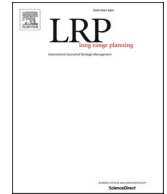




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Scratching the surface: Multinational enterprises and federalist political systems

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ABSTRACT

In this perspective piece, we stress the importance of intra-country institutional variance. Building on recent advances on sub-national political institutions and our own ongoing work, we focus on federal political systems and how they exert influence on the strategic decisions of MNEs – particularly in foreign location strategy.

1. Introduction

Global strategic management scholarship has long recognized the impact of cross-national differences in institutional governance on the location strategy of multinational enterprises (MNEs) (Kostova et al., 2020). Such differences are traditionally captured via institutional distance or institutional diversity measures, both of which impact the degree of local adaptation and/or the effort needed to create a fit between local and global operations (Berry and Kaul, 2024). But one of the most important aspects of institutional diversity is the reality that many nations have various levels and configurations of political governance, which co-exist both spatially and over time, enabling decentralization or delegation of diverse governmental functions and tasks to levels beneath the national tier.

Governmental structures that have various levels are, in general, lumped together under the concept of “federalism,” best defined as a form of “contractual non-centralization” that leads to “structured dispersion of powers among many centers” under a country’s constitutional arrangement (Elazar, 1994:34). As with governance at the national level, federalism also exhibits different flavors depending on just *what* and *how* it is decentralized – e.g., the difference between “coordinated” (operating in different spheres) versus “cooperative” (sharing responsibilities in same spheres) federalism (Watts, 2008) – or the constitutional arrangements which govern the demarcation of power (e.g., a federation versus a confederation). As Aroney, 2016 noted, federalism is “a continuum consisting of the most purely aggregative systems at one end and the most purely devolutionary at the other.” Importantly for our purposes, this continuum is not static, and federalist countries can move along this continuum over time as power ebbs and flows across jurisdictions.

However, the triggers and dynamics of sub-regional variation as a distinct outcome of political-institutional ordering have remained relatively unexamined within business research (McMann et al., 2021; Dai et al., 2025). Scholarly work has focused on

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incentive structures emanating mainly from national-level institutions (Aguilera and Grøgaard, 2019), and only a relatively small volume of research has attempted to dispel “illusions of spatial homogeneity” (Shenkar, 2001: 525). Despite research successfully distilling and identifying the “proximate” causes underlying MNE location strategy (i.e., location choice and strategic outcomes), this literature has emerged at the expense of a less formalized understanding of “distal” causes.¹ Focusing on these distal causes enables us to account for important conceptual mechanisms grounded in political governance systems and institutional geography perspectives that are yet to be adequately theorized (Saittakari et al., 2023), and which have multiple interlocking facets.

Studying the implications of federalist context for global strategic management is critical in a world where political risk is already on the rise (Devinney and Hartwell, 2020). Increasing geopolitical competition among countries has manifested in shifting business patterns at the local level (Zhang et al., 2025), while governments coping with global uncertainty has induced dynamism in the within-country political climate (Brogaard et al., 2020). As MNEs undertake value-creating activities in a multiplicity of locations, overlooking the role of internal intra-country contestation, conflict, or competition logics obscures the complexities of managing global businesses, as politics across various jurisdictions creates a specific geography relevant to an MNE. Indeed, the very nature of federalism can create conflict across jurisdictions, a reality which enhances political and economic risk for MNEs (Galasso, 2022); at the same time, the dynamism of federalism can also introduce temporal uncertainty, as the exact distribution of powers across political units evolves over time.

This perspective paper outlines a formalization that complements existing body of work on sub-national variation and MNE location strategy, drawing attention to sub-regional institutional variation via the various structures of federalism. In doing so, we highlight its political institutional characteristics and detail the reality of various federal systems (and the way in which they handle competition and coordination between subnational units and the center). Moreover, in adopting this approach, we also account for the dynamism of federalism, and how triggers of both gradual and rapid changes influence the ambit of within-country socio-political and institutional variation.

