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

* AU Journal of Management, Vol. 14, No. 2 (2016). © Assumption University. All rights reserved. ISSN: 1686-0039.

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subsidiary roles over time. The proposed multi-faceted framework of subsidiary evolution put forward in this paper is an attempt to contribute to the existing body of knowledge by synthesizing relevant multinational subsidiary research and providing insights into the study of subsidiary evolution. It emphasizes the dynamic influences of relationships on the evolution of subsidiary roles.

The paper is organized as follows. Next, a review of multinational subsidiary research is presented, followed by a proposed multi-faceted framework for subsidiary evolution. Last, the paper concludes and provides suggestions for further research.

A REVIEW OF MULTINATIONAL SUBSIDIARY RESEARCH

Birkinshaw and Hood (1998b) have classified multinational subsidiary management literature into three streams: headquarters (HQs)-subsidiary relationships, subsidiary roles, and subsidiary development. Among these streams, subsidiary roles and subsidiary development seem to be most relevant to the study of subsidiary evolution. Since the studies from the early stream – HQs-subsidary relationships (e.g. Brandt & Hulbert, 1976; Hedlund, 1980; Welge, 1981; Garnier, 1982; Gates & Egelhoff, 1986) – were largely based on a hierarchical concept of organizational structure, they failed to recognize adequately the strategic importance of the subsidiary’s context. In contrast, subsequent streams of multinational subsidiary research have been conducted based on the premise that subsidiaries are not just subordinate entities within the MNC hierarchy, but important units with linkages to both external and internal actors. Thus, later studies on the multinational subsidiaries have shifted the focus from understanding the basic HQs-subsidary relationships towards analyzing the roles of these foreign subsidiaries. Although these later streams of research have shared a similar underlying theme, their key focuses are different. The subsidiary roles stream focuses on identifying and explaining different subsidiary roles (White & Poynter, 1984; Bartlett & Ghoshal, 1986; D’Cruz, 1986; Jarillo & Martinez, 1990; Gupta & Govindarajan, 1991 & 2000), while the subsidiary development stream has extended the focus to cover how and why the roles have changed over time (Chang & Rosenzweig, 1998; Egelhoff, Gorman, & McCormick, 1998; Hood & Taggart, 1999; Dörrenbächer & Gammelgaard, 2006).

Given these streams of research, subsidiary evolution has been developed from the studies of subsidiary roles and subsidiary development. Subsidiary role has been defined as a set of activities or responsibilities undertaken by a subsidiary, which may be assigned by the HQs (Bartlett & Ghoshal, 1986 & 1989), defined by the subsidiary itself (Birkinshaw, 1997), or shaped by the specific characteristics of the host country (Ghoshal & Noria, 1989; Westney, 2005). Subsidiary development, on the other hand, has been referred to as the process through which the subsidiaries enhance their resources and capabilities, and increase value to the MNC as a whole (Birkinshaw & Hood, 1998b). Studies on subsidiary development concentrate on how and why such roles have changed over time (Birkinshaw, 1998; Delany 1998; Taggart 1998a, 1998b, & 1999; Noorderhaven & Harzing, 2009). Both strands – subsidiary roles and subsidiary development, in combination, have paved the way for studying subsidiary evolution, which focuses on defining the subsidiary’s capabilities and scope of responsibilities, and explaining the process of changes in the roles over time.
Subsidiary Roles

The common focus of studies on subsidiary roles lies in identifying and understanding different subsidiary roles. Obviously, the recognition of a foreign subsidiary's strategic importance has instigated these studies, with researchers adopting different perspectives in deriving different typologies of subsidiary roles.

White and Poynter (1984) examined Canadian-based subsidiaries along each subsidiary's scope of activities – product scope, market scope, and value-added scope – and identified five subsidiary strategies: (1) miniature replica, (2) marketing satellite, (3) rationalized manufacturer, (4) product specialist, and (5) strategic independent. These strategies were found to be largely affected by environmental changes such as market, competition, and capabilities. While this study lacks external validity for its focus on foreign subsidiaries in Canada, their typologies were subsequently applied and supported in different local contexts (Delany, 1998; Taggart, 1999; Dörrenbächer & Gammelgaard, 2006).

