

**An empirical study of MNE subsidiaries' International Corporate
Political Activities: Relationship with subsidiary characteristics,
environment and performance**

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INTRODUCTION

Multinational enterprises (MNEs) are defined as firms that engage in “foreign direct investment (FDI) and own or control value-adding activities in more than one country” (Dunning, 1992, p. 1). Today, MNEs operate in diverse host country environments where often their relationships with host governments are critical (Luo, 2006; Wan & Hillman, 2006) because governments generally fashion industry and competitive environments (Baron, 1995a; Porter, 1985). In fact government induced changes in the nature of competition and competitive process through formulation and implementation of public policy can enable firms to gain economic advantages in international competition (Gale & Buchholz, 1987). In such circumstances, MNEs are affected by host country political environments and government policies as they come under increasing pressure through their economic as well as their social performance (Luo, 2006; Schuler, Rehbein, & Cramer, 2002a). Consequently, it is becoming important for many MNEs to strategically engage with host governments through activities designed to take advantage of opportunities, mitigate uncertainties in their operational environment, and establish and enhance their social acceptance or legitimacy (Hillman, Zardkoohi, & Bierman, 1999a; Lord, 2000; Oliver, 1991). These activities are broadly known as corporate political activities (CPA). CPA is defined as strategic actions by firms to influence the public policy environment in ways favourable to the firm (Baysinger, 1984).

In this area of business-government interactions a wide scope of scholarly works exist as evidenced from reviews by Shaffer (1995) and Hillman, Keim, and Schuler (2004). However, a great deal of extant research is directed at domestic firms engaged in CPA with their own governments (termed here as domestic-CPA or D-CPA) for economic advantages in the international market. This domestic focus leaves a large gap in the literature relating to MNE corporate political activities undertaken in countries foreign to the firm’s headquarters. Foreign firms are likely to encounter competitive disadvantages vis-à-vis domestic firms in the host country (Hymer, 1976). While it is acknowledged that MNEs have competitive advantages over domestic firms based on distinctive resources and capabilities on which a government depends (Dunning, 1998), they face long-term

discrimination by the host country governments, consumers, and suppliers (Hennart, 1982). Consequently, MNE subsidiaries need to devise strategy alternatives due to economic, social, legal, and cultural differences; i.e. due to their “liability of foreignness” (Zaheer, 1995). To cope with these challenges, MNEs’ I-CPA has become an important strategic tool not only for competitive advantage (Sundaram & Black, 1992) but also for greater acceptance by the environment i.e. legitimacy (Kostova & Zaheer, 1999).

This study, therefore, attempts to address the neglect of the international perspective of CPA identified by Meznar (2002). It is positioned (as depicted in Figure 1) to focus on international CPA (I-CPA) encompassing the political strategies engaged by MNE firms to influence host governments’ public policies in foreign countries.

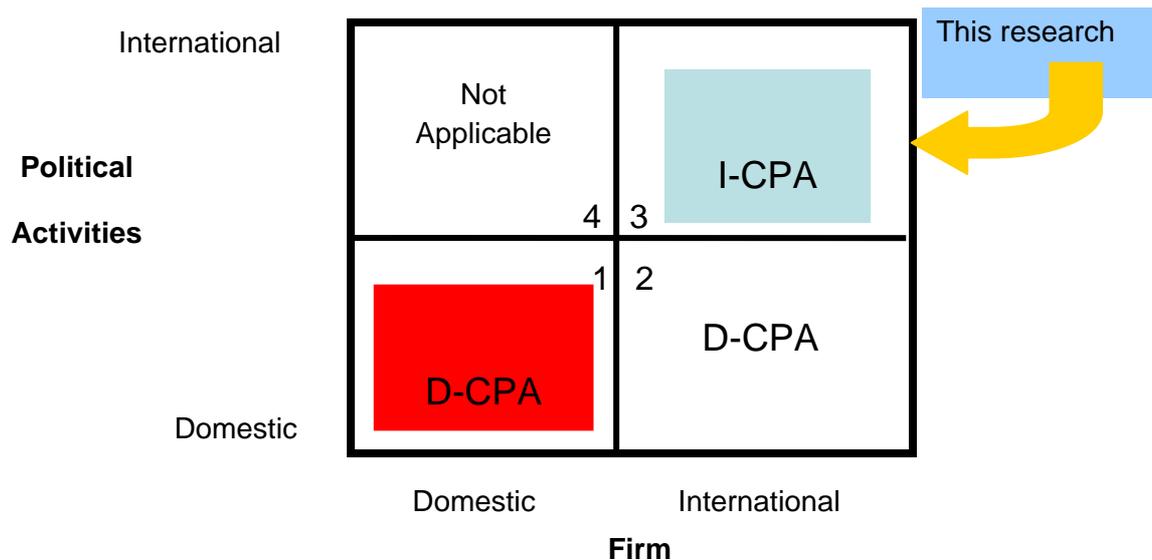


Figure 1: Research positioning

Specifically, the paper seeks to explore the following research questions:

- **What is the relationship between MNE subsidiary characteristics and its I-CPA?**
- **How does host country environment influence I-CPA?**
- **Does I-CPA influence MNE legitimacy?**
- **Does I-CPA affect MNE performance?**

The paper presents an integrated theoretical model, which captures empirically the relative impact of MNE subsidiary characteristics and environmental factors on CPA and the effect of subsidiary CPA on its legitimacy and performance in foreign countries. While previous studies have analysed different parts of the model, this study seeks to examine the cause and effect relationships among various organisational and environmental factors in a holistic fashion. The article first explores relevant literature and develops the theoretical background to the study. The subsequent section is devoted to developing a model and hypothesising various relationships between MNE subsidiary and host country characteristics and I-CPA and firm performance. The methodology is then discussed followed by presentation of the empirical findings. The following section discusses these findings and the concluding section specifies implications for theoretical development and future research.

THEORETICAL BACKGROUND

Governments play a vital role in the competitive environment of business and are also viewed as a source of potential resource or threat as they can selectively assist or hurt industries (Porter, 1985; Stigler, 1971). Government policies can shape antitrust laws, monetary policy, and tax policy, degree of rivalry, create entry barriers through trade policies (McWilliams, Van Fleet, & Cory, 2002; Rugman & Hodgetts, 1995). Consequently, gaining access to government decision making may provide firms the opportunity to express their views on public policy issues. Thus, CPA has become a vitally important communication channel between firms and governments (Keim, Zeithaml, & Baysinger, 1984) and have been shown to influence public policy decision-making (Keim et al., 1984; Lord, 2000; Masters & Baysinger, 1985a; Murtha & Lenway, 1994). Hillman and Hitt (1999b) have categorised CPA into three generic strategies: (i) *information strategy* – “targets political decision makers by providing information” through internal and external lobbying, testifying as expert witnesses, supplying position papers or technical reports; (ii) *financial incentive strategy* – “targets political decision by providing financial incentives” with approaches being contributions to politicians or party, paid travel, etc., personal service (e.g. hiring people with political experience); and (iii) *constituency-building strategy* – “targets political decision makers indirectly through constituent support”.

The Antecedents of CPA

In selecting an appropriate CPA strategy, past research (see review by Hillman et al., 2004) acknowledges the importance of the characteristics of the firm and the characteristics of the external environment. Firm specific characteristics that affect firms' political involvement include firm size, resources, and organisational structure (Hillman et al., 2004). Relevant environmental factors are both industrial and institutional.

Firm Size, Resources, and Age

Studies in CPA have used firm size as a measure of organisational resources and slack. In an IB context, Hillman and Wan (2005) report the combined use of CPA strategies by large sized foreign subsidiaries. Masters and Keim (1985b) and Schuler (1996) argue that larger firms are more politically active as they have more assets at risks, a larger employment base, and can gain a larger share of political benefits through CPA. Lenway & Rehbein (1991) assert that larger firms have a disproportionately large stake in political issues, are more visible and hence recognised. Schuler et al. (2002a) suggest that firm size is often a proxy for resources, political clout, and visibility.

In the IB literature, it is argued that a firm's asset power and its specific advantages could be partly reflected by firm size (Agarwal & Ramaswami, 1992; Rugman & Sukpanich, 2006). Larger subsidiaries, with significant investment in host countries, have stronger incentives to engage in CPA as they expect greater consequences with changes in government policies (Wan et al., 2006). Also, policy makers tend to consult on policy details with larger organisations or subsidiaries (Wan et al., 2006). Additionally, CPA-IB literature has highlighted the importance of subsidiary age as a factor that reflects the subsidiary's reputation and accompanying host country legitimacy (Hillman et al., 2005).

