

**Whither National Subsidiaries? The need to refocus International Management  
research on structures and processes that matter**

**ABSTRACT**

The notion that multinational companies (MNCs) are comprised of multiple subsidiaries in different countries is one that underpins voluminous research in international management. This body of research was recently the subject of an authoritative and comprehensive review in this journal (Meyer, Li and Schotter, 2020). However, we share the concerns about the prevalence of the term ‘subsidiary’ within academic writing expressed by some others (Mees-Buss, Welch and Westney, 2019) and take this further by questioning the assumptions of authority and control on which it is based. We argue that the role of national subsidiaries in how MNCs are organized has been eroded by developments ‘from above’ and ‘from below’ the national level such that it cannot be assumed that national subsidiaries are important influences on how MNCs govern and coordinate their production and service provision and how work is organized. We set out the implications for theory and methods in international management (IM).

## INTRODUCTION

The notion that multinational companies (MNCs) are comprised of multiple subsidiaries in different countries is one that underpins voluminous research in international management. This body of research was recently the subject of an authoritative and comprehensive review in this journal (Meyer, Li and Schotter, 2020). Yet, we have major concerns about the prevalence of the term ‘subsidiary’ within academic writing and the assumptions of authority and control on which it is based, particularly when we consider how processes of production and service provision are constructed in MNCs and how work is coordinated across borders. This concern was initially provoked by rarely hearing the term ‘subsidiary’ in our fieldwork spanning around two decades, nor seeing it in corporate communications.

Our doubts regarding the notion of ‘subsidiaries’ go beyond an issue of nomenclature. When we “get our hands dirty” (Delios, 2017) and speak to those in MNCs we observe the gap between the representation of subsidiaries in international management research and the shifting reality on the ground. We argue that the focus on subsidiaries has constrained theory development and methodological choices, deflecting our focus from those actors who matter and the multi-level intra-organizational spaces in which cross-national activity occurs. We agree with Meyer and colleague’s (2020) call for actor-centered research, but we argue for this to focus on a different set of actors from ‘subsidiary managers’ and ‘HQ managers’. To develop our argument, we build on those studies that have expressed concern about the centrality of subsidiaries (e.g. Mees-Buss et al, 2019) by drawing on our experiences of examining structures of control and coordination in MNCs since the early 2000s (see Table 1) and propose a way forward for MNC scholars.

[ INSERT TABLE 1 ABOUT HERE ]

## **SUBSIDIARIES IN INTERNATIONAL MANAGEMENT**

Subsidiaries in MNCs are commonly understood as operational units that are controlled by the multinational but located outside the home country (Birkinshaw, Hood and Jonsson, 1998). The assumption here is that there is an influential tier of managers – ‘subsidiary leaders’ in Meyer and colleagues’ (2020) terms – at country level, or operational unit level within countries, that has control over these geographically-defined operations.

Subsidiary-centric publications have proliferated particularly as the highly influential works of Julian Birkinshaw (Birkinshaw et al. 1998; Birkinshaw and Hood, 1998) drew scholarly attention towards subsidiary initiatives. This literature has for some time demonstrated that structures of governance in MNCs are dynamic and the roles of subsidiaries evolve (e.g Doz, Santos & Williamson 2001; Westney 2009). That the term is alive and well is also evidenced by recent high-profile books and articles (Etemad and Dulude, 2018; Kostova, Nell and Hoenen, 2018). As Meyer et al (2020) demonstrate, research has tackled a range of issues to do with subsidiaries, including: how they define the scope of their activities; how they create and share knowledge; how they adapt and develop their organizational practices; how they engage with actors in their local environment; what defines the performance of subsidiaries; and how individuals within the subsidiary exert influence over subsidiary strategy, operations and performance.

This focus on subsidiaries is not completely unjustified; some MNCs are indeed organized around geographically-defined operations, such as the large professional services firms that are ‘federations’ of national companies (Boussebaa, 2009). Moreover, there are national management structures on particular issues in most MNCs, reflecting national regulatory requirements on issues such as tax liability (Foss, Mudambi and Murtinu, 2019). However,

the focus on the subsidiary is highly problematic as this structure is being heavily eroded in most MNCs.

### **THE EROSION OF SUBSIDIARIES FROM ABOVE AND BELOW**

Our unease about the widespread idea that authority and control reside at subsidiary level has two sources. First, there are developments ‘from above’ the national level that are reducing the salience of subsidiaries in how MNCs organize themselves. A range of international structures now exist within MNCs which have significantly reduced the importance of national subsidiary units. The operations of multi-product firms are commonly organised into a series of international divisions that develop their own strategies and policies. Although by no means a recent change, it is now supplemented by a range of cross-national structures that go beyond international divisions. For instance, Mees-Buss, Welch and Westney’s (2019: 1514) account of Unilever in the first decade of this century demonstrated the shift towards international ‘sub-organizational units’ being charged with achieving global efficiency through scale, a structure they called the ‘neo-global’ in which the ‘multi-function country subsidiary’ had been ‘eliminated’.

