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One of These Things is not Like the Others: What Contributes to Dissimilarity among MNE Subsidiaries' Political Strategy?

Abstract

- We study why multinational enterprise (MNE) subsidiaries adopt dissimilar political strategies, and seek to advance the understanding of international political strategy from an MNE parent-subsidiary perspective.
- Drawing on the MNE parent-subsidiary literature, we contend factors at the subsidiary, corporate, and host country levels contribute to subsidiary political strategy dissimilarity. We test our hypotheses with a sample of U.S. MNE subsidiaries within Western Europe.

Key Results

- The results demonstrate that dissimilarity in MNE subsidiary political strategy is attributed to a combination of subsidiary, corporate, and host country factors.

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Introduction

Multinational enterprises (MNEs), defined as those corporations that “engage in foreign direct investment (FDI) and own or control value-adding activities in more than one country” (Dunning 1992, p. 1), have received a great deal of attention in the fields of international business and strategic management in the past several decades. Of key interest to MNE scholars and practitioners is how corporate strategy is managed across subsidiaries, often operating in diverse settings. Extant literature contends that subsidiary strategy is influenced by the need for local responsiveness, the demand for conformity with corporate-wide strategy, as well as subsidiaries’ own capabilities (e.g. Bartlett/Ghoshal 1989, Birkinshaw/Hood 1998). Thus, MNE subsidiary strategy is generally believed to be the result of host country, parent, and subsidiary level determinants.

One characteristic that differentiates MNEs from purely domestic firms is that crossing national borders through trade, investments, or alternative modes of entry automatically adds a political dimension to their strategies (Boddeyn/Brewer 1994, Mudambi/Navarra 2003). Grosse and Behrman argue theories that fail to incorporate the political activities of MNEs take the “national” out of “inter-national” and leave the analysis “as a simple extension of firm and market theories” (1992, p. 97). Yet, while significant advancement has been made in understanding firms’ market, or economic, strategies in foreign expansion (e.g. Buckley/Casson 1976), far less advancement has been made in understanding MNE political, or nonmarket, strategies, defined as proactive actions to affect the public policy environment in a way favorable to the firm (Baysinger 1984). Better knowledge regarding how MNEs formulate their international political strategy enhances understanding of MNEs’ overall strategic profile and resulting success or failure (Boddeyn/Brewer 1994). In this paper, we explore factors that contribute to MNE subsidiary political strategy dissimilarity, or why a MNE subsidiary “does its own thing” and chooses political strategies different from those of other MNE subsidiaries.

Corporate political strategies are of increasing interest to strategy scholars, although such efforts are often restricted to the domestic context. Theories that do incorporate an international dimension (e.g. Hillman/Hitt 1999) often model the corporation as their level of analysis rather than examining subsidiary level strategy. While a corporate level of analysis may be appropriate for studying what headquarters does in the domestic setting, scholars in international business argue that the subsidiary is the appropriate level of analysis when studying MNEs (e.g. Birkinshaw/Hood 1998, Blumentritt/Nigh 2002). Our study seeks to shed light on MNE subsidiaries’ political strategies by exploring the intersection between international business and corporate political strategy literatures. Our research question asks why some MNE subsidiaries exhibit dissimilar political strategies to other subsidiaries from the same MNE. Three common assumptions are that 1) subsidiaries

of the same firm will exhibit the same strategies reflecting the need for conformity within the corporation, 2) subsidiaries of the same firm will adopt dissimilar strategies reflecting the need for local responsiveness across different institutional contexts, or 3) strategies are formulated to reflect the heterogeneous capabilities of individual subsidiaries and thus are dissimilar to one another. We empirically test these assumptions by simultaneously examining the role of subsidiary, corporate, as well as host country factors. We test our hypotheses using survey and archival data on U.S. MNE subsidiaries operating in Western European countries.

Given that most of the existing research in corporate political strategy has a domestic focus or uses the whole corporation rather than the subsidiary as the unit of analysis, our study contributes to this literature by examining the MNE political strategy at the subsidiary level. We also contribute to the literature on MNE parent-subsidiary relationships by extending the traditional focus on market strategies (Baron 1995) to the realm of political strategies. Unlike prior studies that placed emphasis on examining the strategic choice or role of an individual subsidiary (e.g. Jarillo/Martinez 1990), studying strategic dissimilarity among MNE subsidiaries is also a contribution because it allows better isolation of the factors that explain why subsidiaries within the same parent company adopt similar or dissimilar strategies. By only studying one subsidiary's strategic choice we are unable to examine how one subsidiary's strategy resembles or differs from the parent's other subsidiaries. Our focus on MNE subsidiary political strategy dissimilarity enables us to understand more fully how MNEs are managed across borders.

MNE Parent-Subsidiary Relationships

The opportunities that exist for MNEs to achieve economies of scale or scope by expanding internationally are well established (e.g. Kobrin 1991). Along with these opportunities, however, comes a significant cost associated with managing a global organization. The complexity of coordinating and integrating strategies and operations among many business units located in various foreign countries, as well as the challenge of dealing with unique local requirements demanded by different host country environments, may greatly increase transaction costs and managerial information-processing requirements (Hitt/Hoskisson/Ireland 1994).

