

Evaluating The Role of Headquarters in Contemporary MNCs

Introduction

Organizing and managing the multinational corporation (MNC) is an extremely challenging task. Existing literature on the subject can generally be grouped into two broad streams of work: (1) the HQ – subsidiary relationship literature, which was dominant from the 1960s through the 1980s, and (2) the subsidiary-level, network perspective literature, which has dominated from the 1990s to the present. Recently, a new third stream of research and literature seems to be emerging. It might tentatively be titled “the role of HQ in contemporary MNCs.” While the magnitude and durability of the new stream are still uncertain, it would appear that a growing number of researchers are working on the subject. Workshops on the subject have been held at Uppsala University (2007) and Copenhagen Business School (2011) , and special issues of Management International Review (2010) and Journal of International Management (2012) have also addressed the topic. The intent of this article is to evaluate the relevant research context for this new stream of work and make some recommendations that might help to inform and shape the direction of subsequent work.

The role of HQ in contemporary MNCs appears to be an important and timely research subject for multiple reasons. First, the existing two streams of research have left researchers and practitioners with two very different views of the HQ. The HQ – subsidiary relationship literature is characterized by a top-down, firm-level perspective that assigns considerable knowledge and management capability to the HQ. The subsidiary-level, network perspective literature, on the other hand, tends to reflect a

bottom-up, subsidiary-level perspective that minimizes the role a HQ plays in the management of an MNC. Instead of hierarchical decision making and direction by HQ, most coordination is accomplished by non-hierarchical networking among subsidiaries. To date there has been no real reconciliation of these two different perspectives of management and coordination in MNCs.

A second reason for reconsidering the role of HQ is that the international environments and strategies of MNCs have been undergoing considerable change. Figure 1 summarizes the evolution of international environments and strategies across time, and uses these as the context for evaluating the appropriateness of the accompanying management research and literature, and the view that this literature takes of MNC organization design. Trade barriers, communication and transportation costs are shown

(Insert Figure 1 about here)

as decreasing across time, encouraging more global strategies and more interdependency among the subunits of MNCs. The speed and unpredictability of technology and environmental change are shown as increasing, leading to more uncertainty and increased information-processing requirements within MNCs. Also the intensity of international competition continues to increase, further increasing the pressure to realize global economies of scale and scope and the additional interdependency these entail. As the international environment has changed, so have the international strategies of MNCs. The 1960s – 1980s saw relatively high levels of multidomestic strategy combined with increasing levels of global strategy in some industries and in some parts of international value chains. By the 1990s, the level of multidomestic strategy had declined, but some medium level of multidomestic or local responsiveness was still required to satisfy many

markets, and this is expected to continue into the future. During this period the level of global strategy continued to increase, and this trend is expected to continue into the future. Thus, future strategies are expected to be increasingly transnational, requiring at least medium levels of local responsiveness accompanied by global strategies that increasingly emphasize growing economies of scale and scope. Figure 1 also shows how the two periods of international management research and literature discussed above relate to the evolution of international environments and strategies. The purpose of Figure 1 is to assist seeing international environment and international strategy as a relevant context for evaluating the appropriateness of the accompanying management research and literature, and the view that this literature takes of MNC organization design. In this paper we are especially interested in understanding how the role of HQ has evolved over time and how it needs to evolve in the future.

While there is no uniform definition of a contemporary MNC (which implicitly includes an orientation to the future), we define it as characterized by: (1) high levels of environmental change and complexity, (2) high interdependency among subsidiaries, and (3) high levels of network coordination among subsidiaries where important decisions are often made at the subsidiary level (Andersson and Holm, 2010). Consistent with this definition, our view is that a contemporary MNC needs to possess the coordination capabilities specified by both of the existing perspectives. That is, it requires both significant hierarchical information processing capabilities and significant network information processing capabilities and can no longer be seen as possessing primarily one or the other. Given this perspective, we believe the new stream of research on the role of HQ should address the following research questions:

- How can the roles of HQ in contemporary MNCs be reconciled with the recently-developed roles of subsidiaries in such MNCs (the primary product of recent research)?
- How can the roles of HQ in contemporary MNCs be modeled and conceptually linked to a firm's strategy and environment (the traditional goal of earlier HQ-subsidiary research)?