Moreover, even among those MNCs that produce a single product or closely related products, their operations are sometimes organized into global business functions. For instance, our research into pharmaceutical firms has shown that they are structured around core activities such as research and development, manufacturing, and sales and administration, with these functionally-based structures being the primary axis of organization. In some cases, multiple functions take place in the same large workplace. Consequently, a research scientist may park her car next to that of an operator but they work for different structural groups within the company. The functions of these groups within the MNC, and the way staff are managed, can vary enormously. Within a country, and sometimes even within a single organizational unit

or workplace, there are often multiple groups which do not in any sense form a coherent 'subsidiary'. Similar organising patterns were evident in a research site within one of the telecommunications multinationals we studied. Interviewees in the US were perplexed by any question that referred to the US unit or subsidiary of the firm; they saw themselves as working for a global division and the North American regional sub-section of this division, stressing there were no meaningful management structures at national level affecting their work. More generally, when asked to describe the organizational unit in which they worked and how it fitted into the wider corporate structure, not one of the 170 interviewees in our 'Globalizing Actors' project used the term 'subsidiary'.

A further element of international structures that appear to be becoming more important are regions. Economic activity often occurs across clusters of countries (e.g. Dicken, 2015), with this being mirrored in the organizational structures of MNCs (e.g. Almond and Ferner, 2006). Indeed, the growing importance of the regional structure is evident even in some of the 'federal' business services firms mentioned above. For instance, the emergence of the structural entity of 'PwC Europe' has seen the merging of country units into a regional holding company structure<sup>1</sup>. In our fieldwork most large MNCs are organized into broad regional structures of The Americas, Europe and Asia-Pacific. In some MNCs, senior management have sought to bring about stronger coordination across more focused clusters of countries, by for instance breaking Europe down into sub-regions.

Survey evidence also questions the centrality of subsidiaries in MNCs. The INTREPID project, consisting of parallel surveys of employment in MNCs in nine countries, threw light on the range of international structures present in MNCs, particularly the prevalence of international product divisions, global business functions, regional structures and national subsidiaries. Most MNCs exhibited more than one of these structures; where they did, they were asked whether one was the most important. Critically, in fewer than 5% of MNCs was

the national subsidiary either the only structure of the four that existed or the most important one if there were multiple structural elements (Edwards et al., 2007). In sum, a range of international structures appear to have overtaken the national subsidiary from above.

The second plank of the argument relates to micro level developments within MNCs, essentially ‘from below’ the national level. Our research has shown that for many workers, their interactions with colleagues in their immediate workplace or country are limited, while their interactions with those in global virtual teams and cross-national projects are extensive. The development of a number of new forms of ‘global work’ has to some extent been documented in the literature (Reiche, Lee and Alen, 2019), as has the work of those who transcend organizational and institutional divides, often referred to as boundary spanners (Mäkelä, Barner-Rasmussen, Ehrnrooth and Koveshnikov, 2019).

Our own research demonstrates the fluidity of cross-national work and how it affects more than just boundary spanners. Among our case organizations, international ‘communities of practice’ were often used to enable technology teams to tap into geographically dispersed resources, while within multinationals’ HRM functions it is common for temporary transnational working groups or networks to address particular issues, such as skill shifts (Tregaskis and Almond, 2018). In one MNC a formal global HR network was established to create synergies and consistency in people policies across geographies, but also served to create temporary, *ad hoc* working groups on specific projects.

While some cross-national work is temporary, our fieldwork also indicates that there is a growing number of people for whom interactions with colleagues internationally are a routine part of working life. In IT, for instance, client-facing teams are often spread across continents, allowing the firm to provide round-the-clock technical support; in publishing, the geographical separation of individuals within editorial teams is now widespread; and in financial services MNCs cross-border teams working on particular products or markets are

common. Indeed, there are people in all sorts of roles across a multinational who are active in cross-national interactions. Crucially, some of these are ‘low power’ actors who carve out a role for themselves in bodies such as international working groups. For example, some non-managers are invited into a role of disseminating a particular technology or practice, while some employees take the initiative themselves to form common ways of working across borders simply to make their work more predictable. Thus, those who are active in developing internationally consistent ways of doing things, who we term ‘globalizing actors’ (Kern, Almond, Edwards and Tregaskis, 2019), can occupy a range of positions within MNCs and are often performing these roles without any formal brief to do so. Whilst managers may have ‘institutional resources’ (Ferner, Edwards and Tempel, 2012; Regner and Edman, 2014), other actors can draw on different types of resources to exert influence. Not all of the tensions we observe are based on senior staff wanting more cross-national integration with more junior ones resisting this. Our research provided an instance of horizontal coordination being initiated by a cross-national network of professionals seeking to solve common challenges, which was stymied by senior managers who were keen to maintain operational independence between regions. It has also revealed tensions between front-line service staff in international teams on the one hand who sought greater consistency from above concerning how their team should operate, and their managers on the other hand who felt that teams should simply get on with the tasks at hand. In other words, those in international networks and teams were seeking *more* cross-border coordination but were thwarted by higher levels of management who either actively wanted to prevent this or did not prioritize it.

