Are ” can a subsidiary bring added value

Are multinational headquarters securing maximum value from their subsidiaries? Research Proposal Lecturer: Dr.

Collette Darcy Written by: Derek Malone – Student Part Time MBA 2017/2018 ID: X16117875Submission date: 29th January 2018 Number ofwords: 2, 334 Contents Introduction. Characteristics of the Market Bibliography. Introduction The overall aim of the researchwill be to answer the research questions ” Can a subsidiary bring addedvalue beyond the original mandate to the parent organisation? How could subsidiary innovation, andentrepreneurship be identified and tapped? Is there a strategic imperative for subsidiaryinnovation? “.

Research indicates thatsubsidiaries do develop unique knowledge which can be of significant value tothe Multi-National Corporation (MNC). The fact that there is widely dispersedbusiness units, creates an environment which lends itself to the development ofstrategic leaders (Barlett and Goshal, 1989), centres of excellence (Holm and Pedersen, 200) and centres of competence(Solvell, Zander and Porter, 1991) which ultimately will lead to a competitiveadvantage for the parent organisation. A key researcher in the area ofsubsidiary innovation from the London Business School is Julian Birkinshaw hehas maintained that despite its benefits the for the MNC, the topic ofsubsidiary entrepreneurship has received inadequate research and attention (Birkinshaw, Hoodand Young, 2005). Debate centres on how subsidiaryinnovation is successfully identified and integrated and there is still work tobe done in this area. The proposed research will be tolook at the advantages and disadvantages of promoting subsidiary innovations, the types of models that can be used for identifying subsidiaries readiness forinnovation and/or entrepreneurship and the barriers which can arise. Through interviews with industryexperts whom have advised top MNC’s on the topic of innovation and developingsubsidiaries it is anticipated to present real world examples of successfullysubsidiary innovations and applied academic models. A case study will be examinedwhere different subsidiaries will assess their own stages of readiness forinnovation practices.

The goal of the research will beto demonstrate the effects that subsidiary innovation can have for the entireorganisation positively and negatively. It will attempt to offer practiceswhich could be applied to identify and utilise subsidiary resources where theymay present for the betterment of the complete organisation. Literature Review Why should subsidiaries concern themselves with innovation? Traditionally subsidiaries ofMulti-National Corporations (MNC’s) have been viewed as units which onlydeliver upon existing corporate goals and strategies as designed byheadquarters. There is evidence to suggest that the success of the MNC is dependenton its ability to leverage the dispersed knowledge and innovative potential ofits subsidiaries (Reilly andSharkey Scott, 2014).

Key to success is the enablementby headquarters (HQ) of subsidiaries to innovate. It is primarily the role ofthe subsidiary to respond to the demands of the local market, but subsidiariescan be uniquely positioned geographically or have unique skills which could addvalue to the whole organisation through innovation and development of newinitiatives which may have global application or potential (Birkinshaw et al, 2005) It is necessary for a MNC to beopen to flexibility and strategic autonomy at the subsidiary level in order tobe innovative and responsive at the global level.

Subsidiaries with low levelsof local autonomy are unlikely to create or diffuse initiatives and companieswith high levels of centralisation will impede the organisations abilities tocreate innovations. (Ghosal and Bartlett, 1988) It is considered advantageous forMNC's to try and leverage the talent within subsidiaries for innovation andentrepreneurship to advance the whole organisation. A MNC that does not attemptto utilise subsidiaries in this way are missing out on a significant potentialresource. If a MNC is to effectively utilise its worldwide resources, it mustfirst identify what the resources are and where they are located (Bartlett andGhosal, 1986). Birkenshaw identifies thatsubsidiaries are usually started with the goal of servicing their local market, by selling the products or services of the parent company, but as thesubsidiary develops their own resources and capabilities they adapt to take onadditional responsibilities creating new opportunities and capabilities with whichthe whole of the MNC organisation can draw on (Birkinshaw, Hoodand Jonnson, 1998).

