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Publication date:
2005

CentER

Discussion Paper

No. 2005–128

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December 2005

ISSN 0924-7815

TILBURG ◆ UNIVERSITY

THE DEVELOPMENT OF NETWORK RELATIONS OF MNC SUBSIDIARIES:

HOW INTERNAL MNC AND EXTERNAL (LOCAL) RELATIONS EVOLVE

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The Development of Network Relations of MNC Subsidiaries: how internal MNC and external (local) relations evolve

Rian Drogendijk

Abstract: Managing relations is a complex task for internationalizing firms and their subsidiaries: MNC subsidiaries are not only part of the MNC network but they also develop relations with network actors in their local environment. This paper investigates conceptually how MNC subsidiaries established through generic expansion build relations within the MNC and with external market and non-market actors as they evolve through stages of start-up, growth and maturity. The paper develops propositions, grounded in institutional theory, resource dependency theory and network approaches, on the changing strength and importance of a subsidiary's relations depending on its dependence or *inter*dependence in these relations, with five groups of actors (MNC headquarters, other subsidiaries within the MNC, local business actors, local government and non-government organizations). The paper ends with drawing directions for future work that will enhance understanding of the dynamics of relationship management in MNC subsidiaries.

JEL code: F23

Keywords: MNC management; HQ-subsidiary relations; networks; institutional theory

The Development of Network Relations of MNC Subsidiaries: how internal MNC and external (local) relations evolve

Rian Drogendijk

Introduction

This paper investigates conceptually how subsidiary managers within the multinational company (MNC) manage network relations as their subsidiaries mature and build their resource position over time. The position of MNC subsidiaries is complex because of their dual environment: they have to face the pressures and demands coming from diverse institutional forces and network actors in their local environment but have to respond to similar pressures coming from the MNC and sister subsidiaries to which they are interlinked at the same time (Rosenzweig and Singh, 1991; Westney, 1993). Very often, demands coming from these different environments will contradict, forcing subsidiaries to balance their responses to all actors concerned. Furthermore, demands and pressures from different network actors as well as subsidiaries' reactions to these demands are likely to change over time, because of changing environmental circumstances and resource needs of the subsidiary in the process of its development from newly established affiliate towards mature participant in the MNC.

This paper takes a subsidiary management point of view in order to analyze how the strength of MNC subsidiaries' relations with different network actors[1] varies over time, given the changes in pressures from diverse network actors, changing dependence upon these actors and changing importance of their contributions to the

[1] In order to distinguish between the relationship and the actual entity with which the subsidiary has this relationship I use the term 'actor' for the entity and 'relation' or 'relationship' for the exchange and interaction between the focal subsidiary and the actor(s).

subsidiary's resource position as it matures. I specifically study the stages in which newly established subsidiaries develop their resources and capabilities and build a network position both within the MNC as well as in the local environment. I focus on generic expansions of MNCs, or greenfield establishments, and ignore acquisitions because in contrast to greenfields acquisitions enter the MNC with an already developed stock of resources and capabilities. It is therefore more interesting to study the processes of resource development and the role of network relations in them in the context of greenfield subsidiaries.

Especially in the early stages of its existence, a subsidiary carefully needs to balance its attention to different groups of actors in a broad environment. First it has to build those resources and capabilities that will secure survival and then it may wish to position itself for further development, eventually aiming to grow into a full-fledged actor in both the MNC and the external environment. In the scarce literature on subsidiary development processes, researchers have described subsidiary development as a process of increasing integration (Malnight, 1995), and increasing levels of local resources (e.g. Bartlett and Ghoshal, 1989). The most integrated, and strategically important subsidiaries are portrayed to possess unique resources, resulting in dependency of the MNC on these subsidiaries (Birkinshaw, 1996; Ghoshal and Nohria, 1989). Subsidiaries in such positions, having developed a certain critical level of resources and capabilities, continuously need to review and renew their resources and capabilities in order to remain competitive. The evolution of relationships with the internal and external environment co-evolves with the accumulation or depletion of resources and capabilities caused by shifts in the subsidiary's charter (Birkinshaw and Hood, 1998). The analysis in this paper, however, is not focused at relationship development in these mature stages of a subsidiary’s lifetime. In contrast, I aim to contribute to our understanding of the early stages of subsidiary development and the importance of internal and external network relations. This paper therefore aims to fill an important gap in contemporary literature on subsidiary development, which so far has ignored the question of how subsidiaries develop (unique) resources and capabilities in these early stages (Paterson and Brock, 2002).

I build on three bodies of literature to develop a dynamic model of how internal and external network relations contribute to the maturing of MNC subsidiaries: institutional theory (Scott, 1995; DiMaggio and Powell, 1983), resource dependency theory (Pfeffer and Salancik, 1978) and relational and network approaches (Håkansson and Snehota, 1995; Gulati, Nohria and Zaheer, 1999). From institutional theory I draw in reasoning that MNC subsidiaries are subject to isomorphic pressures (cf. DiMaggio and Powell, 1983) of both the organization they are part of as well as the local environment in which they operate (Rosenzweig and Singh, 1991). Subsidiaries’ internal relations, with company counterparts, may even suffer from strong relations with business actors in the local market (Ghauri, 1990). I build on resource dependence theory (Pfeffer and Salancik, 1978) following Jawahar and McLaughlin (2001), who developed a conceptual model of the shifting attention of firms to those internal and external stakeholders (like creditors, customers, suppliers and employees) that they are most dependent on for survival. Network theorists, finally, argue that an organization’s network relations are a source of competitive advantage because these relationships give the organization access to resources beyond its own boundaries (Gulati et al. 2000; Dyer and Singh, 1998). Work on the dynamics of networks shows how important it is to build the right relationships in order not to be locked out of critical resources (Khanna, Gulati and

Nohria, 1998). It adds to the former two theories the idea that subsidiaries are not only affected by and dependent upon demands and resources from their environment for survival, but also can take the initiative to search access to resources in their environment in order to achieve a competitive advantage. Combining the three theories allows us to do better justice to the complexity of MNC subsidiaries' environments and develop a more complete understanding of the multitude of actors that managers in the maturing MNC subsidiary are confronted with, than analyses based on either one of them alone could have.

