Multinational Corporation’s Headquarters- Subsidiary Relationship: a Potential Barrier to Internationalisation

A Nordic- Asian Case Study

Master’s Thesis

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Abstract:
The aim of this thesis is to describe the MNC’s headquarters and foreign subsidiaries relations and explore issues within these relationships that may have an influence on the internationalisation of the MNC. This study illustrates MNC’s internationalisation process to foreign markets, and describes common factors present in the headquarters’ and foreign subsidiaries’ relationships. The study also brings forth both sides, the headquarters’ and subsidiaries’ views and opinions on how the company’s internationalisation has been managed and how factors present in the relationship have affected the firm’s further expansion so far.

The study’s theoretical framework is based on integrating internationalisation theory, MNC and headquarters-subsidiary relationship literature and research on culture regarding the Nordic-Asian context. This study is based on qualitative, inductive research on one single MNC based in Finland. This research method provided necessary in-depth understanding of the case company’s internationalisation and within it, the headquarters-subsidiary relationship. The inductive approach allowed constructing relations between theory and data gathered, whilst building new knowledge and developing theories of the researched phenomena. The study focused on the case company’s Finnish headquarters and its two Asian subsidiaries, located in Singapore and Hong Kong. Research data was gathered by interviewing altogether eight top-level and middle-level managers involved in the firm’s expansion to Asia.

The results support prior research in portraying the MNC as a complex network integrating and transferring knowledge across its locations whilst making gradual as well as discontinuous and unpredictable internationalisation moves. The results further indicate that the MNC’s headquarters-foreign subsidiary relationship may obstruct and slow down the company’s internationalisation process. Factors within the relationship, such as cultural differences, control, organisational change and management of the internationalisation process as well as communication and knowledge transfer create challenges and issues for the company. Contrary to prior research however, these factors were seen interrelated and in direct relationship with each other and if left unmanaged, harming the company’s internationalisation process. The study shows that it is important for managers in the international arena to be aware of these factors present in the headquarters-foreign subsidiary relationship, to manage them as well as to learn from them in order to react more quickly to the challenging environmental conditions.

Keywords: MNC, internationalisation process, headquarters-subsidiary relationship, foreign subsidiary management, cross-cultural communication
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1. Introduction

1.1 Background

World economies are becoming increasingly borderless and interlinked allowing companies to expand their business beyond their domestic boundaries (Cullen and Parboteeah 2005). Companies internationalise their activities in an attempt to improve competitiveness and capture greater shares in more geographic markets worldwide (Delios and Beamish 2004). Globalisation’s key trends, falling borders, sophisticated information technology, growing cross-border trade and investment among other force companies to become more multinational in order to survive and grow (Cullen and Parboteeah 2005). Globalisation strengthens the perspective of multinational companies (MNCs) as globally uniform organisations, increasing worldwide convergence and standardisation of corporate practices and processes. Simultaneously however globalisation strengthens the view of MNCs as organisations, which adapt to national and regional specifications, drawing attention to the differences that exist in national cultures and institutions (Geppert, Matten and Williams 2003).

Much of the research relating to MNCs includes studies focused at firm’s internationalisation process, entry mode decisions, foreign subsidiary and expatriate management (Werner 2002). Also areas such as inter-unit communication, knowledge sharing and transfer, cross-cultural teams, mergers and acquisitions, social capital just to name a few, have been explored (Barner-Rasmussen and Björkman 2005). The focus of recent research has largely been on the scope and coordination of organisations’ networks of foreign subsidiaries (Johansen 2007). These networks are made up of multiple economic, social, and cultural environments which create cultural and physical distance within the organisation (Ghoshal and Bartlett 1990). Aspects of learning and knowledge creation by firms’ foreign direct investments (FDIs), such as through acquisitions, have received much attention. Within foreign subsidiaries a variety of skills and knowledge can be located, and therefore these subsidiaries are regarded as important vehicles in generating knowledge from dispersed foreign markets. (Johansen 2007) Foreign subsidiaries are viewed critical to the international competitiveness of the
MNC as they are vital source of strategic resources for the organisation (Birkinshaw 1996).

Expanding overseas, especially to culturally distant locations such as Asia, is not a simple process for any Nordic organisation, which is why this thesis attempts to discover challenges related to internationalisation. The current body of research on internationalisation and MNCs has highlighted various challenges and issues that headquarters face in managing effectively their foreign subsidiaries. As Western firms continue to expand deeper into Asia, number of studies have also focused on the Western headquarters- Asian subsidiary relations. The consequence of managing the headquarters-subsidiary relationship with regards further internationalisation process of the MNC has not been much discussed on the micro-level and is still largely unexplored in the internationalisation literature. Little research exists of this phenomenon, especially in terms of viewing the relationship closely from the perspective of both parties. (Werner 2002; Paterson and Brock 2002) This is an interesting oversight, given that MNC’s foreign subsidiaries are seen important in increasing knowledge and learning of the foreign market and environment and in building networks that may further advance the MNC’s internationalisation (Birkinshaw 1996; Hedlund 1986). To some extent, the lack of research regarding this phenomenon can be explained by considering the MNC as already being a global organisation and hence not seeing the need to assess its further development in global markets. This omission has however masked the impact that foreign subsidiary management may have on MNC’s internationalisation process. As a result there is possibility for more detailed study of how internationalisation process of the firm may in fact be slowed down or potentially harmed by ineffective subsidiary management.

This thesis is based on research done from the view point of a single multinational corporation based in Finland. For confidentiality, the name of the company has been changed. The case study examines the internationalisation process of this Nordic led company in its pursuit to expand its operations in Asia and in detail the management of its Nordic headquarters- Asian subsidiaries relationships. The thesis attempts to identify the underlying issues in this current relationship that can be seen to impact on the
company’s further expansion in the Asian market. The data used in this thesis is based on a number of interviews done at the company’s headquarters and its Asian subsidiaries, based in Hong Kong and Singapore and on the student’s own observations and extensive company material.

1.2 Research Aim and Questions

The aim of this study is to describe the MNC’s headquarters-foreign subsidiaries relations and explore issues within these relationships that possibly impact on the further internationalisation of the MNC. The study’s theoretical framework is based on integrating internationalisation theory, literature related to multinational company and its headquarters-subsidiary relationship, while highlighting cultural aspects related to Nordic-Asian MNC. With the use of a single case study, the thesis attempts to increase understanding of the experiences of the managers, strategists and decision-makers involved in the case company’s expansion. Study also attempts to develop the MNC and internationalisation theory by bringing forth valuable new insights of the ways MNC’s complex headquarters-subsidiary relationship influences the company’s further internationalisation process.

The research questions are:

*How has the case company’s business developed in Asia?*
*What are the issues and challenges related to operating in Asia from the perspective of headquarters-subsidiary relationship in the case company?*
*How have the relationships been managed from the perspective of both the headquarters and the subsidiaries, and how does this affect the case company’s continuing internationalisation process in Asia?*

1.3 Delimitations

This study is based on qualitative, inductive research on one single MNC based in Finland. The study focuses on the company’s internationalisation process and relationships between its Nordic headquarters and Asian subsidiaries. Therefore
generalisations to other MNCs and factors regarding companies’ internationalisation processes should be made with caution.

1.4 Definitions

A few key terms used in this thesis are explained next:

**Internationalisation:** The term internationalisation is defined as “the process of increasing involvement in international operations” (Welch and Luostarinen 1988, p. 36). The term can also be more generally applied to firm’s international market entry and market development activities (Young, Hamill, Weaver, Davies 1989). Internationalisation can be explained by the firm’s need to seek new growing, larger markets and its need for lower costs and access resources outside its home country, due to scale, scope and cost pressures (Benito, Larimo, Narula, Pedersen 2002).

**Multinational Company:** A multinational company (MNC) trades across its national borders with exports and imports and builds global networks that link research and development (R&D), supply, production, and sales units (Cullen and Parboteeah 2005). Thus this term refers to firms that have productive operations, any type of value-added activity, that take place using assets and a facility, in at least two countries in the world. These firms are formed by direct investments abroad, by purchasing foreign assets in order to control the use of these assets. A foreign direct investment (FDI) occurs when a firm owns at least five to twenty per cent of voting stock of a company or organisational unit located in a foreign country. (Delios and Beamish 2004) FDIs are fuelled by cross-border mergers and acquisitions (M&As) and involve a transfer of technology, management skills, entrepreneurship resources along with financial capital. Resources will differ according to the industry in question and the specific strategy of the firm. (Buckley, Carter, Clegg and Tan 2005)

**Foreign Subsidiary:** A foreign subsidiary is defined as a local affiliate of a MNC located in a foreign country of which the parent company holds at least 51 percent of ownership (Bouquet and Birkinshaw 2008a). More broadly, it can also be thought of as a value-adding subunit of the MNC that performs a function, which benefits the organisation’s competitiveness (Birkinshaw and Hood 1998). A foreign subsidiary is
formed by FDI as mentioned above, by setting up a joint-venture, establishing Greenfield operations or acquiring foreign affiliates, whereby the firm constructs a wholly-owned new entity in the host country (Delios and Beamish 2004).

1.5 Structure of the Thesis

The thesis’ literature review chapter begins with a brief account of the underlying need for firms to internationalise, expand their operations abroad and the growth of MNCs. This is followed by a review of some of the major approaches in internationalisation literature demonstrating how firms are seen to actually proceed with their foreign expansion. The internationalising organisation’s headquarters- foreign subsidiary relations are then addressed, drawing on current theory to shed light on factors that affect the management and running of this relationship, that have been discussed in literature. The case of Nordic- Asian MNC’s effects and relationship is examined and further discussed, drawing on theory related to cultural differences and cross-cultural management. This literature review provides then a fruitful base for further discussion, followed by empirical study on how the headquarters- subsidiary relationship impacts the firm’s continued internationalisation process.

The subsequent methodology chapter describes the qualitative case-study research collection and analysis methods used in the thesis. A description of the case company is given, followed by an analysis of the case study findings in the results chapter. Discussion chapter seeks to find answers to the research questions set out at the beginning of the thesis, bringing forth case study findings in relation to prior theoretical research. Discussion chapter focuses on the issues brought forth in the findings chapter, such as cultural differences, issues related to control and organisational change, management of the internationalisation process, communication and knowledge transfer present in the headquarters- subsidiaries’ relationships, which are seen to cause implications for the MNC’s international growth. The thesis concludes with an affirmation of the effects of headquarters- subsidiary management on firm’s continuing growth. A link between subsidiary management and further internationalisation is emphasised. In addition to the theoretical and practical implications, thesis offers suggestions for further research and addresses limitations of this study.
2. Literature Review

2.1 Internationalisation and the MNC

Growing amount of research has focused on the internationalisation of firms over the last few decades, which reflects the reality which we are living in, the increasing internationalisation of firms and industries (Johanson and Vahlne 1990). Current industry pressures drive firms to adopt internationalisation activities to meet the requirements of the industry and competitive environment. Firm’s decision to strategically move its activities abroad is thus seen almost inevitable if firm’s expansion goals are to be achieved. (Pajunen and Maunula 2008) To expand, a wide range of international market entry and development methods can be used such as exporting, licensing, franchising, joint-ventures, or wholly owned-subsidiaries through acquisitions or Greenfield operations, to penetrate international market (Young et al.1989). Each entry mode has advantages and disadvantages, which are determined by factors such as transport costs, trade barriers, political-, economic- and business risks (Hill 2007). These different modes can be employed to capitalise on synergies, take advantage of partner firm’s strong functions, or set up business and build presence in foreign markets to benefit from host country factors among others (Young et al. 1989). The optimal choice of entry, as to how firm’s resources will be coordinated world-wide depends on the firm’s strategy and global objectives (Hill 2007).

Many industries are becoming increasingly global as rapid technological change, convergence of consumer tastes, increased world-wide competition have led firms to pursue for scale, scope and learning economies. This has motivated the development of increasingly larger firms, multinational corporations, to link their competitive position across various country locations. (Benito et al. 2002; O’Donnell 2000) Sources of competitive advantage for the MNC can include international economies of scale and scope as well as advantages from operating in a specific country location (O’Donnell 2000). Ghoshal and Bartlett have conceptualised the MNC as an inter-organisational network, which “consist of a group of geographically dispersed and goal-disparate organisations that include its headquarters and different national subsidiaries” (Ghoshal and Bartlett 1990, p.603). These subsidiaries own resources are an important source of
MNCs are seen as amongst the world’s most powerful types of organisations as they account for a large share of intellectual property rights (IPRs), are big employers and contribute to the economic development of the foreign countries where they operate (Williams 2009). MNCs have typically sustained superior performances by exploiting traditional economies of scale and scope and taking advantage of discrepancy of the world’s goods, labour and capital markets. Competitive pressures are however forcing MNCs to search for new sources of competitive advantage by shortening time-to-market, improving product quality, following and satisfying changing customer needs, and creating new businesses and exploiting new markets. (Rolland and Kaminska-Labbe 2008)

2.2 Internationalisation Process

2.2.1 Stage Theory Approach

How firms actually proceed with their international expansion abroad has been subject to considerable debate. The most widely adopted concepts in early studies concerning internationalisation of the firm suggests a sequential, incremental approach to market entry, based on Johanson and Vahlne’s “Uppsala internationalisation model”, where firms begin by exporting, moving into markets geographically and culturally close with lower levels of uncertainty (Johanson and Vahlne 1990, 1977). The sequence of these “stages” indicates increased commitment to the market as a result of greater knowledge and experience (Bell 1995). The stage theory approach argues that international expansion is influenced strongly by managerial learning, and over time and through
experience firms increase their foreign market commitment and expand to more physically distant markets (Coviello and Martin 1999).

Luostarinen (1994) analyses the internationalisation of Finnish firms as a response to domestic and global challenges, presenting this in relation to the stage theory of internationalisation at a single firm level. Internationalisation is characterised as proceeding in a particular order: as companies increase their level of international involvement there is a tendency for them to change methods, modes by which they serve foreign markets, from no exporting, to exporting via an agent, to sales subsidiary and finally to production subsidiary. Patterns of greater operational diversity as well as exposure to range of opportunities and threats appear as internationalisation proceeds. Availability of resources, knowledge development, communication networks, risk and uncertainty, control and commitment, these factors taken together explain the continued forward movement of the internationalisation process of companies. (Buckley and Ghauri 1994; Welch and Luostarinen 1988) Firm’s internationalisation can be seen as a holistic stage process, where a mainstream stage pattern exists but irregularities and exceptions do occur both at the Finnish country level as well as at the firm level (Luostarinen 1979, 1994).

2.2.2 Criticism towards the Stage Theory Approach

The assumption that the firm’s international expansion is a natural evolution, as explained above has been questioned and received criticism. As globalisation trends shape the world economics, new types of firms have developed. Studies of International New Ventures (Oviatt and McDougall 1994) and Born- Globals (Knight and Cavusgil 1996; Rennie 1993) among others have emerged, indicating a rise for more dynamic firms becoming international at founding or shortly thereafter. (Rialp, Rialp and Knight 2005) These studies focusing on rapid internationalisation and international entrepreneurship have challenged the traditional internationalisation perspectives. These international new ventures aim to become international early on, as their industry conditions either force the firm to internationalise, or the firm voluntarily seeks a global presence to be able to exploit its unique resources (Autio, Sapienza and Almeida 2000; Bloodgood, Sapienza and Almeida 1996). The new venture internationalisation theory
views early cross-border activity as a reflection of the capacities of the new firm, and as a strategic response to opportunities unseen by competitors, as explained by Sapienza, Autio, George and Zahra (2006).

The stage-theory approach is further criticised as it assumes that internationalisation is an objective in its own right for the company, whereby internationalisation strategies are planned and implemented accordingly (Vaara and Tainio 2003). The so-called business-strategy approach discussed in literature however regards internationalisation of a firm to follow a rational-analytical risk approach. This view emphasises the nature of decision-making in firms, whereby it is seen that firms follow a conventional corporate planning model, considering both internal and external environments and stressing risk when pursuing their international operations. (Young et al. 1989) Internationalisation is therefore more a result of diversification and restructuring strategies than clearly set objectives of gaining international presence (Vaara and Tainio 2003).

It can also be seen that a firm’s internationalisation is driven by arising opportunities and threats rather than clearly defined strategies and systematic actions. Other research thereby emphasises the unpredictable nature of internationalisation processes and argues that there is no single logic accounting for the growth of a MNC. (Araujo and Rezende 2003) Internationalisation paths are often complicated, with steps taken back and forth as all kinds of changes, such as unforeseen environmental interactions or managers’ strategic decisions, impact the firm’s chances and hence its decisions to internationalise (Vaara and Tainio 2003). Internationalisation processes can therefore be characterised by a high degree of complexity, variability and heterogeneity (Melin 1992). It is seen that in firm’s internationalisation process there can be breaks in sequence, jumps in stages or reliance on only one or more strategic modes as firms need to respond and react more quickly to challenging environmental conditions (Young et al. 1989). Araujo and Rezende’s (2003) research confirms this as MNC can be considered being a complex network, integrating and transferring knowledge across locations while making gradual, path dependant as well as discontinuous internationalisation moves.

The relationship between learning and internationalisation processes are explained to be very multifaceted, as firms learn about foreign markets also in other ways than through
direct experience as emphasised in the stage-theory approach. Learning can take place through mimetic behaviour by imitating and observing network partners or other organisations’ internationalisation activities, acquisitions of firms with the required knowledge and through actively searching for information of opportunities and alternatives. (Forsgren 2002, 1990) Also the knowledge of internationalisation as a process has focused narrowly on firms in the early stages of internationalisation. Therefore it has been critiqued to not accurately portray the internationalisation processes of experienced firms (MNCs) which have learned through years of internationalisation activities and expanded their operations through mergers and acquisitions. (Melin 1992) As MNCs represent loosely coupled organisations, they can have more than one locus of learning and control. The MNC’s foreign subsidiaries gather experiential knowledge and have an important decision-making role with regards the future commitment and expansions moves of the MNC. (Forsgren 2002) As a large firm, MNC has the required resources, which allows market commitments to be made in larger steps especially when target markets are stable and similar, while reusing prior international experience across different markets (Johanson and Vahlne 1990).

“The main reason why MNCs exist is because of their ability to transfer and exploit knowledge more effectively and efficiently through intra-corporate context than through external market mechanisms”, (Gupta and Govindarajan 2000, p. 473). Firms create value through combining dispersed knowledge- this knowledge thereby presenting the multinational company’s competitive advantage (Ambos, Ambos and Schlegelmilch 2006; Gupta and Govindarajan 2000). Especially the importance attached to foreign subsidiary’s ability to assimilate new knowledge from their external environments and thereby contributing to creating and developing intra-organisational learning is stressed (Andersson, Forsgren and Holm 2001). Within these foreign subsidiaries variety of skills and knowledge can be located, and thereby these subsidiaries should be regarded as important vehicles in generating knowledge and learning from dispersed foreign markets (Johansen 2007).

The above mentioned models and theories developed early on (i.e. ones by Johanson and Vahlne 1990, 1977; Welch and Luostarinen 1988; Luostarinen 1979) thereby provide a somewhat overly rationalistic view of corporate strategising around
internationalisation. These researchers’ theories produce simplified patterns of how companies move progressively towards increasing their global presence as described by Vaara and Tainio (2003). The international expansion of a firm is dependent on knowledge of foreign markets and about facets relating to internationalisation activity. This knowledge can be gained from networks, relationships the firm in general and organisation members form in the markets (Johanson and Vahlne 1990) but also through other means as explained above by Forsgren (2002, 1990). Institutional changes, industrial and organisational restructurings along with technological changes among others have a strong impact on company’s expansion decisions (Vaara and Tainio 2003). Also presence and influence of managerial discretion, or individual differences in strategic decision-making should not be forgotten to have an impact on the strategic decisions that companies make regarding their internationalisation (Young et al. 1989). Therefore to understand the development and internationalisation process of a MNC it is important to comprehend the environment, strategy and structure of the organisation (Bartlett and Ghoshal 1989). The internationalisation of a firm can be seen as a co-evolution and interaction of internationalisation activities, history of the firm (Erikson et al. 1997), industry influences (Melin 1992), which are dependent on business network relationships and on the organisational resources and capabilities (Sapienza et al. 2006), and thereby cannot be explained by a single theory as explained by Pajunen and Maunula (2008).

