Political Embeddedness and Competence Creation: Intermediate Units vs. Local Subsidiaries

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Abstract

Although political embeddedness in host countries have been shown to be crucial for competence creation, we have little knowledge on what drives the intensity of such embeddedness at the subsidiary level. Drawing on a combination of the network and institutional approach, we analyze the effects of autonomy and internal networks on the development of political ties for capability creation. Using a multi-group analysis in structural equation modeling with 193 subsidiaries, we also compare such effects between units receiving a formal internal mandate in the multinational corporation (intermediate units). We find different mechanisms to deal with political relationships for such types of units and discuss how connected subsidiaries perform better in host country political arenas, extending our understanding on the interplay between political embeddedness and the creation of useful competences.

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1. Introduction

There are three main reasons for MNCs to engage in political networks: to engage better in local environments, to respond to political threats and to create strategic opportunities (Puck, Lawton and Mohr, 2018). Traditionally, studies on Multinational companies (MNC) and political networks concentrate on the impact of corporate political activity on firm performance (Lawton, McGuire and Rajwani, 2013), in that being more embedded in the political context reduces uncertainty and transaction costs, thus sustaining long-term competitive advantages (Hillman, Kein and Schuler, 2004). This opportunity relies on the local subsidiaries, which obtain and recombine knowledge from political local networks creating useful competences and capabilities for the whole organization. Among such capabilities literature highlighted the capacity to influence regional and global regulations for their own benefit (Frynas, Mellahi and Pigman., 2006; Lawton, 1999), uncertainty management capabilities (Cuervo-Cazurra, Ciravegna, Melgarejo and López, 2018) and negotiation abilities with local governments (Bonardi, Holburn and Vanden Bergh, 2006).

With few exceptions, Business Network works, mainly focus on country level variables affecting the extent of business networks (Klopf and Nell, 2018; Andersson, Dellestrand and Pedersen, 2014; Jindra, Giroud and Scott-Kennel, 2009). In general, these elements are out of the control of the firm (Andersson, Bjorkman and Forsgren, 2005). However, since the embeddedness on political networks has clear implications for subsidiary competence development and firm performance, this paper studies the factors influencing subsidiary political embeddedness from an internal perspective.

Our objective in this study is to explore the internal subsidiary mechanisms that enhance the intensity of political networking. We draw on business network theory and institutional perspective as complementary theoretical frameworks by pointing at the importance of subsidiary autonomy and the internal position of the unit as a way to counterbalance isomorphic pressures. We contend that the specificity and benefits of being embedded in political activity help the subsidiary to position itself and gain influence in the MNC network, in that formal roles and access to networks are both recognized elements of power and influence in the MNC in network and institutional approaches (Forsgren, 2017). Considering the great differences between the development of units in the network (Valentino, Caroli and Mayrhofer, 2018), we introduce the formal hierarchical position of the subsidiary as a moderating element.

We use a data base on a set of subsidiaries located in Spain, some of them with the formal role of Intermediate Unit within the multinational. Intermediate units (IU) are subsidiaries with HQ mandates delegated and, in turn, with an authority role and responsibilities over other subsidiaries. Using a novel methodological approach on international business, we perform a multigroup analysis to observe differences in mechanisms related to the intensity of political networks depending on the existence of such a formal role. Our results confirm that political ties are related to the development of unique competences in the MNC, and furthermore, that the intensity of political networks is related to subsidiary autonomy and the level of internal interactions. However, an interesting fact is that formal hierarchical position modifies this relationship. Multigroup analysis confirms that the linkages of internal interactions with other MNC units and the political ties significantly differs according to the existence of a formal role.

We believe this study can contribute to the literature in three ways. First, literature has been quite silent about positive effects from managing institutional contexts. Drawing on an uncommon combined view of the institutional approach with business network theory, this study confirms, in line with previous recent research (Cuervo-Cazurra et al., 2018), the positive relationship between the intensity of political ties and the creation of unique competences. Second, we respond to recent calls regarding the need to understand the antecedents of firm

political activity (Lawton et al., 2013; Hadjikhani, Lee and Ghani, 2008). We propose that subsidiaries deal with isomorphic pressures by creating special competences through different mechanisms. Furthermore, we push the debate beyond entry mode and location choices dilemmas in political context by discussing what happens next and how subsidiaries deal with its political context (García-Canal and Guillén, 2008; John and Lawton, 2017). Finally, we contribute to the recent body of research on intermediate units in the MNC by evidencing how formal hierarchical roles influence the relationship between subsidiaries and the intensity of political networks.

The structure of the paper is organized as follows. In the next section, we present the theoretical framework and the hypotheses. We then present the sample and the method of analysis explaining the multigroup technique, followed by the results and discussion section in which we develop our contributions and future research avenues.

