SUBSIDIARY ROLES ON THE MNC STRATEGY

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Abstract

This article is a conceptual and typological framework that delineates the subsidiary role and its influence on the MNC strategy. The purpose of this study is two fold. First we want to formulate proposition for testing the relationship between the network embeddedness, resource dependence and subsidiary influence on the corporate strategy. Secondly we want to suggest a typology for determination of the specific characteristics of subsidiaries that are simply implementors of HQ assigned strategy, have a global subsidiary mandates or are somewhere in between. Finally the article suggests direction for future research.

Keywords: Subsidiary roles, network embeddedness, Headquarters and Subsidiary relationship.

The importance of networking is relevant in every sector of business life. Some are born with networks while others develop networks during their lifetimes. It comes into sight that every company is part of a network and the standard of living is becoming greatly influenced by the quality of business networks. That means that networking has become one of the major organizational forms to come into view in the past decade, and is therefore interesting for research.

The literature on strategic management recognizes the importance of networking and its implications for many of the core strategic management fields. Furthermore the multinational corporation can be considered to be a system of interdependent units with streams of knowledge, products and capital between them in different.

Ghoshal and Bartlett (1995) have elaborated different features of a multinational corporation in terms of the characteristics of the networks within which the different subsidiaries are embedded from a resource dependence perspective. The subsidiaries are dependent on specific resources for their daily operations. In the literature on resource reliance the relationship between the subsidiaries and the needed resources are not elaborated, rather the resources and the environment are analyzed as a resource area (Larsson, 1985; Forsgren, 1989).

The network theory distinguishes that critical resources are linked to the subsidiaries' specific relationships with customers, suppliers and others. Therefore it stresses that the crucial resources for each unit in the MNC is the web of relationship and its embeddedness in them. When the subsidiaries are embedded in such business network structures, the ability of headquarters to make a right assessment of the behaviour and performance of the subsidiaries weakens because headquarters lacks of knowledge of the subsidiaries' specific operating environments (Holm, Johanson and Thilenius, 1995).

Furthermore, adaptation and interdependence results in exchange partners in business networks being important to each other and enables them to exercise a certain amount of control over one another. One outcome is that, when trying to control the subsidiaries' behaviour, top management must compete with the subsidiaries' exchange partners' influence (Andersson, 1999). Embeddedness can be defined as follows: Embeddedness' refers to the fact that economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic relations and by the structure of the overall network of relations."(Grabher, 1993, p. 4)

The relationships within the network can have technical, economical or social nature. They do not occur on their own as isolated pattern; rather they are connected to each other in varying ways. This means that exchange in one relationship is very often dependent on or conditioned by exchange in others (Cook and Emerson, 1978). Business networks can be defined as "sets of connected exchange relationships between actors controlling business activities" (Forsgren and Pahlberg, 1999).

The outcome of these relationships is that actors involved in a business network can have some control over each other. In assigning differentiated roles, for subsidiaries of multinational corporations pursuing global strategies, subsidiaries are either part of a global rationalization process or they can have a global subsidiary mandate.

Global subsidiary rationalization is when the subsidiary specializes in a narrowed set of value activities or the performance of the it's activities is dependent on other subsidiaries. The subsidiary is an implementor of headquarters-tailored strategy. In contrast, with a global subsidiary mandate the subsidiary works together with headquarters to develop and implement strategy. The subsidiary has worldwide responsibility for the complete set of value activities.

The purpose of this study is two fold. First we want to formulate propositions for testing the relationship between the network embeddedness, resource dependence and subsidiary influence on the corporate strategy. Secondly we want to suggest a typology for determination of the specific characteristics of subsidiaries that are simply implementers of HQ assigned strategy, have a global subsidiary mandates or are somewhere in between.

More specifically, this study addresses whether the propensity towards having a global subsidiary mandate can be explained by the network embeddedness, resource dependence and the industry in which the MNC operate. Within many industries, multinational corporations are not able to compete as a collection of nationally independent subsidiaries. Rather, competition is based on the ability of the corporation to integrate its subsidiary activities across geographic locations (Porter 1986).

