ARTICLE IN PRESS

International Business Review xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Subsidiary-specific advantages for inter-regional expansion: The role of intermediate units

Cristina Villar, Àngels Dasí, Ana Botella-Andreu*

Universitat de Valencia, Department of Management, Faculty of Economics, Avenida Tarongers, s/n 46022, Valencia, Spain

ARTICLE INFO

JEL classification:
M16 International Business Administration
F23 multinational firms
International business

Keywords:
Subsidiary-specific advantage
Liability of inter-regional foreignness
Intermediate unit
Springboard subsidiary
Regional strategy

ABSTRACT

This paper explores the distinctive deployment of resources and capabilities by subsidiaries in order to develop an intermediate role within the MNC. Based on the regional management perspective, we focus on a specific intermediate role—the springboard subsidiary—that helps overcome the liability of inter-regional foreignness. Our results, which are based on a dataset covering 188 subsidiaries, show that the probability of taking on this role is contingent upon experiential knowledge about the target region, as well as a rich knowledge base derived from a wide range of activities and a broad geographical scope. Our findings also show that possession of slack resources does not necessarily mean that a subsidiary will take on this role, as such slack must be combined with experiential knowledge. This paper serves as a first step in helping MNCs plan resource allocation to handle inter-regional expansion.

1. Introduction

An increasing number of studies in the international business (IB) literature refer to regionally oriented strategies (Rugman & Verbeke, 2004, 2005, 2008; Verbeke & Asmussen,2016). This regional perspective has pointed to MNCs' superior ability to integrate their firm-specific advantages (FSAs) with the country-specific advantages (CSAs) offered by their home region and the fact that MNCs face higher liabilities of foreignness across regions, which limits the transferability of FSAs (Rugman & Verbeke, 2004). Along these lines, recent studies have highlighted the relevance of regional orientation of sales, assets, and investments at both the MNC parent and subsidiary levels (Nguyen, 2014; Nguyen, 2015; Oh and Rugman, 2014). Moreover, this stream of research has shown that some previously considered non-location bound FSAs (NLB FSAs) are mostly deployed and exploited at the home-region level rather than on a global scale due to the existence of inter-regional liabilities of foreignness (Rugman & Verbeke, 2005).

However, the fact that MNCs are mostly oriented toward the home region coexists with the fact that MNCs apply solutions aimed at expanding into host regions (Verbeke & Asmussen, 2016). In this paper, we contend that MNCs can overcome liabilities of inter-regional foreignness by recombining the capabilities of their subsidiaries' networks with specific local resources. These subsidiary-specific advantages (SSA) are critical in this process (Rugman & Verbeke, 2001; Rugman, Verbeke, & Nguyen, 2011). In this vein, we aim to shed light on the capabilities that subsidiaries need in order to effectively handle this recombination and, thereby, help the MNC mitigate the impact of inter-regional distances (Asmussen & Goerzen, 2013). In so doing, we respond to recent calls in the regional management literature for an increased focus on inter-regional management practices and related subsidiary capabilities (Chakravarty, Hsieh, Schotter, & Beamish, 2017; Verbeke, Kano, & Yuan, 2016).

We take our point of departure in the notion of intermediate units—units located between the headquarters (HQ) and the focal subsidiaries that help MNCs make sense of and interpret diverse local conditions (Forsgren, Holm, & Johanson, 1995; Hoenen, Nell, & Ambos, 2014). Thus far, the literature has focused on certain cases, such as fully dedicated regional headquarters (RHQ). However, we concur with Verbeke et al. (2016) that it is critical to understand other regional organizational structures found between HQs and subsidiaries that might contribute to creating and managing new business opportunities beyond regional boundaries. In an attempt to shed light on this question this paper tests a set of hypotheses on data from 188 foreign-owned subsidiaries located in Spain that also hold partial or total ownership over subsidiaries in Latin America.

One such structure is found in springboard subsidiaries,[1] which help

* Corresponding author.
E-mail addresses: cristina.villar@uv.es (C. Villar), angels.dasi@uv.es (À. Dasí), ana.botella@uv.es (A. Botella-Andreu).

