Using Personnel to Develop Networks: An Approach to Subsidiary Management

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Abstract

The interaction model has provided a useful analytical tool to explore relationships which extend beyond the original industrial marketing and purchasing context.

This paper outlines subsidiary networks and the resultant relationships. Three possible networks are identified: HQ - subsidiary; subsidiary-to-subsidiary; subsidiary-and external environment. Staffing decisions are examined as a means of developing subsidiary network relationships. These networks are then considered as a potentially important tool in facilitating the management process, thereby enhancing the ultimate effectiveness of the subsidiary and overall global operations.
The interaction model has contributed much to our understanding of relationships between business parties, and has provided a useful analytical tool to explore both intraorganization and interorganization linkages and relationships.

The concept of a network is built upon social exchange theory and the resultant relationships between actors. The exchange process that over time leads to the development of interdependent activities links the actors into a network, and the survival of the network depends on continuing exchange activities (Thorelli, 1986; Håkansson and Snehota, 1989; Andersson et. al 1990). The strength of a network depends on how the various actors perceive the value of the relationships, and this will vary over time. Network management involves considerable and multifaceted effort (Thorelli, 1986).

Much of the early work in developing the network model focused on industrial marketing situations. This framework has since been applied in studies of a growing range of industries and functions — for example, professional services (Yorke, 1990); relationship banking (Turnbull and Gibbs, 1990); technology (Welch, 1985). However, the role of networking in the process of managing multinational organizations has as yet received limited attention. It is this application of the interaction model which is the subject of our paper.
The paper has two aims: first, to identify the nature of subsidiary networks, and second, to establish the contribution staffing decisions can make, not just to the development and maintenance of networks, but as a mechanism for managing subsidiary (and thereby global) performance.

NATURE OF SUBSIDIARY NETWORKS

A subsidiary of a MNC is part of a complex system of multiple linkages of internal and external relationships. It is possible to identify three network systems in which the subsidiary is embedded. The purpose of the classification is to provide a starting point for conceptualization, and it is recognized that these three categories are not necessarily all encompassing. Also, it is stressed that they are not mutually exclusive -- rather, the interconnection of the various systems gives rise to a complex web of linkages.

Network Systems

Between headquarters and subsidiary

The linkages between headquarters and its various subsidiaries has been the subject of much research. As Martinez and Jarillo (1989) report, studies have looked at these relationships mainly in the context of control and coordination where the linkages were described formally via the organisation structure and standardized procedures; and informally through interpersonal contact and socialization.
The early studies of headquarter-subsidiary relationships tended to stress the flows from headquarters to subsidiary. However, the interaction may develop into a complex process in which the subsidiary could be an important initiator of exchanges and the resultant networks. For example, Andersson et al (1990) have noted that for firms which are relatively internationalized "the former periphery of subsidiaries has developed into significant centres for investments, activities and influence" (p.2). As Figure 1 illustrates, the interaction process between headquarters and a given subsidiary is likely to be dyadic, between various actors, at many different organizational levels, covering different exchanges, the outcome of which will be important for the effective global performance. For example, subsidiary managers can resist attempts to centralise decision-making as part of a headquarters driven globalization strategy (Morrison et al 1991).

Figure 1
Headquarter-Subsidiary Network

- Headquarters
  - exchange of resources, information, power

- Subsidiary A

  contribution to global strategy and operations
Between Subsidiaries

Each subsidiary, being part of a MNC, is thereby an element of its organization system and the formal and informal linkages between the other units (subsidiaries) in this MNC network, as illustrated in Figure 2. These are largely prescribed by the structural and procedural mechanisms of the parent company, which over time evolve into important institutionalized linkages as part of the MNC's control and coordination process.

Figure 2
Subsidiary to Subsidiary Network

The relationships built between subsidiaries have important consequences for the overall performance of the MNC, as well as individual subsidiaries. As Thorelli (1986) points out, friction and conflict are an important aspect of a network and this is particularly so here, given the interdependencies and interconnectedness inherent in the subsidiary-to-subsidiary network which is also heavily influenced by the separate headquarter-subsidiary networks. The resultant relationships (outcomes of power and position within this intraorganizational network) also
affect individual subsidiary performance and promotion possibilities of the key subsidiary actors in this network. For example, headquarter's policy on intracompany purchases may affect each subsidiary's overall performance. Also, in striving for competitiveness the MNC may opt for an integrated linkage of production plants, but the effectiveness of this strategy depends partly on how the broader networks between subsidiaries are developed and managed. It is therefore important that intraorganizational, intersubsidiary networks are effectively managed to decrease dysfunctional conflict and enhance global performance. As Ghoshal and Bartlett (1990) argue, there is a need for further investigation of the lateral network relations among the different subsidiaries to develop a better understanding of the causes and consequences of horizontal interdependencies and synergy.

