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Dissertation

Headquarters Resource Allocation within Multinational Corporations: Antecedents, Consequences, and Related Methodological Issues

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The allocation of HQ resources to entrepreneurial initiatives in subsidiaries is crucial to their realization. However, such allocation does not always follow rational decision making, and corporations potentially forego important opportunities while financing unpromising ones. I investigate biases of senior headquarters managers in the allocation of financial resources to subsidiary initiatives, as well as consequences of organizational and human resource allocation on the operational management practices of MNC subsidiaries. My doctoral research further entails important methodological findings regarding survey methods used in my dissertation and their implications for practitioners and academics relying on the insights published in the top IB journals.

BIG QUESTION

How do headquarters managers' biases to the subsidiary manager (given the location) affect headquarters resource allocation, and what is the consequence of headquarters resource allocation on subunit level management practices?

INTRODUCTION

Did you know that as an expatriate you might both benefit and be penalized by headquarters (HQ) managers' biases in the resource allocation process and that the effect of such biases is moderated by the subsidiary location? How about that the environment where your HQ is located influences management practices in your subsidiary factories all over the world and that not all HQ resources where your multinational corporation (MNC) makes big investments are actually additionally improving the transfer of the "best practices"? Besides these insights, my research brings a few more interesting and intriguing findings while generally seeking to answer the big question: How do HQ manager biases to the subsidiary manager (given the location) affect HQ resource allocation, and what is the consequence of HQ resource allocation on subunit level management practices?

THE INFLUENCE OF HEURISTIC CUES ON THE ALLOCATION OF FINANCIAL RESOURCES TO ENTREPRENEURIAL INITIATIVES IN MULTINATIONAL CORPORATIONS

In my first dissertation essay, I seek to understand the influence of heuristic cues related to the subsidiary and the individual championing the initiatives and ask: What affect does being a local or expatriate have on being a champion of a subsidiary initiative? How does overall perceived host country distance (as a sum of factors such as culture, language, political system, education, colonial ties, current and historical political rivalry, etc.) moderate such effect and influence the allocation of financial resources by HQ managers to subsidiary initiatives?

The allocation of financial resources to entrepreneurial initiatives in subsidiaries of multinational corporations is crucial to their realization. Senior HQ managers need to manage uncertainty when allocating resources to these initiatives. Yet we know little about the types of data which senior HQ managers rely on and the related consequences. I used multiple methods to investigate this matter. I analyzed 1,308 investment decisions made by 109 senior managers with a field experiment.

Decisions were made in a business frame to which practitioner subjects could relate. Participants were asked to take the role of a senior manager at HQ. They had to make

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a series of independent investment decisions in 12 entrepreneurial initiatives stemming from six subsidiaries under their supervision. Subsidiary proposals were presented in the form of consecutive emails from the company's subsidiaries. These six subsidiaries were selected with the idea of having three country pairs – France and Qatar, Czech Republic and UAE, Moldova and Burkina Faso. The countries making up a pair have extremely similar levels of country risk within pairs (measured using the ICRG composite scores), while being culturally very different, bringing the high likelihood that large psychic distance differences will occur between them. The emails that participants received contained information about the risk of the proposals (either low or high risk) assessed by the "HQ risk evaluation team." All initiatives had very similar expected return, which was highlighted to the participants prior to the experiment. At the same time, the managers were motivated with monetary incentives for better decisions, leading to real monetary pay-outs for a randomly selected number of subjects (they received the returns from their risky investment choices). Participants were divided randomly into two groups. One group always received proposals from a subsidiary manager with a local last name typical for the country of the subsidiary (indicating "local status" of the manager), while the other group always received proposals signed by a manager with a last name typical for the country of HQ (indicating "expatriate status").

After the decision making for 12 initiative proposals, participants were asked to fill in a questionnaire. The questionnaire consisted of three parts: assessments of the individual risk propensity, psychic distance perceptions towards subsidiary countries, and demographics. I measured psychic distance to the subsidiary country as the extent to which participants perceived countries from which proposals came to be close or distant from their country of origin. The scale ranged from 0 (least distant) to 100 (most distant). Psychic distance was defined as the sum of factors (such as culture, language, political system, education, colonial ties, current and historical political rivalry, etc.) that affected flow and interpretation of information to and from a foreign country (Håkanson & Ambos, 2010). To complement the experiment, I conducted a qualitative study based on interviews with 14 senior managers who have significant experience with international resource allocation processes, as HQ managers, subsidiary managers/expatriates, or both. These interviews helped me contextualize my experimental results, substantiate theoretical mechanisms, and discuss implications for practice.

