

Article

Mature MNE Subsidiaries in Emerging Markets: An Old Phenomenon with a New Research Agenda

Felix Arndt^{1a}, Christiaan Roell², Vikas Kumar³

¹ University of Guelph, Canada, ² University of Sheffield, UK, ³ The University of Sydney, Australia

Keywords: MNE subsidiaries, maturity, identity, legitimacy, adaptation, resources

<https://doi.org/10.46697/001c.72797>

AIB Insights

Vol. 23, Issue 2, 2023

Subsidiaries that were established in emerging markets many decades ago require different management practices than new market entrants and indigenous firms. The international business (IB) literature lacks both theories that predict the behaviors of mature subsidiaries in host countries as well as a solid empirical base to sufficiently comprehend this distinct category of firms. We explain the phenomenon, its distinct character, and underscore missed opportunities for research on mature subsidiaries in the IB field, with the ultimate goal of promoting research that can better advise managers of these multinational enterprises (MNEs).

OLD SUBSIDIARIES, BUT NEW INSIGHTS?

Globalization is not a recent development, but its roots can be traced back to at least as early as the beginning of colonialization by Western European firms. Many of the Western European firms that internationalized during one of the earlier waves of globalization in the 19th century now have a wealth of experience in managing foreign markets. Well-known multinational enterprises (MNEs) such as Unilever and Philips entered foreign markets (often former colonies) because they offered favorable entry conditions. However, independence from their colonial rulers as well as the institutional reforms undertaken fundamentally changed the business landscape of these countries. Consequently, subsidiaries with a long history in such markets had to develop novel strategies to manage the host markets' transition from colonies, to developing countries and finally to emerging markets. Developing and maintaining relations with government officials, religious institutions, NGOs, and communities is often a pivotal aspect of managing emerging market environments. For mature subsidiaries, we would benefit from knowing how the experience of managing institutional reforms and decolonialization inform subsidiary management, what dimensions of foreignness remain relevant today (Lu, Ma, & Xie, 2022), and how the duration of host country experiences add to the headquarters' internationalization efforts elsewhere, for example, for rapid expansions or divestitures like we have seen in Russia recently (Kim, Lu, & Rhee, 2012).

History matters in IB and while the management of MNE subsidiaries has been a cornerstone of the IB literature, there is very little work explicitly dedicated to mature MNE

subsidiaries (Decker, 2022). This is remarkable because it was, in fact, the observation of the ubiquitous presence and visibility of these MNEs and the effects they had on the contexts in which they were operating that first captured the attention of scholars from various disciplines. We speculate that this may be due to issues with data collection, availability of country data, and the dominance of mostly Western Universities and English-language journals (books and journals in other languages may offer some more literature on this topic).

Corporate managers need to be aware that managing market entry is 'a different ballgame' compared to running mature subsidiaries as the role of local employees, the nature of government relations, and resource flow between the headquarters and subsidiaries are all strikingly different. Past studies, however, have primarily focused on addressing the government relations of MNEs to explain the early stages of the internationalization. Yet, there is little known about the post-entry evolution of different dimensions of foreignness and tactics in the later phases of mature subsidiaries in emerging markets that may contribute to understanding the liabilities and assets of foreignness.

Recent research suggests that mature subsidiaries require more attention as they behave differently from new market entrants (Röell, Arndt, & Kumar, 2022) in a range of areas. [Table 1](#) offers a 5-point-framework that typifies market entrants and mature subsidiaries and could serve as the breeding ground for this emerging literature stream (for other potential topics see Arndt, Röell, Rodgers, & Rose, 2022).

