

# Liability of political embeddedness in Chinese multinationals: Implications for headquarters' roles and reverse knowledge transfer

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## ABSTRACT

It is well known that Chinese multinationals' international expansion is often supported by the home-country government. This study argues that the political embeddedness of Chinese multinationals' headquarters may impair their managerial intentions and abilities to carry out their entrepreneurial and administrative roles and, indirectly, their capacity to achieve reverse knowledge transfers from their foreign subsidiaries. Based on a study of 177 subsidiaries of 99 Chinese multinationals, we find no support for the argument that political embeddedness affects headquarters' centralization of subsidiary decisions, although such centralization is negatively associated with reverse knowledge transfer. Additionally, our findings show that home-country political embeddedness is negatively associated with headquarters' entrepreneurial role vis-à-vis individual subsidiaries. This hampers subsidiaries' reverse knowledge transfers. The results contribute to understanding the value of political embeddedness and headquarters' roles in the context of Chinese multinationals. They also provide insights into the strategic asset-seeking internationalization of Chinese multinationals. By developing and operationalizing the multidimensional concept of political embeddedness, this study further contributes to the research on firm-government relations.

## 1. Introduction

Over the past decade, it has been widely acknowledged that Chinese multinationals (CMNEs) have often been subjected to political interventions owing to immature market-based mechanisms and uncertainties during the economic transitions in their domestic emerging markets (Luo, Xue, & Han, 2010; Meyer & Peng, 2016). CMNEs relying on political actors are “embedded” in the home country's political environment through which they may receive substantial resources (Gammeltoft & Cuervo-Cazurra, 2021; Kotabe, Jiang, & Murray, 2011). These CMNEs—particularly state-owned enterprises (SOEs)—enjoy monopolistic or dominant incumbent positions in their domestic markets (Amighini, Rabellotti, & Sanfilippo, 2013). Extant research also acknowledges that this political activity is positively related to CMNEs' economic performances (Krammer & Jimenez, 2020; Wang, Kafouros, Yi, Hong, & Ganotakis, 2020) and internationalization (Lebedev, Sun, Markoczy, & Peng, 2021; Luo et al., 2010; Panibratov & Michailova, 2019; Wei, Clegg, & Ma, 2015).

Contrary to studies that find positive effects of political

embeddedness on firm performance and international expansion, a limited volume of research has revealed that political embeddedness may cause business-related problems. Particularly, CMNEs may face problems of legitimacy in host countries and limited ability to achieve managerial efficiency in strategic activities. Such problems hinder the capability of foreign strategic asset-seeking, decision-making autonomy, and innovation management (Hobdari, Gammeltoft, Li, & Meyer, 2017; Meyer, Ding, Li, & Zhang, 2014; Sawant, Nachum, & Panibratov, 2021). For example, Wang, Piperopoulos, Chen, Ming, and Herbert (2022) showed that CMNEs' home-country political ties hamper the positive effects of outward foreign investments on innovation performance. This is because of the high degree of mismatch between CMNEs' home political ties and the host country's institutional environment, which neutralizes the subsidiary's efforts to collaborate with local actors and develop new technological capabilities (Wang et al., 2020, 2022).

Therefore, the support stemming from the embeddedness of political relationships may result in unexpected liabilities. Against this background, this study investigates how the political embeddedness of CMNE headquarters (HQs) is associated with a critical managerial practice:

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knowledge transfer from foreign subsidiaries to HQs. This investigation is particularly relevant because reverse knowledge transfer is an important managerial activity for CMNEs with “late-mover disadvantages” in international markets who intend to “catch up” with Western competitors by strategic asset-seeking from foreign markets (e.g., Deng, 2009; Gammeltoft & Hobdari, 2017; Luo & Tung, 2007).

While focusing on the association between political embeddedness and reverse knowledge transfer, our study distinguishes between the administrative and entrepreneurial roles of CMNE HQs as these may affect subsidiaries’ ability and motivation to undertake reverse knowledge transfer in different ways. While the first role entails various administrative responsibilities, such as the centralization of decision-making and monitoring of corporate activities, the entrepreneurial role embraces activities such as resource allocation and the organization of shared services in the corporation to develop business activities (Chandler, 1991; Foss, 1997; Markides, 2002).<sup>1</sup> Prior research indicates that political embeddedness conditions resource access, organizational learning, managerial policies, and the attention of CMNE HQs. Therefore, we assume that it can impact the effectiveness of the two managerial roles and, thereby, be indirectly related to reverse knowledge transfer practices of foreign subsidiaries. This issue has, to our knowledge, not been investigated in prior research, although political ties and reverse knowledge transfer in CMNEs have recently received some attention (see Ciabuschi, Kong, & Su, 2017a; Su & Kong, 2020; Su, Kong, Ciabuschi, & Yan, 2021; Su, Kong, & Ciabuschi, 2022). We thus formulate the following research question: How does political embeddedness in the home country of CMNE HQs affect the reverse knowledge transfer of foreign subsidiaries through HQs’ administrative and entrepreneurial roles?

This study extends the existing understanding of the value of political embeddedness in CMNEs. We provide new insight into the problem of cross-border knowledge integration in CMNEs by exposing the darker side of political embeddedness as a constraining factor in the pursuit of international strategic asset-seeking. Our investigation of political embeddedness at the HQ level stands in stark contrast to most previous studies. These studies have investigated how subsidiary knowledge transfer is associated with embeddedness at the subsidiary level with business actors within and outside the MNE (Andersson, Forsgren, & Holm, 2002; Najafi-Tavani, Giroud, & Andersson, 2014). Therefore, we emphasize the value of the home-country contexts of emerging-market MNEs (EMNEs) (Hobdari et al., 2017; Panibratov, 2016) and highlight the need to broaden the scope of research on MNE embeddedness beyond its sole focus on subsidiary embeddedness. Moreover, we provide insights into parent advantages/disadvantages and the role of the HQ and present the contrasting effects of HQs’ administrative and entrepreneurial roles in shaping reverse knowledge transfer in CMNEs.

The remainder of the paper is organized as follows. Section 2 discusses the main concepts of the study: political embeddedness, HQ’s administrative and entrepreneurial roles, and reverse knowledge transfer. Section 3 develops the hypotheses. Section 4 presents the empirical design, data collection, analysis technique for the structural equation model, and robustness tests. Section 5 presents the empirical results, and Section 6 concludes the paper.

## 2. Theoretical background

### 2.1. The definition and importance of political embeddedness

Considering the functioning of different actors and the different pillars of the institutional environment, Zukin and DiMaggio (1990)

<sup>1</sup> The two roles embrace a set of sub-activities and responsibilities. For the present study we delimit the HQ’s administrative role to capture centralization of subsidiary decisions exerted by the HQ in various aspects, while the entrepreneurial role of HQs focuses on direct contributions to subsidiary activities.

posited that embeddedness refers to the contingent nature of economic actions concerning cognition, culture, political institutions, and social structure. Governments play multiple roles within the institutional environment (as regulators, economic actors governing the allocation of government resources, and designers of political ideologies and values). Given these roles, corporate political embeddedness can be viewed as a multidimensional concept that embodies three forms—political network, political-legal influence, and political cognition (Ciabuschi et al., 2017a). While a firm’s political network refers to the ties with political actors at the personal and organizational levels, political-legal influence refers to the strength and constraints of the political-legal arrangements and enforcement (e.g., government policies and regulations) on the firm. The third dimension, political cognition, reflects the extent to which a firm’s management and culture align with the political ideology. These three dimensions are likely to be unique for each firm but are intertwined; they create an overarching impact on organizational behaviors (Dacin, Beal, & Ventresca, 1999). One example is the perceived legislative influence of political actors, which may motivate firms to seek and establish stronger relationships with these actors to integrate political values and beliefs into their management ideologies.

Political embeddedness can be associated with “new varieties of state capitalism” (Musacchio, Lazzarini, & Aguilera, 2015), where SOEs can be privatized, and private enterprises can be nationalized, thus becoming state embedded or controlled. Governments can develop networks of enterprises that are unlikely to survive in open market conditions through various support mechanisms (Luo et al., 2010; Panibratov & Michailova, 2019). The Chinese government, dominated by the Communist Party, has strong hierarchical and sustainable power to govern the national economy (Lebedev et al., 2021). Thus, Chinese political authorities can shape the degree of corporate political embeddedness. Given institutional voids, political authorities exercise control by spreading the Communist Party’s ideologies and values among firms to maintain political stability and attain the expected social and political goals. For instance, many Chinese private firms establish a “Party Committee” within firms. This may result in high embeddedness in bureaucratic networks and political ideologies, where they conform to administrative tasks while obtaining governmental support (Chang & Xu, 2008). State objectives are not reserved only for SOEs; rather, they apply to every Chinese enterprise with strong political embeddedness, who are compelled to conform to them (Panibratov & Michailova, 2019; Sun, Mellahi, & Thun, 2010). Thus, political ties in China are likely to be deliberately created through government investments in private firms (Sun et al., 2010).

