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Recommended Citation
O'Brien, Donal; Sharkey Scott, Pamela; and Gibbons, Patrick, "Strategic Activity in the Today's Multinational Subsidiaries" (2012). *Conference Papers.* Paper 26.
http://arrow.dit.ie/buschmancon/26

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Strategic Activity in the Today's Multinational Subsidiaries

ABSTRACT

This working paper presents an ongoing empirical study into strategy development at the subsidiary management level of the Multinational Enterprise (MNE). The multinational subsidiary is a unique context to study management processes relating to strategy but so far, despite the emergence of the concept, there has not been a coherent approach identifiable in the literature. It is recognised that subsidiaries evolve over time and through their own actions and initiatives have the potential to modify the power structures of the Multinational Enterprise (MNE) but little is known about the role of the subsidiary manager in this process. We suggest that the tensions between the headquarters perspective and the subsidiary perspective have resulted in the application of inappropriate frameworks to the study of subsidiary managers. We propose that, the unique position which the subsidiary manager occupies within the overall context of the MNE requires the application of a specific framework which reflects this reality. The subsidiary manager performs the role of a middle manager within the overall MNE structure. To analyse this role we have adapted a framework of middle manager strategy development based on Floyd and Wooldridge's (1992, , 1997) seminal work in the field of middle manager research. The framework outlined in this study extends Floyd and Wooldridge's work to include three different types of Middle Manager Strategic activity; Upward, Downward and Horizontal. The items in the survey were developed particularly for the multinational subsidiary context. The model tests subsidiary manager's engagement in strategy, the antecedents, and the outcomes of that role. A large scale mail survey of the entire population of multinational subsidiary was undertaken to test the model. Data analysis is currently underway.

Applying the middle manager perspective to the subsidiary manager opens up the possibility to make important theoretical contributions to a number of research streams. Firstly, from an international business perspective, the middle manager framework could unlock valuable insights into how subsidiary managers engage in strategic activity. Secondly, for the strategy field, there is an opportunity to apply the middle manager framework of strategy development to a specific and underexplored setting. From a practitioner perspective there is potential to identify the distinctive abilities required to be a successful subsidiary manager in today's global environment. The importance of these managers cannot be overstated. Their relative success in enacting their role can provide benefit to their own subsidiary unit, the global MNE, and the local economy in which they operate. A greater understanding of how they engage in this process may reveal the true value of the Subsidiary General Manager.

Strategic Activity in the Today's Multinational Subsidiaries

INTRODUCTION

This working paper presents an ongoing empirical study into subsidiary general manager's engagement in strategy at the multinational subsidiary level. The research draws on the middle manager perspective of strategy and makes a robust argument for departing from previous approaches of subsidiary strategy research and conceptualising the context in which the subsidiary general manager engages in strategy.

Traditionally, the strategic role of the subsidiary general manager was based on their capacity to maintain and grow the local operations while managing their relationship with Corporate Headquarters. This view no longer captures the mounting constraints which subsidiary managers face and the array of skills required to be successful in the modern MNE. Paradoxically despite these constraints, there is an expectation on subsidiaries to create knowledge and innovation and develop their mandate. A number of strategic options remain under the control of subsidiary managers which enable units to achieve these goals. They retain the ability to reconfigure resources and develop capabilities which drive development (Birkinshaw and Hood, 1998), improve performance (Subramaniam and Watson, 2006) and influence the MNE as a whole (Andersson et al., 2005, Williams, 2009). However, subsidiary management research has been slow to explore the enactment of strategic activity at the subsidiary management level. We address this oversight by proposing and empirically testing an organising framework for subsidiary management strategic activity based on the middle manager perspective of strategy development.