2. Theoretical framework and hypotheses development

The idea of isomorphism (DiMaggio and Powell, 1983) basically states that firms and, in this particular case, subsidiaries face situations where they need to adapt to incompatible demands from internal (for instance, standardized organizational practices) and external (for instance, values or locally accepted practices) environment. These pressures are called the isomorphic conflict. To deal with it, in some cases, different subsidiaries execute similar responses ignoring economic rationality (John and Lawton, 2017). In others, subsidiaries may follow established norms from the HQ when coping with these pressures.

However, there is a lack of empirical research on internal processes triggering different subsidiary behavior when balancing these contradicting forces.

The isomorphic conflict is a classical discussion in institutional theory (Kostova, Roth and Dacin, 2008). Moreover, the institutional theory is very useful in recognizing the importance of external actors beyond business actors. However, due to theoretical limitations, we adopt a mixed approach with network theory which permits us "splitting" the organization by modelling internal

and external forces as networks. Also, explore the internal mechanisms of the subsidiary used to balance this conflicting pressures.

Political embeddedness and competence creation

Markets can be conceptualized as a network of relationships (Forsgren and Johanson, 1992) such that MNCs can be considered as differentiated networks (Ghoshal and Bartlett, 1990) which embed in market networks. A basic thought in the network approach is that knowledge development is largely carried out in the frame of business network relationships rather within the boundaries of the firm and therefore at different places in the organization (Andersson, Forsgren and Holm, 2015). Therefore, the extent to which a firm is integrated in a specific market environment can be approached by a network reality (Andersson, Forsgren and Holm, 2002; 2007; 2015; Andersson, Dellestrand and Pedersen, 2014; Figueiredo, 2011; Hoenen, Nell and Ambos, 2014), thus measured by the extent of external relationships of the firm.

This line of research-based has proposed that business relationships form the basis for firm competence development, in that there is evidence of a significant connection between the extent of embeddedness on a local network and the competence creation and resultant contribution to the MNC (Anderson and Forsgren, 2000). Business network approach rests on two basic assumptions: the closeness of a relationship with a customer or supplier improves the ability to absorb knowledge for the subsidiary and the pressure that exerts a business relationship may push the subsidiary to innovate (Andersson et al, 2005; Figueiredo, 2011). The rationale behind is that subsidiaries operate within a particular network composed by different business relationships that in turn represent an important part of knowledge input and resources that subsidiaries control. This knowledge, as specific or unique, can be used to build or exert influence inside the MNC. In short, each subsidiary operates in a different network of business relationships that in turn creates different resources available for the unit and in which it may base its position in the corporation (Forsgren, 2017).

However, embedding in market networks is not purely a matter of business relationships but also a matter of managing to establish basic support of the surrounding social environment. Likewise, and according to institutional theory, understanding the institutions –i.e., rules of the game in the society- can provide the firm with certain advantages compared to others and affect firms' routines (North, 1990). This certainly leads to firms facing increasing pressures to respond to the environment (Kostova and Zaheer, 1999; Kostova and Roth, 2002). In general, the bunch of studies approach political environment as an external field introducing uncertainty and generating costs and therefore discouraging FDI (Mudambi, Navarra and Delios, 2013). Alternatively, information about the political context may help managers to convert uncertainty in a measurable variable and, as a consequence, converting the subsidiary in a proactive actor (John and Lawton, 2017). It is argued that firms behave proactively towards the perceived political actors aligned with its goals (Hadjikhani et al., 2008).

Even though, while the importance of entrenching in political networks at the subsidiary level has been confirmed, there is little body of knowledge on how being embedded in political networks can impact competence creation in the MNC. We can actually find a few studies pointing at political resources that have been leveraged by the MNC within some industries: Frynas et al., (2006) and Lawton (1999) showed how firms dealing with specific institutional environments developed a capability of influencing regional and global regulations; Bonardi, Holburn and Vanden Bergh (2006) evidenced the capacity to negotiate with governments; another recent example is in Cuervo-Cazurra et al., (2018) where firms home based in emerging market contexts develop an uncertainty management capability from dealing with home political context. This capability is shown to strength the international performance of these firms and translates into organizational knowledge useful to deal with unpredictable policy changes.

Above examples depend on very specific country political context (for instance, specific regulations, level of political risk…) which reinforce the idea of the non-replicable nature of political networks and therefore the uniqueness of the knowledge that is possible to extract.

Basing on this, we contend that embeddedness in political networks has been somehow underestimated as a mechanism to create competence for the subsidiary and the firm. According to the literature above, the creation of resources and capabilities is contingent upon the relationships established. This statement is supported by the fact that a successful entry in a market requires the basic understanding of the main actors who are the important players, and hence are the important connections (Johanson and Valhne, 1977). For instance, a foreign firm can be perceived as competent and reliable to business partners and in spite of this, if its credibility and relationship with political actors or media sphere are reduced or negative, the possibility to establish a proper position is also reduced (Persson et al., 2011). Based on this, we posit that:

H1. The intensity of political embeddedness is positively related to the development of useful competences in the subsidiary

Antecedents of political embeddedness: Internal position and autonomy in the MNC

The subsidiary can be conceptualized as a unit embedded in two different environments: the network in the host country (including the institutional and political network on the one hand, and business network on the other) and the internal network. The internal network consists on its interactions with the rest of units of the MNC, including the HQ and other subunits (Palmie, Keupp and Gassman, 2014; Achcaoucaou, Miratvilles, León-Darder, 2014). While the internal network is a common context for the units forming the organization, every country has its own institutions and each typical external environment can be extremely heterogeneous.

