Seeds of corruption? The contingent role of ties to politicians and foreign subsidiary relations with government sponsored financial institutions

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Bios

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Abstract

In drawing from transaction cost economics and social network theories, this study examines the influence of corruption as a determinant of foreign subsidiary formal contracting practices with government sponsored financial institutions. We hypothesize that lower corruption distance (between parent home and host countries) and higher perceived corruption (in host country) are positively related, and mutually reinforcing, when considering a foreign subsidiary's propensity to formally contract with government sponsored financial institutions. We also suggest that these relationships strengthen with the intensification of political ties to government officials that can offer preferential political services via contractual agreements, changing the nature of market transactions in favor of a foreign subsidiary. We found support for our hypotheses using data from a sample of over 350 subsidiaries located in the Philippines and Thailand.

Keywords: Corruption distance; perceived corruption; political tie intensity; business-government interaction; formal contracts; financial institutions; emerging market

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INTRODUCTION

Multinational enterprise (MNE) foreign subsidiaries operating in emerging markets are often subject to uncertainty due to environmental pressures, such as abrupt, erratic, and inconsistent institutional policy changes (Buckley and Munjal, 2017; Hughes *et al.*, 2017). Such environmental uncertainty may not only impact how these foreign subsidiaries are governed, but also place considerable constraints on the types of transactions and resources available to their operations for the potential enhancement of competitive advantage (Luo and Peng, 1999; Peng and Heath, 1996). One potential resource that can enhance a foreign subsidiary's development of competitive advantage in a host country are efficiencies associated with access to local financial slack, such as credit and bank loans (Weller and Scher, 2001; Sawant, 2010). Purda (2008: 1179) has also argued that "a firm's close and specialized relationship with its bankers allows for the exchange of non-public information."

With this notion in mind, the use of government sponsored financial institutions is particularly prevalent in uncertain emerging market environments (hereinafter uncertain environments) (Carvalho, 2014; Liedong and Rajwani, 2018). Contracting with government sponsored banks and financial agencies can help foreign subsidiaries to "facilitate[] the financing of projects that private banks are unable or unwilling to finance . . . ." (Dinc, 2005: 454). Nonetheless, government officials and politicians in uncertain environments will often utilize, and exploit, government sponsored banks and financial agencies (i.e., government sponsored financial institutions) to advance their own political ambitions (Dinc, 2005; La Porta, Lopez-de-Silinas, and

Shleifer, 2002). This form of crony capitalism can play a key role in "hampering competitive market practices" (Mukherjee, 2019: 35) as well as the provisioning of preferential allocation of financial resources via contractual arrangements (Diwan and Schiffbauer, 2018).

The multinational nonmarket strategy literature has generally considered how such misuse and/or abuse of public office for private gain, otherwise referred to as "corruption" (Lee and Oh, 2007; Roy and Oliver, 2009), can distort commercial market transactions creating operational costs for foreign subsidiaries (Jiménez *et al.*, 2017; Judge, McNatt, and Xu, 2011; Kwok and Tadesse, 2006). Alternatively, research has also suggested that corruption can "grease the wheels" mitigating uncertainty and facilitate transactions thereby offering operational advantages to foreign subsidiaries in uncertain environments (Adomako *et al.*, 2021a; Cuervo-Cazurra, 2006; Krammer, 2019).[1] However, when taken-together, these two streams of corruption research have yet to be mutually considered from an MNE foreign subsidiary (hereinafter *foreign subsidiary*) government contracting perspective. Further, this same research has failed to account for how the *intensification* of political ties with government actors might reconcile the interface between liabilities of foreignness related to corruption distance and complexities of the "grease-the-wheel" viewpoint associated with managerial perceptions of corruption. This notion is particularly salient in that the global strategy literature has been silent when considering antecedents as to why foreign subsidiaries might leverage crony capitalism for the purpose of contracting with government sponsored financial institutions.

These conceptual observations offer the motivation for our study. In drawing from transaction cost economics and social network theories, our study attempts to explore the effects of how corruption distance and managerial perceptions of corruption influence a foreign subsidiary's propensity to utilize formal contracts with government sponsored financial institutions in uncertain environments. Specifically, we ask two key research questions: (1) How will (a) corruption distance between a foreign subsidiary's parent and host country, and (b) managerial perceptions concerning

the pervasiveness of corruption, influence a foreign subsidiary's propensity to utilize formal contracts with government sponsored financial institutions?, also (2) How will the intensity of ties to key government officials influence these relationships?

Our research makes several contributions to the corruption and, more broadly, to the global strategy literature. First, from a theoretical standpoint, we employ transaction cost economics to better understand how the perceived presence of corruption might influence a foreign subsidiary's contractual relationships with financial institutions in order to reduce transaction costs linked to access of habitually scarce capital, favorable lines of credit, and cheaper financing options. With this notion in mind, we extend transaction cost economics by applying the concept of "illegal transaction cost minimization" (Cuervo-Cazurra, 2016: 44) when theoretically considering how the interaction between greater levels of perceived corruption by managers of foreign subsidiaries, with parent MNEs from less distant corruption-oriented environments, will be more likely to utilize strategic corruption practices. This logic includes the "grease-the-wheel" view of corruption as a bribery bargaining process to leverage crony capital in seeking-out prescribed arrangements via contracting with government sponsored financial institutions, thereby offering greater predictability and enhancing efficiencies in uncertain operating environments. We also integrate social network theory (e.g., Peng and Heath, 1996; Podolny and Page, 1998) into this logic by considering how the *intensification* of political ties to key host country government officials will further facilitate foreign subsidiary formal contracting behavior with government sponsored financial institutions, reducing transaction costs via the mitigation of related uncertainty surrounding access to local financial slack.

Second, we contribute to *foreign subsidiary* research by linking the potential transaction costs of leveraging crony capitalism with government sponsored financial institutions and the notions of perceived corruption (e.g., Sartor and Beamish, 2018; Uhlenbruck et al., 2006) and corruption distance (e.g., Godinez and Liu, 2015; Karhunen and Ledyaeva, 2012). This area of research has almost exclusively focused specifically on MNE foreign direct investment and entry

mode choice, while the effects of corruption distance on foreign subsidiary operations is largely a new line of research inquiry.[2] We therefore extend this body of literature by focusing our investigation on the yet explored area of corruption's impact on foreign subsidiary post-entry contracting behavior with government sponsored financial institutions.

Third, our study also complements the MNE formal contracting literature. Recent literature on formal contracting has considered how uncertain host country legal institutions moderate the transference of institutionalized MNE practices across foreign subsidiaries (e.g., White *et al*., 2018). However, this literature has yet to consider how social networks derived from the *intensification* of political ties with government officials may enhance the propensities of foreign subsidiaries to contract with state sponsored financial institutions.

Lastly, this study sheds light on corruption and contracting activities in two unique host countries in Southeast Asia – a region in which existing global strategy research has paid relatively little attention. Hence, while MNE operations typically disperse across numerous geographic locations, foreign subsidiaries operating in uncertain Southeast Asian emerging market environments has often been over-looked by global strategy scholars. This is quite surprising as it has been almost two decades since Hoskisson et al.'s (2000) call for a more diversified research agenda on emerging markets (other than research on China or regions other than Eastern Europe). We hope our focus on Southeast Asian emerging markets helps to fill this contextual research gap.

HYPOTHESIS DEVELOPMENT

Corruption distance

Global strategy scholars have long researched how institutional distance between a home and host country play a significant role in shaping foreign subsidiary strategies (Berry, Guillen, and Zhou, 2010; Eden and Miller, 2004; Reimann, Rauer, and Kaufmann, 2015; Rickley and Karim, 2018; Zhang *et al*., 2014). In general, this research has found that greater institutional distance between

home and host countries can negatively affect an MNE's adaptability (e.g., Salomon and Wu, 2012) and performance (e.g., Gaur and Lu, 2007) in host country environments. This is because foreign subsidiaries operating in different institutional contexts are subject to the liability of foreignness (Nguyen, 2014; Rickley and Karim, 2018; Zaheer, 1995). To mitigate the liability of foreignness, foreign subsidiaries may engage in isomorphism to gain legitimacy in the eyes of local constituents (DiMaggio and Powell, 1983; Salomon and Wu, 2012). Such strategies often include the adaptation of organizational practices and routines similar to that of norms relevant to the local environment (Rosenzweig and Nohria, 1994; Luo, 2002).

