Subsidiary coopetition competence: Navigating subsidiary evolution in the multinational corporation

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A B S T R A C T

This paper examines the engagement of subsidiaries in coopetition, the simultaneous pursuit of competitive and cooperative behavior, in subsidiary role development. Drawing on twelve detailed case studies, we uncover how framing of the mandate situation shapes subsidiary actions to influence role development, thereby leading to competitive and cooperative subsidiary behavior. This paper advances our understanding of coopetition in MNCs by developing the concept of subsidiary coopetition competence and extends theory on subsidiary evolution.

1. Introduction

Central to the operation of multinational corporations (MNCs) is coopetition, defined as the simultaneous pursuit of competitive and cooperative activities across their geographically dispersed subsidiaries (Hong & Snell, 2015; Luo, 2005). For the successful functioning of the MNC, subsidiaries must work together to achieve shared goals and parent objectives (Buckley, 2011). For example, interdependence (Nohria & Ghoshal, 1994; Tsai, 2002; Tsai & Ghoshal, 1998) and rationalization of value chain activities (Buckley, 2011) require collaborative arrangements across subsidiaries, necessitating cooperative behavior. Additionally, subsidiaries sometimes must come together to achieve ‘synergistically collective gains’ (Luo, 2005, p.71) for the common interest of the MNC (Luo, 2005; Mudambi, 2011). At the same time, competitive behavior between subsidiaries flows from struggles for a share of limited tangible resources and intangible attention from their parent (Kappen, 2011; Luo, 2005; Mudambi & Navarra, 2004; Strutzenberger & Ambos, 2014).

Subsidiary role development is a setting in which coopetition is highly prevalent as the dual needs for cooperative and competitive behavior are both evident and need be addressed simultaneously. A subsidiary role is defined as the overall business the subsidiary undertakes and has responsibility for (Birkinshaw, 1996; Birkinshaw & Hood, 1998), and is comprised of a bundle of mandates, which refer to specific responsibilities for a product, process or service (Birkinshaw, 1996). As mandates in an MNC are limited, subsidiary role development becomes a platform for internal competition; subsidiaries engage in intra-firm rivalry for new mandates to develop their role (Birkinshaw & Hood, 1998; Galunic & Eisenhardt, 1996). This is despite an underlying premise that subsidiaries must cooperate with one another across mandates to achieve the shared goals of the MNC (Luo, 2005; Mudambi, 2011).

Prior research provides considerable insights on circumstances when the need for cooperation arises for subsidiaries (Luo, 2005, 2007), and essentially explicates why coopetition exists within the MNC; i.e. subsidiaries vying for limited MNC resources while also needing to cooperate to attain corporate objectives. Previous work also details the routinization of coopetition behaviors across the MNC’s functions and operations (Hong & Snell, 2015; Luo, 2005), describes coopetition as a mindset or process (Luo, 2005), and explicates the effect of competitive and collaborative ties for knowledge sharing across subsidiaries (Tsai, 2002). While the broader coopetition literature acknowledges the management complexities of dealing with the paradoxical nature of coopetition (Gnyawali, Madhavan, He, & Bengtsson, 2016), how subsidiaries resolve these complexities to compete and cooperate given a specific situation has not yet been explored.

We respond to the challenge of understanding how subsidiaries manage coopetition when developing their role within the MNC, in particular how to simultaneously combine cooperative and competitive behavior in this setting. More broadly, literature on coopetition within the MNC needs to be advanced by moving beyond why coopetition exists to understanding how subsidiaries engage in cooperative and competitive behavior. In addressing this gap, we ask the question: how do subsidiaries manage the duality of competition and cooperation when developing their role?
We draw on in-depth case studies of twelve subsidiaries from different MNCs, combining archival and interview information on subsidiary approaches to influencing role development. We find that a subsidiary’s coopetition competence is integral to subsidiary attempts to influence its role development. We define a subsidiary coopetition competence as the subsidiary management’s capacity to frame a situation and take actions to simultaneously pursue and vacillate between cooperation and competition to influence outcomes. These findings offer theoretical contributions to two areas.

First, we extend theory on MNC coopetition by offering a detailed conceptualization of how subsidiaries engage in coopetition. Recognizing internunit coopetition as a key feature of the MNC (Gnyawali et al., 2016; Luo, 2005; Tsai, 2002), we introduce and develop the concept of subsidiary coopetition competence. As a contribution, this captures how subsidiaries utilize competitive and cooperative behavior as situations dictate to achieve desired outcomes, here subsidiary role development. Moreover, we reveal how the framing of a situation, i.e., a schema of interpretation formed by subsidiary management, translates into cooperative and competitive behavior. This provides previously lacking conceptual detail on how coopetition occurs within the MNC. Additionally, we find that the paradoxical demands inherent in coopetition are managed through a sequencing of competitive and cooperative behavior over time; as well as by a simultaneity of behavior in time. By demonstrating the importance of a comparative pivot in shifting between cooperation and competition, we also lay the foundation for a dynamic perspective of coopetition within the MNC.

Second, we add to seminal work on subsidiary role development and subsidiary evolution (Birkinshaw, 1996; Birkinshaw & Hood, 1998). Although prior work suggests that interactions between subsidiaries may play a part in subsidiary role development (Birkinshaw, 1996; Delany, 2000; Dörrnäbächer & Gammelgaard, 2006), the emphasis has nevertheless been on the headquarters–subsidiary dyad. By incorporating critical interactive dynamics with other units, we identify the centrality of a subsidiary coopetition competence in determining subsidiary role development.

