

**How do subsidiaries design their strategies? Notions towards a theory on
subsidiary strategy**

ABSTRACT

The purpose of this paper is to perform an in-depth study of a particular subsidiary in order to determine how it understands, defines, and implements its own strategy. The extensive attention that subsidiary role and subsidiary initiative-taking have aroused in the field has tilted our conception of subsidiary strategy either to the fulfillment of a role imposed by HQ or to the generation of initiatives that add value to the corporation. However, subsidiary strategy may be understood more fully if we take a more general approach and define subsidiary strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary to carrying out those goals. Through an inductive study, our qualitative and quantitative evidence suggests that subsidiaries determine their long-term goals as an enterprise comparing its position along the MNC with that of other subsidiaries. These goals are achieved through an internal bargaining to develop resources and through a ‘manipulation’ of the subsidiary’s ordinary pattern of relationships with other entities of the MNC and clients. These ideas may be basic notions to develop a more complete theory on subsidiary strategy.

How do subsidiaries design their strategies? Notions towards a theory on subsidiary strategy

Introduction

A literature review on subsidiaries may suggest the existence of subsidiary strategy. The study of the contribution of these entities to the overall Multinational Corporation (MNC) has evolved from a merely passive implementation of head offices mandates, towards a more pro-active and initiative-taking strategic behavior. Underlying this pattern of research the idea prevails that subsidiaries may develop their own strategy by means of two alternatives. On the one hand, subsidiaries may simply fulfill the responsibilities that come from a specific role assigned from headquarters (HQ), following a mainly induced behavior. In this sense, subsidiary strategy may be equaled to subsidiary role, as some literature may suggest (White & Poynter, 1984; Jarillo & Martínez, 1990). On the other hand, subsidiaries may be sources of a MNC's competitive advantage and providers of strategic initiatives, following a more autonomous behavior. From this point of view, subsidiary strategy may be equaled with initiative-taking, as other authors also seem to suggest (Birkinshaw, Hood et al. 1998; Taggart, 1999; Delany, 2000). In fact, the extensive attention that subsidiary role and subsidiary initiative-taking have aroused in the field has tilted our conception of subsidiary strategy either to the fulfillment of a role imposed by HQ or to the generation of initiatives that add value to the corporation.

However, subsidiary strategy may be understood more fully if we take a more general approach: although subsidiaries face corporate and resource constraints, there are no reasons that impede them to define their own mission and goals, and look after their

own future. If we define strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary to carrying out those goals (Chandler, 1962), the suggested meaning of subsidiary strategy that we find in the literature may be a little vague. Subsidiary strategy may be defined more fully if we see it as a complicated balance between its induced and autonomous behavior, a balance between fulfilling the responsibilities that come from the HQ assigned role, and the generation of strategic initiatives that add value to the MNC. How do subsidiaries combine these pressures and still keep their own desired identity?

The issues of how subsidiaries have to be controlled for better performing their assigned role (i.e. how to promote their induced strategic behavior), and the issues of how subsidiaries have to be managed in order to strategic initiatives take place (i.e. how to promote their autonomous strategic behavior) have received extensive attention (see, for example, Prahalad & Doz, 1981; Cray, 1984 and Andersson & Forsgren, 1996 for the first topic, and Birkinshaw, 1997 and Delany, 2000) for the second). However, little has been said as regards how subsidiaries combine both simultaneously. That is to say, even though the literature on subsidiaries suggests that these entities have their own strategy, we still fall short of knowing how they actually formulate and implement it, which highlights a gap regarding theory on the intricacies of subsidiary strategy.

The purpose of this paper is to perform an in-depth study of a particular subsidiary in order to determine how it understands, defines, and implements its own strategy. For that purpose we organized our research around two basic questions: How do subsidiaries determine their basic long-term goals and objectives as an enterprise?

Which courses of action they adopt? Given that, to our knowledge, no study has addressed these issues directly, we follow an inductive study. We found that subsidiaries determine their long-term goals as an enterprise comparing its position along the MNC with that of other subsidiaries. These goals are achieved through an internal bargaining to develop resources and through a ‘manipulation’ of the subsidiary’s ordinary pattern of relationships with other entities of the MNC and clients. Empirical base for these assertions is developed in this paper.

Research Method

We studied subsidiary strategy through an in-depth, longitudinal analysis of an over-achiever subsidiary, *Subsidiary Spain*, a manufacturer of auto parts¹. Given that our interest is to understand the dynamics present within a single setting, case study is the adequate research strategy (Yin, 1994). We intend to provide description of how subsidiary strategy takes place and to generate insights as regards a theory on subsidiary strategy. For that purpose we rely on theoretical sampling and select a ‘subsidiary polar type’, were the process of interest is transparently observable, as suggested by (Pettigrew, 1988).