The next section reviews the established literature on MNC organizational design and its implications for the role of HQ in MNCs. This is followed by a section that reviews and evaluates the recent emerging work on the role of HQ in contemporary MNCs. A final section discusses the differences in the existing literature and proposes a new contingency model which specifies when hierarchical information processing with a HQ should be used to provide coordination in an MNC and when HQ should abstain and network information processing should be used to provide the required coordination.

The Established Literature on MNC Organizational Design

HQ – subsidiary relationship literature

Probably the most familiar stream of work under this category is the strategy-structure research largely conducted during the 1970s and 1980s. Inspired by the work of Chandler (1962), numerous studies of strategy and structure in the MNC occurred (Stopford and Wells, 1972; Franko, 1976; Hulbert and Brandt, 1980; Egelhoff, 1982, 1988a; Daniels, Pitts, and Tretter, 1984; Habib and Victor, 1991). Strategy-structure models of the MNC posited a series of fits between different types of macro structure (an international division structure, worldwide product division structure, geographical region structure) and specific elements of an MNC's international strategy (the size of foreign operations, degree of foreign product diversity). Egelhoff (1982) developed the

most explicit logic for fitting MNC structure to MNC strategy, based on information-processing theory (Galbraith, 1973; Tushman and Nadler, 1978). This logic states that good organizational performance requires good fit between the information-processing capacities provided by a firm's structure and the information-processing requirements that are inherent in the specific elements of its strategy. Thus, a worldwide product division structure tends to fit a strategy which embraces high foreign product diversity, because it provides a separate channel of hierarchical information processing for each major product line or business in the MNC. It is apparent that all strategy-structure fit theory (not just that which employs an information-processing perspective) assumes that appropriate hierarchical information processing or coordination underlies an MNC's ability to successfully implement its strategy. Moreover, widespread empirical support for many of the strategy-structure fit relationships that make up this theory add support to the underlying argument that appropriate hierarchical coordination of foreign subsidiaries by HQ directly contributes to firm performance.

Other streams of research that make up the HQ-subsidary relationship literature have focused on various organizational processes in MNCs: the centralization/decentralization of decision making (Picard, 1977; Doz and Prahalad, 1981; Hedlund, 1981; Garnier, 1982; Gates and Egelhoff, 1986), the staffing of foreign subsidiaries (Edstrom and Galbraith, 1979; Jaeger, 1983; Toyne and Kuehne, 1983; Baliga and Jaeger, 1984), and control processes (Youssef, 1975; Brandt and Hulbert, 1976). Studies here have focused on the relationships between processes and the strategic and environmental conditions that are associated with a HQ-subsidary relationship (e.g., how many subsidiaries does a HQ oversee, how much support and

information does a specific subsidiary require from HQ). While the empirical research involving processes is less convincing than that supporting the relationship of structure to strategy, it also suggests that most processes in large, successful MNCs tend to be rationally related to the strategic and environmental conditions surrounding a parent-subsidiary relationship (Egelhoff, 1988b). For example, MNC HQs that face a greater number of subsidiary-level decisions will tend to decentralize decision making more than those facing fewer decisions, thereby avoiding information-processing overload at the HQ level. And subsidiaries in developing countries or those facing greater competitive challenges are likely to receive more expatriate staffing than subsidiaries in developed countries or those facing fewer competitive challenges. These relationships further suggest that the appropriate centralization/decentralization of decisions and use of expatriate staffing probably influences the performance of an MNC.

