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Institutional duality incidence on subsidiaries: configuration, differentiation and avoidance strategies

Akiebe Humphrey Ahworegba, Christophe Estay, Myropi Garri

Abstract

Purpose- To illustrate how threats of institutional duality (ID) incidence subsidiaries confront are converted to opportunities, by conceptualizing how subsidiaries attain operational legitimacy at both their headquarters (HQ) and host-countries.

Design/methodology/approach- Using a systematic literature review, we build on institutional theories by analyzing ID literature along its structure, main processes, and outcomes. We configure frameworks of both HQ control systems and host-countries' institutional threats, showing how subsidiaries contingently navigate across them using configuration, differentiation, and avoidance strategies.

Findings- Our findings show that “foresighted” subsidiaries attain operational legitimacy through configuration, differentiation, and avoidance of threats incidental to ID, by strategizing along certain formal and informal institutional variables including legal, socio-cultural, and technical factors.

Originality/value- We propose “structural configuration of ID incidence” and “subsidiary path to legitimacy” frameworks. The former configures how the interaction between HQ and host-countries' variables constitute ID incidence threats. The latter highlights how “foresighted” subsidiaries use configuration, differentiation, and avoidance strategies to attain operational legitimacy.

Key Words: Subsidiaries, Configuration, Differentiation, Avoidance, Operational legitimacy, Institutional duality

Introduction

Multinational corporations' (MNCs) subsidiaries face threats arising from institutional duality (ID) incidence. ID incidence threats refer to isomorphic (double) pulls or pressures (DiMaggio and Powell, 1983) that concurrently arise from the subsidiaries' headquarters (HQ) and the host-country (Kostova and Roth 2002; Hillman and Wan, 2005). The interplay between environmental and organizational variables in MNCs illustrates the framework in which MNCs operate (Sundaram and Black, 1992). Subsidiaries align with the host-country's context to avoid isomorphic pressures, without eroding the context of their homeland. They use resource commitment, personal relationships, political accommodation, and organizational credibility to improve cooperation with the host-institutions (Luo, 2001). Even in local illegitimate institutional contexts, firms develop exploitation and exploration strategies to survive and remain competitive (Ramirez et al, 2018). Subsidiaries must fulfill a dissimilar set of stakeholders' expectations from the ones stemming from their HQs (Kim et al, 2018). Undoubtedly, companies cannot completely please all audiences (Suchman, 1995). Subsidiaries from institutionally mature markets (Child and Marinova, 2014) behaviorally avoid ID incidence by setting a "model" which those from emerging markets usually adapt (Edwards *et al.*, 2010). This includes, re-contextualization or contexts harmonization (Mu *et al.*, 2007; Gertsen and Zølner, 2012), practices diffusion (Edwards *et al.*, 2010), market opportunities integration and strategy renewals (Gupta and Govindarajan, 1991; Chang and Taylor, 1999; Collinson and Rugman, 2008). Subsidiaries from emerging markets generally lack sufficient insights to tackle environmental and institutional changes (Yaprak and Karademir, 2011). They draw on the strength of institutions in developed countries to overcome weaknesses in their home countries (Bandeira-de-Mello *et al.* 2016; Edwards *et al.*, 2019).

This research aims to derive conceptual frameworks to describe subsidiary's strategic ID incidence avoidance to gain operational legitimacy. Research has not clarified how subsidiaries configure, differentiate and avoid ID incidence threats to attain operational legitimacy.

To understand the contextual issues that drive subsidiary operational legitimacy between HQ and host-environment, the following research question (RQ) arises:

RQ: *How can a subsidiary configure, differentiate and avoid institutional variations stemming from the HQ and the host-environment to attain operational legitimacy?*

To answer this question, we systematically review literature on ID incidence on MNC subsidiaries. Then, we create frameworks to help subsidiaries face ID threats.

Findings clarify how subsidiaries adapt to turbulent environment in their host-countries through strategy renewals, either they originate from developed or from emerging markets. Findings show how subsidiaries achieve operational legitimacy using configuration, differentiation and avoidance of the variables causing the ID incidence.

Our frameworks advance the existing knowledge on ID incidence. They help subsidiaries operating in developed and emerging markets to avoid institutional threats by understanding better how their behavior is shaped by their external environments.

