

MNEs and their Subsidiaries at Times of Global Disruptions: An International Relations Perspective

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Abstract

The global strategy research agenda has over the past decades focused on how multinational enterprises (MNEs) are able to exploit the opportunities created by globalization to the benefit of their shareholders and other stakeholders. However, the global economy has recently entered a period of disruptions amplified by divergent politics, creating conflicting institutional pressures across countries and increasing barriers to cross-border business. Thus, strategy scholars need to study how businesses can continue to create value for their stakeholders in the presence of such disruptions.

We explore three contemporary disruptions in the global economy (reduced people mobility, divergent national regulatory institutions, and anti-globalization populism) and their potential impact on subsidiary management. Based on this discussion, we outline a research agenda, highlighting opportunities to reassess key theories regarding the nature of global strategy and the interaction between businesses and their environment. Specifically, we argue that political science perspectives help explain the nature of the disruptions, and hence can inform strategy scholarship in explaining and examining strategic responses to such external disruptions.

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1. Introduction

Contemporary multinational enterprises (MNEs) are facing many disruptions in the global economy, i.e. “exogenous shocks whose specific nature is often quite unpredictable” (Lorenzen, Mudambi, & Schotter, 2020: 1216). Arguably, the frequency and depth of such disruptions have accelerated since the onset of the financial crisis in 2008 (Cuervo-Cazurra, Doz, & Gaur, 2020; Meyer, 2017). In particular, the Covid-19 pandemic has created new disruptions, while entrenching others.¹ We focus on three contemporary disruptions that are global in nature: reduced people mobility, divergent national institutions, and anti-globalization populism. These disruptions potentially increase distances in international business, challenging MNEs to readjust their strategies (Coté et al., 2020).

Global disruptions challenge scholars across the social sciences to reassess their assumptions regarding the nature of the external environment in which their research phenomena are embedded, and thus create opportunities to test theories regarding the interfaces of organizations and their environment (Meyer & Peng, 2005). However, beyond the traditional challenges of ‘institutional dualism’ arising from differences in national institutional frameworks (Kostova & Roth, 2002), additional challenges arise from home country institutional pressures reaching beyond national boundaries, in some incidences creating conflicts with pressures faced locally (Meyer & Thein, 2014; Stevens, Xie, & Peng, 2016). We propose that such tension may be analyzed by connecting institutional theory with contemporary international relations theories borrowed from political science.

We focus on the impact of disruptions on subsidiary management (Meyer, Li, & Schotter, 2020). Over the past three decades, globalization has facilitated highly integrated MNEs with functional specialization and low subsidiary autonomy (Edwards et al., 2021; Mees-Buss et al., 2019). This trend is likely to be disrupted by contemporary events in global society. In particular, MNEs may lose some of their competitive advantages vis-à-vis domestic firms, notably advantages that are grounded in global coordination, knowledge sourcing, and scale. This raises the question how MNEs may respond in terms of innovating organizational forms to retain or enhance such advantages. During the Covid-19 pandemic, many subsidiaries obtained greater operational autonomy due to travel restrictions that inhibited face-to-

¹ Note that we focus on external disruptions outside the control of the MNE, hence popular theories of disruptive management, such as Christiansen and Overdorf (2000) or Schumpeter (1939), are not appropriate analytical frameworks as they focus on firms as drivers of disruption.

face coordination. This raises the question to what extent trends towards integration within MNEs will be reversed and subsidiaries be given more autonomy to enhance their ability to respond to disruptions.

Figure 1 summarizes the building blocks of our discussion. We first outline three big, mutually reinforcing disruptions. Then we discuss how they have the potential to fundamentally change the five dimensions of subsidiary management identified by Meyer and colleagues (2020): subsidiary scope, knowledge management, organizational practices, market and nonmarket engagements, as well as the role of individual actors within these processes. Since the disruptions are caused or amplified by political processes, we then turn to the international relations literature within political science to discuss how political processes interact with the evolution of disruptions, and with corporate responses.

We argue that three perspectives of political science (realism, liberalism, and constructivism) offer critical insights that complement strategy perspectives in explaining challenges of MNE subsidiaries. Specifically, they offer alternative explanations of the processes shaping the big disruptions, and how MNEs both influence and are influenced by them. By integrating international relations perspectives, strategy researchers can examine the role of MNEs and their subsidiaries in national and international political processes, and thus offer new insights on how politics affect MNEs and vice versa. The contemporary disruptions offer opportunities to launch such a research agenda.

*** *Insert Figure 1 here* ***

2. Three Global Disruptions

The early 2020s have seen three disruptions that, if sustained, have the potential to reverse key aspects of globalization trends of the past three decades: reduced people mobility, divergent national regulatory institutions, and support for populist policies. These three big disruptions are qualitatively different from disruptions such as volcano eruptions, tsunamis, industrial accidents, or blockages of critical shipping lines in that they are, firstly, global rather than regional in nature, and secondly, evolve over years if not decades. These big disruptions challenge MNEs to manage increasing distances and diversity across the host societies in which they operate. They are contemporarily unfolding and we do not yet know to what extent they are temporary or persistent; either way they suggest interesting analytical questions. Given this uncertainty, we express the three big disruptions as propositions:

Proposition 1: Increased costs of global travel will inhibit mobility of people.

