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Inter-subsidiary collaboration and business network development

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Abstract: Lateral collaboration is a source of value creation for both individual subsidiaries and the MNE. The purpose of this article is to contribute to a better understanding of how local subsidiaries can coordinate their business networks to better serve global markets. The authors analyze the inter-subsidiary collaboration of three French MNEs operating in manufacturing industries. The empirical study is mainly based on 34 interviews. Our findings indicate that inter-subsidiary collaboration is likely to differ according to the type of collaboration established. They show that serving multinational customers and leveraging new business opportunities contribute to increased internal and external embeddedness. Conversely, managing cross-border projects leads to stronger internal embeddedness, but can weaken the external embeddedness of foreign subsidiaries.

Key words: Inter-subsidiary collaboration, lateral collaboration, MNE, business network development.

INTRODUCTION

The modern MNE (multinational enterprise) can be seen as a business network (Bartlett and Ghoshal, 1989; Forsgren et al., 2005) of different subunits (headquarters and subsidiaries), which are embedded in larger inter-organizational business networks (Vahlne and Johanson, 2013). One of the challenges for the modern MNE is to manage multiple intra- (between subunits) and inter-organizational (with suppliers, customers, distributors, etc.) networks (Forsgren, 2016).

In today's global environment, MNEs experience stronger pressure for the global alignment of business activities across their subunits (Bartlett and Beamish 2014). According to the business network view, their global integration of activities "*is not primarily a question of deciding about the right balance between local adaptation and global integration within the multinational, but rather of continuous attempts on the part of HQ to achieve economies of scale and scope among subsidiaries that are embedded in different networks*" (Forsgren et al., 2005, p. 104). The business network perspective emphasizes the importance of managing business networks established by local subsidiaries.

Previous research has mainly focused on headquarters-subsidiary relationships and the development of local business networks. However, little is known about how subsidiaries can collaborate to coordinate their business networks (O'Donnell, 2000), even if MNEs often work with the same customers in different countries. Such global customers are looking for suppliers who can offer the same quality of products and services across different markets. It is thus essential that local subsidiaries collaborate to better satisfy their expectations (Birkinshaw et al., 2001). This research attempts to fill this gap. The objective is to better understand how local subsidiaries can coordinate their business networks to better serve global markets.

We will first present the theoretical framework before explaining the methodology used for our empirical investigation. We will then analyze and discuss the findings as well as their implications.

THEORETICAL FRAMEWORK

Existing literature shows that subsidiaries are developing network relationships with a variety of external business actors. Increasing external embeddedness positively affects their market performance, and stock of knowledge and capabilities (Andersson et al., 2001, 2002; Oehmichen and Puck, 2016). The development of subsidiary activities is not only related to external embeddedness, but also to the aligned relationships within the internal (corporate) network (Ciabuschi et al., 2014). Ciabuschi et al. (2014) explain that external embeddedness has a direct effect on subsidiary performance, whereas internal embeddedness provides an indirect impact. Previous studies pay more attention to the subsidiaries' business relationships with external network partners than to internal subsidiary embeddedness (Garcia-Pont et al., 2009; Yamin and Andersson, 2011), even if subsidiaries are often dependent on networks and resources of other subunits (Andersson et al., 2007).

Ciabuschi et al. (2014) consider internal (corporate) embeddedness as a mechanism that facilitates communication about business opportunities and requirements of other subunits. In a similar vein, Vahlne and Johanson (2017) argue that useful knowledge and business opportunities can also be developed inside MNEs through the recombination of market knowledge between their subunits. Moreover, Boehe (2007) shows that subsidiaries that are better integrated in the MNE's intra-organizational network are more involved in inter-organizational relationships than autonomous subsidiaries. Boojihawon et al. (2007) highlight the capacity of subsidiaries to scan the MNE's business network in search of new opportunities. Valentino et al. (2018) outline that greenfield subsidiaries strongly rely on their insidership within the MNE to overcome their outsidership in local business networks. We can therefore consider that internal embeddedness can provide access to new resources and leverage business network relationships across countries.