Contrary to my expectations, initiatives from subsidiaries in countries perceived as psychically distant to HQ managers are not allocated fewer resources than those from countries perceived as close. Rather, perceived distance is negatively (positively) related to resource allocation when subsidiary managers' names connote their expatriate (local) status. Interviews with senior managers confirm that expatriates are seen as more trustworthy in countries perceived as close. Yet trust in expatriates erodes as distance increases and intimate knowledge about local markets becomes more important. This shows that this "expatriate bias" is highly dependent on the subsidiary's country where they are assigned. Essentially, expatriates seem to benefit from a bias that only holds when they work in subsidiaries that are perceived by senior HQ managers to be closer to HQ. On the other hand, expatriates appear to be penalized at high levels of perceived distance, whereas local managers are not.

FOSTERING OPERATIONAL MANAGEMENT "BEST PRACTICES" IN SUBSIDIARY PLANTS IN THE WESTERN BALKANS: THE ROLE OF MNC HOME-COUNTRY ENVIRONMENT AND RESOURCE ALLOCATION

In my second dissertation essay, I addressed the adoption of operational management "best practices" in MNC subsidiary plants in the emerging economies of the Western Balkans and examined to what degree the MNC can facilitate common best operational practices in their home country plants by allocating organizational and human resources. Building on and extending the Practice-Based View (PBV; Bromiley & Rau, 2014, 2016), I suggested that subsidiary plants are more likely to operate according to widely recognized "best practices" if these practices are already common in the MNC home country. I also examined the degree to which the MNC can facilitate best practices in their plants by allocating organizational resources, as well as human resources. These factors are depicted in Figure 1, which illustrates drivers of operational management practices in subsidiary plants.

My survey and secondary data, supplemented with interview insights, were collected from European, United States (US), and Asian MNCs with subsidiary plants in Bosnia and Herzegovina, Croatia, Serbia, and North Macedonia. These data indicate that subsidiary plants adopted practices that are common in their MNC home country. They did so to a greater extent when the MNC commits organizational resources, such as codified written procedures and trainings, to the plants. Contrary to my expectations, I did not find a benefit in allocating human resources such as expatriates, short-term assignees, and/or business travelers.

THE DECLINING SHARE OF PRIMARY DATA AND THE NEGLECT OF THE INDIVIDUAL LEVEL IN INTERNATIONAL BUSINESS RESEARCH: HOW IT INFLUENCES ALL OF US USING IB INSIGHTS

Since both my first and second essays are (at least partly) based on surveys, my third dissertation essay investigates how the usage of primary survey data and primary data in general vis-à-vis other types of data has developed over time in the international business (IB) field in the last 20 years (2000–2019). In particular, I address the use of such data in articles in the most prominent IB journals – *Global Strategy Journal* (*GSJ*), *International Business Review* (*IBR*), *Journal of International Business Studies* (*JIBS*), *Journal of International Management* (*JIM*), *Journal of World Business* (*JWB*), and *Management International Review* (*MIR*). In total, this amounted to 4,202 articles published from 2000 through 2019.

