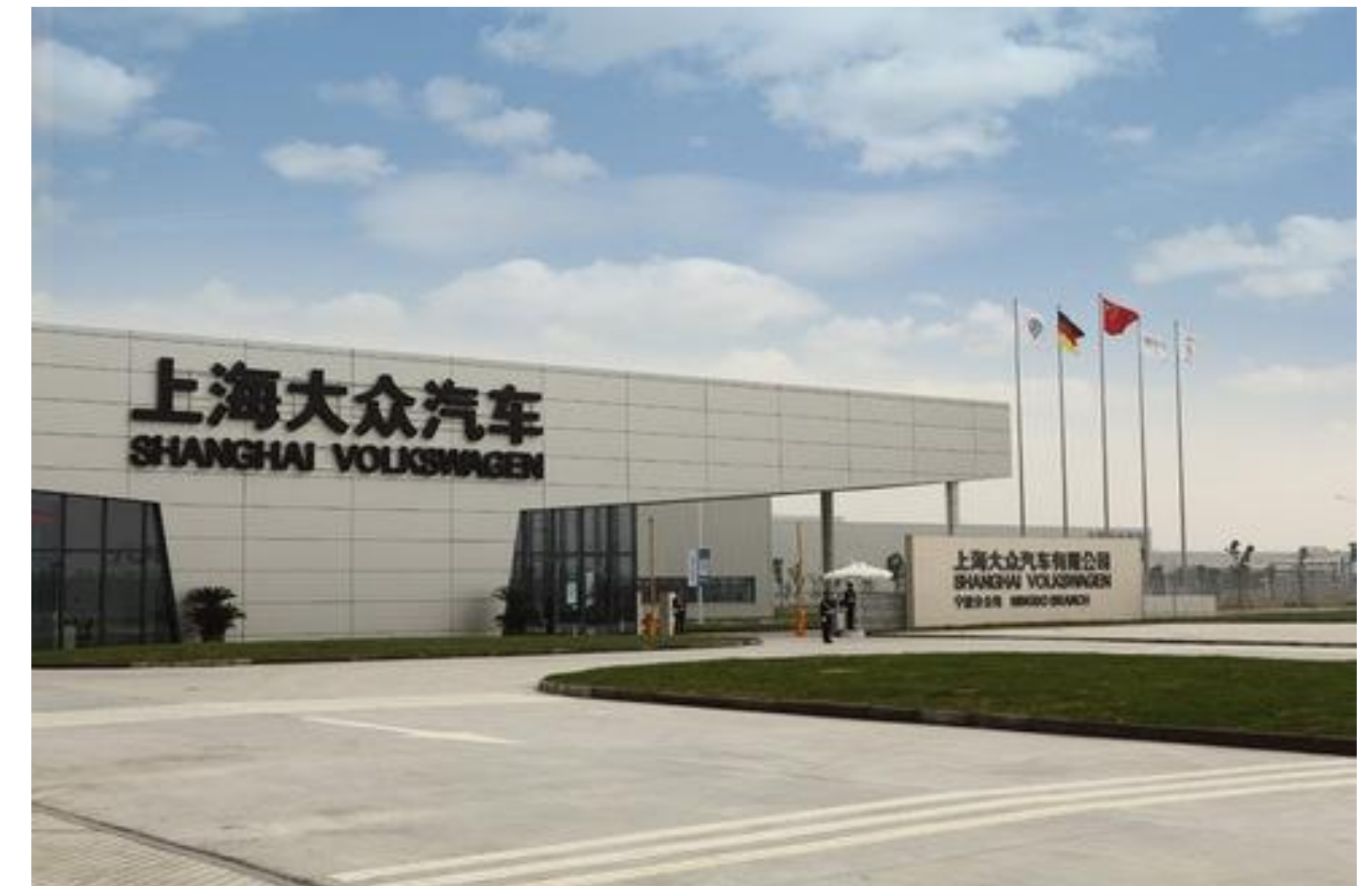


Managing the Subsidiary of the Multinational Enterprise

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Presentation at INSEAD
April 2020