The rest of the paper is organized as follows: After discussing the theoretical underpinning of the research, we explain our research design. Then, we present our findings and discussion, implications, future research agenda and conclusion.

Literature Review

Operational legitimacy indicates subsidiary's compliance with institutional standards at the HQ and the host-country, including formal and informal regulations, control processes, norms, and

value systems (Nell *et al.*, 2015; Li and Ding, 2017; Samdanis and Özbilgin, 2019). There are two research streams in this area. The first refers to institutional conflicts driving subsidiaries to realign strategies with their HQ and host-country (e.g., Jaeger, 1983; Westney, 1993; Hoffman, 1994; Edwards *et al.*, 2019). Oliver's (1991) seminar work describes companies' strategic responses to institutional processes, which vary from passive conformity to proactive manipulation, depending on specific institutional factors. Pache and Santos (2010) develop this work reckoning the intra-organisational political processes. They showcase how the management of conflicts between internal groups either leads to the transformation of conflicts into opportunities for institutional agency, or to organizational paralysis. The second stream describes how subsidiaries face rigid domestic and cultural laws stemming from the protocols of regional economic blocs (e.g., Chen *et al.*, 2005; Fenton-O'Creevy, *et al.*, 2008; Samdanis and Özbilgin, 2019). In both cases, subsidiaries strive to attain operational legitimacy (Peng *et al.*, 2018) at the HQs and host-environment, by conforming, selecting or manipulating environmental structures (Suchman, 1995).

However, how subsidiaries strive to concurrently gain operational legitimacy at their global corporation and host-country environment is unclear (Pant and Ramachandran, 2011; 2017). There are variations of ID pressures stemming from different local contexts (LC), as LC appears to have a stronger "pull" on subsidiary. Despite legitimacy being hard to manipulate and self-sustain, firms establish and strengthen operational legitimacy (Peng *et al.*, 2018) through institutional configuration, differentiation and avoidance strategies.

Institutional configuration allows subsidiaries to differentiate and avoid pressures stemming from their host-countries and HQs. It is a collective structural process moderated by "constraints, incentives, and resources provided by formal and informal institutions" (Stephan *et al.* 2015, p.309). Such institutions "are more or less compatible" (p.309). "More or less" institutional

compatibility indicates institutional differences. Institutional configuration and differentiation are interdependent, but differentiation helps MNCs to segment institutional pressures between host-countries (Edwards *et al.*, 2013). Firms avoid institutional pressures by exploiting “existing loopholes in regulations and long tradition of lax rule enforcement” (Jaehrling and Méhaut, 2012, p.8).

Moreover, MNCs use institutional configuration to differentiate their operations in the host-country while maintaining central control at the HQ (Lawrence and Lorsch, 1967). They use configuration to align host-country traits and corporate identities (Kostova, 1999), as different host-country environments lead to different levels of institutions and configuration strategies (Acemoglu *et al.*, 2017). Diverse levels of institutional configurations increase the chances of local partnerships in MNC activities which reduce environmental turbulence (Vazquez-Barquero and Rodriguez-Cohard, 2016). For instance, Philips and Dutch Electronics configure generic strategies to suit local contexts (Hoffman, 1994). MNCs in Central and Eastern European (CEE) countries experienced a reversed context that transformed the structure of these countries, after 1991 (Festing and Sahakians, 2013). MNCs in emerging markets use social investment schemes (Nwankwo *et al.*, 2007), while MNCs in the Baltic Sea encourage local participation, to achieve operational legitimacy (Ritvala *et al.*, 2014).

MNCs also avoid ID threats by creating projects promoting the host-country’s economic advancement (Quesada-Vázquez and Rodríguez-Cohard, 2019) to close the “institutional distance” between the home and host-countries (Kostova, 1999). Chinese MNCs seek investment in environments that resemble their home country (Deng, 2012). Russian MNCs prefer international partnerships because globalization influences them more than their home context (Panibratov and Latukha, 2014). Western MNCs are also keen about the structure of Russian

business context (Koveshnikov *et al.*, 2012). Aligning contextual practices is an ID threats avoidance strategy that leads to operational legitimacy. Research has not clarified how subsidiaries configure, differentiate and avoid ID incidence threats to attain operational legitimacy. In this paper, we are exploring in how subsidiaries configure, differentiate and avoid institutional variations stemming from the HQ and the host-environment to attain operational legitimacy.