2.2.3 The Complex Nature of Internationalisation

Internationalisation is seen thereby as an evolutionary process, however not necessarily an incremental or a progressive one (Madsen and Servais 1997). Internationalisation processes need to be understood as embedded in multiple and overlapping processes, linking intra- and inter-organisational networks and occurring in different contexts (Araujo and Rezende 2003). As explained by Vaara and Tainio (2003) ideas and concepts related to firm’s internationalisation may change over time, and be vague and inconsistent. Research has however shown that oftentimes firms, traditional and even born-global types as explained by Madsen and Servais (1997), are forced to follow natural, stage like steps to some extent as risks and uncertainties exist in the international arena. This is mostly due to the complexity and risks involved, as often
times firms do not have accurate knowledge of the global markets and globalisation strategies and also lack appropriate financing (Luostarinen and Gabrielsson 2002).

It is acknowledged that there are many existing theories relating to internationalising MNCs. The classic Johanson and Vahlne’s (1977, 1990) stage theory model will be taken as the basis of this thesis as it is most acknowledged and still holds prevalence today as current research is seen to stem from it. This thesis will be drawing discussion from this internationalisation model, which assumes that firms handle uncertainty by learning through own experience (Forsgren 2002). Firms learn from different local environments where they are active as they gradually expand further abroad, whilst enabling them to increase simultaneously their commitment to foreign markets. However as explained, often times this expansion is not as clear-cut as depicted in Johanson and Vahlne’s model, which leads to this straight-forward learning-commitment cycle to be potentially hampered, complicated for various reasons.

As the focus of this thesis is the internationalising MNC, the research attempts to describe the headquarters- subsidiary relations to clarify how this relationship impacts this above mentioned cycle, as this has not been discussed in research to a great extent so far. Attention is thus drawn to the MNC’s foreign subsidiaries that play an important role in this internationalisation process as the non-duplicative knowledge gained from these affiliates (Gupta and Govindarajan 2000) can further support the organisation’s growth plans. Similarly the research focuses on exploring and examining barriers to learning, through these organisational relationships during the international expansion into foreign markets. As the MNC’s ability to effectively learn from these local and dispersed markets is seen as perquisite for future growth in the internationalisation literature, the aspects of knowledge and learning are emphasised.

2.3 Headquarters- Subsidiary Relationship

2.3.1 Shift from Traditional to Network Structure

As global competitive conditions have changed, there has been a shift away from hierarchical view of MNC headquarters and its subsidiary towards a perspective which views the MNC as a web of diverse differentiated relationships (O’Donnell 2000). The
MNC can be portrayed as a geographically dispersed network within networks of relationships with varying territorial extent (Araujo and Rezende 2003). Ghoshal and Bartlett (1990) conceptualise the MNC as an inter-organisational network of exchange relationships among different organisational units, including semi-autonomous subsidiaries and the headquarters. MNCs are considered multi-centre structures where firm-specific competitive advantages can be located in their networks of subsidiaries in different countries by accessing subsidiaries’ knowledge resources (Forsgren 1990; Ghoshal and Bartlett 1990). Building close ties with the external environment allows the subsidiary to develop new knowledge, innovate and thereby advance its own performance in the market and simultaneously develop and build competence for the whole organisation (Andersson, Forsgren and Holm 2001). Achieving knowledge sharing between globally dispersed subsidiaries is a strategic priority for MNCs as these entities possess superior resource base that can be capitalised upon by sharing resources internally (Barner-Rasmussen and Björkman 2005; Kogut and Zander 1993). By transferring knowledge, resources and competencies developed in different foreign subsidiaries, MNC enhances its capabilities for building and sustaining competitive advantage and thereby outperforming its competitors (Qin, Ramburuth and Wang 2008; O’Donnell 2000). The more the headquarters and foreign subsidiaries interact, the more they can learn.

Traditionally MNCs have been seen to access global markets for more tangible assets, giving their foreign subsidiaries exploitative roles, involving them in operating activities such as sales, services, marketing and production in the foreign market. The more intangible assets, strategic activities such as research and development (R&D), design and core manufacturing have often been more embedded, and thus concentrated in the home market. Often headquarters’ functions have also been less dispersed and usually kept in the home country. Recent research is however increasingly challenging this traditional view were headquarters constitute the centre, located in the home country, while the subsidiaries, domestic and foreign constitute the periphery. (Benito et al. 2002) Developments in the MNCs are seen to move in the direction of the network structure view of the MNC as mentioned earlier by Ghoshal and Bartlett (1990). These transformations show that firms are becoming more complex, less hierarchical and less
dependent on firm-specific advantages based on home-country specific assets (Forsgren, Holm and Johanson 1995; Forsgren 1990; Hedlund 1986). This has begun to change the subsidiaries’ roles, as these entities have been given more value-added tasks and responsibility for building their own roles (Benito et al. 2002; Birkinshaw and Ridderstråle 1999). Foreign subsidiary can be thus seen as a semiautonomous actor with its own distinctive environment and resources, capable of making own decisions, with some constraints and dependence on the corporate parent (Bouquet and Birkinshaw 2008b).

As the traditional role of headquarters as a prime source of knowledge and competitive advantage is changing, headquarters are becoming to act as the receiver of knowledge from their internationally dispersed subsidiaries. It is seen important for the headquarters to learn from their subsidiaries. (Ambos, Ambos and Schlegelmilch 2006; Li 2005) Subsidiaries develop unique and differentiated sets of competencies and capabilities in various different international environments in which they operate. In so doing subsidiaries are exposed to different cultural, political, technological, societal and legal environments, in which they encounter different markets, competitors and management practices (O’Donnell 2000). The so-called reverse knowledge transfer thereby allows the headquarters to coordinate company’s global strategy and to improve processes in their subsidiaries, by increasing understanding of the local environment and know-how of how to conduct business in foreign markets, according to the subsidiaries’ local knowledge (Ambos et al. 2006).

All these changes, have led to subsidiaries carrying out new, specific and strategic roles within the MNC to respond to changing local conditions. Foreign subsidiaries can be assigned different strategic roles in the implementation of the firm’s overall international strategy, with some playing more strategic roles for the whole MNC whilst others have more constricted roles (O’Donnell 2000; Bartlett and Ghoshal 1989). Over time, subsidiary’s role naturally changes as the foreign entity adapts its strategy and activities in response to changing, dynamic international business environment (Delios and Beamish 2004).
2.3.2 Barriers to Relationship Building and Knowledge Sharing

2.3.2.1 Absorptive Capacity and Corporate Immune System

This stressed importance attached to headquarters’ and foreign subsidiary’s engagement in knowledge transfer and overall organisational learning, however does not imply that such knowledge transfers take place effectively and efficiently on a routine basis. For example, the absorptive capacity of the headquarters may have an impact on the benefits of the above-mentioned reverse knowledge transfer. To create benefits, the headquarters must have the capability to understand the value of local knowledge, assimilate and then also apply it in practice. (Ambos et al. 2006) Considerable national, cultural differences and organisational distance in relation to a variety of norms and work practices between headquarters and foreign subsidiaries can however create barriers to knowledge transfer and learning (Ambos et al. 2006; Li 2005).

Birkinshaw and Ridderstråle (1999) discuss the possible presence of corporate immune system, which is a set of organisational forces that resist the advancement of initiatives suggested and information passed by the subsidiaries to the headquarters. These initiatives can be seen as opportunities that have implications for the whole MNC. However their positive implications may be not understood by headquarters, which can oppose them for various reasons from ethnocentrism, suspiciousness of the unknown or plain resistance to change. (Birkinshaw and Ridderstråle 1999) Headquarters may lack in-depth understanding of local business environment and relevant knowledge about the subsidiary’s resources and potentials of its networks as corporate headquarters are not directly involved and embedded in the local network (Andersson, Björkman and Forsgren 2005; Andersson and Forsgren 2000).

2.3.2.2 Interdependence- Issue of Autonomy vs. Control

The issue of interdependence between headquarters and subsidiary is much discussed in relation to the network perspective. The ability to tap into valuable subsidiary resources and transfer them across the organisation is critical to sustain the international competitiveness of the MNC. To take advantage of these resources requires a network
of intra-firm linkages, cooperative behaviour and information sharing, which can result in a high degree of interdependence. (Li 2005; O’Donnell 2000) As interdependence between the headquarters and foreign subsidiary increases and becomes more complex, there is a need for higher levels of social capital that facilitates coordination of cross-border activities within the organisation. Social capital formed through interactions with the headquarters and individual boundary spanners, such as expatriates and local subsidiary managers, becomes a social good when knowledge, contacts and experiences are shared. (Kostova and Roth 2003) Features of social organisation such as networks, trust, shared values and visions help to facilitate coordination and cooperation for mutual benefit in a MNC (Li 2005; Kostova and Roth 2003; Kogut and Zander 1996). However, the geographical distance, cultural differences, and language barriers between the parties can limit possibilities for interaction and relationship building between organisational members (Barner-Rasmussen and Björkman 2007, 2005; Kostova and Roth 2002).

Due to the nature and complexity of the MNC, headquarters- subsidiary relationship is characterised by tensions between subsidiary’s autonomy and headquarters’ need for control (Kostova and Roth 2002; Asakawa 2001). Headquarters need to retain centralised coordination of the dispersed activities to realise overall firm strategy. Simultaneously however headquarters cannot effectively make all the decisions as it does not possess the knowledge of the subsidiary. Autonomy and decentralised decision-making is therefore given to the subsidiary, as it is in a better position than the headquarters, to exercise greater discretion and be responsive to the local market’s and environment’s demands. (O’Donnell 2000; Nohria and Ghoshal 1994)

Headquarters’ subsidiary control is a difficult task as the MNC is composed of a set of differentiated structures and processes, each of which exists in one of MNCs subsidiaries. Controlling this complex, heterogeneous environment remains a challenge. (Andersson and Forsgren 1996) The channels of power within the MNC are multifaceted (Bouquet and Birkinshaw 2008b) as subsidiaries have different interests and commitments, often working from a different set of motivating objectives than the headquarters (Forsgren 2002; Nohria and Ghoshal 1994). The importance of shared values within the organisation is emphasised in this respect as implementing common
vision, interests and values among the subsidiary and headquarters are effective means of control. However the importance of control system based upon shared values will vary across subsidiaries due to differences between the entities such as their resources, roles, local environments and thus their management must be fitted according to their context. (Volkmar 2003)

2.3.2.3 Information Asymmetry and Divergent Interests

Issues regarding interdependence and control affect each other and the headquarters-subsidiary relationship. With greater autonomy, the less dependent the subsidiary becomes of the headquarters and the more power it holds in terms of gained local, unique knowledge (Li 2005). This knowledge the subsidiary can then decide to share or not with the headquarters depending on its own motivation and interests. Subsidiaries may not want to communicate or exchange best practices because of diverging interests, lack of incentives or because subsidiary’s knowledge is deeply rooted in the local context. (Forsgren, Johanson and Sharma 2000; Szulanski 1996) In this perspective, interdependence is means by which the subsidiary is able to achieve competitive advantage over the headquarters (Kostova and Roth 2002). Headquarters’ control is thereby often difficult as the headquarters-subsidiary relationship is fraught with information asymmetry, with subsidiary owning high level of specialised information that headquarters does not possess (O’Donnell 2000).

A source of organisational tension within the MNC originates thereby from information processing, the degree of information sharing between parent and the subsidiary. In this respect, tensions arise as headquarters do not provide foreign subsidiary enough information, resources to conduct its new role in the company or to conduct organisational change accordingly. Also headquarters may not expect much information from the subsidiaries in spite of growing level of uncertainty and increasing autonomy. (Asakawa 2001) Also language differences may contribute to subsidiaries becoming isolated and disconnected from information flow and knowledge sharing. Language mediates interactions between subsidiary and its local market and between headquarters and its local market, thus affecting how the overall firm understands the foreign market, marketing policies and local network actors among others. (Barner-Rasmussen and
Björkman 2007; Welch, Welch and Piekkari 2005) Tensions relating to lack of information and other resources are evident in terms of differences of perception and dissatisfaction regarding level of information sharing between parties. These so-called perception gaps, unreceptive behaviour, are likely to emerge due to entities’ managers’ different experiences concerning the level of information provided and how information is interpreted. (Asakawa 2001; Birkinshaw, Holm, Thilenius and Arvidsson 2000)

Communication between the headquarters and subsidiaries is necessary for transferring complex and tacit knowledge. MNCs are viewed as organisations with extensive subsidiary communication flows through which the MNC achieves its competitive advantage, however often this perspective does not accurately depict the behaviour of the real-world subsidiaries. Communication and knowledge transfer is not easy and cannot be achieved by management imperatives and force (Barner-Rasmussen and Björkman 2005). This also involves creating new knowledge-sharing practices and improving organisational collaboration and capacity to transfer and replicate the “tacitness” of knowledge (Rolland and Kaminska-Labbe 2008). In terms of how firms absorb this knowledge, barriers to cross-border knowledge transfer have been identified including motivational factors such as power struggles between the headquarters and subsidiaries (Gupta and Govindarajan 2000; Szulanski 1996).

So-called agency problems may arise from conflicting goals and divergent interests between the parties (Li 2005). The agency theory assumes a hierarchical relationship in which the headquarters delegates responsibilities and decision-making authority to the foreign subsidiary. Thereby if decisions made by the subsidiary are not compatible with those desired by the headquarters, this may lead to possible increase in headquarters’ control. (O’Donnell 2000) Similarly, when subsidiary is pressured by the headquarters to adopt a certain organisational practice, this above mentioned controversy between autonomy and control leads the subsidiary to adopt the practice to a varying degree. The adoption varies depending on the institutional environment, the local country and the relational context which the subsidiary is embedded in, including dependence, identification and trust within the MNC. (Kostova and Roth 2002) Control mechanisms, such as incentives or evaluation criteria, used by the headquarters should be thus
adapted to the characteristics of each and every subsidiary’s environment (O’Donnell 2000; Andersson and Forsgren 1996). Direct control in using expatriates is often seen to have a negative impact on subsidiary’s ability to absorb new knowledge from the local environment and transfer it forward to the rest of the organisation. Therefore the results of using expatriates are conflicting, as often activities such as coordination within the MNC are emphasised at the expense of developing relationships and information exchange with local business actors. (Andersson et al. 2005)

2.3.2.4 Integration and Interunit Tensions

The subsidiary is simultaneously embedded in MNC’s corporate network as well as in its external local market network (Li 2005). As a result foreign subsidiaries often play a broker role between headquarters and the local environment (Asakawa 2001). The management of this relationship is a difficult process due to the involvement of many outside players as subsidiary’s behaviour is influenced by the external networks in which it is embedded in. The efficiency of these outside networks’ control will depend on the importance the subsidiary attaches to these relationships. (Li 2005) The stronger the interdependence is between the subsidiary and its external counterparts, the higher the degree of subsidiary’s embeddedness and likelihood that external networks will influence subsidiary’s behaviour. The subsidiary’s external relationships’ influence acts therefore as a competing force in headquarters’ attempt to exercise control. (Andersson and Forsgren 1996)

The lack of integration or failure to integrate the subsidiary into the overall MNC network may lead to management problems and foreign subsidiaries not contributing to overall company’s overall benefit. This causes the headquarters to miss out on subsidiary’s innovation and may lead to lack of collaboration and failed opportunities for interunit learning (Björkman, Stahl and Vaara 2007; Ambos et al. 2006). The importance of existing transmission channels, formal integrative mechanisms for integrating subsidiary to the MNC are important. Also socialisation mechanisms that increase the more personal, open and direct communication are seen equally essential in creating the richness in communication and as a result knowledge transfer. (Gupta and Govindarajan 2000) All in all, execution of a well-planned integration process which
enhances the whole organisation’s ability to acquire and learn new capabilities while minimising friction, is critical to capturing synergies between the entities (Björkman et al. 2007).

A reason behind integration problems may result in headquarters not being able to give their full attention to all their foreign subsidiaries, forcing them to divide their attention. Attention of the headquarters is likely to focus on issues related to the MNC as a whole than to issues of particular subsidiary. (Andersson et al. 2005) This leads to subsidiaries struggling to get their voices heard and lacking resources, which often leads to missed opportunities for the headquarters. These so-called attention decisions are based on the structural positions of the subsidiary, its weight within the corporation and also its voice to draw attention. These factors are dependent on the subsidiary’s geographical distance and the kind of activity that underpins its competence. This means that possibly smaller, more distant subsidiaries operating in less crucial downstream activities are given less attention by the headquarters. (Bouquet and Birkinshaw 2008a)

The sources of above mentioned divergent perceptions are increased by tensions of interdependence and control, demands for global integration and local adaptation and subsidiaries’ separation through space, time and culture (Chini, Ambos and Wehle 2005). It is seen vital for MNCs to achieve and maintain legitimacy in all its environments where it does business and is thus pressured to adopt local practices but also leverage practices globally (Kostova and Roth 2002). These tensions can however also arise due to the uncertainty associated with internationalisation in general and institutional or cultural barriers, language problems that can potentially prevent the new reality, change taking place in the organisation to be accepted. These dissimilarities can lead to goal-disparity that hinders integration of the headquarters and subsidiaries and knowledge transfer between them. (Chini et al. 2005; Asakawa 2001) It is important to note that power relations and decision-making authority are also manifested in the knowledge transfer, which can lead to honesty being questioned by both parties. (Asakawa 2001) Subsidiaries thus often face a trade-off between autonomy and knowledge linkage with the headquarters. (Chini et al. 2005)
2.4 Special Case of Nordic Headquarters- Asian Subsidiary Relationship

2.4.1 National Effects’ Influence on Headquarters-Foreign Subsidiary Relations

MNCs from small economies, such as the Nordic countries demonstrate a higher propensity to internationalise their operations than firms from larger economies. This is often because of the smaller market size as they outgrow their home base more easily. Nordic based firms also tend to be more competitive in a few niche sectors as small countries have limited resources and prefer to engage in activities in few targeted sectors where they have a resource advantage. (Benito et al. 2002) Asian countries have increasingly become recipients of Western MNCs foreign direct investment in Western industrial nations’ attempts to take advantage of the vast market potentials available in these countries. MNCs gain competitive advantage through exploiting their specific strengths as well as by increasing company’s knowledge base in developing Asian markets. (Schmiele and Mangelsdorf 2009) Cultivating successful cooperative relationships with subsidiaries located in Asia is good means through which the Nordic MNCs are able to develop their understanding of how to do business and succeed in these foreign markets (Li et al. 2007).

Although there is a strong tendency towards global conformity within a MNC, national environments still have a dominant influence on MNCs, both at headquarters and subsidiary level (Geppert et al. 2003). Subsidiaries in Asia, especially in developing countries, including the emerging economies, are often seen more likely to be the receivers than the providers of knowledge to their parent companies. The primary reason why subsidiaries based in Asia play the role of the implementer, agent of the headquarters, rather than the innovator of knowledge stem from the MNC’s global strategy and of host country’s environment, including potential low costs, talent and large market prospects. (Qin et al. 2008)

This scenario has begun to change however as Asian- based subsidiaries are realised to be sources of unique knowledge that can be transferred back to headquarters and implemented globally (Qin et al. 2008). It is therefore acknowledged that innovation in Asia’s developing countries is still new but growing phenomena (Schmiele and
Mangelsdorf 2009). Often times however subsidiaries based in Asia’s developing economies do not appear to be important learning vehicles for MNCs, and are exploited because of their existing resources and for MNCs to utilise resource allocation and maximise efficiency (Johansen 2007). The reason for this is that many countries in Asia are perceived to still lack the required quality and availability of talent. Unique capabilities of a subsidiary can be however increased by transferring knowledge and know-how by allowing subsidiaries to learn and in time to become innovators. Thereby as the level of strategic readiness changes so does the extent of knowledge transfer and as a result MNCs are to some extent changing these countries cultures and business practices. (Qin et al. 2008)

It is identified that feeling of superiority that Western headquarters may have towards their Asian subsidiaries can act as a barrier to integration and knowledge transfer. The relative economic level of some of the Asian countries, where the Western MNCs increasingly operate, is such that the location itself may influence the headquarters’ perception of the value of its Asian subsidiary’s knowledge stock. (Gupta and Govindarajan 2000) This causes headquarters or other Western subsidiaries in the company network to possibly perceive the knowledge of the Asian subsidiaries to be of less value. This leads learnt knowledge from the Asian subsidiaries to be accepted at the headquarters with more reluctance and with less interest than knowledge gained from subsidiaries in more similar, developed countries. (Li et al. 2007)

MNC’s strategies, both at the overall headquarters level but also on the local subsidiary level, are influenced by the cultural and institutional contexts of their home country, i.e. the so-called country of origin effects (Geppert et al. 2003). Less advanced countries’ negative country of origin effect can harm the outward knowledge transfer from Asian subsidiaries to the Western headquarters. This effect also denies the overall MNC to benefit and learn from the relatively less advanced market where it has entered. At the same time it negatively impacts the relationship in general between headquarters and the foreign subsidiary. With regards the MNC network perspective, learning should take place by both horizontal ties and reverse learning, but the negative country-of-origin effect disrupts this process. (Li et al. 2007) The extent to which the globalisation effect
and national effect shapes the MNC’s organisational form and behaviour however remains unclear and is in fact very headquarters- subsidiary specific (Geppert et al. 2003).