Corruption distance is a specific dimension of institutional distance (e.g., Habib and Zurawicki, 2002) which we argue will have a direct effect on a foreign subsidiary's propensity to utilize contracts with government sponsored financial institutions in order to more easily access cheaper financing (Aggarwal and Goodell, 2010) and larger loan amounts (Akins, Dou, and Ng, 2017; Zheng *et al.*, 2013). However, Barth, Lin, Lin, and Song (2009: 361) have argued that "[u]nfortunately, banking systems do not always operate efficiently in [emerging market] countries . . . they are susceptible to corruption, which undermines their primary function of allocating scarce capital efficiently." Hence, bureaucrats and political actors engaged in bribery are capable of more easily maintaining and increasing power "through the control of financial resources" (Dinc, 2005: 454) by leveraging crony capitalism via government sponsored financial institutions (e.g., Diwan and Schiffbauer, 2018).

Transaction cost economics (hereinafter TCE) suggests that foreign subsidiaries with parents originating from home countries with similar corrupt environments will be more accustomed to managing these constraints as well as more inclined to develop capabilities that will facilitate efficient operational advantages via these prescribed arrangements (i.e., through bribery and corrupt lending practices) (Cuervo-Cazurra, 2006; Cuervo-Cazurra and Genc, 2008; Karhunen and Ledyaeva, 2012) in order to mitigate transaction costs (Mayer and Salomon, 2006). This logic is

based on the notion that an MNE's "adaptation to its home country…institutions …will lead to strategic practices being institutionalized and transferred to foreign subsidiaries within the MNE … through people and processes …." (White, Fainshmidt, and Rajwani, 2018: 2; see also Carney, Dieleman, and Taussig, 2016; Chung, Gibbons, and Schoch, 2006; Tan and Chintakananda, 2016).

In other words, TCE argues foreign subsidiaries with parents from home countries with similar levels of corruption will have a greater understanding of these the operating environments (i.e., less liability of foreignness) (Cuervo-Cazurra and Genc, 2008). One example of these types of nonmarket activities are Chinese MNE activities in the Philippines, in the business of undertaking exploitative mining practices, whereby they gained access to permits via circumventing local mining laws and bribing their way into provincial government agencies in order to gain access to permits for the mining lucrative nickel deposits (Bergonia, 2021). Thus, utilizing strategic corruption practices (Zelikow et al., 2020) by leveraging capital cronyism in order to gain greater efficiencies (and thereby less transaction costs) via contracting with government sponsored financial institutions (Qian and Sandoval-Hernandez, 2016).

Alternatively, TCE also suggest that foreign subsidiaries from more distant corruption-oriented environments will less likely prescribe to these institutional norms and practices (Duanmu, 2011; Godinez and Liu, 2015), or perhaps are more susceptible to legal repercussions in their home country (Cuervo-Cazurra, 2006).[3] This is because these foreign subsidiaries will inherently suffer from the liability of foreignness, making it much harder for these subsidiaries "to understand if bribery would bring the benefits that were promised at the time of bribery exchanges" or "work favorably" to create greater predictability and enhance efficiencies in uncertain operating environments (Lee and Oh, 2007: 104). Consequently:

Hypothesis 1: In uncertain environments, the lower the corruption distance between a home and host country, the higher likelihood a foreign subsidiary will utilize formal contracts with government sponsored financial institutions.

Perceived corruption

Perceived corruption pervasiveness (i.e., perceived corruption) "reflects the number and frequency of transactions . . . with which . . . [a] firm deals over the course of a fixed time period that involve illicit activities" (Doh *et al.*, 2003: 118). This includes the likelihood of a foreign subsidiary encountering some form of corruption during normal interactions with government officials (Adomako *et al.*, 2021b; Rodriguez, Uhlenbruck, and Eden, 2005). The pervasiveness of corruption, as perceived by senior management, in an uncertain environment can cause substantial transaction costs for foreign subsidiaries since it will often be an institutionalized part of commercial activities (Uhlenbruck et al., 2006). Some scholars have alluded to the fact that this process is analogous with indirectly taxing (Jain, 2001) and directly creating enhanced production costs for organizations (e.g., Luo, 2002). For example, in Thailand commercial projects can "have bribe costs up to 50 percent of the total [project] budget through the special procurement practice. Politicians verbally order officials to ask [bidders] for under-the-table money, which is a method difficult to investigate" (Pratruangkrai, 2012: 4A).

On the other hand, Lee and Oh (2007) have argued that organizations that perceive corruption to be high may decide to bribe in order to receive favorable treatment. Perceived corruption may therefore be viewed positively by some foreign subsidiaries as a mechanism to create competitive advantage and mitigate transaction costs associated with uncertainty by leveraging crony capitalism as a proactive strategic tool to facilitate favorable services. These services may include such activities as approval of licensing agreements or preferential tax treatment (Boddewyn and Brewer, 1994; Cuervo-Cazurra, 2006), as well as acting to influence formal institutions for the purpose of beneficial disposition of decisions such as legal determinations by a court of law (Casarin, 2015; White et al., 2015). In a recent survey of local business executives, conducted by the Integrity for Investments Initiative funded by the U.S. Agency for International

Development, found that thirty-nine percent of respondents considered "that most companies in their line of business give bribes to win public sector contracts" and forty-four percent of firms had been solicited for a bribe in the last year (Mangahas, 2015). As an example of this corrupt behavior, Lee and Oh (2007: 104) have discussed how the former president of Indonesia, Suharto, was "well known as 'Mr. Ten Percent'" in that "paying 10% [to Suharto] . . . would secure the ["deal"] in Indonesia."

Scholars have therefore argued that bribes, as part of corrupt acts, can be incentivized to act "as a 'helping-hand' increasing . . . revenues" (Qian and Sandoval-Hernandez, 2016: 400; Egger and Winner, 2005). Thus, corruption can create some degree of predictability for organizations that operate in an environment that is unpredictable (e.g., Doh et al., 2003; Oliver 1991). Hence, some foreign subsidiaries may actively seek to liaise with corrupt regimes in order to take advantage of such 'rules of the game' where corruption has been legitimized and become a norm (Suchman, 1995). Government sponsored financial institutions provide a substantial amount of external financing to foreign subsidiaries (Dinc, 2005). In addition, the fact that governments in these countries tend to interfere with the allocation of financial resources makes it somewhat necessary for foreign subsidiaries to build ties with the government in order to gain favorable treatment when determining resource allocations (Cull *et al*., 2015).

Thus, the "grease-the-wheel" view of corruption (rather than the "sand-the-wheel" view) suggests that certain foreign subsidiaries will use bribery as a bargaining process that may help these organizations be more productive and efficient, thereby minimizing transaction costs, by accessing greater credit and larger loan amounts (Chen *et al*., 2015; Chen, Liu, and Su, 2013). This process may include bribes in bidding for "credit allocations" in banks and the awarding of contracts via corrupt bureaucrats affiliated with or working in government sponsored financial institutions (Chen, Liu, and Su, 2013: 2536). In these situations the "grease-the-wheel" view of "corruption helps [to] boost (or

at least maintain) efficiency" (Chen *et al.*, 2015; 124; Iriyama, Kishore, and Talukdar, 2016) through cheaper financing via these prescribed arrangements (Aggarwal and Goodell, 2010). Therefore:

> **Hypothesis 2**: In uncertain environments, the greater perceived corruption pervasiveness, the higher likelihood a foreign subsidiary will utilize formal contracts with government sponsored financial institutions.

The complementary effects of corruption distance and perceived corruption

Beyond their individual effects, we also examine whether corruption distance and managerial perceptions of corruption will add additional complementary effects in influencing the extent that a foreign subsidiary will employ formal contracts with government sponsored financial institutions. First, as suggested in hypothesis 1, political actors engaged in bribery are capable of more easily maintaining and increasing power "through the control of financial resources" via government sponsored banks and financial agencies (e.g., Dinc, 2005: 454). We therefore suggest that foreign subsidiaries with parents originating from home countries with similar corrupt environments will be more accustomed in not only mitigating these potential constraints (Cuervo-Cazurra and Genc, 2008; Karhunen and Ledyaeva, 2012), but managers of these subsidiaries may also be inclined to develop practices that will help leverage crony capitalism in order to facilitate more efficient operational advantages via prescribed corrupt lending practices (Aggarwal and Goodell, 2010; Zyglidopoulos, Dieleman, and Hirsch, 2020). Alternatively, the liability of foreignness implies that foreign subsidiaries from more distant corruption-oriented environments will not as likely prescribe to these institutional norms and practices (Duanmu, 2011; Godinez and Liu, 2015), will not be as inclined to understand how bribery would create greater predictability (Cuervo-Cazurra, 2006), and thereby less probable in leveraging crony capitalism to enhance operational efficiencies by accessing financial resources via contracting with government sponsored financial institutions (e.g., Zheng et al., 2013).

