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"Managing Headquarters-Subsidiary Relationships in Multinational Corporations: the Safilo Group Case"

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Firma dello studente

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Executive Summary

In a world in constant change, managing internal and external relations among the different units of a company becomes more and more crucial but extremely difficult. The growing and increasingly globalized international market, the fast evolution of information and communication technology, the lowering barriers to trade and investments, the increasing organizational experience, and the generally more educated managers and employees (Kostova, Marano et al. 2016) affected the way in which we see the role of headquarters, and its relations with subsidiaries, in a multinational enterprise (MNE).

Early studies on MNEs management viewed the whole firm as the unit of analysis and focused on the headquarters as the center of hierarchical decision making and control, almost ignoring the resistance that headquarters could face from the subsidiaries' side (Ambos, Mahnke 2010).

Most recent studies introduced a network structure in which each subsidiary has an important strategic role to play in the MNC (Kostova, Marano et al. 2016), including competence-development and reverse knowledge transfer. Thus, making decentralized and informal communication and coordination extremely important for the success of the organization as a whole.

As noticed by Kostova et al. (2016), in the Headquarters-Subsidiary relationship study we can identify 5 main subtopics, each of which worthy of mention: 'Organizational Design & Control System', 'Host and Home Country Context', 'Subsidiary Role and Regional Structures', 'Knowledge Creation and Transfer' and 'Expatriate Management and Global HRM'.

We believe that the Headquarters-Subsidiary Relationship management plays a crucial role in augmenting the value creation and the competitive advantage within an MNE. This is proved by the fact that MNEs today are putting growing attention and effort in facing this kind of relationship management. Especially in high competitive industries, like the one of our case study on Safilo Group, many companies are interrogating themselves about reorganizing this delicate relationship management and structure, to capture the most value from each component of the organizations, boosting group synergies and cooperation while fostering the multiple coincidence of interests among the different parts.

Both the hierarchical and the network structures have some shortcomings, depending on the situational context (Egelhoff 2010): hierarchies are better for fast decision making and direct control, and for exploiting economies of scale and scope, but they prevent subsidiaries'

entrepreneurial role leaving them with an "executive" role instead of a creative one; contrarily, pure network structures boost subsidiaries' creativity and entrepreneurial role but this worsen the agency problems between the corporate headquarters and peripherical units, and generates a higher need of coordination. Thus, there is not a "perfect way" per se to deal with subsidiaries. This complexity makes HQ-subsidiary relationship management so important and requires a multi sided points of view analysis (including the topics above mentioned), so our aim in this work is to examine the most prominent literature on this matter and try to extract some managerial implications that could help MNEs to successfully face intragroup relationships in a complex changing environment.

This work is structured as follows: in the first part, we analyze the historical background of the above mentioned 5 subtopics and their evolution in the literature through the last decades, underlining the effects of the main global trends on those and which ones stimulate more researchers' interest nowadays; in the second part, we focus on the subtopics that we consider more interesting, such as the importance of roles, knowledge transfer and control/autonomy, taking into account the relevance for our case study and the growing importance that also literature put on those topics in particular; in the last part, we report the information received on the Safilo Group case, focusing on three different phases that characterized the company's HQ-subsidiary relationship management, and underlining the changes that have been developed in the last years to improve these relationships and thus the overall company competitiveness. We find a company's historical approach to HQ-subsidiary relationship management extremely divergent from that of literature, but conversely, a strong convergence between the two in recent years. After discussing the radical changes that Safilo is undertaking in the last years, using as base for interpretation the literature review, we will give our point of view on the path that a multinational corporation should pursue to foster intragroup integration and coordination in a turbulent and competitive environment such as the contemporary one.

Chapter 1

The Evolution of Headquarters-Subsidiary Relationships in the last Decades

1.1 Introduction

In this section, we will review the main works of the literature on Headquarters-Subsidiary Relationship, taking as main reference the article by Kostova, Marano and Tallman (2016). They identify five main topics around which the interest of researchers focused through years. These topics are:

- Organizational Design and Control Systems
- Home and Host Country Context
- Subsidiary Role and Regional Structures
- Knowledge Creation and Transfer
- Expatriates Management and Global Human Resource Management (HRM)

In the following five paragraphs, we will first have a brief introduction on the topic examined, explaining how we intend it, then we will highlight how it developed through years and so we will try to unveil the subtle paths that the research took in the past and that is taking now. We will use the most relevant and most cited articles and books that deal with each matter, covering approximately the last fifty years. Our analysis wants to examine each topic in its pure dimension, so we will consider exclusively literature that deals with one topic only and that is the "spine" of our contemporary situation. In this way, we will be able to avoid contamination with other issues and our focus will remain stable. The review will follow basically a chronological sense, starting from early articles and going on through years.

In the last paragraph, we will have a joint analysis on the topics, highlighting the global trends that influenced each of them and how those trends made the attention shift from one issue to another through years.

1.2 Organizational Design and Control System

For Organizational Design and Control System we intend all the mechanisms, formal or informal, that are used by companies to allocate power, resources and roles throughout the organization. It also includes the relations among components of the organization or, more precisely for our interest, between HQ and subsidiaries or among subsidiaries. Control System, in particular, refers to the degree and the modalities in which the HQ supervises the subsidiaries: it can be direct, indirect and more or less strict.

Organizational Design

Early articles on HQS relationship had a sharp central headquarters perspective and focused almost solely on organizational structure and formal control mechanisms to manage and coordinate MNCs' foreign operations (Martinez and Jarillo 1989).

One of the first prominent works on organizational structure is "Strategy and Structure" by Alfred D. Chandler, Jr (1962). In this book, the author presents his "Structure follows Strategy" concept starting by studying how some of the largest multinational corporations (MNCs) at that time (including DuPont, General Motors, Standard Oil Co. and Sears) dealt with the problem of finding an effective administration for their expanding businesses. He summarizes the history of the expansion of these multinational enterprises during the past few decades and then examines in depth their contemporary corporate structure, focusing on the level of decentralization.

He notices that at a certain point of expansion, when the operations become too complex and coordination, control and policy formulation too knotty for a small number of top managers to be handled by an entrepreneurial (long run) and operative (short run) perspective, the company needs to adapt to the new stringent environment with a "creative innovation". That is how, in his opinion, the multidivisional structure came out: a general office whose top executives deal with entrepreneurial (long-run) tasks, on one side, and more autonomous operating divisions whose managers handle operational (short-run) activities, on the other.

This is the sense in which the author intends that the structure must follow the strategy: the structure must be extremely adaptive and flexible to face the constantly changing environment. Thus, top managers must recognize as fast as possible any stimulus coming from the outside and "translate" it into a possible intervention in modifying something in the organization. When this outer stimulus is so important, the structure should be affected, sometimes massively, as happened in DuPont, General Motors and Jersey Standard. In these MNCs, executives close to the top management recognized the structural inadequacies caused

by the new environmental complexity but they were initially opposed by top executives that were reluctant to change the company's structure. Only when a conspicuous crisis was to come they realized that it was necessary a strong intervention and accepted to modify corporate structure towards the multidivisional one.

Chandler gives also a reason why those top executives failed to react instantly to environmental changes: he believes that too few importance was given by top management to the outer stimuli and their effects on structural matters; they were focused on more operative problems and "traditional" entrepreneurial matters.

All the above-mentioned companies passed from the traditional Unitary Form (U-Form), common until the first half of the 20th century, to the Multidivisional Form (M-Form). The first was characterized by a central overseeing parent company that managed all the strategic decision-making process and leaving to the subsidiaries just an operational role; the latter is characterized by a shift of part of the decisional and strategic power from the parent company to the subsidiaries. Subsidiaries are semi-autonomous entities that have their own unitary structure. They are also responsible for their own production and for maximizing their profits. In the M-Form there is still a central office that supervises the divisions but it has only an overall strategic task without any direct control on divisional operations.

Chandler's study is important to us because it put the basis for MNCs' organizational studies. In fact, the following studies, during the second half of the sixties and the first half of seventies, tried to test Chandlers' theory of the "structure follows strategy" in the international context (Kostova et al. 2016). Among the most influent works until today, that helped to form the contemporary vision of the organizational structure, we find those of Stopford and Wells (1972) and Prahalad (1976).

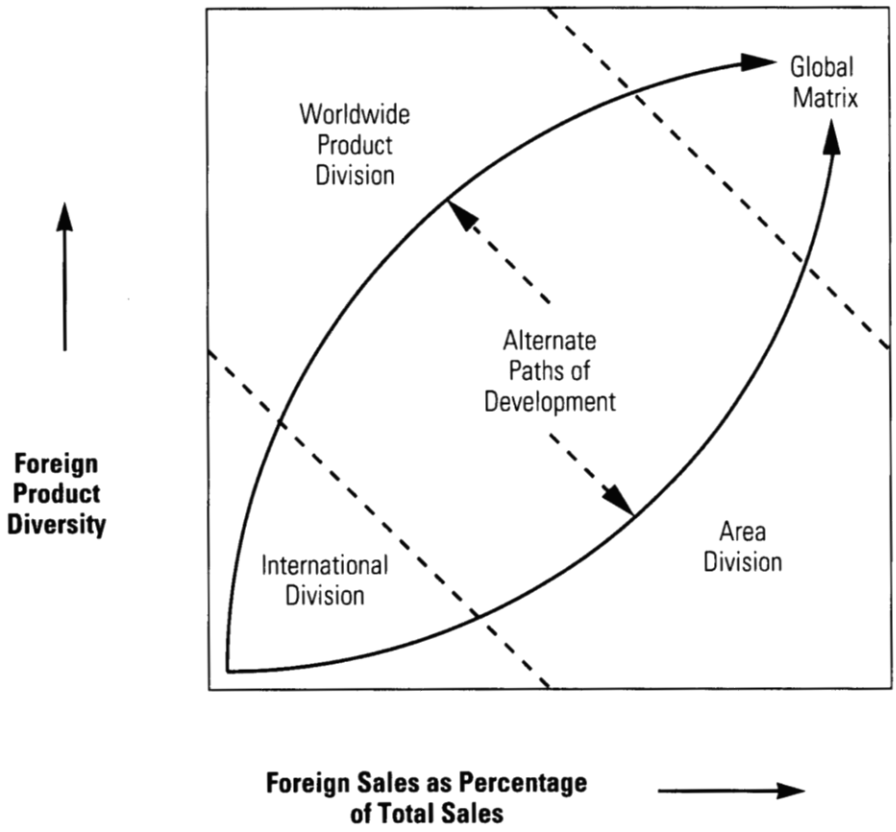
Stopford and Wells (1973) conducted a study analyzing 187 US MNEs and their thousands foreign subsidiaries to formulate and test their assumptions about the relationships among policies, organizational structures and management strategies and their effects on ownership matters. Their model is based on the thought that organizational forms evolve in time depending on the internationalization level achieved calculated by two parameters: the percentage of sales abroad versus domestic sales, and the diversity of the foreign product from the domestic one. The result of their work can be observed in Figure 1.

The first stage of development of the multinational company, at levels of foreign sales lower than 5-10% of the total sales and no product diversification, is Exports: the homogeneous product is sent from the parent company's area to foreign countries without any diversification.

At higher levels of foreign sales (>10%) and product diversification, the International Division take form. It has a domestic (ethnocentric) orientation and centralized control

overseas, high level of reporting and low level of autonomy of the subsidiaries. An ethnocentric orientation refers to an organizational approach that uses the domestic context as a parameter for evaluating alternatives and making decisions while centralized control means that the

Figure 1 - The Stopford and Wells Model of MNCs



Source: (Ghoshal and Nohria 1993)

maximum level of control resides at the parent HQ level and its scope reaches every subsidiary (or lower level HQs).

At this point, there are two possible paths of growth that an MNC can experience, depending on the prevalence of product diversification over the percentage of foreign sales or vice versa. For higher levels of product diversification over foreign sales the Worldwide Product Division take place. Here the MNC divides its activities on a product basis: each product division has full responsibilities for that product, so more autonomy and less control than in the pure International Division.

For higher levels of foreign sales over product diversification instead, we find the structure of the Area Division. Here the pressure coming from high sales from the foreign country generates the need for regional groups headed by a central HQ, and local divisions, within the regional groups, that are responsible for one geographical area of the firm's

worldwide market. This is a polycentric system because there is a more fragmented decisional and operative power throughout the organization.

The ultimate and most complex organizational structures, after both foreign sales and product diversification become consistent, are the Global Matrix or the Mixed Structure. In the Matrix Structure, each local subsidiary has to report to two different HQs: an Area HQ and a Product HQ. This structure may simultaneously develop and implement strategies along two different dimensions: the product division will tend to optimize the product line's performance, concentrating on R&D, Marketing and Manufacturing, while the Area Division will concentrate efforts in gaining market share in the region, conforming to local governments and local conditions. This flexible structure is not costless: in fact, many conflicts may emerge since the decisional processes from two different bosses often involve the same resources. Mixed Structures are characterized by some foreign operations reporting to one HQ and others to another HQ (e.g. one to Product HQ and another to Area HQ). These structures are appropriate, for example, when different product lines need different strategies (e.g. one needs a Global Strategy while another needs to be more locally responsive) (Egelhoff 1988).

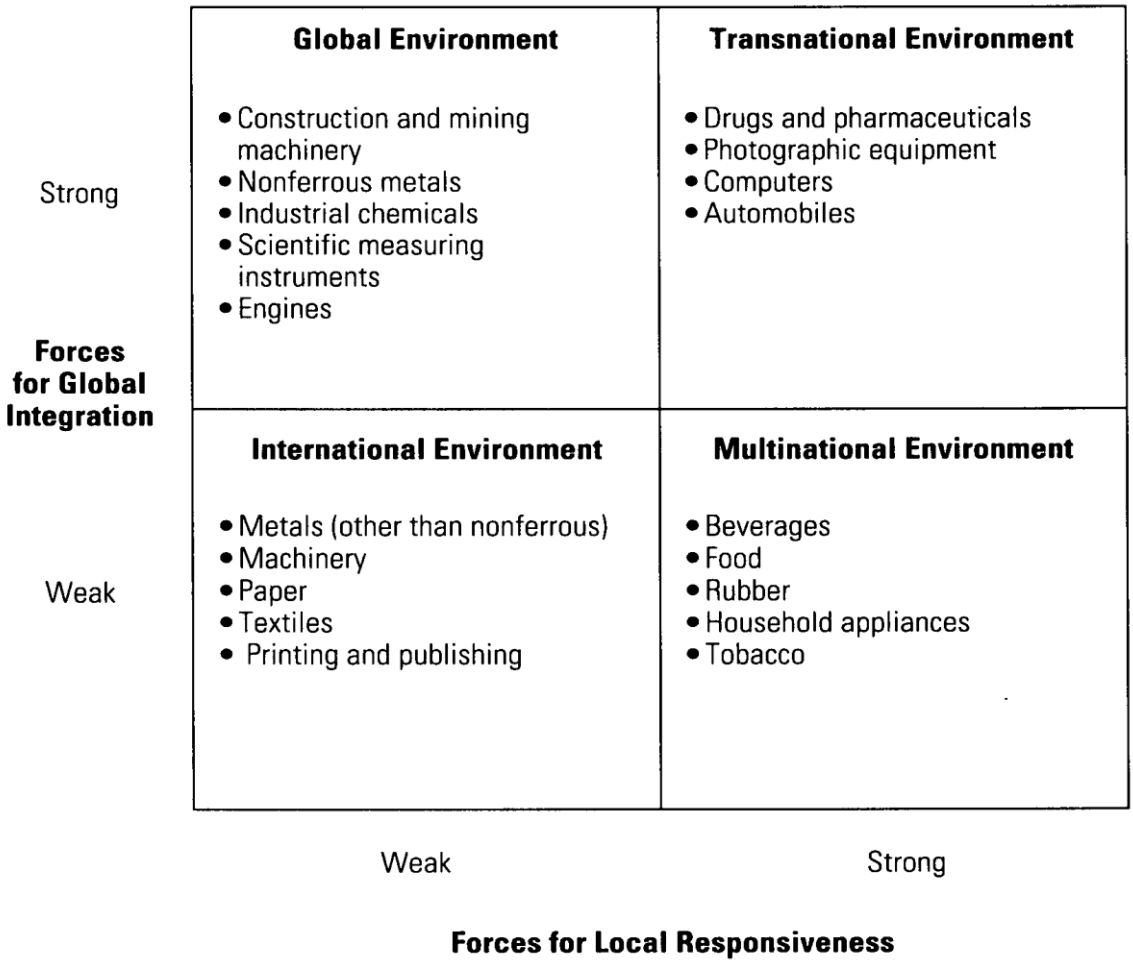
Egelhoff (1988) found that contrarily to Stopford and Wells' hypotheses, both Product Division and Matrix Structures could fit the situation of high levels of both foreign product diversity and foreign sales. The Mixed Structure, instead, can vary widely in their strategic function, in terms of these two parameters, so, for the author, it should be excluded from Stopford and Wells' Model.

Prahalad (1976) introduces the Integration-Responsiveness (I-R) framework, later refined by Prahalad and Doz (1987). The authors assume that the critical strategic demand to MNCs is the need to integrate and coordinate business units and the need to be reactive to each local context, thus meaning that MNCs must coordinate activities while remaining locally sensitive (Roth 1988).

This work put the basis of the work of Bartlett and Ghoshal (1989) that on one hand extends the I-R concept to a more strategic issue and on the other hand queries the efficiency of the Global Matrix (or Grid) proposed by Stopford and Wells. More precisely, they criticize the dogmatic way in which companies and consultants used that instrument, highlighting the fact that for many companies that used the Global Matrix as a prescription for increasing activities' complexity, the results were disappointing, and many of them were forced to retreat.

The authors propose a more sophisticated model, as shown in Figure 2. One important feature of the model is that they do not assume any of the strategies presented as a prescription for any situation, but they give an empirical evidence of the industries that use each specific one and try to figure out the reasons for that.

Figure 2 - Bartlett and Ghoshal Model and Industries



Source: (Ghoshal and Nohria 1993)

The figure shows that there are two dimensions (or needs), deriving from the above-mentioned Prahalad's I-R framework, on which four strategies take form. These two dimensions are the Need for Local Responsiveness and the Need for Global Integration. The first refers to what extent the local pressures are important to the company, it can include any aspect of the area of activity (culture, customer needs, market features etc.); the latter refers to need of homogeneity and centralization of product, services, processes or decision-making (a need for standardization).

Four different strategies come out from the intersection of the two forces:

- International Strategy: when both forces are weak, the company normally aims to achieve efficiency focusing on domestic activities and, although international operations are widely managed centrally, there is little adaptation of products to local needs: this strategy is best suited for commodities industries, for example, because there is no real need for adaptation of the product/service offered to different markets.

- Global Strategy: if the Need for Global Integration is strong while the Need for Local Responsiveness is weak, then the best strategy to use is the Global one. This is a highly-centralized company where the focus is on the efficiency of processes (economies of scale), there is little sharing of expertise locally and the product is highly standardized. Best suited for chemicals and machinery, for example.
- Multinational (Multi-domestic) Strategy: when the Need for Local Responsiveness is highly important in absolute terms, and relatively to the Integration Need, the company has to strictly adapt the product/service to the local environment/features to stay competitive in that specific area. Here the company aims to maximize the benefits of local customers and markets through extensive customization; decision-making is decentralized and local businesses are treated as separate businesses with different strategies for each country/area. Among the industries characterized by this strategy, we find food and beverages and house appliances.
- Transnational Strategy: this is the most important and hard-to-achieve strategy that the authors introduce. Here both needs are stringent and so the company has on one hand to maximize local adaptation and responsiveness and on the other hand, must gain from global integration and standardization to stay competitive. These conditions make another need to come out: the need for sharing expertise (technology, information, staff…) throughout the organization and throughout the areas in which the company operates, in order to learn from local customers/markets, but understanding how to maximize the benefits from economies of scale. The industries most interested in this strategy are the ones that have products/services extremely customizable, or dependent on local market features, but in the meanwhile costly to produce, like automobiles and computers.

From Hierarchy to "Heterarchy"

In the 1990s the interest of the researchers for formal strategies and structures as unique focus declined, as noticed by Kostova et al. (2016). As proof of this, the Journal of World Business did not publish any article on the issue after 1990 and, contrarily to the first observation made in this paragraph, after that year researchers abandoned the unidimensional focus on structural issues and concentrated more on subtler and informal mechanisms (Martinez and Jarillo 1989) as we will see in the next paragraphs. The focus shifted to other ways of thinking MNCs and their subsidiaries.

Connected to this last assumption, we find the evolution of the concept of Hierarchy, which evolved into "Heterarchy". Hedlund (1993) reviews the origins and the assumptions of the term "hierarchy" identifying four main attributes:

- Prespecified and stable relationships, meaning that each relationship is intentionally programmed a priori and remains stable over time;
- Instrumentality and additivity of parts, in the sense that each part has its own instrumentality and for new needs, a new part could be established;
- Unidirectionality and Universality, meaning that the flow of decision-making and control is unilateral, coming from the higher-level parts to the lower-level parts, without any possibility of backflow;
- Coincidence of action, knowledge and people hierarchies, so that each hierarchical level has authority for each of the mentioned aspects, without the possibility of separating authorities.

But the hierarchical model was unable to represent properly the complexity of the MNC (Birkinshaw and Morrison 1995). First, Prahalad (1976) underlined the inability of top management to fully understand the complexities of the different subsidiaries and peripheric operations. Then, Bartlett and Ghoshal (1989) assumed that informal systems, like lateral decision-making[1] and normative integration[2], jointly with the legitimization of different subsidiary roles, were way more effective than the "traditional" hierarchical model.

Finally, Hedlund (1993) creates the concept of the MNC as a "Heterarchy" based on three main aspects:

- Resources, managerial capabilities and decision making are dispersed throughout the organization instead of being concentrated at the HQ, and so control is achieved through normative integration instead of "calculative" mechanisms;
- Lateral relationships exist among subsidiaries, in terms of people, product and knowledge flows, while in hierarchy they were strictly avoided to contain costs;
- Activities are coordinated along multiple dimensions, often being geography, product and function; as the previous, seen extremely costly in hierarchical systems.

All the said doesn't allude that all MNCs and all subsidiaries follow this heterarchical structure: there may be in the same organization some subsidiaries managed in a heterarchical way and others controlled in a hierarchical manner (Birkinshaw and Morrison 1995).

[1] **Lateral decision-making** is a situation in which parts cooperate in the decision-making process

[2] **Normative integration** is the convergence of objectives, values, and norms of behavior in a multinational company

Control Systems

Pavlovska and Kuzmina-Merlino (2013) provide an insight into the evolution of the Management of Controlling, analyzing the concept of 'Controlling' and the need for Control in organizations. Controlling is defined as a system to coordinate Management and Control. We can notice from Table 1 that in this issue too, things needed to change in order to stay in line with the changing environment. In fact, before the work of Johnson and Kaplan (1987), called the First Revolution, there was not a direct reference to the discipline of Control, it was simply confined to accounting data aggregation and comparison. That is why Management of Control is considered as "young" compared to other managerial disciplines.

The first well-formed control framework was developed by Simons (1994). His biggest contribution was the introduction of the concepts of Interactive and Diagnostic. Interactive Control is a kind of control in which the top management is quite involved in the process and interacts with lower-level collaborators; in the Diagnostic Control, top management is

Table 1 - Comparative analysis of Management Controlling Frameworks

Authors of Framework	Scope	Outcomes	Used Tools	Main Contradiction
Initial approach before Jonson and Kaplan	Accounting data aggregation and comparison	Only finance statistics. Able to see working result, but cause and effect are not predictable.	Not in focus, but only accounting value based	Does not give enough overview of the context for decision making
Simons' Lever of Controlling	Beliefs, boundary, diagnostic control, interactive control	Mission, vision, finance statistic, advices for decision making style	Not in focus, but accounting value based, BSC and KPI, ROI, undefined area for mission, vision, and decision making style	Interactive control is poorly defined, low level of prediction. More intuitive, than quantities/qualitative.
Otley's Performance Management Framework	Organization objectives, strategic plan, level of performance, rewards, information flows, organization structure, evaluation of personal, feedback types and ways	Mission, vision, finance statistics, performance connected with rewards, KPI, organization structure, deep monitoring of all activities	Partly in focus, accounting value based, BSC and KPI, EVA	Overflow of information, slow and expensive for big organizations.
Ponssard and Saulpic extended Simon's framework	Beliefs, boundary, diagnostic control, interactive control, tools, relationship between the control system and the compensation policy, organization structure	Mission, vision, finance statistics, customized tools, performance connected with rewards, advanced planning, KPI	In focus, accounting value based, BSC and KPI, ABC Costing, agency theory approach Customization and adjustment of tools. Self-adjustable tools.	Enough for operational management, but not for innovation and other extended activities

Source: (Pavlovska and Kuzmina-Merlino 2013)

completely distant and so its control is often limited to a reward-punishment system.

As we can see from Table 1 the control system became more sophisticated with time, adding new tools and considering new aspects in the development of this system. Finally, another important research input was the connection between the control system and the

compensation policy, introduced by Berland, Ponssard and Saulpic (2006). This means that henceforth the compensation policy tools will be more customized in the Interactive Systems, while in the Diagnostic Systems will feature not only arms' length relationships along the hierarchical line but also will rely on more generic tools linked to performance indicators used.

Conclusion

We have seen that, for what concerns the organizational design, research followed a progressive path in which each work starts from the previous one to advance knowledge on the matter. The interest on the matter decreased massively during the 1990s and we may think that it was for two reasons: the first that the last works mentioned are still considered quite valid today (e.g. Bartlett and Ghoshal 1989) and, as we will see later in this work, other issues on MNCs took the interest of researchers. We have seen that organizational design started as a stricter and centralized (HQ perspective) structure and with time became more flexible and decentralized, in which each subsidiary as an important role in MNC activities. This is accompanied by the introduction of the term 'heterarchy' and the possibility of lateral relations among subsidiaries, which were excluded before. Finally, this is followed also by an evolution of the control system, which is evolving to a more interactive and collaborating system instead of a mere diagnostic one.

1.3 Home and Host Country Context

The 1980s experienced a new topic of interest for the researchers: analyzing the features of host country environments of MNCs' foreign activities and their impact on organizational strategy and performances (Kostova et al. 2016).

If it is true that structure must follow strategy (Chandler 1962), for sure both need to care about local contexts. Not a structure nor a strategy could be thought without considering local features. This concept is in some way connected to the idea of Local Responsiveness by Prahalad (1976) and Bartlett and Ghoshal (1989). Thus, to stay competitive every MNC needs to adapt to the local context.

Hill and Still (1980) noticed that not only MNCs need to adapt the organization to the local contexts, in particular when operating in lesser developed countries (henceforth LDCs), but they can also affect the cultural and the technological context of an LDC: so, the interaction between MNCs and LDCs is not a one-way process. This happens because MNCs have the

power to affect the cultural evolution of the LDC by contributing to the industrialization and modernization process, at earlier stages of evolution, and to the technological progress. MNCs help economic development and this has cultural and social implications.

MNCs face different cultural and political pressures. They need to adapt to different legal systems, tax laws and governmental controls. All these conditions make the MNC's management very complex especially in areas such as ownership, strategy formulation, resource allocation and technology and people transfer (Das 1981). These pressures are different in typology and strength depending on the different local context. One big difference occurring when operating in different countries is the pressure from (or interaction with) the local government. In countries where the government intervention in the economic activity is strong, this interaction with it becomes critical.

Das (1981) talks about Indian economy as an administrated one so that the industrial activities are leaded by the governmental regulations. The government uses these regulations to take control of the basic and strategic industries, not letting any private player to control them. In a developing country like India, MNC operations are affected by the government in three areas:

- Ownership structure of the subsidiary by the parent company: many times, governments impose to have a significant share in the ownership of foreign subsidiaries or to reserve a share to national investors;
- Direction and nature of growth of the subsidiary, when local institutions prevent some path of growth or hamper it by imposing particular regulations;
- Flow of resources, technology and managerial skills among the companies of the group, if restrictions are put to flows from/to foreign countries.

The most relevant implication of these is that the mandatory share owned by host nationals generates the risk that the MNC could become a mere financer of the foreign affiliate if the ownership dilution is significant. Moreover, frequent changes in regulation in LDC, including those to control Foreign Direct Investments (henceforth FDIs), hamper MNCs' strategic planning. For these reasons, the author assumes that the strategic choices taken by Indian subsidiaries are more responsive to local regulations than to the market forces or technological advancement and this scenario can be extended to other LDC.

These effects are more concerning than the traditional political risk, intended as the risk for political instability in the country of operations, and they are more unstable and unpredictable when governments discriminate: i.e. when they force some subsidiaries into unwanted joint ventures and/or impose taxes and limit prices while admitting others to have 100% foreign ownership (Poynter 1986).

MNCs respond to this by trying to influence changes in intervention regulations, attempting to bypass the laws, or simply reducing operations in those countries of higher governmental intervention.

In negotiations, the bargaining power of the two participants (host country government and MNC) is important. Poynter (1986) finds two sources of Host Nation Bargaining Power:

- The "power of the host country", so the host nation's ability to replace the resources supplied by the MNC. Analyzing this, it is important to understand the ability of the host country to develop by itself the managerial, technical and other skills, and its velocity in developing them, more than the simple level of these resources. In fact, when a country's skills grow fast the bargaining power of foreign subsidiaries decreases, since it is complementary to the host country's one.
- Host Nation's possibility to control subsidiary's access to the host nation's market, raw materials, labour and capital. As these resources grow in importance, the local market becomes more attractive and so, since more MNCs would be interested in joining the local market, governments will intervene more.

So, the governmental intervention will not occur when the Subsidiary's Bargaining Power coming from its Business Resources is bigger than the Nation's Bargaining Power coming from its Business Resources and its Market Attractiveness (Poynter 1986).

Of course, this model doesn't consider that some countries would intervene more than others just for a specific characteristic of that country. For example, some states are more inclined to control economic activity than others, thus generating more intervention.

The same author gives two successful strategies to defend from governmental interventions and those are: increasing the subsidiary's bargaining power and adapt subsidiary's political behaviour to that of the host country.

The first strategy means to stay up-to-date with technological and managerial skills of the host country and be ahead of advancements in those areas; this could happen mostly through technical upgrades or introduction of new products or services. Another way to achieve the maximization of bargaining power is having significant exports or, even more important, undertake vertical integration. With vertical integration, MNCs can lower the dependence from other players and so strengthen their competitive position. It is important also to keep always multiple sources of the same component, when possible, in order to avoid local government to be in a too strong position.

The political strategy, instead, refers to the political profile of an MNC, which is determined by the size of the company and the firm's strategic importance in the host country context. Thus, firms in strategically important industries like natural resources, banking and

insurance have a higher political profile. Politicians may have political advantages in intervening against big employers or against companies with a high political profile: i.e. positive reaction of the trade unions. To defend themselves from this "political risk", many MNCs are creating joint ventures involving firms from different nations with the intent to involve countries that are suppliers, bankers, political supporters and aid donors of the host country, thus making interventions more inconvenient to local governments. This seems to be the only defence available to MNCs with a high political profile. Only small subsidiaries or strong ones that don't work in any national strategic business can afford to avoid political intervention. The others must deal with political involvement (Poynter 1986).

