Track n°11 MNE strategy and organization

Suggested Session Format: interactive

Proposal:

How to capture the diversity within contemporary approaches of headquarters-subsidiary relationships? A study of 10 French MNCs

Abstract :

In contemporary conceptualizations, headquarters-subsidiary relationships are characterized by both local and global tensions. However, research on headquarters-subsidiary relationships does not provide strong support on how a multinational corporation (MNC) really functions internally. My research aims to understand the functioning of those relationships and to explore the diversity within those relationships. For that, my research is based on the study of 10 MNC. 70 interviews have been done with top managers of both MNC headquarters and international subsidiaries.

My results highlight that the diversity of headquarters-subsidiary relationships is due to the modulation between different criteria: subsidiary autonomy, modes of coordination and internal diversity/uniformity of headquarters-subsidiary relationships. The various combinations between these criteria (which are influenced by contextual factors) enable to better understand the diversity of headquarters-subsidiary relationships and to identify various headquarters' roles.

How to capture the diversity within contemporary approaches of headquarters-subsidiary relationships? A study of 10 French MNCs

Globalization of exchanges and multinational corporations (MNC) dispersion make research on headquarters-subsidiary relationships complex. Tools like agency theory or more generally economic theories are unsuitable. Indeed, MNCs subsidiaries are more specialized and interdependent which conduct to various links within the group (Doz & Prahalad, 1991; Ghoshal & Westney, 1993). Relationships are more horizontal than vertical, more informal than hierarchical or formal.

1. REVIEW OF LITERATURE

Contemporary conceptualizations of headquarters-subsidiary relationships take simultaneously global and local tensions into account: they try both, to integrate all the entities in the organization as a whole, and to adapt the subsidiaries to the specificities of their local environment. Adopting a complementary perspective and going beyond the apparent global *versus* local opposition make headquarters-subsidiaries relationships more complex. It implies for the MNC characteristics of multidimensionality, heterogeneity, diversity and interdependence (Doz & Prahalad, 1991; Ghoshal & Westney, 1993). Indeed, the world is too complex and uncertain and firms do not have to choose between responsiveness and integration, centralization and decentralization, or coordination and configuration but have to manage this complexity and deal with the apparent contradiction of all these tensions (Evans & Doz, 1989; Frost & Zhou, 2005; Kostova & Roth, 2003; Lawrence & Lorsch, 1967; Malnight, 2001; Pascale, 1990; Porter, 1986; Prahalad & Doz, 1987; Subramaniam & Hewett, 2004).

These approaches include the transnational model (Bartlett & Ghoshal, 1989), the heterarchy (Hedlund, 1986, 1994) and the metanational (Doz, Santos, & Williamson, 2001), which are all

built on the geocentric enterprise (Heenan & Perlmutter, 1979; Perlmutter, 1969). Many researchers named these new conceptualizations “network-based models” (Almeida & Phene, 2004; Birkinshaw, 2001; Ensign, 1999; Ghoshal & Bartlett, 1990; Harzing & Noorderhaven, 2006; Malnight, 1996; Nohria & Ghoshal, 1997; O'Donnell, 2000). In network-based models, the MNC is viewed as a web of diverse, differentiated intra-firm relationships.

These new conceptualizations are built in opposition to the two traditional models developed originally by Perlmutter (1969) and Heenan and Perlmutter (1979) as ethnocentric and polycentric models, and are used in the global and multinational models of Bartlett and Ghoshal (1989). These models are close to centralized and decentralized approaches (Malnight, 1996) and are characterized by a domination of global integration (for the first model) or local responsiveness (for the second model).

The evolution in the conceptualization of the headquarters-subsidiary relationships give new opportunities in research through a new focus on subsidiary role, and its development in the MNC and with its local environment (Birkinshaw & Hood, 1998; Paterson & Brock, 2002). More recently, the literature is characterized by a new focus on the role and value-added of headquarters (Ambos & Mahnke, 2010; Ambos & Birkinshaw, 2010; Andersson & Holm, 2010; Nell & Ambos, 2013).

Thus, there is a shared approach in the literature to consider headquarters-subsidiary relationships as both globally integrated and locally differentiated, following the global integration/local responsiveness grid (Prahalad & Doz, 1987). However, defining headquarters-subsidiary relationships only through this grid is not enough. That does not give tools in order to manage MNCs. It remains to understand how headquarters-subsidiary relationships really function. **The question is especially to capture the MNCs diversity. This research aims to identify the relevant dimensions in order to differentiate MNCs**

considering their headquarters-subsidiary relationships (which are all characterized by global and local tensions).

