



Headquarters–subsidiary relationships in MNCs: Fifty years of evolving research



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ABSTRACT

We review the contributions to research on headquarters–subsidiary (HQS) relationships published in the *Journal of World Business* (known as the *Columbia Journal of World Business* until 1997) from the late 1960s to the present day. Based on 81 articles on the topic, we identify trends and dominant approaches in the journal's contributions to this area and link them to trends in the broader field of international management (IM) research and practice. We underline the journal's pioneering role in identifying and bringing to the forefront novel research questions and ideas that would later become central to the IM field. We conclude by assessing the importance and relevance of the journal's contributions to the literature on HQS relationships and by suggesting several directions for future research in this area, which could build on past work and leverage new phenomena.

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1. Introduction

The study of headquarters–subsidiary (HQS) relationships, or how multinational corporations (MNCs) coordinate and control their geographically dispersed value-adding subunits, is central to the field of international management (IM). The literature on this topic is vast and has evolved significantly in its focus and underlying assumptions since its inception. In this paper we present a review of the contributions to this literature published in the *Journal of World Business* (*JWB*) known as the *Columbia Journal of World Business* (*CJWB*) until 1997. Our review covers the last fifty years – from the late 1960s to the present day. Overall, the journal's contributions to the conversation in this area have followed the evolution of the understanding of control and coordination in MNCs in the broader IM field. In addition, however, the journal has pioneered some research questions and ideas that would later become central to the IM field. Our review highlights the most notable contributions of the journal to this literature in the context of these broader trends.

The overall picture of the study of HQS relationships from the pages of *CJWB/JWB* is an evolution of mechanisms from the more bureaucratic and formal to the more networked and informal. In

the face of a growing and increasingly globalized international marketplace, MNCs have taken advantage of improvements in information and communication technology, lowering barriers to trade and investment, increasing organizational experience with international operations, and ever more educated and experienced managers and employees to loosen formal internal controls in the name of greater organizational efficiency, motivation, and innovation. We track the evolution of this literature particularly in *CJWB/JWB* in order to understand how these trends played out in the organizational research on HQS relationships and to demonstrate the importance of the journal's contributions to this effort.

The next section presents our analysis of the progression in the study of MNCs and their subsidiaries, and in *CJWB/JWB* publications specifically. This is followed by a more in-depth review of the central themes in the journal's 50 years of research on HQS relationships, looking in parallel at the ties between subordinate organizations within the MNC and at the changing roles of expatriate and local managers in these organizations. We close with our thoughts about the future of HQS relationships over the next decades as technological, political, and organizational contexts continue to evolve, and with some ideas for future research in this area.

2. Main themes in studying HQS relationships

Our analysis of the journal's contributions in the area of HQS relationships in MNCs is based on a review of 81 articles on this

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topic published between 1968 and 2015. We identified the set of relevant articles by manually screening all the available issues of the journal. Overall, our review showed that (a) *CJWB/JWB* have always maintained an interest in studying HQS relationships in MNCs, and (b) have examined HQS relationships from various angles based on different conceptual approaches. Some scholars have focused on the control and power aspects that reflect the hierarchical nature of such relationships. Accordingly, they have studied various control and coordination mechanisms, ranging from formal organizational design and power distribution between headquarters and subsidiaries, to the use of expatriate managers and global human resource management (HRM) practices. Others have emphasized the integrative and value creation nature of HQS interactions by examining, for example, the development and flow of knowledge between these units for the purposes of creativity, innovation, global leveraging of intellectual and human capital, and effective management of MNCs' global networks of operations.

We found notable variation of approaches and themes over time. In the early years, during the 1960s and 1970s, *CJWB* emphasized issues of organizational design, formal systems of control and coordination of foreign subsidiaries, and the role of strategic staffing of global operations. During this period, research was primarily HQs-focused whereby host countries (and subsidiaries) were viewed less as providing strategic opportunities for the organization, and more as causing management challenges due to the differences between home and host country contexts. In this period, *CJWB* pioneered several topics that later became mainstays of research on HQS relationships. First was the work on the strategic role of expatriates for the successful management of multinational organizations (e.g., Heenan, 1970). Second, Perlmutter's work (1969) on top management's global strategic mindset and its impact on the firm's value chain introduced the notions of ethnocentric, polycentric and geocentric strategic orientation, which are still essential in both practice and research. Third, the journal promoted work on the contextual differences between home and host countries of MNEs and the implications for firm's ability to successfully transfer people and practices across the organization (e.g., Richman & Copen, 1973).