Most studies in MNE parent-subsidiary management recognize the dual challenge that MNEs need both to integrate their foreign operations and to achieve local differentiation (Rosenzweig/Singh 1991, Taggart 1997). Porter (1986) depicts these tensions when he proposes MNEs either pursue a "global" or a "multidomestic" strategy. Bartlett and Ghoshal (1989) emphasize that subsidiaries may have diverse resources and their needs for local differentiation often differ substantially. Accord-

ingly, the subsidiary has become the dominant unit of analysis, while the corporate headquarters is often viewed as an external dimension affecting subsidiary strategy (e.g. Jarillo/Martinez 1990). Although this work was not developed around political strategies, by extension it suggests that subsidiaries' political strategy formulation may likewise be susceptible to the same kind of challenge. We now turn to the area of political strategies to explore this possibility in more depth.

MNE Political Strategy

Governments, which often control critical resources and opportunities that shape firms' industry and competitive environments, represent major sources of uncertainty for firms (Baron 1995). Political strategies can influence public policy outcomes favorable to the firm (Keim/Baysinger 1988). Various political strategies or tactics have been suggested in the extant literature; however there has been little consensus among scholars. Furthermore, many studies often arbitrarily choose a few popular ones and ignore others with strong theoretical rationales (Hillman/Hitt 1999). In an effort to refine types of political strategy, Hillman and Hitt (1999) advance three distinct political strategy types, namely information, financial incentive, and constituency building strategies. These three types of political strategy correspond to the three goods of exchange in political markets, which are information, money, and votes, respectively. Foreign subsidiaries pursuing the information strategy (e.g. lobbying) affect foreign public policy making by furnishing policy makers in their host countries with specific information whereas those pursuing the financial incentive strategy (e.g. paid foreign trips to learn more about an issue) use financial inducements to align the interests of the host country policy makers with them. When firms adopt the constituency-building strategy (e.g. grassroots mobilization), they seek to gain support of voters who would then exert pressure on the policy makers. In essence, this conceptualization of political strategy types not only focuses on firm strategies that influence policy makers *directly* (information and financial incentive strategies) but also on those that affect public policy making *indirectly* through shaping the views of other important external constituencies (constituency-building strategy). Political strategies are especially salient for foreign subsidiaries because their operations may not be totally understood by the various external constituents in their host countries and there may be public policies that negatively affect foreign subsidiaries' operations or are overly favorable for protecting domestic firms.

Despite the prevalence of the use of political strategies in the corporate arena, research on this area has been limited until recent years (see Schaffer 1995 and Hillman/Keim/Schuler 2004 for detailed reviews of the literature). An important topic

centers on studying the antecedents of corporate political strategy. Hillman and colleagues (2004) note that this stream of the literature places emphasis on firms' strategic choice, which in turn are determined by firm specific factors such as firm size (e.g. Schuler 1996, Salamon/Siegfried 1977). Likewise, Schaffer (1995) summarize that firms pursue political strategy to increase social legitimacy in the eyes of external constituents or to attain competitive advantage; furthermore, the structure of firms and industry constitutes an important aspect in affecting corporate political strategy. In addition to a more "micro" focus on the antecedents of corporate political strategy, another stream of the literature maintains a "macro" perspective by emphasizing the influence of the institutional environment. Many studies examine Congressional characteristics with main focus on Congressional characteristics (e.g. Hersch/McDougall 2000, Magee 2002). As noted by Hillman and colleagues (2004), these studies usually look at factors such as majority party and committee membership. There are also studies that are interested in the informal congressional structure such as legislators' policy reputations and punishing norms (e.g. Jackson/Engel 2003).

Although the study of corporate political strategy has begun to capture increasing attention in academic studies, extant studies mostly focus on firms in the U.S. context and to a certain extent within a single country such as Japan. Research examining MNEs' political strategies across different countries is still in an early stage (e.g. Blumentritt/Nigh 2002, Hillman/Keim 1995, Hillman/Wan 2005). Because MNEs are subject to the authorities of multiple sources of sovereignty, they are acutely aware of host country political environments. Bargaining theory (Vernon 1971) suggests that because investments in host countries are often substantial, MNEs are particularly concerned that their bargaining power with host country governments may weaken over time, and as such, have strong incentives to influence host country government policies. MNEs have also been found to join with host country firms at times to push for political means to limit new foreign entrants (Goodman/Spar/Yoffie 1996). At the same time, host country governments are often wary of MNEs' influences in their countries (Vernon 1977). To mitigate MNEs' influences, host country governments sometimes enact regulations limiting MNE local ownership or stipulating domestic employment and training (Dunning 1992). Thus, while government policy is important for all firms, it takes on increased importance to the MNE.

The increased importance of government, as well as the salience of political strategies to MNEs, suggests that market and political strategies may be equally important for firms (Baron 1995). We contend that as in the case of market strategies, dissimilarity among subsidiaries' political strategies is likely to be the result of host country demands for customization, corporate (parent) level demands for conformity, and subsidiary level determinants.