^a Contact author: farndt@uoguelph.ca

Table 1. Mature subsidiaries as a distinct unit of analysis

Area of research	New market entrants	Mature subsidiaries	Supporting research	Potential research questions
Legitimacy in host markets and crisis	Threshold legitimacy – market entrants are often viewed by local actors with skepticism; may exit a market during crises (e.g., many did during the Asian Financial crisis)	Long-term view and commitment, often with political influence	(Darendeli & Hill, 2016; Elg, Ghauri, & Schaumann, 2015; Röell, Osabutey, et al., 2022)	What are the factors that contribute to building and maintaining lasting legitimacy? What is the role of the country-of-origin effect, what are the liabilities and assets of long-lasting legitimacy?
Extent of local adaptation of subsidiary policies (e.g., diversity, staffing, remuneration and CSR)	Policies are set by headquarters' management, primarily by expatriates	Policies are developed locally, although headquarters maintain influence; subsidiaries interpret global standards to local context	(Chang, Gong, & Peng, 2012; Gaur, Delios, & Singh, 2007; Sluyterman, 2017)	How do MNEs balance the potential benefits and costs in deciding the extent of local adaptation? What is the role and added value of expatriates in longstanding subsidiaries?
Resource management	Foreign subsidiaries are dependent on, and supported, by headquarters	Resources flow both ways	(Minbaeva, Pedersen, Björkman, Fey, & Park, 2014; Mohr, Konara, & Ganotakis, 2020; Rabbiosi & Santangelo, 2013)	How do mature subsidiaries deal with the pressures of investing locally while having to redirect profits to headquarters? What are internal and external changes that occur due to bidirectional resource flow?
Nonmarket strategy	Establishment of networks (sometimes via local partner)	Deeply embedded in political and community networks	(Frost, 2001; Röell, Osabutey, et al., 2022)	What are distinct nonmarket strategies of mature subsidiaries? Are political capabilities dynamic or do they mature?
Identity	Foreign subsidiary / acts as an extension of headquarters	Dual identity - often closer to indigenous firm	(Pant & Ramachandran, 2017)	What is the role of an identity of foreignness in transitional periods? When is foreign identity an asset and when a liability?

MATURE SUBSIDIARIES VS. NEW ENTRANTS

Based on both our own findings and a review of relevant IB literature, we suggest that mature subsidiaries face distinct challenges and behave differently than market entrants. The overview in Table 1 covers those areas that we consider promising research opportunities that would be particularly valuable to MNE subsidiary managers.

First, exploring the management of legitimacy of mature subsidiaries in emerging markets (Elg et al., 2015) offers the opportunity for theoretical contributions to a dynamic and longitudinal view on legitimacy, and may identify potential maturity benefits and liabilities. Successfully managing challenges and putting strategies in place to predict crises are an important part of mature subsidiaries' operations in emerging markets (De Villa, 2023; Röell, Osabutey, et al., 2022). New entrants often neither have the experience nor the trust to prevent or master crises or reforms that change the rules of the game in host countries. Legitimacy may differ from local companies and can be an asset (e.g., country of origin effect) or a liability (e.g., in the case of regime change) in environments that are in constant flux.

Second, the adoption and implementation of subsidiary policies may differ between market entrants and mature subsidiaries. Market entrants often lack experience of both

the market and nonmarket conditions as well as managerial / expatriate expertise when entering a new market that alleviates pressures of isomorphic behavior. In contrast, mature subsidiaries respond differently to institutional friction. Mature subsidiaries are likely more exposed to conflicting demands from their headquarters as well as from their embeddedness in the local culture and norms. Experienced subsidiary managers are more likely to exercise paradoxical thinking while operating with conflicting logics, operate with different mental maps, and interpret strategic issues differently. For example, Röell, Arndt, and Kumar (2022) found that mature subsidiaries frequently engage in more proactive and manipulative institutional strategies to influence government regulations.

Third, instead of receiving support from headquarters like the typical new market entrant, mature subsidiaries frequently control some of the MNE's firm-specific advantages, become 'centers of excellence', and substantially contribute financial and technological resources, and talent to global headquarters (Dellestrand & Kappen, 2012). For example, BMW often sends prospective senior management leaders to their plant in South Africa. It is not uncommon (or even expected) for some of the largest MNEs' for CEOs to have proven their leadership in their biggest or fastest growing subsidiaries in emerging markets. Ethnocentric

staffing policies and attitudes may evolve into more progressive, polycentric attitudes. Polycentrism might hold a key to innovativeness, growth, and subsidiary financial performance (Wang, Kafourous, Yi, Hong, & Ganotakis, 2020) with ample implications for adopting, transforming, and substituting the capabilities provided by the headquarters locally and vice versa. Possibly one of the most interesting questions is how experiences in the subsidiary may inform the internationalization policies of the MNE.

