1. Introduction and overview

Ulf Andersson and Ulf Holm

It is not evident how the role of headquarters (HQ) should be conceptualized in the contemporary multinational corporation (MNC). During the past decades, research has added more complexity to the attributes of the MNC, a complexity with implications for the role of HQ. However, we are all aware that researchers are scattered in their use of different theories and how they deal with various issues. As an example, among many others, Forsgren (2008a) consolidated the various concepts in the literature to classify MNCs into six core dimensions depending on their theoretical foundation. These conceptualizations contain differences that are evident when scrutinizing how attributes of the MNC are described: for example, the MNC organization, the roles of HQ and subsidiaries and the MNC environment are often conceptualized in different ways. Thus, there is no single conceptualization of the MNC, and one can conclude that, evidently, it is difficult to define what the ‘contemporary MNC’ is. We could, of course, scrutinize received research and evaluate the volume of research output within the different conceptualizations of the MNC, marking-up the relative popularity of certain approaches. Another way to reason is to identify which research issues have been addressed with frequency over the past ten years or so. In this respect, the expression ‘contemporary’ would reflect research issues that have been of interest relatively recently and studied within one or several conceptualizations of the MNC. For example, the issue of knowledge development and transfer increased in popularity during the 1990s and, to date, has been extensively studied and related to various problems, such as strategic fit, value creation and cost efficiency, and thus associated to different theories of the MNC.

We recognize that an extensive amount of research on MNCs could be described as contemporary. Without intentionally disregarding possible research areas, we will summarize some observations that have become apparent in the literature on the MNC during the past 20 years or so. These observations indicate that knowledge of the internal organization and the business environment in which the MNC is based has become increasingly crucial, but also problematic. This complicates our understanding of the role of HQ as a value-creating function. With this research in mind, we
then present how the role of HQ has been discussed in a portion of the received literature. This literature has been devoted to what the role of HQ should be if it is to create value, and authors often make extensive and somewhat overlapping lists of what the so-called centre ought to be doing, sometimes leaning on arguments from different theoretical foundations. We will not try to add to the already long list of HQ’s roles but rather to give a comment to this discussion. Subsequently, we will discuss how the role of HQ is treated within four theoretical perspectives that are commonly adopted in studies of the MNC: contingency theory, agency theory, resource-based (and Evolutionary) theory, and business network theory. We conclude by discussing whether the role of HQ has become more important then ever, given the complexity of contemporary research, or if this role is less pivotal than usually assumed. The remaining part of this chapter presents the outline of the book and introduces the contributions of the chapters included within it.

SOME OBSERVATIONS IN CONTEMPORARY RESEARCH ON THE MULTINATIONAL CORPORATION

First, we can state that researchers have frequently observed that subsidiaries can no longer be considered to be ‘extended arms’ of the MNC’s mother-company. Instead, nowadays, claims are often made that they contribute to the overall competitiveness of the corporation through the exploration of own competence (Forsgren et al., 1992; Frost, et al., 2002; Cantwell and Mudambi, 2005). The conception that they rely solely on their mother company for resources, and exploit its home-based competitive advantage can, therefore, be considered to be a sweeping statement that is too simplistic to provide a true picture. From this, it follows that subsidiaries develop different types of competence and play different corporate roles. This phenomenon has been addressed in certain conceptualizations of the MNC, such as the heterarchy (Hedlund, 1986), the multi-centre firm (Forsgren, 1989), the transnational solution (Bartlett and Ghoshal, 1989), the global MNC network (Cantwell and Piscitello, 2000; Cantwell and Santangelo, 2000), and the metanational (Doz et al., 2001). Empirical research has, consequently, dealt with the extent to which MNCs embrace subsidiaries with different roles and special attention has been given to the existence of subsidiaries becoming, for example, ‘Strategic Centres’, ‘Centres of Excellence’ or holders of ‘World Product Mandates’ (Etemad and Dulude, 1986; White and Poynter, 1990; Lorenzoni and Baden Fuller, 1995; Birkinshaw, 1996; Holm and Pedersen, 2000).
Another issue concerns the way the internal MNC organization is considered, which, to a large extent, is associated with the changed view on subsidiary roles and capabilities: subsidiaries are often described as being organized in networks of relationships spanning country borders. This has basically meant that studies on intra-organizational design in MNCs pay more attention to lateral relations between subsidiaries, such as how subsidiaries with different capabilities should be organized and utilized with the aim of creating a competitive advantage of the overall MNC (Bartlett and Ghoshal, 1989; Gupta and Govindarajan, 1991). These studies frequently involve organizing resource flows and interdependencies between subsidiaries, where innovations should be developed, including determining where and why they should be transferred. Thus, both the configuration and coordination of corporate units have become essential in discussions of how to design the network MNC in order to achieve competitive advantage (Porter, 1986; Buckley and Ghauri, 2004). These observations also accentuate how the hierarchical power and control in the HQ–subsidiary relationship have become more complex. Rather than merely relying on ‘pure hierarchy’, which is associated with the legitimate right of the HQ to formulate goals and make decisions, the network view has given rise to a more multifaceted power play within the MNC (Ferner and Edwards, 1995). For instance, subsidiaries that diffuse important knowledge may exercise influence over corporate investments, and it has been shown that HQs’ knowledge about the subsidiary network is an important means of counterbalancing that power (Andersson et al., 2007). Furthermore, in the area of management of the HQ–subsidiary relationship, a wider set of control mechanisms has been suggested, stressing the need for informal control in addition to, for example, formalization and centralization (Martínez and Jarillo, 1989; Tsai and Ghoshal, 1998).

