The Impact of Absorptive Capacity, Issue Selling and Global Staffing on Institutional Far-distant Subsidiary Evolutionary Processes

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Abstract:

This paper reports the findings from 5 case surveys on Danish owned subsidiaries in Asia and shows how subsidiary bargaining power, reached through issue selling and staffing policy, is utilized in the intra-firm competition of a multinational corporation. The empirical findings indicate that subsidiaries managed by parent company nationals, in comparison with subsidiaries managed by host country nationals, are better to sell issues and attract attention from the parent company. Parent company national subsidiary managers utilize information asymmetries that depart from institutional distance between the parent company and the subsidiary, and simultaneously they better pack the issue so it fits parent company's formalized application requirements.

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Introduction

Recent descriptions of the multinational corporation (MNC) view such entities as internal markets, where subsidiaries face external competitive pressures and simultaneously they fight for corporate mandates in competition with other subsidiaries (Birkinshaw *et al* 2005). This internal competition is severe in cases of overlaps between the geographical market representation and resource constraints between two or more subsidiaries (Birkinshaw & Lingblad 2005, Luo 2005). Consequently, some subsidiaries develop bargaining power, which increases their future ability to influence or shape parent company's decision making regarding their current and future role in the corporation (Luo 2005). This paper investigates one aspect of this internal competition, namely how subsidiaries develop their bargaining power when they are located in a distant institutional setting. As the paper later reveals, a new explanation to multinational intra-firm competition will be explored, namely how subsidiary managers can combine different strategies of issue selling when balancing the often contradicting institutional forces of the parent company and the host country (Kostova & Zaheer 1999). Furthermore, this article investigates how parent company national (PCN) subsidiary managers and host country national (HCN) subsidiary impact subsidiary bargaining power.

The discussion of multinational intra-firm competition associates to the description of subsidiary roles and especially the reasons for subsidiary role developments. The fact that subsidiaries changes their position over time by winning or loosing mandates can be seen as an outcome of the intra-firm competition in the MNC. Several scholars have described the manifold of roles subsidiaries play in the MNC (among others White & Poynter 1984, Bartlett & Ghoshal 1986, Jarillo & Martinez 1990, Birkinshaw & Morisson, 1995). These taxonomies later initiated investigations into subsidiary evolution and revealed the importance of changes in the host country environment as well as parent company strategy and internal developments within the subsidiary as main drivers for subsidiary evolution. Birkinshaw and Hood (1997) used these factors as the organizing framework for their investigation. Later, researchers like Cantwell and Mudambi (2005) emphasized the importance of subsidiaries' ability to create competences as a main driver for their evolution. The framework presented in this research stream can be seen at the left side of the model presented in Figure 1. The model visualizes how a parent company defines the structural context and controls the subsidiary through a set of administrative and cultural mechanisms – a context that defines the degree of freedom of the subsidiary. Furthermore, the parent company impacts intra-firm competition by its direct investments, e.g., formation of a new plant, or reallocation of production mandates. A subsidiary can strength its competitive advantages through managerial entrepreneurial initiatives, which sometimes can be conditioned by autonomous actions. Finally, host country supports through subsidies, tax concessions and the like, and indirectly through economic developments where improvements in the economic stage and in the quality of customers, suppliers and competitors, influence subsidiary evolution and its position in the intra-firm competition.

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Figure 1 about here
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A parallel discussion based on institutional theory considers subsidiary evolution and related multinational intra-firm competition to be a subject of such entities placement in their parent company institutions and host country institutions respectively. In order to survive in the local market subsidiaries react to local isomorphistic pulls and start to imitate or resemble other firms, which face the same set of environmental conditions (DiMaggio & Powell 1983). One example of this mechanism is provided by Li *et al* 2007 showing how public opinions, and imitations of prior foreign direct investment behaviours of other firms from either the same home country or industry, affected the choice foreign MNCs made between greenfield establishment and joint venture partnerships in China. Nonetheless, local isomorphism might create a problem for the subsidiary in its efforts to attract resources and mandates from the parent company. These two forces impact that subsidiaries exist in a world of institutional duality (Kostova & Roth 2002), as the MNC has its own institutions with rules, norms, values, and cognitive requirements from which the subsidiary are forced to adapt. Phelps and Fuller (2000) have demonstrated this conflict, as subsidiaries located in the ‘periphery’ often face difficulties of benefitting from parent company’s repeated investments, despite the fact that sunk costs and prior use of local resources clearly advocate for parent company’s repeated investments. As visualized in the right part of Figure 1, subsidiary bargaining power then depends on the subsidiary’s ability to balance the two institutional forces – a balance that can be managed by, as this article points out, issue selling and through staffing policy.