Closely related to White and Poynter (1984), D'Cruz (1986) conducted a study on the role of strategic planning and management in MNC subsidiaries in Canada. Based on the extent of market involvement and the decision-making autonomy, six subsidiary missions were derived: (1) imports, (2) local service, (3) satellite, (4) branch plant, (5) globally rationalized, and (6) world product mandate. D'Cruz's (1986) study has given a particular focus on the world product mandate (WPM) in that a subsidiary of this type tends to operate with a high degree of independence (worldwide market involvement and high decision-making autonomy). Similar to White and Poynter's (1984) study, the generalizability of this study is rather limited, albeit providing useful insights into the WPMs.

Similarly, Bartlett and Ghoshal (1986) studied companies from three different regions – the United States, Europe, and Japan. Based on the strategic importance of the local market and the competence of a subsidiary, they have identified four subsidiary roles: (1) strategic leader, (2) contributor, (3) implementer, and (4) black hole. Their study is largely rooted in the network conceptualization of MNCs as both dimensions imply the interdependent relationships of a subsidiary in the MNC network. A strategic leader – highly competent and located in a strategically important market, serves as a partner of HQs in developing and implementing strategies. Albeit serving a small or strategically unimportant market, a contributor with its distinctive capability contributes to developing superior capabilities for the MNC through inter-firm linkages. Unlike the first two roles, an implementer and a black hole do not possess very strong organizational competence. While the former is located in a less strategically important market and implements the strategies mandated by the HQs to capture economies of scale and scope for the entire MNC, the latter is, on the other hand, serving in a strategically important market in which its local presence enhances the MNC's global position.

Another important work is Jarillo and Martinez's (1990) study of multinational subsidiaries in Spain. Using the integration-responsiveness (I-R) framework proposed by Prahalad and Doz (1987), they have identified three subsidiary roles: (1) autonomous, (2) receptive, and (3) active. These roles correspond Bartlett’s (1986) types of multinational organizations: multi-domestic, global, and transnational, respectively. Their study shows that subsidiaries are not always subordinate to the MNC, as an autonomous subsidiary has high levels of independence and freedom in their response to local tastes and preferences. More importantly, not all subsidiaries of a transnational firm always follow active strategies as it is subject to their strategic
positions in the network. Only those that are strategically important to the entire MNC network will pursue active strategies.

By comparison, Gupta and Govindarajan (1991 & 2000), building upon the network conceptualization of the MNCs, argued that subsidiary roles could be defined in terms of the nature of resource flows (i.e. direction and extent) – product, capital, and knowledge flows – between the HQs and subsidiaries. In their study, however, they looked at the knowledge flow patterns only. Based on the degree and direction of knowledge flows between a focal subsidiary and the MNC, they identified four subsidiary roles: (1) integrated player (high inflows and outflows), (2) implementer (high inflows, low outflows), (3) global innovator (low inflows, high outflows), and (4) local innovator (low inflows and outflows). Similar to Jarillo and Martinez's (1990), this study reveals the importance of a subsidiary's strategic position in terms of resource flows. By identifying these roles, the study also provides important implications for the level of control and coordination the MNC can exercise over the subsidiary. For example, an integrated player is perceived to attract high levels of control and coordination by the MNC.

Similarly, Birkinshaw and Morrison (1995), building upon the configurational approach, identified three subsidiary roles: (1) local implementer, (2) specialized contributor, and (3) world mandate. To a large extent, their typologies have some commonality with prior studies. For example, the local implementer is similar to White and Poynter’s (1984) miniature replica, Jarillo and Martinez’s (1990) autonomous, and Gupta and Govindarajan’s (1991) local innovator, in that a subsidiary has a limited geographic scope as well as a limited functional scope. This implies that these subsidiaries have primary responsibilities to serve only their local markets. The world mandate, in contrast, has worldwide or regional responsibility for a product line or entire business. It is similar to White and Poynter’s (1984) global mandate, D’Cruz’s (1986) world product mandate, and Gupta and Govindarajan’s (1991) integrated player. Again, it is apparent that their study is underpinned by the network perspective, in that they have placed emphasis on the influences of HQs-subsidiary relationship and lateral relationship, and on the environmental factors, albeit to a lesser extent.

