# Buffered or under Scrutiny? Disentangling the Effect of Size on Subsidiary Political Strategies

**Abstract**

This paper integrates institutional and resource based views to investigate political strategies of MNE subsidiaries operating in emerging markets. Our findings show that institutional pressures from public and private stakeholders induce more intense political strategies. While this is consistent with previous findings, we also hypothesize and find that subsidiary size has a dual effect. First, larger subsidiaries do have the capacity and resources to invest into political strategies. Second, however, their size also allows them to react less strongly to external institutional pressures – they are to a stronger extent buffered from the external environment than small firms. Thus, this paper adds to previous research by disentangling the complex effects of size on the use of political strategies – a strand of literature which has been characterized by inconsistent findings in the past.

**Keywords:** political strategies, subsidiaries, institutional pressures, firm size, multinational enterprises, emerging markets

# Buffered or under Scrutiny? Disentangling the Effect of Size on Subsidiary Political Strategies

Multinational enterprises (MNE) are complex organizations. That is because their organizational structure resembles a web of globally dispersed operations with diverse inter- and intra-firm relationships. Due to that global spread of activities, MNEs face a diversity of social, political and regulatory environments (Getz, 1997). This variety of contexts is a challenge and might impede MNE success. However, being capable of handling the diversity of contexts can result in a competitive advantage for the MNE (Faccio, Masulis, & McConnell, 2006; Hillman, 2005; Salorio, 1993).

One way how MNEs try do deal with and manage the multitude of complexity is by employing political strategies. Political strategies consist of three tactics, i.e. information, constituency building, and financial incentives tactic (Hillman & Wan, 2005). These strategies are considered to be helpful as they allow firms to collect detailed information about different types of stakeholders which, in turn, helps firms to manage and reduce context-related risks (Doh, Lawton, & Rajwani, 2012; Dowling, 2001; Fombrun & Shanley, 1990; Henisz & Zelner, 2003). Furthermore, the use of political strategies can increase a MNE's bargaining power relative to market actors (e.g. industry competitors, suppliers, or customers) as well as non-market actors (Hillman & Hitt, 1999).

Yet, engaging in political strategies is costly and performance outcomes uncertain. Hence, we expect conditions under which MNEs are investing more into political strategies than when these conditions are not met.

Previous research has identified particularly institutional factors such as the pressure from external stakeholders or the institutional context's complexity, to which end political strategies were identified to potentially mitigate negative impacts (Nell, Heidenreich, & Puck, 2014; Kostova et al., 2008). Another strand of research has focused on firms' resources and their effects on MNE political strategies (Getz, 1997; Hillman et al., 2004; Macher & Mayo, 2011),

frequently proxied by firm or subsidiary size. Here however, the picture is less clear. First, a shortage of research studying smaller-sized firms allows for limited insights into effects of firm size differences (Delmas, 2001; Sharma & Henriques, 2005). Second, previous findings are inconsistent as some scholars argue for positive effects of size because of the firms' resources and visibility. Others argue that larger firms are to a stronger extent buffered from the external environment. This leaves us without clear evidence about the relationship between firm size and political strategies.

We are trying to shed light on these issues using data on MNE subsidiaries operating in emerging markets. We aim at establishing a link between subsidiary size, private and public stakeholder pressures, and the intensity of political strategies used by MNE subsidiaries (Getz, 1997; Hillman, 2003). We particularly investigate the interaction of institutional pressures and resources. We thus respond to the call for empirical investigation of interaction effects in studying strategy (Lawton et al., 2013; Macher & Mayo, 2011). It also allows us to better understand the various effects that subsidiary size might have when confronted with institutional pressures.

Indeed, we find a direct positive effect of firm size. However, size also moderates the positive baseline effect of institutional pressures negatively. That is, when smaller subsidiaries experience institutional pressures, they tend to increase the use of political strategies to a larger extent than their bigger counterparts. Thus, larger firms are also more buffered from the institutional context than smaller ones.

## Literature Background

Many scholars have theorized about the relationship between firms and governments in the past. They dealt with the way firms try to influence government policy and emphasized the dependence of firms on their political environment (e.g. Getz, 1993; Hillman & Hitt, 1999; Keim & Baysinger, 1988). Moreover, the need to include a broader range of actors was urged (Boddewyn, 1995): The argument goes that firms depend on their non-market environment,

which beyond political actors includes non-governmental organizations, the media, etc., to different degrees.

In trying to influence and shape their context, firms use non-market strategies. In this study we follow Hillman (2003) and refer to non-market strategies as political strategies. However, we consider a broader range of actors in a firm's context in order to examine their influence on political strategies. That is, we suggest that governments as public stakeholders, but also private stakeholders, have an effect on firms' use of political strategies.

Studies have identified several motivations for firms to use political strategies. For instance, political strategies can entail a competitive advantage (Doh et al., 2012; Faccio, Masulis, & McConnell, 2006; Zheng, Singh, & Mitchell, 2014). That is because firms yield insights into stakeholders' expectations (Schuler et al., 2002), which they can use in their favor, for example to increase legitimacy by enhancing firm reputation.

Beyond the deliberate use of political strategies to achieve a competitive advantage, firms might rather be forced into political strategies by stakeholder pressures (Nell, Heidenreich, & Puck, 2014). Literature taking that view argues political strategies impose costs on firms and can even be ineffective (e.g. see Keim & Baysinger, 1988). In this study, we thus expect firms to be more likely to use political strategies if they experience high institutional pressures from stakeholders.

Logic of political strategies: institutional versus resource based

Numerous antecedents of political strategies were identified (e.g. Getz, 1997; Hillman, 2003; Hillman et al., 2004; Macher & Mayo, 2011). Still explanations on the firm, industry and institutional level of analysis are used to argue for the use of political strategies most frequently (Hillman, 2003; Macher & Mayo, 2011). Such variables were found to affect the intensity, the type of approach (e.g. long-term or ad-hoc), and the organization (e.g. single firms' activities or collaborative strategies) of political strategies (e.g. Hillman, 2003; Schuler et al., 2002). As we will focus on institutional and resource based theory herein, the basic ideas behind these

two theories and previous findings of studies arguing with these logics will be outlined here only.

