Antecedents and Outcomes of Political Tie Intensity: Institutional and Strategic Fit Perspectives

George O. White III^{a,*}, Stav Fainshmidt^b, Tazeeb Rajwani^c

^a School of Management, University of Michigan-Flint, United States

^b Department of Management and International Business, College of Business, Florida International University, Miami, FL 33174, United States

^c Essex Business School, University of Essex, United Kingdom

ARTICLE INFO

Keywords:

Political tie intensity
Home country political institutions
Fit
Strategic performance
Neo-institutional theory
Foreign subsidiary

ABSTRACT

Although international nonmarket strategy research has highlighted the importance of political ties, it is still unclear why some foreign subsidiaries are more politically active than others and what conditions may render political practices beneficial in a host country. We argue that foreign subsidiary political tie intensity—the extent to which senior managers provide time and resources in informally dealing with government officials for nonmarket purposes—will be influenced by political institutions in their parent's home country, especially when the MNE parent attempts to protect foreign subsidiary resources. Additionally, we assert that fit between a parent's home country political institutions and foreign subsidiary political tie intensity will positively affect subsidiary performance. We employ primary data collected from 181 foreign subsidiaries in the Philippines and find support for our hypotheses. This study advances international nonmarket strategy research by highlighting how an MNE's home country political institutions shape subsidiary political networking and strategic performance outcomes in host country environments.

1. Introduction

Nonmarket strategy literature has generally asserted that firms may become politically active for the purpose of obtaining favorable public policy within their operating environment (Bonardi et al., 2005; Hillman and Wan, 2005; Liedong et al., 2015). Similarly, international business scholars have argued that a primary way to mitigate regulatory uncertainty and gain a strategic advantage in foreign environments is to cultivate political ties with key host country government actors (Acquaah, 2007; Lawton et al., 2012; Park and Luo, 2001). However, the limited number of empirical studies on the effectiveness of political ties “show inconsistent results, ranging from a negative to a positive effect on performance, including no effect at all” (Puck et al., 2013: 1022). Consequently, it is still unclear why some foreign subsidiaries are more politically active than others and what conditions may render such activity beneficial to subsidiary competitive advantage in a host country (Rajwani and Liedong, 2015; Teng et al., 2017).

Mellahi et al. (2016) have argued that there is a need to move the conversation forward by investigating how heterogeneity of managerial decisions influences nonmarket strategy and subsequently, firm performance. Importantly, although the international nonmarket strategy literature has indicated home country institutions as possible drivers of heterogeneity in MNE political behavior in foreign markets (e.g., White et al., 2014), little is known concerning how MNE political activities, and their efficacy, are shaped by institutional differences across jurisdictions (Doh et al., 2012: 27; Liedong et al., 2015). In this study, we attempt to address these

* Corresponding author.

E-mail addresses: gwhite@umflint.edu (G.O. White), sfainshm@fiu.edu (S. Fainshmidt), Tazeeb.rajwani@essex.ac.uk (T. Rajwani).

important gaps pertaining to the drivers and consequences of political tie activity and, in doing so, advance the international non-market strategy literature.

Drawing from neoinstitutional theory (Kostova and Zaheer, 1999; North, 1990), we posit that foreign subsidiary political tie intensity—the extent to which senior managers invest time and resources in informally dealing with government officials for non-market purposes (Danis et al., 2010; Sun et al., 2010; White et al., 2015)—will be partially formed based on the current political institutions within its *home* country (Rosenzweig and Singh, 1991). In essence, the MNE's adaptation to its home country political institutions (i.e., external isomorphism) will lead to strategic practices being institutionalized and transferred to foreign subsidiaries within the MNE (i.e., intra-MNE isomorphism) through people and processes, which ultimately affects political networking practices in host country environments (DiMaggio and Powell, 1983; Gamble, 2010; Holburn and Zelner, 2010; Kostova, 1999; Kostova et al., 2008). Moreover, we suggest that the extent to which a parent MNE attempts to protect investment in foreign subsidiary resources strengthens the foreign subsidiary's integration with the parent firm, thereby enhancing intra-MNE isomorphism and thus the effect of the current home country political environment on foreign subsidiary allocation of managerial efforts towards intensifying political ties in a host country.

At the same time, we also consider that managers of foreign subsidiaries have agency in shaping the subsidiary's nonmarket strategy. Mellahi et al. (2016: 12) have suggested that foreign subsidiaries may abandon their parent firm's "established nonmarket practices in order to adapt to the host country's institutional norms or they may employ ceremonial adaption without changing actual practices. Unfortunately ... no study [has] explicitly tested the performance impact of such strategies." We offer novel insights concerning this issue by drawing from the fit paradigm, which suggests that subsidiary performance outcomes may be affected by fit between an MNE parent's capabilities, developed as a means to successfully deal with home country institutions, and foreign subsidiary strategic practices abroad (Brouthers et al., 2003; Cuervo-Cazurra and Genc, 2008; White et al., 2013). Specifically, we posit that foreign subsidiaries who allocate managerial efforts towards political networking at a level that fits their home country political institutions are better positioned to leverage political capabilities and will thus tend to perform better.

Taken together, we aim to answer the following research questions: (1) how will political institutions of an MNE parent's home country drive foreign subsidiary political tie intensity? and (2) how will the *fit* between parent home country political institutions and foreign subsidiary political tie intensity influence strategic performance in a host country environment? In attempting to address these questions, our study contributes to the international nonmarket strategy literature in several important ways. First, we leverage neoinstitutional theorization, a relatively novel approach within international nonmarket strategy research (Lux et al., 2011), to explicate how parent home country political institutions can drive heterogeneity in foreign subsidiary political tie intensity. We find that foreign subsidiaries from more politically stable home countries allocate greater effort towards the intensification of political ties, especially when MNE parents exert higher levels of protection over resources being committed to foreign subsidiary operations. Past research has largely focused on how *host* country institutions (e.g., Luo, 2001; Sun et al., 2010; Doh et al., 2012), rather than *home* country institutions, drive foreign subsidiary political tie intensity. Hence, by responding to Mellahi et al.'s (2016) call, we advance understanding of the antecedents of managerial decision heterogeneity related to foreign subsidiary political activities.

Second, we develop a more nuanced conceptualization of the consequences of political ties, making an important step towards untangling equivocal results in past studies. Specifically, "fit" between a parent's home country political institutions and foreign subsidiary political tie intensity in a host country has yet to be considered as a factor altering the value of political ties. We theorize and find that fit will have a positive effect on subsidiary strategic performance. In doing so, our study enriches the international nonmarket strategy literature by offering that fit with not only host country but also home country political institutions may act as a contingency to the efficacy of political ties in a host country.

Finally, our study makes important empirical contributions to the literature. Lux et al. (2011: 242) lamented that the difficulty in gathering primary data on nonmarket strategy "contribute[s] to the lack of stronger support for current theoretical perspectives". We overcome this obstacle by testing our hypotheses with primary data collected from 181 foreign subsidiaries in the Philippines. Furthermore, most research on political ties in emerging markets has been primarily focused on politically stable contexts, such as with the Chinese Communist Party (e.g., Li and Zhang, 2007; Li et al., 2009; Park and Luo, 2001; Peng and Luo, 2000; Sun et al., 2010), while studies in emerging markets with volatile political environments remain scarce. The Philippines is characterized by a revolving door of elected politicians belonging to a multitude of political parties (De Dios, 2008), which allows us to extend the international nonmarket strategy literature into new contexts and thus promote a more accurate understanding of the consequences of these important managerial activities. Fig. 1 shows the conceptual model depicting the hypothesized relationships considered in our study.

2. Theory and hypotheses

2.1. Home country political institutions and foreign subsidiary political tie intensity

A small body of empirical research in the international nonmarket strategy literature has investigated what factors influence the development and utilization of political ties in foreign markets. For example, Park and Luo (2001) found that strategic orientation (i.e., level of market effectiveness from strategic decisions) and non-state-owned firms had a positive influence, while manufacturing oriented industries and industry growth rate had a negative influence on the development of political ties with government authorities. Similarly, Luo and Zhao (2009) found that regulatory distance and industry uncertainty had a positive influence, while industry accessibility and economic development had a negative influence on the utilization of foreign subsidiary relational political strategies. Furthermore, White et al. (2015) found that there was a relationship between foreign subsidiary managerial perceptions of

Fig. 1. Conceptual model.

host country legal system uncertainty and the intensification of political ties.