Cross-border business was severely disrupted in spring 2020 as countries introduced travel restrictions to combat the spread of the Covid-19 virus (Chinazzi et al., 2020). These restrictions have been gradually

lifted or replaced by more fine-grained regulations such as health tests ahead of travel or quarantine after arrival in a country (Wells et al., 2021). While the severity of these restrictions is likely to gradually ease in the medium run, policy makers face political pressures to create or refine regulations that directly or indirectly increase the costs of business travel, for several reasons:

1. Infectious diseases are spread through travel, and may be slowed by procedures for travellers arriving from areas where a particular disease has spread. Some countries may require negative test results, while others ask for specific approved vaccinations or quarantine before allowing entry (Parmet & Sinha, 2020).
2. Climate change is a major concern with firm scientific evidence pointing to the human contribution (IPCC, 2021), of which travel – and air travel in particular – are major contributors (Lee et al., 2021). In combatting the emissions from air travel, governments are likely to increase the costs, for example by taxing fuels for aircraft at rates comparable to those of fuels for ground transportation, or through the fees they charge at airports.
3. Immigration remains a major controversial topic in most wealthy economies. They may thus further restrict their visa policies, which will make it more difficult for citizens of poorer or politically less favored countries to obtain visas for business travel or to work in the country (Clemens, Lewis, & Postel, 2018).

Individuals will likewise be concerned about these issues when making their personal travel decisions. For example, personal health and safety in countries experiencing significant health crises increase the demand for appropriate insurance. Moreover, employees' willingness to take on business travels or expatriate assignments will likely be affected by host country health care systems along with other risk considerations (Caligiuri, et al., 2020), which add to the costs for the sending organization.

The common theme here is that MNEs need to be prepared for rising costs of travel and hence increased distances between operations (Coté et al., 2020). Thus, they may need to revise international HRM practices (Caligiuri et al., 2000) and adapt global strategies that involve the sharing of tacit knowledge (and hence innovation processes), the sensing of local business environments (and hence locally responsive strategies), or the development of new customer relationships (and hence the entry into new markets, notably in business-to-business markets). In particular, knowledge creation and sharing are closely associated with business travel (Coscia, Neffke, & Hausmann, 2020). This impact may be mitigated by novel technologies facilitating virtual teams (Gibson & Gibbs, 2006; Tippmann, Scott & Gantley, 2021) and other integrated forms of organizing across locations (Autio, Mudambi & Yoo, 2021). Thus, MNEs face fundamental challenges in adapting their organizational structures and processes.

Proposition 2: Divergent responses to grand challenges lead to divergent national institutions.

National governments are likely to vary in how they address the world's grand challenges in the absence of effective multilateral coordination (or a world government) (Buckley, Doh, & Benischke, 2017). In consequence, MNEs have to anticipate divergence of regulatory institutions in the countries where they operate. Such variations may arise from, inter alia:

- Protection of the natural environment, including concerns about climate change and bio-diversity, (George, Howard-Grenville, Joshi, & Tihanyi, 2016), and associated shifts in the use of energy sources (Bass & Grøgaard, 2021; Bohnsack, Ciulli, & Kolk, 2021);
- Public health at times of rapid transmission of communicable diseases (Fauci et al., 2019; Mascola, Graham, & Fauci, 2021);
- Economic and social development, including intra-country inequality and poverty, as expressed notably by the United Nations' Sustainable Development Goals (van Tulder et al., 2021);
- Protection of data, especially personal data in view of privacy and safety concerns (Enserink & Chin, 2015; Landau, 2015).

Divergence in institutions across countries creates challenges for MNEs aiming for integrated operations aligned with the institutions in each country in which they operate. Some of these institutional pressures from the home country extend beyond national boundaries, e.g., on corruption or labor standards (Cuervo-Cazurra, Mudambi, & Pedersen, 2019a; Li & Reuer, 2021), and may conflict with what the host societies consider appropriate and socially responsible practices.

Even if we assume that political leaders act solely in the interests of people worldwide (we drop this assumption in the next section), they likely develop different national regulations in view of national economic and social structures as well as value systems. Principally, such divergence of regulatory institutions can be persistent when they reflect genuine differences in needs or politically motivated differentiation. On the other hand, institutional innovations may gradually spread from early adaptors to the world, and thereby lead to fewer barriers in the long run. For example, best practices on public health, such as mask wearing and social distancing, evolved in Asia in early 2020 and have been adopted elsewhere, though often with long delays (Dohle, Wingen, & Schreiber, 2020; Gelfand et al., 2021).

As another example, consider digital data regulations (Stallkamp, 2021). The EU General Data Protection Regulation (GDPR) is binding for all companies collecting data of individuals in the EU, including businesses without physical presence in the EU that attract website users from the EU (Marelli

& Testa, 2018). Firms thus have to either separate their data between EU and non-EU clients, or change their data management globally. Recent discussions on AI-related regulatory policies suggest a similar divergence of rules between the EU, the USA, and other countries (Burt, 2021). Meanwhile, China's new Data Security Law, which came into effect in September 2021, requires retention of data in the country and allows access to authorities upon request, and thus adds complexity to data management practices in internationally operating MNEs (Hu, 2021). Such divergent regulations create obstacles to the global management of real time data and the sharing of data with business partners abroad, and thus, potentially, inhibit integrated global data management and worldwide internet platforms.

Proposition 3: Anti-globalization populism increases challenges of maintaining legitimacy.