Fourth, nonmarket strategy is crucial for survival in many emerging markets. Deep embeddedness in the host market suggests depth and breadth of social networks, familiarity with formal and informal institutions, culture, commitment to local communities and their sustainability, and being a respected corporate citizen. At the same time, insiders can become outsiders and connections can become liabilities. Advantages gained from years of relationship-building can disappear overnight, for example, when regimes change. Mellahi, Frynas, Sun, & Siegel (2016) offer a framework of the nonmarket strategy – performance relationship that may inform some of the questions of how mature behave differently to other subsidiaries.

Fifth, identities of market entrants and mature subsidiaries may differ. MNEs often experience institutional frictions between the headquarter and local demands. As such, they strive for legitimacy in two distinct yet inter-related institutional contexts. According to Pant and Ramachandran (2017), these two contexts serve as the basis for a dual identity. Dual identity is not a mere constraint but may help to reap the benefits of both contexts (Arndt & Ashkanasy, 2015). Identity also evolves over time. While new entrants are likely to be mere extensions of their headquarters, mature subsidiaries are characterized by their local identity and reputation, polycentric attitudes, their embeddedness into the community and their impact on local stakeholders.

MANAGERIAL IMPLICATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Mature subsidiaries have operated at the forefront of the changing business environment for a long time and control some of the firm-specific advantages of the MNE. The management of these subsidiaries thus not only presents distinct managerial challenges but also provides a foundation for the evolution of the MNE itself. Yet, most MNE subsidiary research focuses on initial market entry and theory development has been limited. In this article, we argued that research on mature subsidiaries offers opportunities to enrich our understanding of IB beyond our current understanding which has primarily focused on new market entrants. We believe that the study of this distinct category of firms offers a unique setting to gain novel insights that have not been fully captured in extant literature. Building on the five research areas identified in [Table 1](#), we provide suggestions for research below that could ultimately be of benefit to practicing MNE subsidiary managers.

The study of legitimacy may be a cornerstone to identify characteristics of mature subsidiaries. Such entities may

enjoy a type of legitimacy that new entrants do not possess and may be skilled in using legitimacy as an asset of foreignness. Institutional conflicts and pressures are evolving and require subsidiaries continuously to reassess their engagement in the host society (Andrews, Fainshmidt, Schotter, & Gaur, 2022). Traditional assumptions about managing legitimacy as the minimum requirement for conducting business abroad might underplay the significance of legitimacy management and related social and political strategies of mature subsidiaries. Research of this type may help MNE managers to better understand opportunities for the co-creation of legislation, how to create new markets, or inform expat managers on what kind of networks to build.

The development of adaptive practices and policies in and for subsidiaries over time may provide distinct benefits to the MNE, but also challenge our assumptions on what, when, and how headquarters may learn from the experiences of its subsidiaries. While we know that internationalization capability can – to some extent – benefit future market entry, mature subsidiaries likely offer a different set of lessons, for example through historical exit and re-entry into the same market, experience in dealing with regime changes and decentralization reforms, or the management of changing value systems such as changes in customer demographics or in the dominance of a particular religion. Such research may be informative for practitioners for managing diversity policies and communication across countries (such as LGBT+ policies), or for firms facing high socio-political risks in the host countries.

Resource management of new entrants and mature subsidiaries not only differs in terms of financial resources that flow between headquarters and a subsidiary, but also in terms of the knowledge and managerial experience that can aid further international expansion. A common assumption in our article has been that mature subsidiaries outperform new entrants in many dimensions. Empirical evidence for this assumption is scarce at best. Indeed, Zhao et al. (2014) found that mature MNE subsidiaries were slow to adapt to the evolving Chinese host society and failed to meet shifting expectations. Managers benefit from this kind of studies by learning how to keep mature subsidiaries agile and prevent potential negative spillovers from headquarters.