Determinants of MNE Subsidiary Political Strategy

Hillman and Keim (1995) suggest that because countries differ in institutional characteristics, the interaction between an MNE subsidiary and its host country government is likely to differ from those of other subsidiaries of the MNE; hence, subsidiaries of an MNE may adopt dissimilar political strategies from one another. Blumentritt and Nigh (2002) and Kostova and Roth (2002) argue that not only is host country context important to determining subsidiary practices and strategies, but the MNE's internal organizational context is also a critical determinant. Similarly, Rosenzweig and Singh (1991) propose that a subsidiary's structure and process would exhibit a higher degree of similarity with other subsidiaries of the MNE if the MNE prefers to replicate subsidiaries across countries or to exert strong control over them. Following Hillman (2003) and Hillman and Wan (2005), we turn to three levels of variables suggested to affect the dissimilarity of MNE subsidiary political strategies: subsidiary, corporate, and host country. The specific variables identified are not an exhaustive list of determinants, but rather an initial step based on the most prominent relationships suggested by theory and previous research.

Subsidiary Factors

Size

Prior studies support a relationship between firm size and specific political strategies (e.g. Masters/Keim 1985, Schuler 1996). Schuler, Rehbein, and Cramer (2002) suggest that size is often a proxy for resources, political clout, and visibility and that size often determines the benefits from pursuing political strategies. They suggest lawmakers tend to consult political informants who can provide policy details and that these informants typically represent large organizations or subsidiaries. Because of significant investment in host countries, large subsidiaries have stronger incentives to engage in political strategy because they will be impacted in a greater proportion than small subsidiaries by changes in government policy. In addition, large subsidiaries may have slack resources to pursue political (Hillman/Hitt 1999) and thus can obtain constituency support and leverage with host country governments (Keim/Baysinger 1988). In contrast, smaller subsidiaries, lacking financial or other relevant resources, often prefer collective political efforts such as lobbying through chambers of commerce (Hillman/Hitt 1999).

International business research also suggests heterogeneity in subsidiary size would determine strategic similarity among MNE subsidiaries because large and small subsidiaries have different strategic roles. Picard (1977) maintains that large subsidiaries, owing to their substantial resources and knowledge, usually retain more

autonomy and assume a more prominent role in the MNE than small subsidiaries. Bartlett and Ghoshal (1989) contend that subsidiaries with unique, substantial resources should be assigned different roles within the MNE. Jarillo and Martinez (1990) also argue for distinct subsidiary strategic roles in keeping with a sociological view that sub-units occupying important boundary roles in the organization become more powerful. A large subsidiary is therefore more likely to act independently by advancing its interests in the host country with less accountability to the parent.

Hypothesis 1. Heterogeneity among MNE subsidiary size is positively related to dissimilarity of an MNE subsidiary's political strategy.

Experience in a Host Country

A subsidiary's years of experience in the host country is another important factor likely to influence the use of political strategies. Hillman and Hitt (1999) and Luo (2001) argue that reputation and credibility are a function of the duration of operation in a host country. Subsidiaries that lack local reputation may compromise their ability to influence public policy outcomes because credibility is often regarded as the most important factor for effective political lobbying (Heinz/Laumann/Nelson/Salisbury 1993) and constituency building (Keim/Baysinger 1988). The motives of foreign subsidiaries with limited years of experience in a country are likely to be viewed with suspicion, especially when these subsidiaries attempt to influence public policy outcomes. To signify commitment to a host country, a foreign subsidiary has to spend years operating in a host country through the country's boom and bust (Luo 2001). Liability of foreignness (Zaheer 1995) in a host country's political arena will hamper newcomers' ability to pursue effective political strategy and thus restrict options available to newer subsidiaries when formulating effective political strategy.

Hypothesis 2. Heterogeneity among MNE subsidiary host country experience is positively related to dissimilarity of an MNE subsidiary's political strategy.

Corporate Factors

Market Strategy

Corporate-level international strategy represents how an MNE as a whole competes in the global marketplace and often dictates parent-subsidiary relationship. Baron (1995) argues corporate strategy formulation must integrate market and political

(nonmarket) considerations whereby political strategies serve to complement competitive strategies. As discussed earlier, MNEs' market strategies can be conceptualized as global versus multidomestic. MNEs choose a more multidomestic strategy when responding to various local environmental demands is important. Firms pursuing a multidomestic strategy often use local resources for building competitive advantages (Porter 1986) and encourage their subsidiaries to gain legitimacy locally (Rosenzweig/Singh 1991). These subsidiaries are under pressure from their corporate headquarters as well as local environments to formulate political strategies that specifically cater to the political environments of the host countries. When coordination across subsidiaries is not an emphasis, intra-MNE sharing of political strategy knowledge and experience will seldom take place. Thus, the political strategies of a subsidiary in an MNE pursuing a multidomestic strategy are not likely to bear a close resemblance to those of other MNE subsidiaries.

On the other hand, the global integration strategy is used to maximize the operational efficiency of MNEs' global value chain or to share distinctive firm capabilities or core competencies across subsidiaries (Porter 1990, Roth/Morrison 1990). MNEs can gain competitive advantages by exploiting factor market imperfections through inter-subsidiary transactions (Kogut 1984). High degrees of global integration can create significant synergy (Grant/Jammine/Thomas 1988) and increase intra-corporate sales (Rosenzweig/Singh 1991). When an MNE pursues a global integration strategy, corporate headquarters may want to maintain a more coordinated political strategy to facilitate its integration process and maximize coordination benefits. Because coordinated market efficiency is important to MNEs pursuing a global integration strategy, these MNEs are less likely to adopt political strategies that cater specifically to certain countries or idiosyncratic subsidiary capabilities. Subsidiaries of these MNEs have a worldwide mandate (Birkinshaw/Morrison 1995) as well as channels of communications to coordinate and learn from one another in regard to both competitive and political strategies (Blumentritt/Nigh 2002).