Even before the Covid-19 pandemic, anti-globalization populism has been rising as significant social groups (subjectively or objectively) did not benefit from globalization, or otherwise feel marginalized – such as low skills workers in traditional manufacturing industries in advanced economies (Autor, Dorn, & Hanson, 2013; Meyer, 2017; Rodrick, 2018). Leveraging the reach of social media, populist politicians have been able to attain political power and capture institutions in several countries around the world (Devinney & Hartwell, 2020). Their increasing influence amplified policies of nationalism, economic protectionism, and geo-political tensions between the largest economies (Witt, 2019a, 2019b).

With rising political influence of anti-globalization populism, economic protectionism has been rising since at least 2010, reversing the trend of the past three decades (UNCTAD, 2020). In addition to tariffs and regulatory barriers, export controls have re-emerged. Events during the global shortage for face masks² and later for Covid-19 vaccines set precedents that created concerns about dependence on other countries for medical or food products (Meyer, 2021; OECD, 2021). In consequence, many political actors advocate reducing imports of sensitive goods by localizing production and sourcing from countries with friendly diplomatic relations. These growing threats of rising trade barriers reduced the potential for global value chains to reduce costs, enhance flexibility, and accelerate innovation (Gereffi, 2020; Miroudot, 2020).

Anti-globalization populism contributes to geo-political tensions, especially between the US and China but also, for example, between the EU and Russia. In consequence, the strength of bilateral

² For example, several countries, including EU member states, imposed export constraints on medical products, and in the case of the USA even pressured companies to cancel contracts serving non-US customers. The 3M face mask incident in April 2020 was soon resolved via negotiations with the company (which promised to increase capacity in the USA (Chazan, Politi, & Mallet, 2020, 2020, Washington Post, 2020; also see Gereffi, 2020).

political relationships shape the institutional environment for MNEs (Bertrand, Betschinger, & Settles, 2016; Li, Meyer, Zhang, & Ding, 2018). In host societies, country of origin images likely depend on the quality of inter-country political relationships and on firms' ties with the political leadership, as evident for state-owned enterprises (Li, Xia, & Lin, 2017, 2018, 2020) sovereign wealth funds (Wang, Weiner, Li, & Jandhyala, 2021) and businesses owned by oligarchs closely associated with political leaders. For instance, the USA imposed novel restrictions on Chinese companies such as Huawei and Tiktok (Hufbauer & Jung, 2020), while US companies have to accommodate Chinese rules and norms with respect to, for example, data management and political content (Stevens et al., 2016). Such increased challenges to legitimacy – or distrust – compel MNE subsidiaries to reassess their strategies.

In home societies, firms may face institutional pressures not to engage in particular host countries, regions within countries, business partners or even individuals. Such pressures may be formalized through fine-grained economic sanctions (Economist, 2021), but often they first emerge as social pressures not to engage in particular activities or locations (Meyer & Thein, 2014). Institutional pressures in home and host countries may be in direct conflict as evident in the recent ban in China of companies such as H&M or Nike that followed social pressures in their home country and disengaged from sourcing cotton from the Chinese province of Xinjiang. MNEs need to carefully navigate these political tensions, for example by avoiding high profile activities, such as acquisitions of local companies, in countries disfavoured by the home country society (Meyer, et al., 2014).

3. Subsidiary management at times of disruption: Research challenges

Meyer et al. (2020) identified five interdependent aspects of subsidiary management, which they phrased as broad research questions. We next explore the impact of the big disruptions on each of these five research streams.

a. How do subsidiaries define and change the scope of their activities?

Subsidiaries vary in the scope of their mandates, and these mandates change over time. Mandates include in particular the markets the subsidiaries serve, products they manufacture, technologies they hold, and functional areas they cover (Birkinshaw & Hood, 1998). The role of subsidiaries within the MNE's global organizational structure and strategy is shaped by the relative emphasis on global integration and local adaptation (Bartlett & Ghoshal, 1989) and by the relative autonomy given to subsidiaries to shape their own strategies (Ambos, Asakawa, & Ambos, 2011; Wang, Luo, Lu, Sun, & Maksimov, 2014).

Contemporary disruptions to global business are likely to change the relative merits of global integration versus local adaptation, for several reasons: First, travel restrictions and increased costs of mobility reduce the contribution of globally mobile experts, and induce some companies to train local staff to undertake more tasks locally, perhaps under virtually-provided guidance of global experts. Second, divergence of regulation such as environmental standards or energy efficiency requirements challenge MNEs to adapt products and processes locally. Third, political stakeholders ask MNEs in an increasing range of industries to localize more of their production and critical inputs, notably in medical and food sectors.

This raises two questions for strategy scholars: First, how will the disruptions affect global-local trade-offs, and hence subsidiary-HQ relationships? Theoretically, higher barriers and stronger localization pressures are associated with more local decision-making. Yet, which aspects of business are localized to response to which disruption, and what innovations in organizational processes help MNEs and their subsidiaries manage localization pressures? Second, how are such changes initiated, negotiated, and implemented? Many changes in local institutions will be first identified by subsidiary managers, while locally controlled resources likely become more important to compete in a host society. Therefore, we predict that pressures for localization reduce the explanatory power of theories that assume a central locus of control in the HQ, such as agency theory (e.g. Kostova, Nell, & Hoenen, 2016). Thus, scholars may focus on novel perspectives, notably subsidiary entrepreneurship (e.g. Conroy, Collings, & Clancy, 2019), resource dependence theory (e.g. Cuervo-Cazzura, Mudambi, & Pedersen, 2019b), and attention-based view (e.g. Bouquet & Birkinshaw, 2008), which assume control and power to be distributed and to a significant degree located in subsidiaries. Future research may explore the relative merits of these theories in explaining reactions to different types of disruption.

b. How do subsidiaries create and share knowledge-based resources?

