Entrepreneurialism is often the order of the day in an era of changing organizational structure.

How is the formation of regional trading blocks, such as the EU and NAFTA, affecting the organizational structure of large multinational corporations? The opportunity to integrate operations and benefit from previously unattainable economies of scale is greater today than ever before. To take advantage of this opportunity, some of the largest companies in the world—GE, ICI, Philips, and many others—have developed pan-European and North American strategies. The evidence suggests, however, that blind adherence to the mantra of globalization brings with it an associated risk, the essence of which is a potential failure to leverage or serve national markets effectively. Entrepreneurial activity, particularly at the level of the national subsidiary, is one way of mitigating that risk.

This article argues, first, that the multinational corporation faces competing imperatives for global integration and local sensitivity, and that to neglect the latter in favor of the former is myopic. I outline a number of organizational approaches that simultaneously address both imperatives, settling on the “world mandate” as the most effective of three alternatives. Second, I describe in detail an “emerging” role for national subsidiary managers, namely that of entrepreneur or initiative-taker, and the complementary role that should be taken by corporate managers. Third, the ramifications of these new roles, in terms of the characteristics of the parent-subsidiary relationship, are explored in depth. The underlying contention here is that a truly global strategy can only be realized when the opportunities and latent expertise in far-flung subsidiaries are harnessed.

This article is based on a multi-phase research project into the changing role of the national subsidiary in the multinational corporation (MNC). More than 100 senior managers were interviewed in approximately 20 corporations in the United States, Canada, and several European countries. Parent company and subsidiary perspectives were obtained. The evidence presented is drawn from the research interviews (in which the details have been disguised) and from public source documents.

**Corporate Restructuring: A Convergence on Global Product Groups**

Large multinationals, defined here as corporations operating in multiple countries with annual sales in excess of $5 billion, are facing an increasingly complex competitive environment. Much has been written on this matter, yet the impact of three factors in particular is worthy to note. First, the phenomenon of globalization has created a new set of demands in the form of converging customer needs, international buying groups, and falling trade barriers. Second, competition from new MNCs, particularly from the Far East, and from smaller locally or regionally focused competitors is increasing. Third, the economic slowdown of 1989-1993 has made cost control and value for money critical factors for success.

The organizational response of many MNCs to these trends has been to form regional or global product groups. Under this structure, a single
“division manager” is typically accountable for the performance of a discrete product group for Europe, North America, or even the world. An example of this is Shell Chemical’s European operations. Shell has traditionally been organized on a country-by-country basis. Recently, a set of European business units was established to cut across country lines and allow key executives to coordinate investment and production on a trans-European basis. Many other companies, including BP, ICI, Philips, and GE, have moved in the same direction. Whereas Asian, American, and European MNCs once had very distinct organizational forms, most have now moved toward product-division dominance as the favored structure.

This shift toward business-unit dominance has severely affected the role of the national subsidiary, which is increasingly seen as expensive overhead for the business units operating in that country. Such national subsidiaries as GE Canada, ICI Canada, and Rhone Poulenc UK have become extremely lean, typically with fewer than 100 employees who are country-specific (not part of a business unit). This shift is justified by the need to become cost-efficient and globally competitive. But it also begs an important question: Is national sensitivity being sacrificed for the sake of global efficiency?

A strong argument can be made that the need for national sensitivity is declining as a result of trade agreements and global product standardization. However, the role of the national subsidiary in the multinational is complex and multifaceted: it acts as a sensory outpost for changing customer demands; it allows the MNC to recruit local managers and train a cadre of executives internationally; it provides linkages to local companies and government bodies; and it offers unique ideas and solutions from which other subsidiaries can learn. Bartlett and Ghoshal’s argument (1989) that the MNC’s strategic imperatives are global integration, local responsiveness, and worldwide learning is important, but it does not do full justice to the scope of functions filled by the national subsidiary. Multinationals pursuing a “lean subsidiary” strategy are potentially damaging their longer-term effectiveness in affected markets. The following section describes some of the tactics being pursued to address this concern.

**Retaining Local Sensitivity**

A popular structure for retaining local sensitivity involves some form of matrix. An example would be Du Pont Canada, in which managers of Canadian business units are responsible to their Canadian president as well as to their respective global business managers. The Canadian president’s role is to ensure that the global businesses do not ride roughshod over the particular demands of the Canadian market. His mandate is also to develop the national business, which includes new market development, management recruitment, and government relations. The problem is that the matrix structure tends to become easily unbalanced. Unless, as with Du Pont Canada, the country manager has the credibility and experience to confront the global business managers, country issues are quickly set aside for the sake of global efficiency. The country manager is frequently left as a figurehead or local ambassador.