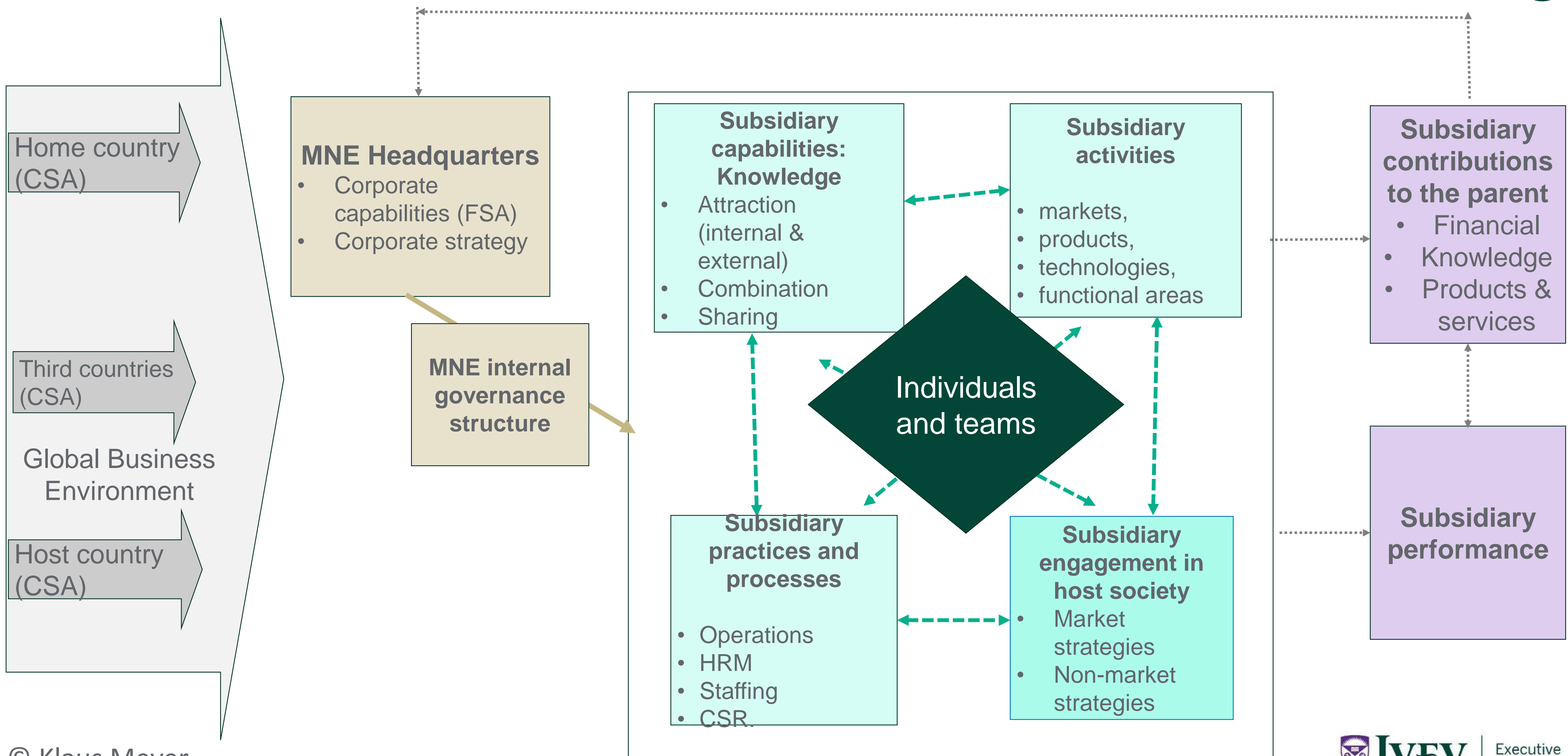
Research Question:

How do subsidiaries, and key actors within the subsidiary, manage strategies and operations of the subsidiary?

What lesson does IB research provide for subsidiary leaders?

The literature on MNE subsidiaries addresses six aspects of subsidiary management.
We organize our substantial review around these six research questions.

Organizing questions	Number of papers	Subthemes
<i>How do subsidiaries define and change the scope of their activities?</i>	161	Subsidiary role (charter, mandate), HQ-subsubsidiary relations, Subsidiary autonomy, Subsidiary influence, Subsidiary growth, HQ control
<i>How do subsidiaries adapt and develop their organizational practices?</i>	107	Organizational practices, HRM practices , Staffing practices, corporate social responsibility, language
<i>How do subsidiaries create and share knowledge-based resources?</i>	177	Innovation, Internal knowledge acquisition from HQ, External knowledge acquisition, Knowledge sharing with HQ
<i>How do subsidiaries engage with actors in their local market and non-market environment?</i>	86	Competition, liability of foreignness, corporate political activity, social and environmental engagement
<i>How do individuals within the subsidiary, influence subsidiary strategies, operations, and performance?</i>	31	Expatriates, Leadership and entrepreneurship, Boundary Spanning
<i>What defines subsidiary performance?</i>	85	Studies combining variables at different levels to predict subsidiary performance or divestment



Scope of our review

Unit of Analysis: The Subsidiary (subsidiary level outcomes)

We do *not* cover

- Joint ventures
- Entry strategy
- MNE-level structures
- Individuals in subsidiaries