This paper investigates how subsidiaries of Danish MNCs utilize their bargaining power in multinational intra-firm competition in an Asian context. This is different to most cases of subsidiaries that have been surveyed in a West European context. Thereby, this paper contributes by investigating the development of subsidiaries being institutional distanced to the parent company. To exemplify, intra-firm competition is simultaneously influenced by institutional forces in the corporation, and the external institutions both of them impacting bargaining power of the subsidiaries. The argument put forth is that subsidiaries located in institutional distant host countries are from the parent company’s point of view characterized by higher degree of uncertainly and they will to a higher degree control asset specific linkages to host country institutions not directly transferable or imitable. The argument put forth is that subsidiaries staffed by PCN subsidiary managers are better to frame issues in negotiation processes with the parent company, and therefore possess more bargaining power that subsidiaries managed by HCN subsidiary managers.

The paper is organized as follows: First, a literature review on subsidiary bargaining power is provided, followed by sections describing issue selling, and global staffing. Thereafter, the research methodology is described, followed by a presentation of the empirical survey. Finally, the last section includes conclusion and discussions.

Subsidiary Bargaining Power

An MNC expresses a governance structure of economic activity, and is often associated to, e.g., the use of controls to manage such activity (O’Donnel 2000). However, an MNC can also be viewed as a political organization, where actors have the opportunity to speak their voice. The description here balances the two approaches, but will focus on the notion of power, and will be framed within the institutional framework. In detail, it investigates how issue selling and global staffing impacts the bargaining power of the subsidiary.

Conceptualizations of power in general usually refer to the ability to force others to do what they would otherwise not do (Dahl 1957). In an MNC, the parent company utilizes legitimate, coercive or reward based display of force (French & Raven 1959). However, in the case of a subsidiary, it rather makes sense to investigate whether the subsidiary is able to *influence* the parent company in its decision making procedures (Surlemont 1998). The distinction made by Aghion and Tirole (1997) between formal authority (the right to decide) and real authority (the effective control over assets and decisions) is, therefore, of relevance, where the latter more corresponds to subsidiary bargaining power. Subsidiary bargaining power typically departs from resource-dependency situations. Pfeffer and Salancik (1978) refer to the subsidiary's ability to solve critical problems arising from its environment. Rugman and Verbeke (2001) associate subsidiary bargaining power to the development and diffusion of subsidiary-specific advantages, which are either location bound (because of their tight connections to host country institutions) or is more generic and non-location bound. Rugman and Verbeke argue that it challenges the MNC both when resources are location bound, and their exploitation are confined to the host country, which increases the need for centralized control systems, and when resources are transformed to be non-location bound and usable for the global organization, which requires investment in knowledge management systems. Bouquet and Birkinshaw (2008), further, addresses how low-power actors (an expression that associates a subsidiary) gain influence through the control of valuable resources, and how they through initiatives changes the status quo of the MNC. Further, they emphasize that a subsidiary that enters political games has an influence on parent company decision making processes. This again relates to the capacity to provide strategic valuable knowledge on local competitive developments combined with the ability to create innovative ideas, the latter concerns framing of issues to convince parent company decision makers. It can be concluded that existing literature in this field emphasizes resource dependency situations, though how it impact bargaining power in relation to intra-firm competition is stressed to a less degree. This paper, therefore, discusses the influences of issue selling, and how the use of either HCN or PCN subsidiary managers moderates these effects. The right side of Figure 1 illustrates the model for this analysis.

Issue Selling

Subsidiaries are likely to increase their bargaining power, when they reveal host country embedded knowledge to the parent company, as it reduces uncertainty of parent company investments in this particular location. Following transaction cost logic, in cases of high degree of locally embedded knowledge, the MNC is likely to suffer from asymmetric information as it is assumed to produce high transaction cost due to increased monitoring of the subsidiary. A related example is provided by Mudambi (1999) building on cases of parent companies establishing internal capital markets in order to transfer capital to strategic promising subsidiaries. In such cases, subsidiary managers will have an incentive to overstate value to attract capital, and this overstatement is more difficult for the parent company to capture in institutional distant units. Parent company is, consequently, not able to make optimal allocation of mandates and resources in cases of information asymmetries (Aghion & Tirole 1997). Solving this problem will, therefore, reduce transaction cost and improve resource allocation processes, and thereby impact the intra-firm competition of the MNC. Opposing to this point of view of opportunistic acting subsidiary managers, it can be argued that issue selling positively impacts subsidiary bargaining power. Dutton and Ashford (1993, p. 398) define issue selling as:”individual’s behaviors that are directed toward affecting others’ attention to and understanding an issue”, where ’issue’ refers to events having implications for organizational performance. By *framing* issues to include symbolic logic, subsidiaries influence organizational identity. Dutton and Ashford phrased this as ‘issue packaging’, which refers to a linguistically presentation. Included in this concept is the ‘formal tactics’ by which subsidiaries approach parent company management. One issue is the formal reporting, typically the delivery of annual reports and other control-orientated documents, and in a further context, the making of formal scheduled presentation to top management. Here, detailed project descriptions follow the defined standards by the parent company. Next, issue selling includes formal set up of private one-on-one meetings between parent and subsidiary management. Further, strategically framing the issue so it includes parent company preferences is essential. To exemplify, the same issue, e.g., a request for new mandates can be framed as a human resource, a cost, a technical, or some alternative issues (Dutton & Ashford 1993). The point is to frame the issue so parent company management conceives it to be of relevance for the long-term performance of the company.

