

# The subsidiary strategising process for a competence-creating role

Subsidiary  
strategising  
process

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459

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## Abstract

**Purpose** – The authors’ contention in this paper is that the expression of subsidiary strategy in IB literature has become fragmented and incomplete. Therefore, this study aims to propose a rethink on how IB scholarship approaches the important issue of subsidiary strategy by holistically examining the discrete and integrated set of activities, choices and decisions that constitute the subsidiary strategy process for, in this context, assuming a competence-creating role within the multinational enterprise (MNE).

**Design/methodology/approach** – A conceptual model is designed to illustrate the holistic process of subsidiary strategy from assigned to assumed role and how a subsidiary can navigate a pathway to elevated performance and survival.

**Findings** – The paper identifies the key integrated elements that constitute a holistic strategic process that can enhance a subsidiary’s standing within the MNE and maximise its survival prospects.

**Research limitations/implications** – Particular focus is placed on subsidiaries that strategise to advance their internal corporate role to competence creator via upgraded knowledge capabilities.

**Originality/value** – This paper offers a roadmap for IB scholars to contribute to a future discourse around the subsidiary strategy process for assuming a competence-creating role.

**Keywords** Subsidiary strategy, Initiatives, Autonomy, Embeddedness, Influence, Process, Knowledge, Capabilities, Survival

**Paper type** Research paper

## Introduction

Multinational enterprises’ (MNEs’) capacity to organise worldwide knowledge across subsidiaries is a compelling source of competitive advantage (Doz *et al.*, 2001). Subsidiaries compete for important roles within the MNE as competence creators that source knowledge to transform into product innovation (Cantwell and Mudambi, 2005; Santangelo, 2012). Competence-creating subsidiaries have built knowledge capabilities that advance their mandated roles (Andrews *et al.*, 2022; Lagerström *et al.*, 2019). While much research has focused on the evolution of subsidiary roles within the MNE, much less attention has been paid in IB literature to the strategising process behind subsidiary role evolution. The strategic apex of subsidiary role evolution is arriving to a status of competence creator



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(Delany, 2000). We propose that subsidiary strategising to become a competence creator involves an integrated set of choices, decisions and activities in a continual process of upgrading of knowledge capabilities for valuable innovation to thrive and survive. The development of valuable product innovation can earn the competence-creating subsidiary an internal status of the highest importance in the MNE situated at the strategic apex, often as a centre of excellence for R&D (Andersson and Forsgren, 2000; Frost *et al.*, 2002; Cantwell and Mudambi, 2005). Consequently, the competence-creating subsidiary strategises to gain distinctive competitive advantage, win contested resources and attain a position of paramount importance above sister subsidiaries within the MNE.

However, rather than delving into the elements and processes of subsidiary strategising, much of IB research restricted its attention to the important yet narrower depiction of typologies and evolutionary roles for the subsidiary (White and Poynter, 1984; Bartlett and Ghoshal, 1986; Papanastassiou and Pearce, 1997; Jarillo and Martinez, 1990; Birkinshaw and Morrison, 1995; Delany, 2000; Cantwell and Mudambi, 2005). Simplex categorisation of role typologies and evolution is not strategy *per se*. Rather, it is the strategy process itself that leads to upgraded subsidiary roles. Even IB research that purported to contribute to theory on subsidiary strategy often exaggerated its extent of impact. Whilst subsidiary strategy incorporates embeddedness, initiatives, autonomy and influence, these are separately incomplete representations of a wider phenomenon. Yet, holistic research on strategy in the subsidiary faded in favour of narrowly discrete or combination studies on how best to optimise embeddedness, pursue initiatives, realise autonomy and gain influence. Albeit highly significant, these elements are merely steppingstones in the overall process of subsidiary strategy. Nevertheless, these discrete elements came to be viewed as quasi subsidiary strategies in themselves rather than, as we suggest, the staging points in a more complete subsidiary strategy. Absent were critical depictions of the entire process of strategy development in the subsidiary that could garner the most elevated of internal roles. We contend in this article that the highest roles result from continually upgraded knowledge capabilities and that the strategic endgame, or vision for a subsidiary is its own survival through prospering over internal competition.