In this section we will analyze the underlying theories that we base our conceptual framework on. Furthermore proposition and typological framework will be suggested.

Resource Dependency Theory (RDT). RDT originally belongs to open system theory because many organizations have varying degrees of dependence on the external environments, especially in relation to the resources they require to operate. As a result, this becomes a problem of organization that faces uncertainty in gathering resource for their operation (Aldrich, 1999) and result in the firm's dependency on the environment for critical and important resources (Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 2003).

Often, the external control of these resources may lessen managerial discretion, influence the achievement of organizational goals, and in the end it threatens the existence of the focal organization (Scott, 1998). Facing this costly situation of this nature, management more actively lead the organization to manage its external dependence to its advantage. Organizational success is defined as organizations that maximize their power.

Much of RDT is based on Emerson (1962)'s insight that power and dependency are closely related, therefore Pfeffer and Salancik (2003) suggested and argued for specific sets of strategies to manage external environment and discuss the conditions whenever they are appropriate.

Jeffrey Pfeffer and Gerald R Salancik started with a simple thought that all organizations should absorb the resource in their environment whether they procure manpower, physical supplies, consumers and customers, information, investment or fund, official permit, and legitimate operation permit. Moreover, they saw the most organization are the response of the limited environment or as an effort to escape from the environment's influence.

Every organization tries to manage their environment in order to decrease their dependence and uncertainty in order to achieve the freedom of act and more stability. All organization's decisions, for example to which organization it establish a partnership, or to determine the member of board of directors who are the member of organization/association of profession, will always be influenced by its environment.

Therefore, their idea is that in order to understand the decision and action of an organization, internal dynamic analysis towards the organization must be lessen and also the values and beliefs of its leader, in order to enrich the situational analysis where the organization is situated and its pressure and obstacle resulted from that situation (Pfeffer and Salancik, 2003).

The resources-based view theory. The theory that resources owned or controlled by a firm have the potential to provide competitive advantage and endurance when they are inimitable or not replaceable in the short-term is known as the Resources-Based View (RBV) of the firm (Peteraf, 1993). Resources are inputs into a firm's production process, such as capital, equipment, the skills of individual employees, patents, finance, knowledge and expertise(managerial, R&D, etc).

Nevertheless, the process of creating such valuable long-term resources itself has not been explored within the RBV literature and the general assumption has been that firms 'somehow' develop these resources internally. The idea of searching for the source of creation of such valuable resources beyond the boundaries of the firm gives a new perspective on the RBV. It also provides an additional topic to investigate regarding the origin of value generating resources (Gulati, 1999; McEvily and Zaheer, 1999).

This shows that recognizing the importance of the network has become more prominent incent times. Davis and Greve (1997) and Palmer et al. (1995) indicate that networks enable firms to exchange new forms of practice among themselves faster, and also facilitate the transmission of information.

On one hand, possessing a larger network of subsidiaries will mean more sources of information for the focal firm and therefore potentially more benefits. On the other hand, managing a firm's network involves managerial time and requires effort for the application of appropriate governance mechanisms, developing inter-firm knowledge, sharing routines, and making appropriate relation-specific investments (Dyer and Singh, 1998).

As such, the network can be described as an inimitable and irreplaceable resource of the firms, but at the same time as a possible constraint, as also elaborated by Gulati, Nohria, Zaheer (2000).

Network theory

Current literature suggests three aspects where firms may gain economic benefits from efficient inter-firm linkages. The first is increased access to information, considering that networks provide a larger extent of information compared to what an individual firm possesses alone.

The second aspect is that information may be obtained earlier in comparison with an individual firm, which yields competitive advantage for the firm that gains the information earlier. The third benefit is that the interests of the focal firm are presented to third parties in a positive light. Large network size itself implies increased managerial effort and organizational costs for the focal firm.

We can connect the network theory with resources-based theory. In this field, a network may be seen as a source of competitive advantage. Furthermore, every network has its unique characteristics that carry competitive advantages to the firms embedded in it, as pointed out by Gulati, Nohria and Zaheer, (2000).

