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Subsidiary Country Managers and Subsidiary Development: Upper Echelons and Resource-based Perspectives

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Subsidiary Country Managers and Subsidiary Development: Upper Echelons and Resource-based Perspectives

ABSTRACT

This article examines the relationship between subsidiary country manager level factors and subsidiary development. As existing research on subsidiaries in multinational enterprises (MNE) has focused on the organizational level, thus overlooking the individual level, it offers little insight regarding the role and importance of country managers for subsidiaries. Drawing upon upper echelons theory, resource dependence theory, and the resource-based view, we argue that subsidiary development is contingent on country manager characteristics, and that country manager assignments are less likely when the host country is perceived as being of limited strategic importance to the MNE. Survey data from 429 foreign-owned subsidiaries in New Zealand provide support for our hypotheses. We derive some theoretical and managerial implications based on the findings.

Keywords: Subsidiary country manager; subsidiary development, upper echelons theory, resource-based view; resource dependence theory; New Zealand.

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INTRODUCTION

Subsidiary management research has received increasing attention in recent years with studies advancing into a number of distinct streams (see Birkinshaw and Pedersen, 2010; Paterson and Brock, 2002). The research, however, still lacks critical mass (Filippov and Duysters, 2014), as a synthesis of the various concepts and findings from the different subsidiary management research streams has not yet emerged (Bouquet and Birkinshaw, 2008). For example, while the research stream on the evolution of subsidiary roles (see Birkinshaw and Pedersen, 2010) offers rich insights into the drivers, outcomes, and processes of subsidiary development, it does not shed light on how the head of a subsidiary or the person responsible for a subsidiary's operations (product-, market- or nation-wide), such as the subsidiary country manager[1], can influence subsidiary strategy and development (Dörrenbächer and Gammelgaard, 2006; Enright and Subramanian, 2007; Schmid et al., 2014; Strutzenberger and Ambos, 2014; O'Brien et al., 2018). Research has largely overlooked subsidiary country managers, focusing instead on organizational level issues (Felin and Foss, 2005; O'Brien et al., 2018).

Notwithstanding this, in management research generally, there is much emphasis on the importance and relevance of top management for a firm. Upper echelons theory argues that CEOs (good or bad) matter for a firm and its performance (Hambrick, 2007; Hambrick and Mason, 1984). Also, based on the resource-based view (see Barney, 1991; Wernerfelt, 1984) and resource dependence theory (Pfeffer and Salancik, 1978), it has been suggested that

[1] The terms subsidiary manager, country manager and subsidiary country manager are used interchangeably throughout this article to refer to the head of a foreign subsidiary, i.e. the person who is responsible for the subsidiary operations (such as managing director, CEO etc.).

subsidiaries can initiate development on their own (Birkinshaw, 1997; Mudambi et al., 2014a), and much of this subsidiary development (particularly through entrepreneurial initiatives) depends on subsidiary managers (Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Geppert, 2010; Keupp, 2008; Monteiro, 2015).

However, there is disagreement among scholars with regard to the role and need for a subsidiary country manager. Bartlett and Ghoshal (2003), for example, argue that the subsidiary country manager is a key management requirement of a subsidiary. Similarly, O'Brien et al. (2018) demonstrate that CEO level characteristics such as their entrepreneurial self-efficacy, can play a role in subsidiary strategy creativity. Conversely, Birkinshaw (1995) and Birkinshaw and Pedersen (2010) claim that most subsidiaries do not in fact require a dedicated subsidiary manager; they are becoming an 'endangered species', and this is particularly so for developed countries. Birkinshaw (1995) argues that the need for having a subsidiary country manager is largely contingent upon the industry to which the subsidiary belongs, and subsidiaries may be administered directly by corporate headquarters (HQ), or alternatively be managed via regional management structures (e.g., regional HQ) of the multinational enterprise (MNE). However, empirical evidence with regard to such claims, as well as the role of the subsidiary country managers is limited, leaving open questions that need to be addressed; such as how subsidiaries can be run efficiently and effectively, or develop, without a country manager.

In an attempt to address this research conundrum of the role of subsidiary country manager vis-à-vis subsidiary development, we pose three research questions: (1) Do subsidiary country managers matter for subsidiary development? (2) Are there specific characteristics related to subsidiary country managers, which are associated with subsidiary development? (3) What factors determine whether a subsidiary is assigned a country manager or not? Drawing on the upper echelons theory (Hambrick, 2007; Hambrick and Mason, 1984), we argue that subsidiary country manager matters for subsidiary and its development, and there are certain characteristics of the managers, which determine subsidiary development. Drawing on the resource-based perspectives of resource-based view (see Barney, 1991; Wernerfelt, 1984) and resource dependence theory (Pfeffer and Salancik, 1978), we argue that there are certain drivers of subsidiary development through which subsidiaries develop resources, capabilities (Birkinshaw, 2014) and resource dependencies in their internal (Mudambi et al., 2014a; Raziq et al., 2019b) and external networks (Achcaoucaou et al., 2014). Subsidiary management research defines subsidiary development in terms of the level of enhancement in subsidiary roles and capabilities (Birkinshaw and Hood, 1998), and looks specifically at drivers such as subsidiary initiative, autonomy, and HQ support (Filippov and Duysters, 2012; Filippov and Duysters, 2014; Pedersen, 2006). Linking these perspectives, we hypothesize that subsidiary country manager is a key driver of subsidiary development (Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Geppert, 2010; Keupp, 2008; Monteiro, 2015; O'Brien et al., 2018; Schmid et al., 2014; Strutzenberger and Ambos, 2014).

We first critically review how subsidiaries may be managed (as some studies suggest) without a dedicated subsidiary manager, and then argue that the development level of subsidiaries may vary across subsidiaries managed with, and without, a country manager. Second, we argue that subsidiary development can be driven by characteristics of the subsidiary country managers such as their nationality, and their local and international managerial experience, as well as the job context such as their posted location (within or outside the host country). Third, we contend that the strategic importance of a host country (i.e. the perceived growth opportunities in the host location) is important for whether or not a subsidiary will be managed by a dedicated country manager, since in such a case it is more likely that the MNE will be willing to invest in the subsidiary. We identify drivers based on the three established perspectives of subsidiary development (i.e. HQ mandated, subsidiary initiated, and local environment driven), which point to a range of drivers of subsidiary development (see Birkinshaw, 2014; Birkinshaw and Hood, 1998; Filippov and Duysters, 2014; Pedersen, 2006; Verbeke et al., 2007).

We draw on survey data from 429 foreign-owned subsidiaries in New Zealand. We choose New Zealand mainly for two reasons. First, the argument that the subsidiary country manager is an 'endangered species' is mainly made with regard to subsidiaries operating in developed countries (Birkinshaw, 1995; Birkinshaw and Pedersen, 2010). New Zealand is a small and geographically remote, developed economy, having a large presence of foreign MNEs (Raziq et al., 2019a), and shares many characteristics with other small developed (mostly Western European) economies on aspects such as economy, political system, technology and infrastructure. While roles of foreign subsidiaries in small developed (but geographically integrated) economies often vary (see e.g., Benito et al., 2003; Delany, 1998; Forsgren and Pedersen, 1998; Hogenbirk and Kranenburg, 2006; Manolopoulos, 2010; Taggart, 1996; Tavares, 2002; Young et al., 2003), the narrow roles (i.e. more localized rather than international roles) of subsidiaries in New Zealand (Raziq et al., 2019a; Raziq et al., 2014) have been ascribed to their geographical remoteness (Harzing and Noorderhaven, 2006).

The claims made by Birkinshaw (1995) and Birkinshaw and Pedersen (2010) about the redundancy of country managers, are based on observations made in the economies of North America and Western Europe. Are such claims applicable to contexts that are more geographically remote from its investors? Large distances from parent headquarters, as is the case of subsidiaries in New Zealand, would presumably pose difficulties in the management of subsidiaries, but the effects of remoteness could potentially be mitigated by assigning dedicated country managers (locals or expatriates). This might make sense particularly as large geographical distances from parent firms may require more personal approaches to subsidiary management. Trustworthy individuals at the subsidiary level is hence seen as useful (Fan and Harzing, 2017; Selmer, 1999) or even necessary for effective management of a subsidiary.

THEORY AND CONCEPTUAL DEVELOPMENT

The concept of subsidiary development emanates mainly from the resource-based view of the firm (RBV) which suggests that a firm's resources and capabilities are the basis for its sustainable competitive advantage (see Barney, 1991; Wernerfelt, 1984). Environments, internal as well as external, provide the subsidiary with various development opportunities, leaving the subsidiary, or more appropriately the subsidiary manager, to identify and respond to threats and opportunities within internal and external environments (Birkinshaw and Hood, 1998; Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Gammelgaard, 2016). What determines if, to what extent, and how effectively, a subsidiary can respond to the threats and opportunities in the internal/external environment is an important question. Studies drawing on resource-based perspectives argue that where a subsidiary possesses unique competences, they develop a resource-dependency power within the MNE, (Dörrenbächer and Gammelgaard, 2011; Mudambi and Navarra, 2004; Mudambi et al., 2014a; Najafi-Tavani et al., 2015) as well as the subsidiary's external environment (Rosenzweig and Singh, 1991; Mudambi and Navarra, 2004). Resource dependence theory suggests this leads to power relationships within firms as well as between firms and other actors (Pfeffer and Salancik, 1978).