Overall, all these subsidiary typologies are largely derived from three main perspectives: Corporate (HQs), Subsidiary, and Host Country (Crookell & Morrison, 1990; Birkinshaw & Hood, 1998a; Birkinshaw, Hood, & Jonsson, 1998; Hood & Taggart, 1999; Birkinshaw, Holm, Thilenius, & Arvidsson, 2000). The contextual factors at each level, which are summarized below, are considered to influence or shape the role of each subsidiary.

Firstly, there is a view that subsidiary roles are assigned by the HQs (known as head-office assignment) based on various criteria, e.g. strategic importance of a local environment and the organizational competence of the subsidiary (Bartlett & Ghoshal, 1986 & 1989), the nature of control and coordination mechanisms used by the HQs to direct subsidiaries’ activities (Prahalad & Doz, 1981; Gupta & Govindarajan, 1991 & 2000). The roles of foreign subsidiaries are defined by the HQs through its central planning system.

In contrast to the head-office assignment, subsidiaries can also define their own roles if they have resources and capabilities that fulfill the MNC’s objectives. These roles reflect the choices made by the subsidiaries themselves to undertake certain responsibilities (Birkinshaw, 1997; Roth & Morrison, 1992). As an autonomous entity, the subsidiary is capable of defining its own roles. The degree of entrepreneurial drive and strategic initiatives taken by the subsidiaries is likely to be the main determinant of
their roles. Early subsidiary research on the Canadian context, e.g. D’Cruz’s (1986), White and Poynter’s (1984) largely conforms to this perspective.

The third perspective focuses on the importance of the local environment in which the subsidiary operates. Given that a multinational is an internally differentiated organization (Ghoshal & Noria, 1989), the management of each unit is thus subject to different environmental and resource contingencies. The degree of local embeddedness of each subsidiary, in terms of its relationships with customers, suppliers, and local authorities, ultimately causes variation among the subsidiaries. The local environments where the subsidiary operates can determine the direction and scopes of responsibilities for that subsidiary.

All in all, the multinational subsidiary literature under the subsidiary roles stream has shared a theme posited by the network conceptualization of MNCs that the subsidiaries have their own unique roles and contribute to the MNC. Additionally, three broad factors have been found to affect subsidiary roles: (1) corporate-level (head-office assignment), (2) subsidiary-level (subsidiary choices), and (3) host country-level (local environment determinism) factors (Crookell & Morrison, 1990; Birkinshaw & Hood, 1998a; Birkinshaw et al., 1998; Hood & Taggart, 1999; Birkinshaw et al., 2000). The interplay between corporate and subsidiary management and the impact of local environments on the subsidiary’s operations, taken together, are crucial in shaping the roles and responsibilities of that particular subsidiary.

Subsidiary Development

Starting in the mid-1990s, the subsidiary development research stream extends the scope to cover how and why these roles have changed over time (Birkinshaw & Hood, 1998b). Emphasis is thus placed on the dynamic nature of the process of subsidiary development. Similar to the subsidiary roles literature, studies of subsidiary development are rooted in part in the network conceptualization of MNCs. A subsidiary’s development, largely in terms of capabilities and innovations, is linked and shared with other units in the network. Subsidiaries perceive the possibility of developing their own capabilities and power in the MNC network through their own performance. In particular, a subsidiary’s possession of capabilities, e.g. the capability to deploy resources to achieve a desired end, is considered to be at the center of subsidiary development (Egelhoff et al., 1998; Hood & Taggart, 1999; Dörrenbächer & Gammelgaard, 2006).

The combination of both the network and resources- or capabilities-based perspectives is reflected in the development of Irish MNC subsidiaries (Egelhoff et al., 1998). Egelhoff et al. (1998) have identified three categories of subsidiary development: aggressive, incremental, and status quo subsidiary development. A subsidiary’s technical capability is associated with its internal development, the original mission assigned by its HQs, and its local context. Their findings also support the view that technology has been an important basis for subsidiary development, thus providing preliminary insights into subsidiary development through technology development.