To answer this question, **my research is based on the study of 10 French MNCs through a qualitative methodology.** A qualitative methodology is relevant to discover the main dimensions and differences between headquarters-subsidiary relationships. It gives the opportunity to let insights emerge from the empirical study. This constitutes the great advantage of qualitative research in general (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Miles & Huberman, 1994; Strauss & Corbin, 1990) and in the special case of international management (Marschan-Piekkari & Welch, 2004).

All MNCs are major French companies, with a turnover of more than one billion euros. They are quoted in the Stock Exchange and operate in different sectors.

2. METHODOLOGY

My research is based on the study of 10 MNCs through a qualitative methodology. A qualitative methodology gives the opportunity to let insights emerge from the empirical study. This constitutes the advantage of qualitative research in general (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Miles & Huberman, 1994; Strauss & Corbin, 1990) and in the special case of international management (Marschan-Piekkari & Welch, 2004).

2.1. MNCs sampling

All MNCs are major French companies, with a turnover of more than one billion euros. They are quoted in the Stock Exchange and operate in different sectors. The logic of replication is favoured in this study (Yin, 1994).

The main sampling includes 10 MNCs. 70 interviews were conducted in both MNC headquarters and international subsidiaries. 15 interviews were also realized in 9 other MNCs. However, the data was more limited because only top managers of headquarters were

interviewed. These 15 interviews (in 9 MNCs) are only used to validate the findings based on the 70 main interviews (in 10 MNCs).

2.2. The main tool: the conduct of interviews

70 interviews have been done with top managers of both MNC headquarters and international subsidiaries. The vision of subsidiaries is important, it contributes to do a double check and not only to have the headquarters' approach (Mezias, Chen, & Murphy, 1999). As Marschan-Piekkari and *al.* (2004) said, *« it may be necessary to collect data from multiple units of the MNC, such as corporate/divisional/regional headquarters and foreign subsidiaries, in order to be able to contrast and compare several viewpoints »* (p254).

More precisely, I met headquarters' managers with operational, business responsibility (SBU manager, geographical area manager) and functional responsibility (finance, strategy, management control, information system, human resources). The interviewees in subsidiaries are mainly the managing directors of subsidiaries. I have met both expatriate (French and Third National) and local top managers.

The same interview grid has been used for all the interviews. Some interviews have been conducted in French, the other in English language. The interviewees were questioned about their relationships within the MNC. The themes especially of strategy autonomy, budgeting and reporting processes, human resource management policies were moved on. I was also interested in differences between the subsidiaries in a MNC (in what fields and about what criteria). Finally, I searched to understand the "why" of these practices in identifying the factors of context.

Secondary data complete the empirical study. These data provide from internal sources (internal newspapers, reports, PowerPoint presentations) and from external sources (newspapers, annual reports due to MNCs quotations on the Stock Exchange).

2.3. Data analysis: a content approach

The interviews were tape recorded and transcribed. The transcriptions were coded and analyzed with NVivo software. Even if the software does not automate interpretation, it does give far more flexibility to this task, helping to think about the coded data (Gibbs, 2002; Richards, 2005). Coding of the interviews followed Miles and Huberman (1994) methodology.

A content analysis was favored. More precisely, different themes are studied in the headquarters-subsidiary relationships:

- the "what": HRM processes (expatriation and international mobility policies, international carrier management, retribution system) ; budgeting and reporting processes ; subsidiary strategic autonomy and MNC strategy-making process
- the "who": actors of headquarters-subsidiary relationships especially corporate functions, divisional functions, geographic areas
- the "how": differences between subsidiaries in their relationships with headquarters
- the "why": factors explaining headquarters-subsidiary relationships

These items are emerged from the literature and the empirical study, thanks to the use of grounded theory's techniques and tools (Strauss & Corbin, 1990).

Finally, data were coded by other researchers in order to double-check and evaluate the reliability. Coding is reliable at 92%, following the Miles and Huberman (1994) formula.

3. FINDINGS

The following figure sums up the findings of this research.