In an MNE environment, power gained through competence helps a subsidiary to bargain for its own developmental agendas and to take entrepreneurial initiatives, with the aim of attaining MNE support (in terms of approvals or financial) for their initiatives. However, MNE-subsidiary relationships are often not as simplistic as they may seem in the case of typical monolith firms since subsidiaries are owned and controlled (at varying levels) by the MNE HQ (Birkinshaw and Pedersen, 2010), often leaving the subsidiaries with limited choices with regard to taking initiatives and deciding their scope of activity. Managing complex parent-subsidiary relationships generally requires a capable and proactive subsidiary manager, especially when a subsidiary is competence-creating (Cantwell and Mudambi, 2005), and there are resource-dependence relationships between the subsidiary and the MNE (Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Gammelgaard, 2016; Keupp, 2008; Monteiro, 2015). Upper echelons theory proposes that characteristics of the top managers play a key role in the decisions and ultimately the performance of organizations (Hambrick, 2007; Hambrick and Mason, 1984). Hence, we expect that subsidiary country managers can strongly influence the development of their subsidiary units. Below, we elaborate on various drivers of subsidiary development, with a focus on the role of the subsidiary country manager.

Drivers of Subsidiary Development

Subsidiaries interface with three environments, two of which (subsidiary and MNE) are internal, while the third is external (and typically local). The MNE perspective on subsidiary development argues that subsidiary development is driven by the MNE HQ, as a subsidiary depends on the HQ considerably. The subsidiary perspective maintains that the subsidiary is driven internally through the entrepreneurial initiatives it carries out (see Birkinshaw and Hood, 1998; Verbeke et al., 2007). The local environment perspective suggests that it is the dynamism or development of the local economy and industry that drives subsidiary development (Benito, 2000; Birkinshaw and Hood, 1998). As a subsidiary interacts with all three environments simultaneously, the broader understanding is that the combined interaction of factors in the three environments drives subsidiary development (Birkinshaw and Hood, 1997; Birkinshaw and Hood, 1998; Birkinshaw et al., 2005; Verbeke et al., 2007).

To enhance roles and capabilities, previous studies suggest that subsidiaries need some levels of autonomy, initiative taking, and specialized resources, as well as links in the MNE internal and the external environments (Andersson et al., 2007; Birkinshaw, 2014). For example, Pedersen (2006) taking subsidiary autonomy (as a HQ determinant), subsidiary initiative (as subsidiary choice), and local suppliers' quality and customers' demands (as local environment determinant), finds that the drivers of subsidiary development correlate with each other. Other studies, such as Chen et al. (2013), Egeraata and Breathnacha (2012), Filippov and Duysters (2012), and Golikova et al. (2011) report similar findings on subsidiary development. Also, Filippov and Duysters (2014) identify subsidiary local embeddedness as another driving factor for subsidiary development, which is often seen as a factor through which subsidiaries develop competences and gain influence in the MNE (Andersson et al., 2007).

However, subsidiaries face dual pressures with regard to their role, strategy, and development, in the fact that they need to be aligned with the external environment as well as the internal environment (Rosenzweig and Singh, 1991). Based on their MNE strategy, subsidiaries may either be locally responsive, and/or globally integrated (Jarillo and Martínez, 1990; Prahalad, 1976), and are likely develop resource dependencies accordingly (Rosenzweig and Singh, 1991). For improved performance, subsidiaries may be externally embedded and draw on local resources (Andersson and Forsgren, 1996), or internally embedded (or standardized) and draw on parent firm-specific advantages (Zaheer, 1995). External embeddedness may also lead to development of competences at the subsidiary level, but to transfer such competences across the MNE requires a level of internal integration (Andersson et al., 2007), which also enables the subsidiary to benefit from the pre-existing competences at the MNE level. Consequently, recent research has emphasized the role of dual embeddedness for subsidiaries to develop and transfer competences internally (Achcaoucaou et al., 2014; Bresciani and Ferraris, 2016; Ciabuschi et al., 2014; Pu and Soh, 2017).

Subsidiary embeddedness in the external (Dellestrand, 2011), as well as the internal environment (Pu and Soh, 2017), leads to both development of a subsidiary and increased strategic importance for the subsidiary, and thus improves its bargaining power. This is particularly likely when the subsidiary develops competences that are deemed as more specialized than elsewhere in the MNE, and when the subsidiary shares such competences with the MNE network (Birkinshaw et al., 1998; Cavanagh and Freeman, 2012). Enhanced competence of the subsidiary, which it shares within the MNE, leads to a structural and/or resource dependency subsidiary power in the MNE network (Dörrenbächer and Gammelgaard, 2011). The subsidiary may use such power in its bargaining with the HQ, to promote its role development, and/or to otherwise pursue its independent agenda (Mudambi and Navarra, 2004; Mudambi et al., 2014a; Festing et al., 2007). However, as discussed earlier, a subsidiary is legally owned by the MNE, which balances or moderates any sort of subsidiary power that the subsidiary may seek to exercise over the MNE (Andersson et al., 2007). Using power on the part of the subsidiary requires care and caution. Evidence suggests that subsidiaries have been downgraded to the extent of being dissolved upon attempts at dictating the MNE on the basis of their competences (Dörrenbächer and Gammelgaard, 2011). The complex HQ-subsidiary relationships, thus, require a cautious and capable subsidiary manager for the subsidiary to exercise its competence-based bargaining power in the MNE.

Role of the Subsidiary Country Manager

Developing sustainable subsidiary roles and handling complex HQ-subsidiary relationships judiciously are challenging activities, and likely contingent on the capabilities of the subsidiary country manager (Birkinshaw, 2014; Strutzenberger and Ambos, 2014; O'Brien et al., 2018; Schmid et al., 2014). As above, upper echelons theory (Hambrick, 2007; Hambrick and Mason, 1984) argues that the subsidiary country manager (good or bad) matters for a subsidiary and its development. In line with that, empirical evidence suggests that managers, especially CEOs, play a key role in firms' internationalization and performance (Hsu et al., 2013). Also, in the today's globally competitive environments, the subsidiary manager job has become more complex, and they are expected to contribute to the MNE in terms of developing innovations, but at the same time expected to be integrated with the MNE (Mudambi, 2011; O'Brien et al., 2018). Subsidiary country managers hence have to maintain a dual focus, as well as keeping an eye on appropriate global best practices for the subsidiary (Pudelko and Harzing, 2007; Pudelko and Harzing, 2008).

The resource-based perspectives of RBV (Barney, 1991; Wernerfelt, 1984) and resource dependence theory (Pfeffer and Salancik, 1978) argue that there are certain drivers of subsidiary development through which subsidiaries develop resources, capabilities (Birkinshaw, 2014) and resource reliance in their internal (Mudambi et al., 2014a; Raziq et al., 2019b) and external networks (Achcaoucaou et al., 2014). Research proposes that subsidiary country manager is a key driver of subsidiary development (Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Geppert, 2010; Keupp, 2008; Monteiro, 2015; O'Brien et al., 2018; Schmid et al., 2014; Strutzenberger and Ambos, 2014). In this vein, earlier research, such as Bartlett and Ghoshal (2003), suggests three roles for the subsidiary country manager: (*i*) sensing/interpreting threats and opportunities in the local market; (*ii*) developing subsidiary resources and capabilities; and, (*iii*) contributing/participating actively in the MNE global strategy. These roles are, arguably, directly or indirectly related to the drivers of subsidiary development. The first relates to the subsidiary manager's entrepreneurial drive; it is important to sense threats and opportunities in the market and revise the subsidiary strategy accordingly. The second relates to maintaining and improving subsidiary resources/capabilities, which is central to achieve subsidiary development. The third relates to the MNE strategy with respect to the subsidiary; the subsidiary manager learns which strategy (such as a responsive strategy or an integration strategy) is better for the subsidiary and so suggests to the MNE the appropriate strategy for the subsidiary.

Similarly, with regard to the HQ-subsidiary relationship and competence-based power, a country manager can be instrumental in increasing subsidiary power gained through resource dependencies. In some cases, the HQ may hesitate to use formal/legal power if it fears that the subsidiary manager may react by taking subsidiary competences as hostage. Then again, HQ managers could always threaten to fire the subsidiary manager, and which case the competences of the subsidiary would remain intact, unless they are highly co-specialized with the knowledge of the subsidiary manager. In the latter case, the subsidiary country manager would have substantial power in negotiations with the HQ. Consequently, we argue that subsidiary development is contingent upon a dedicated subsidiary country manager, and hence hypothesize that:

> **Hypothesis 1:** The likelihood of subsidiary development is higher for subsidiaries managed by a designated country manager than for subsidiaries managed without a designated country manager.

