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# **How “space” and “place” influence subsidiary host country political embeddedness**

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## **Abstract**

As a part of multinational corporations (MNCs), subsidiaries operate in distinct host countries and have to deal with their external context. Host country political embeddedness, in particular, helps subsidiaries to obtain knowledge and understanding of the regulatory and political context, and to get access to local networks. Moreover, they get some guidance and support from their headquarters. Distance between MNC home and host countries, however, alienates subsidiaries from the MNC and influences the extent of subsidiary host country political embeddedness. We suggest that the host country political and regulatory context moderates the effect of distance on subsidiary host country political embeddedness by reducing the need and/or value of headquarters support. Using a sample of 124 European manufacturing subsidiaries, we find that distance (space) and context (place) matter jointly: the impact of distance is stronger for subsidiaries that operate in host countries with low governance quality and low political stability in place.

**Keywords:** Political embeddedness, MNC subsidiaries, headquarters-subsidiary relationships, institutional theory, distance, institutions

## **1. Introduction**

A multinational corporation's (MNC) operations are internationally dispersed across different political, social, and regulatory contexts, where it faces a broad set of stakeholders. Political actors are an important part of this stakeholder network. They shape public policy and control resources, and can thus create or constrain opportunities for MNCs (Baron, 1995; Getz, 1997; Wan and Hillman, 2006). Therefore, MNCs have an incentive to interact with and influence policy makers in both developing and developed countries (Brewer, 1992; Choi, Jia, and Lu, 2014; Luo, 2001; Murtha and Lenway, 1994; Rajwani and Liedong, 2015).

One important way in which MNCs can interact with and influence policy makers is by letting their subsidiaries become embedded in their local host country's political networks. Subsidiary political embeddedness can be defined as the extent to which the subsidiary maintains linkages to local political actors such as governments, industry associations, and unions. From an institutional perspective, such linkages enable subsidiaries to acquire host country-specific and actor-specific knowledge, which they can in turn use to negotiate and actively influence their legitimacy (Doh, Lawton, and Rajwani, 2012; Dowling and Pfeffer, 1975; Henisz and Zelner, 2003; Hillman and Wan, 2005; Peng and Luo, 2000).

Scholars have made very valuable contributions to our understanding of why subsidiaries invest more or less into linkages with political actors. The antecedents of subsidiary political embeddedness have received considerable scholarly attention. For example, it has been shown that subsidiaries adapt their political embeddedness to the institutional context in the host country (Bonardi, Holburn, and Van den Bergh, 2006; De Figueiredo, 2009). Furthermore, subsidiaries adapt their political embeddedness to the MNC-internal context (Hillman and Wan, 2005; Kostova, Roth, and Dacin, 2008; Luo, 2003).

Nevertheless, we suggest that we need to revisit this issue for the following reasons. First, while studies have investigated an extensive range of country-level factors and their impact on political embeddedness, there are few studies that examine more fine-grained di-

mensions (Berry, Guillén, and Zhou, 2010; Jackson and Deeg, 2008). In particular, there is a need for integration of both the multifaceted nature of institutions and the role of distance as country-level factor in our studies of international business (Henisz and Swaminathan, 2008). Second, while a number of studies have claimed to examine the multifaceted impact of country-level factors on MNC subsidiaries, some of them have recently been criticized for mixing up effects (van Hoorn and Maseland, 2016). More specifically, studies in international business have often failed to distinguish between the effects of institutional distance and context.

To shed light on these issues, we build on institutional theory (e.g. Berry et al., 2010; Kostova et al., 2008), as well as recent international business and economic geography literature (e.g. Beugelsdijk, McCann, and Mudambi, 2010). We investigate the independent and joint effects of country-level factors, namely the geographic and contextual distance between a subsidiary host and its headquarters' home country, and the host country context in terms of governance quality and political stability, on political embeddedness. In line with economic geography literature, we will refer to these two factors as space (distance) and place (context) effects (Beugelsdijk et al., 2010; McCann, 2011). We develop several hypotheses and test them using data on 124 European manufacturing subsidiaries from a wide range of home countries.

Our results provide support for part of our hypotheses and reveal that space and place have independent as well as joint effects on subsidiary host country political embeddedness. With these results, we aim to contribute to research in a number of ways. First, we contribute to the literature on subsidiary political behavior (e.g. Blumentritt and Nigh, 2002; Hillman and Wan, 2005; Luo, 2001). We show how space and place matter for subsidiary political embeddedness and provide support for the idea that political embeddedness carries both potential benefits and costs that need to be weighed up carefully by MNCs (Bucheli and Kim, 2012; Darendeli and Hill, 2016; Hadani and Schuler, 2013; Hillman, Zardkoohi, and Bierman, 1999).

Second, we advance literature by arguing that space and place are not only independent, but also interactive, i.e. both distance and host country context matter jointly (Mondejar and Zhao, 2013; Peng and Zhou, 2005). Third, we contribute to the institutional perspective in strategic management research. Our unique dataset allows us to differentiate between effects of distance and context on political embeddedness (van Hoorn and Maseland, 2016).

## **2. Conceptual background and hypotheses**

### *2.1. Host country political embeddedness*

Due to its foreignness, a firm can face hazards when it conducts business abroad (Eden and Miller, 2001; Hymer, 1976; Johanson and Vahlne, 2009; Kindleberger, 1969). More specifically, an MNC, as a “*stranger in a strange land*” (Eden and Miller, 2001: 4), bears a twofold burden: First, it may be treated less favorably than its host country local counterparts because of its foreignness. Second, it is likely to lack understanding of local institutions and customs, which can result in unfamiliarity hazards (Eden and Miller, 2001; Zaheer and Mosakowski, 1997).

Previous studies have identified strategies to mitigate foreignness hazards and establish legitimacy (e.g. Elango, 2009 for the United States; Luo, Shenkar, and Nyaw, 2002 for China). One such strategy is external embeddedness in the MNC host country political context (Halinen and Törnroos, 1998, Luo, 2001). It can help the MNC to obtain knowledge and understanding of the regulatory and political context, and to get access to networks. Moreover, it signals commitment, and can thus help the MNC to negotiate and construct legitimacy in a host country context (Kostova et al., 2008; Pache and Santos, 2013).

Notwithstanding the benefits of host country political embeddedness, it can also be a double-edged sword (e.g. Bucheli and Kim, 2012; Darendeli and Hill, 2016). The double-edged nature of political embeddedness underlines its strategic relevance for MNC management, and helps to explain why MNC research has witnessed an increasing interest in the an-

tecedents and types of political embeddedness (for reviews see e.g. Hillman, Keim, and Schuler, 2004; Lawton, McGuire, and Rajwani, 2013; Lux, Crook, and Woehr, 2011).

Researchers have also paid attention to host country embeddedness of different MNC units (Andersson, Forsgren, and Holm, 2002; Forsgren, Holm, and Johanson, 2005; Yamin and Forsgren, 2006). Subsidiaries and headquarters can both be embedded in a host country, and thereby help to mitigate the hazards of foreignness and contribute to MNC success in the host country. Headquarters, however, are often embedded less strongly in host countries (Hoenen, Nell, and Ambos, 2014; Nell, Ambos, Schlegelmilch, 2011; Yamin and Forsgren, 2006). This can partly be explained by MNCs' complex structures, i.e. the dispersion of operations across distance and in different country contexts (Kostova and Zaheer, 1999; Roth and Kostova, 2003).

