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HQ attachment to the Crown Jewel:
Balancing Autonomy and Influence in Subsidiary Role Development

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Theoretical rationale and focus

The relationship between headquarters (HQ) and foreign subsidiaries in multinational enterprises (MNEs) are fraught with conflicts and challenges that need to be proactively managed over time (Schotter and Beamish, 2011). For example, extant research argues that HQ invariably expects subsidiaries to indulge in rent seeking behaviour, which in turn automatically increases monitoring of subsidiary activities (Mudambi and Navarra, 2004). However, research largely fails to acknowledge that, as the subsidiary develops its role over time, the HQ may become increasingly involved in its activities, not through monitoring efforts, but in an attempt to benefit from the resources the subsidiary possesses. The logic here is that as the HQ-subsidiary relationship evolves over time, and as the subsidiary increases its importance vis-a-vis the HQ, the parent may become increasingly attached to the 'favourite child'. For example, research shows that certain parenting styles may lead to over-attachment with 'crown jewel' subsidiaries and ultimately end up destroying value at the subsidiary level, leading to divestment over time (Goold et al, 1994). A critical challenge in this context for important subsidiaries involves strategically managing the amount of involvement that HQ has in the subsidiary's daily activities as the subsidiary develops its role and becomes a more vital cog in the MNE.

As such, how the subsidiary effectively manages the involvement of the HQ in its activities manifests in the form of a strategic dilemma for the subsidiary in terms of maintaining its autonomy as well as establishing influence vis-à-vis HQ (Asakawa, 2001; Forsgren and Pahlberg, 1992; Mudambi et al. 2011). As a subsidiary develops its role the amount of autonomy it has will vary, as will the level of influence it maintains (Ambos et al. 2011; Cavanagh et al 2017; Conroy et al. 2018). This may depend on a variety of factors, namely the level of interest HQ has in the subsidiary or the level of knowledge HQ has regarding the subsidiary's activities (Ciabuschi et al. 2011; Dellestrand, 2011). As such, very little work has explored the dynamic interplay between subsidiary autonomy and influence in the context of role development. Drawing on these arguments, our study seeks to explore the problem of *how a subsidiary manages the strategic dilemma of autonomy and influence vis-à-vis its HQ as it develops to a crown jewel status?*

Specifically, we aim to explore how subsidiaries manage the strategic dilemma of autonomy and influence vis-à-vis HQ through the initiative taking behaviours that the subsidiary develops. We draw on insights from other works in this area to explore how subsidiaries effectively manage the increased involvement the HQ has in its activities over time (Ambos et al. 2010; Dorrenbacher and Gammelgaard, 2016; Saka-Helmhout and Lervik, 2016; Schmid et al. 2014; Strutzenberger and Ambos, 2014).

Methods

This paper explores the evolution of 4 large MNE highly developed subsidiaries located in both ICT and Medtech industries in Ireland, which possess critical R&D activities. We adopted a longitudinal study over a ten year period, collecting interview data from 62 senior managers

across functions. The questions focused on the growth of subsidiaries through specific initiatives, the use of autonomy in this initiative-taking behaviour and the role and use of influence in these initiatives. The focus was on examples of subsidiary initiative where possible. Therefore, embedded units of analysis were a consideration and according to Yin (1999) makes for more robust research when replicated across cases. This research is not focusing on the unusual but is interested in developing patterns within and across cases in order to challenge underlying assumptions on subsidiary initiative taking. Data collection and analysis were completed in an integrated fashion. All cases were transcribed in a case-by-case manner and files developed for each case study. Data was filed upon completion of each interview in chronological order. Nodes or constructs were created from the literature and interview questions and coding of transcripts followed by hand. Transcripts were compared in an iterative manner. For each code created, data across all the interviews in the subsidiary was drawn together. As interviews were added, the codes were added to and modified accordingly. Following this, a cross-case comparison along the guidelines of Eisenhardt and Graebner (2007) was followed. This enabled examination of similarities and differences with pattern matching across cases. This data is currently being updated through further data collection.

Preliminary Findings *'Assuming' autonomy*

All subsidiaries were typically established as manufacturing operations in the late 1990s due to tax initiatives, location and a strong talent pool. These subsidiaries are now all highly developed, high value-add with R&D facilities, and many with European or global mandates. We found that all subsidiaries have assumed autonomy and have worked towards greater developing autonomy since establishment. This assumed autonomy was initially driven by the subsidiary managers in particular in an attempt to build capability and relationships, particularly of a knowledge related nature. CardiCo, MicroCo and DigiCo all speak of 'assuming' autonomy to pursue further initiatives. A common use of assumed autonomy was the drive in all subsidiaries to outsource assembly, recognising the long term advantage of investing in deepening capabilities in their subsidiaries. In addition, the realisation of similar capability profile in sister subsidiaries, located close to the parent, was an impetus for exercising autonomy in the local market. Initial initiatives in all cases related to implementing quality standards initiatives, followed by initiation of local linkages with universities and/or research centres. This in turn facilitated European or global focused initiatives. In other words, local linkages and resources must be accessed and participated in, for initial credibility within the MNE structure. In its turn, the innovation needs to be of value to the wider MNE (Mudambi and Navara, 2004).