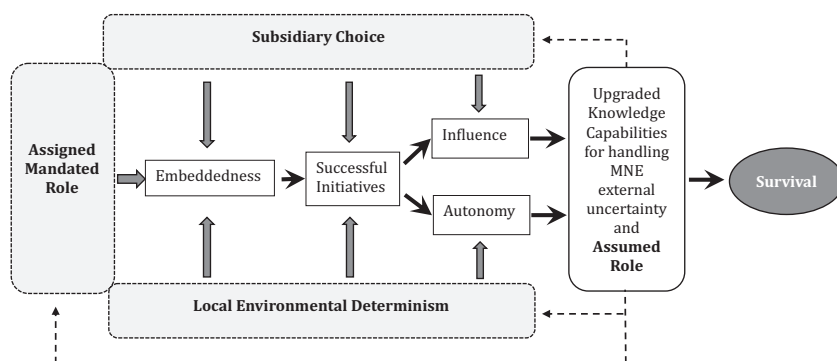
Our contention that the ultimate aim of a subsidiary, as distinct from a conventional business unit is survival, and is derived from a careful examination of the subsidiary performance literature and a clear recognition of the idiosyncratic context of a subsidiary unit. This IB literature illustrates that subsidiary divestments and closures are quite common as MNEs regularly restructure and reconfigure their overseas operations and activities (Ciabuschi *et al.*, 2014; Mata and Freitas, 2012; Berry, 2013; Reilly *et al.*, 2023). Mandate depletion and job losses are the prerogative of HQ and can be at the whim of a new CEO, a consultant's recommendation to restructure or an adverse stock market sentiment. We therefore contend that the subsidiary's distinct situation and context necessitates it having a strategic vision to best maximise its chances of survival. Meyer *et al.* (2020) deliberated on how subsidiary performance tends to be measured in IB research. Profitability and return on assets, they suggest, are problematic, owing primarily to the distorting effects of transfer pricing. In their comprehensive review of articles on subsidiary performance they found that survival is the most common proxy for performance (though they emphasise that an exit may not necessarily be divestment). Much of a subsidiary manager's thinking on competitive advantage and strategic options for superior intra-MNE performance is coloured by this quite idiosyncratic reality under a veritable HQ's "Sword of Damocles". We contend that given this distinctive reality, survival is the ultimate strategic objective for any subsidiary and the outcome, in normal circumstances, of a successful strategy process.

Subsidiary survival, we argue, is accomplished through the development and continual upgrading of knowledge sourcing, absorption and transformation capabilities for valuable innovation that increases a subsidiary's importance within the MNE. This ultimately reduces the likelihood of divestment or closure. Survival as a subsidiary's ultimate strategic intent reflects the subsidiary's unique power-dependency situation with HQ. Given HQ's legitimate ownership rights, absolute existential decisions rest outside the subsidiary. But the subsidiary may have the capacity to shift the power-dependency dial in its favour through delivering valuable innovation for the MNE. Therefore, our motivation in this article is to urge for greater holism in IB research, leading to a more complete version of subsidiary strategy, that integrates the currently disparate elements of subsidiary strategy that deliver such valuable innovation from upgraded knowledge capabilities, thereby maximising survival prospects. We build our contribution around a conceptual model of the strategising process for a subsidiary to reach the internal strategic apex in becoming competence creator.

This perspective article is structured around our conceptual process model as follows. First, we show the start point, or subsidiary's mission, is the assigned mandate from HQ at which point there is clear alignment between HQ and subsidiary strategy. We then describe the stages in the process model that lead to upgraded knowledge capabilities and valuable innovation. In our discussion section, we contend that our model represents a more complete version of the subsidiary strategy process and should lead to its optimal prosperity and maximised survival prospects. This serves as the guiding light for our advocacy for a rehabilitation of research on subsidiary strategy. We therefore culminate our paper with a call for more holistic and evolutionary approaches in future research on subsidiary strategy.

### Process of strategising for a competence-creator role

The origins of the concept of competence-creating are in the work of [Andersson \*et al.\* \(2001, 2002\)](#) on subsidiary competence and knowledge development. The term competence-creating subsidiary was first explicitly coined by [Cantwell and Mudambi \(2005\)](#) and has been extended by multiple IB scholars ([Appendix 1](#)). [Figure 1](#) captures our conceptual model of the entire subsidiary strategising process to assume a complete competence-creating role. The model's scaffolding draws on the seminal article by [Birkinshaw and Hood \(1998\)](#) where the authors conclude that it is the HQ assignment, the subsidiary's choice and the local environmental determinism that together characterise the subsidiary's role. In our strategy



Source: Figure by authors

**Figure 1.**  
Subsidiary strategy  
process

process model, we include and integrate those concepts which have oftentimes been separately, or in some combination, put forward in the IB literature as being a subsidiary strategy in their own respective rights, embeddedness, initiatives, influence and autonomy. Each of these has separately and individually been defined (see [Appendix 2](#)). We claim that none of these is a subsidiary strategy in and of its own, but rather that they are different dimensions, or stages, needed for a subsidiary strategy. The process model depicts how a subsidiary from its inception, with an assigned role from HQ, through its own choice and its local environmental determinism, first strategises its degree of embeddedness, then its initiative-taking activities, on to its quest for optimal autonomy and internal influence, leading to its upgraded knowledge capabilities and an assumed role for product innovation. This minimises uncertainty for the MNE and delivers on its strategic mission to maximise the subsidiary's survival prospects ([Figure 1](#)).

