

Performance Implications and Constraints of Wholly Owned Foreign Subsidiary Relation-Based Strategies in Volatile Regulatory Environments: An Empirical Examination in the Philippines

George O. White III
School of Management
University of Michigan-Flint
3170 William S. White Building
Flint, Michigan 48502-1950
Phone: (810) 237-6639
Fax: (810) 762-3282
gowhite@umflint.edu

Performance Implications and Constraints of Wholly Owned Foreign Subsidiary Relation-Based Strategies in Volatile Regulatory Environments: An Empirical Examination in the Philippines

This study examines (1) what dimensions of strategic (qualitative) and financial (quantitative) performance will be enhanced through wholly owned foreign subsidiary (WOFS) business or government relation-based strategy (RBS) implementation in volatile regulatory environments, and (2) how will different regulatory constraints moderate the relationship between WOFS business or government RBS implementation on different dimensions of strategic and financial performance. Our analysis of 181 WOFSs in the Philippines suggests that business and government RBSs are positively related to different dimensions of strategic performance, but negatively or not related to different dimensions of financial performance. We find that the positive relationship between business and government RBSs on strategic performance become stronger when WOFS perceptions of regulator vulnerability and regulatory excessiveness are high. This effect also holds true for the negative relationship between government RBSs and financial performance when WOFSs perceive regulatory excessiveness to be high. Implications for our findings and suggestions for future research are presented.

Keywords: relation-based strategies; volatile regulatory environment; regulatory constraints; wholly owned foreign subsidiary; performance

INTRODUCTION

Volatile regulatory environments represent a key source of uncertainty for multinational enterprise (MNE) subsidiaries because they formally govern and can constrain critical transactions, resources, and opportunities in host countries (e.g., Luo and Peng, 1999; Peng and Heath, 1996). Subsidiaries are intensely affected by host country volatile regulatory environments due to the fact that they are often subject to unverifiable, unpredictable, abrupt, arbitrary, and elastic institutional policy shifts (Dess and Beard, 1984; Hoskisson, Eden, Lau, and Wright, 2000; Luo, 2007, 2004, 2002a; Miller, 1987).¹ Such volatility has serious consequences for subsidiary performance since laws and regulations set by host governments will often dominate transactions within a specific market (Hoskisson et al., 2000; Rodriguez, Uhlenbruck, and Eden, 2005). This is because subsidiaries are governed by regulatory institutions that fashion the formal rules that determine the reward structures and character of commercial activity in such environments (North, 1990; Rosenzweig and Singh, 1991).

Scholars have argued that the development of informal relationships with key host country actors (e.g., local business entities and government authorities) (the micro link) will enhance a subsidiary's performance (e.g., market benefits and financial outcomes) (the macro link) in emerging markets (Park and Luo, 2001; Peng and Luo, 2000). This is predominantly because transactions in such markets are often based on informal personal and implicit agreements, being primarily local and private in nature (Li, 2005). However, past results have been mixed with regard to the performance implications for firms implementing informal relational ties. These studies have also failed to account for the contingency effects that different regulatory constraints might have on these relationships (the micro–macro link) in emerging markets.

¹ Volatile environments easily and abruptly change, are unpredictable, are unverifiable, are arbitrary, and are elastic in nature (e.g., Boyd, Dess, and Rasheed, 1993; Miller and Friesen, 1982; Sawyerr, 1993; Tan and Litschert, 1994).

In addition, prior research has primarily looked at subsidiary strategic behavior and performance in more developed and stable regulatory environments (Murtha and Lenway, 1994; Powell, 1991); the “context of a rapidly changing and turbulent [regulatory] environment has remained relatively under-explored” (Chung and Beamish, 2005: 35). Those that have investigated the subsidiary strategic behavior and performance in volatile emerging market environments have focused predominantly on alliances and joint ventures operating in the P.R.China and Eastern European countries (e.g., Acquaah, 2007; Hoskisson et al., 2000). With this in mind, we suggest that past literature has neglected how wholly owned foreign subsidiaries (WOFSs)² perform in volatile regulatory environments.

We wish to fill these gaps in the literature and add to the current theoretical discussion by proposing that WOFSs will establish deeply embedded informal relationships with key host country actors through relation-based strategies (RBSs) in order to proactively create competitive advantages that will enhance firm performance in volatile regulatory environments. These strategic competencies will act as a legitimizing mechanism (Kostova and Zaheer, 1999; Rosenzweig and Singh, 1991) aligning the WOFS with the environment by creating informal relationally embedded networks that will fill institutional voids inherent in volatile regulatory structures (Peng, Lee, and Wang, 2005; Podolny and Page, 1998). We suggest that developing this non-market form of capital will enhance certain types, but not all types, of performance by developing informal (artificial) market structures that will minimize regulatory constraints on WOFSs operating in a volatile regulatory environment. This leads us to ask the following two questions: (1) what dimensions of performance will be enhanced through WOFS RBS implementation in volatile regulatory environments?, and (2) how will different regulatory

² A WOFS is a subsidiary located in a foreign country that is entirely owned by a multinational enterprise (Li, Yang, and Yue, 2007).

constraints moderate the relationship between WOFS business or government RBS implementation and different dimensions of performance?

This study attempts to answer these questions, and extend current research, by investigating how WOFS RBSs will enhance certain types of performance in a Southeast Asian volatile regulatory environment, the Philippines. While prior literature has emphasized the importance of how subsidiaries react to volatile environments, we argue that a more in depth discussion is needed on how and why WOFSs take strategic action (as opposed to simply reacting) by implementing RBSs to fill institutional voids and create artificial market structures that will augment firm performance in volatile regulatory environments. Very little has been done to explore this phenomenon from a regulatory constraint contingency perspective. Institutional and social-network theories are integrated in this study in order to create a theoretical framework for inquiry.

We depart from prior literature in at least four ways. First, as previously discussed, we extend the literature by exploring how WOFSs take strategic action (as opposed to simply reacting) by implementing RBSs (with key actors in business and government) to fill institutional voids and create artificial market structures that will minimize regulatory constraints and enhance firm performance in a volatile regulatory environment. Second, in order to try and resolve an apparent paradox in the literature, we perform a fine-grained analysis to determine how WOFS RBS implementation will impact different dimensions, being both strategic (qualitative) and financial (quantitative) in nature, of performance. Third, we attempt to fill an existing gap in the literature by examining how constraints inherent in a volatile regulatory environment will moderate the relationship between WOFS RBS implementation and different dimensions of performance. Fourth, we test our hypotheses by using a unique dataset acquired through field research

conducted in the Philippines where executives and senior managers of WOFSs were asked about their organization's relationships with local businesses and government authorities, their perceptions of the regulatory environment, as well as their satisfaction with different dimensions of WOFS performance.

In summary, we address the performance implications of WOFS RBSs in volatile emerging market regulatory environments. We suggest that different dimensions of WOFS performance will be enhanced through RBS implementation—legitimizing the firm through relational embeddedness with key host country actors. We premise this on the idea that the strength of these relationships (i.e., the micro-macro link) will be contingent on WOFS perceptions with regard to different regulatory environment constraints. We start this study by providing our theory and hypotheses. We then set-out to empirically examine the hypothesized relationships using primary data collected in the Philippines. Lastly, we provide the practical and scholarly implications, as well as limitations, of this study.

THEORY AND HYPOTHESES

Relation-Based Strategy Implementation and Performance

Social network research regards the network as a distinct form of organization (Podolny and Page, 1998; Zuckerman, 2003). Network forms of organizations are characterized by repetitive exchanges among semi-autonomous organizations that rely on trust and embedded social relationships to foster learning, gaining legitimacy, and maintaining status in a particular market (Anderson, Forsgren, and Holm, 2002; Peng and Heath, 1996; Podolny and Page, 1998). These relations emphasize the embeddedness of economic actions in social networks—to the extent that economic action is linked to or depends on action or institutions which are non-economic in content, such as goals or processes (e.g., Granovetter, 1985; Gulati, 1998; Ouchi, 1980).

This line of research also suggests that savings and potential strategic advantages may be achieved when enterprises pursue economic goals through non-economic institutions and practices (i.e., relations) (Granovetter, 2005). This is especially true in markets that are volatile in nature and susceptible to market failure (Boisot and Child, 1996; Ouchi, 1980; Uzzi, 1997). For instance, drawing on ethnographic fieldwork conducted at twenty-three entrepreneurial firms, Uzzi (1997) identified components of embedded social relationships and explicated the devices by which embeddedness shapes enterprises and their economic outcomes. He found that the positive effects of embeddedness promoted integrative agreements and complex adaptation of the enterprises. Peng (2003) and Peng et al. (2005) suggested that relation-based social capital, a type of social network, is an important strategic device for enterprises operating in underdeveloped institutional environments. Furthermore, these embedded relationships are strategic networks that provide benefits in the form of social capital (Kostova and Roth, 2003; Nahapiet and Ghoshal, 1998) for the purpose of reducing uncertainty in a particular market (e.g., Gulati, 1998).

Not all WOFSs implement relation-based strategies. Those that do recognize the ambiguities and unique features of the environment (Luo, 2001, 1999; Park & Luo, 2001; Rosenzweig & Singh, 1991), and implement strategies in order to co-opt uncertainties by filling institutional voids through relational embeddedness (Luo, 2002a, 2000; Peng and Heath, 1996; Ricart, Enright, Ghemawat, Hart, and Khanna, 2004). WOFSs that implement RBSs will realize the potential strategic advantages that informal network ties will afford their competencies in taking actions to enhance their competitive position through alignment with and embeddedness in the environment (e.g., Zaheer and Bell, 2005). They will implement RBSs in order to develop critical relational connections (i.e., ties and social networks), so that their WOFS can facilitate

informal business activities through networks with the local business community and government authorities (e.g., Park and Luo, 2001; Peng and Luo, 2000; Xin and Pearce, 1996). Micro-level (horizontal) relationships with the local business community (such as buyers, suppliers, local business affiliates, private financial enterprises, and potential competitors) will be characterized by intimate ties offering collaborative services and implicit collusion that can be mobilized during times of uncertainty (Acquaah, 2007; Dubini and Aldrich, 1991). Comparatively, macro-level (vertical) relationships with government authorities (such as regulatory officials, industrial authorities, tax bureaus, political leaders, and government sponsored banks) will be characterized by extensive “deep-seated” ties that will provide access to information and favors (usually in the form of *quid pro quos*) that can be called upon during times of unpredictability (Li and Zhang, 2007; Peng and Luo, 2000). Implementing RBSs will fill institutional voids with artificial market structures (e.g., Li, 2005; Li and Filler, 2007; Peng et al., 2005; Xin and Pearce, 1996). The private and invisible nature of these informal structures renders the network undetectable, creating an inimitable strategic advantage for the WOFS (e.g., Gulati, Nohria, and Zaheer, 2000).

Various international strategy studies have empirically investigated how these types of relationships impact different dimensions of firm performance in emerging market environments (predominantly in the P.R.China). For example, Li and Zhang (2007) (using an aggregate performance variable made-up of eight financial and strategic performance items) found that political networking had a positive and significant influence on hi-technology new venture performance. Acquaah (2007) (using an aggregate performance variable made-up of financial and strategic performance items) found that social capital from managerial networking relationships with top managers at other firms, community leaders, and government officials

enhanced organizational performance. Luo (1997) (using single item measures) found that relational networks (*guanxi*) enhanced financial (profitability, ROI, domestic sales growth, asset turnover) performance. Park and Luo (2001) (using single item measures) found that managerial relational networks with government authorities and the business community were positively and significantly associated with sales growth, but not profit growth. Peng and Luo (2000) (using single item measures) found that managerial ties with government officials was positively and significantly associated with both strategic (market share) and financial (return on assets) performance; although managerial ties with managers of local firms was only positively and significantly associated with strategic performance, not financial performance. Lastly, Luo (2001) (using single item measures) found that relational networks had a positive and significant impact on strategic performance (market expansion), but no influence on financial performance (financial returns). Furthermore, these results are mixed and unclear, leading us to the conclusion that there is a paradox in the literature with regard to what dimensions of performance RBSs will positively, negatively, or not influence.

We set out to try and resolve this paradox by taking a fine-grained approach in investigating how business and government RBSs influence WOFS satisfaction with regard to different dimensions of strategic (qualitative) (market access, competitive position, and distribution channels) and financial (quantitative) (net profit growth, profitability, and sales per employee) performance. We suggest that business RBSs (micro/horizontal relationships) will facilitate business dealings and provide buffering effects against industry competition, and will enhance distribution channels for WOFSs in volatile regulatory environments that lack adequate market structures through institutionally embedded networks (e.g., Kostova and Roth, 2003; Park and Luo, 2001). On the other hand, government RBSs (macro/vertical relationships) will enhance

cooperation, through reciprocal relationships, with government authorities, acting as an institutional lubricant affording the WOFS greater market access and enhanced distribution capabilities. This is because government regulatory regimes, being complex and unpredictable, have significant influence and power to approve projects, and access to and the allocation of resources, in volatile emerging market regulatory environments (e.g., Peng and Luo, 2000). These socially embedded economic activities will not necessarily benefit a WOFS's financial (quantitative) performance because implementing RBSs can entail high financial costs (e.g., through a culture of cronyism and corruption) and produce operating inefficiencies associated with a WOFS's normal production of goods and services (e.g., human capital will be diverted away from normal operating processes) (Granovetter, 1985). Consequently:

Hypotheses 1a-b: In a volatile regulatory environment, WOFS business relation-based strategy implementation is (a) positively related to strategic performance, but (b) negatively or not related to financial performance, ceteris paribus.

Hypotheses 2a-b: In a volatile regulatory environment, WOFS government relation-based strategy implementation is (a) positively related to strategic performance, but (b) negatively or not related to financial performance, ceteris paribus.

A Regulatory Environment Contingency Perspective

The variety and nature of WOFSs operating in the Philippines suggests that not all will be interested in, or capable of, implementing informal RBSs to enhance performance. These types of strategies may in fact not be conducive to the needs and/or behavior of all WOFSs; since their strategies, structures, behavior, and strategic objectives can significantly differ (e.g., Wernerfelt and Karnani, 1987). Moreover, in this exploratory study we suggest that certain constraints of a volatile regulatory environment will play a role in moderating the relationship between WOFS business or government RBS implementation and strategic (qualitative) or financial (quantitative) performance. More specifically, we suggest that WOFS perceptions of host

country (1) regulator vulnerability to political pressures and (2) excessiveness of regulations on operations will vary, and that the strength of the WOFS business or government RBS – performance link will differ along these dimensions.