Previous research on political strategies examined the impact of different institutional factors. Depending on the institutional environment, firms face different degrees of pressures for conformity. As a consequence, the institutional environment will impact firms' likelihood to engage into political strategies. As mentioned above, institutional pressures are exerted by diverse external stakeholders. Thus, we focus on institutional factors in terms of pressures from public versus private external stakeholders (Darnall, Henriques, & Sadorsky, 2010).

Following a resource based logic, firm-specific factors, such as firm size, or firm age have been argued to influence political strategies. According to the resource based theory, firms' behavior and their strategies are shaped by the resources and capabilities they possess (Penrose, 1959; Pfeffer & Salancik, 2003). This resource based notion was found to hold true for political strategies alike (Hillman, 2003; Hillman & Hitt, 1999). For firms being endowed with a slack of resources have probably easier times investing into political strategies.

While research on political strategies used both sets of logics previously and it is generally agreed upon the importance to consider factors at different levels of analysis, so far only few papers have tested specific hypotheses (Hillman & Wan, 2005). Also Darnall et al. (2010), for instance, investigate and actually find a moderating impact of institutional pressures on the effect of firm size on their environmental strategies. Although the evidence previous studies found upon integrating different antecedents and considering their interaction is mixed, we find drawing on resource based and institutional paradigms has the potential to contribute to our understanding of political strategies. That is, because for a firm to be economically successful, abundant resources are equally important as to be accepted and recognized legitimate by stakeholders, i.e. the institutional context (Getz, 1997; Boddewyn, 1995). A lack of legitimacy can thus threaten firm survival as well as a lack of resources can. Thus, limiting attention to only one antecedent at a time would be too simplistic.

To sum up, while according to institutional theory, whether or not a firm employs political strategies depends on stakeholders' expectations and the interpretation of firm behavior (Doh & Guay, 2006), resource based theorists argue that firms' endowment with resources and capabilities either enables or constrains firms' use of political strategies. In this paper we integrate those theories by focusing on institutional, i.e. stakeholder, pressures and firm size, as to argue for the significance of interaction effects between different antecedents of political strategy.

Political strategies and firm size

One of the most prominent firm-level factors in political strategy research is the size of the firm (Baysinger et al., 1987; Masters & Keim, 1986). Conventional wisdom has it that firm size and intensity of political strategies are assumed to be positively related. That reasoning intuitively takes a resource based view, i.e. firm size is considered to be synonymous with wealth, which in turn also allows for abundant resources to invest in political strategies. Although this hypothesized relationship appears natural, empirical studies do not clearly support it. Findings remain inconclusive and despite intense efforts, research was not able to establish a consistent relationship between size and the intensity of using political strategies yet.

Some authors do not find any significant relation between firm size and the intensity of political strategies. It is found that find size is negatively related to the intensity of political strategies (Cook & Fox, 2000). Still, however, a majority of studies argued for and found support for a positive effect of size on the intensity of political strategy (see e.g. Macher & Mayo, 2011; Schuler et al., 2002). Their reasoning is based on resource based logics, for instance, taking size as an indicator of willingness, power, visibility, and slack resources.

Another plausible explanation for the positive relationship between firm size and political strategy is that larger firms have higher negotiation power and leverage in relation to their environment, i.e. market as well as non-market actors (Pfeffer & Salancik, 2003). In addition, size is sometimes said to be related to visibility. That is, the larger a firm grows, the more difficult it is to be not taken under scrutiny by the public (Meznar & Nigh, 1995). This may intensi-

fy stakeholder requests to which firms could respond with political strategies (Darnall, Henriques, & Sadorsky, 2010 for proactive environmental practices). As such, size can cause firms to be more or less scrutinized and thus constrain firm behavior, e.g. by making it necessary for larger firms to conform to certain standards and procedures that smaller firms can deny (Darnall, Henriques, & Sadorsky, 2010).

Having studied previous literature, this paper adds to our understanding of firms' political strategies in two ways. First, we found no literature on firm political strategies that integrates institutional and resource base views to examine the effects of different antecedents. Second, this study aims at clarifying the impact of firm size on political strategies. Though that field is pretty well researched, evidence remains unambiguous. Our position is that research on political strategies should apply an integrated view of institutional pressures from private and public stakeholders and firm size to approximate reality. We argue that it is actually the interplay between different antecedents that influences, and not the exclusive influence of either one variable that determines the adoption of political strategies. That is, in order to yield clearer empirical evidence, we suggest addressing how different variables interact to explain firm strategy.

## Hypotheses Development

Institutional pressures from stakeholders and the intensity of political strategies

Besides firms' characteristics, we have already mentioned contextual factors that heavily influence firms' non-markets strategies (for uncertainty in the environment e.g. Baysinger, 1984; Ozer, 2010). Previous studies found institutional factors to imply different levels of pressures for conformity. As such they are identified as antecedents of firm political activism and strategies (Blumentritt, 2003; Hillman et al., 2004).

This study will investigate MNE subsidiaries in emerging countries. We therefore draw on research that suggests the context of such countries to be particularly complex, and political strategies as a means to cope with such context-specific complexity (Baysinger, 1984; Nell, Heidenreich, & Puck, 2014). In sum, we attempt to add to explanations why firms use political

strategies in emerging countries. To that, consistent with previous studies, we conceptualize context complexity as varyingly strong pressures from stakeholders (Hoskisson et al., 2000). Freeman (1984) defines stakeholders as actors which are either affected by, or can themselves affect firm success and achievement of targets. More specifically, external institutional pressures can be exerted from public and private stakeholders, which in turn increase the perceived complexity of a certain context. The increasing number of stakeholders, e.g. public interest groups such as environmental and community organizations etc., entailed that stakeholders importance and influence increased recently. This could indicate that the need of firm agency to address diverse stakeholder interests has raised even further (Doh & Guay, 2006). Yet it is not surprising that researchers have recently taken up to study the relationship between firms and different types of stakeholders.