Research Propositions

From the discussions above we can formulate the main proposition. Main Proposition: The higher the network embededness of the subsidiary and the lower the resource dependence the higher its influence on the MNC strategy. Secondary propositions derived from the main:

P1: The higher the network embededness of the subsidiary the higher its influence on the MNC strategy.

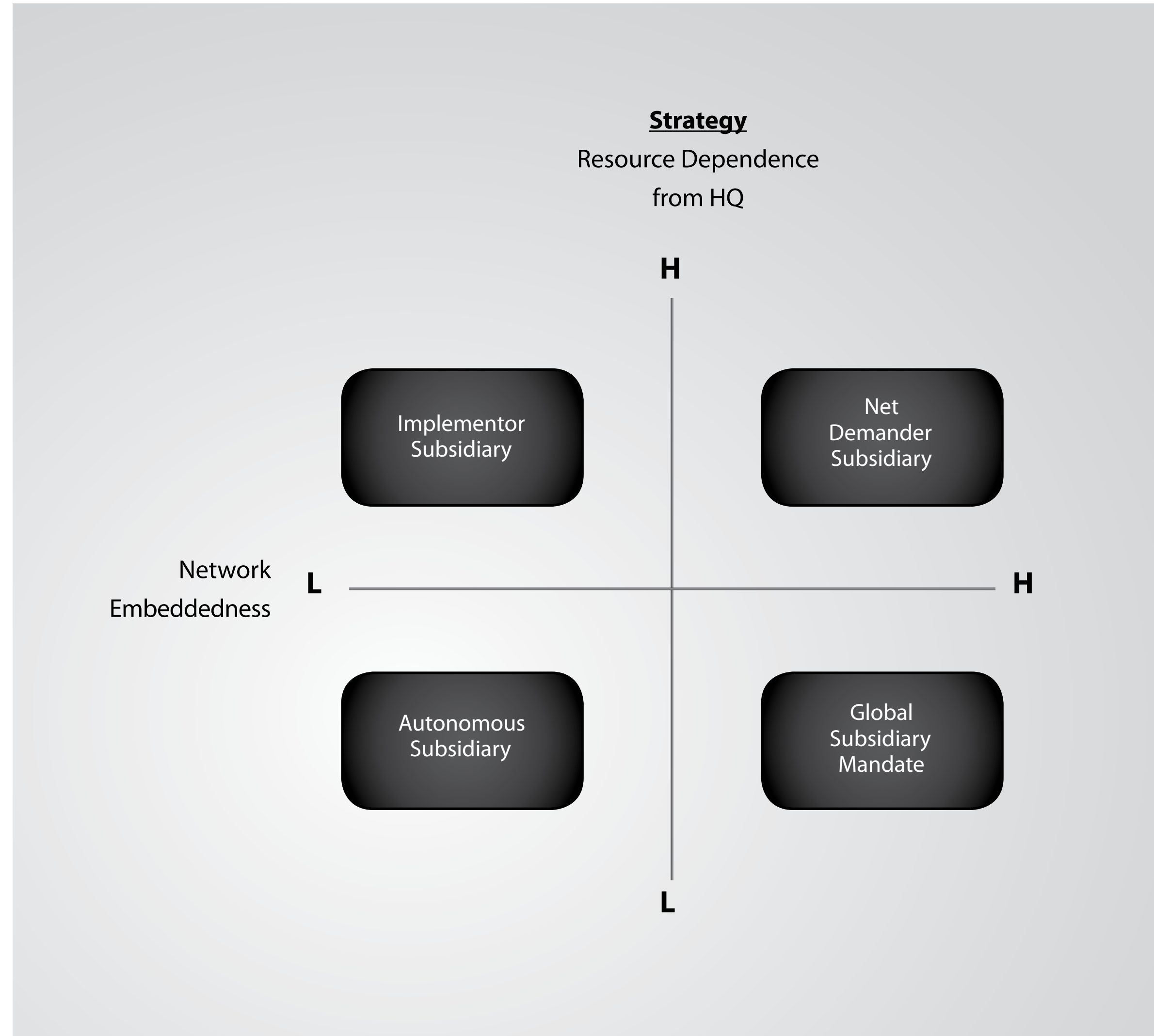
P2: The lower the resource dependence the higher its influence on the MNC strategy.