The complexities of the MNC subsidiary environment

Though forces of globalization are claimed to lead to cultural and institutional convergence, firms entering new markets still suffer from liabilities of foreignness (Zaheer, 1995) and the survival or performance of local subsidiaries is negatively affected by cultural differences between home and host markets (e.g. Barkema, Bell and Pennings, 1996). In order to overcome these liabilities, firms need to learn how to operate in the local market, to develop their local network and to gain legitimacy (Zaheer and Mosakowski, 1997). Partly, firms accumulate market information and experiential knowledge that allows them to correctly interpret signals on business opportunities in their environment through observation and 'learning by doing' (cf. Penrose, 1995). But, furthermore, firms interact and build relations with local network actors in order to exchange resources, including goods or (unfinished) products, financial resources, and knowledge and information (Khanna, et al. 1998). These resource exchanges happen with market as well as non-market actors and both are important for the subsidiary's current operations and for the creation of future business opportunities (Andersson, Forsgren and Holm, 2002; Baron, 1995). Market actors that MNC subsidiaries interact with include suppliers, sub-contractors, distributors, customers, and competitors in the host market and in other national markets in which the MNC operates (Håkansson and Snehota, 1995). Non-market actors are governmental bodies and non-governmental organizations (NGOs) in local markets and international NGOs as the WTO, who define rules and regulations and as such influence the boundaries of the subsidiary's operations, but also include media, public opinion and protest groups that may challenge the operations or the legitimacy of the MNC and its subsidiaries (Kostova and Zaheer, 1999; Baron, 1995; Doh and Teegen, 2002).

The national market in which the MNC establishes a new subsidiary constitutes a new environment with new cultural and social values, laws, rules and regulations, government institutions and social and business networks, defining the boundaries of the subsidiary's local activities. According to institutional theory, organizations adapt to their institutional environment and adopt structures and processes used in the environment, even if this impairs the efficiency of operations (Meyer and Rowan, 1977). For MNC subsidiaries, responding to these isomorphic pressures of the national environment in which they operate can mean resisting the demands put upon them by the MNC organization (Rosenzweig and Singh, 1991). Local laws and regulations may, for example, require the use of training or incentive schemes for local personnel even if they contrast with HRM systems used in the company (e.g. Whitley, 2003). Local technological conventions could impose the subsidiary to adapt products or production processes in order to fit those of local suppliers, even if deviations from company-wide used processes make internal product and knowledge flows more difficult. Therefore, subsidiaries of multinational companies face a challenging task to respond to the demands and access the resources of their internal network counterparts as well as market and non-market actors in the external, often national, environment. Figure 1 illustrates the complexity of MNC subsidiaries' environments and their direct relationships with internal and external actors.

------Insert Figure 1 about here------

Dependence and interdependence

Facing the challenges of its complex environment with the large variety of internal and external actors with whom the subsidiary could build a relationship and given the limited resources, including time and human resources, that subsidiaries can devote to initiating and maintaining network relations, it becomes extremely important to develop the right relations at the right time. One way to set priorities in relationship building is through reviewing the subsidiary's critical dependence on relevant actors' resources and capabilities (Pfeffer and Salancik, 1978). According to this reasoning, the more important an actor and its resources are to the success or survival of subsidiaries at a certain point in time, the more attention subsidiary management should devote to its relationship with this actor (Dyer and Singh, 1998) and to its demands or concerns (Jawahar and McLaughlin, 2001). Resource dependence is argued and empirically supported to increase interaction (Levine and White, 1961; Oliver, 1990) and to strengthen the network relation (Ghauri, 1990) between an organization and the actor on which it is dependent. This suggests a one-way situation, in which a focal organization is dependent upon certain resources from another organization (or group of organizations), resulting in the uneven situation of dependence.

In other situations, however, the dependency goes in both directions: the focal organization and another (group of) organization(s) are dependent upon one another for critical resources. In situations of interdependence a more complex system of coordination and relationship management evolves (Grandori, 1997) in which both sides of the relationship hold an interest and likewise take responsibility relationship development and resource exchange. Interdependent relationships between organizations are characterized as strong relationships in which much interaction, exchange and resource combination takes place (Gulati and Gargiulo, 1999; Blankenburg-Holm, Eriksson and Johanson, 1999). For MNC subsidiaries, interdependent relations are found to evolve both with actors within the MNC (Bartlett and Ghoshal, 1989; Hedlund, 1986) as well as outside of the MNC organization, often in the local national environment (Oliver, 1990; Hakansson and Snehota, 1995).

Whether the subsidiary is dependent upon a certain actor, or whether a situation of interdependence exists, influences how the subsidiary reacts upon pressures (e.g. to conform or adapt) coming from these actors (Oliver, 1991) and determines how it coordinates its relationships (Grandori, 1997). Relations characterized by 'dyadic dependence', or <u>inter</u>dependence are stronger and demand more intensive communication for organizing the complexities of the two-way flows of resources than relations in which one organization depends on another. Below, I will consecutively investigate the subsidiary's (inter-)dependence upon internal (MNC headquarters and sister subsidiaries) and external (local business partners, local government and non-government) actors and formulate propositions on the consequences for the strength and importance of this relationship to the focal subsidiary and how this is likely to change over time as the subsidiary evolves. In order to develop a *dynamic* model of relationship management in subsidiaries, I should start to describe the process through which subsidiaries evolve.