Nell et al. (2014), for instance, found that the presence of public stakeholder pressures and MNE internal pressures coincidently, lead to a higher level of political strategies, as compared to private stakeholder pressures. Even though in this paper we use MNE internal pressures only as a control variable, we will closer examine the interaction between firm size and the two types of institutional pressures from stakeholders, in relation with the intensity of political strategies. Public stakeholders mainly include the host country and region governments and administrations, whereas private ones involve non-governmental actors. Studies found business-government interdependencies to be especially wide spread in emerging economies (Elg, Ghauri, &Tarnovskaya 2008; Tian, Hafsi, & Wu, 2009). That is, in such countries the political impact on markets can be pretty high, for instance if political actors also play a substantial role as market actors (Luo, 2001; Salancik, 1979). Inter- and national non-governmental organizations are examples for private stakeholders that recently have become more relevant and are likely to further gain in importance in emerging countries (Teegen et al., 2004). Firms cooperating, or at least appreciating the power of private stakeholders were shown to be able to benefit in terms of competition (Dahan, et al., 2010; London & Hart, 2004; Mathews, 1997).

Emerging markets are characterized by institutions in the status of development (Peng et al., 2008). Due to that evolving stage of institutions, a more dynamic and unstable stakeholder context etc., operating in emerging markets is argued to be more complex. Thus, one way MNE subsidiaries try to mitigate negative impacts of the complex context on their legitimacy is to employ political strategies. By using political strategies firms try to access critical decision-makers, build up their own reputation, develop an understanding for and influence policy makers (Elg et al., 2008; Hillman et al., 1999; Luo, 2001; Ozer, 2010). However, political strategies are costly and no guarantee for success (Hadani & Schuler, 2013; Keim & Baysinger, 1988). Thus, a MNE subsidiary will carefully consider whether or not to use political strategies.

A firm's decision whether or not to employ political strategies is likely to depend on several firm-internal, as well as contextual factors. Focusing on institutional factors, the above discussion suggests a positive relationship between stakeholder pressures and the intensity to use political strategies. Therefore, we would expect MNE subsidiaries to use more political strategies if they feel contextual pressures, exerted by stakeholders, to do so. To formulate our baseline hypothesis we draw on institutional theory and argue that high pressures from private and public stakeholders in emerging markets increase subsidiaries' need for agency and negotiation of their legitimacy, which is in line with previous studies.

> *Hypothesis 1: The higher the institutional pressures from private or public stakeholders, the more intensive political strategies a subsidiary employs.*

<u>Moderating effect of firm size on the relationship between institutional pressures from stakeholders and the intensity of political strategies</u>

In the above section on literature and background, we stressed that even though findings are generally unambiguous, many studies postulated and found a positive effect of firm size on political strategies. That is argued for from different perspectives, first because it increases the visibility of the firm and, thus, puts the firm more under scrutiny of stakeholders. Furthermore, firm size is argued to be positively related to firm resources and capabilities, which can be in-

vested into political strategies (Darnall, Henriques, & Sadorsky, 2010). Drawing on previous literature, thus, we would suppose larger firms to use political strategies more frequently than small ones. On the contrary, however, how firm size moderates the relationship between institutional complexity in terms of stakeholder pressures, and political strategies, is trickier.

We have learned from previous research that it seems to be appropriate, integrating firm- and institutional-level variables in the studies of political strategies. Having a bearing on Dean et al. (1998), for instance, emphasizes this. Though not studying political strategies exclusively, they claim that firm size, i.e. resources and the quality of resources, has an influence on firm strategy and performance, but the context also matters, i.e. that industry settings have an impact on strategic decisions and success. Likewise firm strategy depends on stakeholders and pressures originating from them, following Porter (1980). This, as well as the visibility argumentation that large size means increased visibility and thus increased stakeholder pressures (Brammer & Millington, 2006), indicates arguing for a moderation effect of firm size on the relationship between institutional pressures from stakeholders and the intensity of political strategies.

Drawing on previous findings, which show that the stakeholder pressures a firm perceives can vary significantly with firm size, it appears to be very appropriate to argue for a moderating effect of firm size in general. That is, in this paper we expect the intensity of political strategies resulting from increased pressures is also likely to vary with the size of a MNE subsidiary. What is less clear, however, is the sign we can expect. In addition to the positive direct effect of institutional pressures from private and public stakeholders on political strategy intensity, we suggest a negative moderation effect of firm size. Hence, our position is that stakeholder pressures are more likely to lead smaller firms to use political strategies in order to adopt a certain legitimate behavior, as compared to larger firms. For arguing that way, we again base ourselves on previous literature.

Meznar and Nigh (1995), for instance, stated that larger firms might be better able to shield from, i.e. buffer against, external pressures due to their size and the underlying resource capaci-

ties. Thus, a larger firm size could imply a lower need for using political strategies. Following them, also other studies found smaller firms to be more responsive to stakeholder pressures than larger ones (Darnall, Henriques, & Sadorsky, 2010; Lefebvre et al., 2003; Rutherfoord et al., 2000). That is, because for small firms, which are less visible, it is particularly important to be legitimate, i.e. to have a good reputation and attract local clients. To become legitimate, small firms therefore actively respond to stakeholder pressures, for instance by employing political strategies (Besser, 1999; Perrini, 2006). In sum, empiric evidence suggests that smaller firms are more likely to react to stakeholder pressures with political strategies.

In addition, studies claim that smaller firms have usually less hierarchic organizational structures and bureaucratic decision-making processes (Dean, Brown, & Bamford, 1998; Hitt, Hoskisson, & Ireland, 1990). This allows smaller firms to be more flexible in handling relations and responding to stakeholder pressures (Aragón-Correa, 1998; Baucus & Near, 1991; Thushman & Romanelli, 1985). Being less burdened with issues of internal coordination and communication, smaller firms can react to stakeholder pressures more quickly. Furthermore smaller firms tend to focus on niche markets, be younger and more innovative (FitzRoy, 1993; Stock et al., 2002), which could enhance their ability to be more reactive to stakeholder pressures by combining their resources differently to serve different purposes. Thus, a smaller firm size might be beneficial, as a less complex internal organizational structure fastens responses to and interaction with stakeholders, e.g. by means of political strategies (Jones & Klassen, 2001).