General Management

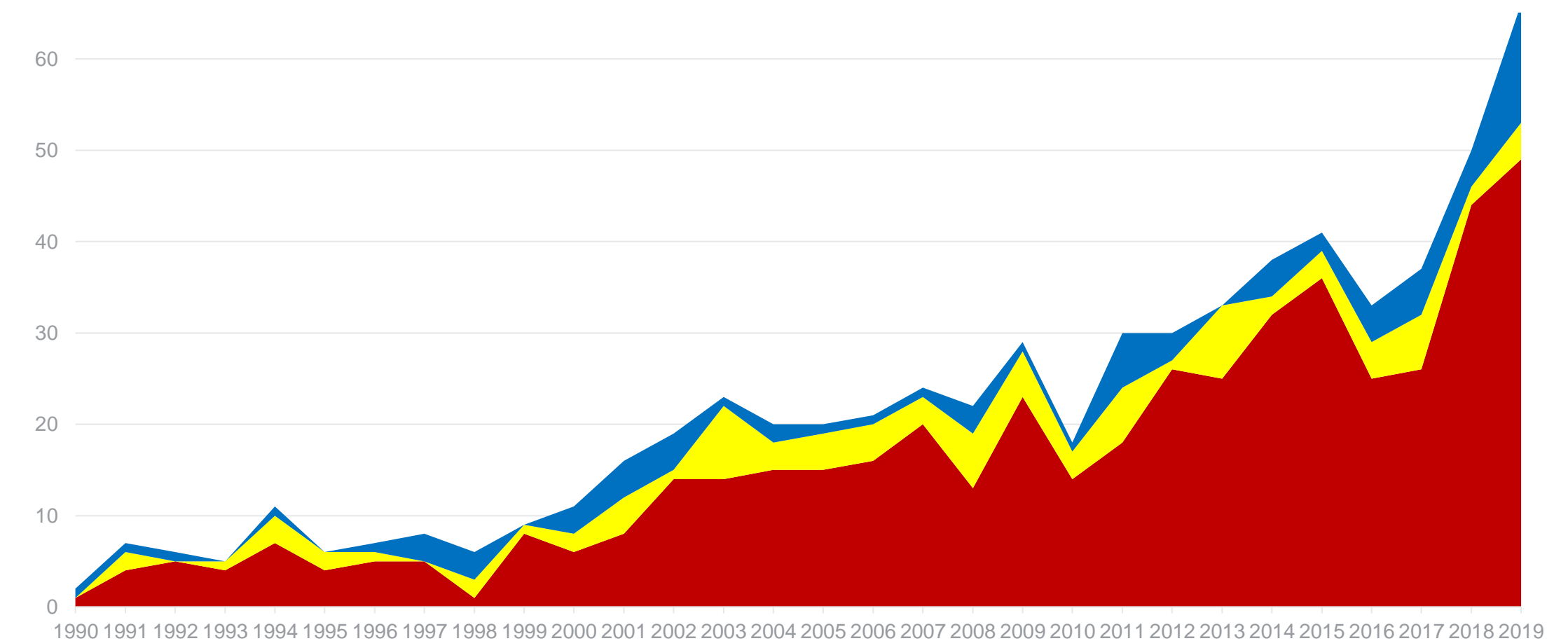
Academy of Management Journal (AMJ),
Academy of Management Review (AMR),
Administrative Science Quarterly (ASQ),
Journal of Management (JoM),
Journal of Management Studies (JMS),
Management Science (MS),
Organization Science (OS),
Organization Studies (OSt),

Strategic Management

Global Strategy Journal (GSJ),
Strategic Management Journal (SMJ)

International Business

International Business Review (IBR),
Journal of International Business Studies (JIBS),
Journal of International Management (JIM),
Journal of World Business (JWB),
Management International Review (MIR)



■ International Business ■ General Management ■ Strategic Management

Note: 2019 includes advance online by December 31.

This field of research has attracted a large and increasing number of qualitative researchers.
Reliable, unbiased quantitative data are scarce.

	Number of studies		Share of empirical studies	Change over time!
Qualitative		121	20.9%	↗
multiple case	58		10.0%	
single case	44		7.6%	↗
other	19		2.8%	
Quantitative		450	77.9%	
survey data	288		49.8%	↘
archival data	158		27.3%	
meta-analysis	4		0.7%	
Multi-method (quant & qual)		7	1.2%	
Total empirical		578	100.0%	
Theoretical papers	57			↘
Reviews	9			
Discussions	4			
Total non-empirical		70		
TOTAL		635		

The empirical context of studies in our database show a good global variation.

← The TK database has enabled a lot of research on Japanese MNEs

← Is our understanding of emerging economies unduly influenced by China-based studies?