There are three characteristics that make *Subsidiary Spain* worthwhile study. First, as it is based in Spain, the subsidiary does not have local customers to serve. The locus of decision-making of its customers is at the regional HQ of the different Original Equipment Manufacturers (OEMs), none of which are in Spain. Thus, there are better positioned subsidiaries that may establish relationships with *Subsidiary Spain*’s customers. This implies that *Subsidiary Spain* had to be especially active in developing

¹ Company data has been disguised for reasons of confidentiality without changing the essence of their evolution. One of the authors has been following the company for more than ten years, so we had access to extensive strategic documentation as well as operational data.

its position in the market and along the MNC if it wants to maintain a level of corporate strategic importance. Second, even though the above-mentioned market limitation, *Subsidiary Spain* is currently the better performing subsidiary in the division, both in economic and operational terms. It shows the higher Return on Sales (ROS), flexibility and productivity measures among all the subsidiaries worldwide. And third, *Subsidiary Spain* has recently contributed with some strategic initiatives and capability development for the division². We think that these characteristics show how active the selected subsidiary has been in terms of defining its own strategy. Our case selected, therefore, has potential to shed light on the issues of subsidiary strategy, making it appropriate for the purpose of this piece.

Subsidiary Spain belongs to *Multinational*, a diversified MNC that manufactures auto parts, who is active in more than 30 countries in Europe, the Americas and Asia Pacific. The Spanish subsidiary, had sales of €350 million in 2001 with 1.800 employees. This subsidiary has two main manufacturing facilities (Plant1 and Plant2) and local headquarters (HQ *Spain*).

Data Sources and Data Analysis

Our involvement with the company started at 1993 when one of the authors was invited to facilitate a meeting at *Subsidiary Spain*. The objective was to review the company's situation and develop a detailed plan for implementation of the desired changes. From 1993 to 1998, the above-mentioned author participated in several such meetings at

² As examples of these contributions we have: the process of launching of new applications was first developed and applied in Spain, and later translated into the needs of the division; the concepts of lean manufacturing were first applied in Spain and later were tried to be transferred to other units; the first far-east customers, both Korean and Japanese, were dealt with from the Spanish subsidiary, along the whole process from the request for quotation to the final launch of the specific products.

several levels in *Subsidiary Spain*, interviewing managers and collecting relevant data to help structure the agenda for the company.

On a second stage, for the purpose of writing this document, 10 unstructured but formal interviews were carried out along August and December 2002 with key people with whom we checked our interpretation of the facts. We interviewed 5 managers directly involved with the direction and administration of *Subsidiary Spain* from 1993 to 1998: the company's CEOs during the period, the two Plant Directors, the Human Resources Manager and the Chief of the Engineering Department.

The second author was involved in these conversations, so that the intimate knowledge of the company by the first author did not bias the other's interpretation. Interviews were collected iteratively along several months, and questions were included in subsequent interviews aiming at overall informant consistency, trying to cover similar items in each conversation. Several discussions about the content of the interviews were maintained among authors. In cases where disagreement was present a telephone call to concrete company executives was made to clarify the issue. This whole process aims at reliability during the interview data collection.

We triangulate the information obtained through the interviews with the longitudinal database derived from our involvement with the company and the access to archival data such as summaries of corporate meetings, internal communication memos, productivity indexes and summaries of strategy oriented meetings. The rich data that emerged from this triangulation helped us built the case of the subsidiary. Finally, the

case was sent to *Subsidiary Spain* and was approved by two managers of the company after few minor modifications.

One of the most repetitive issues that appear during our interaction with managers was the idea that a vital part of *Subsidiary Spain*'s strategy was its relationships with different counterparts of the business (other units of the MNC and clients). In order to validate this argument, we performed a network analysis of the relationships started at *Subsidiary Spain* and oriented 'outside' it, meaning oriented towards other units but those that made up the subsidiary. For that purpose we examine the subsidiary network as it is reflected in 1998.

Network analysis has a particular set of methods and techniques used to catalogue a pattern of relationships; in Appendix 1 we define and explain the ones used throughout this research.

Subsidiary Spain: The Story

From 1993 to 1998 *Subsidiary Spain* suffered an important strategic transformation. It moved from being a mere plant to becoming a strategic player within the global company and among customers and suppliers. The story of *Subsidiary Spain* then is one of a regular subsidiary that surprisingly was able to gain significance in the strategic development of her mother company. Based on the database constructed with the qualitative information collected, we summarize this history next.

Since 1988, the business strategy of *Multinational* has been one of optimizing operations, reducing costs and minimizing delivery time. Due to its high market share

and the consolidation of the automotive market their business strategy was perceived as sound. Additionally, the globalization process carried out by the MNC had lead *Subsidiary Spain* to a situation in which its customers and suppliers were spread worldwide. By 1993, *Subsidiary Spain* had little local customers, neither a proprietary technology nor a team to develop it, and its two plants were at odds from each other. In words of the subsidiary CEO from 1993 to 1998 their situation was as follows: *“Until 1993 our role was to execute orders coming from the head office or from other units within the group: we were just manufacturers of parts, simply plants with a marginal role within the group”*.