Organisational Structure

Organisational structure may also be a determinant of CPA (Blumentritt, 2003; Greening & Gray, 1994; Meznar & Nigh, 1995; Schuler, 1996). For example, it is argued that the wider the range of

businesses in which a firm competes (diversification), the greater the range of public policies that can affect it (Schuler, 1996) and widely diversified firms with complex organisational and governance structures may allow business managers the discretion to pursue CPA as deemed appropriate (Wan et al., 2006). On the contrary, Grier et. al. (1991) assert that unrelated diversified firms may find it difficult to pursue a consistent political strategy and thus engage in less political activity because they are unlikely to have consensus across strategic business units on matters of public policy. Alt et. al. (1999) show that firms with high asset specificity are more dependent on government intervention and thus more likely to be politically active. The more specific its assets, the more costly a firm facing competitive pressure would find to exit into another product or industry. In addition to diversification, it has been shown that a firm with dedicated or formalised political structures or units are more likely to engage in CPA and continue to do so (Greening et al., 1994; Schuler, 1996).

Industry Factors

The extent of a firm's ability to create opportunity depends on the extent of government control, since regulation is typically industry-specific (e.g. import policy, product standards). Research argues that in highly regulated industries, firms have an incentive to develop political resources for strategic use as their dependency on public policy making is high (Baron, 1995a; Boddewyn & Brewer, 1994; Hillman & Keim, 1995).

Another industry-level factor conditioning CPA is industry concentration. Research (e.g. Grier, Munger, & Roberts, 1994; Mitchell, Hansen, & Jepsen, 1997; Rehbein & Schuler, 1999) has underlined that industry's competitive structure determines a firm's individual or collective political behaviour.

In a concentrated industry with few rivals, the possibility of privileged benefits to a select few can provide sufficient motivation to engage in CPA (Olson, 1965). Some studies (e.g. Masters et al., 1985b; Munger, 1988) have also highlighted the uncertain nature of the effect that industry concentration has on CPA decisions of firms. Schuler et. al. (2002a) and Damania et. al. (2005) found evidence of industry concentration affecting a firm's CPA decisions, whereas Hansen et. al. (2005b) could not find support for the hypotheses that CPA strategies are influenced by industry

concentration. Yet, industry conditions may not be sufficient for firms within an industry to determine firm's CPA behaviour. Hence, institutional factors that would shape firms' decisions on CPA strategies, approach, and participation level also need to be considered.

Institutional Factors

MNEs undertake transactions embedded in a political context (Jacobson, Lenway, & Ring, 1993) and as a result firms engage in CPA, not purely for economic motive, but also to seek stability, legitimacy, reputation, and credibility by complying with their institutional environment. Firms are embedded in their institutional environment in different ways. Government being a key external constituent defines and prescribes socially acceptable economic behaviour for a firm (Scott, 1995). This is especially important for MNE subsidiaries as they need to adapt to host country institutional environment (Hansen & Mitchell, 2000). While conformity to institutional environment is typically emphasised for firms' survival and enhanced performance (Scott, 1995), firms may also prefer to take proactive actions to influence country-specific institutional contexts (Oliver, 1991) through institutionalised ways (acceptable behaviours used previously) and informal conduct in business-government relations. In other words, by engaging in CPA firms may attempt to mitigate potential environmental problems and/or to exploit perceived business advantage (Getz, 1997).

Research in CPA has focused on how institutional differences across host nations drive CPA (Blumentritt, 2003). Hillman and Keim (1995) have modelled the business-government interface as a market, which is a function of the formal and informal institutions of a nation. Hillman (2003) demonstrates empirically how institutional-level variables affect the choice of CPA approach, strategy, and participation levels by MNE subsidiaries. Accordingly, a MNE subsidiary that has access to the political process can increase its chance of survival through a possible reduction in environmental uncertainty (Hillman et al., 1999a).

CPA Outcomes and Subsidiary Performance

Firms, instead of pursuing a reactive strategy, are acting in a proactive manner to frame public policy outcomes by adopting different CPA strategies to improve their competitive capability and economic

performance. In today's globalising economy, CPA pursues multiple objectives (Shaffer, 1995). The impact of subsidiary CPA on the political environment can be manifested in a manner beneficial to subsidiaries through outcomes such as favourable public policy, foreign trade mission participation, and trade petitions success (Hillman et al., 2004). Development of effective CPA strategies for coping with economic and institutional environments has proven especially perplexing for MNE subsidiaries. Strategic use of CPA has been viewed with some apprehension in foreign nations as firms are more vulnerable to attacks from other political stakeholders (Hillman et al., 2005). Much of existing research on the motives of CPA shows it is aimed at "using the powers of government strategically to further a firm's competitive goals" (Wood, 1986) and is closely correlated with improving firm performance (Hillman et al., 2004). However, empirical linkages of government relations to competitive advantages and performance are examined in few studies, such as Hillman et al. (1999a), Marsh (1998), and Shaffer et al. (2000b). These empirical works provide evidence of the influence of CPA on firm performance, variables such as gross profit margin and market share.

While markets legitimate organisations through recognition of efficiency and profitability (Halliday, Powell, & Granfors, 1993), to remain viable, organisations need ongoing cultural endorsement as well as material and technical resources (Scott, 1995, p. 45). MNE-government relations are intricate. As subsidiaries develop connections with various levels of a government to access and influence the institutional environment to obtain competitive advantage (Boddewyn et al., 1994), they also aim to establish and/or sharpen their cultural endorsement or legitimacy (Kostova et al., 1999). With public policy been regarded as the expression of societal goals and the public policy process as the means by which society articulates these goals (Buchholz, 1992), MNE subsidiaries' participation in this policy making process can be seen as a proactive strategic stance of furthering societal interests. Such encouragement also provides corporations the opportunity to use the political process to overcome the liability of foreignness and to gain competitive advantages that cannot be obtained in the marketplace (Gale & Buchholz, 1987; Kostova et al., 1999).

The relationship between efficiency and legitimacy is an important theoretical and practical concern (Roberts & Greenwood, 1997), especially for MNE subsidiaries. Reviewing CPA literature, Shaffer

(1995, p. 500) states that “firms may use the public policy process as a means of enhancing their legitimacy in the eyes of external constituents.” The IB conditions also provide the joint consideration of economic performance (efficiency) and legitimacy as a practical concern (Boddewyn et al., 1994). In a collection of conceptual papers in Marcus, Kaufman and Beam (1987), CPA is associated with social legitimacy. While an organisation’s survival or effectiveness can not be ensured simply by establishing its legitimacy, Shaffer (1995) asserts that the strategic challenge lies in balancing legitimacy with competitive advantage (efficiency). Even within IB literature, Boddewyn (1995) notes the importance of securing competitive advantages based on firms’ political behaviours (for gaining access to resources and markets) with “values” acting mainly as constraints. As a consequence, with Hillman (2002) advocating firm performance as the ultimate dependent variable, the impact on subsidiary performance of CPA through the constrained-efficiency framework, i.e. the specification of legitimacy as a constraint on subsidiary performance (through a moderating model), provides more justification than the use of only the economic parameters of profitability and sales growth.

MODEL DEVELOPMENT AND HYPOTHESES

Research in CPA and political strategies has relied on various social science theories to explain the reasons for firms to engage in CPA. Fundamental to this research is the question of how CPA can complement MNE subsidiaries’ strategy for economic performance. Besides various firm-level factors, recent research has highlighted innovative behaviour of MNE subsidiaries that help them to exploit their firm-specific advantages and ensure sustainable global competitive advantages while gaining local responsiveness (Zhang, Li, Hitt, & Cui, 2007). Apart from being locally responsive to market conditions, overtime subsidiaries are under pressure to cultivate socially accepted behaviours of their host country environment (Kostova & Roth, 2002). As a result, to concentrate on factors specific to MNE subsidiaries, this study considers a number of closely interrelated concepts linked to organisational behaviour, their relationships to CPA, and environmental aspects related to industry and political conditions. To facilitate incorporation of such theoretical phenomenon, the present work develops its model based on the conceptual ideas of three theories: behavioural theory of the firm (BTF), transaction cost theory (TCT), and institutional theory.

Behavioural Theory of the Firm (BTF)

Cyert and March (1963/1992) set out to create a theory concerned with (i) firm as its basic unit, (ii) the prediction of firm behaviour with respect to such decisions as price, output, and resource allocation as its goal, and (iii) the actual process of organisational decision making. Thus, Cyert and March (1963/1992) argue that one way to understand modern organisational decision making is to study the effects of organisational structure and conventional practices on the development of goals, the formation of expectations and the implementation of choices. In achieving organisational goals, the theory highlights five key attributes that influence firms' strategic behaviour (i) firm age, (ii) organisational structure, (iii) related diversification, (iv) organisational slack, and (v) innovation.