Importantly, prior studies often highlight the role of host country political institutions as drivers of political activities by foreign subsidiaries. However, they have overlooked the role of MNE parent *home* country political institutions and the transference of political practices to foreign subsidiaries (Lawton et al., 2012). This is an important deficiency in the extant literature because “both country of origin and host country practices [are] likely to be found in MNCs overseas subsidiaries.” (Gamble, 2010: 722). We suggest that home country political stability, a key dimension of a country's governance system, will help shape foreign subsidiary allocation of managerial efforts towards political networking. Political stability refers to the likelihood of sudden changes in country's political authority (Kaufmann et al., 2009). Countries differ in their political systems and, more specifically, in the extent to which political regimes tend to be volatile and uncertain. Cuervo-Cazurra and Genc (2008, p. 964) have offered an example of an environment with high political instability when discussing how a crisis in Argentina during 2001 led to a change in the government “three times in two weeks”. While this may be considered as an extreme example of political instability, this point illustrates that sudden changes in political authority can disrupt policies established to govern economic activity (Kobrin, 1979).

Political instability in a parent's home country can influence an MNE's allocation of organizational resources towards intensifying political ties, as a means to mitigate policy risk and uncertainty, by undermining the strategic benefits of establishing political networks. For example, changes in political leadership in a home country may render organizations with intensive political networks “victims of discrimination, resource exclusion, and occasional expropriation and sabotage between rival [political] networks” (Dieleman and Boddewyn, 2012, p. 72) when they are associated with political actors who have lost power (Sun et al., 2010). In other words, political instability diminishes the utility and returns that MNEs may obtain from investing in political ties, as the intensification of political ties can suddenly change from being an asset to a liability in such environments. On the other hand, for MNEs originating from environments with more stable political institutions, this may not be the case because the intensification of ties with entrenched political actors (and their parties) may provide greater long-term benefits (Bonardi et al., 2005). Naturally, due to variance in political stability across countries, and the important role of the home country institutions in shaping MNE resource allocation decisions by inducing external isomorphism to local conditions (Peng et al., 2008), MNEs from different home countries will exhibit heterogeneous inclinations in allocating managerial resources to intensify political ties (Cuervo-Cazurra and Genc, 2008).

What does this mean for foreign subsidiaries? From a neoinstitutional theory perspective, foreign subsidiary strategies are continuously influenced by the transference of organizational practices from their parents (Ahlvik and Bjorkman, 2015; Kostova, 1999; Makino et al., 2004). Kostova and Roth (2002, p. 216) have noted that “there is a within-organization domain that defines a set of pressures to which all units within the organization must conform... the organizational pressures within the MNC would require some degree of compliance.” In fact, “subunits are often more dependent on the parent company than their local external environments for critical resources [Thus, MNEs] are likely to consciously create and strengthen their intraorganizational field so as to reinforce and disseminate a shared business model” (Kostova et al., 2008: p. 998). Consequently, managers of foreign subsidiaries often interpret their host country operating environment, to an extent, through a lens shaped by parent home country institutions (Holburn and Zelner, 2010; Oliver, 1997; Pan, 2002).

Because MNEs typically build their core resource base in their home country, home country context can play either an enhancing or constraining role in foreign subsidiary business activities (Meyer et al., 2011). The transfer of strategic practices associated with personnel, processes, resource allocation priorities, and, in general, ways of doing business, from the parent's home country to the subsidiary is common within MNEs (Andersson et al., 2002; Benito et al., 2011). The continuous transference of these practices within the MNE results in a degree of intra-MNE isomorphism whereby foreign subsidiaries adopt norms originating in the MNE's home country (Roth & Kostova, 2003). Therefore, due to this dual embeddedness, within the host country and within the MNE, a foreign subsidiary will be subject to institutional pressures derived at least partially from the parent's home country context (Meyer et al., 2011; Blumentritt and Nigh, 2002).

Boddewyn (1988) has argued that firm-specific advantages in the nonmarket arena are related to the political institutions of a parent's home country because MNEs often transfer political practices which they are accustomed to performing at home to foreign subsidiaries. Transfers of political practices can be induced or even altogether mandatory, as is the case concerning enforcement of the U.S. Foreign Corrupt Practices Act (Boddewyn, 1988). Hillman and Wan (2005: p. 324) found this to be the case for U.S. based

MNE political strategies in Western Europe where “simultaneous pressures for foreign subsidiaries to conform to two different sets of [institutional] ... pressures” being “both external and internal [in nature] likely ... influence[d] ... foreign subsidiary [political] strategies.” A recent example to consider is the case of J. P. Morgan's foreign subsidiary operations in China where unqualified children of key government officials were hired as investment-bankers for the purpose of gaining political favor so that the firm would either obtain or retain lucrative government contracts (BBC News, 2016). This program was eliminated by the firm's headquarters (in the U.S.) following the settlement of a lawsuit with the U.S. Federal Government, essentially altering foreign subsidiary political practices in China due to political institutions in the MNE's home country.

Accordingly, the MNE's adaptation to home country political conditions and the simultaneous intra-MNE diffusion of institutionalized practices to subsidiaries suggests that decisions made by managers of foreign subsidiaries to allocate efforts towards political networking will be influenced by the political institutions in the MNE parent's home country. As the parent develops strategic practices tailored for home country political institutions, these practices will then be disseminated within the MNE's subsidiary network, affecting the intensity with which foreign subsidiaries engage in political ties in their respective host country environments (cf. Gamble, 2010).¹ Taken together, along with the aforementioned arguments regarding the importance of political stability as an incentive for increasing the intensity of political tie building, we posit that foreign subsidiaries whose parents are embedded in home countries that are more politically stable will have a greater propensity to intensify political ties than foreign subsidiaries with parents from home countries that are more politically unstable. Formally stated:

Hypothesis 1. Greater parent home country political stability will increase a foreign subsidiary's political tie intensity, *ceteris paribus*.

2.2. The moderating role of parent resource protection

Host countries, especially emerging markets, often lack effective governance systems to sufficiently protect foreign subsidiary property rights (Li, 2005; Roy and Oliver, 2009). For example, Luo (2007: 42) has argued that in emerging markets “[l]ack of adequate legal protection as perceived by executives increases uncertainty with respect to property rights and legitimate returns, disturbs fair competition, and permits unaccountability of regulatory agents' behavior”. Further, foreign subsidiaries are often subject to a wide range of government expropriation hazards that enhance the risk of losing control over critical resources (Faccio, 2006; Feinberg and Gupta, 2009). Therefore, one of the key tasks for managers of MNEs is the protection of subsidiary resources (e.g., brand names, R & D, know-how, technology, trademarks, copyrights, patents, hard assets, and financials) (Luo, 2001). For example, Apple has been aggressive in protecting valuable assets of its foreign subsidiaries by attempting to shape opinion in legal arenas concerning issues such as intellectual property protection and corporate espionage (Casarin, 2015).

The level of an MNE parent's protecting proprietary resources in host countries can vary depending on the strategic goals underlying the investment and the nature of competitive advantage sought by foreign subsidiaries (Beugelsdijk et al., 2017; Luo, 2001). Benito et al. (2011) suggested that greater interdependence between foreign subsidiaries and their parents creates a bias towards routines and practices that are tied to home country institutions. Further, Narula (2002) found that subsidiaries which possess valuable knowledge-based resources will be more heavily integrated into an MNE's network. Such enhanced intra-MNE embeddedness enhances an interdependence between foreign subsidiaries and parents, insuring that parents will have monitoring and control over foreign subsidiary activities. This line of research suggests that increased interdependence between a parent and foreign subsidiary may influence the application of political practices. For example, Blumentritt and Nigh (2002) demonstrated that there was greater coordination of political activities when foreign subsidiaries were more integrated with the parent MNE (see also Hillman and Wan, 2005).

Taken together, prior literature implies there will be greater coordination of political activities between the parent and its foreign subsidiaries as the MNE prioritizes the need to protect foreign subsidiary resources, integrating subsidiaries more closely with the parent MNE (cf. Boddewyn and Brewer, 1994). Accordingly, we posit that the extent of a parent's efforts in protecting foreign subsidiary resources will enhance the transference of political practices. In other words, higher levels of parent resource protection will increase integration of the foreign subsidiary nonmarket strategies with the parent MNE's political activities, thus enhancing the extent to which home country political stability shapes foreign subsidiary allocation of managerial resources to political ties. If the parent MNE engages in intense political networking in its home country, and at the same time emphasizes the protection of foreign subsidiary resources, then foreign subsidiary managers will be more inclined to engage in political activities consistent with the intra-MNE strategic practices. Therefore:

Hypothesis 2. The positive relationship between parent home country political stability and foreign subsidiary political tie intensity will be greater for foreign subsidiaries with parents that exhibit higher levels of resource protection.