In the contemporary view, MNC headquarters are seen as “*network orchestrators*” (Foss and Pedersen, 2002; Ghoshal, Moran, Almeida-Costa, 1995). They are supposed to ensure coherence within the MNC, and coordinate and support their subsidiaries (Goold and Campbell, 2002; Nell and Ambos, 2013). Despite the geography of MNCs making it impossible for headquarters to strongly embed themselves in each host country, they can rely on the embeddedness, representation and local expertise of their subsidiaries (Birkinshaw, Hood, and Jonsson, 1998; Rugman and Verbeke, 2001).

## *2.2. MNC country-level influences and geography*

It is widely acknowledged that country-level, i.e. geographic, factors imply differences in subsidiary behavior, and thus also in the degree of subsidiary host country political embeddedness within the MNC (Blumentritt and Nigh, 2002; Hillman and Keim, 1995; Lenway and Murtha, 1994; Rodriguez et al., 2006). Yet studies often neglect the multidimensionality of geography, as claimed by scholars in economic geography and more recently also in international business (Beugelsdijk et al., 2010; McCann, 2011). Henisz and Swaminathan (2008)

and Berry et al. (2010), for instance, highlight the need for the integration of both the multifaceted nature of distance and of country institutions as country-level factors in international business studies. McCann (2011), in particular, referred to these two distinct notions of geography as space (i.e. distance) and place (i.e. context).

The management of distance in the MNC is a difficult undertaking (Ambos and Ambos, 2009; Ghemawat, 2001, 2011; Kostova and Zaheer, 1999). To understand why this is the case, there have been calls for a more fine-grained study of distance, theorizing about underlying mechanisms and actual effects (Berry et al., 2010; Salomon and Wu, 2012). More specifically, scholars highlight the need to differentiate between difficulties in the management of MNCs caused by physical versus context-related dimensions of distance (Doz, Santos, and Williamson, 2001). The CAGE framework, in particular, covers both the physical dimension of geographic distance, as well as cultural, administrative, and economic distances, which describe contextual differences between different national contexts (Ghemawat, 2001, 2011).

Also, concerning the second dimension of geography, i.e. place, there is agreement among scholars that the country setting, comprising e.g. institutions or culture, has a critical impact on MNC management and international business in general (e.g. Morgan and Kristensen, 2006; North, 1990). Scholars advocate for an in-depth study of specific country-level factors to gain a deeper understanding of their effects on firm strategies (Jackson and Deeg, 2008). Instead of theorizing about the effect of highly aggregated and broad country-level constructs, they suggest using fine-grained constructs, which are more directly linked to the phenomenon being investigated. In the case of political embeddedness, for instance, the regulatory and political country context arguably has a more immediate impact than more general measures of institutional quality or culture.

MNC subsidiaries are located in unique contexts and at varying distances from the MNC home country (Kostova et al., 2008; Kostova and Zaheer, 1999; Roth and Kostova, 2003; Zaheer, Schomaker, and Nachum, 2012). Apparently, both notions of geography are



relevant for MNC subsidiaries' behavior. Yet the question is how space and place influence subsidiary host country political embeddedness. Indeed, previous research suggests that MNC headquarters can support subsidiaries, provide "*a sense of direction, certainty, and legitimacy*" (Kostova et al., 2008: 998) and thereby help them tackle issues of foreignness. What is more, MNC research proposes that some subsidiaries will be more able to adopt efficient and effective practices from the MNC than others (Kostova, 1999; Kostova and Roth, 2002).

In this paper, we build on insights from the abovementioned pieces of literature to investigate country-level antecedents of subsidiary host country political embeddedness. We expect subsidiary host country political embeddedness to vary with the distance from MNC headquarters (i.e. space). Moreover, the need to become embedded will differ between subsidiaries, depending on the host country context (i.e. place). Fig. 1 illustrates our conceptual framework.

----- Insert Fig. 1 here -----

### *2.3. Space and subsidiary host country political embeddedness: The role of distance*

The distance between the MNC's home and its subsidiaries' host countries is a distinguishing feature of the MNC (Johanson and Vahlne, 1977; Zaheer, 1995). Prior research has underscored that its geographic dispersion allows the MNC to tap into diverse markets, acquire knowledge and seize opportunities (Kogut, 1983; Rosenkopf and Almeida, 2003; Rugman, Verbeke, and Nguyen, 2011). Yet it also creates difficulties with regards to communication with subsidiaries, understanding of their host country context (ul Haq, Drogendijk, and Holm, 2017), parenting quality (Goold and Campbell, 2002; Nell and Ambos, 2013), and maintenance of legitimacy (Kostova and Roth, 2002). In this paper, we seek to uncover how distance leads to more subsidiary host country political embeddedness.

Distance has been argued to become increasingly obsolete in modern international business (Beugelsdijk et al., 2010; Friedman, 2005; Håkanson and Dow, 2012; Kostova and

Zaheer, 1999). However, it actually continues to be relevant and receives attention of MNC researchers (e.g. Eden and Miller, 2004; Rugman et al., 2011; Zaheer et al., 2012). What is more, as international business scholars have started to understand distance as a multidimensional construct, they have recognized the need to pay attention to and disentangle the potentially distinct mechanisms of geographic and contextual distance (Beugelsdijk and Mudambi, 2013; Beugelsdijk, Nell, and Ambos, 2017; Doz et al., 2001; Ghemawat, 2001, 2011). We suggest that both geographic and contextual distance have an effect on subsidiary host country political embeddedness. While we believe that the direction of the effect is similar for geographic and contextual distance, we spell out their mechanisms separately in the following.

Geographic distance implies difficulties in MNC management. We argue that it limits the MNC headquarters' involvement in a host country context, as well as their influence and guidance to subsidiaries (e.g. Kostova and Zaheer, 1999; Kostova et al., 2008).

First, geographic distance was found to be associated with higher travel costs, which make face-to-face interaction between headquarters and host country political actors more expensive (Ambos and Ambos, 2009; Ghemawat, 2001, 2011; Goodall and Roberts, 2003; McCann, 2011). This, in turn, may lead to limited headquarters host country embeddedness, i.e. headquarters' relationships with local businesses, as well as political actors (Forsgren et al., 2005; Hoenen, Nell, Ambos, 2014; Nell et al., 2011; Yamin and Forsgren, 2006). Notwithstanding direct travel costs to one particular host country, headquarters need to maintain relationships in all host country contexts. This makes headquarters host country embeddedness even more expensive. If geographic distance between home and host countries is high, it is thus very likely that subsidiaries are the only link to host country actors. As a result, we expect a geographically distant subsidiary to have more contact with host country political actors.

Second, coordination and communication are more difficult across geographic distance (Ambos and Ambos, 2009; Ghemawat, 2001, 2011; Goodall and Roberts, 2003;

McCann, 2011). Geographic distance has been said to shift headquarters' attention away from subsidiaries in general (Bouquet and Birkinshaw, 2008; Monteiro, Arvidsson, and Birkinshaw, 2008). Moreover, when subsidiaries and headquarters are located in different time zones, a lack of overlap in office hours can impede the interaction between headquarters and subsidiaries. Consequently, more distant subsidiaries may also receive less support from headquarters, and benefit less from their headquarters' resources and experience (Giroud, 2013; Monteiro et al., 2008). Thus, we expect a geographically more distant subsidiary to rely more on its own local initiatives and resources (Baaij and Slangen, 2013; Drogendijk and Andersson, 2013; Harzing and Noorderhaven, 2006; Kostova et al., 2008).