Hypothesis 3. An MNE's multidomestic market strategy is positively related to the dissimilarity of an MNE subsidiary's political strategy.

Degree of International Diversification

International diversification allows firms to exploit foreign market opportunities; nevertheless managing a complex portfolio of operations dispersed in multiple countries is difficult as it increases transaction costs and demands substantial managerial information processing capacity (Jones/Hill 1988). Navigating myriad political landscapes, as well as attempting to shape the public policy outcomes, poses an additional challenge for a geographically dispersed MNE. Highly inter-

nationally diversified firms may push decision-making down to subsidiaries because of subsidiaries' superior local knowledge in the formulation of political strategies.

For MNEs with lower degrees of international diversification, the complexity of coordination among subsidiaries will be less demanding and the corporate headquarters likely capable of coordinating subsidiaries' political strategies. As a result, these MNEs can promote sharing experience and knowledge, further aided by subsidiary manager transfers, among subsidiaries. This logic is also mirrored in Shaffer and Hillman's (2000) work on product diversification and political strategies. They contend that the more unrelated the diversification of the firm, the greater the coordination costs of political strategies and thus, the greater the likelihood of sub-unit autonomy and dissimilar strategies within the firm.

Hypothesis 4. The degree of MNE international diversification is positively related to the dissimilarity of an MNE subsidiary's political strategy.

Decision-Making Structure

International business literature conventionally viewed MNE corporate headquarters as making the major strategic decisions for the whole organization, including their foreign subsidiaries (Vernon 1966). In this model, MNEs' decision-making is centralized and subsidiaries seldom act autonomously because centralized decision-making structures can save MNEs management and coordination costs and improve efficiency (Jarillo/Martinez 1990).

Other researchers (e.g. Birkinshaw/Morrison 1985, Hedlund 1986) counter that an MNE's scope of operations can become too complex for centralized decision-making and that a heterarchical structure, where decision-making is dispersed throughout the MNE, is more appropriate. A key aspect of heterarchy is that there are many centers with different organizing principles leading to subsidiary or shared decision-making (Hedlund 1986). If the decision-making structure of an MNE is dispersed throughout the organization, subsidiary managers are more likely to customize political strategies to fit their unique resources and idiosyncratic host country environments. Alternatively, if the decision-making structure of an MNE is more centralized, the political strategies of the subsidiaries are likely to be more similar.

Hypothesis 5. A decentralized MNE decision-making structure is positively related to the dissimilarity of an MNE subsidiary's political strategy.

Host Country Factors

Research in international business and strategy suggests institutional variations across countries are important factors affecting firms' market strategic actions (e.g.

Buhner/Rasheed/Rosenstein 1997, Wan/Hoskisson 2003). Within the MNE parent-subsidary literature, Birkinshaw and Hood (1998) emphasize the important role of host country factors in shaping the development of subsidiaries. Kostova and Roth (2002) suggest two ways the institutional environment of a host country may affect whether a subsidiary follows a corporate practice. First, host country institutional environments may sway a subsidiary to adopt a practice more similar to firms in the host country at the expense of corporate homogeneity. Second, host country institutional environments may influence the adoption of an organizational practice indirectly through subsidiaries' local employees, whose cognitions and beliefs are heavily influenced by their own country institutional environments. These two mechanisms largely mirror the work of North (1990) who contends that both "formal" and "informal" institutions will affect the behavior of firms. Within the corporate political strategy literature, Hillman and Keim (1995) and Hillman and Hitt (1999) also suggest institutional differences will affect political strategy formulation. Using North's framework, Hillman and Keim (1995) suggest that both the formal and informal institutions are likely to influence the choice of political strategies.

Formal Institutions

North (1990) defines formal institutions as the rules of the game within a society. Formal institutions include political and judicial rules, economic rules and contracts, and enforcement. While a variety of formal institutions are likely to influence firms' formulation of political strategies we focus here on two formal institutions of significant importance to foreign subsidiaries: the degree of bureaucratic efficiency and competition law effectiveness.

Bureaucratic efficiency refers to the degree of discretion in the regulation and enforcement within a political system. Government bureaucrats often retain a great deal of administrative discretion in policy implementation and enforcement (Encarnation/Vachani 1985) and this variation is likely to affect the type of strategies firms use to influence public policy. For example, when there is a great deal of discretion among bureaucrats, firms have the incentive to adopt personal influence political strategies directed at the bureaucrats who hold discretion over their operations. The obsolescing bargain theory (Vernon 1971) also supports a role for bureaucratic discretion in the formulation of subsidiary strategies. To counter their erosion of power, subsidiaries have the incentive to exert personal influence over relevant government bureaucrats who possess discretion. Efficient bureaucracies, on the other hand, act to reduce red tape for foreign firms in meeting unfamiliar business regulations, and so minimize the necessity of personal influence tactics. To the degree that host countries differ as to bureaucratic efficiency, subsidiaries are likely to adopt dissimilar political strategies.