The study of socio-political integration of MNEs has attracted much attention. Yet, we do not fully understand the differences between socio-political strategies of new entrants, mature subsidiaries, and local firms. For example, we would benefit from understanding aspects relating to when and under what circumstances MNEs benefit from developing or investing in different networks. This includes the question of differences between the home and host country characteristics of the MNE, for example whether the MNE comes from an emerging or developed market and the implications for building its networking capabilities. For managers, such kind of research may help to build cultural competencies, pitfalls, and allows a better focus on the who, when, and how of sustainable relationship building with communities, governments, and other local stakeholders.

Identity management has become particularly important in recent decades where MNEs have faced increasing scrutiny from organizations and politicians that argue against international operations. Protectionism is on the rise in many parts of the world and a subsidiary's identity may play a crucial part of dealing with local opposition. Perhaps the best way to address the negative perceptions or fear among local authorities and the population of foreign companies entering the market to exploit resources and hurt local jobs and profits is for MNEs to develop a reputation as a corporate citizen with social responsibilities and respect for cultural values. This may involve a long-term commitment to a market, paying sufficient taxes, maintaining stakeholder relations, and investing in corporate social responsibilities. Beyond that, such research helps managers to consider shifting the perspective of a subsidiary by re-defining its identity or in other words building unique advantages from combining the strengths resulting from its embeddedness in the host country and the home country.

Researchers should carefully select the methodological approach that captures and deals with complexity and longevity of contemporary MNEs, capture path-dependencies and contribute to further develop our understanding of the assets and liabilities that mature subsidiaries have developed over time. Overall, managing mature subsidiaries deserve more attention as they offer much ground to reflect on a countries' globalization trajectory, long-term survival, and what it means to be foreign.

ABOUT THE AUTHORS

Felix Arndt is the John F Wood Chair in Entrepreneurship at the Gordon S Lang School of Business and Economics at the University of Guelph, and a Research Fellow at the Center for Business and Sports of the Stockholm School of Economics in Sweden. He currently serves as a Senior Editor of the *Journal of Management and Organization* and Associate Editor at the *British Journal of Management*, *Strategic Change*, and *Business Ethics, Environment, and Responsibility*.

Christiaan Röell is a lecturer (assistant professor) in International Business at the Sheffield Management School, University of Sheffield, UK. Christiaan conducts research on the relationship between multinational enterprises and host governments in emerging markets.

Vikas Kumar is Head of Discipline and Professor in the Discipline of International Business at the University of Sydney Business School. Vikas has previously served as Senior and Reviewing Editor at *Asia Pacific Journal of Management* (APJM) and as Associate Editor at *Cross Cultural and Strategic Management* (CCSM). He was the Editor-in-Chief of *Journal of Asia Business Studies* (JABS) in 2019.

Submitted: September 19, 2022 EDT, Accepted: March 03, 2023 EDT



This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CCBY-4.0). View this license's legal deed at <http://creativecommons.org/licenses/by/4.0> and legal code at <http://creativecommons.org/licenses/by/4.0/legalcode> for more information.