1.1. Federalism as an arrangement of political institutions

The term “federalism”, unfortunately, has no “clear and commonly used definition of the term” (Gamper, 2005:1297), with Conlan (1988) identifying 267 distinct definitions of federalism. For our purposes, federalism refers to a governance system with multiple hierarchical layers of authority within territorial boundaries, an administrative manifestation of a normative and ideological approach towards governance. Stability within the system is predicated on sub-units agreeing on a “threshold” of what behavior is tolerable within the system and to which units it should be assigned, determining the extent of centralization or peripheralization of the federalist governance system (Bakke and Wibbels, 2006).

The precise nature of the split in governance under federalism is bound by the constitution or founding document of a country delineating the rules of the game, which guides governance practices and norms by clarifying the roles of federal and sub-national authorities in relation to legislatures (responsible for monopolizing production of laws), judiciaries (monopolizing interpretation of laws and their application) and executive bodies (monopolizing the use of coercion within a given territory). Many constitutional arrangements also explicitly refer to the “allocation of revenue sources between the two orders of government [central and sub-national], ensuring some areas of genuine autonomy for each order” (Pagano, 2007:2). Federal political systems are thus an ecosystem of political organizations that are distinct from unitary states, and which include several species and administrative forms: the full spectrum of federal political systems are shown in Table 1 (based on Elazar [1994]), with governance in such a system a function of the interplay between the specific actors and institutional forces.

These various arrangements have discrepancies in the degree of constitutional compliance by federal and state governments across countries, with divergence (convergence) between de jure constitutional rules and their actual de facto implementation. For example, as shown in Table 2, out of twenty-five federal countries with constitutional arrangements, India, Russia, and Malaysia are characterized by a political system where the power of subnational courts (as opposed to sub-national legislatures) is unevenly distributed; i.e., the de jure/de facto gap with respect to judicial power is relatively high between center and states. In these cases, the sub-national branches in these countries possess limited institutional autonomy, with their viability dependent on the federal government’s appetite for control – a dynamic bolstered by a robust central judiciary. Alternatively, and in contrast with US federal political system, slight variations to constitutional arrangements, and by implication the de jure/de facto gap in other federal systems, among others, include Argentina – where federal intervention in states necessitates congressional approval – and South Africa – where ordinances enacted by provincial governments are subject to federal veto.

These institutional frameworks under federalism are also subject to change, especially when the system is marked by pronounced imbalances between the center and sub-national entities. Central governments may augment their authority at the expense of sub-national units, as evidenced by the Indian context since 2014, particularly after the Bharatiya Janata Party’s (BJP) political dominance tipped the federal balance of powers (Sharma, 2023). Similarly, the Tenth Amendment to the United States Constitution explicitly states that powers not delegated to the central government are reserved to the states (sub-national governments). Yet, by the early 20th century, social considerations (in the name of fighting narcotics) cleared the way for the federalism-destroying New Deal of Franklin D. Roosevelt (Bryant, 2007), a trend which has only accelerated in the 21st century.

In these cases, imbalances between administrative units and the center gave rise to a form of asynchronous bargaining between

¹ The label ‘proximate’ refer to those causes near the outcome end of the causal chain, whereas ‘distal’ imply causes that are far from direct causality.

Table 1
A spectrum of federal political systems, definitions, and examples.