The growth of scope of asubsidiary is the increase in the variety of activities undertaken at asubsidiary site on behalf of the parent organisation, this is key to thestrategic development of the subsidiary (Molloy and Delany, 1999). (Bartlett and Ghoshal, 1986)maintain that subsidiaries can be leaders or contributors to innovationprojects within the organisation that can produce major gains for the overall corporation. Birkinshaw defined some terms todescribe subsidiaries whom contribute significantly to the overall organisationabove and beyond their original mandate:- Specialised contributor- Strategic leader- Active subsidiariesSubsidiaries that do notcontribute significantly above original mandate are described as:- Implementers- Branch plants(Birkinshaw etal., 1998) Molloy describes non-supportingsubsidiaries as " good boy scouts", who do what they are mandated but do notnecessarily demonstrate any innovative or entrepreneurial ambition (Molloy andDelany, 1999). Direction of people throughcommand and control leadership is the least effective way to direct the effortsof an organisation (Leslie et al., 2006). In the emerging global markets the harnessing of the intellectual firepower, creativity and drive of subsidiaries will be an essential competitive weapon(Molloy and Delany, 1999).

A Hakala et al, 2016 studydemonstrates empirical evidence that subsidiaries with an entrepreneurialorientation can indeed be a source of competitive capability for the completeMNC (Hakala et al., 2016) What are the criticisms of encouraging subsidiary innovation? Criticism of subsidiaryentrepreneurship has been that it leads to a lack of focus and creates aproblem of dealing with multiple performance challenges. One to the localmarket and how the subsidiary is perceived by it and also performance asrecognised by the parent company.

This added responsibility can lead to " goalambiguity" (Andersson et al, 2001) in what Birkinshaw defines as " competitivearenas" (Birkinshaw, 2000), competitive arenas develop where different subsidiariesare competing to overtake a particular function of the organisation. An examplehere would be if a service organisation decided to open an internationalsupport desk and hold a competition to decide which subsidiary would be bestplaced to develop this. These challenges of goal ambiguity and the creation ofcompetitive arenas should therefore be carefully considered before taking onsubsidiary initiatives or entrepreneurship. Head office is often best placedfor defining strategy imperatives for the whole company, and therefore hasunique perspective on how best subsidiary resources should be applied toachieve those strategic goals (Bower, 1970).

Many subsidiaries managementteams are not inclined to demonstrate initiative due to their belief that suchactivity would not be view positively by head office management, or that thelocal management do not have the drive or expertise to pursue innovativeactivities (Birkinshaw etal., 1998). The concept of initiative could also raise concerns at head office relating tothe motivations of the subsidiary management team and whose interest they areprimarily aligned to, is it the subsidiary, the subsidiary country or thecorporation?. What strategy should an innovating subsidiary pursue?   Subsidiary innovation andentrepreneurship could involve a large range of activities with differentlevels of involvement from small incremental value adding activities to largermore radical innovations. All will require strategic planning and managerialsupport to become realities. Molloy and Delany argue thatsubsidiaries must become strategy orientated and plan for an alternative futurein the organisation other than the original mandate they have been setup under. To develop a strategic migration plan requires local management to questionwhat will be doing in the future and forces more radical and wide-rangethinking (Molloy and Delany, 1999).

However, they caution the corporation mustbe the ultimate beneficiary. The most successful subsidiarymanagement teams have the ability to foresee where the critical value addingactivities will be in the future. They do not rely on corporate HQ’s solely forthe crafting of corporate strategy. Studies have shown that subsidiaries withhigh levels of decision making autonomy show a strong correlation withincreased level of initiative (Hakala et al.

, 2016). Molloy and Delany develop a modelbased on Porters five forces which helps to identify the internal forces whichcan affect or determine the subsidiary competiveness, examples are sister sitesas rivalries, outsourcing and greenfield sites. (Molloy and Delany, 1999). Athreat analysis is therefore necessary if a forward thinking subsidiary is toobjectively assess its position or be able to offer innovative solutions whichare strategically valuable for the parent organisation.   Eddie Molloy has stated” Influence comes out of the barrel of performance – but you have to use it” inessence the power to influence is borne by initially performing the basicfunctions exceptionally and only then will a parent organisation be willing toencourage innovation in the subsidiary. Birkinshaw identifies threecriteria which must be identified and realised for subsidiaries to beeffectively leveraged by the corporation for benefit of all countries: 1.   Subsidiaryresources must be specialised, offering a unique skillset that is notreplicated in other parts of the corporation. If they are not unique they mustbe superior to comparative resources.