2.4.2 Nordic- Asian Business Context

The Nordic- Asian business context can be characterised as both geographically and culturally very distant from each other. Works by Hofstede (1991) among others have developed ideas concerning cross-cultural differences and explained how these differences may impact business and management, representing distinguishing characteristics of societies. Barriers to building social capital that facilitates communication and knowledge transfer between business units that are culturally different have been studied. Cultural distance and gaps between different leadership and management styles between managers and employees in general from different cultural and institutional contexts are identified to exist, which often create problems within organisations. This is because the Asian firms are explained to differ from Western, Nordic firms in terms of management strategy, operation, decision making and organisational culture (Buckley et al. 2005).

When looking at some of the Hofstede’s (1991) cultural dimensions variety of differences can be identified. In Hofstede’s individualism- collectivism dimension, it can be seen that collectivist Asians often have a paternalistic, dependent on group relationship kind of a view whereas individualistic Westerners value individual goals and needs. In terms of power distance, Asians have a high-power distance, whereby communication and knowledge transfer in organisations is very hierarchical and subordinates seldom challenge their superiors. Westerners have a low-power distance meaning that equality in organisations is emphasised and managers are often challenged. Regarding uncertainty avoidance, Asians are seen to avoid uncertainty, preferring an authoritarian leadership style, whereas managers assume all decision-making responsibilities as delegation to others and knowledge sharing is seen quite risky. In contrast to this, Westerners enjoy a more open, challenging environment and greater control over work, where commitment to delegation and consensus and exchange of information is highlighted. (Qin et al. 2008; McKenna 1998) It is however
noted that some of these dimensional differences that also Hofstede identifies as related to culture are very generalised and do not hold up for scrutiny in the real-world (McKenna 1998), however it is important to be aware of them.

Also in terms of cross-cultural collaboration and communication, differences in business practices do exist. Asians emphasise cultivating personal relationships as an important feature in conducting business. To build long-term successful relationships between two parties a trusting relationship is seen Asia. This is a necessity, as in a more collectivist culture, trust is essential for social exchange to take place, contrary to the individualistic West. Similarly language obstacles and high-context patterns of communication highlight the need for intense social interaction in order to facilitate knowledge sharing. The Asian society has a low propensity to formalise, leading to knowledge being less codified than in the West. (Li et al. 2007) It is also crucially important to understand the concern for Asians of losing face as this behaviour may hinder knowledge sharing and capability of acquiring information as Asians typically may be afraid to ask questions and to admit they do not understand something. (Qin et al. 2008)

These above mentioned cultural differences between Asian and the Nordic countries explain the extent to which the shared norms and values in the countries differ from each other (Hofstede 2001). National as well as organisational cultural differences between the headquarters and subsidiary play an important role. The national culture impacts the degree individuals in the subsidiary are willing to accept and absorb the new culture of their parent company. In the MNC there is thus a need to address fit of organisational culture with the national culture of the subsidiary, however this is often a difficult and a slow process. (Volkmar 2003)

2.4.3 Cultural Distance and Cross-Cultural Conflict

Literature on international acquisitions highlights cross-cultural conflict as a constraining factor in successful integration of the once separate entities (Welch et al. 2005). In cross-border acquisitions, merging units can be seen as specific cultural configurations embedded in their own particular contexts. Cultural distance poses
obstacles for achieving post-acquisition integration benefits as different organisational cultures and different national cultures, values and practices have to be combined. (Björkman et al. 2007) Problem with asymmetric organisational cultures is most relevant where acquired subsidiaries have already established and developed their own unique culture. The degree of overall organisational cultural asymmetry is associated with the amount of change required in the foreign subsidiary to achieve alignment of organisational values between the subsidiary and the headquarters. The more decentralised the decision-making to a foreign subsidiary, the more important is to have shared values and legitimacy in the eyes of the foreign subsidiary, in order to shape the subsidiary’s decision-making along the lines of the overall corporate objectives. (Volkmar 2003; Nohria and Ghoshal 1994)

Cultural distance may be an obstacle to knowledge transfer and capability transfer. As the more distant the two merging entities’ cultures, the more difficult may be clear communication and understanding of one another (Qin et al. 2008; Li et al. 2007; Björkman et al. 2007), having thus direct affect on integration success and the Nordic headquarters- Asian subsidiary relationship. Cultural differences often lead to “us versus them” mentality, creating political struggles between the entities (Björkman et al. 2007). For synergies to be realised, the headquarters must understand the cultural distances and be able to effectively manage the integration process of the subsidiary into the parent company (Haseslagh and Jemison 1991). Both social integration and absorptive capacity, the ability of organisations to absorb capabilities from each other, are seen to mediate the effect of cultural differences on post-acquisition capability transfer. (Björkman et al. 2007)

The differences between the cultured units underline increasing need for cooperative relationships (Li et al. 2007). Effort in in-depth, especially face-to-face communication is demanded for cross-border information sharing and knowledge transfer, especially tacit knowledge, to be effective (Qin et al. 2008; Welch et al. 2005). Creating social integration mechanisms decreases cultural distance and potential conflict between headquarters and subsidiaries (Björkman et al. 2007). Nordic headquarters sharing common vision and values with the foreign Asian subsidiary potentially decreases the
difficulties and costs of engaging in knowledge sharing. Managing and learning integrative practices between the units, increases communication and information exchange thereby creating value for the overall organisation. (Li et al. 2007)

Languages can also be treated as part of the cultural differences inherent in international business operations. As described by Barner-Rasmussen and Björkman (2007), MNCs are multilingual almost by definition, as organisational units are often embedded in different language environments. Firms originating from small countries such as the Nordic countries, the common corporate language often being English is likely to differ from the language spoken in the firm’s home country. This creates internal language diversity between the company-, home country- and foreign subsidiary languages. (Barner-Rasmussen and Björkman 2007) Language differences and problems caused by them are barriers to successful communication and hence learning. Different languages are closely associated with power balance and degree of influence between two units. (Welch et al. 2005) Language proficiency delivers opportunities by allowing individuals who have language competencies to control the nature and flow of communication within the MNC. Limited interunit language fluency can act as a significant barrier to cohesion and collaboration in the MNC. Same language speakers may cluster together and share knowledge more freely than with others whom do not share the same language. (Marschan-Piekkari, Welch, Welch 1999)

Sharing a common corporate language alone does not lead to successful communication as also social knowledge is required. Social knowledge allows Western managers to understand their Asian subsidiary’s behaviour, which is required in sufficient knowledge transfer, control and other functions. Also being sensitive and motivating towards each other is identified as important, to be well equipped to work together and for the headquarters to manage the Asian subsidiary in the multicultural setting. Having a good command of corporate social knowledge also ensures better use of transferred knowledge, enabling creation of new knowledge. (Buckley et al. 2005)

Additional complexity in the interunit relationship is created by the differences in institutional, economic, political and legal settings as well as other integration related processes (Björkman et al. 2007). Careful consideration of the differences in national
and organisational cultures and of the above mentioned other differences are needed in cross-border integration and foreign subsidiary management. Effective management in the cross-cultural setting, demands a working “bicultrality” in managers, either expatriates or local top managers, who bridge and link cultures, facilitating communication, knowledge transfer and learning. (Volkmar 2003)
3. Methodology

3.1 Single Case Study Approach

This research is a single case study where the emphasis is on exploring the case company’s internationalisation and within it, the headquarters-subsidiary relationship in detail, by describing and building meaningful representation of theoretical propositions. Eisenhardt’s (1989) model of building theory from qualitative case study is used as an inspiration in this thesis’ methodology to build new knowledge of how the MNC’s internationalisation process can be hindered by the mismanagement of the headquarters-subsidiary relationship. As explained by Eisenhardt (1989), case study as a strategy focuses on understanding the dynamics present within a single setting, pursuing relations between theory and data gathered. Qualitative, case-study based inductive research method was chosen in order to build propositions from data recovered, moving from observations to broader generalisations and theories, whilst developing existing literature on the subject. The process used in this study itself is iterative, tightly linked to data resulting in theory which is new, testable, reliable and empirically valid. (Eisenhardt 1989)

The case-study method is seen most appropriate for the research questions posed in this study in providing necessary in-depth understanding of the current complex phenomena. It also allows for richly detailed, holistic and meaningful information to be obtained, while understanding the various dynamics present in the MNC and its headquarters-subsidiary relationship. (Yin 2003) As described, “case studies are the preferred strategy when how or why questions are posed”, (Yin 1994, p.1). Due to the qualitative inductive research design used in this study, the primary research technique applied in the data collection were in-depth interviews to gain an understanding of the experiences of the managers involved in the internationalisation strategy and process of the company.
3.2 Data Collection

The case company was selected on the basis that it portrayed a leading company in its field with a long history of doing business in Asia and managing Asian subsidiaries. The student had prior knowledge and access to the company, having worked in the corporate headquarters in Finland and having the opportunity to visit the foreign subsidiaries and interview local managers in Asia. Therefore impressions that the student made, which could be drawn from hall-way and lunch conversations with the case company colleagues were added to the thesis. These personal opinions and impressions add to the subjectivity of the findings, but are nonetheless important in adding depth to the thesis. Personal insights are discussed in relation to the findings in the discussion chapter of the thesis to bring more value to the research. An additional interview with the company headquarters’ interviewee who had information relating to general business intelligence was conducted, to gain more background information of the company, the industry, the Asia Pacific region and its markets, competitors and customers and future outlook.

The Asia Pacific market was chosen as it is of strategic importance to the company due to its strong market growth and business potential. The foreign subsidiaries, Singapore and Hong Kong, were selected on the basis that they were the first markets where the company expanded its operations and which still hold dominance and importance as the centre hub for business in the Asia Pacific region. Using a single company and focusing on specific aspects of the internationalisation process, the headquarters- subsidiary relationship, provided student the ability to describe issues in a precise and a company specific manner. This method was used also to accurately understand the Asian business context and the headquarters’ managers and local managers’ behaviour and thinking. Additionally while acting as an observer in the local context, the student gained a systematic and holistic approach to real-life experience of the phenomena under study.

Within the single company case study, altogether eight in-depth face-to-face interviews were conducted. Multiple interviews within the single case-study were preferred due to their robustness, to strengthen findings and to study patterns common to cases and theory and to avoid chance association (Eisenhardt 1989). Five interviews were conducted in Finland within the corporate headquarters, and one at the Singapore
subsidiary and two at the Hong Kong subsidiary in 2008. All interviewees were carefully chosen based on their long careers within the corporation or due to their extensive knowledge and expertise related to Container Industries’ growth and development. The headquarters’ interviewees consisted of two Nordic top-level managers, who had both worked for the company for over 20 years, and three upper-level managers, which had all been with the company for less than 5 years. The subsidiaries’ interviewees consisted of the top three decision-makers in Asia, a local Singapore office manager, a local Hong Kong office manager (also the founder of the subsidiary and currently in charge of all Asia Pacific operations) and a Nordic expatriate located in the Hong Kong office. All three of the managers had been with the company for 15-20 years and the expatriate had been working in Hong Kong for over 10 years already.

The used interview schedule was formed by the student. Secondary data, including company presentations and material, and earlier personal observations accounted for the preliminary work in order to gain understanding of the company and industry and to aid in the framing of the interview schedule. The interview schedule comprised of variety of open questions, which were answered in respondent’s own words. In the interviews the following key themes were covered: interviewees’ own career history within the company, the company’s current position (the business it does, role within the industry, competitiveness in Asia and other markets), process of establishing the company in Asia (Asia Pacific), company’s expansion to Asia (important milestones, FDI consequences), and the set strategic aims for Asian business (what has been achieved and learned, possible challenges and issues regarding company’s future Asian business). This flexible approach allowed the main topics of interest to be covered, allowing the informants to tell their story while offering indirect representations of interviewees’ personal experiences and feelings. It also allowed access to facts related to the MNC’s internationalisation process and interviewees’ opinions on the management of the headquarters-foreign subsidiary relations.

Interviews were conducted face-to-face in Finnish or in English. Interviews were not recorded due to request of the interviewees and were approximately 1-2 hours long. In-depth notes were done during the interviews, with the help of a fellow colleague present
in the interview process. Interview colleague was a fellow Master’s student, who documented interviewees’ comments and made observations, but did not participate otherwise in the interview process. Full transcripts of interviews were done directly after the interviews to provide reliable record of the interviews. As the thesis was done in English, English summaries were written of the interviews conducted in Finnish. Some of the interviewees were contacted later by e-mail or phone to ask follow-up questions or if needed to clarify a response. The information gathered from the interviews was treated with complete confidentiality.

This semi-structured interview design allowed the student to obtain true meaning of the phenomena under study. It also allowed clarifying answers given, following up interesting responses and investigating further underlying motives as the interview went along. (Silverman 2005) Open-ended questions were used to gather a deeper understanding of the managers’ experiences and to discover how the company had internationalised and what issues were faced. This aided in gaining a true account of what had taken place during the company’s internationalisation to Asia and how the headquarters-foreign subsidiaries’ relationships had been managed. By changing and modifying the interview schedule depending on the interview and the interviewee in question, the student let the conversation flow as the interview went along. Student kept control of the questions and timeframe as well as the length and direction of responses (Silverman 2005). The data collection method draws from the special feature of theory-building case research as there was some overlap of data analysis with data collection. This was done with the help of using field-notes and the flexibility in making adjustments during the data collection process. (Eisenhardt 1989)

It is acknowledged that during the interviews, the student’s skills, experience and social interaction had an impact on the outcome of the interview. The interview accounts are strong on content and interpretation, however somewhat weak in providing sufficient information relating to reliability and validity. It is also noted that the collected data on both accounts was also affected by the characteristics of the interviewees in question and that interviewees might have not always reported their beliefs and attitudes accurately due to various reasons. (Robson 2002) Although the interviewees had a good
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grasp of the topic, data collection involved managers from different fields of interest and only three interviewees from the two subsidiaries. This could then have decreased the reliability and validity of the research. The interviewees also focused on discussing issues related to Asia Pacific as a whole rather than merely discussing the two subsidiaries and their respected markets. This expanded the focus area in question, making the research very broad in interpretation. As the research was done in a descriptive format, allowing the interviewee to discuss issues freely that he or she found important with regards the company’s internationalisation process and headquarter subsidiary relationship, this may have decreased the level of accuracy.

The cross-cultural interview setting, with different cultures and practices present and different languages being used, may have impacted to the depth of information received from the interviewees. The use of English as the interview language in five of the interviews may have resulted in managers providing “company speak”, rather than more detailed responses, thereby causing a risk to data accuracy. However it was seen by the student that both the interviewees and the student in question spoke fluent English and the student was familiar with communicative norms in Asia and was able to interpret interviewees’ statements with cultural understanding. (Welch and Piekkari 2006)

3.3 Qualitative Data Analysis

The data transcribing and analysis began after the first interview. The student personally transcribed and analysed the interviews. Multiple strategies were chosen for coupling between theory and data. Inductive theorising was used to identify and construct categories to describe the phenomena, to explore meaning why the chosen decisions were made and what where the effects of them, thereby building theoretical structure from “bottom up” providing high accuracy. (Langley 1999) The qualitative data analysis involved drawing together themes and forming integrated patterns from interview data to build explanations, as suggested by Yin (2003). Analytical tools such as checklists and event listings were used to organise information to display important characteristics and issues associated with the company's internationalisation process to draw conclusions from them (Miles and Huberman 1994). These were done manually due to the small number of interviews, by creating word tabulations, data matrixes for systematic comparison of the responses as suggested Ghauri and Gronhaug (2005). The
transcribed data were thereby analysed by creating categories and listing interviewees’ comments under certain key themes such as culture, control, communication, knowledge transfer, as proposed by Miles and Huberman (1994), during which selected remarks by the interviewees were collected to ease comparison across interviewees.

The data analysis was also seen to benefit from the use of alternate templates strategy whereby proposing alternative interpretations of the events (i.e. strategies used by the case company) the student was able to conduct “pattern matching” and reveal various dynamics as described by Langley (1999). By the use of this approach, good insights from the single case study in question were derived as the different theoretical interpretations provided a good base for comparison. This approach allowed various theoretical lenses to take part in the sense-making process. Visual mapping strategy, descriptive timelines and graphs were used to summarise and conceptualise what processes and strategic moves took place in relation to business development in Asia and in which order, timeframe and for what reason and potentially with what consequences. This was done to reduce data and form clarity of different strategies used by the case company and to realise connectivity to the subsidiaries’ processes. (Langley 1999)

Various strategies for the analysis of process data, proposed by Langley (1999) were used in combination to construct theory from qualitative data collected from the case study. Key was to understand and identify patterns of events, decisions made and personal opinions and feelings as to what have been some of the consequences and challenges in managing the internationalisation process- sense-making being the objective. The intention was to document as completely and precisely the phenomena under study. (Langley 1999) Data was analysed in terms of the research questions and analytic framework. Following the inductive research design’s format, no propositions were made before conducting the interviews, as interview data were transcribed, interpreted and then categorised to gain insights and create explanations. This grounded theory approach provided data-faithful representation of the interviewees’ thoughts, minimising the student’s presuppositions. Theories were generated and tested during the entire data analysis process, allowing the student to construct meaning and conscious reasoning. (Silverman 2005) In the process of shaping hypothesis from the data,
comparisons were made between theory and data, achieving as close fit with the data as possible, as suggested by Eisenhardt (1989). Direct quotes from interviewees were used, as they reflected most accurately the phenomenon under study.

3.3 Case Description

3.3.1 The Parent Company- Freight Solutions

Freight Solutions Corporation improves the efficiency of cargo flows by offering handling systems and related services for the loading and unloading of goods. Freight Solutions has three divisions which are all global market leaders in their respected fields. (Freight Solutions homepage) The corporation is a publicly listed company, sales totalling 3, 4 billion Euros in 2008 (Freight Solutions Annual Report 2008) and employs approximately 12,000 people (Freight Solutions homepage). World trade, global relocation and outsourcing increase global flows of raw materials and goods. Manufacturing and retail industry are becoming more heavily reliant on efficient distribution networks. In the heavy machine industry, there is a move from manual to more efficient and safer automated and intelligent handling systems. Growing need for land and sea transportation and boosting growth in the industry have increased global demand for efficient cargo handling equipment. (Freight Solutions Internal Presentation 2007)

3.3.2 The Case Study Company- Container Industries

Freight Solutions’ business area Container Industries is a leading supplier of container handling and heavy load handling equipment for ports, terminals, distribution centres, and industry among others. (Container Industries homepage) Containerisation is increasingly becoming the preferred way of transporting goods globally, as it is much more cost efficient in relation to other transportation methods. (Freight Solutions Corporation Internal Presentation 2007) To compete in the competitive business environment, Container Industries also offers a range of value-added services and back-up support. These services focus on after-sales services, maintenance contracts, finance and leasing options, which are provided through a global network consisting of
subsidiaries, dealers and distributors. (Container Industries homepage) Container Industries net sales were 1, 5 billion Euros in 2008 (Freight Solutions Annual Report 2008), and employs nearly 4800 employees worldwide, while operating in over 140 countries (Container Industries homepage).