Hypothesis 6. Heterogeneity among MNE host country bureaucratic efficiency is positively related to dissimilarity of an MNE subsidiary's political strategy.

Another important formal institution for subsidiaries is a host country's competition law (antitrust laws) effectiveness. Competition law effectiveness refers to whether a country's competition laws encourage open/fair competition. The legal and regulatory constraints of a host country on MNEs have been widely noted (e.g. Rosenzweig/Singh 1991). Laws regarding competition promotion represent an important area affecting MNEs. Many host countries seek to limit foreign entry, responding to pressures for infant industry or national strategic industry protection. Host countries that promote intense market competition and encourage new entry, on the other hand, open up more investment and business opportunities for MNE subsidiaries and help safeguard their investments. These differences are likely to affect the type of strategies subsidiaries use to influence government policy.

Hypothesis 7. Heterogeneity among MNE host country competition law effectiveness is positively related to dissimilarity of an MNE subsidiary's political strategy.

Informal Institutions

North (1990) contends that informal institutions, or the norms, customs and mental models of the individuals within a society, also will dictate economic and political exchange. One informal institution important to MNE operations is a host country's cultural openness to foreign influence. The role of national culture in international strategy has been widely studied (e.g. Jones/Davis 2000, Kogut/Singh 1988) and while many of these studies use Hofstede's (1980) cultural dimensions, we focus on a country's cultural attitude toward foreign influence, which will affect the reception of subsidiaries in the host country more directly.

Countries differ in their attitude toward foreign influence. As countries move toward a free market capitalist model, foreign MNEs are often welcomed; but in other countries, cultural backlash, even hostility and resentment, against the presence of foreign firms can take place (Vernon 1977). These differences in attitude toward foreign influence can have a dramatic effect on the formulation of political strategy by subsidiaries. In countries with a more welcoming attitude, subsidiaries may engage in individual efforts to lobby government decision-makers, for example. In more hostile nations, subsidiaries may be forced to join forces with domestic firms or associations or work through home governments to influence public policy. Suspicions of collusion between government and MNE subsidiaries (Caves 1996) also affect citizens' openness to foreign influence. In this case, subsidiaries may have to engage in political strategies to influence attitudes more gradually.

Hypothesis 8. Heterogeneity among MNE host country cultural openness to foreign influence is positively related to dissimilarity of an MNE subsidiary's political strategy.

Methods

Sample

Our sample comes from U.S. MNEs operating in Western Europe. We limited sample firms to one home country to minimize differences in home country factors that could affect our dependent variable. Europe accounts for almost fifty percent of U.S. outward FDI, representing an appropriate testing ground for our study. A focus on Western European countries allows us to limit the impact of economic differences inherent in a larger country sample and to avoid confounding events such as Mexico's financial shocks in the 1990s. Given the difficulty in assessing political strategies and some subsidiary-level data from archival sources, we conducted a survey in 1996, a period before the current level of country integration across the European Union (EU), to obtain some data. In later years, EU had taken major steps to deepen their relationships substantially. Because the host countries of our sample firms are members of the EU or have close ties with it, firms operating in those countries would be subject to a stronger supra-national EU infrastructure that is likely to reduce the institutional dissimilarities among the countries. Targeted respondents were either the senior public affairs or government relations officers in each country, or if no such position existed, the top subsidiary manager. Through a pilot survey and interview process, survey items were developed that could capture the decisions facing firms in political strategy formulation based on Hillman and Hitt's (1999)¹ model. A cross-sectional research design was employed with each question framed in terms of the use and frequency of use within the past year.² Survey endorsement came from the American Chamber of Commerce (AmCham) EU Mission in Brussels, Belgium to maximize response rate. One packet was sent to each AmCham firm's European coordinator with a letter of endorsement from the AmCham. The European coordinators were provided with five surveys to send to European subsidiaries for completion.

The final number of returned response totaled 178, representing 52 MNEs. Responses came from 14 Western European countries, including Austria, Belgium, France, Italy, Germany, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, U.K., Ireland, and Denmark. Missing survey data reduced the number of usable responses to 169 representing 35 percent of the corporations sampled and 22.5 percent of the subsidiaries. Responding firms were compared with non-responding firms on the basis of the publicly available measures described below and no significant

differences were detected. To provide a more meaningful calculation of the dissimilarity measures, we deleted two parent firms that have only two responding foreign subsidiaries, resulting in a final sample of 165 foreign subsidiaries. The average number of years the subsidiary had operated in the host country is 33 years and the average number of employees is 1,300. All of the parent firms are large corporations and their average revenues are around \$22 billion, with more than 80 percent of the parent firms in the manufacturing industry (chemicals and allied products sector as well as industrial/commercial machinery and computer equipment sector having the most firms) and the rest in more service-oriented industries such as banking and finance. In addition to survey, archival sources for additional corporate-level and country-level data from Compustat database and *World Competitiveness Report* as described below were also used.