Political relationship-building is a governance mechanism and a strategic tool that enables firms to access government-controlled key resources, bypass institutional hurdles, and gain legitimacy (Peng & Luo, 2000). Empirical studies have found strong support for the value of political embeddedness in CMNEs’ international expansion (e.g., Luo et al., 2010; Panibratov & Michailova, 2019; Wei et al., 2015). The tangible and intangible resources and policies provided through political embeddedness compensate for global knowledge and experience shortage, enabling CMNEs to bear short-term losses and take greater risks (Ramamurti, 2012; Panibratov, 2016; Gammeltoft & Cuervo-Cazurra, 2021). For example, the Chinese government launched its “going global” policy in 2000 to urge Chinese firms to invest in global markets by providing support to enhance international economic and technical cooperation. Many empirical studies have verified political embeddedness’ impact on firms’ internationalization processes (Luo et al., 2010; Panibratov, 2016), location choices (Wang, Hong, Kafourous, & Wright, 2012), internationalization speed (Wei et al., 2015), and degree of internationalization (Lebedev et al., 2021).

Given its strong presence in many CMNE HQs, home-country political embeddedness is likely to be an integral part of managers’ daily activities. This, in turn, affects managerial autonomy, strategic intent, and the endowment of resources and capabilities (Lebedev et al., 2021; Meyer et al., 2014; Panibratov, 2016), influencing HQ managers’

decisions. We assume that the stronger the degree of HQs' political embeddedness, the more the managerial roles of HQs are conditioned by such embeddedness.

## 2.2. HQ role and its relevance to reverse knowledge transfer

While HQs have many managerial activities and tasks, Chandler (1962) classified them into administrative and entrepreneurial functions (Foss, 1997; Markides, 2002). Administrative function refers to the different tools for governance (e.g., coordinative and monitoring mechanisms) used to create a structural context that enables manipulating and constraining actions taken at the subunit level (Chandler, 1962) and battle opportunistic behaviors to achieve the alignment of goals (Nohria & Ghoshal, 1994; Roth & O'Donnell, 1996). It relates to the HQ's role as an entity with ultimate decision-making rights, thus playing a pivotal function within the organization (Chandler, 1991). Among various tasks, one objective of the HQ's administrative function is to coordinate and gain centralized control of the subsidiary's decision-making and activities (Chang & Taylor, 1999). Hence, our study focuses on the centralization of decision-making.

The entrepreneurial role involves governing the development, allocation, and deployment of valuable corporate resources to their respective subsidiaries (Collis & Montgomery, 1998; Hungenberg, 1993). The entrepreneurial role has been referred to as an effect of "parenting advantage" (Foss, 1997; Goold, Campbell, & Alexander, 1998), which suggests that HQ has the potential to provide expertise to subsidiaries by involving itself in subsidiary activities, such as innovation projects in subsidiary networks (Goold & Campbell, 2002; Nell & Ambos, 2013).

Both roles are associated with value creation in the following ways. First, HQs can create value by preventing losses and avoiding negativity through administrative mechanisms (Foss, 1997). In other words, HQs can coordinate and control subsidiaries to ensure that opportunistic behavior does not become problematic. Second, HQs can create value through entrepreneurial activities such as resource allocation, knowledge sharing, and the organization of shared services. Although entrepreneurial and administrative roles are inherently different, they may coincide as the MNE operates in multiple business environments with different managerial requirements. However, simultaneously pursuing administrative and entrepreneurial roles can be difficult as HQs act according to different factors within specific managerial relationships. For instance, potential conflicts can arise when centralized control is exercised by HQs to battle opportunistic behavior, and this can hinder entrepreneurial initiatives requiring closer managerial relationships (Hungenberg, 1993; Pidun, 2017). This has been highlighted by the emerging pessimistic view of HQ parenting advantage, challenging HQs' ability to play an entrepreneurial role within MNEs (Ciabuschi et al., 2017b; Decreton, Nell, & Stea, 2019). In line with the differentiated network view of the MNE, the HQ may lack knowledge of the specific network context in which subsidiaries are embedded, which makes it difficult to perform an entrepreneurial role (Forsgren & Holm, 2010; Ciabuschi, Forsgren, & Martín Martín, 2017b). In this situation, the HQ is likely to "grope in the darkness" when managing subsidiary activities and designing its entrepreneurial role in these processes (Ciabuschi et al., 2017b: 57).

Consequently, the performance of HQs' role is critical to value creation. In this study, we relate them to the reverse knowledge transfer of subsidiaries, as the knowledge-seeking process can help fine-tune and coordinate global strategy, improve processes for HQs or other corporate units, or simply provide information relevant to developing new products (Ambos, Ambos, & Schlegelmilch, 2006). These will, in turn, improve MNEs' overall competitiveness. Research acknowledges that HQs, (hierarchically superior to subsidiaries) may pursue the strategic aim of seeking knowledge from subsidiaries and exercise different types of control for this purpose (Rabbiosi, 2011). Hence, knowledge integration within MNEs is typically considered dependent on the role of

HQs (Su, Ciabuschi, & Kong, 2023; Yang, Mudambi, & Meyer, 2008).

Regarding the HQ's administrative role in centralized control over the subsidiary, research on subsidiary knowledge outflows has acknowledged its importance, but no consensus has been reached. While advocates of agency theory hold a positive view of HQ control on subsidiary knowledge transfers (Kurokawa, Iwata, & Roberts, 2007; Noorderhaven & Harzing, 2009), advocates of differentiated network view of MNEs consider HQ control over subsidiaries a barrier to subsidiary knowledge transfers (Foss & Pedersen, 2002; Miao, Choe, & Song, 2011). However, the limited research on reverse knowledge transfer in CMNEs has not addressed this controversial factor. Compared with the HQ's administrative role, its entrepreneurial role has received relatively less attention. Still, it has been argued that HQs' entrepreneurial function is important for dealing with knowledge transfer across units (Collis & Montgomery, 1998). Subsidiaries cannot easily conduct outbound knowledge transfers without cooperation from HQs (Ciabuschi et al., 2017b). Accordingly, Ambos et al. (2006) indicated that reverse knowledge transfer requires HQs to learn from their subsidiaries and recognize the potential benefits of subsidiaries' knowledge. This is highlighted by Dellestrand (2011), who found that HQ involvement significantly affects subsidiary knowledge transfer performance.

## 3. Hypotheses development

Fig. 1 illustrates the hypothesized model, which includes four hypotheses and two paths relating CMNE HQs' political embeddedness to reverse knowledge transfer of subsidiaries. The first path suggests that political embeddedness positively affects HQs' administrative role (centralized control over subsidiary decision-making), which, in turn, hampers reverse knowledge transfer. The second path proposes a negative impact of political embeddedness on reverse knowledge transfer through its hampering effect on HQs' entrepreneurial role—a facilitator of reverse knowledge transfer.

### 3.1. Political embeddedness and the HQ's administrative role

We focus on the HQ's centralization of subsidiary decision-making as a reflection of its administrative role. Previous research indicates that political actors affect decision-making processes of HQ managers involved in interactions and relationships with political institutions (Wei et al., 2015). This argument is consistent with the literature on social embeddedness, which stresses that economic actions are embedded in structures of social relationships (Deng, Delios, & Peng, 2020; Granovetter, 1985). Accordingly, we argue that HQs' political embeddedness is essential for exchanging less-tangible resources and creating a shared understanding between interacting partners, which has been argued to be of strategic importance for information, innovation, and power (Moran, 2005). This essentially suggests HQ managers' dependence on the government, which consequently influences their management style and decision-making (Amighini et al., 2013).

Influenced by the government characterizing the bureaucratic and hierarchical organizational structure, politically embedded CMNEs—particularly state-owned MNEs—tend to develop strong hierarchical and vertical relationships within and between business units (Schüler-Zhou & Schüller, 2013; Su, Kong, Ciabuschi, & Holm, 2020). As Fang and Hall (2003:13) indicated, "Central control and concentration of power at the top echelon of management and a lack of delegation in decision making" are typical for SOEs, as SOE managers have little experience in decentralized management practices. This phenomenon exists not only in SOEs because of state ownership but also in other politically embedded CMNEs. As Ciabuschi et al. (2017a) observed, through intensive interaction and close ties with the government, as well as through the alignment of their organizational culture with governmental values and ideology, CMNEs are likely to develop a management structure dominated by a bureaucratic and hierarchical culture and follow a centralized business style. Gammeltoft, Filatotchev, and

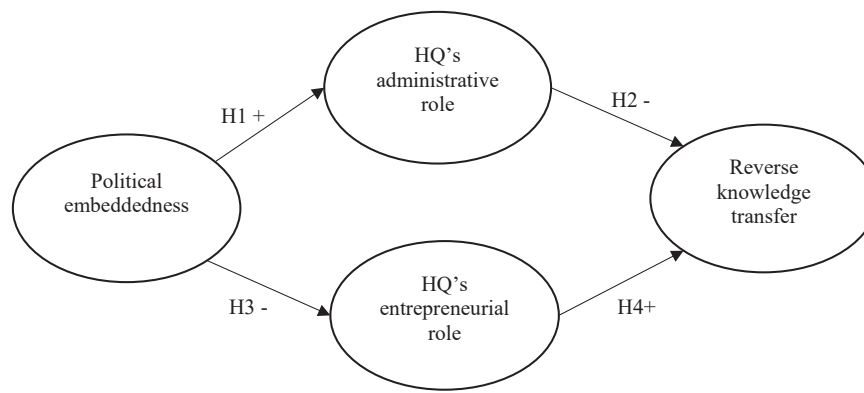


Fig. 1. The hypothesized model.