Type of Federal Political System	Definition	Examples
Confederation	A common government made up of several pre-existing polities that come together for very specific goals, mainly defense, foreign policy, and the economy. This government is critically dependent on its constituent polities and must navigate through them.	The European Union
Federation	A compound polity made up of powerful constituent entities and a strong general government, each possessing powers delegated to it by the people and empowered to deal directly with the populace in the exercise of that authority.	25 formal federations in the world in pure sense of the term. For example, The United States of America.
Federacy	An arrangement where a larger power and a smaller polity are linked asymmetrically in a federal relationship in which the latter has substantial autonomy and minimal influence in the governance of the larger power. The agreement usually can be nullified via mutual consent.	Puerto Rico, Bhutan
Associated State	An asymmetrical structure that resembles a federacy but has the flexibility to be dissolved by any party on predetermined terms, much like a confederation.	Associated states of Micronesia: The Republic of Palau, the Federated States of Micronesia, and the Marshall Islands
Consociation	A federation that is not geographical and is divided into permanent transgenerational religious, cultural, ethnic, or ideological groupings known as "camps", "sectors", or "pillars". The polity is jointly administered by coalitions of the leaders of each group.	Belgium (pillars) Bosnia-Herzegovina (camps)
Union	A polity structured in such a manner that its constituent entities largely maintain their individual integrity either primarily or exclusively through the common organs of the general government rather than through dual government structures.	Historic provinces with autonomous municipal powers in Netherlands
League	A linkage of politically independent polities for meeting specific objectives, which operates through a shared secretariat rather than a government and allowing members to leave formally and unilaterally.	Nordic Union, Arab League
Joint Functional Authority	An agency established by two or more polities to carry out a particular task or a series of tasks jointly.	The Five Eyes (FVEY) alliance established by Australia, Canada, New Zealand, UK, and the US.
Condominium	A polity which is co-governed by two external entities but maintains significant internal self-governance among its members.	Andorra
Hybrids or quasi-federations	A polity that combines characteristics of different types of federal political systems. These include federations that are defined by constitutions and have federal operational structures, but also are entrusted some overriding federal government powers more typical of a unitary system.	Canada in 1867. Pakistan and Malaysia.

Source: Adapted from Elazar (1994) and Watts (2008).

them, intensifying trade-offs in political and policy-related decentralization, potentially blurring governmental sovereignty levels, and creating challenges that may induce instability (Rodden, 2003). Such uncertainty can be heightened during comprehensive political shifts, as seen in India and Mexico following the decline of the Congress Party and the Institutional Revolutionary Party, respectively (Cantú and Desposato, 2012). Uncertainty about policy ownership can also lead to sub-national units breaking from national trends, as in Mexico, where a withdrawal of climate mitigation funding from the federal level led to state governments partnering with non-governmental organizations (NGOs) to undertake large-scale investments (Aguilar-Hernandez and Breetz, 2024). And amidst these struggles, specific political leaders may also influence these dynamics of cooperation or competition in federal relationships, drawing on their own political geographies or a desire for national eminence.²

Finally, countries delegate powers across federal strata in diverse ways, not only through different arrangements but also across various policy domains. For example, fiscal federalism began to proliferate in the 1980s, devolving powers of spending and taxation to sub-national units, hoping to overcome the reality that these units "must carry out the majority of administrative and public service delivery tasks in the federal system" but lack their own funding sources (Braun, 2008:43). Similarly, across policy spaces, sub-national units may be tasked with delivering some services exclusively, such as education or healthcare, while in other systems there may be duplication of functions across jurisdictions (for example, financial regulators at the state and federal level in the United States or responsibility for agriculture across the states, local, and federal levels in Nigeria). Even within the same federal jurisdiction, the allocation of reserved and delegated policy domains are subject to temporal reconfigurations. This dynamic was evident in the context of the aforementioned fiscal federalism, where sub-national governments may assume an expanded or contracted array of responsibilities in response to evolving political winds.

1.2. Federal political systems and location strategies of MNEs

Empirically, the relationship between federalist systems and FDI flows yields opposing results. On the one hand, fiscal federalism is positively associated with inward FDI volume, particularly when competition among autonomous sub-federal jurisdictions promotes

² A contemporary example of such a leader is California Governor and left-wing Democrat Gavin Newsom, who had substantial friction with Republican President Donald Trump and who attempted to parlay such disagreement into national visibility.

Table 2
Contemporary functioning federations in the world and their constitutional and operational character.