Figure 1 : Diversity within the headquarters-subsidiary relationships

3.1. Dimensions of headquarters-subsidiary relationships

My research identifies the following dimensions of headquarters-subsidiary relationships:

1) My findings highlight the double focus on global integration and local responsiveness for all the MNCs studied. It is explained by local and global pressures especially the management of both local and global customers.

2) Moreover, beyond this double focus which is common of all MNCs, differences come from the degree of subsidiary autonomy and the modes of coordination used.

- The degree of subsidiary autonomy can be limited or important. Even if subsidiary autonomy is limited, subsidiaries can be involved in the strategy-making process. Differences exist from a MNC to another, and from a subsidiary to another in a MNC.
- The typology of Harzing (1999), and Harzing and Noorderhaven (2006) identify four modes of coordination: output control, personal direct control, bureaucratic impersonal control and control by socialization and networks. My empirical study enables to redefine this typology and to see interactions between these modes. Indeed, control by socialization and networks has to be distinguished in three modes: by socialization, by lateral networks and by knowledge transfer. Moreover, personal direct control and control by socialization seem to be contradictory. This result concerns two MNCs: these groups are the only not to use a control by socialization but they are also the only with a high level of personal direct control. Moreover, all the MNCs seem to have a high level of output control. Besides, the bureaucratic impersonal control seems to be related to a centralization of the strategy (a low level of subsidiary autonomy). Two MNCs in my sampling illustrate this finding.

3) These dimensions (subsidiary autonomy and modes of coordination) lead to uniform or differentiated relationships for all the subsidiaries (according to the characteristics of the subsidiary or of its local environment).

Five MNCs (out of the 10 MNCs studied) have differentiated headquarters-subsidiary relationships. Two groups are more differentiated. The first MNC is characterized by a high subsidiaries' specialization and that induces a high interdependence and various links with the headquarters and between the entities. The second MNC has a differentiation according to the customers due to the global customers' management (not really a differentiation between the subsidiaries). Three MNCs have differentiated relationships (even if it is on a moderate level).

The five other MNCs have uniform headquarters-subsidiary relationships. All these MNCs are characterized by a strong corporate culture, a high level of socialization. These organizations tend to the "shared values" model (Nohria and Ghoshal, 1994).

3.2. Links between headquarters-subsidiary relationships and headquarters' role

These dimensions of headquarters-subsidiary relationships lead to various headquarters' role. My empirical study enables to identify three headquarters' roles according to the MNCs:

First, the headquarters has an all-embracing, omniscient role in the MNC. It does everything. In this case, the modes of coordination used are personal direct or by socialisation, associated to an output control and in certain MNCs a control by knowledge transfer (but only from the headquarters to the subsidiary). The subsidiary autonomy is limited or, if it is higher, it is suffered by the group. MNCs are characterized by uniform headquarters-subsidiary relationships (or in certain case a differentiation can exist but due to the share of the subsidiary ownership). Four MNCs (out of the 10 MNCs studied) are located in this case.

In the second headquarters' role, the headquarters is in the centre of the relationships (no horizontal links (or low level of horizontal links). Four MNCs join this case.

In the third headquarters' role, relationships are in all directions, subsidiaries have links with each other and the headquarters does not really interact (except in implementing an organization in order to favour these relationships). Two MNCs (out of the 10 MNCs studied) are in this case.

However, my empirical study also shows that the headquarters' role also depends on the climate (conflict or cooperative) of headquarters-subsidiary relationships and on the actors of headquarters-subsidiary relationships. These two elements (the climate and the actors of headquarters-subsidiary relationships) emerge from my empirical study. This result meets the findings of recently developed research on power relationships between headquarters and subsidiary (Balogun, Jarzabkowski, & Vaara, 2011; Bouquet & Birkinshaw, 2008; Dörrenbächer & Geppert, 2006; Dörrenbächer & Geppert, 2011).

Headquarters-subsidiary relationships can vary according to the actors in both headquarters and subsidiaries. Indeed, my research underlines the difficulty to distinguish the level of the headquarters and the subsidiary. The place of the geographic area is especially ambiguous and unclear. In some MNCs, these entities are seen as headquarters' side or as subsidiary's side (according to headquarters and subsidiary managers). Moreover, headquarters' role can vary according to the actors of the relationships. It especially translates in a dilemma between headquarters' roles of control and expertise. This difference exists according to corporate functions, divisional functions and geographic areas. This result is found in four MNCs.