Institutional theory (Kostova and Zaheer, 1999; Kostova and Roth, 2002; Kostova, Roth and Dacin, 2008) predicts that subsidiaries confront conflicting pressures constantly coming from its embeddedness in these two environments, known as the isomorphic conflict (Kostova et al., 2008). The institutional theory proposes that a common way to handle the different isomorphic forces is to let subunits deal with the issue rather than to apply a common corporate standard solution across the organization (Westney, 1993). This implicitly assumes that subsidiaries might

execute mechanisms to deal with the extent of political embeddedness. However, little is known about the role of internal factors and the dominant pressures in subsidiary behavior. Kostova, Roth and Dacin (2008) suggest that the intra network exert much more influence on subunits than the external organizational field, therefore letting some space –i.e., autonomy- to subsidiaries, once again, to influence the development of its external networks. This is due to the fact that subunits are often more dependent on the internal position in the company than on their local external environments.

Following this rationale, in order to reduce isomorphic pressures, the embeddedness in external networks is at the same time used to reinforce the internal position of the company. Furthermore, taking on the network approach, each subsidiary may have mechanisms to identify problems and opportunities in its own networks and will strive either for autonomy (in relation to the rest of the firm) or for influence based in interactions in the internal network to support the development of its own business networks (Forsgren, 2017).

Subsidiary autonomy is a structural attribute of the subsidiary which refers to the decision level reached by the unit. A low autonomy indicates a high level of bureaucratic control shortening the initiative taking and the entrepreneurial behavior of the unit (Birkinshaw, 1997). This becomes relevant to the extent that it endows the unit with a margin for exploration. While the influence of autonomy presents mixed results (Palmié et al., 2014), by and large literature suggests that the greater the level of autonomy of the subsidiary, the better the ability to form favorable external networks with other firms and institutions in the environment (Birkinshaw, Hood and Jonsson, 1998; Cantwell and Mudambi, 2005). Specifically, strategic independence provides subsidiaries with an ability to build local competences (Cantwell and Mudambi, 2005). In this case, taking the importance of political embeddedness to face heterogeneous political environments, we expect that the more autonomous the subsidiary is, the more it will use its decision making and initiative power to develop political networks. Therefore, we posit:

H2. The level of autonomy in the subsidiary is positively related to the intensity of political embeddedness in the host country

We focus now on the internal embeddedness of the subsidiary (the level of internal interactions with other units) that occurs when a subsidiary establish interactions and information flows with other units (Gupta and Govindarajan, 2000), thus providing the opportunity to share and recombine knowledge from other parts of the MNC (Cantwell and Mudambi, 2005). Previous literature describes internal embeddedness as a mechanism that interacts with external embeddedness and reinforces the creation of competencies at an internal level (Achcaoucaou et al., 2014). This is explained because gaining a competitive position within the corporate group is directly related with accumulating and sharing valuable knowledge from the environment creating, in this way, a kind of a loop (Figueiredo, 2011; Meyer, Mudambi and Narula, 2011; Dorrenbacher and Gamergald, 2006; Achcaoucaou et al, 2014). However, a different approach states that while internal embeddedness may promote the development of competences, it does not interact positively with the development of external networks; the reason is that the efforts to develop an internal position may undermine the subsidiary effort to develop external linkages, running out in a tradeoff (Yamin and Andersson, 2011).

At this point, we argue that actors who are strongly tied to other actors in the internal network are better positioned to influence the strategic development of other parts of the MNCs in a way that supports its own position (Anderson, Forsgren and Holm, 2007). Following institutional theory, one way of reinforcing this position is gaining legitimacy in local environments (Kostova and Zaheer, 1999). The strong specificity of institutional local environments provides subsidiaries with negotiating power inside the MNC and better ability to reduce or counterbalance isomorphic pressures: that is, to reinforce subsidiary internal position, the subsidiary will develop a position in outer unique networks, such as political networks. We, therefore, posit the following hypothesis:

H3.The intensity of internal interactions with other units in the organization is positively related to the intensity of political embeddedness in the host country.

The aforementioned relationships are based on internal subsidiary mechanisms and positioning to develop competences and exert influence. However, we maintain that the influence a unit might exert in the organization is not only contingent upon the extent of embeddedness on specific networks, but also on its formal position.