Internal embeddedness covers both headquarters-subsidiary (vertical) and inter-subsidiary (horizontal or lateral) relationships (Andersson and Forsgren, 1996; Forsgren et al., 2005; Ciabuschi et al., 2014). Most studies have focused on HQ-subsidiary relationships (e.g. Schmid and Schurig, 2003; Chiao and Ying, 2013; Asakawa et al., 2018), while inter-subsidiary network relationships remain largely unexplored, despite their impact on the performance of both individual subsidiaries and the MNE (O'Donnell, 2000; Garcia-Pont et al., 2009; Subramaniam and Watson, 2006; Pedersen and Kofod-Jensen, 2017). Research on inter-subsidiary relationships has mainly focused on R&D and production activities (e.g. Boehe, 2007; Achcaoucaou et al., 2014). In our study, we will study marketing activities, i.e. how subsidiaries use their business networks to respond to global market expectations.

The network model of the MNE highlights increasing direct interactions between subsidiaries. Forsgren (2008) indicates that « *the extent to which the different subsidiaries are connected to each other is mainly determined by the extent to which the subsidiaries are connected through their business networks rather than through their administrative and legal connections* » (p. 111). Thus, inter-subsidiary relationships should be considered as business relationships. In contrast to relationships with external actors, inter-subsidiary relationships are shaped by a specific corporate context (Yamin, 2005, Yamin and Andersson, 2011) that should be taken into consideration. They are mainly cross-border relationships and therefore more constrained by geographic distance (Yamin, 2005) than relationships between the subsidiary and its external network partners in the host market. Subsidiaries may thus face communication difficulties when interacting with other subunits (Asakawa et al., 2018). It is necessary that

MNEs create an organizational context that stimulates collaboration between subsidiaries (Forsgren et al., 2005) and that allows developing mutual trust and understanding (Yamin, 2005).

Like other companies, subsidiaries tend to prioritize their own interests (Mudambi and Navarra, 2004), which means that they need to find an interest to share information and to collaborate with other subunits (O'Donnell, 2000). Internal embeddedness can be evaluated by the level of resource sharing and knowledge transfer across MNE subunits (Ciabuschi et al., 2011; Achcaoucaou et al., 2014; Oehmichen and Puck, 2016). It requires coordination mechanisms such as inter-unit committees, temporary or permanent teams to set up collaborative activities between subsidiaries, inter-subsidiary liaison personnel and meetings, and training programs involving participants from multiple subunits (O'Donnell, 2000).

The interdependence among subsidiaries can be linked to the exchange of specific resources and knowledge: "*international interdependence can be defined as the state in which the outcomes of a foreign subsidiary of an MNC influence or are influenced by the actions of another unit within the firm operating in a different country*" (O'Donnell, 2000, p. 530). In our research, we argue that inter-subsidiary interdependence can also comprise network resources (Gulati, 2007), i.e. knowledge and resources originating from external network partners. For example, subsidiaries may have the same multinational customers and global competitors, and they may be involved in the same projects.

METHODOLOGY

In order to better understand how local subsidiaries can coordinate their business networks to better serve global markets, we conducted a qualitative case study research. Qualitative approaches enable scholars to learn about complex and context-specific phenomena. We adopted a multiple case-study approach, which is particularly adapted to “how” and “why” questions (Ghauri and Gronhaug, 2010; Yin, 2013). We selected three multinational enterprises, renamed Alpha, Beta and Gamma for reasons of confidentiality, located in the French Rhône-Alpes region and operating in manufacturing industries. The three companies develop their activities on global niche markets in the business-to-business sector. Their characteristics are presented in table 1. These markets are often characterized by a high level of interdependence between foreign subsidiaries, since they have to deal with the same multinational customers and global suppliers. The empirical study is based on 34 semi-structured interviews. Interviewees were asked a set of questions concerning the identity of the MNE/subsidiary, the company’s customer network development, internal network coordination and possible outcomes. Each interview was carefully registered and transcribed. We conducted a content analysis, using Nvivo (Miles et al., 2013).

Insert Table 1 Here: Characteristics of case-studies

ANALYSIS OF RESULTS

Our empirical study shows that inter-subsidiary collaboration is driven by external factors, namely by the necessity to deal with interdependencies established between external business actors, but that its success is shaped by internal factors, namely the organizational context of the MNE. We identified three major types of inter-subsidiary collaboration: (1) serving multinational customers across multiple foreign markets, (2) leveraging new global business opportunities, and (3) managing cross-border projects.