THEORETICAL BACKGROUND

Considering the depth of subsidiary management research it is noticeable that from a strategy perspective there are few clear insights to guide either researchers or subsidiary managers (Dörrenbächer and Geppert, 2009, Scott et al., 2010). Birkinshaw and Pedersen (2009) contend that within the field of multinational subsidiary research there is considerable scope for more careful application of theory. A great deal of the research which has been carried out to date has been well structured but lacking in strong theoretical underpinnings. However, the task of applying theory to Multinational Subsidiary research is challenging for a number of reasons. To begin with, the required level of analysis for the majority of theory is the MNE as a whole, rather than the subsidiary. Problems arise when attempting to apply firm level theory to the subsidiary unit.

One of the factors behind these problems has been the confusion over what constitutes subsidiary strategy and what are its main components? A distinction is commonly made in the literature between the concepts of subsidiary strategy and subsidiary role. A subsidiary's role is assigned to it by the parent company, whereas subsidiary strategy suggests some level of choice or self determination on the part of the subsidiary (Birkinshaw and Pedersen, 2009). The underlying premise of subsidiary strategy is that despite the constraints placed on subsidiary management by headquarters and the marketplace, they still make decisions of their own volition, not simply on behalf of HQ. Our analysis of subsidiary studies confirms that subsidiaries are engaging in strategy development, at least at a local level, with a view to building or at least maintaining current resources. Theorising this behaviour represents a major consideration when selecting an appropriate research foundation.

Researching Strategy at the Subsidiary Level; the Importance of Context

Subsidiary management research has evolved to take the subsidiary itself as the unit of analysis, now research must incorporate factors associated with the unique context in which the subsidiary operates. Recent literature highlights the growing acceptance that subsidiary managers make strategic decisions related to their own unit (Birkinshaw et al., 1998, Birkinshaw et al., 2005). However, if one considers the position of the subsidiary within the overall organisational structure of the MNE, they are located at the middle level. The applicability of traditional strategic management approaches is therefore very questionable.

At its origins, strategic management assumed that strategy research is about helping top managers determine appropriate organisational strategy and install necessary implementation mechanisms. Even after the field turned towards strategy process research the "top management" perspective remained the genesis for virtually every hypothesis in empirical work, and most theoretical work has moved under the same assumptions (Hambrick, 1988, Hambrick and Mason, 1984). The assumptions that dominate the field are: (i) strategy making is a choice process involving the hierarchical ordering of alternatives; (ii) top managers encounter and process the information necessary to make a choice; and (iii) the choice made by top management leads directly to organisational outcomes (Andrews, 1971, Ansoff, 1965, Chandler, 1962).

The body of research on the "top management team" view of strategy represents some of the most coherent and cumulative research in the organisational sciences (Wooldridge et al., 2008). However, the particular context of the subsidiary highlights the limitations of its underlying assumptions and as a result, our understanding of how strategy develops. Subsidiary research has failed to shine a light on processes relating to strategy. Theorists have focused on how

resources are allocated in support of a competitive positioning strategy, and this has led to an emphasis on top managers as the locus of strategy making (Floyd and Wooldridge, 2000). By concentrating on the competitive positioning view of strategy the focus has been on the allocation of resources, not their accumulation, an area of specific importance to subsidiaries.