Between subsidiary and the external environment
As the early work into the Interaction Approach found, an organization is embedded in a range of relationships in its external environment (Ford, 1990). There are three groups of external relationships relevant to the subsidiary which can serve as a focus of analysis of network development.

a) local
The interface between the subsidiary and its local environment, as illustrated in Figure 3, can be delineated according to its interaction with numerous parties: suppliers, customers, host government, local labour, local competitors, and its stakeholders.
(eg. subsidiary board). The local industrial network is of a different character to that between subsidiaries and headquarters as it is interorganizational in nature, and contains a broader range of players, and thereby relationships.

Figure 3
Subsidiary and Local Actors

Local Suppliers \rightarrow Subsidiary Board
Local Labour
Subsidiary A
Local Competitors
Host Government
Customers

Interactions with members of the above network are crucial to subsidiary performance and will be affected by factors such as position in the network (Thorelli, 1986). This point is often not understood by international firms when entering a new market. For example, acquisition is an important foreign market entry mode and can give network advantages, as indicated by the experience of two Australian companies. Friendly relationships built up over many years between the owners of the Australian security firm Mayne Nickless and the family-run Loomis security firm based in Seattle assisted not only in a smooth acquisition of the US firm, but enabled Mayne Nickless to gain entry to a key network. It immediately accessed the support and advice of people experienced in the US trucking business and relations with government personnel.
(especially the Interstate Commerce Commission). Gaining entry into this local industry network is not easy, as another Australian transport company, TNT, found. Its endeavours to establish a subsidiary in the US were hampered by opposition from local labour unions, who are key actors in the local trucking network (Korporaal, 1985).

The value of local networks is sometimes not understood when acquisition decisions are made by headquarters staff. If this lack of appreciation is carried through to the post-acquisition stage, the newly acquired subsidiary may underperform. This was the case for the Australia New Zealand Banking Group (ANZ)\(^1\) when it acquired the London-based Grindlays plc. The acquisition gave the Australian bank immediate access to financial networks in about 40 countries. Failure to appreciate the value of these networks meant that key relationships were not nurtured and, as a result of key staff leaving, the networks were effectively degraded. This situation was compounded by an initial decision to leave the ANZ and Grindlays as separate organizations. These factors contributed to the ANZ's difficulties in turning around the acquisition.

b) foreign

The type of networks that a subsidiary develops in foreign markets can be similar to those in its immediate local environment. Normally though, it could be expected that these will be less complex and less extensive than those applying locally.

\(^1\) Data used in this paper, unless otherwise stated, is taken from an interview-based study of four Australian international companies (Welch D., 1990)
The exact nature and extent of the foreign networks will depend on the form of foreign operations that the subsidiary establishes. This may vary from, for example, licensing or exporting through to a fully operational manufacturing facility (Luostarinen and Welch, 1990). It is not uncommon for Australian subsidiaries of foreign companies to be made responsible for the establishment and management of subsidiaries in New Zealand. The type of network systems established in such cases may be little different from those operating in the Australian subsidiary's local environment. It is interesting to note that Ford Canada was responsible for the establishment of subsidiaries in the former British Commonwealth countries (South Africa, Australia, New Zealand, India and Malaysia). Similarly, the Canadian subsidiary of McDonald's established the joint venture operation in Moscow. With simple exporting, it is likely that the foreign market networks will be less extensive. Of course, much depends on the foreign marketing role to which the subsidiary is assigned by the parent.

c) alliance partners

While alliance arrangements are a subset of 3a and 3b above, separate analysis is appropriate, given their increasing usage (Morris and Hergert, 1987; Scott-Kemmis, 1990) and the diverse network implications involved. The exact nature of networks in this category however depends on the form of the alliance and whether it is in a local or foreign environment. Of course, the term "alliance" itself is subject to a variety of interpretations but may be viewed as similar to the concepts of cooperative
venture, collaborative agreement, or corporate linkage - of which one form may be a joint venture arrangement (Auster, 1987; Luostarinen and Welch, 1990). From a network perspective, each party brings to the alliance its own network system, elements of which have to achieve a sufficient degree of cooperation for the alliance to function. Cascio and Serapio (1991), stressing the personnel aspects of such network linkages, classify cooperative ventures according to the extent to which the collaboration requires interaction among people and generate a spectrum of collaborative interfirm dealings on this basis.