Federation	Current Constituent Units	Year Originally Founded as Federation	Year Current Constitution is Effective	Constitutional Character	Operational Character
Argentine Republic	23 provinces +1 federal district	1853	1994	Quasi-federation	Quasi-federation
Commonwealth of Australia	6 states +1 territory +1 capital territory +7 administered territories	1901	1901	Federation	Federation
Federal Republic of Austria	9 Länder	1920	1945	Federation	Federation
Republic of Belau (Palau)	16 states	1981	1981	Federation	Micro-federation
Kingdom of Belgium	3 regions + 3 cultural communities	1993	1993	Federation	Federation
Bosnia and Herzegovina	2 entities + 1 district	1995	1995	Federation	International (EU) Tutelage
Federative Republic of Brazil	26 states + 1 federal capital district	1891	1988	Federation	Federation
Canada	10 provinces + 3 territories + Aboriginal organizations	1867	1867 + 1982	Quasi-federation	Federation
Union of the Comoros	3 islands	1978	2001	Federation	Micro quasi-federation
Federal Democratic Republic of Ethiopia	9 ethnically based states + 2 chartered cities	1995	1995	Federation	Centralized Federation
Federal Republic of Germany	16 Länder	1949	1949	Federation	Federation
Republic of India	28 States + 8 Union territories	1950	1996 (Jammu & Kashmir as the latest UT formed in 2019)	Quasi-federation	Federation (with quasi-federal aspects)
Malaysia	13 states	1963	1963	Quasi-federation	Centralized Quasi-federation
Mexico	31 states + 1 federal district	1824	1917	Federation	Centralized Federation
Federated States of Micronesia	4 states	1979	1986	Federation	Micro-federation
Federal Republic of Nigeria	36 states + 1 federal capital territory	1954	1999	Federation	Centralized Federation
Islamic Republic of Pakistan	4 provinces + federally administered tribal areas + 1 capital territory	1973	1973	Quasi-federation	Devolved federal parliamentary republic ^a
Russian Federation	85 subjects: republics and various categories of regions	1993	1993	Federation	Quasi-federation
Federation of St. Kitts and Nevis	2 islands	1983	1983	Federation	Micro-binary-federation
Republic of South Africa	9 provinces	1996	1996	Devolved Union	Quasi-federation
Kingdom of Spain ^b	17 autonomous communities +2 autonomous communities +3 sovereign areas +1 principality	1978	1978	Devolved Union	Federation-in-practice
Swiss Confederation	26 cantons	1848	2000	Federation	Federation
United Arab Emirates ^c	7 emirates	1971	1996	Confederation	Hybrid confederation-federation
United States of America	50 states +1 federal district +2 federacies +3 associated states +3 local home-rule territories +3 unincorporated territories +130 Native American domestic dependent nations	1789	1789	Federation	Federation
Bolivarian Republic of Venezuela	23 states +1 federal district +1 federal dependency consisting of 72 islands	1811	1999	Federation	Centralized Quasi-federation

^a Pakistan underwent military coup during 1958–1971, 1977–1988, 1999–2008 and the operational structure of the federation was characterised as devolved unitary military regime during those periods.

^b South Africa and Spain, while predominantly federations in form, have not adopted the label “federation” in their respective constitutions.

^c The constitution of the United Arab Emirates refers to itself as a “federal state,” but its structure is fundamentally confederal.

Source: Compiled from Watts (2008) and a variety of sources, including The World Factbook (2023), Daniel J. Elazar Library on Federalism (Jerusalem Centre for Public Affairs webpage; <https://www.jcpa.org/dje/index-fs.htm>) and Centre for the Study of Federalism (<https://federalism.org/>).

opportunities for foreign investors and shifts federal government priorities away from discretionary and unproductive public spending (Cai and Treisman, 2005). On the other hand, federalism also exerts a detrimental effect on FDI inflows, particularly when competition among sub-national units creates a race-to-the-bottom to attract foreign capital projects (e.g., through excessive government subsidies)

but fails to commit to sustaining such structures ex-post (Kessing et al., 2007).