In this situation, using as a benchmark operative indicators of other subsidiaries of the group, *Subsidiary Spain’s* managers felt the subsidiary was a candidate to relocation to countries that enjoyed lower labor costs. Therefore, they decided to design a long-term plan that allows *Subsidiary Spain* to gain identity within the division. The subsidiary CEO during this period of analysis summarizes this idea: *“If we were to avoid plants relocation, something that happened with other plants of the group, it was vital for Subsidiary Spain to be able to add value to the MNC; we decided to transform our unit in order to make it able to greatly contribute to the division; we wanted to base our prestige in efficiency, the best manufacturing and a high flexibility... we aimed at developing our own identity”*.

The designed long-term plan was based upon three pillars. Firstly, it aimed at developing strong local HQs in order to improve coordination and knowledge transmission among plants. Fulfilling this function, *Subsidiary Spain* also expected to serve as a filter between its plants and other units of the MNC; given the low-profile

position of its plants, *Subsidiary Spain* thought it was necessary to act as an intermediary between Spain and the division in order to gain presence in the normal set of routines generated by the units of the MNC.

Secondly, it pursued to develop local R&D capabilities, emphasizing the engineering department. Many young engineers were hired with the objective of generating novel manufacturing processes, more efficient plant lay-out designs, and better applications of the existing products. It was also expected that this investment, indirectly, may give *Subsidiary Spain* a better position compared with similar units in countries like France and Germany. May this strategy worked, *Subsidiary Spain* would be able to establish immediate and fluid relationships with the engineering departments of other units of the MNC and similar of its clients.

Finally, it aimed at developing the commercial department, in order to bring customers closer to *Subsidiary Spain*. As it was noted before, not a OEMs has its premises at Spain but in far away countries like Germany, France, US, or Japan. In order to balance this negative position, *Subsidiary Spain* decided to push its sales people trying to develop the Asian market; decided to push its production department and its plant managers in order to bargain internally the MNC to gain projects and products; and, finally, decided to hire international and well prepared managers that were able to be directly in touch with clients and engineers of other units of the MNC.

These issues were materialized through the structure of project teams. Two types of teams were devised on the basis of the two essential processes in manufacturing brakes, i.e. mass production and launching of new products. While the former was formed by

interdisciplinary teams, within a defined time frame, and aiming at serving the customer through all the development process, the latter followed a functional to serve standard production, aiming at flexibility and reducing time-response.

The overall long-term plan was brought up as a suggestion by the subsidiary to the divisional head. The argument used was that the integration of the subsidiary within the group activities, being closer to the customer and the division, would allow *Subsidiary Spain* to produce faster, respond before and add more value to the division. The process followed to gain the division's authorization was quite eclectic. In words of Plant2 Director: *"from the subsidiary viewpoint one moves in a political environment, within which you have to get what you want without upsetting others; so far nobody has felt that way with our moves, since Subsidiary Spain was not important within the group...Sometimes you negotiate these things with head office, some they grant and some not... sometimes you just don't make a proposal, you simply act and head office would endorse it after the facts"*

The results of the implemented strategy started to be evident at 1998 when as a result of sound management performed by the CEO of *Subsidiary Spain* he was promoted to a higher position within the MNC.

It can be said that by 1998, *Subsidiary Spain* turned 1993 situation around. With a share of 11% over total turnover, it was the larger subsidiary of *Multinational*. During the years that follow 1998, 1998-2002, many managers from the Spanish subsidiary were promoted to global functions and responsibilities, which show the contribution potential of the unit within the MNC. This fact was partly due to the perception from the division

that *Subsidiary Spain* is now more able to contribute strategically to the global organization due to its managers' knowledge about operations and processes of the business. This assessment of strategic contribution is revealed by the flow of product process development brought from other subsidiaries to *Subsidiary Spain* to speed up the production process. For example, *Subsidiary Spain* was able to put into mass production a prototype in the record time of one month. Moreover, from the selling perspective, customers from distant countries like the US or Japan would specifically ask to be served by *Subsidiary Spain*. Similarly, after a global benchmark process, it was decided to clone across the rest of the subsidiaries the task forces model designed by *Subsidiary Spain* to launch new products, or it was decided to 'translate' to the US the lay-out designs developed and implemented by the plants of *Subsidiary Spain*.

Additionally, after some bargaining process, plant managers at *Subsidiary Spain* were able to gain for the Spanish subsidiary the production of certain parts that were turned down by other units of the MNC. The whole process left *Subsidiary Spain* specialized and responsible within the group of the production of high-margin brakes-system parts. All in all, *Subsidiary Spain* achieved a high reputation along the MNC based upon its manufacturing excellence, its best selling team, its flexibility at launching new products, its well-known engineering team and the fact of being the largest subsidiary of *Multinational* in terms of sales.

Even though the processes of formulation and implementation of strategy are interwoven, we next separate both issues for the sake of clarity as regards concepts that may generate a theory on subsidiary strategy.

Subsidiary Strategy Formulation: Improving Positioning along the MNC

How do subsidiaries formulate their own strategy? How do subsidiaries determine their basic long-term goals and objectives as an enterprise? Our evidence suggests that they do so by comparing their positioning with other units of the MNC and by trying to improve it by means of affecting corporate resource-allocation decisions.