I found a sharp increase in the share of secondary data

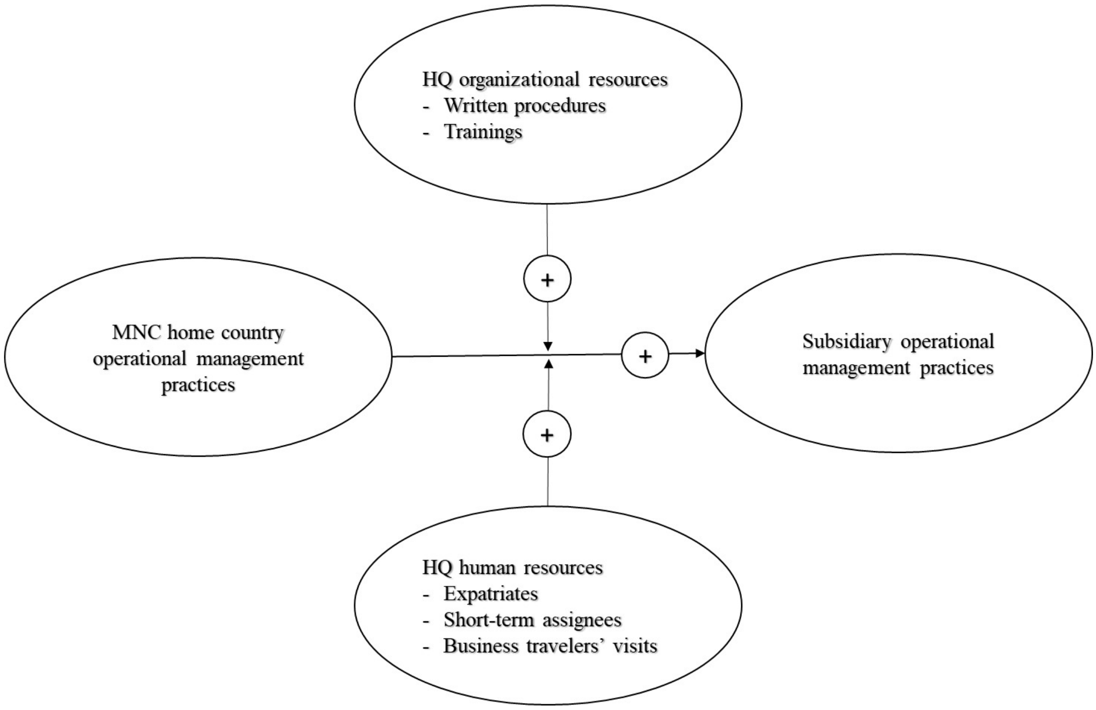

Figure 1. Drivers of Operational Management Practices in Subsidiary Plants

to the detriment of primary data (especially survey data) in six leading IB journals over the last 20 years. While secondary data is often highly valid, reliable, and often also less biased, I would caution that the documented trend increasingly exposes IB findings to the specific risks and problems of secondary data. Specifically, I contend that the advent of more high-quality and easily accessible secondary data has influenced the increasing – perhaps unduly – perceived as opposed to the factual quality and versatility of secondary data. Secondary data should be treated with the same healthy skepticism and quality checks as primary data, and researchers should report on the specific limitations of the original data as well as their potential effects on the focal study. Yet I believe that further study is warranted within the IB domain and that both practitioners and academics using insights from the IB field should take results with more caution.

Furthermore, the type of data is closely connected to the type of research questions that can be answered. Thus, a field's preference of one type of data over another one means that some research questions and themes are underexplored. For example, IB and strategic management field favor macro factors at the expense of the micro ones. One way to boost the research on relatively neglected microfoundation topics is to use experimental approach more. My first essay is an example how an experimental research design could be used to explore phenomena which are difficult to capture otherwise. Using only 109 managers and multiple scenarios per manager, I managed to achieve a sample of 1,309. This is just one way to take maximum advantage of primary research with a minimum sample size. Recent studies have drawn attention to the unique role such methods can play and opportunities they offer. For instance, Zellmer-Bruhn, Caligiuri, and Thomas (2016) point out that experimental methods can significantly improve understanding of causal relationships in IB research and enable a strong test of the robustness of a theory. Experimental studies can be especially appropriate in IB research because they are highly suited to explore fundamental processes, such as cognition, affecting attitudes and behaviors (e.g., Buckley, Devinney, & Louviere, 2007; Van Witteloostuijn, 2015). I suggest that this untapped potential provides many valuable research avenues for advancing IB filed and answering important questions for practitioners regarding crucial decision-making processes.

CONTRIBUTIONS AND IMPLICATIONS FOR PRACTITIONERS

My research has several practical implications. First, for managers and policymakers in the Western Balkans, I show that foreign ownership provides an important source of improved management practices, which, in turn, improve the relative standing of the Western Balkan manufacturing landscape vis-à-vis other countries. However, as my findings show, foreign ownership alone does not generate improved practices. What matters is ownership from MNCs in well-performing countries and additional investments from the MNCs into organizational resources that are then committed to the transfer and, eventually, the implementation of the practices in the local plants.

Furthermore, I show that senior HQ managers making investment decisions do take country and manager name-based cues into account. Subsidiary managers interested in maximizing resource acquisition may thus need to adapt their communication content and style when communicating with HQ and emphasize distance or familiarity with the host country. For example, emphasizing their expatriate status might prove beneficial in low distance contexts, whereas emphasizing their status as an expatriate may yield worse results when the subsidiary country might be perceived as very distant. Instead, in the latter case, more information about the familiarity or knowledge about the host market and its conditions might prove valuable. Senior HQ managers should be more aware of the fact that they attend to distance and name-based cues in addition to hard facts such as project risk profiles. Additional reflection might help avoid biased decision making. For example, more information might be sought about the expatriate manager (e.g., how familiar is the manager with the local context?) or the country (e.g., are my assumptions regarding how different the country is to the home market reasonable? What are the implications for such initiatives?). Finally, multinationals may rethink some elements of their staffing decisions. Staffing expatriates to very distant countries might not be the best solution when the subsidiary's mandate or the firm's strategy are focused on entrepreneurial activities.

ABOUT THE AUTHOR

Jelena Cerar (jelena.cerar@wu.ac.at) is an assistant professor at the WU Vienna. She earned her doctorate with honors at the same university and she graduated from the Erasmus Mundus EGEI Master's program in Economics with studies in China, Belgium and Italy. Her main domain of research are headquarters–subsidiary relationships in multinational companies, specifically the topics of headquarters' roles and value added, resource allocation, decision making and biases within MNCs.

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