

Dissertation

Corporate Political Activities and Political Environments in International Business

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This article summarizes my dissertation on corporate political activities and political institutional environments in international business. It addresses how firms are affected by random (crisis), regular (election), and firm-induced changes in their political environment. The three key findings of my dissertation are that internal and external institutional pressures are not independent of each other; firms' international and national diversification act as safeguards when political events occur; and non-pivotal corporate political activities are oftentimes underestimated. In its entirety, the dissertation not only sheds light on various political challenges, but also on firms' strategies in addressing those challenges.

BIG QUESTION

What are the effects of varying forms of corporate political activities (CPA) and political institutional environments in international business (IB)?

INTRODUCTION AND CONTEXT

In recent years, various political events have captured our interest, excitement, and compassion. We have rigorously followed news about COVID-19 regulations, witnessed the storming of the US capitol with great surprise, and debated about nations' roles in a greater institutional context (such as Brexit). For international firms, these political events played an important role; when political events occur, firms are subject to great uncertainties and market fluctuations. For this reason, studying political events is highly relevant for IB research and has important practical implications.

In three chapters, I study how firms can be affected by random, regular, and firm-induced changes in firms' political environments (Table 1). For each of those political challenges, my dissertation provides practical insights including managerial insights on the headquarters-foreign subsidiary relationship, on risk management, and on corporate political activities. Table 1 provides an overview of the dissertation chapters.

BLURRING PRESSURES: INSTITUTIONAL DUALITY DURING THE ARAB SPRING

In the first chapter of my dissertation, I analyze the effects of a random event in firms' political environment. A random event like the Arab Spring can drastically and dynamically disrupt firms' political environments. Based on a longitudinal case study of the Arab Spring, I explore the effects of crises on institutional duality, which refers to institutional pressures that foreign subsidiaries are confronted with from within the firm (internal) and from their host country environments (external). The case study is based on a European producer of water heaters with production facilities in Egypt.

In terms of external institutional pressures, one traditionally considers regulatory pressures first, when thinking about institutional changes during crises. However, firms may find it hard to understand and cope with changing cultural cognitive and normative pressures. Whereas regulatory pressures (such as curfews) are relatively easy to comprehend, conforming to implicit and fuzzy pressures (such as changes in the societal standing of the younger generation) is more difficult. Thus, actively managing firms' compliance with those pressures and internalizing knowledge about host market institutions (as described in the case study) makes firms less volatile to crises.

In terms of internal institutional pressures, the headquarter (HQ) in the case study allowed very little leeway prior to the Arab Spring (in terms of firm values, safety and reporting requirements, standardized processes). However,

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Table 1. Chapter overview, methodology, theory, and key findings

	Chapter 1	Chapter 2	Chapter 3
Title	Blurring pressures: Institutional duality during the Arab Spring	Ballot boost or bust: Effects of the US presidential election on MNEs	Let's connect: Corporate political activities during pre-market authorizations
Disruption	Random (crisis)	Regular (election)	Firm-induced (pre-market authorizations)
Context	Arab Spring	US presidential elections (2012-2020)	Pre-market entry authorizations
Methodology	Longitudinal in-depth case study	Event study (Eden, Miller, Khan, Weiner, & Li, 2022)	Mixed methods study (Hurmerinta-Peltonmäki & Nummela, 2006)
Theory	Institutional duality (Tempel, Edwards, Ferner, Muller-Camen, & Wächter, 2006)	Event system theory (Morgeson, Mitchell, & Liu, 2015)	Corporate political activities (CPA) (Hillman, Keim, & Schuler, 2004)
Primary insights and practical relevance	<p>The first chapter provides a new perspective on how institutional pressures change during a crisis over time. Understanding the sequence and dynamics that determine changes in institutional pressures has practical importance as firms learn how to adequately respond to institutional pressures during crises.</p> <p>The analysis suggests that there is a dependence between external pressures (national political institutions) and internal pressures (headquarters). Both foreign subsidiaries (how to balance their compliance with conflicting pressures) and MNE headquarters (trade-off different types of control) can learn from this study.</p>	<p>Firms' international diversification act as safeguards when political events occur, i.e., firms with a diverse portfolio of international locations are less affected by local market fluctuations or political events. Therefore, firms should reflect on the role of diversification in their international location portfolios.</p> <p>We know little about the dispersion of political risks within countries; I argue that firms with operations across multiple sub-national regions, are better at establishing political legitimacy across the spectrum. Thus, national diversification enables firms to navigate policy ambiguity more effectively.</p>	<p>All types of CPA (information, constituency building, financial support) can have a positive effect on firms' pre-market authorizations (i.e., admission to sell a new product in a market).</p> <p>From a firm perspective, it may not be expected that non-pivotal CPA has a positive effect on pre-market entry authorizations. Yet, the quantitative analysis indicates that non-pivotal CPA has a significant positive effect. A practical learning is that non-pivotal CPA should not be underestimated for different political and regulatory challenges.</p>

