



TESIS DOCTORAL

**INTERMEDIATE UNITS AND COMPETENCE CREATION IN
THE MULTINATIONAL FIRM: A NETWORK APPROACH**

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION AND MOTIVATION OF THE RESEARCH TOPIC

Multinational Corporations (MNCs) as economic and social actors have an enormous impact on the global economy. They have been acknowledged as the forefront of the technological and organizational developments (Lundan, 2018) while also presented as resource spoilers in other contexts (Narula, 2018). Scholars have studied for decades the negative or positive sign of their impact in terms of country economic growth and national welfare, job creation, innovation, environment, and human rights among others. Specifically, the estimated universe of Multinational firms in the world has increased from 7.000 in 1960, to approximately 350.000 in 2017 (CNUCED, 2016, and CNUCED, 2018) from which the sales of only the largest 0.1% count for more than 10% of the global GDP. The increasing importance attributed to them relies also on the performance of its foreign subsidiaries, the number of which is estimated around 800.000. Foreign subsidiary sales had increased from 6.755 billion dollars in 1990 to 30.823 billion in 2017 (CNUCED, 2018). Furthermore, they are calculated to create more than 73 million jobs (CNUCED, 2018). Therefore, all in all, beyond positive and negative effects, numbers express an objective result: the impact of MNCs on today's global economy is huge.

Currently, the economic environment MNCs face is determined by the fragmentation of the global production. Mainly, this is due to technological advances, the rise of emerging economies and liberalization policies (Narula, 2014) which have facilitated cross-border coordination of transactions (Kano, 2017). As a consequence, the MNC is assisting to the subsequent dispersion of its activities which is introducing an increasing complexity in its corporate structures. Related to this, in the last years, research efforts have been placed mainly to understand the dispersion of production

and R&D activities along the value chains and across countries. However, less attention has been put on the redistribution of authority and responsibilities at internal levels (Kostova, Nell and Hoenen, 2016) associated with the increasing complexity. In this sense, the coordinating function of networked MNCs arises as a central paradigm to analyze multinational firms (Mudambi, 2011). Recent literature started to explore the relationship between complex corporate structures and complex parenting systems (Goold and Campbell, 2002). This pioneering research helped to overcome the idea of the existence of a single Headquarter (HQ) located in the home country (Nell, Kappen and Laamanen, 2017). In fact, appears that in parallel to the dispersion of other activities, HQs are being also dispersed and relocated, even in parts (Birkinshaw, Braunerhjelm, Holm and Tejersen, 2006) as this complexity consolidates. These studies are mainly focused on the antecedents of cross border relocation of entire or fragmented HQs (Birkinshaw et al., 2006; Benito, Lunnan and Tomassen, 2011; Schotter, Stallman and Pinkham, 2017; Kunisch, Menz, Birkinshaw. 2019).

So far, the typical studied example of HQ dispersion during the last decades has been the study of Regional HQ (RHQ) and Divisional HQ (DHQ) which has concentrated the majority of research efforts. The expansion to Asia was the context (Lasserre, 1996; Lehrer and Asakawa, 1999; 2003; Yeung, Poon and Perry, 2001).

However, some studies observed heterogeneous parenting configurations at current MNCs beyond the above divisional specialized structures. Lasserre (1996) already pointed to different HQ responsibilities being temporary unbundled to local units. Alfoldi, Clegg and McGhaughey (2012) described, for instance, Regional Management Mandates as local subsidiaries assuming HQ responsibilities at regional

levels. Further studies extended different types of Headquarters performing functions beyond coordination and control, placing for them the name of Intermediate Units (IUs) (Hoenen, Nell and Ambos, 2014; Villar, Dasí and Botella-Andreu, 2018).

At this point, our knowledge about HQ dispersion, parenting systems and HQ configurations is clearly limited (Kunisch et al., 2019).

First, theoretically, hierarchically based theories are limited to explain IUs performing entrepreneurial activities and or related initiatives. Federative base theories and institutional approaches are neither validated nor extended for parenting paradigms. Nevertheless, they appear to describe a fined reality.

Second, related consequences from different HQ configurations are almost unknown both at MNC level and at country level and local levels. Authority delegation across the firm equals the modification and influence power locus. Power and responsibility movements may push competence and capability creation towards different poles. Also, at the external level, many studies observed positive effects from HQs on local context (Davis and Henderson, 2008). The dispersion of HQs may transform the way that HQ activities spill over other local activities.

Third, the nature of units delegated with HQ responsibilities including all types of intermediary HQs is unknown. There is not an integration of existing research, neither a definition which picks up main characteristics of these intermediate units.

Ultimately, the study of Intermediate Units (IUs) as intermediary headquarters provides a context to potentially extend the understanding of the role of HQs and how do they create value; the development of parenting capabilities at distinct levels in the MNC; the configuration of the MNC as a dispersed authority system, namely, the

nature of the governance configuration. Finally, about the relationship between complex corporate structures and external environments.

This dissertation aims at contributing to this research domain by analyzing the existing related literature on a first instance, and later, presenting an analysis based on an original data set composed by IUs and other subsidiaries located in Spain.

1.2 OBJECTIVES OF THE DOCTORAL DISSERTATION

The concept of *Intermediate Units* is relatively recent and is used to refer to every form of Intermediary Headquarter in the MNC. There is a spectrum of related but dispersed concepts in the literature ranging from Regional Headquarters and Divisional Headquarters to Sub-regional Headquarters, Domestic HQs, Regional Management Mandates, regional offices, springboard subsidiaries, dispersed HQs among others. All of them share the intermediate position in terms of strategy and structure between the HQ and the local subsidiaries. Their main characteristic is holding responsibilities, to a different extent, among other subsidiaries.

Responding to recent calls on research about this phenomenon (Nell et al., 2017; Chakravarthy, Hsieh, Schotter and Beamish, 2017; Hoenen et al., 2014; Goold and Campbell, 2004), the main goal of this dissertation is to organize current state of knowledge on IUs to integrate and unify, theoretically and empirically the concept. Furthermore, we aim to explore the common characteristic of IUs.

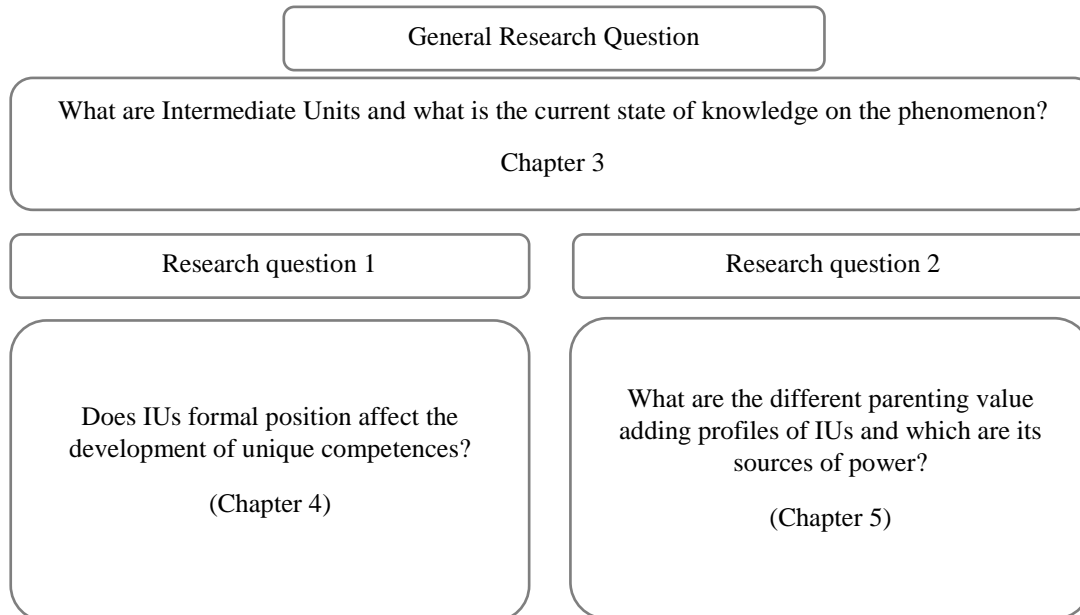
Second, and following recent literature displacing HQs as value creating units at the MNC (Nell and Ambos, 2013; Ciabuschi, Forsgren and Martin, 2017), we explore the competence creation capability of these units through their engagement in political networks. To the date, embeddedness in political networks has been underestimated as

a means to develop capabilities in the MNC (Puck, Lawton and Mohr, 2018) and the extensive embeddedness of IUs (Hoenen et al., 2014) provides the perfect arenas to compare different subsidiary strategies at intermediate levels.

Third, recently, IUs are shown to develop two different parenting capabilities according to Chandler (1991): the coordinative and the entrepreneurial (Mahnke, Ambos, Nell and Hobdari, 2012; Hoenen et al., 2014; Belderbos, Du and Goerzen, 2017). Our last goal is to study how these units develop its influence exploring their different sources of power.

Figure 1.1 summarizes the general and specific research questions of the dissertation and refers them to each chapter.

Figure 1.1. Main research questions in the doctoral dissertation



Source: own elaboration

This research is anchored in a network paradigm as research questions respond to value creating approaches inside the MNC. Complex parenting structures, parenting capabilities and competence creation are topics developed within MNCs modeled as systems and therefore this will be our approach.

Our results throw several contributions but, in general terms, this dissertation contributes doubly responding to the above objectives: first, integrates theoretically and empirically the related literature under the umbrella of IUs concept. Second, explores the value creation side of IUs.

1.3 METHODOLOGY

The methodology employed along this dissertation is the following: in chapter 2 we present a general theoretical review regarding the basic theories of the MNC with the objective to provide a general theoretical basis. In chapter 3 we apply an exhaustive and rigorous literature review methodology to find IUs specific related literature. We apply the methodology according to similar studies published in high impact journals generally based on potent and recognized search engines. Chapter 4 and 5 provide quantitative approaches to the research issue in each case based on a sample of Spanish subsidiaries.

In order to establish a common basis through this dissertation, we next present some characteristics of the sample and specify the statistical procedures employed.

1.3.1 Sample

The sample used includes 193 Spanish subsidiaries, a percentage of which are considered IUs. Specifically, 67 of 193 are marked as IUs.

For the data collection, we applied a systematic approach focusing on a specific population of IUs: the springboard subsidiaries. These are local Spanish subsidiaries, usually, from European MNCs which are mandated to be the HQ for Latin American region, temporarily or not. This is an established phenomenon in the literature (Pla-Barber and Camps, 2012) which recognizes sufficient heterogeneity among units and permits using a general approach to them. We focus on this phenomenon as, unless the case of RHQ, usually there no exist a financial or external marker for IUs. A general descriptive is shown in table 1.1.

Table 1.1. Sample descriptive

		No IUs	IUs
Firm size (n° of employees)	small	81	28
	medium	25	27
	large	20	12
Industry	Manufacture	40	29
	Services	86	38
Region of Origin	Europe	86	54
	Other regions	40	12

Source: own elaboration

1.3.2 Statistical techniques in the dissertation

Given the particularities of the phenomenon under study, we use 2 different statistical techniques in the chapters composing the dissertation. For chapter number 4 we rely on multivariate analysis, which consists of a set of techniques aimed at determining the contribution of various factors on an event or a result. It is appropriate as some of our variables are dependent and independent at the same time.

Specifically, we carried out the empirical analysis through Structural Equation Modeling (SEM) and a Multigroup Analysis (MGA) as our objective is to measure the

simultaneous effect of the variables. We apply the variance based SEM method Partial Least Squares (PLS-SEM) and use the software SmartPLS. This method is appropriate as do not assume any prior distribution on the data (Chin, 1998) and has greater statistical power than other covariance structure base SEM methods (Reinartz, Haenlein and Henseler, 2009). Furthermore, is less demanding in terms of sample size (Henseler, Ringle and Sinkovics, 2009)

In chapter 4, we also introduce a Multigroup analysis as a response to the specific heterogeneity in our sample (we account for 2 groups of units). MGA is generally regarded as a special case of moderating effects (Henseler and Chin, 2010) where a specific noncontinuous parameter is hypothesized as different across 2 subpopulations (Starstedt, Henseler and Ringle, 2011).

For chapter number 5 we perform a statistical analysis of mean differences as we aim at understanding differences between the two groups. Specifically, we use the Mann-Whitney test for unpaired samples. This test is appropriate when variables are either ordinal or continuous but do not match normal distributions.

Table 1.2 summarizes the applied methodologies.

Table 1.2. Summary of methodologies

CHAPTER	METHODOLOGY
Chapter 3. The emergence of IUs in MNCs: a literature review and avenues for future research	Systematic literature review
Chapter 4. Political Embeddedness and Competence Creation: IUs vs local subsidiaries	SEM and MGA
Chapter 5. A network approach to parenting profiles in MNCs: entrepreneurial vs. Coordinative IUs	Mean differences

Source: own elaboration

1.4 STRUCTURE OF THE DISSERTATION

This dissertation is structured in 6 chapters. In general terms, the thesis is divided into 2 main areas: the first one (chapters 2 and 3) constitute the theoretical part of the thesis. These chapters review the general IB literature which frames MNCs and the specifically related works dealing with IUs in MNCs. The second main area (chapter 4 and 5) corresponds to the empirical investigation. In these chapters, we analyze IUs empirically from a network perspective and explore their competence creation capability and its parenting profiles.

Chapter 2 introduces general theories explaining the existence of MNCs and their internal organization. Specifically, we highlight the latest trend to represent the MNC as a networked organization in a system approach which gives us the basis to study IUs both in hierarchical and non-hierarchical situations.

Chapter 3 comprises a depth literature review which integrates theoretically and empirically main research on IUs. The chapter contributes by sorting main dispersed works, determine the current state of knowledge and identify avenues for future research.

Chapter 4 presents the first empirical study of this dissertation. There, we explore the relationship between the formal structural position of IUs and their engagement in political networks with the creation of competences for the MNC. Furthermore, we compare results with other subunits.

Chapter 5 explores the two parenting profiles of IUs: the coordinative versus the entrepreneurial, shedding light on the different characteristics of these units.

In addition to the partial conclusions offered in every chapter, the dissertation ends up with general conclusions which summarizes main findings and contributions. This is exposed in chapter 6. We also discuss academic and managerial implications and further lines of research.

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CHAPTER: 2 GENERAL THEORETICAL FRAMEWORK

2.1 INTRODUCTION

International Business (IB) is a relatively young discipline of study. Two elements indicate us this youth state of the art.

The first one is that the unit of analysis in IB has been changing in the last years. No more than 50 years ago scholars were analyzing differentials in the country interest rate or approaching FDI numbers as a whole, to explain international capital movements. Then, the MNC came to the forefront and later the subsidiary become the center of the analysis (Rugman, Verbeke and Nguyen, 2011). At the moment, there are two open debates on the incorporation or evolution of new units of analysis: the region, as regional organization systems, regional structures and markets are undoubtedly relevant, and the individual level. Attention to individual behavior and micro-foundations looks fundamental in the knowledge-based MNC (Foss and Pedersen, 2004).

The second element is the multiplicity of schools and theories approaching the MNC phenomenon. Ranging from what we name efficiency based theories, which are rooted in traditional economic theory, to the ones originated in organization theories and new approaches adapting sociological and institutional perspectives to the Multinational firm.

IB is still validating such an amount of multiple theories and there is not a clear dominating school. An immediate consequence is the multiple existing approaches to the MNC: from pure hierarchies to social communities, from environment adapters to environment shapers; according to Forsgren (2017), behind every view of the MNC there is always a theory and understanding the basic assumptions of each theory permits us reaching a better understanding of each different position.

In this chapter, we aim to broadly review main theories explaining the existence and the organization of the MNC as the foundations of IB area of study. We classify as efficiency based approaches those theories coming from the economic school of thinking while we label as value creation theories those based on knowledge path-dependent processes. Then, we summarize the main approaches dealing with the internal organization of the MNCs, which will be central frameworks of this dissertation. We classify them as pure hierarchical approaches and alternative/federative approaches. After, we take a deeper look at the role of HQs and Intermediate Units in IB research as is the general topic of this work. Finally, we close with some conclusions. Figure 2.1 summarizes the chapter.

Table 2.1. Main theories on the existence and the structure of MNCs

	EFFICIENCY BASED APPROACHES	VALUE CREATION APPROACHES
The existence and growth of the MNC and the nature of FSA	Hymer approach Internalization theory Eclectic Paradigm	Resource Base View (RBV) Organizational Capabilities View (OC) Evolutionary views Process models
	HIERARCHICAL APPROACHES	FEDERATIVE/ALTERNATIVE APPROACHES
MNC internal organization	Information Processing Theory (IPT) Transaction Costs (TC) Agency Theory	Networks Business Network Theory (BNT) Subsidiary development Resource Dependence Theory (RDT)

Source: own elaboration

2.2 THEORIES EXPLAINING THE EXISTENCE OF THE MULTINATIONAL FIRM

An MNC was defined by the UN in 1973 as a firm controlling asset in two or more different countries which generate value. Today's definition presents MNCs as firms operating in global market place composed of a network of organizational units or developed network of strongly coordinated activities. Furthermore, its essence is based on a global communication and control system, the exposition to diverse environments and the capacity to capitalize local heterogeneities while leveraging scalable advantages (Teece, 2006).

Its existence can be explained jointly with various approaches.

2.2.1 Efficiency based approaches

The starting point of efficiency based approaches is the Transaction Cost theory (TC) (Coase, 1937, 1960; Williamson, 1975). The basic idea is related to the superior performance of hierarchies compare to markets as efficiency based shorting mechanism. It provided the basis for the existence of international firms.

Hymer and the MNC. The first approach to MNCs was based in economic tradition presenting them as pure portfolio investments justifying its existence as arbitrageurs: these companies moved capital across countries in the search of better interest rates and therefore its geographical dispersion was explained by differences in country productivity. However, Hymer (1976) developed a theory based on classic organizational industrial theories, in observing that several features of FDI were inconsistent with previous explanations.

First of all, he described the differences between the portfolio investment and the MNCs activity: basically, an MNC coordinates and control foreign value-adding assets. Second, the geographical dispersion of its activities was based in owing certain competitive advantage which permits the firm overcoming liability of foreignness (LOF) (Rugman et al., 2011). The source of these advantages could come from marketing abilities, special access to knowledge and or financial resources, from scale economies or first mover's advantages, permitting the MNCs performing as a monopolist.

He assumed the public good nature of these advantages so they could be easily transferred to its subsidiaries at a lower cost than its domestic rivals. Furthermore, he predicted that the way in which firms transfer this knowledge internally across countries may depend on the level of market imperfections in each country.

Internalization theory. Internalization theory (Buckley and Casson, 1976; 1985; Hennart, 1986) is a firm level theory explaining why the MNC exert control and ownership over the transaction of intermediate products (tangible or intangible) (Rugman, 2010).

Its basic assumption is that the MNC represents an alternative mechanism against the market imperfections for intermediate product transactions. The advantage developed by MNCs in this situation arises from a transaction cost explanation, meaning that the public good nature of knowledge is avoided through the hierarchical mechanism of the firm.

The MNC appears when the above process crosses country borders. This is based on the fulfillment of two conditions: the existence of an advantage of locating activities

abroad and organizing these activities inside the firm which is more efficient than selling or transferring them to other companies.

The firm-level approach of the internalization theory has been extended by Rugman (2010) deepening in the nature of the firm-specific advantages (FSAs) and the interaction with the specific home country factors or country-specific advantages (CSA).

The FSA reflect the distinct resource base available to the firm which is critical for the MNC market success. For instance, physical or financial resources, upstream or downstream knowledge and reputation resources. FSAs are classified in internationally transferrable FSAs or non-location bound FSAs, and location bound FSAs. CSA and location advantages account for country factor endowments which, in principle, are available to the firm (Verbeke, 2013).

The Eclectic Paradigm. Dunning's (1988) reconcile the previous approaches to MNC based on industrial economics (differential in internal advantages), transaction costs (internalizing under certain circumstances) and international trade and location theories (differentials on productivity across countries), and as a consequence, gaining the name of Eclectic Paradigm.

Dunning stated that the extent and pattern of international production undertaken by MNCs will be determined by different configurations of 3 elements. First, possessing competitive advantages over the firms of other nationalities in supplying any particular market or markets; these advantages may come from privileged access to an asset or special ability to coordinate this asset with other assets across borders. Second, the firm must perceive the benefit of internalizing the activity related to this advantage.

Third, that locating this related activity abroad is profitable for the company in that location factors abroad still permit the profitability for the company due to specific location endowments that are nontransferable across countries.

A critic to the eclectic paradigm comes from Rugman (2010) stating that is very broad in nature and have an industry approach to the MNC compare to internalization theory which is based on the interaction between firm-specific advantages (FSA) and country-specific advantages (CSA).

2.2.2 Value creation approaches

While the above theories are mainly concentrated on the opportunities to exploit FSA abroad in the most efficient way as the base for MNC existence, in the 90s a deeper look into the nature of FSA emerged. The new approaches concentrate on the firm value creation rather than in minimizing cost approaches.

Resource Base View (RBV) (Penrose, 1959; Wernerfelt, 1984) describe the firm as a bundle of different resources which influence the strategy and performance of the firm. This view served as the basis for further theoretical developments and approached FSAs as capabilities inside the firm context which are difficult to imitate (Barney, 1991) and replicate (Teece, Pisano and Shuen, 1997). In first instances, this approach dealt with the difficulties that imply moving a capability across borders without losing value. Basically, the need for the “home context” including routines, skills, organizational processes, and key staff, to develop the capability in a different place and in order to not destroy value, explain the existence of FDI. The very first implication is that routines, skills and knowledge are embedded in organizations and the firm is conceived as a repository of knowledge rather than just a physical facility.

Organizational capability view (OC). Taking from RBV, these approach states that FDI is not only about transferring knowledge from HQs to abroad units, but also about looking up for new knowledge in order to recombine with the existent (Madhok, 1997). In this sense, FDI is not only a matter of exploiting the FSA abroad but also about tapping into new knowledge in order to develop a new one (Cantwell, 1994). The very important implication which OC brings is that the MNC does not only perform exploitation oriented activities but the creation of new capabilities lays at the heart of international expansion and, therefore, knowledge seeking is a motive for firms to go international (Dunning, 1993). In OC, therefore, value creation is a central concept for expanding abroad rather than efficiency seeking. The *Evolutionary View (EV)* (Kogut and Zander, 1992; 1993) took the idea of the MNC as a repository of knowledge embedded in individuals and routines to develop an image of the MNC as a social community where the sense of identity between individuals facilitate the transfer of knowledge between units. An advantage of this social view is that firms may combine knowledge from different geographical places internally, much easier compare to firm to firm situations (units inside the firm are familiar, have previous experience together, knowledge exchange, and shared views, common channels and routines). Taking this, the social advantage of the MNC is based on a sequential path-dependent process because it is supposed to be a gradual development on the combination of their resources.

Later developments in the theory drift in a process perspective which studied the cross border expansion of the MNCs.

Entrepreneurial views of the MNC (Coviello, 2006). The idea of the MNCs as an entrepreneurial unit (Knight, 1921) has a long tradition. MNC is described as

international new ventures takers with the ability to look into future and risky opportunities and disengaging with the concept of path dependence. In the entrepreneurial MNC there exist an ability to break with old solutions and incorporate radical ones.

Another, perhaps the most famous process approach, is the *Internalization process model*. The sequential model introduced a dynamic approach to MNC expansion. The Uppsala model is a process approach to explain the firm's internationalization. It appeared in the '70s in the Nordic countries aiming to explain the international behavior of its international companies (Johanson and Vahlne, 1977; 2009). Its basic assumptions are drawn from the behavioral theory of the firm (Cyert and March, 1963) (uncertainty, incremental adaptation and bounded rationality) and the Penrosean theory of the growth of the firm (Penrose, 1959).

Specifically, this model posits that through further operations, firms gain experiential knowledge which gradually disperses uncertainty and adjust their commitment decision in foreign markets incrementally. It describes a path-dependent process through experience in international markets, which is often slow and go through different stages. The key element in this model is the experiential learning, the main mechanism through which firms overcome distances at the country level. This implies that internationalizing to similar countries will mean less liability of foreignness (Johanson and Valhne, 1977) and this is why the first steps are expected to be in closer, physically and psychologically in distance, countries. Later developments of the sequential model introduced the importance of experience regarding the integration in local networks, referred to as the liability of outsidership (Johanson and Valhne, 2009).

Figure 2.2 summarizes and compare efficiency based versus value creating theories.

Table 2.2. Theories explaining the existence of MNC

	COST EFFICIENCY APPROACHES	VALUE CREATION APPROACHES
Organizational Principle	Hierarchy	Social community
Nature of FSA	FSA as inherent to the MNC	FSA as a knowledge base capability
Main reason to expand	Exploitation (rent-seeking motives)	Seek new knowledge. Value Creation (other motives)
External Interactions	External context do not enrich FSA	Multiple external contexts may enrich FSA
Internal Knowledge Flows	Vertical knowledge. Diffusion inside the MNC	Knowledge transfer and lateral flows
The role of experience	Non considered	Experience is important. Path-dependent processes

Source: own elaboration

2.3 APPROACHES EXPLAINING THE ORGANIZATION OF THE MULTINATIONAL FIRM

How to design the structure and governance models of large firms has been a central question in the academic community for many years (Nell, Ambos and Schlegelmilch, 2011). As highly diversified firms appeared during the first half of the XX century an early academic work arises studying the Multibusiness firm also known as M-form organization (Chandler, 1962; Williamson, 1975).

The M-form organization is defined as a firm that operates in more than one product or geographic market and consequently designs its structure separating divisions for each different business (Chandler, 1962). Initially, the product diversification permitted gaining efficiency by separating different related tasks and implementing specific decision making authority for each business unit. These intermediate decision

levels were considered one of the most important organizational innovations in large firms in that this allowed greater operational diversity and more specialized roles for the executives (Hofer, 1975; Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006).

After the product diversification, the geographic diversification included a new source of complexity which mattered to the structure; geographical expansion creates new challenges as adds geographical and psychological distances to the organization so the intermediate structures in the M-Form were seen as a way to overcome geographical complexities. As a consequence, in the M-Form it is possible to find different types of Headquarters (RHQ and DHQ) at the same time (Stopford and Wells, 1972). However, the initial conception of the M-form was based in a hierarchical organization understanding hierarchies as systems composed of vertically interrelated subsystems (Simon, 1962). This implies that interdependencies between divisions are rare or not permitted unless the initiative comes from the Headquarter (top-down direction) losing the benefits from possible cross-divisional interactions.

Hierarchies centralize information in a natural way as it moves up and become strategic while disperse the information as it moves down and is more tactical in nature. Furthermore, motivation comes through more extrinsic sources to achieve goals and decision making is highly centralized and standardized as possible. This is an attempt to reduce complexity (Egelhoff, 2010). To some extent, the HQ intervene when identifying synergy potential or general issues are faced. On the very classic literature, hierarchies are seen as a way to achieve vertical specialization (Taylor, 1911). In the same way, it makes the HQ an ultra-specialized unit in strategic and higher level tactical thinking and decision making (Egelhoff, 2010).

2.3.1 Hierarchical approaches

The rationale of hierarchies as parenting governance model in large firms is based in two main theories: information processing theory and transaction costs (Martin and Eisenhardt, 2010).

Information Processing Theory (IPT) is based on the work of Galbraith (1974) and address the cognitive limits of individuals, especially the top managers, who are inside the firm dealing with its information processing capacities. Chandler (1962) described how firms developing a highly diversified strategy declined performance as the information needs and processing tools of individuals overflowed. The sense of divisionalization of the M-form comes from the delegation of operational decision making to the divisions. Self-containing tasks permit corporate executives limiting the cognitive demands and scope of strategic decisions.

Egelhoff (1982; 2010) extended IPT by suggesting that MNCs continuously are adapting their organizational structures (including functional, international, geographical matrix and another type of structures) in order to reduce the complexity associated with MNCs information processing challenges (Piekkari, Nell and Ghauri, 2010). Adaptation occurs through the continuous evolvement of the business units portfolio. This view suggests that intermediate structural levels create tiered information processing hierarchies within the MNCs (Schotter, Stallkamp and Pinkham, 2017). However, HQs have a superior overall view of the external business environment of the firm and the linkages that exist between the separated divisions (Decreton, Dellestrand, Kaapen and Nell 2017).

An interesting implication of this approach is the recognition that the environment plays a crucial role in the firm structural organization. In parallel, *Contingency theory*,

based on the work of Chandler (1962) and further developed by Hofer (1975) and Stopford and Wells (1972), posited as well that high performance required a fit between external environments and the nature of the activities of the MNCs. Therefore, there is no unique way to organize MNCs but it will depend on the external environment characteristics.

Transaction cost theory (Coase, 1937; Williamson, 1975) is based on the reasoning of the individual's election which may have the best possible information and try to maximize efficiency. Regarding M-Form structures, the intermediate structural levels are seen, from the transaction costs perspective, as a way of controlling potential opportunism. Firms address this opportunism by aligning manager's actions and firm goals through incentives. Basically, the HQ assumes its lack of control at lower levels (bounded rationality) allowing intermediate structures to exist and aligning objectives with the managers allocated there. HQs are therefore focused on developing firm-wide incentives and control systems (Williamson, 1975). This implies a separation between activities performed by the HQ and activities performed by the divisions.