According to upper echelons theory (Hambrick, 2007; Hambrick and Mason, 1984), a firm's performance, strategic choices, and outcomes are greatly dependent on the characteristics of its top management. Drawing on this perspective, studies have examined top management characteristics such as age, educational level, prior managerial experience, nationality (e.g. expat/local), as well as compensation and location effects vis-à-vis firm performance and outcomes (Hambrick, 2007; Hambrick, 2007; Hsu et al., 2013; Piaskowska, 2017; Sekiguchi et al., 2011; Storey, 1994). With regard to MNE-subsidiary relationships, previous studies have also examined characteristics of subsidiary managers such as their ability to build internal networks and relationships within the MNE, negotiate with the MNE with regard to subsidiary initiatives, as well as lobbying and issue-selling to the MNE (see for example Birkinshaw and Ridderstråle, 1999; Dörrenbächer and Gammelgaard, 2016; Monteiro, 2015).

In the context of subsidiary managers' personal motives, studies have examined the importance of career paths, aspirations, position, and interest, for resource mobilization within the MNE (Becker-Ritterspach and Dörrenbächer, 2011) and for subsidiary managers' entrepreneurial orientations (Dörrenbächer and Geppert, 2009). These studies suggest the role of subsidiary manager matters, and that their characteristics are significant predictors of subsidiary roles and capability enhancement. Likewise, an important characteristic for subsidiary development is the country manager's location. With regard to location, Raziq (2015) points to subsidiary operations being assigned to managers who are not locally based but take on several foreign management responsibilities simultaneously.

Hsu et al. (2013) report that CEOs' education and international experience are important for subsidiaries' internationalization and performance. Similarly, Pangarkar and Hussain (2013) find that subsidiary managers' international experience has a positive effect on the internationalization of their unit. Studies have also highlighted the subsidiary country manager's international experience as a significant predictor of subsidiary development. For example, Piaskowska (2017) argues that the negative influences of subsidiary internal isolation on a subsidiary capability and performance can be mitigated, or even made positive, by their manager's international experience; such managers have broader visions, and they are better able to come up with an appropriate strategy with regard to the situation at hand (Levy et al., 2007). These arguments suggest that subsidiary development varies with characteristics of the subsidiary country manager such as location (host or foreign) and prior managerial experience. Therefore, we hypothesize that:

Hypothesis 2a: The level of subsidiary development varies with respect to the subsidiary manager's location (host or foreign), such that managers that are locally-based are more likely to develop their subsidiaries than managers located abroad.

Hypothesis 2b: The level of subsidiary development varies with respect to the subsidiary manager's prior managerial experience, such that managers with broader managerial experience are more likely to develop their subsidiaries than managers with narrow managerial experience.

Besides location and managerial experience, another important characteristic for subsidiary development could be the country manager's nationality, in particular whether they are locals or expatriates (i.e. parent country (PCN) or third country nationals (TCN)). However, research on the benefits versus the challenges of using local or foreign managers remains inconclusive. For example, studies such as Benito et al. (2005), Harzing et al. (2015), Kawai and Strange (2014), Sekiguchi et al. (2011), Theodorakopoulos et al. (2012), Kong et al. (2018) and Vlajčić et al. (2019) indicate benefits of expatriation in terms of performance, governance and executive costs, knowledge transfer mechanisms, diverse experience and internal relationships, and cultural intelligence. Other studies, such as Black and Gregersen (1999), Groh and Allen (1998), Welch (1951), and Andersson et al. (2015) question expatriates' capability, contribution and loyalty to the MNE, and effectiveness in knowledge transfers.

It is important to note that there are preconditions with regard to the drivers of subsidiary development. For example, Dörrenbächer et al. (2013) and Tao et al. (2017) suggest that subsidiaries led by parent country nationals are less autonomous, less embedded externally, and perform poorer compared to subsidiaries managed by local managers. This is generally consistent with the literature on global strategy (Ghoshal and Bartlett, 1990; Jarillo and Martínez, 1990; Prahalad and Doz, 1987), and subsidiary external embeddedness (Andersson and Forsgren, 1996), which implies that subsidiary local managers are better able to contribute in terms of subsidiary roles and capability development.[2] In case the subsidiary is autonomous and has local networks, it is likely to develop competencies that can be shared within the MNE (Andersson et al., 2014). Subsidiaries that share their competencies and resources with the MNE have more freedom from the MNE to undertake their own strategies (Festing et al., 2007; Mudambi et al., 2014a; Raziq et al., 2019b). Similarly, with regard to subsidiary country manager location, a locally-based subsidiary manager is better able to develop local networks and take autonomous initiatives than a manager located in another country. Based on the above, we hypothesize that:

> **Hypothesis 2c:** The level of subsidiary development varies with respect to the subsidiary managers' nationality (parent or third country expat or host country national), such that management through expatriation will influence subsidiary development negatively.

So far, we have mainly discussed subsidiary development in the context of the subsidiary and its manager. However, the importance of the subsidiary country manager may also depend on the outlooks of MNE and the host location. As noted earlier, local host environments provide a variety of opportunities for subsidiaries and their parent MNE. They offer certain country-specific advantages, which MNEs may use to their advantage in terms of

[2] In the sense of being more autonomous and having more external relationships compared to expatriates.

exploration or exploitation. Some locations are perceived by MNEs as being of high strategic importance with growth opportunities for subsidiaries, while others are perceived as being less important. Presumably, for host locations perceived as having growth and development opportunities for the subsidiary and the corporation, the MNE would be more observant about them. For such locations, the MNEs would likely have greater management requirements and expectations, making them altogether more complex, since the host location attractiveness would potentially increase competition for the MNEs and their subsidiaries. In such a situation, the MNE would seek to manage the subsidiary through their most capable people (Adler and Ghadar, 1993). Given that those considered for country manager positions are drawn from the set of especially talented human resources in an MNE, this suggests that host location should be an important contingency for the assignment of a country manager.

Taking a resource-based perspective (such as the RBV), one would argue that subsidiaries develop through their unique resources and capabilities (Birkinshaw, 2014), and the subsidiary country manager would be a key resource for the subsidiary (O'Brien et al., 2018). Similarly, host locations offering better growth opportunities to the subsidiaries are more liklely to lead the subsidiaries towards a competitive advantage as subsidiaries there develop networks and learn and collaborate with their networks (Andersson et al., 2014). HQs are often aware (or are interested to know) of subsidiaries' local environments and their networks (Dellestrand and Kappen, 2011). So, in cases where the subsidiary host location provides opportunities, the MNEs should also be more likley to assign a dedicated country manager to their subsidiary. Likewise, from a resource-dependence perspective, subsidiaries, based on their unqiue competencies, can develop resource dependencies in the host location (Rosenzweig and Singh, 1991; Mudambi and Navarra, 2004), which is more likely to occur in host locations that provide sufficient opportunities to the subsidiary in exploration or in further developing their competencies (Andersson et al., 2014), or where there are sufficient opportunities to exploit the firm-specific advantages (Zaheer, 1995). So, if the host location is perceived by the MNE as having a high growth potential for the subsidiary, the focal subsidiary should be more likely assigned a country manager. While in general, managing a subsidiary without a designated country manager carries risk, the potential advantages that a subsidiary manager can offer to the MNE are more important than any costs of employing a country manager (Benito et al., 2005). Conversely, MNEs are more likely to employ a country manager where they see high growth opportunities for the subsidiary. Hence, we hypothesize that:

> **Hypothesis 3:** The likelihood of a subsidiary being assigned a country manager is positively associated to parent MNEs' perceptions of a subsidiary's potential growth opportunity in the host country.

We depict Hypothesis 1 and Hypotheses 2a, 2b and 2c in Figure 1, and Hypothesis 3 in Figure 2.

***** Insert Figure 1 here *****

***** Insert Figure 2 here *****

DATA AND METHODS

Data were collected through a survey, conducted in 2012-2013, aimed at covering the population of foreign subsidiaries in New Zealand. A sampling frame of 952 entities was developed from the databases of Kompass New Zealand, and Company Office New Zealand, covering all the registered foreign subsidiaries in New Zealand. A total of 429 complete responses were received providing a response rate of 45 percent, which is well above typical response rates in international business and management research (Harzing, 1997).

Variables, Measurement and Analysis Techniques

For research questions 1 and 2, our independent variable involves the subsidiary manager (and their professional characteristics) and the dependent variable is subsidiary development. Research question 3 involves two variables, where the independent variable is the subsidiary importance and growth opportunities and the dependent variable is the subsidiary country manager. Below, we describe our variables.

Subsidiary Country Manager

Our measures of the subsidiary country manager and their professional characteristics are based on Dörrenbächer and Geppert (2009), and Storey (1994). The variable country manager measures whether the subsidiary is allocated a subsidiary country manager or not. Their measured characteristics are nationality, location (office address), and prior managerial experience.

Subsidiary Development Drivers

Existing studies have operationalized the concept of subsidiary development mainly through multiple drivers (Birkinshaw and Hood, 1998; Filippov and Duysters, 2014; Pedersen, 2006), rather than attempting to obtain a direct measure of subsidiary development. For identifying key drivers for subsidiary development, we rely on previous studies of subsidiary development, as described in the following.