A second approach used effectively by many European MNCs, such as Shell and Philips, is the development of a cadre of “global managers” who are fully inculcated with the goals and values of the company. These individuals are often lifetime expatriates who suffer no parochial biases and are able to take a “global” view wherever they are located. Local sensitivity is achieved in these cases not “in defense” of national interests but because a local business opportunity or market demand makes sense for the multinational as a whole. The system is effective, but it was developed in companies with large foreign subsidiaries. For firms with a dominant home-country operation, or those moving to a lean subsidiary structure, the number of international development opportunities is small, and it becomes impossible to recruit and retain high-caliber managers from subsidiary countries.

**World Mandate Strategies**

A third option that is becoming increasingly popular can best be described as a “world mandate” strategy. This involves the national subsidiary taking control of the entire business system for a single product line. The SBU is headquartered in the subsidiary, and the global development, manufacturing, and marketing of the product is run from there. NCR, for example, runs its Automatic Teller Machine (ATM) business out of Scotland, and GE’s large motors business is headquartered in Peterborough, Ontario. The key feature of the world mandate strategy is that it achieves “decentralized centralization”: control is transferred to a subsidiary so that a significant local presence is achieved, but at the same time the business is managed on a worldwide basis. Furthermore, it allows the business to sit wherever in the world is most appropriate, given comparative and competitive advantage differentials, rather than at the corporate headquarters.

What are the disadvantages of the world mandate strategy? In some cases the relevant expertise grew up in the home country, so the act of relocating would be unjustifiably expensive. In other cases there are interdependencies between businesses that make it efficient to lo-
cater them in the same place. Frequently, however, the concern is rooted in an ethnocentric, home country-dominated mindset that would prefer to leave all the key strategic decisions close to the center. The decision to offer a world mandate to a subsidiary is never taken lightly, and when doubts exist it is typically far easier to leave things as they stand.

For the national subsidiary, the opportunity to gain a world mandate is of great importance because it offers internationally oriented management jobs. Typically the move toward global business units has led to a shake-up and consolidation of activities. For example, a Canadian plant that used to make five products just for Canada now makes a single product for the whole of North America. The process of rationalization has also resulted in a net loss of management jobs, because operations are now managed on a regional or global basis. World mandates allow the subsidiary to play an active part in the consolidation process and retain a significant management presence in the country. Though some authors, such as Johnston (1982), have criticized them, the broad consensus is that world mandates offer the best prospects for national subsidiaries in a free trade environment.

World mandates can be gained in a variety of ways. With apologies to Shakespeare, a national subsidiary can be born with a mandate, it can achieve a mandate, or it can have a mandate thrust upon it. Each of these is quite distinct and requires very different actions on the part of subsidiary and parent. Figure 1 illustrates the alternatives. Xerox Canada’s Research Centre is an example of a “born” mandate. The research site was set up to explore opportunities for applying materials research to Xerox’s traditional strengths in reprography and technology. It was built as a corporate center on Canadian soil, and its innovations are applied to corporate, rather than local, products.

Rhone Poulenc UK is an example of a subsidiary that had a world mandate (in metal organics) “thrust upon it.” Rhone Poulenc spent much of the late 1980s pursuing major acquisitions to reduce its dependence on the French market. One of these was RTZ Chemicals, a British specialty chemical manufacturer. Although RTZ’s operations were integrated—where possible—with those of the acquiring firm, the Manchester-based metal organics business represented a business in which Rhone Poulenc had hitherto not been involved. The decision was made to leave that part of RTZ Chemicals where it was and manage it worldwide from Manchester rather than from Paris. Again, the initiative came from corporate management.

Some subsidiaries have “achieved” mandates through their own efforts. An example is Black & Decker Canada’s world mandate for the orbital sander product line. This mandate originated with an initiative by Canadian management to solve the U.S. parent’s capacity problems by transferring the orbital sander line to Canada. Untapped market potential in Canada and government assistance were also contributory factors. Once the Canadian business had secured the North American mandate, its increasing expertise and cost-competitiveness led to its extension to a full world mandate. They also led to the establishment of R&D facilities in Canada and a subsequent mandate for the “workmate.”

