



The managerial network in a multinational enterprise and the resource profiles of subsidiaries

Ivan M. Manev*

Maine Business School, University of Maine, Orono, ME 04469-5723, USA

Abstract

This paper studies how the managerial network in a multinational enterprise (MNE) influences the resource profiles of its subsidiaries. The network view of the MNE and the recent literature on MNE subsidiaries provide bases for suggesting two distinct mechanisms through which the managerial network exercises an impact: isomorphism of resource allocation practices and horizontal specialization. The theoretical predictions are tested with data about the network of lateral ties among subsidiary managers in a private nonprofit MNE and the budget allocations in its subsidiaries. Results indicate qualified support for isomorphism and strong support for specialization. When managers interact in a network, their decisions for resource allocation within their subsidiaries may influence the MNE resource configuration across subsidiaries as well.

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1. Introduction

The contemporary multinational enterprise (MNE) is a complex entity that coordinates the actions of multiple organizational units (subsidiaries) operating in different country environments for competitive advantage. Recent international management thought suggests that this coordination may be carried out best when subsidiaries are organized in a differentiated network (Ghoshal and Bartlett, 1990; Nohria and Ghoshal, 1997). This point of view rests on

* Tel.: +1-207-581-1984; fax: +1-207-581-1956.

E-mail address: imanev@maine.edu (I.M. Manev).

two assumptions. First, the MNE can respond to the growing complexity in the global environment better by allowing a relatively high degree of decentralization for subsidiaries rather than by centralizing decision making at headquarters. Second, as the distinct role and autonomy of the different subsidiaries increase, effective mechanisms beyond simple hierarchy are needed to ensure learning and coordination. The MNE represents a complex resource configuration across the globe in which physical, financial, informational and managerial resources are distributed across different subsidiaries and activities (Nohria and Ghoshal, 1997, p. 197; Porter, 1986). The effective management of this complex resource configuration can be a prime source of competitive advantage. This configuration presents an enormous puzzle, and to solve it, management needs to make sure that (a) there is a “picture” or a vision behind it and (b) the “pieces” fit with one another.

The puzzle metaphor highlights a question about the “pieces” (the subsidiaries) and the linkages among them: How are these fairly autonomous subsidiaries aligned in the overall resource configuration? This paper argues that the resource profiles of subsidiaries in an MNE are influenced by the network ties that subsidiary managers maintain with one another. Further, I review the network view of the MNE to show the role of the managerial network for the management of subsidiaries. On this basis, hypotheses are developed next about two distinct ways in which the managerial network affects the resource profiles of subsidiaries: isomorphism of resource allocation practices and horizontal specialization.

2. The network view of the MNE: linking managerial networks and subsidiary resources

2.1. The network view

According to the network perspective, MNE must be organized internally as a differentiated network in which resources are distributed through a system of intense linkages (Bartlett and Ghoshal, 1989; Ghoshal and Bartlett, 1990; Nohria and Ghoshal, 1997). The high degree of interdependence between subsidiaries leads to a significant need for coordination and integration (Cray, 1984), which is why the network-based MNE relies heavily on both vertical (i.e., headquarters–subsidiary) and lateral (i.e., subsidiary–subsidiary) communication that facilitates normative integration (Baliga and Jaeger, 1984; Edström and Galbraith, 1977).

The MNE network functions at two levels: this is both a network of organizational units (headquarters and subsidiaries) and a network of managers. On the one hand, the network of organizational units is comprised of capital, resource and knowledge flows between them (Ghoshal and Bartlett, 1990; Gupta and Govindarajan, 1991). The capabilities of these subsidiaries and the knowledge transfers between them strengthen the competitive position of the MNE (Gupta and Govindarajan, 2000).

On the other hand, the MNE functions through a social network of interactions among managers located in different organizational units (Manev and Stevenson, 2001). The network of capital, resource and knowledge flows between subsidiaries is embedded in the network ties that individual managers maintain. The relationships in the managerial network

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