Agency theory. The establishment of hierarchical principles for organizations creates a principal-agent relationship within firms. Agency theory proposed by Jensen and Meckling (1976) and later extended by Fama and Jensen (1983) created the basis to understand how the distribution of authority and decision making power is aligned in complex structures.

Specifically, this theory is concerned with designing optimal contracts between economic actors to reduce opportunistic behaviors (Jensen and Meckling, 1976). Adapted to large MNCs, and taking the subsidiary as the unit of analysis, the theory

takes the HQ as the principal and the subsidiary as the agent. When the HQ delegates authority and resource control to the unit, the last may have an incentive to selectively provide information in order to maximize resource allocation. This output is known as the opportunistic behavior which is based in the agent self-interest and or on its level of bounded rationality (Kostova, Nell and Hoenen, 2016). To re-align units' goals with HQ goals, the former may apply monitoring systems to reduce information asymmetries and or provide incentives to reduce goal incongruences. In hierarchical organizations, decision making for subsidiaries is usually based on the control of an important resource rather than on the legitimate authority transferred from the HQ, and therefore may be based on more discretionary criteria (Mudambi and Pedersen, 2007).

In the last years, there have been some extensions to the agency theory regarding MNCs internal organization. Kostova et al., (2016) incorporated the influence of bounded rationality (Foss and Weber, 2016) beyond self-interest and the influence of different firm strategic settings to explain differentials in agency conflict levels. However, the implications of these theories are usually related to the limitations that a hierarchy brings to the MNC structure. First of all, interdependencies between pair levels of decision making are very difficult to explain neglecting the existence of possible synergies between units. Collaboration between units is hard to visualize when the process is not fostered from a corporate-centric origin (Martin and Eisenhardt, 2010; Decreton et al., 2017). To this regard, neglecting that pair unit may find reasons to collaborate due to scope economies and another type of synergies arise the discussion about the parenting adding value position of the HQ (Egelhoff, 2010; Dellestrand, 2011). These limitations suggest that MNC structures may be more

complexes than direct hierarchies enabling the existence of other directions than the vertical strict responsibilities and information flows in the MNC.

2.3.2 Federative/alternative approaches

In the '80s an alternative organizational design arose for the MNCs: the network organization or network structure. The Multinational network approach (Hedlund, 1986; Bartlet and Ghoshal, 1989) includes a variety of concepts of non-hierarchical forms in the organization such as heterarchy (Hedlund, 1986), inter-organizational network, transnational firm (Ghoshal and Bartlet, 1990) or horizontal organization (Poynter and White, 1990) among others.

Main differences with a hierarchical organization are related to the importance placed to subunits linkages, autonomy, the direction of flows and external relationships. Subunits under the HQ are supposed to be connected by relationships between each other (Forsgren, Holm and Johanson, 2005). This is due to the fact that they are supposed to develop different roles in terms of knowledge creation, action and authority (Hedlund, 1986) inside the MNC network and therefore develop cooperative as well as competitive link relationships between them (Forsgren et al., 2005).

The underlying logic is based on a quasi-market mechanism for charters, competences and resources in the MNC. This way, self-initiative of units becomes important (Birkinshaw, 2000) and Centers of Excellence appear as the maximum exponent of developed subunits.

Network structure brings two important implications: first, the MNC is depicted as an organization embedded in multiple external networks with different intensities and characteristics; the idea is drawn from Granovetter (1985) who pointed that economic

actors are affected by their social relations. As a consequence, the MNC can be explained in terms of selected attributes of the external network within which is embedded (Ghoshal and Bartlett, 1990). Second, the capacity to reconfigure bounded local knowledge by each dispersal units provides them the possibility to become a “node” in the internal network leading to a different level of self-determination in the development of subunits roles.

The business network perspective. A basic standpoint in network approach is that knowledge development is largely carried out within external business relationships rather than within the firm and means that the firm-specific advantage can be located at different places in the organization. This, by definition, implies that knowledge is largely developed at the subsidiary level and will be dependent on the quality of the interactions. As a consequence, a business type of network in which a firm is embedded may be seen as a strategic resource for the performance and the development of knowledge inside the corporation (Forsgren, Holm and Johanson, 1992). In brief, external network formation is a way of gaining knowledge from external markets in order to accumulate experience and overcome the liability of foreignness and outsidership (Eriksson, Johansson, Majkgard and Sharma, 2015). The consequent implications of these statements are that a network structure forms the reality in which firms evolve (Andersson and Forsgren, 2000) and that each firm network is unique.

The network perspective describes this network reality through the concept of embeddedness. Specifically, external embeddedness is understood as the extent to which MNCs build close linkages with its external environment and reflects the intensity of information exchange and the ability of the firm to absorb new knowledge

from external actors (Andersson, Forsgren and Holm, 2001). These interactions are traditionally observed with suppliers, customers, agents, partners, competitors and institutions (universities, research institutes, governments and agencies).

Business and Political Networks. The traditional value chain perspective, based on transaction costs behavior, differentiates between vertical and horizontal linkages. Vertical linkages embody relationships between the subsidiary and local firms whether backward (suppliers) or forward (customers). Horizontal linkages embody relationships with other actors (mainly institutions and other entities). This perspective, however, approaches the study of MNCs with local actors in order to measure local impacts and spillovers so, only accounting for the relationship of the MNC units with indigenous actors. Instead, the network perspective approaches all the relationships of the subsidiary as the focus of the research, independently whether the interaction occurs with an indigenous firm or a foreign firm. The concept used is relational embeddedness (Granovetter, 1985) and is shown to vary in degree and extent between pure arm's length interactions and knowledge-intensive ones (Figueiredo, 2011).

At first, research focused in buyer-seller relationships (so suppliers and customers) calling them business embeddedness, and technical embeddedness, based on the interdependences between firms in terms of product and production processes (Andersson et al.,2001).

Further research differentiates between the business-related relationship of the subsidiary and political related relationships depending on the type of knowledge they provide to the subsidiary. Business embeddedness permits to incorporate related

market, product and production knowledge while political embeddedness relates to the understanding of the political contexts and networks (Klopf and Nell, 2018).

External elements like market features and industry or quality of institutions (Klopf and Nell, 2018) are seen to affect quantity and intensity of external interactions, but they are elements out of the control of the firm (Anderson, Bjorkman and Forsgren, 2005). On the contrary, internal elements boosting external networks have been slightly studied: for instance, the subsidiary role is considered to influence the extent of developed external interactions of units. The work of Santangelo (2009) evidence the greater potential for linkage creation of competence creating subsidiaries. The autonomy of the subsidiary has been also considered as an element related to external networks (Andersson and Forsgren, 2000; Birkinshaw and Hood, 1998). In addition, control mechanisms have also been shown to influence the formation of external networks.

In the network approach, the importance of a subsidiary is linked to its capacity to shape the strategic behavior of the MNCs (Forsgren and Pedersen, 1998; Anderson and Forsgren, 2000) and therefore subsidiaries developing important knowledge and competencies need to be linked to the rest of the MNC in a way through transactions of products and knowledge. The extent to which units are connected with other parts through cross units interfaces in the MNC network is known as internal embeddedness. This intra network channel permits units to identify specific and available knowledge inside the firm, taking and recombining these resources (Mudambi and Navarra, 2004), improve coordination across units and stimulate its motivation to create important competencies for the firm (Marvel, Griffin, Hebda and Vojak, 2007). The different abilities across units in linking resources and capabilities located at different places in

the external and internal environment and its ability to shape the strategic behavior of the whole firm defines the dynamics of subsidiary roles.

Subsidiary evolution. As pointed above, work from Hedlund (1986) and Ghoshal and Bartlet (1990) among others changed the traditional view of subsidiaries as merely dispersed agents to units internally differentiated and goal-disparate with their own and unique external network (Kostova, Marano and Tallman, 2016).

The consequences of this changing paradigm brought different subsidiary roles and classifications based on different dimensions of analysis. Specifically, the pioneering work of Birkinshaw and coauthors recognized 3 drivers of subsidiary development: the parent management, the host country characteristics and the subsidiary's own initiative. As the unit engage in entrepreneurial activities and respond to the environment autonomously, overcome the previous deterministic paradigm on subsidiary value creation and contribution. Through the work of White and Poynter (1984), Jarillo and Martinez (1990), Gupta and Govindaranjan (1991) and further extensions by Birkinshaw and Morrison (1995), Delany (1998) and others it is possible to aggregate main subsidiary roles found in the literature (Pla-Barber and Camps, 2012).

Figure 2.1. Summary of main typologies of subsidiary roles

		Location	
		Low	High
Integration	High	Receptive, Passive, Quiescent, Rationalized manufacturer, specialized contributor, contributing factories, globally rationalized...	Active, Advanced, strategic leaders, World product mandates, Regional Headquarters
	Low		Autonomous, local implementer, miniature replicas, branch plants, local innovator, developmental

Source: Pla-Barber and Camps (2012) based on White and Poynter (1984), D’Cruz (1986), Bartlett and Ghoshal (1989), Jarillo and Martínez (1990), Gupta and Govindarajan (1991), Birkinshaw and Morrison (1995), Delany (1998), Yeung et al. (2001), Poon and Thomson (2003).

Basically, there are 3 main types of subsidiary roles: the receptive, the autonomous and the active subsidiary. The receptive subsidiary has a reduced scope of activities and is strongly linked to the parent and the internal network. It has a reduced external network and low autonomy. They are recognized as improving efficiency for the MNCs (White and Poynter, 1984). The autonomous subsidiary has a greater scope of activities for a local/domestic market but is less integrated into the MNC. Is also known as the local implementer. They may evolve in miniature replicas or branch plants depending on its external environment evolution. Finally, the active subsidiary is the one with a particular advanced role in the corporation: they have a wide variety

of valuable activities in close relation with other units in the MNCs. The strategic leader or the world product mandate may fit this role.

A related branch of literature is the study of Centers of Excellence. Centers of Excellence refers to the extent and the capacity that a subsidiary has in shaping the strategic behavior of the firm (Madhok, 1996; Andersson and Forsgren, 2000; Holm, Pedersen and Bjorkman, 2000). Basically, the approach to Centers of Excellence measures the competence creating capacity of the unit for the whole organization approached more as a continuum rather than a strict static classification.

Resource Dependence Theory. As complexity increase (in terms of size but especially in terms of competence creation locus) the issue of power and conflict need to be addressed. Some authors suggested that the Agency Theory may not be enough to understand decision making from subsidiary managers in MNCs (Mudambi and Pedersen, 2007). According to Resource Dependence Theory (RDT) units' power is based on the control of resources that are considered strategic inside the MNC (Salancik and Pfeffer, 1977). Far from hierarchies, the loose coupling promoted by the network structure (Ghoshal and Bartlet, 1990) allows units to evolve and create unique resources and influence in the organization. The uniqueness of these resources depends on the capacity of the HQ to control it. For instance, an intangible knowledge base asset will be very difficult for the HQ to enforce and control (Nonaka and Takeuchi, 1995). Hence, subsidiaries will gain (or lose) influence and autonomy depending on the benefits that create for the HQ and the whole organization which may apply softer control mechanisms to promote competence creation (Mudambi and Pedersen, 2007).

For RDT theorists, power inside MNCs is based on influence which is based on specific resources under control. This control is measured as the extent of independence from the HQ. On the contrary, in Agency theory, unit's decision making will never be highly independent in that the nature of the resources controlled by units are decided and allocated by the HQ. External context has a far more important role in RDT.

Rather than a managerial choice, the hierarchy versus the heterarchy dilemma appears as different management organizational mechanisms that define and position the role of the HQ in the MNCs and the scope of autonomy for subunits. The HQ in the networked MNC is characterized, unlike in hierarchies, as a benevolent parent with a parenting advantage (Forsgren, 2017).

Recent studies present the MNCs as a mixture of both hierarchies and networks in an always evolving parental system, and the challenge for the HQs becomes to understand when and how they add and or destroy value for the corporation (Egelhoff, 2010; Dellestrand, 2011; Nell et al., 2011; Decreton et al, 2017).

Table 2.3 summarizes hierarchical versus alternative approaches.

Table 2.3. Hierarchical versus alternative approaches

	HIERARCHICAL APPROACHES	FEDERATIVE/ALTERNATIVE APPROACHES
Power	Authority is given by the HQ (HQ as the source of power))	Influence from the resource control
Conflict	Opportunistic behavior	Political bargaining power
Control from HQ	Hard Control (the policeman HQ)	Soft Control (the benevolent HQ)
External Context	Source of uncertainty and costs (transactions)	Source of knowledge and unique resources (relationships)
Subsidiary autonomy in decision making	Related to the level of short term generated benefits (cash flow, profit)	Related to the importance of the controlled resources (knowledge-based/ resources not possible to control from the HQ)
Information flows	vertical top-down	lateral/ interdependencies

Source: own elaboration

2.4 A LOOK ON THE ROLE OF THE HQ AND INTERMEDIATE LAYERS

As theories of the MNCs evolved from efficiency to value creating approaches, from pure hierarchies to the federative MNC, in the last decade's research has increased its emphasis in the changing role of the subsidiary as the cornerstone of the evolution path of the MNC. Nonetheless, some authors recently pointed out that there has been a tendency to ignore the value-creating role of the HQ (Nell and Ambos, 2013).

Furthermore, as MNCs have become larger and as the dispersion of global value chains make firms confront complex structure to coordinate (Kano, 2017), two phenomena are happening: first, there is no more one physical HQ. As other activities in the value chain are being dispersed across the MNC geographical boundaries (Nell, Kaapen and Laamanen, 2017) the same is observed for HQs. Second, the hierarchical role of the

HQ (the policeman) has evolved to a more benevolent value-creating role, namely, has developed the parenting advantage (Foss, 1997).

The dispersion of HQs. Although it is not a new phenomenon (Kunisch Menz and Birkinshaw, 2019) there is recent research attention on this issue (Birkinshaw et al., 2006; Benito, Lunnan and Tomassen, 2011; Nell et al., 2017). This has helped to overcome the idea of the single HQ located at the home country. According to hierarchically based theories, increasing complexity in internal organization and in the external environment is related to an intensification in transaction costs and in information processing demands leading to the emergence of intermediate layers of authority dispersed across boundaries (Schotter et al., 2017). This is the case of RHQ and DHQ.

However, according to alternative approaches, further reasons are related to the disaggregation of HQ activities beyond controlling a group of subsidiaries. For instance, in front of the increasing influence of the subsidiaries, the network approach states that the HQ may create intermediate layers in order to access subsidiary environments to reduce the influence of its units or to handle entrepreneurial activities. Lasserre (1996) evidenced how, due to the need for flexibility, it is possible even to externalize HQ activities to local units.

The role of HQs and IUs. According to the latest theories, the HQ is described as one player among others competing for influence in the MNC (Forsgren et al., 2005). It will achieve such influence if develop the parenting advantage which represents the ability of the HQ to add value to its subsidiaries and to the whole organization. For

such goal, the HQ will need to develop its own knowledge about the important actors in the network, which is often costly.

In hierarchical approaches, the HQs suffer from bounded rationality (Mintzberg, 1990) which supplement with hard control systems, whereas in federative theories, it suffers from sheer ignorance and sometimes, it lacks legitimacy (Ciabuschi, Forsgren and Martin, 2017). According to these two scenarios, two adding value roles have been described for HQs inspired in the work of Chandler (1991): the coordinative loss prevention role and the entrepreneurial role (Alfoldi, Clegg and McGaughey, 2012). Together with the disaggregation of HQs and the study of roles, a more specialized view of the HQs and governance systems existence and evolution opens the possibility to study in deep complex parenting structures. Figure 2.4 summarizes how HQ perform in each approach.

Table 2.4. The HQ in different approaches

	THE HQ IN HIERARCHICAL APPROACHES	THE HQ IN FEDERATIVE/ALTERNATIVE APPROACHES
Abilities and capabilities	Intrinsic	Parenting advantage is developed
Knowledge capacity	Bounded rationality	Sheer ignorance
Role	Coordinator (Loss prevention)	Coordinative and Entrepreneurial (create value)
Reason to HQ dispersion	Increasing complexity	Gain influence and legitimacy
Type of Intermediate Units	RHQ, DHQ	HQ activities also assigned to local units
Parenting systems	Vertical (with intermediate layers, Hard control)	Complex (with intermediate layers, Hard and soft control)

Source: own elaboration

2.5 CONCLUSIONS

Along with this chapter, we have revised main theories explaining the existence of the MNC separating between efficiency and value creating approaches. As an extension of the 2 approaches, the different paradigms – the hierarchical versus the heterarchical – serve as cornerstones for the study of the MNC internal governance system.

Although we present main theories in separate sections, it seems generally accepted that, rather than a choice for managers, the hierarchy versus the heterarchy systems appears to perform as different organizational mechanisms which coexist in the MNC. For instance, Egelhoff (2010) points out specific tasks where hierarchy outperforms network structures. This indicates that HQs may have more than one value-adding role beyond the pure controller (the policeman) position.

In this line, theories are increasingly describing MNCs as an intricate network with different poles of power (Hedlund, 1986) and have put the research emphasis on the subsidiary as the indisputable value adding creator (Andersson and Forsgren, 1996). Nevertheless, recently, some authors pointed out that there is a tendency to ignore the value-creating roles that HQs may perform (Nell and Ambos, 2013; Ciabuschi et al., 2017). By and large, this is pointing out that outside the hierarchy, HQs play a broader role since knowledge can flow laterally. This advantage will consist of a superior ability to decide which activity to support and how to structure these systems.

Furthermore, taking into account current increasing complexity of MNCs due to the dispersion of Global Value Chains, which increase physical and psychological distances, firms are confronting more complex structures to coordinate (Kano, 2017). As a consequence, recent research shows the massive dispersion of HQ activities outside the home countries (Ambos and Schlegelmilch, 2009). Subsidiaries receiving

HQ responsibilities (Lasserre, 1996) as well as traditional intermediate units (RHQ and DHQ) are of crucial importance to understand and organize complex parenting structures in the MNC (Goold and Campbell, 2002).

A very challenging issue remains to integrate theoretically these intermediate units and the value of complex parenting systems in the above theories and paradigms.

Furthermore, deepening into the roles that intermediate units perform may help to understand different positions of HQs in MNCs while serving as natural experiments to understand how hierarchies and federative approaches coexist. Finally, how they relate to external environments as regards to its unique positions in the internal and external networks will help us to validate main theories in relation to intermediate units' evolution.

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**CHAPTER 3: THE EMERGENCE OF
INTERMEDIATE UNITS IN
MULTINATIONAL CORPORATIONS: A
LITERATURE REVIEW AND AVENUES
FOR FUTURE RESEARCH**

ABSTRACT

Intermediate units represent a response by multinational corporations to the increasing dispersion of headquarters' activities. The increase in diversity and the decentralization needed to address industry and country specificities at the local and regional levels are giving rise to complex organizational models. Intermediate units assist in addressing this complexity, as they are located at intermediate levels in terms of strategy and structure, thereby blurring the idea of a unique headquarter unit. They not only coordinate and integrate but also develop entrepreneurial capabilities and add value to the organization in various ways. However, these units are not covered by research on headquarters systems, complex parenting structures or capability development at different levels, and our understanding of this phenomenon is limited. This paper reviews the related literature in order to clarify relevant concepts, identify the antecedents of intermediate units and discuss their dynamics. In addition, we propose a research framework and a typology of intermediate units as 'controllers', 'parasites', 'scouts' or 'adventurers'. We highlight avenues for future research, which may help scholars advance our knowledge of intermediate governance models.

3.1 INTRODUCTION

In recent years, the international business (IB) literature has increasingly shifted its attention towards a new phenomenon: the disaggregation and relocation of headquarters' (HQ) functions (Benito, Lunnan and Tomassen 2011; Alfoldi, Clegg and McGaughey 2012; Nell, Kappen and Laamanen 2017). This trend has resulted in the emergence of a new type of unit inside the multi-tier multinational corporation – the *intermediate unit* (IU) (Ambos and Schlegelmilch 2009; Lunnan and Zhao 2014; Chakravarty, Hsieh, Schotter and Beamish 2017). These entities appear as intermediate structures between headquarters and local subsidiaries, and they are responsible for other units in the network in relation to a particular market, product or set of activities. IUs exercise a double function (Hoenen *et al.* 2014). On the one hand, they consistently build and maintain connections with the local networks in their area of influence. On the other hand, they are expected to be better than HQ at interpreting, understanding and integrating heterogeneous local knowledge owing to their more specific knowledge base (Pla-Barber, Villar and Madhok 2017).

The rationale for the IU's existence relates to the bounded rationality of the HQ, which delegates decision to lower levels in order to overcome information problems (Verbeke and Asmussen 2016). Traditional IUs include regional headquarters and divisional headquarters, which came into focus in studies on the multi-business (M-form) organization. However, many other types of IUs have been uncovered since Lasserre (1996) pointed to the existence of local units carrying out HQ activities at the regional level. This raised the possibility of designing regional strategies in three ways: by establishing a regional headquarters, by granting a subsidiary a broader role focused

on building a regional culture or by encouraging subsidiaries to cooperate with each other (Li, Yu and Seeto 2010).

The extant literature has mainly focused on regional headquarters (Lasserre 1996; Asakawa and Lehrer 2003; Enright, 2005). However, as the disaggregation of headquarters becomes increasingly widespread, some researchers are developing other concepts, such as regional management mandates, sub-regional headquarters, host-country headquarters and virtual headquarters. These studies are grounded in different theories, including the integration-responsiveness (I-R) framework and transaction cost theory (Lehrer and Asakawa 1999; Li *et al.* 2010), although some recent work suggests that IB scholars are moving from the I-R framework to other theoretical approaches, such as the network perspective (Mahnke, Ambos, Nell and Hobdari 2012; Hoenen, Nell and Ambos 2014; Decreton, Dellestrand, Kappen and Nell 2017) or information processing theory (Piekkari, Nell and Ghauri 2010; Schotter, Stallkamp and Pinkham 2017).

The bulk of the extant research mainly relies on case studies that examine the specificities of IUs, while papers using large samples, cross-regional samples and longitudinal samples are lacking (Piekkari *et al.* 2010; Kim and Aguilera 2015). Other studies investigate the role of IUs in efficiently organizing regions (Amann *et al.* 2014; Schotter *et al.* 2018), acting as cornerstones for cross-regional internationalization (Pla-Barber, Villar and Madhok 2017; Hutzschenreuter and Matt 2017), adding flexibility to enlarged MNCs (Asakawa and Lehrer 2003; Piekkari *et al.* 2010; Alfoldi *et al.* 2012) and serving as knowledge repositories inside the organization (Lunnan and Zhao 2014; Hoenen *et al.* 2014). However, the results of this work are disconnected

and, at times, contradictory, possibly due to the unknown specificities of these units, the variety of theories and approaches used, and the lack of specific data.

Our aim in this literature review is to organize and synthesize what we know about IUs in order to determine the state of current knowledge and identify avenues for future research. To do so, we systematically review 53 references and organize them into three groups based on their main focus: concepts, antecedents, or roles and dynamics.

Our findings suggest that future research should center on developing internal and external measures related to the development of IUs. We also propose that the integration of IUs' traditional roles (administrative and entrepreneurial) is critical for ensuring a better interpretation of results. As these roles may not be static, the exploitation/exploration approach may be more useful in understanding the dynamics of these units. In this regard, we contribute by proposing a research framework that includes these dynamics as well as a simple typology of IUs as controllers, parasites, scouts, or adventurers that incorporate their geographical scope.

The remainder of the paper is structured as follows. First, we present the methodology for the literature review. Second, we examine conceptualizations, antecedents and dynamics of IUs. Finally, we present our conclusions and discuss avenues for future research.

3.2 LITERATURE REVIEW METHODOLOGY

We used the ISI Web of Science Data Base to identify potential articles to include in the review. This database offers a variety of options for selection criteria, has high standards and is widely recognized in the academic community (Klang, Wallnöfer and Hacklin 2014). In this process, we excluded conference and working papers due to

variability in the peer-review processes (Jones, Coviello and Tang 2011). However, we added several items to the list through a snowballing technique (van Wee and Banister 2015), which involves adding research to the review list based on forward or backward citations in the papers that have already been found. We explicitly identify the items that were added in this way.

We used the main concepts that refer to IUs as keywords to find research that was directly related to the topic. These keywords were *intermediate units*, *divisional headquarters*, *regional structures*, *regional management centers*, *regional headquarters* and *regional management mandates*. Separated searches were performed for each keyword using the driver 'THEME', which means that a keyword could be found in the title, abstract or keyword sections of the papers. We chose social science, business and economics as the subject areas, and we allowed for possible variations of the terms. We selected the period 1996 to 2017 because Lasserre (1996) is viewed as the first work to recognize the existence of local subsidiaries with regional mandates and, as such, as the first work to point to structures other than regional headquarters (RHQ). Lasserre (1996) highlighted the possibility of a local subsidiary as a recipient of HQ mandates to handle certain activities and, therefore, allowed for intermediate structures other than divisional headquarters (DHQ) and RHQ. We did not include literature related to the M-form organization, although this structure could be considered the origin of the DHQ and the RHQ. Instead, we focused on other differentiated structures assigned HQ activities.

