

Dissertation

General Manager Succession in Multinational Enterprise Subsidiaries

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This dissertation, based on interviews with over 40 managers and quantitative data on over 1,900 foreign subsidiaries, aims to provide new insights regarding subsidiary general manager (GM) changes in multinational enterprises (MNEs). I study continual GM change, individual succession event, the decision-making process through which different types of subsidiary GM successors are selected, and how they link to subsidiary performance. I found that GM succession decisions are path dependent and evolving, can be influenced by MNE environments, and need to be based on both GM successor nationality and origin. My dissertation underscores the complexity of subsidiary GM succession and bridges succession strategy with implementation.

BIG QUESTIONS

How do MNEs manage foreign subsidiary GM successions?
What are the consequences of subsidiary GM successions?

INTRODUCTION

Managers occupy an often underappreciated position in many organizations (Aguinis et al., 2022). In the context of multinational enterprises (MNEs), the general manager (GM) role in foreign subsidiaries is important to subsidiary-level development (Meyer, Li, & Schotter, 2020). The staffing of this position is thus a critical decision in MNEs. However, while a sizeable body of work on international human resource management in subsidiaries of MNEs exists, we know relatively little about how subsidiary GM successions are managed and how they link to subsidiary performance. Motivated by my background as both an international management researcher and a former subsidiary GM, within the dissertation summarized herein, I aim to contribute to a more systematic understanding of subsidiary GM successions. This dissertation is both timely and relevant for practising managers because the replacement of GMs will occur in the history of almost every organization and because the downside of selecting the wrong manager is significant.

Within this dissertation, I build upon three types of strategic leadership models that may hold the potential to inform subsidiary GM change: (I) longitudinal models,

which adopt a dynamic perspective to analyze the momentum of repeated GM changes over time (Amburgey & Miner, 1992; Beck, Brüderl, & Woywode, 2008); (II) the power model, which assumes that the existing GM in a poorly performing subsidiary can use strategic configurations such as the relative strength of the subsidiary to gain power in order to defer being replaced (Drazin & Rao, 1999); and (III) the contingency model, which primarily focuses on whether the new GM is externally or internally appointed, and when the benefits of each successor type are likely to occur (Finkelstein, Hambrick, & Cannella, 2009; Georgakakis & Ruigrok, 2017).

These existing models, though insightful, have been developed in domestic settings. Managing human resources within MNEs, however, is “more than a matter of scale and presents the field with unique and complex challenges” (Collings, Scullion, & Curran, 2018: 378). This suggests that insights drawn from the strategic leadership research may need to be adapted in order to provide recommendations regarding subsidiary GM successions in a coherent manner. Thus, my dissertation aims to take a step towards uncovering and explaining these adaptations, based on interviews with over 40 managers and longitudinal data from over 1,900 foreign subsidiaries. The three essays of my dissertation are outlined below.

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PART 1: THE MOMENTUM OF CONTINUAL GM CHANGE IN SUBSIDIARIES OF MNES

The first dissertation essay considers whether GM successions accelerate or decelerate the momentum for further GM change, and improve or disrupt subsidiary performance. To address these questions, I used a multi-stage analysis approach that involved formulating a preliminary analytical framework based on the existing succession literature, collecting qualitative data through semi-structured interviews, and then hypothesis testing to better inform the pattern of subsidiary GM successions. The results revealed that MNE managers learn from prior GM changes in order to appoint an appropriate candidate, thus improving subsidiary performance. Meanwhile, as decision makers in MNEs accumulate succession experience within a subsidiary, the probability of further GM change initially decreases within the same subsidiary. But I also found that from a threshold onward the reduced marginal costs of making succession decisions can outweigh the effect of learning, and thus increasingly rendering GM change more likely within the same subsidiary. The accumulated shocks ultimately translate into poorer subsidiary performance and lower subsidiary survival likelihood.

To improve subsidiary survival, my results suggest that MNEs can deploy a parent country national (PCN) GM at a subsidiary's founding, followed by host country national (HCN) successors. The findings demonstrated that the administrative heritage formed at subsidiary founding can be either a great asset or a significant liability, depending on both the initial subsidiary GM staffing decision and subsequent adjustments.

PART 2: THE GM SUCCESSION IN POORLY PERFORMING SUBSIDIARIES OF MNES

Essay 2 provides a more accurate account of individual GM successions when subsidiary performance disappoints. Over 40 semi-structured interviews were conducted with MNE managers who are well-positioned to offer detailed knowledge of subsidiary GM successions in their organizations. The relevant quotes and important background information collected through the qualitative inquiry in turn enabled me to develop a deeper understanding of the phenomenon. I argue that while GMs of foreign subsidiaries may accrue power from their subsidiaries' relative strength within MNEs and the strategic significance of the host country market, the strong strategic position of the foreign subsidiary may also lead to greater monitoring by the parent company MNE, which can lead to subsidiary GM changes. I term this the performance–attention–succession model.