2.3. Political tie intensity fit and strategic performance

Several empirical studies have found that social capital derived from political ties is positively related to firm performance (Acquaah, 2007; Li and Zhang, 2007; Luo and Park, 2001; Peng and Luo, 2000; You and Du, 2012), innovation (Wang and Chung,

¹ The conceptual model in Appendix A illustrates the intra-MNE transference of nonmarket practices.

2013; Wu, 2011), government support (Wei et al., 2011), and formation of cross-border strategic alliances (Siegel, 2007). However, several studies provide evidence that political ties can bring negative outcomes for foreign subsidiaries operating in emerging markets. For example, Li et al. (2008) discovered that, when compared to domestic firms, foreign subsidiaries utilizing political ties exhibited lower performance outcomes. After all, developing and maintaining political ties requires the allocation of substantial time and effort by senior managers; resources that could have otherwise been allocated to other, perhaps more economically productive activities. One of the possible drivers of these equivocal results is that this body of research has failed to consider how fit between a foreign subsidiary parent's home country political institutions and political tie intensity in a host country will influence performance.

Political ties are particularly relevant to achieving strategic performance objectives. The fit paradigm asserts that strategic performance is a function of the alignment between the firm's strategic actions and elements surrounding its internal and external environment (cf. Brouthers et al., 2000). For instance, Brouthers et al. (2003) suggest that fit between MNE asset specificity, economic uncertainty, and entry mode choice enhance subsidiary efficiencies, leading to greater satisfaction with strategic performance. Similarly, Brouthers et al. (2000) found that MNEs that made risk-adjusted changes to perceived environmental uncertainty which fit with their entry mode choice were more satisfied with strategic performance (i.e., achieving pre-set strategic goals and objectives) than those which did not. Based on the fit paradigm, one of the ways in which foreign subsidiaries may achieve superior strategic performance is by aligning their strategies with MNE capabilities that can be leveraged abroad (Brouthers, 2002; Venkatraman, 1989; Venkatraman and Camillus, 1984).

In the context of our study, fit represents the alignment of foreign subsidiary political tie intensity with parent capabilities derived from home country political institutions. For instance, when a foreign subsidiary from a politically unstable home country (whereby MNEs are less incentivized to engage in political tie building) chooses not to invest in intensifying political ties (Henisz and Delios, 2004; Sun et al., 2010), but instead focuses on other aspects of its operations, then this would fit better with capabilities “shaped by home country institutional patterns” (Holburn and Zelner, 2010, p. 1293). Conversely, if the same foreign subsidiary attempts to intensify political ties in a host country, then there will likely be a strategic misfit between its political networking practices and MNE norms (Ahlvik and Bjorkman, 2015; White et al., 2013; Zajac et al., 2000). Neo-institutional theory suggests that this misfit may hinder the foreign subsidiary's ability to leverage existing MNE political practices in a host country and result in resource misallocation (Jensen and Szulanski, 2004; Lawton et al., 2013).

Consequently, we argue that fit between parent home country political institutions and level of foreign subsidiary political tie intensity in a host country will tend to prove more efficient. These efficiencies will occur due to the foreign subsidiary staying within the means of institutionalized practices transferred from the parent MNE (Roth and Kostova, 2003; Zander and Kogut, 1995), efficiencies that may not be matched by host country capability-building efforts (Luo, 2002; Kostova, 1999; Kostova and Roth, 2002). Additionally, foreign subsidiaries that intensify political ties in alignment with MNE parent home country political institutions may have more effective relations with headquarters, thereby affecting resource allocations by the parent that support competitive advantages in a host country. Such fit should allow the foreign subsidiary to leverage existing MNE competencies and thus more likely achieve strategic objectives. We therefore hypothesize that:

Hypothesis 3. Fit between the intensity of political ties and parent home country political stability will be positively related to foreign subsidiary strategic performance.

3. Methods

3.1. Sample and data

To test our hypotheses, we conducted a survey-based study in the Philippines over the course of several months in 2007. The unit of analysis in our study is the wholly owned foreign subsidiary. The Philippines is an especially fitting host country in relation to our research question due to its being a primary foreign investment location choice for MNEs operating in Southeast Asia (United Nations, 2007; Heinrich and Konan, 2001). We specifically targeted wholly owned foreign subsidiaries because they have complete control over their operations, which mitigates any potential differences arising from governance characteristics such as access to local partner capabilities in joint ventures (Hillman and Wan, 2005). The data were drawn from senior executives. Previous studies have shown that data derived from single respondents can be as valid and reliable as multiple respondents (e.g., Danis et al., 2010; White et al., 2015). Also, these key informants were highly knowledgeable about their subsidiary strategies (Luo, 2007) and had access to firm-specific data as points of reference (Podsakoff and Organ, 1986).

The initial sample was composed of 540 foreign subsidiaries which were collected from the *Foreign Companies in the Philippines Yearbook* (2007). We pre-tested the survey by submitting it to business scholars from both the Philippines and United States, as well as with managers operating in the Philippines. This served to adjust the wording in the questionnaire. We then collected data by distributing a questionnaire through multiple field visits, which provided access to the right informants, ensured the correct use of terminology, and helped improve the response rates (Li and Zhang, 2007). In order to reduce social desirability bias, we assured respondents complete anonymity and confidentiality in an introductory letter from a higher education sponsoring institution. We received responses from 194 subsidiaries, but thirteen responses were not usable due to missing data. Hence, the final response rate was 33.5%. This response rate was comparable to other studies that have performed similar data collection methods in emerging markets (e.g., Li and Zhang, 2007). All of the responses came from top managers that were CEOs, managing directors, senior vice presidents, and regional heads. The majority of respondents (approximately 56%) were local nationals. As can be seen in Table 1, the foreign subsidiaries in our sample originated from a diverse array of industries and home countries.

Table 1

Sample characteristics.

Source: White et al. (2015).

Country and region of origin	#	%	Industry ^a	%
(Americas)	(54)	(30)	Agriculture/environmental	1.7
Canada	4	2.2	Banking/finance/insurance	6.5
Mexico	1	0.6	Chemicals	7.8
U.S.A.	49	27.1	Construction and engineering	8.2
(Asia)	(60)	(33)	Consumer goods	4.3
Japan	45	24.9	Electronics and electrical equipment	10.4
Malaysia	1	0.6	Food and drink	3.9
P.R. China	4	2.2	IT/computers/software	3.0
Singapore	4	2.2	Machinery and heavy equipment	6.9
South Korea	3	1.7	Mining/metals/steel	3.0
(Europe)	(62)	(34)	Motor industry	3.4
Belgium	3	1.7	Oil/gas/energy	2.6
Denmark	3	1.7	Pharmaceuticals and medical care	6.9
Finland	1	0.6	Printing/paper/media	2.1
France	12	6.6	Real estate and property	1.7
Germany	10	5.5	Telecoms/telecommunications	3.9
Netherlands	6	3.3	Textiles	1.3
Norway	2	1.1	Tourism/travel/leisure	1.7
Sweden	2	1.1	Trade	7.4
Switzerland	6	3.3	Transportation	5.2
United Kingdom	17	9.4	Various consultancies	7.4
(Other)	(5)	(3)		
Australia	3	1.7		
South Africa	2	1.1		
(Total)	(181)			

^a Refers to primary industry of operations.

We tested for non-response bias by comparing respondents and non-respondents on their average size (number of employees), average of years operating in the Philippines, and business sector (manufacturing or service industry). We did not find a significant difference between the two groups ($p > 0.05$ level). Furthermore, we interviewed 15 randomly selected informants (e.g., Luo, 1999).² We followed Krishnan et al. (2006), and Luo (1999), and asked respondents to discuss specific aspects of their subsidiary's strategic behavior that were included in the survey (e.g., political ties). In comparing the survey and interview responses, we found strong consistency (Pearson correlations: 0.96–0.83, $p < 0.001$; Guttman split-half Rs: 0.82–0.71).

