Journal of International Management xxx (2017) xxx–xxx

Contents lists available at ScienceDirect

Journal of International Management

Fox School of Business
TEMPLE UNIVERSITY®

When Do Distance Effects Become Empirically Observable? An Investigation in the Context of Headquarters Value Creation for Subsidiaries

Sjoerd Beugelsdijk [a,*], Phillip C. Nell [b,c], Björn Ambos [d]

[a] University of Groningen, Faculty of Economics and Business, Nettelbosje 2, 9747 AE Groningen, The Netherlands
[b] WU Vienna (Vienna University of Economics and Business), Institute for International Business, Welthandelsplatz 1, 1020 Vienna, Austria
[c] Copenhagen Business School, Department of Strategic Management and Globalization, Kilevej 14, 2000 Frederiksberg, Denmark
[d] University of St. Gallen, Institute of Management (IFB), Dufourstr. 40a, 9000 St. Gallen, Switzerland

ARTICLE INFO

Article history:
Received 13 June 2016
Received in revised form 21 March 2017
Accepted 23 March 2017
Available online xxxx

Keywords:
Multinational corporations
Distance
Headquarters-subsidiary relationships
Headquarters value added
Subsidiary embeddedness
Behavioral approach

ABSTRACT

Integrating distance research with the behavioral strategy literature on MNC headquarters-subsidiary relations, this paper explores how the distance between headquarters and subsidiaries relates to value added by the headquarters. We show for 124 manufacturing subsidiaries in Europe that, on average, distance is unrelated to value added by headquarters but that this effect is contingent upon the extent to which the subsidiary is locally embedded. Only after a certain threshold level of subsidiary embeddedness, distance is negatively related to headquarters value added. This effect is more pronounced for cultural, economic, and administrative distances than for pure geographic distance, highlighting the critical role of contextual variation for MNCs.

© 2017 Elsevier Inc. All rights reserved.

1. Introduction

Multinational corporations' (MNCs') headquarters are constantly under pressure to add value to the MNC and to create "parenting advantage" (Foss, 1997; Goold and Campbell, 2002; Poppo, 2003; Nell and Ambos, 2013; Ciabuschi et al., 2011; Dellestrand and Kappen, 2012; Mudambi, 2011). For individual subsidiaries, parenting advantage means that their headquarters' influence on them leads to better performance than that which the subsidiary could have achieved as an independent, standalone entity (Campbell et al., 1995; Goold et al., 1998). In the spatially dispersed MNC, the quest for such value creation by headquarters is not a trivial undertaking (Dellestrand and Kappen, 2012; Ciabuschi et al., 2011; Foss et al., 2012; Nell and Ambos, 2013). The very fact that MNC headquarters must manage affiliates over potentially large geographic distances and across diverse contexts creates unique challenges (Ambos and Ambos, 2009; Kostova and Zaheer, 1999; Ghemawat, 2001, 2011). In such settings, MNCs need to be able to manage distance-induced inefficiencies (Hymer, 1976; Kogut and Zander, 1992; Zaheer, 1995).

To date, we have little knowledge of how different types of distance relate to the value that headquarters create for their subsidiaries, and potential contingencies affecting this relationship (Dellestrand and Kappen, 2012; Hoenen and Kostova, 2015). There are two views on this question. In the classic view of the MNC (Hymer, 1976; Kogut and Zander, 1992), MNCs develop strategies to reduce the costs of managing across larger distances. For example, MNCs can avoid geographic overstretch by focusing on their

* Corresponding author.
E-mail addresses: s.beugelsdijk@rug.nl (S. Beugelsdijk), phillip.nell@wu.ac.at (P.C. Nell), bjoern.ambos@unisg.ch (B. Ambos).

http://dx.doi.org/10.1016/j.intman.2017.03.002
1075-4253/© 2017 Elsevier Inc. All rights reserved.

ARTICLE IN PRESS

home regions only (Rugman, 2001) or by internationalizing in a careful, stepwise way to proximate countries (Johanson and Vahlne, 2009). MNCs may establish intermediate headquarters (such as regional headquarters) to effectively reduce the distance between the subsidiary and the next-level de facto headquarters (Wolf and Egelhoff, 2002; Hoenen et al., 2014). From this perspective, one could expect that, empirically, distance is not related to headquarters value added for a set of randomly chosen headquarters-subsidiary dyads because MNCs can assess the costs of distance properly and can, therefore, avoid them (e.g., limit the degree of internationalization) or implement effective countermeasures (e.g., implement regional headquarters that "reduce" the distance to the subsidiary). In fact, there is some empirical support for this claim. For example, Dellestrand and Kappen (2012) find that various distance measures between headquarters and a subsidiary do not significantly affect headquarters' resource allocation to specific subsidiaries.