The subsidiary is through issue selling able to get attention from the parent company. Subsidiaries get attention from parent company, as shown by Birkinshaw *et al* (2006), through internal stimuli like reporting procedures, or through external stimuli, such as being a subsidiary in China or India, both countries being exposed in media. According to Bouquet and Birkinshaw (2008) subsidiaries, further, attract attention by showing its importance for the MNC, as e.g., subsidiaries that export managerial talent to other corporate units, and mention the Brazilian subsidiary of Unilever as an example, as this subsidiary has exported 83 managers to various part of the organization. This, further, establishes links between the subsidiary, and people in power around the organization. Through this type of cooptition, i.e., simultaneously competition and cooperation with other MNC units, Luo (2005) argues that the subsidiary shows that it contributes to the achievement of mutually beneficial outcomes of the MNC, which typically increases acceptance by the parent company.

Issue selling, further, includes lobbying efforts. Managerial lobbying is also needed to get attention from the parent company (Birkinshaw *et al* 2006) especially in MNCs with high levels of intra-firm competition (Luo 2005). Lobbying involves "personal appeals, behind the scenes negotiations, or discussions in halls and a company functions" (Dutton and Ashford 1993, p. 419) and to a certain extent it depends on the relationship between the issue-seller and receiver (Ling *et al* 2005). Here, subsidiary management enters the micro-political games of the MNC, where the subsidiary profile, i.e., its image, credibility and reputation, is exercised though image control, by e.g., revealing a strong track record on performance (Birkinshaw & Ridderstråle 1999, Bouquet & Birkinshaw 2008). This leads to parent company acknowledgement of some subsidiaries being in superior positions (Luo 2005) as for example when a parent company appoints a subsidiary to be a 'centre of excellence' (Holm & Pedersen 2000). To achieve such a position, Cantwell and Mudambi (2005) argue that in order to win competence-creating mandates, subsidiary managers have to 'exercise a voice' in the organization. The opposite case also advocate for lobbyism, and Mudambi and Navarra (2004) suggest that low performing subsidiaries to a even higher degree depend on lobbyism in order to survive.

Institutional distances between the parent company and the subsidiary are likely to increase information asymmetries. Subsidiary management can utilize this gap by using different types of issue selling. One example is subsidiaries acting as gate keepers that present information to create positive stories around their performance (Morgan & Kristensen 2006). Dutton *et al* (2001), therefore, do see that localized knowledge is relevant to make issue-selling moves happen. They point at different types of institutional contexts that are of relevance for parent companies to be revealed. First, relational knowledge (i.e., the knowing who in host country) is crucial. Secondly, host country legitimacy issues or the public reaction to specific moves made by the MNC. Finally, 'strategic knowledge' or the issue-seller's understanding of the organizations goals (or in a wider sense the parent company's institution) is emphasized. To summarize, the subsidiary manager secures conscious devotion on a correct behavior in relation to MNC norms and values. Further, it is helpful for the subsidiary to predict the relative importance of various parent company goals (a classical example is to predict the importance of cost cutting versus product differentiation) – which better align subsidiary role with the parent company’s wishes. Furthermore, issue selling reduces parent company’s uncertainty surrounding goal attainment, and reduces investment risk, which again can be a basis for parent company extended investment impacting the position of the subsidiary in the intra-firm competition of the MNC.

Global Staffing

The second factor influencing subsidiary bargaining power is whether the subsidiary manager position is taken by a HCN or a PCN subsidiary manager. This question addresses the issue of how to effectively managing a dual institutional world by the reveal and utilization of information asymmetries. In the case of using a HCN subsidiary manager, this person’s talent is in most cases related to the ability of adapting to host country norms and value (Hsieh *et al* 1991). In relation to PCN subsidiary management, subsidiary bargaining power typically regards the ability – on behalf of the parent company - to control the subsidiary. However, the likelihood of a parent company staffing the subsidiary with a PCN subsidiary manager is often argued to increase when institutional distances increases, as they can improve control and communication between parent company and subsidiary. A study by Harzing (2001) shows that among 88 Danish parent companies only 18.2% were staffed by PCNs, though the highest degree of PCNs was located in geographically far-distant countries. However, her subsequent statistical analysis only partly support the before mentioned relationship between PCN and cultural distance. This put an emphasis on the counter argument, that HCN subsidiary managers have the needed local knowledge and market familiarity to efficiently operate in the host county. This is supported in a recent survey by Colakoglu and Caligiuri (2008), who find in a sample of wholly-owned US subsidiaries of 52 MNC an increased use of HCN subsidiary managers in cultural distant subsidiaries. However, Björkman *et al* 2008 reach the opposite conclusion from a sample of Western-owned subsidiaries in India and China.