Taking the case of HQs, these would gain influence through formal authority and compete for influence with other units in the federative MNC (Forsgren, 2017). The basic idea is that an upper hierarchical position provides the unit with authority over other units over a set of decisions and responsibilities (Goold and Campbell, 2002). This provides a flux of vertical information flows which in comparison, subsidiaries without formal hierarchical position lack. The idea of using organizational structure to deal with political embeddedness (Dieleman and Boddewyn, 2012), is not only based on hierarchical principles but on the fact that formal positions permit a better surveying of the environment to handle uncertainty (Hickson et al, 1971). Recently, literature has provided evidence that units holding upper formal position, including various types of HQs, perform an effort to become embedded in various external networks (Nell, Ambos, Schlegelmilch, 2011; Hoenen et al., 2014). Units with parenting mandates are, in general, allocated with an extra power for influence. Literature refers to these units as Intermediate Units (Hoenen et al., 2014; Villar, Dasí, Botella-Andreu, 2018) and are units formally located in the structure between the HQ and a set of local subsidiaries. All in all, this suggests that there exist two possible sources of power and influence: the integration in a network and the formal position, such that the more central a unit is in the internal network, the greater its chances of influencing the behavior of others. We thus posit the following set of hypotheses:

H4a. The relationship between the level of autonomy and the intensity of political ties is stronger for units holding formal hierarchical positions in the MNC

H4b. The relationship between the level of internal interactions with other units and the intensity of political ties is stronger for units holding formal hierarchical positions in the MNC

Our hypothesized model shown in figure 1 is empirically tested with Structural Equation Modeling, and specifically a multi-group technique to account for inter-group differences between hierarchical positions, as explained in the next section.

Figure 1

3. Method

3.1 Sample and research process

The sample used in this study includes Spanish subsidiaries, being a percentage of them considered as Intermediate Units (IU). IUs are subsidiaries receiving HQ responsibilities which hold narrow or large set of responsibilities over other units usually located under their spectrum of influence. Typical cases of IU are Regional Headquarters, Divisional Headquarters or Regional Management Mandates (Alfoldi, Clegg and McGaughey, 2012). These responsibilities are related to a business unit, a specific market or region or a set of activities. In general, receiving an HQ responsibility entails the development of a new internal formal position with respect to other subsidiaries.

For data collection, we applied a systematic approach focusing on a specific population of IUs, the springboard subsidiary. These are local Spanish subsidiaries from, mainly, European MNCs which hold HQ responsibilities over Latin American markets. These intermediate units are well established in the literature (Pla-Barber, Villar and Madhok, 2018). We used ORBIS data base to identify the population of subsidiaries. Two criteria had to be met: first, subsidiaries must be located in Spain and owned by the foreign global ultimate owner (at least the 51%). Second, the Spanish subsidiaries have to be owners of foreign subsidiaries located in at least one Latin-American country. Ownership levels in Latin America range from 0.1% to 100%. We differentiate the list between subsidiaries holding a limited % of ownership and subsidiaries holding a significant ownership. The list of global population had a total of 1674 subsidiaries.

In a second stage, we sent a questionnaire based in previous research, pre-tested with professionals and academics to ensure that was clearly understandable. The questionnaire was designed to identify which subsidiaries had or had not an intermediate position to permit the comparison between the formal hierarchical profile and the local subsidiary. A member of the top management team with appropriate knowledge about the connections with Latin America and with consciousness of the intermediate position of the subsidiary responded to the questionnaire. Questionnaires included mainly Likert type scales with ranks from 5 to 7 points to avoid automatic responses. Data collection took place in 2015. The final sample includes 193 responses, in turn, a response rate of 11.52%, a sample size within the levels recommended (Cohen, 1988). We also consider procedures to reduce common method bias (Podsakoff, Mckenzie, Lee and Podsakoff, 2003) and double-checked responses to be coherent with secondary data from ORBIS database and press news. Responses were composed of 69 responses from IU and 119 of subsidiaries that did not hold an intermediate position, and therefore without any special hierarchical role in the organization.

3.2 Variable measurement

Dependent Variables

Unique competences. Measures the creation of special generic competences and the perception of the subsidiary on their importance for the rest of the MNC. It is measured using 3 items from scale design by Palmie, Keupp and Gassman (2014).

Political Embeddedness. The measure is based on the scale of Holm and Pedersen (2000) and adapted by Gammelgaard (2013). The scale is a 7 point Likert-scale which asses the intensity of interactions with customers, suppliers, competitors, authorities and local governments, firms and organizations in other related industries and research centers and institutes. Using a factor analysis, we found two factors, namely ties with customers and suppliers (business ties) and a second group formed by authorities and local governments, firms and organizations in other

related industries and research centers and institutes, being the latter the political ties scale here used.

Independent variables

Strategic autonomy refers to the level of decision-making reached by the unit. A low autonomy may indicate a high level of bureaucratic control shortening the initiative taking and the entrepreneurial behavior of the subsidiary (Birkinshaw and Morrison, 1995). We use a scale adapted from Gammelgaard, McDonald, Stephan, Tüselmann and Dörrenbacher (2012) including 5 dedicated to strategic autonomy.

Internal level of interactions refers to the internal network (linkages with parent and sister subsidiaries) and the level of development of it determines the integration of the subsidiary. We measured it through a 3-item scale adapted from Holm and Pedersen (2000) assessing the intensity of relationships with other units different from the HQ (R&D and innovation centers, other subsidiaries and Regional Headquarters).