An Organising Framework for Subsidiary Management Research

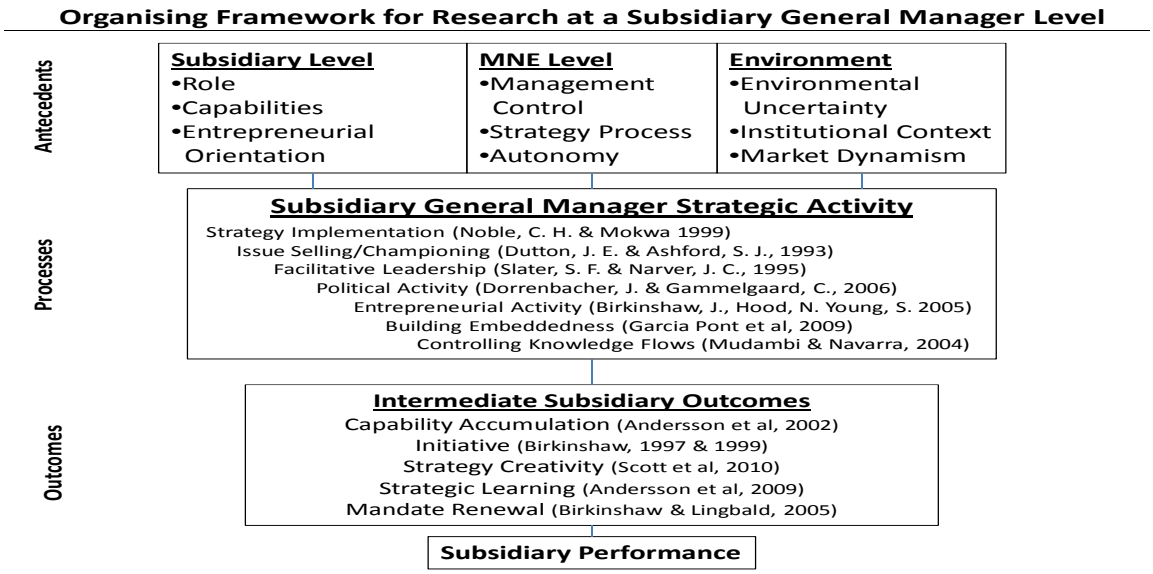
One of the major challenges in subsidiary management research has been in trying to isolate the impact of strategic activity at the subsidiary level. As the subsidiary unit must always be viewed in the context of the overall MNE, researchers have found it difficult to separate organisational outcomes at the subsidiary level. This difficulty is mirrored in middle management research where one of the major challenges in middle management research is in identifying the relationship between middle management activity and key organisational outcomes. Top management team research focuses exclusively on such effects, whereas middle management research is also concerned with intermediate outcomes such as sub unit performance and initiative development (Wooldridge et al., 2008). There is a major opportunity to make contributions to the subsidiary management field and the middle manager field by applying the middle manager framework of strategic activity to the subsidiary manager.

Both subsidiary management research (Dörrenbächer and Gammelgaard, 2006) and middle manager research (Wooldridge et al., 2008) need to incorporate the conditions leading to and outcomes resulting from the enactment of strategic roles. The figure below sets out a framework to guide future research. The first step is to include antecedent factors which outline the context in which the subsidiary operates. Step two is to analyse the nature of the strategy process activity that the subsidiary managers engage in. This approach has been the basis of

much of the excellent research on middle manager strategic activity (e.g. Floyd and Wooldridge, 1992, , 1994, , 1997, Balogun and Johnson, 2005, Dutton et al., 1997, Rouleau, 2005, Mantere, 2008)

Having analysed the elements of Context, and Process it then becomes possible to measure the impact of these factors on intermediate outcomes at the subsidiary level e.g.; Capability Accumulation (Andersson et al., 2002), Initiative (Birkinshaw, 1997, Birkinshaw, 1999), Strategy Creativity (Scott et al., 2010), Strategic Learning (Anderson et al., 2009), Mandate Renewal (Birkinshaw and Lingblad, 2005). By focusing on a particular middle manager strategic type i.e. the subsidiary general manager; there is the opportunity to develop a more normative understanding of middle management strategic activity. Existing theory asserts associations between middle manager roles and organisational strategy but fails to address the question of how such alignment develops and how it influences organisational performance. By including elements of context and process the related progression to important organisation outcomes can be considered. This approach has the potential to lead subsidiary strategy research to a more holistic view of strategic activity at the subsidiary level, while also offering the potential to add to our understanding of more general management roles (Wooldridge et al., 2008).

Figure 1.