What is very clear in the HQ-subsidiary relationship literature is that HQ is the most important actor in the MNC. The task or challenge facing HQ in this literature is to facilitate and ensure appropriate behavior at the subsidiary level, where an MNC's strategy is ultimately implemented. Appropriate behavior in this context means behavior that successfully copes with the environmental conditions and successfully implements the overall strategy of the MNC. The assumption underlying this literature is that while HQ has bounded rationality, this rationality will be sufficient for HQ to (1) generally understand what appropriate behavior at the subsidiary level should be, and (2) meaningfully influence and manage behavior at the subsidiary level. Thus, the HQ-subsidiary relationship literature tends to have a top-down, firm-level perspective of

subsidiary-level behavior. Its research largely seeks to understand how HQ can constructively influence and control such subsidiary-level behavior.

Subsidiary-level, network perspective literature

This literature began in earnest in the 1990s and is today the dominant organizational literature on MNCs. In this section we want to outline and briefly discuss four specific streams of theory and research. The first is the MNC as a heterarchy (Hedlund, 1986, 1993). Hedlund sees MNCs confronting numerous interdependencies that are constantly changing and cannot be prespecified. As a result of such uncertainty, he argues that MNCs need to be less hierarchical and more heterarchical. This means they should be characterized by shifting positions and relationships, much more lateral sharing of knowledge, the development of shared vision across the organization, and more consensual forms of decision making. Hedlund and Ridderstrale (1997) subsequently argue that heterarchical models of the MNC are better able to represent it as a knowledge-creating organization, while traditional hierarchical models largely represent it as a knowledge-exploiting organization.

The second stream of research we want to discuss is the MNC as a transnational organization (Bartlett and Ghoshal, 1989). The transnational organization is one that is capable of implementing a transnational strategy. The latter is a strategy that simultaneously attempts to realize global efficiency, local responsiveness, and worldwide learning across a company's worldwide operations (Bartlett and Ghoshal, 1989). The traditional hierarchical structures available to MNCs generally couldn't implement so multidimensional a strategy and had to trade-off implementing one dimension at the

expense of another. This resulted in a contingency theory of organization design. The transnational approach to organizational design gets around contingency theory's problem by relying more on non-structural and informal means of coordination in MNCs. The primary characteristics of a transnational organizational design are that it is less symmetrical, more specialized, and more flexibly coordinated than traditional hierarchical designs. As a result, the organization is much more willing than a traditional organization to change its strategy, organizational design, and behavior. There is a higher level of interdependency among subsidiaries, and a greater exchange of knowledge. In addition to using more informal coordinating mechanisms, transnational designs use socialization to build high levels of shared vision (Bartlett and Ghoshal, 1989; Ghoshal, Korine, and Szulanski, 1994).

A later version of the transnational organization perspective views the MNC as a differentiated network of subunits largely connected by non-hierarchical mechanisms of coordination and shared vision (Ghoshal and Nohria, 1997). Both the transnational and differentiated network perspectives are conceptually consistent with the heterarchical perspective of the MNC. The role of HQ under both the heterarchical and transnational perspectives is clearly reduced from what it is in the HQ-subsidiary relationship literature. While the heterarchy perspective is largely silent on the role or need for a HQ, the transnational and differentiated network perspectives see HQ largely engaged in building shared vision across the subunits and facilitating the emergence of non-hierarchical networks that will do most of the coordinating within an MNC.