These general themes continued to permeate the journal's agenda over time although with a shifting emphasis, evolving content, and emergence of some new foci of interest. For example, the 1980s were very impactful for understanding the strategic role of expatriate managers in MNCs, as exemplified by the pioneering work by Rosalie Tung in her 1981 and 1986 papers. In the 1990s, much attention was given to the topic of the global mindset of international managers, which was also recognized as a key success factor in foreign assignments and the globalization of companies (e.g., Kedia & Mukherji, 1999; Stroh & Caligiuri, 1998; Tung, 1998). During the 1980s, while continuing to privilege an HQ perspective, the journal also started to pay more attention to the unique characteristics of the host countries where foreign subsidiaries were located and the impact of host country characteristics on firm performance (Das, 1981). With the recognition of the importance of host country context, scholars began studying the various approaches, tools, and capabilities deployed by HQs to learn and adapt to the idiosyncratic challenges faced by their foreign subsidiaries (Poynter, 1986). Eventually, in the 1990s, the HQ-centered research agenda slowly gave way to a much stronger focus on subsidiaries and their importance for MNC performance.

This trend was further developed in the 2000s when the journal fully embraced the subsidiary perspective in studying HQS relationships, publishing a number of articles that examined the drivers and consequences of foreign subsidiaries' increasing autonomy and initiative in MNCs (e.g., Lee & Williams, 2007). Consistent with this were several important publications on global

management teams as key coordination mechanisms in MNCs (Schweiger, Atamer, & Calori, 2003), the role of regional HQs as increasingly important power centers in these organization (Asakawa & Lehrer, 2003), lateral and bottom-up processes of knowledge creation and transfer (Ambos & Schlegelmilch, 2004; Lagerström & Andersson, 2003), and the network conceptualization of MNCs' internal and external activities (Joshi, Labianca, & Caligiuri, 2002). In a way, these developments can be viewed as the evolution of the very early work on organizational design and control systems, which pretty much died out in the last couple of decades. Most recently (2010–2015), this line of inquiry was further enriched by some new topics including e-HRM systems (Heikkilä & Smale, 2011), the strategic role of language in the management of MNCs (Harzing, Köster, & Magner, 2011), drivers of foreign subsidiaries' power and success (Mudambi, Pedersen, & Andersson, 2014), and a deepened interest in studying host country environments and their impact on firm performance, particularly in emerging markets (Tian & Slocum, 2014).

Fig. 1 below provides a graphical summary of the main themes and trends in the research on HQS relationships published in *CJWB/JWB* over time that emerged from our review. It shows five dominant themes: (1) organizational design and control systems; (2) home and host country context; (3) subsidiary roles and regional structures; (4) knowledge creation and transfer; and (5) expatriate management and global human resource management (HRM).

Overall, the journal has been consistently dedicated to studying HQS relationships through contingencies related to context (home and host country context), the role of knowledge (creation, sharing, and utilization), and the role of people (especially expatriates and global HRM). The most notable trend is the shift from a focus on formal structures and design in the 1960s and 1970s to an expanded and more diverse (theoretically and methodologically) set of individual- and organizational-level factors examined in tandem with contextual contingencies in which HQS relationships take place during the subsequent decades. This has resulted in more sophisticated and relevant work on HQS relationships.

The evolution in the literature on HQS relationships published in *CJWB/JWB* is reflective of two broader dynamics – the changes in the global business environment of MNCs and the related changes in the general field of IM research. With regard to the former, we can see the corollary between the published research and several trends, including: (1) the growing globalization of Western MNCs in the 1980s and the related extensive use of expatriates with little international experience; (2) the increasing complexity of global operations, especially related to the multi-polar world emerging at the end of the 1990s and the beginning of this century, which led to a transformation in subsidiary roles and responsibilities and impacted the nature of their relationships with HQs; and (3) the rise of emerging markets and the associated importance of studying institutional and cultural contexts given their differences from traditional Western markets and the unique challenges and opportunities they present. This translated into greater awareness of the need for autonomy and more important strategic roles for subsidiaries operating in these markets.

With regard to the changes in the field of IM research (which also developed as a response to the changing external environment), the time period covered by this review witnessed a movement away from the early focus on formal organizational structures and designs toward greater emphasis on the role of people (e.g., expatriates, boundary spanners) and informal factors (e.g., social networks, language, information systems). During the 50 years under consideration, the IM field went from a conceptualization of HQS relationships that built on the insights of Chandler's (1962) "strategy-structure" paradigm and a focus on formal systems of control and coordination of foreign subsidiaries

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