Subsidiary Initiative. The subsidiary initiative construct is developed from Birkinshaw (1997), and is categorized into local, initiative, and internal initiatives. It measures the extent to which the subsidiary has taken local, global, and internal initiatives in the last five years prior to the survey.

Subsidiary Autonomy. The subsidiary autonomy construct is taken from Birkinshaw et al. (1998), Gammelgaard et al. (2012), and Gammelgaard et al. (2011), and is categorized into strategic and operational autonomy. It measures the extent to which the subsidiary has autonomy over decisions of strategic and operational nature.

Subsidiary Contributory Role. Subsidiary contributory role is taken from Birkinshaw et al. (1998), and measures the extent to which the subsidiary provides inputs such as R&D, product development etc., to the MNE as a whole.

Subsidiary Capability. Subsidiary capability is developed from Birkinshaw and Hood (1998), and captures managerial perceptions with regard to how they compare their subsidiary management capability with the capabilities of other units of the MNE.

External Embeddedness. External embeddedness is taken from Gammelgaard et al. (2011) and measures the extent to which the subsidiary makes collaborative agreements with local New Zealand firms.

MNE Entrepreneurial Culture. MNE entrepreneurial culture is taken from Birkinshaw et al. (1998) and examines the extent to which the MNE supports the subsidiary entrepreneurial/risk taking behavior.

Local and International Competition. Subsidiary local and international competition is taken from Birkinshaw et al. (1998) and Verbeke et al. (2007) and measures the extent to which the subsidiary faces competition in the local as well as international markets.

Subsidiary Internal Isolation. Subsidiary internal isolation is taken from Berry et al. (2010), and measures the extent to which the subsidiary is distant from or connected to the MNE network.

MNE Openness in Subsidiary Development. MNE openness towards subsidiary development is taken from Birkinshaw (1999), Birkinshaw et al. (1998), and Birkinshaw and Ridderstråle (1999). It measures the extent to which the MNE is open towards investment for the subsidiary, as well as the extent to which the subsidiary has requested and/or received investment support for their initiatives in the five years prior to the survey.

Network and Relationship with HQ. Network and relationship with HQ is taken from Birkinshaw and Ridderstråle (1999) and measures the extent to which the subsidiary manager has developed personal relationships at the HQ and how such have helped gaining the HQ support for initiatives.

Subsidiary Importance and Growth Opportunities. The subsidiary importance and growth opportunities construct is based on Dunning and Lundan (2008), and measures the extent to which the MNE sees the subsidiary host location as a place for the subsidiary to grow.

With regard to *measurement*, the constructs subsidiary autonomy, initiatives, contributory role, capabilities, MNE entrepreneurial culture, and MNE openness towards subsidiary development are made up of multiple items, and, accordingly, their scores are aggregated to form composite variables. The items as well as the constructs' Cronbach's alpha values are reported in the appendix section (Table A). The Cronbach's alpha values range from 0.62 (Internal Initiatives) to 0.83 (Strategic Autonomy), with most being around 0.7, which according to Hair Jr et al. (2016) are acceptable values for reliability. With regard to subsidiary requests and reception of MNE initiative support (for the MNE openness towards subsidiary development construct), the resource support requested has three options: N/A (not applicable) (0), No (1), and Yes (2). The resource support received has four options: N/A (0), None (1), Partial (2), and Full (3). Similarly, the subsidiary country manager construct is measured as follows: (a) subsidiary has a country manager [No (0), and Yes (1)]; and, (b) subsidiary country manager is located in NZ [Yes (0), and No (1)]. Subsidiary manager prior managerial experience measures the local and international managerial experience of the country manager as: None (1), less than 5 years; (2), 5 to 10 years (3); and more than 10 years (4). All other constructs were measured on 5-point Likert scales.

With regard to *analysis*, for Hypothesis 1, we examine how subsidiaries vary in terms of drivers of subsidiary development across either a subsidiary managed by a country manager, or without a country manager. Since the answer to whether a subsidiary is managed with or without a subsidiary manager is binary (0,1), we use analysis of variance technique to test the hypothesis. For Hypotheses 2a, 2b, and 2c, we also use analysis of variance to examine subsidiary manager location, taking location as a binary variable (0,1). For the other dimensions (i.e. prior managerial experience and nationality), we employ linear regression. We analyze the effects of prior managerial experience by using four independent variables reflecting subsidiary manager prior work experience with: (a) same company in NZ; (b) same company outside NZ; (c) another company in NZ; and, (d) another company outside NZ. We run 17 regression equations; one for each of the 17 dependent variables (see Table 3). Similarly, we analyze effects of nationality by using two independent variables; PCN expatriation and TCN expatriation. Again, we run 17 regression equations, i.e. one for each of the 17 dependent variables (see Table 4). For Hypothesis 3, we employ logistic regression, taking the presence of subsidiary country manager as a binary dependent variable (0,1). Apart from the regressions in Table 3, which due to missing values on managers' experience were run on a subset (N=173) of the data material, the analyses were conducted on the complete data set (N=429).

We include three control variables in the regressions: subsidiary age (1 if less than 5 years; 2 if between 5-10 years; 3 if between 11-20 years; and, 4 if >20 years), subsidiary size (1 if <50 employees; 2 if 50-200 employees; 3 if 201-500 employees; 4 if 501-1000 employees;

and 5 if >1000 employees], and subsidiary country of origin[3] (USA (1), Australia (2), European (3), and Others (4)). To get further insights on the profile of the subsidiary managers based on their prior managerial experience, we employ two-step cluster analysis, and to see how local and international experience link to each other, we employ correlations technique.

As indicated earlier, subsidiary development is an abstract construct, but can be mapped through multiple factors, with which the subsidiary interfaces. In this study, we focus on eleven subsidiary development drivers, and while all are deemed important, we cannot expect that all of them will be unequivocally impacted by our independent variables; after all, subsidiary development is driven by a variety of environmental factors. In order to systematically examine our hypotheses, we develop an index across the drivers, assigning them equal weights (i.e., 1 / 11 = 0.091). We set a threshold of 0.5 and consider the hypothesis as supported if the sum of the weights equals 0.5 or above; below 0.5 we regard the hypothesis as not supported.

RESULTS

Checks for common method variance using Harman's (1967) single factor test and non-response bias using the extrapolation method suggested by Armstrong and Overton (1977), indicate that data are neither affected by common method nor non-response biases. As mentioned, the autonomy and initiative constructs' categories are based on previous research, but we also conducted an exploratory factor analysis to establish confidence in the three categories – the loadings for the factors (categories) turned out to be above 0.6, hence adequate to form factors (MacCallum et al., 1999).

The sample is comprised of subsidiaries belonging to MNEs headquartered in 36 different home countries, with Australia (114 subsidiaries) and USA (111 subsidiaries)

[3] Based on the responses we decided to divide the country of origin into four categories as most of them were either from two countries (USA and Australia) or one region (Western Europe): 135 subsidiaries from Western Europe, 114 subsidiaries from Australia, 111 subsidiaries from US, and 69 subsidiaries from elsewhere.

providing the bulk of foreign investors in New Zealand. Around 60 percent of these subsidiaries are more than 20 years old, while only around 6 percent are less than 5 years old. Regarding size, just about 53 percent of subsidiaries have less than 50 employees, and only 6 percent have more than 500 employees. A majority of subsidiaries (55 percent) are in the services sector, with 44 percent being in manufacturing, and just a tiny fraction (1 percent) operating in the primary sectors. The survey reveals that a clear majority (just over 90 percent) of subsidiaries in New Zealand have a country manager. Specifically, 391 subsidiaries have a country manager and 38 subsidiaries do not have a country manager[4]. These results suggest that the subsidiary country manager is not an endangered species.

Hypothesis 1 posits that subsidiaries managed by a country manager are more developed than subsidiaries managed without a country manager. The results shown in Table 1 reveal that subsidiaries managed by a dedicated country manager score higher in terms of autonomy (both strategic and operational), capability, contributory role, initiatives (local, global, and internal), internal networks and relationships, and receive stronger MNE support for their development, and have higher growth prospects than the subsidiaries managed without a country manager. Examining the index, we find statistically significant differences at $p < 0.05$ for seven subsidiary development drivers (index score 0.637), which is above the threshold of 0.5. So, Hypothesis 1 gets considerable support in our data.

***** Insert table 1 about here *****

With regard to country manager characteristics such as location, prior managerial experience, and nationality, the study identifies 14 subsidiaries (with their HQ based in the

[4] Among the subsidiaries considered as having dedicated country managers, one US–owned manufacturing subsidiary is managed by two country managers, having divided the management task into two. Three other manufacturing subsidiaries are also managed in somewhat unconventional ways; one is managed directly by regional headquarters, one by divisional headquarters, and one managed under a joint local management.