Kriger and Rich (1987) analyze how MNCs make use of subsidiaries' boards (henceforth SB), the boards of directors of the foreign subsidiaries. They notice that the proactive use of SBs is becoming common, pushed by the external environment which becomes more complex and changing more rapidly. For proactive, we intend an SB which is not only a mere executor of parent strategies or commands but instead, it is a centre of elaboration of local inputs and capable to deal with them in real time, forging strategies and activities considering every contingency, local or coming from the HQ.

This evolution of the role of SBs is strictly linked to the increasing scope of MNC activities and in the increasing interest of local institutions to control those activities. Many countries demand that MNCs' subsidiaries take host country national development policy objectives into account when designing and implementing corporate strategies. If there are no local directors actively participating in this political task, local governments will perceive it as an indication of low concern for local needs and requirements, thus negatively influencing governmental intervention. On the contrary, having strong board members able to discuss policy decisions considering local needs, and trying to arrange the most viable compromise between the short-term optimal economic solution and the long-term integration of the subsidiary in the host country will produce positive effects on governmental intervention. A proactive SB is not only useful to cope with local political or legal pressures but also for increasing the access to information about local economic developments. Moreover, the local institutions may perceive the subsidiary more responsive to local condition fostering positive governmental interventions. To sum up, Poynter (1986) indicates three ways in which SBs are important:

- "Strategic Windows": SB as a window to understand local context and making possible any reaction in a fast and efficient way;
- "Windows of understanding": SB as an efficient proxy between the host country and the foreign subsidiary allowing a double-way of understanding;

- "Windows of Influence": SB as a potential influencer in two ways. It can influence local institutions to act in the interest of the firm or influence the parent company or the subsidiary itself to take care of the interests of local stakeholder groups.

Although the proactive use of subsidiary boards is increasing, this is not immune from costs and risks. On one hand, taking intensive care of local integration, as well as "traditional" issues, is first time consuming and then makes the business definitively more complex; on the other, there is the risk that excess of external influence may divert the company from its strategic mission.

The best way to have a proactive SB is to include prominent locals in these boards of directors (Kostova et al. 2016) so they have enough influence and credibility to interact efficiently with local institutions.

The rise of emerging markets during the 1990s made the interest of local context to increase, and this happened especially in the Chinese context. It followed a series of works that examine local contexts and sub-contexts.

Bjorkman and Lu (1999) analyze the fact that many MNCs, having a conspicuous activity in China, established a "China Center" to better coordinate and control activities in the country. They found that having these regional centers in China "mainland", instead of Hong Kong or other parts of Asia, has big advantages, especially for HR activities. This is crucial because of the big differences in culture, labor markets, and legal/political system between China and other parts of Asia. They also found that the benefits of having this central HR department outweigh the costs of establishing and managing it.

Another aspect of local context is covered by Selmer (1999) who deals with Coping Strategies, so the strategies to face stressful situations during assignments abroad, and focuses on the China context. These strategies are divided into two main groups: Problem-Focused Strategies and Symptoms-Focused Strategies. The first ones are aimed to change the stress-generating situation while the second ones are used to diminish the stress by intervening on behavior and psychological effects without caring about the source of the stress. He makes a study of the Chinese context and arrives at the following interesting conclusions:

- Interpersonal relations positively influence sociocultural adjustment to the local context, so MNCs should promote interaction with Host Country Nationals to foster adjustment;
- There is a need to avoid or shorten the discouragement of the early stage of the abroad assignment for expatriates;
- Cross-cultural training is needed not only before the assignment but it needs to be continued after the arrival in the Host Country;

- It is important to teach to expatriates to face stress using Problem-Focused strategies and warn them about the negative effects of Symptom-Focused ones.
- MNCs should encourage expatriates to learn Chinese because a big part of the day-by-day business is run in Chinese. Moreover, many Chinese nationals declare that an expatriate's willingness to speak Chinese is more important than the actual level of fluency in the language.

The analysis of host countries advanced by further revealing the contextual features of emerging markets and explaining deeper how such features affect HQS relationships in both developed countries and emerging markets MNCs.

Demirbag, Apaydin and Tatoglu (2011) examine the factors affecting the survival of foreign subsidiaries in Japanese equity ventures in the Middle East and Northern Africa (MENA). They introduce three new institutional variables:

- Economic Distance: represents the difference in the economic development of two countries;
- Economic Freedom Distance: expressed by the differences in two countries of the degree in which personal choice, voluntary exchange, freedom to compete and private property protection are available.
- Subsidiary Density: is the number of organizations from the same country in the host country context. At low density, it is likely to exist a higher founding rate and a low mortality rate, while vice versa, at high levels of density, competition will dominate increasing the subsidiary mortality rate.

The authors find that both economic distance and subsidiary density are positively related to subsidiary survival in the host country while high economic freedom distance increases the risk of subsidiary failure. Moreover, the interaction among these three variables is studied. In particular, a combination of high economic distance and high subsidiary density results in a higher likelihood of subsidiary survival; in case of high economic freedom distance, a higher subsidiary density raises the likelihood of subsidiary survival. The introduction of the economic freedom distance concept gives a new parameter to ponder when deciding MNCs' FDIs.

Another interesting study is that of Tang and Rowe (2012) who, analyzing 165 Japanese subsidiaries in China, found that the relationship between business relatedness[3] and subsidiary performance follows an inverted U-shape. This indicates that modestly related subsidiaries on average outperform poorly related and highly related subsidiaries. Moreover, they found that business relatedness, ownership level and subsidiary age have combined effect on subsidiary

[3] **Business Relatedness** is how much the subsidiary activity is linked with the parent company's core business

performance: closely related subsidiaries perform, on average, poorly especially when the parent's ownership level is high and when it is at an early stage. This study certainly makes caution to the tendency of subsidiaries to over-rely on parent's Firm-Specific Advantages (FSAs), ignoring host market peculiarities, especially when the parent company has a majority ownership and the subsidiary is at an early stage.

Lee and Gaur (2013) examine the efficacy of organizational mechanisms of diversified firms. They argue that these mechanisms are more used, and produce more benefits, in emerging markets business groups than in US firms. They find confirmation analyzing Korean Chaebols, the particular form of conglomerate in South Korea. An important finding is that structural mechanisms, such as strategic control, do not affect divisional performance, while socio-cultural mechanisms, such as shared values, generates significant benefits; another aspect that results to be better exploited in South Korea.

Tian and Slocum (2014), analyzing a large data set of MNCs' subsidiaries in China, argue that parent companies should give more autonomy and discretion to the subsidiaries in order to achieve higher performance. They find, in fact, that Local (Multi-Domestic) and Glocal (Transnational) strategies affect positively subsidiaries' performance while the Global strategy often results in poor performance in China.

Conclusion

With the literary review of this paragraph, we noticed that the MNC's strategy has not a univocal role in the local context in which it operates. Not only MNCs have to adapt to the local contexts, but they can influence host countries' environments too and must respond proactively to pressures by each context in which they operate. Thus, communication and cooperation between HQ and subsidiaries play a crucial role in shaping strategy; and in this, subsidiary boards, have the important task to be reactive to local changes and proactive in working together with the parent boards.

We can also notice that literature on local contexts is way more particular and focused than the one in the previous paragraph, which was more theoretical and abstract. Especially after the late 1990s, almost all articles use empirical studies to extract managerial implications.

We can conclude that, after realizing that the understanding of local environments is so important to MNCs' performance, researcher interest shifted on understanding the peculiarities of each context in order to help companies in shaping the best strategies.

1.4 Subsidiary Roles and Regional Structures

As the MNC started to be considered as a coordinated federation of semi-autonomous units, the attention of the research shifted to subsidiaries' unique features and roles and their impact on HQS relationships and the overall success of the company (Kostova et al. 2016).

Among the prominent works that contributed to this evolution of the MNC conceptualization, we find that of Doz and Prahalad (1984) who analyzed the difficulties in managing HQS relationships in the light of the competing forces of global integration and local responsiveness. The authors discredit the importance of a firm's formal organization to manage subsidiary relations and conclude that managers need to structure these relations more than formalize them. The tools considered by the authors in facing these needs are gathered into three groups:

- Data management tools, to control which information is gathered, how it is analyzed and processed, how it circulates and how it is used to in the decision-making process.
- Managers' management tools, to set norms and behavioral standards and objectives consistent with the planned strategic direction.
- Conflict resolution tools, which provide the channels to manage the interactions between the need for integration and the need for responsiveness; they are the way through which the information is processed and behavior takes place.

Companies with a too wide or too narrow set of these tools, or companies that fail to blend these tools among the different possible applications, will face difficulties in trading off the needs for responsiveness and for coordination.

Another big contribution to the evolution of the concept of subsidiary role and how relations among subsidiaries and HQs are managed is given by Hedlund (1986) which introduces the concept of Heterarchy, as also mentioned in the last paragraph. He describes the MNC as an organization seeking the advantages that it can get from its global spread, an MNC composed by subsidiaries having different and peculiar attributes and a need for a normative control system which needs to be blended in respect of the hierarchical one.

On the same trend, Ghoshal and Bartlett (1990) conceptualized the MNC as an "internally differentiated network", aimed to respond both environmental and organizational differences in different business, functions and moreover geographic locations. Because of this differentiation, the MNC needs internal linkages and mechanisms of coordination to face the different kinds and extents of dependency and interdependency in the relationship exchanges among units.

These works built the path from a narrow view of the subsidiary as a mere dispersed agent of the MNC to a broader one which sees the subsidiary as an internally differentiated and goal-diverse unit with its own external network of stakeholders (Kostova et al. 2016).

Founded on these studies, the following research focused on analyzing the implications of different subsidiary roles. To have some examples, the importance of subsidiary's initiatives and its own entrepreneurship is studied by Birkinshaw and Morrison (1995) and Birkinshaw (1997). In the first article, the authors deal with the three kinds of subsidiary roles (world mandate, specialized contributor, local implementer) suggested by the research until that time and how the "structural context" varies among these three types considering the principles of Hierarchy and Heterarchy models. The structural context is intended as "the set of formal and informal management systems that determine the relationship of the subsidiary to its parents and affiliates". Birkinshaw (1997) instead defines subsidiary initiative as a "key manifestation of corporate entrepreneurship" and concludes that subsidiary initiative or entrepreneurship has the power to enhance local responsiveness, worldwide learning and global integration, thus enriching the role previously attributed to subsidiaries.

Subsidiary R&D behavior is analyzed by Cantwell and Mudambi (2005), where they figure out that the level of subsidiary R&D depends on two factors: on one hand, the MNC group-level and subsidiary-level characteristics and on the other hand, the locational factors. They see that MNCs that grow through acquisition tend to have a wider inter-subsidiary R&D diversity.

Andersson, Forsgren and Holm (2007) consider the subsidiary contribution to MNC performance through the power of influence. They see the MNC as a federative organization in which there is a perpetual bargaining process between HQ and subsidiaries. The strength of a subsidiary's influence depends on its power to provide technology to the MNC. They also find that when the HQ has sound knowledge of subsidiaries' business networks, it is better able to manage and balance influence from strong subsidiaries. The risk is that, while externally embedded subsidiaries may better provide access to different technologies and competencies, they may also reduce their interest in contributing to MNC's performance.

Kappen (2011) examines the overlapping competence-creating activities within the MNC's boundaries, by investigating how the technological evolution of greenfield subsidiaries is affected by the acquisition of a unit in the same location. He finds that despite an initial negative effect of overlaps, after more than a decade this interaction gives positive effects.

Studies upon Regional HQs creation emerged in the middle 1990s. One relevant work on the topic is Lasserre (1996) which describes the different roles that Regional HQ may cover and examines their usefulness in achieving corporate goals. A complete MNC's regional level

of analysis is given by Rugman (2005), which refers to pure globalization and the use of the global strategy as a myth and uses the failure of this strategy to explain the advent of the "regional blocks" by which many large firms carry on business activities in the world.

Thus, since more and more autonomy was being given to subsidiaries, many MNCs started developing regional centers of coordination and control to better exploit local opportunities, resources and knowledge (Kostova et al. 2016).

Literature followed this trend and the next block of studies focused on the importance for MNCs' overall performance that HQs worked closely with subsidiaries in developing systems of coordination, evaluation and knowledge sharing among all the units.

In recent years, literature increased its interest in the network-based and heterarchical layout of MNCs and the subsidiary became one of the central points of study, such that it became to be conceived as a partially autonomous entity with a power to shape its own strategy and to influence the overall strategy of the MNC system (Mudambi, Pedersen, Andersson 2014a).

Furthermore, the capability to drive proactive, autonomous and risk-taking initiatives is attributed to subsidiaries, for application in the local but also in the global environment. One work about this topic is that of Schimd, Dzedek and Leher (2014) which examines the features of subsidiary initiatives in light of the growing importance of highly populated countries like China and India and of their weight in serving those huge national markets.

Moreover, the network-based view became a common tool to analyze both the intra-firm (among subunits of the same unit, like a subsidiary or HQ) and the inter-firm (among different units) dimensions where the MNC operates. Jindra, Giroud and Scott-Kennel (2009) argue that subsidiary roles and technological capabilities affect the results of vertical linkages, so the linkages between a subsidiary and its direct superior/inferior level unit. They test these effects on parameters like subsidiary autonomy, initiative, technological competences and internal/external embeddedness and they find that the potential for technological diffusion through vertical linkages is dependent on the nature of subsidiary roles. Nell, Ambos and Schlegelmilch (2011) study the embeddedness overlap in the local subsidiary network. Considering that subsidiaries are externally embedded to the local context in which they operate, they intend 'embeddedness overlap' the situation in which the HQ has also a degree of embeddedness in the local context of a subsidiary. In this sense, a sort of "competition" is generated between the HQ and the subsidiary. The authors, using information coming from more than 150 European subsidiaries, find that MNCs build and keep stronger overlapping ties when subsidiaries are high performers, handle important resources, work in turbulent contexts and are closely connected to international actors instead of being purely domestic firms.

Conclusion

The research on subsidiary roles and regional structures followed a similar path to the one of the previous topics considered in this work, in the sense that it highlights the growing importance of subsidiaries as unit participating in MNC's profits and strategy development. On one hand, we notice once again that the shift from a hierarchical view to heterarchical one affected massively how subsidiaries are viewed and used in MNCs. They gained more importance as both proactive strategy-implementer and network-operating units. The first one intended as the power for subsidiaries to shape their own strategies while the second as the possibility to have not only vertical linkages among superior/inferior level units, but also among same-level units (among subsidiaries).

On the other hand, the growing importance given to subsidiary activities, coupled with the growing attention given to local contexts, caused the exigence for many MNCs to create regional HQs to face the growing pressure from local environments and to better shape regional strategies intended to gather local strategies with the overall MNC strategy. This became crucial particularly in high developing markets like China and India, which are now considered as regional markets instead of national ones for their complexity.

As we can see from the wide variety of works on this topic, the interest of researchers for it grew during the last decades and remains still today a hot topic which deserves a deeper analysis. Thus, the following chapter will deal with this analysis on subsidiary roles, with a part dedicated to regional structures and to other main themes that we will see in the next paragraphs.

1.5 Knowledge Creation and Transfer

Knowledge broadly refers to all the notions useful to conduct a business, including also practical knowledge, the so-called Know-How. Thus, we cannot think knowledge as simple information but also all the techniques to transform information into operations.

Consistent with the early focus on HQs and organizational design, as we have seen in the previous paragraphs, earlier works on knowledge transfer focused on the "one-way" transfer from the HQ to subsidiaries as we can see in Richman and Copen (1973). In this article, the authors completely ignore the possibility of any reverse transfer of knowledge from subsidiaries and focus instead on the higher efficiency of US subsidiary abroad compared to other foreign subsidiaries. They also talk about the impossibility to impose rigid US management standards to subsidiaries without affecting efficiency and overall profitability negatively. So, they found

that home country techniques cannot be transplanted intact to developing nations. They also study the adaptation process that foreign subsidiaries follow in the adoption of US techniques.

Teece (1977) analyzes the cost side of knowledge and technology transfer among MNC units from one country to another focusing on the so-called 'resource cost'. The resource cost is a concept indicating the value of the resources which need to be utilized to successfully transfer technology from a unit to another and it is used mean to measure the cost of transfer. They conclude that there is no way to transfer technology to all players without any social cost. Transfer costs vary considerably, especially depending on the number of previous applications of the technology and how well the innovation is understood by all the parties involved in the process of transfer. Generalizations about the process of technology transfer and the relative cost must be avoided. The bigger conclusion, which has important managerial implications, is that since transfer costs decline with each application of the given technology, knowledge transfer is a decreasing cost activity.

Chong (1983) deals with the transfer of managerial know-how with a part dedicated to the important role that culture plays in this process. This book wanted to be an attempt to bridge the gap between theory and practice in knowledge transfer analyzing the case of Singapore with a final consideration on governments' importance in assisting the economic growth process through legal and investment policies able to affect also technology transfer.

Following the same unidimensional orientation, in which HQ transfers knowledge and skills to subsidiaries and not vice versa, Kogut and Zander (1993) give another contribution to this research. They start by defining the MNC as a social community specialized in the creation and the internal transfer of knowledge. The put the focus on the transfer of tacit knowledge and they found empirically that the less codifiable and the harder to teach is the knowledge, the more likely the transfer will be to wholly-owned operation. We see that they not only ignore other ways of transfer technology, but they also consider only the particular case of the wholly owned operations (subsidiaries). Their results, anyway, indicate that the choice of transfer mode is dependent on the efficiency of the MNC in transferring knowledge compared to other firms and not compared to an abstract market transaction.

The literature on knowledge transfer in this period is not intense, maybe influenced by the monistic view of HQ-subsidiary relationship, common at that time. Until the end of the 1990s, we could not find a lot of documents regarding this topic. The big change can be noticed starting from the first years of the XXI century where a lot of research, including new shades of the topic, arose. In fact, as more complex and subsidiary-centered models came out, lots of articles talking about peculiar subsidiary features and capabilities came out too, including their

knowledge creation potential and the growing importance of local/regional innovation centers (Kostova et al. 2016).

One of the first works on this new trend is that of Mudambi and Navarra (2004) in which they take conscience of the increasing bargaining power and power of influence that subsidiaries were taking at that time. They highlight the importance of the new network-based view of the MNC which was giving more importance to subsidiary roles, the rise of the knowledge intensity in both HQ and subsidiaries and the bigger creative role that the lasts were taking in R&D operations. They notice how many subsidiaries have gained considerable strategic independence in all aspects of their operations and so are able to increase their intra-firm bargaining power to influence the distribution of resources inside the firm. They suggest that intra-firm knowledge flows are the key determinant of subsidiary bargaining power. All this said, the risk of rent-seeking by subsidiary managers emerge and this potentially dangerous behavior can occur both in HQ-subsidiary and subsidiary-subsidiary relations.

An important new concept, really important nowadays but unknown and ignored before, is that of the Reverse Knowledge Transfer (henceforth RKT). Ambos, Ambos and Schlegelmilch (2006) give an important overview of the types of knowledge transfer possible in an MNC and find out which are the real benefits that RKT could have on HQs. In contrast with the traditional "forward transfer" (from the HQ to the subsidiary), that was the only known until the end of the XIX century at least academically, we find also the less conventional "lateral transfer" (from subsidiary to subsidiary), connected with the network concept, and finally the "reverse knowledge transfer" (from the subsidiary to the HQ). As we could expect, the authors find that the simple RKT does not imply benefits for the HQ but those benefits depend on the subsidiaries' strategic mission, the economic development of the source country and finally the absorptive capacity of the HQ, without which all the information given back to HQ from the subsidiaries would get lost or not absorbed properly. Context similarity seems not to be relevant for having benefits from RKT.

Since knowledge is a broad sense concept, even RKT takes a broad sense too. It includes all sorts of knowledge and capabilities. For example, Edwards and Tempel (2010) deal with the reverse diffusion of HR practices. So, they find possible that, if any HR practice adopted and verified by local managers gives the hoped positive results it may be transferred to other MNC players. They find also that reverse diffusion is one of the aspects that helps foreign units to improve their status and their claim on resources and to help the organization's overall competitive position.

Nowadays, poor and emerging markets do not just borrow innovations from developed countries anymore, but they can provide innovation back to the developed countries. Today,

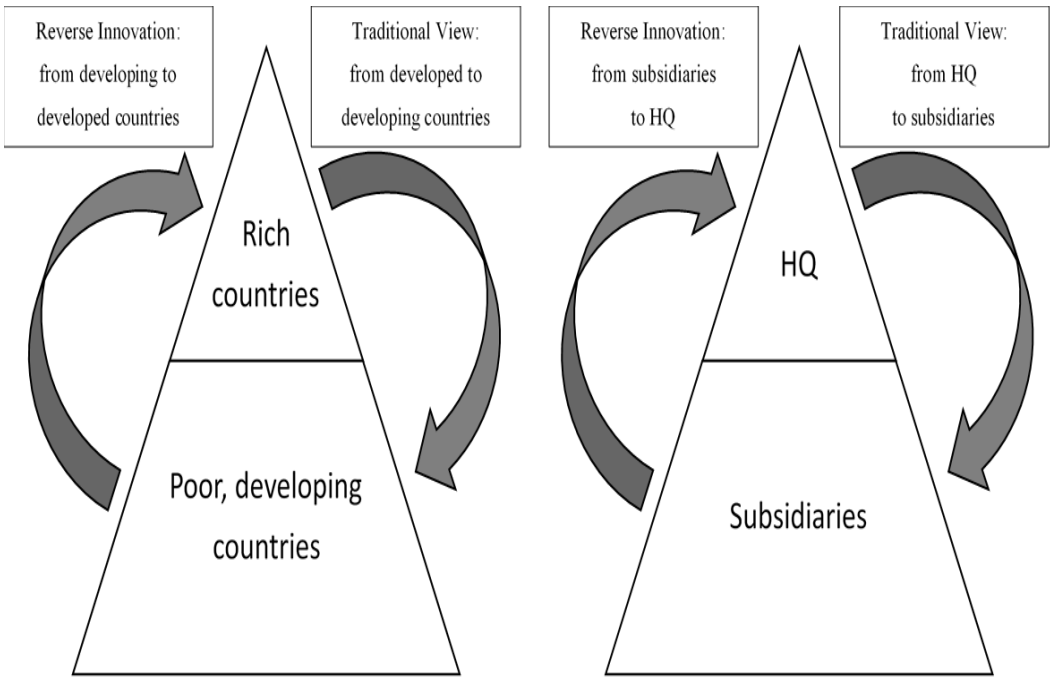
this phenomenon is still not very diffused but its future potential is still uncertain. Govindarajan and Ramamurti (2011) study the reverse-flow from emerging countries to developed ones as can be seen in the left part of Figure 3 but we will extend this concept to the reverse flow from subsidiaries to HQs, as can be seen on the right part of the figure.

The authors identify three stages that take place with reverse innovation:

- First, the adoption of an innovation in one emerging market (or subsidiary);
- Second, the transfer of the above-mentioned to another emerging market (or subsidiary);
- Third, the transfer of the innovation to developed markets (or in our case the HQ).

After 2010 the research on knowledge transfer flourished and we can find a lot of works on this topic. Williams and Lee (2011) examined the knowledge coordination effort across multiple host countries realizing a framework of four contexts to analyze different ways by which MNCs pursue opportunities throughout the world. These four contexts are shaped along two axes which represent two different dimensions: the driving force for entrepreneurship, that could be HQ-driven or Subsidiary-driven, and entrepreneurial orientation, that could be internal, when it is focused on existing organizational structures and resources, and external,

Figure 3 - Traditional and Reverse Innovation.
Rich/Poor countries (left), HQ/Subsidiaries (right)



Source: Readjusted from Govindarajan and Ramamurti (2011)

when the focus is on identifying and exploiting opportunities coming from the outside the organizational boundary.

Some studies covered the consequences of knowledge transfer for foreign subsidiaries. Among them, we find Ciabuschi, Dellestrand and Kappen (2012b) who test the relationship among subsidiary knowledge transfer, bargaining power and rent-seeking behavior. Their view, as we already partially saw, is that greater subsidiary technology transfer capabilities raise subsidiary bargain power in the organization and consecutively the risk of rent-seeking behavior. They do not assume that rent-seeking manifestation is a direct and obvious consequence of greater technology transfer capabilities but it could be a "collateral effect" to be avoided by MNCs.

Another example of study about the consequences of subsidiary-driven knowledge transfer is given by Fang, Wade, Delios and Beamish (2013) who explore the relationship among multiple knowledge resources (that may be technological or marketing knowledge), the relatedness between parents and foreign subsidiaries, and subsidiary performance, this means how knowledge transfer affects subsidiary performance. They found that subsidiary performance is highly correlated to the interaction effect of parent technological and marketing knowledge, so the synergy between the two generates positive effects on performance.

Another recent and interesting theme is the role of language in the process of knowledge transfer within MNCs, a theme that in the last few years is growing in importance in the international management studies. MNCs are multilingual by definition, in the sense that they consist in diverse and geographically dispersed subunits which experience language barriers when communicating with their local business context as well within their network (Luo and Shenkar 2006). These barriers must be overcome to efficiently transfer information throughout the organization.

Barner-Rasmussen and Aarnio (2011) find that language fluency varies sensibly across functions and organizational levels, as well as across HQ and subsidiaries. As we could expect, language fluency tends to be sensibly higher in general management functions than in service and production functions. However, this difference is smoother than that among HQ and subsidiaries. This may have important implications in those situations in which subsidiaries are supposed to increasingly communicate laterally and learn from each other.

The first study that comprises a conspicuous number of countries, corporate languages[4] and regional clusters is that of Harzing and Pudelko (2013) which reviews language

[4] A **Corporate Language** is the language that is chosen by the MNC as vehicular language throughout the organization. This normally facilitates communication and integration within a firm but does not make the firm monolingual because of differences in language capabilities of different players.

competencies, policies and practices in MNCs. They aggregate countries in four very diverse language clusters (Anglophone, Asian, Continental European and Nordic) and review the respective language capabilities of both HQ and subsidiary managers in the corporate language as well in the other contextual languages that MNCs face. These aspects are important to us because they furtherly find that power-authority distortions happen when HQ managers have to give up part of their power to subsidiary managers because of their higher language capabilities. Thus, this problem should be taken into consideration during the decision-making process.

Conclusion

As the other topics already seen, the topic of knowledge transfer does not constitute an exception regarding the common trends followed by the research. In fact, we saw that earlier studies on knowledge transfer focused exclusively on forward transfer, completely ignoring the possibility for subsidiaries to transfer back information and overall knowledge/technology. Even here we find that the growing importance of the roles and activities covered by the subsidiaries make a new aspect of knowledge transfer come out: those are lateral transfer and reverse transfer.

Lateral transfer is widely connected with the conceptualization of the MNC as a "network of units" that are interdependent and cooperative in following the corporate aims; it allows any support that each unit could give to each other in order to grow together. This is particularly important in the regional contexts that an MNC could explore, as for example an area comprising countries of the same part of the globe with similar characteristics (i.e. Asia or North America).

Reverse knowledge transfer instead is widely important for the HQ not only to have feedbacks on the operations of the subsidiaries but also to have a comprehensive overview of the global operations, without which a correct strategy planning could be biased by a monistic view by the HQ that ignores the diverse contextual situations and refuse to react to peripherical stimuli.

Finally, language covers a not overlookable role in transferring information throughout the organization. For this reason, we find a lot of studies aimed to identify the drawbacks in having language differences and diverse language skills of the many MNC players and how to overcome this problem.

Together with the topic discussed in the previous paragraph, this will be furtherly developed in the next part of this work for its importance and relevance for the present as well as for our case study.

1.6 Expatriate Management and Global HRM

In the last few decades, business has become increasingly international. While this happens, international competition continues to intensify and the need for global strategic perspectives increases. In this context, one important challenge is how to manage global human resources, this means the human resources on a global scale. Expatriation represents the most expensive staffing strategy for MNCs but remains an important tool for increasing the corporate understanding of international operations, especially of the local contexts' ones (Ching and Hung 2008). Expatriation in MNCs is the practice of sending from the HQ, or from the country of origin, human resources abroad, in temporary or permanent service in one of the foreign subsidiaries. So, expatriates are a tool with multiple functions: a higher level of control, a way to better understand the local context, a way to diffuse corporate values, directives and skills and so on.

For these reasons, the theme of Global Human Resource Management (henceforth Global HRM) is treated in this part of our literary review, before to switch to the next more detailed part of this work.

Again, the first works on this matter, during the late 1960s and the 1970s, were characterized by a strict HQ-driven approach, supported by the predominant managerial models and tools of that time, as we have seen above with the Organizational Design literature. In line with this one-way approach, researchers developed a system of formal HQ-driven HR practices to reduce expatriates' failure on foreign assignments, which included clear job and role descriptions, careful personnel screening and selection, intensive cross-cultural training for the assignees and their families and the adequate compensation packages (Kostova et al. 2016).

On the last mentioned, compensation policies, we find the work of Vivian (1968) which makes the distinction between compensation and pay, where the compensation is more than the simple pay. Compensation includes all the practices to assist the assignee of the foreign task during its work abroad: including housing, social and integration events, recreational activities and, not less important, assistance to the assignees' families.

Even the reasons for transferring people abroad were aligned with the HQ-driven approach. The main reasons for this practice for that time are displayed by Galbraith and Edstrom (1976). The first reason is to fill a position when there is no qualified local, and that is especially true in the case of subsidiaries in developing countries where the locals have an average education lower than in developed countries. Another reason is to utilize managerial talent: this occurs when a promotable individual talent occurs in a different place in which a related job opportunity occurs. In this case, transferring the talented individual allows the

exploitation of its talent in the right place. Providing international experience to the individual is another important motive that makes MNCs transfer people from one place to another. This allows them to boost experience and their understanding of the global environment and so they may be used one day back to the HQ to help in shaping global strategies. Another reason for expatriation mentioned by the authors is the enhancement of coordination and control of foreign subsidiaries. This is maybe the reason most connected to the vision of the HQ as the "ruler" and the subsidiaries as the "ruled". Under this point of view, expatriates are used as an instrument to align subsidiaries' behavior to the HQ directives; a vision that is undoubtedly changed nowadays.

Other researches of that time put emphasis on revealing HQ's practices to support and retain expatriates during their assignment abroad, because of the difficulties encountered by them due to cultural differences and other. An example of this is the work of Heenan (1970) that examines the adaptation process of expatriates and their behavioral reactions, and finally finds in the aspiration to professional advancement the most important motive for people to be assigned abroad. This often causes big discouragement, and so negative effects on productivity, on the expatriates when the organization fails to fulfill this desire.

A similar study is that of Harvey (1985) which examines the problems related with expatriation, including the effects on expatriate spouse and children. The focus is on the morale and the productivity of the expatriates and then on the selection practices to reduce expatriate failure, in case of early return or poor performance. This particular selection is about choosing candidates not only for their technical skills, education and other traditional parameters but also for other collateral skills like language skills, tolerance to frustration, self-esteem and so on, as well as characteristics of the candidate family.