#### *Assigned role*

We take as the start point of the subsidiary strategy process, the subsidiary's initial assigned role from its HQ. Commonly at inception, the subsidiary's primary function is simply to execute its mandated role in the host environment where it has been located ([Vernon, 1966](#); [Dunning, 1981](#)). Basic subsidiaries merely operate as agents for their assigned role and are closely controlled by HQ ([Hymer, 1976](#); [Porter, 1986](#); [Dunning, 1993](#); [Cuervo-Cazurra et al., 2015](#)). This is commonly a lower value-added role with some basic knowledge transferred from HQ and little or no interaction with sister subsidiaries. In time and based on a recognised track record for exceptional performance, subsidiaries engage in early entrepreneurship and initiate the pursuit of opportunities in both their internal corporate network and external host location network ([Ryan et al., 2018](#)). The environment a subsidiary is parachuted into will, due to its resource endowments and all sorts of particularities, influence and open opportunities to the subsidiary's performance and entrepreneurial actions. Therefore, a first step in our conceptual model is the subsidiary's quest for optimal internal and external network embeddedness.

#### *Embeddedness*

A subsidiary's assigned role is the foundation for its development of embedded relationships both externally and internally. Depending on the presence of business counterparts and the subsidiary management's decisions, embeddedness will grow at differing levels of pace. Local knowledge sourcing by developing high network frequency with quality knowledge partners initiates external embeddedness ([Cantwell and Mudambi, 2011](#)). Embedding in the external environment, with both business and non-business actors, as well as having a certain degree of internal embeddedness are conducive to survival over time. Embeddedness, particularly with external business partners, creates both increased opportunities and demand for development and innovation. With increased fine-grained knowledge being available from mutually embedded counterparts the subsidiary can choose to develop their processes and products more incrementally, within their assigned role, but also innovating in areas outside it, through initiative taking ([Ambos et al., 2010](#)). Importantly the original assignment of a subsidiary in terms of number of activities it is responsible for, will to some extent and certainly in its early stages, decide its breadth of potential counterparts, i.e. a subsidiary assigned a competence-exploiting role will initially have a much narrower bandwidth of counterparts compared to a competence-creating subsidiary. Becoming over-embedded externally may lead to isolation that can result in mandate removal for the subsidiary due to a lack of integration and reverse knowledge sharing inside the MNE ([Perri et al., 2013](#)). As such, a subsidiary's innovative capacity is

also dependent on maintaining internal embeddedness with HQ and sister subsidiaries, which involves continually deepening and developing internal MNE network ties and transferring locally valuable knowledge across the MNE (Achcaoucaou *et al.*, 2014; Garcia-Pont *et al.*, 2009; Lô and Geiger, 2022). Equally, subsidiaries that become too embedded internally risk missing out on external knowledge sourcing opportunities and then offer limited distinctive or innovative value (Ferraris *et al.*, 2020).

Developing knowledge capabilities for product innovation challenges the competence-creating subsidiary to effectively manage the contradictory knowledge challenges of dual embeddedness. These subsidiaries are confronted by an innovation–integration dilemma (Mudambi, 2011) where dual embeddedness in both internal and external networks is a delicate balancing act that is maintained by engaging in knowledge transfer internally and knowledge sourcing externally (Ryan *et al.*, 2018; Figueiredo, 2011; Ciabuschi *et al.*, 2014; Collinson and Wang, 2012; Andrews *et al.*, 2022).

Subsidiary embeddedness is therefore fundamental to an understanding of the inclination of subsidiary managers to pursue initiatives, as it can explain access to knowledge and also counterparts' demand for subsidiary innovation.

### *Successful initiatives*

The concept of subsidiary initiatives is defined as “an entrepreneurial process beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity” (Birkinshaw, 1997, p. 207). Essentially, subsidiary initiatives are dynamic processes of entrepreneurial proactive behaviour with the intention to influence strategy development in the MNC (Ambos *et al.*, 2010; Birkinshaw, 1997; Birkinshaw and Hood, 1998; Birkinshaw and Prashantham, 2012). Consequently, the development of initiatives is an important part of a subsidiary's evolutionary process (Delany, 2000; Dörrenbächer and Gammelgaard, 2006; Strutzenberger and Ambos, 2014). Initiatives are activities that fall outside of a subsidiary's assigned activities and responsibilities (Birkinshaw, 1997) and subsidiary managers' goal in pursuing initiatives is to attain autonomy *vis-à-vis* the HQ and influence over their sister units (Ambos *et al.*, 2010), which are important steps to achieve survival. The number of subsidiary initiatives is certainly dependent on the subsidiary's environment. For example, the number of opportunities a subsidiary can, and may be expected to, act on is, at least to some degree, dependent on the level of entrepreneurship present in its ecosystem.

Subsidiaries that engage in initiative taking may create new competences that the unit has absorbed from its interaction in the local environment, or they combine and reconfigure resources that may have emanated from HQ with newly attained knowledge. To transition from a competence-exploiter to a competence creator, a subsidiary will need to build its knowledge stock and create capabilities offering competitive advantage to both the subsidiary and the MNE group. However, there is no guarantee for subsidiary survival. Indeed, initiatives that are unsuccessful may result in divestment or isolation (Conroy *et al.*, 2019; Bouquet and Birkinshaw, 2008). Alternatively, successful initiative taking can make the subsidiary indispensable to HQ, and thereafter the chances of survival increase.