(i) Firm age

Cyert and March (1963/1992) present the firm as adaptively rational, where learning and behaviour are conditioned by its experience. The adaptive nature of the firm is focused in the firm's learning and memory, captured in the form of standard operating procedures and decision rules, based on the firm's past environmental conditions and internal constraints. Accordingly, the firm's history matters, pointing to its unique characteristics, which define and determine how the firm reacts to environmental stimuli and conditions. Consequently, firm's age or tenure of operation is a potentially important aspect to acquire knowledge and experience and to assess a firm's choice of strategies.

Hence, with an increase in the subsidiary tenure in the host country, firms gain experience and can make more informed decisions in the host country (Henisz & Delios, 2004). This accumulation of more local knowledge leads to a subsidiary becoming more embedded in the host environment, thereby gaining legitimacy and this may provide a firm increasing opportunity to engage in CPA for a favourable environment. Also, CPA-IB literature has highlighted the importance of subsidiary age as a factor that reflects the subsidiary's reputation and accompanying host country legitimacy (Hillman et al., 2005). It is therefore hypothesised that:

H1: The greater a subsidiary's age/tenure, the more it will employ CPA.

(ii) Organisational structure

The BTF theory emphasises that past knowledge and experiences gained as a result of observations of actions and their apparent consequences take form in organisations as standard operating procedures and decision rules, which also provides organisational control and predicts future outcomes and environments. This leads to two ramifications: (i) firms establish norms which guide subsequent behaviours, and (ii) develop routines (standard operating procedures and decision rules) which influence decision-making processes. As a result, organisational decisions are driven by logic of appropriateness implemented through a structure of organisational rules, roles, and practices. Thus, the organisational decision-making structures influence firms' strategic behaviour in different economic situations. Accordingly, based on the assumption that competitive and political attributes are intertwined within an environment, this work extends the application of the theory to IB environment by suggesting that the internal decision-making organisational structure can influence firms' I-CPA behaviour.

The IB literature argues that organisational structure and decision-making processes are represented in MNEs' "global" and "multidomestic" strategies (Birkinshaw & Morrison, 1995). In pursuing a global strategy, organisational structure is tightly controlled with MNEs' decision-making being centralised (Luo & Shenkar, 2007), wherein subsidiaries undertake actions based on the strategic decisions of their headquarters and seldom act independently. So, under a global perspective centralisation of decision-making authority is considered primary (Roth, Schweiger, & Morrison, 1991). Alternatively, multidomestic strategy focuses on competition in each country responding to the local environment. The decision-making process for operation and strategic activities of an MNE pursuing multidomestic strategy are largely decentralised (Ghoshal & Bartlett, 1990; Luo et al., 2007) with decision-making authority delegated at the subsidiary level. Subsidiaries of the MNE are likely to compete subject to particular national environmental pressures based on local contexts in which they operate (Rosenzweig & Singh, 1991; Westney, 1993). Their behaviours may be related to the existing public policy environment and/or economic factors (Rosenzweig et al., 1991).

Given that a multidomestic strategy requires that decision-making must appropriate firm-specific advantages among subsidiaries, the decision-making authority at the subsidiary level will likely provide a more complete understanding of the environment to meet unusual local needs. In order to be locally responsive and adaptive, an important way is to engage in host country CPA. Multidomestic subsidiaries may even like to customise their CPA strategies to fit their unique resources and idiosyncratic host country environments (Wan et al., 2006). By engaging in CPA, subsidiaries can constitute formal roles, policies and procedures that will provide organisational “bounds” on political decision-making (Schuler, 1996). On the basis of the above discussion, it is hypothesised that;

H2: Multidomestic subsidiaries are more likely to engage in CPA than global subsidiaries.

(iii) Related diversification

Hill and Hoskisson (1987) assert that related diversification can be more effective at realising economies of scope through sharing of resources and capabilities and cooperation across businesses. Thus, within a related diversified or vertically integrated structure, a firm will co-ordinate activities across divisions and facilitate transfer of skills and resources to realise economies of scope (Hoskisson, Hill, & Kim, 1993; Rehbein & Schuler, 1995). Accordingly, firms with related diversification or vertical integration, can gain specialisation of knowledge related to a particular sector of the firm’s competitive environment (Shaffer & Hillman, 2000a). This can be helpful in the political context when firms can provide specific information to certain policy areas that may be beneficial to affect public policy (Schuler et al., 2002a). These statements assume that firms with highly related-product diversification are more likely to engage in political action in order to develop specialised political knowledge, and to form relationships with key policy makers within their domains of interest. Consequently, MNE subsidiaries with high degree of related diversification can directly influence policy-makers by providing their policy preferences and policy positions (Hillman et al., 1999b) with in-depth cost-benefit analysis of any policy changes (Aplin & Hegarty, 1980). Therefore, it is hypothesised that:

H3: The greater a subsidiary’s related diversification, the more it will employ CPA.

(iv) Organisational slack

Another important aspect of the behavioural theory of the firm is “organisational slack”. Cyert and March (1963/1992, p. 43) have used the concept of “organisational slack” as a “hypothetical construct for explaining overall organization phenomenon”, particularly in “dealing with the adjustment of the firms to gross shifts in the external environment”. Organisational slack denotes organisational resources that give the firm leeway in managing environmental contingencies (Sharman et. al. 1988) and a cushion of excess resources that can be used in a discretionary manner (Burgeois, 1981).

In the presence of slack, organisations are more likely to support special projects and might pursue non-economic goals in addition to maximising profits (Burgeois, 1981). BTF argues that firms will devise ways to control the environment and/or even seek ways to negotiate an environment so as to eliminate uncertainty. With CPA being one of the ways to obtain a negotiated environment that is favourable and controllable, slack is one possible source of funding for CPA. Hence, slack can be viewed as creating opportunities for firms through CPA. It has been shown that slack affects a firm’s search for political solutions to environmental problems (Schuler, 1996, Schuler & Rehbein, 1997). Meznar & Nigh (1995) demonstrate the importance of organisational slack to CPA by showing a positive relationship. Thus, it is hypothesised that:

H4: The greater a subsidiary’s organisational slack, the more it will employ CPA.

(v) Innovation

BTF focuses on learning within organisation through transmission of information and based on how different components of the firm assimilate outside information. Information handling procedures – information transmission and dissemination, have implications for technology adaptation and process improvements. This is also related to the firm’s capability to innovate. Innovation is considered as one of the key attributes of competitive strategy to generate rents (Knight & Cavusgil, 2004; Teece, 1986). Innovative behaviour, as a distinct activity, improves a subsidiary’s ability to absorb new knowledge from the environment (Andersson, Björkman, & Forsgren, 2005). It is argued that firms unable to gain outside knowledge will innovate with limited success. Alternatively, innovation by MNE subsidiaries also encourages domestic firms to expropriate MNE technological knowhow. Clearly MNE

subsidiaries do not want innovations distributed among competitors. Therefore, not only will this establish strict protocols regarding confidentiality and information releases, but will also work to have a competitive environment that provides strong intellectual property protection laws and regulations.

One way of doing this is to engage in CPA to influence public policies. Innovative subsidiaries can participate with the government in the development of R&D policies and innovative capabilities of the host country. This way, the subsidiaries can even achieve reputation and credibility and strengthen their legitimacy. Secondly, in dynamic environments of innovators, with short product development times and major technological change, information asymmetries exist and information gathering becomes difficult. In such circumstances, public policy formulation is in an evolving state. Thus, as firm innovation increases, subsidiaries can use CPA (i) to provide information to specific decision makers regarding policy preferences and (ii) to gain prior knowledge of emerging public policies (Schuler et al., 2002a). From the above discussion, innovative MNE subsidiaries are more inclined to engage in CPA in order to influence public policies for a favourable competitive environment. It is therefore hypothesised that:

H5: The greater a subsidiary's innovation activities, the more it will employ CPA.

In summary, the discussion based on BTF suggests that firm age or tenure, multi-domestic, related diversification, organisational slack, and innovation tend to influence subsidiaries' CPA activities as shown in Figure 3.