Regulator vulnerability. Host country governments in volatile emerging markets frequently make long-term regulatory policy commitments, only to later renege on those commitments and expropriate rents generated by foreign subsidiaries operating in the environment (e.g., Chung and Beamish, 2005; Luo, 2003). These formal constraints can “change overnight as the result of political and judicial decisions” (Peng and Heath, 1996: 504). As a consequence, often times political pressures will force inexperienced, ill-equipped, and ill-informed administrators to erratically and/or sporadically enforce regulatory policies set by the government (Bevan, Estrin, and Meyer, 2004; Folsom, Gordon, and Spanogle, 2002; Luo, 2002b; Meyer, 2001). These indeterminate policy shifts are largely caused by the use of regulatory constraints, fashioned by high level government officials and enforced through their administrative agencies, to create and subsequently extract rents from foreign subsidiaries operating in their sphere of influence (Djankov, La Porta, Lopez-de-Silanes, and Shleifer, 2002).³

Whether or not a host government provides a stable set of regulatory policies and rules is crucial for WOFS performance (e.g., Luo, 2004). When WOFSs perceive volatility associated with rapid and sporadic policy shifts, some will turn to implementing RBSs in order to provide greater stability and structural support in the form of informal market structures when coordinating economic activities (Bevan et al., 2004; Li, 2005; Peng and Heath, 1996; Xin and Pearce, 1996). These strategic responses will prompt the WOFS to enhance relations with key actors in both the surrounding business community and government, changing the nature of their

³ Djankov et al. (2002) call this the “tollbooth” theory of regulation, holding that regulation of foreign entities in emerging markets is largely pursued for the benefit of the high ranking politicians and bureaucrats through bribery and extortion, serving no real social purpose.

regulatory environment (Hoskisson et al., 2000; Oliver, 1991). RBS implementation will create deeply embedded relationships with key actors in the business community (providing substantial leverage in the form of local connections) and government, affording privileged treatment to the WOFS by regulators vulnerable to high level political pressures (Li, Park, and Li, 2003). These strategies will create competitive advantages for the WOFS, including enhanced strategic performance outcomes in the form of greater market access and less regulated distribution channels, as well as increased satisfaction with their competitive positioning in the market (versus industry rivals). However, human and financial capital must be diverted away from their original purpose and organizational tasks when implementing these strategies. Therefore, we suggest:

Hypotheses 3a-b: The positive relationship between (a) business and (b) government relation-based strategy implementation and strategic performance will be stronger for WOFSs that perceive regulator vulnerability to be high rather than low.

Hypotheses 4a-b: The negative relationship between (a) business and (b) government relation-based strategy implementation and financial performance will be stronger for WOFSs that perceive regulator vulnerability to be high rather than low.

Regulatory Excessiveness. Governments, by definition, make the policies and regulations that govern territories under their control (Murtha and Lenway, 1994). According to Rosenzweig and Singh (1991: 348) the coercive pressures of host country regulations are among “the strongest environmental pressures” confronted by MNEs operating in foreign markets. The constraining nature of these regulations and policies can have a profound impact on WOFS behavior and performance outcomes (e.g., North, 1990; Wan and Hoskisson, 2003). For example, trade restrictions, and excessive capital controls and labor policies, placed on a subsidiary by a host government regulatory body will create adverse constraints and uncertainties (market imperfections) that can hamper WOFS activities (Brewer, 1993). Also, overly complex webs of

legal rules and procedures will produce multiple operating hurdles and greater inefficiencies for the WOFS (Grosse and Trevino, 2005). These regulatory constraints represent environmental pressures that will limit WOFS strategic capabilities in a particular host country (e.g., Contractor, 1990; Rosenzweig and Singh, 1991).

However, even when under severe regulatory constraints, WOFS strategic choice will play an important role in efficient management of organizational objectives (Peteraf and Reed, 2007). Not all WOFSs will perceive regulations to be excessive; those that do will try to mitigate excessive regulatory constraints by using a greater level of discretion in implementing informal relational strategies that will create ties with government officials in charge of enforcement (Li and Filer, 2007; Xin and Pearce, 1996). This is because there are practical benefits associated with these RBSs since “most rules and regulations are ambiguous and their enforcement is subject to the personal interpretations of government officials” in volatile emerging market regulatory environments (Park and Luo, 2001: 465). Relational ties are effective channels conveying expectations about policies that the subsidiary is expected to follow within the host country’s regulatory regime, allowing for accommodation between government official priorities and WOFS strategies (e.g., Child and Tsai, 2005). While potentially very costly, certain WOFSs will implement government RBSs in order to minimize constraints on operations and enhance strategic performance outcomes through relational networks when it perceives governmental regulations and policies to be excessive. We suggest that the relationship between WOFS government RBS implementation and strategic performance will be stronger when regulatory excessiveness is perceived to be high; although the added costs and internal operating inefficiencies generated by utilizing RBSs in environments with perceived regulatory

excessiveness will enhance the negative relationship between financial performance and government RBS implementation. Furthermore:

Hypotheses 5a: The positive relationship between government relation-based strategy implementation and satisfaction with strategic performance will be stronger for WOFSSs that perceive regulatory excessiveness to be high rather than low.

Hypotheses 5b: The negative relationship between government relation-based strategy implementation and satisfaction with financial performance will be stronger for WOFSSs that perceive regulatory excessiveness to be high rather than low.

Insert Figure 1 about here

METHODS

Sample and data

This study uses data collected from several sources. However, data for most variables came from a survey we conducted from August through December of 2007 in the Philippines. Using the Philippines as the source of data seemed appropriate because it is an emerging market (United Nations, 2007) that is a primary foreign investment location choice for MNE subsidiaries operating in Southeast Asia (Heinrich & Konan, 2001), and is considered to be a relation-based society (Li and Filer, 2007; Li, 2005) with a volatile regulatory environment (Heritage Foundation, 2007; World Bank, 2007) (see generally Appendix A and B). Past reports have shown foreign investor perceptions of Philippine regulatory environment volatility to be improving; however, more recent reports have determined that foreign investor confidence in the regulatory environment to have substantially weakened over the past few years (Asian Development Bank, 2007).

Further, this study utilizes WOFSSs as the unit of analysis. The use of data exploring phenomena related to WOFSS strategic behavior and performance in volatile emerging market regulatory environments has been relatively under-explored. We specifically targeted WOFSSs

because various types of subsidiary modes of entry will be structured differently, as well as governed and constrained by the regulatory environment in very different ways (Li, Yang, and Yue, 2007; Terpstra, Sarathy, & Russow, 2007). With this in mind, WOFSs have complete control over their operations, allowing for greater strategic autonomy and flexibility when operating in a foreign environment (Peng, 2006). Thus, using responses from WOFSs mitigated any potential differences arising from “governance characteristics” (Hillman and Wan, 2005: 329). For these reasons the volatile regulatory environment of the Philippines offers WOFSs enormous opportunities as well as significant challenges and threats, providing the ideal context for this study.

The questionnaires were designed and the survey was implemented according to Dillman’s (2000) tailored design method, which suggests several ways to encourage response. Measurement items were based on theoretical considerations and generated through a review of the international strategy literature. All measurement items used in this study were validated in previously published peer reviewed journal articles. We used university business faculty in the U.S. and Philippines, as well as international business doctoral students in the U.S., to assess whether the content of the items appropriately tapped the conceptual domains of the focal constructs we wished to test (Fowler, 1995). This process fine-tuned and enhanced the content validity of the measures being used in the questionnaire. The questionnaire was designed and developed in English since it is a primary language of the Philippines and is universally spoken in business circles (Hinkelman, 1996). Initial interviews and early pretests with managers and executives of firms operating in the Philippines verified the clarity of the questionnaire items.

The data for this study was collected from senior executives—e.g., chief officers, managing directors, country managers, vice-presidents, and senior managers—of WOFSs operating in the

Philippines.⁴ While it is preferable to use multiple respondents, we selected one senior executive that was responsible for the WOFS or had a direct reporting relationship with the head of the WOFS. Prior research has found that data provided by a single top executive or manager is as reliable and valid as data acquired from multiple informants or objective (secondary) data (Miller, Cardinal, and Glick, 1997; Zahra and Covin, 1993).⁵ Also, these respondents know both the micro- and macro-business environments their organizations deal with (e.g., Luo, 2007). Furthermore, the targeted respondents should have possessed proper knowledge and should have represented a reliable source for the requested research information (Bagozzi and Phillips, 1982; Li and Zhang, 2007).

The sample consisted 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. All WOFSs selected had been established for at least three years, since the survey questions referred to the past three years as the relevant time frame for responses, and to “avoid capturing biased responses based on particular episodes of peak performance or even one-time negative relational experiences” (Mesquita and Lazzarini, 2008: 365). To solicit participation in the study, telephone calls were made in advance to targeted senior executives at each WOFS explaining the purpose of the study and requesting their participation. We then collected data by administering a questionnaire on-site (through field visits) rather than through the use of archival data or mail surveys because of the lack of reliable archival data and the inadequate postal system in the Philippines (as with many emerging

⁴ Since this is a foreign subsidiary level study, we did not attempt to collect data from executives at WOFS parent headquarters. It has been found that there is a very high level of consistency in responses to the same survey questions between parent and subsidiary managers working in the same organization (Luo, 2004). Studies have also found there to be a significant correlation between parent and subsidiary manager assessments of organizational activities (e.g., Geringer and Herbert, 1991).

⁵ E.g., Child (1997) found significant inter-rater reliability among subsidiary managers for the assessment of control and operations. Peng and Luo (2000) found there to be a high correlation between self-report data and archival data in the P.R.China.

markets) made the use of these methods extremely difficult and risky (Hoskisson et al., 2000; Sawyerr, 1993). The use of on-site data collection also helped gain access to the right respondents, ensured the correct use and understanding of terminology, and provided the opportunity for enhanced response rates (e.g., Lee and Miller, 1999; Li and Zhang, 2007). Immediately after phone calls were made the researcher in charge of managing the data collection process personally visited the WOFSs, along with four carefully selected and appropriately trained interviewers hired from a well respected local business college, and delivered the questionnaires to senior executives and agreed on a date to collect the completed questionnaires (see generally Acquaah, 2007).⁶ To enhance potential participation and to maximize accurate responses, a cover letter was attached to the questionnaire explaining to the respondents that (1) they would not have to identify themselves when answering the questionnaire, (2) their responses would be kept completely confidential, and (3) they would receive a summary of the research findings upon completion of the study (Lee and Miller, 1999; Podsakoff, MacKenzie, Lee, and Podsakoff, 2003). A letter of introduction from a sponsoring institution was also provided in order to describe the purpose, merit, and managerial implications of the study to each prospective participant. After several visits to WOFSs, we received responses from 194 subsidiaries. All questionnaires were complete and usable except for 13, providing a final response rate of 33.5 percent (181/540). This response rate was a little lower yet still comparable to other studies that have performed similar data collection methods in emerging markets (e.g., Acquaah, 53%, 2007; Li and Zhang, 38.6%, 2007).

⁶ The interviewers used to assist in data collection efforts were informed of the purpose and rationale for this study during an orientation prior to data collection. In order to maintain consistency during questionnaire administration, training was provided on how to visit WOFS headquarters when distributing and consequently obtaining survey instruments from senior executives/managers that had agreed to participate in the study. The interviewers were not involved in any form of interpretive involvement. All issues related to interpretation of survey questions and issues concerning the nature of the questionnaire were handled by the researcher managing the data collection process.

In order to provide triangulation with some of the survey results, semi-structured interviews were conducted with 15 survey respondents in order to check the accuracy of their answers (Krishnan et al., 2006; Luo, 2005, 2004, 2001, 1999). This was performed by the four interviewers hired to assist with primary data collection efforts. As with Krishnan et al. (2006) and Luo (1999), selected respondents were interviewed and asked to identify, per the original survey instrument, specific aspects of their WOFS strategic behavior, satisfaction with WOFS performance, and characteristics of the Philippine regulatory environment.⁷ The interviewers then categorized the solicited responses using a three-point scale for parsimony and ease of interpretation. The results (Pearson correlations: 0.96 – 0.83, $p < .001$; Guttman split-half Rs: 0.82 – 0.71) displayed strong consistency between interview and survey answers.

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

⁷ For purposes of uniformity and accurateness, interviewers were given careful instructions on how to contact and interview respondents from a list of randomly chosen WOFSs provided by the researcher managing the data collection process.

Of the responses, 54 percent were from CEOs, managing directors, general managers, and other chief officers. The rest (46 percent) were from senior vice presidents, directors, regional heads, and other senior managers with direct reporting relationships to the head of the WOFS. With regard to the respondents, 44 percent were foreign expatriates and 56 percent were local nationals. The WOFSs were involved in a diverse array of manufacturing and service industries such as 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%).⁸ WOFS major countries of (investment) origin included the U.S.A. (49), Japan (45), the U.K. (17), France (12), and Germany (10). WOFS regions of origin included the Americas (29.8%), Asia (33.1%), and Europe (36%). Their mean number of employees (size) was 460.54 and mean number of years (experience) operating in the Philippines was 29.42 years.

Insert Table 1 about here

Variables and measurement

Obtaining objective data for WOFSs in the Philippines is extraordinarily difficult because most are privately owned, not listed on the (local) Philippine Stock Exchange, and do not provide operating information to the public. Almost none of the WOFSs listed in the *Foreign Companies in the Philippines Yearbook (2007)* provided any form of objective operating information. Thus, the practice of soliciting subjective (perceptual) information from senior

⁸ Percentages are based on % of industry in total sample. Industry refers to the primary and secondary (if applicable; some WOFSs are heavily involved in more than one industry) industry of a WOFS. Other industries not reported in the main text include agriculture/environmental (1.74%); consumer goods (4.34%); food and drink (3.93%); IT/computers/software (3.05%); mining/metals/steel (3.05%); motor industry (3.49%); oil and gas/energy (2.62%); printing/paper/media (2.18%); real estate and property (1.74%); telecoms/telecommunications (3.93%); textiles (1.31%); tourism/travel/leisure (1.74%); and transportation (5.24%).

executives is common and appropriate in situations where objective data is either difficult to obtain or unavailable (e.g., Acquah, 2007; Bowman and Ambrosini, 1997; Brouthers, Brouthers, and Werner, 2000; Brouthers, O'Donnell, and Hadjimarcou, 2005; Luo, 2007, 2004, 2001; Mesquita and Lazzarini, 2008; Miller et al., 1997; Park and Luo, 2001; Peng and Luo, 2000; Sawyerr, 1993; Tan and Peng, 2003). We therefore relied on WOFS subjective evaluations for several of the variables of interest in this study.