The underlying conceptual arguments for these surveys, though, can be included in the discussions regarding issue selling. Harzing (2001) sees the PCN subsidiary manager as a communication channel between the parent company and the subsidiary. Further, Colakoglu and Caligiuri (2008) argue that the use of PCN subsidiary manager decreases transaction cost of dealing with asymmetric information. In relation to issue-selling, and especially the managers ability to align proposals to parent company goals, staffing depends on whether HCN subsidiary manager are socialized into the parent company institutions or they remain embedded into the local context (Tarique *et al* 2006). Here, Gaur *et al* 2007 find evidence in a large sample of Japanese subsidiaries operating in 48 countries, that institutional distance increases the likelihood of the parent company employing a PCN as a subsidiary manager. Their argument is that in case of high institutional distance, the PCN subsidiary manager implements the organizational practices in the subsidiary, and aligns the goals and objectives of the two entities. Though, initially, the subsidiary might employ a HCN manager to overcome legitimacy problems, but over time the subsidiary becomes accepted in the local environment and can increase the deployment of PCNs. Björkman *et al* (2004) also speak for the use of PCN subsidiary managers in distant institutional subsidiaries: First, PCN subsidiary managers are more socialized into the corporation, and will not take a narrow subsidiary perspective. Second, they typically have longer tenured relationships with managers in the parent company – and will be perceived as more trustworthy. Finally, they will have a better understanding of the value-added of subsidiary activities for other parts of the organization. To conclude, it is of sincere importance to survey whether HCN or PCN best manage institutional duality situations.

Research Methodology

Since the combination of issue selling and global staffing and their impact on subsidiary bargaining power in a distant institutional setting has not yet been analyzed, a detailed approach is to be recommended. Miles and Huberman (1994) suggest the use of qualitative research design including deep understanding, local contextualization, and causal inference, building on the points of view of people. An optional way to extend the existing literature on subsidiary development and multinational intra-firm competition was, further, to make use of a comparative case study research design (Eisenhardt 1989). However, then the sampling of the case study is crucial, as the choice of sample influences the results of a study (Miles & Huberman, 1994). To select cases I identified the 20 largest MNCs, which have wholly-owned subsidiaries in either China or India (or both). These two countries were selected as the area of investigation in order to investigate institutional practises that were distant to the Danish parent company. Instead of a one country focus, a regional sample offered a broader opportunity to investigate the intra-firm competition between institutional distant subsidiaries, for example between Indian and Chinese subsidiaries. Furthermore, the sample offered the opportunity to investigate the HCN/PCN effects. The comparability of the cases was enhanced by all companies being located in Denmark, and all were fairly large MNCs. However, this home country focus restricts the variance of the sample and means that the implications for other host countries (or other regional home countries) might be correspondingly limited. On the other hand, the variance in industry increases the likelihood of drawing more valuable general knowledge from the sample.

The 20 companies were approached by e-mail including an introductory letter. Five companies expressed their will to participate in the survey. The five cases presented are based on semi-structured interviews with one manager (4 CEO, and 1 repatriated subsidiary manager now possessing a leading position in the parent company) in each of the respective five MNCs. Top managers were chosen as respondents because, given the broad scope of research, there were likely to be the best able to provide perceptional data on the full range of questions. Interviews were conducted in the parent company. All interviews were carried out in Danish. Interviews lasted 60-90 minutes, and were subsequently transcribed, and send to the informant for further comments. Apart from some minor aspects, the interviewees accepted the transcripts. Interviews were semi-structured as they contained the same basis of questions, though each interview contained elements that specifically related to the development of this company's subsidiaries. Triangulation of data was an important mean of increasing construct validity (Denzin, 1978). Archival documents, annual reports, articles from the business press, as well as internal documents (e.g., presentation slides), and detailed case write ups, were used for this purpose.

The case write ups were subsequently coded to facilitate cross-case analysis (Strauss & Corbin 1990). To exemplify, a code was given for issue selling, and sub codes for different elements of this perspective. This method resulted in the main categories presented in the empirical section. Finally, all interviews and cases are made anonymous in order to be confidential.

Analysis

This Section provides the insights of five cases comparative case study research design. It briefly presents some factual data, and subsequently results regarding intra-firm competition, subsidiary bargaining power, issue selling and global staffing policies are presented.