Likewise, studies on subsidiary roles also offer some insights into the development of subsidiary roles. White and Poynter (1984) and Jarillo and Martinez (1990), for example, have drawn a similar conclusion that, given changes in the environment, subsidiaries would attempt to manage their strategies in response to such changes. This, somehow, implies the processes of subsidiary development in the local context as well as in the entire MNC as a whole.
The process of subsidiary development has been further examined in subsequent studies. Applying Porter’s (1986) coordination-configuration (C-C) framework, Taggart (1998b) investigated strategy development at a subsidiary level partly on a (five-year) longitudinal basis. His study found dynamic changes in the four types of subsidiary – (1) strategic auxiliary (high coordination, high configuration), (2) confederate subsidiary (high coordination, low configuration), (3) autarchic subsidiary (low coordination, low configuration), and (4) detached subsidiary (low coordination, high configuration) – over time. For example, the ‘autarchic subsidiaries’ had evolved strongly in the direction of the ‘strategic auxiliary’ group by the end of the five-year period. Likewise, more than half of the original ‘detached subsidiaries’ had become ‘strategic auxiliaries’, with a significant number also moving into the ‘autarchic subsidiary’ group (Taggart, 1998b, pp. 43-45). In particular, it was the increase in coordination, rather than changes in configuration, that represented the main characteristic of strategy evolution.1

Hood, Young, and Lal (1994) and Chang and Rosenzweig (1998) both looked at Japanese MNCs, albeit using different local contexts. Hood et al.’s (1994) study provides valuable insights into the development processes of Japanese subsidiaries in the U.K., while Chang and Rosenzweig’s (1998) emphasizes the development of Japanese subsidiaries (a case of Sony Corporation) in the U.S. context. Both studies depict the processes of subsidiary development. The former, on the one hand, focuses on investigating the relationship between the strategic intentions of the MNC and the directions in which these subsidiary plants have evolved. Building on White and Poynter’s (1984) framework, the study reported the trajectories of subsidiary development in which the roles of subsidiaries at the point of entry (e.g. rationalized manufacturers) had progressed towards higher value-added and more integrated plant structures (e.g. product specialists). The latter, on the other hand, focuses on a detailed investigation of the evolution processes of Sony subsidiaries in the U.S. Here, Chang and Rosenzweig (1998) incorporated two aspects that previous studies on MNC evolution had ignored: lines of business and facilitating or impeding interactions among key actors. Their longitudinal study during 1972-1995 found that the evolution was an incremental process comprising functional migration and line-of-business entry, where a subsidiary’s early stages involved the development of subsidiaries’ capabilities in order to handle additional functional migration, and its later stages were concerned with adding new lines of business.2 Chang and Rosenzweig’s (1998) study clearly reflects Van de Ven’s (1992) concept of evolutionary process in that the evolution of Sony in the U.S. is neither a steady nor a symmetrical process across lines of business. Rather, it encompasses variation, selection, and retention in the necessary skills (both technical and managerial) to ensure a successful process of functional migration and line-of-business entry.

Equally important, Delany (1998) has developed a model of multinational subsidiary development, based on the classification of initiatives, subsidiaries’ strategic position,

1 ‘Coordination’ was measured by: level of technical transfer between subsidiaries, linked marketing activity between subsidiaries, linked production requirements between subsidiaries, and linked purchasing requirements between subsidiaries (Taggart, 1998b, p. 31). On the other hand, ‘configuration’ was measured by: location of strategic skills within the MNC, location of other resources, location of R&D within the MNC, and location of purchasing activity (Taggart, 1998b, p. 31).

2 Functional migration here refers to the transfer of functional activities, e.g. final assembly, parts procurement, product design, from Sony Corporation (Japan) to Sony’s U.S. subsidiary. Lines of business entries to the U.S. market were color televisions, audio equipment, magnetic tapes, data storage products, and digital communication devices.
and phases.\(^3\) The proposed model is very interesting because it not only illustrates the development process at different stages but it also considers possible set-backs to the development of a subsidiary. That is, a subsidiary might slip back through its poor performance, changes in organizational structure, or other environmental changes. A subsidiary thus needs to ensure that it demonstrates superior performance and gains credibility at each stage before moving up the ladder. Obviously, the review of literature on subsidiary development has revealed that a number of researchers have begun to address the significance of ‘changing’ subsidiary roles by focusing on the process of subsidiary development (Hood et al., 1994; Chang & Rosenzweig, 1998; Taggart, 1998b). Although these studies have demonstrated how the roles have changed over time, they have depicted only the development in the roles, ignoring a possible decline. An exception is, however, given to Delany’s (1998) study which also considers possible set-backs in a subsidiary’s development. Factors that might impede the development process are identified (e.g. lack of performance, environmental change, and organizational restructuring), albeit no detailed explanation on the process of subsidiary decline. Delany’s (1998) study is thus concentrated on explaining stages of subsidiary development.