Hobdari (2012) also found that EMNE HQs have an external fit with home institutions.

Embeddedness easily leads to an organizationally inertial tendency to repeat transactions over time (Granovetter, 1985), resulting in path-dependent situations. This suggests that historical trajectories or current organizational routines are inherently difficult to reverse or alter (Barnett & Pontikes, 2008). We argue that strong political embeddedness generates organizational inertia in CMNEs, which interferes with the efficiency of organizational routines for managing subsidiaries. As latecomers to global business, CMNEs have limited international experience and managerial skills (Ramamurti, 2012); their management and governance of subsidiaries are therefore influenced more by past behaviors and strategies in their home country (Deng et al., 2020; Gammeltoft & Cuervo-Cazurra, 2021). Thus, CMNEs tend to use their home leadership patterns and managerial practices to manage their foreign subsidiaries. In other words, CMNEs with strong political embeddedness are highly influenced by a hierarchical, centralized structure and management style in their home operations. Therefore, they are more likely to adopt hierarchical and centralization strategies when managing subsidiaries and are more willing to exercise control over subsidiaries.

While political embeddedness spurs a central management style, it can also help HQs obtain valuable and privileged resources (Gammeltoft & Cuervo-Cazurra, 2021; Luo et al., 2010; Wei et al., 2015). These resources can enhance HQs' power and abilities to carry out centralized strategies and control foreign subsidiaries. The rationale is that HQs can control subsidiaries if they possess the resources needed by those subsidiaries, such as technology or finance (Hamill, 1984). Thus, we formulate the following hypothesis:

**Hypothesis 1.** Home-country political embeddedness of HQs in CMNEs positively affects HQs' administrative role in terms of centralized control over subsidiary decisions.

### 3.2. The HQ's administrative role and reverse knowledge transfer

The benefits and problems of centralizing decision-making in MNEs are frequently discussed in the literature. Control through centralization suggests that the HQ is a superior unit that develops an overall strategy and efficiently coordinates MNE activities. However, as many studies have shown, centralization may result in subsidiaries being unable to respond to market needs or act on business opportunities. This dilemma has been discussed by Bartlett and Ghoshal (1989), who argued for the HQ to take a leading role in creating a structure for the MNE that is responsive to the subsidiaries' business environment and flexible vis-à-vis the needs of centralization versus local adaptation. Similarly, Egelhoff (1988) suggested that complex information-processing situations can enforce various organizational solutions, such as increased autonomy. As Forsgren (2013) argued, this solution reflects the risk of information overload at the HQ level, acknowledging that information

flows from subsidiaries can become inefficient, require extensive resources, and negatively impact subsidiary motivation.

The centralized control of HQ represents a loss of autonomy for the subsidiary and may hamper subsidiary knowledge development (Foss & Pedersen, 2002; Nohria & Ghoshal, 1994; Venaiik, Midgley, & Devinney, 2005). This is based on the idea that decision-making autonomy helps subsidiaries build unique knowledge by tapping into local networks that cannot be accessed by other parts of the MNE (Andersson et al., 2002; Cantwell & Mudambi, 2005). As subsidiaries progressively grow closer to host countries' local networks, they gain access to resources and knowledge from markets external to the MNE (Andersson, Forsgren, & Holm, 2007). These resources and knowledge equip the subsidiaries with the capability to contribute uniquely to the development of products and services, which is essential for developing MNE competencies and competitive advantage (Ambos et al., 2006; Miao et al., 2011). Although the opposite has also been found (Noorderhaven & Harzing, 2009), most scholars contend that autonomy enhances a subsidiary's ability to learn from local systems of innovation and improves its innovativeness and knowledge base (Cantwell & Mudambi, 2005; Foss & Pedersen, 2002).

We conclude that HQs' centralized control over subsidiary decision-making inhibits autonomous knowledge creation by discouraging subsidiary managers from taking the initiative and innovating, thereby weakening creativity and generating new ideas. While centralization delimits the scope and uniqueness of subsidiary knowledge stock, it also decreases the potential outflow of subsidiary knowledge (Gupta & Govindarajan, 2000). The findings of Ghoshal and Bartlett (1988) reinforce that a link exists between a subsidiary's autonomy and its ability to create and diffuse innovation. Similarly, Foss and Pedersen (2002) found that subsidiary autonomy positively influences knowledge flows to other subsidiaries. More recent evidence as observed by Silveira, Sbragia, Lopez-Vega, and Tell (2017) suggests that subsidiary autonomy determines successful reverse knowledge transfer to EMNE HQs. Therefore, we anticipate a negative relationship between HQs' centralized control and the extent of reverse knowledge transfer to HQs. Thus, we formulate the following hypothesis:

**Hypothesis 2.** The administrative role of HQs in CMNEs in terms of centralized control over subsidiary decisions negatively affects reverse knowledge transfer.

### 3.3. Political embeddedness and the HQ's entrepreneurial role

Owing to institutional voids and political and cultural heritage, Chinese political institutions still have the power to allocate strategic resources (e.g., finance, preferable policies, and information) to firms (Peng & Luo, 2000). This motivates CMNEs with strong political embeddedness to rely on government ties to acquire critical resources and preferential treatments, enhancing these firms' competitive

advantage and success (Ciabuschi et al., 2017a; Panibratov & Michailova, 2019). For example, Zhang, Young, Tan, and Sun (2018) identified that Chinese state-connected firms, by virtue of their strong ties with the government, are more likely to obtain resources, such as market access, and enter the ranks of monopoly industries to obtain excess profits. Meyer et al. (2014) also claimed that emerging market firms with state backgrounds enjoyed better home-based country-specific assets than private firms. Strong home-country political embeddedness is essential for these firms to gain a competitive position and build firm-specific assets (Chang, Wang, & Cui, 2019; Narula, 2012; Xia, Ma, Lu, & Yiu, 2014).

However, as mentioned above, strong political embeddedness in CMNEs increases organizational inertia, which suggests that the accumulated routines, commitments to established patterns of behavior, and institutionalized mechanisms create bureaucracy and “habits of mind” (Louis & Sutton, 1991). Difficulties in altering this historical trajectory will cause politically embedded HQs to have less intention and motivation to engage in entrepreneurial activities to develop overseas subsidiaries. The rationale is that political embeddedness provides CMNE HQs with general location-bound managerial knowledge in a politically protected, less market-oriented domestic environment (Narula, 2012). HQs are thereby left with limited ability and uncertainty in terms of using entrepreneurial activities to develop and support subsidiary expansion in more market-oriented and competitive economies (Rudy, Miller, & Wang, 2016). Relevant managerial knowledge becomes limited, in contrast to the considerable requirements for knowledge and firm capabilities when managing overseas value-adding activities (Gammeltoft & Hobdari, 2017). Therefore, politically embedded HQs rely on past (safer) strategies to develop a competitive advantage. As Rugman, Oh, and Lim (2012) indicated, despite the economic downturns in Western economies in 2008, EMNEs continued to develop firm-specific advantages based on their domestic country-specific assets and focused on their domestic markets, even if they engaged substantially in overseas investment. A similar notion is highlighted by Luo and Tung (2007:485), who asserted that “the global success of [...] EMNEs is still highly dependent on their performance at home (e.g., sales, market share, reputation).”

Moreover, with strong home-country political embeddedness, the priorities of the government missions for CMNEs are to develop domestic businesses and secure domestic affairs—such as economic growth and employee welfare—because the main aim of establishing and developing state-owned/connected firms is to develop national economic stability and growth (Li & Xia, 2008; Lebedev et al., 2021). Thus, developing businesses in home markets is the prime focus of politically embedded CMNEs, and because of organizational inertia, these CMNEs tend to prioritize domestic businesses as their strategic choice (Rugman et al., 2012; Sawant et al., 2021). As Yan, Wang, and Deng (2018) illustrated, CMNEs consider outward foreign investments in developed and developing countries as a positive signal to domestic stakeholders to reflect on their quality and prospects, which enhances their inbound leverage of government, financial, and market resources. Because of the Chinese market’s size and the political stability stemming from the Chinese Communist Party’s predominance in the Chinese government, CMNE HQs with strong political embeddedness are more dependent on regional domestic markets and pay more managerial attention to supporting domestic businesses compared with CMNE HQs with lower political embeddedness (Sawant et al., 2021). Hence, they fulfill domestic responsibilities and missions (e.g., domestic economic growth) while weakening the “weight” of foreign subsidiaries and markets (Bouquet & Birkinshaw, 2008). Thus, CMNEs with strong political embeddedness are less motivated to take initiatives to add value to their overseas subsidiaries and support subsidiary development. Thus, we propose the following hypothesis:

**Hypothesis 3.** Home-country political embeddedness of HQs in CMNEs negatively affects HQs’ entrepreneurial role in terms of adding

value to subsidiaries.