Methodology

Following guidelines of methodological rigor (Tranfield et al, 2003) and aiming to consolidate the literature across the domain, we conducted a systematic literature review (Torgerson, 2003) on the ID incidence on subsidiaries. This approach's advantage is its enriched rigor. Systematic reviews minimize bias, and provide answers to specific research questions, using specific filtering criteria (Tranfield et al, 2003). They are reproducible, objective, transparent, unbiased and rigorous (Boell Cecez-Kecmanovic, 2015).

We served these goals by providing an audit of the selection and review process that can be potentially replicated (Tranfield et al, 2003). We conducted an exhaustive literature search in two databases, Science Direct (SD) and Google Scholar (GS). Science Direct, a "scholarly" database, indexes articles with certain journals being included, while Google Scholar scans different webpages for scholarly material, with less care going into the journals that publish these articles. The combination of the two brings out results that adequately cover the subject area. We used the terms "institutional duality" and subsidiary" (SD:49, GS:1010), "subsidiary and "institutional configuration"" (SD:92, GS:1340), "subsidiary and "institutional differentiation"" (SD:12, GS:581), "subsidiary and institutional avoidance"" (SD:4, GS:78), "subsidiary and operational legitimacy"" (SD:3,GS:87). To account for the terminological heterogeneity in the field, we also

looked for the “local context” and “host-pressures” (SD:0, GS:3), “host-environment” and “headquarters” (SD:194, GS:2410). These terms were chosen based on relevance to our research question, giving us more than 5,800 results. These papers were examined in three steps. First, we scanned through the results and we downloaded the papers that had a title relevant to the topic, and were published by a business and management journal. This reduced the number of papers to around 400. Second, we excluded duplicates and database artefacts, such as calls for special issues or brochures. This step left us with 124 papers. Third, we went through the abstracts and eliminated the ones that didn’t fit the research focus; e.g. the search identified papers that referred to public policies and tax evasion, which were excluded. This final filtering left us with 74 articles, covering the period 1967-2020.

We read the full text of these 74 articles and used thematic analysis (Braun and Clarke, 2006) to answer our research question. Looking at papers describing the strategic responses of subsidiaries facing ID threats and seeking legitimacy, we coded these responses to tables, using one table for each theme and sub-theme. The main themes and subthemes were predetermined in order to provide answers to our research question, while a few new emerged while coding. Results are presented in Table I.

This research is guided by institutional theories. We chose these theories as they aptly form the “duality” in the “institutions” construct, and to strengthen the dominance of ID in international business (IB) debate since the era of Lawrence and Lorsch (1967) (Ahworegba, 2018). We followed through these theories against our selected methodological contexts (configuration, differentiation, and avoidance), and used them to structure the shape of variables moderating subsidiaries behavior at both HQ and host-countries. In fact, we categorized the strategic responses

of subsidiaries to ID incidence into three strategic processes-themes, i.e. configuration, differentiation and avoidance of the variables causing the ID incidence. We methodologically defined these contexts as follows: First, “configuration” is the structuring of institutional settings to improve subsidiary’s adaptation to foreign regulatory regimes (Stephan *et al.*, 2015). “Differentiation” is identifying variables or threats of ID incidence with a view to avoiding them. This helped us to segment different institutional conflicts for avoidance (Edwards *et al.*, 2013). “Avoidance” is the process of minimizing the threats of ID incidence to gain operational legitimacy. It is a calculated way of bypassing institutional constituents through local and international regulatory experience, regulatory loopholes exploitation, and contextual adaptation (Jaehrling and Méhaut, 2012). We identified specific ID incidence threats, and the strategies used to be avoided. Variables relating to HQ pressures including structural alignment and integration of organizational sub-units place a burden on subsidiaries which reduces performance (Birkinshaw and Morrison, 1995; Qu, 2012). LC pressures such as cultural complexity, norms, beliefs, regulations, moderate subsidiaries response to both the host-environment and HQ pressures (Tempel *et al.*, 2006; Hoffman *et al.*, 2016). We configured both sets of variables and argued that subsidiaries that continually renew their strategies can avoid or minimize ID threats, while recognizing that subsidiaries are shaped by the identified variables constituting ID incidence. Table I specifies the structure of the literature, the conceptual process, and outcomes of ID incidence.

