The role of location in headquarters-subsidiaries relationships: An analysis of French multinationals in emerging markets

Hanane Beddi, Ulrike Mayrhofer

36th Annual EIBA (European International Business Academy) Conference,
University of Porto, December 9-11 2010

The role of location in headquarters-subsidiaries relationships: An analysis of French multinationals in emerging markets

Hanane BEDDI and Ulrike MAYRHOFER

Hanane BEDDI, PhD
Associate Professor, Normandy Business School, 9 rue Claude Bloch, 14052 Caen Cedex 4, France
E-mail: h.beddi@em-normandie.fr

Ulrike MAYRHOFER, PhD
Full Professor, IAE Lyon, Université Jean Moulin Lyon 3, Magellan research center, 6 cours Albert Thomas, 69008 Lyon, France
E-mail: ulrike.mayrhofer@univ-lyon3.fr

Abstract:
This paper examines the role of location in the relationships established between headquarters and foreign subsidiaries. The analysis focuses on new challenges faced by MNEs from mature economies, considering the growing importance of subsidiaries located in emerging countries. The empirical study is based on three in-depth case-studies of French multinationals. The authors conducted 31 interviews with managers from both the headquarters and foreign subsidiaries. The findings of the study indicate that headquarters-subsidiaries relationships are shaped by the location of subsidiaries in emerging economies, and more specifically by the cultural, administrative, geographic and economic distance between the headquarters and foreign subsidiaries.

Keywords:
French multinationals, emerging markets, location, distance.

Introduction

Relationships between headquarters and foreign subsidiaries are among the most crucial issues concerning the management of multinational enterprises (MNEs) (Birkinshaw et al. 1998; Birkinshaw and Morrison 1995). MNEs are firms that engage in foreign direct investments (FDI) by controlling and managing value-added activities abroad (Dunning and Lundan 2008), and foreign subsidiaries thus contribute to their global value chain (Goerzen and Beamish 2003). Over the past few years, MNEs from mature economies have been investing heavily in emerging countries (UNCTAD 2009), which raises new challenges for their relationships with foreign subsidiaries. In fact, the management of subsidiaries located in emerging countries is likely to differ from the management of subsidiaries located in their home region or other Triad nations. Usually, the distance between the headquarters of MNEs and subsidiaries in emerging economies is important and may thus influence their managerial practices.

This article attempts to analyse how location and distance shape the relationships developed between headquarters and foreign subsidiaries, and focuses more specifically on the management of subsidiaries established in emerging countries. The empirical study is based on three in-depth case-studies of French multinationals: France Telecom, Schneider Electric and Publicis. The authors conducted 31 interviews with managers from both the headquarters and foreign subsidiaries in order to assess the specific characteristics of their headquarters-subsidiaries relationships.

We will first examine the role of location in headquarters-subsidiaries relationships and present the CAGE-framework developed by Ghemawat (2001), which allows to assess four dimensions of distance (cultural, administrative, geographic, economic). These dimensions are likely to influence the relationships between headquarters and subsidiaries located in emerging economies. After a presentation of the research methodology, we will then analyse and discuss the findings of the empirical study.