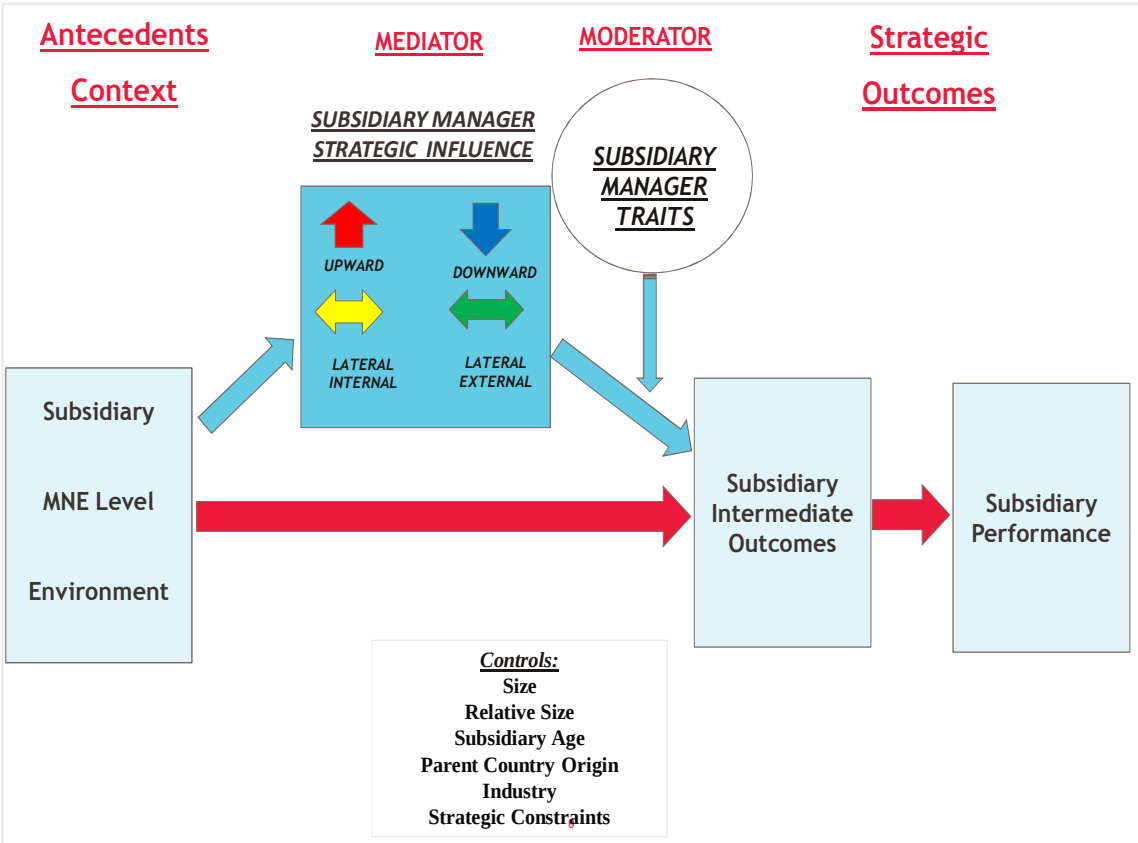


METHODS

The entire population of over 1200 MNC subsidiaries located in Ireland was targeted for this study. On the basis of a focus group and pre-test results, the Subsidiary General Manager was selected as the key informant, as in other studies of subsidiary behaviour (for example, (Holm and Sharma, 2006). A comprehensive data base was developed based on the Industrial Development Authority Ireland website (Ireland's National Development Agency), and a random sample of subsidiaries contacted to ensure that contact details were accurate and up to date. The mail questionnaire followed the ‘tailored design method’ of Dillman (2000) in design and administration. The success of this approach is reflected in the profile of respondents (all have General Manager/director titles, and the response rate of 15%, which compares favourably with the average top management survey response rate (Hult and Ketchen, 2001). The draft questionnaire was pre-tested by a mix of experienced commercial managers and academics. Seven point Likert scales (from 1=‘not at all’ to 7=‘to a very large extent’) were utilised throughout. With the exception of the strategy development measure, existing measures were used to increase content validity, and modified where necessary to reflect the subsidiary as the unit of analysis. Reverse scoring was utilised to reduce the issue of