### 3.4. The HQ’s entrepreneurial role and reverse knowledge transfer

An argument associated with the ability to uphold an entrepreneurial role has been that the HQ is one MNE “player amongst others” that influences the development of the subsidiary (Andersson et al., 2007). This highlights the subsidiary as a semi-autonomous actor with its distinctive environment and local embeddedness that is capable of making its own strategic choices. HQs lack knowledge on the specific network context in which subsidiaries are embedded. They depend on other network actors, making the entrepreneurial role difficult to carry out (Ciabuschi et al., 2017b). However, it has been argued that as a common entrepreneurial activity, HQ’s involvement in the direct exchange of resources with a subsidiary (e.g., through resource allocation, knowledge transfer, employee training, joint R&D, and the provision of guidance) will increase the level of the HQ’s knowledge on subsidiary qualities and result in being more of an “insider” within the subsidiary network. Alternatively, as Tsoukas (1996) put it, managers’ understanding resides in the practices in which they participate. Hence, to support subsidiary development and knowledge integration, HQs may practice entrepreneurial functions and take proactive steps to create closer and more intensive exchanges with subsidiaries that are strategically important (Andersson et al., 2007).

We, therefore, propose that actions taken by HQs to pursue an entrepreneurial role vis-à-vis a particular subsidiary to enhance its competence development should reflect supportive attention (Ambos & Birkinshaw, 2010). This support will enhance the subsidiary’s ability to innovate and build a greater knowledge stock (Chang, Gong, & Peng, 2012), which, in turn, will provide a greater likelihood of reverse knowledge transfer to the HQ (Gupta & Govindarajan, 2000). This argument is consistent with Ambos and Birkinshaw (2010), who found a positive association between subsidiary performance and HQ attention. Hence, close and interactive relationships between HQs and subsidiaries can better detect relevant and strong subsidiary knowledge, which may be useful to HQ or other MNE units. Therefore, subsidiaries that gain support from HQs may be more likely to contribute to their HQ through knowledge sharing. Thus, we formulate the following hypothesis:

**Hypothesis 4.** The entrepreneurial role of HQs in CMNEs in terms of adding value to the subsidiary positively affects reverse knowledge transfer.

## 4. Methodology

### 4.1. Sampling of MNEs and subsidiaries

We sampled 2679 Chinese firms listed on the Shenzhen, Shanghai, and Hong Kong stock exchanges, as adopted in many studies on Chinese firms’ internationalization, such as Hu & Cui (2014), Meyer et al. (2014), and Wang et al. (2022). There were two reasons for choosing publicly listed firms. First, they are generally large, resource-rich, and active in foreign investments (Hu & Cui, 2014). Second, more public information was available (e.g., annual reports and media news) about listed rather than unlisted Chinese firms. Specifically, based on the listed firms’ public information and secondary data (e.g., foreign investment and its motivations, foreign subsidiary operations), we approached HQ managers for access to the subsidiaries.

To avoid selection bias, we explicitly specified three criteria that would guide the inclusion of relevant subsidiaries. HQ managers were used as information sources for this selection, while the following three criteria were used to decide which subsidiaries to include in the sample. We selected subsidiaries based on the following criteria: (i) subsidiaries where the MNE had a majority ownership stake (i.e., at least a 50 % equity stake); (ii) subsidiaries that had been part of the MNE for at least three years; and (iii) subsidiaries declared important for the MNE’s

business, by HQ managers. These criteria ensured cases where the MNE HQ had a reasonable level of managerial experience with the particular subsidiary and where the chosen subsidiaries would have a chance to establish practices of reverse knowledge transfer within the MNE. As this type of procedure constitutes a “difficult-to-identify” and “difficult-to-reach” sample (Saunders, Lewis, & Thornhill, 2007), it can be described as a purposive sampling method. In this way, we were able to access the individual CMNE through our social and professional network when necessary.

Finally, we obtained a sample of 177 subsidiaries (located in 34 markets) from 99 CMNEs with HQs located in 20 Chinese provinces. Of the 99 sampled CMNEs, 30 did not have state ownership, 19 had 1–30 % state ownership, 21 had 31–50 % state ownership, and 29 had 51–100 % state ownership. Of the 177 subsidiaries, 141 (79.7 %) were located in advanced markets, mainly in the USA (43), Germany (17), and Singapore (11), with 36 (20.3 %) in developing markets, and mostly in Brazil (7), India (6), Thailand (4), and Vietnam (4). The sampled MNEs and subsidiaries exhibit good variance across the following key demographic variables: a) type of industry (28 % engineering and machinery; 23 % electrical and electronics; 11 % metal, ores, and mining; 9 % automotive; 7 % chemical, fertilizers, and plastics; 5 % textiles, apparels, and jewelry; 4 % oil, gas, and power; 13 % others), b) number of overseas subsidiaries per MNE (8.2 on average), c) state ownership percentage (28.6 % on average), d) size (an average of 29,668 MNE employees and 392 subsidiary employees), e) entry mode (72 % greenfield versus 28 % acquired), and f) subsidiary age within the MNE (8.6 years on average).

#### 4.2. Questionnaires and data collection

We collected data through two structured questionnaires, one for respondents within the MNE HQs and the other for top managers within the subsidiaries, from October 2015 to August 2016.<sup>2</sup> This allowed us to gain insights from both knowledge receivers (HQs) and senders (overseas subsidiaries). As the potential respondents were likely to speak English or Chinese, we prepared English and Chinese versions of the questionnaires. Questionnaires were initially designed in English and later translated into Chinese. To ensure equivalence and check that the items' meanings were identical, the translated questionnaires were translated back into English. Subsequently, the Chinese versions of the HQ and subsidiary questionnaires were pre-tested in four CMNEs (two state-owned and two privately owned) and their four subsidiaries (one acquired and three greenfield). All the HQ questionnaires were administered in Chinese. Most of the subsidiary questionnaires were also in Chinese, as most respondents were Chinese expatriate managers, although a few, by top local managers, were in English.

We collected HQ data mainly through face-to-face interviews with the managers of CMNE HQs to secure valid responses. The HQ managers were asked to identify up to five relevant foreign subsidiaries, which helped us contact the top managers of these subsidiaries to answer an electronic version of the subsidiary questionnaire. HQ managers were also asked to remind subsidiary managers to complete the questionnaire and send it back using online communication tools to increase the likelihood of getting a response and reduce the duration of the process.

Regarding the respondents, the HQ questionnaire was answered by the top managers of the HQ organization (e.g., the Secretary of the Board, the Vice CEO) and, in some cases, by the heads of the HQ divisions (e.g., the international business department). These respondents were knowledgeable about their home country's political relations and

the management of overseas subsidiaries. For the subsidiary questionnaire, the majority were Chinese expatriate managers, and a few were local managers, CEO assistants, and second-tier managers within subsidiary functions, such as marketing and R&D (e.g., the head of R&D). They were expected to have in-depth knowledge of the subsidiary's management and the relationship between the subsidiary and HQ. In addition, they should be able to provide data for a full range of questions. HQ respondents answered questions about political embeddedness and reverse knowledge transfer, whereas subsidiary respondents answered questions about the HQ's administrative and entrepreneurial roles. The sources of this information are shown in Table 1.

#### 4.3. Measures

A summary of the operationalization of the exogenous and endogenous variables is presented in Table 1. Wherever possible, we used well-

**Table 1**  
Operationalization of the constructs.

Construct/Indicator	Label	Source
<b>Political-legal influence<sup>a</sup></b>	<b>PI</b>	<b>HQ</b>
Investment decisions	PI1	
Selection and dismissal of key personnel	PI2	
Formulation of a strategic plan	PI3	
Formulation of a long-term development plan	PI4	
Entry into new industry	PI5	
<b>Political network<sup>b</sup></b>	<b>PN</b>	<b>HQ</b>
During the last three years,		
The MNE HQ has frequently contacted Chinese government officials for issues which are important to your MNE	PN1	
The MNE has been closely connected with the Chinese government	PN2	
Your top managers and Chinese government officials have met face to face on a regular basis	PN3	
<b>Political cognition<sup>c</sup></b>	<b>PC</b>	<b>HQ</b>
How frequently have the MNE HQ's top managers organized meetings and training regarding Chinese government's ideologies and principles for employees during the past three years?	PC1	
To what extent have the MNE HQ's top managers aligned the MNE's management and business operations with Chinese government's ideologies and principles during the past three years?	PC2	
<b>Political embeddedness (second order)</b>	<b>PE</b>	
Political-legal influence	PI	
Political network	PN	
Political cognition	PC	
<b>HQ's administrative role<sup>d</sup></b>	<b>HQAR</b>	<b>Subsidiary</b>
Hiring top managers (reverse coded)	HQAR1	
Investment in production (reverse coded)	HQAR2	
Investment in R&D (reverse coded)	HQAR3	
<b>HQ's entrepreneurial role<sup>b</sup></b>	<b>HQER</b>	<b>Subsidiary</b>
The MNE HQ has been important for your subsidiary through its involvement in core activities	HQER1	
The MNE HQ has transferred valuable knowledge that is useful to your subsidiary	HQER2	
The MNE HQ has provided useful guidance	HQER3	
The MNE HQ is knowledgeable about the local environment	HQER4	
<b>Reverse knowledge transfer<sup>e</sup></b>	<b>RKT</b>	<b>HQ</b>
Product/service know-how	RKT1	
Production know-how	RKT2	
R&D know-how	RKT3	

a: To what extent have the MNE HQ's decisions in the following areas been influenced by the regulations and policies of the Chinese government or government agencies during the past three years?

b: To what extent do you agree with the following statements?

c: Please answer the following questions.

d: Please indicate the relative influence that your subsidiary versus the MNE HQ has in affecting the following decisions regarding your subsidiary.

e: To what extent, during the past 12 months, has the MNE HQ received different knowledge (listed below) from each subsidiary?