MNC subsidiary evolution

Prior studies have described the evolution of subsidiary roles as a path dependent process of developing and accumulating resources and capabilities that define the subsidiary's contribution to the MNC as a whole (Birkinshaw, 1996; Malnight, 1995). Malnight (1995) describes the globalization process within Eli Lilly and the expanding roles of subsidiaries up to a stage of leveraging specialized resources and capabilities to the benefit of the MNC as a whole. He observed a gradual expansion of subsidiaries' activities and a selection of tasks in which specialization occurred that determined the later development of each subsidiary's specific resources and capabilities. Birkinshaw (1996) investigates how subsidiary mandates, that is, a subsidiary's specific activities for which it has a border crossing responsibility, are gained and lost. He describes the processes of mandate gain, development and loss as consecutive stages of a mandate life cycle, driven by the process of capability development. In this paper I understand the evolution of the subsidiary from its start, so from the moment it starts to accumulate and develop resources and capabilities, as a life cycle following the stages of birth, growth, and maturity, followed by revival and/ or decline (cf. Miller and Friesen, 1984). The authors referred to above have focused on subsidiary role change, and therefore on the latter two or three stages in subsidiary evolution from a life cycle perspective. In contrast, I concentrate on the first three stages: birth or start-up, growth and maturity (for reviews of life cycle models at organizational and sub-unit level, see for instance Miller and Friesen, 1984, and Quinn and Cameron, 1983).

In its early existence, in the start-up stage, newly established subsidiaries should aim to become viable entities, embedded in their environment. They start to build resources and capabilities that allow them to perform their activities in the local environment and survive. These resources and capabilities offer the subsidiary a necessary platform on which to build later on, but they are not sufficient to achieve a sustainable competitive advantage. In the growth stage subsidiaries start to define and build those resources and capabilities that will lead to a competitive advantage both in their local environment as well as in the MNC. In this stage subsidiaries will have to learn how they can combine their MNC-derived resources and capabilities with those tapped locally in such a unique way that they develop a sustainable competitive advantage. Subsidiaries that succeed in achieving this uniqueness and the competitive advantage reach the stage of maturity, in which they will need to maintain their position. Mature subsidiaries will have to stay alert therefore, and shift or revive their mandate(s) as described by Birkinshaw (1996), Malnight (1995) and others, because external or internal forces demand change or entrepreneurial initiatives within the subsidiary offer new opportunities (Birkinshaw and Hood, 1998). A visual representation of the life cycle stages in subsidiary evolution is provided in figure 2.

[INSERT FIGURE 2 ABOUT HERE]

The evolution as described above and as represented in Figure 2 is particularly valid for generic expansions, i.e. for greenfield subsidiaries, which need to build up their resources and capabilities from scratch and less so for acquired subsidiaries that can be assumed to already possess qualified and possibly unique resources, including network linkages to local market and non-market actors. It is therefore that I focus on understanding the dynamics of network relations of greenfield subsidiaries of MNCs. In the sections that follow, I will develop propositions on the shifting importance and strength of relationships regarding consequently hierarchical and lateral relations within the MNC, and market, government and non-government relations in the external (local) environment of subsidiaries.

Relations within the MNC

Hierarchical relations

The strategic decision to establish a subsidiary in a particular host market is taken by the parent company. Therefore naturally, in its start-up stage, the subsidiary is highly dependent upon the financial resources, technical and managerial support provided by the parent company. It further needs the support of the parent in developing local relationships with business and government actors (Ghauri, 1990). Over time however, as the subsidiary becomes a viable entity and grows towards the mature stage by accumulating resources and enhancing capabilities, its dependence on (resources of) MNC headquarters decreases and it increasingly controls its own actions (Ghauri, 1990). Mature subsidiaries, which have achieved uniqueness in their contribution to the MNC develop their strategy more autonomously and plan their opportunities for growth, also beyond the borders of their host market (Birkinshaw and Hood, 1998; Forsgren, Holm and Johanson, 1992). Empirical research on headquarter-subsidiary relationships shows that centralized control mechanisms (which can be understood as reflecting headquarters' involvement in subsidiary activities) are used only for subsidiaries with low levels of resources (Ghoshal and Nohria, 1989) and that strategic control by headquarters declines with the increasing strategic importance of the subsidiary (Birkinshaw and Morrison, 1995). Not only does the subsidiary 's dependence on headquarters' financial, institutional and knowledge resources decline with the accumulation of its own resources and capabilities, too much dependence on the core resources and capabilities of the MNC as accumulated in the headquarters could in fact even limit the subsidiary to build uniqueness in the growth stage. Opportunities for innovation and for developing unique resources and capabilities more likely reside in any other group of actors with which the subsidiary interacts (Phene and Almeida, 2003).

As the subsidiary's dependence declines and access to critical resources and capabilities from headquarters becomes less prominent in the process of subsidiary evolution when it moves from the start-up stage to the growth stage, it is less important for the subsidiary to maintain the same strength of relationship with headquarters as in the starting stage. This decline is relative, however, and should not fall below a certain level since subsidiaries drifting away from the MNC's core resources and capabilities risk divestment or closure (Birkinshaw, 1996). During and also beyond the growth stage, subsidiaries will continue to use resources coming from headquarters, including strategy, products, technology, knowledge and other resources (Malnight, 1995; Phene and Almeida, 2003).

When the subsidiary evolves further into the mature stage in which it has developed its unique resources and capabilities and it contributes to the MNC as a whole, a situation of <u>inter</u>dependence develops. The subsidiary is dependent upon headquarters' resources, though less than in the start-up stage, as reasoned above, but likewise headquarters becomes dependent upon the focal subsidiary's critical contribution. In order to facilitate the increasing exchanges of resources it is important to develop a stronger relationship in this stage of subsidiary evolution.