3.3.3 Container Industries in Asia Pacific

Asia Pacific remains an important market for Container Industries not only for its current and future growth potentials but as its biggest customers, the world’s top ports and terminals are located in Asia, in Singapore, China (including Hong Kong) and South-Korea. To globally improve its position amongst the global competition, the company must strengthen its presence in Asia, especially in Chinese container terminals, as current market position is still too weak in this high growing region. (Freight Solutions Intranet)

Freight Solution’s goal is to become a global market leader with strong brands in cargo handling solutions, while also gaining a leading position in the related services. It intends to achieve this by building a strong, broad distribution and service network in the growing markets, especially in Asia Pacific to be closer to their customers than their competition. The company invests also in product development and product supply re-engineering to strengthen its market position. To become a leader in services, the company has begun developing services as a business of itself, rather than solely as a support function to equipment sales. (Freight Solutions Intranet)

The corporation is undergoing an extensive change program, aimed at profitability improvements. Changes are taking place globally in all its subsidiaries, affecting directly Container Industries and its Asian operations. The program is aimed at taking advantage of the whole corporation’s knowledge and scale by establishing a way of working that supports the change in the company’s business environment in which the share of services and emerging markets is increasing. (Freight Solutions Intranet)
3.3.4 History of Container Industries

Container Industries’ internationalisation process cannot be completely understood without first having a look into its background and history. Originally a traditional Swedish crane manufacturing company established by a merger of two Swedish companies in 1978, Container Industries has gone through a series of acquisitions and mergers in the past before becoming part of their current Finnish parent company, the Freight Solutions Corporation in 2004 (Freight Solutions Intranet). Although the company headquarters is based in Finland, due to the company’s Swedish heritage and as many of its operations are still based in Sweden, the headquarters are therefore described in this thesis from a Nordic perspective.

Figure 1. Timeline of the Container Industry’s Important Events in History

(Freight Solutions book 2005; Vaara and Tainio 2003; Freight Solutions Intranet)
3.3.5 Container Industries’ Expansion to Asia

In the midst of these various changes in history, the company’s internationalisation to Asia has been a gradual development process. The company began with exporting its machines already in the 1970s through local Asian agent and dealer partnerships with local distributors. The first established Singapore office in 1982 and later acquired Hong Kong office in 1991 were strategic decisions due to the geographically important port and hub locations to rest of Asia. The below mentioned internationalisation moves have been identified as the most important steps taken by Container Industries in the Asia Pacific region.

Figure 2. Timeline of Container Industries’ Asian Operations

In this thesis, the focus is on the subsidiaries located in Singapore and Hong Kong. Singapore and Hong Kong are developed Asian economies, both former British
colonies. Due to countries’ histories and backgrounds, the national cultures and languages are more similar and closer to the Western countries than those of other Asian countries. China’s influence within these two countries is however strong as population by large is racially Chinese, Chinese culture and mentality therefore also under focus in this thesis. These countries’ population is also highly educated and own good language skills which are often factors that set them apart from rest of Asia.

The Asia Pacific region as a whole must however be taken into consideration as the company operates in all Asian markets, thus facing multitude of challenges in managing a wide range of Asian organisational practices and behaviours. The overall Asian perspective in this thesis is vast and markets are often talked about interchangeably. The company has established an extensive network in the Asia Pacific region which includes 12 branch offices (sales companies) that support the 19 agent partners in Asia. India and Australia operations were also integrated into Asia Pacific network in 2008. (Container Industries Asia Pacific, Business Excellence Standard booklet 2008) Overall Asia Pacific region presents 18% of Container Industries’ net sales in 2008 (Freight Solutions Annual Report 2008). The company employs over 400 employees, excluding tens of dealers in Asia (Container Industries Asia Pacific, Business Excellence Standard booklet 2008).

3.3.6 Organisation Structure

Figure 3. Organisation Chart

The organisation chart in figure 3 describes the hierarchical structure of the company. The Container Industries’ Asia Pacific Ltd., headquarters are in Hong Kong with regional centres located in Singapore, Shanghai and Shenzhen providing sales, services, and machine parts in the region. These regional centres report back to Hong Kong and from there to corporate headquarters in Finland. As the first Container Industries operations began very early on from Singapore and Hong Kong, the managers from Singapore subsidiary and Hong Kong subsidiary together form the top management team in Asia. Hong Kong and Singapore subsidiaries work closely together in managing and supporting the vast local agent, distributor network within the Asia region.
Factories, sales offices and other business units have been established within the Asian region as well, but these have individual managers, and therefore are not presented in the organisation chart. (Container Industries Asia Pacific, Business Excellence Standard Booklet 2008)
4. Results

4.1 Data Presentation

In the interviews, issues relating to headquarters- subsidiary relationship were brought forth which were seen to have an impact on the company’s international expansion in Asia. The common perceptions relating to the case company’s Asian business, that all of the eight interviewed managers mentioned as important were the following- culture differences, control, management of international expansion in Asia, management of current organisational change, communication and knowledge transfer between the entities. The interviewed managers themselves spontaneously spoke about these factors and emphasised these being the most relevant issues they faced in terms of company’s internationalisation.

All of the interviewees saw each of the above mentioned contributing factors regarding the headquarters- subsidiary relationship as important and relevant regarding the internationalisation of the firm, however in terms of how these issues had been managed in the firm they saw differently from each other. From the open-ended question-style approach, it was difficult to draw straightforward conclusions as to set yes and no answers, as the interviewees did not discuss them in a straightforward manner. Additionally characteristics of these factors were vague and considered as taken for granted aspects in the MNC and thus interviewees did not elaborate on many of them to a great extent. The interviewees however were seen to take a neutral, positive or a more critical stance regarding how these issues had been managed in their view, and therefore findings below in figure 4 are divided into neutral, positive or critical in figure 4.

The hierarchical position of the headquarters and subsidiaries was seen to affect the responses to some extent as did the cultural differences between the Nordic and Asian way of verbally expressing their views. The Nordic managers more bluntly expressed their opinions whereas the Asian managers were more diplomatic and reserved in their answers. There was also a difference in perceptions between the Nordic top-level and middle-level managers. The top-level managers had a more neutral, confirming attitude
towards issues discussed whereas the middle-level managers were seen quite eager to 
critique and change matters for the better in the organisation. These differing 
perceptions and attitudes between interviewees thus reflected the kind of answers given.

Figure 4. Summary of Interviews

<table>
<thead>
<tr>
<th>Important Issues</th>
<th>Nordic Headquarters</th>
<th>Asian Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top-level manager1</td>
<td>Top-level manager2</td>
</tr>
<tr>
<td>Cultural differences</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>Control</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>Management of international expansion</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>Management of organisational change</td>
<td>critical</td>
<td>neutral</td>
</tr>
<tr>
<td>Communication and knowledge transfer</td>
<td>positive</td>
<td>positive</td>
</tr>
</tbody>
</table>

All of the interviewed managers openly discussed their views regarding the company’s 
internationalisation to Asia and the headquarters- Asian subsidiaries relationship. 
Although the interviewees had very different kinds of backgrounds and mindsets, they 
emphasised very similar issues, challenges, however from different perspectives. The 
background of the interviewees could be therefore seen to have an effect on their views 
and opinions regarding the headquarters- subsidiary management and its impact on 
company’s internationalisation. Next each of these issues is discussed in detail, as perceived by the interviewees.
4.2 Cultural Differences

Cultural differences were seen by all of the interviewees as challenging, especially as the company continues to expand its operations to more culturally distant locations. Cultural differences between the units were identified as demanding, especially in terms of how the ever increasing cultural gap due to the geographical divide of operations should be managed in the future.

“Every country and culture is different and so is every organisation with its own organisational culture. Culture remains a continuous learning process for both the headquarters’ and subsidiaries’ managements.” [Top-level manager 1]

“It must be understood that we are facing a multicultural challenge as it is not easy to combine Asian and Western way of doing business.” [Middle-level manager 1]

Headquarters’ managers agreed that having a persistent attitude was very important when working with their Asian counterparts as things were seen to take long time to develop, with many unexpected events often occurring. Building trusting relationships with Asian managers, dealers and customers was seen crucial in successful business relations. Headquarters’ managers understood that their Asian counterparts saw personal contacts, long-term relationships and trust as important elements while conducting business. Nordic managers however admitted that they had difficulties establishing this trusting relationship due to cultural differences. They felt it was hard to build very personal relationships and genuinely trust their Asian subsidiary managers and employees.
“One cannot assume too much in the very beginning like we do in the Nordic countries, as in Asia relationships business and trust take a long time to develop.” [Top-level manager 1]

“Trust is the most important in our relationship with the subsidiaries, but how to create this trust, especially with people who do not share your history, background, way of thinking, language etc.? For a manager, it is genuinely difficult to trust Asians to the very end, and therefore we always have to be on the look-out, making sure things are done as we want them to be done.” [Top-level manager 2]

All three of the Asian subsidiaries’ managers similarly viewed that occasional difficulties arose from the Western quick, short-spoken way of doing business, without putting too much effort into slowly getting to know one-another, or enhance team-working skills and group cohesiveness. Also the Singapore and Hong Kong subsidiaries’ managers acknowledged that cultural differences, such as the Asian family and group-oriented culture did not fit in well with the individualistic Western culture present at the headquarters, which caused difficulties when the entities dealt with each other.

“There are clashes from time to time with the Finnish engineer way of doing business versus the Asian way... It’s not always the question of bottom line in Asia, rather it is important to sometimes focus on the people, and this is something we see very differently.” [Hong Kong subsidiary manager]

“Asian operations resemble much more open doors and working together rather than the corridor with closed door policy that’s at the headquarters.” [Hong Kong expatriate manager]

The top-managers 1 and 2 explained that although Nordic managers had been involved in Asian operations continuously, still the language and culture gap caused problems when dealing with the Asians. Top-manager 2 and middle-manager 2, added that due to the possibility of verbal miscommunication, written instructions and contracts were important when dealing with Asians in order for things to get done as they were agreed upon. The Chinese posed a challenge for the company, as they are seen to have
difficulties trusting foreigners when doing business with them. Therefore it was
crucially important that subsidiaries and their respected local managers who spoke
Chinese conducted business negotiations with local clients and partners.

“Even though we’ve had Finnish and Swedish managers at the local
subsidiary, still if you don’t speak Chinese and you are not from that
culture and country, there is a long way to go in order for you to get into,
acquainted with the client relations. The local managers have an
advantage over you.” [Top-level manager 1]

Importance of managing correctly these cultural differences was addressed by the
headquarters’ middle-managers and Hong Kong subsidiary manager.

“It requires patience and people skills not to hurt anyone with your
opinions. In doing business you have to take into consideration the time
and efficiency differences of the Asians in relation to the Nordic way of
doing business, and being able to read between the lines as Asians
commonly are not as frank, open-minded and are worried about saving
face.” [Middle-level manager 2]

“You can ask only questions where subsidiary managers can reply either
yes or no, as otherwise you do not know what the actual situation is... You
are required to follow-up on decisions as otherwise you cannot be sure of
the outcome if matters are left open or vague as done in Nordic
countries.” [Hong Kong subsidiary expatriate]

Middle-manager 3 stressed that as Asians lacked the Western independent thinking and
taking action, the importance of a good local leader was crucial. Subsidiary managers
acknowledged that they lacked these Western skills and stressed the importance of
training and increasing knowledge to decrease the need for continuous headquarters’
follow-up. The headquarters’ managers viewed that it was seen vital to recruit good
local managers and employees, however this was a challenge.

“The lack of individualistic behaviour and thinking of Asians, requires
truly talented managers to lead them, finding a local to do this job, is a
real challenge we currently face...You need locals who you can actually
trust, as it is very difficult to lead Asian operations from sitting at headquarters. If you want to grow, you need the right people you can trust!" [Top-level manager 2]

Regarding the internal change processes, the Hong Kong expatriate manager also added that the Asians do not feel very comfortable with the matrix organisation and therefore the complex organisation structure causes problems in the subsidiaries.

“For the locals to follow and to understand reasons and causes for these changes is difficult as Asians have a more short-term planning perspective and not so sophisticated management style. More communication is needed from the headquarters to bring about these changes in subsidiaries as cultures are so different."[Hong Kong expatriate manager]

The Hong Kong manager emphasised that headquarters should put more effort into truly understanding the Asian culture. This could be done by sending Western managers to Hong Kong or Singapore to experience first-hand how business is done locally. This approach was explained to be very similar to situations where Asian managers were sent to the Nordic countries to be trained and educated further. Middle-manager 2 noted that although employees in both the headquarters and subsidiaries had learned a great deal about cultures, still appreciating and understanding cultural differences and the impact of culture on the organisation was lacking. As mentioned by all of the middle-managers and subsidiary managers, realising the importance of building networks in Asia was vital, and therefore especially headquarters’ managers and employees needed to understand the importance of social skills, communication when doing business with Asian colleagues and clients. Managers emphasised the lack of communication and knowledge transfer was one of the biggest set-backs in assimilating these cultural differences and learning from them.

Middle-manager 2 explained that main reason for the relative low number of M&As done in the Asian region was the cultural difficulties associated with them. Middle-manager 3 also mentioned that the former relationships, roles, management styles in acquired companies, such as the Hong Kong subsidiary remained a challenge for the
headquarters. It was difficult to diminish the effects of the former organisation culture of the acquired company, especially as the former management remained within the company.

“It’s hard to make small firms work in a big organisation culture such as ours. It is these cultural differences and the mismanagement of them that can spoil potential success of such business deals.” [Middle-level manager 2]

An external interviewee, who was briefly interviewed, confirmed that headquarters should learn more about cultures in general and how culture affects doing business, as mergers and acquisitions were not seen enough of a gateway into acquiring information on Asian cultures. Experts in this area were rare in the headquarters, thereby cultural knowledge regarding Asia was only found at the subsidiaries. The subsidiaries’ managers had this cultural knowledge and expertise, as they had built and managed the Asian operations over the years. Headquarters were largely dependent on the Asian managers and their unique expertise.

The middle-manager 3, acknowledged that the company must develop further their practices and strategies in understanding different cultures. All of the middle-managers criticised how issues related to culture had been handled in the organisation.

“There continues to exist a headquarters’ way and a subsidiaries’ way of doing business, which is result of the different national and organisational cultures. Subsidiary with its relative small, entrepreneurial firm culture is fighting against the giant corporate culture. There are two layers of people in this organisation (i.e. headquarters and local subsidiary people). The existence of “us and them mentality” between the subsidiaries and headquarters causes the company to be seen quite differently from the two perspectives. The local managers and employees do not see the complexity of issues, the global picture, so it’s difficult to address these people and then simultaneously managers at the headquarters, who only see the global picture.” [Middle-level manager 2]
As emphasised by the middle-managers, the difficulty with the multinational company structure was that the company looked very different depending on where one was located, as well as what one’s culture and background was. There still existed a quite inhomogeneous culture within the organisation as a whole that affected the integration and relationships between the entities.

“There’s a Container Industries’ way and local subsidiaries’ way of doing business—this causes a mismatch!” [Middle-level manager 1]

“Container Industries Asia Pacific is an Asian company, with a Nordic flavour to it.” [Hong Kong subsidiary expatriate]

Middle-managers 1 and 3 along with all of the subsidiaries’ managers viewed that one reason for the “us and them mentality” stemmed from the fact that the board of directors of the company was still not very international, with only one member from Asia. Middle-manager’s 1 opinion was that the management of the company was still too Nordic, thus affecting the overall culture of the company. Albeit the relatively little Asian influence existing within the company, Hong Kong and Singapore subsidiaries’ managers remained positive with regards to the future.

“It’s understandable that management is still very much European, Nordic. If I would set up a company, of course first would be my own network of friends, network etc... Finnish people want to have Finnish influence in the company, as things work totally differently in Asia. But you need to look for someone that can bridge the gap between these countries and ways of working. Things will run well as long as you take into consideration international aspects, such as foreign people with Asian experience, know how to deal with subtle differences and nuances.” [Singapore subsidiary manager]

“We are slowly becoming a more homogenous company, continuously progressing and becoming more international as more nationalities are accepted within the board of directors, and global perspectives becoming more acceptable. We are slowly changing culturally, understanding global culture is important in this business. But more trust is still needed from the
headquarters for locals to run the show.” [Hong Kong subsidiary manager]

Middle-managers also expressed concern over the matter that very little international flare, if any was seen at headquarters, and questioned the company and overall corporation of being at all as global as it denounced to be. Operations outside of Asia were seen very Nordic, and few efforts were recognised to facilitate the global mindset developing within the organisation as a whole.

“There are very few foreigners at the headquarters- it’s still very Nordic isn’t it? You can see we still have a long way to go...It’s not enough to say that we are global- we have to truly act global! We have to realise that we cannot continue with this mindset that hey, it would be cool to be global!”

[Middle-level manager 3]

“Understanding global culture in this business is very important, and I believe that the company is slowly heading towards the right direction. The company has learned from its overseas involvement, as international exposure teaches you should do business with different people, you know a little about how Indians, Singaporeans, Chinese work and think etc.”

[Singapore subsidiary manager]

One could draw cultural differences in terms of feelings and attitudes of how the interviewees perceived the company. The headquarters’ managers discussed issues among others in relation to the “big picture”, taking into consideration the overall corporate view. They did so, without showing neither strong emotions, nor the same kind of passion towards their work company, nor to their culture or background as the subsidiary managers did. The subsidiaries’ managers only discussed matters relating to the subsidiary, local market or to them. It was seen that subsidiaries and the work that they did was very personal and important to them.

“Container Industries is a global market leader and also a market leader in Asia, and therefore Asians especially have a certain sense of pride and it is important for them to feel belongingness to this company. You must understand this, when communicating with the locals so you do not to
offend them by being too critical of their operations or how they have managed them.” [Middle-level manager 1]

“Container Industries Asia can be described as having strong Asian operations, strong culture, strong identity and a strong sense of belonging.” [Singapore subsidiary manager]

4.3 Control

Headquarters’ top-managers explained that the former CEO’s vision and growth strategy had been implemented to this day within the company. In 2000 the helm of the Asia Pacific operations was given to the Hong Kong subsidiary manager, who was also the original founder. Before this, Nordic expatriates under the direct orders of the headquarters had been managing operations, excluding Hong Kong, in Asia, training and educating locals of the company’s way of working. Now the Asian operations were more in the hands of the locals with less foreign influence, as explained by the local subsidiaries managers.

“The subsidiary in Hong Kong and us here in Singapore, manage all of Asian markets’ operations. We support and bridge all Asian companies and individual agents and therefore we hold a crucial role. The Hong Kong office officially acts as the Asian headquarters here.” [Singapore subsidiary manager]

“It’s all about running the business and people, the general management sits in Finland at the headquarters, and we three, (Hong Kong and Singapore subsidiaries’ managers and myself) report to them as we run the local operations.” [Hong Kong expatriate manager]
The local leader in Hong Kong was explained by all of the headquarters managers, to be a talent in many respects, with great leadership skills and knowledge of the Asian markets and extensive and important contact and networks. Headquarters’ managers as well as the expatriate manager however admitted their worry of the possible excess control of the local subsidiaries leader. Due to the vastness of Asia’s operations, decision-making control had been given to the local leader. It was explained that intentions were to decrease the local leader’s power however this had proven to be a challenge.

“The local leader has the responsibility of whole Asia’s sales and services. The risk is very high but diminishing his control has been hard. It is often the case in developed countries, that there is this one star leader, and long way down the hierarchical ladder before another leader is found. The decision-making is very focused to one key person. We have talked with him about the dilemma of spreading control, and risk evenly to younger local managers below him, but it has been hard to recognise any future talent at the moment.” [Top-level manager 1]

“The operations in Asia are so extensive already that we cannot control them from the headquarters. I cannot even say that we truly know all of the operations and important resources in Asia from all the way over here.” [Top-level manager 2]

“It’s important to harmonise processes, to make similar all over, and decrease the possibility of a so-called one man show (i.e. local leader’s position within the company) from happening all over again within the organisation.” [Middle-level manager 1]

In the case of the Hong Kong office and local leader, the risks ran high as the current local leader had in fact built the majority of the operations in Asia. To a large extent, operations and resources of the subsidiary remained unknown to the headquarters. The current situation stemmed from the company’s history, as dealers, agents, various networks of the local Hong Kong manager were used to expand in Asia, and to this day the foreign subsidiaries and further internationalisation was still reliant on the very same
contacts and connections. Local knowledge and knowhow and networks were still in the hands of the local leader.