MNCs' resource configuration studies has emphasized the need to locate resources to pursue sources of competitive advantage associated with global integration, local responsiveness and learning (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1991; Nohria & Ghoshal, 1997; Doz, Santos et al., 2001). In other words, resource configuration in MNCs has traditionally been analyzed from an economic perspective, on the assumption that resource allocation decisions are based on rational self-interested considerations such as profitability or protecting a competitive position. Following Granovetter (1985), this kind of economic analysis typically ignores the important effects that surrounding social structures have on organizations' economic behavior. Ghoshal & Bartlett (1990) suggest that certain MNC attributes, such as resource configuration, can be explained by certain attributes of the external network within which the organization is embedded and on which it depends for its survival. A subsidiary whose MNC's HQs are following a plants relocation strategy based on performance indicators and local market importance, would not witness this process with indifference and do nothing. On the contrary, they may try to improve its position vis-à-vis other units by means of affecting corporate resource allocation patterns.

This is exactly the experience of *Subsidiary Spain*. In words of Plant1 Director: “*since we belong to Multinational, we've learnt how important it is to compare you with line*

companies [other subsidiaries of the group]. Year after year standards are set based on the best-performing subsidiaries of the group, so you're bound to look for sources of improvement in your plants". As it was mentioned in previous sections, *Subsidiary Spain's* situation as for 1993 stood as a clear disadvantage in front of other subsidiaries in European countries, which either had relationships with local customers or enough R&D to cope with developing new products. In this line, the formulation of the subsidiary's basic long-term goals and objectives as an enterprise was aimed at reversing this situation. As the CEO of the company puts it: *"our main idea was to move from a mere implementation of Multinational's orders to a generation of ideas that would have an impact on worldwide processes... we wanted to achieve global relevance even though our local market, due to the absence of local clients, may prevent it"*.

However, even though a particular subsidiary may find ideas that may acquire global relevance or find any source of improvement, e.g. the need to have a better engineering team at *Subsidiary Spain*, corporate resource-allocation policies may advise against some investments. In words of our previously mentioned interviewee: *"could you imagine the reaction at Multinational when we asked a larger budget for the engineering department? Our petition was interpreted as we didn't trust anymore on the German or French engineers we used to work with. It was also contrary to HQ's strategy of centralizing engineers at Germany. We therefore have to convince Multinational telling them that a better engineering team was the best way to be closer to our clients: by hiring people able to talk the same language as their engineering departments"*. Hence, from a subsidiary's point of view, in order to get the resources it thinks are vital for its

future, it has to bargain internally in order to be benefited by corporate resource allocation decisions.

The difficulties of rationalization may also play in favor of the subsidiary in their quest for affecting corporate resource-allocation decisions. MNCs are never designed from scratch, but are the consequence of different historical developments that shape the overall configuration of their international value chain. Thus, some subsidiaries are there because they were acquired in the globalization process, others might be there because at a certain point in time trade restrictions made green-field development the only option. Rationalizing value chain activities, though imperative, is not always possible. On the one hand, institutional settings may make it difficult to terminate certain activities, e.g. the cost of redundancies in the event of a plant closure in Germany or Spain is significant and may even preclude that option. On the other hand, certain subsidiaries may have grown specific assets that make up for the apparent inefficiency of having activities dispersed among different geographical locations. Given the visibility and importance of Plant1 in the region where it operates, its closure would have had an enormous social impact that *Multinational* may prefer to avoid. In this line, managers at *Subsidiary Spain* decided to keep the plan small and improve its time-to-market for low demanded pieces, reasoning that was sounded logical to *Multinational*. In words of the Director of Plant1: “*we convince Multinational to give us some money for a complete change in our lay-out production line, showing how hard was to offer low salaries in a city like ours, and offering them to become the fastest plant in the group for small orders*”.

Thus, even when MNCs try to rationalize operations, it is not evident that they can always follow rational resource allocation rules. This ‘economic irrationality’ plays in favor of subsidiaries in their quest for corporate resources: it allows them to present a strategic discourse to HQs that both, sounds favorable to the MNC’s objectives and allows the subsidiary to receive resources aimed at improve the unit’s position along the MNC.

Nevertheless, each subsidiary is embedded in a corporate network where agents note others’ behavior (Anderson & Forsgren, 2000). MNCs typically face a number of different subsidiaries trying to play the global game and being coordinated both through global headquarters and through their individual efforts to maintain their status within the corporation. If a particular subsidiary improves its corporate position, others will not be less and power fights may arise. There is an interesting example from the case we are analyzing. *Multinational R&D* activities has been traditionally set at Germany, were engineers from subsidiaries all over the world are recruited. When *Subsidiary Spain* finally developed a strong engineering department, and excellent product applications were presented at corporate meetings, German engineers started complaining of not having hierarchical power over all *Multinational R&D* activities. The Spanish subsidiary, not unjustifiably, had the feeling that local R&D activities were the result of its own efforts and that it should therefore reap some of the benefits. The loyalties of the R&D leader at Spain were divided between ‘two bosses’ and his political behavior, pleasing both of them, allows *Subsidiary Spain* to keep its strategy on track.

