Abstract

Title: Coping with perception gaps in headquarter-subsidiary relations: the role of subsidiary managers in China, Brazil and USA

Authors:
Inger Beate Pettersen Bergen, Bergen University College (Norway)
Rolv Petter Amdam, Norwegian Business School
Anita Ellen Tobiassen, Oslo and Akershus University College of applied science (Norway)

Theory and research positioning

This study investigates subsidiary managers' role in coping with perception gaps in the headquarter-subsidiary relationships. The multinational subsidiary is seen as a semi-autonomous entity with entrepreneurial potential, encompassing an internal environment within the MNC, an external environment consisting of customers, suppliers and competitors in local markets (Birkinshaw et al., 2005, Andersson et al., 2007, Scott et al., 2010), and foreign institutional contexts (Miozzo and Yamin, 2012). Scholars argue that MNCs' heterogeneity in knowledge and networks is beneficial and create advantages compared to purely domestic firms (Bartlett and Ghosal, 1989), if the MNC is able to transfer and exploit knowledge within the MNC (Kogut and Zander, 1993, Asmussen et al., 2013). Yet, empirical evidence demonstrates difficulties in transferring and exploiting heterogeneous knowledge arising from different sources within MNCs (Asmussen et al., 2013).

The headquarter-subsidiary relationship can also be challenging, and has been described as a "mixed-motive dyad" where interests and perceptions may not be completely aligned (Birkinshaw et al., 2000). Headquarters (HQ) and subsidiaries may not share perceptions of subsidiary roles, initiatives and entrepreneurial proposals (e.g. Holm et al. 1995, Asakwa, 1996, Arvidsson, 1997, O'Brien et al., 2013). Multinational subsidiaries exist in a context influenced by the relationship with the headquarters. Besides, the same subsidiaries are expected to develop networks to the MNC in foreign local markets. In consequence, subsidiary managers' have to act and balance between internal and external networks and knowledge, and are pulled in different directions (Scott et al., 2010, O'Brien et al, 2013). Some scholars have emphasized the notion of perception gaps between headquarters and subsidiary managers, and the related consequences (O'Brien et al, 2013). The notion of perception gaps can be related to knowledge heterogeneity and may be one origin of tensions between HQs and subsidiaries obstructing knowledge transfer. As mentioned, foreign subsidiaries in MNCs possess knowledge that has different sources, but how such sources influence knowledge transfer is not well understood (Asmussen et al., 2013).

Even though management of subsidiaries has gradually become a distinct research field (Paterson and Brock, 2002, O'Brien et al, 2013) and subsidiaries' influence in own development is recognized, knowledge about subsidiary managers' actions and methods and *"...how this actually takes place is still in many ways unrevealed activity"* (O'Brien et al, 2013: 115). In this research, we aim to investigate how subsidiary managers cope with these inherent tensions of handling heterogeneous knowledge and networks. We are in particular interested in perceptions gaps related to differences in foreign market knowledge between HQs and subsidiaries, where subsidiaries may possess more fine-grained knowledge than HQs because of their closeness to relevant market actors and institutions (Asmussen et al., 2013).

Method and business context

In this research, we investigate Norwegian MNCs' subsidiaries in China, Brazil and USA. All three MNCs operate in the global offshore-maritime industry where Norway has a leading

position internationally (Reve and Sasson, 2013). The selection of subsidiaries in three markets provides a variety in institutional context, culture and include both emergent (BRICs) and developed economies (USA). In the research, we assume that BRIC countries may represent a special challenge for subsidiary development despite the global character of the industry, because these economies possess weak regulatory structures, institutional environment that lacks credibility and unique institutions, e.g. Guanxi in China (Makino et al., 2004, Parnell 2005).

We chose a multiple case study approach to gain a thorough and in-depth understanding of subsidiary managers' role in coping with perception gaps in the headquarter-subsidiary relationships (Yin, 2009). We collected data mainly through in-depth interviews with subsidiary managers and managers at the headquarters in 2012. Three cases (fictive names) are included; Designa has established a subsidiary in Brazil, Marina in China, and Engina in USA. Designa was established in 1917 and is today and MNC with 800 employees, and has four subsidiaries abroad, including the one in Brazil. Marina was created in 1986 and has ca. 350 employees. The firm has a subsidiary in China. Engina was founded in 1983 and has around 600 employees. The firm has a subsidiary in Houston, USA.

Findings

The preliminary analysis of the three subsidiaries in Houston, Brazil and China shows that there exist substantial perception gaps between headquarters and subsidiaries that complicate the communication and knowledge transfer. It seems that subsidiaries possess more fine-grained and detailed foreign market knowledge, and these managers therefore think they are more capable of developing strategies and proposing entrepreneurial initiatives concerning how to deal with market actors, how to succeed in the market and so on. On the other hand, headquarters are less knowledgeable about the local conditions of doing business, and are therefore liable to make inappropriate decisions (according to the subsidiary managers). Yet, the headquarters generally are in power to take the major decisions, and if subsidiary managers are not capable of 'educating' or convincing headquarters through various methods and tactics, this power unbalance may lower subsidiary performance.

Implications

Hence, our preliminary findings support scholars emphasizing perception gaps in HQ-subsidiary relations (e.g. O'Brien et al., 2013). Our analysis also underpin that these perception gaps are liable to produce tensions and lower knowledge transfer (Asmussen et al., 2013), and eventually lower subsidiary performance. In consequence, the implicit assumption of convergence between subsidiaries (Birkinshaw et al., 2000) and the assumed benefits of knowledge heterogeneity could be questioned (Asmussen et al., 2013). We also see that MNCs who are competing in a global industry also require in-depth knowledge of foreign markets. The three countries and markets; USA, China and Brazil incorporate unique and multifaceted environments challenging a global international strategy (e.g. Mahhija et al., 1997). Hence, there is a need for some degree of market adaptation and subsidiaries' market knowledge may enhance the capability to cope in these markets (Zaheer, 1995, Pedersen and Petersen, 2004).

With respect to the BRICs countries (compared to the US), the findings suggest relatively high challenges, e.g. related to the idiosyncratic Guanxi institution in China (Parnell 2005), and the local content requirements in Brazil (Ngoasong 2014). Our findings also report of substantial challenges to establish in the US market, that can be related to asymmetric power relations between a small country and a large (superpower) country (Håkanson and Ambos, 2010), and the strong conservatism dominating in the US oil industry influencing customers' mind-sets (Pettersen and Tobiassen, 2014).

References are available upon request