'Earning' Autonomy

Somewhat paradoxically, as the subsidiaries gained greater R&D capability, eg nanotechnology centre/European HQ for R&D, respondents noted that there was less need for autonomy. This is an interesting finding as the literature suggests that the tension for autonomy and control in R&D function is greatest (Asakawa, 2001). It is possibly because of the strong integration with corporate R&D, that operational autonomy may be granted to pursue new product innovation, rather in the form of strategic autonomy. Respondents did not have to pursue global initiatives as 'skunkworks' but instead felt obliged to act within the interests of the entire corporation. Indeed, it is also possible that, as subsidiaries become more important given their R&D focus, there is greater need for integration given IP sensitivity and, as such, subsidiary managers understand the need for a more integrated MNE. Both CardiCo and MicroCo speak of the fact that *'autonomy has become something which we fight for less and less'* (R&D Manager, MicroCo). This would agree with the theory on Centres of Excellence

(CoEs) (Frost, et al., 2002; Holm and Pedersen, 2000), where influence rather than autonomy is valued by a high capability subsidiary, yet this literature has not examined if, and how, autonomous action can be taken over time. In the cases of MicroCo and MediCo, the two subsidiaries who are largest, and global innovators in their respective industries, the autonomy appears to be accepted and assigned by the parent and sister subsidiaries, given the observation of incremental initiatives in the local market over time. Indeed, given that the knowledge creation is valued by sister subsidiaries, the flows of knowledge back to the parent and sister subsidiaries would contribute to the trust and credibility of the subsidiary in its actions, and create a positive cyclical effect for autonomy. This ‘earning’ of autonomy, therefore, reflects the principles of autonomy and procedural justice, based on fairness and equity in the MNE (Manolopoulos, 2008).

The ability of subsidiaries to invest in R&D, and in this study, to actually undertake initiatives, correlates with increasing ability to do so over time. A subsidiary with a strong network position may have the ability to pursue isolating autonomous action, but in agreement with the literature, this study finds that network position means involvement in a system which is mutually reinforcing and adaptive over time. Networks are not only about exchanges, but adaptations though a virtuous cycle of reinforcement. Forsgren and Pahlberg (1992) also highlight the choice of subsidiary managers to pursue influence or autonomy in its own vested interest, again reflecting the agency of the subsidiary to manipulate networks (Garcia-Pont et al., 1999). As autonomy is intertwined with initiative and the role of the subsidiary (Birkinshaw, 1995), and roles are not a static concept, i.e. they evolve, then autonomy becomes a cause and effect of such development, which must be actively managed by the subsidiary. Overall our findings point to an interesting effect in that, as the subsidiaries take-on higher value roles, influence rather than autonomy is valued and exercised. All subsidiaries have developed to possess CoE mandates, which may explain their sense of need to be responsible to the organisation, rather than possibly too autonomous and isolated from the parent. This finding has implications in terms of our understanding of how subsidiaries evolve but also how their relationship with the parent evolves in this context. Autonomy and influence are strongly aligned to the role of the subsidiary, and subsidiaries are becoming more specialised and integrated, with implications for the continued existence of the ‘federative structure’. This possibly suggests a move along the continuum towards becoming a ‘global factory’ with more *‘fine-sliced activities’* being delegated to important subsidiaries that have ‘crown jewel’ status from the parents’ perspective (Buckley, 2009).

Theoretical Contributions

Our study develops a number of important theoretical contributions. First, we add insight to the broader literature on the HQ-subsidiary relationship (Kostova et al. 2016), illustrating that HQ becomes more actively ‘involved’ over time in those subsidiaries that develop more value added mandates. Second, and more specifically, we add a greater degree of nuance to understanding how subsidiaries develop their roles over time, particularly how their initiative taking behaviours change in accordance with the level of involvement from their HQ. For example, we found that subsidiaries developed ‘local facing’ initiatives that were initially geared toward the development of ‘assumed autonomy’, but as their role evolved and they became more integrated internally, they focused more on regional and global ‘facing’ initiatives. In particular, we find that subsidiaries develop ‘assumed autonomy’ in the early stages of their role development in order to build connections with the external environment and enhance their uniqueness within the MNE. This involved initiative taking that focused on

‘skunkworks activities’ with very little HQ involvement. As the subsidiaries became more successful they acquired more advanced and specialised roles, incorporating R&D responsibilities and securing COE status. The resulting effect was increased visibility, which lead to what we refer to as ‘diluted autonomy’ over time and increased involvement from HQ in the subsidiaries’ activities. As such, we find that as a subsidiary becomes a ‘crown jewel’ within the MNE, it needs to focus more on establishing and maintaining influence over its HQ given its closely connected relationship. These findings contribute to literature on autonomy and further enhancing our understanding of how assumed autonomy is managed, developed and essentially ‘earned’ over time (Cavanagh et al. 2018). However, we build on this work by showing that as the subsidiary develops its role and increases its importance, autonomy becomes ‘diluted’ due to HQ ‘over attachment’ and it needs to focus its initiative taking on establishing and maintaining influence over HQ. In doing so, we answer calls for more work on the important dilemma that subsidiaries face when attempting to balance the autonomy influence dilemma over time (Mudambi, 2011). Specifically, he our study builds on current work by illustrating how subsidiaries deploy different types of initiatives in order to manage the strategic dilemma of autonomy and influence vis-a-vis its HQ.

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