Second, as suggested in hypothesis 2, perceived corruption may be viewed positively in that it can be used as a proactive strategic practice to leverage crony capitalism in facilitating favorable services and thereby receive favorable treatment (Akinyoade and Uche, 2018; Lee and Oh, 2007), leading to some level of predictability in an unpredictable environment (e.g., Doh et al., 2003; Iriyama, Kishore, and Talukdar, 2016). This "grease-the-wheel" view of corruption suggests that foreign subsidiaries that perceive there to be higher levels of corruption pervasiveness may use bribery as a bargaining tool with key government officials that facilitate advantages associated with access to more advantageous lines of credit and larger loan amounts (Chen, Liu, and Su, 2013), as was the case with Goldman Sachs in Malaysia (BBC, 2020).

Hence, we argue that when taken together, and going beyond individual effects, low corruption distance between a foreign subsidiary's home and host country coupled with managerial perceptions of corruption pervasiveness will have mutually reinforcing effects. When present at the same time, low corruption distance and high perceived corruption pervasiveness will complement one another in further enhancing a foreign subsidiary's propensity to minimize transaction costs associated with access to financial capital via utilization of formal contracting with government sponsored financial institutions. In other words, drawing on TCE, we suggest that with less liability of foreignness associated with lower corruption distance, foreign subsidiaries from similar corruption-oriented environments that perceive corruption pervasiveness to be high will be particularly motivated to employ bribery to access credit and loan allocations through corrupt bureaucrats affiliated with government sponsored financial institutions (e.g., Chen, Liu, and Su, 2013). Considering this argument, and our theory leading to the two main effects hypotheses (Hypothesis 1 and 2), we suggest that the concurrent presence of low corruption distance and high perceived corruption pervasiveness will have a multiplicative influence in further increasing foreign subsidiaries' propensity of formal contract utilization with government sponsored financial institutions when operating in an uncertain environment. Hence:

Hypothesis 3: In uncertain environments, the negative relationship between low corruption distance and a foreign subsidiary's propensity to utilize formal contracts with government sponsored financial institutions will be greater as perceived corruption pervasiveness increases.

Political tie intensity as a moderator

Social network research emphasizes that organizations are characterized by frequent transactions between semi-autonomous entities that depend on embedded social ties in order to gain legitimacy and thereby mitigate uncertainty within a market (Liedong, Rajwani, and Mellahi, 2017; Rodgers *et al,* 2019). Specifically, these social ties allow for economic actions that are linked to the non-economic actions of institutions such as privilege, objectives, or processes (Gulati, 1998). This line of research also suggests that foreign subsidiaries may achieve competitive advantages when they pursue their economic goals through non-economic practices (Granovetter, 2005), particularly under uncertain market conditions (Boisot and Child, 1996; Ouchi, 1980; Uzzi, 1997).

With this in mind, nonmarket strategy research has empirically examined how the cultivation of political ties will be positively associated with the development of firm competitive advantages in uncertain environments (Acquaah, 2007; Frynas, Child, and Tarba, 2017; Li and Zhang, 2007; Liedong and Rajwani, 2018). Yet, not all foreign subsidiaries will cultivate, much less *intensify*, political ties. However, those that do decide to *intensity* their political ties will have stronger relational embeddedness that offer the ability to understand and better implement strategy in unique environmental settings (Shirodkar and Mohr, 2015; White Boddewyn and Galang, 2015). Hence, foreign subsidiaries that intensify political ties will therefore consider the potential strategic advantages that these relationships will afford their competencies in enhancing their competitive position by minimizing potential transaction costs through affiliation and alignment with key government officials (Blumentritt, 2003; White et al., 2014).

We argue that the proactive *intensification* of these political ties can act as social capital (Cao, Ding, and Zhang, 2016) that will strategically accumulate and can be leveraged with corrupt bureaucrats with access to government sponsored financial institutions offering preferential treatment and access to critical resources such as government bank loans and contracts (Boddewyn and Brewer, 1994; Cull et al., 2015; Wang and Qian, 2011; White *et al.*, 2018; Zheng et al., 2013). Consequently, the leveraging of these ties can provide much needed competitive advantages to foreign subsidiaries (Hoang, 2018; Lawton et al., 2012; Siegel, 2007). One illustrative example of this phenomenon is when "J. P. Morgan's foreign subsidiary operations in China hired unqualified children of key government officials as investment bankers for the purpose of gaining political favor [so that they] would either obtain or retain lucrative government contracts …." (White et al., 2018: 4).[4]

Hence, this line of reasoning suggests that the *intensification* of political ties will enhance embeddedness with key government officials further enhancing efficiencies consistent with foreign subsidiaries already equipped to cope with corruption do to their originating from similar home country environments (Cuervo-Cazurra, 2006; Cuervo-Cazurra and Genc, 2008; Karhunen and Ledyaeva, 2012). Further, based on our previous logic, we argue that foreign subsidiaries engaged in cultivating political ties would therefore intensify those ties, as they perceive corruption pervasiveness to increase. This logic is based on the notion that bureaucrats have the power to induce government sponsored financial institutions to divert the flow of credit and other financial instruments to politically connected foreign subsidiaries (see generally Beck, Demirguc-Kunt, and Levine, 2006). This "discretionary power", associated with crony capitalism, can be leveraged to render such preferential political services via contractual agreements with financial institutions in exchange for kickbacks (such as bribes) that will change the nature of market transactions in favor of the foreign subsidiary (Aggarwal and Goodell, 2010; Lee and Oh, 2007). Furthermore, we predict that:

Hypotheses 4a: In uncertain environments, the negative relationship between lower corruption distance and a foreign subsidiary's propensity to utilize formal contracts

with government sponsored financial institutions will be greater as political tie intensity increases.

Hypotheses 4b: In uncertain environments, the positive relationship between greater perceived corruption pervasiveness and a foreign subsidiary's propensity to utilize

formal contracts with government sponsored financial institutions will be stronger as

political tie intensity increases.

[Insert Figure 1 about here]

[Insert Figure 2 about here]

METHODS

Research context

Data for several variables in our study was derived from the administration of a survey questionnaire in the Philippines and Thailand during 2018. Using these two contexts as a source of data for our study was appropriate because they are both emerging markets (MSCI, 2020) that are primary destinations for foreign direct investment by MNEs in Southeast Asia (Philippine Statistical Yearbook, 2018; Statistical Yearbook Thailand, 2018). Each of these emerging markets have uniquely different political environments. The Economist Intelligence Unit (2019) categorized the Philippine's political system as a "flawed democracy" (i.e., a faulty and underdeveloped democracy) and the political system of Thailand as a "hybrid regime" (i.e., an authoritarian regime that has largely stalled in transition to a different form of governance) (see also White *et al*., 2020).

Additionally, while past reports have shown investor perceptions of ease of doing business in these environments to be improving (see generally Asian Development Bank Country Diagnostic Studies, 2021), the Philippines and Thailand are considered to be relatively uncertain operating

environments. For example, both countries rank in the bottom half of Transparency International's corruption rankings (2020)[5] with investors considering graft, bribery, and a lack of transparency concerning transactions with government sponsored agencies (such as winning bids for public sector contracts) as being a concern in certain business sectors (Bangprapa, 2021; Mangahas, 2015).[6] Very importantly, both countries have highly concentrated banking and financial sectors consisting of several prominent government sponsored banks (see Appendix A).

Sampling

The sample for our study were MNE wholly owned subsidiaries (WOSs) and international joint ventures (IJVs) in Philippines and Thailand. We obtained our sample of foreign subsidiaries from the *Multinational Companies in the Philippines Database* and *Multinational Companies in Thailand Database* by randomly selecting 1500 foreign subsidiaries (750 in Philippines and 750 in Thailand) that have been in operation for three years or more. We then administered our survey to senior executives of the selected foreign subsidiaries, which included vice presidents, managing directors, senior managers, and country managers, among others. These senior executives in leadership positions (i.e., general managers/country managers/ managing directors/other chief officer or a senior VP/manager directly reporting to the head of the foreign subsidiary), had all been operating in the perspective host country for at least three years. Furthermore, very importantly, these senior executives were selected as informants since they had the authority to make strategic decisions for the foreign subsidiary and were familiar with the host country institutional environment (Luo, 2007).

