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

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A B S T R A C T

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

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important gaps pertaining to the drivers and consequences of political tie activity and, in doing so, advance the international nonmarket 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 nonmarket 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