Also Tung (1981) focuses on some aspects of the selection process and then give a wide attention to cross-cultural training programs in the time between the selection and the expatriation itself. These training programs are intended to improve candidates' relational skills which are crucial to the effective performance in abroad job assignments.

Consistent with the shift toward a less hierarchical view of the MNC, literature underlined the impact of expatriates on the overall success of the organization and covered also the sources of their success and failure.

Stroh and Caligiuri (1998) find out that an effective and flexible global HRM is a not negligible part of a good global strategy and instead, it often makes the difference among more successful and less successful organizations. In line with the concept of adaptability of strategy, successful organizations have flexible practices, people and functions that shape themselves according to the changing environment, and managers and units that share information and

power with other MNC's players. Due to the complexity of global environment that MNCs face, HR must be considered as a strategic function and not just as a supportive one. With the right HR choices, including transfers within the organization worldwide, organizations could build their own successful global leaders able, especially once back to the HQ, to have an overall view of the organization, crucial in shaping effective global strategy and gain competitive advantage.

Another tool to gain a better global understanding of the organization businesses and local contexts is the practice of inpatriation, so the reverse transfer of foreign managers to HQ positions. Harvey and Buckley (1997) suggest that calling highly skilled host and third-country nationals back to the HQ gives the organization the chance of becoming multicultural and thus more competitive in the global environment.

According to the consideration of less structural and formal mechanisms of coordination and control of MNCs, researchers developed the idea of expatriates and global teams as an efficient tool for informal coordination due to their role in socialization processes, able to create communication linkages and coordination of knowledge flows throughout the organization. Harzing (2001), for example, identifies three different types of coordination and control that expatriate managers can exploit: formal direct control, socialization and informal communication. It also explains the situations that most fit each type of control. Socialization and informal communication are better suited when subsidiaries are less dependent from HQ, so for example in mature subsidiaries or in situations of high level of local responsiveness. These are better also in acquisitions than in green fields. Instead, in situations of high dependency from HQ, expatriates may better serve to facilitate direct control. About the effectiveness in facilitating the control of subsidiaries by the HQ, Paik and Sohn (2004) find that those who had high cultural knowledge had significantly higher results than those who had not. So, we could say that even if technical skills are important, cultural ones are even more crucial in foreign assignments. Thus, meaning that a manager with incredibly high technical skills but without a good cultural adaptation mindset, and some knowledge of the specific culture of that place, once sent abroad may be completely ineffective to the organization. Moreover, expatriates without any knowledge about the local culture may be also dangerous to the company, and this may go beyond the simple control problem and affect the overall performance too.

Another topic in the expatriates' study is that of global teams, otherwise Transnational Project Teams and Networks (TPTNs). They have become an important organizational tool to facilitate horizontal cooperation and innovative creation in MNCs (Schweiger, Atamer and Calori 2003). TPTN are peculiar for being involved in creative tasks (creation of new

knowledge or technology), functionally and nationally heterogeneous (so made of people coming from different geographic areas and functions), virtual (in the sense that the participants do not work in the same place) and their formation is "improvised" and promoted by a top-down process. Here again, we find an important role of culture which works as a "glue" for the team. Nevertheless, cultural and functional diversity may play a double-faced role, acting both as a strength and a weakness. In fact, diversity is the first motor of creative solutions but it may also generate interpersonal conflict among the members of the team.

Works investigating the good practices to manage expatriates did not disappear and, instead, are still very common both in recent years as nowadays. As an example, Ching and Hung (2008) deal with the relationship among job satisfaction, family support, learning orientation, socialization and cross-cultural training and adjustment. Job satisfaction is found playing a central role in expatriates' adjustment and adaptation in the foreign assignment.

A very contemporary problem that many MNCs face, especially in China, is the retention of host country nationals (HCNs) in the company. It is a quite common phenomenon that the turnover of HCNs in foreign subsidiaries is very high in China. A study made by Hitotsuyanagi-Hansel, Froese and Pak (2016) finds that localization, so the practice of replacing expatriates with HCNs, can increase organizational commitment and thus reducing their turnover intention. They also find that this effect is more accentuated for males and for highly educated people, while there is no evidence of correlation with the managerial level.

An interesting different perspective on the matter is given by Rui, Zhang and Shipman (2017) who examine the competitive advantage generated by Chinese expatriates, so Chinese people sent by Chinese MNCs in foreign subsidiaries, at both operational and managerial level. This is interesting to us because the focus is on the emerging markets companies' side, a thing that we can hardly find years ago. Chinese MNCs can take advantage of their home nationals exploiting their relatively lower cost, higher productivity and adversities tolerance (compared to other nationalities), and their knowledge reconfiguration capability, jointly with a centralized and collective expatriation system.

Conclusion

Once again, here we find the same trends of the previous topics. Earlier studies have a strong HQ-driven approach, considering expatriates a mere tool for increasing control over the foreign subsidiaries and how to boost their productivity. Even if some of those works care about expatriates' personal aspects, like family and other psychological matters, it has only an efficiency motive.

With the change in the way to see MNCs and the relations between HQ and subsidiaries, the literature on expatriates follows the same path. Thus, we find works about the important role of these human resources that must be valorized. Also, global HRM becomes a strategic part of the organization and ceases to be a mere support function. Moreover, recently new subtopics emerged, like the one about emerging markets MNCs' expatriates abroad and the turnover problem.

1.7 Effects of Global Trends in Research Interest

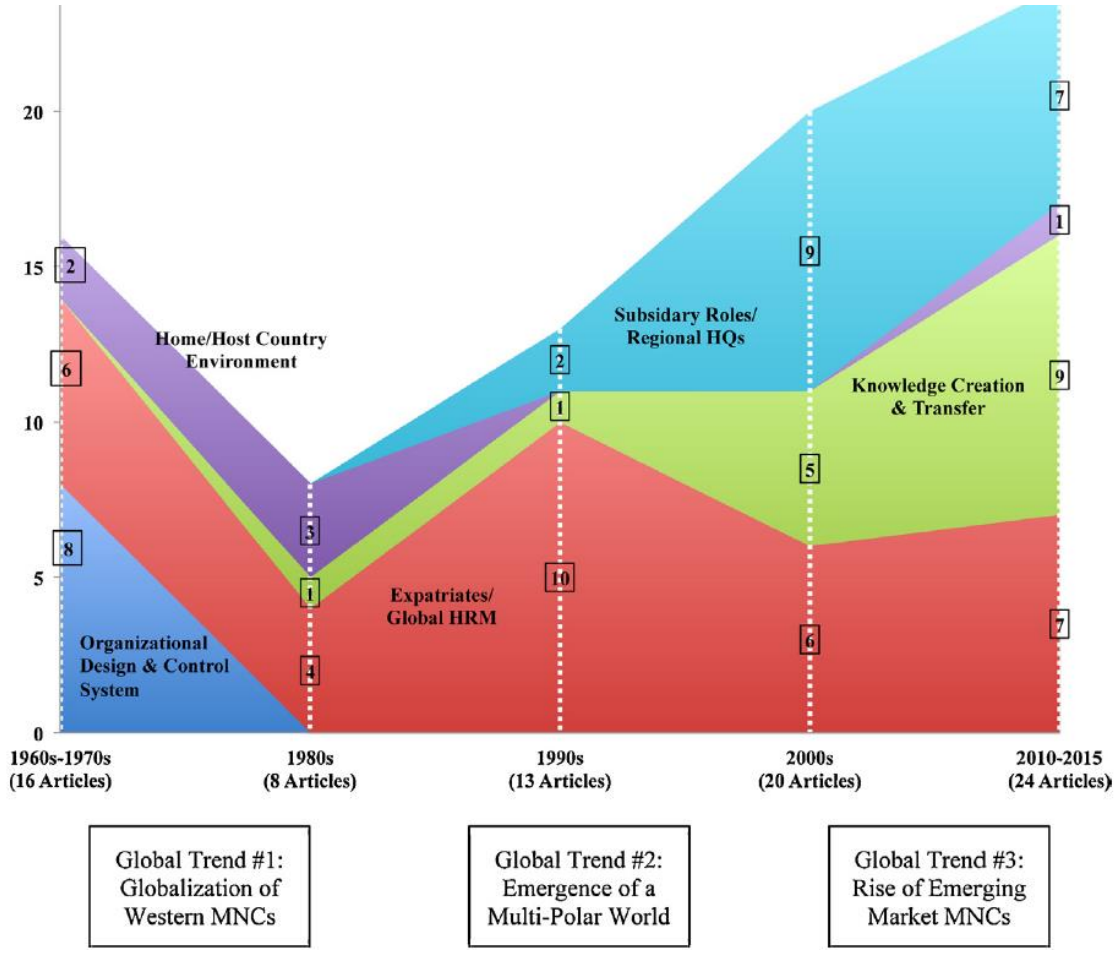
As we noticed in the literary review we have just had, we can perceive a shift in the interest of researchers in the international management field. We can notice it not only in the context of each topic that we have already analyzed but also among the topics themselves. In fact, if we take into consideration the number of articles found about each topic during years we can find a shift of interest from some topics to others. This does not mean that some topics are not treated today, of course, but that there are some of them that attract more researchers' attention.

The evolution of researchers' interest was influenced mainly by the mutation of the global business environment in which MNCs operates. This was characterized by three main trends which are:

- The growing globalization of western MNCs during the 1980s and the related broad use of expatriates with few international experience;
- The growing complexity of global environment, and thus operations, characterized by the emergence of a multi-polar world at the end of the 1990s, with a consequent modification of subsidiary roles and responsibilities, and thus of their relations with the HQ;
- The rise of the economic importance of the emerging markets and thus of the importance of deeply understanding their local contexts given the great difference with the western culture, to catch the big opportunities that they constitute.

Kostova et al. (2016) gives us a good representation of the dynamic followed by the researchers' interest of the Journal of World Business (formerly Columbia Journal of World Business): Figure 4 shows the number of articles published by this journal for each topic approximately during the last 50 years, associated with the relative trends that affected them.

Figure 4 - Main topics in HQS relationship published in CJWB/JWB
(number of articles in the boxes)



Source: Kostova Marano Tallman (2016)

In this period, we see a shift away from the focus on organizational design and toward a greater interest in the role of people and informal factors. Thus, with time we passed through a higher awareness of the internal and external environments and a lesser reliance on traditional hierarchical HQS relationships to give more importance to more cooperative models of management. Subsidiaries gained a more decisive role making decentralized decision-making possible and informal mechanisms of coordination more important. In line with this shift of interest, we see that now more articles are written on subsidiary roles, knowledge creation and transfer and global HRM.

During our articles search, we found that the trends shown in Figure 4 are likely to be followed by other journals too. In fact, we found a similar consistency of works on the topics from other journals.

1.8 Conclusion

As we can see from the review this chapter all the mentioned topics, concerning HQ-Subsidiary relationship, evolved following the same path. Starting from an HQ-centered idea of the MNC, the organization was viewed as a core (the HQ), building the whole strategic side of the business, and several subsidiaries claimed to execute this strategy into operative with very few, if any, strategy-shaping powers.

In fact, we saw that the organizational design in the beginning of our period of analysis was very rigid and schematic, not flexible at all, and there was this idea of "finding the best way" of organizing the MNC. Of course, nowadays we cannot think the MNC as a rigid system due to the constantly changing environment; we need an organization able to shape its strategy and itself around the aleatory external events and threats, coming from the environment and from competitors too.

In this constant strategy and structure re-shaping, the local contexts cover an important role. Those contexts are made of places, organizations as well as people. Thus, to understand the environment in which an organization works means understanding those places and people, and culture plays a crucial role in it. A company claiming to work in the global environment must comprehend that imposing its own view of the world is a losing strategy. In contemporary times, there is the need for analyzing and understanding local systems and adapt to them, perceiving the right moves at the right time. To work in a context means to work with those people and a company cannot think to work with people without knowing them, but moreover without understanding them, and their way to think and to operate.

Knowing and understanding local contexts is also a not negligible practice to distribute activities around the globe and thus also powers. In fact, knowing the way in which a place works and which are the forces that play better in that context, an organization can concentrate there the most fitted activities, thus boosting their productivity and results. If we take as an example China, we have seen that when companies started to "colonize" China they were doing it with a "resource-exploiting" motive: using low-cost resources and so higher productive, they didn't care much about the collateral potentials of the country. Now we see that many companies are transferring there not only productive activities but also strategic ones, overall

R&D and marketing. With this better understanding, subsidiaries became also an important source of information and strategy-intensive directives, allowing HQs to better coordinate global activities.

As we spoke about R&D, in a broader sense this comprises not only technological advancements but also contextual exploration and opportunity-exploration. And, being the MNC a very complex and extended organization, all the relevant information needs to be transferred to the right players. Thus, not only technology and other sorts of information need to be created but they also need to be sent, creating a sort of peer-to-peer network in which each participant plays for the same team to achieve the overall aims of the organization. So, it is crucial in MNCs to create the right channels and flows to transfer the relevant information throughout the organization.

Finally, close to the transfer of information and technology, also the transfer of people plays an important role. While in the past expatriates were seen as "colonizers" of places and resources, now they are seen as the necessary linkages between the different players of the organization, and especially between HQ and subsidiaries. They are demanded to be the ones to understand local information, process it and transfer it to the right collaborators. They are now used also to transfer specific knowledge throughout the organization, as for example new technologies, crucial for the advancement of production and other central activities of the organization.

Since we saw which are the topic more treated by researchers nowadays, in the next chapter we will analyze, with the support of the relevant literature, how to better allocate resources, power and activities throughout the organization worldwide, then how to manage the coordination of those activities among different players, and finally how to control subsidiaries' operations and how to give the right autonomy to them in order to facilitate their work: all of these matters refers to the subsidiary role, one of the most treated of the abovementioned topics. Another part will be dedicated to the examination of the knowledge transfer throughout the organization, since we saw that it is another important part of the current research of the international management field.

Chapter 2

A focus on Roles, Control and Autonomy, and Knowledge Transfer

2.1 Introduction

In the previous chapter, we analyzed the most treated fields of research on international management. We there identified five subtopics. We noticed that recent literature is focused on three in particular. Organizational design has become not of real interest anymore for researchers and the expatriate management passed in secondary importance compared to the remaining three topics. Moreover, after the first visit to Safilo, our reference gave us positive feedback about the interest on the same topics in which intentional management research is interested in.

Thus, in this chapter, we will examine detailed literature on these topics trying to identify the guidelines to follow for MNC top management in distributing activities among units, so headquarters, subsidiaries and the progressively more important figure of the regional headquarters; then a dedicate paragraph will be focused on knowledge transfer, including the different flows, flows direction and their importance with particular attention given to the different players that participate to the transfer processes; finally, another focus will be on how and to what extent exercise control over those units and how much autonomy give to them.

2.2 The Role of Corporate Headquarters

As we have seen in the first chapter, the approach of international management (IM) studies changed radically, shifting from an HQ-focused and hierarchical one to a network and "heterarchical" (Hedlund 1986) one. It is interesting to us to analyze how this change affected the role of HQs in MNCs. Thus, in this part of the work, we will examine the most recent literature on the topic to better understand how HQ is seen today, highlighting what the current role is supposed to be and how it has changed in the last years.

One of the milestones in HQ role research is the article by Tallman and Koza (2010) in which they postulate a new kind of MNC, which they call "Global Multi-Business Firm" (GMBF). This is "an organizational form uniquely adapted to the new global environment" whose HQ and top management have "the role to envision and execute the processes of assembly and animation of the GMBF in pursuit of globally competitive products, processes and locations". This new vision comes from the process of continuous "democratization" of the multinational company. Multi-domestic and multinational (Bartlett and Ghoshal 1989) forms had widely independent subsidiaries and were counterposed to global forms, with closely held and controlled worldwide operations. Bartlett and Ghoshal's contribute was to introduce also the transnational form that was both locally responsive and globally efficient, allowing a better transfer of knowledge worldwide. With the introduction of the network multinational and the concept of heterarchy (Hedlund 1986) the HQ was left with the main task of "knowledge webmaster", establishing the rules of exchange among the diverse members of the network, but having a residual role in vetoing on the content of the knowledge moving around the organization (Tallman and Koza 2010).

Logical is the question whether the HQ keeps a strategic role in this network firm or it is just left to be a center of intersection among different players (the subsidiaries). We will see that still the HQ play an important role in MNCs but it is just that it, jointly with the other players of the MNC, evolved with the markets and the environments in which it operates. In this sense, the GMBF, in the view of the authors, is the form that better fits the global modern environment and could provide competitive advantage.

Table 2 shows the evolution of four main characteristics of the MNC, according to the observations of the two authors. This scheme comprehends the multinational, the transnational and the new GMBF.

We want to focus now on the characteristics of the GMBF to extract what are the main tasks of the HQ. In the current rapidly changing global environment, top managers should follow two main tasks in shaping global strategy: *assembling* the global company and *animating* the organization's ability of self-renewal. The remaining two parts related to the management of the organizations are *enabling emergent processes* of exploiting existing resources and skills while discovering the new or evolving ones and *setting the control mechanisms* through "establishing, maintaining and enabling communication networks" throughout the organization.

Thus, corporate HQ (CHQ) now is not supposed to control activities worldwide in detail anymore, nor to create a complete convergent common culture in each part of the organization. The perceivable and strong power and authority of CHQ are replaced by a smoother direction

Table 2 - Globalization stages and HQ inputs

	Multinational	Transnational	Global multi-business
Growth logic	Diversification	Leveraging competencies	Strategic assembly
Leadership	Command and control	Coaching for organizational culture	Organizational animation
Managerial task	Capital allocation	Interdivisional integration	Enabling emergent processes
Control mechanism	Financial controls	Behavioral controls	Communication controls

Source: Tallman and Koza (2010)

which is centered in providing the right motivation and incentives to the right players in order to work with a common purpose in mind.

In this scenario, Tallman and Koza (2010) believe that HQ's key role is "to establish and maintain the global aspect of corporate strategy" and provide the convergence of the parts through an "incentivized voluntarism" instead of a mandate: this means that when subsidiary managers believe that their own best interests are supported by the CHQ they will be "animated to work in concert".

Going deeper into the definitions shown in Table 1, for *strategic assembly* the authors intend the ability to access geographic/product markets or market segments, managerial capabilities, and technologies and brands in the meanwhile. This must be reached by using both the traditional means of development and transfer and the various tools like alliances, networks and intra-company relations. This creates the stringent need of caring close interactions among the diverse players within the organization in a flexible and responsive way, excluding hierarchical and standardized roles. The authors call this phenomenon "command without control", so the fact that HQ can command "the assembly of certain resources but it cannot control their real value proposition in an uncertain environment".

Animating the organizations is intended as fostering the ideology of continuous self-renewal and accepting an evolving role for HQ. The word "continuous" is centric in this concept because it refers to the fact that in this new continuously and fast-changing business environment, to renovate and adapt after the change happened is not anymore acceptable. Thus, to avoid extinction MNCs need to set a rate of change that exceeds that of the business environment and to canalize it in the right direction before it is too late.

Exploitation and Exploration are the two sides of the *enabling emergent process* concept. If we already mentioned what are they about, we must say that they are not enough to animate

change. It is necessary to put constant care in managing the rate of change, by looking at how competitors do, for example, to create extremely flexible formal structures and putting into action a leadership based on trust. And if HQ shares a common set of values with its subsidiaries this will likely foster double-way trust limiting both HQ's and subsidiaries' self-interested behaviors (Dellestrand and Kappen 2012).

Linked to this trust, there is the need of establishing smother *control mechanisms* based on renewing *communication*. There is the need to train and motivate the parts of the organizations to communicate, to develop and transfer their own ideas and thus to be receptive to other's ideas to allow an efficient transfer process.

For all the above said, HQ must motivate parts across the company to accept and develop excellent ideas but this cannot be done through strong mandate; instead HQ needs to "animate evolution". It must support subsidiaries to transform technology into products. HQ keeps the role of trying to exploit economies of scale and scope since this is essential for operations on a global scale. The subsidiary location choice is another important role that must be covered by HQ and this must exceed the mere analysis of labor's and other resources' costs and include an analysis of any possible double-coincidence of interests between the needs of the company and the needs/resources of the location. Also building a globally recognized brand reputation is extremely important, not only in a consumer point of view but also to make subsidiaries' employees and management strongly believe in what they do. So, animating through strong and accepted vision and mission become crucial.

Thus, HQ existence can be motivated with efficiency reasons, the ability to initiate the combinations of capabilities and resources and to start and foster subsidiary activity with the provision of knowledge and resources allowing the double-way exchange from any part of the organization (Ciabuschi, Dellestrand and Holm 2012a).

With the growing complexity of the global environment also the complexity of the structural features of the MNC grew (Chandler 1962). This brought the possibility of the existence of multiple "HQs" within the same company, thus allowing some CHQ's functions to be allocated to intermediary units throughout the organization (Ciabuschi et al. 2012a).

We could think the HQ not as a physical location anymore, but as a set of functions that may be distributed across the organization. Those functions may be allocated at CHQ level, at intermediate/regional HQ level (see next paragraph) or also at subsidiary level (mandate). With this allocation of tasks throughout the organization, HQ's need of being deeply informed about peripherical activities relieves. This as a natural consequence of the growing complexity of the organization and of the globally dispersed activities, that made the need of delegation emerge. So, this complexity made extensive knowledge for HQ impossible, making it in some way

dependent on subsidiaries. In fact, subsidiaries may be better aware of, for example, the design and the execution of competitive strategies in local contexts, interacting more with authorities and other local players; this higher knowledge is often difficult to process and transfer back to the HQ: that is why delegation reduces the overall costs of this processes within the MNC (Foss, Foss and Nell 2012). Thus, in the contemporary MNC, some powers need to be delegated to subsidiaries in order to reduce implicit managerial costs generating a trade-off between the advantages of keeping powers and manage directly and those of shifting those powers away and manage more "indirectly".

Although powers are delegated by the HQ we need to mention that in this allocation process HQ is influenced by subsidiaries' bargaining power. This, jointly with the possibility of subsidiaries' opportunistic behavior, generates the strong need of organizational culture and common values to intrinsically motivate subsidiaries to avoid rent-seeking actions (Mudambi and Navarra 2004).

If we accept this reallocation of powers and activities, we can expect HQ managers not to be always able to be effective and efficient in organizing MNC operations. Moreover, although MNC can be seen as an internal market for resources, the high MNC's internal and external heterogeneity makes hard to exhaustively understand how MNC evaluates where resources are needed and how to allocate them (Dellestrand and Kappen 2012).

Nevertheless, resource allocation is one of the tasks of the HQ, so this must be done in the most efficient way. From a study made by Dellestrand and Kappen (2011), we can notice that HQ resource allocation is directly proportional to the size of the subsidiary. Anyway, this effect is not direct but it is consequential to the growing subsidiary's bargaining power related to its size. Thus, larger subsidiaries have greater bargaining power and consequentially more resources allocated to them.

Of course, subsidiary size and bargaining power are not the only factors that affect HQ resource allocation. This is also influenced by spatial and contextual factors as proved by Dellestrand and Kappen (2012). In particular, physical distance has a negative effect on resource allocation, as well as cultural distance, making the awareness of the cultural dimension crucial while conducting globally-extended businesses.

To wisely allocate resources throughout the organization, HQ must then have the better possible knowledge about subsidiary contextual factors, but the harder is the process of gaining information about local factors, the harder is for HQ to manage its relations with the subsidiaries, affecting negatively the resource allocation process.

Another aspect to consider is that, since HQ's attention affects subsidiary performance (Ambos and Birkinshaw 2010), we need to analyze the correct amount of attention/intervention

to foster subsidiary productivity, avoiding intervention hazards. Bouquet and Birkinshaw (2008) define HQ attention as "the extent to which the parent company recognizes and gives credit to the subsidiary for its contribution to the MNC as a whole". Of course, we must refer to HQ attention as an important tool to elevate subsidiary position to an important player in the MNC without ignoring the possible negative effects that this attention may generate, since attention is hardly differentiable to monitoring and control.

We can distinguish three kinds of "attention" following Ambos and Birkinshaw (2010) and Bouquet and Birkinshaw (2008):

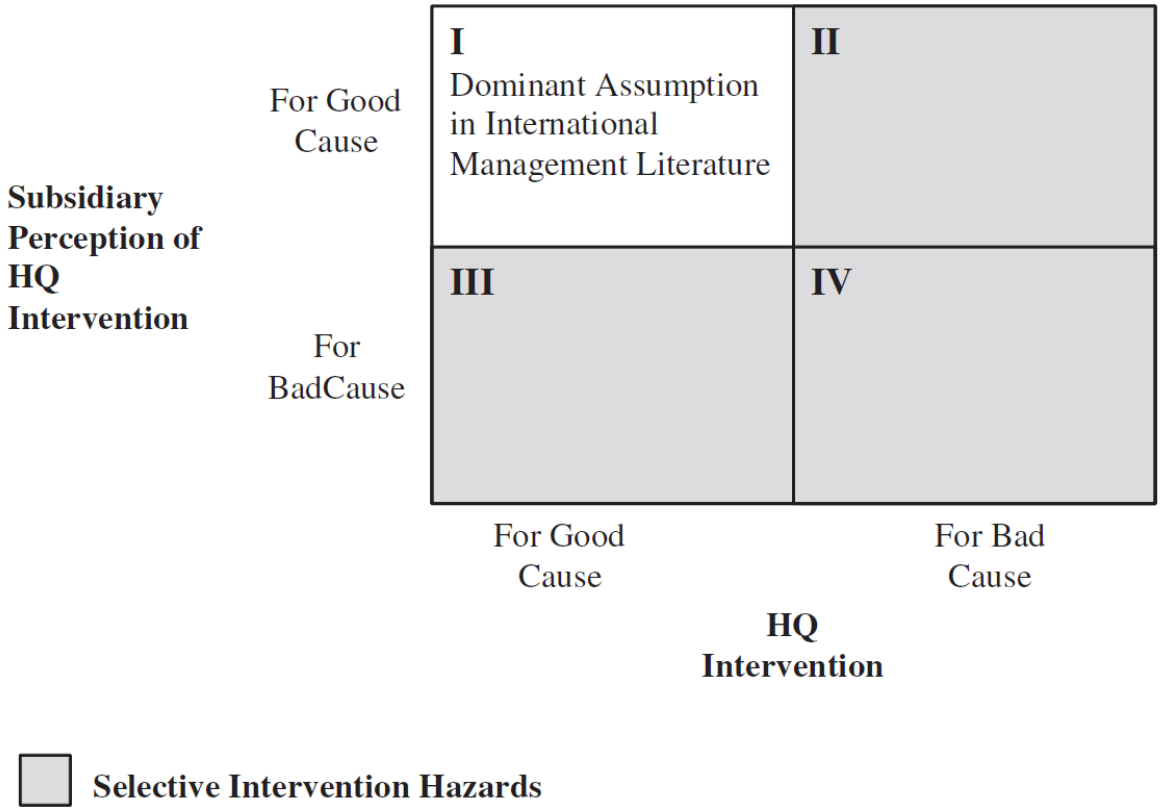
- *Supportive* attention is the level of support subsidiaries get from HQ and includes the provision of resources that discretionally are given to subsidiaries to grow and improve;
- *Relative* attention indicates the perceived "level of recognition and credit given to the subsidiary in comparison to other subsidiaries";
- *Visible* attention is the part of the recognition given to subsidiaries which is explicitly expressed on media.

We now limit the analysis on HQ attention on the supportive side and we just say that this kind of attention foster subsidiary performance only if associated with subsidiary autonomy.

Moreover, linked with attention, HQ intervention (the practical side of attention) may boost subsidiary performance but it could also demotivate subsidiary employees and thus hamper their value creation (intervention hazard) (Foss et al. 2012). This may happen both in case of benevolent intention and in case of bad HQ purpose.

So, we can say that HQ intervention efficiency depends on the interaction between HQ intentions and subsidiary perceptions about HQ intentions. We can represent this in a 2x2 matrix as shown in Figure 5 in which the four cells indicate the four possible relation HQ intentions, that may be for good cause or for bad cause, and subsidiary perceptions of HQ intervention. The only situation in which HQ intervention gives absolute positive effects is in cell I where HQ intervene for good cause and the subsidiary interpret well this intention. Cells II, III and IV are instead called situations of "intervention hazards" (Foss et al. 2012). Among the reasons for these hazard situations, we find the possibility for the HQ to benefit from managerial actions that destroy value at the subsidiary level. Another reason could be the time inconsistency problem: this happens when HQ gives relative autonomy to a subsidiary but then, when the subsidiary comes out with innovative or value-creating ideas, it decides to reduce again this autonomy with the aim of reducing costs after harvesting the results of the initial delegation. Another possible reason, very frequent, is the fact that HQ may act in a condition

Figure 5 - Typology of HQ interventions and their perceptions



Source (Foss, Foss and Nell 2012)

of actual or perceived superior information and in both cases bounded rationality could give negative results: in the first case subsidiaries will probably not understand well the reasons of HQ decision while in the case of perceived superior information HQ will make interventions that are not responding to the actual subsidiary situation.

Thus, in all of these intervention hazard situations, HQ intervention may have a negative effect on the motivation of subsidiary's managers and employees, especially on their extra-job behaviors.

Since this problem is not of limited importance, Foss et al. (2012) try to overcome the problem by discussing three different tools to handle these hazards:

- Normative Integration: like Tallman and Koza's (2010) animation, this is referred to sharing with all the parts of the organization common values and beliefs providing double coincidence of interests;
- Procedural Justice: intended as "the perceived fairness of formal procedures governing decisions involving the treatment and benefits of participating partners";

- Structural Mechanisms: those mechanisms built to constrain or limit the possibility of intervention for the HQ. This widely means changing the structural form of the organization to "formalize" intervention possibilities.

The first two reduce the risk of bad cause HQ intervention and that of lower likelihood of mistaking a good cause intervention for a bad cause one. In matter of structural mechanisms instead, the authors argue that one way to prevent intervention hazards is to increment the hierarchical layers of the organization or, conversely, the complete removal of hierarchy by leaving more autonomy to subsidiaries; a moderate level of hierarchy seems to raise the risk of intervention hazards. Since both solutions shift structure far away from the network MNC (more hierarchy means global MNC while more discretion to subsidiaries means multi-domestic one), this translates into the definition of network MNC as an unstable organization.

How headquarters add value to the MNC

After this discussion about the roles of the HQ, we want to go deeper in understanding how HQ can augment the value of the overall business of the MNC, assumed that this is still considered the core sense of its existence, and of its subsidiary operations. This concept is called parenting advantage (Campbell, Goold and Alexander 1995) and depends on one hand on the parent understanding of the local businesses and on the other hand on the possibility for the parent to provide to them resources and capabilities. Both these two features are essential for the enhancement of subsidiaries' value. From this generical overview of the HQ tasks, the authors extract specific functions to add overall value, like designing the "strategic corporate context", fulfilling legal requirements, managing basic governance functions, budgeting.

Chandler (1991) attributes two main functions to HQ: an integrative one and an entrepreneurial one. The first consists in coordinating MNC's activities in separate markets "by pooling resources and centralizing value added-activities" and on the other side in providing the necessary organizational structure and context, establishing linkages among units and applying the right incentives to boost synergies. The entrepreneurial function instead is about exploring new business opportunities, start new partnerships and help subsidiaries to understand better the changing global environment and how this is linked to the local context.