In support of this argument, my empirical analysis showed that the link between poor subsidiary performance and subsidiary GM turnover is indeed not as direct as it seems, nor does it strictly follow the predictions of the performance–power–succession model (Drazin & Rao, 1999), which would predict that subsidiary's relative strength within MNEs and the strategic significance of the host

country market would lead to greater subsidiary GM power, and lessen the chances of their replacement. I found that in the presence of sociopolitical factors (e.g., when the subsidiary controls a high portion of the MNE revenue or has a high expatriate ratio) that can increase the level of MNE monitoring, the poor subsidiary performance–GM succession relationship will be strengthened. Also, I found that only when there are conditions under which MNE monitoring proves challenging, such as when the host country market in which the focal subsidiary operates attracts a large amount of foreign direct investments, will the performance–power–succession model work.

Furthermore, this study presents a more promising picture of the role of subsidiary GM successors in turning around the poor performance of an ailing subsidiary. Changing subsidiary GMs is arguably a strong form of managerial intervention and MNE monitoring is often assumed to destroy value at the subsidiary level (Conroy & Collings, 2016). My study provides a more balanced understanding of this issue here. That is, while it may be undesirable for the GM incumbents in poorly performing subsidiaries, MNE monitoring is not necessarily an undesirable outcome for the subsidiaries as a whole.

PART 3: THE GM SUCCESSOR ORIGIN IN LOCAL-MARKET-SEEKING SUBSIDIARIES OF MNES

My third dissertation essay has a multiple-case design and treats each case as an experiment. I interviewed managers in nine wholly-owned foreign subsidiaries which were established with a local-market-seeking motive. These subsidiaries are from four large, established manufacturing MNEs that are technical and market leaders. This essay elaborated a nuanced categorization of subsidiary GM successors. The essential point made here is that whether the subsidiary GM successors are external or internal candidates can, in a subtle and powerful way, influence the effects of the successors' nationality (Cerar, 2021; Lee, 2017) on subsidiary performance. In contrast with generally defensible inferences, the surprise discovery (even contrary to my own managerial experience as an insider HCN successor) is that appointing HCN GM successors is not always the best strategy for local-market-seeking subsidiaries. In practice, some insider HCN subsidiary GM successors are both able and willing to leverage their local knowledge and social ties to pursue self-interest with deceitfulness (i.e., opportunism) after they take office, leading to unsatisfactory subsidiary performance. This is because trust can have a dark side, which will reduce the alertness needed, and because dual identification may open up opportunities for role stress in the face of conflicting goals, which can in turn reduce the subsidiary GMs' sense of affiliation to both the MNE and the subsidiary.

Meanwhile, while I concur that agency and transaction costs minimization can play an important role in influencing the international staffing decision, I found that opportunism in the present context is a situational occurrence. To reduce opportunism, some MNE decision makers expa-

triated HCN subsidiary GMs from within the MNE but outside the subsidiary. These expatriated GMs did not tend to spend less time with local people. In contrast, they can simultaneously realize dual identification while being equipped with a sufficient level of local knowledge to improve the subsidiary's local responsiveness. This finding thus calls into the question the argument that those GMs whose talent most fits the position might also be the ones in which the MNE will incur substantial costs in controlling their behaviour (Tan & Mahoney, 2006).

But expatriated HCN GM candidates as such are not always readily available. The more common approaches revealed by the data are that MNE decision makers deploy outsider HCN subsidiary GMs or use PCN subsidiary GMs. These approaches can also effectively reduce ex post opportunism. But they may lead to some other behavioral issues, including identity-based discordance (i.e., divided engagement associated with outsider HCN subsidiary GMs) and the strong attachment to the force of old habit (i.e., right-minded regression associated with expatriated PCN GMs). To avoid the former problem, I found that some MNEs use ex ante socialization. This finding highlighted the importance of socialization timing, inter alia, in the face of difficulties in cultural unlearning. To avoid the latter problem, on the other hand, I found that some MNEs encourage balanced local empowerment. By "balanced", I mean that the hierarchy is not disregarded in the process of empowerment. This is because the expatriated PCN GMs, given the inherent control function, need to ensure that the local operation is in line with the MNE's overall goal. This is therefore a hybrid approach, which enhances flexibility, allows for small errors, while providing sufficient order.