We report the items from every scale in table 1 in Annex 1.

Control variables

Finally, we include some variables in order to control for other factors that might influence our model specification and to account for potential confounding effects. HQ relationship is an indicator covering the scope of the relationship between the HQ and the subsidiary. In general, the stronger the relationship between the HQ and the subsidiary the higher the probability that the subsidiary will receive legitimacy in the MNC (Yamin and Andersson, 2011). This relationship is expected to be stronger for IUs in that they function as information relays between local subsidiaries and HQs (Asakawa and Lehrer, 2003). Size is an indicator of subsidiary resources which provides a proxy for firm political abilities. Is an established antecedent of corporate political activity (Hilleman, Kein and Schuler, 2004). We measure size as the number of employees in the subsidiary averaging the 3 previous years (Klopf and Nell, 2017; Villar et al., 2018). We also control for the effect of the industry differentiating between manufacture and

services following previous studies (Kunish, Menz and Birkinshaw, 2018). In this way, we acknowledge the different intensity in embedding in political contexts whether a sector is more regulated and or dependent on local resources (Jimenez et al., 2014). Finally, entry mode controls for the way of subsidiary formation. It is argued that acquired subsidiaries are strongly embedded in local networks compare to Greenfield (Valentino, Caroli and Mayrhofer, 2018). However, results show how Greenfield pay more attention to networks different from business networks (Valentino et al., 2018). We follow previous studies by adding a greenfield dummy to control for this influence (Perri, Andersson, Nell and Santangelo, 2013; Klopf and Nell, 2018).

1.1 Data analysis

We test our model with Partial Least Squares (PLS) path modeling, a variance-based structural equation modeling (SEM) technique to test the model. SEM permits to assess the reliability and validity of the measures (outer model) of the theoretical constructs simultaneously as well as estimate the relationships among the constructs (inner model). 4 reasons justify the use of PLS among the different SEM techniques: first, when the objective of the study is predicting dependent variables (Chin, 2010); second, when the sample is smaller than 250 (our n=193) (Reinartz, Maenhein and Henseler, 2009). Third, when the raised model is complex, in the sense that exist variables with first or high order constructs and between the variables relationship (for instance, direct and indirect relationships); finally, when the study uses latent variables scores for predictive relevance (Hair, Ringle and Sarstedt, 2011).

Furthermore, we apply a Multi-group analysis (MGA) as a response to the heterogeneity in our sample (including two types of subsidiaries, intermediate units and local units) which is a less common approach in management. MGA is generally regarded as a special case of modeling moderating effects (Henseler and Chin, 2010) where a parameter is hypothesized as different across two subpopulations (Sarstedt, Henseler and Ringle, 2011). This allows us to analyze group effects related to the relations on the structural model. Also permits calculating if differences between groups are statistically significant which reflects the moderating role of a variable. In our study, the moderating effect examined is the formal hierarchical position (IUs versus regular

subsidiaries). As this is a categorical variable, PLS estimates path coefficients for both subsamples and, in the last analysis, we identify if there are significant differences between the coefficients. In this case, we confirm the existence of a moderating effect (Hernández-Perlines, 2016).

4. Results

There are two phases in order to interpret the model with PLS: the measurement model (outer model) where reliability and validity is tested to draw conclusions on the relationships between constructs (Roldán and Sánchez-Franco, 2012), and a second phase in which we assess the structural model and the multi-group analysis where we test the hypothesis. Furthermore, a primary concern when performing MGA is ensuring that constructs measures are invariant for the two groups and do not entail measurement differences. Measurement invariances ensure that dissimilar group-specific model estimations do not result from different meanings of the latent variable for the groups (Henseler, Ringle and Sarstedt, 2016).

4.1 Measurement model and invariance measurement across the groups

In table 1 we report a full confirmatory factor analysis -including reliability, convergent and discriminant validity- for the two groups of data, following the procedure in Rasoolimanesh, Ringle, Jaafar and Ramayah (2017) and based in Chin (1998, 2010) and Hair, Sarstedt, Ringle and Mena (2012). This is often reported through the internal consistency reliability (CR coefficient) and the convergent validity (AVE coefficient), as we did for the four constructs in our model: autonomy (AUT), Political Ties (PT), Internal Embeddedness (IE) and Unique Competences (UC).

In table 1, we also report loadings for each item of the latent variables. Generally, loadings must reach the minimum threshold of 0.7 to ensure composite reliability (Hair et al., 2011) and convergent validity, that should reach at least 0.7 and 0.5 respectively. However, in some cases, it may be acceptable to maintain items with loadings below 0.7, especially in two cases: first, when the underlying theoretical assumption is very established and strong and the latent variable is composed by only two items and second, when composite reliability and convergent validity

have all acceptable levels (Chin, 2010). In our case, both composite reliability and convergent validity are acceptable for both groups of data, and thus it was not required to remove items with lower loadings (Rasoolimanesh et al., 2017). Finally, discriminant validity assesses the extent of differences between constructs. We use the heterotrait-monotrait ratio (HTMT) suggested by Henseler et al., (2015). Maximum threshold is 0.85. We report discriminant validity in table 2.