Dependent Variable

Our dependent variable is the degree of dissimilarity in political strategy between a subsidiary and its counterparts in the MNE. Following Hillman and Hitt (1999), we used three political strategy types: information, financial incentive, and constituency building to form the dependent variable. Eighteen questions about the frequency of using specific political tactics (never, once/year, once/month, once/week, and once/day) were asked in order to capture these three theoretical categories. For example, for information political strategy, an example question we asked is the frequency of "contacting, initiating discussions or providing information to public policy makers by members of the company." For financial incentive political strategy, an example question is about the frequency of "providing paid travel or other benefits to elected officials or civil servants." In regard to constituency building political strategy, an example question is about the frequency "mobilizing grassroots political programs." Factor analysis indicated that three distinct factors, corresponding to Hillman and Hitt's (1999) three political strategy types could be clearly identified.³

To measure the degree of dissimilarity in political strategy between a subsidiary and others in the MNE, we followed Tsui, Egan, and O'Reilly's (1992) procedure; similar procedures were also used in prior studies related to strategic similarity (e.g. Ramaswamy 1997). We calculated the difference between a subsidiary and other subsidiaries in the MNE on each of the three political strategy types. The following formula was used for the calculation:

$$\left[\frac{1}{n} \sum_{j=1}^n (S_i - S_j)^2 \right]^{1/2}$$

In other words, we calculated the square root of the summed squared differences between a subsidiary's (S_i) political type score and the score on the same political

strategy type for every other responding subsidiary (S_j) in the MNE, divided by the total number of responding subsidiaries in the MNE (n). After we calculated the value for each political strategy type, we took an average of the three values to obtain the degree of political strategy similarity for the focal subsidiary.

Independent and Control Variables

The number of subsidiary employees came from the survey and is our measure of subsidiary size. The number of years the subsidiary had operated in the country also came from our survey. We used the same procedure as our dependent variable above to calculate the degree of heterogeneity for subsidiary size and subsidiary experience. To measure a corporation's market strategy, we used total intra-company sales as reported in a firm's 10K filings, divided by total sales, to capture the degree of global integration. Firms with higher levels of intra-company sales indicate higher degrees of within-firm interdependence, resource flows, and coordination, which we use as a proxy for the degree of global integration. This measure of a firm's global integration was used by Mauri and Phatak (2001) and is similar to Kobrin's (1991) measure at the industry level. To measure international diversification, we used the entropy measure. This measure incorporates both the number of international markets in which a firm operates as well as the relative importance of each area to total sales. Data were obtained from Compustat and *Hoover's Book of U.S. Corporations*. Corporate decision-making structure was measured using our survey. Responses were coded 0 if subsidiary political strategy decisions were made at U.S. headquarters; they were coded 1 if made at the subsidiary level or shared.

Data for all three institutional variables: bureaucratic efficiency, competition laws, and cultural openness came from the World Economic Forum's *World Competitiveness Report* (WCR). WCR data have also been used in prior studies (e.g. Wan/Hoskisson 2003). To calculate the degree of heterogeneity among subsidiary host countries, we used the same procedure as that for the dependent variable. We used returns in assets (ROA) to control for corporate performance. To control for industry effects, we used industry growth rate corresponding to each parent's primary SIC code (Tallman/Li 1996). Appendix 1 provides a summary of the operationalization of each variable and sources of data.

Results

The correlation matrix and descriptive statistics are presented in Table 1. Variance inflation factors (VIFs) indicate multicollinearity is not a concern. We used ordinary

Table 1. Descriptive Statistics and Correlations

Variable	Means	SD	1	2	3	4	5	6	7	8	9	10
1. ROA	7.00	6.65										
2. Industry growth	0.05	0.05	.09									
3. Size	0.85	1.07	-.06	.14								
4. Host country experience	6.35	12.00	-.06	-.27	.32							
5. Global integration economic strategy	0.13	0.16	.02	.01	-.06	-.22						
6. International diversification	0.86	0.35	.12	-.05	-.03	-.02	.26					
7. Decentralized decision-making structure	0.67	0.47	-.17	-.06	.02	.15	.17	.16				
8. Bureaucratic efficiency	1.73	0.62	.02	.17	-.10	-.19	-.22	.00	-.24			
9. Competition law effectiveness	1.37	0.62	.01	.18	-.07	-.06	-.13	-.15	-.06	.18		
10. Cultural openness to foreign influence	1.17	0.48	.01	-.13	.14	.30	-.02	-.20	.02	-.35	-.46	
11. Political strategic dissimilarity	2.34	1.27	.08	-.18	.43	-.09	-.04	.21	.14	-.03	.04	-.01

N=165

Correlations $\geq .16$ or $\leq -.16$ are significant at $p < .05$.

least squares (OLS) regression to test the hypotheses. Table 2 presents the regression results; to control for potential heteroscedasticity, we used and reported robust standard errors.

For subsidiary factors, Hypothesis 1 predicts that heterogeneity in subsidiary size will be positively related to political strategy dissimilarity. The coefficient for size was positive and statistically significant ($p < .001$), supporting Hypothesis 1. Hypothesis 2 predicts heterogeneity in subsidiary years of experience will be positively related to political strategy dissimilarity. The coefficient is statistically significant ($p < .001$); however, its sign was opposite to the expected direction, therefore, Hypothesis 2 is not supported.

