

Empirical Paper

Marlena Dzikowska*, Marian Gorynia

Long-term evolution of the subsidiary's role: a qualitative perspective on a subsidiary located in Poland¹

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Abstract: So far, very little attention has been paid to the roles of foreign subsidiaries located in Poland and if or how these roles have evolved. Simultaneously, there exists strong empirical justification for assuming these roles have been evolving over the years. Through a literature review and empirical case study of a foreign subsidiary located in Poland, this study analyzes the evolution of the subsidiary role and indicates its relations with groups of external and internal determinants. The case study examines a 10-year period of operations of a foreign subsidiary active in the automotive industry. The results indicate that the evolution of the subsidiary role encompasses factors such as markets served, functional areas of operations, and complexity of operations. The presented case study describes the complex relations among factors related to the subsidiary, HQ, and environment concerning the evolution of the subsidiary role.

Keywords: foreign subsidiary, Poland, multinational enterprise, MNE, evolution of a subsidiary, subsidiary role, value chain

JEL Classification: F23, F61

1 Introduction

Many foreign subsidiaries specialize in relatively narrow sets of activities in the value chains of multinational enterprises (MNEs) and perform different roles in it [Jensen and Pedersen, 2011]. Over time, the subsidiary role may evolve [Hood et al., 1994; Birkinshaw and Hood, 1997; Delany, 1998; Pearce, 1999; Taggart, 1999; Rugman et al., 2011], and this process is related strongly to subsidiary evolution. In prior literature, three perspectives dominate the sources of subsidiary evolution [Birkinshaw and Hood, 1998], namely, headquarters (HQ), subsidiary, and environment-related perspectives.

This research applies the aforementioned three perspectives concerning the issue of foreign subsidiary evolution. In particular, it focuses on the following research questions:

- What factors can be used to reflect the evolution of a subsidiary and its responsibilities in a transition country context?
- What factors determine the evolution of a subsidiary in a value chain of the MNE in a transition country context?

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***Corresponding author: Marlena Dzikowska**, Institute of International Business and Economics, Poznan University of Economics and Business, Poland. E-mail: marlena.dzikowska@ue.poznan.pl

Marian Gorynia, Institute of International Business and Economics, Poznan University of Economics and Business, Poland. E-mail: Marian.gorynia@ue.poznan.pl

Consequently, the study has two main cognitive goals. The first goal involves learning how the role of a foreign subsidiary located in Poland can evolve over the years and which indicators represent such changes. In particular, this study aims to examine changes in reference to three periods—2005, 2012, and 2015—thus providing a 10-year perspective. The second goal focuses on the identification and interpretation of the relations between factors, indicating the role a foreign subsidiary plays in an MNE's value chain and groups of their external and internal determinants.

So far, previous studies on foreign subsidiary evolution predominantly focused on examples of subsidiaries located in highly and least developed economies (Table 1). However, this neglects the perspective of transition economies that have been developing their international relationships rapidly during the last 30 years as a result of the inflow of foreign direct investments (FDIs) and regional integration. Nonetheless, some previous influential empirical research studies on foreign subsidiary roles addressed this gap by considering foreign subsidiaries located in Central and Eastern European countries [Eckert and Rossmeissl, 2007; Jindra et al., 2009; Filippov and Duysters, 2012; Burger et al., 2018]. Although this solution adds to the international dimension of the study, it also carries some drawbacks. First, there exist significant differences between the experiences of countries, such as Poland, Hungary, the Czech Republic, Slovenia, Estonia, and the Slovak Republic, during their political and economic transitions into democratic countries and market economies. Second, Poland stands out from the rest of the abovementioned countries in reference to its market size, availability of human resources, value of gross domestic product (GDP), and (apart from Hungary) value of FDI inflow. Not surprisingly, the exceptional situation of foreign subsidiaries located in Hungary has already attracted attention from researchers [Sass and Szalavetz, 2013; Szalavetz, 2018]. However, there still exists a research gap in terms of qualitative studies reflecting on the complex relationships formed during subsidiary evolution, especially in the Polish context and applying a long-term time perspective.

The remainder of the article is structured as follows. Section 2 reviews the literature on foreign subsidiaries' roles and provides insights into the theoretical background of the study. Section 3 elaborates on the empirical research methodology. Section 4 presents the basic information concerning the Polish automotive industry to provide a necessary background for the case study. Section 5 elaborates on the empirical evidence drawn from the case study concerning a Polish subsidiary of an MNE, to illustrate the evolution of the subsidiary role within the value chain of an MNE and its potential determinants. The concluding section provides a synopsis, analyzes key research implications stemming from the research, and marks the limitations of the study and directions for future research.

2 Theoretical and empirical background of the study

2.1 Drivers of foreign subsidiary evolution

MNEs are perceived as interorganizational networks of geographically dispersed and differentiated but, at the same time, interdependent units [Crookell, 1986; D'Cruz, 1986]. From this perspective, the HQ and subsidiaries are involved in a perpetual bargaining process [Mudambi and Navarra, 2004; Andersson et al., 2007], and the subsidiary may possess potential and considerable latitude to formulate a strategy and make autonomous decisions [Birkinshaw, 1997; Taggart, 1997; Birkinshaw et al., 2001; Rugman and Verbeke, 2001; Cantwell and Mudambi, 2005; Ambos et al., 2010]. Moreover, based on the observations of MNE operations, international business scholars noticed that MNEs adjust their actions and strategies according to changes in environmental conditions [Kindleberger, 1966; Dunning and Robson, 1988; Ford and Strange, 1999]. This adjustment takes place through the integration of each subsidiary's strategy for certain local conditions while considering the HQ's resource configuration [Ghoshal and Nohria, 1997]. Thus, the model developed by Birkinshaw and Hood [1998] considers three drivers of subsidiary evolution: HQ management, subsidiary management, and local environment dynamics. This approach was also supported by Dörrenbächer and Gammelgaard [2006] and Filippaios and Papanastassiou [2008], among others.