In the methodology part we will give suggestions on how to test the propositions and measure the constructs and how to fit the subsidiaries in one of the four typologies.

Subsidiary Typological Framework

In this part we suggest a typology framework for subsidiaries based on the two dimensions, network embeddedness and resource dependence, and try to analyze and assign specific characteristics of the different subsidiary types.

Figure: Strategic Influence of the Subsidiary within the MNC



On the basis of the previously stated a matrix was constructed where a typology of subsidiary strategic influence within the MNC is suggested. The horizontal axis represents the network embeddedness of the subsidiary varying from low to high. The vertical axis represents the resource dependence of the subsidiary from the headquarters. Below we will analyze the separate typologies and try to integrate the industry perspectives. After that we will attempt to look the subsidiary role from a dynamic evolutionary perspective.

Autonomous subsidiary

Autonomous subsidiaries are characterized by low degree of network embededdness and low resource dependence from the headquarters. The low network embededdness is mostly a result of the subsidiary business environment. There are two distinct aspects of the subsidiary's business environment to consider. First, the "local" environment consists of the set of suppliers, customers, competitors and regulatory bodies with which the subsidiary interacts in its host country. Several academics have proposed that the nature of the local environment should have a bearing on the role the subsidiary plays in the firm.

A more dynamic local business environment would be expected to afford more opportunities, in the form of potential mandates, for the subsidiary. Dynamism is taken to be the dimensions of the local economy discussed by Porter (1990) namely competitive rivalry, demanding customers and supporting and related industries. So we can characterize this subsidiary to have low dynamic business environment. Furthermore it was previously stated that the network embededdness is a set of relationships. Every actor in the network has to contribute to the network somehow, with its specific capabilities resources or knowledge.

So the autonomous subsidiary can either have low dynamic environment and low contribution potential to the network, or both to various degrees. Regarding the resource dependence the autonomous has low resource dependence. This is a case since the autonomous subsidiary has a low value chain activity. It usually serves as a Marketing Satellite (White and Poynter, 1984). So it does not need a substantial amount of resources.

These subsidiaries can range from simple importing companies acting principally as wholesalers to marketing agents. Usually they act on markets with marginal importance for the MNC so that is why the HQ gives such a degree of autonomy.

Here the word autonomy is not used in a term that the subsidiary has some specific strategy on its own, here autonomy is rather used to describe the marginal importance and role in the value chain of the MNC. White and Poynter (1984) gave examples for such subsidiaries selling standardized global products on low-profit/importance markets for the MNC, such as computers, pharmaceuticals. Or it can be generalized that it can sell products or offer services that are globally standardized. Hence the autonomous subsidiary does not have at all or has minor influence in the strategy of the MNC and also the MNC does not have interest in assigning some specific strategy or integrating the subsidiary in the overall strategy of the MNC.

Implementor Subsidiary

The Implementor Subsidiary is characterized by low network embededdness and high resource dependence from the HQ. As in the case of the Autonomous Subsidiary the low network embededdness can be a result of the low market dynamism or low potential of the subsidiary for contribution to the network.

Although in this case the second is less likely to be the case. This is since the implementor can be compared to the rationalized manufacturer in the typology of White and Pointer (1984). It is more likely that the Implementor Strategy produces some designated set of component parts for a multi country or global markets, in the case of a global product MNC. It can also act as a modificator where the products or services need to be customized to the preferences of the local markets.

Although it has limited value added scope it still needs resources for its functioning, and because of the low network embeddedness it is dependent for resources from the HQ. It is expected that the development activities will be mainly done by the HQ or some other subsidiary higher in the value chain. The Implementor Subsidiary is expected to have low strategical influence in the overall strategy of the MNC.