The adoption of a fresh perspective to subsidiary roles has developed concurrently with new ways to model the business environment of the MNC. A traditional way of describing the business environment has been through ‘aggregated forces’, expressed through concepts like the intensity of competition, complexity, concentration and dynamics (for example Porter, 1990). It has been suggested that the MNC should intentionally locate its subsidiaries in environments that are highly competitive and dynamic to expose them to the pressure to innovate and to augment the possibilities for knowledge spillover through contacts with other firms (Porter, 1994; Holm et al., 2005). This view on the environment has also been frequently used in ‘contingency’-based theories on organizational design of MNCs (Chandler, 1962; Lawrence and Lorch, 1967; Stopford and Wells, 1972). More recently, it has been suggested that the qualities of the MNC environment are diverse and require specific subsidiary
adaption, which in turn introduces a need for managerial specificity in the HQ–subsidiary relationship and the creation of congruent goals among corporate subsidiaries (Nohria and Ghoshal, 1994). However, it has been argued that this environmental description is ‘faceless’ as it does not identify specific relationships or counterpart organizations (Johanson and Mattsson, 1988). Thus another view of the MNC environment emphasizes the importance of specific relationships in the external network (for example Ghoshal and Bartlett, 1990; Forsgren et al., 2005). These authors argue that the dependence on subsidiaries’ external resources affects the control and resource flows in the HQ–subsidiary relationship. Further, within the ‘market as network tradition’, Håkansson and Snehota (1989), Johanson and Mattsson (1988) have, among others, shown that interactive business relationships with customers and suppliers are crucial for the development of new technological solutions such as product or process innovations. The subsidiary’s embeddedness and its ability to ‘tap’ into its own external business network has, therefore, become a process of paramount strategic value for the creation of competitive advantage of the MNC (Cantwell, 1994). It should be noted that, in a business network perspective, the legal border of the firm does not constitute an analytical barrier per se, although it is possible to analyze the relative impact of the external network in comparison with the corporate network for certain issues. In this field, studies have been made on the role of external business relationships in the competence creation of subsidiaries and how this links to the subsidiary’s value for other corporate units through transfer procedures (Andersson et al., 2002, 2007). This ‘external network approach’ is open to studies on a variety of managerial issues, including how knowledge and innovations develop and diffuse within the organization, how corporate units exercise power over long-term decisions, and how HQ control is affected by subsidiary networks.

So what implications does this research have for the role of HQ? First, we can conclude that the ‘contemporary’ attributes discussed above have made the models of the MNC increasingly complex. The discussion has revealed that, in addition to the HQ, several corporate actors control valuable resources and create competence of importance for gaining competitive advantage of the MNC. Resources and knowledge external to the MNC are increasingly described as being crucial and the business networks spanning the legal border of the firm have dissolved the distinction between the corporate and external context somewhat. If we accept the existence of diffused resource control, the competence creation of subsidiaries, and the relevance of corporate and external networks of the MNC, the scope of responsibility of the HQ in its creation of value must have become more ‘complicated’ from a managerial point of view. We
obtain a picture of HQ being involved in multifaceted subsidiary relationships; sometimes being dependent on the subsidiaries’ knowledge for their own decision making and sometimes being influenced by subsidiaries in its own decision making. In this situation, we expect that HQ managers strive to generate adequate knowledge about where resources are created and diffused, thereby identifying the units that are influential in the corporate network, and determining how the corporate network is organized and in what way the specific external networks are important.

With a portion of the received literature as a basis we will now discuss the role of HQ and comment on how this connects with the observations made in contemporary research, as discussed above.

SOME NOTIONS ON THE ROLE OF HEADQUARTERS

In his distinction between what the centre actually does and what it should do, Markides (2002) argues that the latter must be related to what the firm tries to achieve in relation to the economic rationale of the firm. From this standpoint, he argues that the general role of a centre is a matter of designing an appropriate structural context. Three sub-roles with a ‘designing’ character are discussed, where the first has to do with developing appropriate strategies to achieve economies of scope, in order to exploit firm-specific advantages by diversifying into new businesses (Williamson, 1975; Chandler et al., 1987). This answers the question of what business a firm should choose to be in. The role of HQ is, thus, to choose how to diversify the firm’s advantage into new businesses. A second rationale is to create internal capital markets, which can be more efficient than the external ones owing to lower agency costs (because HQ have access to better information than the capital market) and a more reliable capital supply (Williamson, 1975). The role of HQ, then, is to allocate resources to business that the MNC should be engaged in. However, the centre should not get involved in daily operations, but it ought to be profit oriented, and it should evaluate its corporate divisions (Chandler, 1962; Chandler et al., 1987). A third rationale is that the firm should organize processes and structures, allowing for efficient sharing of core competences, that is, the learning and transfer of knowledge (Markides and Williamson, 1994). The HQ’s role, in this case, is to facilitate the sharing of core competences across divisions, which is a matter of building new strategic assets (more efficiently than the competitors) rather than exploiting existing ones.

Another discussion, associated with the points made above, is that the HQ may create synergies for ‘positive’ creation of value rather than just
avoiding ‘negative’ ones (Foss, 1997). Following this line of thought, it is pointed out that the roles adopted by HQ in organizational economics have been described as taking on a monitoring and incentive-creating function, so hazardous agents may be less opportunistic and more induced to work towards the organization’s goals. This ‘negative’ role for value creation is accompanied by a ‘positive’ one in as much as the HQ exploits economies of scope, transfers knowledge, reallocates assets across sub-units and functions, appoints teams, facilitates organizational learning, and so on. HQ’s principal role is to decide upon the organizational structure, that is, the organization of the sub-units. Therefore HQ is concerned both with avoiding the ‘negative’ aspects, by designing the structure to prevent and reduce losses, and the construction of the ‘positive’ side, by organizing the structure (groups and interfaces) and value-creating activities. The rationale for the existence of HQ within this view is, thus, highly based on the concept of HQ as a creator of value through corporate parenting, and ‘its ability to coordinate . . . learning processes, reschedule knowledge assets across divisions, and in other ways discover and explore complementarities between knowledge assets’ (ibid., p. 330). Foss specifically stresses the need to create a ‘knowledge direction’ through the blending and directing of knowledge endowments, and exploiting capabilities through coordinated organizational learning. Based on the work of Demsetz (1988), he further argues that those not in possession of the knowledge they require to perform their activities must be directed by those who do (Foss, 1997, p. 327). This ‘direction’ substitutes for education (that is, for the transfer of knowledge itself) and is often a matter of initiating and creating an appropriate structure to instigate suitable learning processes, rather than of detailed hierarchical direction (ibid., p. 316).

In a similar vein, Chandler (1991) claims that the basic functions of HQs in multibusiness firms are both administrative (to avoid loss prevention) and entrepreneurial (to create value). He defined the value-creating role as ‘to determine strategies to maintain and then to utilize for the long-term the firm’s organizational skills, facilities and capital and to allocate resources – capital and product-specific technical and managerial skills – to pursue these strategies’ (p. 33).