Serving multinational customers across multiple markets

Our empirical data indicate that subsidiaries need to collaborate to better serve their multinational customers. For example, company Gamma was facing a new issue when a Japanese customer was establishing a new subsidiary in Mexico. The MNE needed to decide if they had to negotiate a new potential business with the Mexican subsidiary of the customer or with the customer's headquarters in Japan. The company also had to determine who would lead the relationship development process with the customer (their manager in Mexico or the one in Japan, or a corporate sales director in France). Company Gamma also had to solve different coordination issues between the different subunits.

In a similar way, ongoing business transactions with multinational customers across multiple countries require the MNE's subunits to assure the consistency of their operations and to align their prices. The North Business Area Manager of company Beta comments on the issue of price transparency: "*some of the customers are requesting one single price for the world… some customers are asking for an end-year bonus, and some customers think that each country does basically whatever they want... We know that, in the future, they will become* *more organized and they will try to have the lowest price or at least the end-year bonus considering the size of the business they do [with us] across the world*".

Inter-subsidiary relationships may also be affected when customers realize cross-border acquisitions. In case of company Beta, a German company bought their customer in France and the MNE succeeded in developing the business with this customer. Conversely, in case of company Gamma, the acquisition of one of their customers obliged the MNE to renegotiate the business with the acquiring firm, which was a difficult task. In both cases, the new situation required the coordination of actions between subunits.

For MNEs, it can also be important to extend existing contracts to the customers' partners across different countries. For example, multinational customers may have subcontractors in foreign countries. The North Business Area Manager of Company Beta explains: "*We usually invoice [customers in] Scandinavian countries, then they send the material to Poland [to their subcontractors]… Now, they ask us to supply the products directly to Poland. We have important sales volumes in Scandinavia, and our Scandinavian customers have very good purchase prices. We have had low sales volumes in Poland so far, and therefore we have higher prices [for local customers]. Now that our customers in Poland start to be the subcontractors of [our customers in] Scandinavian countries, they would like to have the same prices as in Scandinavia…*". He continues: "*So, here we have one customer name but two customer numbers, so when they produce for the domestic market in Poland, they will have the official price for Poland, but when they purchase and produce for the Norwegian subsidiary, they will have a different price, because this is part of a big sales contract. So, that's the type of complexity that we have, because more and more, the business is getting international and we are not always used to that …*". In this case, the MNE's subsidiaries need to collaborate to manage relationships with the multinational customer (e.g. negotiate the contract in one country, deliver the product to another country), but they also have to exchange information about the activities with the customer's partners.

The main difficulties concerning effective inter-subsidiary collaboration for serving multinational customers are linked to information sharing (about pricing, customer needs etc.). Managers often associated them with a lack of appropriate communication tools and processes (including more regular exchanges, databases on conducted projects, consolidated information about customers etc.). In addition to such challenges, in case of company Alpha, subsidiaries used to have a limited awareness about activities and networks of other subunits, which prevented them from detecting potential opportunities for collaboration.

Leveraging new global business opportunities

The globalization of markets has resulted in the standardization of products and services as well as more uniform demands from customers. This trend can generate a new kind of business opportunities, i.e. global business opportunities. For example, the Corporate Sales Director of company Gamma indicates: « *I have the example of Fiat Chrysler. They wanted a new sensor for all their small three-cylinder engines. And it should be a global engine. It should be made in North America, in South America, in Europe and, with a small volume, in China. We have very good relationships with the Fiat team in Turin, we have good relationships with the team in North America, but the team in Brazil, we don't know them. They are in the middle of nowhere in Brazil. We don't know them. They are not so important for us. So we don't know them. We tried to negotiate with Turin, with North America, and in Brazil, we even don't know the people. I think someone went there two years ago to spend two days to get Fiat in Sao Paulo… So, we thought that we were in a good position. We knew that one of our competitors is Continental… We crossed our fingers and thought that it would be a* *good opportunity for us to win this business. The decision came back and we lost the contract. Continental won the business. Ok, I tried to find out why we lose the business. But people in Brazil, we don't know them. They said 'we don't accept a supplier that we don't know. So we take Continental because we know them. They have a plant in Brazil'. So we think that we did not do the job correctly. Since then, I employed a guy in Brazil… It was a big mistake from us because we said "ok, we know the key people. The key people are in Turin and in North America, but we neglected another guy in Brazil who actually said 'no, I don't accept your choice. We will work with the supplier that was the second choice'."*

This example shows that the MNE would have needed to develop relationships and promote its product to all subunits of the customer. They lost a global business that would have provided new projects for several subsidiaries. All concerned subunits were motivated by potential gains (additional mutually profitable opportunities). They attempted to establish relationships with the customer in the different countries, but they neglected the global picture of the project and the importance of the Brazilian subsidiary for the customer.