USA, Australia and European countries) with a country manager who is not based in New Zealand, most of whom reside in Australia (10).[5] In terms of prior managerial experience, two-thirds of the country managers had more than 10 years of experience with other corporations in New Zealand, and less than a half had more than 10 years of experience with the same MNE in New Zealand. With regard to experience with either the same or another MNE overseas, only just 10 percent of managers had more than 10 years of overseas experience. Barely a quarter of subsidiaries are managed by expatriates, and then predominantly by PCNs. This finding is consistent with Harzing et al. (2015), who report that the majority of expats are PCNs.

With regard to Hypothesis 2a, results displayed in Table 2 show that subsidiaries with a locally-based country manager have significantly higher levels on only one dimension of subsidiary development – subsidiary autonomy (both operational and strategic) – so Hypothesis 2a is not supported.[6]

***** Insert table 2 about here *****

Regarding the prior managerial experience profile of subsidiary managers, the cluster analysis indicates three distinct groups *($p < 0.001$)* of managers in New Zealand who tend to have either a domestic or a domestic/international outlook: (a) more years of experience with same and other organizations in New Zealand (43.4 percent); (b) more years of experience with other organizations in New Zealand and abroad (18.5 percent); and, (c) less years of experience overall (38.2 percent). We examine further the associations between the managerial experience gained abroad in the same company and experience gained abroad in another company, which turns out to be positive ($r = 0.441$, $p < 0.01$). Conversely, the associations between domestic

[5] For one case we were advised by the company operations in New Zealand that the survey was sent to Australia to be filled in by the manager responsible for New Zealand operations there. The filled survey was then returned to us via the subsidiary in New Zealand.

[6] Our data also indicate that in case of locally-based subsidiary managers, the subsidiaries are more externally embedded, receive higher levels of parent resource support, and are viewed (by the HQ) as having higher growth potential, but the caveat here is that the differences are statistically significant only at $p < 0.10$, and even if we add up these dimensions there is no clear support for Hypothesis 2a.

and international experience are consistently negative; managerial experience within the same company in New Zealand correlates negatively with experience abroad, both within the same company (r = -0.240, $p < 0.05$) and from another company (r = -0.340, $p < 0.01$). Likewise, prior domestic managerial experience gained in another company is negatively associated with managerial experience abroad in the same company (r = -0.530, $p < 0.01$).

Turning to Hypothesis 2b on the impact of prior managerial experience on subsidiary development, results indicate that subsidiary managers' overseas experience with other corporations is positively associated with subsidiary operational autonomy, contributory role, initiatives (local and global), and entrepreneurial culture. The subsidiary managers' overseas experience from within the same corporation is negatively associated to subsidiary internal isolation and the MNE perceptions about subsidiary importance and growth opportunities. The subsidiary managers' experience from other corporations in New Zealand is positively associated with subsidiary operational autonomy, MNE perceptions about subsidiary importance and growth opportunities, and local initiatives. Finally, the subsidiary managers' experience with the same corporation in New Zealand is positively associated with only one dimension of subsidiary development; i.e., strategic autonomy. We find statistically significant differences at $p < 0.05$ for six subsidiary development drivers[7] (i.e. subsidiary autonomy, internal isolation, contributory role, initiatives, subsidiary importance and growth opportunities, and entrepreneurial culture), resulting in an index score is 0.546, slightly above the threshold of 0.5. Hypothesis 2b is, therefore, supported.

***** Insert table 3 about here *****

[7] Besides these, two other drivers (i.e., subsidiary capability and external embeddedness) are also positively associated with subsidiary managers' experience with other companies in New Zealand, but the significance level is only at $p < 0.10$. It should be noted though that the analyses for Hypothesis 2b were done on a subset of the data,, which entailed some loss of statistical power.

With regard to Hypothesis 2c about subsidiary manager nationality, the regression analysis (Table 4) shows that subsidiary autonomy (both strategic and operational), capability, and initiatives (local and global) are negatively affected by expatriation (both PCN and TCN). TCN expatriation is negatively associated with subsidiary initiative resource requests from the HQ, whereas PCN expatriation is negatively associated with subsidiary international market competition but positively with subsidiary external embeddedness. In all, we find statistically significant differences at $p < 0.05$ for six[8] subsidiary development drivers making our index score 0.546, which is above the threshold of 0.5. Hence, Hypothesis 2c is also supported.

***** Insert table 4 about here *****

Finally, Hypothesis 3 asserts that host locations perceived as offering higher growth opportunities for the subsidiary are more likely to have an assigned subsidiary country manager. The logistic regression model shows an overall prediction success of 91.1 percent. Testing the full model against a constant-only model provided statistically significant results, thus indicating that the predictors together reliably distinguish between subsidiaries with a country manager and subsidiaries without a country manager (chi square = 15.009, $p < 0.01$ with df = 4). The Hosmer-Lemeshow test shows a significance value of 0.585, indicating that the model is a good fit. Results (see Table 5) show that perceived growth opportunities in the host country strongly increase the likelihood of employing a country manager by a factor of just above 1.6 when growth opportunities are high. Our Hypothesis 3 is, therefore, also supported.

***** Insert table 5 about here *****

[8] In addition, TCN expatriation negatively links to subsidiary contributory role, and PCN expatriation negatively links to MNE support behaviour towards subsidiary initiatives, and subsidiary importance and growth opportunities, but again the significance level here is only at $p < 0.10$.

Taken together, our study provides four key findings: (1) subsidiaries are more likely to develop where the subsidiary is managed by a dedicated country manager (compared to when the subsidiary is managed without a country manager); (2) subsidiary development is positively influenced by the subsidiary manager's broader managerial experience; (3) subsidiary development is negatively influenced by subsidiary management through expatriates; and, (4) subsidiaries are more likely be assigned a country manager if the parent MNE has positive expectations about the host country in terms of providing growth opportunities to the subsidiary.

DISCUSSION, IMPLICATIONS AND LIMITATIONS

Our study of a large number of subsidiaries in New Zealand lends little support to the claims made by Birkinshaw (1995) and Birkinshaw and Pedersen (2010) that there is only a latent need for subsidiary country managers. The large number of subsidiary country managers in a small developed economy like New Zealand demonstrates that MNEs continue to recognize the importance of subsidiary country managers. We do not rule out the possibility that subsidiary management by dedicated subsidiary managers are perhaps more pronounced in New Zealand due to the country's geographical remoteness, which may demand personal approaches to subsidiary management. However, at least one other study from Ireland, another small developed economy (but rather less isolated geographically) provides similar findings (O'Brien et al., 2018). This indicates that the importance of subsidiary country managers continues to be well recognized by MNEs.

The study indicates that subsidiary management by a country manager is associated with higher levels of subsidiary development. These are new findings as research has been sparse on subsidiary development drivers with respect to the role of subsidiary country managers. Our main argument is that subsidiary development is influenced by the designated role of the subsidiary manager, and that subsidiaries are less likely to develop on their own without a subsidiary country manager.

Our results show that subsidiaries managed by a country manager score higher on local, internal and global initiatives than subsidiaries managed without a country manager, which suggests that entrepreneurial initiative is positively linked to the subsidiary country manager. Bartlett and Ghoshal (2003) propose that key roles of subsidiary manager are sensing/interpreting threats and opportunities in the local market and enhancing subsidiary resources and capabilities. Our results suggest that subsidiaries managed by a country manager are more likely to respond to such threats/opportunities (through initiatives) not just in the local but also in the global and internal markets. We also find that subsidiaries managed by a country manager score significantly higher in terms of capabilities and contributory roles – with that we offer some support to the Bartlett and Ghoshal (2003) conjecture above on subsidiary managers' role in enhancing subsidiary capabilities.

Although we did not find support for our hypothesis regarding subsidiary manager location and a range of subsidiary development drivers, we do find that subsidiary managers located in the host country report higher discretion on strategic and operational decisions. Autonomy is a key determinant of subsidiary development, both from the subsidiary and the HQ perspective (Birkinshaw, 2014; Pedersen, 2006), and subsidiary managers play a role in bargaining with the HQ in terms of issue-selling and initiatives (Dörrenbächer and Gammelgaard, 2016).

Regarding managers' experience, our results from cluster analysis suggest that MNEs in New Zealand predominantly follow a local hiring policy, while other MNEs rely on locals/expatriates with broader local/international experience. Results from correlations analysis show that local experience is negatively linked with overseas experience supporting the conjecture above that some MNEs in New Zealand have a preference for managers with local knowledge, while others have preference for managers with international experience. However, we principally find that broader managerial experience (i.e., subsidiary managers having local/international experience of organizations other than the focal subsidiary) is associated with higher levels of autonomy, contributory role, initiatives, strategic entrepreneurship (MNE supports entrepreneurial culture in the subsidiary), better perceptions about the subsidiary growth opportunities in the host location, and low internal isolation. Piaskowska (2017) proposes that subsidiary isolation (or distance) can be positive if the subsidiary country manager has international experience. Our results align with her proposition and suggest that such cases are particularly likely when the subsidiary country manager has international experience, but within the same corporation. We also add to this discussion by demonstrating that managers' international experience help lowering the internal isolation between the MNE and a focal subsidiary, which is important since internal isolation tends to harm subsidiary performance and capability development (Monteiro et al., 2008). Internationally experienced managers not only have broader visions (Levy et al., 2007), but are also more likely to be recognized across the MNE, which helps reducing internal distances. We find that subsidiary managers' experience with the same organization in New Zealand has positive impact on only one driver of subsidiary development; subsidiary autonomy. Our findings suggest that broader managerial experience matters for subsidiary development such that where the subsidiary manager has experience from other organizations (local or international), the subsidiary has a higher likelihood to develop.