Table 1

Table 2

For testing measurement invariance, we follow Henseler et al., (2016) through the MICON method. This method approach is a 3-step method assessing: the configural invariance, the establishment of compositional invariance and the equal means and variance. We report this procedure in table 3 and we stablish partial measurement invariance of the two groups. This is a requirement for the right interpretation of MGA group-specific differences results following Henseler et al (2016).

Table 3

4.2 Structural model and multi-group analysis

Table 4 shows results for the structural model before performing the MGA. This first analysis permits us testing Hypothesis H1, H2 and H3 as they are general hypothesis.

Table 5 presents the results of the structural model for Multigroup Analisis which permit us testing H4a and H4b. Henseler MGA p-value test based on bootstrapping (Henseler, Ringle and Sinkiviks, 2009) and the permutation test (Chin and Dibbern, 2010) are two non-parametric tests that assess differences between path coefficients of the two groups. Henseler MGA returns significant values when the coefficient is lower than 0.05 or higher than 0.95. Permutation test returns significant values for coefficients below 0.05. Finally, in table 6 we report R^2 and Q^2 of

the two groups. R^2 values in PLS estimation asses predictive significance and the explained variance in the endogenous variables and the path coefficients and is required to be above 0.1 (Albort-Morant et al., 2016). We use 5000 bootstrap re-samples and 5000 permutations as recommended in Rasoolimanesh et al (2017). In addition, we report the predictive relevance of the dependent variables using Stone-Geisser's Q^2 (Hair et al., 2014) which we measure using blindfolding procedures. The values should be above 0 suggesting the relevance of the predictive model. Both indicators show acceptable levels.

Table 4

Table 5

Table 6

Our estimations asses the structural model in terms of sign, magnitude and the significance of the structural path coefficients.

Table 4 evidences that the model results in a positive and significant relationship between political embeddedness and unique competences at the subsidiary level showing support for H1. Autonomy and internal interactions are also positively and significantly related to political embeddedness, therefore, letting us accept H2 and H3.

H4a and H4b are tested with MGA reported in Table 5. Path coefficients for the relationship between political embeddedness and unique competences remain positive and significant for both groups. However, interestingly, the effect of autonomy and internal interactions is different for both groups. Specifically, autonomy is positively and significantly related to political embeddedness for regular subsidiaries while does not affect IUs. On the other side, internal interactions with other units are positively and significantly related to political embeddedness for IU while not relevant for regular subsidiaries.

MGA findings (table 5) reveal that IUs significantly differ with respect to the effect of internal embeddedness on political embeddedness and therefore we accept H4b. It means that formal hierarchical structures moderate the relationship between internal embeddedness and political embeddedness. Specifically, this effect is suppressed for local subsidiaries while the effect is positive and significant for IU. We confirm these results through 2 different tests (Henseler and Permutation test). Finally, from table 6 we interpret that political embeddedness explains 23% of the variance in unique competences for IUs while only 16% in regular subsidiaries. This tells us about the relative importance of political networks for each type of subsidiary.

5. Discussion

How organizations make sense of their different environments and how they do actively position themselves in their internal and external networks is a key question for international business studies (Kostova et al., 2008). Extant literature at the subsidiary level has shown how subsidiaries gain influence in the corporation by creating useful competences for the organization: they leverage, filter and transform knowledge form external networks, which at the same time requires gaining a position in such external context. However, little attention has been paid to the mechanisms leveraging this external knowledge for the purpose of creating unique competences (Iurkox and Benito, 2018). Both network and institutional theory convey that the position in a network is a source of power, and thus balancing the trade-offs between the external and the internal environment is a crucial aspect for MNC units. If the subsidiary can build specific knowledge from its environment as a source for competence development for the rest of the organization, it will gain influence and therefore resource to leverage its position in those networks.

In this paper, we develop a framework combining institutional and network approaches deepening in the importance of political embeddedness for subsidiaries since it contributes to the organization by embedding it in various heterogeneous contexts serving therefore as a source of power for subsidiaries. Specifically, we analyze subsidiary autonomy and the level of internal interactions of the subsidiary because these two dimensions represent partial manifestations of

subsidiaries internal mechanisms to position themselves influential, both in the internal and the external network. Our results confirm the relation between autonomy and political embeddedness and the level of internal interactions and political embeddedness. While this is confirmed for the general model, the multi-group analysis has allowed us to examine the moderating effect for the whole model accounting for subsidiaries with formal power. Results confirm that both antecedents may work in different situations; while local units -those with no formal role- may use autonomy as a source to leverage the relationship with political ties, Intermediate Units base this relationship in its position in the internal network.

Key contributions

First, we concur with previous studies in that political and institutional contexts matters for the firm and specifically matters for the subsidiary. Since business networks may appear more homogeneous across countries difficulting the creation of unique knowledge political environments are found unique and extremely heterogeneous. This may be the reason why political embeddedness of the subsidiary is so strongly related to the creation of unique competences. In this line, we also contribute by extending the approach to political environment as an opportunity for the subsidiary (John and Lawton, 2017).