Contextual distance refers to the fact that MNCs need to deal with different host countries (Ambos and Ambos, 2009; Brannen, 2004; Ghemawat, 2001, 2011; Griffith and Harvey, 2001; McCann, 2011). These can differ from the MNC home country in their cultural, administrative and economic contexts. We argue that such differences can imply that subsidiaries view particular organizational practices as less appropriate and/or efficient for their host country (Kostova and Roth, 2002).

Similar to geographic distance, contextual distance can imply coordination and communication problems. In the case of contextual distance, however, these problems are not due to a lack of interaction between the headquarters and subsidiaries. Rather, headquarters support is less valuable for subsidiaries operating in contextually distant host countries. Headquarters, for instance, are more likely to misinterpret and misunderstand regulations, customs and values in contextually more distant host countries, which can result in misplaced support (Bhagat et al., 2002; Kostova, Nell, and Hoenen, 2016; Kostova et al., 2008; Slangen, 2011). Hence, we expect contextually distant subsidiaries to rely less on headquarters support and to enforce contacts with host country political actors.

Moreover, contextual distance between home and host countries may aggravate the liability of foreignness, the "*social costs of access and acceptance*" (Zaheer, 2002: 352). Such

costs arise from a lack of local networks and unfamiliarity with a host country context (Zaheer, 1995; Zaheer and Mosakowski, 1997). The options to limit such costs and reduce the liability of foreignness include, for example, choosing an entry mode with a local partner or contractual protection (Eden and Miller, 2001; Elango, 2009; Luo et al., 2002). Similarly, we expect subsidiaries to invest into host country political embeddedness to balance the liability of foreignness.

Overall, we believe that headquarters' support to and interaction with more distant subsidiaries is lower. Regardless of whether it is geographic or contextual distance, we thus hypothesize that distance calls for more subsidiary host country political embeddedness:

*H1a: Greater geographic distance between the MNC home and a subsidiary country is associated with stronger subsidiary host country political embeddedness.*

*H1b: Greater contextual distance between the MNC home and a subsidiary country is associated with stronger subsidiary host country political embeddedness.*

So far, we have argued that distance alienates subsidiaries from the MNC. Therefore, subsidiaries will increasingly turn to the host country context to overcome issues of foreignness and negotiate their legitimacy, for instance through host country political embeddedness (Kostova et al., 2008). Yet embeddedness is an investment (Hadani and Schuler, 2013; Hillman et al., 1999) and the extent of subsidiary host country political embeddedness is likely to depend on both the distance from the headquarters as well as the host country context. We argue that distance and context jointly determine the necessity and/or value of local headquarters' support.

#### *2.4. Place and subsidiary host country political embeddedness: The moderating role of the host country context*

The results of numerous studies indicate that firms are constrained by the institutional context of a country, which influences their behavior and strategies (Jackson and Deeg, 2008; Oliver,

1997). White et al. (2014: 306) even refer to country institutions as “‘gatekeepers’ through which [subsidiaries] must obtain access to conduct business”. Moreover, firms’ unfamiliarity with institutions may imply competitive disadvantages, raise costs, create ambiguity and risk (Grosse and Trevino, 2005; Lawton et al., 2013; Wan and Hillman, 2006). This underlines how important and challenging it is for firms to understand the host country institutional context properly and to gain legitimacy. This is particularly true for the MNC: although every firm needs to cope with home country institutions, MNCs also face a range of diverse host country contexts (Benito and Gripsrud, 1992; Gaur and Lu, 2007; Kostova and Zaheer, 1999).

We contend that subsidiary political embeddedness is not equally important throughout different institutional contexts: for subsidiaries in some host countries, political linkages and headquarters support are more important than for their counterparts in other countries. While studies have looked into host country institutions and their direct impact on firm strategy (e.g. Delios and Beamish, 2001; Henisz, 2000a; Kostova et al., 2008), we argue that host country institutions weaken the relationship between distance and subsidiary host country political embeddedness.

According to institutional logics, the regulatory pillar of institutions covers country-specific legally enforceable rules and political systems, which can incentivize desirable and prevent undesirable behavior, and promote specific firm structures (DiMaggio and Powell, 1991; Kostova and Zaheer, 1999; Scott, 1995). Based on this, we focus on the moderating impact of the regulatory pillar of institutions and the political context here. More specifically, we follow institutional researchers’ calls for a more fine-grained study of the impact of country institutions on strategy (e.g. Jackson and Deeg, 2008). Rather than using broad constructs, we seek to use constructs that are more directly linked to subsidiary host country political embeddedness. Thus, we use governance quality and political stability as important indicators (Globerman and Shapiro, 2003; Slangen and Van Tulder, 2009).

#### 2.4.1. Governance quality

Governance quality describes the quality level of the bureaucracy of a country and its independence from political pressures, as well as the government's credibility to commit to policies. Overall, it summarizes the “*inputs required for the government to be able to produce and implement good policies and deliver public goods*” (Kaufmann, Kraay, and Mastruzzi, 2009: 3), and can thus be seen as an indicator of the quality of a country's “*governance infrastructure*” (Globerman and Shapiro, 2003). We hypothesize that the level of host country governance quality weakens the mechanisms of the relationships between both geographic and contextual distance, and the extent of subsidiary host country political embeddedness.

In Hypothesis 1a, we argued that the positive effect between geographic distance and subsidiary host country political embeddedness can be explained by a lack of headquarters support and headquarters' own host country political linkages. Similarly, the positive relationship between contextual distance and subsidiary host country political embeddedness (Hypothesis 1b) was linked to headquarters' problems with understanding host country contexts and providing accurate support, as well as animosity issues. However, in host countries where governance quality is high, headquarters support and involvement become less important even in geographically and contextually more distance countries. In addition, the animosity issues in contextually distant host countries are less pronounced when host country governance quality is high. This is because it is easier to navigate bureaucracy and access public services in well-governed countries. First, the likelihood of discriminatory treatment is reduced when host country governance quality is high. Second, more transparency in the governance infrastructure makes it easier to identify and contact competent authorities in a host country. Third, it is easier to cope with bureaucrats and/or political actors when the bureaucracy is somewhat free from political pressures and the credibility of a government's commitment to policies is high in a context of high governance quality.

Thus, we argue that increased distance (which decreases the quantity and quality of headquarters support in dealing with the local political context) leads to more subsidiary host country political embeddedness, but that this relationship is weaker in the context of high host country governance quality. We hypothesize the following:

*H2a: The positive association between geographic distance and subsidiary host country political embeddedness is weakened when host country governance quality is high.*

*H2b: The positive association between contextual distance and subsidiary host country political embeddedness is weakened when host country governance quality is high.*

#### *2.4.2. Political stability*

Country contexts are not entirely stable. Rather, they can change over time, which has implications for firm strategy (Carney and Gedajlovic, 2002; Dacin, Goodstein, and Scott, 2002; Wright et al., 2005). Political stability, in particular, is one such dimension of the country context. It refers to the predictability and likelihood of change in the political regime and policies of a country (Henisz, 2000a; Miller, 1992). As with governance quality, we argue that host country political stability weakens the positive influence of geographic and contextual distance on subsidiary host country political embeddedness.