Dependent variables. Similar to previous studies (e.g., Acquah, 2007; Brouthers et al., 2000; Brouthers et al., 2005; Fang, Wade, Delios, and Beamish, 2007; Li and Zhang, 2007; Luo, 2007; Peng and Luo, 2000), perceptual measures of firm performance were used in this study. Past studies have suggested that it is particularly desirable to utilize subjective measures in emerging markets for the purpose of capturing specific aspects of performance largely unavailable in secondary data (Luo and Peng, 1999; Park and Luo, 2001). Past studies have also suggested that using a single measure of performance in a study does not properly capture the different strategic objectives and performance outcomes of subsidiaries operating in foreign environments (Luo, 1997; Seth, 1990). This is because performance is a multidimensional construct that includes several strategic (qualitative) and financial (quantitative) criteria (Brouthers et al., 2000; Luo and Peng, 1999; Peng and Luo, 2000). With the above in mind, we set-out to use multiple measures that would allow for a fine-grained analysis regarding different dimensions of WOFS satisfaction with performance. The six performance dimensions used in this study were competitive position, market access, distribution channels, net profit growth, profitability, and sales per employee.

The strategic (qualitative) measures included competitive position, market access, and distribution channels. Competitive position was developed by reviewing Brouthers (2005) and several other authoritative strategy sources (e.g., Barney and Hesterly, 2006; Carpenter and

Sanders, 2007; David, 2005), and was defined as how the WOFS's position in the market was when compared to its competitors. Market access was derived from Chowdhury (1992) and defined as how accessible and how freely can the WOFS operate in the host country market. Distribution channels was taken from Geringer and Hebert (1991) and defined as formal networks necessary for the distribution of goods or services to customers. Using the past three years as a reference point, respondents were asked to rate how satisfied they were with their WOFS's performance in the aforementioned areas on a seven-point Likert-type scale (1 = "very dissatisfied" to 7 = "very satisfied").

The financial (quantitative) measures included net profit growth, sales level, and sales per employee. Net profit growth was adapted from Park and Luo (2001) and was defined as growth of positive net cash flows. Profitability was derived from Brouthers et al. (2000) and Geringer and Hebert (1990), and was defined as the WOFS's capacity or potential to gain a return on capital employed on WOFS projects. Sales per employee was taken from the *Foreign Companies in the Philippines Yearbook (2007)*, and defined as and calculated by dividing the annual sales volume for the year 2006 by number of WOFS employees. Using the past three years as a reference point, respondents were asked to rate how satisfied they were with their WOFS's performance in the aforementioned areas on a seven-point Likert-type scale (1 = "very dissatisfied" to 7 = "very satisfied"). Furthermore, these measures cover a broad range of WOFS performance in an emerging market.

Predictor variables. Business RBS and government RBS were used as predictor variables in this study. Our earlier definition of an RBS, plus several studies on social/relational capital (e.g., Acquah, 2007; Kale, Singh, and Perlmutter, 2000), interpersonal ties (Park and Luo, 2001; Peng and Luo, 2000), and networking (e.g., Li and Zhang, 2007; Xin and Pearce, 1996) were the basis

for the development of multi-item constructs to measure two distinct types of RBSs. Business RBS (Cronbach's alpha = .85; communality loadings = .78 – .52) was measured by five items adapted from Park and Luo (2001) and Peng and Luo (2000). This measure indicates the overall micro-level relationships the WOFS has with the local business community. Using the past three years as a reference point, respondents were asked to rate their WOFSs informal personal ties and connections to (1) buyers; (2) suppliers; (3) local business affiliates; (4) private banks and financial enterprises; and (5) competitors on a seven-point Likert-type scale (1 = “very little” to 7 = “very much”). Government RBS (Cronbach's alpha = .88; communality loadings = .68 – .59) was measured by six items adapted from Park and Luo (2001) and Peng and Luo (2000). This measure identifies the overall macro-level relationships the WOFS has with government officials. Using the past three years as a reference point, respondents were asked to rate their WOFSs informal personal ties and connections to (1) regulatory institutions; (2) political leaders in various levels of government; (3) industrial authorities; (4) state sponsored banks; (5) tax bureaus; and (6) supporting government administrative agencies on a seven-point Likert-type scale (1 = “very little” to 7 = “very much”).

Contingency variables. Regulator vulnerability and regulation excessiveness were used as contingency variables. We developed the regulator vulnerability and regulation excessiveness constructs based on our own theoretical ideas and several studies on the regulatory environment in emerging markets (e.g., Child and Tse, 2001; Delios and Henisz, 2003; Luo, 2007, 2005, 2004; Peng and Heath, 1996; Rosenzweig and Singh, 1991). As a result, we developed a series of multi-item constructs by adapting measures taken from Kaufmann, Kraay, and Mastruzzi (2007) and Xu, Pan, and Beamish (2004). Regulator vulnerability (Cronbach's alpha = .90; communality loadings = .78 – .76) was incorporated into the study in order to explain how

regulator vulnerability to political pressures and governmental meddling would influence the relationship between RBSs and performance. A multi-item construct was created and subsequently reverse coded by adapting measures taken from Kaufmann, Kraay, and Mastruzzi (2007). Using the past three years as a reference point, respondents were asked to rate what extent 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”).⁹ Regulation excessiveness (Cronbach’s alpha = .89; communality loadings = .82 – .75) examines the extent to which market-unfriendly regulatory policies affect the WOFS RBS – performance link. A multi-item construct was created by adapting measures taken from Kaufmann, Kraay, and Mastruzzi (2007). Using the past three years as a reference point, respondents were asked to rate what extent they perceived the incidence (frequency) of market-unfriendly regulatory policies affecting their subsidiary with regard to (1) excessive regulation of foreign trade hindering business activities; (2) labor regulations hindering business activities; and (3) tax regulations obstructing the growth of business activities (seven-point Likert-type scale; 1 = “very low” to 7 = “very high”).

Control variables. Respondent experience, WOFS experience, WOFS size, market orientation, business sector, industry growth, cultural distance, and home country region of origin were used as control variables. Respondent experience was taken from the survey instrument and referred to the number of years that a WOFS senior executive/manager had spent working in the Philippines. WOFS experience, referring to the number of years the WOFS had

⁹ Both (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 (scales) were reverse coded in order to provide uniformity with other regulator vulnerability items.

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 WOFS operates in a host country will play a major role in its learning, adapting (or not adopting) to, and strategically positioning itself in a volatile regulatory environment by cultivating informal relationships that will potentially enhance performance (Li and Zhang, 2007; Luo, 1999). We included WOFS size, based on the total number of full-time employees of the WOFS taken from the *Foreign Companies in the Philippines Yearbook (2007)*, because larger WOFSs will normally have more resources (i.e., human capital) at their disposal but smaller WOFSs will often have greater strategic flexibility to carry-out RBSs that will yield positive performance outcomes (e.g., Brouters, 2002; Brouters and Nakos, 2004; Erramilli and Rao, 1993).

Business sector is a dummy variable that was taken from the *Foreign Companies in the Philippines Yearbook (2007)* (coded 1 = manufacturing, 0 = service) in order to control for potential differences in performance across business sectors and differential constraints that may be placed on manufacturing versus service based firms (Barden, Steensma, and Lyles, 2005; Park and Luo, 2001). Along similar theoretical lines as above, the dummy variable market orientation (coded 1 = local market focused, 0 = otherwise—export-oriented) was taken from the *Foreign Companies in the Philippines Yearbook (2007)* (Luo, 2007). Industry growth was measured by the compound growth rate (%) of the respective industry's sales from 2005 to 2007, taken from the *Philippine Statistical Yearbook (2007)*. Cultural distance could play a role in how successful a WOFS will be in implementing RBSs that enhance performance (Luo, 2001). Thus, 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. Finally, similar to Fang, Wade, Delios, and Beamish (2007) and Gong, Shenkar, Luo, and Nyaw (2007) we controlled for WOFS geographic region of origin (coded 1 = Asia, 0 = other; *Foreign Companies in the Philippines Yearbook 2007*) because WOFSs originating from the Asian region may have very different performance objectives than WOFSs firms from other geographic regions.¹⁰

Reliability and validity

A principal component factor analysis was performed on all key survey items in order to determine their construct validity, dimensionality, internal consistency, and item appropriateness. Each item loading for the multi-item constructs were significantly related to their underlying factor and were well above the cut-off point of .45 (ranging from 0.82 to 0.52) (Hair, Anderson, Tatham, and Black, 1998: 112), supporting convergent validity. Other forms of factor analysis were also performed; further confirming these results (see Table 2).¹¹ Also, all constructs displayed high levels of reliability, as indicated by Cronbach's alphas ranging from 0.90 to 0.85 (Hair et al., 1998). Prior research has found that the more detailed the questionnaire items are the higher reliability and construct validity of variables will be (e.g., Luo, 2007). Therefore, these modified and improved items, taken from previously validated studies, are very accurate and reliable in nature.

¹⁰ The Philippines has often been considered a country where east meets west (e.g., Hinkelman, 1996). This is primarily because of very long periods of colonization by the Spanish and Americans (Hinkelman, 1996). Because of this historical phenomenon the country is a blend of Asian, Anglo, and European institutional characteristics. Accordingly, besides adding a control for cultural distance (i.e., the Philippines is culturally similar to several European countries), we felt it was necessary to add a control variable capturing how Asian WOFSs would operate differently from WOFSs originating from other geographic regions.

¹¹ Factors created via principal component analysis using varimax (orthogonal) rotation was used in the analysis of this study. Principle component analysis using promax (oblique) rotation was also performed in order to further confirm and further validate the results. Factor loadings using promax rotation stayed the same with communality scores ranging from 0.95 to 0.62 (see Table 2).

As previously discussed, data used to construct most variables of interest in this study were derived from a single survey instrument procured from a single respondent per WOFS. Therefore, we used several procedural and statistical remedies outlined in Podsakoff, MacKenzie, Lee, and Podsakoff (2003) and implemented in studies using similar methods (e.g., Krishnan et al., 2006; Li and Zhang, 2007; Peng and Luo, 2000) to minimize and control for potential common method bias and single respondent bias. More specifically, we undertook the procedural remedies of protecting respondent 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 respondent bias (e.g., Field, 2005).¹² 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: 903), since respondents will normally not “have an ‘interaction-based theory’ in their minds to produce” such results (Li and Zhang, 2007: 803; Aiken and West, 1991; Kotabe, Martin, and Domoto, 2003).

Statistical remedies employed in this study included triangulation of survey data using field interviews, observing Harman’s (1967) one-factor test, and performing confirmatory factor analysis (see generally Appendix C). As previously mentioned, selected respondents were interviewed and asked to identify specific traits regarding informal personal ties and connections with local business and government actors, the nature of the Philippine regulatory environment, and satisfaction with their WOFS performance in order to provide triangulation with some of the survey results (see generally Luo and Peng, 1999). The results exhibited high consistency between their verbal reports and their answers on the questionnaire. Harman’s one-factor test is

¹² See note 9 discussing reverse-coded/phrased items measuring regulator vulnerability. See also Table 2, items 13 and 14.

often used to check whether or not common method bias is a serious problem in survey data (e.g. Acquah, 2007; Hult, Ketchen, and Arrfelt, 2007; Krishnan et al., 2006; Luo, 2005; Podsakoff and Organ, 1986). A principle components factor analysis was run on all survey based items that the primary variables of interest and contingency variables were composed of yielding four distinct factors with eigenvalues all greater than one. The first and largest factor accounted for about 30.82 percent of the total variance (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 (multiple 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 (chi-square 22,803) to the multiple factor model (chi-square 13,786), with a change of 174 degrees of freedom, establishing better model fit for the multiple factor model ($p < .001$). Thus, while common method and single respondent 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. Appendix C reports the rationale and process for each of these procedures in detail.

Insert Table 2 about here

DATA ANALYSIS AND RESULTS

Table 3 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 dependant variables.¹³ There were also several other statistically significant relationships. However, no unreasonably high correlations were observed between any of the variables in the correlation matrix (Field, 2005; Tabachnick and Fidell, 2001). Also, the variance inflation factors (VIFs) for all variables were well below 10, indicating that multicollinearity is not a serious problem (Hair et al., 1998; Neter, Kutner, Nachtsheim, and Wasserman, 1996).

Insert Table 3 about here

In order to test our hypotheses and examine the relationships between WOFS RBS implementation and performance, we performed a series of moderated hierarchical multiple regression analyses; Tables 4A and 4B present these results. Table 4A (Models 1 – 12) presents analyses for satisfaction with competitive position, market access, and distribution channels (strategic/qualitative performance variables); while Table 4B (Models 13 – 22) presents analyses for satisfaction with net profit growth, sales level, and sales per employee (financial/quantitative performance variables). For all models, we report results inclusive of predictor variables only, then inclusive of interaction terms, to indicate the robustness of coefficients to the inclusion or exclusion of interaction terms.

Several tests were performed in order to check the major assumptions of regression analysis. A modified Kolmogorov-Smirnov test confirmed univariate normal distribution for all predictor variables used in the regression analysis ($p > .05$). The threat of unequal variances

¹³ We expected there to be several significant relationships between the primary variables of interest in this study since reflective measures were used (i.e., these constructs are assumed to cause variation in their indicators and are expected to correlate). Also, the fine-grained nature of our analysis, exploring multiple dimensions of the regulatory environment and WOFS performance suggests some natural overlap between these constructs. The “third variable problem” may also be contributing to these relationships (Field, 2005).

(heteroscedasticity) was also checked by performing a Levene test; results ($p > .05$ for all predictor variables) showed no pattern of increasing or decreasing residuals, suggesting the presence of homoscedasticity. Furthermore, after all survey based primary variables of interest had been standardized (via factor analysis; see Table 2), VIF values for all variables in the final full models (Models 4, 8, 12, 16, 19, 22) did not exceed 5.52 (Model 8); further discounting the presence of multicollinearity in the analysis.