Table 1 juxtaposes the empirical studies referring directly to determinants of foreign subsidiary evolution while considering the studies' emphasis, sample size, type (static/dynamic), analytical methods used, and

Table 1. An overview of the selected empirical studies concerning subsidiary roles*

	Emphasis	S/D	Sample size	Analytical methods	Geographical coverage
Andersson and Forsgren [2000]	Search for factors influencing a subsidiary's status as a center of excellence, with special attention paid to external embeddedness.	S	98	Regression analysis	Foreign subsidiaries of Swedish MNEs
Benito et al. [2003]	Examination of the environmental factors' importance in determining MNE subsidiaries' roles, with special attention paid to deep integration schemes like in the EU.	S	728	Analysis of variance (ANOVA); regression analysis	Foreign subsidiaries located in Denmark, Norway, and Finland
Cantwell and Mudambi [2005]	Analysis of subsidiaries' R&D intensity, with special attention paid to MNE group-level and subsidiary-level characteristics as well as locational factors.	S	225	Regression analysis	Foreign subsidiaries located in the UK
Manolopoulos et al. [2005]	Analysis of the impact of specific subsidiary roles on the accessibility of technology in a peripheral country in terms of the foreign direct investment received.	S	92	Descriptive statistics; regression analysis	Foreign subsidiary located in Greece
Tsai et al. [2006]	Examination of the relationships among the patterns of subsidiary strategic roles, organizational configurations, and business performance.	S	142	Factor analysis; cluster analysis; regression analysis	Foreign subsidiaries of Taiwanese MNEs
Dörrenbächer and Gammelgaard [2006]	Explanation of the foreign subsidiary role development in terms of changes in the market, product, and value-added scope, with special attention paid to subsidiary capabilities, host-country localization advantages, and strategies realized by human resources.	D	13	Case study analyses	Subsidiaries of German MNEs located in Hungary
Eckert and Rossmeissl [2007]	Examination of the influence of a subsidiary's external environment, tasks, mode of ownership, and mode of market entry on the development of the subsidiary role.	D	99	Descriptive statistics; ANOVA	Foreign subsidiary located in the Czech Republic, Hungary, and Poland
Boehe [2008]	Analysis of how different degrees of hierarchical control and incentive mechanisms in MNCs may influence subsidiary roles in product development, with special attention paid to subsidiaries' market scope and innovative capabilities.	S	146	Regression analysis; cluster analysis	Foreign subsidiary located in Brazil
Salgado [2011]	Analysis of a foreign subsidiary's role evolution, with special attention paid to its barriers resulting from local and corporate characteristics.	D	1	Exploratory case study analysis	Foreign subsidiary located in Mexico
Filippov and Duysters [2012]	Examination of foreign subsidiaries' role evolution in the context of new EU member states, with special attention paid to the headquarters' assignment and local environment dynamics.	D	100	Descriptive statistics; ANOVA	Foreign subsidiaries located in the Czech Republic, Hungary, and Poland
Sass and Szalavetz [2013]	Examination of product, process, and functional upgrading of foreign subsidiaries induced by the global economic crisis.	D	10	Exploratory case study analysis	Foreign subsidiary located in Hungary

Continued

Table 1. Continued

	Emphasis	S/D	Sample size	Analytical methods	Geographical coverage
Achcaoucaou et al. [2014]	Examination of changes in the R&D mandate of foreign subsidiaries in relation to internal and external embeddedness.	D	4	Exploratory case study analysis	Foreign subsidiary located in Spain
Burger et al. [2018]	Examination of the impact of functional upgrading on foreign subsidiaries' value capture.	D	308	Regression analysis	Foreign subsidiary located in East Germany, the Czech Republic, the Slovak Republic, Hungary, Poland, and Romania
Tippmann et al. [2018]	Examination of the simultaneous pursuit of competitive and cooperative behavior in subsidiary role development.	D	12	Exploratory case study analysis	Foreign subsidiary located in Ireland

Note: *Empirical studies focusing mainly on the subsidiary role typology are not included in the table.

S – static study; D – dynamic study.

Source: Own study.

the widely understood geographic coverage. International management researchers commonly accept that the subsidiary role evolves over time [Hood et al., 1994; Birkinshaw and Hood, 1997; Delany, 1998; Williams, 1998; Pearce, 1999; Rugman et al., 2011]. Such changes occur due to the dynamic patterns and changing interactions of the MNE- (HQ and subsidiary) and environment-related factors and policies, especially when a host country is involved in a transformation process. However, although the need for studies concerning the subsidiary role evolution is often highlighted in the literature [Jindra et al., 2009; Rugman et al., 2011; Filippov and Duysters, 2012], the current number of studies that take a dynamic perspective is still relatively low. In addition, there is a lack of qualitative studies concerning this subject that, instead of focusing only on the narrow aspects of the issue, examine the complexity of the subsidiary evolution phenomenon.