The companies

The first company being investigated, which operates in a chemical industry, had in the budget year 2007/08 a turnover at 200 m Euros, and employed 1,390 individuals. The company has nine subsidiaries, whereas seven of those are located in the Nordic countries, one in Poland and one in China. The Chinese subsidiary was established in 2005 as a wholly-owned unit employing 20 people. In 2007 the subsidiary employed 35 people. The second company operates as a divisional headquarters of a European based conglomerate, but the investigated unit operates in the Chemical industry and has its divisional headquarters in Denmark. The divisional headquarters is the result of an acquisition of a Danish MNC being present in this industry for more than 200 years. In 2006, this division had a turnover of 55 m Euro and the divisional headquarters employed 161 people. The conglomerate controls 20 establishments in China, and the Danish headquarters controls one of these subsidiaries. The third MNC analyzed had in 2007 a turnover at 3.6 b Euros, and the company employed 10,400 people. The MNC operates in the pharmaceutical industry. 72 subsidiaries are divided in five geographical regions. A second layer divisional headquarters is located in India. In the same geographical region, only the Chinese subsidiary is responsible for carrying out R&D activities. The forth Danish MNC being analyzed operates in the machinery industry. In 2006 the company employed 7,000 individuals and reached a turnover at 1,600 m Euros. The company operates with regional project divisions, where the local subsidiaries carry out sales, and sourcing, and customizations in its geographical markets, and three technical divisions where engineers develop the basic design of the company products. India is one out of three technical divisions being responsible for R&D. This unit has been growing in terms of employees from 250 in 2001 to 1,400 people in 2007. The final company looked into operates in the medico-care industry. The company has production units in China, Malaysia, and Denmark, but direct sales are handled by sales agents. In 2006, the company had a turnover at 100 m Euro, and it employed 1,200 individuals.

Multinational Intra-firm Competition

The outcome of multinational intra-firm competition is in this study measured as reallocation of subsidiary mandates in the organization. One of the respondents characterized the MNC in question as an ‘internal market’, where the subsidiaries compete for these mandates. In one case the parent company established a production plant as a greenfield investment, in relation to its Chinese sales subsidiary. Reasons for this change included high Chinese tariffs on imported goods, long delivery times by shipping from Denmark, cheaper raw materials, and a new European regulation demanding approval of the company’s products, which required substantial resources in order to produce the needed documentation. In another case, the parent company defined a specific goal in sales for its Chinese subsidiary. Subsequently, the subsidiary obtained a production mandate when it reached this goal. Another MNC likewise used pre-defined criteria to be met regarding allocations of production mandates. Furthermore, risk of exchange rate fluctuations, access to local employment and wage level were decisive criteria for this MNC in regards to allocations of mandates.

Parent Company Strategy

Figure 1 presents both the established criteria for subsidiary bargaining power, and the ones suggested in this article for more definite analysis. Parent company strategy is a classical factor determining subsidiary role developments and associated bargaining power. One company purposely initiated intra-firm competition by creating an ‘internal market’ for product developments in the organization. The sales subsidiaries were free to purchase such services from any technical units. In principle it implied that the Indian sales outlet not necessarily was forced to purchase technical support from the Indian technical unit, but was free to use e.g. the Danish or the American unit. Though, in this case, intra-firm competition was simultaneously limited by a high degree of technical specialization among these subsidiaries, and in most cases they had to cooperate to supply the subsidiaries. The complexity of the product sold, therefore, increased the likelihood of reaching the stage of cooptition as suggested by Luo (2005). In another case, the defined growth strategy of the parent company facilitated a range of local acquisitions of small production plants by its Chinese subsidiary. This resulted in grow in production capacity, obtainment of local brands, and an appropriate spread of plants in China.

Subsidiary Resources

In one case specialized R&D knowledge of an Indian subsidiary was by the respondent expressed as unique in the MNC. Another case pointed to the Chinese subsidiary being the experts in sourcing. However, in most cases subsidiaries gained power through its dense and lose relationships to customers and deep roots in host country markets and cultural conditions. This was in three cases assessed to be a resource dependency situation, as networks relations to business customers were critical to win contracts. In one case, the subsidiary’s ability to ‘translate’ the products to market customers (among others operating in the rural areas of India with a product, which use was based on complex technologies) overcame cognitive constraints. Furthermore, one sourcing unit gained high level of operational autonomy from its parent company to manage its direct relationships with local suppliers. The high degree of local responsiveness was, furthermore, relevant in relation to one subsidiary’s R&D activities. In this case local adaptations were needed in order to meet specific customers' requests. The R&D department further controlled the quality of raw materials and finished goods.