Formally, I propose,

P1: Over time, as MNC subsidiaries evolve from the start-up stage to the growth stage, and to the maturity stage, the relative importance and strength of the relation to the MNC headquarters first declines with decreasing subsidiary dependence, then increases again because of growing interdependence.

Lateral relations

In modern MNCs, flows of resources are not restricted to vertical flows. In fact, the ability to exchange resources among subsidiaries through horizontal linkages is one of the MNC's strategic advantages. A newly established subsidiary will primarily depend, but at a decreasing rate, upon the resources and support of headquarters, as reasoned above. In the start-up stage the subsidiary will become part of the MNC network and will most likely source products, technology, and knowledge that it needs for its local activities and for building viability, from other subsidiaries in the MNC. In this stage the newly established subsidiary faces high pressures to imitate their sisters' production or logistics processes or comply with certain MNC-wide technical standards. When the subsidiary enters the growth stage it will start to develop its own unique resources and capabilities by combining the specialized resources of sister subsidiaries to which it has access with the particular resources and capabilities present in the local environment of the focal subsidiary (to which we turn in the next sections). In this stage, the subsidiary is highly dependent upon its lateral relationships, because it needs the critical input of certain specialized sister subsidiaries in developing its own contribution both internally as well as externally in the local environment. It is likely to find a more diverse collection of resources through their lateral relations than through relations with MNC headquarters alone, because mature sister subsidiaries within the MNC system have already developed specialized resources and capabilities that are not available at headquarters.

In the maturity stage, when the focal subsidiary has in fact developed its own unique resources with which it may contribute to its sister subsidiaries, resource flows will also go from the focal subsidiary to its sister subsidiaries, turning a relationship of dependence into interdepence (Hedlund, 1986; Bartlett and Ghoshal, 1989; Malnight, 1995). For a focal subsidiary and its network relations with sister subsidiaries, therefore, the increased interdependence and likewise increased intensity of resource flows, imply a further increase in strength and importance of these relations to the focal subsidiary.

P2: Over time, as MNC subsidiaries evolve from the start-up stage to the growth stage, and to the maturity stage, the importance and strength of their lateral relations with sister subsidiaries increases, because of increasing resource dependence, later interdependence.

Relations with external actors

External business relations

In developing its business successfully and building resources and capabilities, the MNC subsidiary is not only dependent upon its relations within the company, but also on relations with its external network consisting of market and non-market actors. In the start-up stage, subsidiaries have to build relationships with market actors like local suppliers, sub-contractors, distributors and customers, in order to start their activities, and to learn how to do business in this market, where to find information, how to interpret it and in order to create future business opportunities and achieve legitimicay in the local market (Håkansson and Snehota, 1995; Zaheer and Mosakowski, 1997). New subsidiaries may discover that they have to comply with pressures from the local environment, for instance to adapt products or production processes to fit cooperation with local suppliers or distributors. Adapting certain processes and developing long-term relationships with these local market actors will increase chances of survival (Andersson et al, 2002). Over time, the subsidiary accumulates experiential knowledge on how to operate in the local market and its dependence on local market actors in this respect declines (Ghauri, 1990; Zaheer, 1995). However, with respect to developing resources and capabilities and exploiting business opportunities its dependence on local market actors does not decline as the subsidiary matures. On the contrary, in the growth stage subsidiaries are highly dependent upon local market actors for developing their uniqueness in combining resources and capabilities that derive from the MNC linkages with those accessed in the local environment (Kogut and Zander, 1992; Andersson et al, 2001; Phene and Almeida, 2003). As the subsidiary succeeds in developing unique resources and capabilities and enters the maturity stage its dependence upon external market sources develops into interdependent relationships between the focal subsidiary and the external market actors, because it will be able to critically contribute to these external actors (Almeida, 1996) as well as to sister subsidiaries in the MNC as we have reasoned above. Further development of resources and capabilities in this and later stages is likely to happen in close interaction and with much exchange of resources between a focal subsidiary and business network actors (Blankenburg-Holm et al., 1999). Though Nooteboom (1999) argues that learning from external sources primarily happens in the early stages of capability development of MNC subsidiaries followed by a period of exploiting acquired resources and capabilities, I hold, however, that interdependent relationships will result from the interaction with local market actors developing (in the growth stage) and continuously maintaining (in the maturity stage) uniqueness of the focal subsidiary's resources and capabilities. Ghauri (1990) further asserts that local business network relations are most important to the survival of subsidiaries in a mature stage of internationalization. This is empirically supported by Oliver's (2001) findings that a lack of network relationships is associated with firm exit or closure. Therefore, I expect MNC subsidiaries to continuously strengthen their relations with local market actors.

P3: Over time, as MNC subsidiaries evolve from the start-up stage to the growth stage, and to the maturity stage, the importance and strength of their lateral relations with local business actors increases, because of increasing resource dependence, later interdependence of subsidiaries.

Local government relations

In their external environment, subsidiaries also meet non-market actors that define the social, political and legal boundaries of the firm's activities (cf. Scott, 1995) and in relation to which a subsidiary needs to develop its strategy (Baron, 1995). Rosenzweig and Singh (1991) define the legal and regulatory constraints as being “among the strongest […] environmental pressures faced by subsidiaries”. Acting within the boundaries set by local government is important for achieving legitimacy, but also affects the subsidiary’s performance and future business opportunities through the direct influence that regulations have on its profits and the activities performed locally. Before the subsidiary is established and enters the start-up stage as defined in this paper, the MNC has already put many efforts in negotiating market entry (e.g. Lecraw, 1984) and has started the development of the subsidiary’s relationship with government. In the start-up stage in particular, the subsidiary therefore needs to develop (its own) relations with local regulatory bodies in order to be able to understand, correctly interpret and follow developments and changes of rules and laws that concern their activities. Furthermore, building embedded relations with local regulatory bodies may solve institutional barriers. Subsidiaries may for example be able to negotiate preferential treatment in providing access to resources or lowering costs through close relations with government actors (Oliver, 1996). Though building legitimacy and opening business opportunities through relations with government actors seem specifically important in the start-up stage, these relations should not be neglected in later stages of the life cycle (Jawahar and McLaughlin, 2001; Kostova and Zaheer, 1999).