Second, we contribute by dealing with the isomorphic conflict. For a long time, the focus has been on the external political bargaining strategies of MNCs with host country governments and institutions and little has been advanced on the internal leveraging mechanisms at the subsidiary level beyond entrepreneurship and innovation (Geppert and Dörrenbächer, 2014). Institutional approaches have traditionally considered the interaction between the firm and its environment conceiving the firm as a compact and coherent unit. At the most, the subsidiary is considered to be an adaptive entity either responding to the local pressures or to the internal central exigencies from the HQ. Network theory permits us splitting the firm reality by modeling it as a dynamic network composed by differentiated forces and pressures. In this way, we can see that the subsidiary has different mechanisms (internal interactions and autonomy) by which leverage the

external network position. Interestingly, both mechanisms appear to be alternative depending on the hierarchical position of the subsidiary.

It seems that the hierarchical position permits the subsidiary leveraging its influence through its interactions with other units within the internal network while autonomy is the residual conduit for regular subsidiaries.

By proving these two alternative paths for influence, we also contribute to the open debate on neo-institutionalism approach (Kostova et al., 2008) by which MNCs cannot be model as controlled top-down organizations which respond to external pressures without internal social dispute (Geppert and Dörrenbächer, 2014).

Third, we contribute to the recent increasing interest in Intermediate Units and complex parenting structures (Kunicsh, Menz and Birkinshaw, 2018; Villar et al., 2018; Nell, Kaapen and Lamanen, 2017) by showing how they use its internal positioning to leverage influence. Hoenen et al., (2014) evidenced the unique access to multiple external environments of these units. We concur with these authors on the importance of IUs in embeddedness. In particular, our analysis shows the higher importance of political embeddedness for IU. This could be related to its parenting functions and HQ responsibilities and its need for legitimacy (Benito, Lunnan and Tomassen, 2011). Furthermore, we contribute by exploring the influence of their upper hierarchical position in leveraging its influence. This position permits IU using the internal network as an additional source of power.

Finally, we respond to the shortage of quantitative studies on MNCs corporate political activity which is mainly based on case studies (Lawton et al., 2012). We also introduce PLS MGA as a novel way to analyses a qualitative moderator variable in IB studies.

Practical implications

Likewise, our study has some practical implications for practitioners. A direct implication would clearly be that embedding in political environments may help subsidiaries to gain influence in the corporation, and thus this could be used by managers in subsidiaries willing to receive

attention and gain power within the network. Especially, political embeddedness shows to help more IU in gaining influence. We insist in considering political environments from "politically stable" countries as well as sources of knowledge and power for the subsidiary and therefore as a source for bringing strategic benefits. In this line, it is worth considering that political ties of managers may be an interesting resource for the subsidiary. Furthermore, HQ may show interest in understanding that formal authority combined with a rich external network embeddedness are indeed sources of power for the different type of units. This may be useful for a more efficient resource allocation decision and autonomy, a dilemma commonly faced by managers responsible for the orchestration of resources in the MNC.

Limitations and future research

Our study has some limitations, being among them the sample size and the fact that data have been collected in one country, as well as the cross-sectional nature of the research design that limits the possibility of addressing the causality between the constructs. Further studies may address these shortcomings to advance in this line of research.

Furthermore, research on the relation between political ties and the internal influence in the MNC is scarce. Although our study connects these two dimensions, further research is needed to show specific competences that have been developed; for instance, uncertainty management capabilities (Cuervo-Cazurra et al., 2018), cross-regional internationalization capabilities (Villar, Dasí and Botella-Andreu, 2018) and negotiation abilities (Bonardi et al., 2006).

Finally, recent approach on micro-foundations (Felin and Foss, 2005)) may help to deepen in the dynamics of these mechanisms, for instance, studying the specific political activities of managers leading to the creation of unique competencies. To this regard, disentangling micro-politics dynamics in the subsidiary at the individual level looks a promising path for future research.

6. References

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Figure 1. Hypothesized model