Table I: Conceptual focus

| Literature structure | Main processes | Outcomes |
|------------------------|---|---|
| Prior research: | | |
| Basic streams | Institutional duality conflicts Protocols of regional blocs | Subsidiary striving for operational legitimacy Subsidiary striving for operational legitimacy |
| ----- | | |
| “This research” | Framework of variables of institutional influence on subsidiaries | Subsidiary absolves ID incidence and achieves legitimacy through tilting toward the LC by configuration of threats to opportunities, through differentiation and avoidance as well as harmonization of HQ practices |
| ----- | | |
| Topical issues: | | |
| Dual institutions | Striking a balance between HQ and LC | Strategizing to achieve legitimacy |
| Mature institutions | Setting IB standards | Diffusion and harmonization of contexts, integrating local opportunities, strategy renewals, emerging markets MNCs coping developed markets. |
| LC and HQs | Institutional duality incidence | LC center of IB interrelationships by moderating subsidiary response to institutional interactions between HQs and host-country |

Our methodology which anchors on the “structure” of ID literature, its “main processes” and “outcomes” helped us to “configure” the underlining institutional theories streamlining this paper. Table I divides the literature into “prior research” and “topical issues”. At “prior research”, we identified two basic streams in ID literature: “institutional duality conflicts” and “protocols of regional blocs”. Subsidiaries strive to “configure” them to achieve operational legitimacy. “This research” reveals what is new in the field. Then, we focused on the exploration of topical issues to understand the contextual issues that drive subsidiary operational legitimacy between HQ and host-environment, and to monitor the processes companies use to strategize to achieve operational legitimacy. At “topical issues”, we focused on strategies of “configuration”, “differentiation” and “avoidance” as paths to operational legitimacy, through two conceptual frameworks: “structural configuration of ID incidence” and “subsidiary path to legitimacy”.

Results and Discussion

Configuration, processes, and outcomes of ID incidence

Subsidiaries face ID pressures wherever they operate. What counts is their ability to configure patterns in the host-environment. Subsidiaries configure institutional pressures in a “contingent manner” (Negandhi and Reimann, 1972; Scott, 1992), since the processes and outcomes of their configuration strategies depend on how they perceive institutions (Birkinshaw *et al.*, 2002; Harzing and Sorge, 2003; Kim *et al.*, 2003). For instance, subsidiaries contingently pursue independent strategies when MNC goals don’t fit into the host-environment (Devinney *et al.*, 2002), because aligning with the host-environment allows them to avoid institutional pressures (Kang and Li, 2009; Kang and He, 2018).

Subsidiaries behave similarly when exposed to comparable institutions (Van Grinsven *et al.*, 2016). Comparing Germany and Britain to USA, Britain is considered institutionally similar to USA because of the common IB practices in the two countries (Tempel *et al.*, 2006). However, US subsidiaries in both Britain and Germany strive to close legal or socio-cultural gaps to avoid threats deriving from institutional distances (Yang *et al.*, 2012; Hamprecht and Schwarzkopf, 2014; Nell *et al.*, 2015; Samdanis and Özbilgin, 2020). Local institutional structures intensify HQ’s control over subsidiaries (Kim *et al.*, 2003; Marin and Costa, 2013; McGaughey *et al.*, 2016). These HQs controls include a mixture of organizational structure and host-environment knowledge (Birkinshaw *et al.*, 2002; Collinson and Rugman, 2008). HQ control targeting avoidance of institutional conflicts led US subsidiaries in Europe and Australia, to resist pressures from institutional constituents, such as labor unions (Fenton-O’Creevy *et al.*, 2008).