The above-mentioned authors are quite consistent in adopting a normative view of the rationale for the existence of HQ, meaning that HQ can or should only exist if value is created. The role of HQ is closely associated with the management of business (and expansion) and with the creation of new competences of strategic importance. The discussion of positive or negative value creation stresses that HQ has a broader task than the mere administrative function of incentive creating and of monitoring. Indeed,
Chandler (1991, p. 41) actually questions if corporate HQs’ supervision of subsidiaries really adds value. It can be argued, though, that going beyond the supervising functions requires a more active managerial role on the part of HQ, with extended responsibilities and a broader set of information and skills being required. For example, calling for HQ to combine core competences effectively or to evaluate entrepreneurial action by subsidiaries not only implies that it must have substantial information about the activities of the latter, but also a clear strategy guiding the managerial choices relating to these issues. Moreover, value creation should be convincingly linked to these choices. It should be noted that these authors do not claim that HQ always succeed in fulfilling a value-creating role: they may formulate inappropriate or ineffective strategies, and thus be unsuccessful in accomplishing their task. However, if we choose to believe that an HQ fulfills a value-creating role beyond supervising for ‘loss prevention’, we must also assume that, through its hierarchical position, it is able to determine and allocate resources to the ‘right’ business to be in and to support the ‘right’ knowledge processes within and between corporate units. This would mean that HQ is able to identify complementarities between corporate units and has an idea of where and when knowledge development is needed, and which corporate units can and should combine their knowledge assets. Moreover, it also assumes that HQ can adopt the appropriate tools effectively, that is, the requisite control mechanisms, for this purpose. This connects to the discussion of Chandler et al. (1987) who stressed the importance of the centre’s role in planning business strategies and in controlling against the results achieved whilst simultaneously stressing the problem of what control measures to choose and how to ensure clear signals of inadequate performance (ibid., p. 28).

The above discussion indicates that the knowledge HQ managers possess about the internal and external attributes of the MNC is essential for the ability to add value, and thus for sustaining the relevance required for their continued existence. Contemporary writings seem to place particular interest in the role of HQ as a coordinator of complementary capabilities and as a facilitator of knowledge sharing between corporate units. Whether this point is the role of HQ, or if its role is to utilize the economies of scope, to allocate resources or to monitor and measure performance, the existence of competence-creating subsidiaries and corporate and external networks of the MNC accentuate the fact that knowledge is a crucial problem for HQ. How can HQ add value to the MNC if its knowledge about its subsidiaries and their business exchange within and external to the MNC is inadequate? The following section will discuss the role of the HQ and its knowledge in connection with four theoretical perspectives.
Contingency Theory and the Role of Headquarters

Let us then consider the intent of designing an MNC that efficiently exploits its competitive advantage on the basis of striving to create a strategic fit between the organizational capabilities and strategic requirements of the corporate environment. This ‘contingency theory’-based perspective deals with how firms behave under the influence of the environment and the goal is to suggest organizational solutions that fit with requirements in the business environment. Looking back on a few examples within this stream, Chandler (1962) and Lawrence and Lorch (1967) argued that strategic change for products and markets necessitates exposure to new environments and thus implies a need to change the structure of the organization. Following the same logical thread, Stopford and Wells (1972) found that growth of the firm (measured in terms of the size of foreign sales and product diversity) enforced structural changes, for example the creation of worldwide product divisions, area divisions or global matrixes. It can be noted that the organizational solutions to these environmental problems were ‘global’ and that specific subsidiaries or local environmental variations did not play a central role. The authors also argued that firms within the same industries will devise the same organizational solutions because they are exposed to the same business environments. A more flexible approach was that presented by Child (1972), who argued that environmental conditions could lead to operating effectiveness through a number of strategic choices, referring to organizational solutions and favourable environments for the disposal of goods or services.

Contingency theory is strongly associated with the problem of information overload at HQ level as a consequence of the increasing corporate size, often connected with technological and geographical dispersion of the MNC. Driven by the need for strategic adaptation of the firm vis-à-vis the environmental requirements, the role of HQ has been to define and implement appropriate organizational solutions for specific environmental requirements. The link between the environment and the internal organization of the firm means that collecting, distributing and evaluating information about markets, competitors, technologies, and so on, is essential for efficient decision making (Forsgren, 2008a). In the information-processing view of Egelhoff (1988, 1993), the required information that needs to be processed and the level of available information capacity create a basis for achieving strategic fit. Thus different organizational solutions and different environments will produce a different quality of fit among firms.

Thus, the role of HQ is contingent on the degree and type of change in the environment (Thompson, 1967). Chandler (1991) consistently argued that the functions of HQ reflect the industries in which the firms operate,
and the ability to carry out these functions determines the successful paths and the limits to growth. However, the role of the environment in connection to HQ is intriguing. The basic logic of a causal relationship between the environment, the strategy and the organization depend upon the HQ managers’ ability not only to overview the capabilities of the corporate units, but also to evaluate the (changing) requirements of the environment. It can be argued that dynamic environments require explicit actions by the centre to a greater extent than static ones would. Or, as expressed by Penrose in 1959 (see Foss, 1997 for a discussion), an unchanging environment that has created an optimum set of procedures and policies can operate successfully without central management.

Based on his belief in emergent learning alongside deliberate planning, Mintzberg (1990) criticized the ‘design school’ (for example Christensen et al., 1982). He was sceptical about the assumption that consciously controlled thoughts on the part of the chief executive are appropriate for designing a fit between external threat and opportunity and internal distinctive competence. He argued that ‘the more dynamic the environment, the more varied and fragmented the manager’s work’, but also stated that ‘environmental turbulence’ is less a problem than ‘business spent with their collective heads buried in the sand of “rational planning”’ (p. 464). However, when business environments are rapidly changing, in terms of economic prosperity, technology, the number of business actors, new entrants, and so on, designing an essential strategic fit should be more of a problem in comparison with an occasion when business environments are stable. Mintzberg’s view was not supported by Ansoff (1991), who argued that firms that use the ‘emerging strategy formation’ (rather than planning) endanger their own survival if they operate in turbulent environments since such firms meet more foresightful competitors. In all, it seems that part of the disagreement about the effect of turbulent environments on organizational design has to do with when HQ is most needed versus when design for strategic fit is most unmanageable.

The book of Bartlett and Ghoshal on the ‘Transnational solution’ (1989) deserves a special comment in connection to the contingency theory. Their main argument is that MNCs face increasingly dynamic environments and it is, therefore, important to define a strategy that responds to several simultaneous requirements. The transnational organization is proposed as a solution which, when needed, should ensure global efficiency, local responsiveness and the international transfer of knowledge. It is argued that subsidiaries have different roles that should be integrated into a corporate network of interdependent and cooperative relations. The model accepts that some subsidiaries will develop from being a long arm that implements HQ strategies, to pursuing strategic roles themselves and,
thereby, become important partners in the HQ–subsidiary relationship. It is clear that the transnational design is strongly associated with environmental change and unpredictability. However, it has been argued that this model does not use traditional contingency theory as the transnational design does not vary in any pre-specified way as a result of strategic and environmental variation. Adjustments are made within the ‘same’ general transnational organization (Egelhoff, 1999). Bartlett and Ghoshal (1989) also disputed the traditional view of strategic fit by arguing that prior models focused on the formal structure and had been too static in their views on roles, responsibilities and relationships. The core issue now, was rather more one of creating multiple sources of competitive advantage that needed to be managed in a flexible manner.