during the Arab Spring, the Egyptian subsidiary could not maintain compliance with headquarter pressures. In crisis mode, headquarters often intuitively increase control and pressures on foreign subsidiaries to maintain a feeling of control (for instance, increased surveillance and on-site presence). Instead of increasing pressures, the headquarter from the case study reconsidered their leeway in day-to-day operations, involvement in strategic decision making, implementation of headquarter values and processes, production standards, and reporting requirements. The case study suggests that, during crises, headquarters can trade-off subsidiary-autonomy with other means of control (such as informal updates if subsidiaries cannot comply with internal reporting standards). Hence, under the right circumstances, headquarters are willing to decrease internal institutional pressures as a response to changing political environments.

From a foreign subsidiary perspective, the case study indicates that the collection of information on crises allows subsidiaries to simultaneously address external (through informed responses to changed legitimacy requirements) and internal pressures (through information provided to the headquarter which reduces uncertainty within the headquarter). Thus, developing host market knowledge allows foreign subsidiaries to empower themselves, to become less vulnerable to crises, and to construct their internal and external legitimacy.

In the case study, I explore how the balance between external and internal institutional pressures can be disrupted by a sudden, random political event. Most importantly, my research suggests that internal and external pressures are not independent of each other, as often assumed in existing research. By adopting both the HQ and foreign subsidiary perspectives, I explore the sequence and dynamics in responses to changing external and internal pressures under extreme political circumstances.

BALLOT BOOST OR BUST: EFFECTS OF THE US PRESIDENTIAL ELECTION ON MNES

Whereas the first dissertation chapter addresses a sudden change in firms' political institutional environment, the second chapter explores how firms navigate institutional change that takes place within the boundaries of the established democratic process such as elections. Based on changes in firm stock prices (also referred to as abnormal returns) during the US Presidential elections in 2012, 2016, and 2020, I explore how firm value is affected by regular political events, depending on the firm's location footprint (national and international diversification).

Is it worthwhile to be an international firm? This is a question that many researchers have asked when studying the role of globalization (e.g., Buckley & Casson, 2021). The analysis of the second chapter indicates that firms' international diversification can act as a safeguard when political events occur (in other words, internationally diversified companies may be less affected by national political events). I argue that being globally diversified can decrease firms' sensitivity to political events as firms spread their political risks across markets.

Even though the role of sub-national differences in institutional environments has been acknowledged (Sally, 1994), there is very little we know about how firms can spread political risks within countries. I argue that nationally diversified firms (in my research, this applies to firms with locations in various US states) are more likely to establish legitimacy across both political aisles. Therefore, nationally diversified firms are more able to navigate policy ambiguity and should be less affected by political shocks.

The study provides insights on how firms are affected by elections, an often-overlooked source of political risk. Moreover, my research explores how firms can mitigate electoral risks, emphasizing the role of firms' international and national diversification as well as their ability to navigate through national political environments ([Figure 1](#)).

LET'S CONNECT: CORPORATE POLITICAL ACTIVITIES DURING PRE-MARKET ENTRY AUTHORIZATIONS

While the subjects of the first and second chapters are the effects of changes in the political institutional environment on firms, the third chapter explores how firms influence political institutions to evoke changes in their political environment. The third chapter is a mixed methods study on firms' corporate political activities (CPA; Hillman, Keim, & Schuler, 2004) for their pre-market entry authorizations (in other words, the governmental application process that firms go through to sell their products abroad). The study consists of a quantitative analysis (how different types of CPA affect the outcome of pre-market authorizations) and a qualitative analysis (firms' and authorities' evaluation of the role of different types of CPA).

Overall, the analysis in chapter 3 indicates that various forms of CPA can help in easing pre-market entry authorizations ([Figure 2](#)). However, in many cases, firms solely use CPA that is directed towards the immediate cause – the authorization. In other words, firms underestimate the role of “non-pivotal” CPA. For example, instead of using financial contributions, lobbying, and public relations strategies, firms focus only on providing information that is necessary for the authorizations. From a practical perspective, firms should, therefore, reflect on their CPA portfolio and consider adopting more extensive, or different types of, CPA.

CPA plays an important role for firms throughout different stages of operating abroad. While the literature on CPA during the internationalization process is vast, there is no IB research on CPA during the pre-market authorization phase. My research provides insights into how firms overcome this highly risky, complex, and uncertain political obstacle of authorizations through CPA. From a practical perspective, this research supports firms in reflecting on different strategies that should allow them to alleviate firm-induced political change.