The third stream of research views the MNC as a business network (Andersson, Forsgren, and Holm, 2001; Forsgren, Holm, and Johanson, 2005). This perspective is

rooted in business/social network theory. It seeks to understand all organizational designs in terms of their network characteristics. Thus, it is more of an analytical or descriptive conceptual framework, useful for evaluating how MNCs coordinate their activities. In this sense it differs sharply from the heterarchical and transnational perspectives, which represent normative theories that argue for the superiority of their network-like coordination over the hierarchical coordination associated with the earlier theories of the MNC. But like the heterarchical and transnational perspectives, the business network perspective does not attribute a very important role to the HQ subunits of an MNC. They are simply additional nodes along with the subsidiaries in the business network. In fact, because the HQs are generally distant from the subsidiaries in the business network, this perspective has the view that HQ tends to be relatively ignorant of what goes on at the subsidiary level of an MNC (Forsgren, Holm, and Johanson, 2005). If HQ is ignorant of what goes on at the subsidiary level, most coordination in an MNC should occur directly between subsidiaries, as opposed to hierarchically through a HQ.

The fourth stream of research to be considered concerns the subsidiary development literature (Birkinshaw, 2000; Birkinshaw and Hagstrom, 2000). This perspective describes how subsidiaries act to improve their power and influence within an MNC and extend their charters. This perspective argues that subsidiaries not only influence their own strategies but frequently the firm-level strategy of the MNC. This development of subsidiary power and influence on firm-level strategy occurs outside of hierarchical channels, largely through the subsidiary's position in various internal and external networks. The role of HQ in this literature is not to establish strategies for

subsidiaries or to monitor or control subsidiaries, but rather to recognize and legitimize initiatives and innovations undertaken by subsidiaries.

Summarizing across the above subsidiary-level, networks perspective literature, subsidiaries are the most important actors in the MNC. Their efforts to network with each other and with customers, suppliers, and regulators in their local environments are what this literature focuses on. The roles and tasks of HQ are either absent or are of secondary importance within this literature. To the extent the role of HQ appears, it is defined very broadly as creating a context where non-hierarchical network coordination is facilitated and subsidiaries are relatively autonomous and free to engage in entrepreneurial behavior with little direct control from HQ. The overall assumption underlying this broad perspective is that HQ does not know much about what constitutes appropriate behavior at the subsidiary level. As a result, the firm has to largely count on subsidiaries knowing what is appropriate behavior and coordinating it within their local environments and among themselves. The supporting research largely seeks to understand how subsidiaries accomplish the above activities. As a result, this research tends to have a bottom-up, subsidiary-level perspective. Thus, the view of MNC organization design associated with the subsidiary-level, network perspective literature is substantially different from that associated with the HQ-subsidiary relationship literature.

Having discussed in some detail the content of the two primary literatures dealing with the organizational design of the MNC, it is useful to look again at Figure 1, to view again how these two different perspectives of the MNC are associated with the environmental and strategic context. When international environments were more segmented and less interdependent and strategies were more multidomestic, research

focused on modeling and understanding the hierarchical design of an MNC. As environments became more coupled, interdependent, and complex, strategies became more global and requirements for coordination and information processing between subunits increased dramatically. This is when the view of MNC organizational design for research purposes shifted to network perspectives and models of organization design. With an emphasis on lateral, non-hierarchical relationships directly between subsidiaries, these models addressed some of the increased information-processing requirement facing MNCs. Specifically, these mechanisms facilitated the informal sharing of information among subsidiaries, and subsidiaries being more entrepreneurial and adaptive to change at the local level. But, significantly increased network information-processing capacity between subsidiaries didn't address all of the growing information-processing requirements facing MNCs, especially those associated with identifying and implementing more (1) regional and global economies of scale and scope, and (2) significant new innovation across a firm. Egelhoff (2010) has argued that these two tasks require hierarchical information processing as opposed to network information processing (i.e., they require processing information and making decisions along a hierarchy, not between peers in a network). As the need to successfully address both of these tasks is expected to increase in the future time period, Egelhoff (2010) argues there is a strong need to bring HQ and hierarchical information processing back into our view of MNC organizational design