3.2. Variables and measurement

3.2.1. Dependent variables

Political tie intensity and *strategic performance* were operationalized as dependent variables in this study. *Political tie intensity* was constructed by drawing on ideas from Danis et al. (2010) and using four items adapted from White et al. (2015). We measured it by looking at the extent to which the foreign subsidiary used informal ties and connections to (1) political leaders in various levels of government; (2) regulatory authorities; and (3) commercial administration bureaus over the past three years on a seven-point Likert-type scale (1 = “very little” to 7 = “very much”). We assessed this also by asking the informants about the extent of time spent by senior management in engaging with government officials over the past three years on a seven-point Likert-type scale (1 = “very low” to 7 = “very high”). These items were then factored analyzed employing principal component analysis with Kaiser normalization using varimax rotation (Cronbach's alpha = 0.80; communality loadings = 0.82–0.60).

Strategic performance was measured by three items adapted from Brouthers et al. (2000, 2003), and Chowdhury (1992): competitive position, market share, and market access. These items are particularly relevant to our study because political ties are usually thought of as instrumental for achieving strategic performance objectives such as market share and market access. Using the past three years as a reference point, respondents were asked to rate how satisfied they were with their subsidiary's performance in the aforementioned areas on a seven-point Likert-type scale (1 = “very dissatisfied” to 7 = “very satisfied”).³ Thereafter, these three items were factored analyzed using principal component analysis with Kaiser normalization using varimax rotation (Cronbach's

² These informants represented a wide range of both expatriates ($N = 8$) and locals ($N = 7$) working for foreign subsidiaries from a broad range of industries (agriculture/environmental = 1, banking/finance/insurance = 2, construction and engineering = 1, electronics = 2, food and drink = 2, machinery and heavy equipment = 1, motor industry = 1, oil and gas = 1, telecoms/telecommunication = 1, real estate and property = 1, various consultancies = 2) and countries of origin (Japan = 3; United States = 3; France 2; Germany = 2; United Kingdom = 2; Malaysia = 1; Singapore = 1; South Korea = 1).

³ Past studies have suggested that subjective measures in emerging markets are effective in capturing specific aspects of performance largely unavailable in secondary data (Brouthers, 2002; Brouthers et al., 2003; Luo and Peng, 1999; Park and Luo, 2001). Further, in such contexts “firms are reluctant to provide objective measures of performance for their foreign subsidiaries”, as “objective measures of performance may suffer from translation errors due to differences in reporting practices ... and managers tend to judge ... success or failure ... based on the achievement of pre-set goals and objectives.” (Brouthers, 2013: 6).

alpha = 0.89; communality loadings = 0.89–0.77).

3.2.2. Predictor variable

Similar to [Cuervo-Cazurra and Genc \(2008\)](#) and [Hoffman et al. \(2016\)](#), we employed *home country political stability* from the World Bank Governance Indicators database. This variable is operationalized at the country-level, measuring the political stability in each subsidiary's home country for the years 2004–2007 in order to match years with the reflective measures employed from our primary data. According to the World Bank, this item captures perceptions of the likelihood of frequent political changes and turmoil, which is appropriate given our theoretical arguments. We aggregated the raw score of each country's percentile rank (ranging from 0 to 100) over the years 2004–2007 and then divided the aggregated score by four. In other words, we captured current political institutional conditions in each subsidiary's home country by measuring the average home country political stability over the years parallel to the dependent variables. Further, we ran a principal component analysis with Kaiser normalization (using varimax rotation) between the items that make-up this variable in order to verify its convergent validity. Items for this variable loaded on a single component.

3.2.3. Moderating variable

Parent resource protection was measured by two items adapted from [Luo \(2001\)](#). We asked informants to rate the extent to which their foreign subsidiary disagreed or agreed that (1) protecting resources, technologies, or knowledge are imperative to the subsidiary's achievement of the strategic goals underlying investment, and (2) our parent company protects firm-specific resources, technologies, or knowledge it commits to the subsidiary in order to gain greater benefits from such investment, over the past three years on a seven-point Likert-type scale (1 = “strongly disagree” to 7 = “strongly agree”). Thereafter, these items were factored analyzed using principal component analysis with Kaiser normalization using varimax rotation (Cronbach's alpha = 0.89; communality loadings = 0.85–0.84).

Political tie intensity fit is a dichotomous variable developed from foreign subsidiaries whose political tie intensity was predicted versus not predicted by home country political stability in a choice model ([Brouthers, 2002](#); [Brouthers et al., 2005](#)). Following [Brouthers \(2002\)](#) and [White et al. \(2013\)](#), we first transformed political tie intensity (a continuous variable on a seven point Likert scale) into a dichotomous dummy variable by performing a median split (high political tie intensity = 1, low political tie intensity = 0). We then ran a logistic regression with foreign subsidiary *home country political stability* as the independent variable and the transformed dichotomous variable as the dependent variable. Foreign subsidiaries whose political tie intensity was predicted by this model (the fit group) were assigned a value of 1 for the *political tie intensity fit* variable, while foreign subsidiaries whose political tie intensity was not predicted by this model (the misfit group) were assigned a value of 0. The *Data Analyses and Results* sections provide further information concerning how this variable was constructed.

3.2.4. Control variables

A number of other theoretically relevant control variables were used. Informant nationality (coded 1 = Filipino, 0 = otherwise) was used as a control variable due to local and foreign expatriate informants having different perceptions of these foreign subsidiary's operations in this region, which could have created some biases ([Luo, 2002](#); [Zaheer and Venkatraman, 1995](#)). Informant experience was operationalized as the number of years that a respondent spent working in the Philippines. We controlled for top management team size, measured as the number of executives formally managing the subsidiary, since the size of the team can have an effect on the extent and intensity of political networks. Further, the length of operations in the Philippines can influence learning and adaption to a host country ([Li and Zhang, 2007](#); [Luo, 1999](#)), hence we controlled for the number of years from initial year of the subsidiary's establishment in the Philippines. We also controlled for foreign subsidiary size, measured as the total number of full-time employees, as larger subsidiaries may have more resources at their disposal to carry-out political activities ([Brouthers, 2002](#); [Erramilli and Rao, 1993](#)).

Cultural distance could play a role in how successful a foreign subsidiary will be in deploying political connections that enhance performance ([Luo, 2001](#)). Hence, we controlled for cultural distance to the Philippines using [Kogut and Singh's \(1988\)](#) formula based on [Hofstede's \(1980\)](#) four cultural dimensions. To account for some transaction costs, we add geographic distance, operationalized as the kilometers between the foreign subsidiary's parent home country and the Philippines (e.g., [Ragozzino and Reuer, 2011](#)). Based on [Luo \(2007\)](#) we accounted for the subsidiary's orientation in the Philippines, as it could affect political engagement. This was captured as follows: 1 = local market focused, 0 = export-oriented. Finally, we also controlled for potential industry effects by using four dummy variables: banking and finance, technology, oil and gas, and manufacturing, as well as by including the industry sales growth rate (%) of each subsidiary.

In order to check the discriminant validity of our primary data, we conducted [Harman's \(1967\)](#) one-factor test. We observed that political tie intensity, parent resource protection, and strategic performance yielded three distinct factors with eigenvalues all greater than one. Neither factor accounted for the majority of variance (highest percentage of variance explained = 31.99%). Additionally, we performed a confirmatory factor analysis on all items related to the three latent variables. There was a significant improvement in the chi-square statistic from the single factor model establishing better model fit for the multiple factor model ($p < 0.01$), which also substantiates that common method bias is not a serious problem in our data.