Because of the low network embeddedness, low value-chain position and the resource dependence its strategic power bases are weak. Thus all strategic decisions are controlled by the HQ. The HQ has interest to integrate the subsidiary in the overall strategy and to assign a specific strategic role to it since still it occupies some value-chain position (though not that high, but still higher then the autonomous subsidiary).

So the subsidiary implements the assigned strategy. An example can be a production site for specific car parts, some petrochemical businesses, call centers etc. This type of subsidiary and also the autonomous subsidiaries are not industry constrained so it can be found in almost every industry and MNC.

Net Demander Subsidiary

Net Demander Subsidiary has high network embeddedness and high resource dependence. The net demander subsidiary can be compared with the network captain from the typology of Luo (2005). It is a subsidiary that possesses distinctive competences that are important for the MNE. It occupies a global strategic leader position in some product area or function (R&D, production, marketing). Its position for the strategy of the MNC and the MNC performance is very important but yet it can not independently fulfill its role by itself. Its value chain is dependent from other subsidiaries in the corporate network controlled by the HQ, or resources dependent from the HQ itself.

So one might ask isn't this subsidiary able to supply the resources from its external business network (because of its high network embededness) and be less dependent from the HQ? The business network embeddedness can differ by its nature as we previously mentioned it can be social, technical and financial.

So in this case probably the subsidiary is not embedded in networks within different kinds of nature. So for example if the network embededness is from technical nature it is still financially dependent from the HQ. Also it is possible that it is dependent from a specific MNCs unit value chain activity which is unique to the MNC and cannot be obtained from external business networks. Since it has a strategically very important position for the MNC, and because of its distinctive competences we propose that the Net Demander Subsidiary would have a valuable influence in compilation of the MNC strategy together with the MNC.

Yet because of its high resource dependence from the HQ it does not have total strategic creation freedom, so the HQ still has the resource dependence as a control and coordination mechanism to integrate it in the strategic picture of the overall MNC that they have on mind. Although this type of subsidiary can be found in various industries and MNCs we suggest that when testing our typology this subsidiaries should be looked at the plane building industries pharmaceutical industries, automotive industries. This is due the fact that huge resource investments are required for R&D in this industries and there is pressure to advance and market new better products, so the it is less likely that the subsidiary can provide all the resources by itself or from the business networks in which it is embedded. Also it is likely that it will need the expertise, and knowledge from the other MNC units or the HQ.

Global Subsidiary Mandate

Global Subsidiary Mandate has High Network Embededness and Low Resource Dependence from the Subsidiary. This subsidiary typology can be compared to Ardent Contributor classification of Luo (2005). This subsidiary possesses many capabilities that are very important for the functioning and the performance of the overall MNC.

Global Subsidiary Mandates have a pool of unique resources by themselves so they are not dependent from the HQ for the resources needed. In some functional or product areas they are centers of excellence. They are the "corporate champions", and the HQ treats them like that. Also they are highly embedded in business network which is additional source for resources. Since their vital strategic importance for the MNC the HQ lives them room for freedom and flexibility, treating them more as an equal partner then as a subordinate. In this case the resource dependence is not the subsidiary from the HQ but vice-versa.

Moreover their high network embeddedness adds weight to the already challenging role of the HQ for control coordination and integration of the subsidiary in the overall MNC strategy. So the subsidiary has more of a role of strategic partner with the HQ since their power bases are equalized (even we can say outweigh on the side of the subsidiary). To capitalize the expertise of this subsidiaries HQ prioritize the position of the global mandates as units allowing and encouraging them to have a larger domain of superior position to execute their worldwide mandates or to better exploit their capabilities. We suggest that these types of subsidiaries are rather to be found in diversified MNCs.

Methodology

This research is a conceptual framework constructed on the basis of integrating existing literature and the opinion of the authors. In this part we will try to make some preliminary suggestions of how to test the propositions and measure the constructs and how to fit the subsidiaries in one of the four typologies. Industry selection and Data Collection For this research we suggest that the data should be gathered from subsidiaries within MNC functioning in highly globalized industries.