The creation and sharing of knowledge between the subsidiaries and other entities within the MNE are central to the competitive advantage of the MNE (Buckley & Casson, 1976; Kogut & Zander, 1993; Rugman & Verbeke, 2001). The big disruptions thus – potentially – undermine core advantages of the MNE over domestic firms, and create new challenges for organizing the MNE and its relationship with subsidiaries in particular. Two theoretical perspectives, networks and institutions, offer insights in how MNEs and their subsidiaries manage knowledge internally and with their external environment (Meyer et al., 2020). They provide starting points to explore the impact of the big disruptions.

External disruptions are likely to affect both the patterns of networks and the forms of interactions of partners within networks. During Covid-19, in-person transfers of tacit knowledge have decreased due to fewer personal cross-border interactions. This likely affected in particular early stage

innovation processes, which are driven by informal communications of tacit knowledge, for example through brainstorming – which cannot be easily substituted online. At the same time, transfers of (especially codified) information increased in frequency, speed, and quality due to improvements in digital communication technologies. From a network lens, fewer face-to-face interactions between MNEs and their subsidiaries may change the strength of network ties and, thus, the network positions of headquarters and subsidiaries. Future work may explore how changing use of face-to-face and virtual communications affects the role of subsidiaries in an MNE's network.

The institutional perspective directs attention to new regulations related to, for example, intellectual property and data management, which are likely to vary across countries due to the lack of coordination, or due to deliberate barriers motivated by technology nationalism (Buckley & Hashai, 2020). As a result, MNEs may be subjected to greater disruptions to the sharing of intellectual property with their subsidiaries and with other organizations in the host country. Disruptions in knowledge sharing can directly influence the type of knowledge created in the subsidiary, as MNEs may restrict knowledge creation activities in their subsidiaries if sharing of such knowledge becomes restricted. Furthermore, institutional constraints may also inhibit coordination and organization of subsidiaries, such that subsidiaries obtain greater autonomy in generating knowledge, as long as they keep the knowledge in the host country. This raises interesting research questions on how MNEs share and pool knowledge internally across borders when national regulations obstruct knowledge sharing.

c. How do subsidiaries adapt and develop their organizational practices?

The organizational practices of an MNE subsidiary are developed under the influence of both corporate headquarters and the local environment, such that institutional duality has become the central theme of research on organizational practices in MNEs (Kostova & Roth, 2002). MNEs tend to aim for standardized practices throughout the organization, but a variety of factors, in particular institutional pressures arising in the host society, limit the ability to transfer practices internationally. Historically, a convergence of regulation and norms has enabled greater degrees of integration (Mees-Buss et al., 2019). Yet, the big disruptions may lead to a reversal of this trend.

The literature on MNE subsidiaries has investigated several types of organizational practices, including quality control processes, staffing practices, human resource management as well as social and environmental responsibility (Meyer et al., 2020). Recent disruptions suggest a cast wider net, and add public health related HRM practices. Moreover, data management practices – which are essential to making best use of digital technology, and hence to develop alternative organizational forms to traditional, now disrupted, forms of communicating and organizing.

Future research ought to explore how MNEs loosen or revise globally standardized practices in response to institutional divergence, allowing for greater variation of organizational practices in their subsidiaries. A particularly interesting question is which MNEs seek early mover new regulations (such as green laws aiming to slow climate change) to develop their own competences, and which MNEs pursue institutional arbitrage to enhance their profitability, at least in the short run (Bass & Grøgaard, 2021)?

d. How do subsidiaries engage with actors in their local market and non-market environment?

Disruptions, especially those that increase the diversity of institutional frameworks across host societies, complicate MNEs' engagement with local actors in the market and non-market environment. Such interactions are important for subsidiaries to overcome their competitive disadvantages arising from institutional barriers, lack of market knowledge, and a dearth of political networks (Miller & Parkhe, 2002; Sun et al., 2021). Recent studies have emphasized the importance of non-market strategies of MNE subsidiaries, including both social engagement and political activity in host societies (e.g. Choudhury, Geraghty, & Khanna, 2012; Cui, Hu, Li, & Meyer, 2018; De Villa, Rajwani, Lawton & Mellahi, 2019). Yet, this becomes more challenging when institutional pressures in home and host environments are in direct conflict.

MNEs can respond to increasing tensions between conflicting institutional pressures in various ways. First, MNE subsidiaries have intrinsic interests in influencing the evolving regulatory environment in the host country, with the aims of, typically, limiting regulatory divergence to reduce need for differentiated practices across their operations. Thus, they may direct their corporate political activities towards minimizing divergence of regulatory institutions, and emphasize the benefits of coordinated responses to the big disruptions. Yet, how effective can such corporate activity be in a world of rising geopolitical tensions?

Second, MNEs may provide more autonomy to subsidiaries to empower them to develop their local social engagement, which can enhance their legitimacy in the host society (Zhang & Luo, 2013; Zhao, Park, & Zhou, 2014). Such localization of CSR may, however, diverge from shared practices elsewhere in the MNE and thus undermine shared values and practices of the MNE as a whole. Thus, how much autonomy can subsidiaries attain for their social responsibility practices?