Table 2
Descriptive statistics and correlations.^{a,b}

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Strategic performance	4.59	1.31	–																
2. Political tie intensity	3.79	2.80	0.21	–															
3. HC political stability ^b	69.58	14.89	0.11	0.21	–														
4. Parent resource protection	5.13	1.58	0.31	0.40	0.15	–													
5. Manufacturing	0.47	0.50	0.29	0.34	0.09	–													
6. Oil & gas	0.05	0.49	0.19	0.16	–0.07	0.26	–												
7. Technology	0.20	0.40	0.04	0.06	–0.09	0.42	0.04	–											
8. Banking & finance	0.08	0.28	–0.25	–0.30	–0.05	0.16	–0.29	0.28	–										
9. Industry growth rate	9.11	10.05	–0.12	–0.19	–0.09	0.15	–0.31	0.10	0.18	–									
10. Market orientation	0.73	0.44	0.20	0.24	0.08	–0.16	0.43	0.18	0.08	0.18	–								
11. Cultural distance	28.39	26.24	0.06	0.13	0.50	–0.02	0.01	–0.18	–0.13	–0.04	–0.12	–							
12. Geographic distance	8274.44	297.16	–0.17	–0.18	–0.29	–0.10	–0.07	0.14	0.13	0.06	0.14	0.06	–						
13. Foreign subsidiary size	468.91	877.84	0.04	–0.09	–0.04	–0.02	0.16	–0.08	0.01	0.05	–0.04	–0.22	0.02	–					
14. Foreign subsidiary experience	29.81	25.55	–0.01	–0.10	–0.23	–0.03	0.05	0.04	0.07	0.18	0.08	–0.01	–0.19	0.22	–				
15. Top management team size	4.21	1.30	–0.05	–0.08	–0.09	–0.03	0.04	0.07	0.02	0.07	0.05	0.04	–0.07	0.05	0.18	–			
16. Informant experience	14.55	8.05	–0.05	–0.04	–0.10	0.01	–0.03	0.07	0.14	0.04	0.03	0.04	–0.07	0.15	0.01	0.15	–		
17. Informant home country	0.55	0.49	–0.04	–0.05	–0.10	0.02	–0.02	0.04	0.19	0.11	0.01	0.05	–0.06	0.08	0.01	0.11	0.03	0.69	–
18. Political tie intensity fit	0.73	0.41	0.46	0.18	0.07	–0.14	–0.07	–0.15	–0.04	0.12	–0.08	–0.15	0.14	–0.12	0.03	–0.05	0.01	–0.04	0.02

^a N = 181. Correlations in bold are significant at the 0.05 level or better (two-tailed significance tests).

^b HC = home country.

Table 3
Results of moderated hierarchical regression analyses.^{a,b}

Variables	Political tie intensity			
	Model 1	Model 2	Model 3	Model 4
<i>Control variables</i>				
Informant home country	−0.02 (−0.19)	−0.01 (−0.08)	−0.01 (−0.12)	−0.02 (−0.17)
Informant experience	−0.03 (−0.28)	−0.03 (−0.27)	−0.03 (−0.27)	−0.01 (−0.06)
Top management team size	−0.06 (−1.01)	−0.06 (−0.86)	−0.06 (−0.98)	−0.07 (−1.03)
Foreign subsidiary experience	−0.01 (−0.01)	0.02 (0.24)	0.03 (0.32)	0.03 (0.43)
Foreign subsidiary size	−0.03 (−0.35)	−0.03 (−0.38)	−0.04 (−0.47)	−0.06 (−0.77)
Cultural distance	−0.16 (−2.28)*	−0.07 (−0.69)	−0.06 (−0.66)	−0.04 (−0.36)
Geographic distance	−0.24 (−2.62)**	−0.22 (−2.28)*	−0.21 (−2.29)*	−0.17 (−1.82)
Market orientation	−0.09 (−1.10)	−0.06 (−0.82)	−0.04 (−0.52)	−0.04 (−0.50)
Industry growth rate	−0.13 (−1.77) [†]	−0.14 (−1.92) [†]	−0.13 (−1.76) [†]	−0.15 (−1.99)*
Banking & finance	−0.21 (−2.74)**	−0.23 (−3.01)**	−0.23 (−3.03)**	−0.23 (−2.97)**
Technology	0.06 (0.88)	0.07 (0.95)	0.08 (1.11)	0.09 (1.25) [†]
Oil & gas	0.15 (2.19)*	0.15 (2.10)*	0.13 (1.82) [†]	0.14 (1.96)*
Manufacturing	0.24 (3.08)**	0.20 (2.58)**	0.22 (2.86)**	0.23 (2.97)**
<i>Predictor variables</i>				
HC political stability (HCPS) ^c		0.17 (2.13)*	0.18 (2.25)*	0.16 (2.14)*
Parent resource protection (PRP) ^c			0.12 (1.75) [†]	0.12 (1.76) [†]
<i>Interaction</i>				
HCPS × PRP				0.15 (1.99)*
R ²	0.35	0.37	0.38	0.40
Adjusted R ²	0.30	0.32	0.33	0.35
Change in R ²		0.02 [†]	0.01 [†]	0.02*
Change in F		4.53*	3.13 [†]	3.99*
Model df	167	166	165	164

t-Values in parentheses.

[†] $p < 0.10$.

* $p < 0.05$.

** $p < 0.01$ (two-tailed significance tests).

^a $N = 181$. Values represent standardized coefficients (β s) with corresponding.

^b The highest VIF value in Model 3 is 2.80.

^c HC = home country. Centered variables.

4. Data analysis and results

4.1. Tests of hypotheses

Table 2 reports the means, standard deviations, and correlation coefficients among all variables in this study. The variance inflation factors (VIFs) for all variables were well under 10, showing that multicollinearity is not an issue (Hair et al., 1998).

To test Hypotheses 1 and 2, we performed a moderated hierarchical multiple regression analysis; Table 3 presents these results. Hypothesis 1 stated our prediction that greater home country political stability will enhance foreign subsidiary political tie intensity. The positive and significant coefficient ($\beta = 0.17$, $p < 0.05$) in Model 2 indicates that parent home country political stability is positively related to foreign subsidiary host country political tie intensity, supporting Hypothesis 1. Hypothesis 2 predicted that the positive relationship between parent home country political stability and political tie intensity will be stronger for foreign subsidiaries with parents that exhibit high levels of resource protection. The interaction term between parent home country political stability and parent resource control in Model 4 had a positive and significant effect on foreign subsidiary political tie intensity ($\beta = 0.15$, $p < 0.05$), supporting Hypothesis 2. Overall, Model fit (change in F) and variance explained (change in R²) significantly improved from model to model.

To further validate and gain insight into the nature of the moderation effect, we plotted the interaction where parent resource control was treated as a contingency variable affecting the relationship between parent home country political stability and foreign subsidiary political tie intensity. We relied on mean scores and a range of one negative to one positive standard deviation (Aiken and West, 1991). As can be seen in Fig. 2, foreign subsidiary home country political stability has a stronger effect (steeper slope) on political tie intensity when there are higher levels of parent resource control, in line with Hypothesis 2. Interestingly, the plot suggests that the effect of home country political stability on political tie intensity is apparent mostly when resource protection is relatively higher; when resource protection is lower than the mean, the slope is decreasingly positive and may even be virtually flat.

We then used a two-stage technique described in Shaver (1998) and adopted by numerous studies (Brouthers, 2002; Brouthers et al., 2005; White et al., 2013). In stage one, a dichotomous dummy variable, named *political tie intensity fit*, was created from the foreign subsidiaries whose political tie intensity was correctly classified or not by a choice of political tie intensity model as described

Fig. 2. The moderating role of parent resource protection.

above (see generally Brouthers, 2002; Brouthers et al., 2005). Next, foreign subsidiaries whose level of political tie intensity was predicted by this model (the fit group) were assigned a value of 1 for the *political tie intensity fit* dummy variable, while foreign subsidiaries whose political tie intensity was not predicted by this model (the non-fit group) were assigned a value of 0. Table 4

Table 4

Logistic regression: Political tie intensity choice model.

Parameter	B	Exp(β)	Wald	S.E.
<i>Predictor:</i>				
HC Political stability ^a	0.01*	1.01	4.18	0.01
<i>Controls:</i>				
Parent resource protection	0.05 [†]	1.04	2.85	0.02
Informant home country	− 0.69	0.50	1.33	0.02
Informant experience	− 0.01	0.99	0.01	0.04
Top management team size	− 0.02	0.98	0.02	0.14
Foreign subsidiary experience	− 0.02 [†]	0.98	3.16	0.01
Foreign subsidiary size	0.01	1.00	0.61	0.01
Cultural distance	− 0.01	0.99	0.93	0.01
Geographic distance	0.01	1.00	0.03	0.01
Market orientation	0.70 [†]	0.48	2.20	0.49
Industry growth	− 0.04 [†]	0.96	3.59	0.02
Banking & finance	− 0.23	0.80	0.14	0.59
Technology	0.57	1.78	1.30	0.51
Oil & gas	0.82 [†]	2.28	2.79	0.49
Manufacturing	0.39	1.48	0.87	0.42
Constant	1.61 [†]	5.02	3.11	0.91
N	181			
Chi square	59.48**			
Cox & Snell pseudo R ²	0.29			
Nagelkerke pseudo R ²	0.39			
Percent correctly classified	73.60			
Df	15			

N = 181. Values represent unstandardized coefficients (β s).

β = logistic regression parameter estimate. Exp(β) = odds ratio.