Birkinshaw and Hood (1998a) is a significant improvement by introducing a conceptual model of subsidiary evolution that incorporates both subsidiary advancement and subsidiary decline. Following Galunic and Eisenhardt (1996), Birkinshaw and Hood (1998a) have defined subsidiary evolution as a function of capability and charter change.\(^4\) To be more specific, their definition of subsidiary evolution covers both subsidiary development – capability enhancement and charter establishment, and subsidiary decline – capability atrophy and charter loss (Birkinshaw & Hood, 1998a, p. 783). They argued that the processes of subsidiary evolution result from the interplay between the mechanisms at three different levels: the HQs, the subsidiary and the host country, which they labelled as Head-Office Assignment, Subsidiary Choice, and Local Environment Determinism, respectively. These three drivers are, as reviewed above (subsidiary roles section), the underlying factors that determine the subsidiary roles. The interactions of these factors would then affect a subsidiary’s role changes—through changes in the charter and the capability—over time. A consensus view on these three drivers is also found in subsequent studies applying the framework in different contexts (e.g. Hood & Taggart, 1999; Rugman & Verbeke, 2001; Dörrenbächer & Gammelgaard, 2006).

It should be noted, however, that these three drivers affect subsidiaries’ capability and charter differently. For instance, studies focusing on HQs perspectives claim that HQs factors are the most important driver of subsidiary evolution (e.g. Chang & Rosenzweig, 1998), while subsidiary factors are a key driver of the evolution process in studies focusing on subsidiary perspectives. Birkinshaw & Hood (1998a) is an improvement on these studies in that the study addresses the interplay of these three forces.

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\(^3\) The model consists of eight stages: Stage 1: Establishing Start-up, Stage 2: Carrying Out the Basic Mandate Satisfactorily, Stage 3: Performing Basic Mandate in a ‘Superior Way’, Stage 4: Extending Basic Mandate-Low-Risk Moves, Stage 5: Extending Basic Mandate-Strategic Development, Stage 6: Becoming Strategic Centre for MNC, Stage 7: Becoming Strategic Pivot for MNC for Key Activities, Stage 8: Becoming Strategic Apex for MNC. There are three phases – Phase 1: Building credibility of the subsidiary, Phase 2: Gradual build-up of competence of the subsidiary, Phase 3: Strategic development.

\(^4\) Charter is defined as the businesses (i.e. product and market arenas) in which a subsidiary participates and for which it is responsible within the MNC (Galunic & Eisenhardt, 1996, p. 256).
Building on the drivers for subsidiary evolution, Birkinshaw and Hood (1998a) further identified five generic processes of subsidiary evolution based on the subsidiary’s capability and charter change: Parent-Driven Investment (PDI), Subsidiary-Driven Charter Extension (SDE), Subsidiary-Driven Charter Reinforcement (SDR), Parent-Driven Divestment (PDD), and Atrophy through Subsidiary Neglect (ASN). Charter extension by the parent company leads to an enhancement of the subsidiary’s capability profile, which is called Parent-Driven Investment (PDI). Subsidiary-Driven Charter Extension (SDE) occurs when subsidiary-initiated capability development leads to charter extension. In contrast, Parent-Driven Divestment (PDD) takes place when the subsidiary loses its charter and capabilities, with Atrophy through Subsidiary Neglect (ASN) occurring when the subsidiary’s poor performance causes its charter losses. Last, Subsidiary-Driven Charter Reinforcement (SDR) refers to the situation in which the subsidiary maintains its charter through the sharpening of its existing capabilities. As addressed above, they have considered the possibility of subsidiary decline in these processes, e.g. in PDD where the subsidiaries end up losing their charter and depleting their existing capabilities, and ASN where the parent perceives the subsidiary’s lack of competitiveness, which leads to a diminution of its charter.