2.2 Inflow of foreign direct investment and subsidiary evolution in Poland

The accumulated value of net FDI inflows to Poland during 1990–2004 amounted to about 69.7 billion USD, which increased by about 165 billion USD by 2015 (World Development Indicators Database; accessed 17.12.2016). At the same time, data on foreign subsidiaries in Poland indicate that, over the years, the scale and scope of the subsidiaries' operations have been changing. More precisely, in 2002, the share of foreign-controlled affiliates in manufacturing and service sector turnovers amounted to respectively 38.9% and 26.7% [OECD, 2005], and by 2007, these values increased to 46.1% and 31.1%, respectively [OECD, 2010]. Furthermore, in 2002, while the average export and import propensity of foreign-controlled affiliates amounted to, respectively, 39.7% and 35.7% for the manufacturing industry and 3.3% and 26.8% for the service industry [OECD, 2005], in 2007, these values increased, respectively, to 51.7% and 38.0% and to 7.9% and 27.0% [OECD, 2010]. It is worth highlighting that Poland became a member state of the EU in 2004. This brought substantial changes in terms of FDI inflows to Poland and export from Poland [Gorynia, 2014; Dzikowska et al., 2017], that potentially were reflected the tasks assigned to foreign subsidiaries located in Poland.

The abovementioned information is supplemented by the results of other empirical studies. In particular, foreign subsidiaries located in Poland concentrate more on the downstream end of the value chain (marketing, sales, and customer service) than those located in the Czech Republic and Hungary [Eckert and Rossmeißl, 2007]; they have higher number of relations with local customers than subsidiaries situated in the Slovak Republic, Hungary, and Estonia [Jindra et al., 2009]; and they hold sales responsibilities exceeding the national level (the Central and Eastern European region or even the world) more often than foreign subsidiaries from Hungary and the Czech Republic do [Eckert and Rossmeißl, 2007]. In addition,

Eckert and Rossmeissl [2007] found evidence that the number of value chain functions carried out by foreign subsidiaries located in Poland has increased over time.

Therefore, there are reasons to suspect that the roles of foreign subsidiaries located in Poland within MNEs' value chains may be somehow different from the roles of foreign subsidiaries situated in other countries. Sass and Szalavetz [2013] indicated that this was the case for subsidiaries located in Hungary. However, there is a lack of studies concerning this subject, especially the ones taking a qualitative perspective. Previous influential empirical research on foreign subsidiaries' evolution referring to Poland conducted quantitative analyses and considered foreign subsidiaries located in both Poland and other Central and Eastern European countries [Eckert and Rossmeissl, 2007; Jindra et al., 2009; Filippov and Duysters, 2012]. Their reasons for selecting such a research sample is that the process of these countries' transition to market economies started in the 1990s and the countries have similar practices related to privatization, liberalization, and macroeconomic stabilization [Gabrisch and Hölscher, 2006]. Although this solution added an international dimension to the study on this subject, it also carries drawbacks. First, there exist significant differences in the experiences of countries such as Poland, Hungary, the Czech Republic, Slovenia, Estonia, and the Slovak Republic in the political and economic transition into democratic countries and market economies. These differences can be largely explained by their initial conditions, macroeconomic policies, and structural reforms [Fidrmuc and Tichit, 2009]. Second, Poland stands out from the rest of the abovementioned countries in reference to its market size, availability of human resources, GDP values, and (except from Hungary) FDI inflow values.

Through the literature review, it was concluded that the subsidiary role and the role's evolution are very complex issues, which can be represented by many distinct but interlinked indicators. These issues are simultaneously interrelated to multifaceted matters related to the subsidiary itself, the HQ, and the environment in which they operate. The complexity of these relations is difficult to capture in quantitative studies without appropriate operationalization of the subsidiary role. Case study research allows one to recognize that in complex systems, trajectories and transformations depend on the whole, the parts, interactions among the parts and the whole, and interactions between a system and other complex systems among which it is nested and with which it intersects [Ragin and Becker, 1992]. Such a research methodology appears to be promising for this area of study. Furthermore, quantitative studies on subsidiary evolution have not yet been conducted in the Polish context.

3 Methodology

The aims of this study include understanding how the role of a foreign subsidiary located in Poland has been evolving over the years as well as interpreting the relations between factors indicating the role and the groups of its potential external and internal determinants. Case study research was chosen to provide contextualized explanations suggesting that causal linkages are not simple and universal but may operate differently in different contexts [Welch et al., 2011]. A single-site research design was considered appropriate as the studied phenomenon has rarely been explored in the Polish context [Eisenhardt and Graebner, 2007], and this design should provide a comprehensive understanding of the studied company and issues. In line with Piekkari et al. [2009], it was assumed that the use of multiple cases with few data sources per case would not result in similar richness of results. Thus, the selection of the case was theoretically grounded [Yin, 2009].

The collection of primary data took place for 18 months, during 2013 and 2014. A follow-up interview was conducted in 2017. The data collection comprised interviews and formal and informal discussions with key managers. The majority of the interviewed managers were of Polish origin, but some respondents originated from the MNE's home country (designated by the HQ for a temporary contract at the subsidiary). Altogether, the author conducted five interviews. The conversations focused on major areas of the subsidiary's operations and were conducted with the President of the Board, Managing Director, and HR Director.

The issues raised during the interviews were assigned to three different time segments: the year 2005 when the subsidiary started production, the year 2012, and the year 2015 (referring to the mid-term future

at the time of the interview). It is worth highlighting that, when referring to the future, respondents were requested to base their answers on the subsidiary's and MNE's actual plans, rather than on subjective opinions [for a similar solution, see Jarillo and Martinez, 1990]. This information was crosschecked further in 2017 upon gathering secondary information and conducting the follow-up interview. The primary data were then triangulated with secondary information, which included financial reports, articles, and internal documents of the company.

Drawing on previous literature [White and Poynter, 1984; Delany, 2000; Sass and Szalavetz, 2013], the issues indicated in the interviews were categorized based on the subsidiary role, subsidiary-related factors, HQ's involvement, and factors related to the environment. Table 2 presents the basic issues assigned to the concepts. When conducting the analysis, open, axial, and selective coding [Strauss and Corbin, 1998] were used to extract topics and sub-topics from the transcripts and other data sources. Then, the results were used to build a holistic understanding of the subjects raised by the two research aims.