By exploiting scale and scope economies (Piekkari, Nell and Ghauri 2010), conveying attention and the right resources to the best-performing subsidiaries (Ambos and Birkinshaw 2010) and managing knowledge flows across the organization (Ciabuschi, Martin and Stahl 2010), HQ can thus add conspicuous value to subsidiaries (Ambos and Mahnke 2010).

Since the degree of hierarchy is set by the HQ, questions about whether a hierarchical organization or a network one is best fit for an MNC is raised. According to Egelhoff (2010),

hierarchies are better suited when involved in tight coupling (synchronization of activities of different players), in the identification and exploitation of economies of scale and scope, and in the implementation at the corporate level of innovative solutions. This because network structures provide insufficient information processing capacity to well execute the above tasks. So, although the role of CHQ and MNC changed toward the network structure, there are still some functions that require a hierarchical approach to be effective. However, networks fit environmental situations better than hierarchies, for their agile structure able to capture local stimuli fast and react properly. Thus, we must recognize that a trade-off between networks and hierarchies exist in the MNC context and there is not an absolute truth about the perfect structure to apply MNC organizations.

2.3 Regional Headquarters and their Functions

As the international business world became in the last decades always more globalized, complex and rapidly changing, many organizations, in particularly MNCs, started to struggle to follow the fast-paced rhythm of change of the external environment. To handle management, coordination and control of a worldwide dispersed organization became a very challenging task for the headquarters. One of the most important reasons for the emergence of this complexity was the incredibly fast progress of some undeveloped countries, such as China and India, where the economic growth has given these countries a fast rise as never happened to any western country before.

That is why the need for intermediate units, capable of taking charge of part of the HQ tasks, emerged. Units able to be a bridge between the highest authority, the HQ, and the most operative parts, the subsidiaries (Piekkari et al. 2010).

During the 1980s many MNCs undertook a global approach to management, following the exigence of economies of scope and scale to boost efficiency; many others decided to set Regional Headquarters (RHQs) for the first time in order to mediate the need for globalization and the need to be close to the local reality. This differentiation among similar MNCs represents the uncertainty of that time for the correct way to manage worldwide geographical dispersion (Lasserre 1996).

Recent literature, instead, suggests that MNCs nowadays follow a regional approach to management rather than global strategies (Amann, Jaussaud and Schaaper 2014). Anyway, though “regional structures are considered increasingly important in today’s regionally-structured world, this topic has attracted relatively limited scholarly attention” (Piekkari et al.

2010, p. 514) and "we still know little about regional management and how it complements other organizational mechanisms in managing and coordinating dispersed activities" (Nell et al. 2011, p. 3).

It is useful to our research, to start with analyzing the roles and activities that an RHQ could have. A good overview of this, still considered valuable today, is given by Lasserre (1996). He gives a set of 5 main roles, three of which enhance entrepreneurial development while the other two covering an integrative function.

Among the entrepreneurial roles, we find *scouting* which is to seek for new opportunities in the region and start new ventures; it includes gathering strategic and marketing information to individuate new opportunities, evaluate new potential partnerships and manage deals during the process. Then we find *strategic stimulation* which is to understand the local changing environment and to integrate this into business strategy. It involves interpreting all sort of information, forecasting possible outcomes, evaluating alternatives and suggesting a set of choices and finally to gain acceptance and thus resources to run the strategy. The stimulator role is better implemented when a company is relatively "young", in its development stage and has limited regional experience. Finally, we have *signaling commitment* which is the power for the RHQ to demonstrate, internally to the employees and externally to the local governments and the other stakeholders, that the company is committed to the region. To be most effective in its internal signaling role regional managers need to maintain a high profile within the company. Externally the set-up of an RHQ may signal to local authorities that the company is determined to stay and prosper in the region. A good practice to reinforce this effect is to appoint a regional officer with the aim to build contacts with local institutions, such as universities for example.

The integrative roles are represented by coordination and pooling resources. *Coordination* means exploiting synergies and following coherent policies throughout the region. The coordination role is strictly linked to the stimulator role because it ensures that country and business strategies are coherent, and that the synergies are wisely identified and exploited. We can distinguish two kinds of coordination: strategic coordination and operational coordination. Strategic coordination is better exploited and more necessary in companies that use global business lines, since the strategy set by a unit in one country may affect another business, in the same country or in another one. Operational coordination is more effective when some key functions, like manufacturing or marketing, need to be harmonized and rationalized.

Pooling resources is intended as managing certain key functional activities or resources throughout the region. This role has two facets in the sense that it could be a supportive function

or an administrative one. As a support center, an RHQ provides services to subsidiaries because of the impossibility of duplicating them viably. There may be a wide range of these services such as marketing, after sales services, human resources and so on. The RHQ may serve as an administrative center when it manages certain resources such as foreign currency hedging, taxation and financial engineering for the whole region. On its own, this last function we mentioned does not justify the need for an RHQ, because this function can be given to a subsidiary just with a regional mandate (Lasserre 1996).

The relative emphasis given to entrepreneurial or integrative characteristics creates a pattern of different RHQ profiles. The *initiator* is an RHQ focusing on stimulation and strategic coordination to support local operations. This is more suited when the company aims to foster its presence in the region with new operations. The *facilitator* is an RHQ that combines integrative functions with strategic stimulation and signaling commitment. The *coordinator* RHQ focuses more on strategic and operational synergies deriving from a strong central management of key activities. This mix is best suited for companies that have already gained a strong positioning in the region and a tight interdependence among subsidiaries. Finally, the *administrator* limits its activities to administrative functions such as taxation and legal activities. This mix works well when the company is very well positioned in the region and there's no need for further stimulation.

From the above-mentioned, we can understand that regional structures can give high information processing advantages for their well-structured, thus more efficient, linkages that allow a good information transfer through the organization. Following the Lasserre's (1996) scheme, Piekkari et al. (2010) suggest that when subsidiaries become more mature, and thus company presence stronger, RHQs shift their engagement to more coordinating and integrative functions rather than strategic and entrepreneurial ones.

Based on the case study of the Finnish company Kone, Piekkari et al. (2010) develop the concept of "multi-level system of regional management" which is at the intersection of the micro and macro-level dimension. This system is structured in differentiated centers which the company adapt over time responding to changing exigencies. Those centers serve as a bridge between CHQ and local subsidiaries and help to process and let information flow correctly. Other than vertical linkage, RHQs can also foster horizontal information processing theory among same-level subsidiaries.

According to Lasserre (1996) hypothesis, Kone's example confirms that regional management centers (RMC) tend to disappear when they turn into being mere "administrators" without other important functions, or when they start to be inefficient in the sense that their

information processing outcomes become smaller than their costs. That is exactly what happened to Kone's RMCs at a certain point.

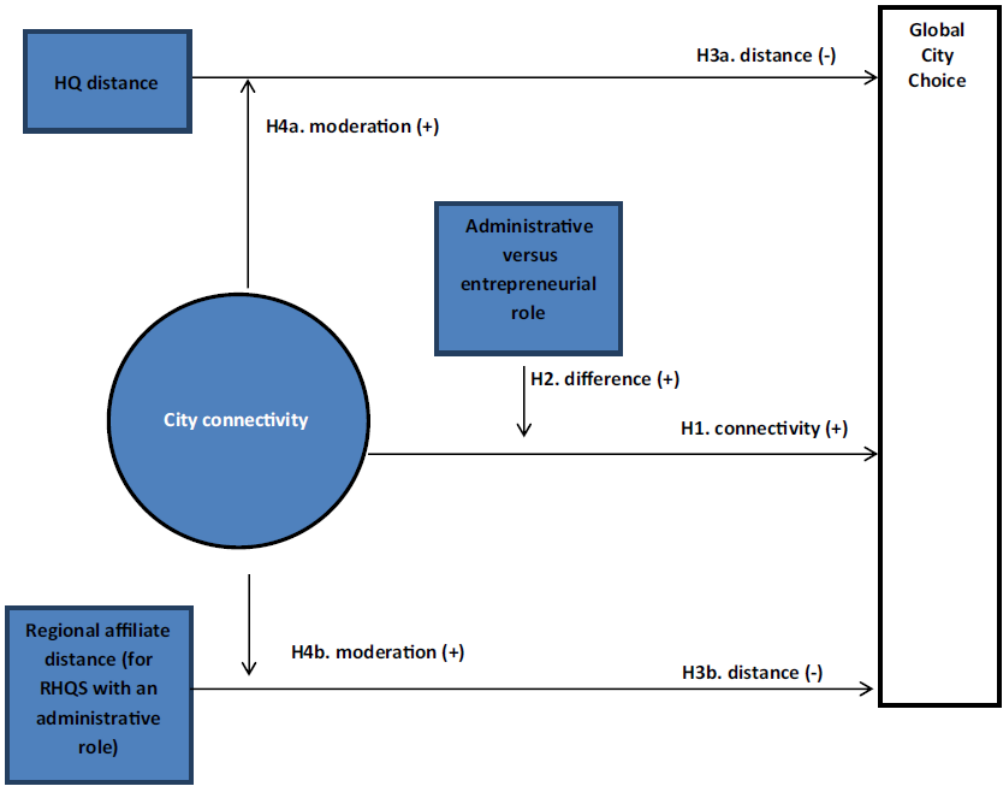
Moreover, different contingencies, internal and external, are able to canalize the evolution of RMCs of the same company allowing to have an RMC covering certain tasks in one region and another one covering completely different tasks in another region (Piekkari et al. 2010).

Ascertained that MNCs nowadays follow regional strategies instead of global ones (Amann et al. 2014) and that different RHQs types can coexist in the same company (Piekkari et al. 2010) we are interested in understanding how MNCs choose the place in which to settle RHQs and how they choose the tasks given to them. Factors, such as company size, the size of the host markets and the specific business industry could explain part of the matter. A direct consequence of what we just said is the division of regions into clusters. Analyzing 47 French subsidiaries, having subsidiaries in 11 countries in Asia, Aman et al. (2014) find that half of them divide Asia into clusters. They also find that four criteria exist to determine the best-suited clusters. Those criteria are market orientation/economic criteria, geographical and institutional distance, cultural proximity and MNC's specific characteristics. From the same study emerges that the extent of establishing RMCs in one area is directly related to the economic growth of the MNC (turnover) and to the number of countries (or clusters) in the same region in which it is involved. In the specific context of Asia, it is evident that MNCs which follow cluster strategies are inclined to set up RHQs with wide strategic roles and wide implementation autonomy, regional centers with operational roles, under the supervision of the CHQ or of the RHQ, while those without any cluster strategy set up regional offices with very few roles and decision-making autonomy, as may be distribution centers or representative offices.

Another interesting article about the motives in choosing the location for regional centers is that of Belderbos, Du and Goerzen (2017) who analyze the concept of "Global City". Global cities are those cities characterized by the availability of advanced producer services (such as marketing and finance), a cosmopolitan environment and, above all, their wide connectedness to local and global actors. Their unique set of connections to the world business enable those cities to act as centers of command and control which provide MNCs with global scope (Belderbos et al. 2017). Thus, cities' degree of connectivity plays a more important role than simple local characteristics in choosing them to establish a center of management. The abovementioned study is based on an extensive database of 1031 greenfield RHQ investments in 48 different global cities between 2003 and 2012. About 300 new RHQs are established annually in recent years. Accepting Lasserre's (1996) set of roles, Belderbos et al. (2017) suggest that an RHQ with an entrepreneurial role is more inclined to value international connectivity (intended as the ease with which people, goods, capitals and knowledge flow

across space) more than those who have an administrative role, since entrepreneurial tasks have specific needs to establish relationships with local players. Also geographical distance plays an important role in choosing a city to set up an RHQ: in fact, a negative proportionality exists between the distance (geographical or cultural) between the city and the firm's CHQ and even between the city and the firm's local units in the region, in choosing a RHQ location. Finally, also a mitigating effect on this negative proportionality is brought by the international connectivity, thus meaning that i.e. even if there is a large geographical distance between the firm's HQ and the city, its high connectivity may overcome the distance's negative effect. Belderbos et al. (2017) model can be represented as in Figure 6.

Figure 6 - Conceptual model to choose a location for RHQ



Source: Belderbos et al. (2017)

Connected with the location choice there is the concept of springboard countries/locations, developed by Villar, Dasí and Botella-Andreu (2017). A springboard country is a country located in one region that for some reasons (that may be cultural, historical et.) has strong cultural, institutional and business relationships with countries in another region. This closeness creates corporate specific advantages that come out from the increased speed or information and knowledge flows and for special synergies, given the ease of communication with the host region of interest. One easy example could be Spain, related to its relationships

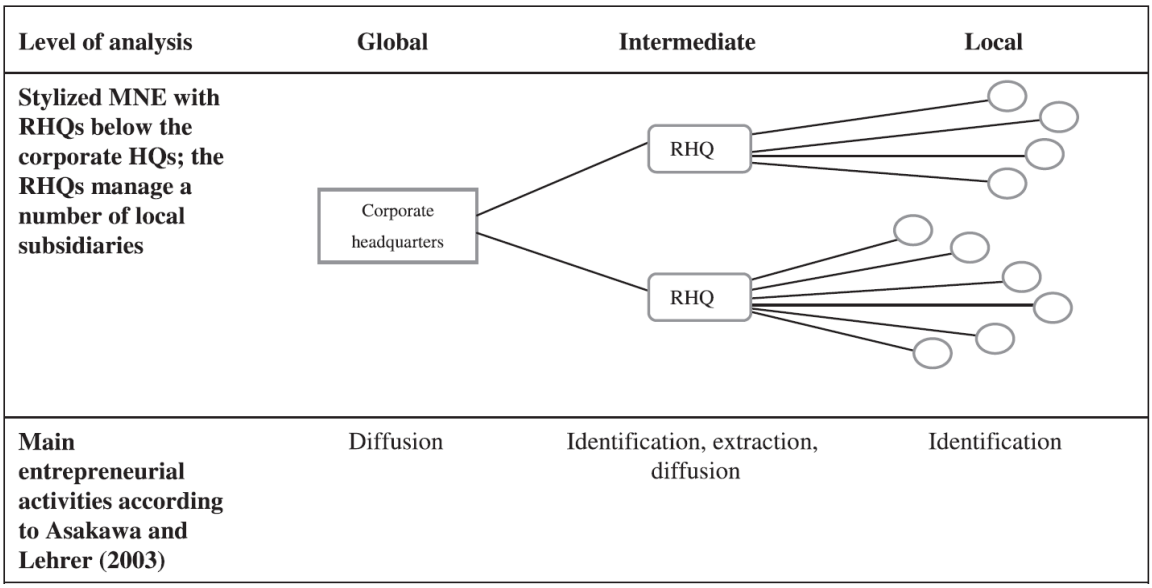
with the Latin American region. In this case, cultural and linguistic similarities play a role of facilitator of any relationship between the two sides. Thus, the springboard subsidiary is a particular type of RHQ: it serves as a local subsidiary in the home country but it also has a mandate to scout and manage businesses in the target region. The peculiarity of the springboard subsidiary is that it is not located necessarily in the same region that it manages (i.e. Spain – Latin America). This peculiar RHQ acts like the others but with very few differences apart from the locational one. The likelihood of covering a springboard role for a subsidiary is positively related to the experiential knowledge of the foreign target market. Managerial and financial slack (in the sense of large capacity of unexploited resources) are also two factors that incentive the possibility to have springboard roles; but these are only an accessory in the sense that they are not sufficient alone to develop a market mandate, neither a springboard role (Villar et al. 2017). Finally, also the geographical scope and the scope of subsidiary's value-chain activities are positively related to the assignment of springboard mandate.

Hoenen, Nell and Ambos (2014) examine the external embeddedness of these intermediate units (RHQs, RMCs) and its effects on information processing and their entrepreneurial capabilities. They suggest that those units are differently embedded in the external environment from CHQ or local subsidiaries, thus influencing their capabilities and their contribution to the organization. Under the agency theory, an RHQ plays a "hybrid" role, being agent from the HQ's side (being a sort of subsidiary to be managed for the HQ) and principal from the subsidiaries' side (having HQ's functions to them).

According to this view, Asakawa and Lehrer (2003) refer to those intermediate units as "relays" and argue that RHQs help subsidiaries to scout and exploit opportunities and to connect them to the rest of the MNC. They also identify three stages in which RHQs participate actively as "relays" between CHQ and subsidiaries. These stages are identification, extraction and diffusion. This means that RHQs, to bridge the gap between the center of management and the operational units, can identify potentials for innovative solutions, then help the operational units to exploit this potential to extract relevant knowledge and finally diffuse it through the organization worldwide, or where it is needed. So RHQs are in a better position compared to CHQ and subsidiaries to in matching local knowledge with global applications. This because they are particularly embedded with both sides. In Figure 7 we can see the linkages among different units and their relative entrepreneurial activities.

Embeddedness seems to be one of the most important factors in opportunity recognition and exploitation, and as we saw this embeddedness is different depending on the kind of unit examined. Subsidiaries are strongly embedded in their specific local context. Going deeper in this analysis, we argue that HQs' linkages to local subsidiaries are quite weak compared to

Figure 7 - Intra-organizational linkages among units and their activities



Source: Hoenen et al. (2014)

RHQ's ones and to subsidiaries' same-level partners. This because, of course, HQs need to consider the whole worldwide business and necessarily cannot be too embedded in each local context (Nell et al. 2011). Thus, we see that on one side we have HQs weakly embedded in many widely dispersed markets, while subsidiaries are rather strongly embedded in one local context. This generates the importance of RHQs as a bridge between the previous two. Even if they are embedded in their specific host context, since they are a higher-level unit for the subsidiaries, they are likely to be embedded also in subsidiaries' networks. This conformation facilitates RHQs to gather and process regional information and, due to its bridging position, they help the CHQ, delivering relevant information, to shape omniscient strategies.

Given this unique contribution that the RHQs can give, we question to what extent they can influence central decision-making, so have an impact on corporate-level decisions. At first, we must say that HQ need to foster RHQ's bottom-up influence, or participation, on corporate decisions. Otherwise, the MNC risks to become too multi-domestic and losing a big slice of the benefits of integration (Mahnke, Ambos, Nell and Hobdari 2012). Thus, this influence is crucial for the existence of efficient and useful RHQs.

Regional influence on corporate decisions depends on three elements: organizational structure, signaling behavior and motivation. First, HQ's managers need to *structure the organizational context* of information processing to allow bottom-up influence. Second, RHQ may exercise active *signaling behavior* to exert bottom-up influence from geographically dispersed units in the strategy planning and implementation at the corporate level. Then, RHQ's influence on corporate decision-making is supported by *incentive alignment* between RHQ and

HQ (Mahnke et al. 2012). The ability to influence HQ does not have any correlation with the level of autonomy of the RHQ, but the more it has an entrepreneurial role the more will its autonomy have negative effects on influence. Thus, for an entrepreneurial RHQ, on one hand, there is the need for autonomy to fluently exercise its task but on the other, the more autonomy it gets the less influence it can exert on corporate decisions, generating a trade-off between the two. This is in line with the work of Piekkari et al. (2010), who show that the highly autonomous Asian RHQ of the Finnish company Kone suffered from lack of influence on HQ and relative isolation.

It is also interesting to us, to examine what are the characteristics that influence the evolution of these regional centers. Kahari and Piekkari (2015) make an analysis of the RHQ population in Finland during the period between 1998 and 2010 to question what are the factors that affect RHQ existence. RHQs have a unique configuration being embedded in three different environments: the internal corporate environment, the host country environment and the different local contexts of the subsidiaries that it manages. The authors argue that RHQs life is contingent to those three environments, so it could be very turbulent especially during important external upheavals. Analyzing the above-mentioned population, they found that it was affected by three processes. Special conditions of the external environment boosted the creation of many RHQs in the region as a structural response *(variation process)*. Then, a *selection process* drove into a decline of this numerous population while a few selected activities were retained in the remaining RHQs *(retention process).* They arrive at the conclusion that RHQs are permanent as a structural and corporate system but they can be very mutable on a unit-analysis point of view.

As last facet of analysis, we mention the habit for some MNCs in the last years to further develop and add a layer of management between RHQ and local subsidiaries: this is the sub-regional layer of management. Li, Yu and Seetoo (2010) find that the pressure for regional integration caused in recent years the addition of a new layer. This because when it is unviable for subsidiaries to take some activities on, they must be centralized at the regional level, but in the meanwhile, it is often impossible for RHQs to have enough knowledge or resources to manage all the subsidiaries in the region. Then, the authority will be partially given to sub-regional headquarters (sub-RHQs).

An MNC adopts a regional strategy with the intent of gaining benefits from local responsiveness. To exploit these benefits the necessity of fast knowledge transfer becomes more crucial than ever. And sub-RHQs further facilitate the knowledge transfer within the region, reducing managerial costs and efforts, and playing an important role in avoiding diseconomies

of scale. Consequentially, the more important is for the MNC to be locally responsive, the more power a sub-RHQ will take on itself (Li et al. 2010).

2.4 Subsidiaries' Role

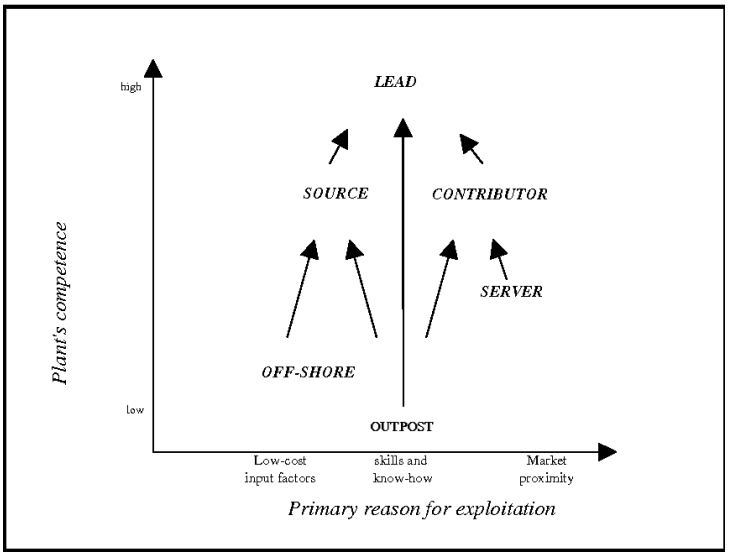
The last link of the chain in the MNC structure, in terms of distance from the HQ, are the subsidiaries. More than other actors in the organization, subsidiaries can cover a very wide range of activities and thus they can be very diverse among "sister-units". As a point of start of our analysis, we want to mention one of the first detailed descriptions of the possible subsidiaries' roles made by Ferdows (1997). He describes six types characterized by peculiar sets of activities:

- The *Offshore Subsidiary* is a production center normally located in a country or region in which there is raw materials abundance which allows it to produce at low cost. Management autonomy is limited and investments kept at the minimum to maintain efficiency. Local management is limited to an executive task, following HQ's directives;
- The *Source Subsidiary* is based on low-cost production too but it has a broader strategic role than the previous type. In fact, management here has more autonomy over procurement, planning, process, outbound logistics and product-customization. They are normally located in places where low-cost resources are available, with skilled workforce and developed infrastructure;
- The *Server Subsidiary* normally supplies national or regional markets and serves as a proxy to those markets. It represents a way to overcome tariff barriers and reduce taxes, logistic costs and to avoid exposure to exchange fluctuations. Its autonomy is limited too, but higher than the offshore factory because it can implement smooth adaptations to product to better fit the local demand;
- The *Contributor Subsidiary* also serves as a local market provider but it has strong responsibilities on product and process engineering and has freedom of choice of the suppliers. It has autonomy and production capabilities comparable to those of the HQ and it could serve also as a platform for new product development and testing.
- The *Outpost Subsidiary* has a double role: the primary is to be the source of information and know-how needed by the HQ. It is located in places where a lot of strategical sources are (suppliers, competitors, research centers and customers). It always has also a secondary role which could be *server* or *offshore*.

- The *Lead Subsidiary* creates new technologies, processes and products for the whole network. It also exploits local information but it directly uses it to develop new technologies. It has full autonomy and is rich in critical resources and capabilities. Its management also has relevant interaction with local and international stakeholders.

Ferdows (1997) defines those roles as dynamic, in the sense that from HQ initiative those roles can follow different paths. One subsidiary could advance to a higher strategic role (i.e. from outpost to lead) as shown in Figure 8, stay in its strategic role, move horizontally to a same-level of strategic importance (i.e. from contributor to lead) or even downgrade in case of inefficiency. This scheme is useful to have a general idea of the possible roles that a subsidiary could have.

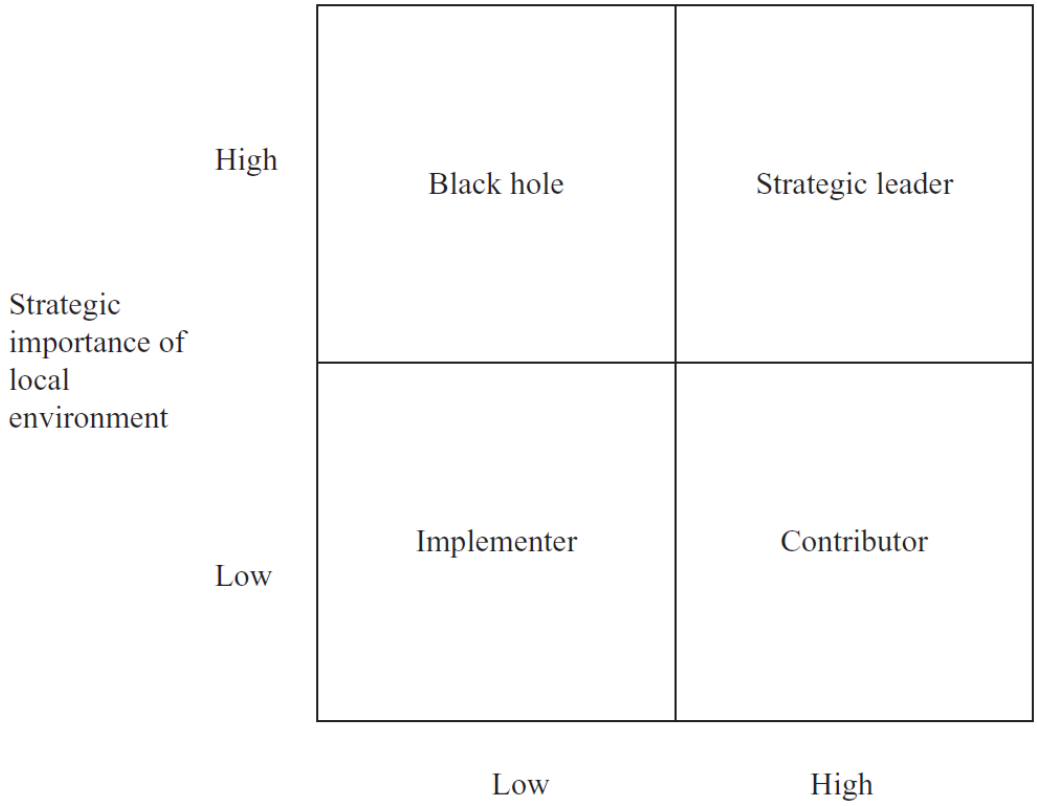
Figure 8 - Paths to higher strategic roles



Source: Readapted from Ferdows (1997)

Another scheme for subsidiary role recognition is given by Bartlett and Ghoshal (1986), which is furtherly developed in Bartlett and Ghoshal (1989). Their concept of subsidiary is centered in the bundling of internal and external resources which determine its role. Like the Integration-Responsiveness framework, the authors develop the subsidiary role on a double dimension framework. The dimensions they take into account are the strategic importance of the local environment (location advantages) and the competencies (firm-specific advantages) held by the national organization, taken from the internal MNC network or developed/absorbed by the subsidiary itself. The strategic importance of the local context depends on its importance to the overall MNC strategy. With the intersection of these two dimensions four generic roles of subsidiaries come into existence (as seen in figure 9):

Figure 9 - The generic roles of foreign subsidiaries



Source: Rugman, Verbeke and Yuan (2011)

- Strategic Leaders: (both strong location advantages and capabilities) it is located in a high strategically relevant place for the whole network and it has wide resources and capabilities, a strict collaborator of the HQ. It is a wise opportunity scout and developer;
- Implementers: (weak location advantage and capabilities) they have very limited relevance for the network and just the resources necessary for the local activities' support. They are not given the possibility to contribute to the overall MNC's strategic planning but they have just the task of generating the funds necessary to keep the company going;
- Contributors: (weak location advantages but high capabilities) they are located in small or marginally relevant countries but with wide resources and capabilities. They support the HQ with their assets and information contributing to the whole network. They often have high R&D and innovation capabilities and help to develop new processes or products;
- Black Holes: (strong location advantages but weak competences) they are normally poor in resource intensity but, since they are immersed in strategically relevant environments, they serve as technological proxies to monitor any innovation path not

yet completed in order to react promptly. They can be further exploited by strategic alliances.

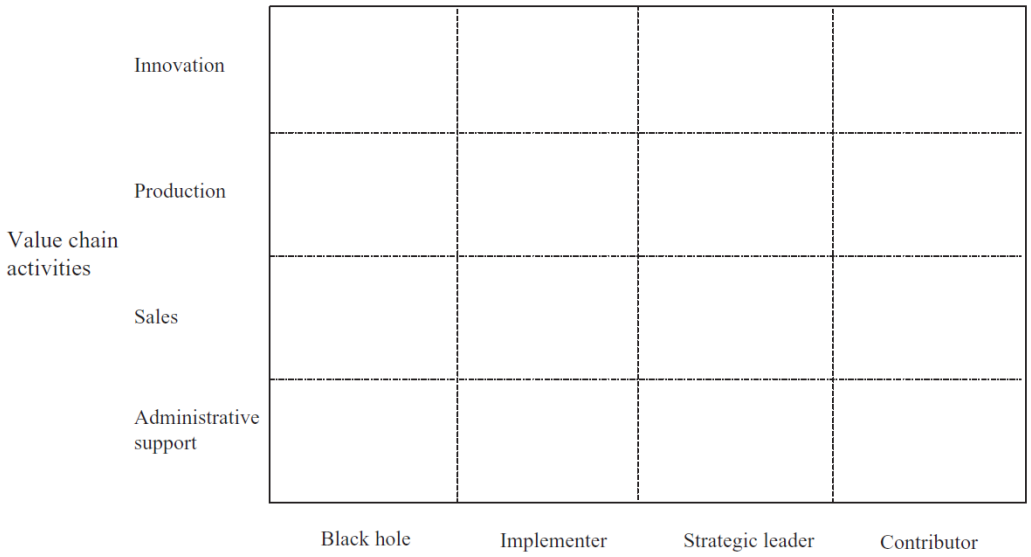
Despite the popularity of this model, more recent literature (like Bouquet and Birkinshaw 2008) expressed the need for further improvement because of relevant changes in the international environment. First, the advent of many facilitators of internationalization such as advanced ICT and supply chain management now allow, on one hand, easier access for MNCs to diverse location advantages of a wider number of countries and, on the other, improved internal communication among subsidiaries. Thus, "firms can now more easily fine-slice value chain activities, optimize the location of specific, narrow activity sets and coordinate these actors across borders" (Rugman et al. 2011, p. 255). This means that one subsidiary may play a role in one chain activity and another one in another activity, an aspect completely ignored by Bartlett and Ghoshal (1986, 1989). Another aspect ignored at that time was the effects of environmental changes that foster "semi-globalization", meaning the regional integration. Regional integration reduces institutional distance among countries and normally leads to a strengthening of some subsidiaries' competences. This because they can access more easily a larger set of location advantages in a determined region, bundle their set of internal capabilities with the set of external resources and then leverage those synergies over a wider geographical area. The big difference here with Bartlett and Ghoshal's (1986) model is that a change in the bundling of resources/capabilities in one specific activity does not imply necessarily a change in the aggregate status (Rugman et al. 2011).