Our search resulted in an initial list of 165 publications. After removing repeated entries, we manually screened all of the publications and read all of the abstracts to exclude those that were not related to the topic (Kunish, Menz and Ambos 2015). In

cases where the three authors disagreed on the inclusion or exclusion of a paper, they discussed the issue until agreement was reached. This process resulted in a list of 46 publications: 41 papers, four book chapters and one book. After snowballing, the number reached 53 through the addition of six papers and one book chapter. The 47 papers in the final list were published in 22 journals. The final list is shown in Table

3.1

Table 3.1. Studies included in the literature review

	AUTHORS AND YEAR	IU-RELATED CONCEPT	THEORY, APPROACH	METHOD	SAMPLE CHARACTERISTICS	SNOWBALLING
1	Lasserre (1996)	RHQ		S, C, CS	Western companies, Asian RHQs	
2	Lehrer and Asakawa (1999)	RHQ	I-R framework, contingency approach	CS	European and Asian MNCs in Europe	
3	Yeung, Poon and Perry (2001)	RHQ	I-R framework, regional perspective	S, Q, I	Singapore	
4	Asakawa and Lehrer (2003)	Regional innovation relays, regional offices	Regional perspective on innovation	CS, I	US and Japanese MNCs	
5	Paik and Sohn, (2004)	RHQ	I-R framework	CS	Japan	yes
6	Enright (2005)	RMC, RHQ, regional offices	Regional perspective, transaction cost	LS, Q, S	Asia-Pacific regional centres	
7	Birkinshaw, Braunerhjelm, Holm and Terjesen, (2006)	Business-unit HQ	Theory of the multinational corporation	S, Q	Swedish MNC	yes
8	Barner-Rasmussen, Piekkari and Bjorkman (2007)	DHQ, virtual HQ		CS, I	Finland	
9	Walsh and Zhu (2007)	IU	Approaches to human resource management	I	European and Japanese MNCs in China	
10	Holt, Purcell, Gray and Pedersen (2008) (Book)	RHQ	Location choice	Q, I	Europe and Asia-Pacific	yes
11	Ambos and Schlegelmilch (2009) (Book)	Regional management	Multiple			
12	Ma and Delios (2010)	HCHQ		Q, SD	China	yes
13	Piekkari, Nell and Ghauri (2010)	RMC, RHQ	Information processing theory	CS	Northern Europe and Asia-Pacific	
14	Li, Yu, and Seetoo (2010)	Sub-RHQ, RHQ	I-R framework	CS, I	Taiwan	
15	Benito, Lunnan and Tomassen (2011) (Book)	DHQ	Agency theory, resource-based view, institutional perspective	Q, SD (longitudinal data)	Norway	

16	Lunnan, Benito and Tomassen (2011)	DHQ	OLI, agency theory, institutional perspective	Q, SD (longitudinal data)	Norway	
17	Laudien and Freiling (2011) (Book)	RHQ	Transaction Cost (information cost approach)	C		
18	Nell, Ambos and Schlegelmilch (2011) (Book)	RHQ	Hierarchical principles, M-form structures	I, S, CS	European RHQ	
19	Dellestrand (2011)	DHQ	Network approach	Q, S, I	14 countries in NAFTA, EU and Asia	
20	Budhwar (2012)	Country-specific headquarters (CSHQ)	I-R framework approaches to HRM	I, S	India	
21	Pla-Barber and Camps (2012)	Springboard subsidiary	Regional Perspective, Transaction Cost	C		
22	Laamanen, Simula and Torstila (2012)	HQ, RHQ	Location choice	Q, LS, SD	Movements of RHQ and HQ in European countries	
23	Mahnke, Ambos, Nell and Hobdari (2012)	RHQ	Network approach	Q, S	European RHQ	
24	Alfoldi, Clegg and McGaughey (2012)	RHQ, RMM	Contingency approach, information processing theory, agency theory	CS, I	Hungary	
25	Baaij and Slangen (2013)	HQ disaggregation	Transaction Cost	C		yes
26	Ma, Delios and Lau (2013)	HCHQ	Location choice	Q, SD	China	yes
27	Preece, Iles and Jones (2013)	RHQ		CS	Asia	
28	Gilbert and Heinecke (2014)	RMC	Contingency approach	Q, S	Fortune Global 500	
29	Pan, Teng, Yu, Lu and Huang (2014)	HCHQ	Transaction Cost	Q, SD	US Fortune Global 500	
30	Amann, Jaussaud and Schaaper (2014)	RMS, RHQ, regional offices, distribution centres	Regional perspective	CS, I	Asian subsidiaries managers from French MNC	
31	Lunnan and Zhao (2014)	RHQ		I, CS	Shanghai RHQ	
32	Hoenen, Nell and Ambos (2014)	RHQ, IU	Network approach	Q, S, C	European RHQ	

33	Baaij, Mom, Van den Bosch and Volberda (2015)	Core parts of CHQ	Theory of multinational corporations	SD, I, Q	Dutch MNCs	yes
34	Gruber and Schlegelmilch (2015)	RHQ	I-R framework	SD, I, C	African subsidiaries of MNC from the triad	
35	Freiling, Kähäri, Piekkari and Schmutz (2016) (Book)	RMS		CS	German	
36	Klimkeit and Reihlen (2016)	RHQ	I-R framework approaches to HRM	CS	European company	
37	Verbeke and Asmussen (2016)	Regional head offices	Internalization theory, I-R framework	C		
38	Luiz and Radebe (2016)	RHQ	Economic geography (agglomeration, proximity) and institutional voids approach	I, S	European and North American MNC with South African presence	
39	Verbeke, Kano and Yuan (2016)	RS (regional structures)	Internalization theory	C		
40	Chakravarty, Hsieh, Schotter and Beamish, (2017)	RMC, RHQ, RMM	I-R framework	LS, Q, SD	Japanese MNC	
41	Conroy, Collings and Clancy (2017)	IU, RHQ	Agency theory and micropolitics	CS, C	Irish RHQ	
42	Ma, Wang and Li (2017)	ARHQ (Asian RHQ)	Internalization theory	S, Q	RHQ in Asia	
43	Ambos (2017)	RHQ		I, S	Western companies, Asian RHQ	
44	Belderbos, Du, and Goerzen, (2017)	RHQ	Location choice	Q, LS, SD	Global cities as host regions	
45	Pla Barber, Villar and Madhok (2017)	Springboard subsidiary, dual roles, RHQ	Parenting theory	CS, C, I	Latin America	
46	Schotter, Stallkamp and Pinkham (2017)	RMC, RHQ, RMM	Information processing theory	Q, LS, SD	Japanese MNC in five regions	
47	Villar, Dasí and Botella-Andreu (2018)	IU, springboard subsidiary	Resource-based view	Q, S	Spain, Latin America	
48	Nell, Kappen, and Laamanen (2017)	RMC, disaggregation of HQ	Multiple approaches	C		
49	Kähäri, Saittakari, Piekkari and Barner-Rasmussen (2017)	RHQ	Subsidiary evolution	Q, S	Finland	
50	Decreton, Dellestrand, Kappen and Nell (2017)	DHQ	Selective hierarchical involvement theory	Q, S, I	Not specified	

51	Alfoldi, McGaughey and Jeremy Clegg (2017)	RMM	Structuration theory	CS,I	Central and Eastern Europe	
52	van Kranenburg and Voinea (2017)	RHQ	CSR	SD, Q, LS	The Netherlands	
53	Villar, C., Pla-Barber, J., Domingo, L. S., and Madhok, A. (2017)	IU, springboard subsidiary	Internationalization processes	CS, I	Latin America	

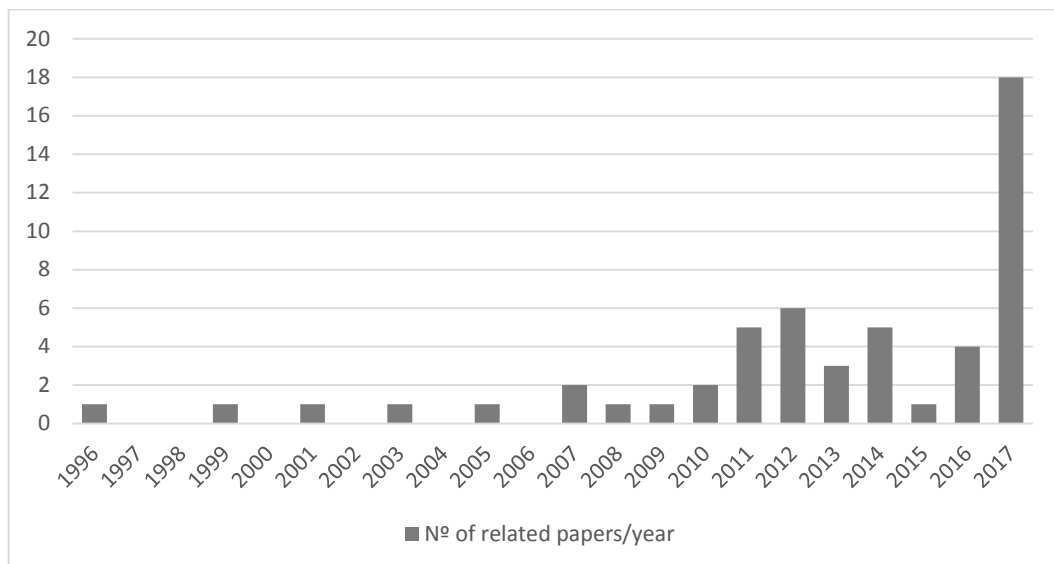
Notes: In line with Hutzschenreuter and Matt (2017): CS (case study), LS (large scale), Q (quantitative), SD (secondary data), S (survey), C (conceptual) and I (interviews).

IU-related concept: RMC (regional management centre), RHQ (regional headquarters), RMM (regional management mandate), RMS (regional management structures), IU (intermediate units), DHQ (divisional headquarters).

3.2.1 General Findings

As Figure 3.1 illustrates, interest in the topic has grown over time. This coincides with the broad approaches to MNCs prominent in current research, such as the regionalization perspective and the international disaggregation of value chains. Most of the papers were published in the last ten years, which coincides with the accumulation of evidence indicating an increase in the number of IUs (Ambos and Schlegelmilch 2009; Lunnan and Zhao 2014; Chakravarty *et al.* 2017). The greatest growth in the amount of research published on this issue occurred in 2017. Therefore, our review appears at an appropriate moment, as it represents an attempt to order accumulated knowledge, organize empirical insights and prepare the ground for integrated future research on IUs. Notably, one paper was available online during 2017 and included in the final list, although it was not officially published until 2018.

Figure 3.1. Publications on IU by year



Source: ISI Web of Knowledge and own elaboration

Table 3.2 presents an overview of journal coverage and the number of papers published. As the table demonstrates, management and IB journals dominate the list. Most papers on the topic are concentrated in five journals, while the other journals contain no more than three. Two journals are from the field of economic geography, which highlights the relationship between this area and the IB domain.

Table 3.2. Number of papers included in the review, by journal

<i>Journal</i>	<i>N° of Papers</i>
TOTAL	47
<i>Journal of Management Studies</i>	7
<i>Management International Review</i>	6
<i>Long Range Planning</i>	4
<i>Journal of International Management</i>	4
<i>Journal of International Business Studies</i>	4
<i>Journal of World Business</i>	3
<i>The International Journal of Human Resource Management</i>	3
<i>International Business Review</i>	2
<i>Urban Studies</i>	1
<i>Journal of Economic Geography</i>	1
<i>Global Strategy Journal</i>	1
<i>Asia Pacific Journal of Management</i>	1
<i>Management and Organization Review</i>	1
<i>British Journal of Management</i>	1
<i>European Journal of International Management</i>	1
<i>Journal of Professions and Organization</i>	1
<i>International Marketing Review</i>	1
<i>Business Administration Management</i>	1
<i>Scandinavian Journal of Management</i>	1
<i>Universia Business Review</i>	1
<i>Organizational Analysis</i>	1
<i>Strategic Management Journal</i>	1

Source: ISI Web of Knowledge and own elaboration

We carried out a detailed analysis of the publications (see Table 3.1) to draw a clear picture of the state of the art. The publications in the sample mainly focus on the study of RHQ (32 of 53 studies). In fact, 18 of the publications focus exclusively on RHQ. Of the 53 studies, 6 use the term ‘regional management center’ (RMC) (first one in 2005) and only 4 apply the term ‘regional management mandate’ (RMM) (first one in 2012). ‘Intermediate unit’ is only used in four studies. Five works in the sample concentrate exclusively on DHQ, while four use the term ‘host country headquarters’ (HCHQ). Finally, there are a few studies that utilize related terms like ‘sub-regional HQ’, ‘springboard subsidiaries’, ‘regional innovation relays’, ‘regional offices’, ‘dual role subsidiary’, ‘virtual HQ’, ‘business unit HQ’ and ‘units with core parts of HQs’, all of them presenting IUs’ characteristics. This broad and dispersed terminology clearly reflects a need to organize the concepts to allow for better identification, study and classification of the roles of these type of units.

The main perspectives used for addressing the IU phenomenon are the I-R framework, transaction cost theory, the network perspective, information processing theory, the resource-based view and agency theory. The I-R framework, which is based on Bartlett and Ghoshal’s (2002) work, was introduced into the regional structure literature by Rugman and Verbeke (2008) and Verbeke and Asmussen (2016). It was extended by Chakravarty *et al.* (2017). This approach views IUs as new structural tiers inside the MNC that are designed to leverage conflicting internal and external pressures. On the one hand, IUs are close to local environments and they are therefore able to respond quickly. On the other hand, they translate the overall picture for the HQ, thereby helping the organization reach global efficiency goals.

The transaction cost (TC) perspective is applied in studies that investigate the importance of country and regional location factors (Laudien and Freiling 2011; Gilbert and Honecke 2014; 2017; Pla-Barber and Camps 2012; Belderbos, Du and Goerzen 2017). Within the TC perspective, IUs are seen as a way to control potential opportunism inside organizations. Basically, HQs assume a lack of control at lower levels and, therefore, allow IUs to exist by aligning the objectives of intermediate managers with HQ's goals. However, one limitation of this approach relates to the limitations of purely hierarchical structures.

Approaches other than those based on internal efficiency have also been utilized. The network and embeddedness approach (Dellestrand 2011; Mahnke *et al.* 2012; Hoenen *et al.* 2014; Decreton *et al.* 2017) and information processing theory (Piekkari *et al.* 2010; Schotter *et al.* 2017) introduce a more dynamic view to explain the nature of the IU. In the network approach, IUs are seen not only as controllers but also as units that develop important competencies for the organization due to their multiple embeddedness. IUs extend their functions and develop important value-added roles due to their position. They are recognized as powerful units because they gain influence as a consequence of their internal and external positions. Information processing theory explains IUs as intermediate structural levels that are utilized to address the cognitive limits of individuals and organizations. This theory suggests that intermediate structural levels create tiered information processing within MNCs (Schotter *et al.* 2017).

Recently, the resource-based view has also been applied in this stream of literature. According to this view, IUs hold critical resources and capabilities (e.g. special knowledge stocks), and they reduce the distance between HQs and local subsidiaries

by leveraging location advantages (Benito *et al.* 2011; Villar, Dasí and Botella-Andreu 2018). IUs can also be explained from an agency theory standpoint, as they act both as principals (relative to subsidiaries) and as agents (for the HQ). This situation has special characteristics and implications (Conroy, Collings and Clancy 2017; Kostova, Nell and Hoenen 2016). These latter approaches seem to be promising as baselines for understanding the dynamics and micro-politics in the IU's internal organization.

Our sample includes 29 case studies and conceptual papers, which is rather a large proportion of qualitative studies when compared to other fields. This suggests that the topic does not yet have a leading theoretical approach and that it is a new phenomenon that needs to be explained. Alternatively, the relatively small number of quantitative studies might suggest a lack of appropriate large-scale data that could highlight causal relationships in the emergence and management of these units.

The list of publications shows a bias towards Asian and European samples. Regionalization was initially described in the literature in relation to the triad markets (i.e. Europe, North America and Asia). However, in recent years, the focus has been extended, with Latin America (two papers in our sample) and Africa (two papers) becoming important actors in the context of emerging markets. Our sample suggests that the development of some Asian countries in the 1990s triggered research on regional management in the region. Recently, Luiz and Radebe (2016) called for additional research on criteria for clustering African countries and Gruber and Schlegelmilch (2015) explored corporate social responsibility through RHQs in Africa. The concept of a region may vary among companies, home countries and industries. However, to explore this issue, more inter-regional and inter-country studies are needed. Only seven of the studies in the sample cover different regions.

We examine the reviewed literature in three steps. First, we classified all of the concepts related to IUs' characteristics based on the definitions and criteria found in the literature. Then we classified all of the studies as belong to one of two groups. The first group included papers related to the creation, location and relocation of IUs, and they focused on the disaggregation of HQ activities. Papers in the second group related to the dynamics of IUs, and the evolution of roles and functions into complex management systems. We follow this structure in the following sections to provide a better understanding of the conceptual basis of this literature. Moreover, this structure enables us to develop new role classifications and extend the current research framework.

3.3 INTERMEDIATE UNITS: CLARIFYING CONCEPTS

In this section, we aim to develop a standard definition of IUs. The literature is widely dispersed in this regard. Most publications use different criteria when defining IUs. For instance, many of them analyze the functions of IUs, while others focus on the IU's geographical scope, its mandate or even its temporality. Therefore, we have identified and grouped the research covered by this review on the basis of seven diverse criteria that these different works apply. This enables us to build a proper framework for visualizing the definition of IUs, including the numerous concepts referring to these units.

The term 'intermediate units' refers to units within a corporation that are located between global corporate headquarters and local subsidiaries. An explicit definition of IUs can be found in Hoenen *et al.* (2014p. 77), where they are defined as 'hybrid organizational entities that are distinct from subsidiaries and HQ units although they share some of the same characteristics'. IUs occupy an intermediate position in terms

of strategy and structure, and they help the organization make sense of and interpret local conditions (Villar *et al.*, 2018). IUs hold a narrow or wide range of responsibilities over other units that are under its spectrum of influence. These responsibilities may relate to a business unit, a specific market or region, or a specific activity (e.g. financial control or exploration of new business opportunities). This broad definition encompasses such terms such as RHQ, DHQ, RMC, RMM, dual-role units and HCHQ.

The vision of HQ activities as a complex parenting system (Goold and Campbell 2002) that is not located in one physical building but in a multi-tier network has its roots in the M-form organization. M-form organizations are assumed to disaggregate HQ functions depending on the evolution of their structure into product divisions (DHQ), regional organizations (RHQ) or both. Given this origin of IUs, our first criterion is regional versus business unit, which results in a distinction between DHQ or RHQ (criterion 1 in Table 3.3). Few studies in our sample relate to DHQs (four papers and a book chapter). DHQs are described as units responsible for the strategy for a specific product or business unit. In terms of geographical scope, they operate in host countries (Chandler 1991; Benito *et al.* 2011; Dellestrand 2011). They work closely with local subsidiaries on operational tasks, such as innovation projects (Dellestrand 2011; Decreton *et al.* 2017). However, as the differences between DHQs and other types of IUs are sometimes unclear (Barner-Rasmussen *et al.* 2007), we use the regional versus business unit component criterion to make the first differentiation.

Table 3.3. Criteria used in the literature to classify IUs

<i>CRITERIA</i>	<i>CLASSIFICATION</i>	<i>DESCRIPTION</i>	<i>EXAMPLES OF RELATED STUDIES</i>
1. M-form structure	DHQ versus RHQ	Different type of HQs in the M-form structure	Traditional M-form literature (e.g. Chandler 1991)
2. Regional component	RMC versus others	All IUs at regional levels are RMCs	Lasserre (1996); Enright (2005); Gilbert and Heinecke (2014); Chakravarty <i>et al.</i> (2017)
3. Number of roles	Dedicated subsidiaries versus dual roles	Subsidiaries with dual roles (domestic subsidiary role + regional headquarters responsibility)	Lasserre (1996); Ambos and Schlegelmilch (2010); Alfoldi <i>et al.</i> (2012); Pla-Barber and Camps (2012)
4. The temporality of the mandate	RMM versus RHQ	Finite purpose with an established agenda versus specific, non-temporary mandate	Piekkari <i>et al.</i> (2010); Pla-Barber and Camps (2012); Kähäri (2014); Pla-Barber, Villar and Madhok (2017)
5. The mandate	Integrative/administrative versus entrepreneurial mandate (or both)	Traditionally an integrative/coordinative mandate is assumed; recent research offers evidence of entrepreneurial capabilities	Lasserre (1996); Piekkari <i>et al.</i> (2010); Alfoldi <i>et al.</i> (2012); Hoenen <i>et al.</i> (2014); Belderbos <i>et al.</i> (2015)
6. Geographical scope	Not yet established but some types identified	The scope of the responsibilities and the region in which the IU holds responsibilities	Pla-Barber and Camps (2012); Pla-Barber, Villar and Madhok (2017); Schotter <i>et al.</i> , 2017
7. Miscellaneous	IUs as physical structures versus dispersed responsibilities across managers; domestic HQ	No structures but intermediate responsibilities held by individuals	Schütte (1997); Lasserre (1996); Budhwar (2012); Pan <i>et al.</i> (2014); Birkinshaw <i>et al.</i> (2006)

Source: own elaboration

RHQs, which were originally identified in the 1970s, has been widely covered in recent research. Some studies provide conceptual definitions of the RHQ. One such definition suggests that RHQs are ‘organizational units concerned with and involved in integration and coordination activities (...) within a given geographical region representing the link between the region and the HQ’ (Schutte, 1998 p. 103). Yeung *et al.* (2001) define the RHQ as a business establishment that has control over the operations of one or more other subsidiaries or affiliated companies located in the same

region. Lunnan and Zhao (2014) attribute the functions of identifying and adapting knowledge from units and actively locating suitable receivers (i.e. a role as knowledge brokers) to RHQs. The literature on RHQs, although more widespread than the literature on other IUs, remains scarce and samples are largely focused on Asia. A recent investigation of RHQs and their dynamics is found in Kähäri (2015), who explains the three dimensions of these units (i.e. role, location and scope).

Since Lasserre (1996), authors have explicitly differentiated between RHQs and other types of IUs. This author shows how some companies have experimented with the concept of charging a local subsidiary with a broad coordinative role across a region. The author decouples the notion of regional strategy from RHQ structure, thereby allowing for other regional forms (criterion 2 in Table 3). Lehrer and Asakawa (1999) also observe that local units are assigned RHQ responsibilities as regional strategies move along. They find that this phenomenon does not translate into big RHQ structures, but allows firms to take advantage of the flexibility in their existing units. Enright (2005) uses the term 'regional management centers' to group all the regional IU types together.

Other studies develop the concept of subsidiaries with dual roles (criterion 3 in Table 3.3), which are usually a domestic subsidiary role and some form of regional responsibility. A dedicated role corresponds to an RHQ (although some small regional offices may be one-role units). Dual-role subsidiaries are also identified in the literature as RMMs (Alfoldi *et al.* 2012). RMMs emerge when headquarters delegate part of their functions to operating units from which only a part of its time and resources are dedicated to the task (criterion 4 in Table 3). They have been found to be effective in small regions, and useful in the exploitation of local operational

expertise on the regional level or for monitoring peripheral areas (Alfoldi *et al.*, 2012). Very little literature identifies specific RMM types. Exceptions are the innovation relays (Asakawa and Lehrer 2003), which are regional offices that mediate between knowledge generation at the local level and knowledge application at the global (or a superior) level. Another example is the sub-regional headquarters (Li *et al.* 2010). These units, which are located between RHQs and local units, are responsible for activities in a part of a region. They reflect a more fine-grained regional strategy and the existence of high costs associated with distance. Recently, Pla-Barber and Camps (2012) described the ‘springboard subsidiary’, which they illustrated using the case of Spanish subsidiaries of European MNCs that temporally act as headquarters for Latin American markets.

Criterion 5 in Table 3 relates to mandates. The literature has described two types of roles or mandates for IUs: administrative (loss prevention) and entrepreneurial (value creation) (Alfoldi *et al.* 2012; Mahnke *et al.* 2012; Lasserre 1996). These match the traditional HQ roles proposed by Chandler (1991). Recent studies include this differentiation, which gives rise to a rich debate on the parenting capacity and evolving dynamics of these units (Ambos 2017).

Criterion 6 in Table 3 reflects a recently emerged view on RMCs and their geographical scope. This criterion considers two dimensions: the number of units over which the IU holds responsibilities (Schotter *et al.* 2017; Kähäri, Saittakari, Piekkari and Barner-Rasmussen 2017), and the inter-regional dimension in terms of whether IUs are assigned mandates in the home region or in other regions (Villar *et al.* 2018). This rationale positions IUs as mediating structures that enable inter-regional

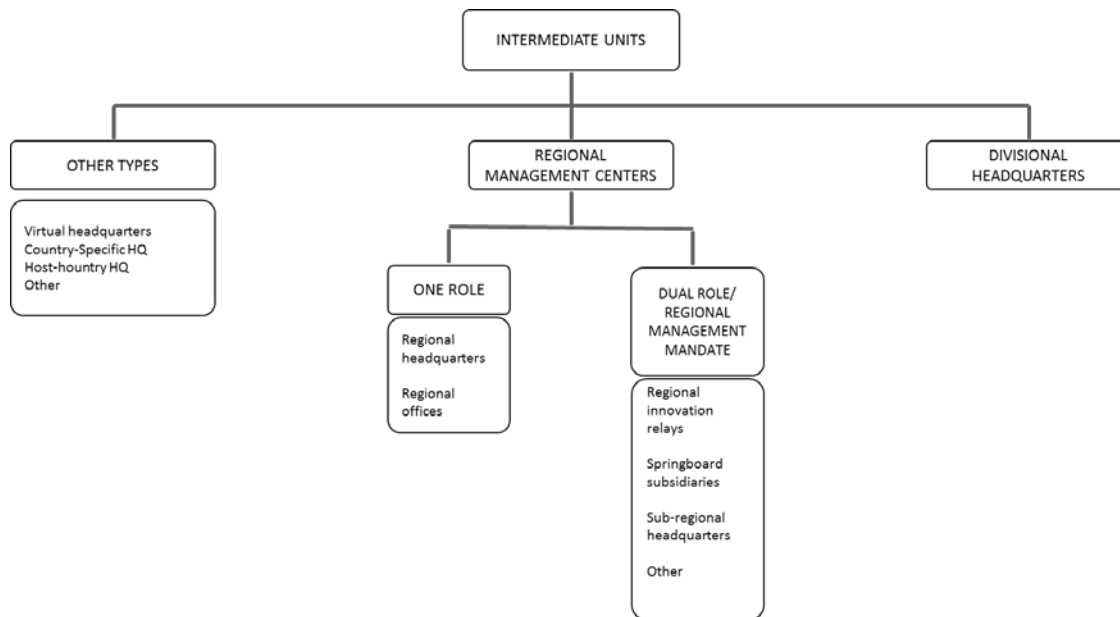
expansion. Geographical distance and dissimilarity across countries have been found to be related to differences in scope (Hoenen *et al.* 2014).

Finally, criterion 7 encompasses other concepts that are covered by a low number of studies, such as virtual intermediate structures, domestic HQ units and HCHQs. The latter is an umbrella company for MNCs managing local subsidiaries in a country. They handle relations with local governments, act as foreign investors in developing and identifying projects and operations in the host country, and consolidate finance and tax-related issues (Ma and Delios 2010; Ma, Delios and Lau 2013; Pan *et al.* 2014). They differ from other IUs in that their responsibilities over other units are concentrated in a single country. Most studies on HCHQs focus on China.

All seven criteria are summarised in Table 3.3.

Figure 3.2 illustrates the relations between the concepts in the extant literature. There are three main groups: the first group refers to units with product and business-related mandates (DHQs); the second group covers variations of RMCs; the last group encompasses all other IUs that are unspecific with regard to product or regional responsibilities.

Figure 3.2. Overview of IU types



Source: own elaboration

3.4 DRIVERS AND ANTECEDENTS

The literature offers evidence of the high value that HQ activities add for host countries. This is a consequence of agglomeration effects in the form of economic activity, investments, talent attraction and knowledge spillovers (Davis and Henderson 2008; Bel and Fageda 2008; Strauss-Kahn and Vives 2009). As we observe increasing intensity in HQ disaggregation (Baaij and Slangen 2013; Nell *et al.* 2017) and the relocation of HQ activities (Barner-Rasmussen *et al.* 2007; Benito *et al.* 2011), studies regarding drivers of HQ activity dispersion are coming to the forefront. In general, drivers of different parenting structures and HQ systems are understudied (Pla-Barber *et al.* 2018; Ambos 2017; Decreton *et al.* 2017). For instance, recent research highlights the need for an understanding of how different regional governance models evolve (Verbeke, Kano and Yuan 2016), including decisions to set up various forms of RMCs (i.e. RHQ versus RMM) (Chakravarty *et al.* 2017; Schotter *et al.* 2017) as

tools for deploying regional strategies. In this section, we review factors affecting the formation, location and relocation of IUs. We include internal MNC elements, external location factors and other related factors.

The literature makes a subtle distinction between the creation and the relocation of IUs. Both creation and relocation are driven by internal factors (i.e. increases in internal complexity) and external factors (i.e. location factors and changes in location advantages). The differences in the drivers of IU relocation and the drivers of IU creation relate to legitimacy factors.

3.4.1 Internal drivers

A classic antecedent to IU establishment is entering a new region (Yeung *et al.* 2001). Geographical distance introduces complexity in operations and increases costs (Asakawa and Lehrer 2003; Enright 2005; Baaij *et al.* 2013). In such situations, IUs can reduce distances and enhance operational efficiency (Freiling, Kähäri, Piekkari and Smutz 2016; Li *et al.* 2010). Moreover, increasing structural complexity drives MNCs to create intermediate structural and strategic levels. For instance, the number of subsidiaries in a region (Birkinshaw *et al.* 2006; Barner-Rasmussen *et al.* 2007; Benito *et al.* 2011; Amann *et al.* 2014; Schotter *et al.* 2017), size and sales in a region (Li *et al.* 2010; Aman *et al.* 2014), the level of diversification, and the level of internationalization (Ma and Delios 2010; Pan, Teng, Yu and Huang 2014) are proven antecedents of IU creation.

Finally, there is little research on the specific resources and capabilities of a unit receiving HQ mandates. Birkinshaw and Hood (1998) suggest that a subsidiary may use initiative taking to develop a certain level of self-determination in building specific intermediate capabilities. For instance, the accumulation of experiential knowledge in

a region, geographical scope and slack resources (Villar *et al.* 2018; Verbeke and Yuan 2018) as well as exposure to heterogeneous environments in the region (Hoenen *et al.* 2014) seem to influence the development of an IU's role at the subsidiary level.

3.4.2 External drivers

According to some studies (Holt *et al.* 2008; Defever 2012), HQ activities have different location drivers than other activities (i.e. production, marketing and sales, R&D). Moreover, some HQ activities have different location drivers than others (Birkinshaw *et al.* 2006; Ma *et al.* 2013), and some of those drivers are location specific (Lunnan, Benito and Tomassen 2011). For instance, Laamanen, Simula and Torstila (2012) find evidence of push and pull country factors affecting HQ and RHQ relocation (e.g. taxes and unemployment). Ma, Wang and Li (2017) also find that the creation of some HCHQs is related to tax issues.

Specific institutional settings and environments, such as the level of institutional intervention (Ma and Delios 2010), determine the existence of IUs at national levels. Barner-Rasmussen *et al.* (2007) add the availability of specialized human resources, a physical presence in relevant areas and the quality of life as important factors driving relocation.

At the regional level, Zhou (2014) suggests that units located in stronger institutional environments are more likely to supervise subsidiaries located in weak institutional contexts. Benito, Gorgard and Narula (2003) show that a unit's relevance for a regional agreement improves the probability of performing an important role. Pla-Barber and Camps (2012) find that a specific country characteristic (i.e. a springboard country) gives rise to an intermediate position in terms of geography and culture.

Furthermore, Yeung *et al.* (2001) highlight the importance of the availability of certain advanced business services for RHQs. Holt *et al.* (2008) identify a set of location variables that specifically relate to the RHQ location decision, including infrastructure and human-resource variables. Belderbos *et al.* (2017) also analyze location choices for RHQ and find that entrepreneurial RHQs tend to locate in global cities. Finally, Luiz and Radebe (2016) study the factors affecting African RHQs, which often locate in similar host countries in which talent and technologies, as well as other elements, are available.

3.4.3 Legitimacy drivers

Legitimacy issues are mainly covered in IU relocation studies (Barner-Rasmussen *et al.* 2007; Piekkari *et al.* 2010; Benito *et al.* 2011). These studies show that relocations often reflect a commitment to a regional network or to stakeholders, or they follow an acquisition (Lunnan *et al.* 2011). The relation between IUs and internal and external legitimacy deserves more investigation, as showing commitment through HQ activities appears to be an antecedent of structural movements.

The bulk of studies in this regard focus on the creation and relocation of RHQs while leaving aside antecedents of other types of IUs. In general, authors point to the lack of research identifying factors that attract HQ activities (Kähäri *et al.* 2017). An understanding of how MNCs cluster and to organise regions may help (Holt *et al.* 2008; Aman *et al.* 2014; Luiz and Radebe, 2016).

In addition, scholars should develop better indicators for complex location factors, as pointed out in Belderbos *et al.* (2017). These factors include connectivity, intra- and inter-regional links, knowledge availability, entrepreneurial environments, and

availability of specialized services, as well as the attraction factors that work at different levels: region, country and city.