[1] Our concept of springboard differs from Luo and Tung's (2007) "springboard perspective," which identifies a specific internationalization process (usually focused on acquisitions) adopted by MNCs from emerging countries. The concepts of "springboard country" and "springboard subsidiary" were first introduced by Pla-Barber and Camps (2012) to explain how European MNCs managed their Latin American operations through their Spanish subsidiaries. We adopt this view of the "springboard" concept.

http://dx.doi.org/10.1016/j.ibusrev.2017.09.001
Received 23 January 2017; Received in revised form 30 August 2017; Accepted 2 September 2017
0969-5931/

Please cite this article as: Villar, C., International Business Review (2017), http://dx.doi.org/10.1016/j.ibusrev.2017.09.001

HQs overcome the liability of interregional foreignness when managing operations in regions that are distant from the HQ from a cultural and institutional viewpoint (Pla-Barber & Camps, 2012). Regions are not homogeneous areas (Verbeke et al., 2016) and the average inter-regional distance might be higher than the distance between two countries located in different regions. This is the case for springboard countries, which are countries located in one region that have strong cultural, institutional, and business relationships with countries in another region (Pla-Barber & Camps, 2012). Such closeness generates location-bound CSAs in the form of institutional and business knowledge that some subsidiaries—those with the certain resources and competences—might leverage and exploit by taking on a springboard role. A springboard subsidiary expands its geographical scope beyond its own country and region. This literature has theoretically characterized this role, and suggested that ownership, coordination, and control of subsidiaries' operations can be located in a region that is geographically distant from the focal region due to the possession of superior institutional and business knowledge. In addition, given its entrepreneurial dimension, the springboard subsidiary is viewed as a specific initiative that alleviates the liability of inter-regional foreignness (Pla-Barber & Camps, 2012).

Despite these theoretical underpinnings, little is known about the resource base that subsidiaries need in order to perform this role. In line with Rugman and Verbeke (2001), we argue that the extent to which these subsidiaries might play a springboard role is related to the existence of SSAs in the form of financial, managerial, and knowledge resources as well as unique competences.

Our findings make three main contributions to the extant literature. First, this paper adds to the emergent literature on dual roles in MNCs (Birkinshaw, Crilly, Bouquet, & Lee, 2016) and to studies on the role of intermediate units within the MNC (Asakawa & Lehrer, 2003; Hoenen et al., 2014). While previous work has focused on the external drivers of an intermediate unit's role, we delve into the SSAs that enable these units to manage a strategic dual role. Second, we contribute to the regional management literature by analyzing the springboard subsidiary as a structural method for overcoming liabilities of inter-regional foreignness (Arregle, Miller, Hit, & Beamish, 2013; Asmussen & Goerzen, 2013) and by qualifying its specificities in terms of subsidiary-level capabilities (Verbeke et al., 2016). Finally, we add to the resource-based view on the subsidiary, which disentangles the resources that trigger subsidiary initiative (i.e., subsidiary entrepreneurship; Verbeke & Yuan, 2013; Verbeke et al., 2016). We also contextualize the determinants of this alternative form of subsidiary entrepreneurship. From a managerial perspective, our findings can help MNCs balance the uncertainty that accompanies expansion outside the home region's borders, as they enable HQs and subsidiaries to better identify and develop intra-firm competences and, thereby, more efficiently achieve this goal.

2. Theoretical framework

2.1. The role of intermediate units in HQ-subsidiary relationships

Regional management research is extending IB scholars' understanding of the MNC as a differentiated network (Rugman, Verbeke, & Nguyen, 2011; Rugman, Verbeke, & Yuan, 2011). Within the multi-tier nested structure, intermediate units serve as a structural solution for balancing MNCs' conflicting demands, as they occupy a middle ground between the HQ's broad global perspective and the narrower local embeddedness of subsidiaries (Alfoldi, Clegg, & McGaughey, 2012; Chakravarty et al., 2017; Hoenen et al., 2014). Hence, they are expected to accomplish a double task (Hoenen et al., 2014; Lehrer & Asakawa, 1999). First, these units efficiently build and maintain deep relationships with local networks. Second, intermediate units interpret, understand, and integrate heterogeneous local knowledge more accurately than HQs, as their managers' knowledge base, effort, and time are focused on their specific area.