Importantly, neither embeddedness nor initiatives, are by themselves strategies. They are important parts of a subsidiary strategy process and therefore well worth studying for further understanding of how subsidiaries can upgrade their position and role. To understand the subsidiary strategy process more in full we need also to conceptualise how embeddedness and initiatives influences subsidiary autonomy and influence.

*Autonomy*

Whilst some IB scholars have suggested that alignment with HQ strategy offers the best possibility for its long-term existence (Reilly *et al.*, 2012), others proffer that to optimise its survival and growth prospects in the long run, a subsidiary should endeavour to control and manage much of its own strategic destiny. Meyer *et al.* (2020, p. 539) report that “subsidiaries do not always act just as HQ-directed organisational agents, but within constraints act entrepreneurially and develop their own strategies”. Subsidiary autonomy has been defined as the degree of strategic decision-making that a subsidiary makes without involvement from the parent (Young and Tavares, 2004). Because of the heterogeneous nature of a complex MNE, strategic decisions must be made at the subsidiary level to meet local market demands and capitalise on local resource opportunities (Ambos and Birkinshaw, 2010; Birkinshaw, 1997; Mudambi *et al.*, 2014). It is a tool that allows the subunit to perform its assigned role and operational duties (Ambos *et al.*, 2010), while also improving group performance (Kostova *et al.*, 2016). It serves as a mechanism that gives subsidiary managers the freedom to allocate resources to fulfil their role within the MNE (Roth and Morrison, 1992) and achieve strategic goals in the operating environment (Geleilate *et al.*, 2020).

The subsidiary seeks high levels of autonomy to maintain independence and gain power and influence that will help advance the unit’s position within the organisation (Ambos *et al.*, 2010). However, autonomy is not always granted but can be lobbied for, especially if the MNE is dependent on the unique resources that lie in the subsidiary’s local environment (Mudambi and Navarra, 2004). Although autonomy is important for the subsidiary strategy process so are its possibilities to influence strategic decision making within the MNE. Next, we scrutinise this last and final concept included in our process model.

*Influence*

Subsidiary influence in the MNC is closely tied with its involvement in knowledge-based activities (Ambos *et al.*, 2010; Mudambi and Navarra, 2004; Najafi-Tavani *et al.*, 2014) and the creation of new knowledge (Andersson *et al.*, 2007; Mudambi and Navarra, 2004). Building on resource dependency theory (Pfeffer and Salancik, 1978), the network view of the MNE stresses a subsidiary’s participation in networks and its embeddedness in both internal (Birkinshaw and Hood, 1998) and external relationships (Andersson *et al.*, 2007) as key sources for its influence.

The basis for subsidiary influence is the control of critical resources that can shield the MNE from external uncertainties. Studies show that subsidiary influence is highly dependent on the ownership and control of critical resources on which others depend (Mudambi *et al.*, 2014). Subsidiary influence is hence about swaying the headquarters in their decision-making activities, both at a strategic as well as an operational level (Dörrenbächer and Gammelgaard, 2011). Mudambi *et al.* (2014) contend that there is a need to distinguish between functional influence, e.g. within a specific function such as production, and strategic influence, e.g. over corporate investments and other corporate-level strategic issues. A subsidiary’s influence is increased through its involvement in knowledge-based activities, development of knowledge capabilities and delivery of valuable innovation (Mudambi and Navarra, 2004; Andersson *et al.*, 2007; Ambos *et al.*, 2010; Najafi-Tavani *et al.*, 2014; Gorgijevski *et al.*, 2022).

The power and influence gained from the acquisition of critical resources and development of knowledge gives a subsidiary more leeway in developing a survival strategy. Although the subsidiary cedes legitimate ownership rights to HQ, critical resources, particularly knowledge, can realign power-dependency in its favour improving



long-term survival prospects. In doing so, they seize the strategic opportunity to chart their own course to survival through their, by now, assumed role for knowledge provision.

In Table 1, we summarise *why* the steps described above are important for a subsidiary in its endeavours to become a competence creator, promoting its survival and *how* managers can accomplish this in each of the steps.