We suggest this so that in those industries there is a biggest possibility to find all four types of subsidiaries. So those industries can be aircraft engines and engine parts, laboratory instruments, radio and television broadcasting equipment, household audio and video equipment, semiconductors, surgical and medical instruments etc. These industries have been already identified as being global (Porter 1980; Prahalad & Doz 1987).

A survey methodology is suggested to collect information from each subsidiary. A questionnaire should be developed through a multiple-stage process. The process can involve: conducting field interviews with general managers from different subsidiaries, reviewing research to further clarify the constructs, pretesting of the initial questionnaire with in order to assess content validity, pretesting the questionnaire with subsidiary executives to assess the clarity and comprehensiveness.

Possible measures for testing the proposition Network Embededness For the network embeddedness one can measure the suggested environment dynamics in the mentioned dimensions: competitive rivalry, demanding customers and existence of supporting and related industries.

So if those dimensions are present and in with higher intensity the higher propensity of the subsidiary to be embedded in the network. Measurement of the capabilities of the subsidiary is best to be measured by questioners and interviews within the subsidiary.

Also questionnaire can be constructed for the measurement of the network embeddedness as a whole. Resource Dependence from the Headquarters We suggest that the resource inflows from the HQ should be measured in financial terms. Influence on the MNC Strategy We suggest that this should be measured by questionnaire and interviews. Possible Dimensions for Classifying the Subsidiaries in the Proposed Typology Besides the two previously mentioned measures we suggest adding third dimension for more precise classification of the subsidiary in the typology and that is percentage of total profitability in the company.

This will be taken with the proposition that from Autonomous Subsidiary up to Global Subsidiary Mandate the profit will increase. But one should notice that this

is only to be used together with the two measures of network embeddednes and resource dependence (ex. High network Embeddednes, Low resource Dependence High Profitability = Global Subsidiary Mandate)

Discussion and Implications

This conceptual framework contributes to the current field of strategic management literature with the attempt to connect the network embeddednes the resource dependence as a means of control of the subsidiaries and the strategic impact of the subsidiaries in the MNC. Proposition was formulated stating that: The higher the network embededness of the subsidiary and the lower the resource dependence the higher its influence on the MNC strategy. Also a typology of the subsidiaries was suggested connected to the proposition.

The focus of the research is that we were not able to further test our propositions and typology. We leave that as a suggestion for further research. Furthermore if the testing of the proposition proves to be wrong then the typology will not be valid. We suppose that the results gathered from testing subsidiaries from one industry cannot be generalized. We can also see in advance the difficulty of gathering the information that will take longer period of time and require a lot of resources.

Triggering question while doing this research is how the roles of subsidiaries are determined? Are they assigned by the HQ or depend from the subsidiaries themselves? Birkinshaw (1996) already investigated this question. The main findings in his study are that the role of the subsidiary come and depends mainly from within the subsidiary.

Perhaps the more interesting finding relates to the role of leadership and an entrepreneurial culture as driving forces behind subsidiary value-added. This suggests that even if the subsidiary's capabilities are limited, advancement can be driven by subsidiary management. In his study he monitored subsidiaries that started with a single manufacturing run but overtime their role advanced. He states that the fundamental driver behind this process was strong visionary leadership, coupled with enthusiasm.

Second important finding was the relative lack of importance of any aspects of the parent– subsidiary relationship in predicting the presence of subsidiary mandates. So even tightly strategically controlled subsidiaries should make internal initiatives as a means to role advancement and thus strategic importance and influence to the MNC strategy.

If the initiatives are not corporately supported then the subsidiary should find support locally in the business networks.

This study shows that the subsidiary roles are not static and given by the HQ but dependent from the subsidiaries. And the main resource needed to make that advancement in roles is the management of the subsidiary.

With the role advancement the strategic influence to increases. The resources needed for the advancement can be geaven in the HQ or the business networks. ■

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