Furthermore, in the context of MNC subsidiaries located in diverse foreign markets, we should consider the impact that differences in these local environments may have on the relations of subsidiaries with government actors. The development of relations with government is likely to be influenced by the level of social and political stability or uncertainty in the host market of a focal subsidiary (Hillman and Kaim, 1995; Murtha and Lenway, 1994). Observations on foreign investment in transition markets in Central and Eastern Europe and China for instance, which are characterized by political and economic instability and large government influence, suggest that strong relations with local government officials is important for obtaining access to future business opportunities (Peng and Heath, 1996; Luo 2001). Luo (2001) shows how relations of subsidiary managers with government institutions in China over-time increased these subsidiaries' opportunities in this market and facilitated further network building. Subsidiaries operating in markets where government influence is large are more dependent on governments for their survival throughout the stages of subsidiary evolution. In general, however, I expect subsidiaries' local government network relations to be most critical for their survival in the start-up stage, but to be less critical, though not negligible later on.

P4: Over time, as MNC subsidiaries evolve from the start-up stage to the growth stage, and to the maturity stage, the importance and strength of their relations with local government decreases, because of the decreased dependence on government actors for achieving legitimacy and access to business opportunities. Subsidiaries located in markets characterized by uncertainty, however, continue to depend on government and their relations with local government actors continue to be important and strong throughout life cycle stages.

Other external relations

Non-market actors in the environment of MNC subsidiaries not only include government and related regulatory bodies, but also other groups and actors with which the subsidiary does not exchange resources, but that do have an impact on its legitimacy, its activities and, in the extreme case on its survival. In the recent past, local and global public opinion groups or activitists have had a significant impact on decisions and strategies of MNCs and their subsidiaries. Prominent examples are Monsanto's withdrawal of exports of genetically engineered seeds through 'terminator technology' after global protests from a diversity of action groups and non-governmental organizations (NGOs) and the severe disruption of Shell's Nigerian operations because of community unrest as well as similar protests on a global scale linked to political and environmental issues. MNC subsidiaries, specifically when they are active in highly visible or otherwise vulnerable industries, have to build legitimacy in the eyes of a diversity of social interest groups and they face greater challenges in building and maintaining legitimacy than smaller or less visible organizations. Local public opinion, furthermore, is extra harsh in judging the operations of foreign subsidiaries as compared to their evaluation of the activities of domestic companies (Kostova and Zaheer, 1999). Baron (1995) argues that dealing with public opinion should be integrated in the expansion strategies of MNCs and their subsidiaries. As subsidiaries evolve and develop resources and capabilities they may gain size because they take up more diverse activities and responsibilities. They will therefore also become more visible and vulnerable to the critical judgment of public opinion and NGOs, especially if they are active in industries that are watched carefully for their environmental and social effects (like biotechnology, chemical industry, food and beverages, toys, textiles, etc). MNC subsidiaries, specifically in these vulnerable industries, should build relations with local and global non-governmental actors as their dependence on being perceived legitimate by these actors increases. Following Kostova and Zaheer (1999) I expect that the subsidiary's dependence increases as it evolves through the stages of the life cycle, particularly because of its growth in the process of accumulating resources and capabilities.

Non-government non-market actors, however, may also facilitate or mediate access to specific resources embedded in the environment of the subsidiary that are not directly accessible and they may as such create value and enhance resources and capabilities of organizations. Teegen (2003) shows how international NGOs facilitate exchange and mediate between private and public actors in bargaining the development of trade and investment rules as well as social and environmental improvement. Because of this mediation subsidiaries can become dependent upon NGOs, though it is not likely that this dependence grows as larges as that on actors who provide direct linkages to critical resources. Interdependent relationships may also evolve if NGOs and subsidiaries possess resources and capabilities that are critical to each other (Doh and Teegen, 2002), or when the combination of these resources and capabilities results in the development of uniqueness (cf. Kogut and Zander, 1992). Based on the above, I propose that the subsidiary's relations to other than government non-market actors grow increasingly important when the subsidiary shifts from a start-up stage to a growth stage, up to a certain level and will only increase further in later stages if interdependent relationships develop in the maturity stage.

P5: Over time, as MNC subsidiaries evolve from the start-up stage to the growth stage, the importance and strength of their relation to other external actors increases, because of an increasing dependence on legitimacy and (mediation for) access to resources, and increases only further when the subsidiary evolves to the maturity stage when interdependent relations are developed.

Discussion: balancing dependencies

In this paper, I have analyzed the subsidiary's dependence on the pressures of five different (groups of) network actors and developed propositions on the strength of the subsidiary's relations with these actors as subsidiaries evolve through stages of start-up, growth and maturity in which they accumulate and develop their resources and capabilities and uniqueness of these. The changes in the importance and strength of these relations for the focal subsidiary are related to shifting dependence and interdependence on the different actors during a subsidiary's evolution. Figure 3 graphically summarizes the five propositions.