The usefulness of the model in depicting how and why subsidiary roles change over time is reflected in the entanglement of underlying conceptions. In particular, their model is largely drawn upon the network conceptualization of MNCs, where foreign subsidiaries are perceived as semiautonomous entities, capable of making their own decisions but constrained in their actions by the demands of head-office managers and by the local environments (Birkinshaw & Hood, 1998a, p. 780). Furthermore, the model also entails the conception of organizational capabilities, applying to the subsidiary level rather than the entire MNC. The development and decline in the roles over time are thus closely linked to the stock of subsidiary’s resources and capabilities as well as its interdependent relationships with other units in the entire network. All in all, the conceptual model of subsidiary evolution put forward by Birkinshaw and Hood (1998a) reflects the changes in subsidiary roles which result from the interplay of key drivers—head-office assignment, subsidiary choices, and local environment determinism.

Despite its significance, Birkinshaw and Hood’s (1998a) model is not without flaws. First, their proposed patterns (i.e. PDI, SDE, SDR, PDD, and ASN) may not properly explain subsidiary evolution. These generic patterns do not seem to be mutually exclusive as they have claimed. Over a long period of time, a subsidiary may evolve through its parent’s decisions, its own initiatives and its local environments. Although there is no particular literature that seeks to directly criticize this flaw, a number of studies have shown that the evolution of a subsidiary is a consequence of the interrelationships between internal and external factors which is thus rather difficult to define by using a single pattern (Frost, Birkinshaw, & Ensign, 2002; Benito, Grøgaard, & Narula 2003; Dörrenbächer & Gammelgaard, 2006). Second, the terms used for these five generic patterns can be misleading. For instance, a PDI or PDD is likely to suggest an evolutionary pattern triggered solely by parent factors, ignoring other potentially important factors. Similarly, an ASN, SDE, or SDR seems to focus only on subsidiary-related factors. Even though these flaws have been observed, Birkinshaw and Hood’s (1998a) model is yet considered to be useful in stressing the role of the interplay of different types of factors in shaping subsidiary evolution over time.

As an extension of Birkinshaw and Hood’s (1998a) study, subsequent studies (e.g. Rugman & Verbeke, 2001; Uhlenbruck, 2004; Edwards, Sanchez-Mangas, Bélanger, and McDonnell, 2015) have adapted their conceptual subsidiary evolution model to address
other issues in subsidiary development. Rugman and Verbeke’s (2001) study provides valuable insights into the development of foreign subsidiaries, especially, in terms of capabilities development. They argue that firm-specific advantage (FSA) development patterns are associated with subsidiary-specific advantages in that capabilities can be created and developed in foreign subsidiaries over time. Based on Birkinshaw and Hood’s (1998a) drivers of subsidiary evolution, Rugman and Verbeke (2001) have identified four contingent factors for the development of subsidiary-specific advantages, i.e. internal knowledge mobility barriers, knowledge gap with other affiliates, perceived absence of negative externalities, and high synergy intensity with non-location-bound FSAs (Rugman & Verbeke, 2001, pp. 243-246). In contrast, Uhlenbruck (2004) focused on testing how the development and the growth of recently acquired subsidiaries in Central and Eastern Europe were affected by the MNC’s and the acquired subsidiary’s capabilities. In an attempt to consider the ex post outcomes of the acquisition, he has identified variables that are important to the development of acquired subsidiaries, i.e. dynamic capabilities, and cultural distance. More recently, Edwards et al. (2015) have investigated the impact of national, corporate, and functional contexts of multinational subsidiaries in Canada, Ireland, Spain, and the United Kingdom on human resource practices. The results also highlight their argument that the role of a multinational subsidiary as a source of human resource practices is facilitated or constrained by its national context, its position within the production network of the MNC, and the corporate channels. These studies are built on Birkinshaw and Hood’s (1998a) subsidiary evolution model in that their findings have revealed the influences of the key drivers of the evolution process on the development of subsidiary’s specific capabilities or advantages.

In summary, the literature on subsidiary development is highly grounded in the subsidiary-roles stream, with additional concentration on changes in subsidiary roles over time. This is largely due to the increased awareness by researchers of changes in competitive environments, in which a subsidiary operates, given that the subsidiary’s development of its resources and capabilities can become a source of competitive advantages of the entire MNC.