[†] $p < 0.10$.

^a HC = home country.

* $p < 0.05$.

** $p < 0.01$ (two-tailed significance tests).

presents these results.

In stage two, we conducted a second moderated hierarchical multiple regression analysis; Table 5 presents these results. Hypothesis 3 stated that political tie intensity fit will be positively related to foreign subsidiary strategic performance. The positive and significant coefficient ($\beta = 0.38$, $p < 0.01$) in Model 2 indicates that political tie intensity fit is positively related to foreign subsidiary strategic performance, supporting Hypothesis 3. As with our first analysis, model fit (change in F) and change in variance explained (change in R^2) significantly improved from model to model. In each of the regression models, variance inflation factors (VIFs) were examined to identify potential multicollinearity. All VIF scores were well below the 10.00 threshold with the highest one being 2.80 (Table 3, Model 4), suggesting that multicollinearity was not a major concern (Hair et al., 1998).

Finally, in order to confirm the robustness of our results, we ran sensitivity checks concerning foreign subsidiary parent home countries (Gu and Lu, 2011). We conducted a series of analyses parallel to what is reported in Tables 3, 4 and 5, after removing observations of foreign subsidiaries with parents from the U.S.A. and Japan—the two largest parent home countries in the sample. We also ran a sensitivity check by employing multilevel modeling to further account for nested data. Our results running linear mixed models showed consistent results to the findings offered in our OLS hierarchical regression analyses in Table 3. The estimates for the relationship between the predictor variables home country political stability ($p < 0.05$) and parent resource protection ($p < 0.10$), as well as the estimate for the interaction term ($p < 0.05$), were positive and significantly related to political tie intensity. In summary, our sensitivity check findings were similar to our reported results in terms of significance, magnitude, and direction, providing evidence for the robustness of the original results.

5. Discussion and conclusion

Our objectives for this study were to extend theory in the international nonmarket strategy literature by advancing understanding of the antecedents and outcomes of foreign subsidiary political tie intensity. Drawing from neoinstitutional theory and the fit paradigm, we have theorized and empirically demonstrated that the intensity of foreign subsidiary political ties is affected by political stability in a MNE parent's home country, particularly when the parent exhibits high levels of resource protection. Our results

Table 5
Results of moderated hierarchical regression analyses.^{a,b}

Variables	Strategic performance	
	Model 1	Model 2
<i>Control variables</i>		
Informant home country	0.11 (1.03)	0.13 (1.37)
Informant experience	− 0.08 (− 0.76)	− 0.07 (− 0.65)
Top management team size	− 0.02 (− 0.28)	− 0.03 (− 0.53)
Foreign subsidiary experience	0.16 (2.00)*	0.19 (2.59)**
Foreign subsidiary size	− 0.01 (− 0.07)	− 0.05 (− 0.68)
Cultural distance	− 0.03 (− 0.30)	0.03 (− 0.38)
Geographic distance	− 0.16 (− 1.57) [†]	− 0.16 (− 1.66) [†]
Market orientation	− 0.03 (− 0.33)	− 0.01 (− 0.04)
Industry growth rate	0.03 (0.41)	0.05 (0.65)
Banking & finance	− 0.20 (− 2.53)**	− 0.16 (− 2.22)*
Technology	− 0.01 (− 0.20)	− 0.02 (− 0.28)
Oil & gas	0.16 (2.21)*	0.13 (1.82) [†]
Manufacturing	0.08 (0.97)	0.11 (1.50)
Political tie intensity	0.37 (4.46)**	0.15 (1.68) [†]
<i>Predictor variable</i>		
Political tie intensity fit		0.38 (4.63)**
R^2	0.34	0.42
Adjusted R^2	0.28	0.36
Change in R^2		0.08**
Change in F		21.46**
Model df	166	165

t-Values in parentheses.

[†] $p < 0.10$.

^a $N = 181$. Values represent standardized coefficients (β s) with corresponding.

^b The highest VIF value in Model 2 is 2.78.

* $p < 0.05$.

** $p < 0.01$ (two-tailed significance tests).

also show that the fit between parent home country political stability and a foreign subsidiary's political tie intensity will positively influence strategic performance. Foreign subsidiaries with parents from politically stable home countries may achieve better strategic performance outcomes when they allocate greater managerial resources to intensifying political ties. Otherwise, it may be better for these foreign subsidiaries to leverage other, non-political, capabilities to enhance strategic performance outcomes. While the cultivation of political ties has many benefits, these nonmarket activities may represent a divergence of attention and resources away from their intended purpose, which can cause inefficiencies for certain foreign subsidiaries.

Our study answers calls made by [Lux et al. \(2011\)](#) and [Mellahi et al. \(2016\)](#) in addressing two important gaps in the international nonmarket strategy literature. First, through the application of neoinstitutional theory, we shed light on how the transference of strategic practices associated with MNE parent home country political institutions—through external and subsequently intra-MNE adaptation—may influence foreign subsidiary political networking activities in host country environments. While prior literature has focused on the utility of political ties across firms, we have focused on home country political institutions and parent resource protection as drivers of political tie intensity. Our approach adds novel antecedents to the nomological network of political ties, thus contributing to the theory of why managers of foreign subsidiaries decide to engage more intensely in political tie building activities. Interestingly, results regarding parent resource protection suggest that MNE global strategy pertaining to subsidiary autonomy and resource control may, intentionally or not, affect nonmarket strategy decisions and outcomes as well. Therefore, the interaction of market and nonmarket strategy requires more attention within the international nonmarket strategy literature.

Second, prior studies have shown that the adaptation of political ties to host country operating environments offers positive performance outcomes ([Acquaah, 2007](#); [Park and Luo, 2001](#); [Peng and Luo, 2000](#)), yet overly embedded political networks in host countries can have negative performance outcomes (e.g., [Sun et al., 2010](#)). However, these studies have not taken into account the transference of MNE parent organizational practices. We offer evidence that foreign subsidiary performance outcomes are at least partially determined by fit between political institutions at home and foreign subsidiary political tie intensity abroad. This finding helps disentangle some of the equivocal existing evidence regarding the utility of political ties in emerging economies by suggesting that a foreign subsidiary's leveraging of a parent's organizational practices, such as those underlying its political capabilities, may support the achievement of strategic objectives in a host country. Our examination of subsidiaries operating within the same host country allows us to evaluate whether or not nonmarket strategic decisions made by managers—that are in alignment with parent MNE practices tied to home country institutional conditions—matter to a foreign subsidiary's success in a host country. Such drivers of political tie intensity and foreign subsidiary effectiveness are novel additions to institutional theory and the international nonmarket strategy literature.

Like all studies, this paper has some limitations which offer opportunities for future research. First, subjective measures of political tie intensity and strategic performance employed in this study permitted us to capture the richness of political network relationships as they relate to fit with parent home country institutional conditions, as well as allowing for a fine-grained analysis of their impact on strategic performance. However, the use of key informant self-report data may pose potential problems such as the limited recall of informants and biased perceptions of past actualities. Nonetheless, the choice of using perceptual measures was necessary due to the difficulty in getting objective data for the focal constructs, especially among foreign subsidiaries operating in the Philippines. Second, the cross-sectional nature of our dataset allows us to capture a moment in time, sacrificing the ability to gauge the causal relationships over time. Third, the empirical setting of this study was a single country, which can help to control for host country environmental factors, but we do not know how context-specific the level of political tie intensity may be. Thus, a more comprehensive assessment of these relationships via a comparative analysis across multiple host countries is warranted.

This study offers several other avenues for future research. While we have focused on foreign subsidiary political tie *intensity*, future research in this area may focus on other aspects of nonmarket strategy such as political network *targets*. An essential issue confronting foreign subsidiaries is whether their political targets are optimally sequenced. A focus on political targets calls for a more nuanced perspective on which political actors and foreign subsidiaries develop relationships at both the local and national levels in terms of tie intensity, as well as how home country political conditions affect the target portfolio. It would be particularly interesting to further investigate how these relationships specifically apply to emerging market MNE's internationalizing into both developed and developing host country environments.

Our findings also warrant further investigation into how other elements of an MNE's home country institutional context influence political networking practices abroad. For example, our results demonstrate that MNEs do carry “institutional baggage” in international operations ([Roth and Kostova, 2003](#)). With this in mind, more can be done to investigate the phenomenon such as knowledge transfer and the effects of fit between foreign subsidiary adaptation to local institutions versus alignment of MNE parent nonmarket practices in their home country environments.