acquiescence—the 'tendency to agree with attitude statements regardless of content' (Podsakoff and Organ, 1986), and respondents were kept unaware of the relationships under investigation to avoid over-justification issues. Because a single respondent provided the data for our study, we utilised previously validated measures where possible (Wang, 2008) and checked for common method variance (Podsakoff and Organ, 1986). In addition, a series of 24 interviews with CEOs and senior directors from a diverse range of subsidiaries from our targeted population, addressing the key variables in our study increases our confidence that common method variance is not an issue.

Figure 2. Model



ANALYTICAL TECHNIQUES

The proposed approach to the data analysis phase is set out as follows:

Test for the Direct, Mediating and Moderating effects using regression modelling. We are adopting Baron and Kenny's (1986: 1173) definition of a mediator and a moderator.

- Step 1, establishes a relationship between the independent antecedent variables, and the dependent outcome variables
- Step 2, consider the relationship between the independent variables, and the mediating variable; ***subsidiary manager strategic activity****;*
- Step 3 then measures the effects of ***subsidiary manager strategic activity*** on each of the outcome variables to establish mediation.
- Step 4 if mediation is established then measure the effects of the moderating variable: ***subsidiary manager traits:*** on the mediating effects of ***subsidiary manager strategic activity***

DISCUSSION

One of the major challenges in subsidiary management research has been in trying to isolate the impact of strategic activity at the subsidiary level. As the subsidiary unit must always be viewed in the context of the overall MNE, researchers have found it difficult to separate organisational outcomes at the subsidiary level. This difficulty is mirrored in middle management research where one of the major challenges in middle management research is in identifying the relationship between middle management activity and key organisational outcomes. Top management team research focuses exclusively on such effects, whereas middle management research is also concerned with intermediate outcomes such as sub unit performance and initiative development (Wooldridge et al., 2008).

This study represents a major contribution to the subsidiary management field and the middle manager field by applying the middle manager framework of strategic activity to the subsidiary manager. Both subsidiary management research (Dörrenbächer and Gammelgaard, 2006) and middle manager research (Wooldridge et al., 2008) need to incorporate the conditions leading to and outcomes resulting from the enactment of strategic roles. This study is an initial stage in establishing a framework to guide future research. The approach outlined in this study has the potential to lead subsidiary strategy research to a more holistic view of strategic activity at the subsidiary level, while also offering the potential to add to our understanding of more general management roles (Wooldridge et al., 2008).

Subsidiary managers are members of global management teams which require them to engage in a diverse range of management activities. The required global management skills must be combined with the ability to drive their own subsidiary unit forward and to provide leadership to the workforce under their control. The subsidiary manager must also operate within the constraints imposed on them by the global corporate structure which recent trends suggest, will continue to become more constrained. Future research needs to uncover the distinctive skill set required to be a successful subsidiary general manager. The research agenda proposed in this study has the potential to be the foundation for research which outlines the basis for successful subsidiary management practices, and which can be more anticipative of subsidiary manager's needs.

CONCLUSION

By applying the middle manager framework outlined in this study there is the potential for two important theoretical contributions. Firstly, for the strategy field, there is an opportunity to apply the middle manager framework of strategy development to a specific and underexplored setting, which could drive valuable insights for application to more general business

(Bamberger and Pratt, 2010). Secondly, from an international business perspective, the middle manager framework could unlock valuable insights into how subsidiary managers engage in strategic activity which drives development and provides benefits for the entire MNE. From a practitioner perspective there is a major contribution to be made in highlighting the distinctive abilities required to be a successful subsidiary manager in today's global environment. The importance of these managers cannot be overstated. Their relative success in enacting their role can provide benefit to their own subsidiary unit, the global MNE, and the local economy in which they operate. A greater understanding of how they engage in this process may reveal the true value of the Subsidiary General Manager.

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