An interesting finding from this study is that subsidiary managers' overseas experience from within the same MNE is negatively associated with perceptions about subsidiary importance and growth opportunities, whereas subsidiary managers' experience from other corporations in New Zealand is positively associated with perceptions about subsidiary importance and growth opportunities. Generally, it would be expected that managers with broader managerial experience gain MNE confidence and credibility (Birkinshaw, 1999), and increase expectations about what the subsidiary manager can deliver, leading to positive views by MNEs about the opportunities that host locations provide for subsidiary growth. However, our findings suggest that the key factor here – at least in the New Zealand context – is that subsidiary managers have experience from other organizations than their parent MNE.

Regarding subsidiary country manager nationality, our findings indicate that subsidiary development is less favored by expatriates. These results are consistent with Dörrenbächer et al. (2013) suggesting that subsidiaries managed by expats are limited in autonomy. Furthermore, the negative associations between expatriation and subsidiary initiatives, initiative support requests from HQ, and subsidiary capability, suggest that expats take a less entrepreneurial and developmental role, and perhaps that they are less willing to take risks. Furthermore, we find that expatriation is negatively linked to international market competition, which points to expat managers being less geared towards change due to the typically short durations of their assignments (Welch, 2003). However, we also find a positive association between PCN expatriation and external embeddedness, suggesting that expatriates seek and learn from local firms. That in turn supports our conjecture above that host country growth potential may promote assignments of (trustworthy home country) individuals as subsidiary managers.

Consistent with our expectation, the study shows that subsidiaries perceived as offering high growth opportunities are more likely to be assigned a country manager. Another interesting finding is that subsidiary age increases the likelihood of a subsidiary being assigned a country manager. Adler and Ghadar (1993) suggest that MNEs go through four distinct time-stages in their internationalization; domestic, growth and internationalization, multinationalization, and globalization. With each stage of internationalization, the complexity of the MNE's activities and management increases in terms of cultural sensitivity, language, geographical dispersion, control and integration needs, and global competition. MNEs usually begin employing expatriates in the second and third stages, but due to increased complexity in stage four, MNEs may employ either a local or an expatriate as they are seeking the best person for the job (Adler and Ghadar, 1993). Although we do not measure the stage of internationalization of focal subsidiaries, the association between subsidiary age and using a subsidiary country manager is consistent with the conjecture of Adler and Ghadar (1993).

Implications for Theory

We have some theoretical implications with regard to subsidiary manager characteristics and host country growth opportunities. First, drawing on the upper echelons theory, we have argued that subsidiary development is driven by the characteristics of the subsidiary country manager. Upper echelons theory has been used mainly to study organizational performance and outcomes, but rarely in terms of subsidiary development. We demonstrate the applicability of the theory by showing that characteristics of subsidiary manager, principally their experience, is related to subsidiary development.

Our second theoretical implication relates to the resource-based view, which has been criticized for not addressing adequately how firms develop resources (Fiol, 2001; Hoopes et al., 2003). We examine a range of subsidiary development drivers and find that they are positively linked to subsidiary managers and their characteristics. Previous research on the evolution of subsidiary roles has mainly taken organizational (Birkinshaw, 2014; Birkinshaw and Hood, 1998) and external perspectives (Benito, 2000; Benito et al., 2003) on subsidiary development, and limited the discussion about subsidiary managers to their issue-selling and networking skills (Dörrenbächer and Gammelgaard, 2016). In this study, we take an individual-level approach and argue that subsidiary managers' characteristics are key contingencies for subsidiary development. Being a key intangible resource for the organization, subsidiary managers are crucial for subsidiary development, and potentially also help improve subsidiaries' capacity to develop competitive advantages for the MNE as a whole (Rugman et al., 2011). Furthermore, the host locations offering better growth opportunities are more liklely to lead the subsidiaries managed by dedicated country managers towards a competitive advantage.

Our third theoretical implication is with regard to the resource-dependence theory. Most research based on resource-dependence theory has focused on how firms engage in resource exchanges in their local environment, but overlooked how such exchanges are influenced across (national) borders (Rosenzweig and Singh, 1991). To the extent research has dealt with international contexts, it has taken an MNE internal perspective at the organizational level, i.e. subsidiary competence-based resource dependency and power (Mudambi and Navarra, 2004; Mudambi et al., 2014a; Mudambi et al., 2014b). By taking an individual-level perspective, we demonstrate how subsidiaries can also gain power (in their relations with HQ) through forming people-based internal resource dependencies in the MNE. Our findings suggest that subsidiaries have more pronounced contributory roles when they are managed by dedicated and internationally experienced subsidiary managers. The resource dependence theory in essence involves the relationships of external environment with the actors and organizations, so with regard to the external environment, the subsidiary based on its competencies may also develop resource dependencies over the host location (Rosenzweig and Singh, 1991; Mudambi and Navarra, 2004). Taking the subsidiary manager as a key driver of subsidiary resource dependency, we imply that external resource dependencies can develop between the subsidiary and the host country based on the percieved growth opportunities in the host market.

Implications for Management Practice

Our study has several implications for management practice; the most important is that subsidiaries benefit from having dedicated country managers. While costly, the potential advantages of having a country manager rather balance the costs. Subsidiaries managed by country managers score on average higher on capability and contribution than subsidiaries managed without country managers. This is important for the MNEs also as they seek to have subsidiaries that can contribute to MNE firm-specific advantages (Cantwell and Mudambi, 2005). Furthermore, there is a scope for MNEs to recruit managers who have broader managerial experience (both local and international).

An implication for the MNE is that assigning short-term expatriates may not be fruitful. Expatriates may perhaps serve a narrow purpose of providing HQ control over the subsidiary (Benito et al., 2005), but are less conducive to subsidiary development. From the viewpoint of the subsidiary, expatriates being temporary assignees may not have such dedication that long-term assignees (such as local managers) may have towards their subsidiary development. This is an important implication for the HQ, since the MNE as a whole may benefit from the development of a subsidiary. But there is a flip side of the coin, since expatriates may potentially contribute indirectly to subsidiary development. Our results suggest that managers with broad experience from the parent MNE can be instrumental in reducing the internal isolation of a subsidiary. These expatriates have moved from one location to another, thereby amassing broad knowledge and expertise. Also, as senior executives are engaged in foreign assignments, their commitment to the MNEs as well as their contacts throughout the MNE also increase making such individuals formidable instruments for integration and sharing across MNE units. In our study, this is illustrated by PCNs displaying high likelihood of making external linkages, even though evidence otherwise suggests that foreign subsidiaries in New Zealand are low in their external embeddedness (Raziq, 2015; Scott-Kennel, 2007).

Limitations and Future Research

A limitation of this study is that we do not have a broader construct of subsidiary development. Existing studies focus on select drivers of subsidiary development and lack in developing one broader construct due to the concept being complex and multifaceted (involving internal and external environmental factors which vary across context). As cautioned earlier, not every subsidiary development driver here is influenced by subsidiary country manager. While our index approach was useful in making inferences, it is difficult to state conclusively that some subsidiary development factors matter more and some less.

Another limitation is that we are measuring the nationality construct with an explicit focus on expatriation and less on the management by host locals. Because our approach has been to measure the extent of expatriate (both TCNs and PCNs), the results are more informative about expatriates than about local managers. A measure of locals versus expatriates would have been useful to explain the effects of nationality (local versus foreign) on subsidiary development drivers. We recommend that future research includes measures that capture the use of locals and expatriates more precisely.

This study looks at one economy only, which is a key contextual limitation. Still, it has value as being among the first studies on the subject. Additionally, we also have confidence that the results from this study are generalizable and applicable beyond its empirical context, especially to subsidiaries in other small and developed economies, such as those in Europe. New Zealand shares many characteristics such as politics, economy, and infrastructure, with those countries, although its geographic isolation remains a distinctive feature of New Zealand. As a corollary, this may require MNEs to suitably adapt their management and control approaches for subsidiaries in New Zealand. Nonetheless, further studies from other small and developed economies would prove useful in providing a more comprehensive picture.

A key methodological limitation of this study is its cross-sectional design, and this is more prominent with the (dynamic) concept of subsidiary development, which ideally warrants a longitudinal design. Also, although we have employed conventional and typically robust empirical methods of analysis, our findings can only suggest association rather than causality. Future studies should probe deeper by collecting data over time, and using more advanced analytical approaches, with the aim at uncovering the underlying mechanisms involved in the relationships between characteristics of subsidiary country managers and factors such as subsidiary entrepreneurship, innovation, and capability development. Regarding empirical issues, future studies should also seek ways to improve the measures of some of the subsidiary development drivers, which only attained moderate reliability values in our study.