3.3. The influence of different factors of context

Different factors of context influence these dimensions.

MNCs quotation in the Stock Exchange explains the high level of outcome control for all MNCs. A strategy of specialization in two MNCs explains the centralization of their strategy (so a low level of subsidiary autonomy). The objective is to impulse the same direction to all the subsidiaries given the same activity realized by the subsidiaries. Besides, MNCs sectors have two impacts. First, it is interesting to distinguish industrial and service sectors. More precisely, service sectors seem to be specific. It implies a more important number of subsidiaries and leads to a high level of local responsiveness. Second, the sector, associated to

the impact of country-of-origin culture, can explain the use of some modes of coordination. Indeed, in one MNC, the coordination by knowledge transfer exclusively from the headquarters to the subsidiaries is explained by the industry of the group in the roadworks. The expertise in roadworks is historically based in France (MNC country-of-origin) that explains the direction of knowledge transfer: from France to abroad.

Finally, my empirical study contributes to identify a factor of context: the MNC financial health which impacts the climate of headquarters-subsidiary relationships. Indeed, a good financial health facilitates the subsidiaries' compliance about strategy centralization for instance and so the development of a cooperative climate of headquarters-subsidiary relationships.

4. CONCLUSION

To conclude, my results highlight that the diversity of headquarter-subsidiary relationships is due to the modulation between different criteria of diversity: degree of subsidiary autonomy, modes of coordination and internal diversity (or uniformity) of headquarter-subsidiary relationships (within the group, between subsidiaries). The various combinations between these criteria (which are influenced by contextual factors) enable to better understand the diversity of headquarters-subsidiary relationships. Finally, these elements allow us to identify various headquarters' roles.

This research points out the interactions between dimensions of headquarters-subsidiary relationships and these findings are reached thanks to the methodology used, the qualitative approach through the study of ten MNCs. Future research should test the propositions emerged from this study. A quantitative methodology would be favoured, in sending surveys to both headquarters' and subsidiaries' managers. It should especially be interesting to test the contextual factors underlined by my research in order to analyze their real influence. The

findings of this research should be extended in future research by enlarging the scope of the MNCs and by testing the model provided.

REFERENCES

Almeida, P., & Phene, A. 2004. Subsidiaries and knowledge creation : the influence of the MNC and host country on innovation ***Strategic Management Journal***, 25(8/9): 847-864.

Ambos, B., & Mahnke, V. 2010. How do MNC headquarters add value? ***Management International Review***, 50(4): 403-412.

Ambos, T. C., & Birkinshaw, J. 2010. Headquarters' attention and its effect on subsidiary performance. ***Management International Review***, 50(4): 449-469.

Andersson, U., & Holm, U. 2010. ***Managing the contemporary multinational: the role of headquarters***.

Balogun, J., Jarzabkowski, P., & Vaara, E. 2011. Selling, resistance and reconciliation: a critical discursive approach to subsidiary role evolution in MNE. ***Journal of International Business Studies***, 42: 765-786.

Bartlett, C. A., & Ghoshal, S. 1989. ***Managing across borders : the transnational solution***. Boston Harvard Business School Press.

Birkinshaw, J. 2001. Strategy and management in MNE subsidiaries. In A. M. Rugman, & T. Brewer (Eds.), ***Oxford handbook of international business***: Oxford University Press.

Birkinshaw, J., & Hood, N. 1998. ***Multinational corporate evolution and subsidiary development***. Hampshire : Macmillan: Houndmills, Basingstoke.

Bouquet, C., & Birkinshaw, J. 2008. Managing power in multinational corporation: how low-power actors gain influence. ***Journal of Management***, 34(3): 477-508.

Dörrenbächer, C., & Geppert, M. 2006. Micro-politics and conflicts in multinational corporations: current debates, re-framing, and contributions of this special issue. ***Journal of International Management***, 12: 251-265.

Dörrenbächer, C., & Geppert, M. 2011. ***Politics and power in the multinational corporation: the role of institutions, interests and identity***. Cambridge: Cambridge University Press.

Doz, Y. L., & Prahalad, C. K. 1991. Managing DMNCs : a search of a new paradigm. ***Strategic Management Journal***, 12(Special issue: Global strategy): 145-164.