Hypothesis 1a stated our prediction that WOFS business RBS implementation would be positively related to satisfaction with strategic (qualitative) performance. The positive and significant coefficient ($\beta = .36, p < .01$) on the business RBS measure in Model 3, positive and moderately significant coefficient ($\beta = .18, p < .10$) in Model 7, and positive and moderately significant coefficient ($\beta = .23, p < .10$) in Model 11 supports this hypothesis, indicating that business RBSs are positively related to WOFS satisfaction with performance (competitive positioning, market access, and distribution channels). Hypothesis 1b stated our prediction that WOFS business RBS implementation would be negatively or not related to satisfaction with financial (quantitative) performance. However, none of the coefficients on business RBS (Models 16, 19, and 22) were significant, implying that there is no relationship between business RBS and financial performance, supporting Hypothesis 1b.

Hypothesis 2a stated our prediction that WOFS government RBS implementation would be positively related to satisfaction with strategic (qualitative) performance. The positive and significant coefficient ($\beta = .45, p < .001$) on the government RBS measure in Model 7 supports this hypothesis, suggesting that government RBSs are positively related to WOFS satisfaction with strategic performance (market access). In Models 2 and 11 the coefficients on government RBSs were not significant, indicating that there is no relationship between government RBSs and

WOFS satisfaction with competitive positioning, nor WOFS satisfaction with distribution channels. Hypothesis 2b stated our prediction that WOFS government RBS implementation would be negatively or not related to satisfaction with financial (quantitative) performance. Models 15 and 22 show negative and significant coefficients (Model 15: $\beta = -.55$, $p < .001$; Model 22: $\beta = -.28$, $p < .05$) on the government RBS measure thereby supporting Hypothesis 2b. These results suggest that the implementation of government RBSs will have a negative impact on a WOFS's satisfaction with financial performance (net profit growth and sales per employee).

Hypotheses 3a and 3b predicted that the positive relationships between business and government RBS implementation and with strategic performance will be stronger for WOFSs that perceive regulator vulnerability to be high rather than low. The interaction terms between business RBS and regulator vulnerability had a positive and significant effect on market access (Model 8; $\beta = .14$, $p < .05$) and distribution channels (Model 12; $\beta = .12$, $p < .05$), and a positive and moderately significant effect on competitive position (Model 4; $\beta = .12$, $p < .10$). On the other hand, the interactions of government RBS and regulator vulnerability on competitive position (Model 4), market access (Model 8), and distribution channels (Model 12) were not significant. Thus, these results support Hypothesis 4a but not 4b. In contrast, we predicted in Hypotheses 4a and 4b that the negative relationship between business and government RBS implementation and satisfaction with strategic performance will be stronger for WOFSs that perceive regulator vulnerability to be high rather than low. But, the interactions with business and government RBSs on all financial performance variables were not significant, thereby not supporting Hypotheses 5a or 5b.

In Hypothesis 5a, we predicted that the positive relationship between government RBS implementation and satisfaction with strategic performance will be stronger for WOFSs that

perceive regulatory excessiveness to be high rather than low. We used the interaction terms between government RBS and regulatory excessiveness to test Hypothesis 3a. The interaction between government RBS and regulatory excessiveness had a positive and moderately significant effect on competitive position (Model 4; $\beta = .13$, $p < .10$), and a positive and significant effect on market access (Model 8; $\beta = .18$, $p < .001$), but no effect on distribution channels (Model 12), providing support for Hypothesis 5a. Hypothesis 5b, predicted that the negative relationship between government RBS implementation and satisfaction with financial performance will be stronger for WOFSs that perceive regulatory excessiveness to be high rather than low. This interaction effect was positive and significant for net profit growth (Model 16; $\beta = .11$, $p < .05$), supporting Hypothesis 5b. Therefore, while government the implementation of RBSs will provide positive strategic performance outcomes for WOFS that perceive regulatory excessiveness to be high, they will create negative financial consequences for the enterprise.

The predictive power of these models were found to be strong (except for the profitability, Models 17-19) with model fit (change in F) and change in variance explained (change in R^2) significantly improving from model to model. Also, the amount of variance explained substantially increased from model to model. When each interaction term was added separately, predictive power also significantly increased. This evidence lends strong empirical support to hypotheses 1a, 2a – 4a, and 6a-b, suggesting that WOFSs that implement business and government RBSs will enhance to strategic performance outcomes; these relationships will grow stronger when the WOFS perceives regulatory constraints (i.e., regulator vulnerability and regulatory excessiveness) to be high and when regulatory distance is high. However, government RBS implementation is negatively associated with financial performance; this negative relationship grows stronger (for net profit growth) when the WOFS perceives regulatory

excessiveness to be high especially when the negative relationship the local business community and with government authorities; this notion also holds true when the WOFS perceives the local business culture to be specific in nature. These results theoretically and empirically extend what has been reported in prior literature.¹⁴

Insert Table 4a about here

Insert Table 4b about here

To further validate and gain insight into the nature of the moderation effects we plotted the interactions where regulator vulnerability and regulatory excessiveness are treated as contingency variables affecting business and government RBS's influence on strategic and financial performance (Figures 2 and 3). Corroborating the moderated hierarchical regression results, the slopes of the regression lines vary significantly (grow positively or negatively steeper) when regulator vulnerability or regulatory excessiveness values change from low (mean – one standard deviation) to high (mean + one standard deviation) (Aiken and West, 1991; Cohen, Cohen, West, and Aiken, 2003). Specifically, the positive effect of business RBSs (I, II, III) on strategic performance (competitive position, market access, and distribution channels) becomes stronger when WOFS perceptions of regulator vulnerability reach a high level. This strengthening effect also applies to government RBSs (IV, V) when WOFS perceptions of regulatory excessiveness reach a high level. Alternatively, as WOFS perceptions of regulatory

¹⁴ Such as Park and Luo's (2001) investigation of Chinese firms' strategic utilization of organizational networking (i.e., *guanxi*) in the P.R.China and Acquah's (2007) examination of firm use of managerial social networking relationships in Ghana. Our study also extends this research by taking a fine grained approach to investigating how business and government RBSs impact multiple dimensions of performance (strategic and financial in nature), and by employing previously unexamined regulatory environment contingencies in a relation-based context.

excessiveness moves from a low to high level, the negative relationship between government RBSs (VI) and financial performance (net profit growth) becomes weaker.

Insert Figure 2 about here

Insert Figure 3 about here

Lastly, it is worth noting the effect of several control variables on WOFS satisfaction with strategic (qualitative) and financial (quantitative) performance, as shown in Tables 4A and 4B. Business sector is positively linked to strategic performance (competitive position, market access, and distribution channels) but negatively linked to financial performance (net profit growth, profitability, and sales per employee); suggesting that WOFSs involved in manufacturing intensive industries are more likely to be satisfied with strategic performance but not financial performance, than those in service industries. An insight from this finding is that manufacturing intensive WOFSs often have greater sunk costs associated with extensive financial investment, cutting into potential profit margins, when operating in a volatile environment. On the other hand, greater sunk costs will enhance the scale and scope of operations, creating a strategic operating advantage for the WOFS. Region of origin was also positively associated with strategic (qualitative) performance (competitive position, market access, and distribution channels) and negatively associated with financial (quantitative) performance (net profit growth); indicating that WOFSs originating from Asia are more likely to be satisfied with strategic performance and less likely to be satisfied with financial performance, than firms originating from other regions of the world. Respondent experience was negatively

associated with satisfaction with strategic performance (distribution channels) but was positively associated with financial performance (sales per employee); implying that the less experience a senior executive or senior manager has working in a volatile regulatory environment the more easily satisfied they will be with their WOFS's distribution channels, and that more in-country experience may correlate with enhanced sales levels per employee. WOFS size was positively associated with financial performance; suggesting that smaller WOFSs have a harder time achieving satisfactory levels of financial performance. This alludes to the notion that WOFSs which achieve economies of scale, perhaps generating oligopolistic powers, will be more satisfied with financial performance than smaller firms when operating in a volatile emerging market regulatory environment. Interestingly, WOFS experience, industry growth, and cultural distance were not found to have a significant influence on performance.

DISCUSSION

Contributions and implications

Our research makes several contributions to the literature. Four sets of findings, ideas, and methods distinguish this study. First, this study theoretically and empirically extends the current literature and lends to an existing paradox in the literature by delving deeper into the micro-macro link. Similar to Peng and Luo (2000) and Park and Luo (2001), we found that informal ties with business and government officials had a significant impact on strategic (qualitative) performance. Also, similar to Peng and Luo (2000) and Park and Luo (2001) our study found that informal ties with local business actors did not have a significant effect on firm financial performance. However, unlike Luo (1997), Peng and Luo (2000), and Park and Luo (2001), we found that informal ties with government officials had a significant negative effect on financial (quantitative) performance. This finding also indicates that more recent studies (e.g., Acquaah,

2007; Li and Zhang, 2007) using a single aggregate performance variable, consisting of both strategic and financial measures (being positive and significant in nature), may not be accurately capturing the true nature of performance outcomes with regard to the micro-macro link.

Nevertheless, our findings imply that business and government RBSs will enhance a WOFS's satisfaction with regard to different dimensions of strategic performance; but government RBSs will have a negative influence on different dimensions of WOFS financial performance.

Institutional and social network theories were integrated in order to explain this international strategy phenomenon from different theoretical perspectives.

Second, this study fills an existing gap in the literature. Very little international strategy research has focused on how constraints inherent in a volatile regulatory environment influences the relationship between organizational relation building (i.e., ties) with host country (market) actors and WOFS performance. Even less has been done from a multi-dimensional contingency perspective. Therefore, from a contingency perspective, we specifically considered how the multi-dimensionality of volatile regulatory environment constraints (regulator vulnerabilities to external political pressures and excessiveness of regulations on WOFS operations) influences the micro-macro link between WOFS informal relation-based strategy implementation and satisfaction with different dimensions of strategic (qualitative) and financial (quantitative) performance. We theoretically and empirically differentiated two types of constraints (regulator vulnerability and regulation excessiveness) within a volatile regulatory environment.

The impact of different regulatory constraints on RBS implementation and different dimensions of WOFS performance were empirically examined. There were several statistically significant interactions, suggesting that WOFSs satisfaction with performance is influenced by the relationship between perceived regulatory constraints and the type(s) of informal relational

strategies a WOFS implements in a volatile regulatory environment. Our results inform that at high levels of regulatory constraints the positive relationship between business and government RBSs and different dimensions of strategic (qualitative) performance strengthens; while the negative relationship between government RBS and financial (quantitative) performance (net profit growth) strengthens. Thus, the strategic benefits of implementing, cultivating, and maintaining informal relationships (due to negative perceptions of regulatory constraints) to enhance performance are considerable for foreign subsidiaries operating in emerging markets. But the costs and inefficiencies associated with the redistribution of capital (human and financial) when carrying-out such strategies may also be very high. By recognizing these tendencies, our study takes a substantial step towards determining how and why managerial perceptions of host country regulatory constraints can proactively alter the strategic behavior of organizations, especially if the regulatory environment is considered volatile in nature.

Third, this study has geographic implications in that it focuses on an emerging market in a region of the world that has received relatively little attention in the literature. MNEs often operate foreign subsidiaries in numerous countries. Yet, most countries where foreign subsidiaries operate are not on researcher maps. Oddly enough, this observation comes several years after Hoskisson et al.'s (2000) call for a more diversified research agenda (focusing on emerging markets other than the P.R.China and regions other than Eastern Europe) in the international strategy community. Our study hopes to help initiate the process of filling this methodological gap in the literature. Fourth, there have been numerous calls for research that is more relevant to practice.¹⁵ For example, Editors of the *Academy of Management Journal* have alluded to the fact that more interaction with, and close observation of, the business community

¹⁵ E.g., see generally the special issue of the *Academy of Management Journal* (volume 50, number 4, 2007) on research with relevance to practice.

is needed in order to bring practical relevance to scholarly research (Rynes, 2007). Rynes (2007: 745) stated that “A commitment to field research, built on a profound respect for practitioners . . . [will create] academic respectability by combining rigor with relevance”. While the methods in this study are not qualitative in nature, we did perform field research based on theoretical ideas with practical significance. This study hoped to help bridge this gap by performing field research over a period of several months; where our team interacted with real managers asking real questions to investigate real issues facing real organizations in uncertain business environments that have real business implications.

Our findings have important and relevant practical implications. Practitioners (both local and foreign) in emerging markets have long understood that it is not “what you know” but “who you know” that counts. This study’s results point to the fact that managers of certain foreign subsidiaries operating in volatile regulatory environments also understand this notion and incorporate RBSs into their organization’s strategic processes in order to try and enhance types of WOFS performance outcomes. As previously discussed, our results elude to the idea that at high levels of regulatory constraints the positive relationship between business and government RBSs and different dimensions of strategic (qualitative) performance strengthens; while the negative relationship between government RBS and financial (quantitative) performance (net profit growth) strengthens. Thus, the strategic benefits of implementing, cultivating, and maintaining informal relationships through RBSs (due negative perceptions of regulatory constraints) to enhance performance outcomes are considerable for foreign subsidiaries operating in emerging markets. But the costs and inefficiencies associated with the redistribution of capital (human and financial) when carrying-out such strategies may also be very high. In more predictable regulatory environments, where rules are less elastic in nature and relationships are

more formal, the costs and practicality of implementing RBSs may outweigh the rewards. Furthermore, it is vital for practitioners operating in an emerging market (or markets) to carefully consider the make-up of its regulatory environment, so that they may determine whether or not implementing RBSs are necessary to fill institutional voids (by facilitating ties with local actors that will create artificial market structures) potentially enhancing strategic performance, often at the expense of financial performance.