Again, let us recall that in Hypothesis 1a, increasing geographic distance was linked to a lack of headquarters' support and guidance, which implies more subsidiary host country political embeddedness. The positive relationship between contextual distance and subsidiary host country political embeddedness (Hypothesis 1b) was explained by a lack of appropriate headquarters support and an aggravation of issues related to the liability of foreignness. Yet, under the condition of high host country political stability, limited headquarters' attention and involvement in the host country context due to geographic distance from the headquarters might become less important. Similarly, issues related to the liability of foreignness and a lack

of appropriate support from contextually distant headquarters are less of a problem in a politically stable host country. This is because a continuity of policies makes it easier to operate in politically stable countries. First, subsidiaries' need for support from headquarters with experience in handling political instability is reduced when host country political stability is high. Second, it is easier to learn about and understand regulations and policies when the likelihood of unexpected changes is lower in a context of political stability. Third, efficient policy-making in politically stable countries reduces subsidiaries' need for headquarters support in advocating for changes in regulations and in terms of resources.

Our arguments imply that high host country political stability mitigates problems related to a lack of headquarters' influence across geographic distance, and to a lack of appropriate headquarters support in contextually increasingly distant subsidiaries. Therefore, we argue that increased distance leads to more subsidiary host country political embeddedness, while the relationship is weaker when host country political stability is high. We hypothesize:

*H3a: The positive association between geographic distance and subsidiary host country political embeddedness is weakened when host country political stability is high.*

*H3b: The positive association between contextual distance and subsidiary host country political embeddedness is weakened when host country political stability is high.*

### **3. Data and methods**

#### *3.1. Sampling and data collection*

We investigated a sample of European manufacturing subsidiaries of MNCs. Subsidiaries were defined as legal entities, i.e. firms, with more than 50 employees, whose shares are at least 51% owned by affiliated organizational entities from a country other than the subsidiary's host country. To investigate a more homogenous group and thus allow for higher preci-



sion in the measurement of constructs, the study focuses on subsidiaries with manufacturing responsibilities.

The data was collected in two stages in 2008 as part of a larger research project. The AMADEUS database, containing data on European-based firms, was used to draw a population of subsidiaries. A randomly chosen sample of 1,329 manufacturing subsidiaries was then first contacted and subsidiary top managers, i.e. heads/CEOs, received questionnaires in paper and electronic form. Moreover, in order to enhance response rates, follow-up calls were made as part of a second round. In total, 124 questionnaires were used for our analysis (9.3% of the target sample). As response rates of (top) managers had generally been identified to be lower than those of non-managerial staff, the response rate in our study is satisfactory (Baruch, 1999). Our rate is also in the range of Harzing et al. (1997; 2012) reporting response rates of 6 to 16% for mail surveys. In an analysis of non-response bias, t-tests indicated no substantial differences between the age and size of the subsidiaries in our sample and the population (Armstrong and Overton, 1977).

The final sample includes manufacturing subsidiaries from more than 20 countries, with subsidiaries based in Germany, Poland, France, Spain, and the United Kingdom accounting for more than 44%. The home countries of these MNC subsidiaries are mainly European, which is representative of our population of European subsidiaries (Chi-test,  $p = 0.403$ ). Our sample shows good variance in terms of both distance between home and host countries, and host country contextual factors. At the time of the data collection, the responding subsidiaries were approximately 25 years old on average, about 38% of the subsidiaries had been established for less than ten years, another 30% had existed for up to 20 years. On average, the surveyed subsidiaries employed 720 people, with variance across the sample, i.e. one third of subsidiaries with 201 to 500 employees and one quarter between 101 and 200.

### *3.2. Measures*

### 3.2.1. *Dependent variable*

To capture subsidiary host country political embeddedness in this study, we build on a survey question assessing the strength of relationships with host country actors. Survey respondents were asked to rate the perceived strength of ties between their subsidiary and a range of network actors in the host country on a graphical scale (for a similar graphical scale see Ambos and Schlegelmilch, 2007). The network actors in the subsidiary's host country context include domestic customers and suppliers, as well as local units of multinational customers and suppliers, host country governments and industry associations.

Similar to Luo (2001), we asked respondents to assess the strength of subsidiary ties with each type of network actor on a six-point Likert-type scale (ranging from “no relationship” to “very strong relationship”). Using a factor analysis, we found three two-item factors, namely ties with “customers”, “suppliers” and “political actors”. Focusing on political actors, the composite variable *subsidiary host country political embeddedness* was then produced, building on survey items assessing ties with host country governments and industry associations (Construct Reliability = .80). We used standardized factor scores in our regression models.

To check for robustness of our results, we also reran our models with two separate dependent variables, namely subsidiary host country *government* embeddedness, and subsidiary host country *industry associations'* embeddedness.

### 3.2.2. *Independent variables*

We conceptualize and operationalize distance between home and host countries as a multidimensional construct. In particular, we build on the CAGE framework, which differentiates between cultural, administrative, geographic, and economic distance (Ghemawat, 2001, 2011). In the measurement of distance, we follow extant international business literature (e.g. Bae and Salomon, 2010; Berry et al., 2010). Therein, distance is referred to as the absolute

difference between countries (i.e. distance is non-negative). Moreover, it does not attach a value to the direction and size of the difference between countries (i.e. distance is non-directional, symmetric). The home country was clearly defined in our survey instrument as the country of the MNC headquarters, to which a subsidiary maintains its main reporting line. Thus, we accept that in very large MNCs, the direct supervision and guidance of a subsidiary may be taken over by intermediate headquarters, such as divisional or regional MNC headquarters units, instead of by the MNC corporate headquarters (Goold and Campbell, 2002). Our proxies for the different distance dimensions are frequently used in international business and distance literature, and we apply the Mahalanobis technique to control for correlations between the CAGE dimensions (Berry et al., 2010; Beugelsdijk, Kostova, and Roth, 2017; Mahalanobis, 1936).

To measure cultural distance, we use Hofstede's four original dimensions and the ones more recently added by Hofstede and Minkov (2010), i.e. long-term orientation/short-term normative orientation and indulgence/restraint. The Mahalanobis technique indicated no evidence for correlation between the dimensions (Berry et al., 2010). Administrative distance was calculated as the absolute distance of the average of the six dimensions of governance, as defined by Kaufmann et al. (2009) in the Worldwide Governance Indicators (WGI) project (for more details see "3.2.3. Moderating variables"). The high correlation between the six WGI dimensions and a factor analysis suggest using one factor (Construct Reliability = .97). Geographic distance was assessed on the basis of the CEPII database, which accounts for the distance between the most populated cities of a pair of countries (Mayer and Zignago, 2011). Finally, economic distance was measured as the absolute difference in GDP per capita as of 2008 (PPP corrected in 2010 international dollars) with data from the World Development Indicators.

Distance data of these four dimensions was collected for all sets of globally possible country pairings ( $N = 3,721$ ). A factor analysis derived two distinct factors: geographic dis-

tance was found to stand out, and the other dimensions, i.e. cultural, administrative, and economic distance, were loading on one factor (Construct Reliability = .78). This supports the view that a distinction between physical distance and distance as an indicator of contextual changes across national borders should be made (Beugelsdijk and Mudambi, 2013; Doz and Santos, 1997). Thus, we operationalize the CAGE dimensions by differentiating between *geographic distance* and a composite measure of *contextual distance* (cf. Beugelsdijk et al., 2017; Doz et al., 2001). Contextual distance herein reflects distance in terms of culture, governance quality, and economic development.