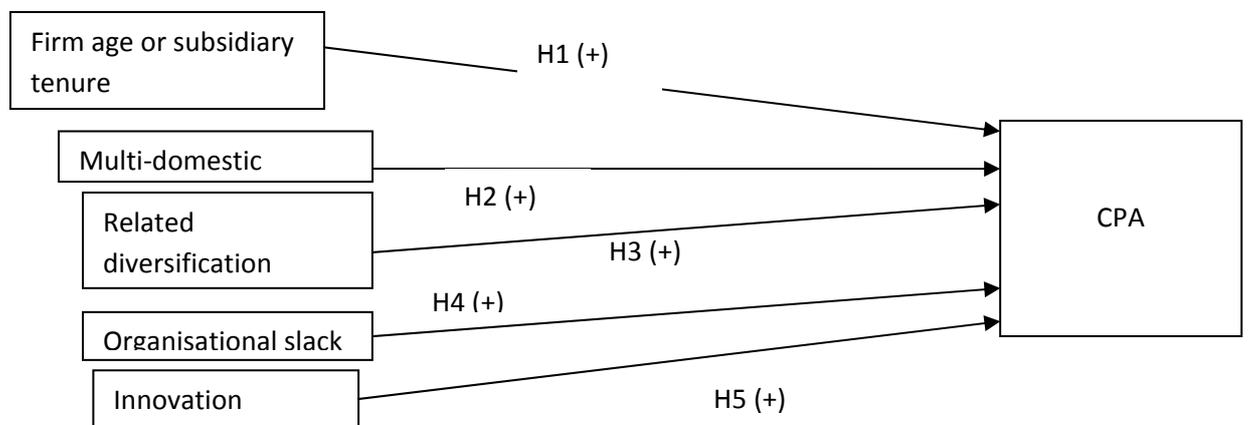


Figure 3: Variables and hypothesised relationships derived from A Behavioural Theory of the Firm

Transaction Cost Theory (TCT)

Williamson (1985) outlined three environmental factors – uncertainty, small-number exchange (frequency), and asset specificity; and two specific human factors – bounded rationality and opportunism, that can contribute higher transaction costs, either *ex ante* or *ex post*. Williamson (1985) argues that people are afflicted with bounded rationality, the notion that not everything can be known, and opportunism, which is “a variety of self-interest seeking” behaviour (Hodgson, 2004). In addition, decision-makers are confronted with asymmetric information, with individuals having different types and quantities of information. Taking the concepts of bounded rationality, opportunism, and information asymmetry together, economic actors always face uncertainty. Information and uncertainty are directly related with information being the antidote to uncertainty (Boyce & Ville, 2002). In the public policy arena, uncertain situation often exists (Schuler et al., 2002a). To minimise uncertainty, firms seek to increase the amount and accuracy of information. One important way of doing so is by engaging in CPA.

Environmental uncertainty is among the principal challenges which an organisation must encounter (Henisz et al., 2004). Meznar and Nigh (1995) assert that increased environmental uncertainty (i) creates problems to maintain organisational legitimacy and (ii) poses threats to competitive conditions that a firm has become accustomed to. By undertaking CPA, subsidiaries can have the opportunity to exchange information on emerging and realised issues in the host-country political environment. Such information-based exchanges can reduce environmental uncertainty as firms can monitor and can even control issues that can provide business advantage. Hence, by undertaking CPA, subsidiaries can exert substantial effort to fashion and influence political and public opinion (Hillman et al., 2005) to contain environmental uncertainty. Therefore:

H6: The greater the environmental uncertainty, the more the subsidiary will employ CPA.

It is likely that through information and knowledge sharing, a trusting situation is created that can reduce information asymmetry, environmental uncertainty, and transaction cost (Boyce et al., 2002; Kwon & Suh, 2004). This can be made possible by establishing a long-term relationship with policy

makers and officials by exchanging information at regular frequency. This can be organised based on the principles of TCT that argues that according to the asset specificity concept, dedicated assets, such as specialised physical and human assets, embedded in the organisational routines and skills, are critical factors to the organisation's performance (Poppo & Zenger, 1998).

Schuler (1996) showed that firms with dedicated political structure are more active in the political process. Greening and Gray's (1994) work suggests that the existence of a dedicated political unit improves the firms' ability to engage in CPA on a long term basis instead of adopting an ad hoc approach to political strategies. These formal dedicated structures are typically staffed with specialists who have good knowledge and experience about gathering information, in establishing and maintaining government relations, and to engage in political actions (Schuler & Rehbein, 1997). Blumentritt (2003) adds that the dedicated political structure not only involves the specialisation of organisational roles or functions used for CPA activities, but also indicates the degree of importance that the organisation assigns to the business-government relationship. Therefore, extending these logics to MNE subsidiaries, it is hypothesised that:

H7: Subsidiaries with dedicated political structure are more likely to engage in CPA.

Figure 4 illustrates the hypothesised relationship schematically.

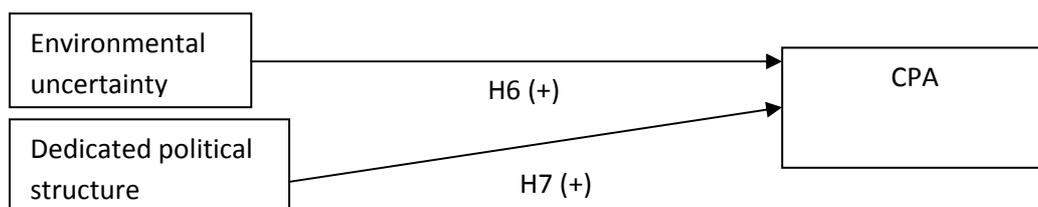


Figure 4: Factors and the hypothesised relationship derived from Transaction Cost Theory

Institutional Theory

The theory stresses that organisational behaviour is constrained by prevailing societal attitudes and norms or by constitutive expectations (Scott, 1995). Thus, the institutional framework is fundamentally concerned with the interplay between the organisations and their institutional

environments, which are complex determinants of social reality of resource and power arrangements, social structures and legitimising rules (Meyer, Scott, & Strang, 1987). The interplay is viewed as a process where organisations strive to legitimise themselves by adopting socially constructed structures and behaviours of the particular organisational field. An organisational field takes shape as its members interact and influence one another, and over time, establish shared expectations that become institutionalised (Meyer & Rowan, 1977). As the process of mutual influence between organisations and their field unfolds, organisations within the field tend to become more homogenous (DiMaggio & Powell, 1983). The process of homogenisation has been captured through the concept of *isomorphism* (DiMaggio et al., 1983). Institutional isomorphism involves organisational competition for political and institutional legitimacy as well as market position (Mizruchi & Fein, 1999) and can be facilitated through coercive, normative, and mimetic mechanisms (DiMaggio et al., 1983).

Organisations are subject to both formal and informal pressures imposed by other organisations upon which they depend and to the cultural expectations of the society in which the organisations function (DiMaggio et al., 1983). Additionally, subsidiaries face hurdles from political institutions such as changes in the identity of policy makers or their preferences of existing policies that can be the result of CPA by host country competitors. Such policy changes are of concern to MNE subsidiaries and therefore it can be fruitful to extend the scope of strategic activities to CPA. As a result, in such situations where organisations are motivated by the pursuit of economic benefit and institutional legitimacy, the model of mimetic isomorphism suggests that subsidiaries are likely to favour and/or adopt the strategies pursued by their successful competitors (DiMaggio et al., 1983). Extending this concept in the public policy domain, it is expected that subsidiaries are more likely to resort to mimetic behaviours while engaging in CPA. It is therefore hypothesised that:

H8: Mimetic isomorphism is positively related to subsidiary CPA.

Masters and Baysinger (1985a) advocate that governments tend to influence the institutional environment of a firm or its industry by regulations. In their study, the authors empirically demonstrate the positive impact of government regulation on firms' CPA. Other scholars (e.g. Grier et al., 1994; Masters et al., 1985b) have also shown the positive effect of government involvement

through regulation in determining firms' CPA. Blumentritt (2003) asserts that in countries where host governments exert greater influence on economic activities of firms, subsidiaries are more exposed to governmental actions and therefore have a greater impetus to engage in CPA. Thus, firms under greater government regulation need to engage in CPA strategies not only to seize government controlled opportunities but also because their dependency on public policies is high (Baron, 1995b). Hence, from the above discussion, it is hypothesised that:

H9: The greater the degree of regulation, the more the subsidiary will employ CPA.

Based on the above discussion, Figure 5 depicts the hypothesised relationships as derived from institutional theory.