This high-level view, however, neglects the effect of federalism on specific firms, as the various types of federalist systems can impact MNEs across various stages of operations and strategic decision-making. In particular, the location strategies of MNEs can be influenced by intra-national political institutional variance. In prior literature, the proximate (i.e., causal and endogenous) causes of intra-national MNE location choice and outcomes are usually detailed, including observable traits such as region-specific institutional quality, which leads to location advantages (Ma et al., 2013) and place-based agglomeration clusters which help foreign subsidiaries to expand locally (Stallkamp et al., 2018).

By contrast to these more obvious attributes of a country, federal systems dynamically condition the behavior and functioning of political institutions with each other, creating a degree of institutional complexity (Greenwood et al., 2011) whereby multiple institutional logics interact and compete for influence across decision-making domains. The complexity of such a system, characterized by differences in political diversity, institutional topography, and size/territoriality, can open opportunities for MNEs – or create uncertainty and costs – and as such represent a distal cause for MNE location strategy. Particularly, our proposed framing allows capturing deviance in location choices and outcomes of foreign subsidiaries as a response to plurality of within-country institutional influences (Vermeulen et al., 2016).

As an example, we briefly highlight below how three sequential and key facets of MNE location strategy can be significantly molded by federal host countries, namely: *choice of within-country location, entry modes, and management of loco-regional subsidiary strategy.*

1.3. Sub-national location choice and decision-making in MNEs

Firstly, institutional variation brought about by federal political governance can mask straightforward assessment and comparison of the levels of industry competitiveness, labor and capital availability, and entry barriers in given regional locations, especially when considered in a dynamic environment. For firms without extensive prior international experience and with a relatively low-risk appetite, the hazards relating to overall risk-return trade-offs are thus concealed by uncertainty related to the governance system. But even for internationally savvy firms, the ebb and flow of power within a federalist system can create uncertainty, especially regarding the persistence of policies or specific incentives offered by government. This can discourage foreign entry in geographic locales that have a greater degree of local decision-making autonomy, even at the expense of entrants gaining new knowledge of sub-national markets (Delios and Henisz, 2003).

An example of this variation is in state-level differences in education policies across US which contribute significantly to variation in human capital. Despite the openness of US labor markets, which allow free movement of workers across state lines (for example, workers in poorer states, such as Mississippi, can readily move to high-income states such as Virginia), this variation has persisted, albeit unevenly, for decades. MNEs entering the US therefore encounter constrained flexibility in state selection, yet post-entry, they can strategically exploit intra-national differences. This nuanced approach allows for heightened adaptability and optimization, highlighting the complexity inherent in navigating the intricacies of a large federalist market such as the US.

Moreover, federal political governance also accentuates the issue of foreign investors' comprehension and reaction to opportunism by government regimes regarding investment mobility and "vertical externalities" (Kessing et al., 2009). In the first instance, the threat of "hold-up" problems resulting from opportunism may be severe in a federal system. Hold-up problems occur when foreign subsidiaries are required to invest in specific assets in a given location as part of the foreign investment project contract, often customizing assets to local requirements; this tailoring means that investment is locked in even if a local partner reneges or if there is conflict because of center-state asymmetry, which ex-post reduces the value of the investment. Finally, in the presence of irreversible investment choices, vertical externalities across the number of governmental layers will be higher in an asymmetrical federal political system. As such, there are likely to be additional monitoring, negotiation, and legal costs associated with such investments. Thus, within federal systems characterized by center-state imbalances, countries that are characterized by relatively weaker protection of property rights and a less robust rule of law system (e.g., Russia) provide an inferior framework for MNEs to persist in political negotiations and litigation than others with clearly codified and salient institutions (e.g., Germany).