Recent Literature on the Role of HQ in Contemporary MNCs

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In this section we want to evaluate some of the recent research that has emerged to address the role of HQ in contemporary MNCs. Research by the Ashridge Institute describes how HQ's functions and roles differ for complex, interdependent organizations similar to the contemporary MNC. They conclude that the role of HQ is more important than ever in such firms (Goold and Campbell, 2002). Buckley (2011) describes the contemporary MNC as a major outsourcer of components and services, which he refers to as the global factory model of the firm. In his model the corporate HQ plays a critical role as coordinator of the elaborate and highly interdependent system. There are a number of recent studies that reflect a HQ role in the transfer of technology and knowledge within MNCs. Andersson and Kappen (2011) found that HQ's involvement and support of a subsidiary's development project sped up the transfer of new technology to other parts of the MNC. Another study by Holmstroem (2010) found that the transfer of knowledge from a subsidiary to other subunits was significantly improved by specified HQ actions. Ciabuschi, Martin Martin, and Stahl, (2010) found HQ could indirectly influence the successful transfer of knowledge among subsidiaries by the way it distributed decision-making rights and allocated resources. And, Ambos and Birkinshaw (2010) have found that the level of attention a HQ displays toward subsidiaries that possess high strategic choice improves the performance of these subsidiaries. Thus, most recent research on the role of HQ has reported rather consistent empirical evidence that HQ interaction with subsidiaries has a positive influence on performance.

Countering the above conclusion, however, are several recent articles that raise doubts about the ability of an MNC HQ to adequately understand what is going on at the subsidiary level (Forsgren and Holm, 2010; Ciabuschi, Forsgren, and Martin Martin,

2011, 2012). A common assumption in international business theory is that HQ makes rational choices about when to become involved in subsidiary-level affairs, based on its own knowledge and understanding of the situation. Ciabuschi, Forsgren, and Martin (2011) challenge this assumption and offer an alternative explanation for HQ involvement. They argue that HQ often becomes involved not because it knows what to do or that its involvement will have a positive effect. Instead, HQ becomes involved as a result of the normative expectation on the part of HQ and subsidiary staff, that because of HQ's superior hierarchical position, it should take the lead and be involved. Ciabuschi, Forsgren, and Martin (2012) even provide empirical support for this argument.

While the above is not an exhaustive review of the literature that has recently been written on the role of HQ in the contemporary MNC, we feel it is representative of that literature and the issues it raises. What is lacking from this new stream of research is some consistent theory or logic describing why HQ involvement contributes to performance and under what conditions it won't contribute to performance.

A Proposed Framework for Understanding the Role of HQ in Contemporary MNCs

Thus, a rich but confusing context currently exists for understanding the role of HQ in contemporary MNCs. The two established literatures provide widely varying views of the importance and role of HQ in contemporary MNCs. More recent literature that addresses the role of HQ in a contemporary MNC employs a variety of conceptual frameworks, and none of it reconciles the very different perspectives that exist regarding the role of HQ. In response to this criticism we want to propose a contingency theory framework that we believe begins to reconcile the sharply different views of HQ that

have emerged. The framework uses an information-processing perspective of organization design (Galbraith, 1973; Tushman and Nadler, 1978; Egelhoff, 1991). With this perspective, organizations are viewed as information-processing systems, where different types of organizational structure and different coordinating mechanisms provide different types of information-processing capacity. Environments, strategies, and task situations create information-processing requirements that the information-processing capacities of the organizational design must satisfy for firm performance to be good. This is the basic logic underlying an information-processing model of organization design.