The above discussion suggests a negative moderation effect on the relationship of institutional pressures from stakeholders and the intensity to use political strategies. Even though Darnall et al. (2010) tested a similar hypothesis upon focusing on environmental practices, we aim to extend the applicability for a moderation effect to the broader notion of political strategies.

*Hypothesis 2: Subsidiary size negatively moderates the link between institutional pressures from private or public stakeholders on political strategy intensity.*

# Methods

The institutional context of emerging economies is usually not fully developed, which entails higher risks for firms operating in such economies (Henisz & Zelner, 2003; Luo, 2004). Thus, firms in emerging markets might be more inclined to use their resources in political strategies in order to ensure a competitive advantage. And indeed, political actors were identified as important stakeholders (Puck et al., 2013). Beyond politicians, however, also other stakeholders, such as employees, customers, suppliers or the general public can be crucial for firms' success (Rehbein & Schuler, 1995, p. 409). Recently, several authors have addressed the issue of stakeholder pressures in examining their influence on the likelihood of firms to pursue certain non-market strategies (see e.g. Darnall, Henriques, & Sadorsky, 2010 for environmental practices; Nell, Heidenreich, & Puck, 2014, for political strategies). This paper does it similarly.

Setting

A database with 1500 MNE subsidiaries in Brazil, China, India, South Africa and Turkey was compiled. Those firms were drawn from different directories listing foreign firms in each of the five countries at random. An online survey was used to collect data from a sample of managers heading these subsidiaries. At the time of surveying, 63 of those firms were not any more, thus leaving 1437 companies as a final sample. In sum, 157 workable surveys were returned and could be used for our analysis, representing a 10.8% response rate. Due to a number of missing values, however, data analysis was eventually done with 151 responses only[1]. A majority of respondents constituted expatriates (64%), while 21% were local managers and 15% managers from third countries. Respondents were all part of the subsidiaries' top management teams.

Responding subsidiaries were spread across the five countries, i.e. China (33.1%), India (21.8%), and South Africa (27.8%) followed by Brazil (9.3%) and Turkey (7.9%). To control for country-level effects, host country dummies were included in the analysis. 21.1% of the

[1] As response rates of managers were identified to be usually lower than response rates of non-managerial staff, the rate in our study is quite satisfying (Baruch, 1999). Moreover, our rate is in line with Harzing et al. (1997; 2012) finding response rates for mail surveys between 6% and 16%.

subsidiaries corresponded to American MNEs, 17.2% to MNEs from Asia, and 61.6% from European MNEs. MNEs were of an average size of about 30,000 employees, subsidiaries of approximately 1,050 employees. Furthermore emerging market subsidiaries were close to 20 years on average. With one third of all subsidiaries operating for less than 7 years, that distribution is strongly right-skewed, however.

Measures

*Dependent Variable*

***Intensity of Subsidiary Political Strategies.*** Hillman and Wan (2005) defined three different types of political tactics. In the survey, shortened scales of these tactics were used to measure the *Intensity of Subsidiary Political Strategies*. Referring to the past three years, managers had to assess how often they had used different political tactics, for instance the frequency of providing financial incentives to political candidates or mobilizing grassroots political campaigns. As in previous studies, this question was to answer on a Likert-type scale (Hillman and Wan, 2005), encompassing five categories: 1 = never, 2 = once per year, 3 = once per month, 4 = once per week and 5 = once per day. The responses for the three political tactics were then averaged, yielding Information Strategy with construct reliability of .68, Financial Incentives Strategy (.79), and Reputation Building Strategy (.78). Because these three tactics were found to be relatively strongly correlated, we assessed whether the intensity of subsidiary political strategies might be best conceptualized as a higher-order construct upon applying confirmatory factor analysis (CFA). Indeed the CPA's result, i.e. all three tactics loading significantly on one construct, suggested using one measure of Intensity of Subsidiary Political Strategies.

*Independent Variables*

***Institutional Pressures from Stakeholders***. Institutional pressures were measured by determining the influence private and public stakeholders had on a subsidiary's strategies and tactics

during the last year[2]. Stating different types of stakeholders, such as local political authorities and non-governmental organizations etc., respondents had to indicate the influence of stakeholders they perceived on their subsidiary on a scale, ranging from one to seven, i.e. between 1 = no influence and 7 = very strong influence. CFA showed that items loaded on two distinct factors: *Public Stakeholder Pressures* (i.e. from local, regional, and national governments and official authorities) and *Private Stakeholder Pressures* (i.e. from consumer associations, industry associations, political parties, the media, environmental protection organizations, and humanitarian organizations). Those two constructs yielded a construct reliability of .85 for private stakeholder pressures and .81 for public stakeholder pressures. The scores were averaged.

***Subsidiary Size*.** Empirical studies used a variety of indicators to measure this variable in the past. Sales were one prominent measure (Martin, 1995; Schuler, Rehbein, & Cramer, 2002), besides assets (Meznar & Nigh, 1995), market share (Schuler, 1996), or the number of employees (Hillman, 2003). In this study subsidiary size is measured by the number of employees working in a certain subsidiary. Previous research found this measure of firm size to be highly correlated with other measures of size, such as firm sales or assets (Agarwal, 1979).

***Controls.*** A number of control variables were used in addition to the main independent variables. First, it was accounted for *subsidiary capabilities*. That is because more capable subsidiaries might be buffered from strongly reacting to institutional pressures. It was argued that subsidiaries with rare and valuable resources contribute to the competitive advantage of itself, but beyond that also of the overall MNE (Frost, Birkinshaw, & Ensign, 2002). The latter can be captured by measuring outflows of knowledge from a subsidiary to other MNE units. Therefore, relatively weak subsidiaries do not extensively transfer knowledge to the rest of the MNE, usually (Monteiro, Arvidsson, & Birkinshaw, 2008). Herein we use survey questions that try to capture the extent to which a subsidiary is a critical source of knowledge to the remaining units

[2] Question: Which kind of interest groups have tried to influence your strategy and tactics during the last year and how strong was this influence?

of the MNE as a proxy for subsidiary capabilities. Our survey respondents were asked to rate the extent of vertical and horizontal outflows on a 7-point Likert-type scale (Reliability: .75).