1. Does location matter in headquarters-subsidiaries relationships?

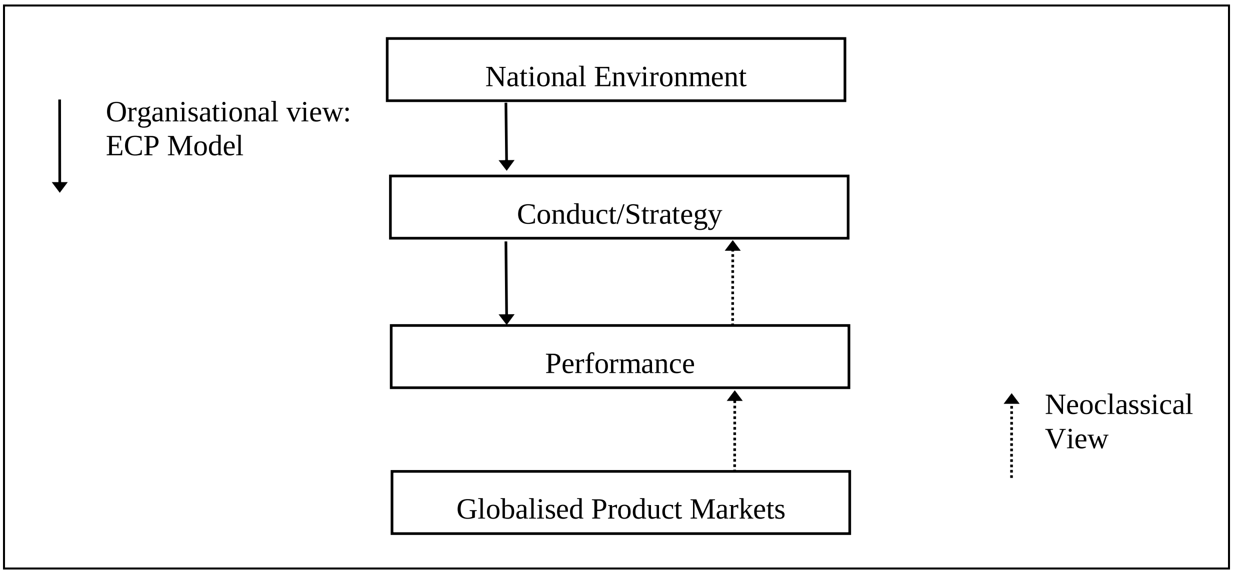
During the past few decades, MNEs mainly located their foreign subsidiaries in their home region (Rugman 2005) and, to some extent, in other regions of the Triad (Flores and Aguilera 2007). Over the last few years, MNEs from mature economies have heavily increased their investments in developing countries (Dunning 2009), mostly in emerging markets. The role of foreign subsidiaries located in emerging countries has thus considerably increased. This evolution is raising new challenges for the relationships of MNEs with their foreign subsidiaries. In fact, subsidiaries of MNEs are embedded in their local environment (Hennart 2009), establishing relationships with different local actors (governments, suppliers, distributors, clients, etc.) (Asmussen et al. 2009). Moreover, the environment of emerging economies differs considerably from the environment of mature markets (Ghemawat and Hout 2008). It thus seems interesting to examine more specifically the role of location in headquarters-subsidiaries relationships. Given the changing geography of the world economy (Buckley and Ghauri 2004) and the changing rules of international competition (Hutzschenreuter and Gröne 2009), this question seems particularly relevant for MNEs.

The importance of the national origin of MNEs

In the literature of international business, there has been an important debate on the question whether managerial practices of MNEs are determined by global market forces (e.g. Ohmae 1990) or whether they are still shaped by the environment of their country of origin, i.e. its cultural and institutional heritage (Gerlach 1992; Hofstede, Hofstede and Minkov 2010). The importance of home-country factors came to prominence with Porter (1990) who considers the domestic environment as the main source of competitive advantage in international markets. Several empirical investigations show that strategic and managerial decisions of MNEs are influenced by their national environment. For instance, studies focusing on the choice of market entry modes emphasise the importance of home-country effects on decisions made by MNEs. They show that the national origin of companies influences ownership decisions of foreign subsidiaries (e.g. Erramilli 1996; Mayrhofer 2004).

Underlying the debate on home-country effects are unanswered questions about the theory of the firm and whether product markets or institutions determine strategic decisions. Ill and Waring (1999) have formalised these two perspectives. Based on neoclassical economics, the so-called neoclassical view predicts that the global environment determines the most efficient corporate strategies. According to this perspective, MNEs from different countries (mature or emerging economies) would choose to develop similar strategies in order to survive in the global environment. Conversely, the organisational view considers firms as collections of resources and skills that are embedded in their domestic environment. Firms based in different countries will thus choose different strategies, which will then determine their performance. Ill and Waring (1999) formalised this perspective as the ECP (environment-conduct-performance) model (see Figure 1).