Egelhoff (2010) distinguished between the information-processing capacities of a hierarchical structure and a network structure or design. These differences are shown in Table 1. One can see that hierarchical structures differ from non-hierarchical network

(Insert Table 1 about here)

designs in terms of their goal structures, information flows, the kind of motivation and behavior that are facilitated, and the way decision making occurs. Using these differences and their impact on information-processing capacity, Egelhoff (2010) identifies and describes three broad tasks where hierarchical information processing should outperform network information processing. The tasks are: developing and implementing tight coupling within MNCs, identifying and defining economies of scale and scope, and identifying and incorporating significant innovation into MNC strategy. These three types of task require that subsidiary-level information be brought together at a higher level where a system-wide perspective exists for optimal decision making to occur. This requires hierarchical information processing between a HQ and foreign

subsidiaries. If nonhierarchical network information processing among the foreign subsidiaries is substituted for the above, it will not produce the same comprehensive decision making with a firm-level perspective. The article also illustrates which types of task are best coordinated with network information processing. The result is the beginnings of a contingency theory for evaluating and understanding when hierarchical information processing with a HQ will be superior to network information processing without a HQ, and vice versa.

But the above contingency model is only a model of organization design and not a complete or sufficient model for deciding when HQ should become involved with directly providing coordination for subsidiaries and when it should not. Completing the model for this purpose requires another dimension which has recently been discussed at some length by Forsgren and Holm (2010) and Ciabuschi, Forsgren, and Martin Martin (2011, 2012). This is the issue of whether HQ possesses sufficient knowledge about the subsidiary-level situation to make a positive contribution if it becomes involved in decision making at this level. Some approaches assume HQ possesses sufficient knowledge of the subsidiary-level situation to effectively manage it (the HQ-subsidiary relationship literature). At the other extreme are approaches that assume HQ is largely ignorant of the subsidiary-level situation (Forsgren and Holm, 2010; Ciabuschi, Forsgren, Martin Martin, 2011, 2012). While some MNCs may be characterized more by one or the other of these two extremes, it is likely that both situations will exist simultaneously within many contemporary MNCs. This suggests a more complex model of the contemporary MNC from the perspective of the HQ. It needs to view the MNC in terms of two broad action domains: one domain where the HQ possesses sufficient knowledge

about subsidiary-level conditions to actively manage the situation, and a second domain where the HQ lacks such knowledge. This simultaneous knowing and not knowing requires a HQ to act differently in each of the two domains

Figure 2 combines the type of information processing required by the task with the knowledge situation of the HQ to create a two x two contingency framework. This framework shows the different type of coordination or information processing that best fit the various combinations of these two dimensions.

If HQ is assumed to be knowledgeable with regard to subsidiary-level conditions as they relate to the task situation, Cells 1 and 2 are relevant. In Cell 1, the task requires hierarchical information processing. In this case HQ should become involved and hierarchical information processing should be used to coordinate the task. In Cell 2, the task best fits network information processing, and the HQ should allow network information processing to emerge. If necessary, the HQ should facilitate the emergence of networks by helping to build familiarity across the subunits that need to be part of the network. HQ should be in a good position to do this, since it is assumed to be knowledgeable with regard to the task situation.

If HQ is assumed to be ignorant of the subsidiary-level conditions that relate to the task, Cells 3 and 4 are relevant. Cell 3 is the most problematic situation for HQ to address. The task can best be coordinated with hierarchical information processing, but the HQ is not in a position to effectively provide this, since it is assumed to be ignorant of the relevant subsidiary-level conditions. One option is to do nothing and let network information processing emerge. This won't be optimal, but it is consistent with HQ's ignorance and it may be adequate to accomplish the task. If the task is critical and there

is time to prepare, another option is to have the HQ become knowledgeable with regard to the subsidiary-level conditions and thereby move the task coordination problem to Cell1. In Cell 4, the task requires network coordination, so the HQ can simply do nothing and let network information processing emerge.

In conclusion, the newly expanded roles of HQ that are being identified in recent research are a meaningful addition to the international management literature. They help to correct and balance the previous overreach of the dominant subsidiary-level, network perspective literature. This literature has often implied that subsidiaries connected by non-hierarchical networks can replace much of the strategy making and coordination that earlier literature had assigned to some type of formal hierarchical HQ. In our view the subsidiary-level network literature erroneously assumed that network information processing can generally replace hierarchical information processing in contemporary MNCs. We believe this is too narrow a view of coordination in MNCs and that a richer, more complex view that embraces both network information processing and hierarchical information processing is required. This paper has sought to specify distinct domains where HQ should (1) attempt to coordinate by employing hierarchical information processing and (2) defer hierarchical information processing and either passively allow or actively facilitate the emergence of network information processing. By doing this we have attempted to reconcile the newly-identified roles of HQ with the recently expanded roles of subsidiaries, by requiring both to conform to an over-arching, rationally-determined contingency framework.