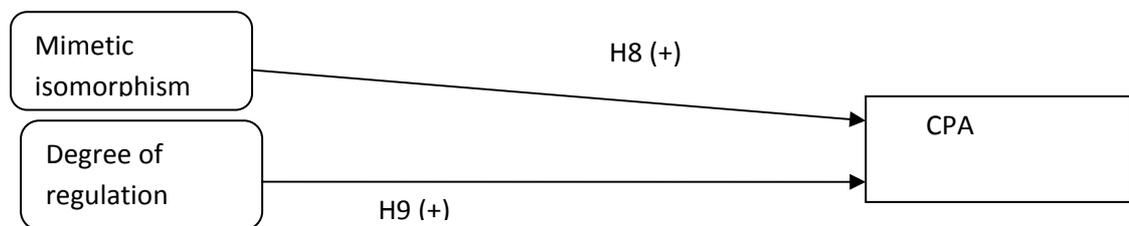


Figure 5: Factors and hypothesised relationships derived from Institutional Theory

Other variables of interest

(i) Industry concentration

The external economic context of an organisation is important in defining subsidiaries' role in CPA. A principal characteristic reflecting industry condition within which the subsidiary operates is industry concentration. Industry concentration indicates the structure and conduct of the firm's industry by (i) the combined market share of the leading firms and (ii) the influence that few competitors with their dominant market share can exert on the industry and market (Shepherd, 1997). In a highly concentrated industry, with few competitors, the competitive landscape is less competitive. Under these conditions, few dominant firms influence the market and often play an organising role in the industry (Porter, 1980). Competitors in such circumstances often tend to follow the moves of the leading firms. It is argued that in a highly concentrated industry, with a few firms dominating the

entire industry, firms stand to gain a larger share of benefits that political activity brings (Salamon & Siegfried, 1977). Also, in a high industry concentration, few dominating firms tend to be more organised and specialised, which allows these firms to succeed in gaining access to policy makers (Schuler et al., 2002a). Therefore, based on these arguments, Schuler et al. (2002a) posit that with potential for economic gains through CPA being higher for firms in a highly concentrated industry, firms have more motivation to engage in CPA. Thus,

H10: Industry concentration is positively related with subsidiary CPA.

(ii) Firm/subsidiary size

Firm size has been viewed as an indicator of scale economies and market power (Grant, 1991; Shepherd, 1997) and empirical evidence links this variable to organisational resources for CPA (Schuler et al., 2002a) as well as to firm-specific advantages that determine MNEs' performance (Dunning, 2002). Pfeffer and Salancik (1978, p. 267) argue that large organisations have sufficient resources and scale to "alter their contexts in a significant fashion". Resources may include efficient production process, superior technological know-how, skilled labour, and brand name (Wenerfelt, 1984), learning capabilities and relationships with external actors (Rugman & Verbeke, 2003), political resources (Dahan, 2005), and even firm's asset power for achieving scale economies and cost of marketing and enforcing contracts and patents (Agarwal et al., 1992; Rugman et al., 2006). Thus, firms' resources and capabilities can take a variety of forms. As a result, firm size is treated as an important variable that needs to be accounted for in assessing the significance of the subsidiary characteristics in contributing to CPA decisions.

Salamon and Siegfried (1977) point out that political strategies entail certain fixed costs and larger firms have access to economic resources that enable them to sustain high fixed costs and also spread over a range of policy-making areas. CPA research further suggests that larger firms can generate more political influence due to personal contacts of corporate elites (Hart, 2001; Mizuchi & Koenig, 1991). Consistent with these arguments, previous studies found that larger firms have more

bargaining power to influence public policy decisions owing to their visibility, asset power, and political clout (Hansen et al., 2000; Schuler et al., 2002a). Thus,

H11: Subsidiary size is positively related with CPA.

CPA Outcomes, Legitimacy, and Subsidiary Performance

CPA literature suggests that firms engage in CPA to seek competitive advantage (i) by raising rivals' costs, blocking the use of substitute resources and creating opportunities for firms to capitalise on resources that are valuable, rare, and costly to imitate, (ii) collecting information and gaining resources, (iii) affecting changes in the market size, market structure, or even cost structures to achieve economic survival and continued success, and (iv) by gaining access and information for political influence (Keim & Baysinger, 1988; McWilliams et al., 2002; 1996; Schuler et al., 2002a; Shaffer et al., 2000b). By doing so, firms can shape and control the firm's competitive environment favourably which can improve performance. This study continues this logic by arguing that MNE subsidiaries will use I-CPA to improve their performance. Consequently, it hypothesised that:

H12: CPA has a positive effect on subsidiary performance.

From an institutional perspective, it is argued that firms' strategic behaviours conform to institutional rules or expectations for economic fitness as well as for legitimacy (Oliver, 1991). Kostova and Zaheer (1999) consider the establishment and maintenance of legitimacy as particularly relevant for the MNE subsidiaries as they operate in a host country with a stigma of foreignness. The process of building legitimacy through CPA is both economically constructed and socially embedded. Economically, subsidiaries engage in CPA for competitive niche – maximise economic outcomes from market and resource access, mitigate the liabilities of foreignness, and minimise transaction costs (Murtha et al., 1994; Rosenzweig et al., 1991). Socially, subsidiaries can respond to governmental concerns, such as local employment, pollution control, education needs, job training (Kim, 1988; Luo, 2001).

In the political arena, policy makers and MNE subsidiaries operate in an uncertain environment. As a result both policy makers and subsidiaries have motivation to interact. Policy makers need reliable information about the policy desires of their constituents and finances to collect information and run for elections (Schuler et al., 2002a). Subsidiaries can employ CPA strategies (such as information and financial strategies) to provide valuable information and necessary funding to policy makers. Such communication between subsidiaries and policy makers and government officials prolong cooperation, stabilise relationships, and confer organisational legitimacy to the subsidiary. Subsidiaries can also politically respond to the social needs of a host country such as education of local nationals, financial support for local infrastructure, schools, research, sports, and other public interests (Luo, 2001). This increases subsidiaries' social-responsibility image and can connect them with the societal norms and values of the host country. Thus, in the political arena, MNE subsidiaries will engage in CPA to enhance their acceptance by their environments i.e. their legitimacy, which could affect the firms in the regulatory domain as well as in the social construction process (Kostova et al., 1999). Thus, it is hypothesised:

H13: CPA has a positive effect on subsidiary legitimacy.

MNE subsidiaries operate within institutional environments characterised by (i) complex and uncertain regulatory/legal conditions and (ii) heterogeneous aspects of socio-cultural norms. In such contexts, MNE subsidiaries' legitimacy will not only help to mitigate the liability of newness/foreignness, but will also enhance their reputation and credibility to influence public policy outcomes (Boddewyn, 1995; Hillman et al., 2005). This can be a predominant factor in achieving an effective co-alignment with the social and/or political environment, which can provide a favourable disposition to the subsidiary-public policy process environment (Fleisher, 1993). As a result, policy makers may be more responsive to subsidiaries that have gained legitimacy, which can affect long-run sustainability of the subsidiaries. The positive spillover effect of legitimacy may lead to securing access to scarce resources (Kostova et al., 1999). With host governments being an important source of resources and market opportunities (Hillman et al., 2005; Stigler, 1971), CPA may even secure preferential treatment for resources and/or special and less costly access to markets. This can lead to

creating competitive advantages that is protected by the force of law. The point is that subsidiary legitimacy can greatly expand the opportunities to benefit from CPA. For all of these reasons, the effect of CPA on subsidiary performance might be significantly affected by subsidiary legitimacy and its ability to influence public policy decisions. It is therefore hypothesised that:

H14: Subsidiary legitimacy will positively moderate the relationship between CPA and subsidiary performance.