<u>Managing cross-border projects</u>

Company Alpha was facing a situation where the Polish subsidiary was requested by the Russian subsidiary to conduct the engineering phase of a project developed for a local customer. This and other similar projects were not successful for the firm. The director of the Polish subsidiary explains the raisons of failure: *"…we put a lot of layers, everybody puts his margin on the top of the margin of the other unit. So, we don't win these projects. A good example could be Russia…they asked for a quotation from Poland. So they got a quotation…But it was 1 000 000 euros, there was the margin of our subsidiary, which is already 20%. We cannot sell without margin. It is in our business plan. We want to have* *results. But the same is true for the business plan in Russia. So they have to make a margin as well. So, on top of this 1 000 000, they put another 20%. So, when we sent this offer to the customer, we already knew that we had 40% gross margin in the project. So we were probably 20% more expensive than competitors*."

Company Alpha made several organizational changes with the objective to encourage inter-subsidiary collaboration on this kind of projects. The firm put in place a matrix structure, created the new position of "global market leaders" who have the mission to coordinate activities across subunits with the objective to increase the development of specific market segments from a global perspective. The firm also began to promote the corporate culture of "sharing", i.e. sharing business opportunities, resources, know-how, knowledge, and value creation across subunits. The director of the Polish subsidiary comments this decision: "*This is definitely the right direction. What we are just missing is the financial point of view ... We all measure [our individual] results… We should just look at the global level [global margin], not really at the local one. Because we will not be competitive. This is the case. We are losing projects like that. So, in fact, we are successful in projects when we work alone… I mean the solution is simple. It's just to look at the project from a global perspective, not from a local perspective*". The subunits of company Alpha also claimed for more transparency of cross-border operations, i.e. the role of each participating subunit and the distribution of gains and losses.

Company Beta won a tender to sell an equipment for the construction of a sport stadium in Qatar. The final installation was done in Qatar, but the project was managed by the construction company in Germany, who had several sub-constructors. The French MNE signed the contract with the construction company in Germany, but was asked to deliver the equipment to their subcontractor in Turkey. In addition, the design of the stadium project was done by a leading architect office located in the United Kingdom. The management of this kind of cross-border project demands multiple sets of negotiations with all concerned external partners in Qatar, Germany, Turkey and the United Kingdom. It was thus necessary to set up a project coordinator (at the head office) and a team representing the concerned subsidiaries who was in charge of the coordination of their activities.

In the same way, company Beta is working on the US furniture market but 20% of the sales concern the Asian market. The Director of the US subsidiary explains the key role played by communication: "*when something needs to be done, when one of our sales managers needs to go and see somebody for a topic that seems not important for him, it's important that he understands what lies behind…If you have a project that really spans all over the world and that is followed up by different people from Beta, it's just the way of making sure that everybody knows who is involved, who is the sales manager... and making sure that everyone remains in the loop*". The managers interviewed at company Beta also mentioned the importance of nominating a project coordinator, preferably at the headquarters, who should have a neutral position, of acting in the interests of the firm as a whole, and of adopting transparent processes and collaborative bonuses for the assistance to other subunits.

For all three cases, the number of cross-border projects tends to increase. For example, a growing number of projects are executed in China for cost reasons, but signed and managed in other countries. We can observe that subsidiaries are ready to help other subunits as long as this does not interfere with their own interests and as long as they can expect a similar support in return. The Director of the US subsidiary of company Beta mentions: "*And of course, it's also important that our support systems in Europe reinforce to make sure that subsidiaries that are far away have the appropriate support systems. So, it's a two-way street, it needs to come from both ways…"*

DISCUSSION AND CONCLUSION

In the globalized marketplace, MNEs need to provide an integrated (global) answer to serve multinational customers across multiple foreign markets, to leverage new global business opportunities, and to manage cross-border projects. The three case-studies show that it is necessary to create an organizational context that facilitates inter-subsidiary collaboration.