The previous example helps us to link formulation with subsidiary strategy implementation. Given the visibility of the achievements that a particular subsidiary

may have along the MNC, for it to be successful it has to avoid direct confrontation with other subsidiaries but generate friendly multi-country work-teams. In other words, for a subsidiary formulated strategy to succeed, it has to be implemented through a generation of relationships with key people, issue that is addressed next.

Subsidiary Strategy Implementation: Generating Relationships

Which courses of action subsidiaries adopt to achieve their long-term goals and objectives as an enterprise? Our evidence suggests that they do so through a ‘manipulation’ of the subsidiary’s ordinary pattern of relationships with other entities of the MNC and clients.

MNCs are thought to have significant economies of scale in the development of their value chain activities. However, it is already clear that scale economies may work differently when we get down to the specifics of each value chain activity (Porter, 1986). While R&D may be global by nature, the minimum efficient scale of a manufacturing plant does not necessarily need to be global. Still, it may be important that these two activities, R&D and manufacturing, be closely linked through personal contacts that will help the R&D teams to develop new products that are ready for manufacturing. Similarly, relations among different activities, all of them with different minimum efficient scales, may complicate the pattern of relationships among the different activities within the value chain. Given that it is difficult for MNCs to have its activities concentrated in a particular region or subsidiary, most of the times we see that those activities are globally dispersed through different subsidiaries. These units, then, carry out different activities that all belong to a MNC value chain and they need to coordinate with all the other activities distributed globally throughout the MNC.

Therefore, we would expect an intense pattern of relationships for a particular subsidiary.

Our evidence suggests that a subsidiary may actually try to affect those patterns of relationships. At *Subsidiary Spain*, the idea behind the desired strategy was aimed at generating relationships with clients and other units of the MNC. In particular, the subsidiary wanted to establish immediate and fluid relationships with the engineering and commercial departments of other subsidiaries of the MNC, and similar departments of its clients. As the Chief of the Engineering Department commented: *“in MNCs, the units that stand out are, first, those with lower manufacturing and production costs, but then, those that know key people along the organization... it is important how good you're at performing your job, but it may be even more important that key people along the MNC get aware of it”*. As concurrent engineering is a common practice in the industry, work is organized around projects, with specific team-works made up to manage them. Given that MNC's managers do not know all the skills their different local managers have, they turn to 'global executives', people with global responsibilities whose job is to find, select and organize efficient teams with the best people of the organization. From the point of view of the subsidiary, then, it is important for its managers to acquire global visibility. As the Human Resources Managers commented: *“we have concrete policies for our managers to gain visibility along Multinational: we're constantly updating their knowledge through specific courses, we're tilting them to participate in global projects and suggesting them to participate actively in corporate meetings... more and more, our managers receive congratulations from Multinational managers when they do an outstanding presentation at those meetings.....”*

We therefore examine the pattern of relationships started from *Subsidiary Spain*. All the reasoning of its managers has to be reflected somehow in their work-based interactions with people ‘outside’ the subsidiary. Table 1 shows the more general approach to our issue of interest.

Table 1
Subsidiary Spain: Relationships with ‘outside’ units

	# Relationships	Proportion
With Multinational (HQ) people	202	0.275
With other subsidiaries’ people	188	0.256
With clients’ people	191	0.260
With suppliers’ people	153	0.208
TOTAL	734	1.000

From the point of view of *Subsidiary Spain* as a whole, we will proceed hierarchically to explain its pattern of relationships. First, we can see that these 734 interactions are distributed more or less equally across the four major categories: *Multinational* (28%), subsidiaries (26%), clients (26%) and suppliers (21%). Thus, 47% of these key people’s relationships are with outside actors, namely customers and suppliers, and 54% are with people inside the MNC. Of the inside relationships 50% are with divisional headquarters and 50% with other operating companies. We would argue, then, that this subsidiaries’ pattern of relationships is distributed equally among these four types of actors.

Going down one level, we should try to identify the most important actors among the line companies (See Table 2). The most important countries in terms of size are France, Germany and the US. The three of them are of a similar size in terms of revenues and people. The most important country in terms of relationships with Spain is France. This is consistent with the fact that France is the country with which there has been most operational integration. Both line companies share the task of serving French customers,

producing different parts of the same product. Accordingly, the need for coordination between the two companies is significant. Nevertheless, through internal bargaining, *Subsidiary Spain* has received global responsibility over the production of specific brakes pieces that were manufactured at dispersed units of *Multinational*. Consequently, the number of work-based interactions between the units of these two countries has increased as compared to the situation of 1993. This fact is also reflected by the number of corporate projects where both countries were involved: in 1993, they only participated in 8 such projects whereas in 1997, 12 such projects existed. As Plant2 Director puts it: “even though we’re more fast and efficient working alone, we are participating more often in corporate projects with our colleagues from France: we provide them certain pieces they need for some brake systems they manufacture; as we received global responsibility over more such pieces, our prestige over France is increased and our mutual dependency as well”.