The ability to influence public policy process through CPA is closely related to improving firm performance (Hillman et al., 2004). The underlying rationale originate from the fact that firms by managing government relations can shape and control the competitive environment (Hillman et al., 1999a). The specific course of actions undertaken through CPA is to manage the organisation's responses to relevant issues within the public policy process. With the IB political environments being extremely complex, CPA outcomes can be measured in a variety of ways that can have favourable impact on firm's performance. Subsidiaries participating in CPA, can act as economic or other consultants of governments or government sponsored projects. Such consultants' suggestions or advices can influence the government policy decision making owing to their expert knowledge in their areas (Yongqiang & Zhilong, 2006). Organisations can include their interests in their reports sent to the government agencies. CPA can alter legislative behaviour to affect senate voting and can impede competition within a given industry (Dean, Vryza, & Fryxell, 1998; Frenreis & Waterman, 1985). CPA has also been shown to (i) alter the content of legislative provisions (Lord, 2000), (ii) relate to foreign trade mission participation (Schuler, Schnietz, & Baggett, 2002b) and (iii) affect firms' success with trade petitions (Rehbein & Lenway, 1994). Firms can seek to alter their cost structure through favourable policies on minimum wage laws and subsidy (direct and indirect) (Gale et al., 1987). All the above discussed political outcomes are about political pursuit of competitive advantage. These political outcomes identify competitive gains from CPA in terms of increasing the advantages over rivals and even gaining bargaining power over suppliers and customers. For all these reasons, favourable political outcomes can significantly affect the competitive position of the firm in

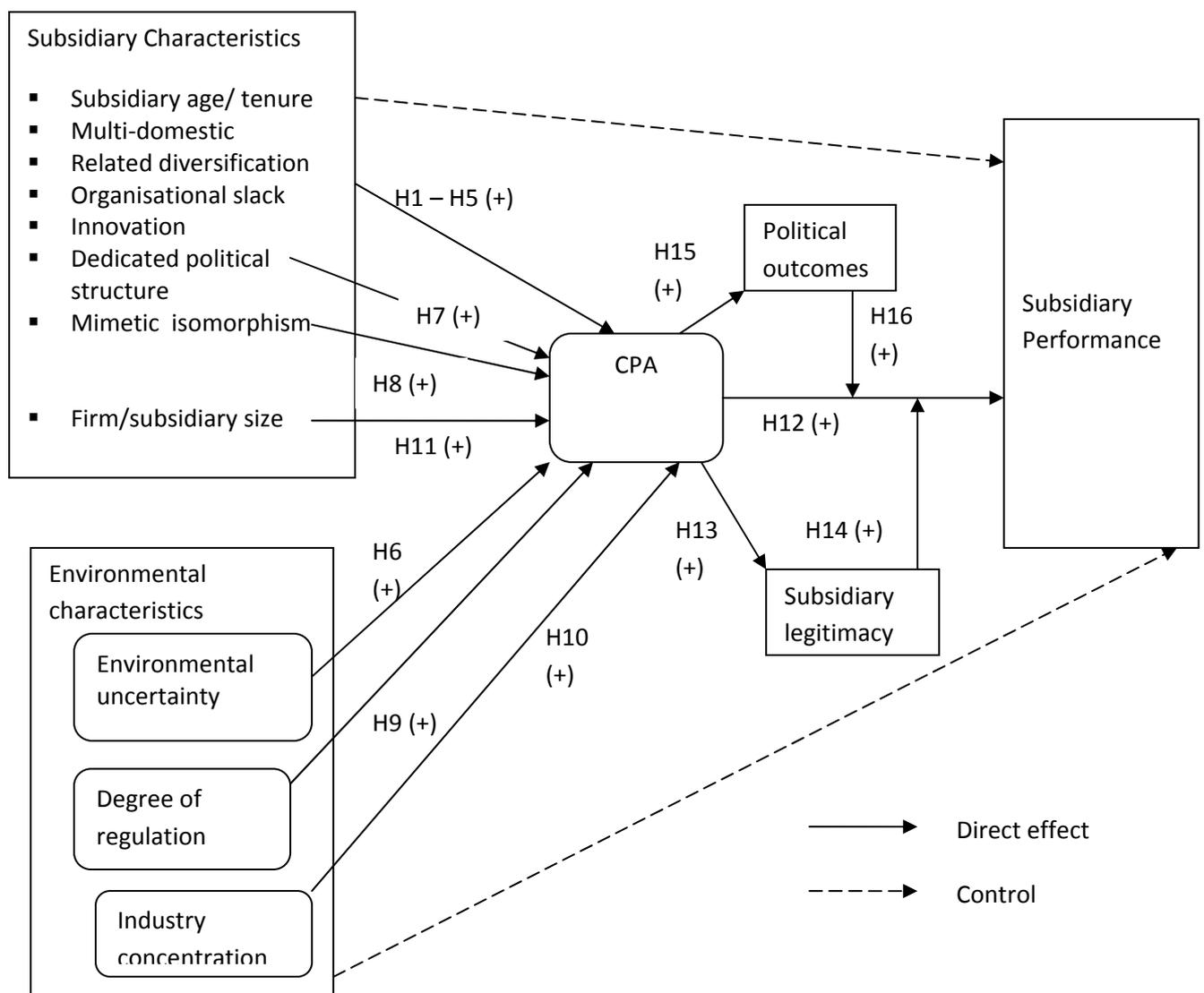
the market, which not only will have a further effect in the pursuit of political favours but will also enhance firm performance. From the above discussion, two hypotheses are drawn:

H15: CPA has a positive effect on political outcomes.

H16: Political outcomes will positively moderate the relationship between CPA and subsidiary performance.

Combining the hypothesised relationships derived from the three perspectives and from literature; the overall model is presented in Figure 6.

Figure 6: Proposed model and hypothesised relationships



METHODOLOGY

Measurement

In the proposed model, out of the fifteen constructs, twelve are measured with multiple items to capture their broad domain. All measures are found to have good measurement properties, with Cronbach alpha above 0.7 for eleven constructs and 0.67 for multidomestic. The single-item constructs are subsidiary age/tenure, subsidiary size, and industry concentration. For most sections, questionnaire items are taken from existing empirical studies and scales (e.g. Hillman & Wan, 2005; Miller, 1993). The model is tested with primary data collected from NNE subsidiaries in Australia using a mail survey questionnaire, a point of departure from most studies of I-CPA, as methodologically case have been a favoured research approach. To improve content validation of the questionnaire, the mail survey instrument was pretested (Venkatraman & Ramanujam, 1986) by nine academics and two MNE subsidiaries involved in government liaison activities. Each section contained a set of scaled items corresponding to the section topic. Most responses are measured on five-point Likert scales.

Sample

The survey sample includes all MNE subsidiaries operating in Australia and captured in the Dun & Bradstreet database. The sample includes subsidiaries from various industries including consumer and industrial products, banking and financial services, manufacturing and distribution etc. The rationale for selecting a single country context rather than a multi-country study is to eliminate the political environment diversity that exists among countries. The collection of data in a fairly homogenous environment is expected further to facilitate the control of plausible impacts arising from uncontrollable external variables (Amine & Cavusgil, 1986). Targeted respondents are either MNE subsidiary CEOs, Directors or General Managers. This is due to their (i) familiarity with the organisational culture, (ii) position to witness significant events, and (iii) adequate information of the strategic directions, initiatives and performance about the organisation (Kumar, Stern, & Anderson, 1993; Mitchell, 1994). This is also consistent with previous research on strategic management and

CPA that have used single informants (e.g. Aragón-Sánchez & Sánchez-Marín, 2005; Dvir, Segev, & Shenhar, 1993; Wan et al., 2006).

The data was collected using two waves of mail questionnaires followed by multiple reminders in each wave. Two hundred and fourteen completed questionnaires were returned from the survey mailed to 2853 MNE subsidiaries based in Australia, corresponding to a response rate of 7.5%. Of the responding individuals, 207 are in the upper levels of management (CEO, COO, MD, CFO, director, executive director, president, vice-president, and general manager). The remainder represented personnel expected to be knowledgeable about subsidiary's CPA and performance (such as company secretary).

While the overall response rate is lower than many empirical studies, it compares favourably with expected response rate of 5% to 10% in mail surveys (Alreck & Settle, 1995) and large-sample survey (Stock, Greis, & Kasarda, 2000). However, in the light of the low response rate, the data is checked for non-response bias to test the representativeness of the responding group. Following Armstrong & Overton (1977) and Lambert & Harrington (1990), non-response bias is examined by comparing characteristics of respondent subsidiaries from earlier waves of returned surveys to those received later. The later wave of surveys received were considered to be the representative of non-respondents. T-tests are performed on the responses of the two groups. The groups represented the first 141 responses and later 73 responses of the 214 useable survey received. The t-tests yielded no statistically significant differences between the two groups of respondents relative to subsidiary age, sales, size, and assets. A subsequent analysis of variance procedure comparing initial and later groups of respondents with randomly chosen group of non-respondents, numbering 200, for subsidiary age, size, and sales revealed no significant differences. These results suggest that non-response bias is not a concern for this study.