Rugman et al. (2011) develop an implementation of the subsidiary roles model using the roles of Bartlett and Ghoshal's model on the horizontal axis and a bundle of four sets of activities, developed from Porter's (1985) framework of activities, on the vertical axis, as can be seen in Figure 10.

The sets of activities considered by Rugman et al. (2011) are Innovation (R&D), Production (Procurement, Inbound Logistics and Operations), Sales (Outbound Logistics, Marketing and Sales, and Service) and Administrative (Infrastructure and HRM).

Given this, the authors argue that it would be incorrect to assess the country's location advantages without considering the differences in the various value chain activities. Thus, the strength of location advantages and the possibility to couple those with internal capabilities need to be assessed separately for each part of the value chain. This directly implies that each subsidiary may cover different Bartlett and Ghoshal's roles depending on the different value chain activity considered (i.e. contributor in production and strategic leader in sales), without excluding the possibility of "no role" for any activity set. Similarly to Bartlett and Ghoshal, the authors then consider three kinds of change in each activity set (Weakening, Status Quo and

Figure 10 - Unbundling subsidiary roles by Bartlett and Ghoshal (1986)



Source: Rugman et al. (2011)

Strengthening) and thus the possibility to shift from one role to another, depending on these changes.

After this overview on roles, it is relevant to deal with the matter of subsidiaries' power or influence, and how they can gain it. Mudambi and Pedersen (2007), analyze the topic of power within two quite different perspectives, the agency theory and the resource dependency theory. The agency theory perspective sees the CHQ as the principal and the subsidiary as the agent; thus, the subsidiary may behave in a different way than that claimed by the HQ because of divergent needs or willingness. On the other hand, resource dependency theory argues that the power of a subsidiary comes from the significance of the resources owned by it to the CHQ; the power based on bargain power from resource dependency is much stronger than discretionary power given by the HQ and it is way more difficult to revoke (Mudambi and Pedersen 2007). We also take the notion of power from the resource dependency theory which posits power based on the control of the strategic resources for the organization and consequentially the ability to get other organization's players to do something that they would not otherwise do.

The authors use both theories because "the agency theory applies when subsidiary's decision rights are loaned by HQ, while resource dependency theory applies when the subsidiary owns its decision rights" (Mudambi and Pedersen 2007, p. 3), thus both theories are needed to fully understand HQ-subsidiary relationships.

As we saw in the previous chapter, subsidiaries evolved from being simple local-market oriented units to competence-creating ones that are globally integrated with the organization

(Cantwell and Mudambi 2005). Thus, they became a valuable competitive resource for the MNC. Especially, local embeddedness resulted to be one of the most important sources for subsidiary capabilities development. However, as subsidiary evolves, its decision-making scope increases endangering the agency relationship with its parent company in two ways. First, hierarchy becomes an inefficient tool to manage MNC networks and highly developed subsidiaries. And second, the subsidiary and HQ units become more suitable units of analysis than individuals (Mudambi and Pedersen 2007).

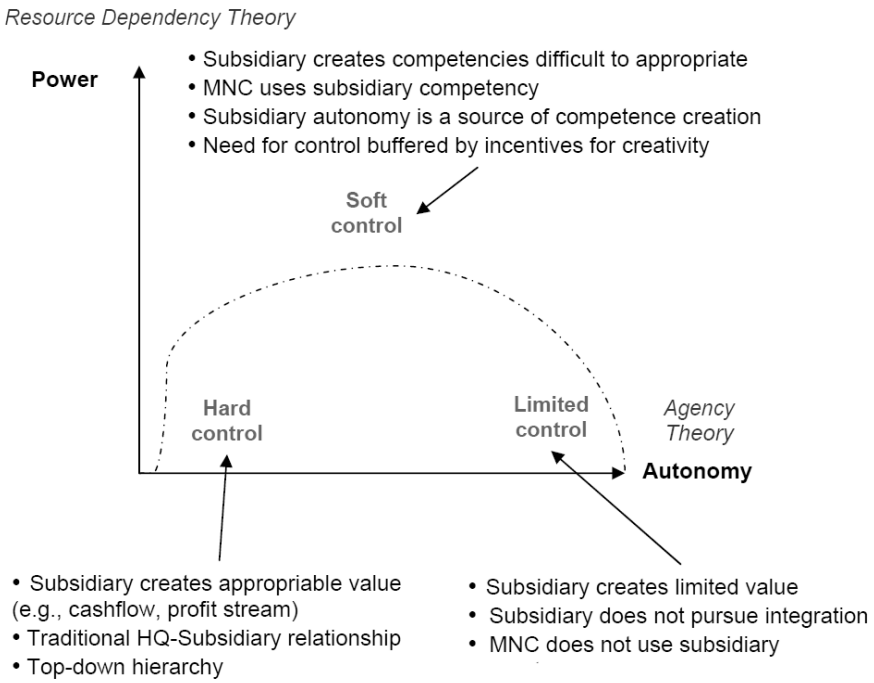
Of course, not all the subsidiaries follow the same paths of evolution: some of them will grow to gain more responsibilities and influence while others could also decline and be eliminated (Birkinshaw and Hood 2008).

Mudambi and Pedersen (2007) develop a framework in which they associate the degree of autonomy of the subsidiaries (agency theory perspective) and their power (resource dependency theory), and the consequential results in terms of parent control, as explained in Figure 11.

As we talked about power, it is relevant to us to make a deeper analysis on how subsidiaries can gain power and influence on the parent company.

Mudambi, Pedersen and Andersson (2014a) analyze data from 2107 subsidiaries in seven European countries to test mutual dependence and dependence imbalance as explanatory of

Figure 11 - Mudambi and Pedersen's model of parent control in terms of subsidiary power and autonomy



Source: Mudambi and Pedersen 2007

subsidiary power. They find that that organizational power is multi-dimensional rather than a unitary concept in large companies, thus allowing that multiple groups can simultaneously exercise influence. Power is exercised on a multi-level basis and power on a functional level is essential for power on a strategic level. Functional power is defined as the power related to a specific function and thus it has a narrow span of influence while strategic power is related to the overall strategic direction of the whole organization, thus involving a wider span of influence. Of course, the first type is way more operative while the second is involved more in planning and distributing resources/power (Mudambi et al. 2014a).

According to resource dependency theory then, when the whole organization depends on subsidiary capabilities or resources, subsidiary gains intra-organizational power as natural consequence. They find that the higher the degree of organization's dependence and of dependency imbalance between the MNC and the subsidiary the higher the subsidiary's functional power. Consequentially, the higher the degree of importance of subsidiary resources and capabilities the higher its strategic power, resulting from a higher functional power (positive correlation between functional and strategic power).

Thus, in this new kind of MNC, the network organization, there is a never-ending bargaining process between the HQ and subsidiaries (Andersson, Forsgren and Holm 2007). Andersson et al. (2007) develop a causal model based on 97 subsidiaries of 20 MNCs to examine the power coming from the subsidiary embeddedness in the local network and the relative HQ's knowledge about these networks. It emerges that the influence the subsidiary can exercise on HQ is dependent on the extent to which the subsidiary can provide technology to the organization. A strong business network alone is not sufficient to grant power to the subsidiary there must be a usefulness of the network information, and thus subsidiary importance, to the organization, including sister-units. Moreover, the subsidiary influence coming from its local network embeddedness (able to provide information to the HQ) is mitigated by the HQ's knowledge about subsidiaries' business networks, meaning that the higher the HQ's knowledge about the local networks the lower is the subsidiary influence on it. Finally, the authors argue the existence of a dilemma: the well externally embedded subsidiaries can provide access to different and relevant information about local contexts (positive outcome) but this generates the risk of subsidiary misalignment with corporate interests (agency problem).

Another study about the ways to gain attention from the HQ by the subsidiary is made by Bouquet and Birkinshaw (2008) who find out, on an empirical analysis made on 283 MNC subsidiaries, that this attention is partially influenced by subsidiary's "weight" and "voice". For weight, they mean the importance that the subsidiary has in the MNC organizational structure,

which depends on the strategic importance of the local subsidiary market and the subsidiary's strength in the MNC network; while the voice is meant as the subsidiary's initiative-taking attitude plus the efforts of subsidiary managers to improve their image and reputation within the MNC internal network. It emerges also that geographic distance emphasizes the effect of initiative-taking on positive HQ's attention, and that initiative-taking is better suited to gain more positive attention from HQ for those subsidiaries that have developed a wide range of competencies instead just downstream ones (sales, marketing and/or services).

Even if we talked about general positive outcomes of subsidiary initiative-taking on HQ attention this is not always true. Ambos, Andersson and Birkinshaw (2010) find, analyzing a sample of 257 subsidiaries located in Australia, Canada and the United Kingdom, that subsidiaries are not able to increase their influence with initiatives unless they catch HQ's attention. Subsidiary's initiatives, in fact, have a direct impact on subsidiary's autonomy, by increasing its resource base, but on the other hand, they also generate HQ monitoring which decreases subsidiary autonomy, through a closer examination of strategic plans or increased visits. But the authors find also that the direct effect of past subsidiary initiatives on subsidiary autonomy is stronger than the indirect negative effect coming from the increased HQ monitoring. Thus, the net effect of past subsidiary initiatives is positive both for influence, even if not direct, and for autonomy.

Seen that HQ attention has positive effects on autonomy and influence and assumed that the same attention is limited and selective, an internal market for HQ attention is likely to emerge, with subsidiaries competing to gain it in order to receive resources, to increase their bargaining power and so on (Ambos and Birkinshaw 2010). This fact is accompanied by the positive effects of HQ's attention on subsidiary performance. One of those effects of HQ's attention is to raise the subsidiary to an important player in the MNC and foster its development (Ambos and Birkinshaw 2010). In this case of course, we are talking about supportive attention as defined by Bouquet and Birkinshaw (2008) and not the negative side of it, which is attention that results in increased monitoring and control. Ambos and Birkinshaw (2010) develop a framework similar to the integration-responsiveness one which has the subsidiary perspective as a unit of analysis (instead of the HQ's one) and examines the interaction between HQ's attention and subsidiary strategic choice. Strategic choice allows the subsidiary to operate in the local context while HQ's attention serves as a tool to enhance the profile of the subsidiary and leverage its competences on a global level. Thus, subsidiaries face this dual challenge of adapting to the local market while interacting with HQ; that is why it may be difficult to achieve both goals in the meantime. The results of Ambos and Birkinshaw's (2010) study show that HQ's attention has no direct effect on subsidiary performance, but an indirect one through the

interaction with high levels of strategic choice. Thus, HQ's attention translates into higher performance only under certain contingencies: when there is both a high level of attention and high level of strategic choice, given by the fluid interaction with the local market/context.

Furthermore, Conroy and Collins (2016) identify three types of subsidiary legitimacy to gain positive attention from the HQ: the personal legitimacy of key individuals in the subsidiary (supportive attention), the consequential legitimacy vis-à-vis sister subsidiaries (relative attention) and the legitimacy coming from the linkages with the local environment (visible attention). Attention from HQ can also be negative and it involves the risk of suffocating or worsening subsidiary power over time. Generally, negative attention is characterized by excessive HQ intervention in subsidiary matters and it can be direct or indirect. Direct forms of negative intervention are monitoring, expatriate deployment or mandate removal for example. Also resistance and skepticism against the subsidiary are direct forms of intervention and they may lead to the dismissal of initiatives. Indirect forms of negative attention basically involve attention aimed to support the subsidiary (positive intentions) but resulting in worsening subsidiary position. For example, HQ may intervene excessively (hyperattention) and prevent subsidiaries from achieving higher performance results. The result of Conroy and Collins' (2016) work points out also that subsidiaries that do not align their issue-selling with legitimacy attracted negative attention from HQ.

Ciabuschi, Dellestrand and Martín (2011b) investigate how subsidiary internal embeddedness (thus, the deep linkages with the intra-firm network), relative to innovation-developing activities, affects HQ intervention in technology development process and how these two facts influence the impacts of the innovation on the developing subsidiary and then importance of the innovation at global organizational level. Anyway, both internal and external embeddedness have positive effects on the subsidiary importance to the MNC and on its innovativeness. External embeddedness allows the subsidiary, and thus the MNC, to scout new market opportunities and to foster subsidiary competence development and performance. Internal embeddedness helps the subsidiary to get support, resource allocation and cooperation with other MNC units, and in the meanwhile helps the leverage, at MNC level, of local knowledge and competencies (Andersson et al. 2007).

Ciabuschi et al. (2011b) find that subsidiary internal embeddedness fosters HQ's involvement in innovation development, which directly boosts innovation results at subsidiary level and indirectly the importance of this innovation at the corporate level. Thus, another effect of being embedded in the corporate network is the opportunity for subsidiaries to build their role in the intra-firm network and attract HQ attention (Bouquet and Birkinshaw 2008). Further findings of the study by Ciabuschi et al. (2011b) are that subsidiary size affects positively HQ's

involvement and consequentially innovation importance, maybe because of higher bargaining power generated by bigger size (Mudambi and Navarra 2004). Then, larger MNCs are able to enhance better the innovation importance at subsidiary level because of the more resources they can allocate to developers; unfortunately, this effect is negative at the corporate level. Moreover, subsidiary's age is negatively correlated with innovation impact at the subsidiary level, while having no effects on HQ's involvement in the innovation development or the importance of the innovation at corporate level. Finally, while the type of innovation has no effects on HQ's involvement or on the innovation impact at subsidiary level, production process innovations have positive effects on the corporate importance of innovation.

2.5 Knowledge Transfer

The knowledge owned by the organization's workforce is one of the most important strategic resources that an MNC may have. For this reason, transferring knowledge internally in an efficient and effective way is a key determinant of MNC's competitive advantage (Williams and Lee 2016). Past literature has underlined how knowledge transfer relates not only to the sending of knowledge from a unit (person) to another but also its integration understanding and application. In this view, knowledge is not transferred until it is absorbed.

In this section, we will talk about knowledge flows, their effectiveness and efficiency and their importance in an MNC. We will also cover some aspects with an HQ focus and other with a subsidiary focus in order to better comprehend the dynamics of the HQ-subsidiary relationship.

For an MNC which operates in multiple contexts and businesses, knowledge transfer becomes crucial to leverage technological advancement, develop economies of scale, undertake geographical expansion and shift production to low-cost countries (Ciabuschi, Martín and Ståhl 2010). It is often argued that the more knowledge that flows in the organization, the better (Gupta and Govindarajan 2000) but this assumption doesn't consider that the costs may overwhelm the positive effects of internal knowledge transfer, especially if knowledge fails to be absorbed properly (Ciabuschi et al. 2010; Tran, Mahnke and Ambos 2010).

With the shift from a pure hierarchical view of the MNC to a more "heterarchical" one (network organization), recalled many times in this work, also the information flows (thus knowledge transfer) changed increasingly. Egelhoff (2010) sustain that familiarity and trust are normally higher in a hierarchy than among individuals or subunits interacting trough another

type of link. Familiarity and trust enhance the quality of informal information flows, which consequentially enriches also the formal information flows. Contrarily, there is few formally specified information flow in most of the network structures because information is normally informal and voluntary, stimulated by the need for the coordination of interdependent tasks and the tackling of mutual problems (Hedlund 1986). Thus, the information flows in networks will rely deeply on specific familiarity and trust between nodes, given that organizational position familiarity is consistently fewer outside of a hierarchy. Since a network has not a fixed shape it can allow a wide variety of information flow types and the variety and the strength of these flows will depend heavily on the degree of familiarity among the nodes of the network (Egelhoff 2010).

A milestone in the knowledge flows literature is the work of Gupta and Govindarajan (2000) which describes, analyzing the results of a test on a sample of 374 subsidiaries of 75 MNCs headquartered in USA, Europe and Japan, knowledge outflows and inflows from and into a subsidiary. They predict that the subsidiary's knowledge stock, its disposition to share knowledge and the efficiency of the communication channels would enhance knowledge outflows and that the richness of the transmission channels, the disposition to acquire knowledge and the capacity to absorb knowledge by the subsidiary would be positively associated to knowledge inflows. Apart from the predictions on the impact of subsidiary's motivational disposition on knowledge outflows, their research gives all full or partial results. More specifically, they find that knowledge outflows to peer subsidiaries are higher in case of acquired subsidiaries rather than greenfield ones, and in case of larger subsidiaries rather than smaller ones. Speaking about the transmission channels, both knowledge outflows to peer subsidiaries, to the parent company and knowledge inflows from the parent and from the peers are enhanced when subsidiaries are integrated more tightly with the rest of the organization and when managers have been involved in socialization mechanisms (lateral in the case of peer subsidiaries and vertical in the case of the parent). In knowledge outflows to the parent company, larger size and higher economic advancement of the subsidiary's country have a positive impact on the flows. The only case in which motivational disposition gives positive results in the hypotheses analysis is in the case of knowledge inflows from the parent: these flows are higher when subsidiary's president works more on a subsidiary basis instead of a network one, when the level of economic advancement of the country of origin of the subsidiary is lower and when subsidiary is given less decision-making freedom by the HQ. Finally, inflows from the parent are higher in case of greenfield activities rather than acquired subsidiaries.

To sum up, in the knowledge transfer analysis, five elements are crucial:

- Value of the knowledge stock possessed by the source unit;

- Motivational disposition of the source unit to share its knowledge;
- The efficiency of the transmission channels;
- Motivational disposition of the receiving unit to integrate the received knowledge;
- The target unit's absorptive capacity for the receiving knowledge.

We can start going deeper into the analysis with an HQ focus by taking into consideration the HQ's influence on knowledge transfer performance. HQ play a crucial role in coordinating, promoting and sustaining interunit knowledge transfer (Chandler 1962, 1991), that is why it is important to investigate how HQ can add value to the transfer processes.

Ciabuschi et al. (2010) test transfer performance in terms of efficiency and effectiveness on 141 innovation transfer projects. Efficiency is defined as the "relative expenditure of resources and time in the transfer process". Speed in transfer processes is extremely important, considering that the shift from old to new technology is the demanding and essential basis for competitive advantage (Porter 1985). Effectiveness instead, is meant as the extent to which knowledge is actually absorbed and used in the receiving unit, thus meaning that the transfer is useless if not accompanied by successful absorption. It also comprises satisfaction on the transfer process.

They consider three areas in which the HQ has the discretion to foster knowledge transfer: distribution of decision-making rights, resource allocation and direct participation in the transfer projects. In terms of decision-making rights allocation, a consistent body of research assume a positive relationship between corporate knowledge transfer and decentralized decision-making rights (Gupta and Govindarajan 2000). For example, Ambos and Birkinshaw (2010) find that subsidiary contributory role in knowledge creation and diffusion, and competitive advantage is positively related to its autonomy. Accordingly, the study by Ciabuschi et al. (2010) finds that the delegation of decision-making rights is positively related to both efficiency and effectiveness of the transfer process. This indicates the importance of the top management in allocating decision rights among organization units. In terms of resources allocation, they find that an abundance of resources in the transfer activities increases the effectiveness of the transfer but has no evident effect on efficiency, indicating that HQ can add value to the transfer process by allocating corporate resources. Finally, they find that HQ's direct involvement in the transfer process is negatively related to knowledge transfer efficiency but has no effect on effectiveness; this because of the rise in costs and time with HQ intervention.

Dellestrand and Kappen (2011) deal with resource allocation by HQ to innovation transfer projects within MNCs. An important function of the HQ is to create an internal market of resources within the organization, allocating them in the place in which they are more effective.

The authors use a dataset on 169 subsidiary innovation transfer projects and, distinguishing among physical capital resources, human capital resources and organizational resources, they focus on the last two ones. Their results indicate that a curvilinear (inverted U-shaped) relationship exist between subsidiary's bargaining power and the amount of resources allocated by the HQ, meaning that when subsidiaries become too strong in terms of autonomy they are tendentially supposed to be autonomous also in term of resources, with HQ diminishing allocated resources. They also find that resources are normally allocated more to acquired subsidiaries rather than greenfield ones. The reason may be that HQ want to exploit the acquisition and being more involved in acquired subsidiary's business they can diminish the risk of opportunistic behavior. Also, subsidiary size matters in terms of resource allocation: larger subsidiaries are favored in resource allocation, compared to smaller ones, because they are more able to attract HQ attention. In terms of relatedness, the transfer projects favored are normally those connected with core capabilities of the subsidiary. Moreover, the projects chosen as "winners" in resource allocation are normally kept like that, so there is a certain "stickiness" of HQ resource allocation.

As we said before too much knowledge sharing can be detrimental to the receiving unit. Tran et al. (2010) investigate on vertical knowledge flows from CHQ and foreign subsidiaries considering the quantity, the quality and the timing of the transfer. This kind of transfer is different from the other two possible ("lateral" among peer subsidiaries and "reverse" from subsidiaries to HQ), firstly because HQ have more direct control on the knowledge transferred, to whom is transferred and at what time, and then because of the HQ's direct role of increasing the overall value of the firm. The authors interestingly find a curvilinear (inverted U-shape) relationship between the quantity of HQ's knowledge flows to a subsidiary and its international sales performance, meaning that the quantity of knowledge given to subsidiary has positive marginal benefits until a certain point and afterwards they will turn negative, with further knowledge becoming harmful. They also find positive and linear relationships between the quality of knowledge and subsidiary sales performance. The timing of knowledge transfers has similar relationship, considered alone and jointly with quality and quantity.

Another study on transfer efficiency/effectiveness is done by Ciabuschi, Dellestrand and Kappen (2011a). Analyzing 169 international knowledge transfer processes, both in their vertical and lateral mechanisms, they find that centralization (hierarchical approach) with HQ involvement has negative effects on both dimensions of transfer success. Centralization includes coordination and monitoring (Mudambi and Navarra 2004) of the transfer, and this may reduce the initiative-taking approach of the subsidiaries and the use of local resources, making the transfer more costly and time-consuming. Previous cooperation among subsidiaries

is positively related to transfer effectiveness, but not to efficiency. This because of the creation of routines between units and thus reiterated mechanisms that foster the easiness of comprehension and implementation of the knowledge transferred. Finally, the use of IT fosters knowledge transfer success in both its dimensions. Intranets are constantly enhancing the creation and the transfer of knowledge because implementation becomes easier and better understandable, and intranets can decrease distances in transfer processes. Thus, knowledge can flow more rapidly and be better integrated into the subsidiaries (Ciabuschi et al. 2011a).

To better understand vertical knowledge transfer, an analysis of subsidiary absorptive capacity is needed. Schleimer and Pedersen (2013) investigate how MNC can foster subsidiary absorptive capacity: in particular what drives subsidiary's ability to absorb marketing strategies developed by the parent and how the subsidiary enacts its absorptive capacity, by integrating the received knowledge, in order to compete properly in its market. The study is made on 213 Australian subsidiaries with overseas parent companies. The results show that both decentralization, innovative culture and normative integration promote subsidiary absorptive capacity. On the other side, competitive and dynamic subsidiary markets have a positive influence on the MNC's adoption of organizational tools, such as normative integration, decentralization and innovative culture, which in turn foster subsidiary absorptive capacity. This study is important because it indicates to MNC's management three important tools to foster subsidiary absorptive capacity.

Minbaeva, Pedersen, Björkman and Fey (2014) confirm that absorptive capacity can be fostered by organizational mechanisms such as decentralization and normative integration, and by initiatives to promote an innovative culture. Various organizational policies can be helpful to overcome knowledge-transfer barriers; among them, also specific HRM practices, able to recognize and foster the right behaviors. Especially, collaborating behaviors are to be sought among employees, since one unit's absorptive capacity is not simply the sum of individuals' absorptive capacities; they need to cooperate in order to augment the effects of individual capabilities to absorb knowledge.

On data from 167 foreign subsidiaries in China, Li and Lee (2015) find that both knowledge from HQ and from peer units influence positively subsidiary capabilities and performance, but at different rates. This implies that both top and middle management should care about both sources of knowledge, even if there is proof that HQ knowledge seems to have a stronger positive effect on subsidiary performance. Subsidiaries' entrepreneurial culture, on the other hand, foster the positive effects from HQ knowledge but hamper those from peer units, this because it diminishes the likelihood for the subsidiary to assimilate knowledge from peer units due to a stronger perspective to challenge information coming from other peers.

An important matter, deeply dealt in the last years, is that of Reverse Knowledge Transfer (RKT thereafter). As we anticipated before, RKT is the flow from subsidiaries, or peripherical units, back to the CHQ. This became important on the same trend as the heterarchical view became popular and is even further prospering during the last years. Of course, with the increasing importance being given to the peripherical units, the importance of knowledge flows from these units became relevant too. With the emergence of a turbulent and fast-changing business environment, like the contemporary one, the importance of fast-responding feedbacks from subsidiaries plays a crucial role in strategy-planning and competitive advantage building. Thus, the role of CHQ as the prime source of knowledge and competencies has deeply changed (Ambos et al. 2006).

It is obvious that CHQ, and thus MNC as a whole, may benefit a lot from this kind of knowledge flows. It is important to us then, to understand what are the key variables that drive the benefits of the HQ, and of the MNC as a whole, from RKT. Ambos et al. (2006) draw on an empirical sample of 294 intra-MNC knowledge transfer of 66 overseas subsidiaries to their respective HQ a set of these key drivers. HQ can benefit from RKT in different ways; in fact, local knowledge can help HQ in:

- Fine-tuning and coordinating global strategy;
- Improve internal processes or units' ones in the network;
- Providing relevant input in developing new products.

The analysis revealed that all sample units had some kind of RKT but they vary a lot in terms of intensity. HQ seem to benefit more from the transfers that happen less. Marketing knowledge is transferred most, followed by distribution know-how and technological knowledge. Impressively, market data on customers and competitors is transferred less frequently but generates the most important benefits for the receiver. The authors find that HQ's benefits from RKT are positively related to the competitive strength of the host country of the source unit, and to HQ's absorptive capacity. Thus, on one hand, HQs will benefit more from knowledge coming from more developed countries rather than from those which are lagging behind, and on the other hand, they will benefit only if they are capable of absorbing the right knowledge, implying that quantity is not relevant to the benefit per se. Surprisingly, they do not find any correlation between cultural or organizational distance and RKT benefits. Interesting is also the result on subsidiary's strategic role in RKT benefits: following the categorization of Gupta and Govindarajan (1991), who identify four kinds of subsidiary's role, the study finds that knowledge from Integrated Players is most valuable compared to Global Innovators,

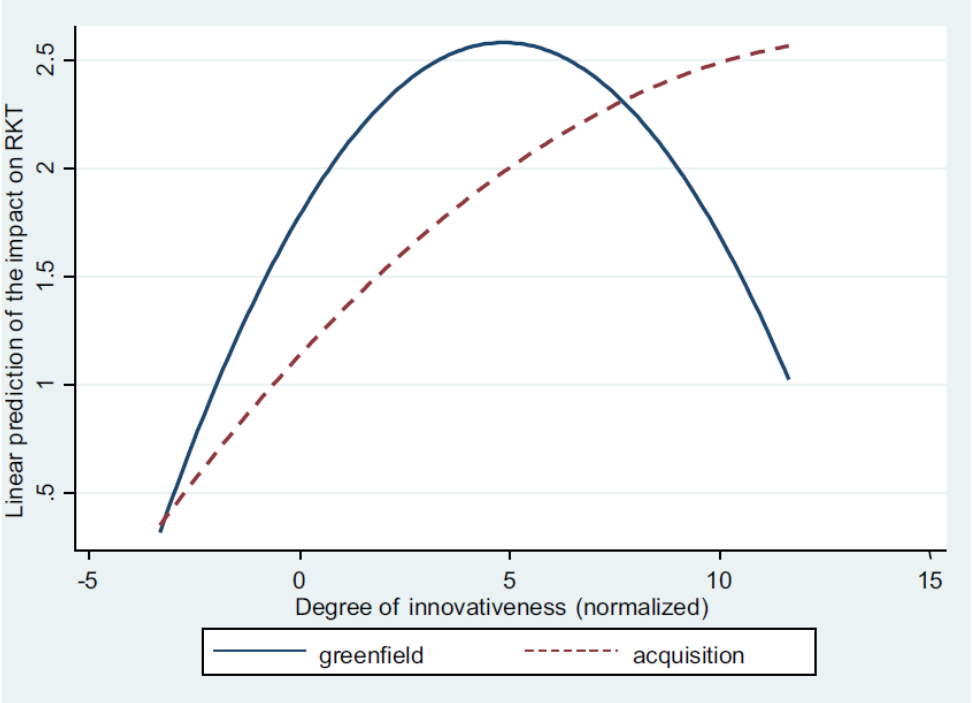
Implementers and Local Innovators[5]. This means that knowledge from more embedded subsidiaries generates relevant benefit advantages at HQ and MNC level.

Mudambi, Piscitello and Rabbiosi (2014b) find on a sample of 293 Italian subsidiaries that subsidiary innovativeness has positive effects on the extent of knowledge transfer to the parent up to a certain point and then they become negative. An inverted U-shaped relationship is found in the interaction between subsidiary innovativeness and RKT, and this curvilinearity is greater for greenfield entries in comparison with acquisition ones, as shown in Figure 12.

Furthermore, greenfield subsidiaries are likely to be better embedded in the MNC internal network, because of the practice of putting in charge of the management of greenfield subsidiaries people familiar with the MNC network already, while acquired subsidiaries can be seen as "outsiders" because of their previous history in the local context.

These findings have relevant managerial implications, suggesting that managers have the important task of designing and developing routines and incentive mechanisms to smooth these

Figure 12 - Relation between subsidiary innovativeness and level of RKT



Source: Mudambi et al. (2014b)

[5] **Integrated Players** are characterized by a high inflows and outflows of knowledge and serve as knowledge brokers or "regional innovation relays" (Asakawa and Lehrer 2003) their transfers are supposed to have extremely high benefits on HQ. Similarly, **Global Innovators** contribute consistently to the knowledge base of the firm. **Implementers** are instead in charge of implement corporate strategy locally; the benefits coming from their knowledge are relatively low. **Local Innovators** deal with idiosyncratic knowledge resources, thus they knowledge base is expected to have very low value for HQ (Gupta and Govindarajan 1991)

curvilinear effects in order to allow a constant improvement of subsidiary innovativeness without having negative effects on RKT, which may nullify benefits of that innovativeness at MNC level.