Second, we included a dummy variable to control for the *degree of ownership* of the subsidiary (wholly-owned subsidiaries were coded with "1").

Third and fourth, we accounted for *subsidiary age* and the *degree of internationalization* of the overall MNE, in order to proxy the MNE's experience in managing international ventures.

Fifth, we added a number of dummies for industry, host country, and region of origin to control for respective effects. Concerning industry effects, political strategies were found depend on structural industry characteristics, such as competition or the level of concentration (see e.g. Hillman et al., 2004; Schuler et al., 2002). Hence, the *industry dummies* differentiate between services, trade, and manufacturing industries. Beyond that, it was controlled for industry effects by including a variable capturing the extent to which the subsidiary is active in business to consumer (B-to-C) vis-a-vis business to business (B-to-B) markets. The share of *B-to-C business* in percentage of total business is used as a proxy. While the *host country dummies* indicate the emerging market where certain subsidiary is located, the *region of origin dummies* indicate the MNE's origin, i.e. if the MNE is headquartered in Asia, Americas, or Europe. We add these country dummies, because previous research on strategic management of the MNE found that the institutional context of a country and differences between countries matter (see e.g. Hillman & Hitt, 1999; Hillman, 2003). In line with that, we also added controls to capture distance between the home and the host country of the emerging market subsidiary. More specifically we capture *geographic* as well as *cultural distance*.

Finally, we control for the level of *headquarter influence*, i.e. the internal pressures the subsidiary is confronted with, because institutional theory claims that it is not only the external institutional context that matters (Nell, Puck, Heidenreich, 2014). That is because strong internal pressures reflect the logic embedded in an organizations' business model, i.e. the control over subsidiaries in order to guarantee aligned behavior with the MNE's overall strategic targets

(see e.g. Birkinshaw & Morrison, 1995; Kostova et al., 2008). Thus, a subsidiary under strong headquarter influence might be less responsive to institutional pressures from stakeholder in the host market (Nell, Puck, Heidenreich, 2014). The variable measuring the influence of the MNE headquarter on the emerging market subsidiary was approximated with three items, applying a Likert-like scale ranging from 1 to 7[3]. We used the following items: The degree of formal rules and directives the headquarter uses to head decision-making processes within the subsidiary; the regularity with which subsidiaries are asked report to their headquarter; and the degree of headquarter influence on subsidiary decision-making (Reliability: .71). The final variable is calculated as an average of the three items and allows controlling for the degree of MNE influence on and intervention in subsidiary operations.

Table 1 depicts the correlations between our measures.

*xxxxxxxxxxxxx Insert Table 1 about here. xxxxxxxxxxxxx*

## Analysis and Results

To estimate the relationship between institutional pressures from stakeholders and intensity of subsidiary political strategies as well as the moderation effect of subsidiary size, we relied on hierarchical OLS regression (see Table 2). Regression coefficients are obtained by using robust standard errors. Model 1 is restricted to the control variables. The R-squared of regressing the controls on the intensity of subsidiary political strategies is fairly low. It improves marginally once subsidiary size is included in Model 2. The coefficient of subsidiary size that is estimated is positive and statistically significant ($p<.01$), which indicates that larger subsidiary size is related to a higher intensity of subsidiaries' political strategies.

In addition to subsidiary size, Model 3 incorporates institutional pressures from public and private stakeholders. That causes the model fit to improve substantially, as the R-squared of Model 3 more than doubles in relation to the model fit of Model 1 and 2. Moreover, the estimated

[3] Question: To what extent does your parent use formal rules and directives to govern decision-making processes within your subsidiary?

coefficient on subsidiary size remains positive though turning insignificant, while both coefficients of public and private stakeholder pressures are positive and statistically significant at $p<.05$. This indicates that increases in institutional pressures from either public or private stakeholders are related to more intense political strategies from MNE subsidiaries. Thus, Model 3 yields supports for Hypothesis 1, which states that higher institutional pressures from stakeholders come with more intensive political strategies being employed by a subsidiary.

The direct effects of stakeholder pressures remain stable, i.e. positive and significant at $p<.05$, even after interaction terms between public vis-à-vis private stakeholder pressures and subsidiary size are integrated in Model 4 and 5. Furthermore the coefficient of subsidiary size is positively significant again in the models incorporating interaction effects. As the fit of Model 4 and 5 improve, it seems appropriate to include subsidiary size as a moderating factor of stakeholder pressures on intensity of political strategies used by a subsidiary. Both, the moderating effects of subsidiary size on public stakeholder pressures (Model 4) as well as on private stakeholder pressures (Model 5) are negative and statistically significant at $p<.05$. Thus, the interaction effects of subsidiary size on stakeholder pressures in Model 4 and 5 provide support for our Hypothesis 2, i.e. subsidiary size negatively moderates the link between institutional pressures from private or public stakeholders on the intensity of employing political strategies.

In sum, we have hypothesized a positive direct effect of institutional pressures from private and public stakeholders on the intensity of subsidiary political strategy (Hypothesis 1), and subsidiary size to negatively moderate the effect between institutional pressures and subsidiary intensity of political strategies (Hypothesis 2). In our analysis we find support for both hypotheses: In addition to the positively significant main effects, interaction effects are negatively significant. That means that strong institutional pressures seem to induce more intense subsidiary political strategies, while subsidiary size negatively moderates this relationship in particular.