<sup>2</sup> This study is part of a larger survey project on political embeddedness in CMNEs. It entails a broad variety of information and variables, including MNE internationalization activities and motives, the characteristics of HQs and subsidiaries, HQ-subsidiary relationship characteristics, and reverse knowledge transfer activities from the perspectives of both HQ and subsidiary managers.

established research instruments with minor changes to adapt them to the CMNE context. In the following subsections, we explain how the four core constructs of this study—political embeddedness, HQs' administrative role, HQs' entrepreneurial role, and reverse knowledge transfer—were measured.

#### 4.3.1. Exogenous variables

We treat the political embeddedness of the CMNE as a multidimensional construct, referring to “several distinct but related dimensions treated as a single theoretical concept” (Edwards, 2001:144). In this way, we provide a holistic representation of a complex phenomenon in a relatively simple abstraction (Polites, Roberts, & Thatcher, 2012). Thus, as discussed above, the political embeddedness construct has three dimensions: political-legal influence, political network, and political cognition. Following this rationale, *political embeddedness* is conceptualized as a higher-order construct formed by these dimensions. In contrast, the three first-order constructs can be measured reflectively. As a complex and unobservable abstract construct, political embeddedness is operationalized as a reflective-formative (type II) construct (Becker, Klein, & Wetzels, 2012).

*Political-legal influence* reflects the strengths and constraints of government legal arrangements and the enforcement to which a firm is subjected (Ciabuschi et al., 2017a). We used five items to capture the influence of the Chinese government's regulations and policies on MNE HQs' investment decisions, selection and dismissal of key personnel, formulation of a strategic plan, formulation of a long-term development plan, and entry into new industries based on the studies of Chang and Wong (2004), Gao (2011), and Prechel and Zheng (2012). Regarding *political network*, we built on the studies by Kotabe et al. (2011) and Peng and Luo (2000) and used three items to examine the political ties of CMNE HQs with the Chinese government and government officials (see Table 1). The next construct, *political cognition*, has received little scholarly attention. It reflects a firm's behavior and cultural alignment with governmental ideology (Ciabuschi et al., 2017a). The two items on this scale consider China's institutional and political settings and capture the extent of HQ's alignment with Chinese government ideologies and principles. All items in the three dimensions of political embeddedness consider managers' perceptions over the past three years (see Table 1).

#### 4.3.2. Endogenous variables

The HQ's *administrative role* is reflected through the centralization of subsidiary decisions exerted by the HQ. Based on the items used by Ghoshal, Korine, and Szulanski (1994) and Gupta and Govindarajan (2000), subsidiary respondents were asked to assess the influence of the MNE HQ on subsidiaries' decisions (see Table 1). An answer to each item was selected from a seven-point scale, where: 1 represents “the MNE HQ decides alone,” 4 represents “both HQ and subsidiary have a roughly equal influence on decision-making,” and 7 represents “the subsidiary decides alone.”

The HQ's *entrepreneurial role* was measured through the importance of each HQ's contribution to subsidiary activities in terms of knowledge and provision of support. Building on the works of Ambos and Mahnke (2010) and Nell and Ambos (2013), we developed four items (see Table 1).

The measures for *reverse knowledge transfer* were adapted from Gupta and Govindarajan (2000) and Yang et al. (2008). This construct reflects the extent to which the MNE HQ has received different knowledge from each subsidiary over the past 12 months. We concentrated on technological knowledge, split into three types: product/service, production, and R&D know-how. Technology-related knowledge transfer is used as the empirical focus because it is considered strategically important for CMNEs that aim to catch up with their Western rivals in terms of innovation (e.g., Deng, 2009; Luo & Tung, 2007).

#### 4.4. Data analysis technique

We used partial least squares structural equation modeling (PLS-SEM) to test our hypotheses. This technique has proven suitable when models include formative and second-order constructs (Becker et al., 2012; Hair, Sarstedt, Pieper, & Ringle, 2012) and typically have no identification problems. We applied the “two-stage” approach (Henseler, Wilson, Götz, & Hautvast, 2007) to obtain latent variable scores to be used as indicators of the second-order construct. SmartPLS (Ringle, Wende, & Becker, 2015) was used to estimate the model.

#### 4.5. Robustness tests

##### 4.5.1. Common method bias

The common method variance bias (Chang, Van Witteloostuijn, & Eden, 2010) has a limited concern in this study. While measures of political embeddedness and reverse knowledge transfer were addressed by HQ managers in China, questions dealing with HQ's entrepreneurial and administrative roles were answered by overseas subsidiary managers. In other words, we alternated HQ responses for the exogenous variable (political embeddedness) with subsidiary responses for HQ's entrepreneurial and administrative roles and HQ responses for reverse knowledge transfer. We also employed a variety of Likert-type scale response anchors (e.g., “strongly disagree/strongly agree,” “not at all/very much,” and “the MNE HQ decides alone/the subsidiary decides alone”).

##### 4.5.2. Control variables

We controlled for several factors that may potentially affect HQs' administrative and entrepreneurial roles and reverse knowledge transfer (i.e., the potential effect on the three endogenous constructs). For *entry mode*, a value of 1 was marked when the subsidiary was established through acquisition and 0 otherwise. This was done because acquired subsidiaries are likely to possess distinctive knowledge within MNE (Rabbiosi, 2011) and thus transfer more knowledge to other units (Gupta & Govindarajan, 2000). One important motive for MNEs behind acquiring a local firm is to access its knowledge base. We also controlled for *subsidiary age within the MNE* and *subsidiary size*. Subsidiary age within the MNE was measured as the time difference between the year the survey was conducted and the subsidiary was acquired or established. Subsidiary size was determined by the subsidiary's number of employees. Size is a proxy for many subsidiary characteristics, including the extent of local linkages, availability of resources for innovation, economies of scale and scope, and importance and power within intra-firm networks (Gupta & Govindarajan, 2000; Rabbiosi, 2011).

Additionally, we controlled for the percentage of *state ownership* of the MNE's parent firm. Many studies have used this to measure government control and found that it strongly impacts CMNEs' internationalization (Panibratov & Michailova, 2019; Wang et al., 2012). Furthermore, HQ respondents assessed the extent of *asset-seeking* motives (e.g., acquiring critical resources or capabilities, including technological know-how, management practices, brands, marketing, and sales know-how) as a driver of the establishment or acquisition of each subsidiary. The scale ranged from 1 (not at all) to 7 (very much). This aligns with Gupta and Govindarajan (2000), who found that knowledge receivers' (in our case, HQs) motivation to learn is an important factor influencing knowledge transfer. Furthermore, asset-seeking motives can reflect the subsidiary's mandate to develop a knowledge stock and influence its ability to transfer knowledge back to the HQ.

In a second step, we added controls for a) *geographical* and *cultural distance* between China and the host country, b) *industry*, and c) whether the host country was an *advanced* or emerging market. First, we believe that geographical and cultural distance may indicate whether a CMNE suffers from the liability of foreignness, which may affect the HQ's role and reverse knowledge transfer. We measured geographical distance between Beijing and the host country's capital in terms of kilometers. For cultural distance, we used Hofstede's scores and the Kogut and Singh

Index (Kogut & Singh, 1988). Second, we classified and ranked the MNEs' industries based on the OECD (2011) guidelines as (1) low, (2) middle-low, (3) middle-high, and (4) high-tech. Third, we considered knowledge more likely to be transferred to Chinese HQs from advanced markets. Following the IMF World Economic Outlook publications, we classified subsidiary host markets as advanced (1) or emerging (0).

#### 4.5.3. Endogeneity

We followed the Gaussian copula approach to test and control for endogeneity (Park & Gupta, 2012) by modeling the correlation between the endogenous variables and the error terms. First, we performed the Kolmogorov-Smirnov test with Lilliefors correction on the standardized composite scores of the three potentially endogenous variables (Hult et al. 2018). We found that political embeddedness ( $p < 0.000$ ), the HQ's administrative role ( $p < 0.047$ ), and the HQ's entrepreneurial role ( $p < 0.025$ ) were not normally distributed, which is a requirement for the Gaussian copula approach. Second, we calculated four Gaussian copulas: two for the effects of political embeddedness and two for the HQ's administrative and entrepreneurial roles in the PLS-SEM model. We found non-significant results for the Gaussian copulas of political embeddedness and the HQ's entrepreneurial ( $p < 0.619$ ) and administrative roles ( $p < 0.532$ ), confirming that political embeddedness is not endogenous.

Further, when dealing with reverse knowledge transfer, we found a non-significant result for the HQ's entrepreneurial role Gaussian copula ( $p < 0.404$ ) and a significant result for the HQ's administrative role Gaussian copula ( $p < 0.038$ ), suggesting the possibility that this construct is endogenous. Endogeneity is sometimes inevitable in international business studies (Hult et al., 2018). However, as a third step, following the study of Hult et al. (2018), we identified potential missing information. We added the new control variables mentioned above (geographical and cultural distance, industry, and advanced versus emerging host markets), which are expected to deal with, or at least decrease, endogeneity's impact on model estimates. Finally, given that no well-recognized instrumental variable is available in our empirical context or database, we could not implement the IV approach.

