity. *Journal of Management*, 37(1), 223–247.
- Malik, T. H. (2013). National institutional differences and cross-border university-industry knowledge transfer. *Research Policy*, 42(3), 776–787.
- Mellahi, K., Frynas, J. G., Sun, P., & Siegel, D. (2016). A review of the nonmarket strategy literature: Toward a multi-theoretical integration. *Journal of Management*, 42(1), 143–173.
- Mesquita, L. F., & Lazzarini, S. G. (2008). Horizontal and vertical relationships in developing economies: Implications for SMEs' access to global markets. *Academy of Management Journal*, 51(2), 359–380.
- Meyer, K. E. (2001). Institutions, transaction costs, and entry mode choice in Eastern Europe. *Journal of International Business Studies*, 32(2), 357–367.
- Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1), 61–80.
- Miller, C. C., Cardinal, L. B., & Glick, W. H. (1997). Retrospective reports in organizational research: A reexamination of recent evidence. *Academy of Management Journal*, 40(1), 189–204.
- North, D. C. (1997). Transaction costs through time. In C. Menard (Ed.), *Transaction Cost Economics: Recent Developments*. Cheltenham: Edward Elgar.
- Nye, J. (2011). Taking institutions seriously: Rethinking the political economy of development in the Philippines. *Asian Development Review*, 28(1), 1–21.
- Oliver, C. (1997). Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18(9), 697–713.
- Oliver, C., & Holzinger, I. (2008). The effectiveness of strategic political management: A dynamic capabilities framework. *Academy of Management Review*, 33(2), 496–520.
- Park, S. H., & Luo, Y. (2001). Guanxi and organizational dynamics: Organizational networking in Chinese firms. *Strategic Management Journal*, 22(5), 455–477.
- Peltzman, S. (1976). Toward a more general theory of regulation. *Journal of Law and Economics*, 19(2), 211–240.
- Peng, M. W. (2002). Towards an institution-based view of business strategy. *Asia Pacific Journal of Management*, 19(2–3), 251–267.
- Peng, M. W., & Heath, P. S. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2), 492–528.
- Peng, M. W., & Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3), 486–501.
- Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3), 63–81.
- Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), 920–936.
- Philippine Statistical Yearbook. (2007). Makati City: National Statistical Information Center.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903.
- Podsakoff, P. M., & Organ, D. W. (1986). Self-reports in organizational research: Problems and prospects. *Journal of Management*, 12(4), 531–544.
- Pogrebnjakov, N., & Maitland, C. F. (2011). Institutional distance and the internationalization process: The case of mobile operators. *Journal of International Management*, 17(1), 68–82.
- Posner, R. A. (1974). Theories of economic regulation. *Bell Journal of Economics*, 5(2), 335–358.
- Puck, J. F., Rogers, H., & Mohr, A. T. (2013). Flying under the radar: Foreign firm visibility and the efficacy of political strategies in emerging economies. *International Business Review*, 22(6), 1021–1033.

- Rodriguez, P., Uhlenbruck, K., & Eden, L. (2005). Government corruption and the entry strategies of multinationals. *Academy of Management Review*, 30(2), 383–396.
- Rosenzweig, P. M., & Singh, J. V. (1991). Organizational environments and the multinational enterprise. *Academy of Management Review*, 16(2), 340–361.
- Scott, W. R. (1995). *Institutions and Organizations*. Thousand Oaks: Sage Publications.
- Shen, C. H., & Lin, C. Y. (2012). Why government banks underperform: A political interference view. *Journal of Financial Intermediation*, 21(2), 181–202.
- Siegel, J. (2007). Contingent political capital and international alliances: Evidence from South Korea. *Administrative Science Quarterly*, 52(4), 621–666.
- Stigler, G. J. (1971). The economic theory of regulation. *Bell Journal of Economics and Management Science*, 2(1), 3–21.
- Sun, P., Mellahi, K., & Thun, E. (2010). The dynamic value of MNE political embeddedness: The case of the Chinese automobile industry. *Journal of International Business Studies*, 41(7), 1161–1182.
- Sun, P., Mellahi, K., & Wright, M. (2012). The contingent value of corporate political ties. *Academy of Management Perspectives*, 26(3), 68–82.
- White, G. O., Boddewyn, J. J., & Galang, R. M. N. (2015). Legal system contingencies as determinants of political tie intensity by wholly owned foreign subsidiaries: Insights from the Philippines. *Journal of World Business*, 50(2), 342–356.
- Xu, D., Pan, Y., & Beamish, P. W. (2004). The effect of regulative and normative distances on MNE ownership and expatriate strategies. *Management International Review*, 44(3), 285–307.
- Xu, D., & Shenkar, O. (2002). Institutional distance and the multinational enterprise. *Academy of Management Review*, 27(4), 608–618.
- Yiu, D., & Makino, S. (2002). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, 13(1), 667–683.
- Zhou, J. Q., & Peng, M. W. (2010). Relational exchanges versus arm's-length transactions during institutional transitions. *Asia Pacific Journal of Management*, 27(3), 355–370.
- Zhou, K. Z., & Poppo, L. (2010). Exchange hazards, relational reliability, and contracts in China: The contingent role of legal enforceability. *Journal of International Business Studies*, 41(5), 861–881.