Finally, research on subsidiary development suggests that studies should be conducted at multiple levels rather than at a single organizational level (Birkinshaw, 2014; Schmid et al., 2014; Strutzenberger and Ambos, 2014). In this examination, we integrate two levels: The individual manager and the subsidiary organization. We thereby offer a broader understanding of subsidiaries and their role development. However, future studies may also include the MNE HQ level along with the subsidiary and subsidiary manager levels, thereby uncovering how MNE subsidiaries develop resources and capabilities through which they can gain influence in the MNE. Bringing the HQ level into perspective should improve our understanding of how subsidiaries may provide a competitive edge to the MNE as a whole.

CONCLUSIONS

This study has addressed several research gaps due to the limited understanding of the role of subsidiary country managers. The study has four key findings: (1) subsidiaries are more likely to develop they are managed by a dedicated country manager; (2) subsidiary development is positively influenced by subsidiary managers’ broader managerial experience; (3) subsidiary development is negatively influenced by subsidiary management through expatriates; and, (4) subsidiaries are more likely to be assigned a country manager if the parent MNE holds positive views about the host country in terms of providing growth opportunities to the subsidiary. We conclude that subsidiary country managers are not an endangered species and their role is not decreasing as opposed to what has been proposed by earlier studies. Country managers can be key drivers of their subsidiary development.

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Figure 1: Subsidiary manager characteristics, and subsidiary management and development.

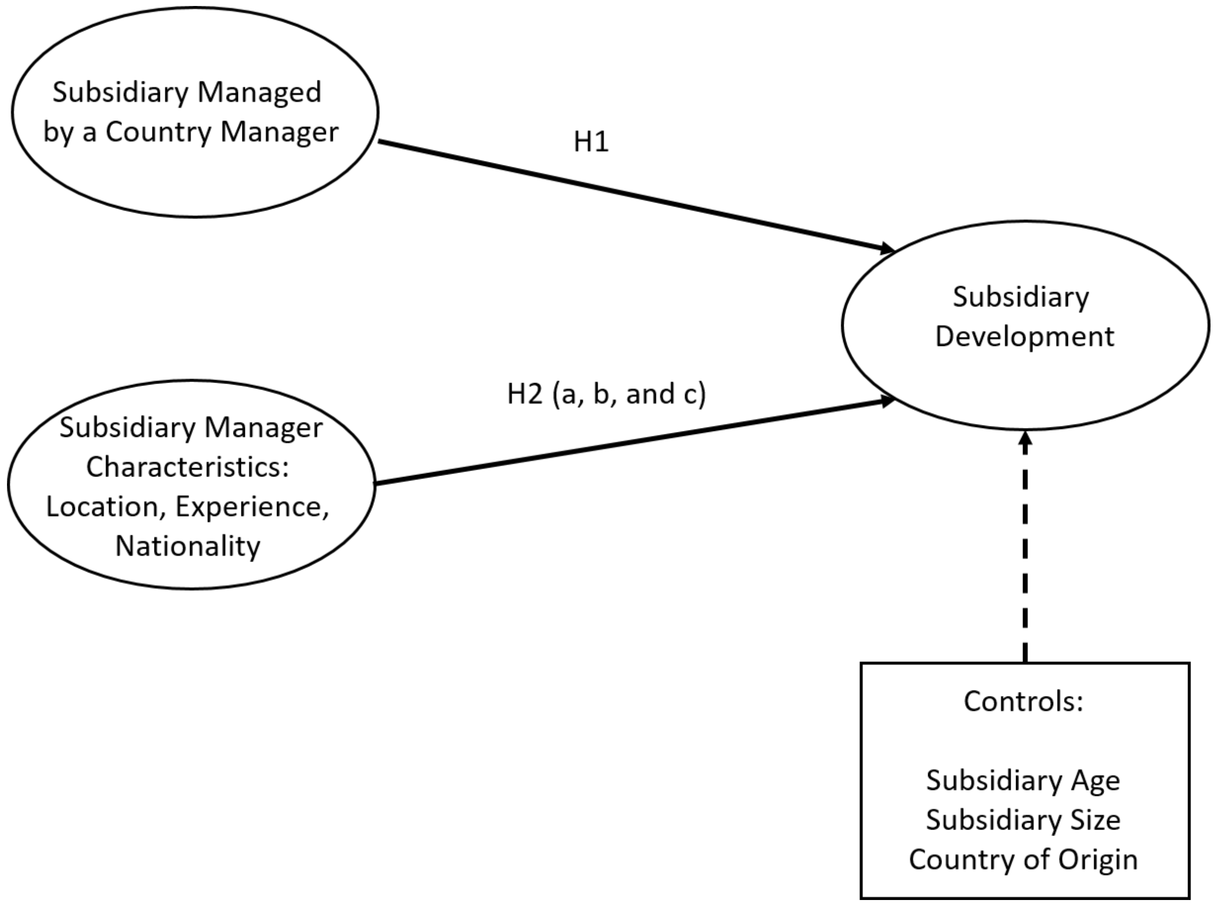

Figure 2: Host country growth opportunities and subsidiary managed by a country manager.

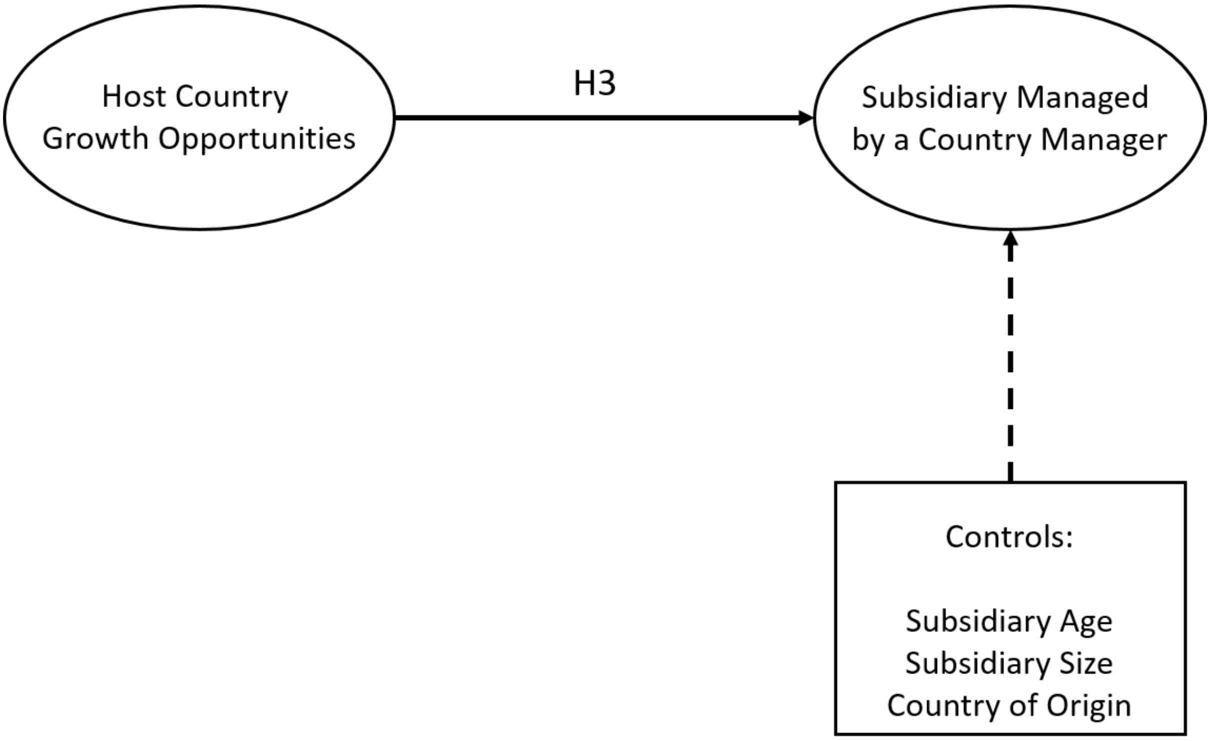

Table 1: Analysis of variance of subsidiary development drivers between subsidiaries managed with versus without country manager – Hypothesis 1 (N=429).

Subsidiary Development Drivers	**Subsidiary Country Manager** ‘Subsidiaries with a Country Manager (Y)’ **versus** ‘Subsidiaries without a Country Manager (N)’		
	Mean Rank (N)	Mean Rank (Y)	H (Chi-Square)
Subsidiary Autonomy			
Strategic Autonomy	130.01	219.17	19.057***
Operational Autonomy	145.71	217.79	12.410***
MNE Openness towards Subsidiary Development			
MNE Support Behavior	159.91	216.55	7.335***
Parent Resource Support Requested	175.91	215.15	4.866**
Parent Resource Support Received	170.19	215.65	5.124**
Subsidiary Internal Isolation	31.42	38.04	0.559
Subsidiary Capabilities	15.33	39.46	8.248***
Subsidiary Contributory Role	178.62	214.92	7.129***
Subsidiary Initiatives			
Local Initiative	136.69	218.58	17.072***
Global Initiative	150.66	217.36	10.392***
Internal Initiative	150.60	217.37	10.993***
Subsidiary Local and International Competition			
Local Market Competition	200.85	212.97	0.404
International Market Competition	201.94	212.88	0.267
Subsidiary External Embeddedness	210.13	212.16	0.010
Subsidiary Importance and Growth Opportunities	158.28	216.70	7.931***
Network and Relationship with HQ	147.49	217.64	10.906***
Entrepreneurial Culture	25.17	38.59	2.179

Notes: **(p<0.05); ***(p<0.01).

