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Strictly limited choice or agency? Institutional duality, legitimacy, and subsidiaries' political strategies

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ABSTRACT

This article analyzes political strategies of MNC subsidiaries in emerging markets. We find that institutional pressures from public and private non-market actors in the emerging market lead to increased political activism. Furthermore, we find that these relationships become stronger, when the external pressures are joined by strong firm-internal pressures. Our findings contribute to the scarce literature on firms' political strategies in emerging markets. They also support recent criticism of institutional theory's strong focus on isomorphism as the most important legitimacy-conveying mechanism. We argue that the isomorphism-based either-or logic gives way to stronger agency of the subsidiary and to a logic of active negotiation and social construction of the subsidiary's legitimacy in the emerging market. Our findings show support for this idea as political activism is one such way how the subsidiary's legitimacy can be built and nurtured.

1. Introduction

Political strategies of firms are increasingly seen as important non-market elements of firm strategies, especially for multinational corporations (MNCs) (Boddewyn & Brewer, 1994; Doh, Lawton, & Rajwani, 2012; Hillman & Wan, 2005; Rodriguez, Siegel, Hillman, & Eden, 2006; Sundaram & Black, 1992). They can be defined as actions to affect the public policy environment in a way favorable to the firm (Baysinger, 1984). Thus, the non-market environment is not just seen as a constraint but also as a context which is susceptible to manipulation by firms (Bonardi, Hillman, & Keim, 2005; Esty & Caves, 1983; Frynas, Mellahi, & Pigman, 2006; Rodriguez et al., 2006).

Over the years, a number of studies have investigated antecedents and consequences of political strategies. In the context of the MNC, previous research has mainly investigated the particular non-market context of host-countries, i.e. political strategies have been analyzed on the subsidiary-level of analysis (e.g. Blumentritt & Nigh, 2002; Blumentritt, 2003; Hillman & Wan, 2005) often using institutional theory. In this research, subsidiaries are recognized to be confronted with "institutional duality" (Kostova & Roth, 2002)—institutional pressures from within the MNC and institutional pressures stemming from the particular host context in which the subsidiary is operating. In fact, there is initial empirical support for institutional duality in the context of political strategies (Hillman & Wan, 2005) in the sense that the use of political strategies is influenced by both institutional environments.

While these studies have advanced our knowledge, we claim that we need to revisit the issue of institutional duality and subsidiaries' political strategies for a number of reasons. First, we still know little about how subsidiaries react to institutional duality (Kostova, Roth, & Dacin, 2008). In fact, literature is generally scarce on organizational responses to conflicting pressures from institutional environments (Pache & Santos, 2013; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). The dominant idea of how organizations respond to conflicting institutional pressures seems to follow an either-or logic: The organization will adopt the practice deemed most important and reject (or only ceremonially adopt) alternative practices (Pache & Santos, 2010, 2013; Kostova et al., 2008). This either-or logic has recently been criticized. For example, Pache and Santos (2013) argue that firms can handle the duality on the organizational level (instead of on the level of individual practices) by adapting some practices to one field and others to another field. Kostova et al. (2008) go even further by arguing that legitimacy through isomorphism and ceremonial adoption are largely irrelevant constructs. Instead, they see a much greater role

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for agency and active social construction and negotiation of MNCs' legitimacy instead of simple isomorphism. We argue that political strategies are an important vehicle for the subsidiary to negotiate and socially construct its legitimacy. However, it is unclear how institutional duality influences this behavior and if the either-or logic holds in this context.

Second, empirical evidence on the performance implications of political investments is mixed (Hillman, Zardkoohi, Bierman, 1999) with some recent studies even suggesting negative performance outcomes (e.g. Hadani & Schuler, 2013). The reasoning for worsened market and financial performance is based on the high costs of political strategies combined with a low likelihood of positive outcomes. The more critical view on political strategies calls into question if we have fully captured the antecedents of political strategies.

Third, both of the above-mentioned issues become more important in environments which are particularly complex and characterized by the emerging presence of nongovernmental institutions in addition to governmental actors, and where more diverse and rather unaligned interests coexist (Boddewyn & Doh, 2011; Peng, 2003; Peng & Luo, 2000; Teegen, Doh, & Vachani, 2004). In such contexts, legitimacy is likely to be achieved through other mechanisms than isomorphism (Kostova et al., 2008). Furthermore, in such contexts performance feedback for particular political strategies is likely to be suboptimal while the market for political influence is highly contested, suggesting that positive outcomes of costly political activities are less likely. Thus, it is unfortunate that most of the previous literature on political strategies has neglected emerging markets (Elg, Ghauri, & Tarnovskaya, 2008; Holtbrügge, Berg, & Puck, 2007; see also Lawton, McGuire, & Rajwani, 2013 for an overview) as these markets fit the characteristics of complexity and diverse, unaligned interests.