Table 2
Subsidiary Spain: Relationships with plants of Multinational

	# Relationships	Frequency
With <i>Multinational</i> (HQ) people	202	0.518
With <i>Subsidiary France</i> people	83	0.213
With <i>Subsidiary Germany</i> people	39	0.100
With <i>Subsidiary USA</i> people	36	0.092
With <i>Subsidiary Italy</i> people	12	0.031
With <i>Subsidiary UK</i> people	11	0.028
With <i>Subsidiary Japan</i> people	7	0.018
TOTAL	390	1.000

A similar explanation can be given for the level of contacts with the US company. *Subsidiary Spain* serves components to the US and European plants of one of the big three auto manufacturers. However, in line with the political rivalry among line companies, the US subsidiary has tried to keep *Subsidiary Spain* as far away from the auto manufacturer as it can. However, the Spanish unit’s excellent performance has

already aroused the US customer's curiosity, so that there are now direct relations between the two. Therefore, 'additional relationships' between the units of Spain and USA, as compared with the situations as for 1993, are 'generated' given the increased contacts of *Subsidiary Spain* with the US customer and the need to coordinate with the local subsidiary.

Germany is important for a different reason. Even though there is no significant operational relationship between *Subsidiary Spain* and the German subsidiary, Germany is the home of *Multinational* engineering department. Accordingly, *Subsidiary Spain* has made a conscious effort to improve its relations with the German operations through increasing contacts in division level projects. In particular, leaning on their unit's good performance, *HQ Spain* bargains internally in order to include a Spaniard engineer at all the task-forces set up in the context of engineering divisional improvement programs, resulting in a significant increase in the density of relations between the two subsidiaries.

Now we need to analyze where are directed the relational efforts of *Subsidiary Spain's* throughout the MNC at a divisional level. Given that certain processes may acquire more relevance than others, it will be of the interest of the unit to generate relationships with departments that carry out those processes. There are four processes considered important by managers of the subsidiary³. Accordingly, if *Subsidiary Spain* wanted to have a significant impact on the MNC, it had to develop relationships with such processes.

³ See Appendix 2 for a description of such processes.

Table 3 shows the relationships from different units of *Subsidiary Spain* to *Multinational's* units⁴. It shows one for the cells where the number of contacts is higher than the average for the cells in which there are contacts (a zero means that the number of contacts is lower than the average, and no-value implies that no relationships were reported).

Table 3
Relationships from *Subsidiary Spain's* Plants to:

Departments of <i>Multinational</i>												
	QLT	COM	PCH	CTR	GM	PRT	OPE	FIN	R&D	PEN	PAE	TOT
<i>HQ Spain</i>		1	1	1	1		1		1	1	1	8
Plant1							1					1
Plant2							1				1	2
TOTAL	0	1	1	1	1	0	3	0	1	1	2	11

Departments of other subsidiaries of <i>Multinational</i>												
	QLT	COM	PCH	CTR	GM	PRT	OPE	FIN	R&D	PEN	PAE	TOT
<i>HQ Spain</i>	1	1	1						1	1	1	6
Plant1							1					1
Plant2			1									1
TOTAL	1	1	2	0	0	0	1	0	1	1	1	8

Looking at these two tables, one can argue that the subsidiary contacts were concentrated in the subsidiary headquarters. This is no arbitrary result. On the one hand, centralization was occurring at the divisional level, so it would be difficult to have these activities distributed in the different plants. On the other hand, given the subtle political maneuvering that was going on among subsidiaries, directors at *Subsidiary Spain* wanted to have the key activities under control, so that they could also maneuver in their own favor. Thus, the number of contacts in absolute terms is the result of strategic maneuvering on the part of the Spanish unit.

⁴ See Appendix 3 for abbreviations.

Table 4 shows the number of relations between the different departments of *Subsidiary Spain* consolidated among the different departments at the divisional headquarters and subsidiaries. Consistent with previous explanations, the Product Applications Engineering department (PAE) has the highest number of contacts in both tables. This reflects the effort made by *Subsidiary Spain* to have a Spanish engineer in every engineering project handled at Germany, where *Multinational* centralizes corporate product application engineering needs.

Table 4
Relationships from *Subsidiary Spain*'s Departments to:

Departments of <i>Multinational</i>												
	QLT	COM	PCH	CTR	GM	PRT	OPE	FIN	R&D	PEN	PAE	TOT
CTR				1								1
QLT												0
COM		1										1
PCH			1									1
GM												0
PRT												0
OPE												0
PEN							1			1	1	3
PAE		1	1						1	1	1	5
R&D											1	1
TOTAL	0	2	2	1	0	0	1	0	1	2	3	12

Departments of other subsidiaries of <i>Multinational</i>												
	QLT	COM	PCH	CTR	GM	PRT	OPE	FIN	R&D	PEN	PAE	TOT
CTR												0
QLT	1											1
COM		1										1
PCH	1		1									2
GM												0
PRT												0
OPE							1					1
PEN												0
PAE	1		1							1	1	4
R&D									1		1	2
TOTAL	3	1	2	0	0	0	1	0	1	1	2	11

Looking at the number of relations with divisional headquarters, we can see that relationships are also concentrated in the PEN (Process Engineering) department. This reflects the fact that several knowledge-sharing task forces were organized by *Multinational* with the objective of sharing best practices across line companies and

where Spanish operations had a good performance track record. Leading those task forces by concrete executives, *Subsidiary Spain* was able to generate important relationships along the MNC, improving its corporate prestige.