Ultimately, the success of the alliance will depend heavily on how well the networks are able to be linked and managed over time. In an arrangement which joins two competitors, the potential for network conflict may well be increased because the alliance relationship might interfere with other networks in which the parties are already embedded. Individual actors may face a conflict of interest between commitment to the alliance and commitment to other, long established network relationships.

A Complex Web

Clearly, when all of the potential networks of a subsidiary are added together, as in Figure 4, the linkages produce a complex web of intricate relationships.
The way in which both intra and inter-organizational networks, and the total integrated web are nurtured will play a key role in the performance of the subsidiary and ultimately affect global MNC performance. As Håkansson and Snehota (1989) state:

The performance and effectiveness of organizations operating in a network, by whatever criteria these are assessed, become dependent not only on how well the organization itself performs in interaction with its direct counterparts, but also on how these counterparts in turn manage their relationships with third parties. An organization's performance is therefore largely dependent on whom it interacts with (p.196).

The interrelationships between the various networks can have positive benefits as, for example, when linkages in one network assist a firm in gaining entry into another. This was the case for
the Australian company Ansell International when it established its first manufacturing plant offshore in Malaysia. Ansell was virtually unknown to local industrial network actors. However, its parent company, Pacific Dunlop, had a link (previous equity holding) to the British Dunlop rubber company, which had a long established position in the local Malaysian network. Key actors in the local network associated Ansell with the British rubber company, thus allowing Ansell staff entry into this important local network.

However, managing this complex web of relationships is a challenging exercise for both parent and subsidiary. Factors such as centrality and control play a key role in the managing process. As Andersson et.al (1990) argue:

the presence in an industrial network, as a basis for the control of a unit, is decided both from the importance of the network to other parts of the internationalized firm and the subsidiary's position in the network in comparison with other units of the internationalized firm (p.7).

That is, if the subsidiary holds a central position in its local network, then headquarter's ability to influence certain subsidiary decisions is considerably lessened. Ghoshal and Bartlett (1990) make a similar point. These authors use the example of the Australian subsidiary of Ericsson, which used its connections with "the Australian Post and Telegraph authorities" to justify the establishment of a very high level of R & D activity in Australia rather than Sweden. Indeed, headquarter's ability to influence subsidiary decisions and activities depends on more than formal control mechanisms. As Thorelli (1986) reminds us, power and information may be more important than the flow of money and
utilities. A common response has been to use trusted headquarter staff in key subsidiary positions in order to protect headquarter's interests.

STAFFING DECISIONS

A key aspect of managing the subsidiary, as shown in Figure 5, concerns staffing decisions. People are the key links in network relationships. However, staffing decisions may be, and often are, taken without regard to their effect on network relationships, even though this may be critical to ultimate subsidiary performance.

Figure 5
The Use of Personnel in Developing Networks and Managing the Subsidiary

Subsidiary Management Process

\[ \downarrow \]

Staffing Decisions

\[ \downarrow \]

initiate, maintain, enhance

Subsidiary Networks

. Headquarter-Subsidiary
. Subsidiary-Subsidiary
. Subsidiary-External Environment

\[ \downarrow \]

Subsidiary and Global Performance
Because network relationships are built and maintained through personal contact, staffing decisions are crucial to the effective management of the linkages in the various networks in which the subsidiary is embedded. As Thorelli (1986) remarks:

Networking places a new emphasis on personnel. Power, expertise, perceived trustworthiness and social bonds are often person-specific rather than firm-specific. A good example is the ability of account executives to take clients with them as they move from one advertising agency or law firm to another (p.47).

Selection of staff

Selecting the right people is, and always has been, a crucial issue for MNC performance. As Duerr (1968) has pointed out:

virtually any type of international problem, in the final analysis, is either created by people or must be solved by people. Hence, having the right people in the right place at the right time emerges as the key to a company's international growth (p.43).

If one "factors in" the networking implications, staff selection becomes even more crucial. For example, JIT relies on cooperation and reciprocal exchanges between manufacturer and supplier. One of the factors constraining effective JIT application in countries such as the United States is that relationships between manufacturer and supplier are still largely adversarial (The Economist, 16/2/91). This attitude is counter-productive to a strategy such as JIT in the domestic environment, but is particularly so when overseas operations are involved. Assigning an American to the position of Marketing Manager at a Japanese subsidiary may cause damage to supplier relationships if the American carries with him (or her) an adversarial attitude towards
suppliers. Indeed, one of the indirect costs of expatriate failure\(^2\) is damage to network relationships.