Our survey was created based on previously validated measures, and was developed in English as most senior executives of foreign subsidiaries in Philippines and Thailand use English as their main language in business dealings (Hinkelman, 1996; North and Toews, 2014). Prior to administering the survey, we tested the survey with our research colleagues and experts in order to confirm that our survey questions accurately represented the constructs of interest (Fowler, 1995).

We then revised our survey based on the feedback received and pretests with senior executives of foreign subsidiaries in Philippines and Thailand.

Once our survey was fine-tuned and complete, we administered our survey by following Dillman (2000) in order to enhance our response rate through the following procedures. First, in order to establish credibility with the informant, we included an introduction letter. The letter included the objectives of the research as well as the research and managerial contributions (Hillman and Wan, 2005). The informants were also notified that the information offered was for research purposes only, in which their individual responses will be kept strictly confidential, and that their participation will not be revealed. Such assurances are very important, given the sensitive nature of the survey questions (Podsakoff et al., 2003). Second, prior to administering the survey, we sent direct emails and/or called our targeted informants to inform them of our survey and to solicit their cooperation. Third, we administered our survey by visiting the informants on-site and providing them with the survey in-person. Such procedure of visiting on-site and providing the survey in-person, rather than sending potential informants the survey my mail or through a web-based survey, allowed us to establish a friendly relationship and enhance our response rate (Lee and Miller, 1999). It also allowed us to provide clarifications to the survey questions when needed. Alternatively, respondents could return survey instruments via regular mail, email, or fax.

Our final sample consisted of 352 foreign subsidiaries in total, of which 215 were in Philippines (WOSs = 143, IJVs = 72) and 137 were in Thailand (WOSs = 54, IJVs = 83). This is equivalent to an average response rate of 24% (29% for Philippines and 18% for Thailand). Such response rate is within a range that is comparable to other research studies conducted in emerging markets (e.g., Chen et al., 2018, 31%; Meyer and Estrin, 2014, 13%). The respondent population were 55% local (Filipino/Thai) and 45% expatriate origin. In sum, the 352 foreign subsidiaries originated from 29 home countries across 23 different industries (see Tables 1 and 2).

[Insert Table 1 about here]

[Insert Table 2 about here]

We employed the *Multinational Companies in the Philippines Database* and *Multinational Companies in Thailand Database* to confirm that non-response bias was not a serious problem. We therefore ran a series of unpaired t-tests in comparing foreign subsidiary size (number of employees), foreign subsidiary experience (number of years operating in host country), and top management team size between responding and non-responding foreign subsidiaries. The results for these tests proved insignificant, suggesting no major differences between responding and non-responding foreign subsidiaries. We ran these same tests on early and late responders as well, finding no significant differences between the two groups. In sum, both sets of tests were found to be insignificant at the $p > 0.05$ level, establishing that response bias is not a serious concern in our study.[7]

Variables and measurement

For our primary variables, we followed Luo (2006) and White et al. (2015) in adapting several previously validated reflective measures with a three year time frame (as a point of reference) and employed seven-point Likert scales. Respondents were therefore instructed to rate items in reference to the past three years (1 = "strongly disagree" to 7 = "strongly agree", or 1 = "not at all" to 7 = "very much").

Dependent variable. Formal contract utilization with government sponsored banks and financial agencies is the degree that the foreign subsidiary utilized formal contracts with government sponsored banks and financial agencies in the host country. We adapted our measure from Park and Luo (2001) in which respondents were given instructions to rate the degree of their usage of formal contracts with government sponsored (state) banks and financial agencies.

Predictor variables. Perceived corruption (PC) is the perception of how likely a foreign subsidiary feels pressured to make unofficial payments to government officials. We adapted our

measure from Luo (2006), and created a multi-item construct, in which respondents were given instructions to rate a series of questions concerning the likelihood of corruption and bribery (Cronbach's alpha = .87; communality loadings = .87 − .64). Corruption distance (CD) is a continuous variable measured by using the "control of corruption" dimension taken from the World Bank's World Governance Indicators (WGI) database (2015-2018). We followed Duanmu (2011) and Karhunen and Ledyaeva (2012) in computing the absolute difference in control of corruption between the foreign subsidiary's home and host country.

Contingency variable. Intensity of ties to politicians (ITP) is the level of interaction between the foreign subsidiary and government officials. We adapted our measure from White, Boddewyn, and Galang (2015), and created a multi-item construct, in which respondents were given instructions to rate the level of informal personal ties with: (1) political officials, (2) regulatory authorities, (3) state enterprise administration bureaus, as well as (4) the amount of time spent with government officials.

Control variables. Informant nationality was controlled for because respondents of different nationalities may perceive corruption and political ties differently (White, Fainshmidt, and Rajwani, 2018). A dummy variable was used for informant nationality (coded 1 = Filipino or Thai, 0 = otherwise). Informant host country experience was controlled for because the level of experience in the host country of the respondent may influence the respondent's perception of corruption and political ties (Luo, 2002). Informant host country experience was measured by using the number of years since senior executive worked in Philippines and/or Thailand. Top management team size was controlled for because the number of top management can influence the WOSs' strategic behavior and degree of political network. Top management team size was measured by using the number of top managers as listed in the *Multinational Companies in the Philippines Database 2018 and the Multinational Companies in the Thailand Database 2018.* Foreign subsidiary experience was controlled for because the number of years establishment in may influence the ability to learn from

the host country environment and adapt it strategic positioning accordingly (Li and Zhang, 2007; Luo, 1999). Foreign subsidiary experience (obtained from the *Multinational Companies in the Philippines/Thailand Database 2018*) was measured as the number of years a foreign subsidiary operated in the Philippines or Thailand. Foreign subsidiary size (obtained from the *Multinational Companies in the Philippines/Thailand Database 2018*) was controlled for because larger WOSs may have resource advantages that can be leveraged in the local institutional environment.

A dummy variable was employed for market orientation (1= local-market-focused; 0 = export-oriented) because variations in levels of market orientation may influence their propensity to adapt their operations to the local environment (Luo, 2007). Industry growth rate, taken from the Philippine Statistical Yearbook (2018) or the Statistical Yearbook Thailand (2018), was also controlled for by using the compound growth rate of the foreign subsidiary's respective industry's sales (2016-2018). Cultural distance (Ahammad *et al.*, 2016) and economic distance (Dinner *et al.*, 2019; Ragozzino and Reuer, 2011) was controlled for because the distance between the MNE home country and foreign subsidiary host country may influence institutional and transaction costs. Cultural was calculated following Kogut and Singh's (1988) measurement of cultural distance. Geographic distance was calculated as the difference between the physical distance in kilometers between the home country of the MNE and the host country of the foreign subsidiary.

We also controlled for parent home country development because this could influence variation of respondent perceptions concerning the level of corruption, consideration of MNE home country norms as they relate to political activities, and variation of MNE ability to access capital in its home country. The level of development in the parent home country was obtained from the United Nations World Economic Situation and Prospects Report (2019), and coded as a dummy variable (coded 1 = developed, 0 = otherwise). Lastly, we employed a dummy variable to control for entry mode choice (coded 1 = wholly owned, 0 = joint venture) to account for possible differences affiliated with how different modes of entry will formally contract with government sponsored banks

and financial agencies since past research has shown that having local partners can play a role in navigating corrupt environments (Jiménez *et al.*, 2017).

We used an exploratory factor analysis to create our perceived corruption (PC) and intensity of ties to politician (ITP) variables. We tested each of the multi-item constructs individually and found that all the items were related to their underlying factor with loadings that were significantly higher than 0.40. Thus, convergent validity is supported. The Cronbach's alphas ranged from 0.87 and 0.74, hence displaying high levels of reliability (Hair et al., 1998) (see Table 3). Furthermore, we conducted a number of post-hoc statistical tests confirming that single informant bias, common method bias, and measurement equivalence were not a serious issue in our study (Podsakoff *et al.*, 2003) (see Table 4).

[Insert Table 3 about here]

[Insert Table 4 about here]

RESULTS

The descriptive statistics for all variables are reported in Table 5. We checked variance inflation factors (VIFs) which were found to all be below 5.00 (the highest value was 3.47). Thus, multicollinearity is therefore not a serious problem in our study (Neter *et al.*, 1996).

[Insert Table 5 about here]

Hypotheses 1 through 4b were tested by performing a series of hierarchical regression analyses. Table 6 presents these results. We also ran robustness checks of these models by employing the Preacher and Hayes (2004) bootstrap sampling procedure (Liedong, Rajwani and Mellahi, 2017; Xu and Wang, 2020). The results of the bootstrapping procedure confirmed that the coefficients are accurate estimates.