Location

In all cases, the economic developments of India and China, and the future economic prospects of these two countries were decisive to those subsidiaries position in the MNC. Geography brought influence, and for that reason alone the subsidiary was assess to be powerful. Subsidiaries could in all cases more easily develop their position in relation to other subsidiaries in the corporation. As our interview respondent stated: "*It's easier to be subsidiary manager in China than in Bulgaria*". Without doubt, the media and the public pay attention to China and India, and naturally parent company's' managers also watch the prospects of these two markets closely. Furthermore, low labour cost in cases of China and India, and access to educated and highly skilled and English speaking labour in case of India were decisive for subsidiaries gaining mandates. One subsidiary obtained a mandate to carry out development activities, which mostly related to applied research and customization processes. The reason for delegating this mandate was primarily related to a current lack of engineers in Denmark. In general, market- performance and potential were decisive to intra-firm competition, which made China and India to main centres of the MNCs. These units have, as one interview respondents phrased it: "*higher trenchancy in relation to the parent company*", than other promising markets.

Issue Selling

Issue selling has in this paper been emphasized as a way subsidiary manager can balance institutional duality and increase bargaining power. The reveal of knowledge to the parent company reduces uncertainty and transaction cost in relation to information asymmetries. Uncertainty was to give one example, prevalent in one case. One parent company management assesses both China and Malaysia to be institutional volatile environments – and if this instability was to be taken to its logical conclusion, the company would be able to move the production to the other subsidiary. An example of transaction cost was provided through a case of a subsidiary that allowed extra-ordinary and unprofitable discounts to its local customers in order to meet specified sales requirements from the parent company – a praxis the parent company was slow to react on due to information asymmetries.

Issue selling was primarily related to the formal communication between parent company and subsidiary. In four cases parent company's requests for documentation and throughout descriptions for projects approval have been increasing in the last couple of years. Subsidiary-driven initiatives need careful descriptions of the project and budgets to be presented for the parent company, which often requires further clarifications and specifications in order for the parent company management to accept an application. One respondent claimed that the complexity the MNC faces in terms of product diversity and cultures has initiated centralization processes, and has put an emphasis on formal communication procedures. One example was the acquisition of a Chinese factory. The subsidiary easily got the approval to search for acquisition targets, but the subsidiary manager had to negotiate the screening criteria with the parent company. He had to continually write descriptions of market opportunities, technologies, environmental issues, taxes, legal affairs, and especially risk assessments – a process that took more than two years to conclude. In another MNC, the applications from the subsidiaries followed this chain of command: The procedure of application was formalized, and applications beyond a certain amount had to be approved by the parent company management. This procedure was used in cases of allocations of production mandates, and greenfield establishment or take-over of existing plants. The respondent here claimed: *"the subsidiary's ability to make probable the resources needed to achieve determined economic objectives can be decisive to gaining new mandates"*. In another case, in order to establish the needed contact between the parent company and its two Asian subsidiaries, the MNC used both formalized and socialized structures. The subsidiaries produced monthly reports, and reports concerning specific projects. Financial controllers paid four visits per year on the basis of quarterly accounts. The subsidiary paid visits to the parent company 3-6 times per year, or whenever it was needed, and parent company's top management likewise visited the Asian sites. This socialization was, assessed by the CEO, important to solve the problem of asymmetric information. However, in another case, subsidiaries did not need to produce thoroughly project descriptions for the parent company. Though, this might be an outcome of the size of the MNC, being the smallest investigated, and this subsidiary being the only distant unit in the corporation. These findings point towards the fact, that the subsidiary must possess the ability to write up detailed project descriptions and the like to meet parent company's requirements, just in order to 'qualify' for real negotiations regarding e.g., creation or enhancement of production mandates. Framing the issue is important, which include the linguistic ability, but also the knowledge of parent company's interest. In one case, the Indian technical units clearly saw an advantage of proposing further specialization of its knowledge area implying differentiation to other technical units in the corporation, as it supported the parent company's vision of an internal market for such services. In relation to this, all the participating companies have clearly defined policies in order to align subsidiary operations regarding social corporate responsibilities, sustainable technologies, and human resource management practices. Subsidiaries were assessed in order to meet these criteria, and in two cases directly supervised to reduce the risk of corruption and the use of child labour.

Secondly, the track record, or the image of the subsidiary is important for gaining parent company's attention. "*Performance counts*", as one respondent claimed. One case showed that subsidiary sales performance did not directly affected the location of a production plant. However, parent company's decision regarding production capacity was influenced by the subsidiaries sales performance. According to the CEO of this MNC, the subsidiary manager (a PCN) convinced him to increase capacity, primarily by referring to the performance of this subsidiary. Other types of track records were also shown to be central to position the subsidiary in relation to other subsidiaries. One MNC counted in the turnover rate (exclusive retirements) of employees, and the interview respondent mentioned a subsidiary with a strong position, as it had only lost four employees in a 27 year time period. Next, in the same company, the subsidiary's ability to develop and train employees, which can be expatriated to other MNC units, was assessed as being important for the subsidiary's bargaining power.

The final element of issue selling relates to lobbying. All respondents acknowledged this effect, and especially the power of being part of specific network. However, this effect directly relates to the individual manager, and will, therefore, be discussed in further detail in the section of global staffing.