### *Assumed role*

The subsidiary's strategic success path represents a journey of continual upgrading of its capabilities to source and transform knowledge for valuable product innovation. In so doing, the subsidiary can assume an advanced subsidiary role that it earns as an evolutionary

	<i>Why</i>	<i>How</i>
Internal Embeddedness	<ul style="list-style-type: none"> <li>• Strengthens the influence within MNE</li> <li>• Adds to competitive advantage of the MNE</li> </ul>	<ul style="list-style-type: none"> <li>• Lobbying HQ for resources</li> <li>• Making new product and processes available to the MNE</li> </ul>
External embeddedness	<ul style="list-style-type: none"> <li>• Assimilation and creation of new knowledge</li> <li>• Drives innovation performance</li> </ul>	<ul style="list-style-type: none"> <li>• Engaging with external counterparts</li> </ul>
Initiatives	<ul style="list-style-type: none"> <li>• Key mechanism for mandate advancement</li> <li>• Creation of new resources contributes to bargaining power and influence internally</li> <li>• Adds value and competitive advantage to the MNE</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidiary managers are key drivers of initiatives</li> <li>• The use of slack resources in combination with new competences and skills garnered from the host environment</li> <li>• Subsidiary managers need to deftly sell initiatives internally</li> </ul>
Autonomy	<ul style="list-style-type: none"> <li>• To acquire strategic and functional independence</li> <li>• To attract resources</li> <li>• To highlight the competitive advantage of the subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>• Micro political bargaining power</li> <li>• Attention seeking</li> <li>• Exercising the subsidiary's weight and voice internally</li> </ul>
Influence	<ul style="list-style-type: none"> <li>• Subsidiary gains independence and latitude to take decisions</li> <li>• Is a key element in subsidiary evolution</li> <li>• Allows subsidiaries to take initiatives and create unique knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Attract positive HQ attention by highlighting financial and corporate alignment advantages</li> <li>• Use the subsidiary's structural weight and voice</li> <li>• Avoid negative attention by not disclosing initiatives until management think they can sell them successfully</li> </ul>

**Table 1.**  
Stages of the  
subsidiary  
strategising process

Source: Table by authors

consequence of these upgraded knowledge capabilities (Birkinshaw and Hood, 1998; Kim *et al.*, 2022). The ascension to an exalted position at a strategic apex as a competence creator, with a track record in delivery of valuable innovation for the MNE, firmly establishes its corporate network importance and strengthens its internal network position (Birkinshaw and Hood, 1998; Delany, 2000; Asakawa, 2001; Cantwell and Mudambi, 2005). Some IB scholars have shown that such an advanced subsidiary can even become a trusted orchestrator of a global value chain for an MNE product line thereby increasing its power relations both with HQ and, even more so, with what become its subordinate rather than peer subsidiaries (Ryan *et al.*, 2020, 2022).

The strategy process and the involved steps, optimal dual embeddedness, strategic initiatives for autonomy and influence, may put the subsidiary in a position where it becomes indispensable in managing external uncertainty for the MNE. External uncertainty stems from scarce resources on which the MNE is dependent, e.g. natural resources, frontier technical knowledge and future market changes. The actor that can reduce the impact of such uncertainty for the MNE will accrue some power within the organisation (Pfeffer and Salancik, 1978). In the advanced MNE this commonly comes in the form of the delivery of valuable product innovation by a competence-creator subsidiary. Such a situation will increase the subsidiary's survival prospects due to the MNEs increased dependence on the subsidiary's resources.

### Discussion

Our particular focus in this perspective piece derives from the fact that in recent times, the competitive advantage of the MNE is long and increasingly recognised, as its capacity to source and assimilate knowledge from its globally dispersed subsidiaries (Gupta and Govindarajan, 1991; Doz and Wilson, 2012; Doz *et al.*, 2001). In this regime, the most powerful and important subsidiaries within the MNE are the ones that can source, absorb and transform knowledge for valuable product innovation. They achieve this through a strategy process that seeks the upgrading of their knowledge capabilities to increasingly higher-order ones to increase their level of importance within the MNE through the creation of valuable product innovation (Asakawa, 2001; Cantwell and Mudambi, 2005; Phene and Almeida, 2008).

Despite this, we have established that the current version of subsidiary strategy in IB literature is, at best, incomplete. We argue that much of subsidiary strategy research is lacking a holistic perspective. The absence in the IB literature of holistic views of strategy in the subsidiary is, intriguingly, not a recent phenomenon. According to Birkinshaw and Pedersen (2009), even the earliest literature on MNE subsidiaries completely avoided the issue of strategy. At the time, they set out to right this wrong by incorporating conventional strategic thinking on market positioning and resource development to the subsidiary context. IB research on the subsidiary shifted its prime attention from market-seeking towards resource acquisition (Birkinshaw and Pedersen, 2009). But then this more universal strategy trail dried up in IB literature. Much has been written on the role of the subsidiary in delivering on MNE strategy (Westney, 2021). As subsidiaries were seen to play an increasingly larger contributory role in the MNE (Bartlett and Ghoshal, 1986; Cantwell and Mudambi, 2005), subsidiary strategy became a more complex issue. At the basest level, a subsidiary is mandated to carry out specific activities in the environment in which it is located in a hierarchical MNE structure. Over time, and with a shift to a more heterarchical MNE form, it is either given or assumes some autonomy to strategise around its assigned activities and responsibilities. Opportunities may arise as a result of its activities being embedded in the local environment and the resources that this can provide to the subsidiary



and MNE. Acting on these opportunities by taking initiatives can lead to increased influence and a higher role in terms of mandate acquisition and expanded responsibilities.