Many-country studies are useful to study country level moderators, but rarely provide solid evidence on micro-processes



	Host countries		Home countries	
Single Advanced Economies				
USA	37	6.4%	54	9.3%
UK	33	5.7%	8	1.4%
Australia	10	1.7%	1	0.2%
Ireland	9	1.6%	0	0.0%
Japan	7	1.2%	64	11.1%
Spain	7	1.2%	2	0.3%
Canada	6	1.0%	2	0.3%
Sweden	4	0.7%	21	3.6%
Italy	4	0.7%	6	1.0%
Germany	1	0.2%	16	2.8%
Other advanced economy	22	3.8%	28	4.8%
Single Emerging Economies				
China (PRC)	73	12.6%	14	2.4%
India	9	1.6%	4	0.7%
Korea	7	1.2%	16	2.8%
Taiwan (China)	3	3.5%	8	1.4%
Other emerging economy	44	7.6%	8	1.4%
Few Economies Studies				
advanced economies	48	8.3%	65	11.2%
emerging economies	45	7.8%	1	0.2%
advanced and emerging economies	17	2.9%	8	1.4%
Many Economies	192	33.2%	252	43.6%
Total	578	100.0%	578	100.0%

There is a HUGE variation in “theories in use”, which makes it hard to classify papers by theory.

Low inter-rater reliability.

	# of papers	Popular theoretical concepts
Resource-based perspectives	144	<ul style="list-style-type: none"> • Organization learning, Competence creation, Absorptive capacity, Subsidiary capability, Resource dependence
Institution-based perspectives	99	<ul style="list-style-type: none"> • Institutional environment, Institutional distance, Institutional duality, Legitimacy
Network-based perspectives	65	<ul style="list-style-type: none"> • Embeddedness, Networked MNE, Internal and external networks, Political ties, Social networks
Behavioral theory of the firm	38	<ul style="list-style-type: none"> • Attention-based view, Entrepreneurship, Microfoundations, Boundary spanning, Individual / organizational trust
Theory of the MNE	32	<ul style="list-style-type: none"> • Liability of foreignness, Internalization and externalization, Transaction costs, FSA/CSA framework, Subsidiary-specific advantages
Integration-responsiveness framework	21	<ul style="list-style-type: none"> • Integration, standardization, Localization, responsiveness, adaptation
Other economics-based theories	86	<ul style="list-style-type: none"> • Principal agent relations, Control, Industrial organization, Coopetition
Other organization and sociology based theories	66	<ul style="list-style-type: none"> • Social identity, Power, Stakeholders, Language, Political activity / strategy
No explicit theoretical anchoring	94	<ul style="list-style-type: none"> • Exploratory studies of new phenomena, Descriptive studies, Reviews

Q1: How do subsidiaries define and change the scope of their activities?

Theoretical Perspectives

Hierarchy view → Agency theory applications

(focus on hierarchy and incentives → often implicit in the framing)

Subsidiary entrepreneurship perspective

(subsidiaries actively influence their strategies and operations)

Resource dependency theory

(focus on resources providing bargaining power)

Attention based view

(focus on activities subsidiaries can do to enhance their visibility and credibility at HQ)

Monteiro (SMJ 2015)

Attention tends to be biased in favor of opportunities that are market-proven and consistent with established models. However, pre-selling and selling efforts by subsidiary managers can reduce such biases.

My view:

- *Agency theory fails to capture organizational realities → need for alternatives or complements.*
- *Explanatory power depends on MNE governance structure, a link not reflected in the literature.*

Q2: How do subsidiaries create and share knowledge-based assets?

Knowledge management:

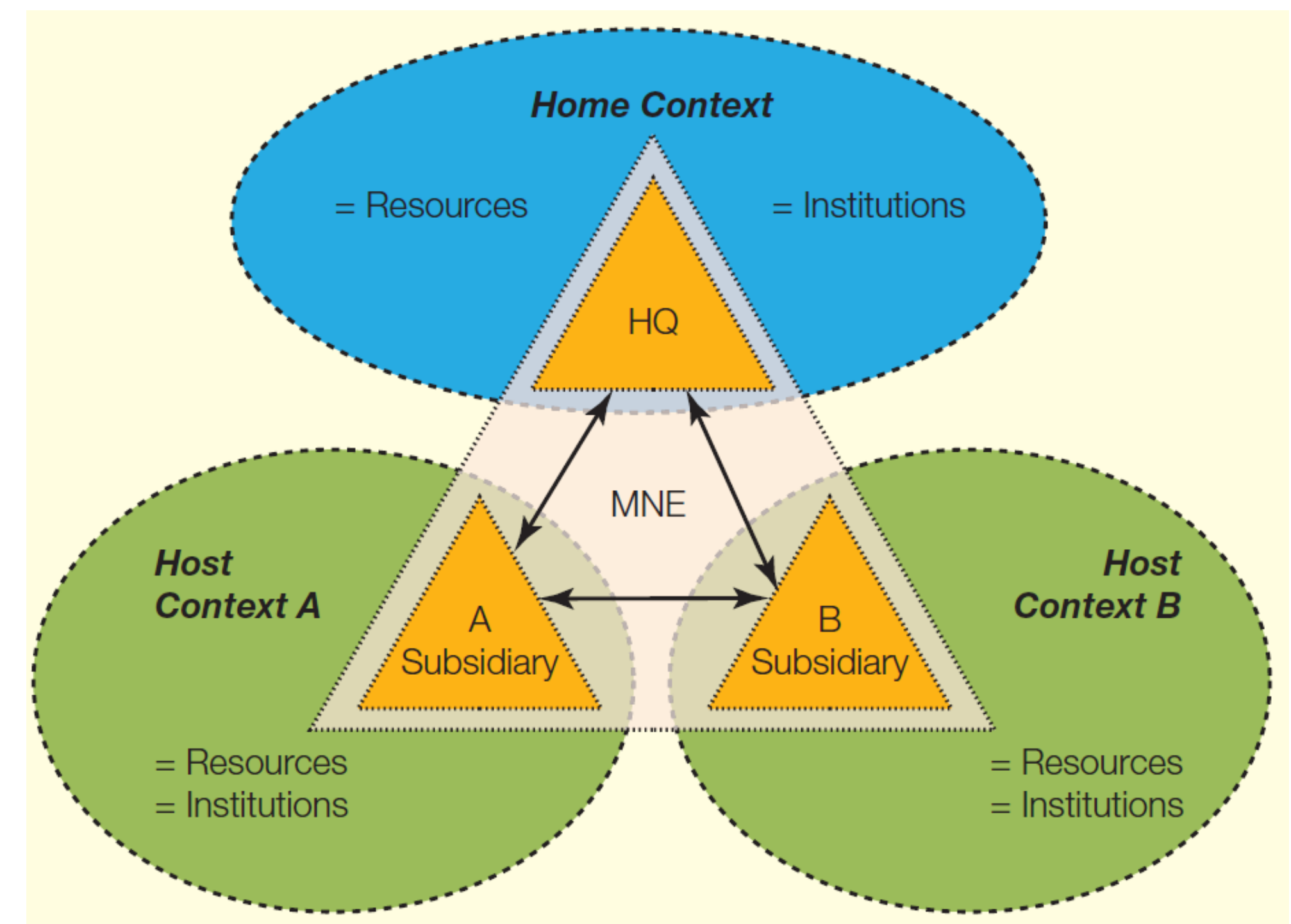
- Attraction (internal & external)
- Combination
- Sharing (internal & external)

Leading theoretical constructs:

- Organizational learning
- Absorptive capacity
- Internal and external embeddedness
- Innovation-related institutions

My view:

This is a mature area of research, but we still lack good understanding of the role of individuals within these processes.



[source: Meyer, Mudambi & Narula, 2011]

Q3: How do subsidiaries adapt and develop their organizational practices?

Leading theoretical perspective:
Institutional duality

Contrarian view:
Institutional arbitrage

Separate, overlapping literatures on

- Organizational practices in general
- HRM practices
- CSR practices
- Staffing practices

Levels of analysis

- Conditions facilitating **practice transfer** from HQ
- Extend of **adaptation** to local contexts
- **Processes** enabling practice transfer
- **Indigenous development** of practices



Q4 How do subsidiaries engage with actors in their local market and non-market environment?

Leading theoretical perspective: **Liability of Foreignness**

What explains the competitive disadvantage that foreign firms face?

- Organizational capabilities? Local knowledge?
Institutional biases? Consumer preferences?
Government ties?

➔ What can foreign firms do to overcome this disadvantage?

Few studies of **market competition** between foreign and local firms (or between different foreigners)

- **Mutual forbearance** hypothesis

Proliferation of concepts:

- *Liability of localness*
- *Liability of newness*
- *Liability of emergentness*

My view:

Studying the causes of competitive advantages and disadvantages will be more impactful than developing new concepts.

Q4 How do subsidiaries engage with actors in their local market and non-market environment?

Leading theoretical perspective: **Legitimacy** in the host society



German Chamber of Commerce Shanghai recognizes outstanding social engagement of German subsidiaries in China

- **Corporate political activity** in the host society
 - e.g. network ties with government, lobbying
- **Social engagement** in the host society
 - e.g. CSR practices, local philanthropy, engagement with NGOs

J. Zhang & X.R. Luo, Org Sci., 2013:
MNE subsidiaries respond to social media in making donations in case of major disasters, but response varies by firm characteristics.

My view:
This area is of increasing relevance, especially in a volatile political environment.

Q5: What defines subsidiary performance?

In performance research, the main issues are **methodological**, not **theoretical**.

- There is no consensus on what constitutes ‘subsidiary performance’.
- Different aspects of performance are causally related, but do not represent the same construct.
- Data availability is a major constraint for subsidiary performance research, and often drive selection of measurements.

My view:

“performance” is one of the most problematic concepts in strategy research (including MNE subsidiary research)

Theoretical arguments become much clearer if authors reflect on specific aspects of performance rather than the evasive aggregate.