Limitations and directions for future research

Like all empirical studies, this paper has various limitations. However, these limitations also point to potential new directions in future research. First, subjective measures of RBSs, regulatory constraints, and performance were used in this study. The use of single respondent self-report data may pose potential problems such as the limited recall of respondents, biased perceptions of past actualities, and common method issues. This method also precluded us from using more sophisticated quantitative methods for testing the performance implications of WOFS RBSs. However, this method did permit us to capture the richness embedded in the “sticky” nature of vertical and horizontal relational ties between managers in WOFSs and actors in the local environment, and allowed for a fine grained analysis of their impact on multiple dimensions of performance (the micro-macro link). We took several procedural precautions during survey design and data collection to improve the reliability and validity of retrospective reporting. Our post hoc statistical examination and validation analysis indicated no serious problems related to single respondent or common method bias (see Appendix C.3.1). Moreover, 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 subsidiary literature in other

emerging markets (e.g., Acquaah, 2007; Krishnan et al., 2006; Li and Zhang, 2007; Luo, 2004, 2001; Park and Luo, 2001; Peng and Luo, 2000; Sawyerr, 1993; Tan and Peng, 2003).

Second, our dataset is cross-sectional rather than longitudinal, thereby making it difficult to gauge the complete causal relationships between WOFS RBSs, regulatory constraints, and performance. The data also does not allow for a complete examination of the dynamics of WOFS RBSs, nor the “volatile” nature of regulatory constraints in the Philippines, over a period of time. Future efforts to examine causal patterns of RBSs and influences of regulatory constraints on WOFS performance through longitudinal analysis are warranted. Kraatz and Zajac (2001) and Li and Zhang (2007) have recommended a functional solution to this problem by stating that scholars performing this type of research should first identify historically significant variables (e.g., social capital and regulatory constraint variables) and investigate their influence in a volatile environment context over time. Executing research methods along these lines will allow for a more dynamic and robust examination of how RBS implementation and WOFS performance will change over time in a volatile regulatory environment.

Third, the empirical setting of this study was a single country. Although using a single country setting helps control for environmental factors, we do not know the extent to which RBSs in relation to performance is context-specific. As previously discussed, this paper defined regulatory constraints by using survey-based perceptual measures.¹⁶ Multi-country (objective) data would allow for better empirical analysis of how country-level regulatory environment conditions influence WOFS performance for the same MNE investing in multiple countries, such as in other emerging markets and/or more developed markets. Fourth, our sample was limited to WOFSs. From a strategy perspective, a natural extension of this study would be to compare WOFS relation-based strategic behavior and performance outcomes to that of local Filipino

¹⁶ Similar to Luo’s (2007) study which defined environment volatility using survey based perceptual measures.

firms, or perhaps to different forms of foreign subsidiaries operating in the Philippines. Fifth, two control variables in this study—business sector and region of origin—proved consistently significant and were positively linked to several performance measures (both strategic/qualitative and financial/quantitative in nature). These findings point toward the notion that (1) different types of foreign direct investment in Southeast Asia may have very different levels of and satisfaction with performance success and, based on the interaction of RBS implementation and the regulatory context of the environment, (2) subsidiaries originating from Asia may be more apt to and competent in implementing RBSs that enhance strategic performance, but not necessarily financial performance.

Lastly, we set-out to resolve a paradox in the literature by investigating the relationship between WOFS RBSs and multiple dimensions of strategic (qualitative) and financial (quantitative) performance (the micro-macro link). However, some of our results contradict what prior research has published, and also suggests that recently published studies using aggregate (both strategic and financial) performance variables may not be accurately capturing the true nature of performance outcomes with regard to the micro-macro link. These discoveries open up new avenues of inquiry for researchers interested in how informal ties and the regulatory environment separately and interactively influence different dimensions of firm performance in emerging market economies.

Conclusion

We began this study attempting to extend, fill a gap, and resolve a paradox in the literature by asking two questions: (1) what dimensions of performance will be enhanced through WOFS RBS implementation in volatile regulatory environments?, and (2) how will different regulatory constraints moderate the relationship between WOFS business or government RBS

implementation and different dimensions of performance? We went on to hypothesize that business and government RBSs would be positively related to satisfaction with WOFS strategic (qualitative) performance, but negatively or not related to satisfaction with financial (quantitative) performance. We also hypothesized that the relationship between RBS implementation and performance would be contingent on WOFS perceptions of regulatory constraints. Institutional and social network theories were integrated in order to help explain this process.

We found empirical support for our hypotheses using primary data consisting of 181 WOFSs collected through extensive field research in the Philippines. Our results demonstrate that WOFS business and government RBSs are positively related to different dimensions of strategic performance, while negatively or not related to different dimensions of financial performance. They also show that the positive relationship between business and government RBSs with different dimensions of strategic performance will become stronger as regulator vulnerability and regulatory excessiveness reach high levels. This strengthening effect also holds true for the negative relationship of government RBSs on financial performance (e.g., net profit growth) as regulatory excessiveness reaches high levels. These results contribute to the literature by extending the institutions and social network literature. This study is also research opening, creating future avenues for research inquiry with regard to the RBS – performance (micro-macro) link and for investigating WOFS strategic behavior in relation to different aspects of regulatory constraints in a Southeast Asian volatile regulatory environment context. Furthermore, by addressing these issues scholars and practitioners may be able to provide better guidance to foreign subsidiaries as they attempt to do business in emerging markets.

REFERENCES

- Acquaah, M. (2007) 'Managerial social capital, strategic orientation, and organizational performance in an emerging economy', *Strategic Management Journal* **28**: 1235-1255.
- Aiken, L. S., and West, S. G. (1991) *Multiple regression: Testing and interpreting interactions*, Thousand Oaks, CA: Sage Publications.
- Anderson, U., Forsgren, M. and Holm, U. (2002) 'The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation', *Strategic Management Journal* **23**: 979-996.
- Asian Development Bank. (2007) 'Philippines: critical development constraints', *Country Diagnostic Studies*, Asian Development Bank: Manila, Philippines.
- Barden, J. Q., Steensma, H. K., and Lyles, M. A. (2005) 'The influence of parent control structure on parent conflict in Vietnamese international joint ventures: an organizational justice-based contingency approach', *Journal of International Business Studies* **36**: 156-174.
- Barney, J. B., and Hesterly, W. S. (2006) *Strategic Management and Competitive Advantage: Concepts and Cases*, Upper Saddle River, NJ: Pearson Prentice Hall.
- Bagozzi, R. P., and Phillips, L. W. (1982) 'Representing and testing organizational theories: a holistic construal', *Administrative Science Quarterly* **27**: 459-489.
- Bevan, A., Estrin, S. and Meyer, K. (2004) 'Foreign investment location and institutional development in transition economies', *International Business Review* **13**: 43-64.
- Boyd, B. K., Dess, G. G. and Rasheed, A. M. A. (1993) 'Divergence between archival and perceptual measures of the environment: Causes and consequences', *Academy of Management Review* **18**: 204-226.
- Boisot, M. and Child, J. (1996) 'From fiefs to clans and network capitalism: Explaining China's emerging economic order', *Administrative Science Quarterly* **41**: 600-628.
- Bowman, C., and Ambrosini, V. (1997) 'Perceptions of strategic priorities, consensus, and firm performance', *Journal of Management Studies* **34**: 241-258.
- Brewer, T. L. (1993) 'Government policies, market imperfections, and foreign direct investment', *Journal of International Business Studies* **24**: 101-120.
- Brouthers, K. D. (2002). 'Institutional, cultural and transaction cost influences on entry mode choice and performance'. *Journal of International Business Studies*, **33**: 203-221.
- Brouthers, K. D. (2005). Survey instrument.
- Brouthers, K. D., and Nakos, G. (2004). 'SME entry mode choice and performance: A transaction cost perspective'. *Entrepreneurship Theory and Practice*, **28**: 229-247.
- Brouthers, L. E., Brouthers, K. D., and Werner, S. (2000). 'Perceived environmental uncertainty, entry mode choice and satisfaction with EC-MNC performance'. *British Journal of Management* **11**: 183-195.
- Brouthers, L. E., O'Donnell, E., and Hadjimarcou, J. (2005). 'Generic product strategies for emerging market exports into triad nation markets: A mimetic isomorphism approach'. *Journal of Management Studies* **42**: 225-245.
- Carpenter, M. A., and Sanders, W. G. (2007) *Strategic Management: A Dynamic Perspective*, Upper Saddle River, NJ: Pearson Prentice Hall.
- Child, J. (1997) 'Strategic choice in the analysis of action, structure, organizations and environment: retrospect and prospect', *Organization Studies* **18**: 43-76.
- Child, J. and Tse, D. K. (2001) 'China's transition and its implications for international business', *Journal of International Business Studies* **32**: 5-21.

- Chowdhury, J. (1992) 'Performance of international joint ventures and wholly owned subsidiaries: A comparative perspective', *Management International Review* **32**: 115-133.
- Cohen, J., Cohen, P., West, S. G., and Aiken, L. S. (2003) *Applied multiple regression/correlation analysis for the behavioral sciences*, 3rd edition, Mahwah, NJ: Lawrence Erlbaum Associates.
- Contractor, F. J. (1990) 'Ownership patterns of U.S. joint ventures abroad and the liberalization of foreign government regulations in the 1980s: Evidence from the benchmark surveys', *Journal of International Business Studies* **21**: 55-73.
- Child, J. and Tsai, T. (2005) 'The dynamic between firms' environmental strategies and institutional constraints in emerging economies: Evidence from China and Taiwan', *Journal of Management Studies* **42**: 95-125.
- Chung, C. C. and Beamish, P. W. (2005) 'The impact of institutional reforms on characteristics and survival of foreign subsidiaries in emerging economies', *Journal of Management Studies* **42**: 35-62.
- David, D. A. (2005) *Strategic management: Concepts*, Upper Saddle River, NJ: Pearson Prentice Hall.
- Delios, A. and Henisz, W. J. (2003) 'Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980-1998', *Strategic Management Journal* **24**: 1153-1164.
- Dess, G. D. and Beard, D. W. (1984) 'Dimensions of organizational task environments', *Administrative Science Quarterly* **29**: 52-73.
- Dillman, D. A. (2000) *Mail an internet surveys: The tailored design method*, New York: Wiley.
- Djankov, S., La Porta, R., Lopez-DE-Silanes, F., and Shleifer, A. (2003) 'The regulation of entry', *The Quarterly Journal of Economics* CXVII: 1-37.
- Dubini, P. and Aldrich, H. E. (1991) 'Personal and extended networks are central to the entrepreneurial process', *Journal of Business Venturing* **6**: 305-313.
- Erramilli, M. K., and Rao, C. P. (1993). 'Service firms' international entry-mode choice: A modified transaction-cost analysis approach'. *Journal of Marketing* **57**: 19-38.
- Fang, Y., Wade, M., Delios, A., and Beamish, P. W. (2007) 'International diversification, subsidiary performance, and the mobility of knowledge resources', *Strategic Management Journal* **28**: 1053-1064.
- Field, A. (2005) *Discovering statistics using SPSS*. Thousand Oaks, CA: Sage Publications.
- Folsom, R. H., Gordon, M. W., and Spanogle, J. A. (Eds.). (2002). *International business transactions: A problem oriented coursebook*. St. Paul, MN: West Group.
- Foreign Companies in the Philippines Yearbook 2007*. (2007) London, England: Business Monitor International.
- Fowler, F. J. (1995) *Improving survey questions: Design and evaluation*, Thousand Oaks, CA: Sage Publications, Inc.
- Geringer, J. M., and Hebert, L. (1990) 'Measuring performance of international joint ventures', *Journal of International Business Studies* **21**: 249-263.
- Glendon, M. A., Gordon, M. W. and Osakwe, C. (eds.) (1994) *Comparative Legal Traditions: Text, Materials and Cases*, 2nd edition, West Group: St. Paul, MN.
- Gong, Y., Shenkar, O., Luo, Y., and 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**: 1021-1034.

- Granovetter, M. (2005) 'The impact of social structure on economic outcomes', *Journal of Economic Perspectives* **19**: 33-50.
- Granovetter, M. (1985) 'Economic action and social structure: The problem of embeddedness', *American Journal of Sociology* **91**: 481-510.
- Grosse, R. and Trevino, L. J. (2005) 'New Institutional Economics and FDI Location in Central and Eastern Europe', *Management International Review* **45**: 123-145.
- Gulati, R. (1998) 'Alliances and networks', *Strategic Management Journal* **19**: 293-317.
- Gulati, R., Nohria, N. and Zaheer, A. (2000) 'Strategic networks', *Strategic Management Journal* **21**: 203-215.
- Hair, J. F., Anderson, R. E., Tatham, R. L. and Black, W. C. (1998) *Multivariate Data Analysis*, 5th edition, Pearson Education: Delhi, India.
- Harman, H. H. (1967) *Modern Factor Analysis*. Chicago: University of Chicago Press.
- Heinrich, J. and Konan, D. E. (2001) 'Prospects for FDI in AFTA', *ASEAN Economic Bulletin* **18**: 141-160.
- Heritage Foundation. (2007) Washington, D.C. <http://www.heritage.org>.
- Hill, C. W. L. (2008) *Global Business Today*. New York, NY: McGraw-Hill/Irwin.
- Hillman, A. J. and Wan, W. P. (2005) 'The determinants of MNE subsidiaries' political strategies: evidence of institutional duality', *Journal of International Business Studies* **36**: 322-340.
- Hinkelman, E. G. (Ed.). (1996). *Philippines Business: The portable encyclopedia for doing business with the Philippines*. San Rafael, CA: World Trade Press.
- Hofstede, G. (1980) *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage Publications.
- Hoskisson, R. E., Eden, L., Lau, C. M. and Wright, M. (2000) 'Strategy in emerging economies', *Academy of Management Journal* **43**: 249-267.
- Hult, G. T. M., Ketchen, D. J., and Arrfelt, M. (2007) 'Strategic supply chain management: improving performance through a culture of competitiveness and knowledge development', *Strategic Management Journal* **28**: 1035-1052.
- Kale, P., Singh, H., and Perlmutter, H. (2000) 'Learning and protection of proprietary assets in strategic alliances: building relational capital', *Strategic Management Journal* **21**: 217-237.
- Kaufmann, D., Kraay, A., and Mastruzzi, M. (2007) 'Governance matters VI: Aggregate and individual governance indicators 1996-2006', *World Bank Policy Research Working Paper* WPS 4280.
- Kogut, B., and Singh, H. (1988). 'The effect of national culture on the choice of entry mode'. *Journal of International Business Studies*, **19**: 411-432.
- Kostova, T. and Roth, K. (2003) 'Social capital in multinational corporations and a micro-macro model of its formation', *Academy of Management Review* **28**: 297-317.
- Kostova, T. and Zaheer, S. (1999) 'Organizational legitimacy under condition of complexity: The case of the multinational enterprise', *Academy of Management Review* **24**: 64-81.
- Kotabe, M., Martin, X., and Domoto, H. (2003) 'Gaining from vertical partnerships: Knowledge transfer, relationship duration, and supplier performance improvement in the U.S. and Japanese automotive industries', *Strategic Management Journal* **24**: 293-316.
- Krishnan, R., Martin, X. and Noorderhaven, N. G. (2006) 'When does trust matter to alliance performance? ', *Academy of Management Journal* **49**: 894-917.
- La Porta, R., Lopez-De-Silanes, F., Shleifer, A. and Vishny, R. W. (1997) 'Legal determinants of external finance', *Journal of Finance* **LII**: 1131-1150.