We conclude that the contingency theory deals with the knowledge as an uncertainty problem in which the critical issue of HQ is to evaluate the environment and decide upon appropriate organizational solutions. We expect that this role of HQ is a challenging one, to the extent that the critical resources and competences are controlled by subsidiaries that pursue different and interlinked roles and are embedded in external networks.

Agency Theory and the Role of Headquarters

Agency theory is based on economic assumptions of self-interest and opportunism and that both principal and agent are utility maximizers. This theory has been adopted for the analysis of the HQ–subsidiary relationship, meaning that the principal (HQ) delegates work on behalf of an agent (subsidiary) and, if necessary, implements formal or informal control mechanisms to ensure that the subsidiary pursues the goals of the HQ (O’Donnell, 2000). The theory deals with bounded rationality in the sense that information asymmetry between the principal and the agent creates goal incongruence between the two sides of the relationship (Roth and O’Donnell, 1996). An agency problem essentially exists when subsidiary managers make decisions that are not desired by HQ as a result of the information asymmetry and the incongruence between the goals of HQ and the subsidiary.

It has been argued that goal incongruence and information asymmetry can be driven by lateral centralization of value added activities and a cultural difference between HQ and subsidiary markets (ibid.). But it is assumed that parent–subsidiary commitment exhibited through the adoption of suitable control systems and communication channels will decrease the goal conflict and thus reduce the agency problem. To resolve the agency problem, the principal can use monitoring, that is, supervise the behaviour of the subsidiary, which limits the ability of the subsidiary
to engage in self-interested behaviour. Another way to align the goals of
the principal and agent is through the introduction of incentives, that is,
controlling subsidiary behaviour through, for example, financial compen-
sation. However, both of these mechanisms have been argued to be costly
and inadequate for managing subsidiaries characterized by intra-firm
interdependencies (O’Donnell, 2000).

In their model on ‘differentiated fit’ in MNCs, Nohria and Ghoshal
(1994) addressed the issue of control in the HQ–subsidiary relationship
considering it to be an ‘agency problem’ based on a ‘contingency theory’
perspective. Their reasoning is that individual subsidiaries operate in spe-
cific business environments that require specific adaptation and, thus, the
degree and type of control (centralization and formalization) should be
specific for each HQ–subsidiary relationship. They further suggest that the
creation of shared values will guide the actions of subsidiaries in line with
the MNC’s overall strategy, and thus solve eventual frictions in the mana-
gerial relationships. From this standpoint, we can expect that the subsidi-
aries will not unconditionally adapt to the specific requirements posed in
the environment, at least not when deviating from the corporate strategy
and the congruent content of corporate shared values. This means that
the sharing of values should reflect the wider corporate strategy, including
formulations of goals and plans, with the intention being to create consist-
ency between subsidiaries in the implementation of organizational change.
We can argue that Nohria and Ghoshal’s model on ‘differentiated fit’ deals
with the tension of an HQ not being able to make all decisions effectively
because of its dependence on the subsidiary’s own specific knowledge, but
not being able or prepared to hand over all decision-making rights to the
subsidiary because local interests may not be aligned with those of the HQ.
Thus, shared values become an efficient and effective control mechanism
in the HQ–subsidiary relationship.

The creation of shared values can be interpreted as a way of effectively
handling the problem of corporate size and diversification under the
condition of specific subsidiary market characteristics. Shared values are
supposed to guide the subsidiaries’ actions in accordance with common
corporate goals, thereby reducing the agency problem whilst creating
an acceptance among subsidiaries about managerial differentiation in
HQ–subsidiary relationships. It is interesting to note that nothing is said
about shared values being instilled through the creation of mutual under-
standing among subsidiaries about the specific qualities of their respective
business environments. Such ‘lateral sharing of values’ would be based on
the ‘logic of business interests’ between subsidiaries, rather than on strate-
gic directions formulated and communicated by the corporate HQ. It can
also be worth noting that O’Donnell (2000) found that lateral integration
Managing the contemporary multinational

in the MNC is created through dependencies within that system, rather than through vertical HQ relationships. This is a highly relevant issue given the existence of specialized subsidiary knowledge that is mainly organized in lateral intra-corporate networks. Thus the relevance of ‘vertical’ and ‘lateral’ shared values for maintaining the strategic direction and dealing with the agency problem is an issue that calls for more research. Another notion is that an agency problem is solved when the subsidiary adapts to the overall goals by the HQ. The theory does not seem to argue that goal incongruence should be minimized through HQs adapting to subsidiary goals through the reformulation of their own goals and strategies, or, to express it differently, the theory assumes an agency problem, not a principal one. Nor does it explicitly identify the potential power problem associated with the HQs being dependent on their subsidiaries’ specialized knowledge, and how monitoring and incentive systems handle this issue.

We conclude that agency theory accepts the problem of knowledge asymmetry and goal incongruence between the corporate levels. It deals explicitly with these problems. We can also conclude that, whilst assuming that HQ does not know everything, it can identify the areas of knowledge that it does not know much about. Thus, agency theory assumes that HQ is able to induce appropriate control mechanisms to solve these problems.

Resource-based and Evolutionary Theory and the Role of Headquarters

According to Felin and Hesterly (2007), literature on the knowledge-based view comprises a number of parallel developments and extensions. These include research examining competences, routines, resources, capabilities and, more broadly, organizational learning and evolutionary theories of the firm (Nelson and Winter, 1982; Levitt and March, 1988; Kogut and Zander, 1993; Henderson and Cockburn, 1994; Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002). The issues of firm-specific advantage, the uniqueness of the firm, and value creation are common themes within this literature, which have been explicitly linked to different theoretical sub areas, such as the resource-based view, the organizational capability view, the dynamic capability view, and the knowledge-based evolutionary view.²

It has been argued that a capability, such as a set of skills or routines, can only constitute a firm-specific advantage if it is impossible or, at least difficult, for the capability to be imitated (Barney, 1991). A key feature in the so-called organizational capability view is that value creation through, for example, foreign direct investment or technological development, often requires the combination of capabilities controlled by different
agents. However, it is also argued that capabilities may lose their value when transferred and implemented in other contexts. Minimizing this problem sometimes requires the transfer of key members of staff and a high level of direct social interaction (Erramilli et al., 2002).

Barney (2001) argues that the kinds of resources that are most likely to be sources of sustained strategic advantage are not amenable to manipulation. However, this does not imply that resource-based logic has no managerial implications. The resource-based view, he argues, can help managers ‘experiencing strategic disadvantages to gain strategic parity through identifying those valuable and rare resources their firm currently does not possess and pointing out that the value of these resources can be duplicated either by imitation or substitution’ (p. 49). Managers can also identify the most critical resources of the firm, which increases the likelihood that they will be nurtured and used to gain sustained strategic advantages. This implies that the HQ may play an important role in identifying and pointing out existing (and non-existing) resources of strategic importance. However, Barney further argues that managers cannot know with certainty which of their resources actually generate strategic advantage (p. 50). The value of resources depends on the specific market context, thus it is not possible to make a list of critical resources that a firm must possess. This implies that the role of HQ is restricted by uncertainty about the importance of a particular resource and the quality of the market context in which the resource is implemented.