[Insert Table 6 about here]

Model 1 includes only the control variables; Model 2 includes the contingency variable (political tie intensity); Model 3 includes the predictor variables (corruption distance and perceived corruption); and Models 4-6 includes the interaction terms. For the control variables, industry growth rate and geographic distance were found to have a significant negative effect on the extent of utilizing formal contracts with government sponsored banks and financial agencies, whereas foreign subsidiary experience and market orientation were found to have a positive effect on the extent of utilizing formal contracts with government sponsored banks and financial agencies.

Hypothesis 1 stated our prediction that the lower the corruption distance between a home and host country, the higher likelihood a foreign subsidiary will utilize formal contracts with government sponsored banks and financial agencies. The hypothesis was supported with a negative and significant coefficient (Model 3: β = -.15, $p < .05$). Hypothesis 2 stated our prediction that the greater perceived corruption, the higher likelihood a foreign subsidiary will utilize formal contracts with government sponsored banks and financial agencies. The hypothesis was supported with a positive and significant coefficient (Model 3: β = .28, $p < .01$). In addition, the change in R-squared for Model 3 significantly increased (change in R-squared = $p < .01$), confirming the explanatory power of these relationships.

We predicted in Hypothesis 3 that the negative relationship between low corruption distance and foreign subsidiary's propensity to utilize formal contracts with government sponsored banks and financial agencies will be greater as perceived corruption increases. This hypothesis was supported: a negative and significant coefficient occurred for the interaction between corruption distance with perceived corruption (Model 4: β = -.14, $p < .05$). Lastly, when political tie intensity was added as a moderating variable, we found that the positive relationship between (a) lower corruption distance (Model 5: β = -.20, $p < .01$) and (b) greater perceived corruption (Model 6: β = .15, $p < .05$) grew stronger. Hence, Hypothesis 4a and 4b were supported.

To further understand and confirm the nature of the significant moderation effects, we plotted the interactions (see Figure 3). Specifically, the positive effect of lower corruption distance on a foreign subsidiary's propensity to utilize formal contracts with government sponsored banks and financial agencies become stronger as perceived corruption reaches a high level (first plot, Figure 3). Comparatively, as political tie intensity moves from low to high levels, the effects of (a) lower corruption distance (second plot, Figure 3) and (b) greater perceived corruption (third plot, Figure 3) becomes stronger in relation to a foreign subsidiary's propensity to utilize formal contracts with government sponsored banks and financial agencies.

[Insert Figure 3 about here]

DISCUSSION

We began this study by attempting to extend the global strategy literature by asking two key research questions: (1) How will (a) corruption distance between a foreign subsidiary's parent and host country, and (b) managerial perceptions concerning the pervasiveness of corruption, influence a foreign subsidiary's propensity to utilize formal contracts with government sponsored banks and financial agencies?, and (2) How will the intensity of political ties with government officials moderate these relationships? We went on to hypothesize that, in uncertain environments, (a) lower corruption distance between a home and host country and (b) greater perceived corruption pervasiveness will lead to a higher likelihood that a foreign subsidiary will utilize formal contracts with government sponsored financial institutions. We also hypothesize that these relationships will strengthen as the political tie intensity of a foreign subsidiary increases. Transaction cost economics and social network theories were applied in order to help explain this phenomenon.

Unlike previous literature that has largely focused on corruption's effects on MNE foreign direct investment (e.g., Duanmu, 2011; Godinez and Liu, 2015; Cuervo-Cazurra, 2006; Cuervo-Cazurra and Genc, 2008) and entry mode choice (e.g., Sartor and Beamish, 2018), this study

emphasizes corruption's influence on MNE foreign subsidiary strategic behavior post entry. When taken-together, the two streams of corruption research investigated in this study (corruption distance and perceived corruption) have yet to be mutually considered from a foreign subsidiary government contracting perspective. Further, this same research has not accounted for how the *intensification* of political ties with government actors might reconcile the interface between liabilities of foreignness related to corruption distance and complexities of the "grease-the-wheel" viewpoint associated with managerial perceptions of corruption. This notion is particularly salient in that the global strategy literature has been silent when considering antecedents as to why foreign subsidiaries might leverage crony capitalism in contracting with government sponsored financial institutions. Ultimately, what we find in our study is that these institutional effects interact and are mutually reinforcing, further enhancing the propensity for a foreign subsidiary to leverage crony capitalism in formally contracting with government sponsored financial organizations in order to minimize transaction costs associated with access to financial resources.

Our study also lends to the multinational nonmarket strategy literature by showing that these relationships strengthen as foreign subsidiaries *intensify* political ties to government officials (i.e., bureaucrats) in positions of authority. The intensification of these relationships can ultimately be leveraged, offering access to preferential political services by key government officials that can divert the flow of credit and financial instruments to politically connected foreign subsidiaries via contractual agreements with state sponsored financial institutions in exchange for kickbacks (i.e., bribes or other quid pro quos). These relationships will therefore minimize transaction costs in otherwise uncertain environments and change the nature of (financially related) market transactions in favor of these foreign subsidiaries. Moreover, we found empirical support for our hypotheses using primary data consisting of 352 MNE foreign subsidiaries (WOSs and IJVs) collected through extensive field research in the Philippines and Thailand.

Our study contributes to theory by integrating transaction cost economics and social network perspectives to explore this phenomenon. We employed transaction cost economics in order to better understand how the perceived presence of corruption might influence a foreign subsidiary's contractual relationships with financial institutions in order to reduce transaction costs linked to access of habitually scarce capital, favorable lines of credit, and cheaper financing options. We extend transaction cost economics by applying the concept of illegal transaction cost minimization (Cuervo-Cazurra, 2016) when theoretically considering how the interaction between greater levels of perceived corruption by managers of foreign subsidiaries, with parent MNEs from less distant corruption-oriented environments, will be more likely to utilize strategic corruption practices. This logic includes the "grease-the-wheel" view of corruption as a bribery bargaining process to leverage crony capital in seeking-out prescribed arrangements via contracting with government sponsored financial institutions, thereby offering greater predictability and enhancing efficiencies in uncertain operating environments. By integrating social network (Podolny and Page, 1998) into this logic, we are able to better understand how the *intensification* of political ties to key host country government officials will further facilitate foreign subsidiary formal contracting behavior with government sponsored financial institutions, reducing transaction costs via the mitigation of related uncertainty surrounding access to local financial slack.

With this in mind, our findings have several important implications for managers. Practitioners in emerging markets have long understood the phrase "what you know" but "who you know" well. The results of this study highlights the fact that senior managers of foreign subsidiaries operating in uncertain emerging market environments should therefore understand, or at minimum be aware of, how different aspects of corruption can influence their organization's contracting practices and overall strategic behavior. Contracting with government sponsored financial institutions can help foreign subsidiaries to gain competitive advantages via access to quick and easy lines of financing that would normally be more strictly scrutinized in the private sector. Alternatively, government officials and politicians in uncertain environments will often utilize, and exploit,

government sponsored financial institutions to advance their own political ambitions (Dinc, 2005). These interfaces can form a nexus of crony capitalism that will likely play a key role in "hampering competitive market practices" (Mukherjee, 2019: 35) as well as the provisioning of preferential allocation of financial resources via contractual arrangements (Diwan and Schiffbauer, 2018).

However, it is also important that practitioners operating in emerging markets place careful attention to the make-up of host country institutions and financial sectors. This will help to determine how corruption may impact their operations, specifically contracting practices, and determine the strategic importance of developing non-market strategic capabilities necessary to preempt potential contingencies associated with crony capitalism and uncertainty. For example, a recent survey by PricewaterhouseCoopers Consulting Services found that "21% of respondents claimed they were asked to pay a bribe while 14% said they lost an opportunity to a competitor who they believed paid a bribe" (Romero, 2020). Thus, the results of our study also have implications for policy makers. While several organizations (Transparency International and the World Bank, among others) have been advocating for governments to combat corruption, policy makers in emerging markets need to understand how such actions could affect foreign subsidiary strategic behavior as well as MNE FDI. Hence, host governments should consider taking a holistic view when considering institutions governing markets in their economy.

Further studies could help address some of the limitations of this study. First, the empirical setting of this study was two rather unique emerging markets located in Southeast Asia. While our results corroborated previous literature on the importance of political ties (e.g., Cao, Ding, and Zhang, 2016), it is important to note that there has been some research that found political ties to have negative effects on MNE competitive advantage (e.g., Okhmatovskiy, 2010; Sun, Mellahi, and Thun, 2010). For example, Sun, Mellahi, and Wright (2012: 74) found that in China "closely connected firms may perform dramatically differently depending on backers' political fortunes". Thus, while research contexts for our study were not socialist regimes, it is possible that the ability

to obtain loans from government sponsored banks could mitigate any negative effects associated with the intensification of political ties. Hence, future studies employing longitudinal comparative multi-country data would further the investigation of these issues.