#### 4.5.4. Linearity

As a final robustness test, we modeled four quadratic effects and found three non-significant effects of political embeddedness on HQ's administrative role ( $\beta = -0.02$ ,  $p < 0.377$ ) and on HQ's entrepreneurial role ( $\beta = 0.00$ ,  $p < 0.467$ ), and of HQ's entrepreneurial role on reverse knowledge transfer ( $\beta = 0.08$ ,  $p < 0.088$ ). There was a significant quadratic effect of HQ's administrative role on reverse knowledge transfer ( $\beta = -0.14$ ,  $p < 0.018$ ), although smaller than the linear effect ( $\beta = -0.20$ ,  $p < 0.005$ ) when both were tested simultaneously.

## 5. Results

We assessed the measurement model in terms of item and construct reliability and convergent and discriminant validity. When the measures proved to be reliable and valid, the structural part of the model was considered and evaluated in terms of the significance of construct relationships based on a bootstrapping technique. We checked the loadings of each indicator used to measure the reflective constructs (see Column 2 in Table 2). All indicators achieved the minimum item reliability of 0.7 (Carmines & Zeller, 1979).

The Dijkstra-Henseler's  $\rho A$  measure of internal consistency reliability (Dijkstra & Henseler, 2015) is higher than 0.7 for all the constructs (see column 3 in Table 2). It ranges between 0.76 for "Political network" and "HQ's administrative role" and 0.87 for "Political-legal influence," while the average variance extracted (AVE) (Fornell & Larcker, 1981) is over the 0.5 threshold for all the constructs (see column 4 in Table 2), implying convergent validity. Next, the weights of the three dimensions that create political embeddedness are significant, contribute similarly to the second-order construct, and do not reveal any

**Table 2**

Item and construct reliability and average variance extracted (AVE) for the first-order constructs and item weights and collinearity statistics for the second-order construct.

	Item reliability	Construct reliability	Convergent validity
<b>Construct/ Indicator</b>	<b>Loading</b>	$\rho A$	<b>AVE</b>
<b>Political-legal influence</b>		0.87	0.57
PI1	0.72		
PI2	0.82		
PI3	0.72		
PI4	0.80		
PI5	0.72		
<b>Political network</b>		0.76	0.66
PN1	0.71		
PN2	0.87		
PN3	0.84		
<b>Political cognition</b>		0.77	0.80
PC1	0.92		
PC2	0.87		
<b>HQ's administrative role</b>		0.76	0.67
HQAR1	0.77		
HQAR2	0.83		
HQAR3	0.84		
<b>HQ's entrepreneurial role</b>		0.80	0.62
HQER1	0.72		
HQER2	0.80		
HQER3	0.83		
HQER4	0.81		
<b>Reverse knowledge transfer</b>		0.84	0.73
RKT1	0.80		
RKT2	0.86		
RKT3	0.90		
<b>Construct/Indicator</b>	<b>Weight</b>	<b>t-value (bootstrap)</b>	<b>VIF</b>
<b>Political embeddedness</b>			
Political-legal influence	0.37*	(2.14)	2.03
Political network	0.37*	(1.80)	2.08
Political cognition	0.41*	(1.74)	1.75

\* $p < 0.05$ ; (based on a one-tailed Student's  $t(4999)$ -distribution)

multicollinearity problems (see Table 2). Furthermore, the constructs differ from one another; that is, they demonstrate discriminant validity (see Table 3). Specifically, the square root of each construct's AVE is greater than its correlation with any other construct and the scores in the Heterotrait-Monotrait Ratio (HTMT) matrix are lower than 0.85 (Henseler, Ringle, & Sarstedt, 2015). Hence, it can be stated that the measurement model has suitable metric properties.

The structural model analysis was based on bootstrap tests with 5000 resamples (i.e., a nonparametric approach to estimating the precision of the PLS-SEM estimates). Three of the hypothesized relationships were statistically significant. First, we postulated a positive relationship between political embeddedness and HQ centralization of subsidiary decision-making (administrative role) (Hypothesis 1) and a negative relationship between HQ centralization of subsidiary decision-making (administrative role) and reverse knowledge transfer (Hypothesis 2). In contrast, the results show that Hypothesis 1 is not empirically supported (see Table 4 and Fig. 2). Hypothesis 2 cannot be rejected because there is a negative and significant relationship between HQ centralization (administrative role) and reverse knowledge transfer ( $\beta = -0.18$ ,  $p < 0.01$ ). Second, as postulated, the political embeddedness of HQs is negatively and significantly related to HQs' entrepreneurial role ( $\beta = -0.33$ ,  $p < 0.001$ ), supporting Hypothesis 3. Likewise, the data support Hypothesis 4, proving that the entrepreneurial HQ role has a significantly positive effect on reverse knowledge transfer ( $\beta = 0.31$ ,  $p < 0.001$ ).

We also tested whether HQs' administrative and entrepreneurial roles served as mediating factors between political embeddedness and



Table 3

Discriminant validity<sup>a</sup>, b: Correlations, square root of the average variance extracted (AVE), and HTMT ratios.

Construct	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Political embeddedness	—	—	—	—									
2. HQ's entrepreneurial role	-0.53	<b>0.79</b>	0.12	0.41									
3. HQ's administrative role	0.06	0.06	<b>0.82</b>	0.46									
4. Reverse knowledge transfer	-0.27	0.31	-0.39	<b>0.85</b>									
5. Entry mode	0.07	-0.20	-0.60	0.27	<b>1.00</b>								
6. Subsidiary age	-0.06	0.17	-0.01	-0.03	-0.16	<b>1.00</b>							
7. Subsidiary size	-0.13	0.07	-0.28	0.24	0.27	-0.05	<b>1.00</b>						
8. State ownership	0.69	-0.52	-0.01	-0.25	0.13	-0.05	-0.13	<b>1.00</b>					
9. Asset-seeking motives	-0.15	0.08	-0.45	0.59	0.44	-0.23	0.14	-0.21	<b>1.00</b>				
10. Geographical distance	0.00	-0.07	-0.13	0.06	-0.03	0.11	0.04	0.00	0.00	<b>1.00</b>			
11. Cultural distance	-0.04	-0.08	-0.10	0.15	0.09	0.05	-0.03	-0.04	0.13	0.63	<b>1.00</b>		
12. Industry	-0.15	0.13	-0.19	0.26	0.06	0.05	-0.14	-0.13	0.26	0.08	0.03	<b>1.00</b>	
13. Advanced market	0.00	-0.20	-0.02	0.26	0.21	-0.05	-0.11	0.10	0.32	0.04	0.32	-0.05	<b>1.00</b>

<sup>a</sup> Diagonal values in bold are the square roots of the variance shared between the reflective constructs and their measures. For discriminant validity to be established, the diagonal elements must be greater than the off-diagonal elements in the corresponding rows and columns.

<sup>b</sup> Over the diagonal, HTMT ratios in italics.

reverse knowledge transfer. We applied the procedures for mediation analysis in PLS path modeling suggested by Nitzl, Roldan, and Cepeda-Carrion (2016). The results show that political embeddedness has a significant indirect effect on reverse knowledge transfer (see columns 8, 9, and 10 in Table 4) ( $\beta = -0.12$ ,  $p < 0.01$ ) as the HQ's entrepreneurial role fully mediates the relationship ( $\beta = -0.10$ ,  $p < 0.01$ ). However, the indirect effect of political embeddedness on reverse knowledge transfer through the HQ's administrative role ( $\beta = -0.02$ ) is not significant.

Among the main control variables that influence our endogenous constructs, the HQ's administrative role is negatively related to the "entry mode" (being an acquired subsidiary) and to "asset-seeking motives to establish/acquire the subsidiary." Hence, centralization of decision-making is lower among acquired subsidiaries and when HQs have asset-seeking interests in the subsidiary. Moreover, HQ centralization seems to decrease over time due to a negative relationship with subsidiary age, while advanced markets allow for greater centralization. On the contrary, the HQ's entrepreneurial role is positively related to subsidiary age and asset-seeking motivations. It is also negatively related to entry mode (being an acquired subsidiary), MNEs' state ownership, and advanced markets. Finally, reverse knowledge transfer is positively influenced by subsidiary size, asset-seeking motivations, industry, and advanced markets.

The model explains 49 % of the variance ( $R^2$ ) of the HQ's administrative role, 40 % of the HQ's entrepreneurial role, and 50 % of reverse knowledge transfer (see Table 4). The model also has predictive validity (Shmueli et al., 2019) in view of the  $Q^2$  predict scores of HQ's administrative role (0.39), HQ's entrepreneurial role (0.31), and reverse knowledge transfer (0.36).

## 6. Concluding discussion

### 6.1. Findings and research contributions

Based on a sample of 177 HQ-subsidiary dyadic relationships in 99 CMNEs, this study examines the effects of HQs' home-country political embeddedness on subsidiary reverse knowledge transfer through HQs' administrative and entrepreneurial roles. The overall argument that the political embeddedness of CMNE HQs has detrimental effects on knowledge acquisition from subsidiaries through corporate HQ roles is partially supported. We uncover a managerial challenge: political embeddedness makes HQs less motivated and lessens their ability to conduct entrepreneurial activities vis-à-vis individual subsidiaries essential for reverse knowledge transfer. However, the results show that while the centralization of HQs' decision-making hampers reverse knowledge transfer, this is not significantly associated with the political embeddedness of those HQs.