At the subsidiary level, some studies identify and measure the conditions under which subsidiaries are able to take on HQ activities and become IUs (Villar *et al.* 2018). An exploration of the use of IUs to address legitimacy issues may result in new insights that can help us understand their specificities, especially from a process approach.

The heterogeneity of the factors identified suggests that drivers of formation and location may vary with the role of the IU. Holt *et al.* (2008) find that RHQs created to be responsive use significantly different location criteria than those created to facilitate global coordination. At this point, an analysis of the role dynamics of IUs may assist scholars in understanding regional management systems and governance structures, help managers make better decisions and enable policymakers to design better policies to attract FDI.

3.5 IU ROLES AND DYNAMICS

The functions of IUs have been mainly studied at the regional level. Alfoldi *et al.* (2012) find that RHQs and RMMs play two types of roles – entrepreneurial and administrative – which match traditional HQ roles (Chandler 1991; Lasserre 1996; Schütte 1998). Other research focuses on RHQ functions. Lasserre (1996) recognizes five roles based on the RHQ's parenting functions, three of which relate to entrepreneurial development and two related to integrative activities. Enright (2005) classifies RMCs according to the scope of their activities. He differentiates among fully functional centers, peripheral centers, marketing and customer-service centers, and coordination and support centers.

In recent years, some research has explored the entrepreneurial roles played by IUs. The notion of IUs as entrepreneurial and, therefore, able to influence their own development trajectories is based on two streams of literature: the multinational network approach (Hedlund, 1986; Bartlett and Ghoshal, 1990), in which MNCs are viewed as hierarchies that permit units to be connected and contribute different resources to the internal network; and studies of the drivers of subsidiary development and initiatives (Birkinshaw 1997; Birkinshaw and Hood 1998). The latter stream of research implies that units, regardless of their initial mandate, may engage in entrepreneurial activities by autonomously responding to new opportunities in the environment (Verbeke and Yuan 2018). In this sense, Hoenen *et al.* (2014) study the external regional embeddedness associated with entrepreneurial roles at intermediate levels. Lunnan and Zhao (2014) analyze the knowledge-brokering function in internal knowledge transfers at the regional level, and Pla-Barber and Camps (2012) describe an expansion into a new type of regional subsidiary. At the empirical level, Mahnke *et al.* (2012) provide evidence of how mandates (i.e. charters) moderate the variables affecting influence in the corporate decisions of RHQ and discuss the elements that leverage this relationship. Finally, Belderbos *et al.* (2017) identify differences in location-attraction factors for RHQs depending on the given mandate.

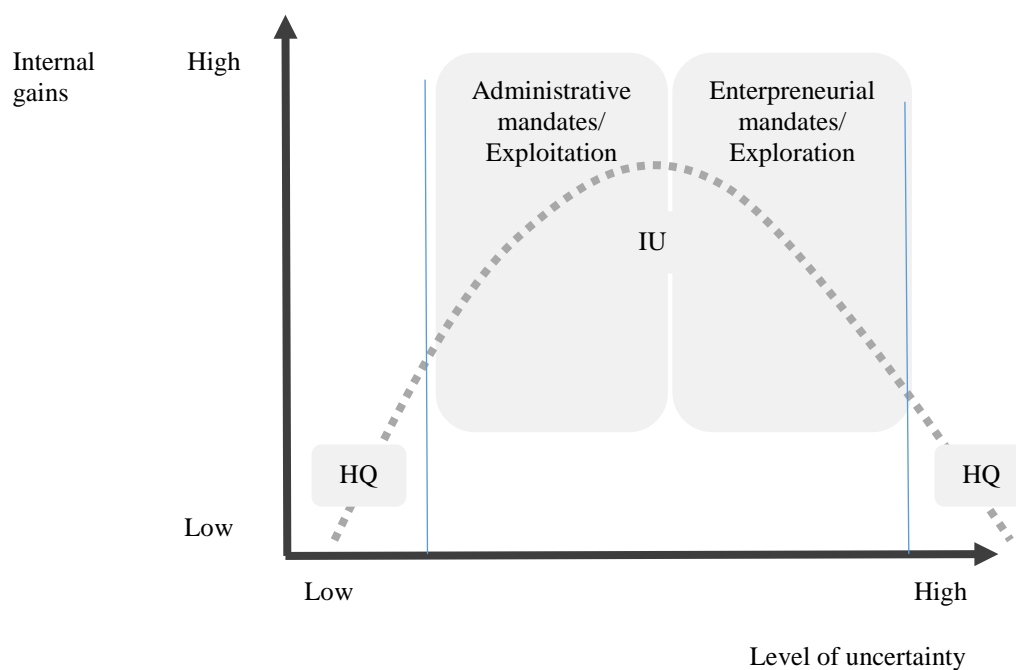
The lack of attention paid to roles in the extant research might be due to the complexity associated with measuring an entrepreneurial or integrative mandate, and the lack of understanding of role dynamics. For instance, Piekkari *et al.* (2010) show that resources and responsibilities for intermediate structures change over time in terms of intensity and location in the context of regional systems. The system approach is also utilized by Nell, Ambos and Schlegelmilch (2011), who observe constant

reorganization of the mandates and geographical scope of units. Pla-Barber *et al.* (2018) describe a dynamic model in which some parenting functions are distributed between HQs and IUs within an accumulative process of capability creation. Finally, Alfoldi, Clegg and McGaughey (2017) find an inherent ambiguity in RMMs' mandates. In this regard, they show how IUs change and endow their roles with different meanings from an internal perspective.

All of this research suggests that administrative and entrepreneurial roles may not be a dichotomy but rather a dynamic continuum. In this dynamic view, functions such as monitoring, control, governance, knowledge management, coordination and integration are activities related to the use of pre-existing knowledge in the firm aimed at generating incremental short-term output and efficiency demands. This reminds us of the concept of exploitation developed by March (1991). In contrast, Alfoldi *et al.* (2012) identify entrepreneurial mandates in the form of strategic leadership and planning, resource development, the seeking and exploitation of new opportunities, and attention and signaling. All of these activities drive long-term perspectives, flexibility and risk-taking, similar to March's (1991) concept of exploration.

The relation between the internal necessities and the external context permits us to model a non-linear research framework that approaches the dynamics of IUs based on explorative versus exploitative activities (Figure 3.3).

Figure 3.3. When do IUs create value? Role dynamics



Source: own elaboration

As shown in Figure 3, IUs make sense for moderate levels of uncertainty. They create value either through coordination (exploitation) or exploration. For mid to low levels of uncertainty, exploitation results in internal gains. These may include gains emerging from the coordination of a regional network of subsidiaries and the possibility to develop economies of common governance. For mid to high levels of uncertainty, IUs are useful for exploration-related targets. They may take the form of a first regional office set up in a region or a peripheral area. For very low levels of uncertainty, the firm does not need an intermediate structure to handle coordination, as this task can be handled by the HQ. Given extreme levels of uncertainty, the introduction of a specific structure may be too risky.

The discussion of this point includes decisions regarding which type of unit to establish. At the regional level, for instance, the decision focuses on setting up an RHQ

or an RMC (Schotter *et al.* 2017), an issue discussed by Verbeke *et al.* (2016) and extended by Chakravarty *et al.* (2017). Specifically, these authors suggest that the choice of a certain type of IU should reflect the integration-responsiveness dilemma: pressures for global strategy driven by efficiency require RHQs to address regional dimensions, while multidomestic approaches in the search for adaptation would use RMMs. However, in our view, this choice is not that straightforward, as local adaptation requires time and external legitimacy, both of which are associated with establishing RHQs or at least investing a significant amount of resources. Instead, we believe that RMMs and RHQs may a continuum along which the regional structural element moves over time depending on the number of resources allocated by the HQ (Piekkari *et al.* 2010). In short, we suggest that the type of IU responds to the I-R dilemma, while the IU's role may reflect the stage of internationalization and the level of external uncertainty.

3.5.1 Cross-regional Expansion and Intermediate Units

Nell, Ambos and Schlegelmilch (2011) provide evidence of the difficulties in cross-regional management resulting from the introduction of an RHQ. They suggest that RHQs focus on their respective regions and, to some extent, neglect interdependencies across regions. However, Holt *et al.* (2008) demonstrate that managers value cross-regional links and cross-regional connectivity as important location factors for RHQs. In addition, Hutzschenreuter and Matt (2017) show that RHQs hold fundamental regional knowledge stocks in the cross-regional expansion. In general, although the extant research suggests that IUs play a crucial role in the cross-regional expansion, it has failed to carefully explore the link between IUs and cross-regional scope. We

found only one example of IUs dealing with cross-regional internationalization (Pl Barber and Camps, 2012; Villar *et al.*, 2018).

At the theoretical level, Kim and Aguilera (2015) predict that, in line with the development of the firm's geographical scope, the organizational learning structure might favor exploitation (an administrative/integrative mandate) or exploration (an entrepreneurial mandate). According to these authors, in a context of semi-globalization, firms oriented towards their home regions apply a more exploitation-based strategy, as expanding into the home region requires organizational learning approaches that are similar to those the firm has been using. However, to enter a new region, the firm must learn how to adapt to a different environment. In other words, it must not only overcome the liability of foreignness but also a liability of regional foreignness (Asmussen and Goerzen 2013).

Research suggests that RMCs develop superior knowledge in their regional contexts (Hoenen *et al.* 2014; Lunnan and Zhao 2014; Hutzschenreuter and Matt 2017 Villar *et al.* 2018) and that regional knowledge stocks (regional experiential knowledge) are fundamental when MNCs want to expand across regions. Nevertheless, despite its relevance for internationalization processes, experiential knowledge has received very little attention in the literature. Asakawa and Lehrer (2003) analyze regional innovation relays as regional offices that mediate and manage knowledge between the local and global levels from an internal embeddedness perspective. Along the same lines, Hutzschenreuter and Matt (2017) highlight the importance of regional centers as pools of experiential knowledge on regions, and their ability to differentiate between relevant and irrelevant regional knowledge for international expansion. Hoenen *et al.* (2014) discuss the RHQ's unique external embeddedness in the region and its

consequent exposure to heterogeneous knowledge, which permit it to develop entrepreneurial capabilities due to its unique combination of knowledge.

On this basis, it makes sense to determine whether companies are developing their regional strategies in the home region or in several regions (inter-regional expansion). The regional scope of a firm shapes the purpose of existence for regional structures and the mandates they may be assigned. The model by Kim and Aguilera (2015) predicts the approach to organizational learning that companies should use for regional and inter-regional expansion. Drawing on that model, we build a matrix with four types of intermediate units based on regional geographic scope and the type of activity (Figure 3.4). As we propose the existence of a continuum between exploration and exploitation activities (Gupta, Smith and Shalley 2006), the quadrants should not be interpreted as discrete categories, but as reflecting the unit’s predominant mandates.

Figure 3.4. Classification of intermediate regional management structures

		MANDATE	
		EXPLOITATION	EXPLORATION
GEOGRAPHICAL SCOPE OF THE MANDATE	Home region/ established region	<p>THE CONTROLLER Controls established networks in the region, reduces coordination costs</p>	<p>THE SCOUT Monitors peripheral areas and searches for new opportunities; flexible units</p>
	New region	<p>THE PARASITE Takes advantage of specific location advantages (e.g. taxes) and demonstrates commitment to shareholders</p>	<p>THE ADVENTURER First in the region; expands into new regions</p>

Source: own elaboration

Our matrix proposes four types of IU based on the mandate and the geographical scope: the *controller*, the *scout*, the *parasite* and the *adventurer*. Controllers are units built up in the home region or in well-established regions to coordinate and control an existing network of subsidiaries (an exploitative task). The literature has explored this type of unit (e.g. Piekkari *et al.* 2010; Schotter *et al.* 2017). These units are associated with moderate to low levels of uncertainty. The scout fits the definition of RMM found in Alfoldi *et al.* (2012): peripheral units searching for opportunities or valuable knowledge that simply monitor distant subsidiaries in the home region (explorative tasks surpass exploitative tasks). These units are associated with moderate levels of uncertainty. The adventurer is a unit expanding to new regions (i.e. ‘the opener’, explorative task). They are configured to cope with the initial liability of regional foreignness, and they find and incorporate new knowledge. As such, they are associated with moderate to high levels of uncertainty. This inter-regional role facilitates the expansion of multiregional firms because these IUs are the first step in the new region. However, this role has received little attention in the literature (Villar *et al.* 2018). Finally, the parasite is a unit that is located in a third region where the firm may be taking advantage of location-specific characteristics, but it is usually not associated with more expansion or with other units (exploitative tasks surpass explorative tasks). This would be the case, for instance, with taxation issues. Ma *et al.* (2017) note that this may be why some Chinese RHQs are associated with not only value creation but also special purposes, such as cash flows and tax benefits. However, these IUs can still serve regional purposes, such as achieving external legitimacy or adapting on a regional basis.

3.6 CONCLUSIONS AND FUTURE AGENDA

MNCs are facing increasing diversity and decentralization as a consequence of complex supply chains with multiple partnership and technology options. This creates industry and country specificities at local and regional levels, which force organizations to distribute their supervision and sourcing activities. The dispersion of HQs is an immediate outcome that changes the internal organization of MNCs.

The presence of intermediate governance models highlights a new way of approaching the study of the internal organization and international strategy. The relocation of responsibilities as well as positioning in the internal network affects subsidiaries. In this sense, managers may want to understand how the combination of recognized sources of power, such as network position and formal structure, may affect both subsidiaries and the organization as a whole (Forsgren 2017). In addition, decisions regarding the allocation of resources to dedicated versus dual-role units and decisions regarding the sharing of HQ responsibilities are understudied. Finally, the effects of IUs on external environments in terms of relationships with stakeholders, institutions and network positioning are unknown.

Our literature review is an attempt to synthesize what is already known by systematically studying empirical insights on IUs. Furthermore, we propose a dynamic research framework and a simple typology that focus on the concept of IUs. The growing interest in IUs makes this review useful, as it establishes the umbrella term of ‘intermediate units’ and offers a way to classify these units. This allows for a better approach to studying structural phenomena related to regional management, regionalization and the disaggregation of HQ activities. It also responds to recent calls

to identify these units and their roles in order to better interpret findings (Chakravarty *et al.*, 2017).

Our review offers several interesting results. First, RHQs have traditionally been the focus of studies on IUs. Recent research has shown that firms are increasingly offshoring HQ responsibilities to existing units. This suggests a need to study these units, how they gain these responsibilities, the functions they develop, and how they interact internally and externally, as well as their impact on the company's performance, strategy and structure.

Furthermore, our systematic search demonstrates that most of the papers are case studies adopting an exploratory approach. Quantitative works are cross-sectional and are usually focused on a single country or region. Longitudinal empirical studies are almost non-existent, and multiple country and cross-regional samples may help to isolate home-country effects. In this regard, few studies cover regions beyond the traditional triad. Latin America, Africa and parts of Asia arise as emerging markets in which the liabilities of foreignness and regional foreignness may differ for Western companies.

Our results also indicate that the bulk of research addresses the antecedents and drivers of IU formation and relocation. Measures for identifying subsidiary capabilities fitting an intermediate role are lacking, although a first attempt can be found in Villar *et al.* (2018). Also, there has been a little exploration of the relations between IUs and HQs (Dellestrand 2011; Mahnke *et al.* 2012; Decreton *et al.* 2017), between IUs and local subsidiaries (Pla-Barber *et al.* 2018), and between IUs and external networks (Birkinshaw *et al.* 2006). In addition, little is known about the direction of knowledge

transfers and knowledge distortion across units (Lunnan and Zhao 2014). These facts call for more research using multilevel data and agency approaches (Benito *et al.* 2011; Mahnke *et al.* 2012; Klimkeit and Reihlen 2016; Kähäri *et al.* 2017; Conroy *et al.* 2017). Moreover, on the external level, researching adopting a process approach is lacking, as pointed out by Barner-Rasmussen *et al.* (2007), and improved measures of location characteristics are needed (Holt *et al.* 2008; Laamanen *et al.* 2012; Belderbos *et al.* 2017).

The heterogeneity in attraction factors suggests that drivers of creation and relocation may vary with IUs' roles. Studies of roles acknowledge the dynamics aspects of IUs' organizational responsibilities, such as their temporality (Piekkari *et al.* 2010; Pla-Barber *et al.* 2018), their resources and capabilities (Villar *et al.* 2018; Kähäri *et al.* 2017), and the internal gains for the firm. In this regard, we propose a simple research framework that can help studies of these dynamics based on the level of environmental uncertainty (external drivers) and internal gains (internal drivers). To make it easier, we define IUs' roles based on the concepts of exploration and exploitation. In this sense, governance models involving an intermediate level may vary as uncertainty changes. According to Kim and Aguilera (2015), these dynamics may differ depending on where the firm deploys its resources. To address these differences, we also propose a simple IU typology that reflects the geographical scope as well as the level of exploration and exploitation.

In addition, there is a need for studies and measures addressing IUs' outputs, such as their own performance, and the results of their involvement with other units (Decreton *et al.* 2017) or with external counterparts. From the firm perspective and with regard to implications for strategy, we highlight a need to investigate the structures chosen to

organize a region (Amann *et al.* 2014; Gilbert *et al.* 2014; Verbeke *et al.* 2016; Schotter *et al.* 2017; Chakravarty *et al.* 2017), the role of IUs in expanding in a new region or strengthening value chains (Verbeke and Asmussen 2016), and the relation between IUs and other activities (e.g. innovation, networks).

Finally, cross-fertilization with other areas of study, such as human resource management (Barner-Rasmussen *et al.* 2007; Walsh and Zhu 2007; Budhwar 2012; Preece, Iles and Jones, 2013; Klimkeit and Reihlen 2016), should be welcomed in order to understand the operational dynamics of global integration and practices in these IUs. In this regard, two studies introduce corporate social responsibility in their studies of RHQs' local activity development and legitimacy (Gruber and Schlegelmilch 2017; Kranenburg and Voinea 2017). Economic geography may also be helpful in studying the spatial positioning of these IUs, and understanding the multiple distances generated (Baaij *et al.* 2013), how MNCs cluster markets (Amann *et al.* 2014), the colocation of activities (Defever, 2012), attraction factors (Barner-Rasmussen *et al.* 2007; Holt *et al.*, 2008; Laamanen *et al.*, 2012; Belderbos, 2017) and the local effects of these units (Pla-Barber and Camps, 2012).

Table 3.4 summarises avenues for future research on IUs.

Table 3.4. Avenues for future research on IUs

LEVEL	1. WHO (Concepts)	2. WHERE (Inside the MNC and geographically)	3. HOW (Under which conditions)	4. WHAT (Outcomes)
UNIT LEVEL				
Subsidiary's own management	Subsidiary-specific internal resources and capabilities	Unit-specific characteristics	Subsidiaries' own resources and abilities to gain HQ responsibilities; initiative; negotiation; pressures	Subsidiary performance; competence creation; position in the internal network
Parent's decisions	HQ-subsidiary relationship; internal network position	Distances between HQ and IUs, and between IUs and subsidiaries	Allocation of a mandate	Allocation of new resources and/or autonomy
Host-country location advantages	Access to local resources	The attractiveness of host-country advantages for HQ activities	Location advantages favoring HQ activities	New local advantages
FIRM LEVEL				
Firm strategy and structure Global versus multidomestic Hierarchies versus heterarchies Traditional firm-level dimensions (e.g. extent of internationalization, size)	High-cost, resource-intensive versus low-cost, flexible structures; fully dedicated units versus dual roles	The extent of activity dispersion; the level of coordination, control and entrepreneurial activity required; traditional firm characteristics in intermediate governance models	The information-processing capacity of the firm (accepted HQ levels); slack resources; uncertainty, turbulence, risk; portfolio characteristics	Performance; uncertainty; organization of new regions; new governance models at intermediate levels; costs/benefits of new structural layers
EXTERNAL LEVEL				
Network Institutions and legitimacy	Important/central versus peripheral units; entry mode; subsidiary roles; CEOs and stakeholders	Engaging in networks; improving embeddedness and external positioning; building internal/external legitimacy	New network position; adaptation to environmental changes and institutional pressures	GVC positioning and organisation; isomorphism and adaptational capabilities

Source: own elaboration

IUs have received an increasing amount of attention in recent years. Beyond RHQs and DHQs, units handling HQ activities appear to be a path MNCs use to explore emerging regions, engage in cross-regional expansion, coordinate global value chains and introduce structural flexibility in the face of rapid technological change. They also serve as knowledge repositories inside the firm. Future research should focus on these megatrends, and we hope this review will be useful for scholars in this regard.

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**CHAPTER 4: POLITICAL EMBEDDEDNESS
AND COMPETENCE CREATION:
INTERMEDIATE UNITS VERSUS LOCAL
SUBSIDIARIES**

ABSTRACT

Although political embeddedness in host countries have been shown to be crucial for competence creation, we have little knowledge of what drives the intensity of such embeddedness at the subsidiary level. Drawing on a combination of the network and institutional approach, we analyze the effects of autonomy and internal networks on the development of political ties for capability creation. Using a multi-group analysis in structural equation modeling with 193 subsidiaries, we also compare such effects between units receiving a formal internal mandate in the multinational corporation (intermediate units). We find different mechanisms to deal with political relationships for such types of units and discuss how connected subsidiaries perform better in host country political arenas, extending our understanding on the interplay between political embeddedness and the creation of useful competencies.

4.1 INTRODUCTION

There are three main reasons for MNCs to engage in political networks: to engage better in local environments, to respond to political threats and to create strategic opportunities (Puck, Lawton and Mohr, 2018). Traditionally, studies on Multinational companies (MNC) and political networks concentrate on the impact of corporate political activity on firm performance (Lawton, McGuire and Rajwani, 2013), in that being more embedded in the political context reduces uncertainty and transaction costs, thus sustaining long-term competitive advantages (Hillman, Keim and Schuler, 2004). This opportunity relies on the local subsidiaries, which obtain and recombine knowledge from political local networks creating useful competencies and capabilities for the whole organization. Among such capabilities literature highlighted the capacity to influence regional and global regulations for their own benefit (Frynas, Mellahi and Pigman, 2006; Lawton, 1999), uncertainty management capabilities (Cuervo-Cazurra, Ciravegna, Melgarejo and López, 2018) and negotiation abilities with local governments (Bonardi, Holburn and Vanden Bergh, 2006).

With few exceptions, Business Network works, mainly focus on country-level variables affecting the extent of business networks (Klopf and Nell, 2018; Andersson, Dellestrand and Pedersen, 2014; Jindra, Giroud and Scott-Kennel, 2009). In general, these elements are out of the control of the firm (Andersson, Bjorkman and Forsgren, 2005). However, since the embeddedness on political networks has clear implications for subsidiary competence development and firm performance, this paper studies the factors influencing subsidiary political embeddedness from an internal perspective.

Our objective in this study is to explore the internal subsidiary mechanisms that enhance the intensity of political networking. We draw on business network theory

and institutional perspective as complementary theoretical frameworks by pointing at the importance of subsidiary autonomy and the internal position of the unit as a way to counterbalance isomorphic pressures. We contend that the specificity and benefits of being embedded in political activity help the subsidiary to position itself and gain influence in the MNC network, in that formal roles and access to networks are both recognized elements of power and influence in the MNC in the network and the institutional approaches (Forsgren, 2017). Considering the great differences between the development of units in the network (Valentino, Caroli and Mayrhofer, 2018), we introduce the formal hierarchical position of the subsidiary as a moderating element.

We use a data base on a set of subsidiaries located in Spain, some of them with the formal role of Intermediate Unit within the multinational. Intermediate units (IU) are subsidiaries with HQ mandates delegated and, in turn, with an authority role and responsibilities over other subsidiaries. Using a novel methodological approach on international business, we perform a multigroup analysis to observe differences in mechanisms related to the intensity of political networks depending on the existence of such a formal role. Our results confirm that political ties are related to the development of unique competencies in the MNC, and furthermore, that the intensity of political networks is related to subsidiary autonomy and the level of internal interactions. However, an interesting fact is that formal hierarchical position modifies this relationship. Multigroup analysis confirms that the linkages of internal interactions with other MNC units and political ties significantly differs according to the existence of a formal role.

We believe this study can contribute to the literature in three ways. First, literature has been quite silent about positive effects from managing institutional contexts. Drawing

on an uncommon combined view of the institutional approach with business network theory, this study confirms, in line with previous recent research (Cuervo-Cazurra et al., 2018), the positive relationship between the intensity of political ties and the creation of unique competences. Second, we respond to recent calls regarding the need to understand the antecedents of firm political activity (Lawton et al., 2013; Hadjikhani, Lee and Ghauri, 2008). We propose that subsidiaries deal with isomorphic pressures by creating special competences through different mechanisms. Furthermore, we push the debate beyond entry mode and location choices dilemmas in a political context by discussing what happens next and how subsidiaries deal with its political context (García-Canal and Guillén, 2008; John and Lawton, 2017). Finally, we contribute to the recent body of research on intermediate units in the MNC by evidencing how formal hierarchical roles influence the relationship between subsidiaries and the intensity of political networks.

The structure of the paper is organized as follows. In the next section, we present the theoretical framework and the hypotheses. We then present the sample and the method of analysis explaining the multigroup technique, followed by the results and discussion section in which we develop our contributions and future research avenues.

4.2 THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The idea of isomorphism (DiMaggio and Powell, 1983) basically states that firms and, in this particular case, subsidiaries face situations where they need to adapt to incompatible demands from internal (for instance, standardized organizational practices) and external (for instance, values or locally accepted practices) environment. These pressures are called the isomorphic conflict. To deal with it, in

some cases, different subsidiaries execute similar responses ignoring economic rationality (John and Lawton, 2017). In others, subsidiaries may follow established norms from the HQ when coping with these pressures.

However, there is a lack of empirical research on internal processes triggering different subsidiary behavior when balancing these contradicting forces.

The isomorphic conflict is a classical discussion in institutional theory (Kostova, Roth and Dacin, 2008). Moreover, the institutional theory is very useful in recognizing the importance of external actors beyond business actors. However, due to theoretical limitations, we adopt a mixed approach with network theory which permits us “splitting” the organization by modeling internal and external forces as networks. Also, explore the internal mechanisms of the subsidiary used to balance these conflicting pressures.

4.2.1 Political embeddedness and competence creation

Markets can be conceptualized as a network of relationships (Forsgren and Johanson, 1992) such that MNCs can be considered as differentiated networks (Ghoshal and Bartlett, 1990) which embed in market networks. A basic thought in the network approach is that knowledge development is largely carried out in the frame of business network relationships rather within the boundaries of the firm and therefore at different places in the organization (Andersson, Forsgren and Holm, 2015). Therefore, the extent to which a firm is integrated in a specific market environment can be approached by a network reality (Andersson, Forsgren and Holm, 2002; 2007; 2015; Andersson et al., 2014; Figueiredo, 2011; Hoenen, Nell and Ambos, 2014), thus measured by the extent of external relationships of the firm.

This line of research-based has proposed that business relationships form the basis for firm competence development, in that there is evidence of a significant connection between the extent of embeddedness on a local network and the competence creation and resultant contribution to the MNC (Anderson and Forsgren, 2000). Business network approach rests on two basic assumptions: the closeness of a relationship with a customer or supplier improves the ability to absorb knowledge for the subsidiary and the pressure that exerts a business relationship may push the subsidiary to innovate (Andersson et al, 2005; Figueiredo, 2011). The rationale behind is that subsidiaries operate within a particular network composed by different business relationships that in turn represent an important part of knowledge input and resources that subsidiaries control. This knowledge, as specific or unique, can be used to build or exert influence inside the MNC. In short, each subsidiary operates in a different network of business relationships that in turn creates different resources available for the unit and in which it may base its position in the corporation (Forsgren, 2017).

However, embedding in market networks is not purely a matter of business relationships but also a matter of managing to establish basic support of the surrounding social environment. Likewise, and according to institutional theory, understanding the institutions –i.e., rules of the game in the society- can provide the firm with certain advantages compared to others and affect firms' routines (North, 1990). This certainly leads to firms facing increasing pressures to respond to the environment (Kostova and Zaheer, 1999; Kostova and Roth, 2002). In general, the bunch of studies approaches political environment as an external field introducing uncertainty and generating costs and therefore discouraging FDI (Mudambi, Navarra and Delios, 2013). Alternatively, information about the political context may help

managers to convert uncertainty in a measurable variable and, as a consequence, converting the subsidiary in a proactive actor (John and Lawton, 2017). It is argued that firms behave proactively towards the perceived political actors aligned with its goals (Hadjikhani et al., 2008).

Even though, while the importance of entrenching in political networks at the subsidiary level has been confirmed, there is little body of knowledge on how being embedded in political networks can impact competence creation in the MNC. We can actually find a few studies pointing at political resources that have been leveraged by the MNC within some industries: Frynas et al., (2006) and Lawton (1999) showed how firms dealing with specific institutional environments developed a capability of influencing regional and global regulations; Bonardi et al., (2006) evidenced the capacity to negotiate with governments; another recent example is in Cuervo-Cazurra et al., (2018) where firms home based in emerging market contexts develop an uncertainty management capability from dealing with home political context. This capability is shown to strength the international performance of these firms and translates into organizational knowledge useful to deal with unpredictable policy changes.

Above examples depend on very specific country political context (for instance, specific regulations, level of political risk...) which reinforce the idea of the non-replicable nature of political networks and therefore the uniqueness of the knowledge that is possible to extract.