Concept	Number of studies	Measurements
Survival	48	Continuation versus exit as captured in hazard rate models
Profitability	45	<ul style="list-style-type: none"> • RoA • RoE • RoI • dummy: profitable
Innovation	18	<ul style="list-style-type: none"> • patents, • new product introductions
Sales growth	13	<ul style="list-style-type: none"> • growth in sales, • exports, • market share
Productivity	8	<ul style="list-style-type: none"> • labor productivity (sales per employee), • x-efficiency
Performance as multi-dimensional construct	44	Multi-item survey measures <ul style="list-style-type: none"> • performance relative to expectations, • performance relative to peers. Meta-analytic aggregation
Total	176	

Q6: How do individuals within subsidiaries influence subsidiary strategies and operations?

Expatriates

- organizational outcomes
- Individual level outcomes
(not covered in our review)

Leadership & Entrepreneurship

- Leadership style
- Personal & team demographics
- Experience

Boundary Spanners

← emergent literature

“Individuals at critical interfaces within and between business units”

- Distinction between formal **role** and actual **activities**

- Schotter, Mudambi, Doz & Gaur, JMS 2017
- Monteiro & Birkinshaw, SMJ, 2017
- Klueter & Monteiro, JMS, 2017

My view:

Linking team and individual characteristics to subsidiary level outcome is an interesting road forward.

However, the biggest gap is in linking actions (e.g. leadership style) of individuals to subsidiary and MNE level outcomes.

To identify important areas for future research, we map our Q1 to Q5 across three themes of concern to contemporary IB researchers

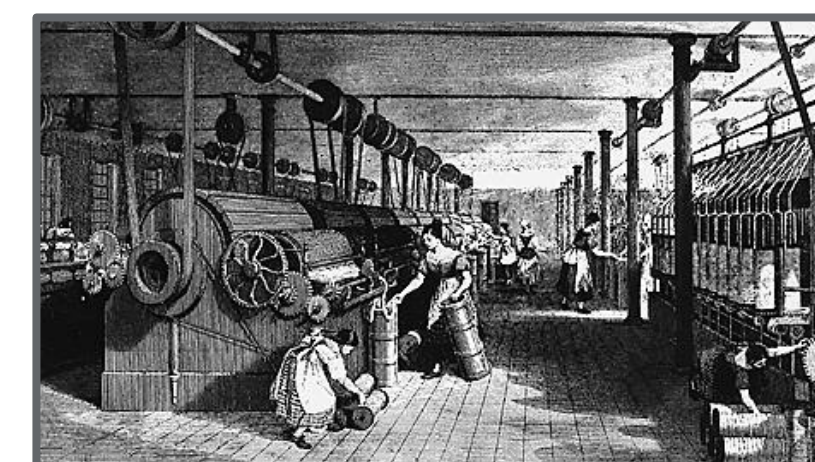
	The Role and Impact of Individuals (Q6)	Technological paradigm shifts	Political and institutional disruptions
Subsidiary scope and scope change (Q1)	How do individuals influence subsidiary scope and mandate change and what role play personal characteristics and competencies?	How do technological paradigm shifts, such as the emergence of the digital economy, influence the role of MNE subsidiaries and their change processes?	How do disruptions in the institutional and political environment influence processes and directions of change in subsidiary roles?
Creating and sharing knowledge (Q2)	How and why do individuals their roles and actions facilitate knowledge transfer and innovation within the MNE subsidiaries.	How do technological advances affect the interactions between different internal and external partners in innovation and knowledge sharing processes?	How do disruptions in the institutions related to intellectual property and data protection affect the processes of innovation and knowledge sharing by MNE subsidiaries?
Organizational practices (Q3)	How do organizational practices unique to the subsidiary emerge and how is practice adoption affected by subsidiary managers and their characteristics?	How do technological advances impact the development of organizational practices, including technology standards and data management practices?	How do disruptions in the institutional and political environment affect organizational practices especially those related to corporate social responsibility and nonmarket relationships?
Engagement with host society (Q4)	Who within subsidiaries engages with actors in the host society and how does this engagement manifest itself?	How do novel technologies as social media affect strategies and practices of engagement with actors in the host society?	How do disruptions in the institutional and political environment the engagement with non-market actors in the host society?
Performance (Q5)	How and to what effect do individuals' actions influence subsidiary level outcomes?	Which MNE subsidiaries are performing best when facing major technology shifts?	Which performance drivers are more or less important in different political contexts and which help most when facing major political regime shifts?

Directions for Future Research (1): Digital Economy

*The **digital economy** (potentially) changes many aspects of how people interact within and between organizations. This is bound to change many aspects of the MNE subsidiary.*

	Technological paradigm shifts
(Q1)	How do technological paradigm shifts, such as the emergence of the digital economy, influence the role of MNE subsidiaries and their change processes?
(Q2)	How do technological advances affect the interactions between different internal and external partners in innovation and knowledge sharing processes?
(Q3)	How do technological advances impact the development of organizational practices, including technology standards and data management practices?
(Q4)	How do novel technologies as social media affect strategies and practices of engagement with actors in the host society?
(Q5)	Which MNE subsidiaries are performing best when facing major technology shifts?