Figure 1: The Two Conceptions of the «Environment-Strategy-Performance» Relationship



Adapted from Ill and Waring, 1999, p. 733

Even if MNEs operate in different geographic markets and even if some authors develop the idea of nation-less corporations (Ohmae 1990), it seems necessary to note that the corporate strategy of MNEs is still likely to be shaped by the national environment of their headquarters (Harzing and Noorderhaven 2008; Harzing and Sorge 2003; Reich 1990). In fact, strategic decisions, such as the location and management of foreign subsidiaries, are predominantly made by the headquarters. For example, the degree of autonomy given to foreign subsidiaries largely depends on the parent company (Birkinshaw et al. 1998; Birkinshaw and Morrison 1995). Therefore, it seems necessary to consider the country of origin of MNEs in order to understand relationships between headquarters and subsidiaries located in emerging countries. Over the past few years, European MNEs have increasingly developed subsidiaries in emerging markets and French MNEs appear to be particularly active in establishing subsidiaries in emerging economies (UNCTAD 2009). Compared to MNEs from other Triad nations, French MNEs have not been subject to many empirical investigations in the literature of international business (Beddi, 2008). Moreover, because of the historical ties of France with certain former colonies that have become emerging economies, it seems interesting to analyse how French MNEs manage their relationships with foreign subsidiaries located in emerging markets.

The CAGE distance framework

For MNEs originating from mature markets, managing subsidiaries in emerging economies appears to be a difficult task, because the local environment of these foreign subsidiaries usually presents important differences with the home-country environment of the parent company. In fact, the distance separating the headquarters of the MNEs from their local subsidiaries may affect relationships between them. In this perspective, it is necessary to note that distance is a multi-dimensional concept which has been widely studied in the field of international business and whose impact remains difficult to evaluate (e.g. Angué and Mayrhofer 2010; Brouthers and Brouthers 2001).

In the international business literature, many scholars refer to the concept of psychic distance as it is developed in the Uppsala model. According to Johanson and Wiedersheim-Paul (1975: p. 308), psychic distance results from *"the sum of factors preventing or disturbing the flows of information between firms and markets"*. It includes various elements such as differences in language, education systems, managerial practices, culture and industrial development. It seems important to emphasise that psychic distance represents a subjective measure of distance. In fact, it reflects distance as it is perceived by managers and tends to decrease once the company gains more experience in foreign markets (Johanson and Vahlne 1977).

Ghemawat (2001) has recently proposed a framework which allows to assess different forms of distance at the country level, called the "CAGE framework". The framework differentiates four dimensions of distance: (1) cultural, (2) administrative, (3) geographic and (4) economic distance. This categorisation of different 'objective' dimensions of distance seems particularly suitable for the analysis of relationships between headquarters and foreign subsidiaries.

According to Ghemawat (2001), cultural distance results from a range of factors such as language, ethnicity, religious belief, and social norms. It influences the way how individuals interact with each other as well as with companies and institutions.

Administrative (or political) distance relates essentially to history (e.g. colonial ties), membership of political, economic or monetary associations (for example, European Union, NAFTA), possible political hostility, government policies and the institutional context (e.g. legislative framework, relationships between social partners).

Geographic distance is the physical distance existing between countries or regions where headquarters and foreign subsidiaries are located. It results from different factors such as physical remoteness, absence of a common border, lack of sea or river access, transportation and communication links, and differences in climates.

Finally, economic distance results from differences between countries in terms of economic wealth and income as well as cost and quality of available natural, financial and human resources, infrastructure, intermediate inputs, information, and knowledge.

The distance separating the headquarters of MNEs originating from mature economies and subsidiaries located in emerging countries appears to be more crucial than the distance between the headquarters of MNEs and subsidiaries in their home-region or, to a certain extent, in other Triad nations. It thus seems interesting to analyse how these four forms of distance shape relationships between headquarters of MNEs and their subsidiaries in emerging economies. These relationships are likely to be influenced by the national origin of MNEs. In fact, the distance between MNEs from mature economies and subsidiaries in emerging economies varies according to the characteristics of the home country of MNEs.

2. Research methodology

To conduct this research, we used a qualitative research methodology, based on multiple case studies. Case studies allow to address 'how' and 'why' questions (Yin 1994; Eisenhardt and Graebner 2007). Moreover, *"the case study method is particularly well suited to international business research, where data is collected from cross-border and cross-cultural settings"* (Ghauri 2004, p.111). The empirical study is based on three major French MNEs that have established subsidiaries in both mature and emerging economies: France Telecom, Schneider Electric and Publicis. We conducted 31 interviews with managers from both the headquarters and foreign subsidiaries of the three MNEs. It seemed necessary to consider foreign subsidiaries located in developed as well as emerging economies in order to better understand the role of location and distance in headquarters-subsidiaries relationships.