- La Porta, R., Lopez-De-Silanes, F., Shleifer, A. and Vishny, R. W. (2000) 'Agency problems and dividend policies around the world', *Journal of Finance* **LV**: 1-33.
- Lee, J., and Miller, D. (1999) 'People matter: commitment to employees, strategy and performance in Korean firms', *Strategic Management Journal* **20**: 579-593.
- Li, S. (2005) 'Why poor governance environment does not deter foreign direct investment: The case of China and its implications for investment protection', *Business Horizons* **48**: 297-302.
- Li., S. and Filer, L. (2007) 'The effects of the governance environment on the choice of investment mode and strategic implications', *Journal of World Business* **42**: 80-98.
- Li., S., Park, H. P., and Li, S. (2003) 'The great leap forward: The transition from relation-based governance to rule-based governance', *Organizational Dynamics* **33**: 63-78.
- Li, H., and 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**: 791-804.
- Li, J., Yang, J. Y., and Yue, D. R. (2007) 'Identity, community, and audience: How wholly owned foreign subsidiaries gain legitimacy in China', *Academy of Management Journal* **50**: 175-190.
- Luo, Y. (1997) 'Guanxi and performance of foreign-invested enterprises in China: An empirical Inquiry', *Management International Review* **37**: 51-70.
- Luo, Y. (1999) 'Time-based experience and international expansion: The case of an emerging economy', *Journal of Management Studies* **36**: 505-534.
- Luo, Y. (2000) 'Dynamic capabilities in international expansion', *Journal of World Business* **35**: 355-378.
- Luo, Y. (2001) 'Determinants of entry in an emerging economy: A multilevel approach', *Journal of Management Studies* **38**: 443-472.
- Luo, Y. (2002a) 'Capability exploitation and building in a foreign market: Implications for multinational enterprises', *Organization Science* **13**: 48-63.
- Luo, Y. (2002b) *Multinational enterprises in emerging markets*, Copenhagen, Denmark: Copenhagen Business School Press.
- Luo, Y. (2003) 'Market-seeking MNEs in an emerging market: How parent-subsidiary links shape overseas success', *Journal of International Business Studies* **34**: 290-309.
- Luo, Y. (2004) 'Building a strong foothold in an emerging market: A link between resource commitment and environment conditions', *Journal of Management Studies* **41**: 749-773.
- Luo, Y. (2005) 'Transactional characteristics, institutional environment and joint venture contracts', *Journal of International Business Studies* **36**: 209-230.
- Luo, Y. (2007) 'Are joint venture partners more opportunistic in a more volatile environment?', *Strategic Management Journal* **28**: 209-230.
- Luo, Y. and Peng, M. W. (1999) 'Learning to compete in a transition economy: Experience, environment, and performance', *Journal of International Business Studies* **30**: 269-296.
- March, J. and Olsen, J. (1989) *Rediscovering Institutions: The Organizational Basis of Politics*, Free Press: New York, NY.
- Mesquita, L. F., and Lazzarini, S. G. (2008) 'Horizontal and vertical relationships in developing economies: Implications for SMEs' access to global markets', *Academy of Management Journal* **51**: 359-380.
- Meyer, K. (2001) 'Institutions, transaction costs, and entry mode choice in Eastern Europe', *Journal of International Business Studies* **32**: 357-367.

- Miller, D. (1987) 'The structural and environmental correlates of business strategy', *Strategic Management Journal* **8**: 55-76.
- Miller, C. C., Cardinal, L. B., and Glick, W. H. (1997) 'Retrospective reports in organizational research: a reexamination of recent evidence', *Academy of Management Journal* **40**: 189-204.
- Miller, D. and Friesen, P. H. (1982) 'Innovation in conservative and entrepreneurial firms: Two models of strategic momentum', *Strategic Management Journal* **3**: 1-25.
- Murtha, T. P. and Lenway, S. A. (1994) 'Country capabilities and the strategic state: How national political institutions affect multinational corporations' strategies', *Strategic Management Journal* **15**: 113-129.
- Nahapiet, J. and Ghoshal, S. (1998) 'Social capital, intellectual capital, and the organizational advantage', *Academy of Management Review* **23**: 242-266.
- Neter, J., Kutner, M. H., Nachtsheim, C. J., and Wasserman, W. (1996) *Applied linear statistical models*, 4th edition, Boston, MA: WCB/McGraw-Hill.
- North, D. C. (1990) *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press: Cambridge, England.
- Oliver, C. (1991) 'Strategic responses to institutional processes', *Academy of Management Review* **18**: 145-179.
- Ouchi, W. G. (1980) 'Markets, bureaucracies, and clans', *Administrative Science Quarterly* **25**: 129-141.
- Park, S. H. and Luo, Y. (2001) 'Guanxi and organizational dynamics: Organizational networking in Chinese firms', *Strategic Management Journal* **22**: 455-477.
- Parkhe, A. (1993) 'Strategic alliance structuring: A game theoretic and transaction cost examination of interfirm cooperation', *Academy of Management Journal* **36**: 794-829.
- Peng, M. W. (2003) 'Institutional transitions and strategic choices', *Academy of Management Review* **28**: 275-296.
- Peng, M. W. (2006) *Global Strategy*, Cincinnati: Thomson South-Western.
- Peng, M. W. and Heath, P. S. (1996) 'The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice', *Academy of Management Review* **21**: 492-528.
- Peng, M. W., Lee, S. H. and Wang, D. Y. L. (2005) 'What determines the scope of the firm over time? A focus on institutional relatedness', *Academy of Management Review* **30**: 622-633.
- Peng, M. W. and Luo, Y. (2000) 'Managerial ties and firm performance in a transition economy: The nature of a micro-macro link', *Academy of Management Journal* **43**: 486-501.
- Peteraf, M. and Reed, R. (2007) 'Managerial discretion and internal alignment under regulatory constraints and change', *Strategic Management Journal* **28**: 1089-1112.
- Podolny, J. M., and Page, K. L. (1998) 'Network forms of organization', *Annual Review of Sociology* **24**: 57-76.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J. Y., and Podsakoff, N. P. (2003) 'Common method biases in behavioral research: A critical review of the literature and recommended remedies', *Journal of Applied Psychology* **88**: 879-903.
- Podsakoff, P. M. and Organ, D. W. (1986) 'Self-reports in organizational research: problems and prospects', *Journal of Management* **12**: 531-544.
- Powell, W. (1991) 'Expanding the scope of institutional analysis', In Powell, W. and DiMaggio, P. (Eds), *The new institutionalism in organizational analysis*. Chicago, IL: University of Chicago Press.

- Ricart, J. E., Enright, M. J., Ghemawat, S. L. H., and Khanna, T. (2004) 'New frontiers in international strategy', *Journal of International Business Studies* **35**: 175-200.
- Rodriguez, P., Uhlenbruck, K. and Eden, Lorraine. (2005) 'Government corruption and the entry strategies of multinationals', *Academy of Management Review* **30**: 383-396.
- Rosenzweig, P. M. and Singh, J. V. (1991) 'Organizational environments and the multinational Enterprise', *Academy of Management Review* **16**: 340-361.
- Sawyer, O. O. (1993) 'Environmental uncertainty and environmental scanning activities of Nigerian manufacturing executives: A comparative analysis', *Strategic Management Journal* **14**: 287-299.
- Seth, A. (1990) 'Value creation in acquisition: A re-examination of performance issues', *Strategic Management Journal* **11**: 255-268.
- Tabachnick, B. G. and Fidell, L. S. (2001) *Using Multivariate Statistics*, 4th edition, Allyn & Bacon: Boston, MA.
- Tan, J., and Peng, M. W. (2003) 'Organizational slack and firm performance during economic transitions: two studies from an emerging economy', *Strategic Management Journal* **24**: 1249-1263.
- Tan, J. J. and Litschert, R. J. (1994) 'Environment-strategy relationship and its performance implications: An empirical study of the Chinese electronics industry', *Strategic Management Journal* **15**: 1-20.
- Terpstra, V., Sarathy, R. and Russow, L. (2006) *Global Business Environment*, Garfield Heights, Ohio: Northcoast Publishers.
- Tourangeau, R., Rips, L. J., and Rasinski, K. (2000) *The psychology of survey response*, Cambridge, U.K.: Cambridge University Press.
- United Nations. (2007). 'Millennium Development Indicators: World and regional groupings', <http://unstats.un.org> (accessed 21 March 2008).
- Uzzi, B. (1997) 'Social structure and competition in interfirm networks: The paradox of embeddedness', *Administrative Science Quarterly* **42**: 35-67.
- Wan, W. P. and Hoskisson, R. E. (2003) 'Home country environments, corporate diversification strategies, and firm performance', *Academy of Management Journal* **46**: 27-45.
- Wernerfelt, B., and Karnani, A. (1987) 'Competitive strategy under uncertainty', *Strategic Management Journal* **8**: 187-194.
- World Bank. (2007) Washington, D.C. <http://www.worldbank.org>.
- World Economic Forum. (1997) *The Global Competitiveness Report*, Geneva, Switzerland.
- Wright, M., Filatotchev, I., Hoskisson, R.E., and Peng, M.W. (2005). 'Strategy research in emerging economies: challenging the conventional wisdom'. *Journal of Management Studies* **42**: 1-33.
- Xin, K. R., and Pearce, J. L. (1996) 'Guanxi: Connections as substitutes for formal institutional support', *Academy of Management Journal* **39**: 1641-1658.
- Xu, D., Pan, Y, and Beamish, P. W. (2004) 'The effect of regulative and normative distances on MNE ownership and expatriate strategies', *Management International Review* **44**: 285-307.
- Zaheer, A. and Bell, G. G. (2005) 'Benefiting from network position: Firm capabilities, structural holes, and performance', *Strategic Management Journal* **26**: 809-825.
- Zahra, S. A., and Covin, J. G. (1993) 'Business strategy, technology policy and firm performance', *Strategic Management Journal* **14**: 451-478.
- Zuckerman, E. W. (2003) 'On networks and markets by Rauch and Casella, eds.', *Journal of Economic Literature* **41**: 545-565.

Table 1. Sample and respondent characteristics^a

<i>WOFS country of origin</i>	#	%	<i>WOFS region of origin</i>	#	%
Australia	3	1.7	Americas	54	29.8
Belgium	3	1.7	Asia	60	33.1
Canada	4	2.2	Europe	65	36.0
Denmark	3	1.7	Other	2	1.1
Finland	1	0.6			
France	12	6.6	<i>WOFS characteristics</i>	<i>Mean</i>	<i>Range</i>
Germany	10	5.5	Employees	460.54	12 – 6000
Japan	45	24.9	Age	29.42	4 – 135
Malaysia	1	0.6			
Mexico	1	0.6	<i>Respondent characteristics</i>		
Netherlands	6	3.3	CEO, managing director, general manager, country manager, other chief officer		54%
Norway	2	1.1	Senior VP, director, regional head, other senior manager		46%
P.R.China	4	2.2	Foreign national (versus host country local)		44%
Singapore	4	2.2	Median levels between respondent and CEO		1
South Africa	2	1.1	Mean years experience ^b		14.54
South Korea	3	1.7			
Sweden	2	1.1			
Switzerland	6	3.3			
United Kingdom	17	9.4			
U.S.A.	49	27.1			

^a WOFS = wholly owned foreign subsidiary.

^b In the Philippines.

Table 2. Factor analysis for relation-based strategy and regulatory environment variables^{abc}

Items	Factor 1	Factor 2	Factor 3	Factor 4
<i>Business RBS^d</i>				
1. Buyers	0.78	0.27	0.35	0.30
2. Suppliers	0.77	0.29	0.34	0.32
3. Competitors	0.52	0.22	0.19	0.27
4. Local business affiliates and associates	0.71	0.32	0.34	0.30
5. Private banks and financial enterprises	0.63	0.37	0.32	0.18
<i>Government RBS^d</i>				
6. Regulatory authorities	0.29	0.62	0.39	0.29
7. Political leaders in various levels of government	0.29	0.61	0.38	0.31
8. Industrial authorities	0.20	0.71	0.30	0.37
9. Tax bureaus	0.36	0.67	0.36	0.39
10. Government sponsored (state) banks and financial agencies	0.20	0.59	0.18	0.28
11. Other supporting administrative agencies	0.26	0.68	0.37	0.22
<i>Regulator Vulnerability</i>				
12. Civil service vulnerability to political pressure	0.31	0.29	0.76	0.32
13. Independence of civil service from government interference ^e	0.33	0.26	0.78	0.33
14. Strength of civil service to avoid interruptions during instability ^e	0.29	0.18	0.76	0.21
<i>Regulatory Excessiveness</i>				
15. Excessive regulation on foreign trade hinder business activities	0.26	0.31	0.31	0.78
16. Labor regulations hinder business activities	0.33	0.33	0.34	0.75
17. Tax regulations obstruct growth of business activities	0.29	0.30	0.33	0.82
Eigenvalue	5.24	4.32	3.89	2.09
Proportion of variance accounted for (%)	30.82	25.43	22.90	12.30
Cumulative % of variance explained	30.82	56.25	79.14	91.44
Cronbach's alpha	.85	.88	.90	.89

^a Principal component analysis with Kaiser normalization using varimax (orthogonal) rotation.

^b Factor loadings that are greater than an absolute value of 0.45 are shown in bold font.

^c Factor loadings using promax (oblique) rotation stayed the same with communality scores ranging from 0.95 to 0.62.

^d RBS = relation-based strategy.

^e Scales were reverse coded in order to provide uniformity with other regulator vulnerability items.