Doz, Y. L., Santos, J., & Williamson, P. 2001. ***From global to metanational***. Boston: Harvard Business School Publishing Corporation.

Eisenhardt, K. 1989. Building theories from case study research. ***Academy of Management Review***, 14(4): 532-550.

Eisenhardt, K., & Graebner, M. E. 2007. Theory building from cases : opportunities and challenges. ***Academy of Management Journal***, 50(1): 25-32.

Ensign, P. C. 1999. The Multinational Corporation as coordinated network: organizing and managing differently. ***International Business Review***, 41(3): 291-322.

Evans, P. E., & Doz, Y. L. 1989. The dualistic organization. In P. E. Evans, Y. L. Doz, & A. Laurent (Eds.), ***Human resource management in international firms***: 219-242. London: Mac-millan Press.

Frost, T. S., & Zhou, C. 2005. R&D co-practice and 'reverse' knowledge integration in multinational firms. ***Journal of International Business Studies***, 36(6): 676–687.

Ghoshal, S., & Bartlett, C. A. 1990. The multinational corporation as an interorganizational network. ***Academy of Management Review***, 15: 603-625.

Ghoshal, S., & Westney, D. E. 1993. Introduction and overview. In S. Ghoshal, & D. E. Westney (Eds.), ***Organization theory and the multinational corporation***. New York: Saint Martin's Press.

Gibbs, G. R. 2002. ***Qualitative data analysis : explorations with NVivo***: Open University Press McGraw-Hill Education.

Harzing, A.-W., & Noorderhaven, N. 2006. Geographical distance and the role and management of subsidiaries: the case of subsidiaries down-under. ***Asia Pacific Journal of Management***, 23(2): 167-185.

Harzing, A.-W. K. 1999. ***Managing the multinationals : an international study of control mechanisms***. Cheltenham, Northampton: Edward Elgar.

Hedlund, G. 1986. The hypermodern MNC - A heterarchy? ***Human Resource Management***, 25(1): 9-35.

Hedlund, G. 1994. A model of knowledge management and the N-Form corporation. ***Strategic Management Journal***, 15: 73-90.

Heenan, D., & Perlmutter, H. 1979. ***Multinational organization development***: Addison-Wesley Publishing Company.

Kostova, T., & Roth, K. 2003. Social capital in multinational corporations and a micro-macro model of its formation. ***Academy of Management Review***, 28(2): 297-317.

Lawrence, P. R., & Lorsch, J. W. 1967. ***Organization and environment : managing differentiation and integration***. Boston: Division of Research, Graduate School of Business Administration, Harvard University.

Malnight, T. 2001. Emerging structural patterns within multinational corporations: toward process-based structures. ***Academy of Management Journal***, 44(6): 1187-1210.

Malnight, T. W. 1996. The transition from decentralized to network-based MNC structures : an evolutionary perspective. ***Journal of International Business Studies***, 27(1): 43-65.

Marschan-Piekkari, R., & Welch, C. 2004. ***Handbook of qualitative research methods for international business***: Edward Elgar.

Marschan-Piekkari, R., Welch, C., Penttinen, H., & Tahvanaien, M. 2004. Interviewing in the multinational corporation: challenges of the organizational context. In R. Marschan-Piekkari, & C. Welch (Eds.), ***Handbook of qualitative research methods for international business***: 244-263: Edward Elgar.

Mezias, S. J., Chen, Y.-R., & Murphy, P. 1999. Toto, I don't think we're in Kansas anymore: some footnotes to cross-cultural research. ***Journal of Management Inquiry***, 8(3): 323-333.

Miles, M. B., & Huberman, A. M. 1994. ***Qualitative data analysis***: Sage Publications.

Nell, P. C., & Ambos, B. 2013. Parenting advantage in the MNC: an embeddedness perspective on the value added by headquarters. ***Strategic Management Journal***, 34: 1086-1103.

Nohria, N., & Ghoshal, S. 1997. ***The differentiated network: organizing multinational corporations for value creation***. San Francisco: Jossey-Bass Publishers.

O'Donnell, S. W. 2000. Managing foreign subsidiaries : agents of headquarters, or an interdependent network? ***Strategic Management Journal***, 21: 525-548.

Pascale, R. T. 1990. ***Managing on the edge***. London: Penguin Books.