Basing on this, we contend that embeddedness in political networks has been somehow underestimated as a mechanism to create competence for the subsidiary and the firm.

According to the literature above, the creation of resources and capabilities is contingent upon the relationships established. This statement is supported by the fact that a successful entry in a market requires the basic understanding of the main actors who are the important players, and hence are the important connections (Johanson and Valhne, 1977). For instance, a foreign firm can be perceived as competent and reliable to business partners and in spite of this, if its credibility and relationship with political actors or media sphere are reduced or negative, the possibility to establish a proper position is also reduced (Persson, Lundberg and Andresen, 2011). Based on this, we posit that:

H1. The intensity of political embeddedness is positively related to the development of useful competences in the subsidiary

4.2.2 Antecedents of political embeddedness: Internal position and autonomy in the MNC

The subsidiary can be conceptualized as a unit embedded in two different environments: the network in the host country (including the institutional and political network on the one hand, and business network on the other) and the internal network. The internal network consists on its interactions with the rest of units of the MNC, including the HQ and other subunits (Palmie, Keupp and Gassman, 2014; Achcaoucaou, Miratvilles, León-Darder, 2014). While the internal network is a common context for the units forming the organization, every country has its own institutions and each typical external environment can be extremely heterogeneous.

Institutional theory (Kostova and Zaheer, 1999; Kostova and Roth, 2002; Kostova, Roth and Dacin, 2008) predicts that subsidiaries confront conflicting pressures constantly coming from its embeddedness in these two environments, known as the

isomorphic conflict (Kostova et al., 2008). The institutional theory proposes that a common way to handle the different isomorphic forces is to let subunits deal with the issue rather than to apply a common corporate standard solution across the organization (Westney, 1993). This implicitly assumes that subsidiaries might execute mechanisms to deal with the extent of political embeddedness. However, little is known about the role of internal factors and the dominant pressures in subsidiary behavior. Kostova, Roth and Dacin (2008) suggest that the intra network exert much more influence on subunits than the external organizational field, therefore letting some space –i.e., autonomy- to subsidiaries, once again, to influence the development of its external networks. This is due to the fact that subunits are often more dependent on the internal position in the company than in their local external environments.

Following this rationale, in order to reduce isomorphic pressures, the embeddedness in external networks is at the same time used to reinforce the internal position of the company. Furthermore, taking on the network approach, each subsidiary may have mechanisms to identify problems and opportunities in its own networks and will strive either for autonomy (in relation to the rest of the firm) or for influence based in interactions in the internal network to support the development of its own business networks (Forsgren, 2017).

Subsidiary autonomy is a structural attribute of the subsidiary which refers to the decision level reached by the unit. A low autonomy indicates a high level of bureaucratic control shortening the initiative taking and the entrepreneurial behavior of the unit (Birkinshaw, 1997). This becomes relevant to the extent that it endows the unit with a margin for exploration. While the influence of autonomy presents mixed results (Palmié et al., 2014), by and large literature suggests that the greater the level

of autonomy of the subsidiary, the better the ability to form favorable external networks with other firms and institutions in the environment (Birkinshaw, Hood and Jonsson, 1998; Cantwell and Mudambi, 2005). Specifically, strategic independence provides subsidiaries with an ability to build local competencies (Cantwell and Mudambi, 2005). In this case, taking the importance of political embeddedness to face heterogeneous political environments, we expect that the more autonomous the subsidiary is, the more it will use its decision making and initiative power to develop political networks. Therefore, we posit:

H2. The level of autonomy in the subsidiary is positively related to the intensity of political embeddedness in the host country

We focus now on the internal embeddedness of the subsidiary (the level of internal interactions with other units) that occurs when a subsidiary establish interactions and information flows with other units (Gupta and Govindarajan, 2000), thus providing the opportunity to share and recombine knowledge from other parts of the MNC (Cantwell and Mudambi, 2005). Previous literature describes internal embeddedness as a mechanism that interacts with external embeddedness and reinforces the creation of competencies at an internal level (Achcaoucaou et al., 2014). This is explained because gaining a competitive position within the corporate group is directly related with accumulating and sharing valuable knowledge from the environment creating, in this way, a kind of a loop (Figueiredo, 2011; Meyer, Mudambi and Narula, 2011; Dorrenbacher and Gamergald, 2006; Achcaoucaou et al, 2014). However, a different approach states that while internal embeddedness may promote the development of competencies, it does not interact positively with the development of external networks; the reason is that the efforts to develop an internal position may undermine

the subsidiary effort to develop external linkages, running out in a tradeoff (Yamin and Andersson, 2011).

At this point, we argue that actors who are strongly tied to other actors in the internal network are better positioned to influence the strategic development of other parts of the MNCs in a way that supports its own position (Anderson et al., 2007). Following institutional theory, one way of reinforcing this position is gaining legitimacy in local environments (Kostova and Zaheer, 1999). The strong specificity of institutional local environments provides subsidiaries with negotiating power inside the MNC and better ability to reduce or counterbalance isomorphic pressures: that is, to reinforce subsidiary internal position, the subsidiary will develop a position in outer unique networks, such as political networks. We, therefore, posit the following hypothesis:

H3. The intensity of internal interactions with other units in the organization is positively related to the intensity of political embeddedness in the host country.

The aforementioned relationships are based on internal subsidiary mechanisms and positioning to develop competences and exert influence. However, we maintain that the influence a unit might exert in the organization is not only contingent upon the extent of embeddedness on specific networks, but also on its formal position.

Taking the case of HQs, these would gain influence through formal authority and compete for influence with other units in the federative MNC (Forsgren, 2017). The basic idea is that an upper hierarchical position provides the unit with authority over other units over a set of decisions and responsibilities (Goold and Campbell, 2002). This provides a flux of vertical information flows which in comparison, subsidiaries without formal hierarchical position lack. The idea of using organizational structure to

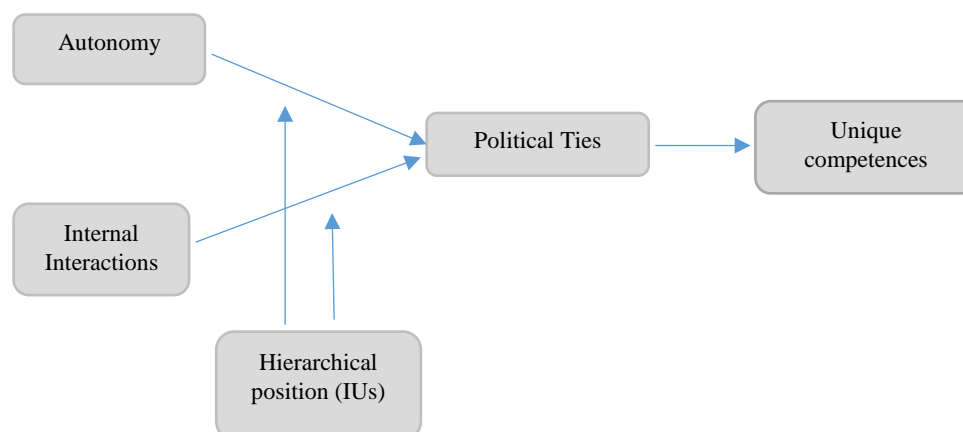
deal with political embeddedness (Dieleman and Boddewyn, 2012), is not only based on hierarchical principles but on the fact that formal positions permit a better surveying of the environment to handle uncertainty (Hickson, Hinings, Lee, Schneck and Pennings, 1971). Recently, literature has provided evidence that units holding an upper formal position, including various types of HQs, perform an effort to become embedded in various external networks (Nell, Ambos, Schlegelmilch, 2011; Hoenen et al., 2014). Units with parenting mandates are, in general, allocated with extra power for influence. Literature refers to these units as Intermediate Units (Hoenen et al., 2014; Villar, Dasí, Botella-Andreu, 2018) and are units formally located in the structure between the HQ and a set of local subsidiaries. All in all, this suggests that there exist two possible sources of power and influence: the integration in a network and the formal position, such that the more central a unit is in the internal network, the greater its chances of influencing the behavior of others. We thus posit the following set of hypotheses:

H4a. The relationship between the level of autonomy and the intensity of political ties is stronger for units holding formal hierarchical positions in the MNC

H4b. The relationship between the level of internal interactions with other units and the intensity of political ties is stronger for units holding formal hierarchical positions in the MNC

Our hypothesized model shown in figure 4.1 is empirically tested with Structural Equation Modeling, and specifically a multi-group technique to account for inter-group differences between hierarchical positions, as explained in the next section.

Figure 4.1. Hypothesized model



Source: own elaboration

4.3 METHOD

4.3.1 Sample and research process

The sample used in this study includes Spanish subsidiaries, being a percentage of them considered as Intermediate Units (IU). IUs are subsidiaries receiving HQ responsibilities which hold a narrow or large set of responsibilities over other units usually located under their spectrum of influence. Typical cases of IU are Regional Headquarters, Divisional Headquarters or Regional Management Mandates (Alfoldi, Clegg and McGaughey, 2012). These responsibilities are related to a business unit, a specific market or region or a set of activities. In general, receiving an HQ responsibility entails the development of a new internal formal position with respect to other subsidiaries.

For data collection, we applied a systematic approach focusing on a specific population of IUs, the springboard subsidiary. These are local Spanish subsidiaries from, mainly, European MNCs which hold HQ responsibilities over Latin American markets. These

intermediate units are well established in the literature (Pla-Barber, Villar and Madhok, 2018). We used ORBIS data base to identify the population of subsidiaries. Two criteria had to be met: first, subsidiaries must be located in Spain and owned by the foreign global ultimate owner (at least the 51%). Second, the Spanish subsidiaries have to be owners of foreign subsidiaries located in at least one Latin-American country. Ownership levels in Latin America range from 0.1% to 100%. We differentiate the list between subsidiaries holding a limited % of ownership and subsidiaries holding significant ownership. The list of global population had a total of 1674 subsidiaries.

In a second stage, we sent a questionnaire based in previous research, pre-tested with professionals and academics to ensure that was clearly understandable. The questionnaire was designed to identify which subsidiaries had or had not an intermediate position to permit the comparison between the formal hierarchical profile and the local subsidiary. A member of the top management team with appropriate knowledge about the connections with Latin America and with the consciousness of the intermediate position of the subsidiary responded to the questionnaire. Questionnaires included mainly Likert type scales with ranks from 5 to 7 points to avoid automatic responses. Data collection took place in 2015. The final sample includes 193 responses, in turn, a response rate of 11.52%, a sample size within the levels recommended (Cohen, 1988). We also consider procedures to reduce common method bias (Podsakoff, Mckenzie, Lee and Podsakoff, 2003) and double-checked responses to be coherent with secondary data from ORBIS database and press news. Responses were composed of 69 responses from IU and 119 of subsidiaries that did

not hold an intermediate position, and therefore without any special hierarchical role in the organization.

4.3.2 Variable measurement

Dependent Variables

Unique competences. Measures the creation of special generic competencies and the perception of the subsidiary on their importance for the rest of the MNC. It is measured using 3 items from scale design by Palmie et al., (2014).

Political Embeddedness. The measure is based on the scale of Holm and Pedersen (2000) and adapted by Gammelgaard, McDonald, Stephan, Tüselmann and Dörrenbacher (2012). The scale is a 7 point Likert-scale which assesses the intensity of interactions with customers, suppliers, competitors, authorities and local governments, firms and organizations in other related industries and research centers and institutes. Using a factor analysis, we found two factors, namely ties with customers and suppliers (business ties) and a second group formed by authorities and local governments, firms and organizations in other related industries and research centers and institutes, being the latter the political ties scale here used.

Independent variables

Strategic autonomy refers to the level of decision-making reached by the unit. A low autonomy may indicate a high level of bureaucratic control shortening the initiative taking and the entrepreneurial behavior of the subsidiary (Birkinshaw and Morrison, 1995). We use a scale adapted from Gammelgaard et al., (2012) including 5 dedicated to strategic autonomy.

Internal level of interactions refers to the internal network (linkages with parent and sister subsidiaries) and the level of development of it determines the integration of the subsidiary. We measured it through a 3-item scale adapted from Holm and Pedersen (2000) assessing the intensity of relationships with other units different from the HQ (R&D and innovation centers, other subsidiaries and Regional Headquarters).

We report the items from every scale in table 1 in Appendix 4.1.

Control variables

Finally, we include some variables in order to control for other factors that might influence our model specification and to account for potential confounding effects. HQ relationship is an indicator covering the scope of the relationship between the HQ and the subsidiary. In general, the stronger the relationship between the HQ and the subsidiary the higher the probability that the subsidiary will receive legitimacy in the MNC (Yamin and Andersson, 2011). This relationship is expected to be stronger for IUs in that they function as information relays between local subsidiaries and HQs (Asakawa and Lehrer, 2003). Size is an indicator of subsidiary resources which provides a proxy for firm political abilities. Is an established antecedent of corporate political activity (Hillman et al., 2004). We measure size as the number of employees in the subsidiary averaging the 3 previous years (Klopf and Nell, 2018; Villar et al., 2018). We also control for the effect of the industry differentiating between manufacture and services following previous studies (Kunish, Menz and Birkinshaw, 2018). In this way, we acknowledge the different intensity in embedding in political contexts whether a sector is more regulated and or dependent on local resources (Jimenez et al., 2014). Finally, entry mode controls for the way of subsidiary

formation. It is argued that acquired subsidiaries are strongly embedded in local networks compare to Greenfield (Valentino, Caroli and Mayrhofer, 2018). However, results show how Greenfield pay more attention to networks different from business networks (Valentino et al., 2018). We follow previous studies by adding a greenfield dummy to control for this influence (Perri, Andersson, Nell and Santangelo, 2013; Klopf and Nell, 2018).

4.3.3 Data analysis

We test our model with Partial Least Squares (PLS) path modeling, a variance-based structural equation modeling (SEM) technique to test the model. SEM permits to assess the reliability and validity of the measures (outer model) of the theoretical constructs simultaneously as well as estimate the relationships among the constructs (inner model). 4 reasons justify the use of PLS among the different SEM techniques: first, when the objective of the study is predicting dependent variables (Chin, 2010); second, when the sample is smaller than 250 (our n=193) (Reinartz, Haenlein and Henseler, 2009). Third, when the raised model is complex, in the sense that exist variables with first or high order constructs and between the variables relationship (for instance, direct and indirect relationships); finally, when the study uses latent variables scores for predictive relevance (Hair, Ringle and Sarstedt, 2011).

Furthermore, we apply a Multi-group analysis (MGA) as a response to the heterogeneity in our sample (including two types of subsidiaries, intermediate units and local units) which is a less common approach in management. MGA is generally regarded as a special case of modeling moderating effects (Henseler and Chin, 2010) where a parameter is hypothesized as different across two subpopulations (Sarstedt, Henseler and Ringle, 2011). This allows us to analyze group effects related to the

relations on the structural model. Also permits calculating if differences between groups are statistically significant which reflects the moderating role of a variable. In our study, the moderating effect examined is the formal hierarchical position (IUs versus regular subsidiaries). As this is a categorical variable, PLS estimates path coefficients for both subsamples and, in the last analysis, we identify if there are significant differences between the coefficients. In this case, we confirm the existence of a moderating effect (Hernández-Perlines, 2016).

4.4 RESULTS

There are two phases in order to interpret the model with PLS: the measurement model (outer model) where reliability and validity is tested to draw conclusions on the relationships between constructs (Roldán and Sánchez-Franco, 2012), and a second phase in which we assess the structural model and the multi-group analysis where we test the hypothesis. Furthermore, a primary concern when performing MGA is ensuring that constructs measures are invariant for the two groups and do not entail measurement differences. Measurement invariances ensure that dissimilar group-specific model estimations do not result from different meanings of the latent variable for the groups (Henseler, Ringle and Sarstedt, 2016).

4.4.1 Measurement model and invariance measurement across the groups

In table 4.1 we report a full confirmatory factor analysis -including reliability, convergent and discriminant validity- for the two groups of data, following the procedure in Rasoolimanesh, Ringle, Jaafar and Ramayah (2017) and based in Chin (1998, 2010) and Hair, Sarstedt, Ringle and Mena (2012). This is often reported through the internal consistency reliability (CR coefficient) and the convergent validity (AVE coefficient), as we did for the four constructs in our model: autonomy

(AUT), Political Ties (PT), Internal Embeddedness (IE) and Unique Competences (UC).

In table 4.1, we also report loadings for each item of the latent variables. Generally, loadings must reach the minimum threshold of 0.7 to ensure composite reliability (Hair et al., 2011) and convergent validity, that should reach at least 0.7 and 0.5 respectively. However, in some cases, it may be acceptable to maintain items with loadings below 0.7, especially in two cases: first, when the underlying theoretical assumption is very established and strong and the latent variable is composed by only two items and second, when composite reliability and convergent validity have all acceptable levels (Chin, 2010). In our case, both composite reliability and convergent validity are acceptable for both groups of data, and thus it was not required to remove items with lower loadings (Rasoolimanesh et al., 2017). Finally, discriminant validity assesses the extent of differences between constructs. We use the heterotrait-monotrait ratio (HTMT) suggested by Henseler et al., (2015). Maximum threshold is 0.85. We report discriminant validity in table 4.2.

Table 4.1. Item loadings, reliability and convergent validity

Construct and items	Loading		Composite Reliability		AVE	
	IU	NO IU	IU	NO IU	IU	NO IU
Autonomy			0.876	0.894	0.590	0.627
A1	0.699	0.834				
A2	0.781	0.755				
A3	0.586	0.787				
A4	0.918	0.802				
A5	0.822	0.779				
Political Ties			0.884	0.849	0.718	0.653
PT1	0.780	0.792				
PT2	0.863	0.762				
PT3	0.896	0.866				
Internal Embeddedness			0.782	0.759	0.556	0.527
IE1	0.763	0.888				
IE2	0.520	0.469				
IE3	0.902	0.758				
Useful Competences			0.945	0.926	0.850	0.807
UC1	0.923	0.927				
UC2	0.938	0.928				
UC3	0.905	0.838				

Table 4.2. Discriminant validity

Discriminant validity HTMT .85 criterion								
Constructs	AUT	PT	IE	UC	AUT	PT	IE	UC
	IU	IU	IU	IU	NO IU	NO IU	NO IU	NO IU
Autonomy								
Political Ties	0,299				0,316			
Internal Embeddedness	0,438	0,615			0,171	0,229		
Useful Competences	0,435	0,362	0,435		0,095	0,467	0,501	

For testing measurement invariance, we follow Henseler et al., (2016) through the MICON method. This method approach is a 3-step method assessing: the configural invariance, the establishment of compositional invariance and the equal means and variance. We report this procedure in table 4.3 and we establish partial measurement invariance of the two groups. This is a requirement for the right interpretation of MGA group-specific differences results following Henseler et al (2016).

Table 4.3. Measurement invariance

Invariance measurement testing									
Constructs	Step 1. Configural invariance	Step 2. Composition al invariance		Partial measureme nt invariance established	Equal mean value		Equal variance		Full measureme nt invariance established
		c=1	Confidenc e interval		Differenc es	Confidence interval	Differenc es	Confidence Interval	
AUT	yes	0,974	(1, 0,964)	Yes	0,731	(-0,295, 0,296)	0,231	(-0,338, 0,3)	Partial
PT	yes	0,994	(1, 0,984)	Yes	0,486	(-0,306, 0,303)	0,190	(-0,328, 0,289)	Partial
IE	yes	0,926	(1, 0,880)	Yes	0,664	(-0,296, 0,305)	-0,071	(-0,352, 0,307)	Partial
UC	yes	0,997	(1, 0,994)	Yes	0,451	(-0,291, 0,292)	0,110	(-0,288, 0,260)	Partial

4.4.2 Structural model and multi-group analysis

Table 4.4 shows results for the structural model before performing the MGA. This first analysis permits us testing Hypothesis H1, H2 and H3 as they are general hypothesis.

Table 4.5 presents the results of the structural model for Multigroup Analysis which permit us testing H4a and H4b. Henseler MGA p-value test based on bootstrapping (Henseler, Ringle and Sinkiviks, 2009) and the permutation test (Chin and Dibbern, 2010) are two non-parametric tests that assess differences between path coefficients of the two groups. Henseler MGA returns significant values when the coefficient is lower than 0.05 or higher than 0.95. Permutation test returns significant values for coefficients below 0.05. Finally, in table 6 we report R^2 and Q^2 of the two groups. R^2 values in PLS estimation assess predictive significance and the explained variance in the endogenous variables and the path coefficients and is required to be above 0.1. We use 5000 bootstrap re-samples and 5000 permutations as recommended in Rasoolimanesh et al., (2017). In addition, we report the predictive relevance of the dependent variables using Stone-Geisser's Q^2 (Hair et al., 2014) which we measure using blindfolding procedures. The values should be above 0 suggesting the relevance of the predictive model. Both indicators show acceptable levels.

Table 4.4. General model hypothesis testing

General model hypothesis testing

Hypothesis	Relationships	Path Coefficient	Supported
H1	PT → UC	0.398 ***	Yes
H2	AUT → PT	0.238**	Yes
H3	IE → PT	0.240**	Yes

Table 4.5. Hypothesis testing MGA

Hypothesis testing

Hypothesis	Relationships	Path coefficient IU	Path coefficient NO IU	Cis (Bias Corrected) IU	Cis (Bias Corrected) NO IU	Path Coefficient Differences	P-value Henseler MGA	P-value Permutation test	Supported
H4a	AUT → PT	0,130	0,24** *	(-0,318, 0,309)	(0,066, 0,309)	-0,109	0,228	0,503	NO
H4b	IE → PT	0,47***	0,106	(0,215, 0,655)	(-0,270, 0,246)	0,365	0,99***	0,015**	YES

Table 4.6. R² and Q²

IU

R² PT = 0,281Q² PT = 0,148R² UC = 0,231Q² UC = 0,155

NO IU

R² PT = 0,130Q² PT = 0,021R² UC = 0,169Q² UC = 0,089

Our estimations assess the structural model in terms of sign, magnitude and the significance of the structural path coefficients.

Table 4.4 evidences that the model results in a positive and significant relationship between political embeddedness and unique competencies at the subsidiary level showing support for H1. Autonomy and internal interactions are also positively and significantly related to political embeddedness, therefore, letting us accept H2 and H3.

H4a and H4b are tested with MGA reported in Table 4.5. Path coefficients for the relationship between political embeddedness and unique competencies remain positive and significant for both groups. However, interestingly, the effect of autonomy and internal interactions is different for both groups. Specifically, autonomy is positively and significantly related to political embeddedness for regular subsidiaries while does not affect IUs. On the other side, internal interactions with other units are positively and significantly related to political embeddedness for IU while not relevant for regular subsidiaries.

MGA findings (table 5) reveal that IUs significantly differ with respect to the effect of internal embeddedness on political embeddedness and therefore we accept H4b. It means that formal hierarchical structures moderate the relationship between internal embeddedness and political embeddedness. Specifically, this effect is suppressed for local subsidiaries while the effect is positive and significant for IU. We confirm these results through 2 different tests (Henseler and Permutation test). Finally, from table 4.6 we interpret that political embeddedness explains 23% of the variance in unique competencies for IUs while only 16% in regular subsidiaries. This tells us about the relative importance of political networks for each type of subsidiary.

4.5 DISCUSSION

How organizations make sense of their different environments and how they do actively position themselves in their internal and external networks is a key question for international business studies (Kostova et al., 2008). Extant literature at the subsidiary level has shown how subsidiaries gain influence in the corporation by creating useful competencies for the organization: they leverage, filter and transform knowledge from external networks, which at the same time requires gaining a position in such external context. However, little attention has been paid to the mechanisms leveraging this external knowledge for the purpose of creating unique competencies (Iurkox and Benito, 2018). Both network and institutional theory convey that the position in a network is a source of power, and thus balancing the trade-offs between the external and the internal environment is a crucial aspect for MNC units. If the subsidiary can build specific knowledge from its environment as a source for competence development for the rest of the organization, it will gain influence and therefore resource to leverage its position in those networks.

In this paper, we develop a framework combining institutional and network approaches deepening in the importance of political embeddedness for subsidiaries since it contributes to the organization by embedding it in various heterogeneous contexts serving therefore as a source of power for subsidiaries. Specifically, we analyze subsidiary autonomy and the level of internal interactions of the subsidiary because these two dimensions represent partial manifestations of subsidiaries internal mechanisms to position themselves influential, both in the internal and the external network. Our results confirm the relationship between autonomy and political embeddedness and the level of internal interactions and political embeddedness. While

this is confirmed for the general model, the multi-group analysis has allowed us to examine the moderating effect for the whole model accounting for subsidiaries with formal power. Results confirm that both antecedents may work in different situations; while local units -those with no formal role- may use autonomy as a source to leverage the relationship with political ties, Intermediate Units base this relationship in its position in the internal network.

Key contributions

First, we concur with previous studies in that political and institutional contexts matters for the firm and specifically, matters for the subsidiary. Since business networks may appear more homogeneous across countries difficulting the creation of unique knowledge political environments are found unique and extremely heterogeneous. This may be the reason why political embeddedness of the subsidiary is so strongly related to the creation of unique competencies. In this line, we also contribute by extending the approach to political environment as an opportunity for the subsidiary (John and Lawton, 2017).

Second, we contribute by dealing with the isomorphic conflict. For a long time, the focus has been on the external political bargaining strategies of MNCs with host country governments and institutions and little has been advanced on the internal leveraging mechanisms at the subsidiary level beyond entrepreneurship and innovation (Geppert and Dörrenbächer, 2014). Institutional approaches have traditionally considered the interaction between the firm and its environment conceiving the firm as a compact and coherent unit. At the most, the subsidiary is considered to be an adaptive entity either responding to the local pressures or to the internal central

exigencies from the HQ. Network theory permits us splitting the firm reality by modeling it as a dynamic network composed by differentiated forces and pressures. In this way, we can see that the subsidiary has different mechanisms (internal interactions and autonomy) by which leverage the external network position. Interestingly, both mechanisms appear to be alternative depending on the hierarchical position of the subsidiary.

It seems that the hierarchical position permits the subsidiary leveraging its influence through its interactions with other units within the internal network while autonomy is the residual conduit for regular subsidiaries.

By proving these two alternative paths for influence, we also contribute to the open debate on neo-institutionalism approach (Kostova et al., 2008) by which MNCs cannot be model as controlled top-down organizations which respond to external pressures without internal social dispute (Geppert and Dörrenbächer, 2014).

Third, we contribute to the recent increasing interest in Intermediate Units and complex parenting structures (Kunicsh, Menz and Birkinshaw, 2018; Villar et al., 2018; Nell, Kaapen and Lamanen, 2017) by showing how they use its internal positioning to leverage influence. Hoenen et al., (2014) evidenced the unique access to multiple external environments of these units. We concur with these authors on the importance of IUs in embeddedness. In particular, our analysis shows the higher importance of political embeddedness for IU. This could be related to its parenting functions and HQ responsibilities and its need for legitimacy (Benito, Lunnan and Tomassen, 2011). Furthermore, we contribute by exploring the influence of their upper

hierarchical position in leveraging its influence. This position permits IU using the internal network as an additional source of power.

Finally, we respond to the shortage of quantitative studies on MNCs corporate political activity which is mainly based on case studies (Lawton et al., 2013). We also introduce PLS MGA as a novel way to analyse a qualitative moderator variable in IB studies.

Practical implications

Likewise, our study has some practical implications for practitioners. A direct implication would clearly be that embedding in political environments may help subsidiaries to gain influence in the corporation, and thus this could be used by managers in subsidiaries willing to receive attention and gain power within the network. Especially, political embeddedness shows to help more IU in gaining influence. We insist in considering political environments from “politically stable” countries as well as sources of knowledge and power for the subsidiary and therefore as a source for bringing strategic benefits. In this line, it is worth considering that political ties of managers may be an interesting resource for the subsidiary. Furthermore, HQ may show interest in understanding that formal authority combined with rich external network embeddedness are indeed sources of power for the different type of units. This may be useful for a more efficient resource allocation decision and autonomy, a dilemma commonly faced by managers responsible for the orchestration of resources in the MNC.

Limitations and future research

Our study has some limitations, being among them the sample size and the fact that data have been collected in one country, as well as the cross-sectional nature of the

research design that limits the possibility of addressing the causality between the constructs. Further studies may address these shortcomings to advance in this line of research.

Furthermore, research on the relation between political ties and the internal influence in the MNC is scarce. Although our study connects these two dimensions, further research is needed to show specific competencies that have been developed; for instance, uncertainty management capabilities (Cuervo-Cazurra et al., 2018), cross-regional internationalization capabilities (Villar et al., 2018) and negotiation abilities (Bonardi et al., 2006).

Finally, recent approach on micro-foundations (Felin and Foss, 2005) may help to deepen in the dynamics of these mechanisms, for instance, studying the specific political activities of managers leading to the creation of unique competencies. To this regard, disentangling micro-politics dynamics in the subsidiary at the individual level looks a promising path for future research.

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4.7 APPENDIX 1.