1.4. Choice of MNE entry mode

The imbalances in center-state relations emerging from sub-national separation of powers and the structure of compact between governmental layers directly shapes the decision process preceding foreign entries, and more specifically the behavior of entry-mode decision-makers (Hennart and Slangen, 2015). To illustrate this, consider the regulations determining incorporation by a foreign MNE in three democratically governed federalist countries, the USA, Australia, and Germany. In the USA, the general incorporation statute for all companies resides with the states, with powers expressly granted by the US Constitution. In Australia, business incorporation is a strictly federal matter with responsibilities and power residing with the Australian Securities and Investments Commission (ASIC). In Germany, incorporation as a legally independent foreign subsidiary is subject to federal laws (for example, Handelsgesetzbuch, HGB), but is managed at the state (Länder) level, with details of the established legal entity made public through a Handelsregister.

The consideration of differences in business incorporation regulations owing to variations in federal governance impacts decision-making regarding foreign entry by introducing more complete choice sets that are driven by managerial practices (Martin, 2013). By implication, a market-seeking MNE intending to enter the USA (as compared to Australia), all else being equal, is likely to incorporate in a state that provides better accessibility and local input costs but also enabling a highly efficient entry mode to govern interdependence in the local supply chain. Importantly, the entry mode choice (typically joint ventures versus wholly-owned subsidiaries), is usually predicated on the transactional characteristics of the assets and asset services being bundled by the focal MNE, and will be

further co-determined by the pecuniary benefits associated with the location (i.e., state) which is endowed via a federally asymmetric political advantage. Alternatively, the asset bundling perspective is likely to influence entry mode choice significantly for the focal MNE in Australia, as the general remit of federal authority in collaboration with its provincial and territory agencies will be a first order determinant of that choice-set.

Federal imbalances in center-state governance can also influence the foreign entry decision-making process, through the systematic inclusion or omission of a specific entry (ownership or governance) mode used for venue-setting in a sub-national territory. In addition, the degree of inter-state variation brought about by competition and contestability of markets across countries characterized by federal governance challenges traditional notions of theory-informed managerial behavior, where scrutiny of entry mode decision-making process and identifying the structure of that process through which MNE managers select entry mode is still in its infancy (Hennart and Slangen, 2015). An example of a smaller and less-studied federalist country is Nigeria, where despite relative stability of the political system across the regions, its over-centralized federal system has historically struggled to distribute oil wealth equitably to its constituent sub-units, creating a strong core-periphery asymmetry in terms of economic and political power (Yimenu, 2024). A robust implication is that collaborative entry strategies such as alliances and joint ventures in the oil and gas industry have persisted and become entrenched, despite the country's trend towards declining transactional and institutional risk.

1.5. MNE subsidiary management strategy

Federalism can impact MNE location strategy also after the entry-choice has already been made. The delegation of decentralized accountability to constituent units in a federalist host country, coupled with the concentration of stickiness associated with favorable economic and political conditions in select states, can exert a dual influence on MNE subsidiary management. Firstly, center-state imbalances can motivate MNE subsidiaries to better align their requisite economic (location-specific) advantages with the various location choices that are provided in a federalist system. Most importantly, such pressures stimulate subsidiaries to “venue shop” proactively in search of appropriate regional locations with optimal location advantages and which also provide a “social fit” with the MNE (Hsiao et al., 2023). By implication, conducting a cost-benefit analysis regarding political negotiations with external stakeholders – notably state actors and political institutions – can place the subsidiary at a considerable disadvantage if the congruence between their local mandates/scope and location advantages of influential sub-national states falls below the acceptable threshold set by the firm.