4 Case description

4.1 Industry and corporate background

For years, the automotive industry has been the second largest manufacturing sector in terms of generated turnover in Poland. The biggest companies in the Polish automotive industry constitute foreign subsidiaries that started their operations in Poland after 1989. These players exerted significant influence on the development and present condition of the industry. By 2010, FDI stock for the automotive industry amounted to 6.7 billion EUR and was still growing. In 2011, companies already operating in the automotive industry additionally invested about 725 million EUR in innovation activities, and 65% of this value was spent on acquisitions of machinery and technical equipment [GUS, 2012].

As a result of changes induced by foreign investors in the automotive industry, for years, the industry's level of productivity has been visibly higher than the average for the Polish manufacturing industry (respectively, about 160,000 EUR and 116,000 EUR of sold production per employee in 2014; GUS, 2015). In addition, ~90% of automotive industry production is sold to other European countries, and Poland is the second largest car and automotive parts manufacturer in Eastern Europe after the Czech Republic—the turnover of automotive companies in Poland amounted to about 29 billion EUR in 2014 (Eurostat database, accessed: 05.06.2016). Membership of the CEE countries in the EU enabled a high integration of the foreign subsidiaries (located there) in the value chains of MNEs operating in the automotive industry.

The majority of foreign investors from the automotive sector are agglomerated relatively near each other, in the south-west part of Poland. One reason for such agglomeration, besides the proximity between suppliers and customers, is the existence of special economic zones (SEZs). Poland has 14 such zones in Poland, of which 7 have attracted many automotive companies. Localization within SEZs is favorable, as income from business activities conducted within this territory is often tax-exempted. The Polish Ministry of Economy grants these permits; however, in practice, the ministry authorizes the entities managing the SEZs to issue them.

Table 2. Issues assigned to the latent concepts

Subsidiary role	Subsidiary-related factors	Headquarters' involvement	External environmental conditions
Areas of operations	Competitive potential	Autonomy level	General
Advancement of operations (complexity and added value)	Relations with local suppliers/ portfolio of local suppliers	Support in terms of competitive potential development	macroeconomic conditions
Market served	Initiative	Appraisal of subsidiary aims' fulfillment/recognition of actions	Competitive conditions

Source: Own study.

PL MOTO is a subsidiary of an Asian MNE (MOTO MNE) located in Poland. MOTO MNE's operations in the automotive industry started in the 1970s. Today, the whole MNE group consists of about 50 subsidiaries operating in around 20 countries in Asia, Europe, America, and Australia. During fiscal year 2015, the group generated sales amounting to over 2 billion EUR while employing about 11,000 people worldwide. For years, around two-thirds of the capital group's sales were generated by automotive systems, and the company has been recognized as a first-tier supplier to the world's major car manufacturers with a 25% global market share in its segment.

4.2 PL MOTO

PL MOTO, the Polish subsidiary of MOTO MNE, was established in 2004. Important aspects of locating this investment in Poland were benefits related to participation in the EU market together with accessing low labor-cost market. From the very beginning, the plan was to use the subsidiary as a production center, specializing in a set of technologically advanced products targeting to supply a part of the European market. All the products of PL MOTO are sold to final clients through a regional company—MOTO EUROPE. Such an approach is common within MOTO MNE. As a result, MOTO EUROPE can sell more complex offers, has more experience in serving main customers and maintaining long-term relations with them, and possesses higher bargaining power over customers than single production center does. This means that PL MOTO has relatively low influence on price levels, as those are set based on the cost levels and are susceptible to foreign currency fluctuations. This trend is additionally strengthened by the fact that agreements between car manufacturers and first-tier suppliers often cover several-year periods and put a strong emphasis on regular reduction of prices. Therefore, cost levels generated by PL MOTO are of special importance. This is evident from the viewpoint provided by the Managing Director:

“From our perspective, the price is given, and so we have to be very cost focused and concentrate on constant improvements and adjustments. Costs can of course be divided into different categories, and depending on the cost category, we apply appropriate actions.” Managing Director, 2014.

The provided evidence highlights the importance of cost level in the situation when the subsidiary has very little influence on the price level. At the same time, PL MOTO's products are targeted at quality-focused clients. Thus, during the production process, special attention is paid to their quality and reliability. Therefore, for the subsidiary, cost reduction is an issue of economies of scale, efficiency of the production process, and process improvement, rather than of reduction of intermediate goods' quality. This is reflected by another indication of the Managing Director:

“The final clients [car manufacturers] expect a reliable, highly efficient, and not expensive product. To improve our competitiveness, we need to concentrate on many areas. Efficiency is crucial for us. It exerts a unit impact on amortization, HR costs, and property costs. So, we try to create improvements in this area also.” Managing Director, 2014.

Table 3 presents basic financial data concerning PL MOTO during the analyzed period. The data show that despite the negative situation of the world automotive sector, the subsidiary has been developing quickly. The turnover growth results from the increase in production of “old” products and introduction of new products. The President of the Board indicated that possibilities for growth of the subsidiary resulted from specific characteristic (advanced technology) of the provided products together with favorable external conditions:

“When we started production, our products were very modern. Products that our company offers are more technologically advanced than the ones produced in other sister companies located in Europe. Demand for such products grows. This is one of the reasons why we can also grow further and obtain new investments. Another thing is that we are launching new products.” President of the Board, 2013.