According to Forsgren (2008a), the evolutionary theories of the MNC (for example Cantwell, 1991; Kogut and Zander, 1993) are rooted in the organizational capability perspective. Barney (2001) claims that the resource-based argument is connected to the evolutionary theories as it has ‘provided’ variables to sources of strategic advantage. One such variable is ‘tacit knowledge’, which is important within the evolutionary theory of Kogut and Zander (1996). The latter theory supposes that the MNC is superior, since the firm shapes a social community (rather than a hierarchy). In their distinction between what is inside and what is outside the firm, the internal organization builds common identities, routines, shared goals and strategies. An important aspect is the view of the firm as a community of mutual sharing of knowledge, which is embedded in the competence of individuals and in the routines and principles of work within the firm (Forsgren, 2008b). This knowledge has a strong ‘know-how’ character and is fundamental for the purpose of value creation. A central conclusion is that, through common identities, routines and higher order principles, it is much easier to transfer information and know-how inside the MNC than between independent firms. This is because individuals identify themselves with a certain group and develop similar viewpoints.
and codes of communication. Corporate sub-units will be familiar with one another, have experience of one another from previous knowledge exchange, share the same goals and strategies, develop channels for information and they will be integrated through common routines. The advantage of the firm is, therefore, its ability to combine knowledge between corporate units through transfer in contrast to knowledge transfer with firms outside the MNC. A further note is that the evolutionary theory of Kogut and Zander differs somewhat from the one of Cantwell (1991). The latter explicitly addresses the role of the external environment in explaining how the core capabilities are created, and thereby providing a reason for the diversity of subsidiary capabilities.

Kogut and Zander’s evolutionary theory does not explicitly discuss the problem of the bounded rationality role of HQ. We can expect, though, that the role of HQ is to stimulate the common identity by developing higher organizational principles and routines. However, how this is to be accomplished is not really dealt with. Given the context specificity of knowledge, it can be argued that HQ must be ‘involved’ in the different knowledge contexts to understand how routines and higher order principles connect and should be formed. It is clear that the theory is a model of harmony rather than a power model (Forsgren, 2008b). We can expect that sub-unit power would work opposite to common identity as regards the effectiveness of knowledge transfer. The more power exercised by corporate units, the less common identity and the less incitement there will be to combine knowledge between the units.

Business Network Theory and the Role of Headquarters

Researchers within the market as a network tradition have focused on interactive business relationships between customers and suppliers and the connectedness of such relationships (Johanson and Mattsson, 1988; Håkansson and Snehota, 1989). It has been shown that such relationships are often close and long term, and that they are frequently important sources of knowledge development. It has also been found that firms engage in networks of business relationships, meaning that the activities in a focal relationship influence activities in other relationships, and that the focal firm actively tries to coordinate these connections. An inherent assumption in this perspective is that the quality of relationships and networks is invisible to those that are not engaged in them, and that business relationships provide the firm with both opportunities and constraints. Applied to the MNC, it has been argued that business networks exist both within the firm and outside it. This means that the business network extends around every subsidiary that engages in business activities, and
that individual subsidiaries differ in terms of their history, quality and level of embeddedness inside and external to the MNC (Forsgren et al., 2005). Therefore, relationships and networks span the legal border of the MNC, which sometimes leads to a situation in which the subsidiary becomes a ‘bridgehead’ between the internal and external network. This role has been demonstrated to be important for the diffusion of new knowledge within the MNC (for example Andersson et al., 2002). Furthermore, it has been shown that a subsidiary’s embeddedness in external relationships decreases its HQ’s possibilities to influence the subsidiary’s day-to-day activities (Forsgren et al., 2005).

The network perspective assumes that actors have limited network knowledge, limited control over resources and cannot fully overview the behaviour, intentions and interactive processes of other actors (Holm et al., 1995). However, there is an implicit assumption that knowledge about one’s own and other actors’ capabilities is crucial to how business develops in the market. In fact, this is a main reason why firms develop business relationships. According to Forsgren (2008b), this approach is similar to the Austrian view of the market process (Kirzner, 1997), which implies that entrepreneurial knowledge is widely dispersed and cannot be passed on to anyone in its totality. Thus, there is no assumption of creating a strategic fit within these networks or that the firm can plan and design optimal organizational solutions vis-à-vis network requirements. Rather, the firm makes gradual adaptations of its products, processes and routines as a consequence of successive learning about its business partners’ intentions and capabilities. Thus, the Austrian approach considers that, not only do business actors lack knowledge, they are ignorant of the knowledge they lack (Forsgren, 2008b). Actors face a situation of ‘sheer ignorance’ (Kirzner, 1997) or radical uncertainty (Goodall and Roberts, 2003). If this can be accepted, we can argue that every sub-unit in the MNC suffers from a certain degree of such ignorance, which also accounts for HQ, meaning that the HQ is unaware of the fact that it has a gap in its knowledge.

Still, it has been argued that, in a network, network knowledge can represent a powerbase beyond the power of formal structural positions, as demonstrated by Krackhardt (1990), who showed that knowledge of a network contributes to an actor’s power and, consequently, to its possibility to control network action. The knowledge HQ possesses about subsidiaries’ network contexts, internal or external, can be regarded as a variant of a resource-dependence argument that power is based on access to critical resources. In this instance, the network knowledge of the HQ is a critical resource (Holm et al., 1995). It has, accordingly, been shown that the network knowledge of HQ can balance the influence that subsidiaries exercise over corporate investment decisions (Andersson et al., 2007).
However, given the number of subsidiaries and business relationships, and the complexity of connections between internal and external relationships associated with the business activities of an MNC, we can reason that, to a large extent, the HQ is an outsider *vis-à-vis* the business networks in which the subsidiaries are embedded. This creates a continuing divergence between the existing knowledge areas of HQ and the subsidiary. It has been argued that this causes a tension between the centre and the periphery in MNCs (Regnér, 1999). To the extent that coordination of activities between subsidiaries is one of the central tasks of an HQ, the difficulties in fulfilling the task are obvious, because the knowledge HQ has of what others know is a necessary component for coordinated action (Goodall and Roberts, 2003; Forsgren et al., 2005). The main reason for these difficulties is not lack of knowledge about the subsidiaries’ operations as such, because this deficiency can be dealt with by way of decentralization, integrative organizational forms, performance evaluation and so on. Rather, the difficulties emanate from the basic fact that HQ does not know which activities and/or subsidiaries should be coordinated, or why (Forsgren, 2008a). We conclude that the role of HQ is a matter of being one actor among others in the struggle for influence over strategic investments, and that sheer ignorance is a restricting factor in that power game.