Overall, our results indicate that managerial limits are associated with the liability of foreignness. This means not only the additional costs that CMNEs incur when operating in foreign markets (e.g., Millar & Choi, 2009) but also the risk of failing to share critical knowledge throughout corporate units. Specifically, we posit that home country political embeddedness is associated with organizational inertia because of strong reliance on the home country government and domestic businesses, thereby inhibiting HQs' knowledge of subsidiary activities and their motivation and ability to commit entrepreneurial activities to add value to subsidiaries. This is consistent with a previous case study in which a state-owned CMNE, a leading firm in construction equipment, acquired a German manufacturer (Ciabuschi et al., 2017a). The CMNE struggled to improve its relationship with the German subsidiary because it was used to a protective and less market-oriented home environment. Owing to its long-standing dependence on the Chinese government, it had limited experience and capability to do business in a competitive and market-oriented economy, such as Germany, which negatively affected the subsidiary's business.

Our findings provide a better understanding of the received divergent views on the strength versus the liability of CMNE HQs' political relations (Lebedev et al., 2021; Wang et al., 2022). The results indicate that the political embeddedness of CMNEs inhibits HQs' entrepreneurial role, negatively affecting their motivation and ability to obtain reverse knowledge transfer from subsidiaries. This contrasts the well-established view that political relations are a source of competitive advantage for CMNEs' internationalization (e.g., Luo et al., 2010; Panibratov & Michailova, 2019; Wei et al., 2015) and confirm the existence of "liability of stateness" (Meyer et al., 2014; Sawant et al., 2021; Wang et al., 2022). Our study highlights that the Chinese corporate political embeddedness, to some extent, restricts managerial capabilities beyond its national borders, which differs from the expectations that state-connected firms' internationalization should contribute to the Chinese state's innovation goals (e.g., the Made in China 2025 strategy) (Howell, 2020). In other words, the assumed advantage of being politically embedded may be ineffective and even hamper the management of knowledge integration across multiple contexts. This suggests that the value of political embeddedness is bounded within local institutional contexts. Additionally, it suggests that such institutional advantage cannot be easily transferred to other institutionally different countries and may become a liability in overseas operations. This helps reconcile the mixed findings of previous research on the effects of political relations on CMNEs.

Our results also provide new evidence reinforcing the argument that home context and country of origin matter in EMNEs (Hobdari et al., 2017; Meyer & Peng, 2016; Panibratov, 2016). In this study, home-country political embeddedness is a factor that inhibits the entrepreneurial role of HQs, i.e., decreasing the ability of HQs to add

**Table 4**

Endogenous variables: Total, direct and indirect effects, bias-corrected confidence intervals (BCCI) and explained variances.

Effects on endogenous variables	Total effects	t value (bootstrap)	95 % BCCI	Direct effects	t value (bootstrap)	95 % BCCI	Indirect effects	t value (bootstrap)	95 % BCCI	Variance explained
<b>Effects on HQ's administrative role</b>										<b>0.49</b>
Political embeddedness (H1)	0.10	n.s.	[-0.07; 0.28]	0.10	n.s.	[-0.07; 0.28]				0.01
Entry mode	-0.49	*** (6.867)	[-0.60; -0.37]	-0.49	*** (6.867)	[-0.60; -0.37]				0.29
Subsidiary age	-0.14	** (2.798)	[-0.21; -0.05]	-0.14	** (2.798)	[-0.21; 0.05]				0.00
Subsidiary size	-0.10	† (1.375)	[-0.23; 0.01]	-0.10	† (1.375)	[-0.23; 0.01]				0.03
State ownership	-0.13	† (1.479)	[-0.29; 0.00]	-0.13	† (1.479)	[-0.29; 0.00]				0.00
Asset-seeking motives	-0.30	*** (3.883)	[-0.43; -0.18]	-0.30	*** (3.883)	[-0.43; -0.18]				0.14
Geographical distance	-0.13	† (1.496)	[-0.29; 0.01]	-0.13	† (1.496)	[-0.29; 0.01]				0.02
Cultural distance	0.02	n.s.	[-0.12; 0.17]	0.02	n.s.	[-0.12; 0.17]				0.00
Industry	-0.08	n.s.	[-0.18; -0.03]	-0.08	n.s.	[-0.18; -0.03]				0.01
Advanced market	0.17	** (2.262)	[0.05; 0.30]	0.17	** (2.262)	[0.05; 0.30]				0.00
<b>Effects on HQ's entrepreneurial role</b>										<b>0.40</b>
Political embeddedness (H3)	-0.33	*** (3.873)	[-0.46; -0.18]	-0.33	*** (3.873)	[-0.46; -0.18]				0.17
Entry mode	-0.17	* (2.098)	[-0.29; -0.03]	-0.17	* (2.098)	[-0.29; -0.03]				0.03
Subsidiary age	0.15	** (2.501)	[0.05; 0.25]	0.15	* (2.501)	[0.05; 0.25]				0.03
Subsidiary size	0.03	n.s.	[-0.07; 0.13]	0.03	n.s.	[-0.07; 0.13]				0.00
State ownership	-0.21	* (2.159)	[-0.37; -0.05]	-0.21	* (2.159)	[-0.37; -0.05]				0.11
Asset-seeking motives	0.15	* (1.734)	[0.01; 0.29]	0.15	* (1.734)	[0.01; 0.29]				0.01
Geographical distance	-0.10	n.s.	[-0.24; 0.02]	-0.10	n.s.	[-0.24; 0.02]				0.01
Cultural distance	0.01	n.s.	[-0.14; 0.15]	0.01	n.s.	[-0.14; 0.15]				0.00
Industry	0.02	n.s.	[-0.09; 0.13]	0.02	n.s.	[-0.09; 0.13]				0.00
Advanced market	-0.18	** (2.549)	[-0.30; -0.07]	-0.18	** (2.549)	[-0.30; 0.07]				0.04
<b>Effects on reverse knowledge transfer</b>										<b>0.50</b>
Political embeddedness	-0.12	** (2.752)	[-0.20; -0.06]				-0.12	** (2.752)	[-0.20; -0.06]	0.00
HQ's administrative role (H2)	-0.18	** (2.345)	[-0.31; -0.05]	-0.18	** (2.345)	[-0.31; -0.05]				0.07
HQ's entrepreneurial role (H4)	0.31	*** (4.491)	[0.19; 0.41]	0.31	*** (4.491)	[0.19; 0.41]				0.09
Entry mode	-0.01	n.s.	[-0.13; 0.13]	-0.05	n.s.	[-0.18; 0.09]	0.04	n.s.	[-0.04; 0.12]	0.01
Subsidiary age	0.08	n.s.	[-0.02; 0.18]	0.00	n.s.	[-0.09; 0.10]	0.07	** (2.597)	[0.03; 0.12]	0.00
Subsidiary size	0.20	** (2.872)	[0.08; 0.31]	0.17	** (2.552)	[0.05; 0.27]	0.03	n.s.	[-0.01; 0.08]	0.04
State ownership	-0.03	n.s.	[-0.15; 0.08]	0.01	n.s.	[-0.11; 0.12]	-0.04	n.s.	[-0.10; 0.01]	0.00
Asset-seeking motives	0.47	*** (7.354)	[0.36; 0.57]	0.37	*** (5.204)	[0.25; 0.48]	0.10	** (2.719)	[0.04; 0.16]	0.21
Geographical distance	0.00	n.s.	[-0.12; 0.12]	0.01	n.s.	[-0.11; 0.13]	-0.01	n.s.	[-0.06; 0.06]	0.00
Cultural distance	0.04	n.s.	[-0.09; 0.17]	0.04	n.s.	[-0.08; 0.17]	-0.00	n.s.	[-0.06; 0.05]	0.00

(continued on next page)

Table 4 (continued)

Effects on endogenous variables	Total effects	t value (bootstrap)	95 % BCCI	Direct effects	t value (bootstrap)	95 % BCCI	Indirect effects	t value (bootstrap)	95 % BCCI	Variance explained			
Industry	0.15	**	(2.401)	[0.04, 0.24]	0.12	*	(2.233)	[0.03, 0.21]	0.02	n. s.	[-0.01, 0.06]	0.03	
Advanced market	0.13	*	(2.291)	[0.03, 0.21]	0.22	***	(3.583)	[0.11, 0.31]	-0.09	**	(2.706)	[-0.15, -0.04]	0.05

n.s.: not significant; † < 0.1; \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001 (based on a one-tailed Student's t(4999)-distribution).