Rabbiosi and Santangelo (2013) find that benefits from RKT at the corporate level are better with higher subsidiaries' age. Thus, older subsidiaries can better supply knowledge back to the HQ, and this effect is positively affected by the use of socialization mechanisms, the lack of which may represent a serious harmful deficiency. As we could expect, the effect of age on RKT benefits is higher for greenfield subsidiaries, since they are a "start-from-zero" activity and they need time to allow their results to be harvested. This effect is sensibly lower for acquired subsidiaries or for joint ventures for their relative maturity even at the time of acquisition/creation.

RKT effectiveness at corporate level constitute also an important source of bargaining power for subsidiaries (strategic influence) and, on the other side, it plays a mediating role in the relationship between network-based activities (internal and external embeddedness) and subsidiary influence (Najafi-Tavani, Giroud and Andersson 2014). This is important to know for subsidiary managers because they can increase their influence on HQ by dedicating more efforts to RKT, recognizing which kind of knowledge is best appreciated by HQ, and on the other side, they now should know that nurturing business relationships and developing own knowledge do not imply necessarily an increase in subsidiary's bargaining power. Internal embeddedness is not relevant in developing new knowledge but it becomes essential to facilitate RKT and enhancing visibility, thus contributing to subsidiary's influence.

We had the chance to talk about the roles of both the HQ and the subsidiaries, including their absorptive analysis, but we still miss an important player also for knowledge transfer matters: the regional HQ. RHQs can have an important role in inflows and outflows of knowledge; they may play as facilitators of knowledge transfers, with a passive role of "knowledge movers" (Lunnan and Zhao 2014) and as "relays" (Asakawa and Lehrer 2003). They can also play as information processors, in the sense that, since not all information can be transferred, it may be needed to be processed in order to improve the absorptiveness of the recipient (both the HQ or the local subsidiaries): some information, in fact, may be too complex or too "far" from the recipient context to be properly absorbed. RHQ's role in knowledge flows varies depending on many factors, such as RHQ's location, MNE's structure and management (Lunnan and Zhao 2014). RHQs may also help subsidiaries in identifying and accessing relevant knowledge and thus improving the overall knowledge management of the firm.

Lunnan and Zhao (2014) argue three important propositions. The first one is that RHQ managers' personal motivation, and personal experience both in the organization and in their

role, will have positive impacts on RHQ's active role in knowledge transfer. Secondly, vertical RHQs (more focused on coordination and control) will have a more active role in the transfer of technical knowledge while matrix RHQ (those with functional responsibilities for some services such as HRM, legal and sourcing, and provide those services to the MNC's units in the region) will be focused on the transfer of support functions, and may have only a facilitating role in technical areas; matrix RHQs' knowledge flows are more regionally embedded than vertical RHQs' ones. One last important finding is that RHQs' knowledge flows will be more conspicuous from and to co-located subsidiaries or subsidiaries considered more important due to their size or strategy. This has important managerial implications to choose managers that are well motivated, experienced, then to make a right balance of the trade-off between vertical and matrix structures, and lastly to consider RHQ's location because of its effects on transfer effectiveness.

An investigation on managers' role and behavior is done by Tippmann, Scott and Mangematin (2014). Using qualitative data on 40 cases of subsidiary managers' knowledge mobilizations they question managers' behavior in two different types of knowledge flows, deliberate and emergent, that affect those behaviors.

Deliberate knowledge flows are sensibly intentional, top management-driven flows that represent the strategic effort to diffuse "superior" competences, normally developed at HQ or advanced subsidiary level, to other units or just to leverage these innovations to improve overall competences. In these flows thus, the top management (HQ level) has the role to orchestrate all the process and to grant that the right information is processed and transferred, while middle management's (subsidiary level) role is to ensure that the knowledge is effectively adopted and employees have internalized this information.

Emergent knowledge flows instead are lateral or bottom-up flows that are not directly managed by top management, but in which subsidiary management is involved directly in seeking new information, processing and transferring it. Middle management is also in charge of nurturing and maintaining lateral connections with other management peers across functional and geographical distances. This second kind of flows has naturally become more frequent in the last years in parallel with the spread of the heterarchical approach in managing MNCs.

The most important finding of this research is that subsidiary managers prefer widely internal knowledge than external one. Moreover, they are more likely to initiate emergent flows if the mobilizations they pursue have limited HQ involvement and if their boundary-spanning mobilizations involve architectural complexity, involving diverse players.

These findings show that MNCs that stimulate subsidiary managers to initiate emergent knowledge flows are more likely to succeed in the implementation of decentralized structures and the creation of new capabilities.

Aligned results are found in the research by Andersson, Buckley and Dellestrand (2015) developed and tested on 169 specific knowledge transfer projects. They find that HQ involvement during knowledge development does not significantly affect future knowledge implementation, and on the other hand, hierarchical governance structures or formal tools have negative effects on knowledge utilization. Surprisingly, the use of expatriates from the sending unit to the receiving one during the transfer negatively affects the utilization of knowledge at receiving unit level, while, as we may expect, existing relationships between the sending and the receiving unit are profitable for knowledge transfer effectiveness. The negative effect of expatriates may be explained by the fact that they tend to have a focus strictly similar to that of the HQ, turning expatriates' intervention like HQ's one; moreover, expatriates may be used by HQ only in case of problematic transfers, thus limiting the value of this finding. The ultimate managerial consequence is that relational characteristics are to be preferred to build subsidiary capabilities in knowledge transfer.

2.6 Control and Autonomy

Management of Control (MC thereafter) has been defined as "a tool to conceal or legitimize the exercise of power, as means to exploit the working class, or an instrument to construct an image of rationality that better fits constituents' expectations" (Covaleski, Dirsmith and Samuel 1996; in Speklé 2001) or a "purposive process or set of devices and mechanisms, that through its influence on the behavior of actors within an organization, intends to contribute to the achievement of some pervasive objectives of that organization" (Speklé 2001). Although many other definitions have been given by various researchers, as Speklé (2001) argues, all of them involve two key concepts: a focus on the behavior of the participants of the organization and the concern with the effects of this behavior on organizational outcomes.

On the other hand, autonomy is the degree of discretion that the HQ leaves to subordinate units regarding the decision-making process on the matters that concern those units. In other words, the unit's degree of discretion to control its own activities without any intervention or interference from higher levels.

Control and autonomy could be seen as two complementary concepts, and in fact, we can think that the higher the control from any "supervisor" the less the degree of freedom in the

decision-making of the "overseen", implicitly or explicitly. It is clear that the headquarters, as main "supervisor" of the MNC, plays a crucial role in this balance between the two.

In this trade-off, between autonomy and control, coordination plays a mediator role, as the mix of practices and tools that the MNC uses to "orchestrate" the whole organization, allowing the right functioning of the diverse units taken together.

Again, the shift from a merely hierarchical view of the MNC to a "heterarchical" (Hedlund 1986) one, made this balance to change massively, giving the subsidiaries always more autonomy on their processes and smoothing the degree of control of the HQ.

Informal and subtler mechanisms of control and coordination received more attention from international management research and started to be used more and more in the practice (Martinez and Jarillo 1989), at the expense of the unidimensional focus on structural issues.

Based on different studies on the control instruments of the HQ (Martinez and Jarillo 1989; Bartlett and Ghoshal 1989; Gupta and Govindarajan 1991) a distinction between three types of control can be made:

- *Centralization*, when decision-making power is retained at the HQ level;
- *Formalization*, when decision-making power is routinized by the use of rules and procedures;
- *Socialization*, when the members of the organization develop simultaneously common expectations and shared values that promote joint-like decision making. (Ambos and Schlegelmilch 2007).

Researchers have linked control tools to diverse external contingencies: for example, they must be adapted to the task of the specific subsidiary, as well as to the cultural context (Bartlett and Ghoshal 1989; Gupta and Govindarajan 1991). Moreover, it is argued that subsidiary control is strictly linked to the relative power of the unit too (we already saw some ways in which the subsidiary can gain power). Structural power, in fact, helps subunits to exercise influence or resist control from other units. Coming from its resources' importance for the organizations (resource dependency theory) or from its network centrality (organizational power theory), the increased power of the subsidiaries will reduce the HQ's ability to control through hierarchical authority (direct control). It is argued that this power shift to peripherical units should be faced with inclusive management styles and the use of socialization (organizational culture) used as a mechanism of control (indirect control) (Ambos and Schlegelmilch 2007).

The level of autonomy is a key parameter to understand a subsidiary's position within the MNC network (Martinez and Jarillo 1989). A high degree of autonomy gives the subsidiary the flexibility needed to face the local environment and external contingencies and to adapt

business practices to the local demands. It also has positive effects on its ability to create and transfer innovation (Ghoshal and Bartlett 1988). From the subsidiary's point of view, a desirable condition is maintaining a high degree of attention from the HQ without having negative effects on autonomy (Ambos and Birkinshaw 2010). Although HQ's attention and subsidiary's autonomy have been considered complementary by past researches, recent literature provided evidence that achieving both is possible, since attention (or connectedness) is a diverse construct from control (Bouquet and Birkinshaw 2008). Ambos and Birkinshaw (2010) find that subsidiaries with a high degree of autonomy and high level of attention from HQ perform better on all dimensions compared to their peers.

The more the HQ exercises its ownership rights to control the subsidiary, the lower the degree of subsidiary innovation will be, because autonomy has been linked, directly or indirectly, to higher subsidiary innovation (Mudambi 2011). Thus, HQ's monitoring should be leveraged to allow subsidiary knowledge creation (Cantwell and Mudambi 2005) and entrepreneurial activities (Birkinshaw 1997). Depending on the type of HQ's control (which may be a positive resource or a negative hindrance for the MNC) and on subsidiary response to this control (which may acquiesce or resist), we have four different situations:

- When HQ's control is a positive resource and there is low asymmetric information, we find the situation of "MNC as a social community" proposed by Kogut and Zander (1993);
- If there are high local interests of subsidiary managers, they are likely to resist this control, even if it is in higher interests of the MNC. This results in subsidiary managers rent-seeking to the detriment of MNC's interests (Mudambi and Navarra 2004);
- Even when HQ's control is a negative hindrance, subsidiary managers may acquiesce this control because they recognize HQ as the legitimate authority without any doubt;
- The worst case is that in which a negative control is resisted by the subsidiary and the MNC become an instrument for the HQ to "free ride" and use its control as a way of transferring rents from the periphery to the home country.

  (Mudambi 2011)

Given that HQ may intervene in subsidiary activities in a way that demotivates subsidiary employees and managers, even if this intervention is with positive intentions, MNCs need to avoid these "intervention hazards". Foss, Foss and Nell (2012) propose as remedy two instruments: normative integration and procedural justice. *Normative integration* is based on the socialization of different levels/units' managers into a set of shared goals, values and beliefs that shape their perspectives and behavior (Rodrigues 1995). On the other hand, *procedural*

justice can be defined as the perceived fairness of the formal procedures that govern the decisions dealing with the treatment and the benefits of the internal participants of the MNC. Normative integration will lower the incidence of interventions for bad cause and moderates positively the relationship between MNC performance with both intervention for bad cause and intervention for good cause. Procedural justice instead, diminishes the incidence of intervention for bad cause, on one side, and moderates the likelihood of the subsidiary perceiving interventions as for bad cause, on the other (Foss et al. 2012).

Rodrigues (1995) proposes three frameworks on subsidiary control by the HQ. Based on Hofstede (1980), he argues that HQ's control is influenced by national cultures' characteristics (first framework). It is also influenced by situational factors of the single subsidiary, such as local context, size, type of activities and managerial preferences (second framework). With the third framework, he argues that the balance between centralization and decentralization should be obtained by extensive vertical and horizontal communication throughout the organization. This means that there should exist a two-way communication process between each pair of interacting units, that the HQ is familiar with subsidiary local situations/contexts and consistent in its decision-making process, that subsidiaries may challenge strategic decisions and that they receive explanations for the final decisions made by the HQ: this is called due process.

Matolcsy and Wakefield (2017) investigate how the contingent factors affect the management of control system implemented by the CHQ by a cross-sectional survey on 159 Australian MNC's HQ. The found their theory on the control archetypes developed by Speklé (2001). These archetypes are:

- *Arm's length control:* high relative autonomy to subsidiary management, HQ intervention when performance is not satisfactory, market-based benchmarks used for targets, evaluation and rewards;
- *Results oriented machine control:* high subsidiary relative autonomy, internally developed performance targets as base for evaluation and reward;
- *Action oriented machine control:* low relative autonomy coupled with clearly defined tasks, standardized behavior and limited scope for discretionary behavior, and close monitoring;
- *Exploratory control:* high subsidiary relative autonomy with performance targets established as information emerges (basis for monitoring and evaluation) and rewards based on long-term performance;
- *Boundary control:* high relative autonomy of subsidiary management within clearly specified behavioral boundaries with HQ close monitoring and intervention in case of breaches.

(Matolcsy and Wakefield 2017)

The results of their research show that a portfolio management corporate strategy (multiple and diversified businesses) lowers the degree of HQ's control and conversely more HQ's control is associated with activity sharing corporate strategy. Moreover, it is found that HQ's control over wholly owned foreign subsidiaries tends to be higher when their competitive position is more closely related on low-cost strategies and when they are more embedded in the corporate system. Differentiation strategies and external embeddedness have narrower direct effects on the degree of control exercised by the HQ.

Accepted that a high degree of tight control tends to have negative effects on subsidiary responsiveness to competitive challenges, the idea of HQ as an "orchestrator" instead of a strategic planner seems to be more appropriate to contemporary MNCs (Tallman and Koza 2010). CHQ is no longer expected to control worldwide operations in detail, nor the firm is expected to become a giant integrated operation with a common and identical culture. The new challenge of the strategic assembly of the firm is represented by the need of simultaneously accessing geographic and products markets, managerial skills, and technologies. This requires close interactions among the various participants of the organization, but in a flexible and responsive manner, not a set hierarchy with standardized roles. Thus, contemporary MNCs need to incentivize the continuous self-renewal of the total enterprise. Managers should assemble the enterprise and transfer to the entire organization an appetite for institutionalizing change. In the meanwhile, they must guarantee the flexibility to adapt resources and capabilities to the constantly changing environment. This process of co-evolution is called by Tallman and Koza (2010) "command without control".

Tallmann and Koza (2016) propose the concept of *Strategic animation* to overcome the mentioned inefficiencies and issues of control. The Strategic animation is an innovative leadership approach to strategic management which employs sophisticated incentives to motivate voluntary buy-in, with self-organization principles instead of command and control of the unitary firm. This is aimed at the virtual integration of the activities that comprise the value-added proposition of the firm and fosters the development of emergent processes for both the exploitation of assets and exploration of new opportunities. In fact, Strategic animation facilitates the timely and flexible response to chaotic environments that are the most evident characteristic of contemporary global businesses. Strategic animation functions through coordination and efficient two-way communication to provide:

- Common purpose to the different parts of the network firm;
- Autonomy in relevant product/market activities;

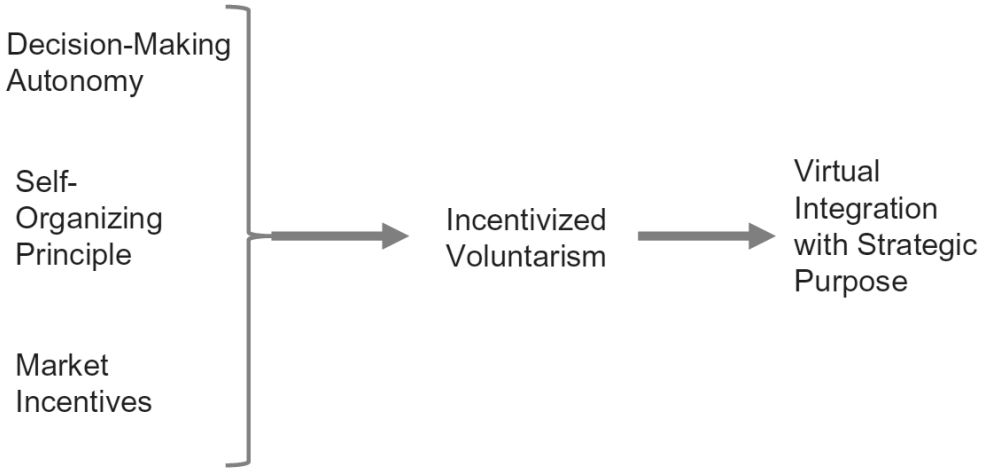
- Incentives to all the participants of the network to explore new capabilities and resources while pursuing individual operational efficiency;
- Collective benefits to subsidiary and affiliated units to foster and support joint competence creation, diffusion and exploitation worldwide.

The authors' model offers a vision of the modern international business organization as a network of geographically dispersed, value-adding processes, both owned or outsourced, that provides enough flexibility to adapt to the dynamic global business environment in a co-evolutionary process (Tallman and Koza 2010). This model is called Globally Networked Organization (GNO), and proposes widely dispersed and increasingly autonomous units which pursue specific value-adding activities, with integrated access to worldwide markets and global innovation provided by the parent under the guidance of a core HQ function. This offers, on one hand, the operating efficiencies of optimally located individual activities and, on the other hand, global scope and scale provided by the integrated worldwide system (Tallman and Koza 2016).

They propose that the visible hand of the HQ control and the invisible hand of the market be replaced by the "virtual hand" by which the HQ mixes market-like monitoring and reward structures with incentives to foster coordination in production and innovation. This system can minimize the principal-agent problem. The role of the HQ should be focused in providing incentives, guidance, common systems, monitoring, and rewards and punishment for behavior instead of "active coordination" on an intrusive basis (Tallman and Koza 2010).

Another contribute of Tallman and Koza's (2016) work is the framework composed of five key elements to be tightly integrated in order to make strategic animation viable for the organization. The framework can be seen in Figure 13.

Figure 13 – The Strategic Animation System



Source: Tallman and Koza (2016)

Virtual Integration is the expected outcome of the strategic animation process and proposes that proper incentive structures mixed with strong information and communication systems can be used to foster an internal quasi-market that put together all the internal units of the MNC and also their external alliances, contractors into a vertical supply chain avoiding the limitations of a traditional control structure and the fear of unreliable suppliers, very common in the true market. It is a way to insert market governance elements in the hierarchy, not simply removing structure. The GNO fosters internal cooperation among vertically linked units by the use of tools such as common IT systems, managerial rewards for coordinated actions and other types of rewards and relationship building. In this way, the HQ's role is restricted to reducing the transaction costs and increasing the returns of other units by taking onto itself business services and supporting activities.

Incentivized Voluntarism is the key element of the virtual integration for its success. To allow dispersed units and network players to participate in a cooperative manner requires their voluntary acceptance avoiding the coercive and hierarchical management. These voluntary behaviors are fostered by traditional incentives such as measurement and reward systems, even if in highly innovative settings, but also by shaping the organizational actors' preferences. Compensation schemes tied to customer satisfaction can be used to incentivize managers to reliably act in the name of the MNC and its network as a whole, and they help to commit voluntarily the managers avoiding their willing to find another organization to join. This market-like reward system incentivizes all the participants of the internal/external network to maximize long-term results and to work in their interests while working in the interest of the whole GNO.

Decision-Making Autonomy is the prerequisite for voluntarism and no market will function effectively if the various participants perceive to have different decision-making powers. Thus, to make this market-like network to work properly, all subordinate units should be able to act as quasi-independent businesses (including wholly owned subsidiaries). Activities should be treated as possible as completely separable businesses, in order to boost competitiveness. The key to an effective separability is to leave to units' managers to be autonomous decision-makers while providing them with the above-mentioned incentives to work also in the GNO's interest.

Market Incentives are needed to allow the internal quasi-market of separable businesses to work properly. The GNO need to generate the right incentives to foster local innovation and formal and informal connections across the network. Offering those incentives with network support to the various elements can support an effective decision-making aimed at the superior overall performance minimizing bureaucratic costs within the GNO.

Self-Organization refers to the tendency for individuals to organize collectivities to follow common interests. Top management has the power to turn the internal quasi-market more efficient of the external ones while allowing multiple units to come together naturally by reducing information asymmetries within the GNO, supporting exchange negotiations, rewarding managers for improved efficiency, successful innovation and competence creation, and organizing joint business services. If the current internal market is not efficient as planned in pulling together businesses into a single value chain, then the HQ should rethink its strategy, change the internal connections of the network and then strengthen them.

These five elements taken together constitute the Strategic animation, which is a system that supplants both pure market and traditional hierarchy.

2.7 Conclusion

For what we found analyzing more recent literature on the above-mentioned topics, we confirmed the fact that the heterarchical view of the MNC, together with the shift of power toward peripherical units and the instauration of a network structure instead of a hierarchical one are the main features of the process of adaptation to the global business environment that MNCs followed increasingly in the last years. The constantly changing environment, its growing complexity, the fast innovation processes in a wide range of sectors, especially ICT technologies, and the rise of emerging markets as a source of strong competitive forces lead the way to this massive change that still is going.

HQs and subsidiaries are the units that more feel this change due to the shift of powers from the firsts to the seconds. HQs perceive the need to delegate more authority to the subsidiary in order to allow them to better explore and exploit new resource, capabilities and market opportunities, thus enhancing their value-adding power to the organization as a whole. In this shift of power and authority, a new player is becoming interestingly always more important for the efficient functioning of the MNC system, the regional HQ. The shift of power toward subsidiary units and the growing complexity of the global businesses generated the need of a new intermediary unit able to bridge the highest authority of CHQ with the more operative and peripherical units, the subsidiaries. RHQs have a function of relay, information processor and carrier, and winner picker. The importance of this new important figure makes its positioning extremely strategic: global cities such as Hong Kong, Shanghai or other “bridges” to a specific region, as it may be a city in Argentina for the Latin American region, represent the right place to put this kind of structural tool.

The uncertain global business environment also requires a fast and efficient knowledge transfer process which passed from being a unidirectional and hierarchically HQ-driven to being bidirectional and networked, in which efficient communication among each strategic unit is crucial for a fast response to the environment. In this networked and never-ending knowledge transfer process, each unit has an important role. Subsidiaries are the sentinel on the field which allow the perception of local information and simultaneously the operative reaction; RHQs are the relays that process the information and send it to the right unit allowing a double-way efficient flow avoiding the wrong information to be transferred; finally, HQs has the role of orchestrator and strategic animator which uses the peripherical information to constantly shape overall strategy and give guidance to the globally spread network.

In terms of control, a strictly hierarchical and HQ-driven system of control is not anymore compatible with the current global environment. Many researchers found that a high level of authority, and thus decision-making independence, of peripherical units is essential to correctly execute fast responses to local disruptions, technological, organizational or economical. The key point to allow a set of subsidiaries with high decision-making authority is to provide them with the right market-like incentives (including a reward system based on customer satisfaction) and a common set of corporate values (such as vision and mission) to generate a natural coincidence of interest. This will make subsidiary managers to work in their interest while working in the interest of the whole network.

Chapter 3

The Safilo Group Case

3.1 Introduction

In the first chapter, we reviewed the literature in a chronological sense to explore the trends that characterized the HQ-subsidiary relationship management in about the last fifty years. We divided the main topic into five subtopics, following Kostova et al. (2016), and had an analysis for each of these, noticing how the global business environmental trends affected their evolution.

After that, we focused on three of those subtopics that are attracting more the recent literature and research, meanwhile taking into account the interests expressed by our reference inside Safilo Group which is the object of our analysis on the company side. Thus, we found the current level of advancement of each topic.

What we want to do in this chapter is to verify if the Safilo Group is following the same trends that the literature suggests, and whether it did in the past. Our hope is to find also some interesting peculiarity that we could not find in the literature review for its wide scope and weaker in-depth on a single-company case, that may give us a different point of view. Another intention is to derive, jointly from the literature review and the case study, eventual drawbacks of the current company's practices in the HQ-subsidiary relationship management and/or eventual suggestion to improve it in the future.

The chapter will start with a company overview on its business, its main features and its presence in the world with subsidiaries. It will follow an explanation of the method used to develop the case study, so its phases, the questions used, the way of reorganizing the information received and so on. Later, the information received during the interviews will be organized in three phases that the company had in a chronological sense, with a deeper focus on the current one. The last part will be dedicated to the discussion of the findings and the conclusion.

3.2 Safilo Group Overview

Safilo (acronym for Società Azionaria Fabbrica Italiana Lavorazione Occhiali) is an Italian company whose core business is the production and the distribution of glasses (both prescription, sun and sport), frames, goggles (sky and bicycle) and helmets, with administrative center and headquarters in Padua, in the Veneto region, north-east of Italy.

The company was founded in 1934, when Guglielmo Tabacchi, born in Solvay, NY, son of Italian immigrants in the United States, took over the company "Carniel" in Calalzo di Cadore, the first Italian company producing glasses, founded in 1878.

During the German occupation of Italy, Safilo produced only one kind of glasses to be sent in Germany, but it produced also, without the German authorization, other optics components under the name of Italottica: this allowed the company to prosper in the industry.

After the world war II, the company started its commercial expansion in the world, opening subsidiaries in the Americas, central Europe and Australia.

In 1964 a production plant was opened in Santa Maria di Sala, in the Venice Province; afterwards the majority of the production was moved to Longarone production plant, in the Belluno Province, and in 1977 the headquarters was moved to Padua. Starting from the 1980's, new production plants were built in Europe and in the rest of the world. In 1980, it acquired Starline Optical Corp (now Safilo USA Inc), commercial company in the US in the glasses industry, which was caring the distribution of Safilo's products since 1962 in the US. It granted the control of one of the biggest commercial companies for eyewear in the Americas.

In 1983, the company, in which 3 sons of Guglielmo already worked, entered a new market segment: the branded glasses. The owned brands nowadays are Safilo, Oxydo, Carrera, Smith Optics and Polaroid.

In the 1987 the company was listed in Milan Stock Exchange, but in 2000, for divergences among the brothers about the business conduction, one of them took over the shares of the other two, generating the obligation of a tender offer, giving the opportunity to the other shareholders to sell at the same price offered to the brothers. In 2001, he took over all the shares of the company with a leveraged buy-out operation, withdrawing it from the capital market. Four years later, in 2005, he relisted the company with a conspicuous debt (about 710 million euros) coming from the past leveraged buy-out.

In 2009 there was a need for a strong recapitalization: that is the moment in which the Dutch investment fund "Hal Investments" became the major shareholder, firstly with the 37.2% and then with the 42.2%. The family share (Vittorio Tabacchi) decreased to a 9%.

The company owns the biggest private collection dedicated to the glasses history, the "Galleria Guglielmo Tabacchi", located in the headquarters building in Padua.

Today Safilo is the second largest glasses manufacturer in the world, in terms of revenues, development, production and distribution of glasses and components. Only the Italian Luxottica have better result in the world. Safilo has more than 7500 employees, more than 1000 of whom are in the corporate headquarters in Padua.

The president of the company is Eugenio Razelli since April 2017 and the CEO is Luisa Delgado since 2013.

The company has 7 production plants around the world, of which 4 in Italy (Santa Maria di Sala (VE), Martignacco (UD), Longarone (BL) and Bergamo (Lenti SRL)), one in Ormož (Slovenia), one in Clearfield, UT, USA and one in Suzhou (China); 3 main distribution centers in Padua, Denver and Hong Kong; and a fully owned distribution network in 40 different countries with more than 100,000 shops (among opticians, optometrists, three distribution chains, ophthalmologists, department stores and specialized sale stores).

The elements that constitute Safilo's competitiveness and distinguish the company in the worldwide eyewear industry are:

- Design excellence, innovation and product quality;
- Extremely prestigious brand portfolio, with a presence in all major segments, such as luxury fashion, contemporary fashion, mass cool, outdoor sports inspired and atelier, both owned and licensed;
- Distributive platform on a global scale;
- Excellent customer service and partnership model.

Safilo is characterized by a wholesale business model which incorporates the entire value chain, from design, innovation and product creation, to global product supply and distribution, brand building and marketing, up to sales.

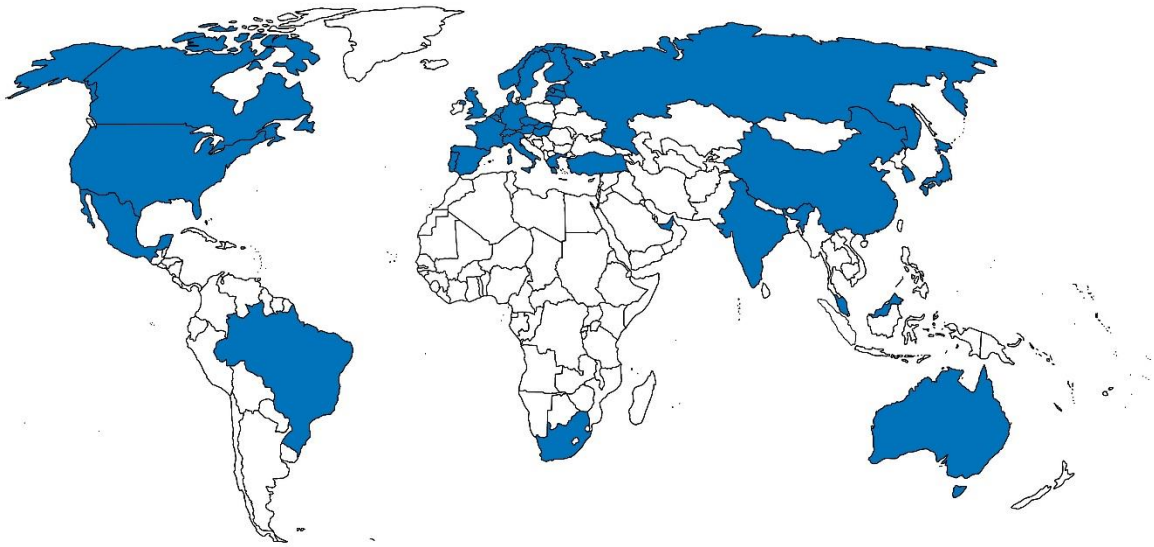
The whole set of brands, owned and licensed, is represented in Figure 14.

The 40 countries in which the company is present either with a commercial, productive or holding subsidiary are shown in Figure 15, while the detailed lists of Subsidiaries located in Italy and in the rest of the world are shown respectively in Table 3 and Table 4, with reference to their specific role (Holding, Commercial, Productive, Services or Retail). Also, we present the same subsidiaries in an ownership structure form in Figure 16.