In sum, both safeguards mentioned above are interpersonal processes, facilitating cooperative relationships. Therefore, the design of organizational control systems should be more involved than the limited solutions prescribed by agency theory. Thus, I used the empirical observations to develop a micro-foundational model that maps how the behavioral issues and the economizing mechanisms link the subsidiary GM succession strategies to subsidiary performance.

CONTRIBUTIONS AND IMPLICATIONS FOR PRACTITIONERS

As summarized in [Table 1](#), this dissertation seeks to produce knowledge that can both advance scientific research and enlighten a community of practitioners, e.g., MNE decision makers and subsidiary GMs.

Essay 1 aims to call practising managers' attention to the dynamic nature of foreign subsidiary GM staffing strategies. The key message is that subsidiary GM succession should not be simply regarded as a structured problem. Overreliance on GM succession routines may ultimately lock the focal subsidiary into a continual GM change process. MNE decision makers thus need to know when associated problems will outweigh the benefits of relying on succession routines. Understanding the succession momentum issue is

crucial, as continual GM change can harm subsidiary performance and reduce the likelihood of subsidiary survival.

Essay 2 explains more fully the performance–succession association in the unique context of MNEs. Lack of sufficient information on what the subsidiary is doing may introduce additional complexities into GM succession processes. As one informant from a large manufacturing MNE emphasized, "A lot of information we collected might be wrong, so we have to ensure we have multiple sources of information." I therefore suggest that senior MNE managers should be acutely aware of succession resistance from subsidiary GMs. This is important because changing the GM in a poorly performing subsidiary can be an effective turnaround strategy. However, the successor needs time to take charge. MNE managers can thus be more confident in using subsidiary GM succession to improve subsidiary performance on one hand, but they also need to be patient on the other because managerial interventions as such may not lead to immediate payoffs. From the subsidiary GM's perspective, on the other hand, receiving attention from HQs is not always desirable. To capture the upside potential of gaining MNEs' positive attention, it is critical that subsidiary GMs should also find ways to avoid the downside risk associated with MNE monitoring.

Essay 3 re-examines the roles of subsidiary GMs, which are often oversimplified or obscured by GMs' nationalities. I caution against the use of insider HCN subsidiary GM successors as a way of fully achieving the subsidiary's local-market-seeking role. In the middle of the dual identification development process, the insider HCN subsidiary GM successors may be pulled in two directions, thus losing the sense of affiliation to both entities. A remedy is to expatriate an HCN GM, who is equally capable yet may behave less opportunistically. The challenge for MNE decision makers then becomes building a cadre of managers with this talent.

Furthermore, given that competition for talent to manage foreign subsidiaries has steadily grown and individuals are often reluctant to relocate internationally, spotting external talent in the host country makes good business sense. However, it is critical to ensure the common goals that chart the course have already been in place when the outsider HCN GM takes office. Such appropriate antecedent conditions, enabled by trusting, and prior interactions, seem more germane than on-the-job acculturation. To that end, patience is crucial, as stressed by two Regional CEOs in the interview data, "Don't make the choice under pressure."

Finally, while I concur that PCN assignment provides the MNE with certain control elements, these managers might, though absent opportunism, still surrender to the force of their old habits, thus exerting unnecessary levels of control or even interference to local managers. In contrast, encouraging PCN GMs in a hierarchical bureaucracy to proactively delegate authority to local managers will have a profound effect on motivating the local managers.

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Table 1. Managerial Implications

	Central theme	Key messages to managers
Essay 1	Succession decisions are path-dependent and evolving	<ul style="list-style-type: none"> Subsidiary GM succession should not be regarded merely as a structured problem. Continual subsidiary GM change, though might be efficient, can be ineffective or even detrimental.
Essay 2	Both MNE external and internal environments can influence subsidiary GM succession decision making	<ul style="list-style-type: none"> MNE decision makers should be acutely aware of succession resistance from subsidiary GMs when subsidiary performance is poor. MNE managers can be more confident in using GM succession to improve subsidiary performance but they also need to be patient.
Essay 3	The origin and nationality of subsidiary GM successors need to be considered simultaneously	<ul style="list-style-type: none"> The use of HCN GMs to localize the subsidiary operation is not always the best strategy. When spotting outsider HCN GMs, it is critical to ensure the common goals have already been in place before succession decisions are made. Encouraging PCN GMs to proactively delegate authority to local managers will have a profound effect on motivating the local managers.

ABOUT THE AUTHOR

Liang (Arthur) Li is an Assistant Professor at Ted Rogers School of Management, Toronto Metropolitan University (Formerly Ryerson University). He received his PhD from Ivey Business School, Western University. His research focuses on the managerial micro-foundations of multinational enterprise subsidiary control, coordination, and organizational evolution. Before pursuing his PhD, he

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