[INSERT FIGURE 3 ABOUT HERE]

This paper is the first to analyze the subsidiary's (inter-)dependence on and relations to internal MNC counterparts, and external business as well as institutional actors in the local market environment, using three bodies of complementary literature. I have incorporated elements of institutional theory in reasoning that subsidiaries face isomorphic pressures from several actors both within the MNC as well as in the external environment (Rosenzweig and Singh, 1991). Institutionalists emphasize the need of MNC subsidiaries to conform to these multiple pressures from the institutions in their environment in order to survive (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Resource dependency theory complements this view (cf. Oliver, 1991) in its focus on the operational environment of a focal subsidiary and its dependence on critical resources from a complex environment. According to resource dependency theorists MNC subsidiaries should specifically and actively devote attention to the demands of those stakeholders that at some point control critical resources (Pfeffer and Salancik, 1978). I introduced network theory to complete this view and explain the development of the subsidiary's relations with internal and external network relations, whose resources the focal subsidiary can access beyond its own boundaries (Dyer and Singh, 1998). In line with the network approach I argue that as subsidiaries mature and build their own resources and capabilities, they develop stronger relationships with relevant stakeholders that are increasingly characterized by interdependence (Håkansson and Snehota, 1995; Ghauri, 1990), particularly when subsidiaries achieve uniqueness in their resources and capabilities. To summarize, the more crucially the subsidiary depends upon the respective actors and their resources in any form, the more likely the subsidiary is to comply with their demands (Oliver, 1991) and the stronger the relationship between a subsidiary and these actors (Levine and White, 1961). Furthermore, when relations are characterized by interdependence they are even more salient to the focal subsidiary and its relationships will therefore strengthen even more in situations of interdependence (Pfeffer and Salancik, 1978).

This paper further contributes to the literature through taking a process perspective and analyzing the changing dependence of MNC subsidiaries and its effect on the strength of relationships with respective actors. I described the evolution of the subsidiary as a process of consecutive stages labeled start-up, growth, maturity, revival and decline and focused the analysis on the first three stages in which the subsidiary builds its resources and capabilities and develops its uniqueness. In the start-up stage, when the subsidiary is being established and develops resources and capabilities primarily in order to achieve viability, it is highly dependent upon the MNC headquarters' resources and knowledge support, as well as local government's authorization and legitimacy support. As the subsidiary develops its own resources and capabilities and accumulates experiential knowledge and local legitimacy in the growth stage, its dependence on headquarters and on local government declines. In this stage the subsidiary gradually builds its relationships with sister subsidiaries and local market actors in order to expand its business opportunities. In the maturity stage, when the subsidiary has succeeded in developing unique resources and capabilities with which it is able to critically contribute to other actors' value creation process, other actors become dependent on the focal subsidiary as well, resulting in a situation of interdependence. Interdependent relations will most likely develop between the focal subsidiary and sister subsidiaries within the MNC and with local market actors, with which the subsidiary exchanges much resources and information in further developing unique capabilities and enhancing value, but are not restricted to market actors only. The subsidiary also develops interdependent relationships with government and non-government actors, especially in the local market, though these relations are likely to be less strong than those with market actors, since less resource exchanges can be expected in these relationships.

Suggestions for future research

Future research could continue to develop the current process framework through analyzing how the subsidiary's dependencies on different network actors are interrelated. For instance, the decreased dependence on the parent company is connected to the increasing lateral interdependence among subsidiaries for several resources, including finance, goods and knowledge. Maturing subsidiaries build stronger relations with their sister subsidiaries and these relations could become more important than relations with headquarters. Another example is the effect of sister subsidiaries' dependence on the focal subsidiary's resources (as the subsidiary develops unique, specialized resources that are crucial to the process of value creation in the MNC as a whole) and its own dependence on relations with local market actors and non-market actors. If the critical resources that sister subsidiaries depend on result from the subsidiary's presence in the local market and its relations with local business actors, and are embedded in locally developed processes and procedures, MNC subsidiaries are strongly pressed to adapt to these local processes, i.e. to conform to external isomorphic pressures in the local market. To leverage these critical resources to internal MNC actors demands a certain level of internal conformity with respect to the specific process as well. For other products or processes, however, the focal subsidiary may continue to depend on sister subsidiaries' specialized resources, which demand a higher level of internal isomorphism and probably a lower level of external isomorphism in these exchange processes. Future research could investigate such differences between different business processes and procedures within single subsidiaries and the effects on the balance between internal and external dependencies and interdependencies and the strength of subsidiaries' internal and external relationships.

A related and fruitful way of inquiry would be to investigate in more detail how subsidiaries balance their strategic response to demands from network actors with conflicting demands. Both conceptual as well as empirical investigations on subsidiaries' responses to comply with, challenge or resist demands from different institutional environments and network actors over time would complement the framework on strength and importance of relations as developed above. Important insights can be developed from investigating not only visible actions or reactions of subsidiaries to stakeholder demands, but also the arguments and underlying motives for those actions.

This paper concentrated on MNC subsidiaries and their internal and external relations and dependencies. Future studies could, finally, investigate the management of relations at higher organizational levels within large MNCs. For instance, we do not know yet how the dependencies of different MNC units on network actors in their local national environments interact, or how they interact with MNC's dependence on regional or global actors as the EU, WTO or global public opinion. Further, this paper did not investigate how a subsidiary's dependence on the MNC may be influenced by its participation in a global supplier or outsourcing contract. Another issue worth exploring on the headquarters versus subsidiary level issue, is at what point the responsibility to react to claims or demands from different groups of actors, including local government and non-government actors like public opinion groups shifts from the level of MNC headquarters to subsidiaries or vice versa.