For us, subsidiary strategy consists of a playbook of moves or ploys, variously aligned or misaligned to HQ strategy. This playbook is aimed at improving its chances of attracting support, resources, attention and important mandates from its parent. Broadly, subsidiary strategy, akin to that of conventional firm strategy theory, necessitates the ability to decide on future directions and desired outcomes. It entails gaining a competitive advantage over internal competitor subsidiaries through the configuration and execution of activities that exceed those of competitors. The evolution of a subsidiary strategy is both emergent and deliberate and when successful optimises its survival prospects. The strategic options available to and decisions made by subsidiary managers are a consequence of its embeddedness, initiative taking, degree of autonomy and influence in the MNE. Strategy is essentially an experiment with ploys and action plans to move up the internal MNE value chain. A position at the MNE's strategic apex alleviates the threat of mandate depletion or loss, divestment, or closure. The guillotine of HQ hangs over the subsidiary to varying degrees, and the survival imperative is imprinted on the minds of top management.

The IB literature on how to develop a subsidiary strategy is opaque, despite sometimes being integrated into a larger framework on subsidiary management. It is the osmosis of subsidiary strategy development. This is most likely due to the significant difficulty in depicting a grand theory of subsidiary strategy that separates the strategy wheat from the incorrect chaff. As was found to be the case with conventional business strategy, much of the conundrum stems from broad misconceptions about what actually constitutes subsidiary strategy and what incompletely skirts around or misrepresents the true nature of subsidiary strategy. But strategy remained incompletely explored. This was surprising because decision-making processes in the MNE were thought to “shape the subsidiary and thus the scope of the subsidiary’s strategies and operations” (Meyer *et al.*, 2020, p. 540). Subsidiary strategy is not simply an initiative, a quest for autonomy, a quest for greater power and influence, optimal embeddedness, role evolution or any of the other insufficiently represented concepts in the IB literature. We believe that all of these can, to some extent, be incorporated into the larger narrative of subsidiary strategy. However, none of them tell the entire story of a subsidiary strategy on their own. Therefore, in our conceptual model of the subsidiary strategy process we draw on the various threads of IB subsidiary research to develop a holistic representation. Likewise, strategic capabilities are not of themselves strategies but rather are usefully leveraged to confer competitive advantage leading to strategic success. This sets the course for future research on subsidiary strategy that may be holistic or account for individual or combined elements that contribute to subsidiary strategy, but now set in the wider context.

### Managerial implications and future research agenda

Subsidiary managers are required to make practical and explicit choices about the development and future of the units they operate. They can choose to remain as simple executors of a narrowly prescribed mandate, or they can take constructive steps to evolve into a subsidiary that adds value to the MNE group beyond its (originally) assigned role. In this article, we offer managers a pathway for a subsidiary to evolve from an assembly line competence-exploiter of HQ knowledge into a competence creator that develops and upgrades its proprietary knowledge capabilities. Our conceptual model highlights the steppingstones and integrated choices that subsidiary managers can embrace to significantly impact the types of activities that the subsidiary can engage in. Adopting the correct balance between the exploitation of old certainties and the exploration of new

possibilities is pivotal for subsidiary managers. The discovery of new competences occurs through the utilisation of subsidiary developed competences and lies at the heart of the survival and prosperity of the firm. This dual internal and external combination of resources crucially acts as a mechanism for MNE competitive advantage.

The strategising of managers to assume a competence-creating role for their subsidiary requires them to incorporate proactive and risk-taking behaviour. Their destiny lies in their own hands once they remain loosely aligned with the strategic intent of HQ yet successfully act in a self-interested entrepreneurial manner. Mandate development is the decisive goal. The tools available to achieve this aim include embedding and scanning for potential ideas in the host environment. The more a subsidiary is experienced in a particular domain, the greater the probability that it will seek new opportunities. These opportunities can only be seized upon by taking initiatives that may or may not come to fruition. However, initiatives will only be successful once they are approved and granted by HQ. Thus, subsidiary managers will need to develop social linkages and have the interpersonal skills to influence their superior located at the parent. An appropriate level of autonomy will be required that offers them leeway to invest in new knowledge yet does not jeopardise their gained autonomy by attracting unwanted monitoring. By building success and gaining credibility with every endorsed initiative, the subsidiary unit will gain influence and prominence within the organisation. The subsidiary's mandate will upgrade beyond a general role into a global contributor to the group's technological portfolio.

The aspirational competence-creating subsidiary generates new competences that can ultimately be shared with other units and integrated into existing firm specific knowledge and must possess the know-how to commercialise the new knowledge. The more activities a subsidiary performs in a superior way, the greater the opportunity space. Our model can serve to guide managerial action and help subsidiary managers recognise the logic for the actions and the likelihood of expected outcomes by sequentially adhering to the strategy process steps involved in mandate enhancement and survival.