On the other hand, behavioral strategy research (Foss and Lindenberg, 2013; Powell et al., 2011; Maitland and Sammartino, 2015a, 2015b) emphasizes how decision making under uncertainty – such as internationalizing to distant countries – leads to various biases resulting in an underestimation of the costs of managing across larger distances. Managing across large distances is associated with additional costs related to increased travel time, and communication and coordination challenges (Ghemawat, 2001; Slangen, 2011, 2016; Zaheer et al., 2012). There is indirect empirical support for the claim that distance reduces headquarters value creation. For example, Monteiro et al. (2008) find a negative effect of geographic distance on knowledge flowing from headquarters to subsidiaries. Parmigiani and Holloway (2011) report a negative relationship between distance from the headquarters and subsidiary capability development very similar to Giroud's (2013) findings that increased travel time between headquarters and manufacturing plants is negatively related to plant-level investments and productivity developments. As predicted by the behavioral view of the MNC, firms tend to underestimate the costs associated with internationalizing to distant countries (Dibbern et al., 2008; Larsen et al., 2013).

Combining insights from the international management literature on headquarters' roles (Bartlett and Ghoshal, 1989; Dellestrand and Kappen, 2012; Nell and Ambos, 2013) with that of distance research (Ghemawat, 2001; Berry et al., 2010; Beugelsdijk et al., 2010; Beugelsdijk and Mudambi, 2013), we investigate headquarters-subsidiary distance and how it relates to the value that the headquarters adds to the subsidiary. Specifically, we investigate the relationship between headquarters value added and different types of distance, as specified in the CAGE framework—cultural, administrative, geographic, and economic distance (Ghemawat, 2001), and the contingencies that influence the effects of distance because they make biased decision-making more likely or inhibit the implementation of effective remedies of distance-induced inefficiencies. We advance distance research by bringing in a behavioral perspective, which allows us to theorize under what conditions distance may complicate decision-making and reduce headquarters value added (Larsen et al., 2013; Maitland and Sammartino, 2015b, 2015a). Specifically, we focus on a key aspect of the headquarters-subsidiary relationship, namely subsidiaries' local embeddedness (Andersson et al., 2002; Kramer and Diez, 2012) as a contingency. We theorize that high levels of subsidiaries' local embeddedness create additional complexities and uncertainties that make negative distance effects empirically observable. The central hypothesis tested in this study is whether local embeddedness moderates the relationship between distance and headquarters value added.

We test our hypothesis with an original dataset of 124 headquarters-subsidiary dyads. Our subsidiaries are manufacturing subsidiaries located in Europe whose headquarters are defined as the units to which the subsidiaries have their most important reporting line. That is, we integrate corporate, divisional, and regional headquarters in our study and, thus, consider that for many subsidiaries the most important "parent" is the more immediate headquarters—such as a regional headquarters—instead of the corporate headquarters (Goold and Campbell, 2002). Using an elaborate operationalization of the different distance dimensions in the CAGE framework and applying the latest standards to measuring distance (Mahalanobis distance), we show that we must make a critical distinction between geographic and contextual distance, with the latter consisting of cultural, administrative, and economic distance. We find that, on average, neither geographic distance nor contextual distance matters for headquarters value added but that subsidiary embeddedness moderates this relationship. Distance effects on headquarters value added are observable only when the subsidiaries are strongly locally embedded. We find that these negative distance effects are more relevant for contextual distance than for geographic distance.

Our contribution to international management research is twofold. First, we extend the literature on the roles and functions of headquarters in the MNC. The contemporary view is that MNC headquarters are challenged in highly complex and externally embedded organizations (Andersson et al., 2007). We extend this view to show that the value-adding function of headquarters is relatively immune to distance. MNCs are generally able to overcome distance, a finding in line with the classic view of the MNC suggesting that MNCs exist exactly because of their superior ability to manage distances (Kogut and Zander, 1992). What is new is our finding that value added by headquarters is challenged by distance when the subsidiary is strongly locally embedded. This effect is particularly relevant for contextual distance. We interpret the extent of subsidiary local embeddedness as an issue that creates additional complexities and uncertainties which, in turn, make it less likely that headquarters clearly identify distance-induced inefficiencies and their remedies. Therefore, headquarters are likely to refrain from taking action against distance-induced inefficiencies. This way we contribute to the growing literature on the behavioral aspects of global strategy (Maitland and Sammartino, 2015b, 2015a; Larsen et al., 2013; Kostova et al., 2016).

Second, with our fine-grained treatment and analysis of different distance dimensions, we contribute to distance research, specifically the CAGE framework (Ghemawat, 2001). Our contributions are both theoretical and empirical. By highlighting the contingencies of distance effects, we improve our understanding of the mechanisms and effects of different types of distance (Ghemawat, 2001; Berry et al., 2010; Ceci and Prencipe, 2013; Hutzschenreuter et al., 2014; Zaheer et al., 2012). Empirically, we show for all country pairs in the world that the CAGE framework collapses to a two-factor structure that separates geographic

Please cite this article as: Beugelsdijk, S., et al., When Do Distance Effects Become Empirically Observable? An Investigation in the Context of Headquarters Value Creation for Subsidi..., J. Internat. Manag. (2017), http://dx.doi.org/10.1016/j.intman.2017.03.002

Download English Version:

https://daneshyari.com/en/article/5110106

Download Persian Version:

https://daneshyari.com/article/5110106

Daneshyari.com