Figure 14 – List of Safilo's brands

Source: http://investors-en.safilogroup.com/phoenix.zhtml?c=221356&p=irol-irhome

Figure 15 - Worldwide extension of Safilo's Subsidiaries



Source: http://investors-en.safilogroup.com/phoenix.zhtml?c=221356&p=irol-irhome

Table 3 – Italian legal entities (HQ and Subsidiaries)

	Italian Subsidiaries	Location	Continent	Role
1	Safilo S.p.A.	Padua	EU	Prod, Comm
2	Lenti S.r.l.	Bergamo	EU	Prod
3	Safilo Industrial S.r.l.	Padua	EU	Prod

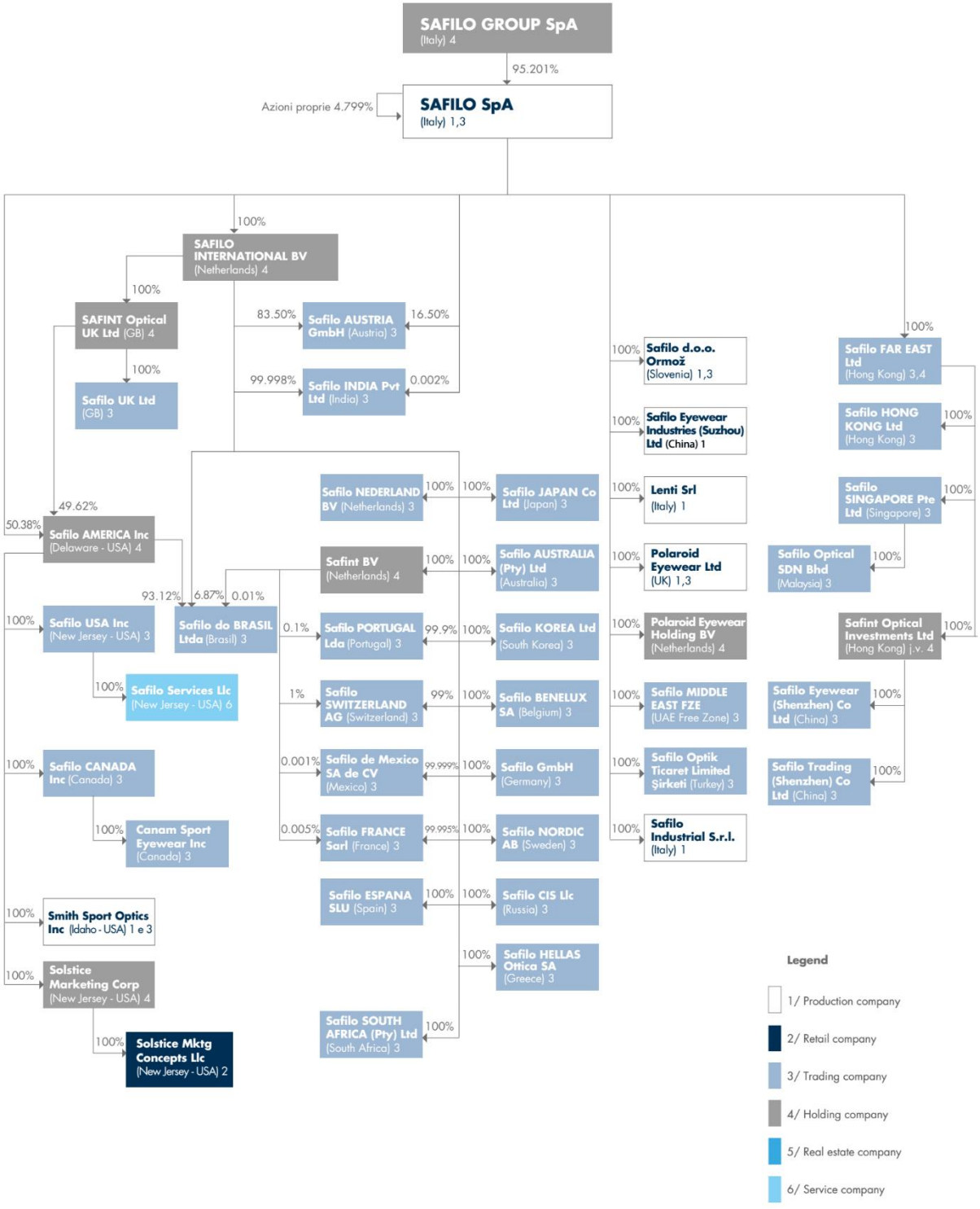
Source: https://aida.bvdinfo.com/version-20171215/home.serv?product=AidaNeo

Table 4 – List of Foreign Subsidiaries

	Foreign Subsidiaries	Location	Continent	Role
1	Safilo International B.V.	Rotterdam (NL)	EU	Hold
2	Safint Optical UK Ltd.	London (GB)	EU	Hold
3	Polaroid Eyewear Holding BV	Amsterdam (NL)	EU	Hold
4	Safint B.V.	Rotterdam (NL)	EU	Hold
5	Safilo America Inc.	Delaware (USA)	AMERICAs	Hold
6	Solstice Marketing Corp.	Delaware (USA)	AMERICAs	Hold
7	Safint Optical Investment Ltd	Hong Kong (RC)	ASIA	Hold
8	Safilo Eyewear (Suzhou) Industries Ltd	Suzhou (RC)	ASIA	Prod
9	Safilo Benelux S.A.	Zaventem (B)	EU	Comm
10	Safilo Gmbh	Cologne (D)	EU	Comm
11	Safilo Nordic AB	Taby (S)	EU	Comm
12	Safilo France S.a.r.l.	Paris (F)	EU	Comm
13	Safilo UK Ltd.	London (GB)	EU	Comm
14	Safilo Hellas Ottica S.a.	Athens (GR)	EU	Comm
15	Safilo Nederland B.V.	Bilthoven (NL)	EU	Comm
16	Safilo Austria Gmbh	Traun (A)	EU	Comm
17	Safilo Switzerland AG	Zurich (CH)	EU	Comm
18	Safilo Portugal Lda	Lisboa (P)	EU	Comm
19	Safilo Espana S.L.	Madrid (E)	EU	Comm
20	Safilo CIS - LLC	Moscow (Russia)	EU	Comm
21	Safilo USA Inc.	New Jersey (USA)	AMERICAs	Comm
22	Canam Sport Eyewear Inc.	Montreal (CAN)	AMERICAs	Comm
23	Safilo Do Brasil Ltda	Sao Paulo (BR)	AMERICAs	Comm
24	Safilo Canada Inc.	Montreal (CAN)	AMERICAs	Comm
25	Safilo de Mexico S.A. de C.V.	Distrito Federal (MEX)	AMERICAs	Comm
26	Safilo Japan Co Ltd	Tokyo (J)	ASIA	Comm
27	Safilo Singapore Pte Ltd	Singapore (SGP)	ASIA	Comm
28	Safilo India Pvt. Ltd	Bombay (IND)	ASIA	Comm
29	Safilo Hong-Kong Ltd	Hong Kong (RC)	ASIA	Comm
30	Safilo Optical Sdn Bhd	Kuala Lumpur (MAL)	ASIA	Comm
31	Safilo Korea Ltd	Seoul (K)	ASIA	Comm
32	Safilo Trading Shenzhen Limited	Shenzhen (RC)	ASIA	Comm
33	Safilo Eyewear (Shenzhen) Company Ltd	Shenzhen (RC)	ASIA	Comm
34	Safilo South Africa (Pty) Ltd.	Bryanston (ZA)	AFRICA	Comm
35	Safilo Middle East FZE	Dubai (UAE)	Middle East	Comm
36	Safilo Optik Ticaret Limited Şirketi	Istanbul (TR)	Middle East	Comm
37	Safilo Australia Pty Ltd.	Sydney (AUS)	OCEANIA	Comm
38	Safilo Services LLC	New Jersey (USA)	AMERICAs	Serv
39	Safilo Far East Ltd.	Hong Kong (RC)	ASIA	Comm, Hold
40	Safilo d.o.o. Ormož	Ormož (SLO)	EU	Prod, Comm
41	Polaroid Eyewear Ltd	Dumbarton (UK)	EU	Prod, Comm
42	Smith Sport Optics Inc.	Idaho (USA)	AMERICAs	Prod, Comm
43	Solstice Marketing Concepts LLC	Delaware (USA)	AMERICAs	Retail

Source: https://aida.bvdinfo.com/version-20171215/home.serv?product=AidaNeo

Figure 16 – The Group Structure



Source: http://investors-en.safilogroup.com/phoenix.zhtml?c=221356&p=irol-irhome

3.3 Method

For the wide scope of HQ-subsidiary relationship topic, we thought that an in-depth single-case study on a few selected sub-topics was ideal to better understand internal dynamics affecting MNCs. Very few researches examine deeply the case of a single company as we did in this work. To do so, we chose a successful Italian company, which represent an excellence in its industry, being the second largest producer and distributor of glasses and frames: Safilo Group SpA. Being a worldwide expanded multinational company, present with subsidiaries in 40 countries, Safilo represents a good object of analysis to test what we found examining the literature.

Our purpose is to analyze how a big MNC handles the HQ-subsidiary relationships in such a turbulent environment like the contemporary one, how it faces those changes that characterize the current global business environment and if there is any improvement path or any exemplar practice that Safilo uses that we could mention as a virtuous one.

Our reference in the company was Mr. Guido Roberto Saponaro, Project Manager Officer in the CEO office of the company. Thanks to his position in the company he follows all the projects that the company is pursuing, or is developing for the future, all over the world, and for this reason he often travels in the various subsidiaries worldwide. For this reason, he has been a perfect source of information to us and allowed us to have satisfying and relevant data to test our findings.

We developed the case study in sequential phases. First, we had a general overview of literature on HQ-subsidiary relationship to have an idea of what could have had been the possible evolutions of the work. After had this review and clarified the main relevant topics, we had the first meeting with our reference in the company and discussed with him what were the more interesting topics in the company's point of view and what would have been the information that we could better exploit. Thus, we examined in depth the literature on each of the three topics that we found most relevant in the company's perspective: HQ/RHQ/subsidiary roles, knowledge transfer, and control and autonomy. Finally, with a more detailed knowledge on those topics we returned to the company site with our reference to make a final test on those matters to have the final analysis.

We need to mention the fact that, because of the vastness of the topics, we used wide-spectrum questions that enabled our reference to answer widely and argue, touching various elements to have a more complete view of the company features. By previous authorization, we also recorded our interviews, while taking notes to have the possibility to extract the more information possible from the data.

Our single-case study on Safilo Group gave us the opportunity to treat it as a longitudinal case (Yin 2014), since we could identify three phases of development of HQ-subsidiary asset inside the company along time.

Finally, it is worthy of mention that our case study is shaped as a holistic one (Yin 2014) in the sense that we take as unit of analysis the global nature of the organization as a whole and not different parts of it.

3.4 The Origins: Regional Management as Group of Quasi-Independent Markets

One of the first information given by our reference in the company has been about the earlier stage of the company's organizational structure and direction. "Historically", subsidiary management in Safilo has been characterized by a set of stand-alone companies in the sense that subsidiaries were very little integrated with the headquarters and with the rest of the organization. This lack of integration led the company to a situation in which there were regional centers almost completely autonomous which conducted the business on a regional base without any care of the rest of the world.

The extreme situation was in the Americas, where the regional management center in certain situations was buying components or parts to conduct its local business from some of the Safilo's competitors while the company's plants were producing the same components at low-capacity. In this situation two important harmful drawbacks came into existence: on the one hand, a conspicuous loss of efficiency because of the plants working at low capacity for low demand thus impeding to the company to fully exploit its resources, capital and labor; on the other hand, this effect was more than doubled because of the regional management center buying from competitors, thus favoring rival companies instead of parent group.

The obvious assumption is that there was an extreme lack of communication among the different parts of the organization that led one unit to operate in a way that was creating a threat to the parent company, thus damaging indirectly also itself.

Apart from the lack of communication and integration, that was clearly the main cause of this degenerated situation, another cause may be attributed to the fact that the regional management center of that time that we are considering, so Starline Optical Corp (now Safilo USA Inc), was acquired in 1980 as a commercial and distributor company that already had a strong network in the US. This, jointly with the lack of adequate direction and communication

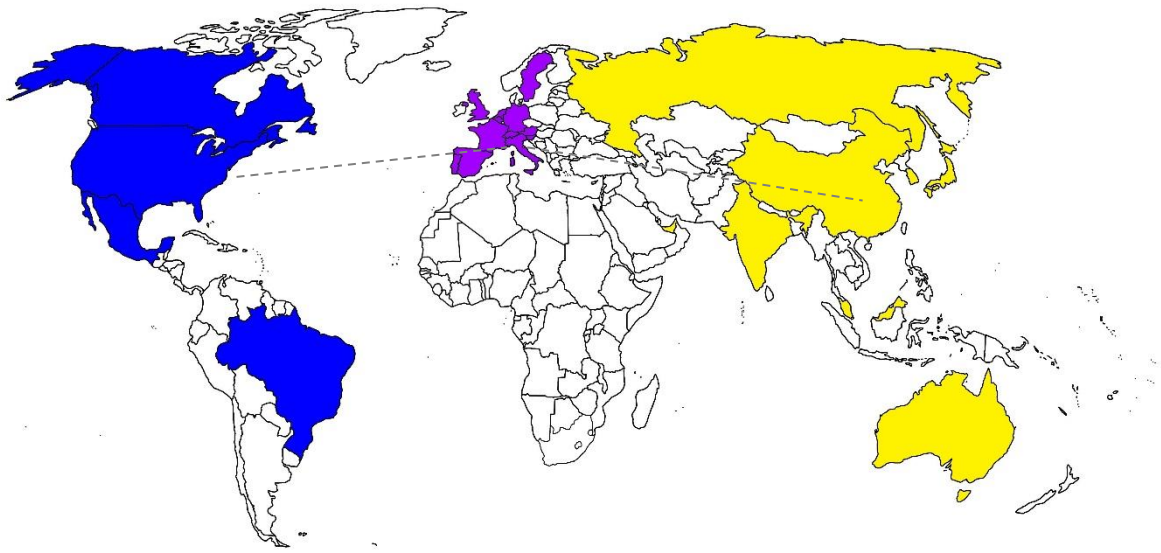
with the parent company, may have led to a dangerous external network building or preservation, including external suppliers used to bypass the rest of the internal network.

On the other side of the globe, in Asia, there was a similar situation, even if less critical. The characteristics of the Asian market were, and actually still are, different from the rest of the world and this situation favored the existence of another autonomous regional headquarter. The Asian market at that time did not require any particular development of commercial capabilities like today and it was just a secondary market, satisfied almost integrally by outdated products of the European or American market. There were no opportunities of further exploitation in that region and no internal threats to the parent company or the organization as a whole. It was simply a separated market with separated dynamics, anyway not controlled by the parent nor by another unit outside the region. Thus, the context of consistent isolation that the Asian regional management was living was not "pathological" as the American one.

The only and limited connections among the different units were some interactions between the heads of the various regional structures and those of the headquarters that anyway happened sporadically and consisted in short travels of the regional heads to the headquarters' site to briefly report the key information to the HQ.

This system may be associated to the Multi-Domestic model suggested by Bartlett and Ghoshal (1989) with regions as domestic dimensions with the peculiarity of a clear separation between the peripherical management and the central one, with very few global processes. As we have seen in the literature review, this is an outmoded and obsolete way of managing an MNC and moreover dangerous and thoughtless in the current global business environment,

Figure 17- Safilo's international organization before 2012



Personal elaboration

characterized by a fast-paced rhythm of change and increasing competitive pressures coming from different players that generate the need of coordination at global level.

Figure 17 shows the weak communication linkages (dashed lines) among the three "blocks" (Europe, Americas and Asia) that ruled the MNC before the year 2012.

3.5 The Middle Phase: A Top-Down Approach to Give Direction

The company then realized that a reconfiguration to give more sense to the MNC business as a whole was needed. It was not sustainable anymore to go on with a similar separated business conduction on regional basis with scarce interactions among the different parts of the worldwide businesses. To face the increasingly changing external environment, the emergence of new players in the industry and new foreign market features, there was an urgent need of integration on a global basis.

Thus, around 2012 the company decided to start operating by corporate functions a process of massive integration ruled by the headquarters and reaching the whole worldwide system. The intention was to create a coordination process at parent level, able to give back to the MNC a sense as a whole system and to exploit better economies of scale and scope when possible with more cooperation among the different units. This was achieved often by the forwarding of manuals containing the new dispositions or by the sending of Italian expatriates from the headquarters. A questionable practice that overlooks the exigencies of the local managers and employees as we saw in the literature review (Conroy and Collins 2016). Manuals are an impersonated tool with very low effectiveness in transferring information if it too complicated or simply long; they overlooked the fact that local managers were anyway busy with their tasks and did not have enough time to look at manuals while working. Our reference told us that the result often was these manuals to be completely ignored by the subsidiary managers and put aside with scarce effect, if any.

Thus, as alternative tool, expatriates were used both in temporary or more long-term assignments. Those were headquarters' managers sent to subsidiaries to correct their behavior according to centrally-developed guidelines. This practice of using expatriates has some drawbacks (Conroy and Collins 2016). Firstly, they know very little the local context and so the risk is that the new directions are not thought considering many local features and this lowers the absorption capacity of the receivers. On the other side, also an attitude effect is present because the recipients of the new instructions perceive the expatriates as hostile

outsiders that want to impose changes to their organization. During this phase in Safilo, these drawbacks were worsened by the fact that at that time there had been very few interactions between subsidiaries and headquarters managers before, thus exacerbating the relationship distances.

In fact, the headquarters was ignoring the actual needs of the local subsidiaries but it wanted just to massively correct their deviated conduct without having a clear idea of the local markets' features, due to the scarce communication until that time.

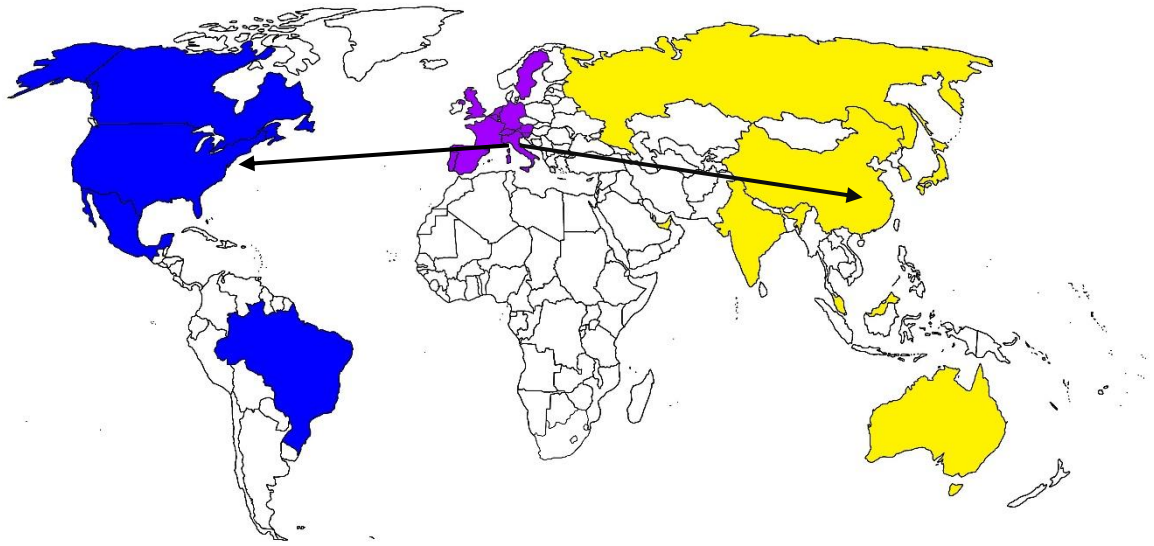
Another aim of this phase was to create a set of global functions ruled at central level by the headquarters and operated by the peripherical units. This part of the plan actually worked better because this system of global functions still exists today, even if with smooth differences and it is a current objective of the company too. Unfortunately, we were not able to know all the functions that are managed as "global" because of the confidentiality of the information, but among these functions we can find for example the brand management and logistics. For these functions, there were generated global procedures to be strictly followed by all the participants but developed at central level. Other functions, especially sales and marketing, were kept more to subsidiaries' management discretion, but still controlled by CHQ according to the centralized view of this period.

The problem of scarce knowledge about local markets and dynamics by the headquarters existed anyway, thus ruining the scale effects that these global procedures may have boosted with a more proper group/network culture. In fact, even if the efficiencies of the central direction of the whole business, for example in terms of fast decision-making, were overcome by the fact that the HQ could not grasp exactly the needs of each local context and thus develop the right strategies for local markets.

It has been a relatively short period characterized by the intensive use of strict top-down guidelines sent by the headquarters to all the other units to infuse the group culture that had been completely overlooked until that time. Other intents were to create linkages among the various units and especially those between headquarters and regional centers, and moreover, to create new figures of leader that would have covered the role of local "outposts". These leaders would have been the "local eyes" of the HQ to monitor what was happening in the subsidiaries and to direct local businesses through centrally-developed guidelines.

Figure 18 shows the one-way hierarchical communicative and directive linkages between the CHQ and the rest of the organization that characterized the second phase of the company.

Figure 18 - Hierarchic-Centralized organization in the middle phase



Personal elaboration

3.6 The Current Phase: Functional Organization, Flexible Arrangement, and Global Systemic Logic

The second phase can be seen as a transition phase to pass from an uncoordinated system to a systemic organizational logic. In the current phase, started in the very last years (around 2015) and still going on Safilo is pursuing the continuation of both the organization per functions, started in the previous one, and the gathering of all the units under a same systemic logic, under same vision and corporate values. All of this with a very flexible structure which is not prevented to change according to the exigencies of the moment. Redefining autonomy mechanisms on a contingency basis is another of the aims, giving more autonomy where it is needed to face the local market.

3.6.1 Functional Organization and Flexible arrangement

As we introduced in the company overview, Safilo is now composed of 47 companies of which 4 in Italy and 43 abroad. At organizational level, there is the HQ in Padua, 3 Macro Regional Divisions (North America & Global Sports, Western Europe and Global Accounts,

and Emerging Markets), and 7 sub-regional divisions (Asia-Pacific, Cina, North America, Latin America, Western Europe, Central Eastern Europe and IMEA[6]).

An important reorganization of the Italian companies happened in January 2017 when Safilo Industrial SpA was created. From that date the Italian companies have been: Safilo Group SpA, which is the holding of the group and thus it has corporate functions serving the whole group; Safilo SpA, which is in charge of working on the functions individuated as Global ones by the company, such as Brand and License Management, Design and Product Development, IT and Tax and Legal; finally Safilo Industrial srl which gathers all the Italian production plants of the company (Martignacco, Santa Maria di Sala and Longarone). This is a clear sign of commitment to the functional organization of the company.

Functions are divided into 3 big groups: Production, Global Functions and Commercial functions. The mentioned set of global functions are managed centrally and in a top-down approach. No actions can be made by subsidiaries' or regional HQs' managers in these functions even if there are interactions and consultations to equilibrate the various relationships and integrate subsidiary exigencies in the global system.

For these functions, projects are developed on annual basis at HQ-level and spread through "hierarchical" lines until the most peripherical units. These projects are created through tools called "targets and choices" ideated in heterogeneous teams in the headquarters and constitutes the Global Strategic Plan of the Group for the current year both on a functional basis and on a geographical basis. This should not to be confused with a matrix approach because it is not the case in which each target needs necessarily to be developed along both dimensions. The authorities dedicated to this task are called Global Leadership Team (GLT) and Extended Global Leadership Team (EGLT) that we will better analyze in this work later. After being developed at corporate level, those targets are spread through the levels of the organization passing through the regional HQ and then to lower-level subsidiaries.

This is a general scheme that has some exceptions when the situation requires it. For example, even if Brand Management is a global function, there are exceptions where there are people working on it even in peripherical units sometimes. That is the case of particular brands, such as Smith, Saks Fifth Avenue and Chesterfield, that need a local approach to brand management. Those are strong and famous brands that are sold only in the American market, thus generating the need of separate Brand management: it would have no sense to work on brand building in Europe if they are made just for the American market. In this case the Brand

[6] India, Middle East and Africa

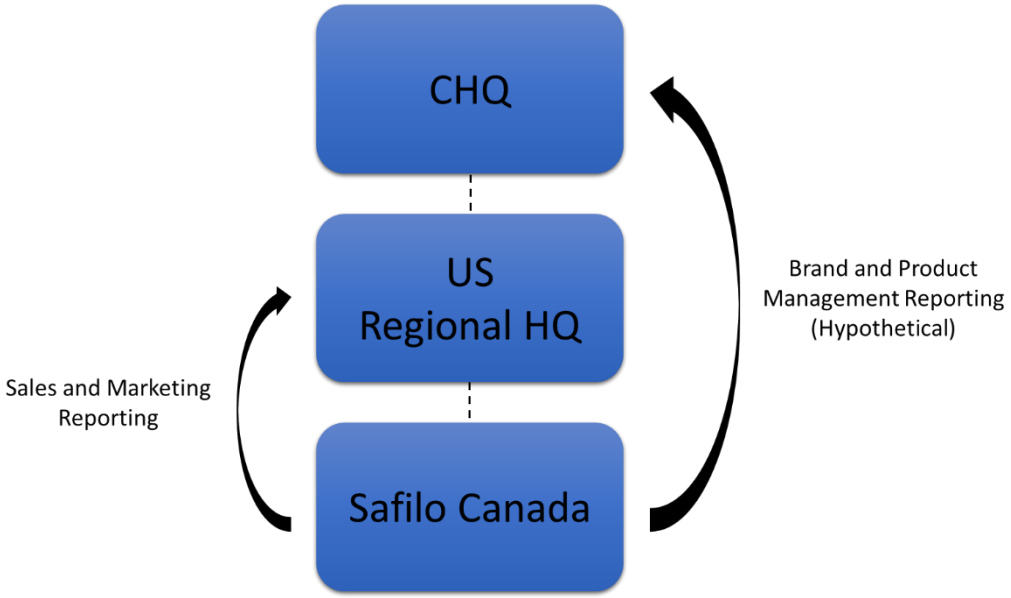
Management for those brands is completely autonomous and regional even if the function is conceived like global.

Another example is the Asian market: even if there are no specific brands for that market, it requires a completely different approach because of different customer preferences or facial shape, for example, that generate the need of a local Product Development department even if this function is considered as Global. This is an important sign of flexible arrangement of the company that is adapted to the situation each time that is convenient.

The most autonomous and decentralized function is the commercial one, as we may expect, which is left to the complete autonomy of the subsidiaries or the regional HQ. Often this function needs support functions that are provided by the HQ or support functions that are needed at local level. Local-level support functions are for example the Sales Delivery, Sales Operations and Trade Marketing (that provides all the support to the selling processes) and those are normally located alongside the commercial centers and thus at local level. Trade marketing, in particular, has a central office in Padua with a coordination function and provides materials to the commercial units jointly with logistical planning. Customer relations are instead treated only at local level.

Despite the sharp separation of functions between global and local ones we see that there are lots of intersections between them. The basic rule is that for global functions the veto decision is up to the headquarters while for commercial functions the autonomy is at local or regional level, with headquarters setting just the guiding principles. Anyway, there are different dependency levels in the sense that one subsidiary, let's say Safilo Canada, may report to the American regional HQ for some issues (like sales and marketing) while it may directly report to the CHQ for other issues (like brand or product matters), as shown in Figure 19. This accelerates the decisional process and prevent information bottlenecks at regional HQ level. Another important theme is that of the decision-making power and operational autonomy of subsidiaries. Here the general parameter is again the flexibility and the contingent adaptation, always with a functional approach. If we consider Marketing as an example, general guidelines are developed at central level; thus, there is a stricter alignment with those guidelines at Italian/European level, because of the affinity of the European markets with the Italian one (where the HQ is); while for completely different markets, like the emergent ones or the American one, conspicuous more autonomy is left at subsidiary level to better satisfy local needs that the headquarter do not know. This is an approach common to each activity/function: the degree of autonomy depends on the local market features. Another useful example is the Product development. We mentioned it as a Global Function but for peculiarities of some markets there are dislocated centers working on it too. There are design studios in strategic

Figure 19 - Example of double layer of reporting



Personal elaboration

locations where global trends are developed (Padua, Milano, New York, Portland for the sports). Moreover, there is a center in Asia for the development of the Asian products that for facial conformation differences are necessary to be treated apart. Thus, there are collections sold all over the world while others just in the Asian market or in the American one, and the local ones are almost completely developed at local level.

This flexible asset based on functions (most of the which are centralized) prevents the company to come back again in the separated regional blocks configuration without coordination: this is one of the strongest intentions of the Group. It wants to keep solid connections with all the parts of the organization under a systemic logic. To reach this objective, also the Tax and Legal Department is working on reestablishing companies' dependencies aligned to the ownership structure, thing that in this moment is not really achieved because there are dependencies which go above the ownership structure.

3.6.2 GLT and EGLT: an Extended HQ

The Global Leadership Team and the Extended Global Leadership Team are two innovative committees that meet in the headquarters and debate on the guidelines that are to be followed at group level. The first time that these two committees met has been in 2017 so it is a really recent innovation ideated by the top executive management.

The GLT is composed by the 21 top managers (13 different nationalities; 8 Italians and 13 Foreigners) who are appointed by the CEO but not on a discretional basis, instead through a set of common values that are publicly known and largely shared: Leadership Profile and PVPC (Purpose, Values, Principles and Competencies), that we will cover later in this work. The CEO also sits in this "collateral board". The Extended GLT is the GLT augmented with the top levels of each function or regional office. It is composed of about 150 people, 45% of whom are foreigners and 28% are women, and it reaches a lower level of management useful to spread guidelines through all the organization.

Those two committees are the key answer to the Group's need of integration and are ideated to be the most heterogeneous possible, including gender representation, regional representation and functional representation, in order to develop global strategies while caring about the exigencies of the network as a whole.

More than sitting in those two committees, the CEO also attends to some meetings of the foreign units to help, on one hand to develop shared targets and, on the other hand to check that central guidelines are respected. This sends the clear message that the Group really wants to integrate operations and foster cooperation among units and gives a signal of HQ commitment to help subsidiaries when needed. That should not be viewed as a strict centralization aspect because the intent is not to interfere with local operations, that instead are left quite autonomous, but to know at HQ level what is happening peripherally and help in developing the right choices in the group's perspective and better interests.

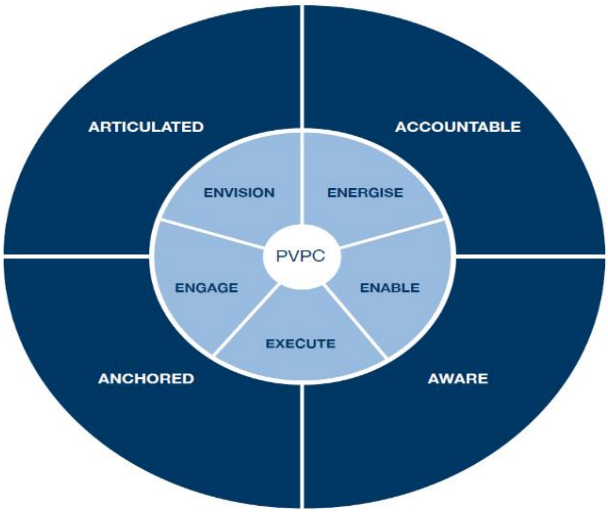
We think that the GLT and EGLT implementation, jointly with the presence of the CEO in some of the local decisional meetings, is a way to pursue the global systemic logic which is the ultimate goal of the company: to create a system of units strongly linked with each other that play together to reach shared goals. In fact, with HQ presence in these important meetings, it shows the Group's sane interest in peripherical issues. The HQ wants to deliver the message to subsidiaries that it is there to help when needed and to give them the resources they need when this is of common interest with the overall group strategy.