In the first and second cases, the mandate was gained through corporate effort, the primary difference being that the mode of growth was internal (or “organic”) in the case of Xerox and acquisition in the case of Rhone Poulenc. In the third example, the mandate was gained through a subsidiary initiative. Whereas the Black & Decker case described an organic mode of growth, a number of other cases have been identified during this research in which the subsidiary took the initiative to acquire a local company. Thus, the lower two quadrants of Figure 1 can be considered together.

Though the relative preponderance of these types has not been systematically researched, the evidence from Canada, say Crookell & Morrison (1990), suggests that subsidiary-initiative mandates are in the clear majority. From the subsidiary’s perspective, the underlying message is therefore very clear: If you want a world mandate, don’t wait around for the head office to give you one; take the initiative and pursue your own. Although this strategy does not guarantee a
world mandate, the chances are that corporate management—if it has taken the perspective that local sensitivity is desirable—will be responsive in allowing international opportunities for the subsidiary.

The New Role of National Subsidiary Managers . . .

An understanding of the world mandate designation process sheds light on the changing roles of managers in the subsidiary and head offices. For national subsidiary managers the new role is that of entrepreneur. The national market has many new product and market opportunities, and the subsidiary is full of underexploited pockets of expertise. The subsidiary manager's function is to leverage those opportunities and capabilities and exploit them on a global scale. Says Dr. William Coyne, president of 3M Canada, "It's a case of maintaining the visibility and taking the initiative."

The entrepreneurial responsibility does not lie just with subsidiary top management. Most evidence suggests at least two key roles, one at the middle management level and one at the subsidiary executive level. The middle manager is typically responsible for identifying the opportunity through what—in retrospect—appears to be a serendipitous event: word of a capacity expansion during a routine visit to headquarters, a request for proposal for a government contract, discussions with a supplier, and so on. This person will also typically be the project champion, the one who takes ownership of the project and drives it to completion. This involves putting the proposal or project together and building support first with the senior subsidiary management, then with the decision makers at the head office.

The subsidiary executive typically takes the role of sponsor. Having been convinced of the project's importance, the executive makes use of high-level contacts in the parent company to ensure that commitment is built in the appropriate areas. The champion's tenacity coupled with the sponsor's credibility offer the project every chance of acceptance at the corporate level. Still, a shortfall in either will likely spell failure.

A related skill for top management in the subsidiary is the development of specialized or unique capabilities. In one company studied during this research, the country manager actively promoted his subsidiary as a center of agricultural technology. Working with other senior managers, he spent substantial sums of money to fund relevant research at Canadian universities and promote specific product development work in crop protection. He spent a lot of time at head office promoting the efforts of the Canadian subsidiary and looking for opportunities to win new investment. His efforts were rewarded in 1992 when Canada was chosen as the location for a new world-scale investment. Although there were many factors behind the decision to locate in Canada, managers felt it was the active development of a specialized capability that tipped the balance in their favor.

Unique capabilities are critical for the subsidiary in an MNC that is going through a phase of international integration, because the subsidiary is often competing with other divisions or plants for the same mandate. Unless the subsidiary can offer added value for the parent company that the parent cannot get elsewhere, the net result of the integration process is often a concentration of critical activities at the center and a corresponding reduction in jobs at the subsidiary.

The third part of the subsidiary executive's role is to provide a strategic vision for the subsidiary. This may seem obvious, but the point is worth underlining because the role of the subsidiary can be so ambiguous. Subsidiary employees frequently report to both a business or functional manager in the parent company, as well as to the subsidiary president. The "subsidiary" itself—in the extreme case—is nothing more than a collection of independent value-adding activities that happen to be located in the same country. Under such conditions the creation of a whole that is greater than the sum of its parts can only be achieved by the subsidiary president. If the president can define a realistic vision, such as becoming the "worldwide center for agricultural technology," then employees' efforts, including building capabilities and taking initiatives, can be focused on that goal.

. . . And a Parallel Role for Corporate Managers

All the efforts of the subsidiary to win a mandate will come to nothing unless corporate management is open to solicitation from subsidiary managers and to the transferral of a product line overseas. What this means to corporate management, first and foremost, is that the subsidiary has a substantial level of strategic discretion. The subsidiary president must therefore be well connected and credible in the parent company, with enough autonomy to pursue business development opportunities. In addition, there must be enough local management that new projects can be championed. As stated by one Monsanto Canada employee, "The biggest battle we have is making sure that corporate management is clear about our area of autonomous responsibility—not so we can separate ourselves from the organization but so that we can act with freedom in an entrepreneurial way."