Following Mezias et al. (1999), we included multiple units in the research design and did not limit ourselves to the headquarters vision. Interviewing managers from headquarters and subsidiaries allowed us to have a double check and to triangulate the data. As Marschan-Piekkari et al. (2004) advise, *"it may be necessary to collect data from multiple units of the MNE, such as corporate/divisional/regional headquarters and foreign subsidiaries, in order to be able to contrast and compare several viewpoints"* (p. 254). Because of the multi-locational character of MNEs, triangulation concerns not only data and methods, but also analysed units.

The persons interviewed were all managers either working at the headquarters or at foreign subsidiaries. At the headquarters' level, they had operational business responsibilities (divisional managers, geographic area managers) or functional responsibilities (management control, finance, information system, strategy). At the subsidiaries' level, they were mainly subsidiary managers. We interviewed both expatriates (French and third country nationals) and local managers. The period of data-collection extends from June 2003 to December 2006. Table 1 provides details about the sample. As indicated, six interviews were conducted with managers of subsidiaries located in emerging countries (Ivory Coast, Jordan, Morocco, Hungary, Slovakia, Dubaï), covering four geographic areas: Eastern Europe, Western Africa, North Africa, Middle East.

Table 1: Description of Sample

MNEs	**France Telecom**	**Schneider Electric**	**Publicis**
Subsidiaries in emerging countries	Subsidiary manager, Ivory Coast	Subsidiary manager, Hungary	Subsidiary manager, Morocco
	Strategy manager, Jordan subsidiary	Subsidiary manager, Slovakia	Subsidiary manager of Dubaï
Subsidiaries in developed countries	French subsidiary manager	Subsidiary manager, Portugal	Subsidiary manager, Belgium
		Subsidiary manager, Germany	Subsidiary manager, Denmark
		Subsidiary manager, Netherlands	
		Subsidiary manager, Norway	
		Subsidiary manager, Sweden	
Headquarters	International Operations Director	Geographic area manager	Vice-President, Publicis Worldwide
	Geographic area manager, Latin America	Management control manager	Finance manager
	Geographic area manager, Africa	Business and IT Transformation manager	Regional Manager for Nordic Region & Middle East
	Geographic area manager, Middle East, Indian Ocean, Asia Pacific		Geographic area manager (France and North Africa)
	Geographic area manager, former subsidiary manager of Wanuatu		Worldwide Account Manager (2 interviews)
	Management Control manager		
	Marketing & Sales manager		
	Process manager		

The elaborated interview grid was used for all interviews. Some interviews were conducted in French, others in English (according to the nationality of the manager). The average interview duration was 1h25. All interviews were tape recorded and transcribed. The transcriptions were coded and analysed with N*Vivo software, which allows a certain degree of flexibility for the interpretation of the data (Richards 2009). Coding of the interviews followed the methodology proposed by Miles and Huberman (1994).

This research attempts to analyse how location and distance shape relationships between headquarters of MNEs and their subsidiaries in emerging economies. Therefore, we examined the autonomy provided to foreign subsidiaries. We also added elements about internal differentiation (according to subsidiaries) in order to compare headquarters-subsidiaries relationships in developed and emerging countries and to identify specific characteristics concerning the management of subsidiaries in emerging countries. Finally, we also considered factors related to the context such as the industry and the strategy of the three MNEs. The objective is to better understand the specific characteristics of French MNEs and the impact of the country-of-origin of MNEs. The three MNEs and their organisational structure are presented in Box 1.

Box 1: Presentation and organisational structure of France Telecom, Schneider Electric and Publicis

France Telecom is one of the world's leading telecommunication operators. It covers internet, television and mobile services offered on a worldwide basis. In 2009, France Telecom had a sales turnover of 50.9 billion Euros, serving almost 193 million customers in 32 countries. France Telecom's organisation is characterised by a strong separation between developed and emerging/developing countries. In fact, the company has an international division which only covers emerging/developing countries (Africa, Middle East & Indian Ocean, and formerly Latin America). There are also several global functions like management control and human resource management which are not divided into geographic areas. Today, the group's priority is to establish Orange as an integrated operator in Europe. Thus, the international development outside Europe has lost its importance, and operations have been sold.