As highlighted by the President of the Board, the state-of-the-art products, growing demand, together with the changes in the product portfolio reflecting this trend, were drivers of new investment and growth

Table 3. Basic financial data concerning PL MOTO

	Turnover (thousand EUR)	Assets (thousand EUR)	Employment
2005	70	36,000	39*
2008	83,000	89,000	350
2012	110,500	100,000	490
2015**	250,000	120,000	750
2015***	130,000	150,000	1,000

*Data refer to 2004.

**Forecast values.

***Actual values.

of the subsidiary. Data concerning 2015 refer to the company's plans resulting from investment started in 2012. By 2015, the turnover generated by the subsidiary was expected to double. However, this expectation was not met. This can be partially explained by the fact that further investment was carried out in the subsidiary, which resulted in higher than expected increases in the subsidiary's assets and employment level. In 2016, the generated turnover was significantly higher than before and exceeded 180 million EUR.

4.3 The subsidiary's role in the MNE's value chain

The main functions of PL MOTO include assembly, production, quality control, and logistics. The subsidiary also has its own administration department that provides supporting services (tasks related to accountancy and human resource management). Until 2013, PL MOTO did not have its own R&D department; however, such a unit was created by 2015. In terms of market scope, the functions of supporting services, quality control, and R&D had local scope from the moment of their establishment until the end of the analyzed 10-year period. At the same time, the production, assembly, and logistic functions had regional scope (to fulfill the needs of regional sister subsidiaries and external customers) throughout the research period. Changes with regard to assembly and production functions were, however, visible in terms of their sophistication level. As a result of the investments mentioned earlier and changes in the sourcing strategy, the level of added value generated by PL MOTO through its products increased significantly, along with the complexity of the performed tasks. The substantial increase in the added value level, and a unique role of the subsidiary within the MNE has been highlighted by the President of the Board:

"The technologies that we are introducing right now are very advanced. Some of them have not been introduced before in the whole group. Some of the intermediate goods that will be produced in Poland have never before been produced within the group. As the result of those investments, the added value we will be able to generate will increase significantly." President of the Board, 2014.

The described changes required technological advancement of the tasks performed within the production and assembly functions, which was a prerequisite for subsidiary growth. At the same time, the sole fact of being assigned these new tasks was perceived as promotion of the subsidiary.

4.4 Subsidiary-related factors

4.4.1 Relations with local suppliers/portfolio of local suppliers

At the very beginning of its operations, PL MOTO's suppliers were chosen by the HQ. To some extent, PL MOTO adjusted this practice locally. However, the majority of intermediate goods were bought by the subsidiary within the corporation. The most drastic change in this regard took place in 2015 with the

creation of a local purchasing department. This change was supposed to increase PL MOTO's flexibility, decrease its dependency on the HQ regarding supplies, and, finally, lead to a decrease in intermediate goods' prices. However, the MNE's regional office was still responsible for major regional purchases of intermediate goods. As indicated by the Managing Director, gaining new experiences in cooperation with regional and local suppliers was an important aspect of the subsidiary's transformation:

“At the beginning, we were supplied by the HQ with casting molds. These turned out to be too expensive; the prices were high, transport was expensive, and, surprisingly, their service life was not too long too. So, shortly after production was started, we found a supplier in Germany. Currently, almost 90% of such parts are bought from Polish suppliers, and we are satisfied with those products, both their quality and prices. These actions were induced by our initiative; we had full autonomy in this regard. We simply tried to decrease our cost and improve our competitiveness.” Managing Director, 2014.

While the cost aspects were an important motivation for the change of the suppliers, the subsidiary had to show active initiative in this regard and sell the idea of the suppliers change to the MNE's managers. From this perspective, the cost and quality advantage offered by the local suppliers provided an opportunity that was used to demonstrate to the MNE a proactive behavior of the subsidiary. However, the local supply environment of the subsidiary has also created some external threats from which the subsidiary had to compensate itself. In fact, the internalization of the share of intermediate goods' production in the subsidiary resulted from its inability to find a local supplier able to fulfill the required quality standards at an appropriate price level. This is why, as noted by the President of the Board, the subsidiary perceived the suppliers as partners with which it could develop strong, reciprocal ties:

“Finding a supplier who fulfills our quality requirements, price targets, and development prospects is difficult. When we find an intermediate goods supplier with potential—and I am not speaking only about Poland but also about the whole Europe, especially Central and Eastern Europe—who does not fully meet our requirements, but has potential for it, we try to help this supplier to upgrade. We influence its development.” President of the Board, 2013.

Despite the active efforts of the subsidiary to increase its share of purchase from local and regional suppliers, the level of internal embeddedness has been growing slowly. The following statement highlights the importance of the stronger embeddedness of the subsidiary in the local context and the very low initial level of this aspect even after 5 years from establishing the subsidiary:

“We have not had strong relations with external intermediate goods suppliers so far. Most of those goods were supplied by the HQ. Currently, our strategy is based on the development of suppliers other than the HQ. But we are only starting to introduce it. This is for flexibility and cost reasons. Another thing is diversification of foreign currency risk. It became very high and was threatening further investments.” President of the Board, 2013.

“Speed of reaction and fulfillment of our requirements is really good. We try to go in this direction, support such kind of cooperation, and increase its level. With regard to intermediate goods, it goes a little bit worse.” President of the Board, 2013.

The aforementioned testimonies additionally indicate that strong supply relationships with the HQs had prevented the subsidiary from developing its own relationships with external suppliers earlier. While this can be explained by a limited trust of the foreign investor to environment in which it has no previous experience, it also exposed the subsidiary to the conditions of the unfavorable external environment of the home country.