Table 4.7. Scales and Items

Unique Competences
1. Our subsidiary has developed information and know-how that was also applied in other MNC units
2. Our subsidiary created competencies that were useful in other MNC units
3. Our technological expertise is demanded by other MNC units
Political Embeddedness
1. Asses the intensity of your subsidiary with Authorities and/or local governments
2. Asses the intensity of your subsidiary with Other local firms in related industries
3. Asses the intensity of your subsidiary with Research centers (universities, sectorial associations...)
Autonomy
1. In Strategic decisions in marketing (e.g. new product launch or new markets)
2. In Strategic decisions in finance (e.g. Investments, financial markets)
3. In Strategic decisions in HR (e.g., top managers recruitment and contracts)
4. In Strategic decisions in R&D (e.g., development of innovation projects development)
5. In strategic decisions in production
Internal Lateral Interactions
1. Asses the intensity of your subsidiary with R&D, innovation centers in our MNC
2. Asses the intensity of your subsidiary with Other subsidiaries
3. Asses the intensity of your subsidiary with Other regional headquarters

**CHAPTER 5: A NETWORK APPROACH TO
PARENTING PROFILES IN
MULTINATIONAL CORPORATIONS:
ENTREPRENEURIAL VERSUS
COORDINATIVE INTERMEDIATE UNITS**

ABSTRACT

The dispersion of Headquarters along organizational and geographical boundaries is placing research attention to Intermediate Units (IUs). These are intermediate structural layers between Headquarters and local subsidiaries holding specific parenting mandates. Theoretically, they are supposed to add value to the organization by performing mainly coordinative activities but, recently, entrepreneurial IUs have been also described. Despite its importance as small headquarters in the complex parenting system, very little attention has been displaced to them leading to conflicting results in previous literature. Our study takes a Resource Dependence approach and suggests that different parenting profiles – the coordinative versus the entrepreneurial – are related to different access to strategic resources. We test these differentials through an original sample of 67 IUs located in Spain. We contribute by showing how hierarchical and network situations coexist in the MNCs and by relating parenting profiles to different sources of power. In addition, we discuss performance indicators and implications for previous results. Finally, we place avenues for future research.

5.1 INTRODUCTION

In the last years, a recent stream of literature is approaching the dispersion of Headquarters (HQ) along organizational and geographical boundaries (Nell, Kappen and Laamanen, 2017; Chakravarthy, Hsieh, Schotter and Beamish, 2017; Benito, Lunnan and Tomassen, 2011; Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006). Although this is not a new phenomenon (Kunish, Menz and Birkinshaw, 2019), certainly, this literature has helped to overcome the idea of the HQ as a single unit located in one place. The idea of complex parenting structures and, as a consequence, the appearance of intermediate parenting layers or Intermediate units (IU), has come to the forefront. However, main works has focused on the antecedents of the dispersion (Kunish et al., 2019; Schotter, Stallkamp and Pinkman, 2017; Kähäri, Saittakari, Piekkari and Barner-Rasmussen, 2017; Alfoldi, Clegg and McGaughey, 2012; Benito et al., 2011; Birkinshaw et al., 2006) while less work has been dedicated to understanding the challenges of the new parenting profiles (Goold and Campbell, 2002).

According to Chandler (1991), two parenting profiles add value to the Multinational Corporation (MNC): the coordinative and the entrepreneurial. Although Lasserre (1996) and Enright (2005) explored these two parenting roles at the regional level, very few work has devoted explorative attention to these parenting propositions at intermediate levels (Mahnke, Ambos, Nell and Hobdari, 2012; Hoenen, Nell and Ambos, 2014). Coordinative intermediate roles are supposed to perform cost-efficient related functions, while entrepreneurial IUs focus more on exploration driving long term perspectives.

Taking this, we concur with recent calls to the need to better understand entrepreneurial roles at intermediate levels (Verbeke and Yuan, 2018) and differences between types of IUs (Chakravarthy et al., 2017; Ambos, 2017; Hoenen et al., 2014) in order to better interpret HQs dispersion in general, and IUs role allocation and evolution in particular. Therefore, our objective in this work is to investigate different parenting value adding profiles of IUs and explore its differential source of power and influence in the MNC. We put special emphasis on understanding under which conditions IU are more likely to develop entrepreneurial profiles.

To do it, we adopt the network approach (Hedlund, 1986 and Bartlett and Ghoshal, 1989) and try to extend Resource Dependence Theory (RDT) (Salancik and Pfeffer, 1978) to the analysis of these type of units. RDT allow us connecting parenting profiles with the access to strategic resources of IUs while network paradigm permit overcoming the limitations in understanding entrepreneurial activity outside the HQ of previous theories applied to the study of IUs. To provide an explorative sample baseline to inform future theory and empirical research we rely on an original database of IUs located in Spain composed by primary and secondary data.

Our results confirm that although IUs may engage in activities from both roles, they will engage in the development of entrepreneurial activities to a lesser extent when they are primarily focused on coordinative tasks. Furthermore, both parenting profiles – the coordinative versus the entrepreneurial- are based in different sources of power. Specifically, the entrepreneurial IU demonstrate access to relevant external resources, internal recognition and product-related autonomy while the coordinative relies on hierarchically based mandates. Hence, entrepreneurial IUs are units controlling

strategic resources as suggested in previous studies (Hoenen et al., 2014) while coordinative parenting profiles do not.

We make 2 main contributions. First, we show how both, hierarchical and network situation context may exist at the same time in an organization placing different results in terms of parenting profiles. Furthermore, change in access to sources of power may explain parenting dynamics. Second, in the absence of formal authority, relevant network position and unique knowledge appear to be related to an entrepreneurial parenting logic. By doing this, we also extend network paradigm and RDT to IUs context.

Distinguishing between coordinative and entrepreneurial IUs roles may help firms in various ways: first, to avoid confusion about how these roles should be discharged and to avoid consequent value destruction (Goold and Campbell, 2002). Furthermore, it sheds light on the functioning of complex parenting structures and answers recent calls for research on units performing HQ functions (Chakravarthy et al., 2017) beyond RHQs.

The remainder of the paper is structured as follows: first, we adapt network theory to IUs and develop RDT on IUs context. Second, we develop our hypothesis basing on the differences between coordinative IUs and entrepreneurial IUs. Then, we perform the data analysis and provide the results. Finally, we discuss our contribution, present our limitations and provide avenues for future research.

5.2 THEORETICAL APPROACH AND HYPOTHESIS

5.2.1 *An approximation to Intermediate Units*

Intermediate Units are defined as units inside the corporation that are located between the HQ and local subsidiaries in terms of strategy and structure. Its main characteristic is holding narrow or large set of responsibilities over other units located in a coherent spectrum of influence. The responsibilities are related to a product or business, a geographical market or a specific activity. These responsibilities are traditionally conceived as developed and deploy by the HQ and this is why they are described as occupying an intermediate position in the organization. Lately, studies refer to them as intermediary HQs (Valentino, Schmitt, Kock and Nell, 2019) or spatially dispersed HQs (Kunisch et al., 2019). Terms like Regional Headquarters (RHQ), Divisional Headquarters (DHQ), Regional Management Mandates (RMM) or Domestic Headquarters are classified under the concept of IU (Botella-Andreu, Villar and Pla-Barber, 2018).

The appearance of IU is explained by the arrival of the M-Form organization in the XX century (Chandler, 1962; Wiliamson, 1975) when the complexity of the MNC increased. The origins of intermediate structural levels were based in hierarchical systems composed by vertically interrelated subsystems (Simon, 1962). In this case, interdependencies or lateral relationships between units were rare or not permitted unless the initiative to do so, came from the HQ. In the hierarchical MNC, intermediate units are explained by two theoretical approaches: the information processing theory (IPT) and transaction costs theory (TC).

However, the implications of these two theories, are usually related to the limitations that a hierarchy brings to the corporation. Interdependencies between units are very

difficult to explain neglecting the existence of possible synergies and relationships between them. Collaboration between units is hard to visualize when the process is not fostered from a corporate-centric origin (Martin and Eisenhardt, 2010; Decreton, Dellestrand, Kappen and Nell, 2017). Furthermore, entrepreneurial activity and influential units different from the HQ are hard to explain.

To this regard, two parenting profiles are attributed to IUs: the coordinative IU and the entrepreneurial IU. Following Alfoldi et al., (2012) the coordinative IU is supposed to perform functions like monitoring, control and governance, knowledge management, coordination, integration and other activities related to the use of preexisting knowledge in the firm aimed to generate incremental short term output and efficiency demands. In other words, they are units oriented to exploitation (March, 1991). On the contrary, entrepreneurial IU is supposed to perform parenting functions like strategic leadership and planning, resource development, seeking and exploiting new opportunities, attention and signaling and so on (Alfoldi et al., 2012). All these activities drive long-term perspectives, flexibility and risk-taking, much similar to the March's (1991) concept of exploration.

In front of the evidence of entrepreneurial and influential units in the corporation beyond HQs, the limitations of later theories suggest that parenting structures may be more complexes than strict hierarchies enabling the existence of other directions than the vertical strict responsibilities and information flows in the MNC, namely, a pure role of coordination and control.

Specifically, the Multinational network approach (Hedlund, 1986; Bartlett and Ghoshal, 1989; 1990) and RDT (Pfeffer and Salancik, 1978) provide a ground to reasoning these differences.

5.2.2 Extending network approach and Resource Dependence Theory to Intermediate Units

In the last three decades the perception of the MNCs as an intricate network with different poles and competing sources of power (Hedlund, 1986 and Bartlett and Ghoshal, 1989), have put the research emphasis on the subsidiary as the indisputable value adding creator through its entrepreneurial capabilities and network embeddedness (Andersson and Forsgren, 1996). However, some authors pointed out that this stream of research tend to ignore other important sources of influence and value creation, for instance the HQ and Intermediate Units. (Egelhoff, 2010; Nell and Ambos, 2013; Hoenen et al., 2014; Ciabuschi, Forsgren, Martin and Martin, 2017).

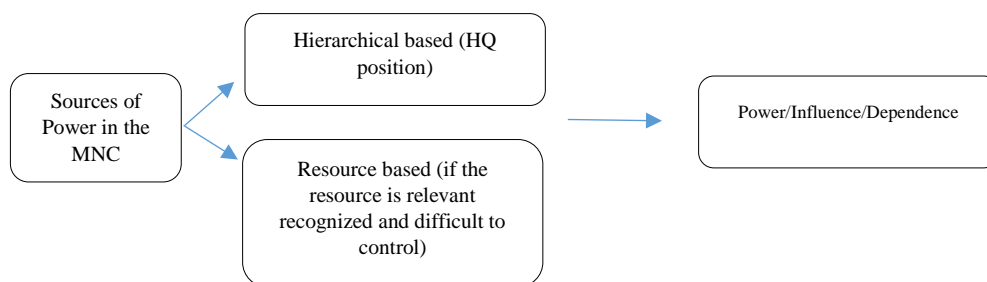
Broadly, the network approach suggest that MNCs are considered dispersed foci of power (Hedlund, 1986), in the sense of decision making autonomy and bargaining (Mudambi and Navarra, 2004), where, unlike TC and IPT, contemplate two basic sources of power: the formal authority (which legitimacy is based in the hierarchical position of the HQ) and the resource-based position (Forsgren and Pahlberg, 1992).

This last source of power is based on the access to resources which are strategic in nature for the MNC and the dependence that the firm has on them. According to Resource Dependence Theory (RDT) (Pfeffer and Salancik, 1978) the strategic nature of a resource is considered a source of power for the unit if, on the one hand the resource is *relevant* and *recognized* in the MNC (Mudambi, Pedersen and Andersson, 2014); on the other hand, if the resource is difficult for the HQ to enforce and control

(Mudambi and Pedersen, 2007). As a consequence, the value appropriation of the resource stays at the unit level. Resources over which HQs can easily enforce ownership rights are unlikely to form the basis for subsidiary power (Ciabuschi, Dellestrand and Kappen, 2012).

Regarding *relevance* and *recognition*, both relate to the relational aspect of the unit (Hillman and Daziel, 2003). Relevance refers to the extent and uniqueness of embeddedness in its external network. It is argued that the greater the external embeddedness the more access to knowledge and the higher the possibility to create unique competencies. Recognition, on the other hand refers to the extent of embeddedness in the internal network and therefore the perception from the rest of the actors in the MNC. Power and dependence is a balance between these two set of responsibilities. Finally, the extent of control exerted by the HQ reflects the extent of freedom to execute and appropriate this resource based-value creation. Figure 5.1 is a scheme of sources of power in the MNC.

Figure 5.1. Sources of power in the MNC.



Source: own elaboration

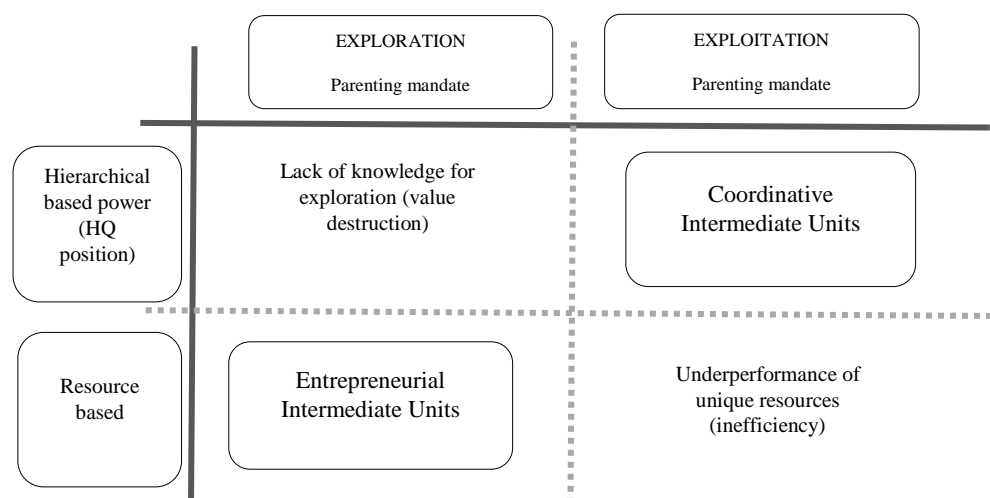
These two sources of power (hierarchical based and resource-based) are used to influence the strategic direction of the corporation by subsequent political bargaining processes which represent the struggle between HQs and subsidiaries (Andersson, Forsgren and Holm, 2015).

In this study, we suggest that IUs have access to both sources to a different extent. We concur with Mudambi and coauthors (2014) in that resource dependence may be applied with respect to specific functions of the firm. In our case, we propose that different access to sources of power are related to different paths in parenting role logic development.

Our implicit assumption is that coordination tasks are mainly based on hierarchical principles due to its exploitative nature and search for efficiency logic. The need for trust, reliability and predictability in such tasks is inherently accompanied by hierarchical principles (Egelhoff, 2010) and therefore, they function on the basis of formal authority. On the contrary, entrepreneurial tasks are based on interdependencies and more flexible actions. According to Gurkov and Morely (2017), the extent of control or autonomy afforded by the IU may manifest the extent of differential parenting styles. In brief, we propose that hierarchical and network situation context may happen at the same time in the organization placing different parenting profiles (Egelhoff, 2010).

Specifically, coordinative IUs are centers given with a legitimate right transferred by the HQ to coordinate and control a set of units. In a pure exploitation role (coordinative role), embedding in external networks and looking for the control of unique resources, may not be needed (Asakawa and Lehrer, 2003).

By contrast, entrepreneurial IUs exert influence based on its resource dependence position, usually a network position. For instance, Hoenen and coauthors (2014) reported that RHQ entrepreneurial role depends on the various environment embeddedness. The importance of the entrepreneurial parenting role lies in its capacity to develop tasks beyond controlling and filtering bottom-up information at intermediate levels which are considered the minimum corporate parenting value-adding role (Goold and Campbell, 2002). This is possible to less formalization and the possibility to accommodate to information flows (Hendlund, 1986). Dispersed literature, shows IUs being able to add value in many other ways different from pure loss preventing roles. An example is the literature describing IUs functioning as conduits of information flows between regions (Lunnan and Zhao, 2014; Pla-Barber, Villar and Madhok, 2018). Figure 5.2 represents the relationship between sources of power and parenting logics in the MNC. Furthermore, we reflect the possible value destruction and inefficient situations steaming from resources not relevant for exploiting or exploring.

Figure 5.2. Sources of power and parenting profiles of IUs.

Source: own elaboration

Being consistent with RDT and the above theoretical model, we test differences in power resources access regarding the two parenting roles. Specifically, we test for differences in relevance (external embeddedness in subunits environments and network knowledge), recognition (internal position of the IU) and the extent of HQ control (through the autonomy performed by the IU).

Relevance

Different intensities in external network embeddedness by HQs and IUs (in their subsidiaries environments) are found to be positively related to value creation (Nell and Ambos, 2013) although costly in that it requires a substantial amount of managerial resources and effort (Nell, Ambos and Schlegelmilch, 2011). MNC dependence on a unit is based on the ability of this unit to provide critical relationships and knowledge. But most important, external embeddedness has been found positively related to IUs entrepreneurial capabilities (Hoenen et al., 2014). Exploration is linked

to the degree of embeddedness and permits these units achieving a position and relevant information about the external environment. As a consequence, wider parenting is performed to the extent that IUs have better information on local subsidiaries context and higher probabilities of opportunity recognition (Alfoldi et al., 2012). Therefore, in presence of strong external embeddedness, we expect IUs to perform an entrepreneurial parenting role. As a consequence, entrepreneurial IUs may look to exert influence through external network embeddedness increasing network based power.

H1: The level of external embeddedness is higher for entrepreneurial intermediate units than for coordinative intermediate units.

Second, it is argued that units exposed and embedded in different networks can develop context-specific knowledge. According to Hutzschenreuter and Matt (2017) is this knowledge which enables units to recognize, signal and take advantage of opportunities. Usually, network knowledge (Johanson and Vahlne, 1977; 2009) refers to knowledge that firms accumulate through its international activities about the specific market and institutional networks.

A particular characteristic of this knowledge is the context specificity making very difficult to transfer it to the HQ (Petersen, Pedersen and Sharma, 2003) becoming a unique resource of the unit. It is argued that unit bargaining power must be based on intangible assets over which property rights are hard to define and enforce (Mudambi and Navarra, 2004). According to RDT, this makes this knowledge become strategic in nature in that it is difficult to control for the HQ.

Unique knowledge about relevant networks is a source of power because brings information about relevant resources and relationships (Andersson et al., 2015). Therefore, to evaluate the parenting potential of a unit, it is necessary to consider the knowledge stock in relation to its organizational context (Ciabuschi et al., 2017).

Hence we posit that, although coordinative IUs may be also well externally embedded due to its possible experience, unique network knowledge is far more important for entrepreneurial units as it represents its main source of power. Therefore we posit:

H2: Unique network knowledge is more important for entrepreneurial intermediate units than for coordinative intermediate units.

Recognition

Third, while most of the attention has been paid to units business relations with external actors, external resource excellence is not sufficient to gain power (Mudambi et al., 2014). The resource or the competence must be internally recognized and, therefore, the position in the internal network also form a part of the source of power. With few exceptions (Yamin and Andersson, 2011) this has received much less attention in recent literature. Furthermore, it is important to understand that, power inside the corporation may not only relate to the exposed resistance to the HQ but, actually, about influencing other units to legitimate the own objectives (Andersson et al., 2015). In fact, in the absence of formal authority, subunit linkages and interdependencies between units lay the foundations for the execution of subsidiary influence.

In particular, the intensity of these interactions is to determine to some extent this influence by developing cooperative as well as competitive link relationship between them (Forsgren, Holm and Johanson, 2005).

Therefore, as a third difference, we argue that entrepreneurial IUs may look to exert influence through internal network positioning with other units. Also by linking with other subunits in the corporation in a higher intensity compared to coordinative IUs in order to leverage the importance of its external position and counterbalance formal authority. As a consequence, we posit:

H3: The level of internal lateral interactions in the MNC is higher for entrepreneurial intermediate units than for coordinative intermediate units.

Enforcement and control from the HQ

Finally, differentials in strategic importance are reflected also by the level of autonomy reached by a unit. As the unit's bargaining power raises, the range of decisions over which the HQs takes part, decreases (Mudambi and Navarra, 2004). Autonomy reflects the degree of control of the unit activities without the influence of the HQ (Forsgren, 2017). In general, a low autonomy indicates a high level of bureaucratic control shortening initiative taking and entrepreneurial activities (Birkinshaw 1997). According to network and RDT approaches, HQ may use hard control mechanisms to curtail the autonomy of units creating larger short term benefits as this is an easy-to appropriate value created.

This is coherent with the case of coordinative IUs which influence base is the formal authority power, and who are expected to exploit preexisting knowledge and focus on

efficiency and therefore, make decisions based in previous formalized firm knowledge.

On the contrary, units with entrepreneurial orientation activities are given more autonomy and we expect HQ to allocate more decision power to subsidiaries in charge of explorative tasks (Birkinshaw, Hood and Jonsson, 1998). However, the relation between autonomy and influence is less clear. Autonomy appears as a consequence of the resource-based power (Forsgren and Pahlberg, 1992) but its influence presents mixed results (Palmié, Keupp and Gassman, 2014).

In particular, research throws little evidence on the relationship between autonomy and influence in the case of IUs. For instance, a strong entrepreneurial orientation is associated with certain level of autonomy for RHQ (Asakawa, 2001) but it comes at a price, bringing, in some cases, isolation for the unit in the corporate context (Mahnke et al., 2012).

According to the above perspective, we expect a high level of autonomy for entrepreneurial IUs. However, Gilbert and Heinecke (2014), following Enright (2005), proposed that autonomy have different dimensions at intermediate levels. Accordingly, they found that decision making regarding product adaptation shown to be a key area of decision for regional success. However, low levels of autonomy on other operational and support activities do not affect performance. Taking into account that entrepreneurial roles are expected to perform different activities than coordinative IUs, we apply the previous approach and split autonomy decision into different management activities. We argue that, all the decisions related to the product/services (product, R&D and marketing) are more centralized core functions with more margin

for relevant decision making and innovative outputs (Goold and Campbell, 2002). Nevertheless, autonomy regarding support functions like financial decisions and human resource management would be less important and may represent figurative links to the HQ. However, following existing literature, we still argue that, on average, entrepreneurial units will have higher levels of decision making for every activity.

Therefore:

H4a: Entrepreneurial IUs have higher levels of autonomy in R&D than coordinative IUs

H4b: Entrepreneurial IUs have higher levels of autonomy in production than coordinative IUs

H4c: Entrepreneurial IUs have higher levels of autonomy in finance than coordinative IUs

H4d: Entrepreneurial IUs have higher levels of autonomy in marketing than coordinative IUs

H4e: Entrepreneurial IUs have higher levels of autonomy in human resource management than coordinative IUs

5.3 RESEARCH DESIGN

5.3.1 Data Collection

We present an exploratory study with 8 hypotheses to evaluate IU roles. For the data collection, we adopt a systematic approach in order to obtain a representative sample of the focal phenomenon. Main samples on quantitative studies on IUs found in the literature focus on secondary data of RHQ and regional offices (Enright, 2005;

Laamanen, Simula and Torstila, 2012; Manhke et al., 2012; Chakravarthy et al., 2017) and DHQ (Benito et al., 2011; Forsgren et al., 2005). Very few hold primary data on IUs (Gilbert and Heinecke, 2014; Holt, Purcell, Gray and Pedersen, 2008) and still much focused on RHQ. This is because there is no financial marker or specific directly observable activity from outside the company which easily identifies IU beyond a formal label of RHQ.

Acknowledging the existence of IUs not formally recognized inside the MNC, we looked as a first filter to the ownership criteria. Through ORBIS data base we looked for subsidiaries located in Spain from foreign MNC (owning at least 51%). In a second stage, we filter those Spanish subsidiaries with ownership links in Latin-American (at least one subsidiary in Latin-American with 25% minimum ownership). In this way, we identify subsidiaries with intermediate positions.

Spanish subsidiaries have a well-recognized role of acting as springboards to Latin-American countries developing an intermediate role between the HQs and Latin-American region. This phenomenon is well described and established in the literature (Pla-Barber and Camps, 2012; Pla-Barber et al., 2017; Villar, Dasí and Botella-Andreu, 2018).

To this point, ORBIS launched 435 Spanish subsidiaries with Latin-American links on ownership and this list composed our population. The majority of the firms hold more than 90% of the investments in Latin-America.

67 Spanish subsidiaries agreed to participate in our study. This is a 15.8% of the sample which fit required standards to ensure statistical power (Cohen, 1992) including a confidence level of 95%. They responded to our questionnaire where the

filter question was to recognize its intermediate unit nature. The questionnaire was based on previous research and pre-tested with professionals and academics to ensure that they were understandable. Furthermore, we completed the database with secondary data from ORBIS and reports and news in press. One of our major concerns was to administer the questionnaire to the right informant (preferably to a member of the top management team with a global view of the subsidiary including sensibility to the intermediate nature). In some cases, this was the manager of international operations while others the marketing manager. Data collection took place in 2015.

Finally, we foresight in the collection of the data for the common method bias (Podsakoff, MacKenzie, Lee and Podsakoff, 2003) including different sources for the database built (ORBIS, subsidiaries web pages, articles in press) and double checking the information; different Likert scale breadth in order to avoid automatic responses; our secondary data was obtained at different moments of time and the dependent variable (the role) is build based on a scale but confirmed with other secondary information, mainly press articles and report information.

Table 5.1 provides some description of the sample.

Table 5.1. Sample descriptive

	CORDINATIVE ROLE	ENTERPRENEURIAL ROLE	TOTAL
TOTAL CASES	35	32	67
INDUSTRY			
Manufacture	13	16	29
Services	22	16	38
High knowledge-intensive industries	11	6	17
Low Knowledge-intensive industries	24	26	50
SIZE			
Small (1-49 employees)	12	10	22
Medium (50-249 employees)	12	17	29
Large (> 250 employees)	11	5	16
AVERAGE PROFITABILITY			
roa	5,8%	1,25%	
INTERNATIONAL EXPERIENCE			
less than 10 years	19	13	32
more than 10 years	16	19	35
HQ LOCATION			
Europe	28	22	50
Outside Europe	7	10	17
HQ INDUSTRY			
High Knowledge Intensive industries	21	18	39
Low Knowledge Intensive industries	14	14	28
CORPORATE GROUP SIZE			
Average nº of employees	50700	45200	
CORPORATE GROUP AGE			
Average years	80	68	

The sample presents a balanced mix of IUs on manufacturing and services. Furthermore, following Eurostat classification on the aggregation of knowledge-intensive activities by looking at the NACE code, IUs are classified as knowledge-intensive units if tertiary-educated persons employed represents more than 33% of the total employment in the main activity. The majority of IUs in our sample are classified in low knowledge-intensive industries.

Most of IUs are medium or large size (67% of the sample). The issue of size has been explored in the context of regional IUs (RHQ and RMM). For instance, evidence say that RHQ presents higher revenues but a lower number of employees than RMM (Chakravarthy et al., 2017). However, we contend that the size is contingent upon the role because entrepreneurial activities may require bigger infrastructure than coordinative activities.

Also, we report on IUs profitability. Interestingly, coordinative IUs are more than four times more profitable than entrepreneurial IU. This fits with the idea that coordinative centers have a higher focus on cost-effectiveness and that entrepreneurial activity usually requires more risk and resources. 35 out of 67 IUs account for more than 10 years of international experience (first international operation) and entrepreneurial units are more internationally experienced in general. Finally, regarding HQs, we found that they are mainly located in Europe, especially for coordinative IUs. Furthermore, unlike the industry classification of IUs, HQ' industries appear to be competing in high knowledge-intensive industries. Corporate group size is similar on average for both groups and HQ from coordinative centers are older on average too.

In brief, at a descriptive level, main differences between IUs parenting roles are found regarding profitability, international experience, HQ region of origin and corporate group age.

a. Measurement of variables

Parenting role: coordinative IU versus entrepreneurial IU. Our main variable is a binary indicator for the two parenting roles and takes value 0 for coordinative IUs and 1 for entrepreneurial IUs. Previous research assumes that a mandate is always

complete (Verbeke and Yuan, 2018) and that a mandate loss means the elimination of international responsibilities (Birkinshaw, 1996). However, recent works recognize the possibility of losing or gaining partial mandates (Kähäri, et al., 2017). For these authors a mandate is related to a geographical scope, increasing or decreasing with the addition or subtraction of markets. For other authors, a mandate or a role coincides with a specific value chain activity (Dörrenbacher and Gammelgaard, 2006). We concur with Manhke et al., (2012) and assume that although IU may engage in activities from both roles, they will engage in the development of new knowledge and business to a lesser extent when they are primarily focused on coordinative tasks. Therefore, we ask for the extent of activities performed that typically pertain to a coordinative parenting role and to an entrepreneurial parenting role on a 7 point scale. We included activities related to coordination and control, supervision on marketing, development of products and markets and activities related to the establishment and development of products and markets. We assign a value 0 when coordinative activities prevail, otherwise a 1.

External embeddedness in subsidiaries' environment. The measure is based on the scale of Holm, Pedersen and Björkman (2000) and adapted by Gammelgaard, McDonald, Stephan, Tüselmann and Dörrenbacher (2012) following also the way in Hoenen et al., (2014). The scale is a 7 point Likert-scale which assesses the intensity of interactions with customers, suppliers, competitors, authorities and local governments, firms and organizations in other related industries and research centers and institutes in the environment of the subsidiaries under IUs spectrum of responsibilities. In this particular case, represents the embeddedness of IUs in Latin-American markets.

Unique network knowledge is a 7 point scale type inspired on the scale from seminal work of Eriksson, Johansson, Majkgard and Sharma (2015). The scale is adapted to the focal region where the network of subsidiaries is placed and is composed by just one item on the importance of unique knowledge in Latin America region about how to do business in there.