Industry 1.0
People working
machines



Industry 2.0
People on the
production line



Industry 3.0
Robots on the
production lines



Industry 4.0
'Big data' coordination
of processes and
value chains



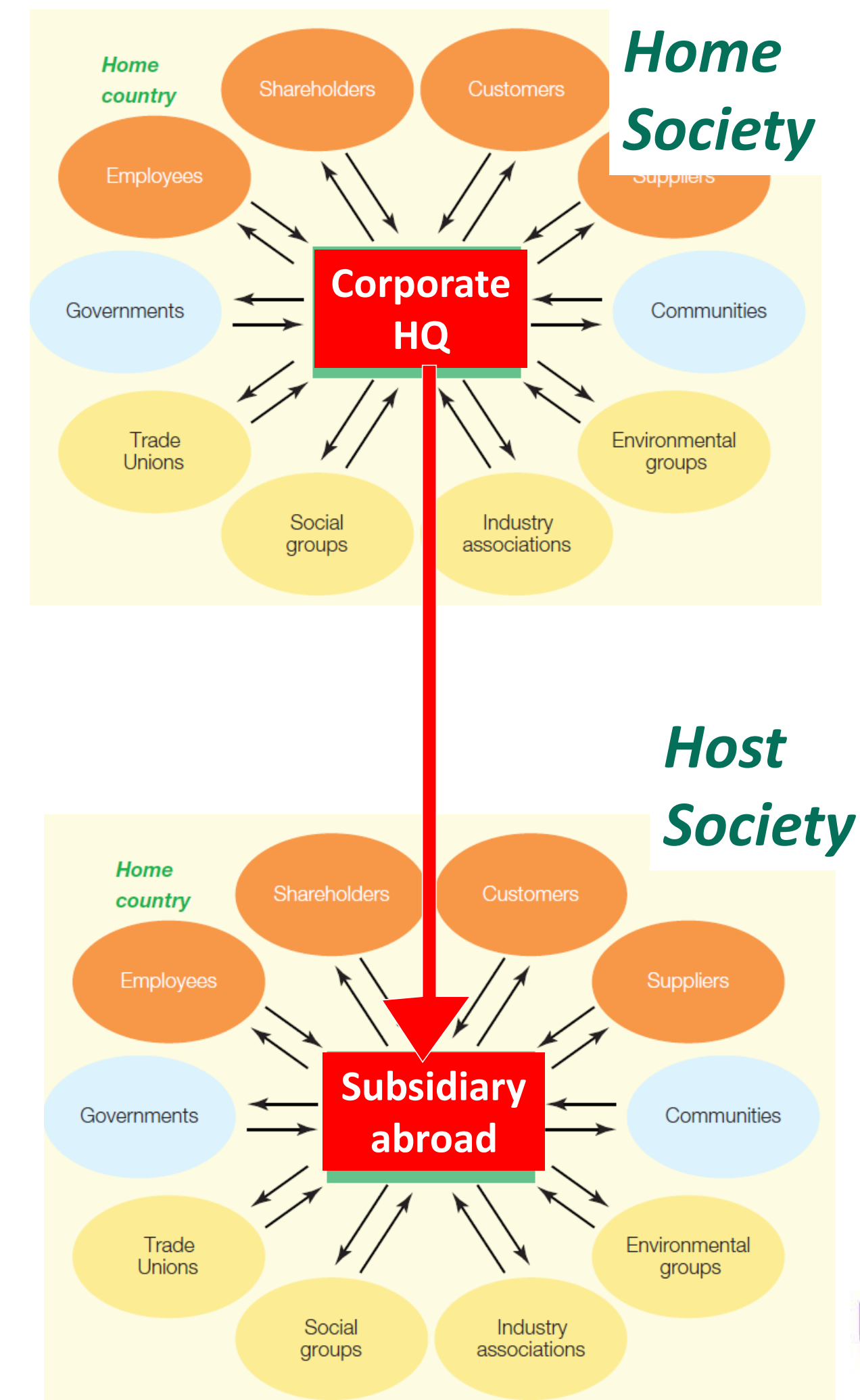
Directions for Future Research (2): Political Disruptions

*We (think that we) know that environment matters for MNE subsidiaries and globalization facilitates global strategies. But how about **change in the environment**, and **anti-globalization**?*

	Political and institutional disruptions
(Q1)	How do disruptions in the institutional and political environment influence processes and directions of change in subsidiary roles?
(Q2)	How do disruptions in the institutions related to intellectual property and data protection affect the processes of innovation and knowledge sharing by MNE subsidiaries?
(Q3)	How do disruptions in the institutional and political environment affect organizational practices especially those related to corporate social responsibility and nonmarket relationships?
(Q4)	How do disruptions in the institutional and political environment the engagement with non-market actors in the host society?
(Q5)	Which performance drivers are more or less important in different political contexts and which help most when facing major political regime shifts?

M. Witt, JIBS, 2019:

Current political trends likely lead to de-globalization, which may take the form of patchworks of linkages, or of economic blocs around major countries.