Schneider Electric is a global specialist in energy management and provides innovative integrated solutions. In 2009, Schneider Electric had a sales turnover of 15.8 billion Euros, with more than 100 000 employees in 190 countries. 34% of revenue is generated in emerging countries. The MNE is organised by geographic regions: Europe, North America, Asia, other International & Iberian (which includes Spain, Portugal, Latin America, Africa and Middle East). The European region is divided into "big countries" (France, Germany, Italy, United Kingdom) and regions (Eastern Europe, Scandinavian and Baltic countries etc.).

Publicis is the world's fourth largest communication group. It offers a complete range of communication services, mainly through three autonomous global advertising networks, Leo Burnett, Publicis, Saatchi & Saatchi. In 2009, the group achieved a sales turnover of 4.5 billion Euros. It operates in 104 countries and employs 45 000 professionals. The MNE is divided into networks: each network is independent and organised by geographic regions. For example, in the network of Publicis, there is a region including Nordic and Middle East countries and another region including France and North African countries.

As shown in Box 1, the organisational structures and the place of emerging countries vary according to the company. For France Telecom, there is a clear distinction between subsidiaries located in developed countries and those located in emerging countries. Conversely, the organisational structure of Schneider Electric and Publicis shows that emerging countries can be integrated into the same division as developed countries.

3. Analysis of findings

This research attempts to analyse how the location of subsidiaries, and more specifically the distance between the headquarters and subsidiaries affects headquarters-subsidiaries relationships. We will use the CAGE-framework developed by Ghemawat (2001) to examine how cultural, administrative, geographic and economic distance influences the relationships of French MNEs with their subsidiaries located in emerging economies.

Impact of cultural distance on subsidiary autonomy and lateral relationships

Cultural distance can be viewed through the relationships between headquarters and subsidiaries, and also through the links established between subsidiaries. For France Telecom, cultural differences between headquarters and subsidiaries can be regarded as opposed to the need of synergies and global integration.

"On the one hand, there are economic interests that are obvious, they involve synergies and concentration of resources. On the other hand, there are nationalist reactions, this word is perhaps too strong, but there are identity reactions which take a negative view of this approach" (former country manager, currently geographic area manager).

For Schneider Electric, important cultural differences exist between headquarters and Eastern European countries.

"In Hungary, when you arrive, you feel like in France. There are qualified, smart people. But, when you dig a little bit, it is not at all the same thing. For me, they are closer, in their reasoning and their complexity, to the Chinese than to the French. […] All people who came here always returned very happy while saying "this is great", because they always saw a first impression. Hungarians are able to show you the side that you want to see. And, when you go back, the world is completely different. It

is not only the problem of Schneider. Danone has this problem. Citroën has this problem. Nestlé has this problem. Lastly, all multinationals. […] Because headquarters were always tricked by locals. They are very good at that. They know corporate expectations and thus they give them. And, at the end of the year, one measures the differences, which can be important" (subsidiary manager, Hungary).

Cultural distance, even between subsidiaries of France Telecom, contributes to explain the lower level of lateral relationships. People from different countries have difficulties to exchange with each other. Moreover, even if the group uses expatriates, they are home country nationals, never third country nationals, due to cultural distance. Local managers work in their country or at the headquarters, not in third countries. Finally, it is interesting to observe unilateral relationships between the headquarters and each subsidiary. Headquarters manage their subsidiaries separately, and there are no multilateral relationships.

Conversely, Schneider Electric is sending expatriates from different countries to subsidiaries. In fact, managers in subsidiaries can be French, from the nationality of the country, or third-country nationals. The objective is to understand the local environment and also the MNE environment and organisation. Nationalities do not matter. The group attempts to have a combination of local managers and expatriates in order to avoid cultural conflicts.

"If the subsidiary manager is an expatriate, the responsible for management control should be a local […] This is true for all countries. Perhaps not for Belgium. Perhaps not for the Netherlands. Lastly, I do not know but in Hungary, I wouldn't put only an Hungarian staff" (subsidiary manager, Hungary).