3.6.3 Leadership Profile and PVPC

In this part, we will talk about the Leadership Profile and the PVPC developed by Safilo to create a common set of values and incentives to foster the achievement of the same goals at global level even if operating in different contexts.

The Leadership Profile is based on some dimensions, exactly five levers and four pillars that are shown in Figure 20.

Figure 20 - Leadership Profile Dimensions



Source: Safilo Website

The (5E) levers represents how a person should lead, so the practical side of the leadership aspect:

- Envision: is to create and communicate an innovative sustainable and winning strategy aligned with the Company's value system, help to start a trust building process around the need for change and convince your people of the viability of the new vision with a clear and complete picture.
- Engage: a leader should engage its people, to give a chance to all to participate in understanding deeply the vision and shaping the plan, thereby creating ownership of the work, and attachment to the company.
- Energize: is to create an enthusiastic and can-do attitude that makes people believe in what we do and go the extra mile to make it happen;
- Enable: means to translating a vision into an actionable plan, and creating the capability to deliver this plan, coaching people to deliver sustainably, leveraging on their strengths.
- Execute: is about the delivery of results, without fail, by method, prioritizing and setting a clear path with milestones to reach ultimate targets and goals. It means planning and identifying opportunities early, to steer gap filling for timely execution.

The (4A) pillars instead define the individual characteristics of the person to be a leader:

- Accountable: for results, for establishing processes, practices and systems to deliver them;
- Anchored: rooted in a context of coherence that for Safilo is the sum of PVPC and the 2020 Plan;
- Aware: it is the ability to identify, process and comprehend the ccritical information about what is happening around while being detached from personal perceptions, thoughts, feelings and emotions.
- Articulated: able to articulate ideas, point of view and thoughts. Excellent in presenting.

Those parameters have two basic functions. The first one is to select people to be right managers, in order to pick only the ones that are in line with those values and are able to operate in the Group interests; the second is to foster the spreading of those values, jointly with the PVPC, through all the units and not only at HQ level.

Another powerful instrument to achieve the creation of a common culture are the PVPC that, as we saw, is an acronym for Purpose, Values, Principles and Competencies.

Safilo's purpose is to be the globally leading Italian eyewear creator and trusted partner, Brand led and Design inspired. To create innovative eyewear brands firmly rooted in the company's unmatched savoir-faire of craftsmanship and to sell them across the world, bringing people to want to wear them with pride, are the motors of the company. Extremely important is the willingness to cultivate long-term partnerships based on trust to create mutual value and ultimately deliver higher shareholder value.

The values that lead Safilo during the day-by-day operations are Timeless Design, Tradition and Innovation, Excellence and Quality, Entrepreneurship and Courage, Results Today and Tomorrow, and Win-Win Leadership. The principles are Integrity, Respect, Accountability, Simplicity, Interdependence and Sustainability.

Finally, the Competencies are:

- Master Our Crafts
- Inspire Trust
- Deliver with Others
- Create the Future.

For each competency, there is then a set of guidelines to better clarify what are the intents of the company and what are the expected behaviors. We now mentioned those values to show how the company is committed to the creation of a common culture, to be shared by each participant and even external collaborator sometimes, like trust for example. These are all

values in line with the idea of a Globally Networked Organization, connected by strong linkages based on trusted and honest communication.

3.6.4 The Importance of Knowledge in Safilo Group's business

As we saw with the PVPC, the knowledge based on the product is the most important and the one to which it is given the most attention by the Group. It constitutes the fulcrum of the competitive advantage against the competitors and the entry barrier for new competitors. This knowledge involves how to do the product, the techniques, the brands, design etc. In the current global business environment, where new strong competitors appeared it becomes crucial to protect this knowledge baggage but also to deliver it to new employees and managers fast and efficiently.

Safilo implemented and is implementing some tools with these aims. The first we may mention is the Product School which is a 3-year apprenticeship in which five to ten people are recruited and trained. The first year is more educational and the other two gradually more practical. At the end of this program the resources are well trained and are sent to the function that they have been taught: Product Development, Production, Design etc. Arrived at the third edition this year, the project aims to deliver to Safilo's future generations the critique knowledge relative to those functions that are more difficult to preserve and to transfer.

Another interesting tool to preserve and transfer crucial knowledge is the fact that some "veterans" of the company, already retired, that own impressive knowledge are used for external consultancies to transfer this know-how to other employees.

Knowledge is located where it is needed; since not all the plants produce the same materials or products, and innovations may be realized in one place only, there's the need of transfer whenever that innovation is useful in other parts of the company. R&D has two big branches: Product and Processes (industrial). The first involves materials, colors, trends but even the development of completely new products, like the Smith Lowdown[7]. In the case of new product creations, the company may work in partnership with external players, like in the case of Smith Lowdown, where both give mutual advantages in the process of research: in this case the external partner provides the knowledge on electronics and software, while Safilo the knowledge on the glasses. Product R&D is located mostly in the HQ, with some exceptions for

[7] **Smith Lowdown** are the first glasses to fully incorporate brain-sensing technology that measure brain waves to give to the customer a feedback on brain activity and helps the brain in its cognitive performances. They are connected to an App which collects and display data to personalize cognitive training. This product's peculiarity is the fact that it is the first in the world in which the technology is completely incorporated avoiding the loss of appeal because of external elements that ruins the glasses' design.

products intended for local markets only, while process R&D is located in each plant to allow that at each new product's launch the processes follow a fast adaptation to it and to allow the feasibility test on a procedural point of view.

Safilo is pursuing also a massive internalization of the production: it wants to pass from a 30% produced inside and 70% taken from outside to the reverse proposition, and now it is at half of the process. To do so it has been necessary to transfer much know-how from some plants to others and this happened in various forms. An example is the transfer of technical knowledge through travels of people, like when a team of Chinese employees went to the Ormoz plant in Slovenia to learn about the Optyl, and specific competences on processes and materials that they did not have before. Sometimes the transfer of knowledge involves physical investments to adapt the plants to new technologies (hard knowledge) while other times it involves soft knowledge. In the second case, often the transfer is achieved through the temporary transfer of people, with the creation of teams with persons from different places, or sometimes with the permanent transfer of people (expatriates).

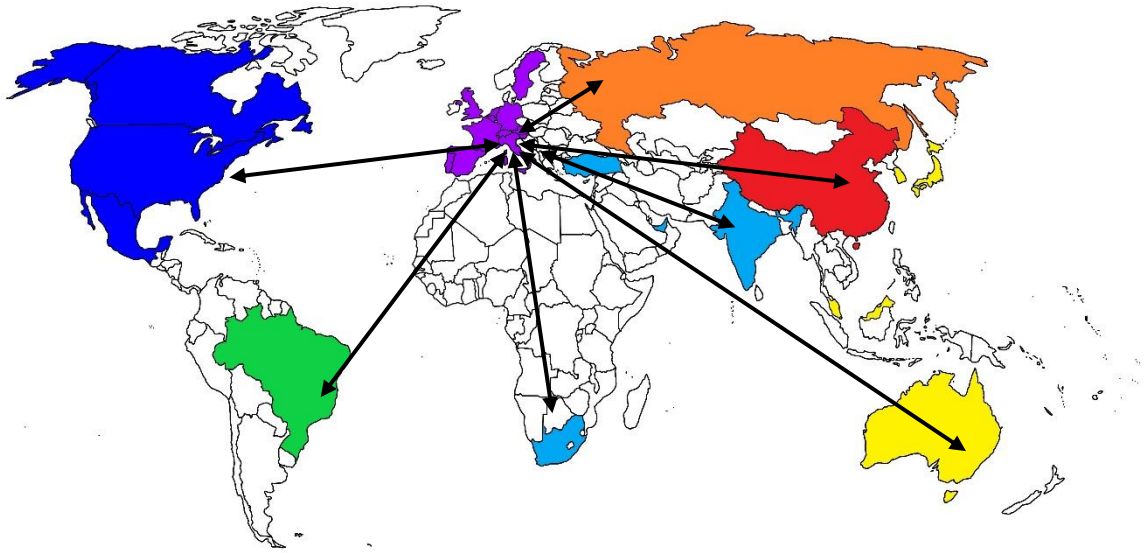
Safilo's priority on knowledge today is to create more competent Regional HQs, but especially the CHQ. The current problem, as it has always been until now is that many of the people who work on Global Functions in the HQ never worked outside of the Paduan site. This is not necessarily a limit per se but it becomes really harmful when the HQ wants to transfer something to subsidiaries without any knowledge of the local contexts, local dynamics, or any way of working or of interacting that is peculiar of a specific cultural environment. Thus, Safilo is trying to foster HQ-Subsidiary exchanges to improve those transversal skills, not only sending people out of the HQ to subsidiaries but also the opposite. This because it is extremely important that, even for local functions like Marketing and Sales, there are people in the HQ who know local dynamics to better develop guidelines more coherent. Not long ago, HQ sent directives in big written documents very detailed and complex to subsidiaries but this often turned into these documents to be ignored and put aside, this inefficiency was rooted in the lack of coherence with local features and the fact that for the operative roles of subsidiaries the transfer by paper documents is very difficult to give results.

With reference to Marketing and Sales knowledge there are two different type of knowledge that exist. The first is extremely "local" and is represented by customer relationship and the relation with the local market; thus, it can be left in the area of interest without being transferred back to the HQ. The second is has a more "managerial" nature and goes beyond the local aspect and it may be located also at Regional HQ level or even at CHQ level. For this second slice of knowledge the GLT and EGLT meetings cover a very important role, being an opportunity to confront and define shared goals and targets at global level while caring about

local features. Inter-functional projects exist that connect diverse functions and allow knowledge transfer among units, geographical areas and functions. EGLT constitutes a committee in which representatives from all over the world meet two or three times a year in Padua to debate and to share information and opinions, to prevent the loss of the company's global vision, to gather feedbacks on the products, to create linkages between Marketing and Production and to see what comes out from this debate about the future developments.

Figure 21 shows the seven regional divisions (in different colors) of the current company's international organization connected to the CHQ by double-way solid linkages of communication and coordination.

Figure 21 - Current HQ-Subsidiary relationships in Safilo



Personal elaboration

3.7 Discussion

3.7.1 From Decentralization, through Centralization, to Global Systemic Logic: an unusual Path of International Organization

The first remarkable finding of this work is the fact that Safilo followed a path which is almost contrary to that of the literature. With our chronological review of the literature, we found that for each of the topics individuated, the common trend was the shift from a HQ-driven and hierarchical approach to a more subsidiary-driven and heterarchial one. In our case study, instead there is a clear start with an extremely decentralized setting, passing to a strong but short

centralization phase to end with the current situation of coordination under a common set of values developed at central level but caring peripherical and local needs.

With reference to the organizational design and control structure, the research was focused in finding a sort of "best scheme" to organize the MNC and the control structure was intended tighter in the past and progressively more subtle and informal over time. Safilo showed that instead, it started with a very loose control system in which Regional Management Centers had almost complete autonomy without any particular organizational scheme apart from the ownership one, then passed through a short period (3 years more or less) of centralization-like management, to end in the current phase in which a functional organization has been implemented, with a system of coordination more than control which is more in line with current organizational theory.

For what concerns the home/host local context, at the beginning of our period of analysis literature showed a quite ethnocentric approach to subsidiary management, with the use of home country practices even in far located subsidiaries and a scarce interest in the local contexts in terms of organizational practices, culture and dynamics. Safilo instead followed a more decentralized approach leaving that regional management cared about the management of local subsidiaries in almost all aspects, thus reducing the "cultural shock" as if the HQ managed directly local subsidiaries. With time, the literature was progressively attracted by the local contexts' features to improve organizational practices and thus the overall business effectiveness. Even if just in the last few years, Safilo started to care a lot about local contexts too, in order to better comprehend local dynamics and better execute coordination and guidance of the local subsidiaries. Now with the implementation of the international committees, like the GLT and the EGLT, there is a high level of "local learning" by the company with the aim of creating a global systemic logic.

With reference to subsidiary roles and regional headquarters, Safilo had since the beginning a decentralized approach. But the absence of relevant connections among different units turned the high subsidiaries' autonomy into a negative aspect, because of the impossibility to give real value to them in a global corporate point of view. Thus, Safilo's subsidiary management followed a decentralized approach, but only on an operational way: no added value was being given to peripherical units, nor to regional HQs. They only produced good local results based on their stand-alone abilities and on the quality of the company's products which were among the best in circulation. It followed a short period of centralization management with strong influences from the HQ, to arrive to the current period in which subsidiary management is adhering more to literature debate. Now subsidiary and regional management is based on a network structure, where connections and linkages are cared by central

management and are incentivized through the whole organization. Results are intended in a global logic and each unit is incentivized to act in the network name and not as an individual business.

It is maybe about the knowledge transfer that we received the most peculiar results from the company. While literature followed the straightest path from a centralized and top-down approach, where information was spread out from the HQ through mostly one-way lines to the local units, to a network-like approach, where flows of information follow different double-way lines (vertical, horizontal and sometimes diagonal), Safilo started with an almost complete absence of communication flows in the earliest phase. The only information that was carried occasionally was composed of the periodical reports of the regional HQ to the CHQ, without any real active interaction between the participants of the transfer. Anyway, we must say that Safilo then passed through a short but intense phase of centralized knowledge/information management where strict directives were sent by the headquarters to subsidiaries to align their behaviors to a common point of view, to finally arrive in the current phase where double-way flows are established and fostered by the HQ among all the units. With the implementation of many tools such as the GLT and the EGLT, and the development of a clear set of values and a leadership profile, the knowledge covers now an important role in the company's everyday life. Apart from the product and processes' knowledge, that are the first for importance, the top management puts among the top priorities of the current strategy the goal to make the HQ extremely aware about local dynamics. There is the willing to make it know what and how things happen in each part of the MNC, in order to turn shaping an overall strategy into an easier and more efficient task, thus generating a better competitiveness against the turbulent and challenging environment that characterizes current international business.

Finally, in terms of expatriates' management, unfortunately we were not able to collect enough information about the earliest phase of the company. Though, we can suppose from the information received that in that phase transfers of people were not so common: this would be in line with the scarce knowledge transfer that happened and the extremely decentralized and separated management that the company was having indicatively before 2012. A massive use of expatriates has been used during the short centralization phase to infuse in the subsidiaries a common point of view that cared about the existence of a global overall strategy and to monitor what was going on at local level; this opposed to the previous fragmented set of regional strategies that were not able to interact efficiently with each other, thus preventing the creation of group synergies. In this way, though, expatriates use is found to have negative effects by research's empirical results (Galbraith and Edstrom 1976) because of the authoritarian impact that HQ expatriates would likely have on subsidiaries' employees and the consequential

automatic opposition to any "outsider's command". Especially in Safilo's situation, where a considerable separation of units existed, a massive use of HQ strong directives, mixed with the use of expatriates as "additional" managers at subsidiary level, generated a remarkable discontent among local employees and managers. It is in the current phase that Safilo is implementing a global approach to HRM, as suggested by current literature, to generate flows of human resources in parallel of knowledge flows. Nowadays human resources transfers are exploited for different tasks and not only to diffuse HQ guidelines. Other tasks are to nurture and maintain the global company culture and to use local information to shape a global corporate strategy; but what our reference told to be the most important is to improve HQ knowledge and competence about local issues. The top management identified as one of the biggest weaknesses of the group the fact of knowing very little at HQ level about local dynamics and contexts, preventing its ability to run efficiently the group's business with a global approach and to create a sustainable competitive advantage against competitors. In pursuing this goal of creating a more "globally competent" HQ, transfers of people in both ways (HQ to subsidiaries and the reverse) are quite frequent and incentivized by top management.

Even if we can find many negative aspects of the middle phase (centralization), such as inefficient diffusion of directives and unmatched HQ's and subsidiaries' interests in local business management, it is important to mention that a direct shift from the first phase (extreme decentralization) to the third one (local autonomy with global strategy) could not happen because of the absence of a common culture, company vision and mission, and shared values that are needed by each participant of the company life to allow a really coordinated strategy.

The motives for the almost complete disinterest in the practical execution of local operations by the HQ in the first phase is unknown. We can only suppose that the company overlooked the importance of caring about local contexts due to the success it was having through the top quality of its products that alone granted the massive growth of the company worldwide. It just expanded its market reach from time to time until it reached almost the whole globe and its products' quality was enough to allow it to prosper. When the competitive pressure, coming from new strong players in the industry, started to corrode its prosperity and generated conspicuous threats to its business, top management realized that it was time to start to change something and to initiate a reunification of local strategies under a common interest and point of view.

3.7.2 The Principles of Safilo's current International Organization

To have an overview of the principles that are leading Safilo business conduct nowadays we need to mention:

- Organizational flexibility;
- Functional and regional organization;
- Creating a more competent and locally responsive HQ;
- Organizational lightening (especially at RHQs' level);
- Building connections and relationships among dispersed units (avoiding separated blocks);
- The importance of knowledge and its transfer;
- Nurturing and maintaining a group global culture.

Organizational Flexibility

According to the current research's disinterest in strict organizational structures identified, among the others by Kostova et al. (2016), Safilo is now committed to the adoption of a flexible organizational structure, both at group level and at single units' level. This means that, not a single structural link among units is supposed to remain fixed forever. Every structural relation at group level is thought to be responsive to the local and global pressures of the moment and thus it may be changed if future events will require it. As an example, now Safilo's American and European units are way more structured than the Asian ones, with more clear roles and division of tasks. This because the first two markets are mature and thus less unstable while the Asian market is an emerging one and thus characterized by highly uncertain developments. This is in line with the works of Mudambi and Pedersen (2007) and of Mudambi et al. (2014a), which argue that subsidiary's power, and thus autonomy, comes from its' resources and capabilities importance at group level: in this moment, the Asian market is an inestimable resource to many industries due to its growth potential, and the glasses industry is not an exception; thus, developing capable subsidiaries in the Asian territory is crucial to try to succeed in competition in that place, that is one reason to left them more autonomy. Also, subsidiaries' power may come from their embeddedness in the local environment mixed with the importance of local market information for the MNC (Andersson et al. 2007): that is another reason for Safilo to let Asian subsidiaries way more discretion and autonomy in running their businesses; in fact, Safilo's HQ on one hand does not know well the Asian context and dynamics, and on the other hand its competitiveness is strictly dependent from the Asian market which is the current "gold rush" of many industries. Anyway, it is not excluded for Safilo to

structure even the Asian units in future if the situation will require it, when it will be more knowledgeable about local features and the market will become more stable. At unit level this flexibility means that neither units' internal structures nor their tasks are supposed to remain rigid over time: they can change according to external contingencies.

Functional and Regional Organization, and Organizational Lightening

The second important goal of Safilo's current strategy is to follow both a functional and a regional organization. As we saw, functions are divided into global and not-global ones. Global functions are directed by the HQ with the development of guidelines that anyway care about both local and global needs. For this task it is extremely important for the HQ to be extremely competent and knowledgeable: that is why Safilo is putting significant effort in augmenting its HQ's knowledge about what is going on in its subsidiaries and giving them the right supportive attention to foster their initiative-taking (Ambos and Birkinshaw 2010; Bouquet and Birkinshaw 2008). Functions that are considered not-global are instead left to local subsidiaries' discretion, even if they are required to act in the name of the overall group's interests. Thus, even if there are two different centers of decision-making, a central one and a peripherical one, both care about the overall business of the group, with the aim of enhancing synergies and the competitiveness of the group.

Safilo is also implementing a regional strategy in line with most of the literature on this topic that we analyzed, like Amann et al. (2014). The company divide its global business in 3 clusters (Amann et al. 2014) which are North America and Global Sport, Europe and Global Accounts, and Emerging Markets, and in 7 sub-regional divisions (Asia-Pacific, Cina, North America, Latin America, Western Europe, Central Eastern Europe and IMEA) following a multi-level system of regional management (Piekkari et al. 2010) and allowing different kinds of RHQ to exist: more structured and top-down managed ones like the North American one, and more loosely administrated and bottom-up influencing ones like those in the emerging markets. Thus, the above-mentioned flexibility is also pursued in the functional and regional management in the sense that functions may change their nature during time because of contingencies and regional HQs may acquire different tasks and may also change during time, if the local market requires it. Moreover, as we mentioned, flexibility involves also different approaches in different places. In particular, the North American and European units are managed in a more top-down approach, including stronger influences of the HQ's decisions on local issues, while in the emerging markets, extremely different from the HQ's one, it recognizes the need of leaving way more discretion to local units in order to face different

external contingencies and different local dynamics that are unknown by the HQ, thus having a more bottom-up approach. The tasks that Safilo gives to its RHQs are in line with Asakawa and Lehrer (2003), which defines them as relays, meaning that they bridge the gap between CHQ and peripherical units and help these last ones to scout and exploit new opportunities while fostering the exchange of information and relevant knowledge between them and the HQ. This helps also the HQ to acquire relevant knowledge about local dynamics, extremely important as we saw. The task of being a good intermediary for information exchange between CHQ and local subsidiaries comes from the fact that RHQs are uniquely embedded in both their local environments, in their controlled subsidiaries' contexts and in the parent's one (Kahari and Piekkari 2015). Another convergence with literature is about the importance given by Safilo's CHQ to RHQs in their potential of helping the parent to shape global strategy: RHQs' intervention and active participation in strategy planning is fostered to avoid the multi-domestic and separated management that happened in the past (Mahnke et al. 2012).

Moreover, Safilo is committed to an "organizational lightening", meaning that it wants to remove functions or tasks from places where they are not really needed or they are redundant, thus reducing the misuse of resources and improving their efficiency focusing their use only in the essential tasks. This is way more intensive at RHQ level where the regional functions are "skimmed" to being a bridge between subsidiaries and CHQ, helping the processing of information and the effective transfer of it, and helping in building connections and relationships among dispersed units.

The Importance of Knowledge and its Transfer

As we mentioned in the previous chapters, knowledge involves different shades of meanings: it stretches from technical and practical knowledge (i.e. product or process innovations) to market knowledge, and it may also include other kind of information, such as organizational practices and cultural features of a particular environment. Most of the literature refers to knowledge in the same way as we do because the processes involved in the transfer are quite the same for each of the mentioned kinds of knowledge. Apart from its definition, knowledge is considered, by both literature and Safilo's current management, as the fulcrum of a company's competitive advantage (Williams and Lee 2016; Ciabuschi et al. 2010). Safilo understood that the HQ covers an important role in fostering knowledge transfers through the whole organization (Ciabuschi et al. 2010) and that subsidiaries' autonomy is positively related to their contributory role in knowledge creation and transfer (Ambos and Birkinshaw 2010); moreover, HQ has the important role of creating an internal market of resources (physical or

financial) to foster knowledge creation and transfer (Dellestrand and Kappen 2011), and centralization has negative effects on both effectiveness and efficiency of knowledge transfer (Ciabuschi et al. 2011a) reducing subsidiary initiative-taking in knowledge issues (Mudambi and Navarra 2004); finally, knowledge from both higher level units and from peer units has positive effects on performance (Li and Lee 2015), and subsidiaries' absorptive capacity, so the capacity to process and absorb correctly the information received, is positively affected by decentralization, normative integration and innovative culture (Schleimer and Pedersen 2013, Minbaeva et al. 2014), where normative integration is the socialization of different levels/units' managers into a set of shared goals, values and beliefs that shape their perspectives and behavior (Rodrigues 1995). We found all of these concepts in the current strategy of the Safilo Group that, also through the implementation of tools such as the international committees and the HQ's supportive attention to local issues, is fostering knowledge transfers in both traditional way (from HQ to subsidiaries), lateral way (among peer subsidiaries) and reverse way (from subsidiaries to the HQ).

Another important aspect of knowledge is that of knowing local features of foreign operations. Most of the literature that we analyzed presumes the HQ as knowledgeable about local dynamics but we found that in the reality it is very likely to find HQs that overlook peripherical contexts and practices. There is the need for the HQ to understand that it cannot really be a good leader for its foreign units if it does not know what is happening in their environments. Safilo overcame this step and now is working on turning the HQ to be a very knowledgeable unit in order to develop the right global directives and the right incentives for particular local units. In this view Safilo is strongly committing itself in knowledge acquisition from dispersed units also through the use of special committees (GLT and EGLT), composed by managers from all over the world, that foster information exchange and signals HQ's commitment in developing positive relationships with its subsidiaries and with their local partners.

The Virtual Integration of Dispersed Units under Common Values and Culture

The company is involved in building strong double-way connections among the diverse units, through both vertical "hierarchical" lines, lateral relationships among same-level subsidiaries, and sometimes transversal linkages (i.e. involving both hierarchical and regional distance). Even in pursuing this goal the GLT and the EGLT carry out an essential task, jointly with the participation of the CEO in some of the important local subsidiaries' meetings and the use of expatriates. It is worthy of mention the fact that expatriates use is now well different

from that of the past. In fact, now transfers of people are used in both ways (not only from the HQ to the subsidiaries), and the reverse transfer from distant subsidiaries to the CHQ is becoming always more frequent to augment its knowledge about local environments and to become more competent in global strategy shaping. The same tools developed to incentivize knowledge transfer, jointly with the creation of a common set of values (PVPC and Leadership Profile), are also the base for the creation and the maintainance of a group culture able to foster synergies among distant units and boost efficiencies at group level, and to increase the ability to shape a coherent global strategy able to improve competitive advantage against competitors. The implementation and the diffusion of the PVPC and the Leadership profile are the result of the process, started with the above-mentioned phase of centralization and still going, to create a set of common values and ideals that internal participants of the company life should know and share to generate the *incentivized voluntarism* to act in the company's interest while perceiving it in line with their own interests too; this is supported by the relatively high *decision-making autonomy* and *self-organizing principle* left to subsidiaries, and it flows into the so-called *virtual integration* with strategic purpose of the whole system (Tallman and Koza 2016). *Virtual Integration* is the expected outcome of the strategic animation process and proposes that proper incentive structures mixed with strong information and communication systems can be used to foster an internal quasi-market that put together all the internal units of the MNC and also their external alliances into a vertical supply chain avoiding the limitations of a traditional control structure and the fear of unreliable suppliers.

An overall group culture and common values also help the company to choose new employees and managers: in fact, using those values as one of the parameters to select new contributors of the company or better, selecting people that already share those values and principles, helps in creating a solid body of workers with the same objectives of the company, helping them to work together in the pursuit of the company's prosperity.

The Importance of the HQ

Creating a more competent and local responsive HQ, able to shape an efficient competitive strategy, is the fundamental goal of Safilo's current strategy. There is a significant convergence between the company's current strategy and the current literature on HQ's role and tasks. According to Tallman and Koza (2010), with the introduction of the network multinational and the heterarchical (Hedlund 1986) concepts, the HQ was left with the main task of "knowledge webmaster", establishing the rules of exchange among the diverse members of the network, but having a residual role in vetoing on the content of the knowledge moving

around the organization (Tallman and Koza 2010). Anyway, it still keeps the important strategic role of establishing and keeping the global aspect of corporate strategy and other tasks to run the global business. The *strategic assembly*, thus the ability to access geographic/product markets or market segments, managerial capabilities, and technologies and brands in the meanwhile, must be reached through "command without control" (Tallman and Koza 2010), thus caring close interactions among different players in the organization in a flexible and responsive way. HQ has also the task of *animating* the self-renewal of its units trying to set an internal rate of renewal higher than the external one to anticipate innovation and external contingencies. Both *exploiting* and *exploring* new resources and opportunities through the whole network is another important task to be carried out by the HQ: this also means to help the units of the network to grasp new opportunities and incentivize subsidiaries' entrepreneurial capabilities, giving autonomy as much as possible to them and the right amount of resources. *Communication* plays a crucial role in modern MNCs; thus, HQ should foster efficient information and knowledge transfers through the whole network but avoiding useless information to be transferred because this diminishes overall efficiency. HQ existence can be motivated with efficiency reasons, the ability to initiate the combinations of capabilities and resources, and to start and foster subsidiary activity with the provision of knowledge and resources allowing the double-way exchange from any part of the organization (Ciabuschi et al. 2012a). It is also true that HQ functions can and should be delegated to different players, RHQs or even subsidiaries, when it is necessary to lighten the HQ or because particular local contingencies require it (Ciabuschi et al. 2012a); this because sometimes local units may be better aware of the right actions to face local contingencies and this superiority may be hard to transfer back to the HQ: in this case delegation reduces the overall costs of decision-making processes within the MNC (Foss et al. 2012). We find all these concepts in Safilo's current strategy and in the new tools developed to face future challenges of the MNC. With reference to control, in the modern MNC there is the need to create smoother mechanisms to monitor subsidiaries based on socialization, thus the simultaneous creation of shared values and expectations that promote joint-like decision making (Ambos and Schlegelmilch 2007). Again, Safilo is pursuing control practices in line with the recent literature we reviewed.

3.8 Conclusion

In this chapter the collected information about the Safilo case was reported following a scheme similar to the literature review presented in the previous two chapters because we found many interesting similarities between this information and the various topics that were previously treated. Indeed, the aim of this chapter was to compare the path followed by the literature with that followed by the company.

The first interesting finding of this work is that Safilo followed a path really distant from that of the literature in its earliest phase. We discovered that, while the common starting situation for MNCs, described by the literature, is to have a strong centralized and hierarchical global management system that over time become always more decentralized, Safilo had an unconventional beginning phase of extreme decentralization with very few interactions among the different units, then passed through a centralization phase before to arrive to the current decentralized but integrated approach. This is an interesting stimulus for further research to deal with MNCs that followed "anomalous" paths with respect to the common ones treated by past literature.

Another interesting finding is related with the new MNC's organizational layout came out in recent years, with sensible shift of power, autonomy and tasks to peripherical units leaving to the HQ the role of "knowledge webmaster", orchestrator and strategic animator, which means to have the important task of fostering and guiding knowledge and information exchange through the network, managing power distributions across the world and constantly shaping a competitive global strategy with the help and the participation of the other units, that should be considered as partners and not as tools. The delegation of power is necessary to "lighten" the HQ but specially to leave to local units the right autonomies to face local contingencies as soon as possible, assumed that they are more prepared to do so. It is also necessary to put constant care in managing the rate of change to create extremely flexible organizational structures and putting into action a leadership based on trust. One of the contemporary MNCs' objective should be working on common values and culture in order to foster an intrinsic system of incentives, instead of an extrinsic one, based on the achievement of the same goals; in this way, no direct forms of control will be needed and everyone will be committed to the overall group's interests while working on personal interests too. Thus, direct control ceases to be necessary and indirect forms of control, based on shared goals and interests, market-like incentives and double-way trust take pivotal role in MNC management.

This study presents some limitations which anyway may represent an input for further research. Firstly, we treated a single case and this prevents our findings to be easily generalized.

This requires more longitudinal works on more companies to have a better understanding of the current dynamics of HQ-subsidiary relationships. Anyway, to go deep enough in our case study we preferred to keep the focus on a single company instead of expanding the study to more organizations.

Second, we developed the case study from the point of view of the HQ, but it may be useful to develop additional researches from the point of view of the subsidiaries, to see if these points of view are effectively coincident, have something in common, or if they are completely different. We expect that, since the aim of the company is that of creating a common culture and a common set of values, the two points of view are in some way coincident or have enough similarities.

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