Second, there has to be a process for approving world mandates. This might take the form of
a capital expenditure approval committee that solicits bids worldwide before large new investments are made. Or it might simply involve representatives from each major international market sitting on the “worldwide business team.” A number of multinationals have enshrined the process very effectively within the system. Hewlett Packard and IBM, for example, both have a policy of creating a world-mandate type facility plus a sales and marketing organization in every major national market. This illuminates the opportunities open to national subsidiary managers for future mandates.

Third, it is the responsibility of corporate management to instill throughout the multinational a culture of international equality. Every company has its own historical preconceptions and biases, and in an era of global markets the ability to set those aside and pursue opportunities in the “home” and “foreign” markets on an equal basis will be a key to success.

**Forms of the Parent-Subsidiary Relationship**

The impact of these roles on the parent-subsidiary relationship is portrayed graphically in Figure 2 according to (a) the stance of the subsidiary and (b) the parent company’s attitude to subsidiary initiatives. In the course of this research, examples of all four main types were encountered.

1. **When the parent company’s attitude to subsidiary initiatives is negative and the subsidiary’s stance is passive, the relationship is paternalistic.** Alpha Corporation, a German plastic products manufacturer, and its British subsidiary exhibited this arrangement. The British subsidiary was primarily a sales and marketing outlet for German-designed products. All R&D took place in Germany; though there was some manufacturing in Britain, it was controlled directly from the head office. All functional heads reported to their counterparts in Germany, and there was no subsidiary president. The British marketing director believed this arrangement was very efficient, because parent management could keep tight control over the activities of the British entity. When questioned on the notion that the British subsidiary might be in a position to identify and pursue new products or markets, his perspective was that there was no point because “someone in Germany would have already thought of it if it had any potential.” To the extent that there must have been some opportunities for market or product development in Britain, this statement essentially meant, “The head office is not interested in pursuing opportunities that do not come from Germany.” The passive stance of the British subsidiary managers was essentially a learned response to the parent company’s negative attitude. The situation was “harmonious” in that there was a common understanding of the subsidiary’s role, but the global reach of the corporation was liable to be constrained by the lack of subsidiary initiatives.

2. **When the parent company’s attitude is negative but the subsidiary is entrepreneurial, the relationship is confrontational.** The relationship between Beta, a French pharmaceuticals company, and its British subsidiary was typical in this regard. In 1990 the British subsidiary developed a long-term strategy for its range of fertility drugs, including the development of a new formula through a joint venture with a local British firm. The French parent turned down the initiative, claiming that it was working on a similar product at the central R&D labs and that the British formula was flawed. Even when the British researchers demonstrated the effectiveness of their formula, the parent company vetoed the development of the product. Support was forthcoming within the marketing function because the product had clear commercial prospects, but the central R&D labs were unwavering in their opposition, putting forth a variety of arguments against the product and the joint venture partner in Britain. Undeterred, British management approached the European Marketing Board, a new pan-European coordinating body, with its proposal. The board agreed to fund the development of the British fertility product, a precedent-setting move that for the first time meant a major international product for Beta would be developed outside the central R&D labs.

This brief case study captures the essence of the “exhausting and frustrating” process by which
the British subsidiary was eventually able to win a world mandate for its new fertility product. The parent company's attitude to initiatives was, like Alpha's, negative, but in this case the subsidiary was convinced it had developed an important product and was prepared to go to great lengths to get it approved. Only the recent formation of a country-neutral European Marketing Board allowed the British management to circumvent the intransigence of the central R&D group.

3. A passive subsidiary coupled with a parent company that is positively disposed toward subsidiary initiatives can best be characterized by missed opportunities. Whereas the two prior scenarios could also lead to missed opportunities (in the eyes of a neutral observer), this was the only situation in which the absence of subsidiary initiative was evident to the parent company. An example of this was gained through a confidential interview with a middle manager in the Canadian subsidiary of Gamma, a large U.S. multinational. Gamma operated in a turbulent business environment in which new business opportunities were plentiful. The middle manager in question pointed to a number of opportunities he and others had spotted that he believed could have led to significant product innovations for the corporation as a whole. Unfortunately, the senior management in Canada was focused on trying to turn the business around, and was interested only in projects with immediate financial returns. Several interesting projects were thus passed by, not because the parent company was closed to initiatives, but because the Canadian management was not prepared to take the lead.