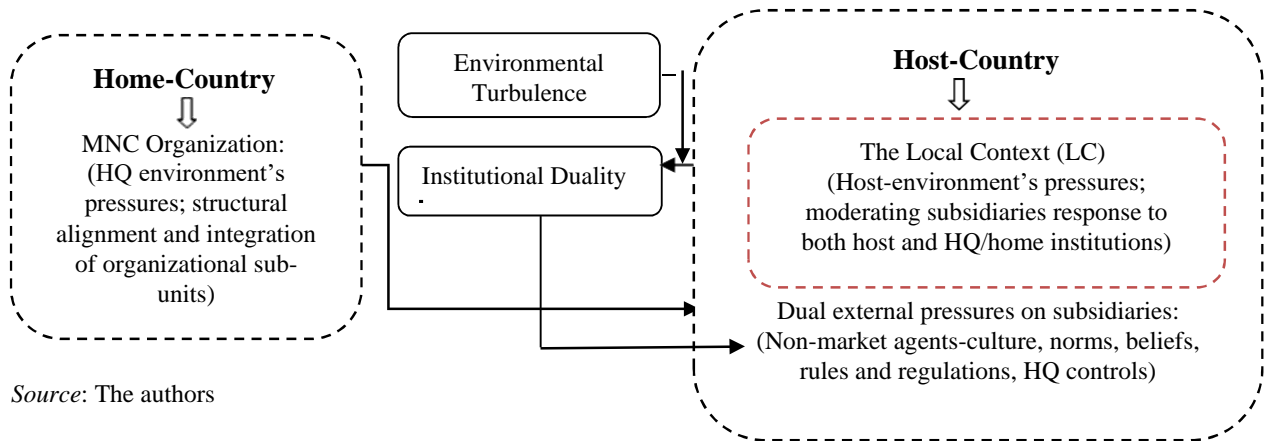
Subsidiaries responses to host-environments drive institutional conflicts (Kang and Li, 2009; Schweizer, 2010). These conflicts, arising from both HQs and the host-environment, present a

huge dilemma for the subsidiaries (Westney, 1993) since they are barriers to the enterprise's global expansion (Chen *et al.*, 2005). Regional development agencies, especially in Asia and CEE countries (Odrobina, 2016), are promoting better operating policies for subsidiaries located in their regions (Quesada-Vazquez and Rodriguez-Cohard, 2019). These countries have allowed their indigenous enterprises to expand globally (Deng, 2012; Panibratov and Latukha, 2014). They have also opened-up their domestic business landscapes for foreign enterprises (Festing and Sahakiant, 2013). This regional policy improvement results from the pressure of international harmonization processes (Chen *et al.*, 2005).

Subsidiaries face ID incidence threats in any location. They need to understand the structures and components of their external institutions to differentiate and avoid pressures arising from them (Child and Marinova 2014), as institutions set business rules (Yang *et al.*, 2012). ID threats exacerbate in times of environmental turbulence. Environmental turbulence is described as the rapid, unpredictable change of the external environment (Dess and Beard, 1984). Environmental dynamism refers to changes in technology, consumer preferences, demand conditions, laws and regulations; driving the emergence of opportunities and threats for companies (Jansen et al, 2006). Firms have to be agile to respond to these changes (Jansen et al, 2006). Global turbulence inhibits subsidiaries to understand the institutions' structure, to obtain legitimacy by reconciling global and local norms (Ahworegba, 2018; Edwards *et al.*, 2019). Consequently, subsidiaries develop institutional fields serving as maintenance control centers for the requirements of operational legitimacy (Samdanis and Özbilgin, 2019). Global turbulence challenges the subsidiaries to continually renew strategies to cope with ID incidence. Subsidiaries need to understand specific variations of ID to “contingently” or “contextually” configure conflicting governance policies at

their host-locations and HQs. Figure I is a configuration of specific variations of ID incidence subsidiaries confront, illustrating the moderating role of the environmental turbulence.

Figure I: Structural configuration of ID incidence



Source: The authors

In Figure I, LC represents the center of IB “interrelationships”, a moderator of ID, along with environmental turbulence (Almeida and Phene, 2004; Meyer *et al.*, 2011). The LC sets operating standards for subsidiaries thereby compelling them to maintain governance policy balances between their HQs and host-countries (Westney, 1993; Meyer *et al.*, 2011; Schweizer, 2010). The pressures of “nonmarket agents” and HQs alignment of its units concurrently stem from host-environment and the MNC organization, meeting at the “location” of the LC (Meyer *et al.*, 2011), and constituting ID incidence “threats” for subsidiaries (Kostova and Roth, 2002; Hillman and Wan, 2005; Tempel *et al.*, 2006). However, such threats can be avoided by extending the structural configuration of ID incidence model through differentiation process.