The next section introduces the theoretical background guiding the study. We bring together seminal theories of coopetition and the rich literature on subsidiary role development. We then discuss our method and provide findings on subsidiary coopetition competence. Finally, we discuss our contributions and implications for management practice and for future research.

2. Theoretical background

Coopetition is considered as the simultaneous occurrence of cooperation and competition among two or more actors (Hong & Snell, 2015; Luo, Slotegraaf, & Pan, 2006; Strese, Meuer, Flatten, & Brettel, 2016). From its theoretical foundations in game theory (Brandenburger & Nalebuff, 1996; Strese et al., 2016), coopetition was originally considered a zero-sum game—where the success of one actor was contingent upon the failure of its counterpart (Von Neumann & Morgenstern, 1944). Recognition that the dangers of self-interested or opportunistic behavior (Das & Teng, 2000; Raza-Ullah, Bengtsson, & Kock, 2014) may be outweighed by the potential synergies of coopetition (Luo et al., 2006) suggested that both parties may benefit from creating greater value through ‘competitive collaboration’ (Hamel, Doz, & Prahalad, 1989, p. 133).

However, along with its potential benefits, engaging in coopetition brings additional complexities due to the juxtaposition of different, but equally important, logics of interaction for competition and cooperation (Bengtsson & Kock, 2000; Chen, 2008; Fang, Chang, & Peng, 2011; Gnyawali & Park, 2011; Gnyawali et al., 2016; Wilhelm, 2011). Competitive interactions are characterized by rivalry and opposition; whereas cooperative interactions are collaborative and supportive by nature. As such, prior work recognizes the difficulties of collaborating with close rivals with different motives and goals (Bengtsson & Kock, 2014; Gnyawali & Park, 2011). Further, when these conflicting interactions exist simultaneously, a paradox emerges which requires continuous efforts to meet divergent demands (Smith & Lewis, 2011). Therefore, coopetition is recognized as one of the most complex organizational phenomena (Chen, 2008).

2.1. Coopetition in the MNC

The simultaneous presence of cooperation and competition between two or more geographically dispersed units dictates that coopetition is a key feature of the MNC (Gnyawali et al., 2016; Luo, 2005; Tsai, 2002). Additionally, resource and transactional interdependence within MNCs result in both competition and cooperation becoming intertwined (Lado, Boyd, & Hanlon, 1997).

A level of cooperation must exist within an MNC for the effective functioning of the organization. The subsidiary literature suggests several reasons why a subsidiary needs to cooperate. For example, cooperation allows a subsidiary to leverage market imperfections and achieve economies of scale and scope (Porter, 1986; Yip, 1995), to develop operational flexibility (Rogut, 1985), to bolster problem-solving efforts and project management (Luo, 2005), to aid knowledge development (Bartlett & Ghoshal, 1993; Ghoshal & Bartlett, 1990; Luo, 2005; Tippmann, Sharkey Scott, & Parker, 2017), and to allow for cross-border subsidization (Hamel & Prahalad, 1985). Outputs from one subsidiary may become the inputs for a sister operation. Such interdependencies require a subsidiary to be coordinated within MNC operations (O’Donnell, 2000), and to cooperate with sister units to achieve global integration and local responsiveness (Bartlett & Ghoshal, 1989; Gupta & Govindarajan, 1991; Mudambi, 2011; Roth & Morrison, 1992).

Additionally, shifts towards global factory styles of management (Buckley, 2009, 2011), and the accompanying fine-slicing of value chain activities, contribute to increased demands for coopetition across subsidiaries to bring together increasingly dispersed activities (Andersson & Pedersen, 2010). Simultaneously, subsidiaries need to compete against each other for limited intra-firm resources, internal talent, corporate support, power delegation and market expansion decisions (Luo, 2005; Mudambi, 1999, 2011).

2.2. Subsidiary coopetition and role development

We suggest that managing coopetition is intrinsic to subsidiary role development. While a subsidiary role comprises a bundle of mandates, the development of that role is captured by a change in mandates over time (Birkinshaw, 1996; Dörrnäbächer & Gammelgaard, 2006). As mandates combine together to represent a subsidiary’s role within the MNC, mandates are continually aware of the importance of mandate gain for role development; while mandate loss or the failure to win new mandates can lead to subsidiary decline. Mandates may be lost because the subsidiary or parent decides to exit certain business areas (Birkinshaw, 1996; Dörrnäbächer & Gammelgaard, 2010; Scott & Gibbons, 2009), a subsidiary has lost the capacity to undertake a responsibility (Cantwell & Mudambi, 2005), or a subsidiary has enhanced its capabilities and outgrown initial responsibilities (Jarillo & Martínez, 1990; Taggart, 1998).

Internal competition is present in all large organizations, including MNCs, to a certain extent (Birkinshaw & Hood, 1998; Birkinshaw & Lingblad, 2005; Galunic & Eisenhardt, 1996; Kappen, 2011). For example, subsidiaries are compared on their ability to perform (Tsai, 2002), and internal comparison underpins mandate allocation decisions within the MNC (Birkinshaw & Hood, 1998). Thus, competition for limited mandates and a desire to influence changes in roles motivate positioning favorably against sister subsidiaries for upcoming opportunities for subsidiary role development (Birkinshaw, Crilly, Bouquet, & Lee, 2016; Cantwell & Mudambi, 2005; Mudambi & Navarra, 2004). Such inter-unit competition to position for mandates manifests in
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