Second, our sample was limited to MNE foreign subsidiaries. From a strategic perspective, a natural extension of this study would be to compare the results in this study with strategic behavior of local Filipino/Thai firms, or perhaps to alternative different forms of entry modes (i.e., franchising or licensing) operating in similar environments. From an entry mode perspective, a natural extension of this study would be to compare the results in this study with different forms of entry modes (i.e., WOSs, IJVs, franchising, licensing, and other forms of alliances) operating in similar environments. We believe this research could have several important implications for transaction costs and social network theories. Importantly, we think that the cost and network configurations of these different forms entry modes could vary.

Third, the results of our control variables provided some interesting insights. For example, we found that as foreign subsidiaries' experience increase, the greater the likelihood that the foreign subsidiary will find ways to employ formal contracts with government sponsored financial institutions. However, it is notable that as geographic distance increases between the foreign subsidiaries host and parent home country less likely it will attempt to employ formal contracts with government sponsored financial institutions. Further investigation into why experience and distance were significant may afford scholars potential avenues for future research.

In conclusion, our study provides novel insights and attempts to enhance our understanding of corruption's influence on how MNE foreign subsidiaries strategically navigate contracting with financial institutions in uncertain emerging market environments. As such, we hope future studies investigating the intersection between MNE corrupt behavior and political ties can build from our study both theoretically and empirically. By further addressing these issues scholars and

practitioners can provide better guidance to foreign subsidiaries as they attempt to do business in

foreign markets.

<div align="center">**REFERENCES**</div>

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Endnotes

1. Some scholars have explored phenomenon related to how managerial perceptions of corruption influence MNE foreign subsidiary entry mode choice (Sartor and Beamish, 2018; Uhlenbruck *et al*., 2006), as well as the utilization of arm's length bargaining versus social connections in relation to MNE foreign subsidiary corporate social responsibility strategies (Luo, 2006). A few studies have also considered how the extent of corruption distance between an MNE's home and host country can influence foreign direct investment (Godinez and Liu, 2015) and ownership strategies (Duanmu, 2011; Karhunen and Ledyaeva, 2012). Additionally, Adomako *et al*. (2021a) offer an important study of small to medium-sized domestic enterprises in the uncertain environment of Ghana. They found that the relationship between perceived corruption and small to medium-sized growth to be mediated by institutional networking, and that the positive relationship between perceived corruption and institutional networking grew stronger as these firms possessed greater reserves of financial slack.

2. For purposes of this study, we measure corruption distance in absolute terms (e.g., Duanmu, 2011).

3. One example of these pitfalls is the U.S. prosecution of Goldman Sachs for its foreign subsidiary's 1MDB pay-to-play bribery scheme in Malaysia, where billions of dollars raised for public development projects instead landed in the pockets of corrupt government officials (British Broadcasting Company, 2020).

4. Rolls-Royce's payments to government officials of state-owned Thai Airways to facilitate business deals, as well illegal payments made by U.S.-based General Cable to Thailand's Provincial Electricity Authority, Metropolitan Electricity Authority, and TOT Ple are other comparative examples of this logic relating to MNEs "greasing the wheels" to facilitate favorable transactions (Mongkolporn, 2017).

5. The Philippines was ranked 114/180 and Thailand 104/180 respectively (Transparency International, 2020).

6. For example, the combination of lack of corruption reforms in the civil-service and legal system has created heightened uncertainty for MNEs investing in Thailand since "Thai laws governing

investment between state agencies and the private sector lack[] clarity" when compared to other countries (Bangprapa, 2021: 3).

7. We were able to compare the characteristics of responding and non-responding, as well as early and late responding, foreign subsidiaries from a code number assigned to each questionnaire and stored in a database.

Table 1 Sample by home country

Argentina	1	Mexico	1
Australia	18	Netherlands	13
Austria	3	New Zealand	2
Belgium	4	Norway	9
Canada	12	Pakistan	2
China[†]	24	Singapore	19
Denmark	8	South Africa	1
Finland	4	South Korea	8
France	19	Spain	6
Germany	23	Sweden	4
India	7	Switzerland	15
Indonesia	3	Thailand	6
Ireland	2	United Kingdom	28
Japan	49	United States	54
Malaysia	7	TOTAL	352

[†]Including Hong Kong

Table 2 Sample by industry

Accounting and legal services	12	Manufacturing	27
Agriculture and environmental	4	Medical and pharmaceuticals	33
Automotive and motors	5	Mining, metals, and minerals	9
Aviation and defense	4	Oil, gas, and energy	11
Chemicals	10	Print media	2
Construction and engineering	30	Professional services	31
Consumer goods and retail	16	Real estate	10
Electrical equipment / Electronics	3	Telecommunications	10
Financial services and insurance	39	Textile and garments	1
Food and beverages	19	Tourism	30
IT and computing	27	Transportation and logistics	18
Machinery and heavy equipment	1	TOTAL	352

Table 3 Factor analysis for survey variables (N = 352)[ab]

Items		Factor Loading
Perceived corruption[c] (Cronbach alpha: 0.87)		
1. Unofficial payments to political organizations	**0.64**	0.36
2. Unofficial payments to industrial or administrative departments	**0.70**	0.37
3. Unofficial payments to regulatory agencies	**0.75**	0.34
4. Unofficial payments to legal authorities	**0.76**	0.30
5. Unofficial payments to public or market service institutions	**0.88**	0.36
6. Sector or industry bribery and corruption[b]	**0.87**	0.37
Eigenvalue: 4.63; Proportion of variance accounted for %: 46.48		
Political tie intensity[d] (Cronbach alpha: 0.74)		
7. Commercial administration bureaus	0.38	**0.85**
8. Political leaders in various levels of government	0.36	**0.87**
9. Regulatory authorities	0.34	**0.89**
10. Time spent with government officials	0.39	**0.66**
Eigenvalue: 4.52; Proportion of variance accounted for %: 45.31		

N = 352. Overall model fit: $p < 0.05$; TLI = 0.94, NFI = 0.95, CFI = 0.95, RMSEA = 0.07.

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

[b] Please indicate how rampant private businesses in the sector or industry in which your subsidiary operates have engaged in potential bribery and corruption.

[c] Luo, 2006. [d] White et al., 2015.

Table 4 Post-hoc statistical tests[a]

A. *Chi-square test*. We conducted a chi-square test in AMOS in order to test for discriminant validity. We ran all items on a single latent variable model (perceived corruption) and a two latent variable model (perceived corruption and political tie intensity). We found that the chi-square significantly improved from the single latent variable model to two latent variable model at the 0.05 level (Anderson and Gerbing, 1988).
B. *Harman's (1967) one-factor test*. We observed Harman's (1967) one-factor test when running the principal components factor analysis and found that neither factor explained the majority of the variance in the analysis (Podsakoff and Organ, 1986).
C. *Inspection of scree plots*. An inspection of scree plots was conducted, with plots not displaying any abnormalities that would indicate the possibility of common method bias, confirming the results of Harman's one-factor test (Krishnan, Martin and Noorderhaven, 2006).
D. *Confirmatory factor analysis*. We conducted a confirmatory factor analysis finding the overall fit statistics for the multiple factor model, rather than single factor model, to be superior and offer acceptable fit ($p < 0.05$, TLI = 0.94, NFI = 0.95, CFI = 0.95; RMSEA = 0.07) (Kline, 2005) (see also Table 3). Hence, discriminant validity was further supported.
E. *Significance of interaction terms*. Regression analyses demonstrate significant interactions which are not likely to occur when single informant bias exists in data due to their lack of understanding concerning the underlying theory behind interaction results (Kotabe, Martin and Domoto, 2003) (see Table 6).
F. *Measurement invariance test*. After having determined the reliability of our reflective measures, we checked for measurement invariance using a two-group analysis (Story, Boso and Cadogan, 2014) by comparing configural, metric, and scalar invariances of "perceived corruption" across the samples from the Philippines and Thailand. Fit for this test was assessed using chi-square difference tests and several fit indices (i.e., TLI, NFI, CFI, and RMSEA). Our analysis found support for configural, metric, and scalar invariance across the Philippines and Thailand, indicating that "combining data from these two countries is acceptable" (Engelen *et al.*, 2015: 1081).