Thus far, the extant literature has made important advancements with regard to the distinct configurations of regional structures (Chakravarty et al., 2017) and the external conditions that favor their existence (Alfoldi et al., 2012; Asakawa & Lehrer, 2003; Yeung, Poon, & Perry, 2001). Along with location (Birkinshaw, Braunerhjelm, Holm, & Terjesen, 2006), studies point to the type of environmental pressures (e.g., dynamism, hostility, competitiveness) and the type of industry as key external antecedents of the emergence of intermediate units (Asakawa & Lehrer, 2003; Hoenen et al., 2014; Verbeke & Yuan, 2013; Yeung Poon & Perry, 2001). In terms of internal factors, Hoenen et al. (2014) investigate the entrepreneurial capabilities of intermediate units and suggest that their middle position allows these units to benefit from local diversity within a larger area of influence, while they are simultaneously able to interpret and make sense of local environmental conditions. Despite these recent efforts, few studies provide empirical evidence on the subsidiary characteristics needed to perform an intermediate role (see Li, Yu, & Seetoo, 2010, and Lunnan & Zhao, 2014 for exceptions).

We aim to improve our understanding of how a specific intermediate unit—the springboard subsidiary—might leverage CSAs by assuming a dual role: the management of its ongoing domestic activities and the pursuit of new opportunities beyond its region (Birkinshaw, 1997). More specifically, we focus on the location-specific advantages that some countries can offer for inter-regional expansion. For countries located "halfway" between two regions for historical, cultural, institutional, or economic reasons (Makino & Tsang, 2010), their middle position can serve as a useful way to minimize psychic distance. In this sense, we define a "springboard country" (Pla-Barber & Camps, 2012) as one that is located in a region with strong cultural, institutional, and economic relationships with countries in another region. One example is the case we focus on, Spain and its relationships with Latin American countries.

Notably, there are several pre-conditions for qualifying as a springboard country (Pla-Barber & Camps, 2012). In terms of institutional knowledge, the country should hold an intermediate position that enables the establishment of legitimacy in the target region. In terms of business knowledge, the country should also share an intense knowledge flow with the target region. According to Pla-Barber and Camps (2012), these conditions endow the springboard country with a special position in terms of knowledge about institutions, cultural similarities, and business experience, all of which are central to experiential knowledge (Eriksson, Johanson, Majkgård, & Sharma, 1997; Johanson & Vahlne, 1977). Both pre-conditions are met in the case we focus on in this paper. Spain is an intermediate country for the target region of Latin America. Our point is that these locational benefits might be better exploited by delegating coordination and control of the Latin American operations to the Spanish subsidiary. The potential advantages relate to the lower uncertainty, discrimination, and complexity that these firms might encounter in target locations (Asmussen & Goerzen, 2013).

A springboard subsidiary plays a dual role (Birkinshaw, 1997). On the one hand, it serves as the local subsidiary in its own country. On the other hand, it has a mandate to create and manage business in the target region. Consequently, the springboard subsidiary becomes the principal for local units, and it supports their consolidation by taking on entrepreneurial and coordination tasks (Pla-Barber & Camps, 2012). In essence, this intermediate unit is recognized by corporate management and endowed[2] with an advanced strategic mandate to exploit its

[2] Birkinshaw et al. (1998) establish that corporate recognition can happen through either a top-down process (i.e., corporate managers identifying these subsidiaries) or a bottom-up process (i.e., starting with the subsidiary's entrepreneurial efforts to demonstrate its expertise and willingness to take on additional responsibilities). We expect this dual role to typically be the result of a given formal mandate from the HQ aimed at minimizing the cost of doing business in a distant region. However, in some cases, the role