REFERENCES

- Andrews, D. S., Fainshmidt, S., Schotter, A. P. J., & Gaur, A. 2022. Formal institutional context in global strategy research: A layer cake perspective. *Global Strategy Journal*, early view. <https://doi.org/10.1002/gsj.1455>.
- Arndt, F. F., & Ashkanasy, N. 2015. Integrating ambiculturalism and fusion theory: A world with open doors. *Academy of Management Review*, 40(1): 144–147.
- Arndt, F., Röell, C., Rodgers, P., & Rose, E. 2022. The management of longstanding MNE subsidiaries in host countries. *Journal of International Management*, Special Issue, Call for Papers.
- Chang, Y.-Y., Gong, Y., & Peng, M. W. 2012. Expatriate knowledge transfer, subsidiary absorptive capacity, and subsidiary performance. *Academy of Management Journal*, 55(4): 927–948.
- Darendeli, I., & Hill, T. L. 2016. Uncovering the complex relationships between political risk and MNE firm legitimacy: Insights from Libya. *Journal of International Business Studies*, 47(1): 68–92.
- De Villa, M. A. 2023. Assessing Geopolitical Risk: A Multi-Level Approach for Top Managers of Multinationals. *AIB Insights*, 23(1). <https://doi.org/10.46697/001c.67875>.
- Decker, S. 2022. *Postcolonial Transitions and Global Business History: British Multinational Companies in Ghana and Nigeria*. Routledge Taylor & Francis Group. <https://doi.org/10.4324/9781003001058>.
- Dellestrand, H., & Kappen, P. 2012. The effects of spatial and contextual factors on headquarters resource allocation to MNE subsidiaries. *Journal of International Business Studies*, 43(3): 219–243.
- Elg, U., Ghauri, P. N., & Schaumann, J. 2015. Internationalization Through Sociopolitical Relationships: MNEs in India. *Long Range Planning*, 48(5): 334–345.
- Frost, T. S. 2001. The geographic sources of foreign subsidiaries' innovations. *Strategic Management Journal*, 22(2): 101–123.
- Gaur, A. S., Delios, A., & Singh, K. 2007. Institutional environments, staffing strategies, and subsidiary performance. *Journal of Management*, 33(4): 611–636.
- Kim, Y.-C., Lu, J. W., & Rhee, M. 2012. Learning from age difference: Interorganizational learning and survival in Japanese foreign subsidiaries. *Journal of International Business Studies*, 43(8): 719–745.
- Lu, J. W., Ma, H., & Xie, X. 2022. Foreignness research in international business: Major streams and future directions. *Journal of International Business Studies*, 53(3): 449–480.
- Mellahi, K., Frynas, J. G., Sun, P., & Siegel, D. 2016. A review of the nonmarket strategy literature: Toward a multi-theoretical integration. *Journal of Management*, 42(1): 143–173.
- Minbaeva, D., Pedersen, T., Björkman, I., Fey, C. F., & Park, H. J. 2014. MNC knowledge transfer, subsidiary absorptive capacity and HRM. *Journal of International Business Studies*, 45(1): 38–51.
- Mohr, A., Konara, P., & Ganotakis, P. 2020. Explaining the performance of divested overseas subsidiaries. *International Business Review*, 29(1): 101602.
- Pant, A., & Ramachandran, J. 2017. Navigating identity duality in multinational subsidiaries: A paradox lens on identity claims at Hindustan Unilever 1959–2015. *Journal of International Business Studies*, 48(6): 664–692.
- Rabbiosi, L., & Santangelo, G. D. 2013. Parent company benefits from reverse knowledge transfer: The role of the liability of newness in MNEs. *Journal of World Business*, 48(1): 160–170.
- Röell, C., Arndt, F., & Kumar, V. 2022. A Blessing and a Curse: Institutional Embeddedness of Longstanding MNE Subsidiaries in Emerging Markets. *Journal of Management Studies*, early view. <https://doi.org/10.1111/joms.12817>.
- Röell, C., Osabutey, E., Rodgers, P., Arndt, F., Khan, Z., et al. 2022. Managing socio-political risk at the subnational level: lessons from MNE subsidiaries in Indonesia. *Journal of World Business*, 57(3): 101312.
- Sluyterman, K. 2017. Decolonisation and the organisation of the international workforce: Dutch multinationals in Indonesia, 1945–1967. *Business History*, 62(7): 1182–1201.
- Wang, C., Kafourous, M., Yi, J., Hong, J., & Ganotakis, P. 2020. The role of government affiliation in explaining firm innovativeness and profitability in emerging countries: Evidence from China. *Journal of World Business*, 55(3): 101047.

Zhao, M., Park, S. H., & Zhou, N. 2014. MNC strategy and social adaptation in emerging markets. ***Journal of International Business Studies***, 45(7): 842–861.