Figure 1: The complexity of an MNC subsidiary' s environment and its direct links to relevant internal and external network actors

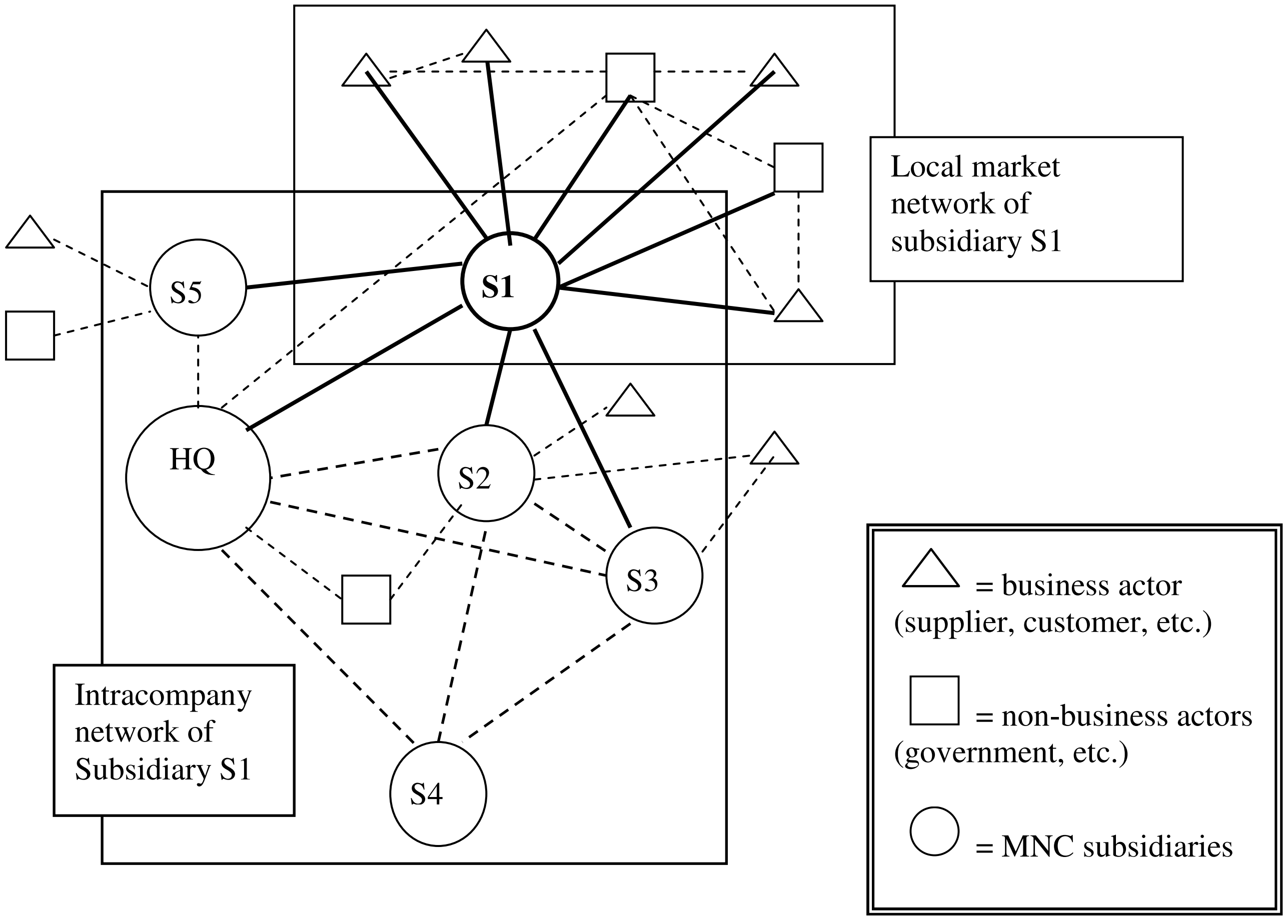


Figure 2: Subsidiary evolution and the level of its unique resources and capabilities