4. When the subsidiary is entrepreneurial and the parent is positively disposed, the relationship is synergistic. Many of the examples quoted here, including 3M Canada, Monsanto Canada, and NCR Scotland, fit this type. It represents the most effective arrangement because the latent potential within the national subsidiary is being exploited. National sensitivity is enhanced when local initiatives are acted on by parent company managers, but global efficiency can still be retained through the designation of world mandates. For this arrangement to transpire, however, both subsidiary and corporate managers must embrace their new roles as described earlier.

This framework also helps illustrate the dynamic issues involved in the parent-subsidiary relationship. Quadrants 1 and 4 represent a level of balance between subsidiary stance and parent company disposition—that is, a common understanding of the subsidiary's role in the corporation. Quadrants 2 and 3, by contrast, are indicative of disharmony, meaning that the two parties have different perspectives on the subsidiary's role. Intuitively, the disharmonious quadrants are liable to be transitional states: over time, either parent or subsidiary will shift its stance so that it is brought in line with the stance of the other party. A confrontational relationship will eventually lead to the subsidiary admitting defeat (and not pursuing any more initiatives) or the parent acknowledging the subsidiary's capabilities and giving it greater discretion. Equally, the missed opportunities relationship will cause the parent to close down its openness to subsidiary initiatives (on the assumption that the subsidiary has no entrepreneurial capability) or it will encourage the subsidiary to become entrepreneurial.

A further insight that can be gained from this framework is that the shift from quadrant 1 (paternalistic) to quadrant 4 (synergistic) must typically occur through quadrant 2 or 3, because it is very unlikely that parent and subsidiary will change simultaneously. A confrontational relationship may appear frustrating, but it may be an important staging post on the way to a synergistic and creative relationship—assuming the parent company reacts favorably to the subsidiary's overtures. Equally, a status of "missed opportunities" may represent the parent company trying to induce the subsidiary to become more entrepreneurial. In one case encountered during this research, for example, a new business manager in the U.S. parent company was far more open to subsidiaries taking international responsibilities than was his predecessor. His positive disposition was capitalized on by Canadian subsidiary managers, who were quickly able to convince him that they should be granted the world mandate for a major product line.

Many large multinational corporations are moving toward global organization forms that effectively eliminate the need for national subsidiary management. They are forming "lean subsidiaries" with some ceremonial presence but with an emphasis on operational efficiency. Such arrangements are potentially damaging to the long-term success of the multinational if they diminish its ability to retain national sensitivity. Three broad approaches help preserve this sensitivity: matrix structures, global manager development, and world mandate designations. The world mandate approach is the most attractive option, because it offers the benefits of national subsidiary development without sacrificing global efficiencies.

An understanding of the process of world mandate designation highlights the key insight that parent company managements, however well-meaning, will not usually take the initiative in offering world mandates to their subsidiary companies. The initiative must come from the subsidiary, so it is the responsibility of national subsidiary managers to be entrepreneurial and to seek out opportunities. Parent company manag-
ers have responsibilities as well, but these are essentially of a passive nature, in that parent management needs to create an environment that is positively disposed toward subsidiary initiatives. As shown in Figure 2, it is only by combining the entrepreneurial efforts of the subsidiary with a positive parent company disposition that synergistic results can be achieved.

Why do we not see more world mandates if their benefits are as clear-cut as suggested here? One explanation is that multinational organizational forms are maturing. Through the 1960s and 1970s, American MNCs mostly took a business unit perspective and managed their subsidiaries through an international division. European multinationals took a country-centered approach and managed their empires through international staffing processes. Asian MNCs divided their activities by function and managed their international activities centrally. The increasing levels of globalization, coupled with greater competition and harsh economic times, are forcing many multinationals to think primarily in terms of global business units as a means of reducing costs. At the same time, however, they are also learning from one another and attempting to achieve simultaneously the benefits of integration, responsiveness, and learning. World mandates are a relatively recent phenomenon. Though more suited to those multinationals with a high percentage of foreign sales, such as Philips or ABB, they are becoming more popular, and it seems likely that their preponderance will continue to increase.

A second explanation for the relative lack of world mandates is that managerial attitudes are slow to change. Parent company managers have to come to grips with the idea that a "foreign" country is as capable of managing a business as is the home country. Subsidiary managers must also learn to take the initiative rather than just implement the parent company's directives. If the new managerial roles described in this article are embraced, the full potential of the multinational corporation's dispersed activities will be attainable.

References


Julian Birkinshaw is a doctoral candidate at the Western Business School, University of Western Ontario, London, Ontario, Canada. An earlier version of this article won third prize at the 24th International Management Symposium, St. Gallen, Switzerland, May 30-June 1, 1994.