For corporate factors, Hypothesis 3 predicts that an MNE multidomestic market strategy is positively related to MNE subsidiary political strategy dissimilarity. Because our measure captures the opposite strategy, global integration, the negative and statistically significant coefficient ($p < .05$) supports this hypothesis. Hypothesis 4 predicts that MNE international diversification is positively related to dissimilarity of an MNE subsidiary's political strategy and is supported with a statistically significant, positive coefficient ($p < .001$). Hypothesis 5 predicts a decentralized corporate decision-making structure is positively related to MNE subsidiary polit-

Table 2. Regression Results

Variable	Expected Sign of Independent Variable	Coefficient	Standard Error	Summary of Findings
<i>Subsidiary factors:</i>				
Size	positive	0.62***	0.14	Supported
Host country experience	positive	-0.04***	0.01	Not Supported
<i>Corporate factors:</i>				
Global integration economic strategy	negative	-1.35*	0.57	Supported
International diversification	positive	0.94***	0.25	Supported
Decentralized decision-making structure	positive	0.50**	0.19	Supported
<i>Country factors:</i>				
Bureaucratic efficiency	positive	0.00	0.15	Not Supported
Competition law effectiveness	positive	0.39**	0.13	Supported
Cultural openness to foreign influence	positive	0.36*	0.21	Supported
<i>Control Variables:</i>				
ROA		0.02 ⁺	0.01	
Industry growth		-5.38**	1.74	
Intercept		0.28	0.61	
R ²		0.40		
F-statistic		5.77***		

N=165

+ p < .10

* p < .05

** p < .01

*** p < .001

t-tests were one-tailed for hypothesized effects; two-tailed for control variables.

ical strategy dissimilarity. The coefficient was positive and statistically significant ($p < .01$), providing support for the hypothesis.

With respect to host country variables, Hypothesis 6 predicts heterogeneity in host countries' bureaucratic efficiency is positively related to dissimilarity in subsidiary political strategy. The coefficient was not statistically significant Hypothesis 6 is not supported. Hypothesis 7 posits heterogeneity in host countries' competition laws is positively related to dissimilarity in subsidiary political strategy and is sup-

ported ($p < .01$). Finally, we hypothesize heterogeneity in host countries' cultural openness to foreign influence is positively related to dissimilarity in subsidiary political strategy. The coefficient was positive and statistically significant ($p < .05$), supporting Hypothesis 8.

Discussion and Conclusion

Our key research question asks what factors are associated with MNE subsidiaries' dissimilarity in political strategies or when subsidiaries may do their own thing. Extending the MNE parent-subsidiary literature to the realm of political strategy, we explored whether the same tension between responding to local environmental demands, conforming to corporate-wide strategy, and customizing strategy to match subsidiary capabilities could also be applied to the formulation of political strategies. Based on international business and corporate political strategy literature, we identified two subsidiary factors (size and years experience), three corporate factors (market strategy, degree of international diversification, and decision-making structure) and three host country factors (bureaucratic efficiency, competition laws effectiveness, and cultural openness to foreign influence) likely to affect dissimilarity of an MNE subsidiaries' political strategy.

Our empirical results provided support for six of eight hypotheses confirming our overall model. Subsidiary size heterogeneity was found to be positively related to dissimilarity in political strategy, as expected. However, although the coefficient for host country experience heterogeneity is significant, the sign is opposite to the hypothesis implying that larger differences among MNE foreign subsidiary host country experience is negatively related to MNE subsidiary political strategy dissimilarity. As this factor is used to capture a subsidiary's reputation and credibility, it is possible that some foreign subsidiaries have the capability to build their reputation and credibility in their host country quickly without the need to operate in the country for a prolonged period of time. Therefore, their use of political strategy may be similar to the incumbents in the host country. Such capability can be exceptional financial resources, public relations effort, or name recognition of their products. Future research on this question would help generate additional insights.

All three corporate factors, global integration economic strategy, international diversification, and decentralized decision-making structure, are supported in the analysis. These results clearly indicate that corporate-level strategy and structure are crucial factors in affecting subsidiary political strategy. In regard to country factors, although bureaucratic efficiency is not significant, competition law effectiveness (a formal institution) and cultural openness to foreign influence (an informal insti-

tution) are found to be significantly related to MNE subsidiary political strategy dissimilarity. These results imply that both formal and informal institutions are important factors in determining foreign subsidiaries' political strategy. It is therefore important to consider both aspects in future studies. At the same time, one may note that competition law effectiveness and cultural openness to foreign influence are more specifically related to MNE operation whereas bureaucratic efficiency applies to all firms. Future studies may find it fruitful to obtain more precise variables that can capture the efficiency of the government department that caters to foreign firms.

Our study thus contributes to the MNE parent-subsidiary management literature by extending the theoretical framework of global integration and local responsiveness to the study of political strategy. Our results suggest the dilemma of meeting the simultaneous pressures of enhancing global integration and matching strategy to subsidiary capabilities and host country demands also applies to the realm of political strategies. Not only do MNEs have to find a right balance for their competitive or market strategies, but they also have to do the same for their political or non-market strategies. The results of our study clearly indicate that MNEs' international strategy is even more challenging than previously understood.