Global Staffing

The remaining question is the impact of staffing by PCN versus HCN subsidiary managers on the subsidiary's bargaining power. HCN subsidiary possess the knowledge of local market conditions and institutions. However, it was only in one case that this fact was highlighted as important for the subsidiary's competitive position. In one case it was proven to be difficult to expatriate 'Westerner' to distant institutional countries – and the recruitment of HCN subsidiary managers had proven to be more efficient. This MNC, therefore, recruited HCN with a local mindset and industry experience – and then educated and integrated them into the corporate values and institutions. The MNC typically made use of 3rd country nationals, by recruiting in India (due to the high level of education) and then expatriated them to other Asian subsidiaries. By which this firm reduced the institutional distance to the local market and simultaneously it implemented the MNC institutions.

However, the importance of adapting to the parent company institutional practices was highlighted in several cases. Interview respondents gave several examples of subsidiaries that were started up with local management: Managers, who lacked the communicative competences, being embedded in the local context, and who preferred managerial principles that did not fit the internal corporate competitive forces. One respondent stated: *In our Indonesian subsidiary, three local managers were unsuccessful, before an UK expat entered. The same with China … these units simply miss some years.* This interview respondent viewed PCN subsidiary managers as 'outsiders' (beyond the management and control functions they served) who could change the underperforming subsidiary into a success. Subsidiary bargaining power in this case, therefore, related to a combination of local expertise: in this case knowledge of how to operate in Chinese context, but also to position the subsidiary in the corporate Western European context. Examples of issue selling were PCN subsidiary managers with ambitions and cleverness to translate local market opportunities to projects of interest for parent company managers. One interview respondent stated: *"A subsidiary manager is a key actor that can match and translate local business opportunities into project descriptions that is approved by the parent company – I was the intermediary between two worlds"*. The PCN subsidiary manager's ability, to handle institutional duality was further outlined through this statement from a parent company CEO in relation to an Indian subsidiary: *"The former Danish consul of India advised me against headhunting the best Indian in the industry. He assessed that the most important factor in the upcoming growth of this subsidiary was the newly arrived employees' ability to assimilate the company culture. Second, you honour the Indian business customer more by having a Danish manager. Finally, our Danish and American technical divisions now dare offshore tasks to this division – they never did that before"*. This statement brings in new perspectives into the discussion. First, the subsidiary managers' ability to implement parent company institutional practices in the subsidiary, which in all cases investigated primarily were staffed by HCN employees. Next, the HCN subsidiary manager acts as a spokesman or representative of the parent company institutions in the local context. But most important, that the HCN subsidiary can act as an intermediary to those subsidiaries having a minor institutional distance to the parent company. Finally, the HCN subsidiary was in one case assessed to be better in securing the parent company ethical policies to be fulfilled. This company had two Asian subsidiaries being managed by PCN, whereas the European and the US located sales subsidiaries were managed by HCN. The parent company required that the Asian subsidiaries had a West European or American manager in charge, or in case of an HCN led subsidiary, that their cultural mindset were assimilated to a western culture, in order to, as expressed by the Parent company CEO, avoid e.g., nepotism, and secret commissions. The respondent, further, explained: *"It is important that one acknowledge the Parent Company's values, which can be policies and strategies. I am convinced that most managers sign company charters, though still they will operate on 'the edge' of these grounded rules. In China and Malaysia we fear that some leaders are to at operating on this edge".*

The most prevalent impact on bargaining power in relation to management of institutional duality was seen in the PCN subsidiary managers' ability to communicate and fulfil the formal procedures for project and budget descriptions. One respondent addressed that PCN subsidiary manager played a key role in this game, since he or she often had a competitive advantage – compared to HCN subsidiary managers – in terms of ability to communicate and to formulate the detailed report requirements from the parent company. The interview respondent, being a former PCN subsidiary manager of the Chinese unit, but now being repatriated in the divisional headquarters, expressed it in this way: *You have bargaining power when you can formulate and sell your message to the divisional headquarters. You need to be embedded in the culture of writing of concrete executive summaries, to make budgets, etc., this is the way to convince".* Furthermore, the issue of asymmetric information was addressed in one case. The former manager of the Indian project division, an HCN, did not provide sufficient information for the parent company management, whereas the management with a HCN today provides a more correct picture of India. Though, in China, where the company has a sales outlet managed by PCN, the subsidiary manager typically brings an experienced Chinese employee to parent company meetings in Denmark – and where his contribution in fact impact decisions made in regarding the development and activity of the this subsidiary. The ability to perform at these face-to-face situations is, therefore, another important factor of efficient issue selling, and certainly impacts the subsidiary's ability to influence parent company decision making processes. This connects to the issue of lobbying or the effects of the PCN subsidiary managers often having a closer network relationship to the management in the parent company and to other subsidiary managers. Networks impact subsidiary bargaining power positively. One respondent emphasized the importance of the subsidiary manager acting as a bridgehead, not just between parent company and the subsidiary, but also in relation to the other subsidiaries. The interview respondent stressed that a subsidiary manager's arguments when negotiating with the parent company had a higher trenchancy, when he or she took a former important position in the parent company. Further, as stated by the respondent: "*Consequently it matters whether it is a Dane or a local manager. To pursue you will, it certainly helps if you are part of the group among those being in 'Brazil in the 80's'. He knows whom to address, and he knows the stuff not written in the manual. For sure that impacts ours (the parent company's) decision regarding the subsidiary.* In another case, the respondent being a former HCN subsidiary referred this: *It is important with the network – whom to make phone calls to. I could informally the CEO of the divisional headquarters. I had known him for many years.* This network effect, or the HCN subsidiary manager's ability to familiarise with decision makers in the parent company might not be rational from an organizational point of view, but it impacts the distribution of mandates, and therefore the intra-firm competition in the multinational corporation.