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	<u>1960s – 1980s</u>	<u>1990s – Present</u>	<u>Future</u>
Dominant international management research & literature	HQ – subsidiary relationship	Subsidiary-level, network perspective	Possible new research stream: Role of HQ in the contemporary MNC
International environment	Trade barriers, communication & transportation costs decreasing		
	Speed & unpredictability of technology and environmental change increasing		
	Intensity of international competition increasing		
International strategies of MNCs	High levels of multidomestic strategy	Medium levels of multidomestic strategy	
	Increasing levels of global strategy		
View of MNC organization design	Emphasis on formal, hierarchical organizational structure and processes (relatively stable organizational design)	Emphasis on lateral, non-hierarchical relationships involving subsidiaries (relatively dynamic organizational design)	A contingency model perspective that combines the two previous views

Figure 1. Summary of Research on MNC Organizational Design

Type of information Processing required By task: Hierarchical information processing	Cell 1 Use hierarchical information processing	Cell 3 1) Do nothing; let network information processing emerge or 2) Have HQ become knowledgeable and move decision to cell 1
Network information processing	Cell 2 Use network information processing	Cell 4 Do nothing; let network information processing emerge
	HQ assumed to know subsidiary-level conditions	HQ assumed to be ignorant of subsidiary-level conditions

Figure 2. A Contingency Framework for Better Understanding HQ's Roles and Functions in a Contemporary MNC

Table 1

Important Differences between Hierarchical Structures and Network Structures that Influence their Information-processing Capacities

Hierarchical structure	Network structure
<u>Goal structure</u> <ul style="list-style-type: none"> Strategic firm-level goals held by HQ; diverse subunit goals held by subunits. Provides a reasonable level of goal congruence across levels and subunits, along the organizing dimension. 	<ul style="list-style-type: none"> Diverse subunit goals held by subunits; unclear how firm-level goals will arise without some hierarchy. Primary mechanism for achieving congruence is shared vision and firm-level culture.
<u>Information flows</u> <ul style="list-style-type: none"> Formal information flows along the hierarchy are directed by fiat; augmenting informal flows develop from high position familiarity & trust. Hierarchies centralize information as it moves up and becomes more strategic and disperse it as it moves down and becomes more tactical. 	<ul style="list-style-type: none"> Information flows among subunits are voluntary, informal, and flexible; they are influenced more by personal familiarity & trust than by position familiarity. Networks can take many shapes, so no single pattern to the shaping of information flows.
<u>Motivation & behavior</u> <ul style="list-style-type: none"> Provides a system of incentives that supports extrinsic motivation and the processing of explicit (as opposed to tacit) information. 	<ul style="list-style-type: none"> Facilitates intrinsic motivation and the development and transfer of tacit knowledge.
<u>Decision making</u> <ul style="list-style-type: none"> Tends to push decisions up the hierarchy when there is interdependency across subunits. Tends to standardize many decisions (often through centralization) to reduce complexity and achieve efficiency. Facilitates centralized, comprehensive decision making by a HQ (where firm-level goals & knowledge are more important than subunit goals & knowledge). 	<ul style="list-style-type: none"> Tends to keep decisions at the subunit level and exchange the necessary information to take interdependency into account. Tends to tolerate diversity in decisions and decision making. Facilitates decentralized, incremental decision making by the local subunits (where subunit goals & knowledge are more important than firm-level goals & knowledge).

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