Our study also contributes to the political strategy literature. Following the MNE parent-subsidiary management literature's focus on the subsidiary level (Bartlett/Ghoshal 1989, Birkinshaw/Hood 1998), we show that a subsidiary focus can generate significant insights in regard to MNE political strategy formulation. Because foreign subsidiaries are the business units that have to face the biggest dilemma in simultaneously responding to global integration and local responsiveness, more attention to their strategy is warranted. Although international business scholars (e.g. Boddewyn 1988) have built a rich literature in the stream of international political strategy, most empirical studies of political strategy focus on domestic settings. By broadening our investigation to the international arena, with a focus on the subsidiary level, our study adds to this promising line of research. More specifically, our study does not merely look at one or two host countries but seeks to compare and contrast across many countries. As MNEs have become increasingly globalized in their operations, an emphasis on differences and similarities of their strategies across a larger number of countries would uncover precious insights to the international management literature.

As with any study, ours has limitations that should be acknowledged. First, we have taken an initial step toward identifying determinants of subsidiary dissimilarity of political strategy at the subsidiary, corporate and host country levels. Analogous to research on MNE parent-subsidiary management framework (e.g. Birkinshaw/Hood 1998, Kostova/Roth 2002) and corporate political strategy (e.g. Schuler et al. 2002), our study did not seek to identify or test an exhaustive list of variables for each type of factors. Rather, the variables we identify are those that figure most prominently in extant theory. The use of surveys allowed us to obtain in-depth infor-

mation that is not usually available in public sources but the number of observations in our study did not allow us to test a large number of variables or to specify more complex relationships such as interactions between the variables. Future research, with different or larger samples, can test additional variables or more complex relationships to provide additional knowledge in this topic.

Because this study focuses on the antecedents of political strategy, we did not examine the performance outcomes of the foreign subsidiaries in their pursuit of various political strategies. Although extant studies have by and large found support that corporate political strategy is effective, future studies can shift the focus to the subsidiary level because the pursuit of political strategy in foreign countries often present additional challenges. Furthermore, as suggested by Poynter and White (1985), foreign subsidiaries may be classified as miniature replicas, marketing satellites, rationalized manufacturers, product specialists, or strategic independents. However, our survey does not have the data to allow us to examine the impact of foreign subsidiaries' strategic orientation or their role on political strategy. Future studies would find it fruitful to investigate this interesting aspect. In addition, we model our study as a set of simultaneous relationships. Future research may benefit from exploring the relative importance of some factors over others. Because our study is cross-sectional we are unable to discern causality. A promising area for future study is to examine MNE subsidiary political strategy formulation from a longitudinal, evolutionary perspective (Birkinshaw/Hood 1998).

Our sample also raises limitations to the interpretation of our findings. First, we sample only U.S. MNEs. Future research is needed to understand whether these results also apply to MNEs from other countries. Because the U.S. is a highly individualistic country, our sample may have a greater likelihood of dissimilarity among parent subsidiaries than say an MNE from a collectivist country. Second, our sample is limited to the Western European nations and to a small number of subsidiaries per MNE. The subsidiaries were chosen at random to avoid bias, but were admittedly done so within the limited scope of the Western European nations. While our institutional variables vary within the nations in Western Europe expanding future work to other countries may necessitate additional institutional variables to unearth different relationships than the ones here.

In conclusion, the main purpose of this exploratory study is to examine the determinants of dissimilarity of MNE subsidiaries' political strategies. Conceptualizing this research question on the basis of MNE parent-subsidiary management research allows us to gain important insights on this complex but important topic. MNE literature has accumulated a vast amount of knowledge over the years; however, the international political strategy of MNEs has received much less attention to date. Given the political nature of MNE operations, a more comprehensive approach focusing on both market and political aspects of MNEs will shed important insights on the understanding of MNEs. Our study is one of the few empirical studies in this area but much remains to be learned.

Appendix 1. Variable Operationalization and Data Sources

Variables	Operationalization	Data Sources
Corporate performance	ROA	Compustat
Industry growth	Annual industry growth rate corresponding to each parent's primary 2-digit SIC code	<i>Survey of Current Business</i>
Size	Heterogeneity among subsidiaries in number employees	survey
Host country experience	Heterogeneity among subsidiaries in number of years they had operated in the host country	survey
Global integration economic strategy	Total intra-company sales divided by total sales	company 10-K
International diversification	Entropy measure	Compustat and <i>Hoover's Book of U.S. Corporations</i>
Decentralized decision-making structure	Subsidiary political strategy decisions made at U.S. headquarters=0; made at the subsidiary or shared =1	survey
Bureaucratic efficiency	Heterogeneity among host countries regarding whether bureaucracy hinders business development	<i>World Competitiveness Report</i>
Competition law effectiveness	Heterogeneity among host countries regarding whether or not competition laws prevent unfair competition in the country	<i>World Competitiveness Report</i>
Cultural openness to foreign influence	Heterogeneity among host countries regarding whether national culture is closed or open to foreign influence	<i>World Competitiveness Report</i>
Political strategic dissimilarity	Average degree of dissimilarity in the 3 political strategy types (information, financial incentive, and constituency building) between a subsidiary and others in the MNE	survey

Endnotes

- 1 The survey was designed based on a 1995 presentation of Hillman and Hitt's work. We cite the published work in 1999 here for the sake of reader accessibility and because the three political strategies we use here remained unchanged in the 1999 published work.
- 2 Survey questions are available from the authors.
- 3 Factor analysis results are available from the authors.

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