**Summary**

Our discussion on the contemporary MNC suggests that knowledge is a crucial, but problematic, issue for HQ. At the same time, the literature on the roles of HQ deals with various aspects of how HQ should add value to the MNC. We argue that the value added roles of HQ depend on knowledge and resource control, but owing to resource diffusion and corporate and external networks this role will be a challenging one. It is clear that both contingency theory and agency theory recognize the bounded rationality of the HQ. They both deal with the efficiency of the exploitation of MNC advantage. Whereas the first theory deals with an uncertainty problem, the second deals with an information asymmetry problem. Contingency theory deals with the problem of information processing and the creation of strategic fit between the environment and the organization, whereas agency-theory-based studies have focused somewhat more on formal and informal control in the HQ–subsidiary relationship. Further, we can conclude that the problem of knowledge also is central to the business network perspective. It should be noted that this view of HQ’s situation deviates from the information-asymmetry problem in agency theory, and the uncertainty problem of contingency theory. Forsgren and co-workers (Forsgren et al., 2005) argue that an implicit assumption of
both these theories is that HQ is able to assess any information that the subsidiary possesses, but that it does not possess itself, and that it can design control systems and communication channels accordingly. In a situation of sheer ignorance, which can be assumed within the business network perspective, these possibilities are seriously restricted because the HQ is unaware of the activities or assets there are for it to control.

When comparing the business network perspective and the evolutionary (and resource-based) view, both seem to deal with the creation and the exploitation of MNC knowledge. However, the latter is more explicitly devoted to firm-specific advantage in association to value creation and the uniqueness of the firm. In contrast, the business network perspective has been more explicit in addressing resource diffusion, interdependencies and the role of the external environment in association with management of the MNC. It seems that the problems of bounded rationality of HQ and the constrained possibilities of HQ to control the value creation of the MNC are more explicit in the business network perspective. This is not really questioned in the evolutionary theory, although this theory implies that HQ is, by some means, responsible for the creation of a common identity through routines and higher order principles.

Finally, it can be noted that all four theories discussed are consistent, in that subsidiaries need to be competitive within their business environments. It has been suggested that subsidiary competitiveness, or power, is built on the dynamics or on the embeddedness of the subsidiary in its business environment. However, this has also been associated with less control over subsidiary decisions being exercised by the HQ. To the extent that the MNC locates subsidiaries in such environments, this suggests the paradox that the least controllable MNCs are the most competitive ones (Holm et al., 2003).

CONCLUDING DISCUSSION

This chapter has aimed at picking out some central arguments within the received literature on the economic rationale for the existence of the HQ. Despite the fact that a great deal more research could have been discussed, certain general conclusions can be drawn. In particular, it should be noted that contemporary research indicates that knowledge is important, but that it is also increasingly difficult for HQ to overview and generate. To the extent that the observations from contemporary research are built into models used in studies of HQ’s roles, we argue that the managerial task has become increasingly complex. In a nutshell, HQ should create new business, identify distinct subsidiary competences and/or complementarities,
facilitate the creation (or obstruction) of corporate links, create and implement norms, and maintain shared values and common goals. Further, HQ should overview several specific environments and, when the environment is turbulent, giving rise to change, the consequences for individual subsidiaries and the wider corporate network should be evaluated and handled to ensure competitive advantage.

One interpretation of this complexity is that the role of HQ is more crucial than ever. Without active managerial direction from or involvement of HQ, there is a risk of lower achievement in generating economies of scope, having efficient internal capital markets or optimizing the sharing of core competences. Thus, without HQ trying to design an appropriate structural context in accordance with one or more of these economic rationales, as suggested by Markides (2002), the development of the MNC will be a matter of scattered units acting in accordance to their individual interests. Some subsidiaries will be more powerful than others, have greater competence, and will, therefore, be less eager to cooperate on issues of interest for the global good. This will increase the risk of the economies of scope remaining unexploited, of a less intentional flow of the resources needed to exploit business opportunities, and of less sharing of the core competences. What may be good for the individual subsidiary is not necessarily good for the global organization, and what is good in the short term is not necessarily good in the long term, which is why stimulating action for what is good for the global organization is one of the main roles of HQ (Hedlund, 1986; Nohria and Ghoshal, 1994).

However, even if we argue that HQ is essential as a corporate centre, the problem of knowledge implies a challenging undertaking, maybe in particular for the contingency- and agency-based research. Yet these theories seem to share a rather optimistic view, in that HQ has the ability to create strategic fit and to design the HQ–subsidiary relationship. Some research has responded by suggesting more of or increasing the following: informal control mechanisms, flexible organizational solutions, shared values and common identity to hold the MNC together. Thus, new mechanisms have been suggested to address an increasingly complex set of knowledge related problems, and HQ has a task in implementing these mechanisms. Perhaps the evolutionary perspective represents the most optimistic view in this field, by suggesting the creation of a social community with a common identity among the corporate members (Kogut and Zander, 1993). By stimulating the creation of common identity, HQ can be assumed to stand afloat from the problem of subsidiary control of knowledge and of diffused resources within internal and external networks. Or, to express it differently, the complexity is recognized, but will be efficiently managed because of the common identity.
Our second interpretation of the complexity of contemporary research is that we have reason to doubt the pivotal role of HQ in the creation of corporate value. For instance, there are numerous examples of HQ being unsupportive or supportive of business steps taken that turn out opposite to what was expected. Thus, economies of scope, resource allocation or the development and sharing of core competences can emerge through processes other than those initiated or decided by HQ. Sheer ignorance, subsidiary power and competence development in external networks, which are issues addressed in the business network perspective, suggest that several corporate units add value, sometimes beyond the control of the HQ or without its knowledge. Moreover, the fact that subsidiaries can influence or oppose decisions relating to corporate investments through their control of knowledge complicates the ability of HQ to act in accordance with the strategic intentions. From this point of view, it is reasonable to stress the importance of emerging strategies and to consider that there are multiple levels of learning in the corporation (Mintzberg, 1990; McCarthy, 2000). The main task within this view is to determine when and how HQ adds value to the MNC, but also to acknowledge that HQ may destroy value and that other units may be equally or even more important.

Finally, our discussion has assumed that knowledge and diffused resource dependencies are important features that delineate the role of HQ and its possibility to create corporate value. But how strong is this assumption? How much does bounded rationality really restrict the HQ’s ability to add to the competitive advantage of the MNC? Moreover, even if bounded insight into other units’ activities (sheer ignorance) is a realistic description of the situation for HQ, this is the same for all corporate units. It has, therefore, been argued that central authority represents the least-cost response to the problem of co-ordinating sub-units’ actions (Foss, 2002; Forsgren, 2008a). Hence, maybe, HQ is the unit that sometimes needs to execute decisions for others, given its wide-ranging responsibility at the top of the hierarchy.