Results

The correlation matrix and descriptive statistics for the variables in the model are presented in Table 1. To test the hypothesised relationships (Figure 6), structural equation modelling approach of Partial

Table 1: Descriptive statistics and Pearson Correlation

| Variable | Mean | s.d. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|-------------------------|--------|--------|--------|---------|-------|--------|--------|-------|--------|-------|-------|--------|-------|--------|--------|------|
| 1. CPA | 1.63 | 0.64 | | | | | | | | | | | | | | |
| 2. Subsidiary age | 22.25 | 19.26 | 0.07 | | | | | | | | | | | | | |
| 3. Subsidiary size | 244.49 | 649.30 | 0.21** | 0.32** | | | | | | | | | | | | |
| 4. Ded. pol. Structure | 0.12 | 0.21 | 0.66** | 0.05 | 0.16* | | | | | | | | | | | |
| 5. Org. slack | 3.32 | 0.90 | 0.18* | 0.18* | 0.18* | 0.17* | | | | | | | | | | |
| 6. Rel. diversification | 2.63 | 1.29 | 0.07 | 0.07 | -0.03 | 0.07 | 0.03 | | | | | | | | | |
| 7. Innovation | 2.60 | 1.05 | 0.23** | 0.04 | 0.16* | 0.18* | 0.25** | 0.20* | | | | | | | | |
| 8. Multi-domestic | 3.31 | 0.95 | -0.01 | 0.09 | 0.15* | 0.01 | 0.11 | -0.04 | 0.33* | | | | | | | |
| 9. Env. uncertainty | 3.17 | 0.47 | 0.10 | 0.08 | 0.10 | 0.13 | 0.18* | -0.01 | 0.17* | 0.12 | | | | | | |
| 10. Deg. of regulation | 2.57 | 0.80 | 0.38** | 0.09 | 0.09 | 0.20** | -0.03 | -0.04 | -0.02 | -0.04 | -0.03 | | | | | |
| 11. Ind. concentration | 3.74 | 3.23 | -0.03 | 0.04 | -0.02 | 0.03 | -0.04 | 0.15* | 0.06 | 0.06 | -0.06 | 0.05 | | | | |
| 12. Mimetic Isomorphism | 2.00 | 0.73 | 0.27** | -0.21** | -0.08 | 0.17* | 0.09 | 0.02 | 0.13 | -0.01 | 0.07 | 0.16* | 0.03 | | | |
| 13. Pol. outcomes | 1.30 | 0.49 | 0.51** | 0.01 | 0.02 | 0.37** | 0.12 | 0.06 | 0.19** | -0.03 | 0.02 | 0.27** | -0.05 | 0.28** | | |
| 14. Sub. Legitimacy | 1.69 | 0.58 | 0.44** | 0.03 | 0.19* | 0.32** | 0.19* | 0.07 | 0.17* | 0.09 | -0.01 | 0.12 | 0.04 | 0.38** | 0.53** | |
| 15. Sub. Performance | 2.60 | 1.06 | 0.04 | -0.15* | -0.11 | 0.05 | 0.13 | 0.14 | 0.16* | -0.02 | 0.01 | 0.02 | -0.04 | 0.06 | 0.06 | 0.04 |

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Least Squares (PLS) is used. Structural equation modelling integrates the econometric view aiming on prediction and the psychometric perspective focusing on measuring latent, unobserved variables with multiple observed indicators (Venaik, Midgley, & Devinney, 2005). PLS has been used in business disciplines, strategic management areas, and global strategy (Hulland, 1999). PLS is better suited for “explaining” complex relationships (Fornell & Bookstein, 1982a) and is primarily intended for causal-predictive analysis, offering a more flexible interplay between theory and data (Fornell, Lorange, & Roos, 1990). Accordingly, considering that models in IB and CPA are at an early stage of development, the regression-based approach of PLS is more appropriate than the covariance based methods e.g. AMOS or LISREL. Additionally, (i) the data may not have a multivariate normal distribution, which is a critical assumption in the estimation methods of LISREL and AMOS, and (ii) some of the constructs are measured with formative indicators. PLS can deal with skewness of manifest variables, multicollinearity, and misspecification of structural model in a reasonably robust way (Cassel, Hackl, & Westlund, 1999) and is appropriate for small data samples with lots of variables (Fornell & Bookstein, 1982b), which may be the case for surveys.

Table 2 shows the results of the PLS analysis. The findings indicate that five hypotheses are supported with significant path coefficients while another two are marginally supported. The model explains 47.3%, 26.3%, 20%, and 3% of the variation in CPA, political outcomes, subsidiary legitimacy, and subsidiary performance respectively. As reported (in Table 2), in the subsidiary level factors, dedicated political structure and mimetic isomorphism are positively and significantly related to CPA, whereas subsidiary size and innovation are positively related to CPA, albeit weakly ($p < 0.10$, 1-tail). For environmental level factors, degree of regulation is positively related to CPA. Finally, looking at the CPA outcomes, we find that CPA has a significant positive effect on political outcomes and subsidiary legitimacy. However, there is no significant moderation effect of political outcomes and subsidiary legitimacy on subsidiaries’ CPA-performance relationship.

To further investigate the effects of subsidiary and environmental factors on different CPA strategies and their outcomes, the model is re-estimated by unpacking CPA based on Hillman and Hitt’s (1999b) typology of three generic political strategies: (i) information, (ii) constituency building, and (iii)

Table 2: PLS Output for hypothesised relationships in the integrated model

| Hypothesised Paths | Path Coefficient (β) | Observed t-values | Significance level | 1-tail/2tail | Results |
|---|----------------------|-------------------|--------------------|--------------|------------------|
| <u>Subsidiary Characteristics</u> | | | | | |
| H1: Age → CPA | -0.003 | 0.017 | ns | 1 | Not supported |
| H2: Multi-domestic → CPA | -0.078 | 0.875 | ns | 1 | Not supported |
| H3: Related Div. → CPA | 0.063 | 0.627 | ns | 1 | Not supported |
| H4: Org. Slack → CPA | 0.076 | 0.749 | ns | 1 | Not supported |
| H5: Innovation → CPA | 0.125 | 1.641 | * | 1 | Supported |
| H7: Ded. Political Structure → CPA | 0.429 | 4.396 | **** | 2 | Supported |
| H8: Mimetic Isomorphism → CPA | 0.168 | 2.394 | ** | 2 | Supported |
| H11: Subsidiary Size → CPA | 0.120 | 1.351 | * | 1 | Supported |
| <u>Environmental Characteristics</u> | | | | | |
| H6: Environmental Uncertainty → CPA | -0.042 | 0.458 | ns | 1 | Not supported |
| H9: Degree Of Regulation → CPA | 0.246 | 3.745 | **** | 2 | Supported |
| H10: Industry Concentration → CPA | -0.041 | 0.394 | ns | 1 | Not supported |
| <u>CPA Outcomes</u> | | | | | |
| H15: CPA → Political Outcomes | 0.513 | 6.030 | **** | 2 | Supported |
| H13: CPA → Subsidiary Legitimacy | 0.436 | 5.619 | **** | 2 | Supported |
| H12: CPA → Subsidiary Performance | 0.091 | 0.576 | ns | 1 | Not supported |
| <u>Moderation</u> | | | | | |
| H14: CPA × Subsidiary Legitimacy → Subsidiary Performance | 0.083 | 0.197 | ns | 1 | Not supported |
| H16: CPA × Political Outcomes → Subsidiary Performance | -0.058 | 0.138 | ns | 1 | Not supported |

¹ p-values at significance level are: ****- < 0.001, *** - < 0.010, ** - < 0.050, * - < 0.100

| | CPA | Political Outcomes | Subsidiary Legitimacy | Subsidiary Performance (SP) |
|-----------------------------|-------|--------------------|-----------------------|-----------------------------|
| R² Values | 0.473 | 0.263 | 0.200 | 0.030 |

Table 3: PLS results with unpacking CPA

| Hypothesised relationship Variables → CPA (Strategy) | CPA-Information | | CPA-Constituency Building | | CPA-Financial Incentive | |
|---|-----------------|------------------|---------------------------|-----------------|-------------------------|------------------|
| | β | t-values | β | t-values | β | t-values |
| Dedicated political structure | 0.420 | 4.361**** | 0.302 | 2.862*** | 0.498 | 3.291**** |
| Subsidiary age/tenure | 0.020 | 0.218 | -0.052 | 0.649 | -0.063 | 0.624 |
| Subsidiary size | 0.126 | 1.351* | 0.073 | 0.485 | 0.059 | 0.905 |
| Innovation | 0.120 | 1.326* | 0.096 | 1.046 | 0.112 | 1.298* |
| Multi-domestic | -0.060 | 0.751 | -0.130 | 1.281 | -0.091 | 0.593 |
| Related diversification | 0.060 | 0.685 | 0.047 | 0.430 | 0.008 | 0.502 |
| Organisational slack | 0.040 | 0.450 | 0.125 | 1.099 | 0.121 | 1.550* |
| Mimetic Isomorphism | 0.152 | 1.589* | 0.167 | 1.906** | 0.186 | 2.107** |
| Degree of regulation | 0.274 | 3.902**** | 0.084 | 0.766 | 0.083 | 0.909 |
| Environmental Uncertainty | -0.020 | 0.298 | -0.098 | 0.913 | -0.031 | 0.373 |
| Industry concentration | -0.032 | 0.317 | -0.062 | 0.794 | -0.047 | 0.650 |
| R ² | 0.463 | | 0.252 | | 0.423 | |

p-values at significance level are: ****- < 0.001, *** - < 0.010, ** - < 0.050, * - < 0.100