Conclusions and Discussions

The survey generates new explanations about subsidiary bargaining power and in a wider sense multinational intra-firm competition. Management of subsidiaries located in distant institutional environments - in relation to parent company institutions - plays a specific role in the MNC. Subsidiary bargaining power depends on the subsidiary manager's ability to sell the issue so it leaves a positive impression in the parent companies. This is done by leveraging information asymmetries in combination with utilization of the subsidiary managers' corporate network relations. Furthermore, the ability to meet the parent companies formalized requirements for project proposals is a core element in gaining attention increases the likelihood for mandate developments. This is an example of subsidiary managers acting as a bridge between the internal and the external institutions: therefore seemingly the PCN subsidiary managers have higher bargaining power than HCN subsidiary managers. The former is a representative for the parent company rules and values, and play a key role in implementing these standards into the subsidiary. HCN subsidiary managers are in some cases valued because of their ability to discover the host country cognitive constraints towards the local market, but in most cases they suffer from their missing alignment with parent company institutions. In some cases they are even discredited because they act as representatives for the home country institutions. To conclude, subsidiary bargaining power is, therefore, used to influence parent company decisions regarding the new mandates to the subsidiary. In order to do so, subsidiary management utilizes information asymmetry to advocate for promising market prospect within a narrowly defined framework of the parent company institutional framework. This is, for the subsidiary point of view, beneficial in the intra-firm competition of the MNC.

The question that future research should debate is whether multinational intra-firm competition is beneficial. From the parent company point of view, intra-firm competition is easily to assess as favourable as it typically associates innovations and puts a pressure on performance in general. However, it further encourages subsidiaries to sub-optimize. Next, if parent company decision makings processes are being simplified because of information overflow, and therefore based on lobbyism or linguistic skills of the PCN subsidiary managers, the likelihood of inefficient distribution of resources and mandates increases. It is, therefore, recommendable to carry out more analyses from a principal-agency point of view, as rent seeking behaviours by subsidiaries increases transactions cost (Mudambi & Navarra 2004). Furthermore, if parent company favours one subsidiary the likelihood of asset specificity and resource immobility situations increases (Birkinshsaw & Hood 1998, Ceratto 2006). Research should, further, put more emphasis on the absorptive capacity, and investigate the impact of the subsidiary's ability to gain access to, transform, and utilize localized knowledge. Here, early research by Birkinshaw and Hood (1997) shows that absorptive capacity is helpful to subsidiary evolution, as it one the one hand facilitates such entities exploitation of host country economic developments and on the other hand its ability to attract resources from the parent company. Finally, more investigations should be dedicated the question of how to manage institutional duality. At the end of the day, this discussion connects to the concept of *dual identification* by subsidiary managers (Vora *et al* 2005) and their ability to define themselves in terms of the organization, which can be difficult when being embedded in different cultural and sociopolitical contexts, or if the two entities have competing objectives. Typically, PCNs will associate with parent company values and opposite for HCNs (Reade 2001) Vora *et al* 2005 suggest that subsidiary managers should be able to switch between different identifications, based on the particular situation. Vora *et al* finds evidence of the organizational prestige of both the parent company and subsidiary, the latter could be countries with promising market prospect such as China and India, and secondly the interaction between parent company and subsidiary in terms of communication, increases the likelihood of dual identification. In contrast, institutional distance is in a later paper by Vora and Kostova (2007) proposed to produce distinctiveness in organizational identification, and the question is then whether the subsidiary manager will be able to switch among the two organizations. However, most of these surveys are based on quantitative data, and more in-depth work into the relationship between dual identification and subsidiary bargaining power, and in a wider sense how it impacts multinational intra-firm competition, is recommended.

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Figure 1: Factors Impacting Subsidiary Bargaining Power