“The way the company has grown in Asia has been the local leader’s strategic choice- by having a contact person in each country and then growing steadily from there.” [Hong Kong expatriate manager]

“Asia manages Asia’s operations” [Top-level manager 2]

“Without X, there is no leadership, it’s a real challenge for the future, how to deal with this?” [Middle-level manager 1]

Headquarters’ managers perceived that the local Hong Kong leader did too much on his own, and this was another reason why his workload and responsibilities should be spread across the subsidiary. This however required the development of the second-level management, which was still non-existent within the Asian subsidiaries, to increase the future managers’ knowledge and experience to take over the local leader’s tasks. The choice for the future between an expatriate versus local leader remained unclear, as both were seen to have their own share of risks involved, as mentioned by all of the middle-managers. Importance therefore was placed in finding the right people for the right jobs that would watch out for the headquarters’ interests and manage the growth strategy set for Asia. As the company was already facing a shortage of skilful local employees, the ever increasing demand for finding talented managers was seen imminent by the headquarters managers.

The presence of power struggles was explained by all of the headquarters’ managers to exist between the headquarters and the Asian subsidiaries. The power struggles related to decisions regarding future expansion, which were quite dependent on the local managers as they had the tacit and non-tacit knowledge of the markets. These were said to arise from the mismatch between the headquarters’ and the subsidiaries’ ways of working, mentioned already above in the culture section. More importantly as mentioned by the middle-managers, these came about because the subsidiaries were seen to have their own motives, interests which differed from the ones that the headquarters had.
“We are continuously on the look-out for potential growth possibilities, but it must be remembered that local managers have their own motives, such as compensation related benefits among others, and therefore we have to try to find middle ground which suits both of our interest. It is challenging to control this situation.” [Middle-level manager 2]

Middle-managers mentioned that headquarters’ view was that the Asian subsidiaries had a passive attitude regarding possible current and future M&As. The entities were not thus in-line and shared differing views regarding the means, modes and timing of international expansion. Headquarters sought to find ways to persuade Asian leader and local management team of the M&A opportunities available in the Asian market. And similarly to inform and educate of management trends that the headquarters was very much keen to practice, which the subsidiaries were not aware of or interested in.

To confront this control dilemma, middle-managers 1 and 2 mentioned that headquarters were conducting business intelligence to gain information of the Asian market, of potential companies to acquire, partners, competition, customers among other. Consultants were hired to gain an update of the possible information not given by the subsidiaries due to differences of motives between the parties. This process was done to keep the subsidiaries on its toes, as the managers called it, to put pressure them. Use of expatriates in its Asia locations was also a means of headquarters control.

“We are using to our advantage consultants, own knowledge and our own contacts and then we run through these with the local managers and see what they have to say.” [Middle-level manager 2]

“For the headquarters to overlook operations, an expatriate is assigned to Hong Kong who is part of the decision-making. It is good to have a Nordic manager present to look after our interests.” [Middle-level manager 1]

Top-manager 1 admitted however that the company’s presence in Asia had generated abundance of information and knowledge, compared to 10 years ago for example, and therefore it was viewed as local manager’s control had diminished. Middle-level managers viewed that headquarters lacked means to control operations in Asia. Middle-
manager 2 saw it was crucial to maintain and improve good relations with the Asian subsidiaries’ managers and keep open lines of communication to transfer information.

“Asia is just too big of a market, with too many black holes. We do not have enough resources to keep properly updated. Unfortunately too much information slips by us- upper hand thus held by the subsidiaries.”

[Middle-level manager 1]

Overall, middle-manager 1 criticised the headquarters’ approach to managing their Asian subsidiaries. Similarly the Hong Kong expatriate manager highlighted the headquarters’ negative control over the Asian subsidiaries. In the expatriate’s view, the headquarters lacked resources and knowledge to understand the Asian markets fully and were too distant from the actual business taking place on the local level. Subsidiaries’ managers viewed that decisions by the headquarters did not take the local business or environment into consideration and obstructed the subsidiary’s daily operations.

“We here at the headquarters have an ivory tower approach to leading, we are not close to anyone. We lead very distantly and from afar, without really understanding the local circumstances and events, and therefore our way of working is not relatable at all to any of our foreign subsidiaries.” [Middle-manager 1]

“It’s distressing to see that more final decisions concerning the Asian business area are being moved to the headquarters, as the headquarters don’t know much of the local operations. Who knows the market better than the local subsidiaries! Trust the local organisation more and increase communication!” [Hong Kong expatriate manager]

The distant style in managing the foreign subsidiaries was seen harmful in terms of thinking too simply of expansion plans, M&As and post-acquisition integrations in particular. According to the middle-manager 1 and 3, this management style resulted in unresolved control situations. The subsidiaries were ostensibly left in control of local operations however as the headquarters were uncertain and untrusting of the local management team this pressured them to regain control. Without the presence of trust,
commitment and understanding, this power struggle situation was explained to be very
difficult to change.

“In terms of M&As the headquarters see expatriate managers and other
integration actors as a cost rather than as a benefit and vehicle through
which to manage the new company. This attitude leads the headquarters
not committing sufficient resources, communication and other support to
the subsidiaries. This harms the integration process and does not provide
wanted results, leaving subsidiaries without the required resources to
continue functioning on their own.” [Middle-level manager 2]

Similarly subsidiaries’ managers recognised that they were not fully trusted by the
headquarters and acknowledged the continuous power struggle between the entities.
Headquarters’ middle-managers and subsidiaries’ managers emphasised the need to
integrate companies more fully to the headquarters, build relationships, and demonstrate
long-term commitment to the Asian subsidiaries by investing more resources. By
showing actual commitment from the headquarters, this would help build mutual trust
and motivation for the future. This was then seen to affect positively by decreasing the
need for headquarters to retain control as strategies, visions, interests of the subsidiaries
would be more aligned with headquarters.

4.4 Management of International Expansion

The biggest driver in Asia by far has been the containerisation of the heavy machine
industry. Singapore and Hong Kong in the past conducted relatively open market
economy, with fewer restrictions regarding customs among others. Very little local
competition existed at the time within these markets, creating relative easy access for foreign firms to export products, as described by top-manager 1. Changes in the industry, local country market and local policies have to this day impacted the company directly, by creating potential new markets to enter. For example in China, the opening up of local ports to purchase machines from abroad has created new business opportunities for the company. Asia’s role is continuously growing and affecting the company’s focus and reach in Asia. The current situation in Asia was thereby seen very positively by all of the managers.

“There is no longer to be those who are not a part of Asia. Everyone has to be there, now more than ever! There are more potential clients, its significance as a market has grown tremendously. As there are not many Western firms in Asia within our segment, it is important for us to establish a strong presence and recognition for ourselves.” [Top-level Manager 2]

“The containerisation industry is booming, showing huge growth potentials in Asia. The company is in the right business and location!” [Hong Kong subsidiary manager]

All of the managers agreed on the competitive advantages of the company that were key success factors behind the company’s internationalisation. The mentioned competitive factors were; timing of products and business, good competent business-to-business (B2B) marketing skills, excelled in the past in recruiting talented individuals internationally that represent creative front-line staff that knows how to do business in the local market environment. Above anything else, the good products and the Swedish brand which represents reliability and good quality in the eyes of the customers’ were explained to be preconditions without which the company could not succeed internationally. The company is a distinguished actor in their segment and within the heavy machine industry. The company’s brand is well-known and popular in the industry and among the competition and customers alike which facilitate the company’s internationalisation.

“The brand is well-known- it does not need to be explained to anyone... this is a good business to be in!” [Singapore subsidiary manager]
The headquarters’ managers declared Container Industries role in Asia, to be the most global, well-known player in its segment, with most extensive sales network and the most recognised brand. However the competition was explained to becoming increasingly fierce in the Asian region, as new local competitors were arising. Local market was also becoming more developed and industrialised, forcing the company to become increasingly unique to make it in the tough competition. The importance to mend strategies and invest more heavily into R&D and building their service network was explained as crucial by all of the headquarters managers. In Asia the company developed a competitive advantage over their competitors by becoming increasingly more flexible and more present in the local market.

“Currently the company is daring to execute its strategy of building an extensive service network in Asia, such that does not exist in Asia yet. We are bold enough to go beyond our comfort zone. We don’t have yet the capabilities to service all of our customers everywhere in Asia; we need to focus on this.” [Top-level manager 2]

“The reason why branched out to a regional office, is because we want to get a head-start to the market by offering after-sales, distribution, warehousing, warranty support and service. We are distinguished from our competitors as they cannot offer this broad range! These kinds of services are available now in Singapore and China among others.” [Singapore subsidiary manager]

Since being acquired by the Finnish leading construction company back in 1997, Container Industries had been experiencing structural and strategical changes on a continuous basis and been growing ever since.

“Although continuous growth has its negative effects on the organisation, it creates dynamism and new possibilities for the organisation.” [Top-level manager 1]

The headquarters’ managers emphasised the importance of the domestic merger of Container Industries in 1997-2000 with its direct Finnish competitor. This merger as explained by top-manager 1 and 2, in fact created the present Container Industries of
today. It impacted to a large extent the company’s position in Asian, creating strength to its operations. The merger generated a stronger base for the Nordic company to expand internationally, become present in all continents and to build a network which could serve customers globally. In terms of Asia, both of the merged companies had own operations in South-East Asia, own sales offices in Singapore and Hong Kong and therefore the merger strengthened company’s already established position within these markets. The merger shifted the company from being mostly reliant on agents and representative offices, to becoming a locally acknowledged player as mentioned by headquarters managers. It also allowed the company to invest more, by beginning its manufacturing and development operations in Asia.

“The merger and the time period after that, is now known as the previous CEO’s (top-manager 1) creation. When he became the CEO, the battle between Finns and Swedes ended. Since then we have been executing his strategy and processes in Asia, it’s been an evolutionary process.” [Top-level manager 2]

Top-level manager 1 and 2 explained that the original Swedish Container Industries had a bold attitude and strategy regarding Asia, being one of the very few Nordic firms to have been export oriented from that early on. The managers described the company’s internationalisation to Asia to have developed from firstly exporting solely through local agents, to increasing slowly its investments and presence in the region. Internationalisation was seen as an evolutionary process, whereby the company had developed as more knowledge about the local market and business climate had been gained. In the 1970-1980s Singapore was recognised as the centre of Asia. It was seen crucial for the Nordic company to be present in the key South-East Asian location from the late 1980s by establishing a local sales office.

“Singapore is the busiest port in Asia. It acts as an important hub, and back then acted as a platform to South-East Asia. Container Industries was one of the first companies from Europe to establish itself in Asia, a good-first mover advantage for us. It was a right investment and a long-term window to South-East Asia region.” [Singapore subsidiary manager]
This move was followed by an acquisition of a local long-term agent in Hong Kong in the beginning of 1990s. Hong Kong’s geographical location was also to the advantage of the Nordic company. The acquisition created a platform through which the company was able to penetrate further into Chinese market with the help of local agent’s already established operations and connections.

“Hong Kong is a free port, our supply chain requires fast movement and therefore it is an important location and good window to other countries. From Hong Kong we have access to go deeper into China.” [Hong Kong subsidiary manager]

“All started with the local manager, he was a good aggressive dealer, had important connections and language skills.” [Hong Kong expatriate manager]

In 2000 full responsibility of Asia Pacific operations was directed to Hong Kong, to the newly appointed Asian headquarters. Hence currently the control structure in Asia is focused and controlled by the Hong Kong leader. Before this, South-East Asia was managed independently by Singapore and North East Asia by Hong Kong with overlapping managers in charge.

To this day, the company has used their extensive local external distribution network to sell their products in Asia. These local agents are managed from the Singapore and Hong Kong subsidiaries. The company is therefore very dependent on the local managers’ skills and initiatives to motivate and encourage agents to sell and market their products. In the future the local dealers continue to play an important role in company’s further advancement in the market. The local dealers create the required competitive edge, allowing the company to be more present and closer to customers,

“It would be good to have more agents, as it is difficult to enter directly by ourselves. Agents help the company deeper to the market and create local demand for our products. We need agents that sell and service the company and its machines to the best of their abilities.” [Middle-level manager 1]
The local subsidiaries are also responsible to search and identify opportunities elsewhere in Asia. Further internationalisation is strongly reliant on the capabilities of the foreign subsidiaries’ managers. As motives and interests do not always cross between the entities, headquarters pursue to steer the subsidiaries’ processes more towards the headquarters’ visions and strategies.

“From Singapore choices can be made as to for example increase presence in Philippines and decide if its sufficient to have only have a local agent there or should we set up a sales office etc.” [Top-level manager 2]

The headquarters’ managers acknowledged that as a company, they had grown in Asia. They were satisfied that the company had been present in the Asian markets for years and machines had been sold to each country in Asia so far, however more was to be done.

“So far the organisation has been formed relatively strong, we have systematised knowledge in place and managed to establish in addition to sales offices, a few factories in place. We have stabilised ourselves as a local player in the eyes of the local customers, competitors and workforce. This has allowed us to receive more loyalty and commitment from our employees.” [Top-level manager 2]

“We are not as global as we would like to be, and therefore we need to achieve and learn more from both difficulties and achievements of our FDIs.” [Middle-level manager 2]

The strategy for Asia was relative simple and straightforward, as explained by middle-manager 2, to expand and develop. However middle-managers mentioned that their unspecified goals and strategic actions were seen as a ramification for creating problems for internationalisation as mentioned by the middle-managers.

“Our strategic aims, goals have not been specifically determined regarding Asia, this is our shortfall.”[Middle-level manager 1]
In terms of the current and future business perspective, all of the managers stressed the importance of focusing on services and developing this network in Asia, rather than solely selling and manufacturing. Focusing on services was explained to be a very strategic choice to stand out from the competition and offer the local customers in Asia a “complete solution”- including machinery and service. All of the middle-level managers explained that this change of focus on service (i.e. maintenance) required a more strategic growth plan rather than purely continuing with organic growth in Asia. This demanded efforts from the subsidiary managers to develop the local agents’ methods of working and mindset and simultaneously searching for potential service firms in the market.

“Increasing production, establishing global purchase networks and developing a service network in Asia is a lot to handle. The service markets are still at a development stage, and therefore we have to be on the look-out and wait for the right opportune moment, as you don’t want competition to sneak up on you. The service industry is difficult, but we have to gain the first-mover advantage, a strong focus and competence that will serve us into the future.” [Middle-level manager 2]

“To offer the complete solution to our clients makes the company and brand increasingly competitive in Asia as only we can currently offer such large package...Changing into a service organisation takes time and resource, and large-scale employee training to change employees’ mentality in doing business the new service-minded way. It will be a challenge.” [Hong Kong subsidiary manager]

The headquarters’ managers explained that not many FDIs had been made in Asia. M&As done in Finland had to a larger extent therefore influenced the company’s position in Asia. Managers explained not being too keen on joining joint-ventures or partnership arrangements in Asia. These were perceived difficult in terms of losing control of operations, intellectual property among other core value. In terms of green-fields, the managers saw benefits in having the possibility to create their own history, culture, and management structure without having to share the burden of the old company.
“Greenfields are easier to manage bringing better results than M&As. M&As bring with them too much excess baggage that is difficult to control and manage. Although M&As bring to the company required local knowledge and knowhow, the former management style, culture, ways of working are difficult and time-consuming to change to fit to the needs and wants of the headquarters”. [Middle-level manager 1]

During the years, the headquarters and local subsidiaries had been on the look-out for possible acquisitions, but very little has come out of them. Hong Kong expatriate manager explained that only small manufacturing firms and currently very few service firms were available in the market. These would have been too expensive and served too little benefits for the growing MNC and therefore little action was taken. Headquarters’ managers had also perceived relatively low level of interest towards M&AS from the local subsidiaries managers as well as from potential Asian companies.

“It’s difficult to acquire Asian dealers as they have a complex ownership and organisational structure and a difficult culture. The local companies do not have any own products, so we could not have increased our product line. The value derived to us of the acquisitions is therefore actually quite low.” [Top-level manager 1]

“The local Asian companies want to independently enter the international markets and take over the markets. They are not for sale, which is bad for us.”[Top-level manager 1]

The middle- managers admitted they were unsure of the ways how challenges regarding further internationalisation should be tackled. Middle-manager 1 and 3 noted that from the both expansion modes, acquisitions and Greenfields, the company had learned from and will use this knowledge in the future. Company had thus made progress in Asia however it had not been easy. The identified differences in opinion, motives and management styles between headquarters’ and subsidiaries’ managers, regarding the move forward in Asia was seen to slow down expansion.

“There have been many different managers from different ages, backgrounds, organisations, involved in company’s internationalisation
process to Asia and therefore challenges lie especially with regards how to culturally manage these operations.” [Top-level manager 2]

“It is true, we had laid too many eggs in the same basket, the Asia Pacific leader nor the rest of Asian managers rarely suggest, or share their information regarding possible acquisitions, growth options in Asia.” [Top-level manager 1]

Managing integration had proven demanding for the company. Middle-managers criticised that he lack of commitment to the earlier acquired companies’ integration had created problems, which they currently faced, such as differences in ways of doing business, interests etc. More recently, the company had done M&A and integration manuals for the managers. Middle-manager 2 further explained that as the company grew, more problems appeared. Managers stressed the importance of adding more resources to post-acquisition integrations to make the most of their investments, to truly capitalise on their presence in Asia, however feared that the company did not have adequate resources.

“We need to invest resources to the post-acquisition integrations, this includes HR, reporting, visual image, organisation culture etc. We need a talented manager to lead this process, to inform and communicate and handle all matters that we want the foreigners to do headquarter-way! It’s not enough that someone checks up on them once a week as we have done so far!...We have been too lenient with integration- this has led to small forts forming all over, where everything is done differently!” [Middle-level manager 2]

“Integration is important as otherwise leads to a bad end results. We are always emphasising on the importance of integration, but are we really putting enough resources and energy into this? We still have this old banker attitude, where we think that “deal is done, when it’s done”, but this is not enough! We cannot control acquisitions from the headquarters. We need to send people there to see it through. We have a tendency to separate M&A issues into hard and soft, there is no difference between these- they are all hard issues!” [Middle-level manager 3]
There were differences in opinion regarding how successfully company had grown in Asia. Middle-managers 1 and 2 and Hong Kong expatriate manager criticised that the internationalisation process had been managed too slowly. In the expatriate’s view, along with investing more resources into integration, the company should have specifically taken over the Hong Kong business from the local manager from the start. This could have been done without first setting up a distribution deal, then purchasing the majority of the local firm and only later wholly acquiring it. Steps could have been taken quicker in the beginning, in terms of establishing factories as well.

“Why not do it bigger already in the beginning, like starting with a factory and not start too small, as not able to have JIT production without warehouses in the Asian locations? We lost momentum which was unnecessary.” [Hong Kong expatriate manager]

Local subsidiaries’ managers however were satisfied how the company had grown. Managers explained that the company’s involvement in Asia had grown significantly and continued to change and adapt according to the market growth. They saw that it had been wise to grow gradually, without any hasty decisions. It had been the local Hong Kong manager’s strategic choice, to first set up small operations, having one agent in each country, and then growing steadily from there onwards. Strategy was to have one own employee in each location to sell and service the machines and grow so forth.

“Strategies and involvement changes according to growth of the region, and therefore we’ve been growing gradually. We have been where the action has been and increased our presence as the demand has risen. We are at the right path at the right pace...Company is well-represented and established in Asia, with good distribution network and complete range of products and services. The strong focus and competence in after-sales services will serve us now and in the future.” [Singapore subsidiary manager]

Singapore’s and Hong Kong’s locations and operations were seen by the Asian managers to remain as relevant as they had in the very beginning. These locations
represented still to this day important hubs to the rest of Asia, and special window to China.