Finally, we found that foreign subsidiaries operating in growing industries, such as the banking and financial services sector, are less inclined to pursue intensive political networking activities. This finding alludes to the notion that foreign subsidiaries operating in rapidly growing industries may have less of a need to intensify political ties, or perhaps the nature of how these subsidiaries are regulated may constrain such political activities ([Lawton et al., 2012](#)). Future research could examine whether task environment factors act as complements or substitutes as to the allocation of resources towards political networking activities. In conclusion, we believe that this study provides novel theoretical insights to international nonmarket strategy research investigating political networking practices of MNEs and their foreign subsidiaries.

Appendix A

References

- Acquaah, M., 2007. Managerial social capital, strategic orientation, and organizational performance in an emerging economy. *Strateg. Manag. J.* 28, 1235–1255.
- Ahlvik, C., Bjorkman, I., 2015. Towards explaining subsidiary implementation, integration, and internalization of MNC headquarters HRM practices. *Int. Bus. Rev.* 24, 497–505.
- Aiken, L.S., West, S.G., 1991. *Multiple Regression: Testing and Interpreting Interactions*. Sage Publications, Thousand Oaks.
- Andersson, U., Forsgren, M., Holm, U., 2002. The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation. *Strateg. Manag. J.* 23, 979–996.
- BBC News, 2016. JP Morgan Settles US Probe over China 'Influence' Hiring. <https://www.msn.com/en-ph/money/topstories/jp-morgan-settles-us-probe-over-china-influence-hiring/ar-AAkq80C> (accessed 11/16/2016).
- Benito, G.R.G., Lunnan, R., Tomassen, S., 2011. Distant encounters of the third kind: multinational companies locating divisional headquarters abroad. *J. Manag. Stud.* 48, 373–394.
- Beugelsdijk, S., Nell, P.C., Ambos, B., 2017. When do distance effects become empirically observable? An investigation in the context of headquarters value creation for subsidiaries. *J. Int. Manag.* <http://dx.doi.org/10.1016/j.intman.2017.03.002>.
- Blumentritt, T.P., Nigh, D., 2002. The integration of subsidiary political activities in multinational corporations. *J. Int. Bus. Stud.* 33, 57–77.
- Boddevyn, J.J., 1988. Political aspects of MNE theory. *J. Int. Bus. Stud.* 19, 341–363.
- Boddevyn, J.J., Brewer, T.L., 1994. International-business political behavior: new theoretical directions. *Acad. Manag. Rev.* 19, 119–143.
- Bonardi, J.P., Hillman, A.J., Keim, G.D., 2005. The attractiveness of political markets: implications for firm strategy. *Acad. Manag. J.* 30, 397–413.
- Brouthers, K.D., 2002. Institutional, cultural and transaction cost influences on entry mode choice and performance. *J. Int. Bus. Stud.* 33, 203–221.
- Brouthers, K.D., 2013. Institutional, cultural and transaction cost influences on entry mode choice and performance. *J. Int. Bus. Stud.* 44, 1–13.
- Brouthers, L.E., Brouthers, K.D., Werner, S., 2000. Perceived environmental uncertainty, entry mode choice and satisfaction with EC-MNC performance. *Br. J. Manag.* 11, 183–195.
- Brouthers, K.D., Brouthers, L.E., Werner, S., 2003. Transaction cost-enhanced entry mode choices and firm performance. *Strateg. Manag. J.* 24, 1239–1248.
- Brouthers, L.E., O'Donnell, E., Hadjimarcou, J., 2005. Generic product strategies for emerging market exports into triad nation markets: a mimetic isomorphism approach. *J. Manag. Stud.* 42, 225–245.
- Casarin, A.A., 2015. Non-market strategies in legal arenas. In: Lawton, T.C., Rajwani, T.S. (Eds.), *The Routledge Companion to Non-market Strategy*. Routledge, New York, pp. 141–161.
- Chowdhury, J., 1992. Performance of international joint ventures and wholly owned subsidiaries: a comparative perspective. *Manag. Int. Rev.* 32, 115–133.
- Cuervo-Cazurra, A., Genc, M., 2008. Transforming disadvantages into advantages: developing-country MNEs in the least developed countries. *J. Int. Bus. Stud.* 39, 957–979.
- Danis, W.M., Chiaburu, D.S., Lyles, M.A., 2010. The impact of managerial networking intensity and market-based strategies on firm growth during institutional upheaval: a study of small and medium-sized enterprises in a transition economy. *J. Int. Bus. Stud.* 41, 287–307.
- De Dios, E.S., 2008. Institutional constraints on Philippine growth. Discussion paper, Quezon City: University of the Philippines School of Economics, PRS Group, 2009. In: *Philippines: Country Report*. PRS Group Inc., East Syracuse.
- Dieleman, M., Boddevyn, J.J., 2012. Using organization structure to buffer political ties in emerging markets: a case study. *Organ. Stud.* 33, 71–95.
- DiMaggio, P.J., Powell, W.W., 1983. The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. *Am. Sociol. Rev.* 48, 147–160.
- Doh, J.P., Lawton, T.C., Rajwani, T., 2012. Advancing nonmarket strategy research: institutional perspectives in a changing world. *Acad. Manag. Perspect.* 26, 22–39.
- Erramilli, M.K., Rao, C.P., 1993. Service firms' international entry-mode choice: a modified transaction-cost analysis approach. *J. Mark.* 57, 19–38.
- Faccio, M., 2006. Politically connected firms. *Am. Econ. Rev.* 96, 369–386.