Table 3. Descriptive statistics and correlations^{ab}

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Market access	4.57	1.60	—																
2. Competitive position	4.79	1.26	.61	—															
3. Distribution channels	4.58	1.40	.60	.58	—														
4. Net profit growth	4.09	1.81	.43	.35	.26	—													
5. Profitability	3.76	1.35	.13	.13	.17	.30	—												
6. Sales per employee ^c	1.59	15.6	.24	.20	.20	.27	.11	—											
7. Business RBS ^{bd}	4.55	1.93	.26	.22	.16	-.32	-.15	.11	—										
8. Government RBS ^{bd}	4.29	2.12	.28	.16	.13	-.38	-.15	-.09	.43	—									
9. Regulator vulnerability ^b	3.25	1.78	-.22	-.26	-.18	-.29	-.07	-.12	.22	.20	—								
10. Regulatory excessiveness ^b	4.10	1.91	-.28	-.22	-.22	-.25	-.10	-.21	.21	.26	.10	—							
11. Region of origin	0.33	0.47	.22	.25	.25	-.25	-.04	.05	.27	.31	.06	.16	—						
12. Cultural distance ^e	29.22	26.53	.01	.06	.03	-.02	.06	-.02	.01	.05	-.05	.12	.53	—					
13. Industry growth	9.17	9.94	.12	.11	.14	.18	.06	.05	-.17	-.19	-.02	-.13	-.24	.11	—				
14. Business sector	0.54	0.50	.42	.37	.30	-.47	-.13	-.12	.46	.45	.25	.18	.13	-.10	-.28	—			
15. Market orientation	0.74	0.44	-.19	-.22	-.23	.22	-.02	-.03	-.21	-.23	-.13	-.19	-.17	.02	.24	-.46	—		
16. WOFS size ^{de}	460.54	864.54	.02	.05	.09	.01	.08	-.06	.03	.01	.01	-.05	.07	.01	-.04	.17	-.21	—	
17. WOFS experience ^{de}	29.42	25.30	-.01	-.01	.01	.04	-.02	.05	-.05	-.09	.01	-.02	-.19	-.18	.08	.08	-.02	.22	—
18. Respondent experience ^e	14.54	8.04	-.04	-.07	-.12	.05	.01	.11	-.03	-.02	.03	.01	-.10	-.07	.03	.04	.03	-.00	.14

^aN = 181. Correlations with an absolute value of .11 and greater are significant at the .05 level (two-tailed significance tests).

^bMeans and standard deviations reported here are for raw scores.

^cMean and standard deviation is in millions (\$).

^dRBS = relation-based strategy; WOFS = wholly owned foreign subsidiary.

^eRanges: cultural distance (1 – 103), WOFS size (12 – 6000 employees), WOFS experience (4 – 135 years), respondent experience (3 – 37).

Table 4A. Results of Moderated Hierarchical Regression Analyses for Strategic (Qualitative) Performance^{abc}

Variables	Competitive Position				Market Access				Distribution Channels			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
<i>Control variables</i>												
Respondent experience	-.05	-.08	-.06	-.04	-.05	-.08	-.05	-.03	-.15*	-.18**	-.16*	-.15*
WOFS experience	.04	.05	.08	.08	.03	.04	.09	.08	.13†	.14†	.17*	.18**
WOFS size	-.06	-.07	-.06	-.09	-.05	-.06	-.04	-.07	.01	.01	.02	-.01
Market orientation	-.06	-.03	-.05	-.06	.01	.06	.03	.02	-.06	-.03	-.05	-.06
Business sector	.41***	.32***	.12	.08	.51***	.41***	.09	.04	.29***	.21**	.01	-.02
Industry growth	.08	.09	.08	.09	.07	.09	.07	.09	-.01	.01	-.01	.01
Cultural distance	.03	.02	.06	.03	-.01	-.03	.02	-.02	-.06	-.08	-.04	-.04
Region of origin	.22**	.19*	.09	.13	.21**	.18*	.02	.07	.26**	.24**	.12	.15†
<i>Contingency variables</i>												
Regulator vulnerability ^d		-.22**	-.16*	-.16*		-.19**	-.09†	-.10†		-.17*	-.09	-.09
Regulatory excessiveness ^d		-.22***	-.13†	-.17*		-.31***	-.14*	-.19**		-.21**	-.10	-.10
<i>Predictor variables</i>												
Business RBS ^d			.36**	.35**			.18†	.19†			.23†	.23†
Government RBS ^d			.11	.06			.45***	.39***			.21	.19
<i>Interactions^e</i>												
Business RBS x regulator vulnerability				.12†				.12*				.14*
Government RBS x regulatory excessiveness				.13†				.18***				
R ²	.24	.32	.39	.41	.29	.40	.56	.59	.22	.28	.36	.38
Adjusted R ²	.20	.28	.34	.36	.26	.36	.53	.56	.18	.24	.31	.33
Change in R ²		.08***	.07***	.02†		.11***	.16***	.03**		.06***	.08***	.02*
Change in F		9.57***	9.90***	2.88†		15.22***	31.14***	6.19**		6.93***	10.36***	4.62*
Model df	172	170	168	166	172	170	168	166	172	170	168	167

^a N = 181. Values in this table represent standardized coefficients (β s).

^b RBS = relation-based strategy; WOFS = wholly owned foreign subsidiary.

^c The highest VIF value in any of the final full models (Models 4, 8, 12) is 5.52.

^d Standardized variables.

^e Interactions between other contingency variables and predictor variables are insignificant and not reported.

†p < .10; *p < .05; **p < .01; ***p < .001 (two-tailed significance tests).

Table 4B. Results of Moderated Hierarchical Regression Analysis for Financial (Quantitative) Performance^{abc}

Variables	Net Profit Growth				Profitability			Sales Per Employee		
	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20	Model 21	Model 22
<i>Control variables</i>										
Respondent experience	.04	.07	.04	.04	.03	.04	.03	.19*	.21**	.21**
WOFS experience	.08	.06	.02	.03	-.03	-.04	-.04	-.07	-.07	-.06
WOFS size	.13†	.14*	.12*	.12*	.10	.11	.11	.11	.08	.08
Market orientation	-.01	-.05	-.02	-.02	-.11	-.13	-.12	-.01	.01	-.03
Business sector	-.52***	-.40***	-.09	-.06	-.19*	-.14	-.10	-.45***	-.39***	-.27**
Industry growth	.02	.01	.02	.02	.05	.04	.05	.13	.12	.13
Cultural distance	.06	.09	.04	.06	.07	.09	.08	-.08	-.07	-.05
Region of origin	-.23**	-.20**	-.05	-.06	-.08	-.06	-.04	-.05	-.05	-.08
<i>Contingency variables</i>										
Regulator vulnerability ^d		-.27***	-.17***	-.18***		-.10	-.09		-.10	-.06
Regulatory excessiveness ^d		-.25***	-.09†	-.11*		-.14†	-.13		-.13†	-.07
<i>Predictor variables</i>										
Business RBS ^d			-.08	-.08			-.12			.16
Government RBS ^d			-.55***	-.52***			.05			-.28*
<i>Interactions^f</i>										
Government RBS x regulatory excessiveness				.11*						
R ²	.36	.48	.64	.65	.05	.07	.08	.25	.27	.38
Adjusted R ²	.33	.45	.62	.63	.01	.02	.03	.21	.23	.34
Change in R ²		.12***	.17***	.01*		.02†	.01		.03†	.11***
Change in F		18.61***	38.84***	4.81*		2.19†	0.38		2.10†	15.27***
Model df	172	170	168	167	172	170	168	172	170	168

^a N = 181. Values in this table represent standardized coefficients (β s).

^b RBS = relation-based strategy; WOFS = wholly owned foreign subsidiary.

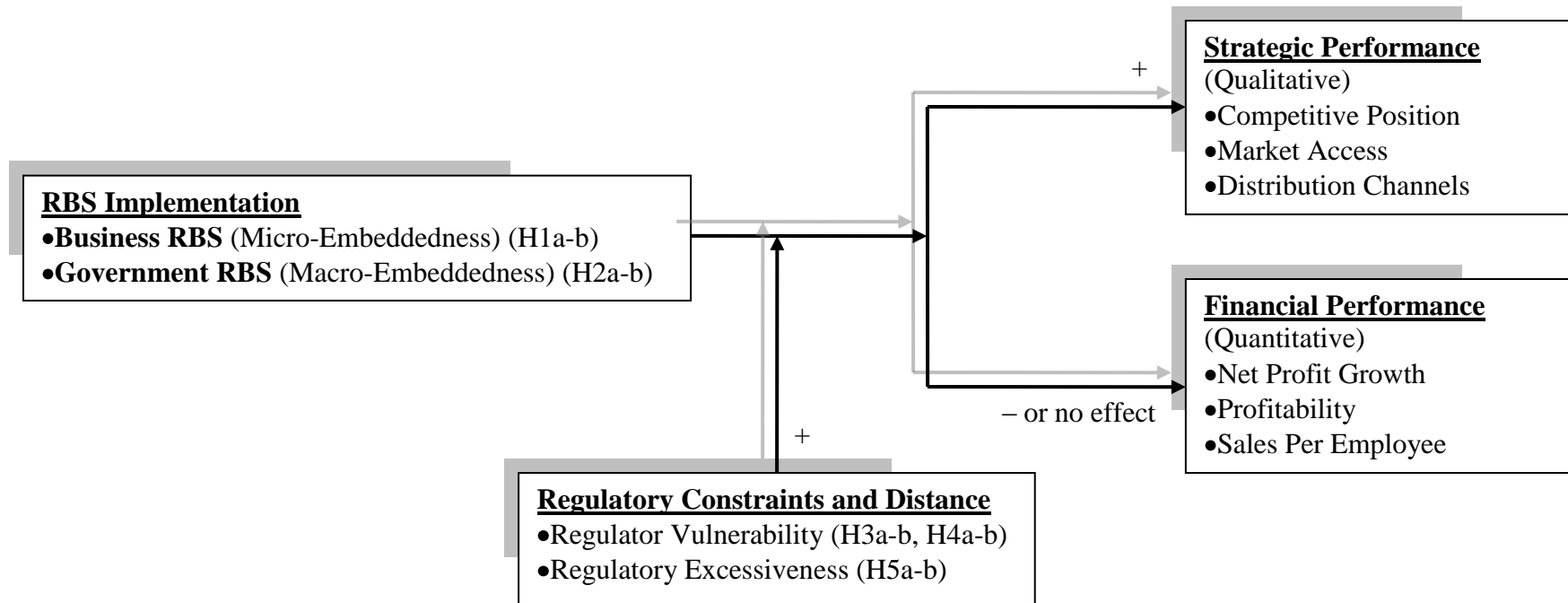
^c The highest VIF value in any of the final full models (Models 16, 19, 22) is 5.49.

^d Standardized variables.

^e Interactions between other contingency variables and predictor variables are insignificant and not reported.

†p < .10; *p < .05; **p < .01; ***p < .001 (two-tailed significance tests).

Figure 1. The WOFS relation-based strategy – performance link in a volatile regulatory environment^a



^a WOFS = wholly owned foreign subsidiary; RBS = relation-based strategy.

Figure 2. Interaction of regulator vulnerability and business RBS on three types of WOFS performance

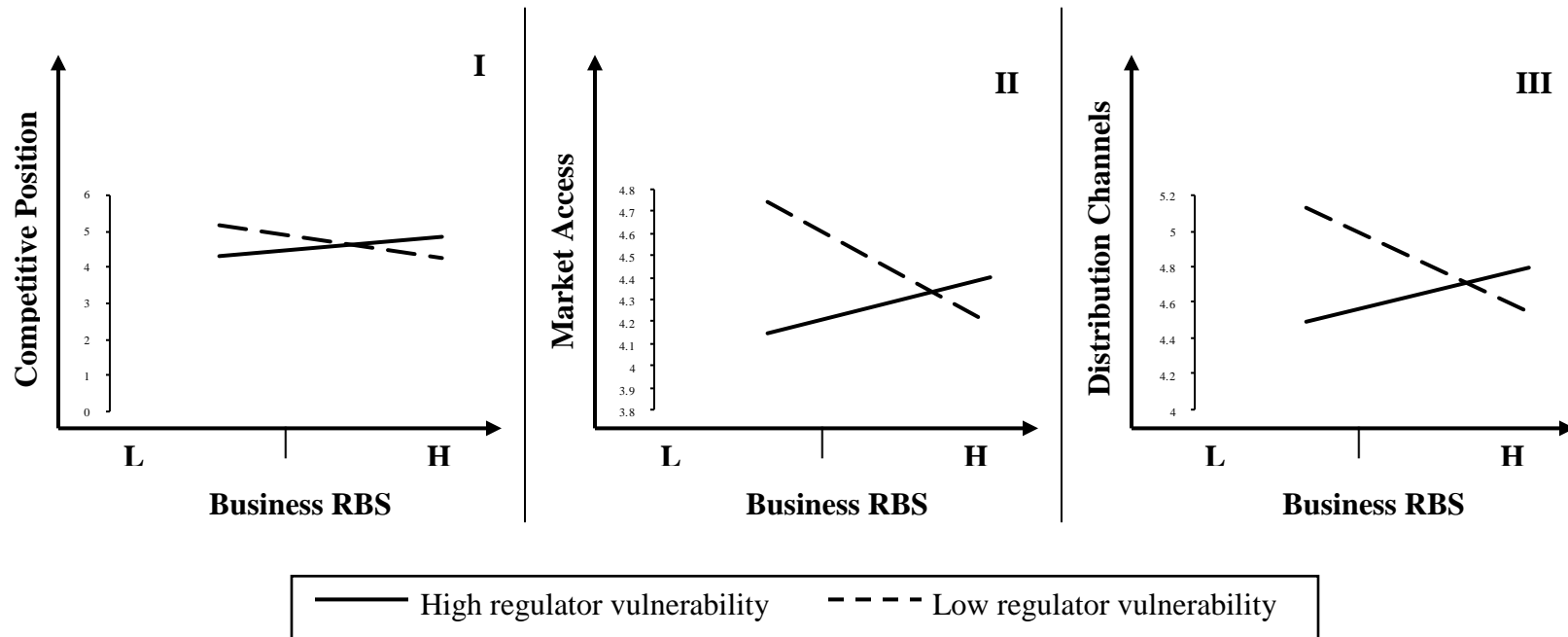
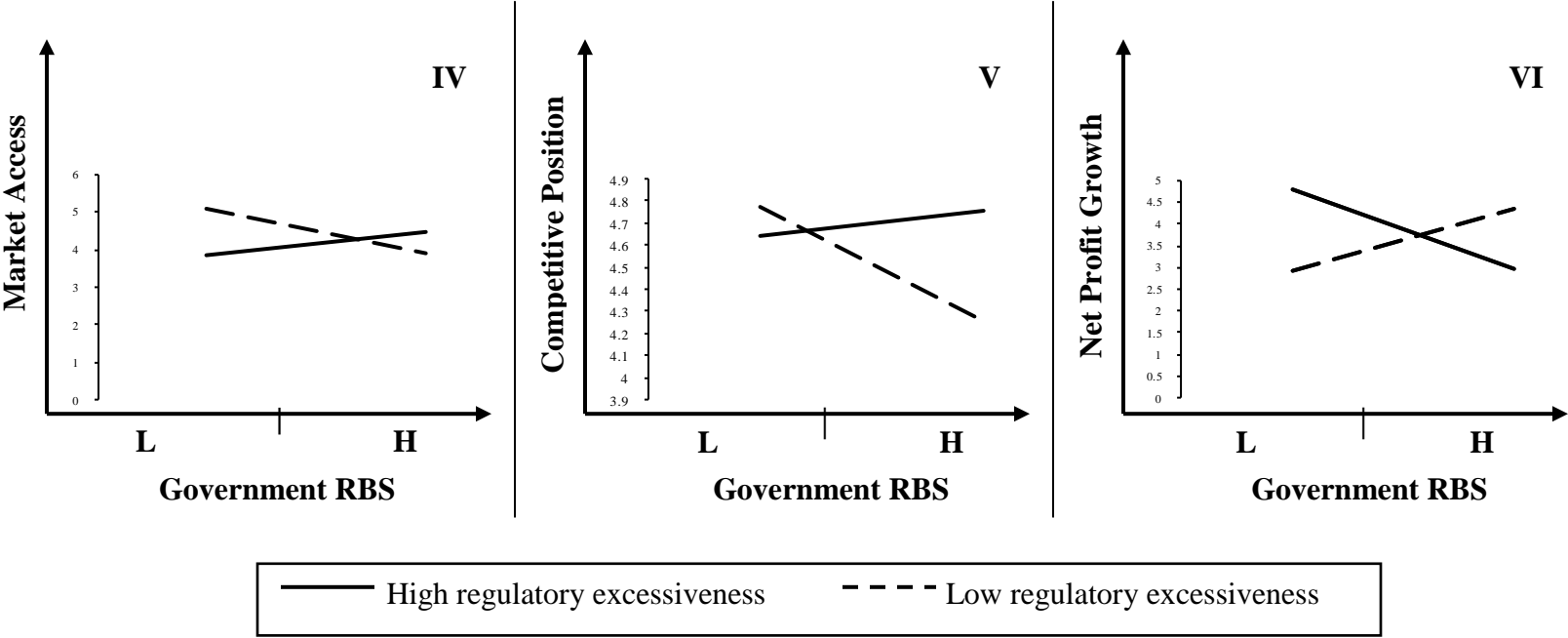