### 3.2.3. Moderating variables

To measure host country *governance quality*, we adhere to the same source that we used to calculate administrative distance (Kaufmann et al., 2009). The WGI data involves perceptual measures and Kaufmann et al. (2009) define six categories to proxy key dimensions of governance quality, namely: control of corruption, government effectiveness, voice and accountability, rule of law, regulatory quality, and political stability. Higher scores indicate higher governance quality. In our analysis, we draw on the dimension of government effectiveness to capture the level of host country governance quality. Government effectiveness is a combination of responses on “*the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government’s commitment to policies*” (Kaufmann et al., 2009: 6). We also used a composite factor of governance quality to check for robustness, as we find support in a factor analysis that the six Kaufmann dimensions form one factor (Construct Reliability = .97).

To capture *political stability* in the host country, we employ Henisz’s (2000b) index of political constraints (Polcon5). This index reflects the extent to which individual actors of different branches of government have the power to change policy outcomes arbitrarily. It

captures the number of veto powers, and thus political constraints. Low values reflect a concentration of policy-making authority and low political stability, whereas high values reflect a fractionalization of government, characterizing a more stable political context. We also use data from the Economist Intelligence Unit (EIU) in a robustness test. The EIU political risk measure evaluates factors relating to political stability and effectiveness. We reverse the measure to reflect political stability, i.e. higher values imply higher stability.

#### 3.2.4. Control variables

We control for other factors that might have an influence on the extent of subsidiary political host country embeddedness. The selection of controls is based on literature on corporate political behavior (e.g. Oliver and Holzinger, 2008).

We use dummies to control for industry effects (following Chen, Chen, and Ku, 2004). In particular, we group subsidiaries according to their parent companies' main industry, differentiating between three sectors: high-tech industries, covering electrical and electronics, machinery and precision instrument sectors; producer-driven industries, covering chemicals, basic metals, metal products, non-metal mineral sectors; and buyer-driven industries, covering textiles, food, paper, wood products and leather (for a similar approach see Perri et al., 2013). We only use the *high-tech parent industry dummy*, because using two out of the three dummies in the regression did not increase model fit. In addition, we include a *multidomestic strategy dummy* to control for MNC international strategy. In line with previous studies, we use trade flows as key indicators of industry globalization (e.g., Makhija, Kim, and Williamson, 1997; Morrison and Roth, 1992). More specifically, we compiled the LIT index (level of international trade) and the IIT index (intra-industry trade) for each subsidiary's industry for each host country to define subsidiary industries (Ghoshal and Nohria, 1993; see Makhija et al., 1997 and Kim, Park, and Prescott, 2003 for a similar approach).

Furthermore, we control for subsidiary-level characteristics. Based on resource-based arguments, a firm's (political) behavior is influenced by its resource capacity (Hillman, 2003; Hillman and Hitt, 1999; Penrose, 1959; Pfeffer and Salancik, 2003). We include *subsidiary size* as an indicator of resource capacity, because larger firms were argued to have more resources to cultivate relationships. Subsidiary size is measured in terms of the total number of subsidiary employees. We also control for *subsidiary age*, as higher firm age is said to come with more experience with a local context, and less dependence on external resources and actors. We used the logarithm of our measures of size and age. Another subsidiary-level variable is the *greenfield dummy*, which controls for an influence of the type of subsidiary formation ('1' in the case of a greenfield investment).

Moreover, a number of variables are included to account for headquarters' efforts regarding coordination and control of the overall MNC (see Collis, Young, and Goold, 2007; Nohria and Ghoshal, 1997). *Socialization* captures the headquarters' investments in the creation of a common corporate culture, as well as the training of subsidiary managers. Our survey respondents were asked to indicate their agreement with the four following statements on a five-point Likert-type scale: (1) "There is a strong commitment to training and developing skilled managers" (2) "Your parent puts a lot of effort into establishing a common corporate culture" (3) "Your subsidiary executives participate in extensive international training initiated by your parent" and (4) "Subsidiary managers share the values of your parent" (Construct Reliability = .87). Furthermore, previous studies have found that both subsidiaries and their headquarters may be embedded in the host country context to a varying extent (Birkinshaw, Toulan, and Arnold, 2001; Forsgren, Holm, and Johanson, 2005; Nell et al., 2011). Hence, we included *headquarters host country political embeddedness* to control for the impact of headquarters influence in the local context, e.g. a compensatory effect of headquarters embeddedness. We measured this analogously to subsidiary host country political embeddedness (Construct Reliability = .87).

*Matrix organization* is a dummy variable that assumes the value ‘1’ whenever a subsidiary responded reporting to more than one (type of) headquarters. A more complex organizational structure was found to make it more difficult for headquarters to interact with and add value to subsidiaries (Goold and Campbell, 2002). This might also suggest that headquarters tend to be less politically embedded in the host country in the case of a matrix structure, while making subsidiary host country political embeddedness relatively more likely. It is also controlled for *subsidiary relative competence*. Based on two questionnaire items, this variable indicates a subsidiary’s know-how with respect to its key manufacturing activity in relation to the respective know-how of other subsidiaries of the same MNC (Construct Reliability = .83). It ranges from 1 “much below average” to 5 “much above average”. In addition, respondents were asked to indicate whether their subsidiary covers all activities of the value-chain, i.e. R&D (product development), purchasing, manufacturing, marketing and sales, logistics, HR, finance, and stakeholder management (for a similar approach see White and Poynter, 1984). Based on those items, the dummy *miniature replica* is ‘1’ if all functions are covered.

#### 4. Analysis and results

Table 1 reports the summary statistics and correlations for the variables in our models. All hypothesized variables (geographic distance, contextual distance, governance quality, and political stability) are standardized.

----- Insert Table 1 here -----

Bivariate correlations and variance inflation factors indicate no severe issues in terms of multicollinearity in our data. Nevertheless, there is likely to be a stronger linear dependence among our regressors, and thus higher multicollinearity, when we include interaction effects (Aiken and West, 1991; Cohen et al., 2013; Freund, Wilson, and Sa, 2006). To alleviate issues of collinearity, we thus include our interaction terms in a stepwise manner. We find no indication of non-normality of the residuals of our variables. Moreover, we consider the

problem of common-method bias as very low, because first our independent variables are based on objective secondary data, and second, we run models with interaction effects (Chang, Van Witteloostuijn, and Eden, 2010; Siemsen, Roth, and Oliviera, 2010).

We use OLS regression analysis with robust standard errors to assess our hypotheses (Table 2).

----- Insert Table 2 here -----

Model 1 includes all controls. In line with previous studies, we find that subsidiary size is positively related to subsidiary host country political embeddedness. Moreover, the positive effect of the formation dummy indicates that subsidiaries established as greenfield investments are more politically embedded. These effects remain stable across all models.

In Model 2, we include the direct effects of our independent and moderating variables. We find that geographic distance is positively related to subsidiary host country political embeddedness and that this effect remains stable in Models 3-6, which lends support to H1a. However, the direct effect of contextual distance is not significant, which leads us to reject H1b. In addition, subsidiary socialization turns out to have a significant effect on subsidiary host country political embeddedness. More socialized subsidiaries appear to be on average more politically embedded in the host country. This control variable remains significant when we include the interaction effects.