Future research on strategy in becoming a competence-creating subsidiary should clearly and explicitly delineate how and where it contributes to the subsidiary strategy process. It needs to either show whether the contribution is to the big picture of the holistic subsidiary strategy process or whether it more narrowly contributes to a single or combination of elements within this wider process. Future empirical studies on embeddedness, initiatives, autonomy or influence should reflect on how these elements are part of a wider strategy development process for the subsidiary charting its evolution to a competence-creating role or mandate. Moreover, in our article, we limited our intent and scope to the presentation of a conceptual model of the strategy development process in becoming a competence-creating subsidiary. Therefore, a comprehensive systematic literature review of the strategy development process, and its constituent elements, would provide a deeper theoretical appreciation of the strands of knowledge assembled to date in IB research. This could serve as a deeper foundation than our conceptual model for further studies on the holistic strategy development process.

Next, and accounting for its processual nature, subsidiary strategy is clearly not a static phenomenon. Rather it is a dynamic process that evolves over time towards an often elusive destination. We call for more longitudinal research that should focus on the evolution of the subsidiary's strategy over extensive timeframes. Clearly, the management team's strategic goals are to maximise control over the subsidiary's evolution and long-term survival. Building on micro foundations perspective future research could investigate managerial decision-making in the strategising process. Beyond this individual manager perspective, another stream of research could look at the role of dominant coalitions across the

managerial team in the strategising process (Zhang and Greve, 2019). Additionally, future research could investigate how the subsidiary strategically seek out and act on opportunities, as well as how they expand their role and importance within the MNE at large over time, to thrive and avoid mandate depletion, loss, divestment or disastrous closure (Dzikowska *et al.*, 2023). The balance of power and control shifts over time, and research into how this affects the nature of subsidiary strategy across time could be beneficial. How does the process of developing a subsidiary strategy evolve in practice? The time has come to reset subsidiary strategy research and resolve these challenging conundrums in order to, one day, contribute a grand theory of subsidiary strategy.

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Author(s)	Title	How they treat competence-creating subsidiaries (CC = competence-creating; CE = competence-exploiting)
Andersson <i>et al.</i> (2001, 2002)	Subsidiary embeddedness and competence development in MNCs. A multi-level analysis	<ul style="list-style-type: none"><li>• Embeddedness (external) influences the innovative capacity of the subsidiary which is determined to be a decisive factor in which subsidiaries will contribute to competence development at the corporate level.</li><li>• Competence development processes are achieved at three levels:<ul style="list-style-type: none"><li>– Business relationship level:<ul style="list-style-type: none"><li>• Interactions between the subsidiary and customers, suppliers and other counterparts.</li></ul></li><li>– The subsidiary itself:<ul style="list-style-type: none"><li>• How subsidiary managers assimilate new knowledge but then crucially commercialise it to achieve market performance.</li></ul></li><li>– The corporate:<ul style="list-style-type: none"><li>• Competence is transferred internally.</li></ul></li></ul></li><li>• Based on the concept of absorptive capacity, the paper focuses on the interplay of the three above levels, i.e. how relationships with specific customers and suppliers influence the subsidiary's market performance and its involvement with the transfer of competence with the MNC:<ul style="list-style-type: none"><li>– Absorptive capacity is crucial for long term competitive advantage.</li></ul></li><li>• Subsidiaries have transitioned from CE to CC due to closer integration of subsidiaries into international networks. Some subsidiary R&amp;D gained creative roles and are no longer home-base exploiting.</li><li>• CC and CE analogous to March (1991) distinction between exploitation (of old certainties) and exploration (of new possibilities) in organisational learning theory:<ul style="list-style-type: none"><li>– Adaptive systems find the right balance between both systems, and this is a primary factor in system survival and prosperity (March, 1991).</li></ul></li><li>• Stepping off point is mandate as the subsidiary moves from CE assembly line unit to CC subsidiary that develops a more creative function whereby the level of complexity of the R&amp;D increases.</li><li>• Subsidiaries with CC mandates occur via:<ul style="list-style-type: none"><li>– Parent-driven or subsidiary-driven processes (Birkinshaw and Hood, 1998).</li></ul></li></ul>
Cantwell and Mudambi (2005)	MNE competence-creating subsidiary mandates	

(continued)

**Table A1.**  
Table of competence-creating subsidiary literature (by author)

Table A1.