Table 4: R² Values & t-values (without moderating effects)

| For CPA (Strategy) | Political Outcomes | Subsidiary Legitimacy | Subsidiary Performance | CPA → SP β | t-value |
|------------------------------|---------------------------|------------------------------|-------------------------------|-------------------|----------------|
| Information | 0.344 | 0.393 | 0.006 | 0.078 | 0.432 |
| Constituency Building | 0.313 | 0.244 | 0.007 | 0.084 | 0.442 |
| Financial Incentive | 0.224 | 0.250 | 0.040 | 0.200 | 2.212** |

** p-value at significance level < 0.050

financial incentive. The results are included in Tables 3 and 4. It is observed that dedicated political structure and mimetic isomorphism are positively and significantly related to all three types of CPA strategies. However, subsidiary size and degree of regulation positively and significantly impact only on information strategy of CPA, organisational slack only on financial strategy, whereas innovation has a significant positive effect on both information and financial strategy. Table 4 shows that without the moderating effects; the relationship of I-CPA (financial strategy) with subsidiary performance is statistically significant.

DISCUSSION

The first major finding highlights the firm-level strategic variables that differentiate among MNE subsidiaries' involvement in CPA. The results (in Tables 2 and 3) show that innovation and mimetic isomorphism are the two key determinants of a subsidiary's political involvement - a finding that has implication for the significance of CPA as a strategic choice (Baysinger, 1984). For subsidiaries with innovative capabilities or pursuing innovative approaches to new markets and products, the use of CPA provides opportunities to maintain and create competitive edge over rivals by way of sharing and gathering information, and getting involved in the process of public policy formulation. The competitive niche and information sharing/gathering perspectives get further credence, when on unpacking CPA it is revealed that innovative MNE subsidiaries are more likely to pursue information and financial incentive strategies.

The second strategy variable of interest in explaining subsidiary CPA is mimetic isomorphism. MNE subsidiaries are subject to uncertain host environment and multiple institutional pressures and constrained to conform to the rules and expectations of the institutional environment to maintain and enhance their economic and social status. The findings strongly suggest that in pursuing strategic political behaviours, MNE subsidiaries conform to the principle accepted tenet of institutional theory that firms are more likely to pursue successful strategies of their competitors for economic and social fitness. In the process, the results also tend to affirm Hillaman and Wan's (2005) contention that institutional theory offers a useful lens to view MNE subsidiary post-entry strategies.

The two organisational variables that explain subsidiary CPA are dedicated political structure and subsidiary size. The results show that the existence of dedicated organisational political structure within a subsidiary is highly related to the firm's involvement in CPA. The results indicate that the relationship between asset specificity and CPA is strong, which further suggests that the existence of a formal hierarchy, or organisational structure (for CPA here) influences strategic behaviours (i.e. CPA) of managers (Schwenk, 1989).

Subsidiary size, which signifies visibility, asset power, and political clout, is positively associated with CPA (in the overall model) and with the use of information political strategy in the disaggregated model (Table 3). It is possible that MNE subsidiaries, especially the large ones, being more visible are apprehensive of being considered to be more active in the domestic politics of the host country and therefore are discreet about their CPA (see Hansen, Mitchell, & Drope, 2005a). Organisational slack, another important determinant of firm-level characteristics, is not positively related to CPA in the overall model (Table 2), but, on unpacking CPA, shows significant relationship with financial incentive strategy (Table 3). This result indicates that subsidiaries having organisational resources over and above those needed to meet essential business requirements will pursue financial incentive strategy to fund ongoing progress or meet definite objectives (Cyert et al., 1963/1992).

The strategic and organisational variables that are insignificant antecedents of subsidiary CPA are – subsidiary age/tenure, related diversification and multi-domestic strategy. The lack of significant

relationship between subsidiary tenure with constituency building and financial incentive strategies corroborates with earlier work of Hillman & Wan (2005). Subsidiaries with longer tenure do not feel the necessity to either emphasise mobilising grassroots support or believe in employing financial incentive strategies. However, the lack of support for a positive relationship between subsidiary tenure in a host country and information strategy is inconsistent with earlier work and is intriguing. This suggests the need for further research to test the generalisability of this result as well as our finding of a lack of relationship of multi-domestic strategy with CPA. With respect to related diversification, the non-significant result is consistent with earlier empirical work (e.g. Schuler, 1996).

With regard to the environmental characteristics, out of the three considered in this study – (a) environmental uncertainty, (b) degree of regulation, and (c) industry concentration, only degree of regulation is significantly related to subsidiary CPA. In relation to the degree of regulation, the statistically positive result provides evidence of the importance of regulation as an influence on subsidiary CPA. This tend to endorse the theoretical argument that countries where institutional environment are more controlled and regulated, subsidiaries have greater motivation to involve in CPA. Given the theoretical argument that environmental uncertainty is viewed as one of the principal challenges that creates problems for maintaining competitive conditions and subsidiary legitimacy, it is expected that there exists a strong positive relationship between environmental uncertainty and CPA. As this study is conducted within one environmental context (Australia), further study may be fruitful. Regarding industry concentration, the non-significant result seem to corroborate Zardkoohi's (1988) contention that in concentrated industries firms control market pressures independent of government and therefore are less likely to participate in CPA. The non-significant result highlights that industry concentration is not an important determinant and is consistent with much of earlier research (see Hansen et al., 2005a).

The study made an introductory effort to empirically confirm the conceptual arguments that subsidiary legitimacy and political outcomes, as a result of CPA, will ultimately augment subsidiary performance. Given the weight of theoretical works on the positive effects of subsidiary legitimacy and political outcomes on competitive advantages and economic gains, the lack of empirical support

for hypothesised moderating effect of these constructs on subsidiary performance points to a need for future research for a more comprehensive understanding of the phenomenon. However, an interesting aspect of I-CPA outcome revealed in this study (as per Table 4) is that financial incentive strategy seems to have a direct effect on subsidiary performance, while this same link is not captured in relation to the two other CPA strategies namely information and constituency-building.

CONCLUSION

The study makes important theoretical, empirical, and practical contribution to the IB literature. The study extends earlier works (e.g. Hillman et al., 2005) in synthesising conceptual ideas in IB, institutional theory, strategic management and CPA literatures. It builds upon the recent works (e.g. Hillman et al., 2005) on political strategies of MNE subsidiaries focusing on the subsidiary and host country level factors that influence CPA. By extending the model beyond the effects of firm and environmental level characteristics on CPA to CPA outcomes in terms of political outcomes, subsidiary legitimacy and performance in one integrated model, the study not only focuses on the antecedents of CPA, but also examines the effectiveness of CPA in MNE subsidiaries. Additionally, this study seeks to contribute in broadening earlier research works of CPA (e.g. Wan et al., 2006) beyond the domestic arena into IB context.

The study represents an important empirical contribution to the CPA literature that is largely case-based. Besides the variables that figure prominently in extant CPA literature, the study included two new strategic variables namely innovation and mimetic isomorphism. Additionally, the study empirically tested the impact of CPA on subsidiary legitimacy. Within the CPA literature, this may be the first study that seeks to validate empirically the link between legitimacy and CPA. In doing so, existing concepts of institutional theory are extended to MNEs' political actions. Methodologically, case studies in CPA have been a favoured research approach. The use of survey to examine MNE subsidiaries' CPA contributes towards making empirical generalisations of MNE subsidiaries' CPA and thereby addresses an important methodological gap that exists in the CPA literature. Finally, given finite organisational resources, managers are under pressure to choose a judicious blend of competitive and political strategies to create enduring competitive advantages for superior market

performance. The findings of the study will help managers understand CPA as part of their overall firm strategy and organisational factors to enhance performance.

Notwithstanding the contributions, the study has a few limitations. First, the research is based on data from a single country i.e. Australia and therefore any generalisation of the results requires further research. Second, the study takes a cross-sectional analysis approach wherein certain effects of CPA on firms' outcome may not be adequately captured within the timeframe of this study. Additionally, in IB activities, the complexity of the field is considerable and many other exogenous variables may impact on subsidiary CPA and performance. In the process problems arise not in what is included in the research study, but what is excluded. However, the proposed model encompasses a large number of organisational and environmental constructs and is tested with a reasonably large sample, thereby ensuring the theoretical rigour of the study.

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