The most important local suppliers of PL MOTO in 2013 were its service, tools, and machine parts providers. In the opinion of the subsidiary managers, cooperation with those companies fulfilled the expectations of PL MOTO fully and contributed to the uniqueness of the subsidiary. The subsidiary has developed strong, reciprocal ties with those companies, including even some forms of knowledge transfer. This is evidenced by the fact that some suppliers' employees have become members of teams working on efficiency improvement projects in PL MOTO, and the subsidiary provides its crucial suppliers with information concerning promising technologies, together with expectations and requirements concerning

further development. As evident in the following statement of the Managing Director, the close cooperation with those suppliers was perceived as beneficial for the subsidiary:

“We have had very good relations with local providers; so far, cooperation has been working really well. Their employees are often members of our project teams and help us improve our processes. This is also in their interests. In return, they can develop, grow and employ new people. There are also some small, local suppliers that we managed to find, who supply us with machine parts or casting molds. Those local, widely understood service providers support our uniqueness. We try to strengthen such cooperation.” Managing Director, 2014.

The possibility for incoming knowledge flows explains the special interest in cooperation with external suppliers. However, the number of this kind of relationships and areas of those cooperation relationships were limited. Furthermore, it should be highlighted that the suppliers' dependency on the subsidiary was much stronger than the subsidiary's dependence on them. While this is visible in the aforementioned statement, it was also clear when considering the share of suppliers' total turnover generated by PL MOTO in comparison with the share of costs generated by those suppliers within the total costs of the subsidiary. Moreover, plans concerning PL MOTO's operations for 2015 assumed that the share of intermediate goods provided by the local suppliers would increase. While this has eventually happened, the speed of change was slower than initially expected by the subsidiary.

4.4.2 The subsidiary's competitive potential

As presented in Table 3, the amount of assets and number of employees under PL MOTO's control has been increasing over the analyzed 10-year period. This shows that the subsidiary's competitive potential has been growing. The launched investments were aimed at increasing production capacity, enabling the changes regarding the subsidiary sourcing strategy, and improving production technology. As a result of those changes, products offered by PL MOTO have become more technologically advanced and have higher quality, while the production process has become faster, more environment-friendly, and cost-efficient. In addition, the PL MOTO's product portfolio increased.

4.4.3 Initiative

The majority of investments made in this location resulted from decisions made by the HQ, and the increase in employment was caused by an attempt to utilize the subsidiary's higher production capacity. However, it should be remembered that decisions concerning new investments were not planned at the beginning of PL MOTO's operations. From the beginning of the subsidiary's existence, its local team was significantly involved in the process of PL MOTO's competitive potential development. This involvement included the adjustment of corporate standards and practices to local realities, encouragement of creativity and innovativeness among employees, and appropriate targeting of capabilities' development.

“One thing is the amount of knowledge and investment that was transferred from the HQ. The knowledge had to be adjusted to the Polish realities. The adjustments were introduced locally by our team. Our whole management team was involved in this adaptation process. We were testing different solutions, checking them, and adapting. The exact transfer of some practices was not possible; they would not work. There were too many differences concerning the way of thinking, approach to problems, cultural differences... The basic framework and the concept, stayed valid, but we adjusted the rest.” President of the Board, 2013

The aforementioned statement indicates that the subsidiary was actively involved in adjusting MNE's standards, practices, and tactics to the local context. The practices introduced in the subsidiary turned out to be very successful. Almost all employees are involved in the suggestion system and quality circles. Moreover, PL MOTO has become a leading subsidiary within the corporation, when referring to efficiency improvement processes and targeting further development requirements. This allowed the subsidiary to gain trust from the HQs in terms of ability to further development required capabilities

and permitted the subsidiary to be self-sufficient in terms of setting directions for further development. In line with the aforementioned argumentation, the Managing Director of the subsidiary indicated the following:

“Currently, frankly speaking, our development requirements are defined internally, within the subsidiary. We try to direct the development of capabilities on our own.” Managing Director, 2014.

While the aforementioned statement indicates a scope of freedom of the subsidiary in terms of its development, it also proves its proactive behavior in establishing areas that need further development. However, the initiative of the subsidiary is not limited to the responsibilities that have been already officially assigned to the subsidiary. As indicated by the HR Manager, the subsidiary takes active attempts at attracting new investments:

“Our initiative focuses on getting a new business. So far, we have managed quite well in this regard.” HR Manager, 2014.

PL MOTO managers can, of course, try to highlight the subsidiary's strengths and suitability for a particular investment. However, these actions generally have a social and marketing character.

4.5 HQ's involvement

4.5.1 Support in terms of competitive potential development

As mentioned earlier, the basic framework for the subsidiary's competitive potential was provided by MOTO MNE together with the primary investments. It was adjusted by PL MOTO's team to the Polish context. The subsidiary's competitive potential increases as a result of further investment. PL MOTO's managers regard HQ support in this area as sufficient, and further development of the subsidiary's capabilities is based on PL MOTO's own initiative. In this regard, the subsidiary is both creative and autonomous. This is indicated by testimonies of the Managing Director and Human Resource Manager of the subsidiary:

“Right now, our competitive potential is developed by ourselves; we do not need additional incentives.” Managing Director, 2014.

“Of course, good practices are shared in other subsidiaries, in the whole corporations, but the actions are really individual and autonomous.” HR Manager, 2014.

The statement of the HR Manager indicates that although the subsidiary has freedom in choosing the directions of development, it does not do so in isolation from the MNE, and perceives itself as a member of a larger group providing support for further development.