A few years ago, subsidiary managers were only French. There seems to be an evolution of practices.

"Before, expatriates were mainly French people. But today it is more open and there is no problem. It was very rare to meet a local manager in other countries than in France. But today this behaviour has completely changed and in many countries there are locals. For instance, in Austria, there are also managers from other countries. And in other subsidiaries as well" (subsidiary manager, Slovakia).

More generally, Schneider Electric appears to have evolved from a French company to an international company.

"Thirteen years ago, when I came to Schneider - to Télémécanique - it was totally different. A few months before, Schneider Electric had acquired Télémécanique, which was a small company, around 600 or 700 employees. And this company was twice as small, familiar, and practically it was not structured as an international company. This company was a typically French company, including language [...] the majority of employees did not speak other languages than French. If I switch to today's reality, it is a real international company with an international structure, and the preferable

and official language is English, not French, and today a majority of French people who I meet are speaking English. This is a big difference" (subsidiary manager, Slovakia).

For Publicis, because of cultural distance, managers of geographic areas usually spend more time in emerging countries to understand local characteristics. This is not the case in developed countries.

"I have to consider the specific local characteristics of the Middle East, I have to understand that in order to define which is the best possible strategy for each local agency. It is an important issue that I must deal with in the Middle East. This is not like that in Scandinavia" (manager of Scandinavian and Middle East region).

Impact of administrative/political distance on headquarters-subsidiaries relationships

For France Telecom, the relationships with governments of emerging countries are specific, because governments can also be shareholders of local subsidiaries. This is linked to the recent privatisation of companies. The local government is still present in the company, but shares the capital with foreign MNEs because of a lack of resources.

"Privatisation often results from the fact that the government, as a single shareholder, did not have the resources to ensure all the developments. So there are delays to be caught up, delays of equipment, or delays of quality of service. Thus, we often start with situations which are not satisfactory even for the governments or customers in those countries" (Africa geographic area manager).

For example, in Jordan, the government is the main shareholder and the subsidiary manager is Jordanian. It contributes to understand the local conditions and to have better relationships with local actors.

"It is a duty for Jordan Telecom to offer a service at a certain price and under the same conditions to all Jordanian people. This is why the telephone was a public service before 2000 in Jordan. Therefore, as a public service, the government has a certain power in decision-making. Thus, even if today it is considered that telecommunications are more effective in competitive environments than in monopolistic situations, in the phase of transition, the decisions taken by the operator can have an impact on the economic and social life" (strategy manager in Jordan subsidiary).

Thus, subsidiaries were still in monopoly when the MNE became a partner. This is also the case of Schneider Electric in Eastern European countries which have evolved from a communist regime to a capitalist system. The objective given by governments to the MNE was to implement industrial structure in order to be prepared to competition rules. It concerned more specifically processes in management control, which were loose or inexistent in national companies. Moreover, the telecommunication industry can be considered as strategic by local partners, which can have an impact on the relationships with the local environment.

"We should not forget that telecommunication is strategic in many countries […], where the governments remained shareholders, they have objectives, to be sure that the network will work and that it meets social demands like the coverage of rural areas […] When a government privatises, it is often badly perceived by the public opinion as if selling off the jewels. So the fact of requiring that some visible positions be held by nationals is sometimes the way for the government to show that, despite the privatisation, it still keeps the control of an activity considered as strategic for a country" (Africa geographic area manager).

The relationships between France and its former colonies may also play a role and can make relationships between headquarters and subsidiaries more complex. A subsidiary manager gives this advice to people who are sent as expatriates to former colonies:

« Pay attention in your way to manage your relationships, not to be considered as a horrible coloniser who comes. You have to convince your partners by your skills and to show them the interest of doing certain things, and especially not to implement the turn-key of France Telecom, without adapting to the countries" (former country manager, currently geographic area manager).

More or less control due to geographic distance?