Figure 3. Interaction of regulatory excessiveness and government RBS on three types of WOFS performance



Appendix A. Global Regulatory Environment Indicators (2006)

Control of Corruption ^a			Government Effectiveness ^b			Political Stability ^c			Regulatory Quality ^d			Rule of Law ^e		
Denmark ^f	100.0 ^g	2.29 ^h	Denmark	100	2.29	Singapore	94.7	1.30	Singapore	99.5	1.85	Denmark	99.5	2.03
Singapore	98.1	2.30	Singapore	99.5	2.20	Sweden	88.0	1.13	Denmark	99.0	1.81	Sweden	96.7	1.86
Sweden	97.6	2.24	Sweden	96.7	2.00	Japan	85.1	1.11	United Kingdom	98.0	1.76	Singapore	95.2	1.82
Netherlands	96.1	2.05	Australia	95.7	1.94	Australia	76.9	0.85	Australia	96.1	1.67	Australia	94.8	1.81
Australia	95.1	1.99	Netherlands	95.3	1.86	Germany	75.0	0.83	Netherlands	95.6	1.65	Germany	94.3	1.77
United Kingdom	93.7	1.86	United Kingdom	94.8	1.83	Denmark	74.0	0.82	United States	93.7	1.47	Netherlands	93.8	1.75
Germany	93.2	1.78	United States	92.9	1.64	Netherlands	70.7	0.77	Sweden	92.7	1.44	United Kingdom	93.3	1.73
France	91.7	1.44	Belgium	92.4	1.64	Czech Republic	70.2	0.75	Germany	91.2	1.39	United States	91.9	1.57
Belgium	91.3	1.40	Germany	90.5	1.52	Belgium	69.2	0.74	Belgium	87.8	1.32	Belgium	91.0	1.45
Japan	90.3	1.31	Japan	88.2	1.29	Hungary	66.8	0.73	Japan	87.3	1.27	Japan	90.0	1.40
United States	89.3	1.30	France	85.8	1.20	France	61.5	0.46	Hungary	85.9	1.10	France	89.5	1.31
Czech Republic	80.1	1.01	South Korea	82.9	1.05	United Kingdom	61.1	0.46	France	82.9	1.06	Hungary	73.8	0.73
Hungary	69.9	0.51	Malaysia	80.6	1.02	South Korea	60.1	0.42	Czech Republic	79.5	0.95	Czech Republic	73.3	0.73
Poland	69.2	0.49	Czech Republic	80.1	1.01	Vietnam	59.6	0.42	South Korea	70.7	0.70	South Korea	72.9	0.72
Malaysia	68.0	0.38	Hungary	72.5	0.71	Malaysia	58.7	0.35	Malaysia	69.8	0.67	Malaysia	65.7	0.58
South Korea	64.6	0.31	Poland	69.2	0.49	United States	57.7	0.31	Poland	69.3	0.64	Poland	59.0	0.25
India	52.9	-0.21	Thailand	64.9	0.29	Poland	54.3	0.22	Mexico	63.4	0.43	India	57.1	0.17
Thailand	50.5	-0.26	Mexico	60.7	0.16	Argentina	44.7	-0.03	Thailand	62.4	0.37	Thailand	55.2	0.03
Brazil	47.1	-0.33	P.R.China	55.5	-0.01	Brazil	43.3	-0.09	Brazil	54.1	0.00	P.R.China	45.2	-0.40
Mexico	46.6	-0.35	Philippines	55.0	-0.01	P.R.China	33.2	-0.37	Philippines	H 52.2	-0.06	Vietnam	44.8	-0.43
Vietnam	41.7	-0.37	India	54.0	-0.04	Mexico	32.7	-0.40	India	48.3	-0.15	Philippines	41.9	-0.48
Argentina	40.8	-0.47	Brazil	52.1	-0.11	Russia	23.6	-0.74	P.R.China	46.3	-0.19	Brazil	41.4	-0.48
P.R.China	37.9	-0.53	Argentina	49.3	-0.19	India	22.1	-0.84	Indonesia	43.4	-0.26	Mexico	40.5	-0.49
Russia	37.9	-0.43	Vietnam	41.7	-0.37	Thailand	16.3	-0.99	Russia	33.7	-0.45	Argentina	35.7	-0.58
Philippines	27.2	-0.69	Indonesia	40.8	-0.38	Indonesia	14.9	-1.17	Vietnam	31.2	-0.49	Indonesia	23.3	-0.82
Indonesia	23.3	-0.77	Russia	37.9	-0.43	Philippines	11.1	-1.26	Argentina	22.9	-0.74	Russia	19.0	-0.91

Source: Kaufmann et al. (2007) Governance Matters VI: Governance Indicators for 1996 – 2006 (World Bank). The Philippines is highlighted and in bold font.

^aThe extent to which public power is used for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

^bThe quality of public services, the quality of the civil service and the degree of its dependence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.

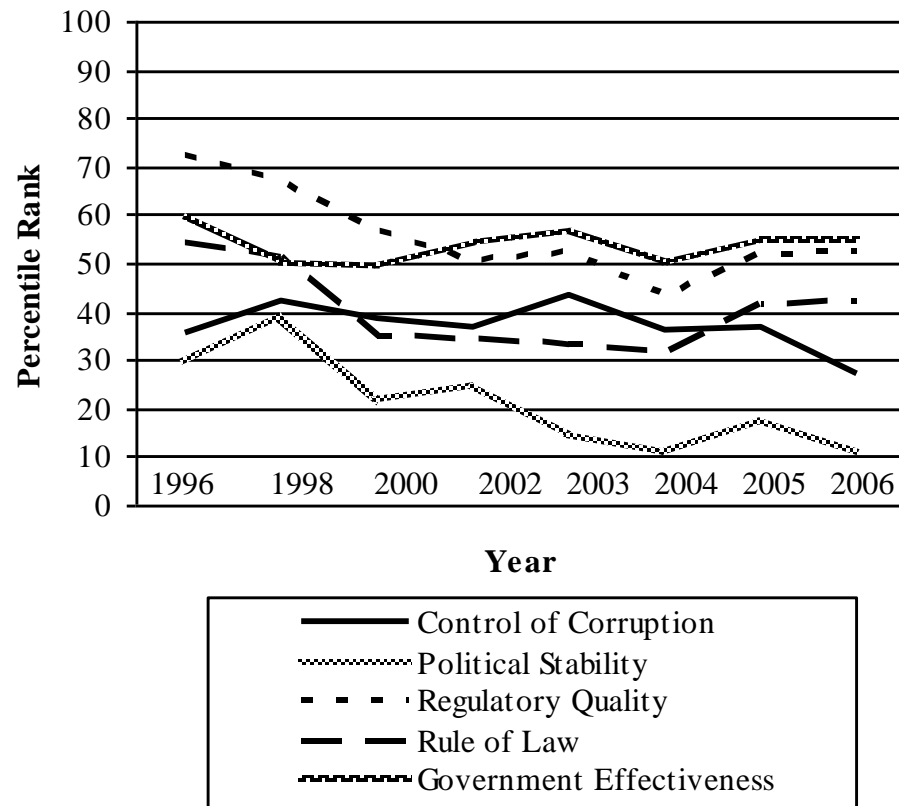
^cPerceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional means.

^dThe ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

^eThe extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement and the courts.

^fCountry. ^g Percentile rank (0 – 100). ^h Governance score (-2.5 to +2.5).

Appendix B. Philippine Regulatory Environment Indicators (1996 – 2006)^{ab}



^a Kaufmann et al. (2007) Governance Matters VI: Governance Indicators for 1996 – 2006 (World Bank).

^b Percentile rank when compared against other countries.

Appendix C. Remedies undertaken against common method and single-respondent bias^a

Remedy and Rationale	Implementation
Procedural	
<i>Protecting respondent anonymity.</i> This technique decreases respondents' tendency to make socially desirable responses and/or be acquiescent or lenient when crafting their responses (Podsakoff et al., 2003: 888).	Our cover letter, along with a letter of introduction from a sponsoring institution, assured respondents complete anonymity and confidentiality.
<i>Reducing item ambiguity.</i> Careful attention to the wording of items helps reduce item ambiguity (Tourangeau, Rips, & Rasinski, 2000).	We were careful to avoid vague concepts and double-barreled questions, and to keep questions simple—all of which reduce item ambiguity (Tourangeau et al., 2000). We adopted items from previously validated studies. We also pretested the survey with business scholars from both the Philippines and United States, as well as with managers operating in the Philippines. This helped us to identify and replace any ambiguous wording in the questionnaire.
<i>Separating scale items.</i> Reduces the likelihood of respondents guessing the relationship between predictor and criterion variables and consciously matching their responses to the two measures (Parkhe, 1993; Podsakoff et al., 2003).	In our questionnaire, the RBS and performance items were placed far apart from each other—on the front and back ends of the questionnaire. Thus, the dependent variables were separated from items making-up the predictor variables used in this analysis by unrelated, unused, items.
<i>Reverse-phrased items.</i> Reverse-phrased items are important for reducing response bias. This is because participants will actually have to carefully read the items in order to check for how they are phrased (Field, 2005).	We included reverse coded items (see generally note 9, page 24, discussing reverse coded items measuring regulator vulnerability; see also Table 2 items 14 and 16) in order to help reduce respondent bias.
<i>Data from different sources.</i> Measures based on different sources help control common method and single-respondent bias (Podsakoff et al., 2003).	We obtained data on almost all control variables from archival (secondary) sources.
Statistical	
<i>Triangulation using field interviews.</i> Interview-based data can be coded to establish the reliability and validity of survey based variables (e.g., Krishnan et al., 2006).	We used interview data available for fifteen WOFSs to validate several measures in this study. Selected respondents were interviewed and asked to identify, per the original survey instrument, specific aspects of their WOFS strategic behavior, characteristics of the Philippine regulatory environment, and satisfaction with performance. Four independent coders categorized the semi-structured interview responses using three-point scales. The results (Pearson correlations: 0.96 – 0.83, $p < .001$; Guttman split-half Rs: 0.82 – 0.71) displayed high consistency between interview and survey answers (see generally Luo, 2005, 2004).
<i>Harman's (1967) one-factor test.</i> If a substantial amount of common method bias exists in data, a single or general factor that accounts for most of the variance will emerge when all variables are entered together (Podsakoff et al., 2003; Podsakoff & Organ, 1986).	A principle components factor analysis was run on all survey based items making-up the primary variables of interest in the study. This analysis revealed four distinct factors with eigenvalues all greater than 1.0; the first two factors accounted for 53.11 percent of the total variance; also, the first (largest) factor did not account for a majority of the variance (27.91%) (see Table 2).
<i>Significance of the interaction terms.</i> A pattern of significant interaction terms suggests that such outcomes are unlikely to have resulted from single-respondent bias (Aiken and West, 1991; Kotabe, Martin, & Domoto, 2003).	A several of our interaction effects were significant. These interactions involved survey-based items. Support for interaction hypotheses is unlikely to be an artifact of single-respondent bias, as it is implausible that respondents will consciously theorize moderated relationships when responding to a survey (e.g., Kotabe et al., 2003; Li and Zhang, 2007).

^aPartially reproduced and adapted from Krishnan et al. (2006). See generally Podsakoff et al. (2003) (explaining procedural and statistical tests and remedies for controlling common method bias).