A MULTI-FACETED FRAMEWORK FOR SUBSIDIARY EVOLUTION

Building on Birkinshaw and Hood’s (1998a) subsidiary evolution model, the following conceptual framework has been proposed to examine the process of subsidiary evolution. Figure 1 illustrates a set of interdependent relationships between a subsidiary and its internal (corporate level) and external (host country level) parties. In line with the conception of the network conceptualization of MNCs, these interdependent relationships are predicted to influence the subsidiary’s roles through changes in its charters and capabilities. The subsidiary’s control of critical resources and possession of capabilities, posited in the resource-based view, can also explain the changes in subsidiary roles.

5 For more details of each pattern, see Rugman & Verbeke. (2001).
6 A prominent feature of the network conceptualization of MNCs is the linkages and interrelationships among different units of the MNC and the external system, i.e. customers, competitors, suppliers, and regulators (Ghoshal & Bartlett, 1990; Nohria & Ghoshal, 1997; Forsgren, Holm, & Johanson, 2005).
7 The central tenet of the resource-based view lies in a firm’s competitive position and advantage defined by its unique bundle of resources (Barney, 1991; Peteraf, 1993).
As noted earlier, the selected contextual factors at each level are expected to influence changes in a subsidiary's charters and capabilities through their interactions over time. At the corporate level, both the competitive internal resource allocation and the degree of decision making are predicted to cause changes in the roles of the subsidiary over time. Similarly, at the subsidiary level, the subsidiary's track record and the entrepreneurial orientation of subsidiary employees are predicted to shape its roles through the development and accumulation of capabilities. Furthermore, contextual factors at the host country level: dynamism of local business, strategic importance of the country, and host government support, also influence changes in the subsidiary's charters and capabilities. All in all, the framework emphasizes the dynamic nature and the interplay of corporate-, subsidiary-, and host country-level factors that impact the evolution of subsidiary roles through changes in its charters and capabilities over time.

**FIGURE 1**

**The Proposed Framework for Subsidiary Evolution**


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8 The focus of resource allocation is on the critical resources that a subsidiary relies on the HQs, i.e. financial capital and personnel.
CONCLUSION AND SUGGESTION FOR FURTHER RESEARCH

Owing to an increasing complexity of the MNC network, the role of each foreign subsidiary has become significant to the management and the success of the MNC. As such, various international business scholars (e.g. White & Poynter, 1984; Bartlett & Ghoshal, 1986; Jarillo & Martinez, 1990; Gupta & Govindarajan, 1991 & 2000; Birkinshaw & Morrison, 1995; Taggart, 1998a, 1998b & 1999) have attempted to explain the significance of these roles. In addition, there has also been an increasing focus on how these roles have evolved over time. Corporate, subsidiary, and host country factors have been widely recognized as the key drivers of the evolution of subsidiary roles in the literature (Crookell & Morrison, 1990; Birkinshaw & Hood, 1998a; Birkinshaw et al., 1998; Hood & Taggart, 1999; Birkinshaw et al., 2000).

Among many prior studies, Birkinshaw and Hood's (1998a) conceptual model provides useful foundation for studying how the evolution of a subsidiary’s role(s) over time has been influenced by a range of factors such as its HQs, subsidiary itself, and local environment. Slightly drawing upon Birkinshaw and Hood’s (1998a) model, the proposed multi-faceted framework emphasizes the interplay of factors impinging on HQs, subsidiary, and local environment. The framework analyses the interplay of key drivers at three different levels: corporate (head-office assignment), subsidiary (subsidiary choices), and host country (local environment determinism). The interactions of these drivers are proposed to influence changes in a subsidiary’s role, i.e. changes in the charters and capabilities of the subsidiary over time. Being part of the complex MNC network (Ghoshal & Bartlett, 1990; Forsgren et al., 2005), the subsidiary’s roles are shaped by the dynamic interactions of its internal and external factors.

This paper has brought to the fore some key challenges that should be addressed by future research. First, to provide deeper insights into the interplay of key drivers of subsidiary evolution process, a comparative study of multinational subsidiaries from different nationalities, based on this framework, would be useful. It would be interesting to find out how subsidiaries of different nationalities have evolved in the same local context. Second, to further investigate the impact of subsidiary evolution, future studies may focus on the consequences of changes in subsidiary roles on the internal and external parties in the entire MNC network. With the antecedents of subsidiary evolution process, the consequences of the evolution process on the host country as well as on the MNC are also worth investigating.

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