Overall, we argue that while these changes, that we characterize as occurring above and below the level of the national subsidiary, have in various ways been discussed in both academic and popular management literature (Mahnke, Ambos, Nell and Hobdari, 2012;

Mees-Buss et al, 2019; Reiche et al. 2019), their combined implications do not seem to have been taken stock of yet - not enough, at least, to fundamentally change the ways in which we think of MNCs' local presence. Etemad and Dulude (2018), for instance, are well aware of the changing and turbulent context in which MNCs operate but still use the notion of the subsidiary as their unit of analysis. Our concerns about the focus on the subsidiary are also largely absent in the literature reviewed by Meyer and colleagues (2020). Our experience leads us to the view that in many cases the notion of a subsidiary is close to meaningless in terms of how MNCs organize their production and service provision, and how work is organized and governed.

### **RESEARCH AGENDA**

This analysis leads to clear methodological implications, principally that the assumption that authority and control reside in 'subsidiaries' and with 'subsidiary managers' is unhelpful. Addressing our concerns requires that we 'get our hands dirty' and 'follow the story'. Specifically, the changing nature of the contemporary MNC – characterized by multiple forms of cross-national interaction – requires a re-thinking of who we study as well as a reconceptualization of units and levels of analysis within the MNC. We also argue for less to be assumed and more to be explored – in essence, for a greater degree of humility on what we do not know.

One key implication of our argument concerns the type of actor we research and the roles they play. Certainly, knowledge carriers and boundary spanners are important, but we need to move away from thinking of these people as spanning subsidiaries. Moreover, the nature of day-to-day work for large numbers of employees entails interactions with those in other countries through, for instance, client-facing global teams, the organization of which has little to do with any notion of a subsidiary. Therefore, the focus on national subsidiaries,



particularly where this also involves a focus only on managers, will miss much of the crucial activity that is going on within contemporary multinationals. We strongly welcome the trend that Meyer and colleagues (2020) observe concerning a growth in qualitative methodologies in IM (rising from 15% to 25% over the period of their analysis) but we argue that this should go further, particularly in a mixed-methods direction.

Researchers should start from a rather humble position that we cannot assume that authority will lie in particular places. Rather, this needs to be established. Essentially, we need to move away from assuming that there is someone who has control over, and can knowledgeably speak for, the operations of an MNC in a country. There may be cases where there are such individuals, but there are many MNCs where there are not. This may be uncomfortable for some IM researchers as it suggests that quantitative studies need to be informed by substantial qualitative, preparatory work to identify the key actors and gain insight into the remit of their responsibilities. This might involve preliminary interviews, shadowing managers, using a name-generator method (Burt, 1992) or a diary study approach (Fisher and To, 2012) to assess managers' networks and point(s) of reference. There are important implications for surveys as well: who is the respondent and what are they really able to describe? This goes beyond the problem of reliance on a single respondent and Common Method Variance; it relates to who can describe what. How survey researchers address these issues affects the extent to which they can be sensitive to the varied corporate contexts within respondents in MNCs operate. In the INTREPID project (e.g. Edwards, Sanchez-Mangas, Jalette, Lavelle and Minbaeva, 2016), we used structured interviewer-administered questionnaires with numerous prompts and clarifying statements developed from extensive piloting to help generate a contextually sensitive response. However, the investment of time for administration and costs of development were considerable.

We should also be mindful of what structures, policy-making groups and other forms of cross-national interaction we research in MNCs and who has influence within them. These aspects vary greatly from one firm to another and should not be assumed *a priori*. The fluid and contested nature of the internationally integrated multinational, involving frequent instances of restructuring and reinvention, means that boundaries between different sections or parts of MNCs are often blurred or unclear, creating ‘opportunity spaces’ that exist for a range of actors within complex inter-dependent structures. Consequently, tensions can occur at a range of levels within and across countries, not just between ‘HQ managers’ and ‘subsidiary managers’.

Thus we need a view of the MNC that emphasizes the fluidity of structures and multiple forms of collaboration and contestation through a range of formal and informal channels of cross-national interaction. This contrasts with the more stable and hierarchical relationship between geographically-based entities that the reliance on subsidiaries creates. We argue here that we need to ‘follow the story’ and should be wary of pre-conceived views of what these interactions might look like. To capture the complexity of the reality on the ground, MNC researchers would be well advised to embrace an abductive logic (Timmermans and Tavory, 2012) in designing their studies and connect theory with what they ‘see in the empirical world’ (Gehman, Glaser, Eisenhardt, Gioia, Langley and Corley, 2018: 297).