Third, MNE subsidiaries may pursue low profile strategies that aim to stay 'under the radar screen' of political actors (Meyer & Thein, 2014). This may in extremis include divestment or replacement of subsidiaries by contractual relations with local firms. Yet, how effective are low profile strategies in a global environment where external stakeholders are well-connected via social media and other digital technologies?

e. How do individuals within the subsidiary, influence subsidiary strategies, operations, and performance?

Subsidiary outcomes are ultimately the result of decisions and actions of individual managers, experts, and operational employees (e.g. Contractor, Foss, Kundu, & Lahiri, 2019; O'Brien, Scott, Andersson, Ambos, & Fu, 2019). Their individual actions are shaped by their personal characteristics, experiences, and leadership styles. Research on individuals in MNE subsidiaries has focused in particular on three groups: (i) expatriates and expatriate teams, (ii) subsidiary leaders/managers, and (iii) boundary spanners (Meyer et al., 2020).

We propose that the big disruptions change the activities and required skills of individuals in these roles and may (or may not) accelerate ongoing trends toward localization of talent. First, reduced traveling hampers the ability of individuals to serve as traditional in-person boundary spanners. Instead, managers with distinct cross-cultural competences likely need to moderate and coordinate the virtual meetings internal and external teams from different countries (Caligiuri et al., 2020; Tippmann et al., 2021). Second, divergence in regulatory institutions will increase information asymmetries between headquarters and subsidiaries. Thus, subsidiary leaders need to communicate even more to headquarters about regulatory changes and political processes leading to regulatory change. At the same time, they have to develop integrative solutions that accommodate multiple regulatory contexts. Third, with rising political tensions, subsidiary managers need political skills in engaging with non-market actors such as politicians or journalists. Future research thus ought to investigate which personality, skill profiles, leadership styles, and activities of subsidiary managers are most effective in managing local interfaces at times of disruption.

4. Integrative Reflections: Political Science Perspectives

The big disruptions – reduced people mobility, divergent national institutions, and anti-globalization populism – are intertwined with political processes at both national and supra-national levels. Therefore, we turn to political science, particularly in the domain of international relations, for theoretical insights on the political processes and inter-governmental tensions that ultimately will influence MNEs' global strategies. International relations scholars put the complex goals and assumptions of governments center stage. As such, these perspectives can complement extant theoretical lenses on strategic management, which have considered the engagement of MNEs with governments, but not the nuanced decision-making parameters of the latter. An international relations perspective of strategy would thus help explain in a more nuanced way how MNEs and their subsidiaries engage with the big disruptions.

4.1. Three perspectives in international relations

International relations scholars have developed three main theoretical perspectives: Realism, liberalism, and constructivism. The central concept of realism is power, which refers to the ability of a state to exert influence over others (Barnett & Duvall, 2005; Diez et al., 2011). States attempt to retain or increase their power relative to others in order to protect their national interests and to survive as independent entities in a context of global anarchy without a higher authority to adjudicate (e.g., Korab-Karpowicz, 2017; Morgenthau, 1948; Waltz, 1979). As a result, the realism perspective considers international relations a zero-sum game that each state itself attempts to win (Witt, 2019a). Realism does not explicitly consider non-state actors such as MNEs and their subsidiaries; they would be considered agents of the home country. For instance, a foreign subsidiary controls resources within a foreign country, and thereby contributes to the host economy, but also exerts control over parts of it. Since economic power supports its military, cultural, and other forms of power (Baldwin, 1985), MNE subsidiaries may influence the power relations between countries (Lenihan, 2018). Such perspectives have influenced in particular some recent discussions of the role of state-owned enterprises (e.g., Cuervo-Cazurra & Li, 2021; Li et al., 2018; Li, Xia, & Lin, 2017) and on techno-nationalism (Luo, 2021).

In contrast, the liberalism view of international relations (Snyder, 2004) largely rejects the primary focus on power in international relations and instead focuses on processes that stabilize global politics, including domestic democracy, international economic interdependence, and supra-national institutions (Doyle, 1986; Milner, 1991). While states are recognized as the main actors, multilateral organizations, such as the United Nations (Kobrin, 2015), are seen as central actors that can help to maintain stability and peace around the world (Richardson, 2001). Importantly, liberalism postulates that international relations can be a positive-sum game that enhances the wellbeing of individuals around the world; thus economic interdependence and international trade facilitate peaceful relations between states (Richardson, 2001; Witt, 2019a). From a liberalism view, MNE subsidiaries may be considered vehicles that facilitate trade, sharing of technology and innovations, and optimal utilization of scarce resources, which ultimately benefit all participating nations. This view is consistent with international business research emphasizing positive externalities of foreign direct investment (Meyer, 2004).

Constructivism is a more novel theoretical lens that builds on the premise that reality is socially constructed (Katzenstein, 1996; Wendt, 1992). As such, constructivists place a stronger emphasis on norm development, identity, and ideational power than purely rational goals, as in the case of realism and liberalism (Fierke & Jorgensen, 2001; Hurd, 2008). In this perspective, shared values are more important than narrowly defined 'national interests' in shaping political relationships. In consequence, constructivists believe that history, societal values, and taken-for-granted practices determine the goals

and behaviors of states. Similarly, shared values ensure the effective operation of multilateral organizations such as the World Trade Organization, more so that any formal rules and processes (such as the WTO dispute settlement mechanism). However, values evolve over time, and in addition to governments, social movements such as activists and NGOs play important roles influencing value systems (Snyder, 2004). Constructivists would thus view regulatory pressures experienced by MNEs as outcomes of societal values. At the same time, in this worldview, MNE subsidiaries as organizations can influence the norms, values, and identities of the societies in which they operate. For instance, MNE subsidiaries may influence their perception in the host society by their lived values, their partnerships with local organizations, and their lobbying.