<u>Robustness Check</u>

In order to check for robustness of our regression results, we analyzed the sub-dimensions of the variable measuring the intensity of political strategies, i.e. the three political tactics (financial incentive, reputation building and subsidiary information). Upon considering reputation building as an alternative dependent variable, regression results were qualitatively identical. The direct effects of subsidiary size and institutional pressures from stakeholders were positive and significant, and the interaction terms were negative and significant. For subsidiary financial incentive and information strategy our findings could not be confirmed, however. Except for the significant direct effects of institutional pressures from public stakeholders on the use of the subsidiary information strategy, the effects on financial incentive and information strategy were insignificant, though showing the hypothesized signs. Hence we find support for our Hypotheses, particularly upon using reputation building strategy as another dependent.

*xxxxxxxxxxxxx Insert Table 2 about here. xxxxxxxxxxxxx*

## Discussion

This paper explores the relationship between institutional pressures from public and private stakeholders, subsidiary size, and the intensity of subsidiary political strategies. In particular we investigate the moderating effect of subsidiary size. Upon studying MNE subsidiaries in emerging countries, we stress the increased institutional pressures of public and private stakeholders. That is because emerging countries were found to be characterized by especially complex and rather volatile institutional contexts. In accordance with earlier findings dealing with stakeholder pressures in an emerging market environment (Nell, Heidenreich, & Puck, 2014), we can confirm an impact on the intensity of subsidiaries' use of political strategies.

Moreover, a CFA supports the argumentation of Schuler et al. (2002), stating that political strategies are likely to be combined rather instead of being used exclusively. However, to check whether political strategies are jointly used especially in emerging markets' institutional contexts remains to be verified in the future. This requires using complete scales of separate

political strategies and different measures to capture institutional variation. Based on the argument that subsidiary size moderates the use of political strategies and can thus act as an indicator of different strategies, there might also be a different effect of size depending on the strategies used, e.g. because some tactics are more expensive or require different resources and capabilities than others. Small firms are likely to engage in other strategies than large firms (Cook & Fox, 2000). Hillman and Hitt (1999), for instance, claim that firms that possess more financial and intangible assets rather employ individual political strategies, while firms possessing fewer resources are more likely to act collectively in a group with other firms. Another differentiation can be made between the three strategies suggested by Hillman et al. (1999). While empirical support was found for both, the information political strategy, as well as the constituency building strategy, so far research detected no significant effect for the financial incentives strategy (see e.g. Hillman & Wan, 2005).

Further, by arguing from resource based and institutional perspectives, we contribute to a deeper understanding of the impact of interdependencies between different antecedents of subsidiary political strategy. As such, our results respond to the calls to examine subsidiary strategies in a more integrative fashion (Elg et al., 2008; Lawton et al., 2013). We argue that though increasing institutional pressures from stakeholders in general imply more intense subsidiary responses in terms of political strategies, smaller firms are even more likely to respond.

While previous literature discussed constraints of smaller firms' strategic behavior due to scarce resources (Bianchi & Noci, 1998), it is also them that were found to be more responsive to address stakeholder pressures (Bowen, 2002; Darnall, Henriques, & Sadorsky, 2010). Indeed, our data suggests that size matters in two different ways. First, it has a direct positive effect on investments into political strategies supporting the idea of slack resources and visibility. Second, it has a negative moderating effect on subsidiaries' reactions to institutional pressures from stakeholders. That is, while subsidiaries increase their investments into political strategies when they face increasing stakeholder pressure, larger subsidiaries increase their

investments relatively less strong. Thus, our results also support the idea of a buffering effect of subsidiary size against external contextual pressures that is related to resource slack. Moreover, the significantly negative moderating effect of subsidiary size is in line with research suggesting an increased responsiveness of small firms due to simpler organizational and decision-making structures (Jones & Klassen, 2001), more innovative capabilities to react to external pressures (FitzRoy, 1993; Stock et al., 2002), among others.

The model can on the one hand be used to understand the moderating role of subsidiary size on the relationship between institutional pressures from stakeholders and the intensity of political strategies employed. On the other hand, however, it might act as indicator of different strategies and other types of political activism, which vary by size and degree of perceived institutional pressure. While an active political engagement might be suggested to be most effective and appropriate when taking a resource dependence and contingency approach, it can be assumed that the conformity approach is more suitable to explain the behavior for small firms, which react stronger to prevailing institutional pressures. These differences in responsiveness might be linked to the higher likelihood of larger firms to be confronted with weaker stakeholder pressures. For instance, Darnall et al. (2010) point out that regulatory stakeholders might shy back to force large firms, because pursuing enforcement actions and penalties against them are likely to bear much higher costs, and might provoke countervailing measure, than in the case of smaller firms. Moreover, the impact of small firms' resources is sometimes underestimated, because they can differ fundamentally in their nature (Dean, Brown, & Bamford, 1998), e.g. in terms of higher innovative capabilities.

While previous literature calls for and our analysis indicates that it is appropriate to include interaction effects between different antecedents, there are also several other combinations of variables that might have a moderating effect. Previously, Macher and Mayo (2011) found that institutional-, industry-, and firm-level factors impact on firm's ability to influence governments. More specifically they find a positive effect of firm size on government, which is nega-

tively moderated by political diversity in a country. That suggests integrating institutional factors, beyond stakeholder pressures, that are used to characterize country contexts in the analysis of political strategies. Yet, future studies could advance our understanding for interdependent effects from different levels of analysis. The use of political strategies might be found to be more or less efficient in a certain industry or institutional context (Macher & Mayo, 2011). By contributing to our knowledge about the combination of factors that influence firms' political strategy, further studies would be of practical importance to policy makers and managers alike.

## Limitations

Our paper is limited in several ways that have to be considered upon interpreting our results. First, data is based on one individual's perception per subsidiary. Thus, the answers to our questionnaire are likely to be affected by common method bias/variance (CMV). Beyond that, asking respondents to answer questions about past events might entail a retrospective bias. We tried to cope with these biases, however, by separating the items in the survey measuring the same construct, ensuring the respondent's anonymity and assuring that there are neither "wrong" nor "right" answers, i.e. to minimize the risk of evaluation apprehension (Podsakoff et al., 2003). Moreover we tested for non-response bias. Following the approach of Armstrong and Overton (1977), we found no evidence for non-response biases in our study upon considering T-tests comparing early and late arriving responses in our study.