- Feinberg, S.E., Gupta, A.K., 2009. MNC subsidiaries and country risk: internalization as a safeguard against weak external institutions. *Acad. Manag. J.* 52, 381–399.
- Foreign Companies in the Philippines Yearbook. Business Monitor International, London, England.
- Gamble, J., 2010. Transferring organizational practices and the dynamics of hybridization: Japanese retail multinationals in China. *J. Manag. Stud.* 47, 705–732.
- Gu, Q., Lu, J.W., 2011. Effects of inward investment on outward investment: the venture capital industry worldwide 1985–2007. *J. Int. Bus. Stud.* 42, 263–284.
- Hair, J.F., Anderson, R.E., Tatham, R.L., Black, W.C., 1998. *Multivariate Data Analysis*, 5th edition. Pearson Education, Delhi, India.
- Harman, H.H., 1967. *Modern factor analysis*. University of Chicago Press, Chicago.
- Heinrich, J., Konan, D.E., 2001. Prospects for FDI in AFTA. *ASEAN Econ. Bull.* 18, 141–160.
- Henisz, W.J., Delios, A., 2004. Information or influence? The benefits of experience for managing political uncertainty. *Strateg. Organ.* 2, 389–421.
- Hillman, A.J., Wan, W.P., 2005. The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *J. Int. Bus. Stud.* 36, 322–340.
- Hoffman, R.C., Munemo, J., Watson, S., 2016. International franchise expansion: the role of institutions and transaction costs. *J. Int. Manag.* 22, 101–114.
- Hofstede, G., 1980. *Culture's Consequences: International Differences in Work-related Values*. Sage Publications, Beverly Hills, CA.
- Holburn, G.L.F., Zelner, B.A., 2010. Political capabilities, policy risk, and international investment strategy: evidence from the global electric power generation industry. *Strateg. Manag. J.* 31, 1290–1315.
- Jensen, R., Szulanski, G., 2004. Stickiness and the adaptation of organizational practices in cross-border knowledge transfers. *J. Int. Bus. Stud.* 35, 508–523.
- Kaufmann, D., Kraay, A., Mastruzzi, M., 2009. Governance matters VIII: aggregate and individual governance indicators, 1996–2008. In: *World Bank Policy Research Working Paper No. 4978*.
- Kobrin, S.J., 1979. Political risk: a review and reconsideration. *J. Int. Bus. Stud.* 10, 67–80.
- Kogut, B., Singh, H., 1988. The effect of national culture on the choice of entry mode. *J. Int. Bus. Stud.* 19, 411–432.
- Kostova, T., 1999. Transnational transfer of strategic organizational practices: a contextual perspective. *Acad. Manag. Rev.* 24, 308–324.
- Kostova, T., Roth, K., 2002. Adoption of an organizational practice by subsidiaries of multinational corporations: institutional and relational effects. *Acad. Manag. J.* 45, 215–233.
- Kostova, T., Roth, K., Dacin, M.T., 2008. Institutional theory in the study of multinational corporations: a critique and new directions. *Acad. Manag. Rev.* 33, 994–1006.
- Kostova, T., Zaheer, S., 1999. Organizational legitimacy under conditions of complexity: the case of the multinational enterprise. *Acad. Manag. Rev.* 24, 64–81.
- Krishnan, R., Martin, X., Noorderhaven, N.G., 2006. When does trust matter to alliance performance? *Acad. Manag. J.* 49, 894–917.
- Lawton, T., McGuire, S., Rajwani, T., 2012. Corporate political activity: a literature review and research agenda. *Int. J. Manag. Rev.* 15, 86–105.
- Lawton, T., Rajwani, T., Doh, J., 2013. The antecedents of political capabilities: a study of ownership, cross-border activity and organization at legacy airlines in a deregulatory context. *Int. Bus. Rev.* 22, 228–242.
- Li, S., 2005. Why poor governance environment does not deter foreign direct investment: the case of China and its implications for investment protection. *Bus. Horiz.* 48, 297–302.
- Li, J.J., Poppo, L., Zhou, K.Z., 2008. Do managerial ties in China always produce value? Competition, uncertainty, and domestic vs. foreign firms. *Strateg. Manag. J.* 29, 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. *Strateg. Manag. J.* 28, 791–804.
- Li, J.J., Zhou, K.Z., Shao, A.T., 2009. Competitive position, managerial ties, and profitability of foreign firms in China: an interactive perspective. *J. Int. Bus. Stud.* 40, 339–352.
- Liedong, T.A., Ghobadian, A., Rajwani, T., O'Regan, N., 2015. Toward a view of complementarity: trust and policy influence effects of corporate social responsibility and corporate political activity. *Group Org. Manag.* 40, 405–427.
- Luo, Y., 1999. Time-based experience and international expansion: the case of an emerging economy. *J. Manag. Stud.* 36, 505–534.
- Luo, Y., 2001. Determinants of entry in an emerging economy: a multilevel approach. *J. Manag. Stud.* 38, 443–472.
- Luo, Y., 2002. Capability exploitation and building in a foreign market: implications for multinational enterprises. *Organ. Sci.* 13, 48–63.
- Luo, Y., 2007. Are joint venture partners more opportunistic in a more volatile environment. *Strateg. Manag. J.* 28, 209–230.
- Luo, Y., Park, S.H., 2001. Strategic alignment and performance of market-seeking MNCs in China. *Strateg. Manag. J.* 22, 141–155.
- Luo, Y., Peng, M.W., 1999. Learning to compete in a transition economy: experience, environment, and performance. *J. Int. Bus. Stud.* 30, 269–296.
- Luo, Y., Zhao, H., 2009. Doing business in a transitional society: economic environment and relational political strategy for multinationals. *Bus. Soc.* 52, 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. *J. Manag.* 37, 223–247.
- Makino, S., Isobe, T., Chan, C.M., 2004. Does country matter? *Strateg. Manag. J.* 25, 1027–1043.
- Mellahi, K., Frynas, J.G., Sun, P., Siegel, D., 2016. A review of the nonmarket strategy literature: toward a multi-theoretical integration. *J. Manag.* 42, 143–173.
- Meyer, K.E., Mudambi, R., Narula, R., 2011. Multinational enterprises and local contexts: the opportunities and challenges of multiple embeddedness. *J. Manag. Stud.* 48, 235–252.
- Narula, R., 2002. Innovation systems and 'inertia' in R & D location: Norwegian firms and the role of systemic lock-in. *Res. Policy* 31, 795–816.
- North, D.C., 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press.
- Oliver, C., 1997. Sustainable competitive advantage: combining institutional and resource-based views. *Strateg. Manag. J.* 18, 697–713.
- Pan, Y., 2002. Equity ownership in international joint ventures: the impact of source country factors. *J. Int. Bus. Stud.* 33, 375–384.
- Park, S.H., Luo, Y., 2001. Guanxi and organizational dynamics: organizational networking in Chinese firms. *Strateg. Manag. J.* 22, 455–477.
- Peng, M.W., Luo, Y., 2000. Managerial ties and firm performance in a transition economy: the nature of a micro-macro link. *Acad. Manag. J.* 43, 486–501.
- Peng, M.W., Wang, D.Y.L., Jiang, Y., 2008. An institution-based view of international business strategy: a focus on emerging economies. *J. Int. Bus. Stud.* 39, 920–936.
- Podsakoff, P.M., Organ, D.W., 1986. Self-reports in organizational research: problems and prospects. *J. Manag.* 12, 531–544.
- 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. *Int. Bus. Rev.* 22, 1021–1033.
- Ragozzino, R., Reuer, J.J., 2011. Geographic distance and corporate acquisitions: signals from IPO firms. *Strateg. Manag. J.* 32, 876–894.
- Rajwani, T., Liedong, T.A., 2015. Political activity and firm performance within nonmarket research: a review and international comparative assessment. *J. World Bus.* 50, 273–283.
- Rosenzweig, P.M., Singh, J.V., 1991. Organizational environments and the multinational enterprise. *Acad. Manag. Rev.* 16, 340–361.
- Roth, K., Kostova, T., 2003. Organizational coping with institutional upheaval in transition economies. *J. World Bus.* 38, 314–330.
- Roy, J.P., Oliver, C., 2009. International joint venture partner selection: the role of the host-country legal environment. *J. Int. Bus. Stud.* 40, 779–801.
- Shaver, J.M., 1998. Accounting for endogeneity when assessing strategy performance: does entry mode choice affect FDI survival? *Manag. Sci.* 44, 571–585.
- Siegel, J., 2007. Contingent political capital and international alliances: evidence from South Korea. *Adm. Sci. Q.* 52, 621–666.
- Sun, P., Mellahi, K., Thun, E., 2010. The dynamic value of the MNE political embeddedness: the case of the Chinese automobile industry. *J. Int. Bus. Stud.* 41, 1161–1182.
- Teng, L., Huang, D., Pan, Y., 2017. The performance of MNE subsidiaries in China: does it matter to be close to the political or business hub? *J. Int. Manag.* <http://dx.doi.org/10.1016/j.intman.2016.12.002>.
- United Nations, 2007. *Millennium Development Indicators: World and Regional Groupings*. <http://unstats.un.org> (accessed 21 March 2008).
- Venkatraman, N., 1989. The concept of fit in strategy research: toward verbal and statistical correspondence. *Acad. Manag. Rev.* 14, 423–444.
- Venkatraman, N., Camillus, J.C., 1984. Exploring the concept of "fit" in strategic management. *Acad. Manag. Rev.* 9, 513–525.
- Wang, C.L., Chung, H.F.L., 2013. The moderating role of managerial ties in market orientation and innovation: an Asian perspective. *J. Bus. Res.* 66, 2431–2437.
- Wei, Z., Hou, J., Wang, D., Wang, L., 2011. How can SMEs leverage political ties and technology innovation capability to acquire government assistance in a transition economy? *J. Gen. Manag.* 36, 3–22.
- White, G.O., Boddewyn, J.J., Galang, R.M.N., 2015. Legal system contingencies as determinants of WOFS political tie intensity. *J. World Bus.* (forthcoming).

- White, G.O., Hadjimarcou, J., Fainshmidt, S., Posthuma, R.A., 2013. MNE home country cultural norms and conflict strategy fit in transnational business contract disputes. *Int. Bus. Rev.* 22, 554–567.
- White, G.O., Hemphill, T.A., Joplin, J.R.W., Marsh, L.A., 2014. Wholly owned foreign subsidiary relations-based strategies in volatile environments. *Int. Bus. Rev.* 23, 303–312.
- Wu, J., 2011. Asymmetric roles of business ties and political ties in production innovation. *J. Bus. Res.* 64, 1151–1156.
- You, J., Du, G., 2012. Are political connections a blessing or a curse? Evidence from CEO turnover in China. *Corp. Gov.* 20, 179–194.
- Zaheer, A., Venkatraman, N., 1995. Relational governance as an interorganizational strategy: an empirical test of the role of trust in economic exchange. *Strateg. Manag. J.* 16, 373–392.
- Zajac, E.J., Kraatz, M.S., Bresser, R.K.F., 2000. Modeling the dynamics of strategic fit: a normative approach to strategic change. *Strateg. Manag. J.* 21, 429–453.
- Zander, U., Kogut, B., 1995. Knowledge and the speed of the transfer and imitation of organizational capabilities: an empirical test. *Organ. Sci.* 6, 76–92.