Models 3 and 4 each include an interaction effect between distance and host country governance quality. In Model 3, we test the interaction between geographic distance and governance quality and find a positive and significant effect of subsidiary relative competence. Moreover, the interaction effect is significant at  $p < 0.05$  and shows a negative coefficient, which is in line with H2a. In Model 4, however, we do not find support for H2b. The interaction effect between contextual distance and governance quality is insignificant. Moreover, the fit of Model 4, including the interaction effect, is worse than in the case of Model 2, which includes the direct effects of our measures of distance and governance quality only. Our anal-



ysis lends support to H2a, i.e. an interaction effect between geographic distance and host country governance quality, though not for the case of contextual distance, i.e. H2b.

In Models 5 and 6, we include interaction effects between distance and host country political stability. Again, subsidiary relative competence reveals a positive and significant influence on subsidiary host country political embeddedness (Model 5). Furthermore, in Model 5, we find a negative interaction effect between geographic distance and political stability, while the interaction between contextual distance and political stability in Model 6 is insignificant. Thus, our findings with regard to the interaction effects between distance and either governance quality or political stability are similar. Model 5 lends support to H3a, whereas Model 6 indicates that we need to reject H3b (interaction with contextual distance).

Our results suggest that, on average, *space* in terms of geographic distance is positively related to subsidiary host country political embeddedness, i.e. higher physical distance implies more embeddedness. Yet *space* in terms of contextual distance does not have a direct effect. Moreover, when the host country *place* is well-functioning, i.e. either of high governance quality or political stability, the direct effect of *space* on embeddedness becomes weaker. However, again, this only holds when we refer to *space* in terms of geographic distance. The interaction effects with regard to contextual distance are not significant. Our findings are also confirmed by the interaction plots in Fig. 2 (based on Models 3 and 5).

----- Insert Fig. 2 here -----

The first interaction plot (1) graphically confirms that governance quality weakens the positive relationship between geographic distance and subsidiary host country political embeddedness. The second plot (2) reveals a similar effect for geographic distance and political stability. It illustrates that the impact of geographic distance on subsidiary political embeddedness is weaker when political stability is high. In the context of low governance quality / political stability, however, geographic distance has a stronger impact on subsidiary host country political embeddedness.

#### *4.1. Robustness test*

We ran several robustness tests to validate our results. First, we ran censored Tobit regressions with robust standard errors to account for the Likert structure of our dependent variable (Wooldridge, 2015). Our results did not change. Second, dropping contextual distance altogether did not change our main results. Again, we found that geographic distance has an effect, both directly and jointly with governance quality and political stability.

Third, we evaluated the insignificant direct effect of contextual distance by replacing the composite measure of contextual distance with each of the three individual dimensions of contextual distance at a time. As in our main models, we found support for the effects of geographic distance. Moreover, our models with cultural and administrative distance confirmed our main results, in which we used the aggregate construct of contextual distance. The direct effects of cultural and administrative distance were insignificant. Our model with economic distance also yielded some weak evidence for a direct positive effect ( $p < 0.05$ ), i.e. economic distance implies more subsidiary host country political embeddedness. Fourth, we ran our models including measures of absolute distance between home and host country political stability as well as governance quality. These distance measures are directly equivalent to our host country measures. The models mirror our main analysis, except for the weakly significant negative direct effect of political stability distance.

Fifth, we reran our models with a more limited number of control variables to free up degrees of freedom. We explored our models by dropping one insignificant control from our main model at a time. Our models yielded robust results. Sixth, we added all distance and host country contextual variables jointly. This test mirrored our results of Models 3 to 6 (see Table 2), though with some variation in the size of the coefficients and significances. This is because jointly including all country-level measures in one model inflates standard errors, while parameter estimates are unbiased (Cohen et al., 2013). Due to inflated standard errors, insig-

nificances do not necessarily present evidence against our hypothesized negative effects in H2a and H3a.

Seventh, we investigated if alternative operationalizations of our host country institutional variables lead to different results: re-running our models with the Kaufmann Index of governance quality and the inverted EIU political risk measure as an indicator of political stability reproduced our main models. Finally, we used subsidiary host country government, and industry associations', embeddedness as two separate dependent variables. Our results were again robust. More specifically, the models with the industry association-dependent variable yielded even stronger results, whereas the effects for government embeddedness were slightly weaker.

## 5. Discussion

The main focus of our study is on the multifaceted country-level antecedents of subsidiary host country political embeddedness. More specifically, we argue from an institutional perspective and empirically differentiate between effects of *space* and *place*. We posit that distance (space) between MNC home and host countries, as well as the specific host country context (place), independently and jointly affect the extent of subsidiary host country political embeddedness while controlling for a wide range of other factors, for example, on the level of the subsidiary.

Our study demonstrates that geographic distance helps to explain subsidiary host country political embeddedness in two different ways. First, subsidiaries that are geographically distant from their headquarters are more politically embedded than closer ones. This supports our reasoning that such distant subsidiaries can rely less on headquarters' involvement in the local host country political context (e.g. Forsgren et al., 2005) and they lack headquarters' support and guidance (e.g. Monteiro et al., 2008). This leads to a situation in which

distant subsidiaries are inclined to invest more into local political relationships despite costs of building and maintaining relationships and uncertain outcomes.

Second, we find evidence for an interaction effect between geographic distance (space) and the regulatory and political host country context (place). The positive association between geographic distance and subsidiary host country political embeddedness is weaker when governance quality is high or when the host country context is politically stable. Apparently, under circumstances of high quality and stability host country contexts, the lack of support from headquarters seems less relevant. Interestingly, the direct effect of good and stable host country contexts on subsidiary political embeddedness is not significantly different from zero in our models.

While the direct effect of geographic distance and its interaction with host country context variables find support, we do not find evidence for similar mechanisms when it comes to contextual distance. One reason for the insignificant relationship between contextual distance and political embeddedness might be the lack of ability of subsidiaries to become politically embedded in contextually distant host countries (e.g. Campbell, Eden, and Miller, 2012). Contrary to geographic distance as an indicator for foreignness, contextual distance might imply bigger problems with getting access to relevant actors (e.g. Johanson and Vahlne, 2009; Zaheer, 1995). Thus, while contextual distance between headquarters and subsidiaries might also require subsidiaries to manage their local political context rather on their own, the difficulties for a foreign subsidiary of becoming embedded might mean that, on average, the relationship between contextual distance and political embeddedness is insignificant. This seems to hold also no matter if the local host country context is good and stable or not.

In a series of robustness tests we further investigated this non-finding. We used individual dimensions of contextual distance to check if the non-findings hold despite the fact that we believe that contextual distance is best measured as an aggregate construct consisting of economic, administrative, and cultural distance (cf. Beugelsdijk et al., 2017). Our main results

are to a large extent qualitatively the same, no matter which proxy we use for contextual distance. There is some weak support for our hypothesized positive effect of contextual distance on political embeddedness when we use economic distance as a proxy for contextual distance ( $p < 0.05$ ). Yet, this relationship is weak and disappears when interactions are controlled for.

With our paper, we contribute to the literature in several ways. First, we add to the literature on subsidiary external embeddedness (e.g. Andersson, Forsgren, and Holm, 2002) and political behavior (e.g. Blumentritt and Nigh, 2002). Previous studies tended to understate the complexity of antecedents of subsidiary political embeddedness (e.g. Rodriguez et al., 2006). Studies on the impact of country-level factors, in particular, have oversimplified relationships (e.g. Hillman and Wan, 2005). By arguing for a joint effect of distance and context, we contribute to our understanding of country-level antecedents of political embeddedness. We present evidence for the idea that both headquarters' support and influence across space, as well as host country place jointly influence subsidiary behavior. More specifically, geographic distance between headquarters and subsidiaries and the political host country context appear to jointly influence subsidiary host country political embeddedness.