OUTLINE OF THE BOOK

The issues outlined above are addressed in different ways by the authors in this book. The book is divided into three parts. Part I, ‘Headquarters’ role and structures of the multinational’, consists of four chapters (Chapters 2–5). These chapters deal with the role of HQ and different views of the multinational, for example, the heterarchy, the global factory, the network MNC and the institutional perspective, and the development
from traditional perspectives into the contemporary image of a more loosely coupled system. Part II (Chapters 6–12) is labeled ‘Headquarters’ monitoring and value-creating roles’. This part consists of theoretical discussions, and empirical studies investigating how the impact of managerial strategies and characteristics of the HQ–subsidiary relationship are associated with, for example, governance costs, HQ knowledge, subsidiary knowledge transfer and subsidiary competence development. Finally, in Part III, Professors Emeritus Jan Johanson and Mats Forsgren discuss the Uppsala model of internationalization in the form of a critical dialogue. This discussion is followed by an analysis and comments by Professor Peter J. Buckley.

**Part I: Headquarters’ Role and Structures of the Multinational**

Chapter 2, by Zander and Mathews is a theoretical discussion entitled ‘Beyond heterarchy: emerging futures of the hypermodern MNC’. This chapter revisits and critically evaluates Hedlund’s (1986) seminal article on the heterarchical MNC, which has become synonymous with the most modern and ‘ultimate’ form of MNC. Recognizing continuous change in the international business environment and observing the emergence of a new species of multinationals, the authors suggest a typology of four main subtypes of hypermodern MNCs in the global economy as follows: consolidating, pipeline, cellular and instant global network MNCs. Their conclusions emphasize the need for a differentiated perspective on the hypermodern MNC and the absence of a distinct end state in the evolution of the MNC. The authors propose that the roles of HQ and foreign units will differ substantially across individual MNCs, and also that these roles may change over time. In particular, different approaches to the management of externally controlled resources and inter-firm relationships emerge as an under-researched, but important field for future research.

Chapter 3, by Buckley, is a theoretical discussion entitled ‘The role of headquarters in the global factory’. The principle concept under consideration is that MNCs are becoming much more like differentiated networks. They choose ownership and location policies in order to maximize profits without necessarily internalizing these activities. The MNCs have developed the ability to ‘fine slice’ their activities with increasing precision and can alter the location and internalization decisions for activities that were previously bound to certain locations by being tied to other activities. The spatial distribution strategies – ownership and location – make the role of HQ more important in global factories than in conventional vertically and horizontally integrated firms. Controlling information in global factories is crucial and the mechanisms determining strategy are more subtle. The
doctrine that ‘you don’t have to own an activity to control it’ requires new skills of HQ functions in global factories. There are important dynamics in this process as HQs learn how to manage spatially dispersed and organizationally diffuse units within the global factory.

Chapter 4, by Barner-Rasmussen, Piekkari, Scott-Kennel and Welch, is entitled ‘Commander-in-chief or absentee landlord? Key perspectives on headquarters in multinational corporations’. The authors compare and contrast four key perspectives of MNCs’ HQs, namely, the design, the network, the institutional and the critical perspectives. Overall, these perspectives provide an interdisciplinary approach to theorizing about the MNC by incorporating research from fields such as economics, strategy, international business, industrial networks, sociology, organizational theory and anthropology. The comparative analysis uncovers two extreme views of the MNC HQ, which, according to the authors, are captured in the metaphors underlying classic ‘design’ and emergent ‘critical’ perspectives respectively. The increasing complexity of the modern MNC puts great demands on the HQ function. In fact, traditional perspectives may no longer be sufficient to fully grasp the different roles the HQ is expected to play, to the extent that there may be reason to question the concept of ‘HQ’ as a noun. Each of the perspectives discussed in this chapter contributes valuable insights, leading to an improved understanding of the MNC HQ.

Chapter 5, by Egelhoff, is a theoretical discussion entitled ‘Evaluating the role of parent HQ in a contemporary MNC’. This chapter attempts to identify and describe the unique roles of the parent HQ in an MNC – roles which are better performed by a central HQ than by a more decentralized network organization. It views a parent or corporate HQ as capable of providing both vertical and horizontal specialization and centralization within an MNC. Vertical specialization and centralization are required for four types of task: providing accountability to external stakeholders, developing and implementing tight coupling within firms, identifying and defining economies of scale and scope, and identifying and incorporating significant innovation into firm strategy. Horizontal specialization and centralization are important for developing the kind of deep conceptual knowledge that is often critical to a firm’s strategy. Thus, there remain important roles for the parent HQ, even in modern MNCs with significant network structures.

Part II: Headquarters’ Monitoring and Value-creating Roles

Chapter 6 is authored by Yamin and Ghauri and takes the form of a theoretical discussion entitled ‘A critical assessment of the business network
perspective on HQ control in multinational companies’. In this chapter, the authors argue that (business) network studies of MNCs, and especially HQ–subsidiary relationships, pay too little attention to the question of how the HQ can gain knowledge about a network in which it is not an active participator. Further, it argues that these studies have paid too little attention to the formal authority-based power that HQ undoubtedly has in the MNC. In their distinctions between strategic and business networks, which, according to the authors, are gaining more importance, they also link their discussion to the notion of ‘the global factory’.

Chapter 7, by Benito and Tomassen, is a theoretical discussion called ‘Governance costs in headquarters–subsidiary relationships’. The authors argue that, using foreign direct investments as a governance mechanism has a cost side that goes beyond mere production and input costs. The governance costs of foreign operations are often vague and underestimated, and sometimes even overlooked by companies when they set up a subsidiary in a foreign market. This chapter examines the nature of such costs within the context of MNC HQ–subsidiary relationships. The emphasis is on discussing how they vary and how they can be measured, but the possible interrelationships between various types of governance costs are also explored. Governance costs influence the performance of foreign operations, and the discussion demonstrates that managers in MNCs should be aware of governance costs and learn how to deal with them.

Chapter 8, by Andersson and Kappen, is on ‘Headquarters’ potential value-adding by cherry-picking sub-unit technology development projects’. This empirical study acknowledges the view that it is imperative for new technologies to become available to the rest of the multinational group if they are to fully leverage their competitive advantage. The authors use event history analysis on a sample of intended technology transfer projects to evaluate the HQs’ value-adding capability with respect to reallocating corporate resources to the sub-units development processes. It is argued that, because of its more holistic view HQ has an important role in deciding which projects should be pursued, and which could have an impact on the performance of the specific developments. The main results provide support for the existence of well-performing HQs in terms of reallocating resources directed towards technological developments among sub-units and lend support for the theorizing that HQ can add value by reallocating resources within the MNC.