Internal level of lateral interactions refers to the internal relationships (linkages with sister subsidiaries) and the level of development of it determines the level of lateral information flows and cooperative or competitive lateral behavior of the unit. It reflects the extent of the lateral interdependencies. We measured it through a 3-item scale adapted from Holm et al., (2000) assessing the intensity of relationships with other units different from the HQ (R&D and innovation centers, other subsidiaries and Regional Headquarters).

Autonomy refers to the level of decision making reached by the unit. We separate the autonomy in decision making by activities in R&D, production, finance, marketing and human resources. The scale is adapted from Gammelgaard et al., (2012) mixing a multilevel decision in operative and strategic autonomy for each activity.

b. Data analysis

Our interest in this paper is not to analyze any causal relationships between our variables. Instead, our objective is related to the establishment of significant differences between the two parenting roles. Therefore, we use the Mann-Whitney Test (U) to test mean differences between the 2 groups. Mann-Whitney (U) is a non-parametric test employed when variables are either ordinal or continuous but do not

match normal distributions which is our case (Olmos-Peñuela, Benneworth and Castro-Martínez, 2014).

Since we have two groups (coordinative versus entrepreneurial IUs) we used Mann-Whitney (U) in unpaired samples.

For the variables in our study that are constructs (internal lateral interactions, external embeddedness and autonomy) we performed a confirmatory factor analysis in order to assess' psychometric properties of the latent variables (Table 5.2). First, the reliability of individual items is checked. Loadings must reach a minimum threshold of 0.7 to ensure a common variance explained of 0.5 (Carmines and Zeller, 1979). However, in some cases, it is acceptable to maintain items with loadings below 0.7. Specifically, in two cases: first, when underlying theoretical assumptions are very established and the latent variables are composed by only 2 items and second when composite reliability and convergent validity are at acceptable levels (Chin and Dibbern, 2010). We account for one item below 0.7 which we decide to maintain based on the above reason.

Likewise, composite reliability and convergent validity have all acceptable levels (Chin and Dibbern, 2010) which are 0.7 and 0.5 respectively.

Table 5.2. Item loading, reliability and AVE of latent variables

Latent Variables	Items in the scale	Item Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
External Embeddedness in host countries	The intensity of your relationships with customers in the environment of subunits under your responsibilities	0,827	0,912	0,931	0,694
	The intensity of your relationships with suppliers in the environment of subunits under your responsibilities	0,875			
	The intensity of your relationships with competitors in the environment of subunits under your responsibilities	0,811			
	The intensity of your relationships with authorities and/or local governments in the environment of subunits under your responsibilities	0,856			
	The intensity of your relationships with other local firms in related industries in the environment of subunits under your responsibilities	0,853			
	The intensity of your relationships with research centers (universities, sectorial associations...) in the environment of subunits under your responsibilities	0,773			
Internal Lateral Interactions	The intensity of interactions of your subsidiary with R&D and innovation centers in the MNC	0,8	0,677	0,793	0,565
	The intensity of interactions of your subsidiary with other subsidiaries in the MNC	0,62			
	The intensity of interactions of your subsidiary with other regional headquarters in the MNC	0,83			
Finance autonomy	In Strategic decisions in finance (e.g. Investments, financial markets)	1	0,867	0,882	0,792
	In Operative decisions in finance (e.g., contracting loans, short-term investments...)	0,764			
HR autonomy	In Strategic decisions in HR (e.g., top managers recruitment and contracts)	0,978	0,852	0,920	0,852
	Operative decisions in HR (e.g., recruiting of operational staff, salaries...)	0,865			
Marketing autonomy	In Strategic decisions in marketing (e.g. new product launch or new markets)	0,961	0,842	0,926	0,863
	In Operative decisions in marketing (campaigns, price, distribution channels...)	0,941			
Production autonomy	In Strategic decisions in production (production facility designs, location...)	0,926	0,868	0,937	0,882
R&D autonomy	In operative decisions in production (machinery purchase, provisioning...)	0,952	0,869	0,938	0,883
	In Strategic decisions in R&D (e.g., development of innovation projects development)	0,953			
	In Operative decisions in R&D (day-to-day decisions on R&D programmes)	0,927			

Finally, discriminant validity assesses the extent of differences between constructs and it is assumed when the average variance extracted (AVE) of a latent variable is higher than the variance shared with the rest of latent variables. Following Fornell and Larcker (1981) we report discriminant validity in table 5.3.

Table 5.3. Discriminant validity

Variables	1	2	3	4	5	6	7
External Embeddedness	0.833						
Internal lateral interactions	0.237	0.749					
Finance autonomy	0.404	0.112	0.933				
HR autonomy	0.177	0.116	0.643	0.931			
Marketing autonomy	0.343	0.205	0.562	0.624	0.929		
Production autonomy	0.396	0.287	0.478	0.663	0.547	0.939	
R&D autonomy	0.467	0.349	0.606	0.57	0.624	0.782	0.94

5.4 RESULTS

The results of the statistical analysis which compares medians of the variables for both coordinative and entrepreneurial IUs are shown in table 5.4. There, we provide the variables, the specification of the null hypothesis to test and the significance level for the mean difference test. Furthermore, we provide means in order to interpret the direction of the effect.

First, the two groups differ significantly regarding the extent of external embeddedness. Entrepreneurial IUs have a significantly higher average of external interactions with customers, suppliers, competitors, authorities and governments, other firms and research centers in its subsidiaries environments compare to coordinative IUs. Therefore, we accept H1. As regards to unique network knowledge, results indicate that this resource is significantly, of higher importance to entrepreneurial IUs and therefore we accept H2. With respect to internal lateral interactions, we observe

the same situation. On average, entrepreneurial IUs have a significantly higher average level on internal interactions with R&D and innovation centers, sister subsidiaries and other IUs compare to coordinative IU. Therefore, we accept also H3. Finally, regarding autonomy, results confirm significant differences between entrepreneurial and coordinative IUs in R&D and production decisions. Thus, we can only accept H4a and H4b and reject H4c, H4d and H4e and there are not confirmed differences for autonomy in marketing, finance and human resource management. Entrepreneurial IUs develop higher autonomy regarding core product activity compare to coordinative IUs. Summarizing, we confirm that external embeddedness, unique network knowledge and internal interactions are significant and differentiated sources of power which are found in different extents between the two parenting roles. Autonomy differs only regarding some activities.

Table 5.4. Results

HYPOTHESIS	VARIABLE	NULL HYPOTHESIS TESTED	DIFFERENCES BETWEEN GROUPS	MEAN COORDINATIVE ROLES	MEAN ENTREPRENEURIAL ROLE
H1	External Embeddedness	H ₀ . Mean EE ₁ = Mean EE ₂	EE₁ < EE₂ **	2,8238	4,3172
H2	Unique network Knowledge	H ₀ . Mean EK ₁ = Mean EK ₂	EK₁ < EK₂ **	4,2367	5,7900
H3	Internal lateral interactions	H ₀ . Mean IE ₁ = Mean IE ₂	IE₁ < IE₂ **	4,7643	5,5885
H4a	Autonomy R&D	H ₀ . Mean RDA ₁ = Mean RDA ₂	RDA₁ < RDA₂ **	2,6061	3,9375
H4b	Autonomy Production	H ₀ . Mean ProdA ₁ = Mean ProdA ₂	PRODA₁ < PRODA₂ **	2,7647	3,6774
H4c	Autonomy finance	H ₀ . Mean finA ₁ = Mean finA ₂	FINA ₁ < FINA ₂	2,8286	3,3226
H4d	Autonomy marketing	H ₀ . Mean markA ₁ = Mean markA ₂	MARKA ₁ < MARKA ₂	3,0714	3,1613
H4e	Autonomy finance	H ₀ . Mean finA ₁ = Mean finA ₂	FINA ₁ < FINA ₂	2,8286	3,3226

1= coordinative IU; 2= entrepreneurial IU. P*** = 0.05 significance

5.5 DISCUSSION

Although the dispersion of HQs is not a new phenomenon (Kunisch et al., 2019) recently, a growing number of studies are calling for research on intermediate level units and, specifically, on its value-adding parenting profile (Verbeke and Yuan, 2018; Nell et al., 2017).

Certainly, distinguishing between the two parenting profiles (coordinative versus entrepreneurial) is important to understand HQ dispersion strategies, to avoid confusion about how they should be assigned and to avoid value destruction (Goold and Campbell, 2002).

In this study, we use network-based approach and RDT to connect parenting profiles from IUs with critical sources of power they control. We argue that differential characteristics between coordinative and entrepreneurial IUs arise from the predominant source of power, namely, resource-based power versus formal authority. Furthermore, we argue that these differentials are reflected in autonomy levels.

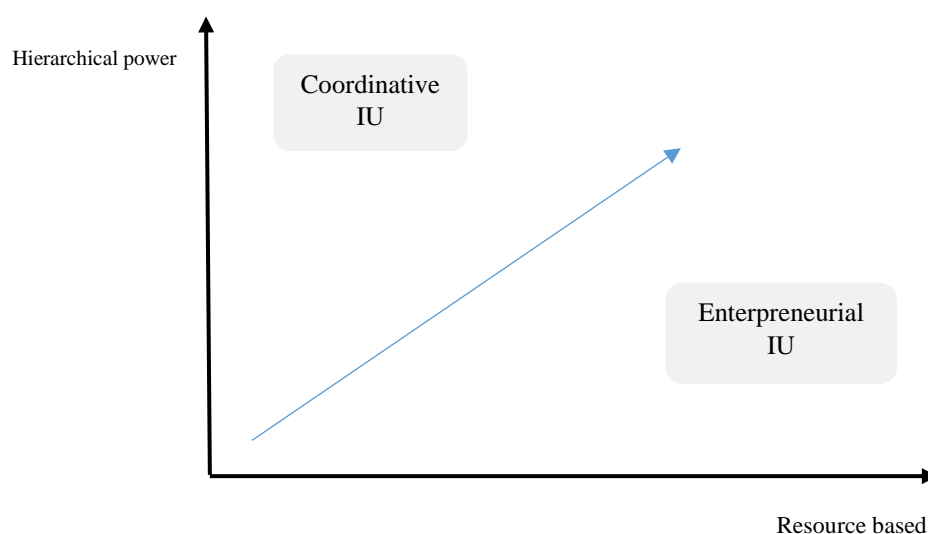
By doing this, we establish an empirical starting point to characterize different parenting profiles in order to better understand how complex parenting systems are placed (Goold and Campbell, 2002), how parenting logics are discharged and add value and to better interpret contradicting results at intermediate levels (Chakravarthy et al., 2017; Nell et al., 2017). We find that main differences are related to external network embeddedness and network knowledge, internal network position and autonomy.

Our first contribution relates to extending network approaches placing the emphasis on entrepreneurial behavior from local subsidiaries to HQ units (Nell and Ambos,

2013) and specifically, to IUs. HQs are recognized to add value by coordinating and or engaging in entrepreneurial activities (Chandler, 1991) and we display different backgrounds in terms of power resources these units control. Specifically, we rely on RDT and associate coordinative parenting activities with formal authority power based on hierarchical principles while entrepreneurial parenting activities with strategic resource power based. Implicitly, we make two assumptions: first, that both hierarchical and network situation contexts may exist at the same time in an organization placing different results in terms of parenting profiles (Egelhoff, 2010). Second, changes in the access to sources of power may explain parenting role dynamics. An easy example is a Regional Management Mandate in a new region which may attract HQ's attention on the new region by embedding in relevant networks there and performing strategic decisions by virtue of the HQs dependence on these relationships. In this way, it gains influence in the corporate activity (Manhke et al., 2012). As the attention of the HQ increase, the unit gains influence (based on its new position). With the time the HQ may transfer permission to the IU to develop a formal coordinative role for the operations in the region. This is a basic example of the coexistent and changing nature of sources of power and particularly, in the absence of formal authority as the main power, network knowledge and internal relationships appear as main alternative sources.

Figure 5.3 is a preliminary scheme of our argument and a representation of the dynamics between roles.

Figure 5.3. The relation between the source of power and parenting roles



Source: own elaboration

Second, entrepreneurial IUs are shown to be units highly externally embedded (Hoenen et al., 2014) where its entrepreneurial capabilities are supposed to rely on the access to multiple heterogeneous environments. Our study adds to this characterization that there exists also a relationship between the internal network position of the unit and the value of its unique knowledge. The embeddedness in multiple heterogeneous contexts with different intensities and characteristics permits IUs become a “node” in the internal network. This is due to the capacity to reconfigure bounded local knowledge by each dispersal unit under its influence. This brokerage function (Lunnan and Zhao, 2014) arise as the confluence between external and internal embeddedness which has been approached by previous literature (Figueiredo, 2011; Achacacacao, Miravittles and Leon, 2014). However, mobilizing such an amount of positions to be influential in different networks and to take advantages of the possibilities requires

resources. For instance, recent works point to the need for slack resources to develop such entrepreneurial tasks for IUs (Verbeke and Yuan, 2018; Villar et al., 2018). This challenges previous assumptions that IUs neglect interdependencies and cross-unit interactions are limited at this level (Nell et al., 2011) and suggest that interdependencies are important in complex MNC structures (Valentino et al., 2019). Furthermore, as posited in institutional theory, HQs usually suffers from sheer ignorance and lack of legitimacy at the subsidiary level which often leads to negative impacts (Ciabuschi et al., 2017). Entrepreneurial IUs, however, show embeddedness in external and internal networks possibly overcoming this lack of legitimacy at lower levels.

Third, although IUs are said to be highly autonomous centers, we posit here that there are differences between parenting profiles. Specifically, entrepreneurial IUs show a higher significant autonomy decision regarding R&D and production. This displays entrepreneurial IUs as units focused in R&D and product-related core activities. Furthermore, we introduce a novel way of measuring autonomy by splitting the decision level by activities and possibly contributing to the mixed results related to autonomy measurement (Palmié et al., 2014).

Finally, beyond placing entrepreneurial IUs as units controlling strategic resources compare to coordinative IU, sample exploration permitted us characterizing IUs regarding other basic aspects. We find that there are big differences regarding profitability. Kunisch et al., (2019) found negatively performance outcomes at the corporate level from dispersing HQs. Here, we observe that this result at the unit level may be contingent upon the role. Entrepreneurial IUs look more like strategic centers

with higher managerial resources and long term perspective while coordinative centers may be focused on cost efficiency and financial short term results.

Our study also has important implications for practicing managers. First, understanding the unit's characteristics may help to avoid poor mandate allocation and parenting value destruction (Goold and Campbell, 2002).

Second, our results show that entrepreneurial IUs have, on average, lower profitability compared with coordinative centers. This may be due to the higher focus on cost-effectiveness and the hierarchical based approach of most coordination centers. Managers should take this into account when allocating/assimilating these mandates. Entrepreneurial activity usually requires resources and there is a level of risk to assume. This is why internal network position may function as a legitimation conduit for these units.

Third, unique knowledge is embedded in organizations and persons. Aiming to develop and explorative role requires holding a recognized stock of knowledge in organizations which top managers may look for.

Fourth, our results point to the importance of lateral interdependencies for value-adding IUs and therefore it should be taking into account when designing complex structures.

Limitations and future research

This study has several limitations which, at the same time open opportunities for future research. First, we acknowledge limitations regarding the sample and the data. The sample size and the fact that IUs are concentrated in one country makes our study explorative in nature. Future studies should try to develop bigger and cross country

samples. Furthermore, future studies should test causal relationships between the internal position of IUs and its entrepreneurial capabilities (Hoenen et al., 2014). Moreover, the role of knowledge for international entrepreneurial activities has been little addressed (Kim and Aguilera, 2015) and how these stocks translate in mandates and performance is still to be studied (Hutzschenreuter and Matt, 2017). Furthermore, our study does not address the specific entrepreneurial abilities developed by IUs. Looking to the fact that they hold R&D and production decision autonomy, innovation capabilities of IUs may be an interesting question to address (Lunnan and Zhao, 2014). This connects with recent calls to understand the dynamics of parenting profiles (Ambos, 2017). Finally, in line with Kunisch et al., (2019), further measures of performance in order to clarify better how HQ dispersion strategies and complex structures add value to the MNC.

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CHAPTER 6: GENERAL CONCLUSIONS

6.1 GENERAL CONCLUSIONS

This dissertation aimed to advance our understanding of the dispersion of HQs in MNCs. Specifically, we focus on Intermediate Units as the unit of analysis of complex corporate governance systems. Although in recent years the topic has received considerably more attention from academics, some studies show controversial results as research on complex governance systems seems still at a preliminary stage (Kunicsh, Menz and Birkinshaw, 2019). For this reason, our main objective was to make an effort to integrate the dispersed related knowledge and explore the nature of Intermediate Units.

The more the literature looks into IUs, the more we realize two things: first, governance systems are more complex than we thought before and, second, instead of specialized intermediary HQs like Regional HQ, recently, MNCs disperse HQ activities to local subsidiaries in order to develop more flexible systems. As the parenting advantage may be developed at the heart of the subsidiary we think that an appropriate approach is a value-creating approach. Therefore, we draw on network theory as we think represents a better perspective to model Intermediate Units. Based on this we carried out three studies: the first one (chapter 3) is an attempt to integrate and interpret previous characteristics and competence creation abilities of IUs. Our results confirm that IUs are being studied since the 80s but are not integrated into the academic literature under the concept. Furthermore, they are different from subsidiaries in many ways at the internal and external level.

Study 2 (chapter 4) and study 3 (chapter 5) are quantitative analysis of a sample of IUs.

In order to review the contributions in this dissertation, we summarize the main points arising from each chapter. We also expose relevant implications for both, academics and practitioners and limitations and directions for future research.

6.1.1. Conclusions on chapter 3. The emergence of intermediate units in MNC: a literature review and avenues for future research

Chapter 3 is an attempt to systematically study the existing theoretical and empirical insights on Intermediate Units. We try to establish an understandable framework under which classify and approach these units. In this sense, our chapter finds several interesting results: first, the bulk of research is concentrated in qualitative studies and the triad regions (North America, Europe and Asia). Moreover, there are several unconnected concepts in the literature which usually refer to different types of IUs. Furthermore, main quantitative studies explore the antecedents for HQ dispersion in general and we classify them in internal, external and legitimacy triggers for these movements. However, internal characteristics and behavior of IUs are little addressed. We find scattered features across the literature which we try to make sense of through proposing a simple classification based on the type of activity and the geographical scope. We name them the controller, the parasite, the scout and the adventurer.

Although results indicate a lack of integration in the literature along with a lack in a unit approach, we try to specify research topics around 4 main axes to clarify confusion regarding different types of IUs (who), about the different causes related to the dispersion of HQ activity (where), about the conditions under which the governance systems disaggregate (how) and, finally, about the performance of these complex governance structures (what).

6.1.2. Chapter 4. Political embeddedness and competence creation: intermediate units versus local subsidiaries

Our objective in this chapter is to compare the way IUs and local subsidiaries relate to political networks and create unique competencies for the corporation. With this study, we aim to contribute to understanding how different units make sense of their environment and position themselves into the MNCs, specifically for IUs. We rely on a network approach and in the idea of isomorphic pressures to understand how differences in structural positions matter in the process of competence creation and external adaptation.

Our results confirm that autonomy and internal embeddedness represent both partial manifestations of subsidiaries internal mechanisms to position themselves influential while IUs only account for internal embeddedness. Furthermore, there is a positive relationship between these mechanisms and the extent of political embeddedness and the creation of unique competencies which appear stronger for IUs.

These results indicate two important implications: first, IUs are competence creator units and therefore are value creating units in the MNC. As such, a value-creating approach appears to be useful in the study of HQ activities. (Nell and Ambos, 2013; Ciabuschi, Forsgren and Martin, 2017). A preliminary consequence is that, based on value creating theories, IUs play the game of gaining influence in the corporation. Second, there are different internal mechanisms compare to regular subsidiaries regarding political embeddedness which reinforce the idea of the isomorphic adaptation in the MNCs. We believe that these results provide interesting contributions and offer a novel perspective on the intersection between MNC networks and institutional approaches.

6.1.3. Chapter 5. A network approach to parenting profiles in multinational corporations: entrepreneurial versus coordinative intermediate units

In this chapter, we investigate the two parenting value adding profiles of IUs - the coordinative versus the entrepreneurial – and explore the different sources of influence they have inside the MNC. Again, we rely on a network approach and, specifically, on Resource Dependence Theory to explain the differences between the two profiles (Pfeffer and Salancik, 1978).

The study shows how, both parenting profiles, are based on different sources of power which seems connected to the development of the two parenting styles. Specifically, the entrepreneurial IU appears characterized as a unit with access to relevant external resources, internal recognition in the MNCs and a certain degree of autonomy compared to the coordinative IU. They are depicted as strategic centers.

We think that distinguishing between the two parenting profiles help to understand HQ dispersion strategies and to think about how they should be discharged. Furthermore, may explain previous conflicting results on factors triggering HQ activities dispersion in that, different activities may be triggered by different factors (Birkinshaw, Braunerhjelm, holm and Tejersen, 2006)

Our explorative results suggest that entrepreneurial parenting activities relate to similar resources studied for entrepreneurial subsidiaries and that introducing the value-creating a view to study HQs is a useful idea. Moreover, both profiles are not exclusive and evolution in the access to external resources may explain evolution in parenting profiles. From our view, this is an interesting idea that can help understand HQs and IUs dynamics, value creation and value destruction at the HQ level in MNCs.

6.2 CONTRIBUTIONS AND IMPLICATIONS

In this section, we explain some significant contributions both to the theoretical and empirical literature for researchers, as well as for managers and policymakers. Finally, we expose the implications, the limitations of the dissertation and some interesting future research directions.

6.2.1 Contributions to the literature and implications for researchers

First, we have made an effort to integrate the existing dispersed literature under the umbrella concept of Intermediate Units. In doing so, we gather all the related criteria in the literature (the place inside the MNC, the number of roles, the mandate, the temporality, and the geographical scope) which led us to a standard definition for the academic community of IUs. Specifically, IUs are units located in an intermediary position in terms of strategy and structure between the HQ and local subsidiaries. They hold responsibilities over other units and perform HQ related coordinative or and entrepreneurial activities and develop specialized parenting capabilities. Additionally, we know that IUs are discharged in specialized divisions (RHQ and DHQ). However, recently, local subsidiaries appear to perform HQ activities enlarging the scope of this phenomenon. Furthermore, we provide a classification regarding the geographical scope and the nature of their mandates (explorative versus exploitative) pushing the debate beyond the size of IUs and focusing on its activities and scope (Kahäri, 2015).

Also, we have organized existing literature finding related research gaps. There is a clear lack of unit approaches; as a consequence, we have limited knowledge about IUs internal nature, internal dynamics and value creation.

To this regard, we contribute by proposing and extending the network approach to this phenomenon, positioning them as value creators inside the MNC. Networked MNC

permits studying IUs as an intermediate step between HQs and local subsidiaries by developing a parenting advantage and gaining influence.

In this sense, our results confirmed that IUs are competence creators, which rely on their formal position to develop their external linkages to a higher extent compared to regular subsidiaries. We confirm that these units perform differently in leveraging local knowledge and developing unique competencies.

Transversely, we contribute by confirming the importance of institutional and political context for competence creation, a rather forgotten networks in MNCs value creation related research.

The above is coherent with previous results regarding the special position towards multiple environments for these units (Hoenen, Nell and Ambos, 2014).

Finally, and according to our previous propositions on the heterogeneity of IUs we contribute by exploring the different roles they develop. Specifically, we connect two parenting profiles with different value propositions – the coordinative versus the entrepreneurial- with different sources of power and influence. In studying this, we contribute by showing how different parenting propositions are associated with different resource access. Our study shows how entrepreneurial IUs are associated with a strong internal and external embeddedness and a level of decision making. This place these units as strategic centers with the capacity to embed in multiple contexts and reconfigure bounded local knowledge and a low scope for decision making.

On the contrary, coordinative centers, although efficiency focused and much more profitable in the financial sense, seems as hierarchical internally legitimated centers without a special bound of resources.

Finally, we slightly discuss as an interesting implication, that the existence of different parenting profiles anchored in the access to different set of resources evidence that hierarchical and heterarchical parenting flows may live together in the MNC (Egelhoff, 2010) reinforcing each other in different situations.

6.2.2 Implications for managers and policymakers

Designing the structure and the governance model of firms is a central problem among managers (Nell, Ambos and Schlegelmilch, 2011). The concern for flexibility while seizing the most of external environments puts interest in understanding how to avoid poor mandate allocation and parenting value destruction (Goold and Campbell, 2002).

In this context, MNCs are dispersing its HQs and recently, allocating HQ mandates to local subsidiaries. This option appears as a way to structure the firm in front of a rapidly changing environment and much complex coordinative relationships.

Another general implication is that embedding in political environments may help subsidiaries to create useful competencies for the corporations while gaining influence. Specifically, political stable context may be a source of important knowledge for units. In this sense, managers with a network of institutional ties may be a valuable profile for the subsidiary. Also, the HQ may want to understand the implications of IUs autonomy in the potential of value creation of these units.

Furthermore, coordinative IUs have on average, much higher profitability. Managers should take this into account when allocating mandates. Exploration is resource consuming and there is a level of risk to assume. On the contrary, entrepreneurial units, hold valuable knowledge to share with the rest of the organization. If the firm and the

unit aim to develop an explorative role, this will require holding recognized stock of knowledge in organizations which top managers may look for.

All in all, complex structure may not only be assessed by their short term financial outputs but also by different internal indicators such as the creation of useful competences or the added useful interdependencies between units.

Finally, policymakers may want to understand that HQs are not located anymore in one physic place and that their associated high-value activities are distributed in the MNC. FDI attraction policies should start to consider the dispersion of HQ activities and the local advantages related to each activity.

6.2.3. Limitations of the dissertation

This study is not free of limitations, however, at the same time, we think they open opportunities for future research.

First, we acknowledge limitations regarding the sample size and the data. Furthermore, as the data is collected in one country we account for limitations in its heterogeneity and the influence of the context. Moreover, the cross-sections nature of the research design limits the possibility of addressing the causality between constructs. We accounted for these inconvenience being cautious in the design of our data collection and the writing of our hypothesis.

Also, some of our constructs are based in perceptual measures which, in some cases may amplify part of the phenomenon. We tried to include in each study constructs based on various type of measurement variables such as scales based on number and type of activities.

6.2.4. Directions for future research

Future studies should definitely try to gather extended databases on heterogeneous IUs in different countries and regions. Furthermore, at the theoretical level, other studies may be needed to validate network theory and its value-creating approach against other applied theories on this phenomenon. In this sense, our study evidence how some MNCs are dispersing its HQ activities responding to new external and internal forces which seeks a firm that integrates and coordinate a huge number of different activities across regions and countries. To better approach this context, a good idea may be study MNC as complex systems where alternative coordinating mechanism (from direct hierarchical control to interdependencies and autonomous collaborations) appear. Authority, collaboration and interdependencies are all characteristics of systems and reflect the form in which many MNC are growing. Future studies may take this into account and borrow from other disciplines system approaches to better understand the behavior of MNCs.

Also, although we connect political environment with competence creation further research may study which type of competences IUs leverage form their environment. To this regard, micro-foundations approach (Felin and Foss, 2005) may be useful in dealing with these mechanisms. Micro politic dynamics at these level looks like an interesting path for future research.

Also, the role of knowledge on developing entrepreneurial parenting capabilities is definitely, an interesting avenue for future research (Kim and Aguilera, 2015; Hutzschenreuter and Matt, 2017).

Finally, developing key performance indicators beyond financial indicators may help to understand complex structures and different authority layers in multinational firms.

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RESUMEN

INTRODUCCIÓN

Las empresas multinacionales (EMN) tienen un enorme impacto en la economía global como actores económicos y sociales. En general son reconocidas por estar a la vanguardia de los desarrollos tecnológicos y organizativos (Lundan, 2018). Sin embargo, también tienen una imagen negativa, por ejemplo, muchas veces son percibidas como expoliadoras de recursos en algunos contextos (Narula, 2018). Los académicos han estudiado durante décadas el signo negativo o positivo de su impacto en términos de crecimiento económico y bienestar nacional, creación de empleo, innovación, medio ambiente y derechos humanos, entre otros. En concreto, el universo estimado de empresas multinacionales en el mundo ha aumentado de 7000 en 1960 a aproximadamente 350.000 en 2017 (CNUCED, 2016 y CNUCED, 2018), de las cuales las ventas de solo el 0,1% más grande representan más del 10% del PIB mundial. Su creciente importancia se basa también en el desempeño de sus filiales extranjeras, cuyo número se estima en alrededor de 800.000. Las ventas de filiales extranjeras aumentaron de 6755 mil millones de dólares en 1990 a 30.823 mil millones en 2017 (CNUCED). Además, se calcula que crean más de 73 millones de empleos (CNUCED, 2018). Por lo tanto, en general, más allá de los efectos positivos y negativos, las cifras expresan un resultado objetivo: el impacto de las empresas multinacionales en la economía global es enorme.

