

# A Multi-Faceted Framework for Subsidiary Evolution – A Review of Multinational Subsidiary Research

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## ABSTRACT

This article provides an exploratory view on subsidiary evolution. Drawing upon extant multinational subsidiary research, a multi-faceted framework for subsidiary evolution is introduced to examine the process of roles and charters development in a foreign multinational subsidiary. In particular, the proposed framework comprises factors from three different levels—corporate-, subsidiary-, and host country-level factors—that influence the development process. The dynamic nature and the interplay of these factors are considered important to the evolution of subsidiary roles.

**Keywords:** Subsidiary Roles, Subsidiary Evolution, Subsidiary Development, Multinational Subsidiary

## INTRODUCTION

Subsidiary management has gained an increasing interest among international business scholars since the 1980s (Hedlund, 1980 & 1984; Otterbeck, 1981; Garnier, 1982). The strategic importance of foreign (multinational) subsidiaries, rooted in the multinational corporation (MNC) research, has been emphasized. Many scholars believe that these foreign subsidiaries serve various critical roles within the MNC. In particular, these scholars claim that the roles of foreign subsidiaries are not subordinate to the headquarters (HQs), but are of equal importance in developing competitive advantages for the entire MNC (Hedlund, 1986; Bartlett & Ghoshal, 1989; White & Poynter, 1990). Subsidiaries are thus taking increasingly strategic roles within their corporate system. This phenomenon is also reflected in a considerable body of literature on subsidiary roles which attempts to identify various subsidiary-role typologies (e.g. White & Poynter, 1984; Bartlett & Ghoshal, 1986; Jarillo & Martinez, 1990; Gupta & Govindarajan, 1991 & 2000; Roth & Morrison, 1992; Birkinshaw & Morrison, 1995). A number of researchers are not only attempting to understand various roles played by foreign subsidiaries, but also trying to explain the development of these roles over time (Birkinshaw, 1998; Birkinshaw & Hood, 1998a; Delany, 1998; Chang & Rosenzweig, 1998; Taggart, 1998a & 1999).

Despite the vast body of the multinational subsidiary management literature, little is known about the evolution of subsidiary roles. Furthermore, the majority of extant studies on subsidiary evolution are concentrated on subsidiary development. In contrast, Birkinshaw and Hood (1998a) address both the development and the possible decline in subsidiary roles over time. They assert that the roles performed by a foreign subsidiary might be contracted or declined in case of atrophy in its capabilities or a charter loss in the subsidiary or both. Consistent with Birkinshaw and Hood (1998a), subsidiary evolution in this paper includes both the development and the decline in

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