In sum, we argue that to fully understand institutional theory's explanatory power regarding subsidiaries' political strategies, we need to investigate alternative institutional mechanisms beyond mere isomorphism of practices and we need to extend our research to complex and challenging environments. Therefore, this article analyzes the political strategies of subsidiaries located in five emerging markets. We take into account institutional pressures from within the MNC and from external stakeholders. We investigate the effect of these pressures on the intensity with which the subsidiary uses political strategies, i.e. the intensity with which the subsidiary manipulates and negotiates its status aimed at the social construction of the subsidiary's acceptance and approval (and thus of their legitimacy) in the local host context.

We find that subsidiaries react to external pressures by institutional actors in the environment with an increase in political activism. Furthermore, we find that this relationship is stronger, when the external pressures are joined by strong firm-internal pressures. Thus, in situations where subsidiaries are likely to be exposed to conflicting institutional pressures simultaneously, they respond with investments into political tactics. Our findings add to the literature in various ways.

First, we add to previous work on political strategies. We join earlier work by arguing that both pressures from internal and external sources shape the intensity of political strategizing (Holtbrügge et al., 2007; Meznar & Nigh, 1995). We extend that literature by showing that both effects are interdependent and that a single focus on either internal (e.g., Bhuyan, 2000; Hansen & Mitchell, 2000) or external pressures (e.g., Hersch & McDougall, 2000; Jackson & Engel, 2003; Schuler, 1996) is less adequate.

Second, we extend recent literature on the effects of institutional conflict on firm behavior. Based on the assumption that conflicting pressures create latitude for organizations to exercise strategic choice (Pache & Santos, 2010, 2013) we find support for a legitimacy-creating process that is different from isomorphism and ceremonial adoption (Kostova et al., 2008). Conflicting pressures are not only remedied with an either-or logic where a dominating practice is adopted and the contradicting one rejected (or ceremonially adopted). Instead, the subsidiaries in our emerging market sample react to conflicting pressures with high levels of active negotiation and social construction of their legitimacy, specifically the intense execution of political strategies.

Third, we respond to the call for investigating political strategies and institutional logics in emerging markets (e.g. Rodriguez et al., 2006; Holtbrügge et al., 2007). We add to the literature by showing that the concept of institutional duality also fits subsidiaries' political strategies emerging markets and by providing empirical evidence that specific typologies of political strategies are transferrable across institutional contexts. Furthermore, we argue that the particular context of emerging markets enables researchers to test logics and boundary conditions of both the literatures on political strategies as well as on institutional theory.

2. Literature background

Institutional theory is providing a rich theoretical foundation to many critical issues relevant to the MNC (Dacin, Goodstein, & Scott, 2002; North, 1990). In international management, most work has used neoinstitutional theory (DiMaggio & Powell, 1991; Meyer & Rowan, 1977; Scott, 1995) utilizing the concepts of organizational field, legitimacy, isomorphism, and mechanisms of institutional pressures. Kostova et al. (2008, p. 997) summarize that "[The] neoinstitutional model essentially holds that organizational survival is determined by the extent of alignment with the institutional environment; hence organizations have to comply with external institutional pressures." Thus, conforming to institutional pressures leads to isomorphism which is assumed to ultimately entail legitimacy. From this perspective, legitimacy can be defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." Suchman (1995, p. 574). As a result of legitimacy-conveying behavior in a given organizational field, organizations that share the same field will, over time, become isomorphic with one another (DiMaggio & Powell, 1983; Baum & Oliver, 1991).

For the MNC, the situation is more complex. The MNC is, by definition, exposed to many different host contexts (and thus institutional fields) that all exert institutional pressures (Westney, 1993). The establishment and maintenance of legitimacy in multiple host-countries simultaneously is argued to be one of the most pressing issues of MNCs (Kostova & Zaheer, 1999) as conforming to one environment might require different practices than conforming to another environment.

Furthermore, Kostova and Zaheer (1999) argued that every MNC subsidiary is not only exposed to host country institutional environments, but additionally to the intra-organizational institutional field, a situation termed "institutional duality" (Hillman & Wan, 2005; Kostova & Roth, 2002; Lu & Xu, 2006). From an internal perspective, subsidiaries are exposed to intra-organizational legitimacy needs leading to pressures that arise from their parent organization (Hillman & Wan, 2005; Kostova & Roth, 2002). From an external perspective, MNC subsidiaries obtain legitimacy and acceptance of political, societal, and cultural authorities by acting in accordance to the prescriptions established by those authorities in their immediate surroundings (Heugens & Lander, 2009). In the context of subsidiary political strategies, the existence of institutional duality in the sense of simultaneous pressures from both within and outside the MNC has been confirmed. Hillman and Wan (2005, p. 334) state that their "findings support the dual influence of external and internal legitimacy". However, they are