Thereby, second, our study also supports the institutional view in international business and strategic management research (e.g. Jackson and Deeg, 2008; Kostova et al., 2008; Slangen and Van Tulder, 2009). Our theory and results emphasize that different country-level dimensions can have different effects on subsidiary strategy. We highlight, in particular, that contextual distance and host country governance quality, as well as political stability are related, but yet different constructs. This supports claims in international business literature that *"the institutional environment is not a parameter but a rich constellation of interdependent structures and systems within a country"* (Henisz and Swaminathan, 2008: 539). Empirically, the diversity of home and host countries in our dataset allows us to disentangle effects of distance and context. Previous studies have often claimed to keep these effects separate, while suffering from a conflation of distance and context effects, e.g. due to focusing on a single

home country (van Hoorn and Maseland, 2016). By using a sample that includes various home and host countries, we can actually avoid such conflation.

Third, the literature on subsidiary external embeddedness and political behavior has emphasized the positive aspects in relation to the negative implications of host country political linkages. We contend that subsidiaries consciously decide on the extent of host country political embeddedness (e.g. Darendeli and Hill, 2016; Mu, Gnyawali, and Hatfield, 2007). Our study therefore qualifies previous literature. Our results highlight both the benefits and costs of political embeddedness for geographic and contextual distance (e.g. Campbell et al., 2012). Whereas the positive effect of geographic distance underscores the benefits of subsidiary host country political embeddedness, issues of animosity and ability may be more pronounced in the case of contextual distance and underscore costs of embeddedness in addition to its benefits. On average, the effect of contextual distance on subsidiary host country political embeddedness seems to be less clear. Benefits and costs of political embeddedness seem to differ between geographic and contextual distance. In this respect, we support the notion of distance as a multidimensional construct (Bae and Salomon, 2010; Berry et al., 2010) and that differentiating between geographic and contextual distance can be fruitful for understanding subsidiaries' decisions to build host country political relationships.

Of course, our paper also suffers from some limitations: First, we rely on secondary data to measure the impact of country-level factors on subsidiary political embeddedness. While this eliminates issues of common-method bias, we believe it could be worthwhile to assess managers' perceptions of institutions (e.g. by applying the concept of psychic distance). Knowing about discrepancies between objective and subjective country-level measures could grant further insights into when and how institutions matter for firms' strategies (Håkanson and Ambos, 2010). Moreover, our theoretical arguments call for the use of absolute and non-directional distance measures. As we intend to capture familiarity with the host country context, using absolute and non-directional distance ensures that familiarity for

domestic firms is zero, and greater than zero for foreign firms (Bae and Salomon, 2010; Berry et al., 2010). Nevertheless, the components of contextual distance could also have asymmetric effects (Ambos and Håkanson, 2014; Håkanson and Ambos, 2010). This would imply that the contextual distance between countries A and B differs from the distance between B and A. Future research could investigate the potential impact of directions of distance on subsidiary host country political embeddedness. Furthermore, the insignificant finding of contextual distance indicates that looking into the benefits and costs of political embeddedness could be a rewarding endeavor for future research. This may help explain when the benefits or the costs of subsidiary political embeddedness prevail in the case of contextual distance.

Second, we found MNC-internal factors (e.g. subsidiary relative competence) to be related to subsidiary host country political embeddedness. Although not in the focus of our study, future research could theorize about and look into the impact of internal embeddedness on subsidiary external embeddedness, or the impact of country-level factors on the relative degree of internal versus external embeddedness of subsidiaries. Furthermore, our analysis emphasizes that political embeddedness matters for subsidiaries in developed countries. Yet, we encourage further research considering subsidiary political embeddedness in developed countries with more recent data. Such investigations could help to reveal and understand differences in MNC headquarters' support to distant subsidiaries given current political developments in developed markets. Finally, we use cross-sectional data and therefore cannot draw causal inferences from our regression results. Despite our extensive robustness checks, we encourage future research to scrutinize our results using other samples, ideally with longitudinal data.

## **6. Conclusion**

Our study contributes to our understanding of the multifaceted role of distance and host country institutions, and their impact on subsidiary host country political embeddedness. Building

on the institutional view in international business (e.g. Jackson and Deeg, 2008) and literature on political embeddedness (e.g. Blumentritt and Nigh, 2002), we hypothesize and find that distance and context matter jointly. Increasing geographic distance, in particular, relates to more subsidiary host country political embeddedness, while this effect is weaker when the host country context is more politically stable or of higher governance quality.



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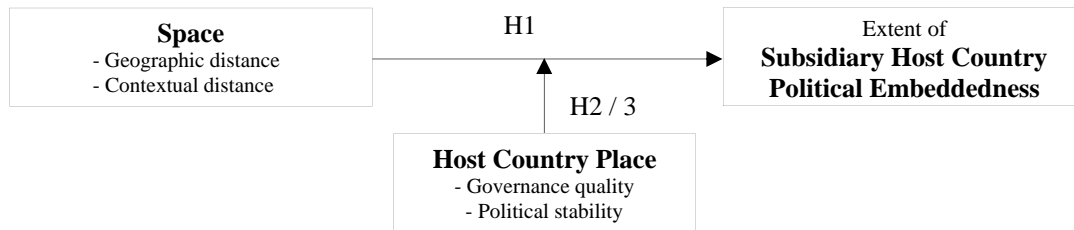
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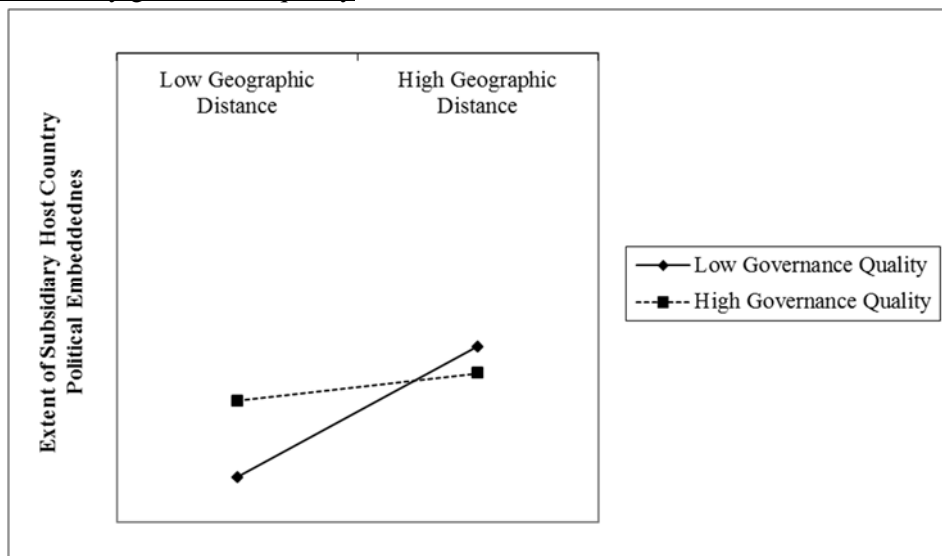
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**Fig. 1.** Conceptual framework.