4.2. MNE subsidiaries in a realist worldview

Realism focuses on states as drivers of international relations, which implies that the political responses to the global disruptions are driven by states' pursuit of power vis-à-vis each other, and MNEs are mere pawns in such a bigger game. This has three implications for MNEs and their subsidiaries.

First, realists view national politics as driven by geo-political objectives, not by business concerns. Hence, businesses may be disrupted, even if they generate positive contributions to the participating nations. Thus, MNEs need to be prepared for disruptive government interventions, and incorporate geopolitics in their risk management (Ambos et al., 2020). In this perspective, MNEs would have little influence on political actors, and non-market strategies would not be effective unless aligned with geopolitical interests. If MNEs cannot substantially influence political actors, they need to acquiesce in the power considerations of countries. This suggests that MNEs should closely follow political developments, including international relations, to understand, anticipate, and react to political moves.

Second, realists would expect the three disruptions to be long-lasting, because with the decline of the hegemony of the USA, the world lacks a central actor pursuing mutual benefits in international rule setting. Many realists thus predict the global economy to bifurcate, creating barriers between two groups of countries centered around respectively the USA and China (Allison, 2017; Witt, 2019b). In a world with rising geopolitical tensions, MNEs' decisions on where to enter would increasingly be driven by patterns of political conflict or the quality of bilateral diplomatic relationships – especially in host countries with a weak legal and regulatory environment (Li et al., 2018; Witte, Burger, & Pennings, 2020). Moreover, the realist worldview emphasizes geopolitical power as driving force of national politics. Thus, policies notionally supporting public health or data privacy may in fact be driven by political consideration: Governments may for example follow political alliances in deciding to which countries to export vaccines, which vaccines to approve, and which kind of health evidence (e.g., vaccination records) they require for arriving travellers. Similarly, realists would interpret national data

management regulations as driven by national security concerns or by economic protectionism, rather than by genuine concerns for consumer protection (as emphasized in the EU, and in California).

Third, the realist perspective suggests increasing pressures on MNEs to align with national political agendas (Witt, 2019b). In consequence, MNEs aiming to attain legitimacy in multiple contexts are likely to experience conflicting pressures to demonstrate ‘loyalty’ to national agendas. Aligning with home country politics, some MNEs may thus reduce the subsidiaries’ scope of operations. Aligning with host country political agendas, MNEs may grant their subsidiaries greater autonomy in order to signal the subsidiaries’ independence from ‘foreign’ powers. Such conflicting pressures are a particular challenge for knowledge management as techno-nationalism may force MNEs to reduce the integration of their global knowledge sharing (Luo, 2021), especially in sectors where knowledge is politically sensitive, such as military goods, information technology, and medicine. With respect to organizational practices, realists likely emphasize the use of practices as means to convey power, and may suspect political objectives behind MNEs’ standardization of practices. Future research may examine how different aspects of MNEs’ knowledge sharing and other practices affect the power relations between states, and how MNEs navigate this international relations context.

Along the same lines, realists would emphasize the pressures on individuals to identify with and show loyalty to national political agendas, more so than to corporate agendas or visions to serve the global public good. This raises interesting questions regarding leadership within units of the MNE. For example, what character traits make individuals effective subsidiary managers in the presence of home-host country political tensions? Moreover, strategy scholars can explore what political backgrounds, affiliations, and nationalities make individuals suitable and successful for such roles.

Overall, a realist informed strategy research agenda would put the quality of the political relationship between home and host countries at the centre of any strategic management questions. Beyond location choices (e.g. Li et al., 2018) and operation modes (Meyer et al., 2014), this also affects operational management, notably knowledge sharing (Luo, 2021), and the personal challenges for individuals operating at critical interfaces.

4.3. MNE subsidiaries in a liberalist worldview

Liberalism views economic interdependence as a positive, stabilizing force. In this view, MNEs help building bridges between countries and their governments. In analyzing the big disruptions, liberalists would focus on international collaboration and multilateral institutions as means to develop solutions to the underlying challenges (like pandemic, climate change, income inequality). In this perspective, MNEs

are at least potentially a solution to some of these underlying issues – a view implicitly adopted by many global strategy scholars. Thus:

First, evidence from strategy research regarding the positive contributions of business to society directly supports the liberalism view. At the same time, evidence that under some circumstances MNEs negatively impact host societies (e.g. Cooke, Wang, & Wood, 2021; Surroca, Tribó, & Zahra, 2013) is also consistent with a liberalist worldview if such outcomes are caused by individual or firm level decisions, and not caused by some higher level political agenda (or conspiracy).

Second, the liberalist worldview with its (potentially) positive role of international business is better aligned with the interests of MNEs and their subsidiaries. They would thus have a natural interest in supporting this view as it provides a foundation for their global strategies to benefit both their own shareholders and their stakeholders in each country of operation. This would suggest that MNEs in their non-market strategies would actively promote liberalist perspectives over realist perspectives as it is in their own interest. They may, for example, actively promote (not just verbally, but through their actions) the mutually beneficial outcomes they are able to generate, in both home and host countries.