Differentiation and avoidance of ID incidence

Multiple authority, causing ID, affects the decision making of the MNC in areas like entry mode, configuration of activities, control mechanisms and competitive strategies (Sundaram and Black, 1992). But institutional differentiation and avoidance strategies strengthen subsidiaries against ID

incidence. Subsidiaries that avoid ID threats are “foresighted” because they possess superior strategies to configure and differentiate institutional conflicts in the host-country to gain legitimacy (Ahworegba and Colovic, 2019). Stephan et al. (2015) argue from a survey of 26 countries including Spain, South Africa, China, US, UK, and France, that advancing entrepreneurship in IB requires superior differentiation and avoidance of conflicting institutions through strategic configuration. For their part, Edwards et al. (2013) find from US subsidiaries in Canada, Ireland, Spain, and the UK that, differentiation across countries helps to integrate subsidiaries into the MNC worldwide network. While subsidiaries in liberal markets including Ireland and Canada shared characteristic and high degree of dependence on HQ in US, those in a lesser liberal economy such as Spain were cautious of distinctive institutional differences in configuring avoidance strategies. Thus, institutional avoidance strategy enhances IB’s sustainability in the host country.

Moreover, “foresighted” subsidiaries master the threats of ID variations and refocus them as opportunities for growth. They engage in strategy renewals through continuous “configuration” of their activities, to concurrently fit into both HQ’s structural control processes and LC protocols. They showcase in-depth experience of non-market factors in the host-country such as local norms and traditional beliefs. Jaehrling and Méhaut (2012, p. 21) conclude that through in-depth host country experience, companies in France and Germany were able to avoid institutional conflicts to attain operational legitimacy. However, while examples of avoidance strategies can be found in both France and Germany, the two countries display differences regarding the varieties and combinations of institutions. For instance, institutional differentiation led to a higher use of “outsourcing” of operations in Germany than in France. In any case, companies in the two countries strategically key into institutional change by technical and socio-cultural avoidance of labor regulation, through obvious loopholes therein, thereby legally “undercutting established

employment standards”. Table II shows subsidiary’s path to obtaining operational legitimacy wherever they operate.

Table II: Subsidiary path to legitimacy

| Configuration zone (Structural evolution) | Differentiation zone (Process 1) | Avoidance Zone (Process 2) | Legitimacy zone (Outcome) |
|---|---|---|---|
| <ul style="list-style-type: none"> ■ Subsidiary strategizing for institutional change between HQ and host-country (LC) | <ul style="list-style-type: none"> ■ Drawing up a context-specific matrix ■ Tracing the origin of each ID variable ■ Clarifying HQ and host-country’s policies ■ Showing contextual origin; ■ Listing causal factors of each variable <p>Formal and informal regulations, norms and beliefs, developed and mature institutions, country versus country</p> | <ul style="list-style-type: none"> ■ Legal, social and technical mapping of ID threats through institutional loopholes and closing cultural gaps by adaptation. ■ In-depth experience of non-market activities in the host-country ■ Extracting benefits of configured and differentiated variables ■ Conversion of ID threats to opportunities for growth in the host-country ■ Subsidiary strategy renewals and concurrently fitting into HQ and LC policy initiatives ■ HQ consenting unlimited autonomy to subsidiary on local decision making ■ Autonomously tilting towards the LC to gain legitimacy at both ends | <ul style="list-style-type: none"> ■ Subsidiary attains operational legitimacy <ul style="list-style-type: none"> ○ Harmony with HQ and LC |

Source: The authors

Table II shows how “foresighted” subsidiaries contextually configure institutional changes between HQ and LC to attain operational legitimacy. This configuration enables differentiation of ID variables into categories, preparing for their avoidance. Operational legitimacy acquisition process flows from configuration to differentiation, to avoidance. This is the process used to avoid ID incidence by converting its threats to opportunities to attain operational legitimacy in the host-country and at the HQs.