Second, our questionnaire focused on buffering, as compared to bridging strategies (Hillman, 2003). It would be valuable to check if the effect on the use of political strategies would be significant and of the same sign when examining bridging strategies in the same set up and model applied for buffering strategies. Size is also strongly associated with managerial orientation towards government affairs, and this variable seems to be a more important indicator than, for instance, the amount of bargaining power. Therefore, studies might focus more on behavioral characteristics (Blumentritt, 2003). Furthermore, results might differ from this study if the type of approach taken by a firm was known (relational, long-term vs. fractional, ad-hoc) (e.g.

Hillman, 2003; Hillman et al., 2004). It is desired to be more careful in linking variables used and theories applied and making distinction between concepts. Many studies include firm-level variables in an ad-hoc manner, e.g. using firm resources to proxy firm ability and/or willingness without separating their meaning (Hillman, Keim, & Schuler, 2004).

Third, we suggest that there are not only differences between tactics and ways to be politically active upon considering firm size. In this paper we relied on cross-sectional data to examine the relationship between stakeholder pressures, subsidiary size and the intensity of political strategies. Therefore we cannot capture dynamic effects, i.e. how direct and interaction effects change across time, which we suggest future research could focus on. On the one hand this might be useful in order to examine how firms develop connections and how political competencies of managers develop. On the other, firms being highly active politically might be more likely to have developed a competitive advantage already, which they can leverage (Blumentritt, 2003; Hillman, 2003).

Forth, the frequency or intensity of political strategies cannot be equated with the success of such strategies, which was addressed by some authors. We limited ourselves to analyzing the intensity of political strategies. Beyond that Cook and Fox (2000), for instance, considered the interaction between frequency and success of political strategies. They found smaller firms to employ political strategies more frequently, though with a lower rate of success. Future research could thus aim at disentangling the effect of willingness and ability for using political strategies.

Fifth, previous research argued that reputation in a local context is particularly crucial for small firms. The question is, whether this claim can be transferred and is applicable for smaller sized subsidiaries. They might not be, because of internal institutions of the MNE impede them, inducing them to be less bound to the local environment. This also remains to be explored for future research.

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# Appendix

Table 1: Correlations (Number of observations = 151).

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 Intensity of subsidiary political strategies | 1.0000 | | | | | | | | | |
| 2 Subsidiary size | 0.1331 | 1.0000 | | | | | | | | |
| 3 Public stakeholder pressures | 0.4882 | 0.1593 | 1.0000 | | | | | | | |
| 4 Private stakeholder pressures | 0.4595 | 0.175 | 0.6059 | 1.0000 | | | | | | |
| 5 Headquarter influence | 0.1720 | -0.0365 | 0.0853 | 0.0157 | 1.0000 | | | | | |
| 6 Geographic distance | -0.1595 | -0.0679 | -0.2171 | -0.3589 | -0.0164 | 1.0000 | | | | |
| 7 Cultural distance | -0.0344 | 0.0263 | 0.0709 | -0.0678 | 0.0932 | -0.0207 | 1.0000 | | | |
| 8 Subsidiary capabilities | 0.1995 | 0.0039 | -0.0108 | 0.0943 | 0.0278 | -0.0163 | 0.1468 | 1.0000 | | |
| 9 Subsidiary age | -0.0301 | 0.0542 | -0.0106 | 0.0221 | -0.087 | 0.0287 | 0.0294 | 0.0266 | 1.0000 | |
| 10 MNE degree of internalization | -0.0495 | 0.0798 | -0.0143 | -0.2131 | 0.1261 | 0.3472 | 0.1087 | -0.0459 | 0.0697 | 1.0000 |
| 11 Wholly-owned subsidiary dummy | -0.1617 | 0.1022 | -0.0244 | -0.0097 | 0.0594 | 0.1498 | 0.062 | 0.1171 | -0.0576 | 0.0599 |
| 12 Services industry dummy | 0.1841 | 0.0265 | -0.028 | -0.0366 | -0.2152 | -0.0052 | -0.0733 | 0.1628 | 0.0322 | -0.1457 |
| 13 Trade industry dummy | -0.0886 | -0.0593 | 0.0525 | 0.0309 | 0.0163 | 0.0210 | -0.0399 | -0.0650 | -0.0900 | -0.0532 |
| 14 Americas MNE origin dummy | -0.0082 | -0.0737 | -0.0859 | 0.1243 | 0.0975 | 0.0210 | 0.0748 | 0.0869 | 0.0927 | -0.1558 |
| 15 EU MNE origin dummy | -0.0683 | -0.0055 | -0.0182 | -0.3473 | -0.0765 | 0.4124 | 0.098 | -0.0029 | 0.0112 | 0.3414 |
| 16 Host country Brazil dummy | 0.1163 | -0.0029 | 0.1083 | -0.0735 | 0.109 | 0.2127 | -0.0492 | 0.0238 | 0.1085 | 0.2001 |
| 17 Host country China dummy | -0.1226 | -0.0754 | -0.1448 | -0.2125 | -0.2455 | 0.2349 | 0.062 | -0.0681 | -0.2474 | 0.2337 |
| 18 Host country India dummy | 0.0605 | 0.2173 | 0.1627 | 0.1837 | 0.0565 | -0.4101 | 0.081 | 0.0373 | 0.0917 | -0.1953 |
| 19 Host country South Africa dummy | -0.1086 | -0.0915 | -0.1073 | 0.096 | 0.1051 | 0.1650 | -0.1417 | -0.0709 | 0.1676 | -0.1402 |
| 20 B-t-C business share | -0.0569 | -0.0684 | 0.0453 | 0.0027 | 0.0504 | -0.0142 | 0.0522 | -0.0651 | -0.0753 | -0.0277 |

| | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|
| 11 Wholly-owned subsidiary dummy | 1.0000 | | | | | | | | | |
| 12 Services industry dummy | -0.1121 | 1.0000 | | | | | | | | |
| 13 Trade industry dummy | 0.0433 | -0.263 | 1.0000 | | | | | | | |
| 14 Americas MNE origin dummy | 0.0291 | -0.0133 | 0.1942 | 1.0000 | | | | | | |
| 15 EU MNE origin dummy | 0.0702 | -0.0052 | -0.193 | -0.6566 | 1.0000 | | | | | |
| 16 Host country Brazil dummy | 0.0563 | 0.0711 | -0.0524 | 0.0019 | 0.1116 | 1.0000 | | | | |
| 17 Host country China dummy | 0.0158 | -0.0368 | -0.1397 | -0.296 | 0.3531 | -0.2249 | 1.0000 | | | |
| 18 Host country India dummy | -0.0584 | -0.0243 | 0.041 | -0.235 | -0.2743 | -0.1691 | -0.3721 | 1.0000 | | |
| 19 Host country South Africa dummy | 0.0176 | -0.0514 | 0.1656 | 0.6184 | -0.3302 | -0.1984 | -0.4368 | -0.3283 | 1.0000 | |
| 20 B-t-C business share | 0.1725 | -0.0389 | 0.0889 | 0.0462 | -0.1332 | -0.181 | -0.0593 | 0.1323 | 0.0583 | 1.0000 |

Table 2: Regression results: Impact of institutional pressures from stakeholders on the intensity of subsidiary political strategies.

| *Variable* | *Model 1* | *Model 2* | *Model 3* | *Model 4* | *Model 5* |
|---|---|---|---|---|---|
| Subsidiary size | | 0.0773*** | 0.0330 | 0.0809*** | 0.0717*** |
| | | (0.0124) | (0.0360) | (0.0163) | (0.0149) |
| Public stakeholder pressures | | | 0.1450** | 0.1450** | 0.149** |
| | | | (0.0616) | (0.0615) | (0.0627) |
| Private stakeholder pressures | | | 0.1390** | 0.1430** | 0.141** |
| | | | (0.0546) | (0.0567) | (0.0562) |
| Public stakeholder pressures x Subsidiary size | | | | -0.0375** | |
| | | | | (0.0157) | |
| Private stakeholder pressures x Subsidiary size | | | | | -0.0257** |
| | | | | | (0.0102) |
| Headquarter influence | 0.0948* | 0.1000** | 0.0957** | 0.0947** | 0.0946** |
| | (0.0482) | (0.0483) | (0.0419) | (0.0423) | (0.0423) |
| Geographic distance | -8.99e-06 | -8.11e-06 | 9.36e-06 | 1.07e-05 | 1.06e-05 |
| | (1.20e-05) | (1.19e-05) | (1.38e-05) | (1.42e-05) | (1.41e-05) |
| Cultural distance | -0.00194 | -0.0019 | -0.0023 | -0.0021 | -0.0021 |
| | (0.00339) | (0.0033) | (0.0030) | (0.0030) | (0.0030) |
| Subsidiary capabilities | 0.0491* | 0.0509* | 0.0408 | 0.0426 | 0.0425 |
| | (0.0275) | (0.0275) | (0.0253) | (0.0258) | (0.0258) |
| Subsidiary age | -0.0003 | -0.0002 | -0.0001 | -0.0001 | -0.0001 |
| | (0.0008) | (0.0008) | (0.0008) | (0.0008) | (0.0008) |
| MNE degree of internationalization | 1.04e-05 | -0.0003 | -7.75e-05 | -0.0002 | -0.0002 |
| | (0.0007) | (0.0007) | (0.0006) | (0.0006) | (0.0006) |
| Wholly-owned subsidiary dummy | -0.1550* | -0.1790* | -0.1710** | -0.1740** | -0.1730** |
| | (0.0922) | (0.0928) | (0.0765) | (0.0769) | (0.0768) |
| Services industry dummy | 0.1490 | 0.1420 | 0.1670* | 0.1520* | 0.1520* |
| | (0.1020) | (0.0995) | (0.0889) | (0.0894) | (0.0895) |
| Trade industry dummy | -0.0423 | -0.0290 | -0.0590 | -0.0652 | -0.0640 |
| | (0.0800) | (0.0803) | (0.0787) | (0.0801) | (0.0798) |
| Americas MNE origin dummy | -0.0151 | -0.0258 | 0.0579 | 0.0233 | 0.0244 |
| | (0.2070) | (0.2020) | (0.1760) | (0.1810) | (0.1810) |
| EU MNE origin dummy | -0.0769 | -0.0852 | -0.0252 | -0.0606 | -0.0597 |
| | (0.1700) | (0.1650) | (0.1520) | (0.1580) | (0.1580) |
| Host country Brazil dummy | -0.0185 | -0.0159 | -0.1360 | -0.1460 | -0.1420 |
| | (0.3000) | (0.2990) | (0.2520) | (0.2520) | (0.2520) |
| Host country China dummy | -0.1970 | -0.1930 | -0.1870 | -0.1920 | -0.1920 |
| | (0.2630) | (0.2620) | (0.1980) | (0.1980) | (0.1990) |
| Host country India dummy | -0.1930 | -0.2470 | -0.2560 | -0.2840 | -0.2840 |
| | (0.2880) | (0.2880) | (0.2220) | (0.2260) | (0.2260) |
| Host country South Africa dummy | -0.2710 | -0.2740 | -0.3430 | -0.3480 | -0.3500 |
| | (0.2800) | (0.2800) | (0.2280) | (0.2280) | (0.2290) |
| B-t-C business share | -7.34e-05 | 0.0002 | -8.47e-05 | -4.20e-05 | -3.87e-05 |
| | (0.0009) | (0.0008) | (0.0008) | (0.0008) | (0.0008) |
| Constant | 1.6130*** | 1.6340*** | 1.5400*** | 1.5810*** | 1.5780*** |
| | (0.2800) | (0.2780) | (0.2210) | (0.2300) | (0.2290) |
| Number of observations | 151 | 151 | 151 | 151 | 151 |
| R-squared | 0.182 | 0.205 | 0.438 | 0.447 | 0.447 |

*Notes:* Robust standard errors in parentheses.

*** p < .01, ** p < .05, * p > .1