PRACTICAL, THEORETICAL, AND EMPIRICAL IMPLICATIONS

The objective of my dissertation was to explore the different forms of political institutional environments and company responses to those environments. The three chapters

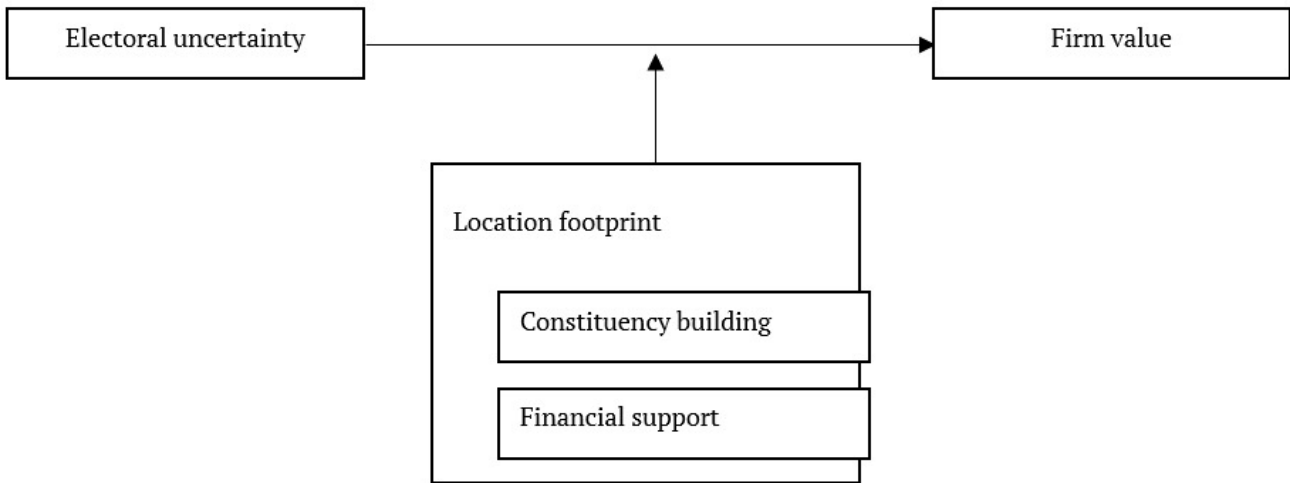


Figure 1. International and national diversification during elections (simplified)

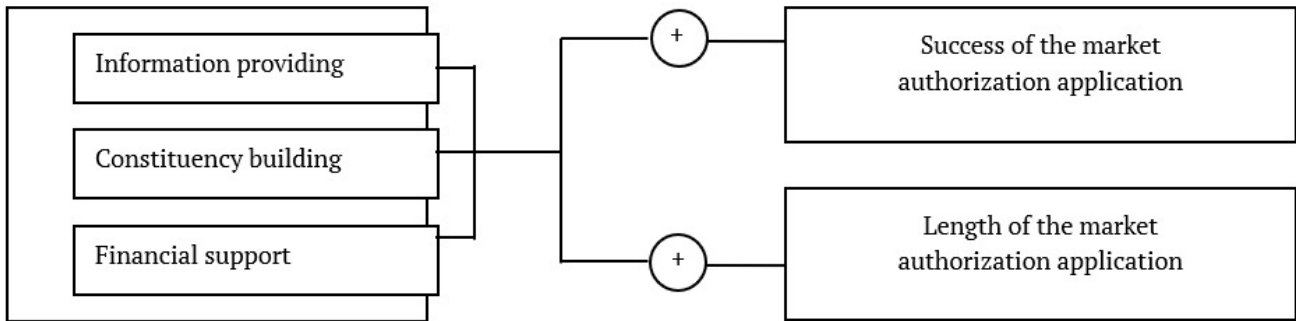


Figure 2. Effect of CPA on pre-market authorizations (simplified)

of the dissertation provide complementary perspectives to the overall dissertation topic. The findings of this dissertation are relevant from practical, empirical, and theoretical standpoints. From a practical standpoint, research on CPA and political institutional environments can provide insights for firms that are affected by random, regular, or firm-induced changes in political environments. Based on my research, firms can reflect on (1) their responses to changes in external and internal institutional pressures during crises, (2) their exposure to political risks based on their national and international footprints, and (3) the value of different types of CPA to alleviate firm-induced changes in political environments. From an empirical standpoint, providing data on CPA and political institutional environments helps us to better understand the role of these abstract concepts. Studying different contexts is necessary to substantiate existing theories, provide further insights, and discover new avenues for IB research on the political spectrum. From a theoretical standpoint, we can learn a lot by conducting research on different events that disrupted political environments in recent years (including the Arab Spring and US presidential elections).

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