[a]Single informant bias, common method bias, and measurement equivalence tests. See generally Podsakoff *et al.* (2003).

Table 5 Descriptive statistics and correlations[a]

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Formal contracting[b]	3.56	2.16	—														
2. Perceived corruption	4.01	1.99	**0.25**	—													
3. Corruption distance[d]	0.00	1.00	**-0.17**	**-0.19**	—												
4. Political tie intensity	3.56	2.14	**0.23**	**0.27**	**-0.19**	—											
5. Entry mode choice	0.56	0.49	**0.11**	**0.12**	**0.23**	**0.25**	—										
6. Parent home country development	0.89	0.21	0.03	-0.04	0.02	-0.06	0.06	—									
7. Geographic distance[c]	3.84	0.29	**-0.15**	**-0.14**	**0.22**	**-0.16**	**0.13**	-0.05	—								
8. Cultural distance[c]	1.18	0.55	0.07	0.05	**-0.21**	0.03	**-0.18**	0.02	**-0.37**	—							
9. Industry growth rate	9.05	10.11	**-0.15**	**-0.12**	**0.18**	**-0.18**	0.10	-0.10	**-0.14**	-0.11	—						
10. Market orientation	0.73	0.44	**0.11**	**-0.16**	0.07	**0.20**	**0.18**	-0.09	0.06	-0.01	**0.24**	—					
11. Foreign subsidiary size[c]	2.32	0.53	**0.10**	-0.01	-0.04	0.01	-0.08	**0.14**	0.01	0.02	-0.04	**-0.22**	—				
12. Foreign subsidiary experience[c]	1.35	0.33	0.02	-0.05	**-0.17**	0.07	-0.04	-0.01	**0.22**	**-0.19**	0.09	-0.01	**0.23**	—			

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
13. Top management team size	2.28	5.22	-0.03	-0.01	-0.03	-0.01	-0.08	-0.01	0.05	0.07	0.05	0.04	**0.18**	**0.17**	—		
14. Informant host country experience	11.01	15.50	**0.13**	0.02	**0.10**	0.01	0.07	-0.02	**0.11**	0.07	0.03	0.04	-0.01	**0.15**	0.02	—	
15. Informant nationality	0.49	0.55	**0.15**	0.01	**0.09**	-0.01	0.05	-0.08	-0.06	-0.06	0.01	0.05	0.02	**0.12**	0.04	**0.69**	—

[a] N = 352. Correlations with significance levels at the .05 level or better are in bold (two-tailed significance tests).

[b] With government sponsored banks and financial agencies. [c] Logged variables. [d] Standardized variable (Campbell et al., 2012).

Table 6 Results of regression analysis: Formal contracting with government sponsored banks and financial agencies[a]

Variables	Formal Contracting With Government Sponsored Banks & Financial Agencies					
	Model 2	Model 1	Model 3	Model 4	Model 5	Model 6
Control variables						
Informant nationality	-0.13†	-0.09	-0.10	-0.11	-0.11	-0.10
	(0.22)	(0.21)	(0.20)	(0.20)	(0.20)	(0.20)
Informant host country experience	-0.03	-0.06	-0.06	-0.06	-0.06	-0.06
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Top management team size	-0.06	-0.07	-0.07	-0.08	-0.08	-0.08
	(0.05)	(0.05)	(0.05)	(0.04)	(0.04)	(0.04)
Foreign subsidiary experience[b]	0.15**	0.19**	0.20**	0.19**	0.19**	0.19**
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Foreign subsidiary size[b]	0.03	0.02	0.04	0.04	0.04	0.04
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Market orientation	0.15**	0.10*	0.07	0.07	0.07	0.07
	(0.17)	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)
Industry growth rate	-0.11*	-0.04	-0.02	-0.01	-0.02	-0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Cultural distance	-0.08	-0.04	-0.04	-0.03	-0.04	-0.03
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Geographic distance	-0.29**	-0.17**	-0.13†	-0.13†	-0.15*	-0.13†
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Parent home country development	0.03	0.01	0.02	0.02	0.01	0.01
	(0.47)	(0.44)	(0.43)	(0.43)	(0.43)	(0.43)
Entry mode choice	0.14*	0.10†	0.03	0.03	0.03	0.03
	(0.18)	(0.17)	(0.17)	(0.17)	(0.17)	(0.17)
Contingency variable						
Intensity of ties to politicians (ITP)		0.32**	0.20**	0.25**	0.27**	0.23**
		(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

Predictor variables

Corruption distance (CD)			-0.15* (0.24)	-0.14* (0.24)	-0.14* (0.24)	-0.14* (0.24)
Perceived corruption (PC)			0.28** (0.05)	0.25** (0.06)	0.27** (0.06)	0.26** (0.06)
Interactions						
CD x PC				-0.14* (0.05)		
CD x ITP					-0.20** (0.06)	
PC x ITP						0.15* (0.05)
R^2	0.18	0.31	0.34	0.35	0.35	0.34
Adjusted R^2	0.15	0.28	0.31	0.32	0.33	0.32
Change in R^2		0.13**	0.03**	0.01*	0.02**	0.01*
Change in F		64.31**	7.67**	4.04*	7.45**	5.36*
Model df	340	339	337	336	337	337
VIFs	1.05-2.71 1.06-3.40	1.05-2.72	1.06-2.92	1.06-3.49	1.06-3.48	

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

[a] N = 352. Values represent standardized coefficients (βs) with standard errors shown in parentheses.

[b] Logged variables.

Figure 1 Corruption and leveraging crony capitalism

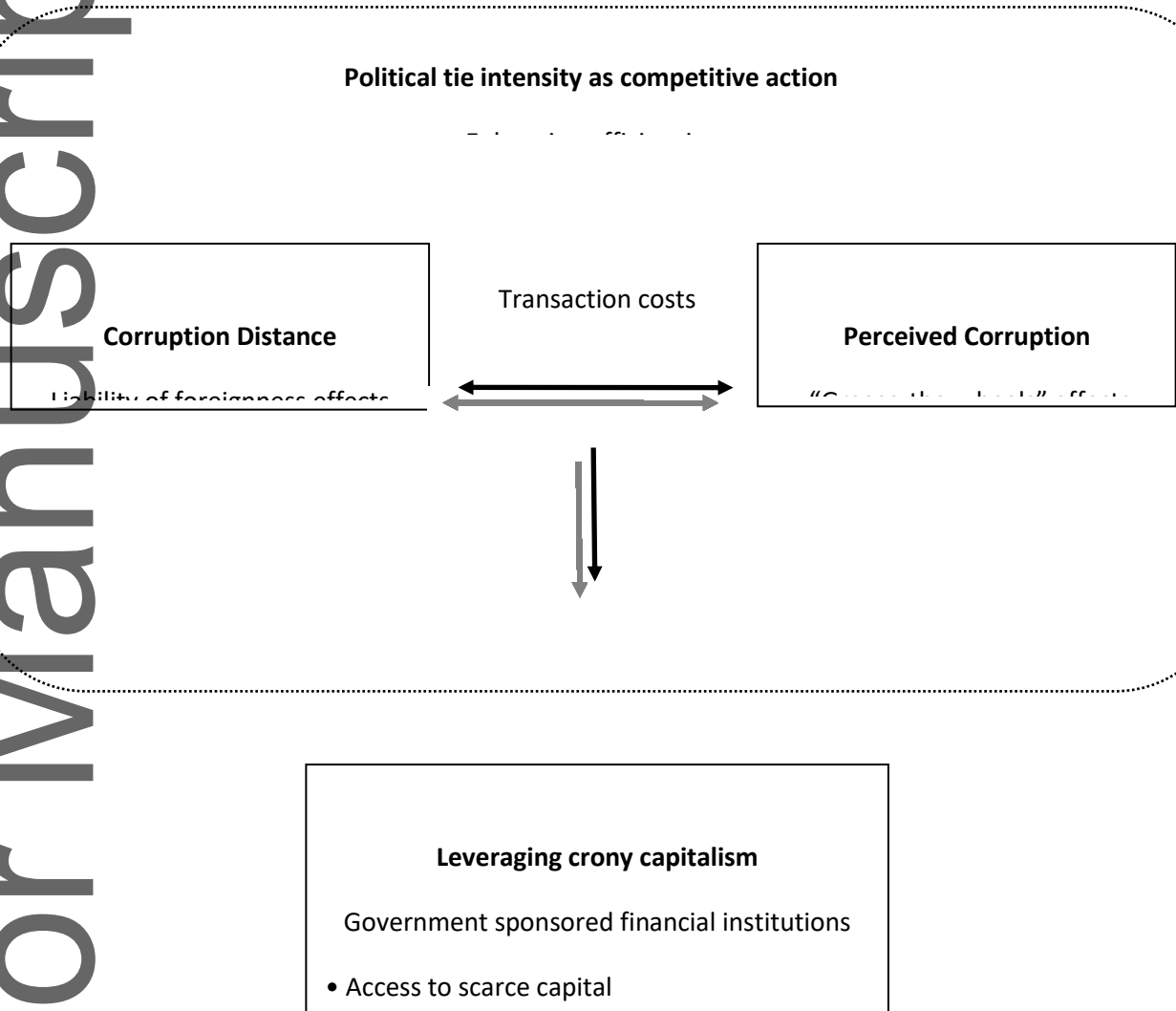**Political tie intensity as competitive action**