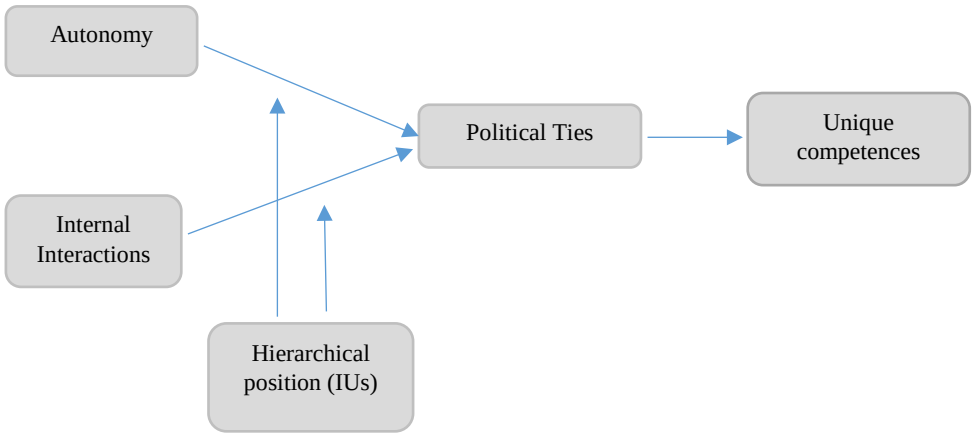

Table 1. Item loadings, reliability and convergent validity

Construct and items	Loading		Composite Reliability		AVE	
	IU	NO IU	IU	NO IU	IU	NO IU
Autonomy			0.876	0.894	0.590	0.627
A1	0.699	0.834				
A2	0.781	0.755				
A3	0.586	0.787				
A4	0.918	0.802				
A5	0.822	0.779				
Political Ties			0.884	0.849	0.718	0.653
PT1	0.780	0.792				
PT2	0.863	0.762				
PT3	0.896	0.866				
Internal Embeddedness			0.782	0.759	0.556	0.527
IE1	0.763	0.888				
IE2	0.520	0.469				
IE3	0.902	0.758				
Useful Competences			0.945	0.926	0.850	0.807
UC1	0.923	0.927				
UC2	0.938	0.928				
UC3	0.905	0.838				

Table 2. Discriminant validity

Discriminant validity HTMT .85 criterion

Constructs	AUT IU	PT IU	IE IU	UC IU	AUT NO IU	PT NO IU	IE NO IU	UC NO IU
Autonomy								
Political Ties	0,299				0,316			
Internal Embeddedness	0,438	0,615			0,171	0,229		
Useful Competences	0,435	0,362	0,435		0,095	0,467	0,501	

Table 3. Measurement invariance

Invariance measurement testing

Constructs	Step 1. Configural invariance	Step 2. Compositional inariance		Partial measurement invariance established	Equal mean value		Equal variance		Full measurement invariance established
		c=1	Confidence interval		Differences	Confidence interval	Differences	Confidence Interval	
AUT	yes	0,974	(1, 0,964)	Yes	0,731	(-0,295, 0,296)	0,231	(-0,338, 0,3)	Partial
PT	yes	0,994	(1, 0,984)	Yes	0,486	(-0,306, 0,303)	0,190	(-0,328, 0,289)	Partial
IE	yes	0,926	(1, 0,880)	Yes	0,664	(-0,296, 0,305)	-0,071	(-0,352, 0,307)	Partial
UC	yes	0,997	(1, 0,994)	Yes	0,451	(-0,291, 0,292)	0,110	(-0,288, 0,260)	Partial

Table 4. General model hypothesis testing

General model hypothesis testing

Hypothesis	Relationships	Path Coefficient	Supported
H1	PT→ UC	0.398 ***	Yes
H2	AUT → PT	0.238**	Yes
H3	IE → PT	0.240**	Yes

Table 5. Hypothesis testing MGA

Hypothesis testing

Hypothesis	Relationships	Path coefficient IU	Path coefficient NO IU	Cis (Bias Corrected) IU	Cis (Bias Corrected) NO IU	Path Coefficient Differences	P-value Henseler MGA	P-value Permutation test	Supported
H4a	AUT → PT	0,130	0,24***	(-0,318, 0,309)	(0,066, 0,309)	-0,109	0,228	0,503	NO
H4b	IE → PT	0,47***	0,106	(0,215, 0,655)	(-0,270, 0,246)	0,365	0,99***	0,015**	YES

Table 6. R^2 and Q^2

IU	
R^2 PT = 0,281	Q^2 PT = 0,148
R^2 UC = 0,231	Q^2 UC = 0,155

NO IU	
R^2 PT = 0,130	Q^2 PT = 0,021
R^2 UC = 0,169	Q^2 UC = 0,089

Annex 1.

Table 1. Scales and Items

Unique Competences
1. Our subsidiary has developed information and know-how that was also applied in other MNC units
2. Our subsidiary created competences that were useful in other MNC units
3. Our technological expertise is demanded by other MNC units
Political Embeddedness
1.Asses the intensity of your subsidiary with Authorities and/or local governments
2.Asses the intensity of your subsidiary with Other local firms in related industries
3. Asses the intensity of your subsidiary with Research centers (universities, sectorial associations…)
Autonomy
1.In Strategic decisions in marketing (e.g. new product launch or new markets)
2.In Strategic decisions in finance (e.g. Investments, financial markets)
3.In Strategic decisions in HR (e.g., top managers recruitment and contracts)
4.In Strategic decisions in R&D (e.g., development of innovation projects development)
5.In strategic decisions in production
Internal Lateral Interactions
1.Asses the intensity of your subsidiary with R&D, innovation centers in our MNC
2.Asses the intensity of your subsidiary with Other subsidiaries
3.Asses the intensity of your subsidiary with Other regional headquarters