Chapter 9, by Ciabuschi and Martín Martín, ‘Determinants of HQs’ involvement in innovation transfer’, tests a model of some determinants of HQ’s involvement in inter-unit innovation transfer. Three sets of factors antecedent to HQ’s involvement in the innovation transfer are examined: the degree of novelty of the innovation, the impact generated by the
innovation on the developing unit and the HQ’s previous involvement, during the innovation development process. Five hypotheses drawn from the literature are tested in a sample of 71 innovation projects in 23 MNCs by means of Partial Least Squares (PLS) technique. The results show that the involvement of the HQ in the innovation transfer is path-dependent, relying on their previous involvement in the development of successful innovations, and that HQ invest in the leverage of innovations that have already proved to be successful at the developing unit site. It appears that the participation of HQ in the transfer is also indirectly triggered by their involvement in the development of the innovation and the novelty of the innovation. However, the idea of HQ’s involvement in the transfer of the innovation when the transfer is reputed to be more difficult, as in the case of highly novel innovations, is questioned.

One view of the MNC as a differentiated network assumes that knowledge flows within the MNC are rather smooth, which implies that the context specificity of subsidiaries is a minor problem. Chapter 10, by Gammelgaard and Pedersen, is entitled ‘Internal versus external knowledge sourcing of subsidiaries and the impact of headquarters control’. This chapter investigates if knowledge that a subsidiary has sourced externally from the MNC is complementary or substitutive to knowledge that has been sourced internally. In order to handle the so-called ‘advantage paradox’ an HQ should investigate the ‘nature’ of the knowledge possessed by its foreign subsidiaries, and, in those cases where complementarities are foreseen, create a forum for knowledge exchanges among the MNC units. In cases where the danger of substitution is prevalent the HQ should facilitate the creation of stronger links between the focal subsidiary and other MNC units through means of internal flows of knowledge, goods and other resources.

Chapter 11, by Holmström, is called ‘Managing the transfer of externally embedded subsidiary knowledge: the role of headquarters’ control mechanisms’. This chapter is an empirical study concerned with the effect of the use of control mechanisms by the corporate HQ for improving the transfer of subsidiary knowledge that is embedded in relationships with external business partners. The study is based on a sample of 973 foreign-owned subsidiaries in seven European countries. The findings reveal that, when a subsidiary’s knowledge is embedded in close ties with business partners outside the corporation, the subsequent transfer of such externally embedded knowledge to other corporate units will be restrained. The results show that HQ use of corporate control mechanisms, such as the assignment of strategic subsidiary roles or the granting of a certain level of strategic influence on the MNC, can reduce the constraining effect of externally embedded subsidiary knowledge on subsidiary knowledge
transfer. The results provide no support for the suggestion that centralization would hamper the transfer of externally embedded knowledge across MNC units.

Chapter 12, by Drogendijk and Holm, is entitled ‘The role of national culture in the headquarters–subsidiary relationship in the multinational corporation: the effect of power distance’. This chapter studies how national cultural differences affect the managerial relationship between the MNC HQ and its subsidiaries. The authors argue that the HQ and its subsidiaries have cultural characteristics deriving from the countries in which they are based that matter to the management of the HQ–subsidiary relationships. Furthermore, it is not just the cultural distance that affects the HQ–subsidiary relationship, but the actual cultural characteristics of both parties. The authors investigate this empirically, focusing on both HQ and subsidiary ‘positions’ on the cultural dimension of power distance (the acceptance of unequal distribution of power in a society) and how this relates to HQ’s influence on the competence development of the subsidiary. The dataset is comprised of 1552 subsidiaries in six European countries and their corresponding HQ in 27 countries distributed throughout the world. *Ancova* analysis shows that the HQ exerted the greatest influence when both the HQ and its subsidiary belong to national cultures with a high power distance. The findings also demonstrate that HQ’s influence is more dependent upon the subsidiary’s power distance than on that of HQ. The findings confirm that the cultural distance metaphor should be replaced with a concept that does more justice to the actual cultural interface in a managerial relationship.

**Part III: A Dialogue about the Uppsala Model of Internationalization**

Chapter 13, by Forsgren and Johanson, is labelled ‘A dialogue about the Uppsala model of internationalization’. The text does not take the form of an ordinary research report or article of the kind that we usually encounter in academic writing. Instead, it is a kind of experiment in order to develop, maybe, a new form that reflects, in a written form, the exchange of ideas and opinions in research seminars. Such seminars constitute the circulatory system in most academic research, but the discussions during the seminars are seldom reported afterwards. The dialogue is an attempt to reflect such a discussion. It is the result of an ongoing debate between the authors over the last ten years about what the Uppsala model of internationalization is and what it is not. The authors have deliberately been quite personal – and even emotional – in their dialogue, just as can occur in an ordinary research seminar, at least among friends.

Finally, in Chapter 14, Buckley provides a commentary on the dialogue
between Forsgren and Johanson. Buckley identifies several issues discussed in the dialogue that need to be dealt with in the theorizing about international business, some of which remain unresolved. Among other things, his concludes that: ‘It reminds us just how far we have come in the study of internationalization and how far we still have to travel. Different traditions of research (Hymerian, Penrosian, Uppsala internalization) have evolved agendas that differ, but overlap. The tool kit of concepts has expanded and to some extent has coalesced. Both new and experienced researchers need to identify research opportunities from this fascinating treasure-trove.’

NOTES

1. The classifications were ‘the dominating multinational’, associated with market power (for example Kindelberger, 1969; Hymer, 1970, 1976), ‘the coordinating multinational’, dealing with cost efficiency (for example Buckley and Casson, 1991; Hennart, 1991), ‘the knowing multinational’, dealing with value creation (for example Cantwell, 1991; Kogut and Zander, 1992; Teece et al., 1997), ‘the designing multinational’, dealing with strategic fit (for example Chandler, 1962; Stopford and Wells, 1972; Egelhoff, 1988), ‘the networking multinational’, dealing with business relationships (for example Forsgren et al., 2005), and ‘the politicizing multinational’, dealing with legitimacy and power (for example Westney, 1993; Kostova and Zaheer, 1999).

2. These areas comprise a vast amount of research. We are unable to give justice to all dimensions in this chapter. We will merely devote the discussion to the issue of resources as capabilities and to the role of HQ as creator of competitive advantage of the MNC. We have chosen to make a special commentary on the evolutionary theory of the firm by Kogut and Zander (for example, 1993).

REFERENCES