Actualmente, el entorno económico que enfrentan las empresas multinacionales está marcado por la fragmentación de la producción global. Esto se debe, principalmente, a los avances tecnológicos, el auge de las economías emergentes y las políticas de liberalización (Narula, 2014) que han facilitado la coordinación transfronteriza de las transacciones (Kano, 2017). Como consecuencia de lo anterior, la empresa

multinacional está dispersando geográficamente sus actividades, lo que está introduciendo una complejidad creciente en sus estructuras corporativas. En relación con esto, en los últimos años, se han realizado esfuerzos de investigación principalmente para comprender la dispersión geográfica de la producción y las actividades de I + D a lo largo de las cadenas de valor. Sin embargo, se ha prestado menos atención a la redistribución de la autoridad y las responsabilidades dentro de la empresa multinacional (Kostova, Nell and Hoenen, 2016) asociadas a esta creciente complejidad. En este sentido, la función de coordinación y control surge como un paradigma central para analizar las empresas multinacionales y su creciente complejidad (Mudambi, 2011). La literatura reciente ha comenzado a explorar la relación entre las estructuras corporativas complejas y los sistemas parentales y de autoridad (Goold y Campbell, 2002). Esto ha ido ayudando a superar la idea de la existencia de una casa matriz única ubicada en el país de origen (Nell, Kappen y Laamanen, 2017). De hecho, parece que paralelamente a la dispersión de otras actividades, las casas matrices también se están dispersando y reubicando, incluso en partes (Birkinshaw, Braunerhjelm, Holm and Terjesen, 2006) a medida que esta complejidad se consolida. Estos estudios se centran principalmente en los antecedentes de la reubicación transfronteriza de las casas matrices y las sedes de forma completa o fragmentados (Birkinshaw et al., 2006; Benito et al., 2011; Schotter, Stallkman y Pinkham, 2017; Kunisch, Menz, Birkinshaw, 2019).

Hasta ahora, los ejemplos típicos de dispersión de las actividades de la casa matriz, han sido las casas matrices regionales y divisionales, en donde se concentran la mayoría de los esfuerzos de investigación. La expansión de las EMN hacía Asia ha

sido el contexto (Lasserre, 1996; Lehrer y Asakawa, 1999; 2003; Yeung, Poon y Perry, 2001).

Sin embargo, algunos estudios han observado otras formas “parentales” diferentes en las EMN actuales más allá de las divisiones clásicas (casas matrices divisionales y regionales) consideradas últimamente estructuras poco flexibles (Lehrer y Askawa, 2003). Lasserre (1996) ya señaló que las diferentes responsabilidades de la sede se pueden delegar temporalmente a las filiales locales. Alfoldi, Clegg y McGhaughey (2012) han descrito, por ejemplo, los mandatos de gestión regional. Estos consisten en, filiales locales que asumen responsabilidades de la casa matriz a nivel regional. Otros estudios han ampliado los diferentes tipos de casas matrices que desempeñan funciones más allá de la actividad de control, y les han asignado el nombre de Unidades Intermedias (UI) (Hoenen, Nell y Ambos, 2014; Villar, Dasí y Botella-Andreu, 2018).

En este punto, recientes investigaciones señalan que nuestro conocimiento sobre la dispersión de las casas matrices, los sistemas parentales y las configuraciones de las sedes como unidades intermedias es claramente limitado (Kunisch et al., 2019).

En primer lugar, las teorías basadas en jerarquías se limitan a explicar las UI que realizan actividades de coordinación y control, dejando de lado otros tipos de actividades propias de las casas matrices como actividades de emprendimiento. Las teorías de base federativa y los enfoques institucionales no están validados ni extendidos en el estudio de sistemas parentales y de autoridad dentro de las EMN. Sin embargo, parecen describir una realidad más refinada.

En segundo lugar, las consecuencias relacionadas con la adopción de diferentes configuraciones de casas matrices son desconocidas tanto a nivel de EMN como a

nivel de país y entorno. La delegación de autoridad en distintos puntos de la empresa es igual a la transferencia de poder. Los movimientos de poder y responsabilidad pueden impulsar la creación de competencias en distintas partes de la empresa. Además, a nivel externo, muchos estudios han observado efectos positivos de las oficinas centrales en el contexto local (Davis y Henderson, 2008). La dispersión de estas casas matrices puede transformar la manera en que las actividades de la sede se extienden sobre otras actividades locales.

En tercer lugar, se desconoce la naturaleza de las filiales con responsabilidades de casa matriz, incluidos todos los tipos de casas matrices intermedias. No hay una integración de la investigación existente, ni una definición que recoja las características principales de las Unidades Intermedias.

En última instancia, el estudio de las Unidades Intermedias (UI) proporciona un contexto para ampliar potencialmente la comprensión de: el papel de las casas matrices y cómo crean valor; el desarrollo de capacidades parentales en distintos niveles en la EMN; la configuración de la EMN como un sistema de autoridad dispersa, es decir, la naturaleza de la configuración de gobierno. Finalmente, sobre la relación entre estructuras corporativas complejas y los entornos externos.

El objetivo de esta tesis doctoral es contribuir a este campo de investigación mediante el análisis de la literatura relacionada existente en primera instancia y, posteriormente, presentar un análisis basado en un conjunto de datos originales compuesto por UI y otras filiales ubicadas en España.

OBJETIVOS DE LA TESIS DOCTORAL

El concepto de Unidades Intermedias es relativamente reciente y se usa para referirse a todas las formas de casa matriz intermedia en la EMN. Hay un espectro de conceptos relacionados, pero dispersos en la literatura que va desde la Sede Regional y la Sede Divisional hasta la Sede Subregional, las Sedes Nacionales, los Mandatos de Administración Regional, las oficinas regionales, las filiales trampolín o las Sedes dispersas entre otras. Todos ellos comparten la posición intermedia en términos de estrategia y estructura entre la casa matriz y las filiales locales. Su principal característica es tener responsabilidades, en diferentes grados, sobre otras filiales.

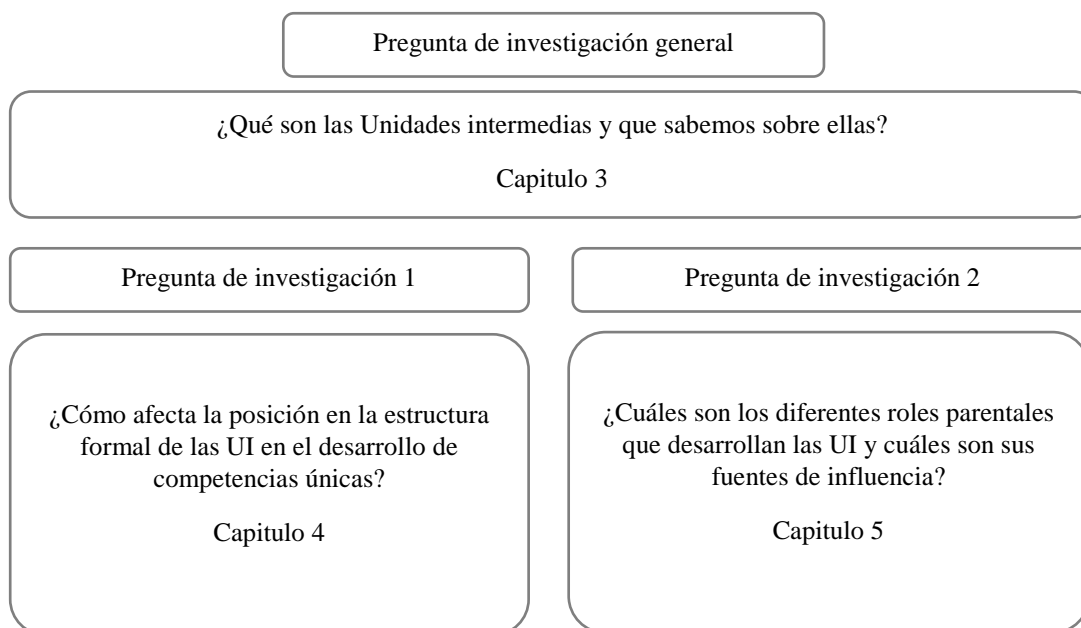
De acuerdo a recientes preguntas de investigación planteadas sobre este fenómeno (Nell et al., 2017; Chakravarthy, Hsieh, Schotter y Beamish, 2017; Hoenen et al., 2014; Goold y Campbell, 2002), el objetivo principal de esta disertación es organizar el estado actual del conocimiento sobre las UI para integrar y unificar, teórica y empíricamente el concepto. Además, nuestro objetivo es explorar las características de las UI.

En segundo lugar, y siguiendo la literatura reciente que posiciona las casas matrices como unidades que crean valor en la EMN a través de actividades más extensas que la coordinación y el control (Nell y Ambos, 2013; Ciabuschi, Forsgren y Martin, 2017), exploramos la capacidad de creación de competencias de estas unidades a través de su participación en redes políticas. Hasta la fecha, la integración y conexiones en las redes políticas se ha subestimado como medio para desarrollar capacidades en la EMN (Puck, Lawton y Mohr, 2018) y la extensa interacción externa que han demostrado las UI (Hoenen et al., 2014) proporciona el escenario perfecto para comparar diferentes estrategias de las filiales a niveles intermedios.

En tercer lugar, recientemente se ha demostrado que las UI desarrollan dos tipos de capacidades parentales de acuerdo a las propuestas de Chandler (1991): la capacidad parental coordinativa y la capacidad parental emprendedora (Mahnke, Ambos, Nell y Hobdari, 2012; Hoenen et al., 2014; Belderbos, Du y Goerzen, 2017). Nuestro último objetivo es estudiar cómo estas unidades desarrollan su influencia explorando sus diferentes fuentes de poder.

La Figura 1 resume las preguntas de investigación generales y específicas de la tesis y las remite a cada capítulo.

Figura 1. Preguntas de investigación en la tesis doctoral



Fuente: elaboración propia

Esta investigación se basa en un paradigma de redes, ya que las preguntas de investigación responden a los enfoques de creación de valor dentro de la EMN. Las estructuras de gobierno complejas, las capacidades parentales y la creación de competencias son temas desarrollados dentro de las EMN modelizadas como sistemas y, por lo tanto, este será nuestro enfoque.

Nuestros resultados arrojan varias contribuciones, pero, en términos generales, esta tesis contribuye doblemente a los objetivos anteriores: primero, integra teórica y empíricamente la literatura relacionada bajo el concepto de UI. En segundo lugar, explora la creación de valor de UI.

METODOLOGÍA

La metodología empleada en esta tesis doctoral es la siguiente: en el capítulo 2 presentamos una revisión teórica general sobre las teorías básicas de la EMN y los marcos relacionados con las estructuras de la EMN con el objetivo de proporcionar la base teórica general. En el capítulo 3 aplicamos una metodología exhaustiva y rigurosa de revisión de la literatura para encontrar publicaciones relacionadas específicas de las UI. Aplicamos la metodología de acuerdo con estudios similares publicados en revistas de alto impacto generalmente basadas en motores de búsqueda potentes y reconocidos. Los capítulos 4 y 5 proporcionan enfoques cuantitativos para el tema de investigación en cada caso en base a una muestra de filiales españolas.

Con el fin de establecer una base común a través de esta tesis, a continuación, presentamos algunas características de la muestra y especificamos los procedimientos estadísticos empleados.

La muestra

La muestra utilizada incluye 193 filiales españolas, un porcentaje de las cuales se consideran UI. Específicamente, 67 de las 193 son UI.

Para la recopilación de datos aplicamos un enfoque sistemático centrado en una población específica de UI: las filiales trampolín. Estas son filiales locales españolas, generalmente, de multinacionales europeas que tienen el mandato de ser las casas matrices para América Latina, temporalmente o no. Este es un fenómeno estudiado y establecido en la literatura (Pla-Barber y Camps, 2012) que reconoce la suficiente heterogeneidad entre las unidades y permite utilizar un enfoque general. Nos centramos en este fenómeno ya que, excepto para el caso de las casas matrices regionales, generalmente no existe un marcador financiero o externo que permita reconocer las UI, lo que complejiza la construcción de la muestra. En la tabla 1 presentamos un descriptivo de la muestra.

Tabla 1. Descriptivo de la muestra

		No IUs	IUs
Tamaño de la empresa (nº de empleados)	pequeña	81	28
	mediana	25	27
	grande	20	12
Sector	Manufactura	40	29
	Servicios	86	38
Región de Origen	Europa	86	54
	Otras regiones	40	12

Fuente: elaboración propia

Técnicas estadísticas en la tesis doctoral

Dadas las particularidades del fenómeno en estudio, utilizamos 2 técnicas estadísticas diferentes en los capítulos que componen la disertación. Para el capítulo 4, nos basamos en el análisis multivariante que consiste en un conjunto de técnicas destinadas a determinar la contribución de varios factores en un evento o un resultado. Es apropiado ya que algunas de nuestras variables son dependientes e independientes al mismo tiempo.

Específicamente, realizamos el análisis empírico a través de la modelización de ecuaciones estructurales (SEM) y un análisis Multigrupo (MGA), ya que nuestro objetivo es medir el efecto simultáneo de las variables. Aplicamos el método SEM basado en la variación de mínimos cuadrados parciales (PLS-SEM) y utilizamos el software SmartPLS. Este método es apropiado ya que no asume ninguna distribución previa en los datos (Chin, 1998) y tiene mayor poder estadístico que otros métodos SEM básicos basados en estructura de covarianza (Reinartz, Haenlein y Henseler, 2009). Además, es menos exigente en términos de tamaño de la muestra (Henseler, Ringle y Sinkovics, 2009).

En el capítulo 4, también introducimos un análisis de Multigrupo como respuesta a la heterogeneidad específica en nuestra muestra (contamos con 2 grupos de filiales diferentes). La técnica multigrupo se considera generalmente como un caso especial de efectos moderadores (Henseler y Chin, 2010) donde se hipotetiza un parámetro específico no continuo como diferente en 2 subpoblaciones (Starstedt, Henseler y Ringle, 2011).

Para el capítulo número 5, realizamos un análisis estadístico de diferencias de medias ya que buscamos comprender las diferencias entre dos grupos. Específicamente,

utilizamos la prueba de Mann-Whitney para muestras no pareadas. Esta prueba es apropiada cuando las variables son ordinales o continuas, pero no siguen distribuciones normales.

ESTRUCTURA DE LA TESIS

Esta tesis está estructurada en 6 capítulos. En términos generales, la tesis se divide en 2 áreas principales: la primera (capítulos 2 y 3) constituye la parte teórica de la tesis. Estos capítulos revisan la literatura general de los negocios internacionales que enmarca a las EMN y los trabajos relacionados específicos que tratan con las UI en las EMN. La segunda parte (capítulo 4 y 5) corresponde a la investigación empírica. En estos capítulos, analizamos las UI empíricamente desde una perspectiva de red y exploramos su capacidad de creación de competencias y sus perfiles parentales.

El capítulo 2 presenta teorías generales que explican la existencia de las multinacionales y su organización interna. Específicamente, destacamos la última tendencia de representar a la EMN como una organización en red en un enfoque de sistema que nos da la base para estudiar las UI en situaciones jerárquicas y no jerárquicas.

El Capítulo 3 comprende una revisión bibliográfica profunda que integra la investigación principal, teórica y empírica, sobre las UI. El capítulo contribuye ordenando los trabajos relacionados, determina el estado actual del conocimiento e identifica vías para futuras investigaciones.

El capítulo 4 presenta el primer estudio empírico de esta disertación. En el, exploramos la relación entre la posición estructural formal de las UI y su participación en redes

políticas con la creación de competencias para la EMN. Además, comparamos los resultados con otras filiales.

El Capítulo 5 explora los dos perfiles parentales de las UI: el coordinativo frente al emprendedor, arrojando luz sobre las diferentes características de estas unidades.

El capítulo 6 expone las principales conclusiones del trabajo. También discutimos las implicaciones académicas y de gestión y posibles futuras líneas de investigación.

CONCLUSIONES

El objetivo central de esta tesis es mejorar nuestra comprensión sobre la desagregación de las casas matrices en las empresas multinacionales. Específicamente, nos enfocamos en las Unidades Intermedias como la unidad de análisis de los sistemas complejos de gobierno corporativo. Aunque en los últimos años el tema ha recibido mucha más atención por parte de los académicos, algunos estudios señalan la existencia de puntos controvertidos ya que la investigación sobre sistemas de gobernanza complejos parece estar aún en una etapa preliminar (Kunisch et al., 2019). Por esta razón, nuestro principal objetivo es hacer un esfuerzo para integrar el conocimiento relacionado disperso y explorar la naturaleza de las Unidades Intermedias.

Cuanto más nos adentramos en la literatura específica, más nos damos cuenta de dos cosas: primero, los sistemas de gobierno son más complejos de lo que pensábamos y, en segundo lugar, en lugar de UI específicamente diseñadas para funcionar como divisiones de autoridad, como es el caso de las casas matrices regionales, recientemente, las empresas multinacionales dispersan las actividades de casa matriz a las filiales locales de manera temporal para desarrollar sistemas más flexibles. Dado

que lo que llamamos habilidad parental (la capacidad de hacer de casa matriz con respecto a una actividad) puede desarrollarse en el corazón de la filial, pensamos que el enfoque apropiado es un enfoque de creación de valor. Por lo tanto, recurrimos a la teoría de redes, ya que creemos que representa una mejor perspectiva para modelizar Unidades Intermedias. Sobre esta base, llevamos a cabo tres estudios: el primero (capítulo 3) es un intento de integrar e interpretar las características previas y las capacidades de creación de competencias de las UI. Nuestros resultados confirman que las UI se están estudiando desde los años 80, pero no están integradas en la literatura académica bajo el concepto de UI. Además, son diferentes de las filiales en muchos aspectos a nivel interno y externo.

El estudio 2 (capítulo 4) y el estudio 3 (capítulo 5) son análisis cuantitativos para una muestra de UI.

A continuación, resumimos las contribuciones principales que surgen de cada capítulo. También exponemos implicaciones relevantes tanto para académicos como para profesionales, y limitaciones e instrucciones para futuras investigaciones.

Capítulo 3. La aparición de unidades intermedias en las EMN: una revisión de la literatura y vías para futuras investigaciones

El Capítulo 3 es un estudio sistemático que reúne las ideas empíricas y teóricas existentes sobre las Unidades Intermedias. En el intentamos establecer un marco comprensible bajo el cual clasificar y abordar estas unidades. En este sentido, encontramos varios resultados interesantes: primero, la mayor parte de la investigación se concentra en estudios cualitativos y contextualizados en las regiones de América del Norte, Europa y Asia. Además, hay varios conceptos no relacionados en la literatura que generalmente se refieren a diferentes tipos de UI. Por otro lado, los

principales estudios cuantitativos exploran los antecedentes de la dispersión de las casas matrices en general y encontramos desencadenantes internos y externos para estos movimientos. Sin embargo, las características internas y el comportamiento de las UI están poco abordados.

Por lo tanto, los resultados indican una falta de integración en la literatura junto con una falta de enfoque desde el punto de vista de la unidad dentro de EMN. Es por ello que creemos que existe confusión con respecto a los diferentes tipos de UI (quién), sobre las diferentes causas relacionadas con la dispersión de la actividad de la sede (dónde), sobre las condiciones en las que los sistemas de gobierno se desagregan (cómo) y, finalmente, sobre el desempeño de estas complejas estructuras de gobierno (qué).

Agrupamos todas las preguntas de investigación relacionadas en el capítulo 3 con el objetivo de organizar la investigación sobre este fenómeno.

Capítulo 4. Integración política y creación de competencias: unidades intermedias versus filiales locales

Nuestro objetivo en este capítulo es comparar la forma en que las UI y las filiales locales se relacionan con las redes políticas y crean competencias únicas para la corporación. Con este estudio, queremos intentar comprender cómo diferentes unidades le dan sentido a su entorno y se posicionan en las EMN, específicamente como sucede para las UI. Nos basamos en el enfoque de red y en la idea de las presiones isomorfas para comprender cómo las diferencias en las posiciones en las estructuras son importantes en el proceso de creación de competencias.

Nuestros resultados confirman que la autonomía y la integración interna representan una manifestación parcial de los mecanismos internos de las filiales para posicionarse

como influyentes, mientras que las UI solo utilizan como mecanismo la integración interna. Además, existe una relación positiva entre estos mecanismos y el alcance de la integración política y la creación de competencias únicas que parecen ser más fuertes para las UI.

Estos resultados indican dos implicaciones importantes: primero, las UI son unidades creadoras de competencias y, por lo tanto, son unidades creadoras de valor en la EMN. Una consecuencia preliminar es que, según las teorías que crean valor, las UI juegan el juego de ganar influencia en la corporación. En segundo lugar, existen diferentes mecanismos internos en comparación con las filiales locales con respecto a la integración política que refuerzan la idea de la adaptación isomórfica en las multinacionales. Creemos que estos resultados brindan contribuciones interesantes y ofrecen una perspectiva novedosa sobre la intersección entre las redes de las EMN y los enfoques institucionales.

Capítulo 5. Un enfoque de red para los perfiles parentales de las UI en corporaciones multinacionales: unidades intermedias empresariales versus coordinativas

En este capítulo investigamos los dos perfiles parentales de las UI, el coordinativo y el emprendedor, y exploramos las diferentes fuentes de influencia que tienen dentro de la MNC. Nuevamente, confiamos en un enfoque de red y, específicamente, en la Teoría de la Dependencia de Recursos para analizar las diferencias entre los dos perfiles.

El estudio muestra cómo, ambos perfiles parentales, se basan en diferentes fuentes de poder que parecen estar conectadas al desarrollo de los estilos parentales. Específicamente, la UI emprendedora aparece caracterizada como una unidad con

acceso a recursos externos relevantes, reconocimiento interno en las corporaciones multinacionales y cierto grado de autonomía en comparación con la UI coordinativa.

Pensamos que distinguir entre los dos perfiles parentales ayuda a comprender las estrategias de dispersión de las casas matrices y a pensar cómo los distintos mandatos deberían ser adjudicados dentro del sistema de gobernanza. Además, puede explicar resultados conflictivos previos sobre los factores que desencadenan la dispersión de las actividades de la sede, ya que diferentes actividades pueden estar asociadas a diferentes factores desencadenantes.

Nuestros resultados exploratorios sugieren que las actividades parentales de la UI emprendedora están relacionadas con recursos similares estudiados para las filiales emprendedoras y que la introducción de la visión de creación de valor para estudiar las casas matrices es una idea útil. Además, ambos perfiles no son exclusivos y la evolución en el acceso a recursos externos puede explicar la evolución en los perfiles parentales de las UI. Desde nuestro punto de vista, esta es una idea interesante que puede ayudar a comprender la dinámica de las casas matrices y de las UI así como la creación de valor y la destrucción de valor a nivel de las casas matrices en las EMN.

Contribuciones e implicaciones

En esta sección, explicamos algunas contribuciones significativas tanto a la literatura teórica y empírica para los investigadores, como a los gerentes y responsables políticos. Finalmente, exponemos las implicaciones, las limitaciones de la tesis doctoral y algunas direcciones de investigación futuras interesantes.

Aportaciones a la literatura e implicaciones para los investigadores

Primero, hemos integrado la literatura dispersa existente bajo el concepto general de Unidades Intermedias. Al hacerlo, recopilamos todos los criterios relacionados que las describen en la literatura (la posición que ocupan dentro de la MNC, el número de roles, el mandato, la temporalidad y el alcance geográfico) que nos han conducido a una definición estándar para la comunidad académica de las UI. Además, proporcionamos una clasificación con respecto al alcance geográfico y la naturaleza de sus mandatos (exploratorio frente a explotador) que impulsa el debate más allá del tamaño de las UI y se centran en sus actividades y alcance (Kahäri, 2015).

Además, hemos organizado la literatura existente y hemos identificado preguntas de investigación que sería interesante responder. Hay una falta clara de aproximación a nivel de unidad; como consecuencia, tenemos un conocimiento limitado acerca de la naturaleza interna de las UI, su dinámica interna y el alcance de la creación de valor que proporcionan.

En este sentido, contribuimos al proponer y extender el enfoque de red a este fenómeno, posicionándolas como creadoras de valor dentro de la EMN. La empresa multinacional en red permite estudiar las UI como un paso intermedio entre la casa matriz y las filiales locales al desarrollar una ventaja parental y ganar influencia.

Además, nuestros resultados confirman que las UI son creadoras de competencias, que utilizan su posición formal para desarrollar sus vínculos externos en mayor medida en comparación con las filiales locales. Confirmamos además que estas unidades tienen un comportamiento diferente en cuanto al aprovechamiento del conocimiento local y el desarrollo de competencias únicas.

Transversalmente, contribuimos confirmando la importancia del contexto institucional y político para la creación de competencias, entorno bastante olvidado en la investigación relacionada con la creación de valor de las empresas multinacionales.

Lo anterior es coherente con los resultados arrojados por literatura previa que encuentran una mayor integración de las UI en los entornos locales (Hoenen et al., 2014).

Adicionalmente, y de acuerdo con nuestras proposiciones anteriores sobre la heterogeneidad de las UI, contribuimos explorando los diferentes roles que desarrollan. Específicamente, conectamos dos perfiles parentales con diferentes propuestas de valor, el coordinativo frente al emprendedor, con diferentes fuentes de poder e influencia. Al estudiar esto, contribuimos mostrando cómo las diferentes propuestas parentales están asociadas con el acceso a diferentes recursos.

Las UI emprendedoras se asocian con integración interna y externa sólida y un nivel de toma de decisiones elevado. Esto coloca a estas unidades como centros estratégicos con la capacidad de integrarse en múltiples contextos y reconfigurar el conocimiento local recogido.

Por el contrario, los centros de coordinación, aunque enfocados a la eficiencia y mucho más rentables en el sentido financiero, parecen centros jerárquicos con legitimación interna sin una dotación o acceso especial a recursos externos.

Finalmente, discutimos como implicación adicional, que la existencia de diferentes perfiles parentales anclados en el acceso a diferentes conjuntos de recursos evidencia que los flujos jerárquicos y heterárquicos pueden convivir juntos en la EMN reforzándose mutuamente en diferentes situaciones.

Implicaciones para los gerentes y los responsables políticos.

El diseño de la estructura y el modelo de gobierno de las empresas es una cuestión central para los gerentes y la dirección de la empresa. La preocupación por la flexibilidad de la estructura y el interés en comprender cómo evitar la asignación deficiente de los recursos dentro de las empresas multinacionales, así como evitar la destrucción de valor por parte de las casas matrices en sus intervenciones son temas relacionados que suscitan interés desde los años 60 (Goold y Campbell, 2002).

En primer lugar, una implicación general es que la integración en entornos políticos puede ayudar a las filiales a crear competencias útiles para las empresas a la vez que ganan influencia. Específicamente, el contexto político puede ser una fuente de conocimiento importante para las UI. En este sentido, los gerentes con contactos o redes institucionales pueden ser un perfil valioso para las filiales. Además, entender los efectos de transferir autonomía desde la casa matriz a las UI y el potencial de creación de valor relacionado, puede ayudar a entender mejor como organizar estos niveles intermedios.

Por otro lado, las UI coordinativas presentan, en promedio, una rentabilidad mucho mayor. Los gerentes deben tener esto en cuenta al asignar los mandatos. La exploración consume recursos y hay un nivel de riesgo que asumir. Por el contrario, las unidades intermedias emprendedoras, aportan conocimiento estratégico importante para compartir con el resto de la organización.

En general, lo anterior confirma que las estructuras complejas no solo deben evaluarse por sus resultados financieros a corto plazo, sino también por diferentes indicadores internos, como la creación de competencias útiles o las interdependencias que se crean entre unidades.

Finalmente, los responsables políticos pueden encontrar interesante saber que las casas matrices ya no están ubicadas en un solo lugar físico y que sus actividades asociadas consideradas de alto valor añadido están distribuidas en la empresa. Las políticas de atracción de inversión directa extranjera deben comenzar a considerar la dispersión de las actividades de la matriz y las ventajas locales relacionadas con cada una de sus actividades.

Limitaciones de la tesis doctoral

Este estudio no está exento de limitaciones, sin embargo, al mismo tiempo, creemos que abren oportunidades para futura investigación.

Primero, reconocemos las limitaciones con respecto al tamaño de la muestra y los datos. Además, como los datos se han recogido en un único país, reconocemos las limitaciones en su heterogeneidad y la influencia que puede tener el contexto.

Por último, algunos de los constructos que miden las variables se basan en medidas perceptivas que, en algunos casos, pueden amplificar parte del fenómeno. Intentamos incluir en cada estudio constructos basadas en varios tipos de variables de medición, tales como escalas basadas en el número y el tipo de actividades.

Direcciones para futuras investigaciones

Futuros estudios deberían intentar recopilar bases de datos más extensas con distintos tipos de UI en diferentes países y regiones. Además, a nivel teórico, pueden ser necesarios otros estudios para validar la teoría de la red y su enfoque de creación de valor contra otras teorías aplicadas sobre este fenómeno.

Por otra parte, aunque conectamos el entorno político con la creación de competencias, investigaciones adicionales pueden estudiar qué tipo de conocimiento aprovechan las

UI de su entorno. La aproximación teórica de los Micro-fundamentos (Foss, y Felin, 2005) puede ayudar en esta dirección.

Además, en línea con investigaciones previas (Kim y Aguilera, 2015; Huntzenreuter y Matt, 2017) el rol del conocimiento en el desarrollo de capacidades parentales definitivamente abre una vía interesante para futuras investigaciones.

Finalmente, el desarrollo de indicadores clave de desempeño más allá de los indicadores financieros puede ayudar a comprender estructuras complejas y diferentes niveles de autoridad en empresas multinacionales.

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