Third, liberalism would imply that the current disruptions will be temporary and the global system of nations will, after a period of volatility, revert to governance structures that promote international trade and investment, and with that peace, prosperity, and collective approaches to issues of global concerns, such as poverty or climate change. This would suggest that MNEs continue their overall pre-disruption strategies of building global networks and integrating operations globally in the belief of the long term advantages of global operations. But will this vision become true?

Placing strategy research explicitly in the liberalist agenda highlights the need to clarify the positive or negative impact of MNEs on societies. This includes all aspects of subsidiary management: Research on subsidiary scope may examine to what extent subsidiaries design the scope of their responsibilities for the mutual benefits of local stakeholders in countries of operations. For example, do MNEs spread value chain activities that appear exploitative across home and host countries rather than in a single host country with weak governance? With respect to knowledge management, an important question is how much knowledge sharing with subsidiaries and knowledge creation in subsidiaries contribute to the technological development of the host country (Buckley & Hashai, 2020). For example, to what extent does knowledge sharing not only enhance firm operations, but generate societal benefits, leading to more MNE-friendly policies. Furthermore, organizational practices likely are critical in the liberalist lens, since they can substantially influence the well-being of the individuals in home and host countries. Thus, strategy scholars may explore how MNE subsidiaries' deployment of practices on, for

example, environmental protection, data protection, or corruption influences policy makers. On non-market strategies, and interactions with governments bodies in particular (Butzbach, Fuller, & Schnyder, 2020; Devinney & Hartwell, 2020; Doh, Dahan & Casario, 2021), do MNE subsidiaries use their non-market activity to genuinely help the host society, as opposed to promote their own interest viz. local competitors? The liberalist perspective also allows for agency of individual actors, and thus suggests to examine the role of actors at critical interfaces of the MNE. For example, how do specific engagements, communications, and actions of subsidiary managers, boundary spanners, and expatriates help in reducing globalization skepticism and promote mutually beneficial outcomes as postulated by liberalism (Inouye et al., 2020)?

4.4. MNE subsidiaries in a constructivist worldview

The constructivist worldview suggests that international relations between states are socially constructed. In this perspective, beliefs regarding the causes of the big disruptions are not purely driven by scientific evidence but socially constructed, as are the contributions of MNEs to reduce or amplify the impact of these disruptions. Thus:

First, this school of thought suggests that MNEs and their subsidiaries can influence values and behaviors in home and host societies, and thereby influence institutional frameworks. Thus, subsidiaries (especially large ones) are likely to affect attitudes, norms, and identities of societies in which they operate, whether intentional or not. MNEs would normally be interested in alignment of the views and goals of home and host country societies with their own interests by spreading norms and values through their subsidiaries that are beneficial for their global strategy in the long run.

This perspective suggests a focus on non-market strategies in host countries, including both corporate political activity and corporate social responsibility (Cui, Hu, Li, & Meyer, 2018; Mellahi, Frynas, Sun, & Siegel, 2016). Through corporate political activity, MNEs and their subsidiaries aim to influence the host country government and regulatory bodies. For example, subsidiaries may establish lobbying activities and political ties to stir political conversations into directions that encourage positive international relations, increased international economic activities, and greater economic collaboration between countries (Gawande, Krishna, & Robbins, 2006).

For MNE subsidiaries, such activities in the host society would normally aim to make the environment more welcoming, but it may in some cases amplify tensions vis-à-vis third countries. (Lubinski & Wadhani, 2020). For example, MNEs may feed into nationalist and hostile sentiments between other states in hopes to benefit from their disputes (“when two people quarrel, a third rejoices”),

or from tariffs and sanctions that target its main competitors. This approach comes with risks, however, as they may face negative repercussions in the future. Strategy research may thus investigate the long term implications of such engagements with host governments.

In parallel, subsidiaries may use corporate social responsibility to influence public opinion (Montiel, Husted, & Christmann, 2012). Subsidiaries may engage with different host country communities, for example through philanthropy or by promoting environmental sustainable practices (Zhang & Luo, 2013; Zhao, Park, & Zhou, 2014). Moreover, HRM practices and compensation policies may enhance the reputation and desirability of subsidiaries as employers in the host country. Such corporate social responsibility takes a long-term view that can shape the norms and attitudes toward subsidiaries in a country and, by extension, the policies of governments towards subsidiaries. Therefore, we encourage scholars to study corporate social responsibility of MNE subsidiaries with respect to their impact on beliefs and values held in the host society, and their long-term impact on government policies.

Second, shared understandings and shared values are an important foundation for multilateral institutions that create bridges across nation states such as the EU, UN, or WTO. The constructivist view implies that these understanding and values are socially constructed, and hence processes of global dialogue about issues of global concern (such as climate change or pandemics) and about values are critical for creating the foundations that multilateral institutions need to be effective. Thus, MNEs may play a role in enhancing or weakening societal support for institutions of multilateral governance.

For strategy scholars, this suggests paying more attention to the informal assumptions and beliefs that underpin supra-national institutional structures. The WTO dispute settlement being an illustrative example: it was effective as long as all major players shared the view that it ultimately serves a greater good, even in the presence of occasional conflicts on specific cases (Economist, 2019; Evenett & Baldwin, 2020; Payosova, Hufbauer, & Schott, 2018). This raises the question how MNEs contribute (intentionally or unintentionally) to the evolution of internationally shared beliefs and values.