“Singapore and Hong Kong are best locations for human resources, more Westernised and easier to get connection to western business and mindset. We act as great support and bridge between companies. We will retain a crucial role in terms of future expansion in Asia.” [Hong Kong subsidiary manager]

When looking towards the future, market such as China was seen as the current powerhouse, while India’s importance for the company was explained to continuously grow. China was thus seen the most important market to focus on, and therefore as suggested by the Hong Kong expatriate, Greenfields and other investments should be focused there.

“You as a company cannot work, prosper and exclude China. China is too big to avoid! We must look for new agents and locations constantly, however due to its vast scale, China is a challenge. India is also a new market, but it is very hard to set up business due local government and political environment, not very stable yet.” [Singapore subsidiary manager]

Expatriate manager recognised the importance to increase presence in the future in the Asian countries where the company was already present, by taking over more local agents and on the service side making more contracts with the dealers. Middle-managers and subsidiaries managers mentioned that new growing markets such as Vietnam, Indonesia and Korea, should also be considered as future possible markets to target. Subsidiaries’ managers strongly emphasised the need to lower risk, by finding suitable and reliable partners, before entering these countries.

“The company must go deeper into Asia and invest more into other areas as well. Strategically it’s important to move production from high to low-cost countries but challenge is to retain the good high quality that the company’s brand is known for. In order to move into new markets we must
For the subsidiaries and plants already established in Asia, subsidiaries’ managers emphasised the need to recruit talented local management in China and India and elsewhere to build future operations. In this perspective the headquarters should keep investing into Asia and remain optimistic of the future growth potentials and not to restrain growth by limited vision and budget for the Asia Pacific operations.

Headquarters’ managers stressed the need to recruit local talent, as the local leaders were critical success factors, without which the company could not successfully grow further. Managers expressed concern over the lack of talented potential future Asian managers- deficiency in leadership and English language skills being their biggest worry. To fight the war on talent in Asia, middle-manager 3 called for better job rotation, investment in successor planning and leadership development, and improvement in recruitment processes in the organisation to find, recruit and retain the good employees and find the right position for them within the organisation. It was wished for local subsidiaries to become motivated in finding future potential managers.

“It’s very hard to find potential managers, which could take over the current Asian leaders jobs and to overtake the need to use expatriates. There are so few Asians that have good command of English and are business minded, and would fit this organisation culture we have here.”

Middle-level manager 3

4.5 Management of Organisational Change

- benefits in harmonizing processes but limited synergies in Asia
- lack of communication and information sharing
- importance of right leaders to communicate change forward
- seen to take too much resources
- threat to traditions, old ways of working
- hard to manage and implement, little HQ control and local understanding, differences in management styles and language difficulties
As the company continued to expand on a global scale, organisational changes were taking place. Within the corporation as a whole, a change program was underway, called “under one roof” in Asia. As explained by the top-managers, the change program was directed at harmonising processes, making functions and operations similar all over the corporation to increase effectiveness and efficiency. The details of the changes were kept within the company, due to the corporation being a publicly listed company, whilst only sharing the bare essentials to the outside world in its annual report. Thereby the managers wished to say very little in relation to the change program overall.

Change program was seen to create opportunities and benefits in the long-run for the company, as there were various understandable reasons for the changes.

“Integration creates scale advantages in manufacturing among others and increases our bargaining power via suppliers and lowers costs on the administrative side, as we are a very fragmented company. Also connecting our three business areas and developing one mutual centre is financially a wise move.” [Middle-level manager 1]

“The idea is that our corporation with three different, separate business divisions, transforms into one legal entity with shared services, HR, among other from which these three different division can tap from. The change program is a good idea in practice to take advantage of economies of scale, network and be more in touch with other business areas, and overall to become a more close-knit group all under one roof in Asia.” [Singapore subsidiary manager]

Managers admitted to being somewhat sceptical of how change program would succeed. They questioned if benefits would truly outweigh the challenges and difficulties they were struggling with. As the changes had only shortly begun, and were still underway for a few years to come, the benefits that could be reaped from it remained so far unclear. Top manager 1 and middle-managers saw that there was more ambiguity than clarity related to the change program. The response and readiness of the subsidiaries to these changes was also questioned, although the change program was seen to have relatively little effect on the local Asian business operations.
“I value the synergy vision made by the corporate head office but it’s very problematic to execute. As a good example of synergy benefits is the 1997-2000 merger, I am very proud of that merger and it succeeded very well, but it was very difficult process to create a common life between the firms.” [Top-level manager 1]

“One must question if Asian subsidiaries are ready for the change program? Are they equipped to handle this change, understand the reasons and internalise and implement changes accordingly? And do we have the right talent, i.e. managers in place to manage this change accordingly?” [Middle-level manager 3]

The middle-managers saw that some operations should however be kept separate from the integrated processes. Especially integrating all of the three divisions under the single corporate brand name, Freight Solutions, was seen very problematic by all of the managers except for top-manager 2. The corporate brand name was seen to cause problems for the Container Industries esteemed brand. This was explained to be the wrong the concept and wrong timing for this change.

“Marketing needs to stick to our three core brands and service side should be under each business area, as the service is close to the machine business. It’s challenging to try to pursue this set up of Freight Solutions Corporation’s services+ our own services, how is this seen to work?...The corporate brand name is unknown, using solely Freight Solutions in Asia creates confusion amongst our clients and within the industry in general. Brand strategy—it’s very important where it is used!” [Middle-level manager 1]

“All three business areas serve different segments, therefore very difficult to reap any benefits out of this. Lot of work and very little benefits are gained. It’s not a wise move, undervalues our company’s reputable brand name and jeopardises the future of this business area.” [Top-level manager 1]

“Customers and investors are two different faces and this must to be considered! We need to focus on internal matters first, and only then on
external matters such as brand names etc. Communication and relationships need to be emphasised. Have 80/20 thinking, do not complicate and keep it to the basics.” [Hong Kong subsidiary manager]

The expected outcomes of the change program in Asia were questioned by the subsidiary managers. Hong Kong expatriate admitted that difficulties concerning the change program remained overwhelming and unlikely to take place as expected by the headquarters.

“This one company-concept is not likely to work in each Asian country, as it is too difficult. There are benefits in back office functions and sales services, such as bringing customer focused added value but sales force synergies can be more different and vary between different business units, for example no synergies with our business division and the other divisions...Project management in the corporation are too distant from the business areas, and anticipate the change process as too easy.” [Hong Kong subsidiary expatriate]

“This merger into the parent corporation has to be more than just the sum of its parts, 1+1 =3 you see? It must give something extra! But it’s difficult to realise the new corporate strategy’s benefits in Asia?” [Hong Kong subsidiary manager]

“Container Industries leans on to the same subcontractors in Asia as the other business areas, we have to find and develop these synergies relating to the three business areas’ products, operations from geographical areas, but this needs very good leading! Investments to this program must outweigh the costs!” [Top-level manager 2]

In relation to further internationalisation, the change program consumed most of subsidiary managers’ resources and energy. Local managers found it hard to focus on potential FDIs in Asia as little time was left to managing and strategising expansion into more distant parts of Asia.
“I’m confident to lead this process in Asia, however it will be slow due to all the paperwork and legal issues...this takes a lot of time and effort.”

[Hong Kong subsidiary manager]

Managing and controlling the change required extensive human resources. Change was problematic as it was seen to cause worry in employees as they feared changes would affect their jobs as explained by middle-manager 2. Manager emphasised the need to select the right people from headquarters and from the local level to manage and communicate change on behalf of the parent company. Communication was seen vital in order for the correct message and up-to-date information to reach the subsidiaries.

“You can have a perfect organisation structure, but without good people, in the right positions it just won’t work! Good leaders will retain the company’s good image and the qualities that the company stands for.”

[Singapore subsidiary manager]

4.6 Communication and Knowledge Transfer

Top-managers 1 and 2 emphasised that the business they were in stemmed from relationships and networks. Building networks and open communication between the headquarters and subsidiaries was however very demanding. Middle-managers stressed the role of individual managers in establishing open and trusting culture that facilitated communication and knowledge transfer between the entities.

“This is a niche business we are in and networks are crucial. We have subsidiaries all around the world, but our infrastructure is still relative small, so we have to build on these global networks to build our company. Networks create value and trust in the eyes of employees, customers and
competitors alike... Networks are very difficult, you do not have a manual from which you can check how to handle these successfully. You have to build on shared experiences, have open communication and culture whereby people have the possibility to share things. Internal communication is especially important, how else are you supposed to know what’s happening in the world.” [Top-level manager 1]

Headquarters’ managers described how internationalisation to Asia had required extensive information gathering and knowledge development. Regarding the future however, to continue to be competitive, the company needed to acquire new knowledge of both the developing and emerging countries in Asia. This would allow the company to analyse current and future market situations and its capabilities and competitive advantages in these markets. Internationalisation was explained to be a continuous learning process for the whole organisation.

Middle-managers criticised that headquarters had not done enough in terms of building networks and relationships. Communication between headquarters and subsidiaries was explained to have been lacking for a long time and therefore establishing open communication and knowledge transfer within the company required a lot of work. Middle-managers viewed that to a large part this was caused by headquarters failing to manage M&As integration processes properly. This communication gap was caused by cultural differences, geographical distances and lack of control between headquarters and its Asian subsidiaries as described by managers. This resulted in parties sharing differences of opinion regarding integrations, goals, aims and modes of future growth in Asia among other.

“There exists no one company, as we acquire new companies without integrating them well into the company. Even after the 100 day-period from the final acquisition little information is disseminated appropriately. These are very hard to change later on... It’s difficult to get a hold of someone at our X-subsidiary- cannot put a name to a face, no idea of who is in charge of what or what’s happening there! Entities have identity crises, problems of finding a sense of belonging, a reason for existing
within the corporation. Entities have a hard time selling our products and local managers find it difficult to tell about the company to the employees, external environment etc.” [Middle-level manager 2]

To improve the situation, increasing communication and discussions with the local employees was stressed by the middle-managers.

“We should develop more two-way understanding, learn what the interest are, from the local side, and learn more from Asia as a whole and vice versa.” [Middle-manager 1]

“We have to be in good terms with people, very socially active, and communicate-these are crucially important for us. We need to bring more excitement and talent into building relationships and be able to read people and situations!” [Middle-manager 2]

The importance of transferring knowledge of the Western-way of working, to the local subsidiaries and forwards to the local agents was seen important. Local subsidiaries’ managers also saw the necessity in receiving knowledge and training from the headquarters to become more competitive in the new service-sector.

“We should make sales more Westernised, for all the locals to know the brand and products and how the machines need to be serviced. We operate on a global scale, so there is no one right answer to situations, and therefore on a local level we need to know how to act and operate. We need to create one set way of doing business, this can be done by training Asians, bringing them to Europe and Nordic managers sent there to train employees.” [Top-manager 1]

“Converting the organisation into a service company takes time and money. It is important to train people to become service providers at mind and at heart. Lot of learning, from building skills, systems and quality control! This requires people from Europe to come and train our Asian employees.” [Singapore subsidiary manager]
Transforming the headquarters, company as a whole to become more local was also emphasised. This meant transferring local knowledge back to headquarters and building mutual understanding and trust between entities. Subsidiaries’ managers viewed that headquarters did not listen enough to Asian views and ideas regarding organisational changes, internationalisation moves etc. Middle-managers 1 and 2 shared this view, and explained that the headquarters had to begin to think more from the local perspective. To do this, more communication was needed to learn to work together and to build a similar mindset. The company must learn to demonstrate that they respect and value the foreign subsidiaries’ and employees’ input. Managers emphasised the transference of more tacit knowledge from local subsidiaries and from their contacts, local agents, and suppliers to the headquarters, for the company to acquire and gather new intelligence of the ever growing Asian markets.

“Organisational learning could be better, Asian aspects should be more emphasised” [Hong Kong expatriate manager]

“In the end of the day, this is very local business, we should not forget this! Locals have their own motives so this affects knowledge transfer process.” [Middle-level manager 2]

“We must learn to use the local resources to the best of our abilities, learn how to be really local” [middle-level manager 3]

“In order for the business to grow in Asia, the headquarters must show to Asian managers and overall workforce that they indeed are appreciated for their work and have a potential to grow within the company and - this will motivate them to continue within the organisation.” [Middle-level manager 1]

Local subsidiaries’ managers viewed that Finnish managers should learn how to do business in Asia as Finnish could not expect to conduct business in Asia the same way they did in Europe. The subsidiaries’ managers wished that the company would explore creativity within and outside the organisation and expand one’s own mindset of how to do business.

“You need to socialise and network, to build foundation with each other. Increase face-to-face interaction. More human touch is needed...We need
to think larger and expand, think outside the box.” [Hong Kong subsidiary manager]

The subsidiaries’ managers viewed the management style within the company as very Nordic, influencing the shortness of communication and lack of learning from each other. The Hong Kong subsidiary manager and expatriate wished to challenge the Nordic way of thinking in the organisation. The headquarters should put more faith and trust into the local management, to share more of the headquarters knowhow and intellectual capital.

“Headquarters should release more knowhow from Nordic countries to Asia; they should not be scared to give it to us! This would help the company to become more Asian. It’s like a chef not releasing its recipe, by retaining technological know-how in-house in Nordic countries and not willing to share it with Asia...We could develop products to the Chinese market... this would be a big opportunity for Container Industries...only if headquarters would be willing to do more teamwork.” [Hong Kong subsidiary manager]

Middle-manager 3 additionally questioned the extent that the company, headquarters in particular had actually learned from their presence in Asia. The middle-managers criticised how little their local presence had profited the company, i.e. taken advantage of their experience and knowledge so far. Middle-manager 2 in this regard, stressed the value of the local Asian managers’ tacit knowledge and country experience that should be transferred back to the headquarters as well as forwards to the new potential leaders.

“We need to deliver this knowledge gained from being out there in the world, at different subsidiaries back to the organisation. When we are not disseminating this information and knowledge, we are not learning! We should have training, where we would guide them through learning cases, of how things could be managed differently abroad, so we would learn from our mistakes.” [Middle-level manager 3]
The qualitative case study findings described how over the past few decades this Nordic MNC had internationalised to Asia. The findings focused on revealing and explaining issues and challenges the company faced in managing its Nordic headquarters- Asian subsidiaries’ relationships, as seen by the interviewed managers. To discuss these above mentioned findings more in detail, the company’s internationalisation process so far will be examined and related back to the internationalisation theory. This will be followed by exploring the relationships between the case company’s headquarters and foreign subsidiaries and their effects on the company’s internationalisation to Asia, relating findings back to relevant MNC theory. This discussion drawing from theory, research and the case study findings pursues to develop new knowledge and theory of the phenomena in question.

Internationalisation Process

Container Industries began its expansion from “next door”, the Nordic countries and gradually increased its resource commitment to foreign markets due to limited growth potential in its domestic market. This was a natural strategy for Nordic firms to follow at the time as explained by Vaara and Tainio (2003). The internationalisation of firm’s operations and developing a trusted Nordic brand to become internationally recognised player in the industry was explained to have been a naturalised part of the company’s strategy from very early on. The firm was in fact one of the very first Nordic MNCs to have established a presence in Asia giving it a first-mover advantage in the region.

Focusing resources towards Asia was seen crucial by the decision-makers as the region’s future growth, container volume potentials became evident. The expansion process to Asia mostly followed the prediction of Johanson and Vahlne’s (1977, 1990) stage models. The firm began by exporting, then setting up distributors, and later establishing subsidiaries both organically and through acquisitions to increase presence and commitment in the Asian region, while decreasing its uncertainty avoidance. The firm used thus multiple modes of entering and establishing operations in Asia. First
Asian subsidiaries, established in Singapore and Hong Kong were seen as good locations due to their geographical hub-like position, so-called “windows” to rest of Asia. From these locations the firm was able move forward and build presence in the region through local agents and partnerships. These so-called platform countries as similarly explained by Lasserre and Schütte (1999) were used as bases at the entry stage for a firm, to gather intelligence and initiate local contacts and later used as regional hubs.

At the time of the interviews, Asia Pacific operations were directed from Hong Kong, and the Asian subsidiaries were responsible for the sales, distribution and services support of Container Industries’ machineries and solutions in Asia Pacific region. Growth in the global container volume presented challenges for the company, to expand its global and local presence to be better positioned to work as partners with local firms, get closer to customers and access different concepts and ideas. Company’s main focus was on the growth countries, key geographical areas being South-East Asia, China and India. Container Industries’ expansive business plan was to ensure both existing and potential Asian customers that it was a reliable but also accessible business partner. To do this, the firm needed to strengthen its business, develop its networks through organic growth and acquisitions. For example in China the company had pursued to expand quickly to take advantage of the opportunities offered by rapid economic development by setting up subsidiaries and local manufacturing and assembly facilities. In the emerging countries, such as Vietnam local presence had been set up through local distributors and in some cases representative offices that aided building the needed relationships. The overall future outlook for the company in the Asia region was seen bright as many opportunities were seen to exist.

Container Industries’ internationalisation was thereby influenced by managerial learning and experience as the firm increased its level of foreign market commitment as explained in the stage theory approach as described by Bell (1995). The firm had also learned from mimetic behaviour by expanding its operations through mergers and acquisitions and other partnerships both at home and in Asia in support of Forsgren (2002) and Melin (1992). A special source of competitive advantage was gained by
acquiring the local firm in Hong Kong with the required local Asia Pacific knowledge and already established important links and access to China and elsewhere. Both Singapore and the Hong Kong subsidiaries had key knowledge and insights regarding the local markets and were in prime position to search for opportunities in the Asia region. However to this day entering, retaining and strengthening firm’s position in the Asian markets had been a complicated and long continuous process. Internal organisational changes had impacted the internationalisation of the firm, thereby decreasing stability, continuity of the internationalisation process as suggested by Forsgren (2002). Changes in the industry, on the local markets and government level also impacted the firm’s expansion directly. Surprises and setbacks had occurred and therefore steps were taken back and forth as the firm reacted to changing environmental conditions similar to Vaara and Tainio (2003), Araujo and Rezende (2003) and Young et al. (1989).

The history and background of the company as well as organisational restructurings had an impact on the firm’s internationalisation similar to findings by Melin (1992), Vaara and Tainio (2003) and Pajunen and Maunula (2008). The strong stable position established in the Nordic market aided the company to expand in Asia. Later the large size and resources of the parent corporation and its other two business divisions also assisted the company to build a stronger presence in Asia. The company also benefited from the traditional and well-known brand name, which distinguished the company from the competition and set it apart as a strong player to be reckoned with. Internationalisation was also influenced by the strategic decisions made by individual decision-makers to recognise the opportunities present in Asia and realise the first-mover advantages available in the region, in support of Young’s et al. (1989) research. The skill-set of the Nordic and especially local managers available within the organisation held a crucial role in establishing contacts with potential local partners and managing these processes and relationships while building a solid platform for the future. Additionally it was noted by the managers that establishing well-functioning operations also required luck, chance and good timing as various risks and uncertainties existed in the foreign market, as similarly noted by Vaara and Tainio (2003).
The case company’s early expansion followed a similar internationalisation pattern as suggested by Johanson and Vahlne (1990, 1977). However, simultaneously the company’s development in Asia strayed away from the incremental and progressive path similar to Araujo and Rezende (2003) and Madsen and Servais (1997). As for example establishing presence in Singapore followed the pattern of early-internationalising firms (Rialp et al. 2005). Firm’s expansion to Asia could be therefore described as discontinuous and unpredictable. Internationalisation was therefore an outcome of multidimensional and overlapping processes. (Araujo and Rezende’s (2003)

To investigate the case company’s internationalisation process more in depth, the MNC’s management of its headquarters- foreign subsidiaries relationship is addressed in detail next. This is done to investigate how the MNC’s subsidiary management affected this clear-cut learning-commitment cycle, as this has not been examined in the literature as noted by Werner (2002). From the research findings it could be drawn that five broad factors- cultural differences, control, management of organisational change and international expansion as well as communication and knowledge transfer characterised the relationship between the firm’s Nordic headquarters and its foreign subsidiaries. These factors will be now discussed relating them back to theory. And more importantly the effects of these issues on the internationalisation of the firm will be explored. Each issue will be discussed independently as to clarify its effects on firm’s internationalisation.