The assumption in the literature of relatively coherent national subsidiaries means that most existing theories of MNCs do not provide the conceptual tools for this task. We agree with Meyer and colleagues (2020) that we need a renewed focus on the role of individuals as leaders, knowledge carriers and boundary spanners and the need to study ‘multi-level processes’, but contend that we need to go beyond their suggested focus on managers and subsidiaries. One promising body of theory that provides for a more flexible and varied approach to analyzing MNCs concerns the identification of ‘fields’ of action (Zeitsma,

Groenewegen, Logue and Hinings, 2017). Future research could usefully apply the dynamism that is evident in some conceptualizations of institutional fields across organizations and adapt this to intra-organizational settings. For MNCs, the fields of interest are cross-national spaces in which actors orient their actions to each other in a 'social order' where interests are at stake. Research should look to identify the range of actors who are influential on the issue in question and establish the range of roles that various actors play, including who sets the rules within which these actors operate, who monitors these rules, who implements them and who resists or changes them. Having established what a field looks like in relation to one issue, we should not assume that fields on other issues within the same MNC will take the same form. Crucially, while the most important fields for some issues may be national subsidiaries, in many cases they are not the principal domain, and we need to find those that are central to a particular issue in an exploratory way.

Finally, while we are saying that we should not assume that national subsidiaries are key building blocks of MNCs, we are not saying that they never fulfil this role. As we noted at the outset, some MNCs are indeed structured through federations or partnerships of a series of national companies, each of which have a degree of independence. Moreover, it may be that in some countries the distinctiveness of the national context pressurises a MNC to adopt a particular identity in that country (Edman, 2016; Pant and Ramachandran, 2017), something that might be best achieved by empowering managers at national level to create and manage that identity. Arguably, with nationalism apparently on the rise (Kobrin, 2017; Lubinski and Wadhvani, 2020), we might allow for this factor to become somewhat more important in the coming years. In other words, we should be conscious of the contingent factors that lead to national units being more or less important. Indeed, this would constitute an important question for future research.

## CONCLUSION

Meyer and colleagues (2020) conclude their paper with the assessment that subsidiary managers are key to many international management challenges and call for future studies to ‘strengthen theory on multi-level process in subsidiaries and MNEs’. While there is much to commend in their paper, including its accommodation of diversity in subsidiary roles, the implications for who and what we research, and how we research them, do not go far enough. When we examine issues of how production or service provision are integrated and how work is organized, we need a view of the MNC that does not assume that authority and control reside at subsidiary level within MNCs. As a field, IM researchers should be prepared to examine the many forms of cross-national structures and processes, both formal and informal, and the varied actors who are influential within these structures, in exploratory ways.

## ENDNOTES

1. PwC Europe: <https://www.consultancy.uk/news/2510/pwc-europe-integrates-turkish-organisation-into-network>

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**Table 1. Research projects drawn upon\***

<b>Project title</b>	<b>Project dates</b>	<b>Key research theme</b>	<b>Data collection methods and sources</b>	<b>Status</b>
ESRC, <i>Employment Practices in MNCs in Organisational Context.</i> (RES-000-23-0305)	2004-7	Integration and differentiation strategies by MNCs across national systems of employment	Surveys of senior host country HR managers in multiple foreign-owned and home-owned MNCs in the UK	Completed, publications available
ESRC, <i>Multinational Corporations, Subnational Governance and Human Resources: A Cross-National Comparison</i> (RES-062-23-1886)	2009-12	Role of subnational governance in MNC human resource management	Interviews with managers in multiple MNCs and other bodies external to MNCs	Completed, publications available
ESRC, <i>INTREPID: Surveying Employment Practices of Multinationals in Comparative Context: Integrating and Differentiating National Systems</i> (RES-062-23-2080)	2009-12	Cross-national comparison of MNC employment practices	Surveys of host country managers in multiple MNCs in nine countries	Completed, publications available
ESRC, <i>Globalising Actors.</i> (ES/N007883/2)	2016-19	Emergence and diffusion of global norms in MNCs	Interviews with a range of actors in multiple MNCs	Completed, publications in progress
‘Competing by Saving Lives: A Study of a Multinational Pharmaceutical Firm’s Response to Institutional Complexity’ (unpublished PhD dissertation, University of Bath, UK)	2015-17	MNCs responses to institutional complexity	Interviews with managers and stakeholders, observations and archival data in a single European MNC (headquarters and units in two countries)	Completed, publications in progress

\*The projects which are funded by ESRC have publicly available datasets through the UK Data Archive.