Author(s)	Title	How they treat competence-creating subsidiaries (CC = competence-creating; CE = competence-exploiting)
Kappen, 2011	Competence-creating overlaps and subsidiary technological evolution in the multinational corporation	<ul style="list-style-type: none"><li>- Characteristics and development potential of location.</li><li>- Charter extension requiring a subsidiary level champion gaining support at HQ level (Birkinshaw and Hood, 1998).</li><li>- Local embeddedness.</li></ul>
		<ul style="list-style-type: none"><li>• Once a CC mandate is in place, the strategic independence will cumulatively reinforce the mandate.</li></ul>
		<ul style="list-style-type: none"><li>• CC subsidiaries must contribute significantly to the technological and strategic development of the MNE.</li></ul>
		<ul style="list-style-type: none"><li>• CC mandates help move the subsidiary beyond a general role into a global contributor to the MNE's technological portfolio.</li></ul>
		<ul style="list-style-type: none"><li>• Mechanisms towards gaining technological capabilities include as follows:<ul style="list-style-type: none"><li>- Enhanced degree of local embeddedness.</li><li>- Opportunities to re-combine existing knowledge with newly acquired knowledge.</li><li>- Subsidiary entrepreneurship and initiatives.</li><li>- Resource allocation and coordination by HQ.</li><li>- Sharing of competences and capabilities across the internal network of subsidiaries and HQ.</li></ul></li></ul>
Santangelo, 2012	The tension of information sharing: Effects on subsidiary embeddedness	<ul style="list-style-type: none"><li>• Market entry motivation is a key determinant in a subsidiary's activities.</li></ul>
		<ul style="list-style-type: none"><li>• Considered CC if motivated by accessing assets, competencies, technological capabilities, scale, R&amp;D, spread R&amp;D risk, and access technological resources.</li></ul>
		<ul style="list-style-type: none"><li>• Strategic entry motivation is related to asset-seeking considerations and the exploration of local knowledge and expertise that is complementary to the group's competences.</li></ul>
		<ul style="list-style-type: none"><li>• A sub can acquire a CC mandate via gradual subsidiary-specific evolution (Cantwell and Mudambi, 2005) where location, HQ, and subsidiary characteristics play a significant role.</li></ul>

(continued)

Author(s)	Title	How they treat competence-creating subsidiaries (CC = competence-creating; CE = competence-exploiting)
Narula (2014)	Exploring the paradox of competence-creating subsidiaries: Balancing bandwidth and dispersion in MNEs	<ul style="list-style-type: none"> <li>• CC subsidiaries discover new competences through the utilisation of existing competences. Learning is of an incremental rather than a radical nature.</li> <li>• CC lies at the heart of the survival of the firm and the sustainability of its competitive advantages (e.g. FSAs).</li> <li>• CC subsidiaries systematically and deliberately engage in creating new FSAs via their R&amp;D departments.</li> <li>• Requires an appropriate balance of internal and external embeddedness.</li> <li>• This “ideal/aspirational” CC subsidiary must be capable of generating new competences locally which can be shared internally and can be integrated into the existing FSAs. Should be strategically centralised and operationally balanced between centralized and autonomous.</li> </ul>
Ha and Giroud (2015)	Competence-creating subsidiaries and FDI technology spillovers	<ul style="list-style-type: none"> <li>• The existing core competences are added to by the acquisition of knowledge (knowledge creators).</li> <li>• These new technological activities/competences add to the strategic development of the MNE group and are integral to its competitive advantage.</li> <li>• Created competences should be recognised by HQ and by other subsidiaries in the MNE structure and shared internally: reverse knowledge transfer.</li> <li>• Critical factors: <ul style="list-style-type: none"> <li>– Local embeddedness for fulfilling their mandates.</li> <li>– CC subsidiaries can integrate and tap into the internal network level knowledge.</li> <li>– Knowledge cycle.</li> </ul> </li> </ul>

Table A1.

**Table A2.**  
Definitions of  
concepts that are  
steppingstones to  
subsidiary strategy

**Appendix 2**

Concept	Definition	Reference
<i>Subsidiary embeddedness</i>	A subsidiary's embeddedness is defined as the total sum of interdependencies, (due to mutual adaptations), it has as a consequence of its position in a business network. The stronger the interdependence between the subsidiary and its counterparts, the higher the degree of embeddedness. Applied in an MNC context, relational embeddedness refers to the extent to which a subsidiary's individual, direct relationships with customers, suppliers, competitors etc. can serve as sources of learning.	<a href="#">Andersson and Forsgren (2000)</a> <a href="#">Andersson et al. (2002)</a>
<i>Subsidiary initiative</i>	Subsidiary initiative is defined as the entrepreneurial pursuit of [international] market opportunities to which the subsidiary can apply its specialised resources	<a href="#">Birkinshaw et al. (1998)</a>
<i>Subsidiary autonomy</i>	The extent to which a foreign subsidiary makes strategic decisions in its operating environment without interference by MNE headquarters	<a href="#">Birkinshaw and Morrison (1995)</a> , <a href="#">Young and Tavares (2004)</a>
<i>Subsidiary influence</i>	Subsidiary influence is about the ability to exercise power in terms of the "subsidiaries' ability to influence their parent companies in their strategic and operational decision-making activities". Power enables the actors in an organisation to overcome resistance from other actors to achieve the desired results	<a href="#">Dörrenbächer and Gammelgaard (2011)</a> <a href="#">Dahl (1957)</a> , <a href="#">Emerson (1962)</a> For a thorough discussion of subsidiary influence and different bases of power to exercise such influence see <a href="#">Andersson et al. (2007)</a>

**Source:** By authors

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