Previous research explores how subsidiaries balance pressures at the host and HQ’s environments to achieve operational legitimacy (Jaeger, 1983; Westney, 1993; Hoffman, 1994; Chen *et al.*, 2005; Edwards *et al.*, 2019; Fenton-O’Creevy *et al.*, 2008; Ahworegba and Colovic, 2018; Samdanis and Özbilgin, 2019). The strategic responses to institutional processes vary from passive conformity to proactive manipulation, depending on the institutional environment (Oliver, 1991). The diversity of legitimacy dynamics creates pressures on managers to strategically

maneuver within their environments (Suchman, 1995). Conformity to the host-environment signals deviation from the norms and expectations of the HQ (Peng et al, 2018), requiring sophisticated organizational responses. Organizational responses are affected by intra-organizational processes, showcasing how the conflicts' management between the HQ and the subsidiary creates opportunities for institutional agency and strategic choice (Pache and Santos, 2010). Strategies like conformity, selection, manipulation, have been proposed as possible pathways to gain internal and external legitimacy (Suchman, 1995). Previously, institutionalists show that companies in uncertain environments seek comprehensibility and taken-for-grantedness via mimetic isomorphism (Suchman, 1995). They even use exploration and exploitation strategies to manage ID incidence and to achieve operational legitimacy (Ramirez et al, 2018), along with resources commitment, personal relations, and political accommodation (Luo, 2001). In this paper, we adopt a process approach to demonstrate how subsidiaries convert ID incidence threats to opportunities, to gain operational legitimacy, through the configuration, differentiation, and avoidance pathways. Configuration refers to subsidiaries' initiatives to strategize for institutional change between the HQ and the local context. This requires the detailed mapping of the institutional characteristics of the local context, of their origins and causal factors, and of the links between them (differentiation). Avoidance can take place afterwards, through strategy renewals for the concurrent management of the identified institutional local framework and the alignment with HQ policies, leading to the achievement of operational legitimacy.

Managerial Implications

Managers should know that subsidiaries can behaviorally turn ID threats, including HQ control policies and host-country's institutional requirements, to opportunities, to achieve operational

legitimacy. The configuration processes of ID incidental threats, is passing through the differentiation and avoidance processes.

The variables constituting ID threats include differences between HQ's and host-country's policies, such as control of MNC network of subsidiaries by the HQ, protocols of regional blocs, host-country's formal and informal regulations. The differentiation process prepares for ID incidence avoidance. It is composed by specific actions including drawing-up a context-specific matrix, tracing the origin of each ID variable in its context, clarifying HQ and host-country policies, and listing the causal factors of each variable.

During the ID incidence avoidance process, managers should attempt to legally, socio-culturally and technically avoid ID threats through application of in-depth experience in local and international regulatory dynamics, exploitation of regulatory loopholes, contextual adaptation, promotion of the host-economy through social investment, and pursuit of a high level of autonomy from the HQ. Operational legitimacy is gained by subsidiaries embracing institutional change, which translates into closing of institutional gaps across countries.

Subsidiaries which configure and differentiate the ID incidence variables, effectively avoid its threats, and gain operational legitimacy. These insights will help subsidiaries' managers and other stakeholders to respond more "contextually" to ID incidence and harmonize the HQ's integration processes, while tilting toward the LC, including cultural and traditional beliefs, norms and value systems, as well as formal regulatory institutions.

Avenues for future research

Our paper shows how "foresighted subsidiaries" understand dual institutions, configure ID incidence's threats to opportunities, and avoid conflict of interests, to gain operational legitimacy.

However, the concept “foresighted subsidiaries” including their features needs further exploration. Do the threats of ID incidence make subsidiaries more strategic? Are the strategies used by subsidiaries to convert threats of ID incidence to opportunities context-specific? Our approach is limited by the fact that HQ configuration process depends on MNC’s country of origin. Host-country’s non-market variables differ between emerging and developed markets, and from one country to another. Future research can address these limitations for better moderation of ID incidence by LC.

Concluding remarks

“Foresighted” subsidiaries behaviorally configure, differentiate, and convert ID incidental threats to opportunities through avoidance. Prior research concentrated on how subsidiaries strive to concurrently gain legitimacy at the HQs and host-environment. However, a gap exists in converting ID incidence’s threats to opportunities to gain legitimacy. We contribute to existing literature by filling this gap as well as advancing subsidiaries’ foresights in ID incidence, through our “structural configuration of ID incidence” and “subsidiary path to legitimacy” frameworks. The first configures how the interaction between HQ and host-countries’ variables constitute ID incidence threats. The second highlights how “foresighted” subsidiaries use configuration, differentiation, and avoidance strategies to attain operational legitimacy. Subsidiaries can use these frameworks to convert ID incidence’s threats to opportunities to gain operational legitimacy.

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