In line with the network perspective, which emphasizes the headquarters lack of knowledge about activities and networks of subsidiaries (Forsgren et al., 2005; Vahlne et al., 2012), we consider that the lack of awareness of foreign subsidiaries about the network context of other subunits can be an obstacle for inter-subsidiary collaboration. As mentioned by Ciabuschi et al. (2014, p. 907), "*mangers do not realize the collaborative capabilities across corporate and external relationships until the level of embeddedness is considerable*". In other words, it is important to develop internal embeddedness, which can be evaluated by the level of resource sharing and knowledge transfer across subunits (Ciabuschi et al., 2011; Achcaoucaou et al., 2014; Oehmichen and Puck, 2016).

The comparison of the three cases provides evidence that intra-firm collaboration can be a source of value creation for both individual subsidiaries and the MNE as a whole. Our findings suggest that inter-subsidiary collaboration is likely to differ according to the type of collaboration established. They show that serving multinational customers and leveraging new global business opportunities contribute to the internal and external network development (internal and external embeddedness) as well as to the performance of individual subsidiaries and the MNE as a whole. There are no conflicts in terms of interests. To develop such inter-subsidiary collaboration, it is necessary to share information about the activities and networks of other subunits (Vahlne et al., 2012), to put in place communication processes (Kaufmann and Reossing, 2005) and to develop mutual trust and understanding between the subunits (Tsai and Ghoshal, 1998).

Conversely, in the case of cross-border projects, we can observe a trade-off between the internal and external embeddedness of subsidiaries. Cross-border projects are more likely to lead to conflicts of interests between subunits. In this situation, stronger internal embeddedness can lead to partially neglect the subsidiary's own interests and local network development, since the objective can be to serve other markets and to contribute to the MNE's activities. To develop this type of collaboration, the MNE needs to identify the requirements of the different subunits, introduce performance evaluation systems (O'Donnell, 2000; Boussebaa, 2015), and adopt transparency in the management of collaborative projects (Pedersen and Kofod-Jensen, 2017). Boussebaa (2015, p. 702) outlines: "*The firms cannot, on the one hand, preach the virtues of transnational cooperation and, on the other, tolerate structures that produce inter-office competition and, worse still, inequality*».

Even if some authors argue that inter-subsidiary collaboration should be achieved through the subsidiaries' own initiatives (and not imposed by headquarters) (Pedersen and Kofod-Jensen, 2017), we consider that it remains important for the MNE to provide a favorable organizational context. To promote inter-subsidiary collaboration, it seems essential to integrate this dimension in the organizational culture and policy of the MNE. In that way, inter-subsidiary collaboration can lead to the development of routines and new capabilities that stimulate further collaboration between subunits and business partners. Our results are thus in line with the latest developments of the Uppsala model (Vahlne and Johanson, 2017).

Our research presents several limitations and research perspectives. It thus seems necessary to follow inter-subsidiary collaboration for a longer period in order to deepen our knowledge of its effects on the network development of both subsidiaries and the MNE. We believe that future studies should also attempt to better understand the negative impact of such lateral collaboration, notably on the internal and external embeddedness of local subsidiaries. Furthermore, it would be interesting to integrate the geographic dimension to determine how home- and host-country factors are likely to affect the cooperation between subsidiaries. Our empirical study focuses on MNEs from manufacturing industries and should be extended to other industries, including service industries, to evaluate the potential impact of industry effects on inter-subsidiary collaboration.

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Table 1: Characteristics of case-studies

	Alpha (one Strategic Business Unit studied*)	Beta	Gamma
Industry	Equipment for industrial facilities	PVC materials	Automotive industry
Creation**	1920s	1980s	1940s
Total sales (2018)**	(About 200 M €*)	About 200 M €	About 250 M €
International intensity (% total sales)	(90%*)	75%	75%
Workforce (2018)**	About 3000 (About 800*)	About 800	About 1500
First subsidiary abroad**	1970s	2000s	2000s
Number of subsidiaries abroad	60 (12*)	9	9
Geographic markets served	Europe, Americas, Africa, Asia-Pacific	80 countries	Europe, Americas, Asia

*Company Alpha is organized around two independent Strategic Business Units. We studied one of them.

** Data were generalized in order to preserve the confidentiality of the companies.