Birkinshaw uses the term “ contributoryrole” to broadly refer to subsidiaries which have unique skillsets which couldbe used across the corporation. A subsidiary could have a high or lowcontributory role. Other designations are subsidiaries with a “ world productmandate” or “ centre of excellence” role, these designations are criticised byBirkinshaw as being restrictive due to their clear cut nature, i.

e. a companyis either a centre of excellence or not. In reality a subsidiary could have amuch more loosely defined contribution which is as valuable therefore” contributory role”. 2. Recognitionmust be obtained by corporate management. The parent organisations managementmust recognise and accept the above mentioned specialised resources for useacross the organisation. Corporate recognition can be achieved through eithertop down or bottom up processes. The top down method involves managementidentifying high potential subsidiaries through interviews, key performanceindicators and benchmarking activities.

Bottom up process is where thesubsidiary management presents and promotes themselves as having specialisedskills which could be of benefit to the organisation. 3. Effectivetransfer and leverage of resources is key. It is possible that centres ofexcellence are created without design about how they will feed the entireorganisation, therefore only existing to satisfy a political end. subsidiariescan have a world product mandate which exists only in the minds of thesubsidiary management and is not universally accepted or used.

Effectivetransfer is likely not in the control of the subsidiary as transfer ofresources largely depends on the openness of the receptor to receiving theresource.(Birkinshaw etal., 1998) Molloy and Delany adviseleveraging of internal and external resources as a possible strategy forsubsidiary innovation. Leveraging internal resourcesrequires strategic vision and ambition from the subsidiary management.

Forexample if a subsidiary runs worldwide logistical operations, finance or HR forthe subsidiary, could they offer these services to the global organisation? . Leveraging external resourcescould be partnering with local universities, local government agencies, localexperts / consultants. Using local and international supplier arrangements forthe benefit of the larger organisation. International funding sources e. g. EUgrant aid etc.

(Molloy and Delany, 1999) Research Question The research questions that willbe posed are: 1. Cana subsidiary bring added value beyond the original mandate to the parentorganisation? 2. Howcould subsidiary innovation, and entrepreneurship be identified and tapped? 3. Isthere a strategic imperative for subsidiary innovation? Although there is empiricalresearch which shows that subsidiaries whom proactively demonstrate innovationwill increase the global competiveness of the organisation and increase thetechnical capabilities of the firm (Johnson andMedcof, 2007).

Theories which look at the circumstances where a subsidiary identifies anddevelops innovative practices, and the necessity for subsidiaries innovativepractices are still in their infancy. Firms must innovate to survive, theymust plan for disruption, a disruptive innovation is one which uses acombination of technology and a new business model to exploit the technologiespotential for rapid development. The reason why most established market leaderscan be overtaken by disruptive start-ups is that the large organisations have strongforces that create filters for innovative proposals that do not directly enhancethe current product or service offering. Disruptive innovations often appearfinancially unattractive for firms to consider (Powell, Olivierand Li, 2015). As a result the encouragement andwidespread mining of innovative ideas, and entrepreneurial ideas within currentglobal companies becomes an imperative. Research in this area would benefitfirms whom have underutilised subsidiary units. Methodology Outline Structure: Chapter 1: IntroductionChapter 2: Issues and review ofrelated literatureChapter 3: Research MethodsChapter 4: Case Study Results : Subsidiaries QuestionnairesChapter 5: Expert InterviewsChapter 6: ConclusionChapter 7: References Research Methods The methods used will bequalitative and form a thematic approach to analysis.