Cultural Differences

One of the fundamental problems in headquarters- subsidiary relationships related to culture. Issues with different national as well as organisational cultures within the headquarters- Asian subsidiaries’ relationships were identified. Tensions were caused by the three different companies and their organisational cultures, all under the same corporate umbrella. A certain distance between the entities was sensed, as the entities had dissimilar ways of perceiving the company, diverse practices and approaches to managing and doing business in the industry. The Asian subsidiaries differed from the headquarters in terms of management, operation, decision-making among other, in
support of Buckley’s (2005) research. Lack of common culture caused different perceptions and interests, and thereby little shared understanding between the headquarters and subsidiaries existed. Interactions between entities were further complicated by the geographic distance of the dispersed units within the same corporation as explained by Barner-Rasmussen and Björkman (2005).

Building trusting, working relationships between headquarters and their Asian counterparts was seen crucial but difficult as it required lot of effort, patience and understanding. Trust had an increasingly important effect in the highly collectivist Asian cultures, where inter-personal ties were prone to take a greater importance than in highly individualist Nordic culture. Building trust with Asian managers was understood to require Nordic managers to build personal relationships and to cultivate successful intra-firm relationships to allow successful knowledge-sharing. Adoption of shared goals and aspirations were required to create shared understanding and cooperation, to motivate actors between units to contribute and combine resources, while helping to overcome disadvantages associated with complex cross-cultural relationships (Barner-Rasmussen and Björkman 2007; Li 2005; Hedlund 1986). The Nordic managers viewed that the Asian cultural concerns such as losing faces, fears about being too open or incorrect led to organisational restrictions in sharing and exchanging knowledge and building open and honest relationships as similarly noted by Qin et al. (2008).

Active trust and shared vision development were especially significant in the Asian context, decreasing the influence of potential negative Asian “country-of-origin” effect whilst developing mutual understanding and confidence as explained by Li et al. (2007). The headquarters’ inability to commit adequate resources to building trusting and open relationships with local Asian managers however harmed the management of the Asian subsidiaries, and thereby the company’s overall growth in Asia. Very little had been done in terms of increasing interpersonal interaction such as circulation of staff internationally, cross-cultural teams, cross-border trips among other forms of contacts and communication as similarly described by Qin et al. (2008), Barner-Rasmussen and Björkman (2007), Buckley (2005) and O’Donnell (2000). The Asian subsidiaries may have been viewed by the headquarters as receivers of knowledge, owning little talent
and therefore little effort was seen to be invested into building cross-cultural exchange between the entities as likewise noted in Qin’s et al. (2008) research.

The company prided itself in being present in over 140 countries and therefore perceived to be genuinely a global company. However the general management speak of the organisation owning an open, global mindset was challenged. Middle-managers saw that it was not enough for the company to declare that they were global, but also they needed to act global and to establish a truly global mindset. Within the company, there continued to live a predominantly Nordic mindset, a blend of Finnish and Swedish managerial thinking, by which the organisation was led. The majority of the managers considered the organisation still very Nordic, with little international or foreign influences in the headquarters or in the board of directors. This Nordic management style created a barrier to developing and acting with a global mindset. The headquarters were persistent to keeping the Nordic flare alive within the company overall. This attitude did not however cross over to Asia, where subsisted an Asian mindset and way of doing business.

Many convergent, homogenous work practices existed between the headquarters and subsidiaries, however simultaneously one could sense a very Nordic headquarters and Asian subsidiaries. The decentralised control structure of the firm and applied globalisation strategies and structures reinforced the importance of different national contexts to play a key role in the MNC’s foreign subsidiaries. Global effects therefore faced strong resistance due to different histories and backgrounds of the firms and their respected national business systems, similar to Geppert’s et al. (2003) study. This directly hindered the spread of global attitude as well more Asian perspectives to impact the business and ways of working, which could have created competitive advantages for the firm as well as create cohesion at all levels and between all levels.

Without a truly global mindset present in the whole company it was difficult to plan for the future, as diverse perspectives towards the growth of the firm existed. Additionally it was perceived difficult to diminish the culture distance for more efficient communication and information exchange and learning to develop. The subsidiaries felt
that most of the time they were challenged to defy the Nordic, traditional way of working, consuming most of their resources. Within the headquarters and the two subsidiaries there existed three different mentalities, cultures and organisations, disconnecting and dividing the company into separate “forts” as one middle-manager called them. There existed no positive group distinctiveness, no one group membership, as Barner-Rasmussen and Björkman (2007) similarly explained. From an outsider’s perspective, the relationship between the entities could be described as a battle between Nordic headquarters versus the Asian subsidiaries. Singapore and Hong Kong operated very much as one single entity, rather than all entities representing together one single united multinational company. The separate cultures and overall company attitude harmed to an extent the company’s potential future success in the region as they did not present one united company to the outside world.

The strategic environment of the MNC further accounted for the emergence of perception gaps, including factors such as language problems (Chini et al. 2005). Issue of sharing a language, headquarters using primarily Finnish and Swedish and subsidiaries using Chinese and English, was seen to promote cohesion, trust and shared vision within the subsidiary and similarly within the headquarters. Language thereby created a divide between the entities. Although attempts to introduce English as the common corporate language at the case company were made, several different languages continued to be used within the organisation as equally noted by Fredrikson, Barner-Rasmussen and Piekkari (2006) in their study.

Language affected the individual’s sense of belongingness, corporate identity, and attempts to develop corporate cohesion across diverse operations. Language proved to be powerful force generating sense of exclusion from key information processes and ultimate decision-making taking place within the headquarters, producing even occasional resentment towards management and managerial processes in the subsidiaries as similarly highlighted by Barner-Rasmussen and Björkman (2007), Welch et al. (2005), and Marschan-Piekkari et al. (1999). Also cultural and related behavioural, attitudinal and language differences complicated conducting business with
one-another, making cross-cultural communication a continuous learning process for the entire organisation, as acknowledged Buckley et al. (2005).

It is crucially important not to belittle the effects on culture in the MNC. Building a mutual organisation culture and mindset for the once separate entities is important to build a solid foundation from which the firm is able to continue to develop and grow. Headquarters’ and subsidiaries’ managers should thereby recognise the importance of cultural and social knowledge and learn to manage cultural differences present in their Asian operations in order to succeed in the future in other FDIs. Developing trust and open dialogue between the entities is likely to decrease the effects of cultural differences in the MNC. The firm should learn to act globally but simultaneously appreciating and treasuring firm’s both the Nordic and Asian perspectives and backgrounds and in so doing creating value for the whole firm.

Control

The local Asian subsidiaries’ top managers were seen by the headquarters’ managers to have too much control over the local operations for the benefit of the headquarters and overall company. The established Singapore office had been originally managed by Nordic expatriates but for years now the local management had been independently managing the operations. The acquired Hong Kong subsidiary and its manager, original founder and owner had lead the Hong Kong subsidiary since the beginning, but become especially powerful once being named the director of the overall Asia Pacific operations. The most powerful status with regards Asian operations was thereby held by Hong Kong subsidiary manager, whom was seen to personify the company’s Asian business. And as time went by, it was increasingly difficult for the headquarters to change this autonomous, independent managerial setting that had been firmly rooted in their Asian business operations.

The Hong Kong manager had established a strong position, was well-known and owned the trust and respect of the local colleagues and biggest clients. The individual manager and his Asian team, second in command being the Singapore manager, had the
knowledge, networks and know-how to conduct business in Asia, which the headquarters’ decision-makers did not own, as well noted by Andersson et al. (2005). The subsidiaries had set of relationships linking together both the Singapore and Hong Kong entities and their external relations such as customers, suppliers and partners alike within the local business environment. These external links were subsidiaries’ sources of innovation and subsidiary-specific advantage. It was thus this web of business networks, including actors inside and outside the MNC, in which the subsidiaries were embedded in that were the most critical resources and basis of power for the subsidiary. (Andersson et al. 2005; Li 2005; Andersson and Forsgren 1996) Thereby in this case study the Asian subsidiaries possessed a high level of power in relation to the headquarters, controlling their local environment and to a large extent their own operations while co-existing within the MNC.

Subsidiaries’ embeddedness in their local environments had thus an impact on headquarters’ control over the entities. Additional factor relating to the embeddedness of the subsidiaries was the notion of language which also affected the issue of control of the subsidiaries. The situation within the case company was similar to Welch’s et al. (2005) study where it was discovered that the lack of suitable employees who have fluency in foreign languages, coupled with perceptions of high cultural distance between an Asian and Western firm, led to the subsidiaries being operated with relative autonomy under the succession of local managers. In relation to the case company, subsidiaries retained more power as local managers spoke fluently the required languages, such as Chinese (Mandarin) giving them a competitive edge over the Nordic managers. Without the necessary local language skills and cultural knowledge of the subsidiaries, the company would have been unable to do business effectively in the region. Headquarters were therefore showing increasing dependence over the Asian subsidiaries, as noted by Andersson and Forsgren (1996), the more embedded the subsidiaries were in their external relationships the lower was the headquarters’ control.

The Asian subsidiaries both had a very big role in advancing the business all over Asia Pacific as they managed the contacts with all of the Asian dealers and agents. The local manager in Hong Kong and his team had made and still held the most important
contacts personally. A challenge for the headquarters was thus how to retain the Asian management team’s local tacit and non-tacit knowledge and expertise of the local markets. If this knowledge would not be shared and transferred to rest of the organisation in the near future, it was considered very difficult to manage the subsidiaries and overall Asian operations once local manager and his management team would step down in the future.

Important insights of how control was actually managed within the MNC could be drawn from investigating how management and control was exercised in cross-cultural transactions as suggested by Volkmar (2003). These transactions included most importantly knowledge transfers between headquarters and the subsidiaries. The MNC can benefit greatly from transferring resources and competencies developed in different foreign subsidiaries. Individuals with specific knowledge and expertise vital to the global competitiveness of the firm are often located in the foreign entities as this specialised knowledge is developed to respond to local market and resource conditions. (O’Donnell 2000) In the contrary to the literature however, the full-potential of the subsidiaries’ knowledge was not used to the advantage of the overall organisation. It was recognised that co-operation, information sharing and flexibility was absent between the entities. This was due to the low level of trust and differing interests and goals between the separate entities. Power struggles existed and different tactics were used as both parties felt that the other intentionally held back important information due to their own motives as too mentioned by Bouquet and Birkinshaw (2008b). The lack of resource transfers therefore further resulted in headquarters and subsidiaries not benefiting from new knowledge and learning. As a consequence this may have hindered the company’s further internationalisation to Asia as without international knowledge transfer occurring, the company was unable to leveraging competencies across the MNC and capitalise on arising opportunities in the region.

Organisational tensions caused by interdependence and control often create a complex environment for networking as explained by Barner-Rasmussen and Björkman (2005). Entities were seen dependent to varying degree upon each other (Li 2005; Kostova and Roth 2002) however the typical view of subsidiary as a dependent entity of the
headquarters and parent company discussed in literature can be challenged in this case. In this study, the Asian subsidiaries were seen very independent from the headquarters, which allowed them to retain their control by leading the Asian operations and sharing information as they saw appropriate. By sourcing advanced, unique knowledge from the local environment, subsidiaries increased their independence and control over the headquarters as similarly seen by Chini et al. (2005)

In spite of the growing independence of subsidiaries from headquarters’ decision-making, headquarters continued to play a role in decisions-making regarding change management measures among others, and not just devolving their power to Asian regional centres, as likewise shown by Geppert et al. (2003) in their research. Headquarters acknowledged that the Asian subsidiaries worked from a different set of motivating objectives than the headquarters and thus controlled with the use of the expatriate in confirming that subsidiary’s strategy was aligned according to the MNC’s overall strategic framework, similar to Volkmar (2003) and O’Donnell (2000). However as the expatriate had been overseas for over a decade and “become one of the locals”, one could question the expatriate manager’s loyalty and sense of obligation towards the Nordic headquarters. It should also be noted that the headquarters’ dealings with the Hong Kong expatriate as well as with earlier expatriates who had worked at the Singapore office, were seen to be at the expense of developing relationships with the local managers as acknowledged by Andersson et al. (2005). Thereby the use of expatriates in fact decreased the perceived control of the headquarters.

The company’s history may explain the subsidiaries’ independence and control issues to a certain extent. Different cultures and environments and lack of post-acquisition integration possibly shaped the subsidiaries over the years to become autonomous, self-governing and nearly self-sufficient entities with little similarities and connections to the Nordic headquarters and to the overall parent organisation. As described by O’Donnell (2000), this internal interdependence is recognised as important to exploit MNC’s “multinationality” and to achieve and maintain a competitive advantage in the global marketplace. As the interdependence between the entities was relatively non-existent exist and inefficiently managed from early on, the company was not able to
exploit their so-called global strengths, which hampered their internationalisation process.

Organising and effectively managing headquarters- subsidiary relations therefore pose a real challenge for the MNC. Headquarters should pursue to gain control of their subsidiaries, by networking and creating a strong bond and understanding the complex context of the subsidiaries, thereby achieving a so-called differentiated fit as described by Nohria and Ghoshal (1994). Once the MNC’s units have shared goals and able to work together towards a common vision it is able to decrease the negative effects of the power struggles within the parties. The management also needs to develop an overall understanding of the differences and diversities of the subsidiaries, for the firm to be in a better position to govern its headquarters- subsidiary relations and hence enhance its performance and expand strategically further into Asia according to Nohria and Ghoshal (1994).

**Managing International Expansion**

As the Hong Kong and Singapore subsidiaries represented the knowledge centres in Asia it was natural to assume that the company profited from its strategical locations. These after all provided competitive advantages and a good base from which to continue to increase company’s commitment in the Asia Pacific region. It was recognised that the company had retained important knowledge and learned from its presence in the region over the years, which had allowed them to succeed in their Asian activities. Subsidiaries’ value to the company was recognised by the headquarters. It was explained that still to this day, Singapore and Hong Kong subsidiaries held an important role as they were in the key locations and employed the key people that were in the helm of the company’s Asia Pacific operations.

From the findings however it could be drawn that problems related to integration and communication flaws, between the entities had a negative impact on the management of the international expansion. Many cross-border M&As had thus led to problematic internal organisational problems as similarly noted by Haspeslagh and Jemison (1991).
Cultural differences, change resistance and cultural incompatibilities were seen as major causes of organisational problems. Acquisitions’ benefits may not have been achieved due to disregard of cultural differences and ambiguities and the lack of understanding the subsidiaries’ organisational practices cultural permeability and embeddedness in the local environments. The firm failed to appreciate the positive aspects of cultural differences, as sources of value and learning, which impeded the post-acquisition integration processes as mentioned also by Vaara (1999).

The consequences of neglecting to manage the acquired Hong Kong subsidiary’s integration process were evident and wide-spread. The entity was managed locally by the founder, causing problems of earlier mentioned excessive control and power of the local management. Similar integration outcomes with other M&As were explained as well, including the Singapore subsidiary, as insufficient commitment and resources had left Asian subsidiaries separate and isolated from the Nordic headquarters. Possible underlying reasons why the dispersed subsidiaries had not been successfully integrated into the company could be explained by the colourful history and background of the parent company. Freight Solutions’ many Nordic mergers and acquisitions and organisational restructurings had affected the company in the past as well as in the present. Another rationale was that the expansion pace elsewhere in the world had been too rapid and intense. The vast amount of changes and quick pace had possibly disrupted and drawn the headquarters' attention away from building solid relationships and investing adequate resources to building a future basis for cooperation with the subsidiaries.

Unspecific visions were set out for the Asian operations. Strategic goals were not specifically determined for the Asian operations, apart from overall broad goal being to expand and develop business in the region. It was also suggested that the subsidiaries’ roles were never truly fully established by the headquarters leaving a large grey zone of management issues unresolved. Thereby the overall management and configuration of strategy and structure in the subsidiaries had been somewhat overlooked. This mismanagement possibly took place because the MNC needed to address the tensions between global integration and local adaption. As it was vital for the MNC to achieve
and maintain legitimacy in all its environments where it did business, this pressured it to adopt local practices in geographically distant locations such as Hong Kong and Singapore. However, simultaneously the company attempted to leverage practices on a worldwide basis, as utilisation of organisational capabilities worldwide was an important source of competitive advantage as also described by Kostova and Roth (2000). Although there was a strong force towards global conformity in the MNC, national environments still had a dominant influence on organisations, both at headquarters and subsidiary level. Global forces and national influences both came together in shaping the management processes within the MNC. (Geppert et al. 2003) With regards this perspective, the case company was seen to adopt an overly lenient local management style resulting in subsidiaries being too distant and separate from the headquarters, directly affecting internationalisation.

The entities did not share similar views regarding Asian subsidiaries’ roles. In the literature, the MNC is viewed as a network of differentiated roles and responsibilities. The subsidiaries’ roles within the corporate strategy is designed by headquarters and could change quickly, whereas its strategic role, identity in the network is based on business relationships, many of which had developed over a long period of time as noted by Ambos et al. (2004) The tensions between these two very different roles was therefore high and interpreted very differently by the entities as also found by Andersson and Forsgren (1996). Within the case company, these diverging views may have also resulted from headquarters not actively communicating and informing the subsidiary of the desired and achievable actions and aims, which then easily led to the entities criticising each other’s actions. The varying perceptions, so-called perception-gaps between the headquarters and the subsidiaries, described by Chini et al. (2005), led to dysfunctional tensions and dissatisfaction towards firm’s internationalisation. Fredrikson et al. (2006) also highlighted that tensions may also lead to disrupt the corporate cohesion and integration processes.

The case company seemed to have been unable to understand the value of the presence of the perception gaps and use them to their advantage. As described by Birkinshaw et al. (2000), the positive aspects with perception gaps are that subsidiaries take initiative
to identify and seize new market opportunities. However the management did not view different beliefs and organisational practices as sources of complementary experience, capability transfer and learning, contrary to what Vaara (1999) emphasised in his research. However as little communication and knowledge transfer took place this created very little benefits for the firm. Perception-gaps arose from the insensitivity of the both the headquarters and the subsidiaries to the changed reality, shift in company-wide strategic focus from sales to services among other internal organisational changes as similarly noted by Asakawa (2001). These differing views continued to exist due to the company’s complex history, its administrative heritage and its units’ changing roles in the competitive industry, both in the Nordic countries and in the growing Asia markets.

Different management styles, cultures, personal motives and interests led headquarters and subsidiaries managers to have conflicting views and strategies regarding the company’s further internationalisation in Asia. Managers saw the internationalisation process, for example which modes and approaches to use and at what pace to move forward very differently from each other. The subsidiaries’ managers viewed it important to proceed gradually, not to make any hasty decisions. New markets were on the lookout, however the importance of finding the right partner was crucial as otherwise FDI was considered too risky. The headquarters’ managers on the other hand, saw it advantageous to make quick moves in Asia and stressed the need to continue to be on the look-out for new growth opportunities in markets such as Vietnam, Indonesia among others.

Although headquarters’ managers acknowledged that the business in Asia had grown significantly over the years, along market growth, some did question if company could have expanded faster and if the taken actions could have proven more successful. Impediments towards future growth existed such as difficulties in finding managerial talent in Asia, undeveloped market for services in Asia, and lack of potential local acquisition targets, to develop and offer services to local clients. Notwithstanding these challenges, company was seen not to have recognised possibilities within the Asian region as early and as quickly as they could have, as operations were kept quite small
for a long time, thus losing momentum. The headquarters viewed that subsidiaries were not capitalising on their prime locations in searching and reporting to the headquarters of all potential growth opportunities in Asia. However as headquarters lacked knowledge and control over the Asian operations, they were heavily dependent on the decisions and actions taken by the local managers with regards expansion. Problems of trust and low level of networking led managers to act independently and not to combine resources. This made company lose speed and means to react and capitalise on all emerging opportunities and to compete in the Asian markets.