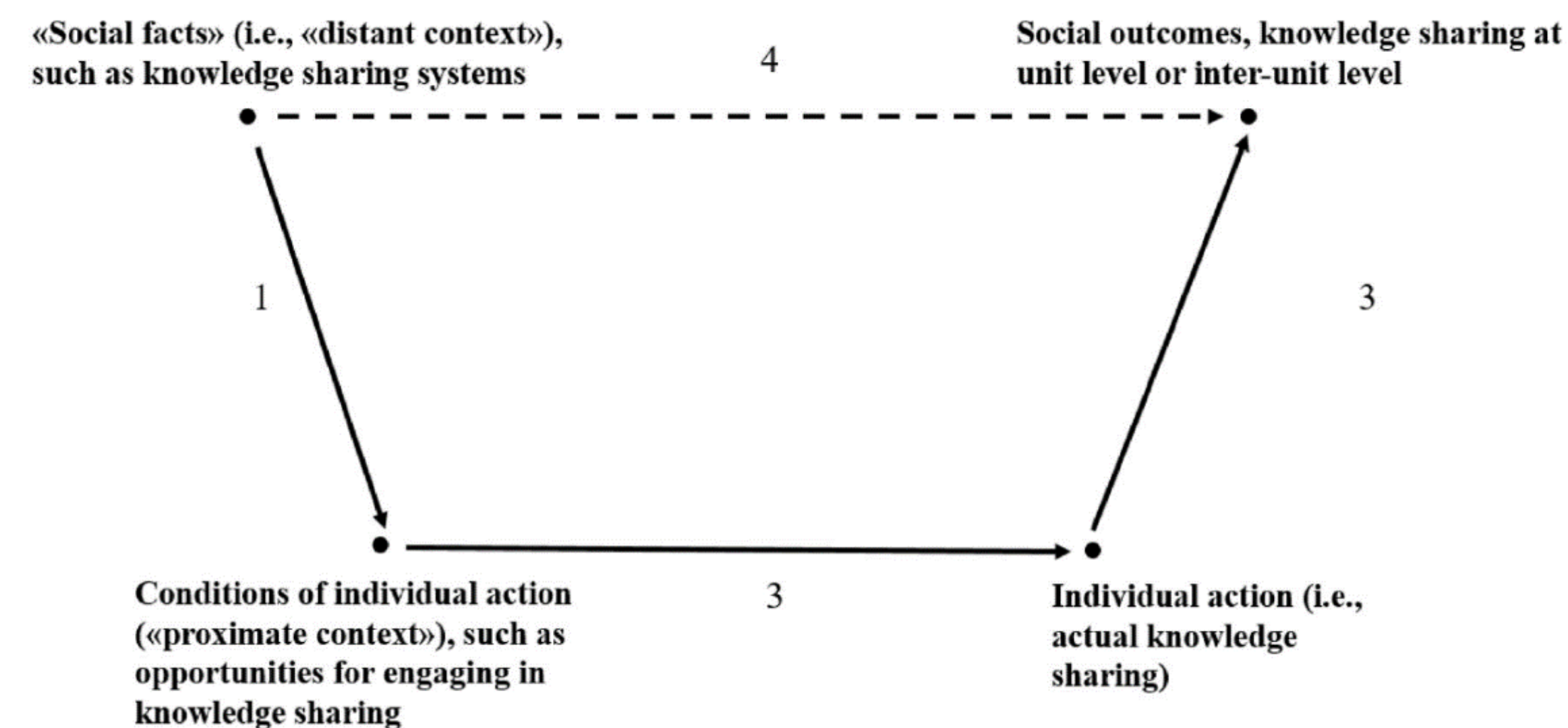


We lack solid understanding of **cross-level effects** from **individual** leaders, researchers, boundary-spanners etc to **subsidiary-level** outcomes.

- ➔ Data limitations
- ➔ Methodological challenges (i.e. HLM)

	The Role and Impact of Individuals
(Q1)	How do individuals influence subsidiary scope and mandate change and what role play personal characteristics and competencies?
(Q2)	How and why do individuals their roles and actions facilitate knowledge transfer and innovation within the MNE subsidiaries.
(Q3)	How do organizational practices unique to the subsidiary emerge and how is practice adoption affected by subsidiary managers and their characteristics?
(Q4)	Who within subsidiaries engages with actors in the host society and how does this engagement manifest itself?
(Q5)	How and to what effect do individuals' actions influence subsidiary level outcomes?

Microfoundations view may be a promising route forward to enhance both relevance and rigour.



Coleman's bathtub; Source: Foss & Pedersen, JIBS 2019

Managing the Subsidiary of the Multinational Enterprise

Q&A

Meyer, K. E., Li, C. & Schotter, A.S.P. 2020. Managing the MNE Subsidiary: Towards a Multi-level and Dynamic Research Agenda, *Journal of International Business Studies*, advance online