Table 2: Analysis of variance for subsidiary development drivers between locally-based versus overseas-based subsidiary manager – Hypothesis 2a (N=429).

Subsidiary Development Drivers	**Subsidiary Country Manager** ‘Locally based Country Manager (L)’ versus ‘Overseas based Country Manager (O)’		
	Mean Rank (L)	Mean Rank (O)	H (Chi-Square)
Subsidiary Autonomy			
Strategic Autonomy	199.74	122.71	7.232***
Operational Autonomy	199.66	125.04	6.745***
MNE Openness towards Subsidiary Development			
MNE Support Behavior	197.41	158.07	1.796
Parent Resource Support Requested	196.61	179.64	0.458
Parent Resource Support Received	197.87	145.54	3.409*
Subsidiary Internal Isolation	35.17	32.25	0.086
Subsidiary Capabilities	34.99	35.13	0.000
Subsidiary Contributory Role	196.68	177.64	0.458
Subsidiary Initiatives			
Local Initiative	197.33	160.21	1.802
Global Initiative	197.43	157.50	1.868
Internal Initiative	197.08	166.79	1.153
Subsidiary Local and International Competition			
Local Market Competition	197.72	177.39	0.572
International Market Competition	196.60	207.86	0.142
Subsidiary External Embeddedness	197.88	145.43	3.357*
Subsidiary Importance and Growth Opportunities	197.74	149.07	2.806*
Network and Relationship with HQ	196.23	189.82	0.046
Entrepreneurial Culture	34.27	38.25	0.155

Notes: *(p<0.1); **(p<0.05); ***(p<0.01).

Table 3: Regression analysis of effects of subsidiary manager work experience on subsidiary development drivers – Hypothesis 2b (*N*=173).[(a)]

Subsidiary Development Drivers	**Subsidiary Country Manager's Prior Work Experience** (Country Manager's Prior Work Experience)			
	Same company experience in NZ	**Same company experience outside NZ**	**Other company experience in NZ**	**Other company experience outside NZ**
	B	**B**	**B**	**B**
Subsidiary Autonomy				
Strategic Autonomy	0.083**	0.020	0.069*	0.068
Operational Autonomy	0.018	-0.018	0.079**	0.096**
MNE Openness towards Subsidiary Development				
MNE Support Behavior	-0.040	0.015	0.072	0.069
Parent Resource Support Requested	0.002	0.023	0.014	0.029
Parent Resource Support Received	-0.028	0.046	0.034	0.015
Subsidiary Internal Isolation	0.020	-0.238**	0.154	-0.193
Subsidiary Capabilities	-0.032	-0.109	0.187*	0.104
Subsidiary Contributory Role	0.071	-0.001	0.107	0.236***
Subsidiary Initiatives				
Local Initiative	0.020	0.017	0.074**	0.093**
Global Initiative	0.056	0.054	0.010	0.152***
Internal Initiative	0.013	0.029	-0.009	-0.206*
Subsidiary Local and International Competition				
Local Market Competition	0.114	-0.021	0.012	-0.029
International Market Competition	0.052	0.035	-0.013	0.078
Subsidiary External Embeddedness	0.002	0.028	0.180*	-0.002
Subsidiary Importance and Growth Opportunities	0.022	-0.118**	0.134**	-0.032
Network and Relationship with HQ	-0.042	0.050	0.044	0.024
Entrepreneurial Culture	-0.203	0.030	0.276	0.448**

Notes: (a) Controlling for subsidiary age, size and country of origin; B are standardized/beta coefficients; *(p<0.10); **(p<0.05), ***(p<0.01).

Table 4: Regression analysis of effects of subsidiary manager nationality on subsidiary development drivers – Hypothesis 2c (*N*=429).[(a)]

Subsidiary Development Drivers	**TCN Expatriation**	**PCN Expatriation**
	B	**B**
Subsidiary Autonomy		
Strategic Autonomy	-0.092**	-0.108**
Operational Autonomy	-0.138***	-0.097**
MNE Openness towards Subsidiary Development		
MNE Support Behavior	-0.087*	0.031
Parent Resource Support Requested	0.007	-0.490**
Parent Resource Support Received	0.066	0.042
Subsidiary Internal Isolation	0.058	0.034
Subsidiary Capabilities	-0.151***	-0.046**
Subsidiary Contributory Role	-0.028	-0.069*
Subsidiary Initiatives		
Local Initiative	-0.104**	-0.085**
Global Initiative	-0.108**	-0.117**
Internal Initiative	-0.038	-0.026
Subsidiary Local and International Competition		
Local Market Competition	0.042	-0.036
International Market Competition	-0.142**	0.037
Subsidiary External Embeddedness	0.107**	0.054
Subsidiary Importance and Growth Opportunities	-0.114*	-0.021
Network and Relationship with HQ	0.053	-0.044
Entrepreneurial Culture	-0.186**	-0.009

Notes: (a) Controlling for subsidiary age, size and country of origin; B are standardized/beta coefficients; *(p<0.10); **(p<0.05), ***(p<0.01).

Table 5: Logistic regression analysis of subsidiary importance and growth opportunities as a determinant of country manager assignment – Hypothesis 3 (*N*=429).

Subsidiary Characteristics	**Coefficient (Wald Statistic)**	**EXP(B)** [(a)]	**95% Confidence Interval for EXP(B)**	
			Lower	**Upper**
Subsidiary Importance and Growth Opportunities	0.495 (12.396)***	1.641	1.246	2.162
Subsidiary Age	0.368 (4.183)**	1.445	1.015	2.055
Subsidiary Size	-0.056 (0.101)	0.946	0.670	1.334
Country of Origin	0.030 (0.030)	1.030	0.736	1.444

Notes: (a) EXP(B) is the exponentiation of coefficients, i.e. the odds ratios for the predictors; **(p<0.05); ***(p<0.01)

Appendix

Table A: Description of variables.

Variable Name	Variable Components	(Cronbach's alpha)	Mean
Subsidiary Autonomy	**Strategic Autonomy** • Hiring senior officials • Outsourcing product/services • Market development • Product development • Annual budget setting • Changes in organization of activity • Financing • Choice of technology	0.832	3.47
	Operational Autonomy • Changes in standard operating procedures • Changes in product/service design • Day to day management	0.680	3.75
Subsidiary Importance and Growth Opportunities*	Growth opportunities for the subsidiary in the host country*	-	2.89
Subsidiary Local and International Competition	Level of subsidiary: • Local market competition • International market competition	-	3.38 2.59
Network and Relationship with HQ	Personal contacts in HQ and investment support*	-	2.48
Subsidiary Manager's Characteristics	• Subsidiary has a Country Manager • Country Manager Located in NZ • Country Manager's Prior Work Experience • Host Country Experience o With same MNE o With another corporation • Overseas Experience o With same MNE o With another corporation	-	2.6 1.93 2.75 1.82
Subsidiary External Embeddedness*	Subsidiary collaborative agreements with local firms	-	1.96
MNE Entrepreneurial Culture	• MNE encourages subsidiary risk-taking behavior • MNE supports subsidiary entrepreneurial activity	0.815	4.58
Subsidiary Internal Isolation*	• Subsidiary isolation from the MNE	-	4.15
Subsidiary Contributory Role	Extent of the subsidiary activity: • R&D for the whole MNE • Product management for the whole MNE • Supply inputs to the MNE as a whole	0.757	1.68
MNE Openness Towards Subsidiary Development	MNE support behavior • Getting investment support from the parent is easy • MNE investment support requires less negotiation		2.44

Variable Name	Variable Components	(Cronbach's alpha)	Mean
	• Investment support for projects not strategically aligned with the MNE objectives are supported by the parent	0.694	
	Resource support for subsidiary initiatives (in last 5 years) * • Resource support requested • Resource support received	-	1.14 0.91
Subsidiary Capabilities	Subsidiary resource/capability relative to the MNE: • New product development • Cost control • Personnel development • Product quality • Innovation • Sales growth • Market share	0.694	4.54
Subsidiary Initiatives	Engagement in following activities in last 5 years? **Local Initiatives** • Offering new products/services to host country • Enhancements to existing products/services • Market development • New technology adaptation	0.668	2.97
	Global Initiatives • Developed new products/services to be sold internationally • Expanding R&D activity	0.693	1.97
	Internal Initiatives • Transfer of production process to host country • Acquisition of local companies • Expanding company operations in host country	0.619	1.89

*****Single item construct