5. Conclusions

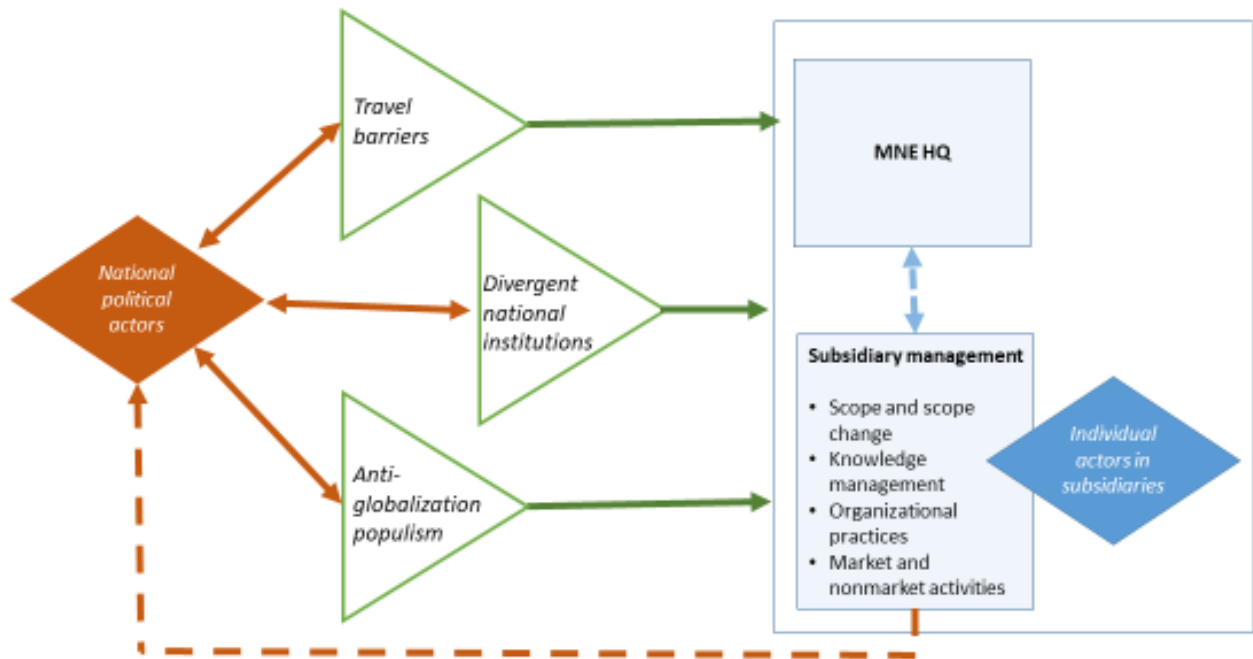
Recent disruptions in the global economy have highlighted that political processes impact directly on the strategies of MNEs and their subsidiaries. At the same time, awareness has risen that MNEs influence public political discourses and international political processes. Theoretical perspectives on international relations offer different (and often conflicting) interpretations of the role of MNEs and their subsidiaries within political processes.

Extant global strategy research, particularly work on non-market strategies, has emphasized the interaction between MNEs, their subsidiaries, and local governments from a corporate perspective. As a result, government decisions have been viewed as exogenous, or as external shocks that are difficult to predict, to which MNEs and their subsidiaries need to respond. By contrast, international relations perspectives focus on governments and the assumptions underpinning their decision-making. Here, government and states take center stage; scholars dissect, explain, and predict governmental decisions. By integrating international relations perspectives into global strategy scholarship, strategy researchers can examine the role of MNEs and their subsidiaries in the underlying assumptions and decision-making of governments. In doing so, research can shift the paradigm from a view of governments as external actors that influence MNEs and subsidiaries to a perspective that considers MNEs and subsidiaries as integral actors in political and international relationships arena that can systematically anticipate and influence government assumptions, norms, and decision-making.

Strategy scholars thus ought to integrate international relations perspectives to analyze the impact of the big disruptions on MNEs and their subsidiaries. The three political perspectives suggest different interpretations of the big disruptions. Realists assume that states are the main actors in international relations that seek to maximize their power. As such, the big disruptions may be long-lasting, given the decline of the hegemony of the USA, while MNEs and their subsidiaries may increasingly be disrupted for political objectives and pressured to align with national political agendas. Liberalists build on the assumption that states value the mutually beneficial outcomes of international cooperation. Thus, the big disruptions are viewed as temporary, and MNEs and their subsidiaries have the opportunity to demonstrate the mutually beneficial outcomes for the home and host countries, and thereby contribute to the re-emergence of co-operative national policies towards international relations. Constructivists postulate that government policies are based on socially constructed assumptions. Thus, MNEs and their subsidiaries can play a critical role in helping to shape the values and norms in the countries where they operate in order to mitigate future disruptions to their activities.

Future research may explore the explanatory power of these perspectives to explain interactions between business and politics on the global stage. How and how much are corporate strategies influenced by national political agendas? How and how much do corporations influence national politics? The conflicting predictions arising from the international relations literature call for empirical analyses of corporate strategies that explicitly incorporate the political context.

Figure 1: Analytical framework: Three big disruptions



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