Paterson, S. L., & Brock, D. M. 2002. The development of subsidiary-management research : review and theoretical analysis. ***International Business Review***, 11(2): 139-163.

Perlmutter, H. V. 1969. The tortuous evolution of the multinational corporation. ***Columbia Journal of World Business***: 9-18.

Porter, M. 1986. Competition in global industries : a conceptual framework. In M. Porter (Ed.), ***Competititon in global industries***. Boston: Mass : Harvard Business School Press.

Prahalad, C. K., & Doz, Y. L. 1987. ***The multinational mission : balancing local demands and global vision***. New York, NY The Free Press.

Richards, L. 2005. ***Handling Qualitative Data: A Practical Guide***: Sage Publications

Strauss, A., & Corbin, J. 1990. ***Basics of qualitative research : grounded theory procedures and techniques***. Newbury Park London New Dehli: Sage publications.

Subramaniam, M., & Hewett, K. 2004. Balancing standardization and adaptation for product performance in international markets: testing the influence of headquarters-subsidiary contact and cooperation. ***Management International Review***, 44(2): 171-194.

Yin, R. K. 1994. ***Case study research : design and methods (2nd edition)***: Sage
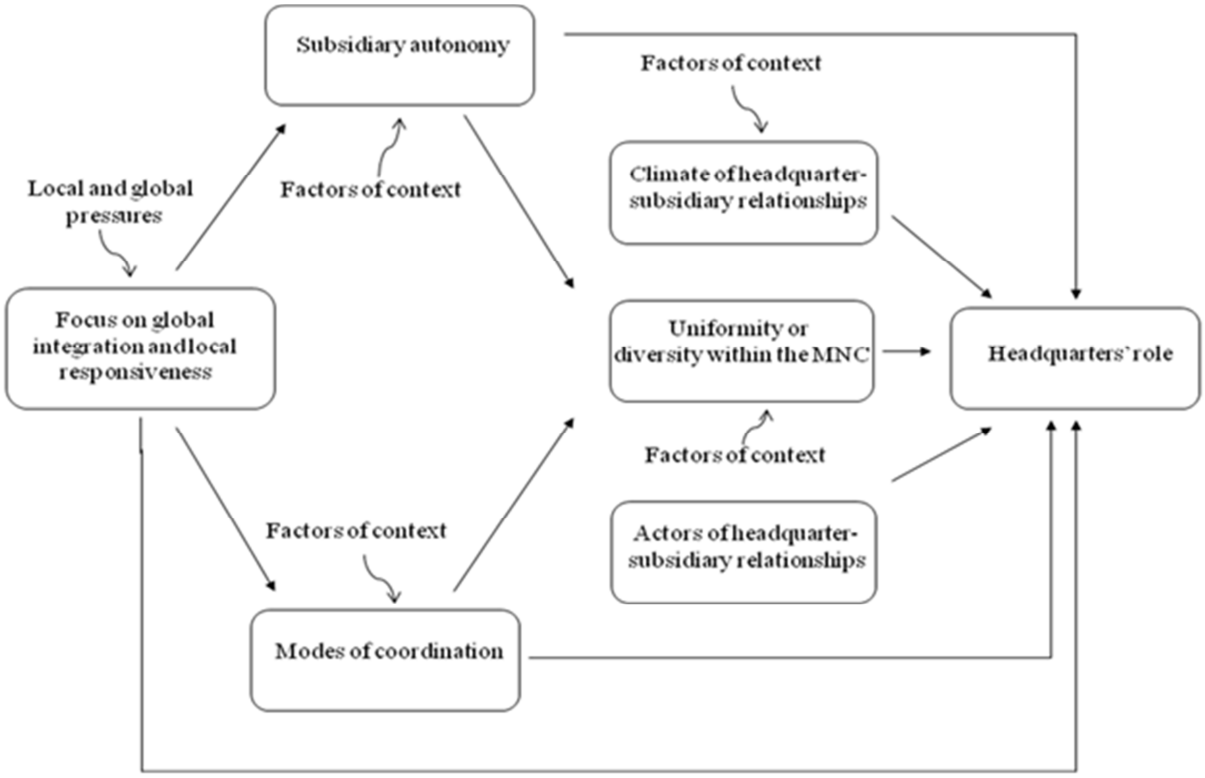
Figure 1 : Diversity within the headquarters-subsidiary relationships