4.5.2 Autonomy

The autonomy level of the subsidiary is differentiated depending on the particular area of decision. PL MOTO managers have full autonomy in regard to organization of the production process. Decisions concerning expansion to new markets and creation of new products are made by the HQ. Different levels of the decision-making autonomy within operational and strategic areas have also been acknowledged in the statement of the President of the Board:

“We have full autonomy. Of course, I am talking about production that has already existed in our subsidiary, not new investments. Decisions concerning new investments are made by HQ, and, already at this point, potential recipients of such investment are selected.” President of the Board, 2013.

While the decisions concerning new investments are made by the HQ, the subsidiary tries to monitor such opportunities and be visible for the decision-makers. Autonomy in terms of the sourcing strategy is more complex. When referring to intermediate goods, purchases are mainly organized within the corporation. However, such purchases do not include basic goods and services related to maintaining the production process, which is autonomous for the subsidiary. As mentioned before, in 2013, there was a plan for this role of the subsidiary to increase. This is indicated by the President of the Board:

“The European purchasing division has a quite significant role in relation to propositions in this regard [intermediate goods purchases]. We are planning to create a purchasing department in Poland. We want to increase our role with regard to selection of suppliers. However, a significant part of this role will still remain under control of the corporation.” President of the Board, 2013.

In relation to the aforementioned statement, it is worth highlighting that the plans concerning PL MOTO’s operations for 2015 assumed that the share of intermediate goods provided by the local suppliers would increase, and the subsidiary wanted to have a decisive impact on their selection (see subsection 4.4.1). While the share of intermediate goods provided by the local suppliers has increased by 2017, the speed of change in terms of was substantially slower than initially expected by the subsidiary.

4.5.3 Recognition

The achievements of the analyzed subsidiary have been noticed within the corporation. Over the years, PL MOTO’s teams have won in the regional and global contests conducted by the corporation. Furthermore, some of the practices started by PL MOTO were introduced in sister subsidiaries. Another aspect is the ability of the subsidiary to attract new investments. This is reflected in the following testimonies:

“I think that, in some sense, we have shown that we can do a lot, achieve a lot. And we managed to build trust and reputation in the capital group. We have shown that, in Poland, we can successfully manage a project and receive really good results. The other things are cost issues. We are cost competitive when compared to other sister companies, and this also attracts additional investments to our subsidiary.” President of the Board, 2014.

“The fact that we are creative, resourceful, hard-working is appreciated.” HR Manager, 2014.

“The corporation is fully aware of our cost competitiveness. I cannot say that our sister companies are worse appraised, because, in many areas, they are better than us. They have been operating longer, they have departments that we still do not possess, and we are only trying to start operations in those areas. Some of the production processes are better performed there. At the same time, our subsidiary has also mastered some processes better. But the cost element is very important and we are cost competitive. Another thing is the motivation of employees. Motivation of employees is much higher in Poland than in our European sister companies’ locations.” Managing Director, 2014.

As indicated from the aforementioned statements, the most important factors in the HQ’s appraisal, as seen by PL MOTO’s managers, are cost competitiveness, motivation of employees, and continuous efforts toward improvements. PL MOTO has also been active concerning corporate social responsibility (CSR) actions. Among others, the subsidiary supports the local community by cooperating with vocational schools, encouraging environment-friendly behavior and local initiatives, and helping a local public organization. In fact, the subsidiary was the first among the whole group to launch an official CSR policy.

“Our CSR policy is seen as a benchmark. Our subsidiary was selected as a leader for an international project team aiming at creation of a common European CSR policy.” HR Manager, 2014

Importantly, the local activity in terms of CSR actions has been used by the local management to positively differentiate the subsidiary within the MNE. The ability of the subsidiary to individually start operations in an area relatively new for the whole group also allowed to substantially improve the subsidiary’s credibility.

4.6 Environment-related factors

From the beginning of its operations, PL MOTO was located in an SEZ. Thus, the subsidiary has been using an income tax exemption. As mentioned before, permits for operations in SEZs are granted by the Polish Ministry of Economy but issued by the entities managing SEZs. It is required for all new investments and business expansions in the SEZ to have new permits. This implies that the subsidiary must support relations with the administration of the SEZ in which it operates as well as with representatives of the Ministry of Economy. These relations were crucial at the beginning of PL MOTO's operations in Poland and become important whenever the MOTO MNE increases investments in PL MOTO. This means that, over time, the strength of the relationship between PL MOTO and governmental actors has developed in line with the proposition of Drogendijk and Andersson [2013]. In particular, the relationship was at the highest level at the moment of establishing the subsidiary. Over time, its strength has decreased; however, the relationship becomes stronger every time a subsidiary investment takes place.

In the opinion of PL MOTO's managers, the most important governmental stimulus for conducting and extending the company's operations in its present location is the tax exemption. The vast amount of land in the SEZ, which is in the possession of the company, allows the subsidiary to be further developed and new investments to be made, if necessary. The role of governmental actors, as seen by the subsidiary managers, should be focused on harmonizing the law and its interpretations. It is worth highlighting that, according to the research conducted by the Polish Information and Foreign Investment Agency (a governmental organization supporting foreign investors in Poland) in 2012, clarity and consistency of law, together with the effectiveness of commercial courts, were factors that received the lowest results among all the elements shaping the investment attractiveness of Poland [PAIiIZ, 2012].

Besides governmental aspects, localization of PL MOTO has other important consequences for the effectiveness of the subsidiary's operations. According to PL MOTO's managers, the most important factors include proximity to customers, relatively good infrastructure, sufficient amount of qualified workers, and level of wages. Geographical proximity to customers, together with relatively good infrastructure, allows for easier coordination of just-in-time deliveries and reduces transportation costs, which is of special significance for big/heavy products. In the automotive industry, just-in-time deliveries are a basic requirement toward becoming first-tier suppliers, and the cost-related issues are, as mentioned before, crucial for PL MOTO's operations. The impact of these aspects within the process of selection of location has been highlighted by the President of the Board:

“Products that we specialize in are a bit different than products manufactured by other sister companies in Europe. We are located relatively close to our main customers. That was very important when deciding where to create a new subsidiary. At the beginning, this was of major importance.” President of the Board, 2013.