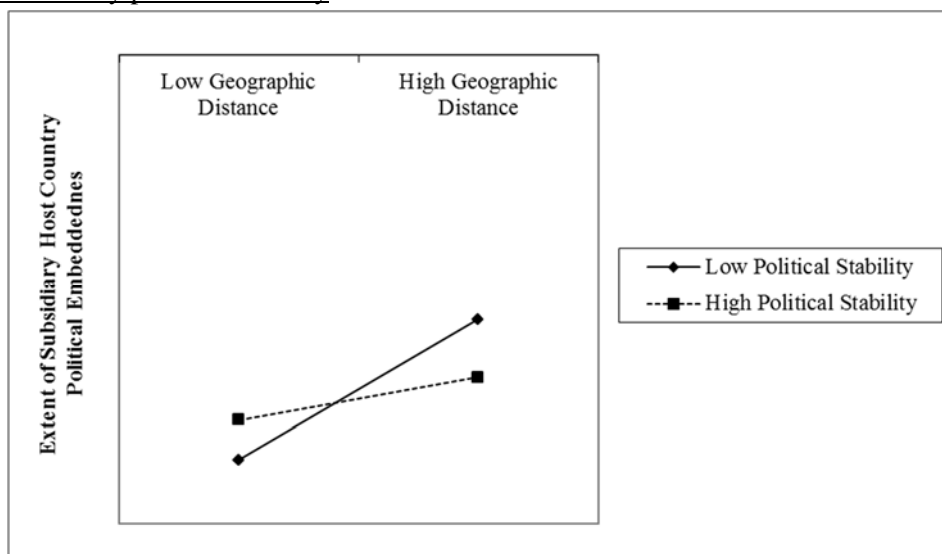


**Fig. 2.** Marginal effects of home-host country geographic distance on subsidiary host country political embeddedness for different levels of host country (1) governance quality, and (2) political stability.

(1) Host country governance quality



(2) Host country political stability



**Table 1**

Variable means, standard deviations, and correlations (Number of observations = 124).

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Subsidiary host country political embeddedness	1														
2 Geographic distance	0.14	1													
3 Contextual distance	0.06	0.07	1												
4 Governance quality	0.01	0.04	-0.59*	1											
5 Political stability	-0.04	0.14	-0.37*	0.38*	1										
6 High-tech parent industry dummy	-0.06	0.21*	-0.02	0.00	0.10	1									
7 Multidomestic strategy dummy	0.08	-0.10	0.05	0.03	-0.16	0.11	1								
8 Subsidiary age	-0.09	-0.09	-0.22*	0.29*	0.07	-0.09	0.04	1							
9 Subsidiary size	0.18*	0.15	0.18*	-0.09	-0.04	0.05	-0.05	-0.03	1						
10 Socialization	0.20*	-0.18*	0.11	-0.16	-0.09	0.09	-0.05	-0.07	0.00	1					
11 Subsidiary relative competence	0.14	-0.01	-0.10	0.04	0.08	-0.09	0.00	-0.03	-0.18*	0.05	1				
12 Matrix organization dummy	0.11	0.12	-0.03	0.09	0.11	0.20*	-0.09	-0.11	0.08	0.08	-0.06	1			
13 Greenfield dummy	0.22*	-0.12	0.17	-0.13	-0.03	-0.10	0.06	0.16	0.05	0.04	-0.04	0.00	1		
14 Miniature replica	0.12	-0.03	0.02	-0.04	-0.01	0.00	-0.01	-0.16	0.04	0.08	-0.11	0.05	-0.11	1	
15 Headquarters host country political embeddedness	0.08	-0.13	-0.03	-0.20*	-0.06	0.03	0.01	-0.07	0.02	0.26*	0.13	0.00	0.04	0.11	1
Mean	0.00	0.00	0.00	0.00	0.00	0.17	0.19	24.94	719.86	3.10	3.66	0.20	0.24	0.72	0.00
S. D.	1.00	1.00	1.00	1.00	1.00	0.38	0.40	28.17	1951.57	0.92	0.80	0.40	0.43	0.45	1.00

\*  $p < 0.05$  Descriptive statistics are based on standardized and unlogged observations.

**Table 2**

OLS regression results: Impact of home-host country distance and host country context on the extent of subsidiary host country political embeddedness (Number of observations = 124).

<i>Variables</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>
High-tech parent industry dummy	-0.182 (0.268)	-0.308 (0.273)	-0.359 (0.262)	-0.316 (0.274)	-0.303 (0.258)	-0.352 (0.274)
Multidomestic strategy dummy	0.195 (0.228)	0.243 (0.243)	0.259 (0.254)	0.254 (0.242)	0.291 (0.247)	0.279 (0.240)
Subsidiary age (logged)	-0.119 (0.092)	-0.150 (0.088)	-0.159 (0.084)	-0.152 (0.088)	-0.166 (0.084)	-0.161 (0.089)
Subsidiary size (logged)	0.184** (0.060)	0.180** (0.061)	0.185** (0.060)	0.177** (0.064)	0.200** (0.059)	0.177** (0.060)
Socialization	0.176 (0.109)	0.235* (0.107)	0.265* (0.106)	0.237* (0.107)	0.240* (0.106)	0.232* (0.106)
Subsidiary relative competence	0.193 (0.123)	0.179 (0.117)	0.216* (0.105)	0.178 (0.117)	0.217* (0.105)	0.183 (0.116)
Matrix organization dummy	0.204 (0.193)	0.125 (0.196)	0.129 (0.193)	0.120 (0.197)	0.190 (0.205)	0.153 (0.201)
Greenfield dummy	0.547** (0.175)	0.636*** (0.174)	0.683*** (0.177)	0.633*** (0.177)	0.674*** (0.175)	0.621*** (0.177)
Miniature replica	0.247 (0.194)	0.253 (0.187)	0.299 (0.187)	0.254 (0.188)	0.221 (0.187)	0.270 (0.188)
Headquarters host country political embeddedness	-0.108 (0.091)	-0.071 (0.096)	-0.114 (0.095)	-0.070 (0.098)	-0.086 (0.095)	-0.060 (0.097)
Governance quality		0.110 (0.122)	0.092 (0.115)	0.115 (0.124)	0.122 (0.116)	0.147 (0.121)
Political stability		-0.034 (0.097)	-0.028 (0.099)	-0.033 (0.097)	-0.034 (0.095)	-0.096 (0.113)
Geographic distance ( <i>H1a: pos.</i> )		0.243* (0.101)	0.295** (0.105)	0.243* (0.101)	0.341** (0.121)	0.259* (0.100)
Contextual distance ( <i>H1b: pos.</i> )		-0.009 (0.111)	-0.051 (0.107)	-0.027 (0.118)	-0.013 (0.106)	-0.077 (0.116)
Geographic distance x Governance quality ( <i>H2a: neg.</i> )			-0.192* (0.088)			
Contextual distance x Governance quality ( <i>H2b: neg.</i> )				-0.020 (0.073)		
Geographic distance x Political stability ( <i>H3a: neg.</i> )					-0.182* (0.091)	
Contextual distance x Political stability ( <i>H3b: neg.</i> )						-0.137 (0.111)
Constant	-2.307** (0.835)	-2.329** (0.734)	-2.591*** (0.648)	-2.234** (0.738)	-2.537*** (0.643)	-2.350** (0.720)
R <sup>2</sup>	0.191	0.250	0.279	0.250	0.284	0.258
Adjusted R <sup>2</sup>	0.120	0.153	0.178	0.146	0.184	0.155
F-statistic	2.66	3.35	3.65	3.22	3.47	3.22

Notes: Robust standard errors in parentheses. \* p<0.05 \*\* p<0.01 \*\*\* p<0.001