Secondly, these discrepancies in political governance within a federalist host country will directly influence the extent to which distinctive subsidiaries can contribute to MNE global operations. This may occur if the distinctive components such as competence-creation or competence-exploitation are threatened because of dynamics that dilute existing state laws and regulations (which were originally meant to provide protections but are rendered optional). Moreover, the challenges posed by political risk and uncertainty, stemming from evolving governance structures influenced by federal imbalances, impedes MNE subsidiaries' optimization of internal governance, hindering their agility in responding to dynamic shifts. In the event of unsuccessful political negotiations, subsidiary mandates and scopes (product and geographic) may be forced to alter, potentially causing a catastrophic disruption to the local-regional value chain.

1.6. Practical implications and future research directions

Our discussion implies that when faced with federalized political structures, MNEs must move the focal point of governance analysis on location choice to the actual configurations of political systems that MNEs are confronted with. This is possible by zooming in on political-institutional arrangements under federalism to understand the dynamic payoff matrix for a within-country location and the weighting between benefits (regulatory improvements) and costs (uncertainty/risk). Indeed, as far as location choice is concerned, the key issue related to political governance boils down to whether the benefits noted above – such as stronger property rights – dominates or whether these effects will be eclipsed by the high costs to foreign investors in terms of additional bureaucracy and higher spatial transaction costs arising from the autonomy and power separation afforded to sub-national political branches.

In terms of mitigating risk and uncertainty connected to sub-national governance, the choice of investing in a within-country location depends on timing and accrual of monopoly rents from the endowed locational advantages, and whether the optimal waiting strategy (akin to a second-mover advantage) outweighs the probabilistic returns (value) generated from the first entrant. This assessment choice, however, should be guided by the risk-appetite of subsidiary managers who are members of expert local networks, enabling accurate prediction of political-institutional changes. Most importantly, the levelling up of political and social capital will be necessary to secure high quality information connected to these changes. Overall, we argue that the federalist system can shift a firm's incentive structure, offering both benefits and risks. Notably, federalism is not a static beast and is shaped by power flows from the center and the sub-national units, due to changing environments in federal capitals, and via temporal shifts of ebbs and flows. Put simply, the effect of power imbalances and bargaining may be static at one point in time, as an MNE is deciding on location choice, but these effects are also subject to change over time, which is something that firms, particularly subsidiary managers should concentrate on and cultivate skills to handle.

The implications of political risk and uncertainty for foreign firms, along with the strategic maneuvering required to establish themselves as influential non-state stakeholders through cooperative bargaining, merit re-evaluation in the context of global strategy research. Extant research on non-market strategy has recognized the role of political game-playing (e.g., political CSR) and the detrimental effects on foreign firms resulting from resource misallocation. Specifically, when such misallocation can hinder the development of desirable host market capabilities, including technological advancements, human capital, absorptive capacity, and

local network integration. Future research should aim to resolve theoretical and empirical ambiguities, by examining the resource trade-offs for MNEs that arise from short - and long-term political bargaining in federalist countries. Studies focused on subsidiary switching costs and alternative governance mechanisms to mitigate these trade-offs may offer valuable insights into managing such challenges effectively.

2. Conclusion

In this perspective piece, we have outlined how a major determinant of a country's broader business environment, namely the sharing of power across different political jurisdictions, can have profound implications for foreign location strategy of MNEs. While national political institutions matter, especially in a unitary state, federalism has significant implications for global strategic management, both at the theoretical and practical level. Although the body of work on "varieties of capitalism" and its extensions has explored institutional configurations across market economies, as well as their effects on business, relatively little consideration has been devoted to understanding how the political institutional arrangements within countries can shift the decision-making of MNEs. We have thus brought together insights from political science, regional studies, and global strategic management to illustrate just how political federalism can influence one aspect of MNE decision-making that is specific to foreign location strategy.

CRedit authorship contribution statement

Christopher A. Hartwell: Writing – review & editing, Writing – original draft, Formal analysis, Conceptualization. **Ziko Konwar:** Writing – original draft, Project administration, Investigation, Formal analysis, Conceptualization. **Timothy M. Devinney:** Writing – review & editing, Investigation, Formal analysis, Conceptualization.

Data availability

No data was used for the research described in the article.

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