Interestingly enough, when we look at the relations between *Subsidiary Spain* and other line companies, we can see that PAE keeps its privileged relational status. This is because joint projects needed PAE collaboration among line companies and the Spanish unit succeeded at placing any engineer it could to work on subsidiary-shared projects.

All in all, it can be said that *Subsidiary Spain* has complement its operational effectiveness with corporate visibility. It is important to have a great engineering team at the unit, but this strategy is strengthened when those executives lead corporate and global projects: by acquiring global visibility, the Spanish unit is generating work-based interactions that affect the ordinary pattern of relationships along the MNC and where the presence of managers from *Subsidiary Spain* is mandatory. This subtle maneuvering leads to an improved corporate position for this unit.

Discussion and limitations

Our purpose here has been to perform an in-depth study of a particular subsidiary in order to determine how it understands, defines, and implements its own strategy. By means of qualitative and quantitative data we found that subsidiaries determine their long-term goals as an enterprise comparing its position along the MNC with that of other subsidiaries. These goals are achieved through an internal bargaining to develop resources and through a ‘manipulation’ of the subsidiary’s ordinary pattern of relationships with other entities of the MNC and clients. We consider these main ideas

to be notions that, once analyzed deeper, may constitute the basis for a theory on subsidiary strategy. We think the field is already plenty of studies that analyze how subsidiaries fulfill their corporate imposed role as well as plenty of studies that analyze how subsidiaries develop strategic-initiatives. However, we still fall short in knowing how they actually behave to determine those long-term goals and implement it.

For example, consider the possibilities the literature offers as regards how do corporate roles are assigned. In general, we can distinguish three viewpoints. The most common one is to consider the subsidiaries' role as being assigned by headquarters. Bartlett & Ghoshal (1987), for example, state that headquarters will assign different roles to different units depending on their resources and capabilities and strategic importance. Other authors argue that it is a subsidiary's relative autonomy that allows it to determine its own strategy (Etemand & Dulude, 1986). Lastly, there are those who argue that a subsidiary's environment is the determining factor and that headquarters has to define the organizational structure that best fits the level of complexity of the environment (Nohria & Ghoshal, 1997). In practice, however, subsidiaries may try to position themselves favorably within the MNC, within the limits imposed by the role assigned to them by headquarters and by the nature of the environment in which they compete. In other words, they may try to influence the MNC's resource configuration as far as they can. We think that our study suggests it shows interesting to go into the details of subsidiary behavior if we want to generate a more precise theory on subsidiary strategy. This study is clearly limited in scope. We have only studied the pattern of relationships of one subsidiary of which we had intimate knowledge. We have not taken into account the overall networks of other subsidiaries with which *Subsidiary Spain* collaborated or competed for a strategic role in the divisional network. It would have been really

interesting to be able to analyze competing networks and study the relative maneuvering of competing subsidiaries. However, the complexity of the data involved would make this a major endeavor.

Even though this study has basically addressed the subsidiary's external exposure, it would be equally important to study the consequences of this strategy from the viewpoint of the subsidiary's internal organization. We have devoted all our efforts to looking at the subsidiary's external network (i.e., relationships oriented towards agents 'outside' the subsidiary). However, it would have been interesting to analyze how these networks are reflected in day-to-day relations within the subsidiary. Furthermore, these networks of relations do not occur in a stable world. While *Subsidiary Spain* was pursuing this strategy, significant changes were being planned at the organizational level within the division. It would also be interesting to compare particular pattern of relationships in order to know how stable these interactions were, since the stability of the desired position itself may depend upon it.

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Appendix 1

Network Analysis: Methods and Techniques

Structural and Composition Variables

Network analysis is based upon two type of variables: structural variables and composition variables (Wasserman & Faust, 1999). Structural variables are measured on pairs of actors and measure ties of a specific kind between them. In this paper we analyze work-based interactions as recognized by managers from *Subsidiary Spain*. Complementary composition variables are measurements of actor attributes. In this paper we record the firm, plant and department of all the actors involved in the relations.

Mode

The term mode refers to a distinct set of entities on which the structural variables are measured. Structural variables measured on two sets of actors give rise to two-mode networks (Wasserman & Faust, 1999). Here, we study actors from two different sets, one consisting of managers at *Subsidiary Spain* and a second set consisting of people outside *Subsidiary Spain* (managers of the MNC's suppliers, customers, etc.) tied by a work-based relationship. Actors in the first set are "senders" of the relation, while those in the other set are "receivers".