**Staff transfers**

Survival of a network depends on continuing exchange relationships. The transfer of a key subsidiary staff member however can have a damaging effect on network relationships. The informal linkages established by individuals are more pervasive, more long-lasting and tend to be stronger than formal relationships (Mascarenhas, 1989). If the relationship between a staff member and key network actor(s) is not understood or even known about by those making staffing decisions, it is easy to instigate staff movements that cause unwitting damage to these important network relationships. Hedlund (1990) makes the point that one of the decisions centralised at headquarters is the appointment of key MNC staff, including those at subsidiaries. As those making the decision at headquarters are invariably distant from the subsidiary, they may be totally unaware of the importance of these subtle network connections.

Another aspect is that building a relationship is a long term process. Relationships are built on mutual trust rather than legal criteria (Ford, 1990) and this process takes time; a factor not always considered or recognized when staffing decisions are made. Headquarters may wish to assign a parent country national (PCN) to fill a subsidiary position for reasons of control and coordination.

\(^2\) Expatriate failure can be defined as the premature return from an overseas assignment.
Such overseas postings for Western MNCs are usually for a fixed period of two to three years. It may take that PCN a considerable period of time to gain entry to local networks. The PCN may be just beginning to gain trust and build relationships with key actors in the various subsidiary networks when he/she is recalled to headquarters, only to be replaced by another PCN and the process begins all over again.

The use of expatriates to fill key actor positions in a subsidiary network, therefore, may not be the best option for overall global performance. For example, Americans (PCNs) were transferred to Ford Australia to help the subsidiary improve the quality of the Capri model sports car designed for export mainly to the United States market. In conjunction with this push for quality, the purchasing department within the Australian subsidiary was upgraded and relationships between Ford Australia and its component suppliers became a key element of the Total Quality Excellence program. One of the Americans assigned to Ford Australia was responsible for improving supplier relationships, partly through the conduct of in-house quality training programs and JIT orientation sessions with key component suppliers. However, half-way through his assignment, his mother became ill and the American asked to be reassigned to his former position in the United States. Such unforeseen incidents can affect progression towards operational goals, as in this case, where those responsible for implementation of corporate strategy are suddenly unavailable. The situation is compounded by the effect that the sudden withdrawal of such a key person has on interorganization networks.
As mentioned earlier, one of the reasons for retaining acquisition staff is to preserve network relations and position. However, this approach to staffing has to be weighed against the fact that network positions and relationships are not static. They do change over time (Thorelli, 1986). The retention of the local board and top management did allow Mayne Nickless to gain entry to an essential network (Teamsters Union) but when the transport industry was subsequently deregulated, union relationships became less important to the acquisition's profitability - the increased competition focused efforts on customer service. Mayne Nickless found that the Australian management approach (less hierarchy so that managers were closer to the customer) was more appropriate and so the company replaced the US staff with PCNs (Australians) in an attempt to improve subsidiary performance. Thus, the new environment forced a change in emphasis on different elements of the industrial network, with important staffing implications.

MANAGEMENT IMPLICATIONS

The above discussion has focused on staffing decisions as a management tool with particular reference to their role in establishing, maintaining and enhancing subsidiary networks which are important in the successful operation of not just the subsidiary but overall, global MNC performance. As Bartlett and Ghoshal (1990) remind us, people are the key to managing complex strategies and organizations. Therefore, the staffing question becomes crucial for both intra- and interorganization relationships. Staffing decisions should not be ad hoc and need to be carefully assessed with regard to their potential impact on
subsidiary relationships, perhaps as part of the systematic evaluation of networks as suggested by Thorelli (1986).

Systematic, continuing evaluation of networks is an important process, given that networks change over time, and some network commitments become less or more important as a result of environmental shifts. Corresponding to this, there is a need for flexibility in staffing decisions. There is always a danger of a company becoming locked into commitments to particular networks, even though circumstances warrant some adjustment, because a particular staff member has become personally attached to the relationships developed in the network. Informal network relationships can become institutionalized over time thereby impeding necessary shifts in network emphasis.

Other aspects flow from the emphasis on connecting staffing with network implications. For example, the subject of network relationships should be an important component of expatriate predeparture training programs. As well, orientation of new staff should include an introduction to key actors in subsidiary networks, particularly where the change-over of expatriate staff is concerned, to minimize the damage than may be caused by transferring key staff. Ideally, this should take place before the key people are actually moved. It also might be argued that some element of the compensation of staff be linked to the performance of networks in which they are actors, though clearly this is difficult to apply in practice.
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