The City Manager

Managing Headquarters-Subsidiary Relationship in Emerging Markets

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Abstract

This paper examines the emergence of mega-cities in emerging markets such as Brazil, India, China, and Russia and their effect on the headquarters-subsidiary relationship in multinational firms. Based on interviews with firms in Brazil, India, and the United States, it develops a conceptual framework that examines how multinational firms identify geographical commonalities and determine the span of control of country managers. Existing research on foreign direct investment has traditionally used a country's national boundaries as a proxy for defining cultural divisions and assigning country spans of control. We identify different patterns of control among different firms based on differences in customer intimacy. We conclude that the emergence of mega-cities is changing the way multinational firms organize and effectively manage their assets abroad.

Introduction

Effectively managing worldwide assets is an important determinant of a multinational enterprise's (MNE) operational success when operating abroad. Firms have historically viewed executive staffing in terms of the conflicting demands of local responsiveness and global integration. On the one hand, MNEs often use expatriates as a means of transferring a global strategy abroad in order to improve global efficiencies. On the other hand, MNEs often need local executives to adapt strategic initiatives to the specific needs of the local market. In many industries, a mix of expatriates and local managers simultaneously contribute to the firm's worldwide operational effectiveness. In this respect, international business executives have historically focused on cultural, economic, and political differences at the country level to determine how the firm should structure its headquarters-subsidiary relationships. Consequently, many firms have relied on the country manager, in addition to business and functional specialists, to manage its subsidiaries abroad.

Much has changed, however, during the last 20 years, especially in emerging markets such as Brazil, China, India, and Russia. In these markets, the emergence of "mega-cities" has become a primary driver of economic growth and development. Larger than many European

countries, it is expected that more than 50 mega-cities will exist by the year 2015. More than 20 mega-cities already have populations that exceed 10 million people. In India, cities such as Mumbai (12.5 million), Delhi (11.0 million), Bengaluru (8.4 million), Hyberabad (6.8 million), and Ahmedabad (5.6 million) are marked by distinct cultures, political systems, customs, consumer preferences, and environmental needs. Country managers are insufficient for managing the growing within-country differences created by trends in urbanization. In the future, multinational firms will have to rely more heavily on city managers who can effectively manage the unique complexities of mega-city markets. This paper develops a conceptual model of organizational strategy and structure that focuses on the city manager as an increasingly important executive capability for effectively managing the multinational firm's assets and subsidiaries abroad.

Research Problem, Objectives and Plan

Urbanization and the emergence of mega-cities, especially in the world's emerging markets such as Brazil, China, India, have created largely independent economic, political, and cultural entities within countries that differ from the country's economic, political, and cultural characteristics. Multinational firms have traditionally managed headquarters-subsidiary relationships using country managers. Country managers, however, may no longer be sufficient for managing the increased intra-country economics, political, and cultural differences created by urbanization and the rise of mega-cities. As a result, multinational firms need to reassess how they can effectively manage foreign market assets and personnel. Specifically, they need to reexamine the traditional headquarters-subsidiary relationship and determine whether more sophisticated subsidiary structures are needed to manage emerging market complexities.

This study uses interviews with executives and extensive case analyses of several multinational firms that manage subsidiaries in emerging markets, including Brazil, India, and China. Interviews with executives are designed to understand how different firms expand inside emerging markets and how urbanization and the emergence of mega-cities have affected the role of country managers and their span of control. Interviews with executives in multinational firms will be conducted in India, Brazil, and the United States in the spring and summer of 2014 to develop a basis for understanding emerging trends and challenges, how multinational firms are or have responded to urbanization trends and the emergence of mega-cities in emerging markets, how emerging trends are altering the traditional country manager concept and the traditional headquarters-subsidiary relationship, and how firms can more effectively manage foreign entry strategies and the management of overseas personnel and assets.

Research Questions

1. How has urbanization and the emergence of mega-cities in emerging markets altered the cultural, political, and economic makeup of foreign markets?

2. Do mega-cities develop unique structural characteristics (e.g., cultural attributes, political entities, and economic structures) that differ dramatically from country and regional characteristics?

3. Has the emergence of mega-cities created managerial complexities that require new layers or hierarchies of managers (e.g., at the city level) that are distinct from the traditional country manager? Are these hierarchies a means of more effectively managing a multinational firm's assets abroad?

Implications

The traditional Bartlett-Ghoshal framework assumes that multinational firms manage foreign markets based on dual pressures of local responsiveness and global integration. When inter-market differences exist, multinational firms tend to organize assets on a country-by-country basis (multi-domestic strategies). This research considers how multinational firms can effectively manage dispersed assets abroad in markets characterized by rapid urbanization and the emergence of mega-cities. Urbanization trends have created the need for firms to organize more complex managerial hierarchies that facilitate customer and managerial intimacy in cultural homogeneous intra-country regions such as mega-cities. Managerial effectiveness in such markets requires higher hierarchical levels that consolidate lower levels that are clustered or grouped based on relative homogeneities. Grouping thus occurs on dimensions of managerial intimacy. Implications for foreign direct investment theory, marketing theory of customer intimacy, and the literature on headquarters-subsidiary relationships are suggested.

Pilot Survey

Trends	How Has Firm Responded?	Context
What do you see as the major market changes over the next 10-15 years?	Trends in firm's organization structure	Internationalization ➢ Bosche ➢ Black & Decker ➢ Unilever
How will these changes be affected by urbanization trends?	Configurations in terms of rearrangements of strategic geographic regions.	Localization: ➢ McDonald's ➢ Krispy Kreme
How are these changes related to the emergence of large metropolitan markets or mega-cities?	Changes in reporting relationships (Headquarters-subsidiary) across the world? Within regions? Within boundaries?	Globalization (Standardization): ➢ Nokia ➢ Schindler
	What dimensions define your business portfolios in very large metropolitan markets?	City-centric: ➢ Which organizations recognize the important differences between mega-cities and strategically approach foreign markets by focusing on mega-cities differently?
	How do you balance this portfolio?	
	How will performance metrics	

	change?	
	What is balance between innovation and improvisation?	