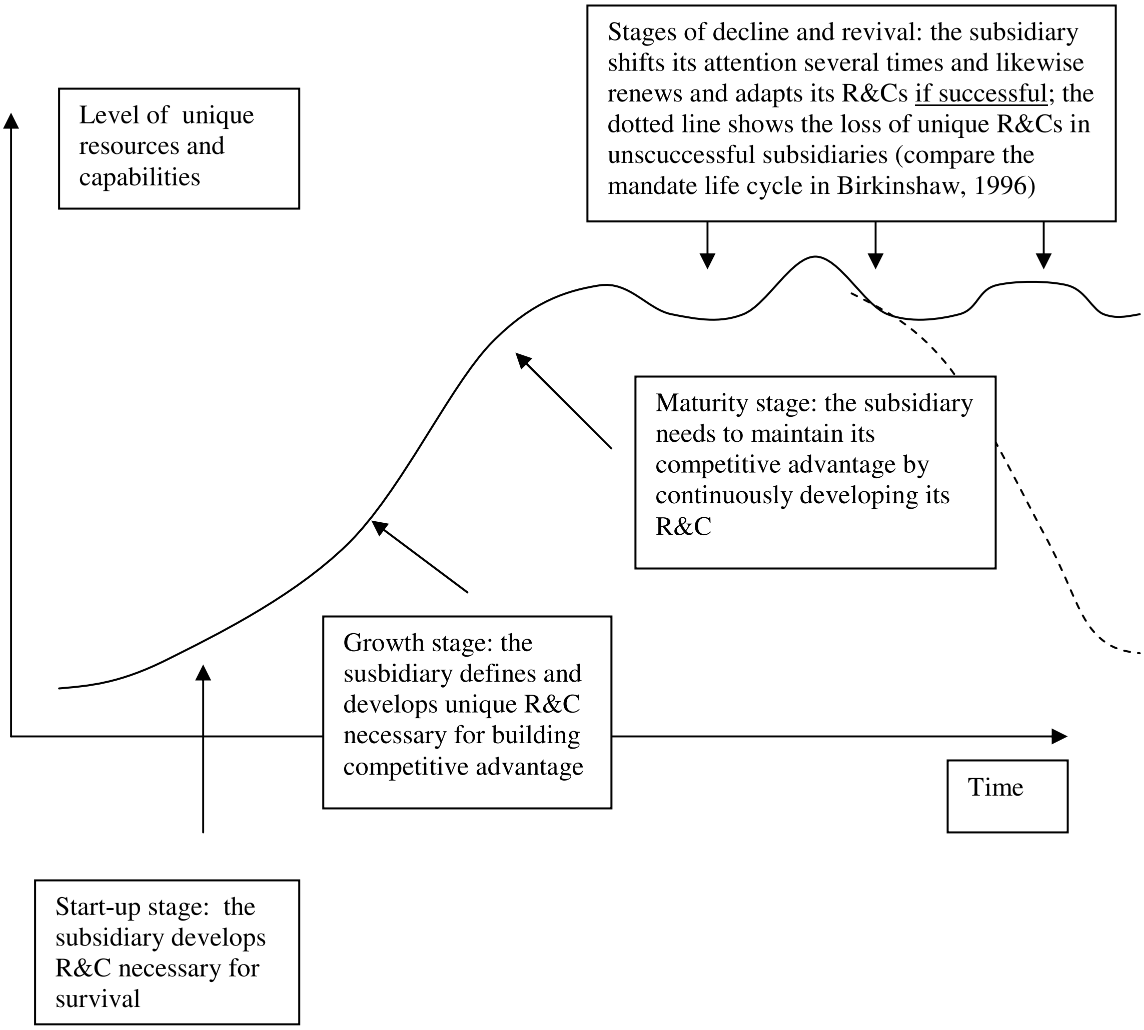
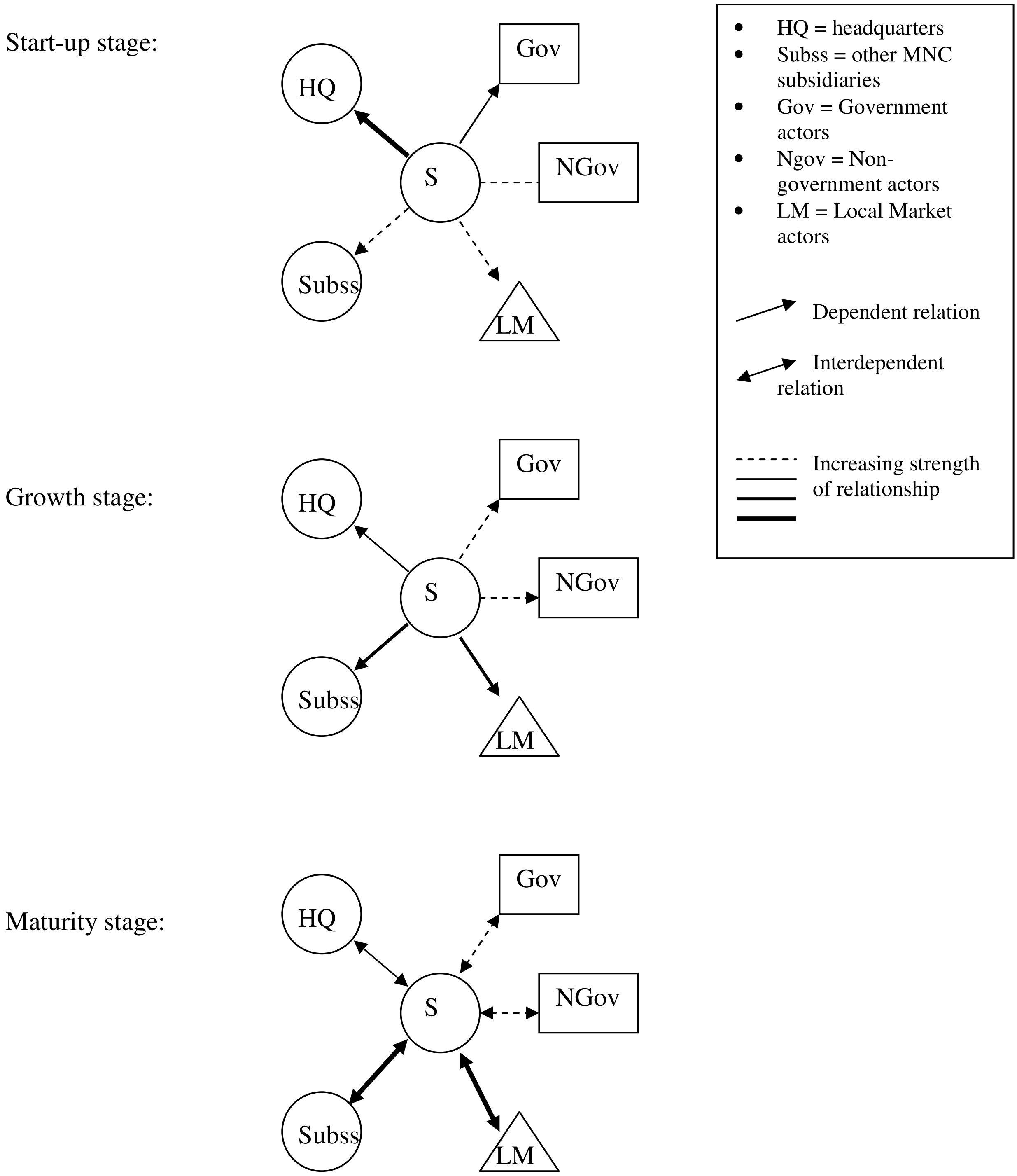


Figure 3: Strength of subsidiary relations with five groups of actors in the start-up stage, growth stage and maturity stage.



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