Case Study It is proposed to measure theorganisations subsidiaries using an adaption of the Molloy and Delany audittools and Birkshaw et al, methodology. The findings will attempt to validatethe proposition that a subsidiary can add value above and beyond its originalmandate. It will make recommendations about how subsidiaries can innovate andoffer a potential guide to identify and undertake subsidiary innovativepractices. A case study is a specificinstance that is frequently designed to illustrate a more general principle(Nisbet and Watt, 1984). The general principle is this case is that using the “ Case study research is toobserve the characteristics of the individual unit. The purpose of which is toprobe deeply and to analyse intensely the multifarious phenomena that constitutethe life cycle of the unit.” (Cohen, Manion and Morrison, 2013) How could we measure a subsidiaries readiness or ability to providevalue to the wider organisation using a case study? Background Molloy and Delany offer a systemsand audit tools to identify and guide subsidiary strategic innovation.

Firstly is the strategicmanagement team audit which is used to identify the readiness and willingnessof the subsidiaries to engage in proactive promotion of the innovativeabilities of the subsidiary. Secondly, they have modelled the8 stages of development of the subsidiary to enable management to identifytheir current stage and potentially the stage they aspire to take the companyto. Thirdly is the strategy audit, that asks the questions management of a subsidiary that require to be answeredto ensure successful transformation to a “ contributing subsidiary”. Fourthly, aligning the subsidiaryambition with the parent companies agenda. This audit interrogates thesubsidiary initiative proposal to test if it does indeed support the overallorganisational goals and therefore is worthy of pursuit.

(Molloy and Delany, 1999) Birkinshaw et al, 1998 developedconstruct measures to assess if a subsidiary has innovative capabilities whichcould benefit the parent corporation for the paper “ Subsidiary Initiative inMNC’s.” The following measures weredeemed relevant in the Birkinshaw et al, 1998 study, and formed part of thequestionnaire used to analyse the subsidiary units propensity to innovate: –   Contribuitory role – subsidiaries are asked whatpercentage of revenues were as a result of international activities. –   Specialised Resources – subsidiaries rated 5 differentcapabilities (e.

g. Manufacturing, Marketing, Innovation, R&D, internationalmanagement) relevant to other subsidiaries-   Subsidiary Initiative – 5 questions based on previousstudies used to unearth their different types of subsidiary initiative that mayexist in an organisation, from skunk works (small loosely structured groups) tomore programmed, prescriptive group formations.- Entrepreneurial Culture – 5 questions measuring the subsidiariesopenness to risk taking, innovation and entrepreneurship.- Subsidiary autonomy 0 Identified where decisions werepermitted to be made in the organisation , at subsidiary or HQ level.- Communication Frequency – the frequency ofcommunication between HQ and subsidiaries was considered critical to thestrength of working relations and the level of sharing of information betweenthe offices.- Local competition – perception of subsidiary as relatedto its own domestic competition was considered. Birkinshaw found thatsubsidiaries with perceived low local competition were more likely tocontribute to the global organisation- Industry Globalisation – the extent to which theindustry was global affected the subsidiaries opportunity to add value toglobal environment A case study will be conducted onmy own organisation involving questionnaires to subsidiaries managing directorsbased on the referenced Birkinshaw, 1998 study and Molloy and Delany, 1999 recommendations.

The case study will be used for analytic generalisation of subsidiaryinnovation actualisation and theproblems it may face, and to develop the theory that for the benefit of thewhole organisation it is necessary for corporation management to empower thesubsidiary management to develop above and beyond their original mandates throughencouragement of innovative and entrepreneurial pursuits. Expert Interviews(Johnson and Medcof, 2007) During initial research into thearea of subsidiary innovation, Irish experts Dr. Eddie Molloy and Dr. Ed Delany wereidentified as proponents in the field of subsidiary innovation and have done aconsiderable amount of research in this area. Dr. Delany produced a doctoral thesison the subject. Dr. Molloy has consulted government and multinationals onstrategy relating to subsidiary innovation.

It is proposed to interview bothexperts as to their current thinking on the subject with respect to : – Challenges that arise for subsidiaries when tryinginnovate- Types of innovation best suited for subsidiaries, identifying areas ripe for innovation- The innovation imperative : why it is essential tostrategise for innovation The results of the interviewswill inform a analytical theory as to benefits of subsidiaries innovativepractices. References Ghosal, S. and Bartlett, C. A., 1988. Creation, Adoption, And Diffusion Of Innovations By Subsidiaries.

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