Data Collection

Network analysis requires carefully defining the boundaries of the network studied. The ideal will be to obtain information about all the members that make up the network; however, this is not only costly but very often impossible, particularly in cases where the complete set of alters is unknown. In such cases, it is necessary to select an

appropriate sample (Knoke & Kuklinski, 1982). To that purpose, we use the “reputation criterion” (Scott, 1991), which states that obtaining information about the actors with the highest level of reputation in a particular set of actors is enough to determine the network of relations of that set.

The researchers drew up a list of managers of *Subsidiary Spain* and, based on their knowledge of the firm and its employees, selected those with the highest levels of reputation among their peers. This list was assessed by the managers of *Subsidiary Spain*'s various plants and by four members of the board of directors. The final list was compared to a second list drawn up by *Subsidiary Spain*'s Human Resources Manager, adding or deleting members based on a discussion of his or her reputation level. As a result of this process, a sample of 63 managers was selected, with a 96,825% response rate.

Data Analysis

We used SPSS to manage all the information collected about ego, alters and their relationships. Because with free-recall the definitions of alters' composition variables are based on the opinions of the interviewees, we refined the database based on the most frequent classifications. For example, different egos claimed to have a work-based relation with a manager from the subsidiary in Germany; while one ego classified that alter as working in the Research and Development department, the other three classified the same alter as working in the Product Applications Engineering department. While such situations were not common, some refinement was needed. Evident mismatches and incomplete entries were eliminated, leading to a final database of 1,796 entries

(97,61% of the original database). This is to be interpreted as 1,796 ego-alter pairs tied by a work-based relation.

Data were analyzed on cross-tabs, each cell representing the frequency of work-based interactions between ego and alter. To facilitate the analysis, we defined an arbitrary criterion to identify the most important relationships. We calculated the average frequency when a relation existed between actors in set one and actors in set two; we then used that average as a cut-off: cells with a frequency lower than the average were coded with a 0, while those with a higher than average frequency were coded with a 1. This technique is similar to the alpha technique used when analyzing block-density matrices (see Harkola & Greve, 1995; Wasserman & Faust, 1999).

Appendix 2

Brakes manufacturing: Key processes

In words of *Subsidiary Spain's* managers, and analogous with reports from the sector (Roland Berger, 2002), there are four business processes that are key in brakes- systems manufacturing:

1) Developing new products. This process implies the design of new brake systems that allow auto manufacturers to replace existing ones. Engineers hardly work to generate more efficient, safe and cheap prototypes that later have to be mass-manufactured. MNCs try to centralize this foggy investment in countries where R&D practices are protected, the risk is minimum and supply of high-tech engineers exists. Nevertheless, each country tries to perform its own R&D activities and coordinate it globally. At *Multinational*, this process is carried out mainly at Germany, where more than 200 engineers are devoted to new product development.

2) Winning orders from OEMs. This process implies competition among suppliers to receive an order from OEMs. MNCs try to centralize this activity by region or countries, in a similar way of the organizational structure followed by OEMs. At *Multinational*, the activity is handled mainly through centralized commercial departments (by region, by client, or by projects), that have access to key individuals in the customer's organization and finds out about the new cars to be produced and what is needed. These people help a particular unit to achieve the "shortlist" status that allows it to get the "request for quotation" needed to put in a bid. Collaboration with the technical department is then carried on so that a sensible offer is presented and the order is won. Subsidiary-level directors exist in countries where OEMs have their premises and

coordinate their efforts with global teams. When it came to getting fast quotes, the marketing and sales department staff relied on their peers in the subsidiaries, mainly from the engineering department, whose skill is central to winning the orders. Thus, the local marketing and sales managers acquire new customers for the division and it is easier for them to carry out those projects in their own manufacturing facilities than otherwise.

3) Launching new applications. Once the order has been won, a process of concurrent engineering begins (carried out to a greater or lesser extent in the different subsidiaries). Very rarely are completely new developments required; more often what are required are new applications of standard products. Timing is always an issue here, and different customers respond differently to market or internal issues. The new applications launch process can last anywhere from a few months to two or three years, and “Start of production” dates may be changed throughout the project. Launching new applications is paramount to the auto industry. Concurrent engineering and time-to-market have traditionally been a touchstone of the industry. The auto industry has been identified as one of the learning centers for other industries in this respect.

4) Mass production. Once the product runs over “Start of production”, mass production is started and the project is completely in the hands of the different manufacturing plants. At this stage less interplant collaboration is needed, as continuous improvement is now carried out mainly (though not exclusively) at plant level, seeking the productivity gains that are written into the contract signed with the OEM in the form of price reductions. All in all, mass production is the most local process.

Appendix 3

Glossary of Abbreviations: Departments

COM: Commercial

CTR: Control

FIN: Finance

GM: General Management

OPE: Operations

PAE: Product Applications Engineering

PCH: Purchasing

PEN: Process Engineering

PRT: Product Testing

QLT: Quality

R&D: Research and Development