Over time, the number of people employed by PL MOTO has increased (Table 3). The present location of the subsidiary enables access to a sufficient amount of workforce. From this perspective, the close location of other automotive companies exerts a dual influence on the subsidiary's situation. On the one hand, such a state increases the number of locally available people with at least basic experience in the automotive industry. On the other hand, it offers wider job opportunities for such workers. To secure future access to potential workers, PL MOTO cooperates with local vocational schools.

Moreover, the wage level in Poland has been favorable for the development of the subsidiary, as average remuneration level in Poland has stayed at a level significantly lower than that in Western European and even in some Central European countries. Overall, PL MOTO's managers evaluated the local workforce as being highly qualified and the remuneration level as competitive, when compared with other foreign locations.

The competition within the market segment served by PL MOTO occurs at a global level, even though direct competitors are not located near the subsidiary. Therefore, from this perspective, the local environment has no significant influence on the situation of the analyzed company.

5 Conclusions

The presented case study describes the complex relations among factors related to the subsidiary, HQ, and environment concerning the evolution of the subsidiary role. The HQ exerts the influence on the subsidiary through the use of control and allocation of resources, which always require decision-making. This decision-making process may still be subject to discussion and negotiations between the HQ and subsidiaries [Hedlund and Rolander, 1990; Taggart, 1999; Dörrenbächer and Gammelgaard, 2006]. These aspects have been considered in the presented research. On the other hand, the heterogeneity of the company's resources [Penrose, 1959] is a valid issue for foreign subsidiaries. The features of distinctive resources are crucial to the competitiveness of the subsidiary, as they enabled PL MOTO to stay cost-competitive. This is in line with the assumptions of the resource-based theory [Wernerfelt, 1984, 1995; Prahalad and Hamel, 1990; Barney, 1991, 2002; Barney, Clark, 2009]. The asymmetry about resource distribution between PL MOTO and its sister companies is reflected in the subsidiary's development scope [Amit and Schoemaker, 1993].

In addition, in line with the network model of the MNE, the position of subsidiaries within their MNE networks may not only be assigned by the parent firm but also result from independent and innovatory activities performed by subsidiaries that enable them to develop their own unique resources and expertise locally [Birkinshaw et al., 1998]. The described case study constitutes an example of an initiative-taking subsidiary that has managed to develop its capabilities successfully as well as to create and sustain a competitive advantage. This also enabled a change in the subsidiary's role in the MNE's value chain.

The described subsidiary is also an example of a strategic business unit that has shown a significant level of initiative. However, even if a subsidiary possesses superior resources, the HQ must still recognize and acknowledge this fact to qualify the subsidiary for a new mandate [Prahalad and Doz, 1981]. The presented company managed to prove its value for the whole capital group, build trust, and become recognized for its achievements. The recognition is also an important factor for subsidiary development in reference to the subsidiary's competitive potential. PL MOTO's initiative and distinctive capabilities encouraged higher involvement of the HQ (i.e., through investments), and further investments supported further development of its competitive potential. Thus, in this relation exists a feedback mechanism.

P1: There is an interaction effect between the HQ's involvement and subsidiary-related factors when explaining evolution of the subsidiary's role in the MNE's value chain.

The case study also shows that decisions concerning the subsidiary's development can be influenced by external environment conditions. This is in line with the general findings of strategic management researchers [i.e., Spanos and Lioukas, 2001; Cyron, 2002] and of Benito and Narula [2007] and Filippaios and Papanastassiou [2008]. Presently, the most important features of PL MOTO's environment are the highly qualified and relatively inexpensive workforce and proximity to Western European countries. This indicates that although the external environmental conditions may influence the foreign subsidiary's role development process, this influence is rather indirect, as it is transferred by the decision makers/action takers and may be subject to their susceptibility to those conditions.

P2: The impact of external environment-specific factors on the evolution of the subsidiary role is indirect, occurring through the HQ's involvement rather than directly.

P3: The impact of external environment-specific factors on the development of the subsidiary role is indirect, occurring through the subsidiary's competitive potential rather than directly.

Since 1989, Poland has attracted a huge amount of FDIs. Nevertheless, very little attention has been paid to the evolution of foreign subsidiaries located in Poland and their roles within the value chains of MNEs. It is commonly known that workforce in Central and Eastern European countries is cheaper than that in more developed parts of the world. Nevertheless, the issue concerning the development of subsidiaries located in Poland is more complex. This study aimed to provide the contextualized explanations for changes in the subsidiary's role and constituted an attempt to partially fill the identified research gap. Nevertheless, it is not

free of limitations. Specifically, the study focuses on one case study operating in the automotive industry and located in a transition economy. As Poland became a member of EU only in 2004, the speed and direction of the evolution of subsidiaries located in developed countries may be substantially different. Furthermore, since we presented a qualitative study our goal was to present propositions and not to develop and verify the hypothesis. From this perspective, quantitative studies focused on subsidiary evolution in the context of subsidiary role, and subsidiary-, environment- and HQ-specific factors constitute an interesting area for further research. In addition, in our study, we focused on the analysis of subsidiary role evolution from the perspective of a subsidiary. However, future studies on this topic can also consider changes taking place simultaneously within the internal network of the MNE, including the perspectives of sister subsidiaries and HQ.

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