Transaction costs

Corruption Distance

Perceived Corruption

Leveraging crony capitalism

Government sponsored financial institutions

• Access to scarce capital

Figure 2 Theoretical model
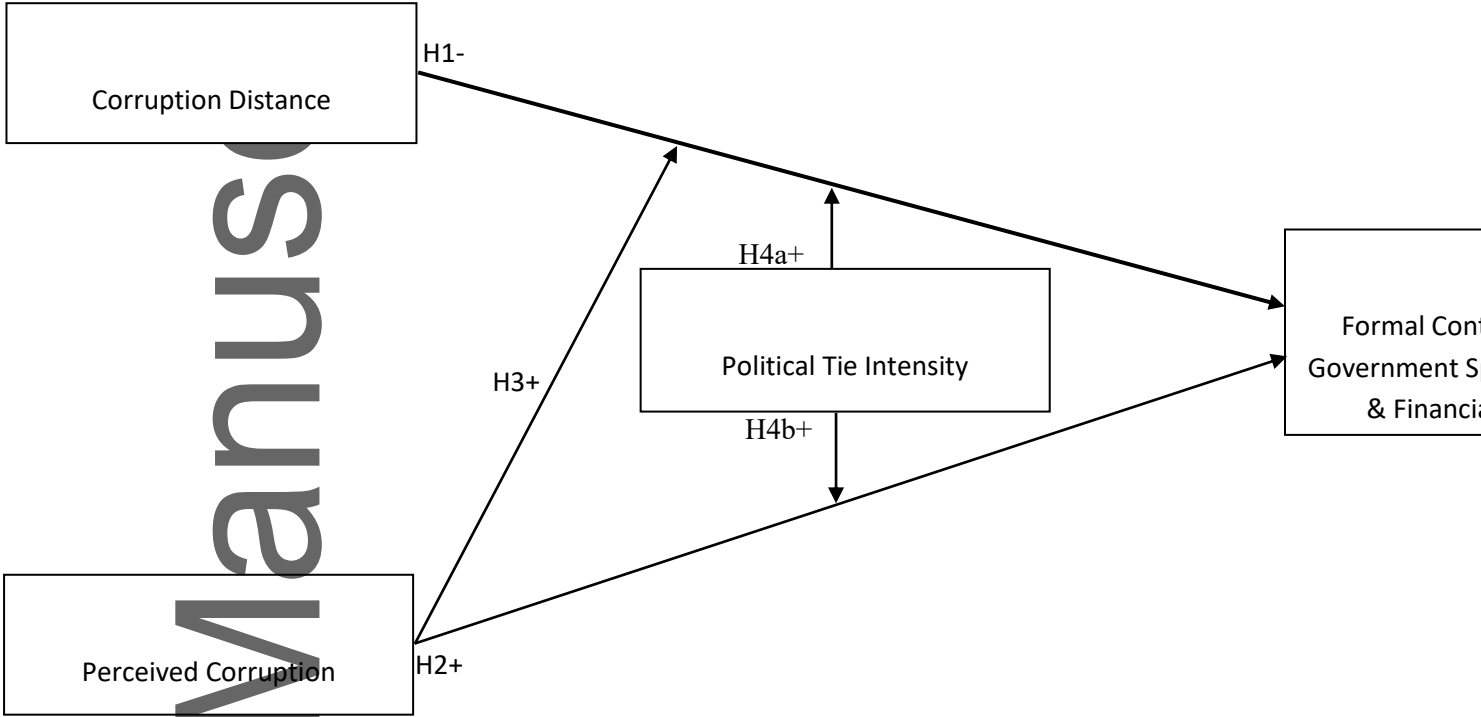
Figure 3 Moderation effects of corruption and the intensity of ties to politicians
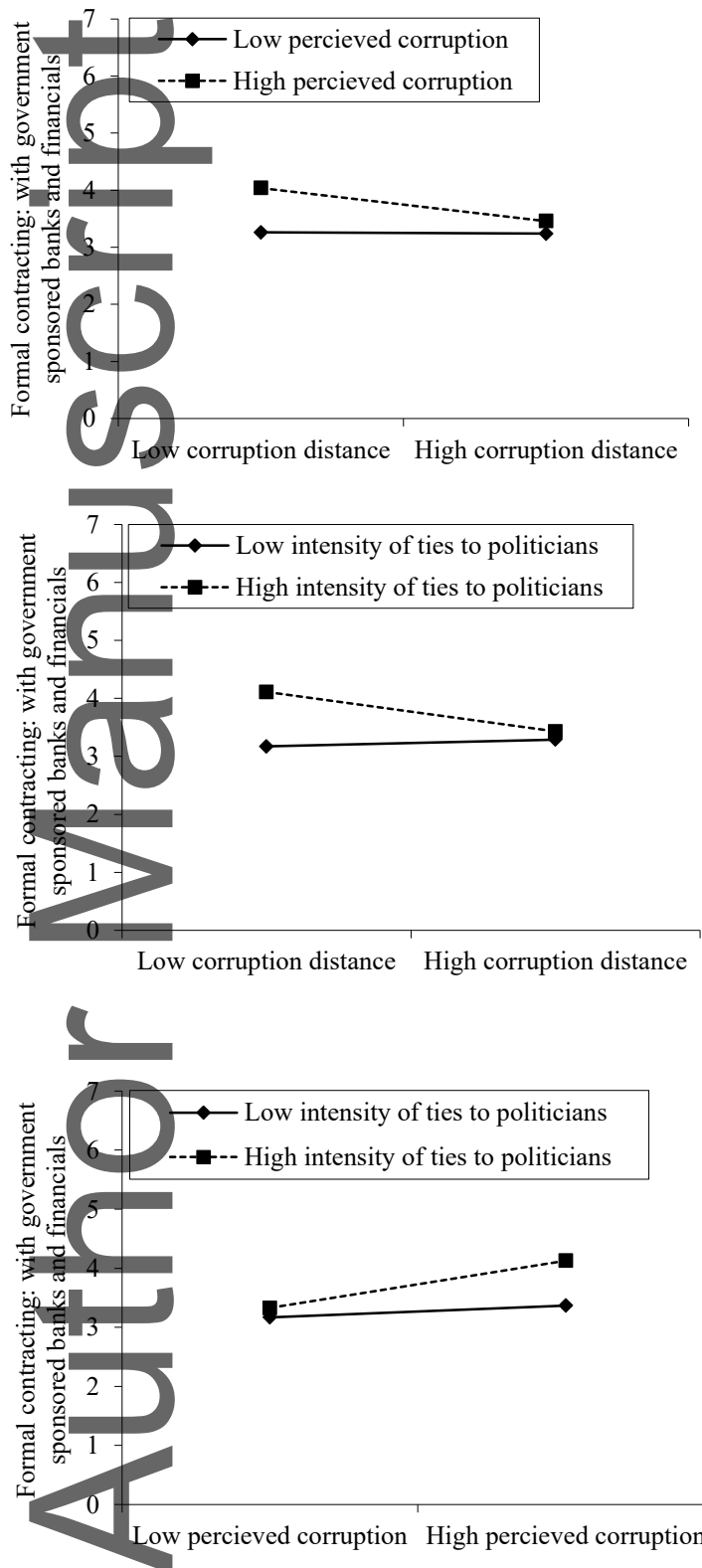
Appendix A State controlled banks in the Philippines and Thailand

Philippines	Thailand
•LandBank of the Philippines	•Krungthai Bank
•Development Bank of the Philippines	•Government Savings Bank
•Al-Amanah Islamic Investment Bank of the Philippines	•Government Housing Bank
•Overseas Filipino Bank	•Bank for Agriculture and Agricultural Cooperatives
•United Coconut Planters Bank	•Export-Import Bank of Thailand
•UCPB Savings Bank	•SME Development Bank of Thailand