Headquarters’ managers had a negative attitude towards conducting FDIs in Asia. Headquarters perceived mergers and acquisitions to have too many “unwanted factors” such as the old corporate culture, old management style among others that created managerial issues regarding control and change. Therefore it was preferred to establish companies in the future to Asia rather than to acquire local companies. The managers’ future vision was not to have too many subsidiaries or partnerships in Asia and rather focus on establishing Greenfield operations in order to control their FDIs better. One has to therefore question if the negative experiences related to the company not having successfully managed the interdependent relationship of their earlier Asian acquisitions had led to headquarters not being able to appreciate the values and gains of such investments. These attitudes could thereby hinder future growth possibilities if the company is unable learn from the M&As. Haspeslagh and Jemison (1991) also advise that, management should not lose sight of the fact that the purpose of an acquisition is to create value that is enabled when two organisations are combined. Strategic acquisitions are seen to give the firm local expertise, unique insights to Asian markets and different perspectives on potential business opportunities. Acquisitions also give access to new skills and expertise.

Learning to successfully manage foreign acquisitions and Greenfields is therefore crucial, especially the acquisition post-integration phase into the parent company. FDIs made in the region are important to establish the company as a trustworthy and committed actor in the eyes of the local government, partners, community and employees alike. Subsidiaries are of strategic importance in establishing and maintaining relationships with local agents and customers. The local subsidiaries also
search and scan the market for possible growth opportunities and advance the company’s presence even further and deeper into the Asian markets. As talented future local leaders and managers are in demand in Asia, subsidiaries are in the key position to provide in-house training among other to fight the war on talent. Hence the firm should develop the subsidiaries’ roles, by partnering and communicating openly with the subsidiaries and involving them in strategising and decision-making concerning the Asian operations. Building a common vision for the future and implementing this expansion strategy together in Asia will be advantageous for the whole organisation.

**Managing Organisational Change**

The long-term strategy for the company was a transformation from a manufacturing company into a global customer and service oriented-company. The internal organisational change program was aimed at exactly that, developing the way of working and global footprint of the company. Higher efficiency in internal operations was set to be achieved through enhanced cooperation. The company attempted to centralise operations and simplify corporate structure by integrating headquarters and subsidiaries within the larger parent corporation. In order for the headquarters to execute successfully the change program Under One Roof, the subsidiaries were required to change and learn new ways of operating and synergising resources. This involved creating a new service mindset to respond to the new strategy and vision set by the corporate headquarters to increase future competitiveness.

The distant relationship between the entities created difficulties in managing the organisational change program. The social capital embedded in the network of relationships between the units, including trust and shared vision as mentioned by Li (2005) were missing. Lack of social knowledge obstructed subsidiaries’ employees to fully understand and view the changes as valuable and to embrace and internalise them. Subsidiaries thus identified with the parent to a lesser- extent, resulting in lower-levels of implementation and exchange of knowledge, similar to Kostova and Roth’s (2002) research. Mixed and doubtful feelings raised by the organisational changes and ambiguity related to the efficiency of changes led to subsidiaries not valuing or properly
understanding the necessity of these actions. As little information had been shared or discussed with the subsidiaries regarding the changes, local managers felt they had been disregarded and their insights and opinions had not been consulted. The cultural distance, lack of social integration mechanisms and the inability to absorb capabilities from each other resulted in employees resisting the organisational changes as noted by Björkman et al. (2007).

The Freight Solutions Corporation was formed through series of mergers and acquisitions during the past couple of decades. However the three business divisions within the corporation, Container Industries being one of them, had much longer histories during which they have built their know-how, product offering and customer relationships. This background was still to this day the means through which the company was able to sustain its competitive advantage in the Asian markets. The changes and restructurings within the corporation threatened the brand, product and service quality in the eyes of the managers and employees both at the subsidiaries and headquarters. Therefore the strategy behind the change process of placing each separate company and their respected brands within the parent company and corporate brand name received little enthusiasm and interest in the subsidiaries. Changes were resisted as they showed disregard to the old traditions, as similarly mentioned by Björkman et al. (2007). Overall managers questioned if all of the related changes were necessary and to what extent did they bring actual benefits to the organisation. Many thereby doubted that changes would in fact improve the competitive advantages of the firm. Changes were seen to potentially harm firm’s long established position in the Asian market.

The restructuring plans raised feelings within the subsidiaries that headquarters were stirring up additional, unnecessary work and changes regarding traditional, already learned processes and ways of working. Although headquarters and subsidiaries saw little actual changes to take place on the local level, planning and implementing changes in Asia however required significant resources from the subsidiaries. This led subsidiaries to commit little time and resources to respond to changing market conditions and explore possible new investment opportunities in Asia. The efforts thus committed to managing the change process, simultaneously took away time and
resources focused at company’s growth and further internationalisation. Subsidiary
managers thus saw that there were substantial challenges in implementing and
internalising the changes, which were viewed at the headquarters as efficient and easy to
adopt for subsidiaries, similar to Kostova and Roth (2002). Expectations were high for
the change program to succeed, and the subsidiaries felt the pressure from the
headquarters. Resources invested in the change program failed short of subsidiaries’
extpectations, and thereby subsidiary managers questioned the possibility of it
“delivering more than the sum of its parts”, bringing value and competitive advantage
for the organisation.

This change program along with various others executed over the years had caused an
environment of continuous transformation within the organisation. Over time this
caused employees within the headquarters as well as foreign subsidiaries to decrease
their commitment and appreciation towards changes of any kind. The low commitment
and pessimistic attitude towards the organisational change impeded executing and
internalising transformations demanded by the corporate headquarters, further
complicating their potential success. This additionally meant that the objectives for the
change program, such as the company being more able to adapt and flexible of moving
from a sales organisation to services, were in jeopardy of not being realised, thus
hampering firm’s expansion in Asia.

In the MNC communicating change requires intercultural communication competence
and cultural sensitivity skills from leaders to reduce uncertainty and anxiety in order to
start effective working relationship according to Liu and Lee (2008). With regards
organisational change, communication and networking is seen essentially important in
the current climate as the company is on the verge of moving forward to the service
business, a crucial step for the company to become a success in Asia. As explained by
the managers, offering services in Asia will be a difficult task but will result in a first-
mover-advantage for the company if they are to succeed in their endeavour. To become
the forerunners in Asia, in the service business, headquarters are required to get the
Asian subsidiaries “on board” this new strategy and to develop a service mindset that
would then be passed forward all the way down to the local agents and distributors.
Communication and Knowledge Transfer

Problems relating to communication and transference of knowledge stemmed from the complex structure and size of the MNC as the subsidiaries had a hard time getting their voices heard as also found by Bouquet and Birkinshaw (2008a). The case company was “set in its ways” and in the pattern of its relationships, which had a strong centre, dominating headquarters, which possibly muffled its subsidiaries’ voices as reported by Ambos et al. (2004). This notion is related to the view of the typical MNC that has experience in transferring knowledge from the headquarters to the subsidiaries (Gupta and Govindarajan 2000) and thus made this process much more “systematic” rather than openly accepting information, knowledge flow from the subsidiary as explained above. Therefore although the company was seen transforming into integrated complex network which transfers and delegates authority and responsibility to their foreign subsidiaries, the headquarters’ role as the most important creator and diffuser of knowledge within the MNC had not disappeared, similar to Gupta and Govindarajan’s (2000) research.

The subsidiaries’ managers explained that learning had taken place at the subsidiaries, internalising and implementing information and knowledge from the headquarters. Subsidiaries managers acknowledged that they needed resources, help from the headquarters to become a known service-provider in the industry and therefore receiving training among other resources from Nordic headquarters was seen essential. Local managers however emphasised that they regretted that headquarters plainly perceived the subsidiary as just a vehicle to implement corporate strategy rather than sharing information and involving the subsidiaries more in decision-making processes. Subsidiaries managers viewed that the headquarters did not for example share information concerning research and development, which would allow the subsidiaries more opportunities to localise products, innovate and build competitive edge in the Asian market.

It was seen that success was determined by how fast the company was able to react to changing market conditions, stressing the importance of learning and knowledge
transfer. It was viewed by the subsidiaries that headquarters could have influenced this reaction time and become proactive if they would trust the subsidiary more to share this knowledge and know-how. Lack of earlier mentioned international resource transfers resulted from the absence of strong and established ties mostly developed in strongly embedded relationships that were required between the entities in order to transfer non-codified, tacit, complex knowledge as explained by Andersson et al. (2001). It was sensed that the Asian subsidiaries were open towards team-working, building the company together with the headquarters, however a similar mindset, attitude was not reciprocated by the headquarters.

This traditional one-directional knowledge transfer attitude within the company thus hindered the success of inflows from the subsidiary to the headquarters. As the autonomous subsidiaries had been self-sufficient for long, knowledge transfer between the entities was seen very difficult to establish and accomplish later on as similarly noted in Ambos’ et al. (2006) research. Additionally, the earlier mentioned perception gaps between the entities, resulted in headquarters impatiently expecting the subsidiaries to send information and knowledge back to them, similar to Chini’s et al. (2005) study. This was expected by the headquarters, although they did not actively pursue an open dialogue with the subsidiaries and passed very little information from the headquarters to the subsidiaries. Hence, this reverse-knowledge did not take place as open and trusting relationship that would have motivated the subsidiaries to actively transfer knowledge back to the headquarters had not been established. Transference of knowledge and learning fell short of expectations as the headquarters devoted insufficient resources to it, as similarly seen by Buckley et al. (2005). The headquarters did not fully commit to building a relationship with the subsidiaries and failed short on establishing open communication and information flow within the overall company.

An additional problem which hindered the knowledge transfer and learning within the company was the Nordic headquarters’ lack of motivation to accept and learn from the “not invented-here knowledge” discussed by Gupta and Govindarajan (2000), because of the sender units, i.e. subsidiaries’ Asian location. This was caused by the headquarters’ perspective of valuing less the knowledge received from subsidiaries
located in economically and technologically less advanced countries, such as in Asia. This related to the sense of superiority and ethnocentrism by the Nordic headquarters, as mentioned by Li et al. (2007). Headquarters regarded itself as the centre, core of the company, the information provider and “know-it-all” figure, rather than being flexible to realise own weaknesses and acknowledge benefits of mutual knowledge transfers. The headquarters failed to acknowledge that corporate headquarters are no longer the sole source of competitive advantage for the MNC.

The headquarters’ managers stressed the growing need to transfer knowledge and increase communication, invest in training both headquarters and subsidiary managers as the company was facing the war on talent in Asia. Simultaneously they however shared views that implied that they did not hold highest appreciation towards the Asian subsidiaries or the way they conducted business. In practice this meant that Western knowledge was emphasised and very little was done to transfer local, Asian knowledge and expertise onwards in the organisation for Westerners to learn from or to adopt. The headquarters did realise the importance of Nordic managers learning from their Asian colleagues. This would have benefited in transferring and retaining the local expertise and in developing more Asian, global mindsets. Foreign subsidiaries’ unique resources should be realised to serve as a source of sustainable differentiation and generate new competitive advantage for the firm as suggested by Li (2005) and Gupta and Govindarajan (2000).

Differences existed in knowledge sharing and resource exchange between headquarters and the subsidiaries, similar to Ambos et al. (2006) and Li (2005), portraying the corporate immune system present in the company (Birkinshaw and Ridderstråle 1999). As explained by Cohen and Levinthal (1990) knowledge is associated with company’s resource base and competitive environment, reflecting its absorptive capacity. In the presence of corporate immune system, absorptive capacity is emphasised to being critically important for the headquarters not to solely rely on subsidiaries’ knowledge and also have own prior knowledge to fully understand and utilise knowledge received from subsidiaries (Ambos et al. 2004). Also organisational capabilities other than absorptive capacity of both parties (Gupta and Govindarajan 2000), social capital-
consisting of social interaction, shared values, understanding and trust impact the knowledge transfer process (Kogut and Zander 1996). These are valuable resources through which both the headquarters and subsidiaries can gain information, power and control and other benefits as explained by Adler and Kwon (2002).

In this case company, headquarters faced this very challenge of building their informal knowledge base as relationship with their subsidiaries was distant and lacked above social capital. This led headquarters to invest resources into external market information development and to “spy” on the subsidiaries. This was done to control and manage their Asian subsidiaries better and contrast information flow from their subsidiaries with external knowledge. It is however questionable as to how valuable this externally retrieved knowledge was to the headquarters. Problems can arise from the headquarters’ inability to apply and use the knowledge to their advantage as potentially lack relevant social and cultural knowledge among other.

Not enough efforts on behalf of the headquarters was put to managing knowledge transfers between the entities. By not being able to take advantage of subsidiaries’ local, tacit knowledge and expertise left the overall company unable to access and share their internal and external knowledge. This should have been diffused and exploited within the MNC to create and renew its competitive advantage as noted by Ambos et al. (2006). This made the company miss out opportunities to develop their innovativeness and learning, hindering the internationalisation process in Asia. Attention is thus called for increasing efforts into building relationships such that could support the increasing resource transfers that are necessary in the competitive industry environment. Social integration involves creation of shared values, identity and trust, whilst eroding potential conflict between different units. This is especially important in complex capability transfer and especially crucial tacit-knowledge sharing. Appropriate social integration mechanisms, such as personnel visits, cross-cultural teams, enhance social integration, is thus advocated, improving capacity of entities to absorb capabilities from each other and thereby increase inter-unit capability transfer. (Björkman et al. 2007)
As explained by Kogut and Zander (1993), firms compete on the superiority of their information and know-how, and their abilities to develop new knowledge by experiential learning and to replicate this knowledge within the organisation. Ideally headquarters and the subsidiaries should seek synergies, leverage best practices and simultaneously transfer resources from different environments and thereby build and develop corporate competitive advantage together in harmony. This would then lead to together seeking and realising new opportunities abroad quicker and better.

To sum up, it can be drawn from the research findings that factors present in the headquarters’ and their foreign subsidiaries’ relationship, such as differences in culture, control, organisational change, management of international expansion, knowledge transfer and communication created issues and challenges for the firm as a whole. As seen from the above discussion, the mismanagement of these factors contributed negatively to the company’s expansion process in Asia. This link is illustrated between management of headquarters-subsidiary relations and firm’s internationalisation is illustrated in figure 5.

**Figure 5. Factors in the Headquarters- Subsidiary Relationship**

It is fascinating to note from the case study findings that the factors present in the entities’ relationship were not isolated, separate but in fact interrelated and dependent on each other and in fact in direct relationship with each other. These factors’ relationship is demonstrated in figure 6 below. These findings thereby contradict earlier international management research describing the MNC’s headquarters- subsidiary relationship, which portray these issues as individually separate factors. This thesis thus
shows that there is a clear link between firm’s headquarters-subsidiary relationship and its internationalisation. In light of these findings, these factors once left mismanaged by the headquarters have repercussions as they quickly become issues and challenges that impede on the further internationalisation process of the firm. The firm should therefore pursue to manage and overcome these factors in order to succeed in the increasing competitive environment.

**Figure 6. Relationship between the Different Factors**

In this thesis attention is paid to the relations between these different factors and issues present in the headquarters- subsidiary relationship and firm’s internationalisation. This study in the student’s view captures a quick look of how dynamic and complex in nature the internationalisation process of the firm actually is. As seen a variety of interrelated decisions and processes interacted within the organisation as a whole. Study’s results are similar to Pajunen and Maunula’s (2008) research which suggested that firm’s internationalisation path is the result of the co-evolution and interaction of the firm’s resources and capabilities, industry influences and internationalisation. Although this
co-evolution perspective by the above mentioned researchers is meant to explain the
development of a born-global firm, it acknowledges interlinked forces that are likely to
affect firm’s future development in general. The management of the headquarters-
subsidiary relations could be considered a force in this respect which impacts firm’s
internationalisation. Additionally as suggested by Araujo and Rezende (2003), it is
important to focus on the dynamic processes embedded in structures of relationships
that overlap and interact in complex ways across space and time. Within this
headquarters- subsidiary relationship there are many underlying processes at play that
are seen to affect the workings of MNC in many ways.

The intension of this discussion is in no way try to undermine the success of the
company or the interviewed managers’ skills or their expertise in their field. This
study’s intention is simply to uncover some issues in the management of typical MNC’s
headquarters-subsidiary relationship, which may harm firm’s internationalisation
process. It is fascinating to reveal separate entities managers’ differences of opinion and
perceptions as well as similar views on how they regarded the firm’s internationalisation and factors affecting this process. Many factors were seen to affect
these differences of opinions, such as organisational and national culture, individual
managerial practices and backgrounds, own motivations and interests among others. By
revealing some of these views and insights, the entities’ managers may be able to
understand, read each other better, build open communication and learn from each
other. To know some of the difficulties of managing foreign subsidiaries will benefit the
firm as whole as they can learn to avoid them, not to repeat them and most importantly
to manage them in a way that does not disrupt their expansion process. This study is
also hoped to give more insight to the practitioners in viewing the headquarters-
subsidiary relationship as complex and multifaceted as it actually is in the real-world.
6. Conclusions and Limitations

6.1 Conclusions

A critical task for managers in the international arena is to effectively manage foreign subsidiaries to create value and gain benefits out of their FDIs. Identifying the challenges and issues regarding the headquarters-subsidiary relationship is important but not enough. There is a need to recognise and respond to these issues in order to overcome them. Often times they can be left unattended and unresolved in the organisation, without realising their negative effect on the future success and growth of the firm.

This study has important implications for MNCs operating in today’s increasingly complex global environment. As the pace of FDIs intensifies in markets both familiar and less familiar, it is important for the headquarters to juggle the pressures involved in managing their multicultural subsidiaries. Internationalisation and the MNC have been considered from various perspectives however it is timely to consider how management of foreign subsidiaries affects firm’s internationalisation process. So far, little research appears to link internationalisation with subsidiary management or expatriate management. Linkages and interactions between different topic areas in international management literature relating to internationalisation and headquarters-subsidiary relations is therefore an interesting area of future research. (Werner 2002). This study should be therefore seen as a step forward in increasing understanding of the influential role that the headquarters-subsidiary relationship plays in MNC’s further expansion.

The single case-study based research allowed gaining perspective of how a typical Nordic MNC expands its operations to Asia and how it manages its Asian subsidiaries. The study’s objective was to show different factors, existing in the case company’s headquarters-foreign subsidiaries relationships, which can prove challenging for the headquarters to manage. The study demonstrated how the possible mismanagement of these factors creates difficulties regarding the company internationalisation process. The study’s results showed support for previous findings relating to the common challenges
existing between headquarters and its foreign subsidiaries. However as there is relatively little prior research regarding how the management of this relationship impacts the further expansion process, new factors were brought to light. These findings break new ground in highlighting certain aspects regarding the management of the headquarters- subsidiary relationship that create barriers to future growth of the MNC.

6.2 Suggestions for Further Research

Further research that explores the link between the foreign subsidiary management and firm’s continued international expansion is advocated. Similarly, research conducted on the international micro- and cross-level appear to be a potential research areas, as still relatively overlooked in international management research according to Werner (2002). More holistic longitudinal in-depth case-study work is called for to address the dynamic and complex nature of internationalisation as suggested by Coviello and Jones (2004). Using longitudinal research may also allow us to see if these issues within the relationship brought up in this thesis, continue over a long period of time without being recognised and addressed and if these can be solved in the long run by changing the way by which the subsidiaries are managed. Using a larger sample to test these findings will constitute an important step forward in internationalisation and MNC research by allowing generalisations to be made. Additionally research of descriptive nature is recommended to develop new models and frameworks to explain how organisations actually work and not how they should work (Melin 1992).

6.3 Limitations

Like all empirical research, this study’s results should be viewed against certain limitations. Qualitative inductive research can be influenced by the student’s own beliefs and values as noted by Silverman (2005) and is therefore subjective as findings can always be speculated as explained by Ketokivi and Mantere (2007). Hence it cannot be overlooked that some informal manipulation or biased view might have occurred during the gathering or analysis of the case-study evidence (Yin 2003). However, to the best of the student’s knowledge and abilities all the evidence has been reported fairly and the research has been done in a valid and reliable manner. Qualitative, case-study
based research provides little basis for scientific generalisation as noted by Yin (2003). As results of the findings were drawn from research conducted within a single company and single sector, caution should be exercised concerning their generalisation across other industries or even within the heavy industry sector. Therefore this thesis does not claim to provide any general explanations of the impact of the headquarters-subsidiary relationship in Nordic organisations’ expansion to Asia. However it merely seeks to provide a description of some of the challenges and issues that MNCs such as the case company are struggling with today. It must be also kept in mind that headquarters-subsidiary relations can vary widely and therefore generalisations should be made with caution as advised by Bartlett and Ghoshal (1990).
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