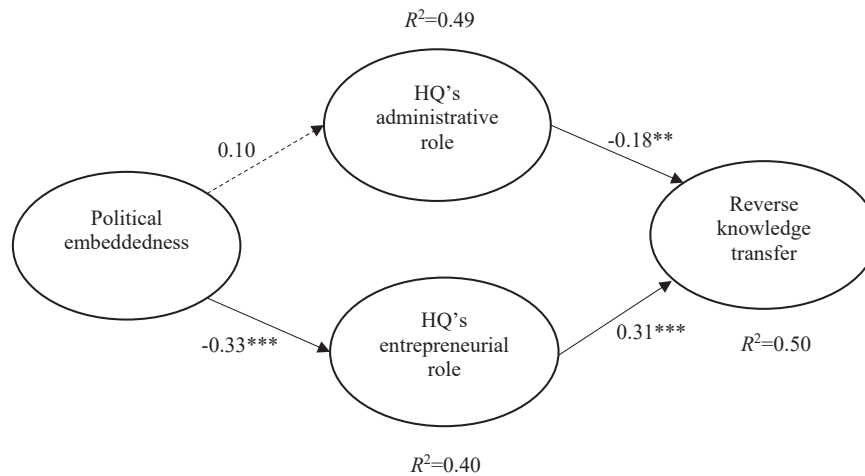


Fig. 2. The resulting model. \*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001 (based on a one-tailed Student's t(4999)-distribution).

value to subsidiaries. This means that due to political embeddedness, HQs are, to a lesser extent, able to generate adequate managerial skills and a deeper understanding of subsidiaries. Consistent with Tsoukas (1996), this negatively affects the ability to transfer knowledge from subsidiaries to HQs, which is contingent on HQs' participation in subsidiary practices. Therefore, adding value to subsidiaries through entrepreneurial activities of HQs seems to be an effective approach to overcoming problems related to the issue of light-touch integration by CMNEs (Liu & Woywode, 2013) and advanced market subsidiaries' unwillingness to share knowledge with their HQs (Ciabuschi et al., 2017a). This study provides a better understanding of how CMNEs can leverage overseas knowledge and achieve innovation catch-up, thereby contributing to the literature on strategic asset-seeking internationalization (Deng, 2009; Maksimov & Luo, 2021). In brief, politically embedded CMNEs are not the best candidates for supporting innovation catch-up from strategic asset-seeking foreign investments.

Our study reinforces the relevance of distinguishing between the roles of the HQ in relation to reverse knowledge transfer and political embeddedness. It should be noted that, in contrast to several previous studies where political ties (embeddedness) have been investigated against different types of effects on reverse knowledge transfer (i.e. the demand to transfer, willingness to transfer, transfer barriers, and transfer benefits) (see further Ciabuschi et al., 2017a; Su & Kong, 2020; Su et al., 2020), our present study focuses on the actual degree of reverse knowledge transfer. Furthermore, while our study primarily provides insight into how differentiated HQ roles mediate the relationship between political embeddedness and reverse knowledge transfer, the previous studies (those that investigate the degree of reverse knowledge transfer) focus on a variety of different factors, i.e. the moderating effects of top management team experience as well as the mediating effects of MNEs' degree of internationalization and HQs' and subsidiaries' innovativeness (see further Su et al., 2021, 2022, 2023). In connection to what Goold and Campbell (2002) refer to as the "parenting advantage in complex structures", our study demonstrates that political embeddedness is an important attribute of parenting theory (Goold et al., 1998) as

it helps to explain how HQs can serve to destroy value. Our results reveal that HQ centralization in subsidiaries' decision-making is not influenced by HQs' political embeddedness, which challenges the previous case finding of Ciabuschi et al. (2017a) that CMNE HQs' strong political embeddedness decreases HQs' control over subsidiaries in advanced markets. However, it seems to hamper reverse knowledge transfer which is further impeded by the negative impact of political embeddedness on HQs' entrepreneurial roles. The results align with a rather pessimistic view of HQs' parenting advantage (Ciabuschi et al., 2017b; Decreton et al., 2019), as corporate political embeddedness is a source of value destruction (Pidun, 2017). However, we can also speculate that when HQ managers become more aware of the implications derived from the home-country political embeddedness, they can initiate stronger relationship-building and participation in (selected) important subsidiary activities, which may counterbalance the absence of previous entrepreneurial actions. This stresses the importance of a wider analysis of HQ roles in relation to reverse knowledge transfer that does not focus only on HQs' administrative roles but also ignores their entrepreneurial roles.

In addition, our study advances the concept of corporate political embeddedness, extending the research on firm-government relations. In contrast to previous research, which predominantly focuses on political network ties when analyzing firm-government relations (e.g., Kotabe et al., 2011; Krammer & Jimenez, 2020; Lebedev et al., 2021; Peng & Luo, 2000; Sawant et al., 2021; Su & Kong, 2020; Su et al., 2020, 2021, 2022), we adopt a multidimensional concept of political embeddedness (Ciabuschi et al., 2017a) to capture a multifaceted firm-government relationship. In our study, a firm's political embeddedness is a formative construct, embodying three dimensions of embeddedness (political-legal influence, political network, and political cognition) and capturing the degree of interdependence, closeness, and alignment between firms and government. The development and operationalization of this multidimensional concept can serve as a complement to existing constructs (such as political ties, which focus only on one relational aspect) and help researchers to capture a more comprehensive reflection

of the diversity, complexity, and intensity of relationships and interactions between firms and government, and to make a better assessment of the effects and implications of firm-government relations.

Moreover, our findings contrast with earlier studies on embeddedness at the subsidiary level, where external embeddedness is generally conducive to intra-MNE knowledge transfer (Andersson et al., 2002; Najafi-Tavani et al., 2014). Therefore, we suggest a more complex view of MNE embeddedness, in which different types of embeddedness exist at different organizational levels (Deng et al., 2020). The influence of different firm-level embeddedness, such as HQ and subsidiary levels, may be highly separated or mixed up (Holm, Johanson, & Thilenius, 1995) and affect managers in a complex way. For example, managers across different organizational levels in the home country or abroad may pursue different (administrative or entrepreneurial) managerial roles depending on political embeddedness at the different levels, thereby encountering different opportunities/barriers for knowledge integration.

## 6.2. Limitations and future research

Although this paper makes several contributions to the literature, there are some limitations, suggesting interesting possible avenues for future research. The first limitation of our study is that it focuses on HQs' political embeddedness in a general way while neglecting the different levels of governmental relationships in which CMNEs may be embedded. These relationships may differ depending on the particular governmental authorities that CMNEs are connected with, exposing managers to different political interests and dependencies on different resources (Wang et al., 2012). Future research can obtain more granular insights into various political relationships that enhance understanding of CMNEs' managerial processes and international behaviors. For example, city and provincial governments may aim to increase local economic output (e.g., local GDP), revenues, and funding. In contrast, the central government generally has more competitive resources and is more concerned with globalization, openness, national image, and the country's integration into the global economy (Wang et al., 2012). These differences may, in turn, lead to different decisions in managing HQ-subsidiary relationships and allocating international managerial attention.

Second, this paper focuses on one home country—China. Chinese institutions and political systems are idiosyncratic, which may limit the generalizability of the findings. Although the Chinese context is particularly relevant for political embeddedness, it is a worldwide phenomenon that may affect MNEs from other economic regions (Hillman, Keim, & Schuler, 2004). While we believe that our findings offer important insights to other emerging countries, we recognize that conducting similar studies not only in emerging countries but also in developed countries or with multi-country samples will help better assess our findings' generalizability.

Third, due to the limited availability of data on unlisted firms in China, our sample is restricted to publicly listed CMNEs. One should be cautious when interpreting the findings for general CMNEs' behaviors. Listed firms are generally large, resource-rich, and have strong operating capabilities. Hence, they have a greater ability to bear the risk of failure in their foreign investments, particularly strategic asset-seeking investments, and are more likely to engage in such investments. Although our sample is suitable for our research purpose and samples of listed firms have been widely used in prior studies, the findings may not hold true for unlisted firms, for example, small- and medium-sized firms. Listed CMNEs are likely to have more resources and stronger operating conditions, which may enhance the likelihood of reverse knowledge transfer. Further research may need to examine our theoretical arguments in other types of firms, such as unlisted firms in China.

Finally, it should be noted that our research design does not include longitudinal investigations. Regarding knowledge transfer, future research could focus more on in-depth case studies and explore the

interplay between the features of embeddedness and the undertaking of HQ roles, as well as knowledge-related activities at the subsidiary level. For example, longitudinal case studies could highlight the managerial limits that occur at the HQ and subsidiary levels when centralization becomes high or explain the opportunities for knowledge transfer that follow from the entrepreneurial activities of HQs. These studies could also provide better insights into how HQs manage to deal with both the benefits and hampering effects of political embeddedness in their development of the two roles vis-à-vis subsidiaries' knowledge transfer. Moreover, given that we tested for endogeneity problems, we can speculate about the possibility of conducting an in-depth case study to seek the existence of reciprocal links—how reverse knowledge transfer affects HQ roles and, in turn, political embeddedness. Hence, subsidiaries with strong innovative capabilities may conduct reverse knowledge transfer that spurs HQs' entrepreneurial and control activities and, consequently, affect the degree to which HQs accept to embed into political relationships. Such a study would provide a better understanding of the frictions between foreign value-creating activities and the influence of home-country political embeddedness, including new insights into when and why political embeddedness will be a lesser (stronger) factor in international growth of the MNE. Given that the present study has investigated political embeddedness as a main driving factor, we suggest that future research investigate the reverse path in greater detail.

## Data availability

The data that has been used is confidential.

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