For France Telecom, the control of the headquarters tends to vary according to geographic distance. Subsidiaries located in emerging countries are part of a specific organisational division and some of them are viewed as *"exotic"* places (former country manager). The specific characteristics of certain emerging countries can be explained by geographic distance:

"It is less true for Africa because there is more proximity, but in Asia and Latin America, there are remote countries. And it is important, distance has an impact on the way we manage subsidiaries, because when the subsidiary is remote, that creates geographic distance, there is jet lag, we can't go there easily by plane for the day. It is not possible, so that changes our relationships with such subsidiaries. Conversely, when the subsidiary is located in Europe, for example in Spain, travelling from Paris to Madrid or from Paris to Marseille is quite the same thing" (Latin America geographic area manager).

An important geographic distance usually reduces physical interactions with the headquarters and increases exchange by phone and electronic communication. The problems linked to jet lag and thus less frequent direct contacts were mentioned in all interviews. Headquarters managers have, for example, difficulties to receive weekly reports from subsidiaries on time. Because of geographic distance, processes appear to be more formalised and rigorous.

Subsidiaries in emerging countries seem also more controlled through expatriates. These expatriates are usually sent with an objective of direct supervision (Mintzberg 1979). “Key positions” are taken by expatriates who are subsidiary contacts for headquarters, especially in the financial field. This logic of control can involve problems with the local society.

“In terms of control, in every company, a very important point is to have the Chief Financial Officer position taken by an expatriate in order to know what occurs. This gives a very precise vision about what happens in the company. And this control works very well in Mauritius. Some time ago, there was an article published in a Mauritius newspaper, where they talked about “the wolf in the sheepfold” (laugh), it was rather evocative indeed (laugh) “the wolf in the sheepfold” it was our financial director who has a lot of power of course. There is not a single invoice which is signed, a single commitment which is undertaken without his approval, thus he has a very strong power” (former country manager, currently geographic area manager).

Geographic distance tends to be balanced by more control (by processes and by expatriates). The question of expatriation is still specific to emerging countries.

“There are people who are good at working in emerging markets like ours. In Europe, we can make round trips much more easily. It is not expatriation, there are almost commuters, i.e. people who return at home in the evening. Thus, it is not the same thing” (subsidiary manager of Ivory Coast).

Schneider Electric is organised by geographic areas, which contributes to reduce geographic distance. In contrast to France Telecom, regional headquarters of geographic areas are indeed located in countries. For example, regional headquarters of Eastern Europe are located in Austria (Vienna).

Geographic distance can also provide more autonomy to local subsidiaries. This is the case for France Telecom and Schneider Electric. However, headquarters-subsidiaries relationships tend to evolve towards less autonomy and headquarters attempt to increase their control of foreign subsidiaries even in emerging countries.

“Subsidiaries are less and less autonomous. Fifteen years ago, I was in Taiwan, I was alone, I did not have any visit and I organised my business as I wanted to. And I sent every month a fax of a rather light report. And then, over the years, this has changed and today, especially in Europe, since we are close to the headquarters, we are not autonomous any more. Almost on no function. We are not followed yet on our diaries but this may come” (subsidiary manager, Hungary, Schneider Electric).

We can observe simultaneously time distance and autonomy due to less travels, and direct supervision (expatriation) and more formalised processes. In the two companies (France Telecom and Schneider Electric), the trend is towards less autonomy and more formalised control processes.

For Publicis, subsidiary autonomy is linked to the nature of customers (local or global).

"If I'm talking to the Arabs in my country, an American cannot tell me what to tell them. I do my own research and I discover what they are looking for and I create advertising that responds to their needs. If it's a worldwide brand, for example like Nescafé, I cannot create advertising that is in conflict with the worldwide strategy of the brand. I can only change the execution but it is going to be within the same strategy. So that's how the centre controls my creativity, by forcing me to use the worldwide positioning of a certain brand. But they do not see the execution in the local market, because they do not understand that" (subsidiary manager, Dubaï).

The most important element is business and more precisely the nature of customers. Subsidiaries are autonomous for local business, but they have to follow guidelines given by the headquarters for global brands. Thus, geographic distance does not seem to play a key role for this MNE.

Knowledge transfer in emerging countries as an illustration of economic distance

For France Telecom, certain specific characteristics of subsidiaries located in emerging countries can be explained by economic distance, and more specifically differences concerning economic growth rates.

"In emerging countries, we can have growth rates which are high, penetration rates which are still low, so we can imagine that, as long as we don't reach a certain degree of maturity, we will have considerable growth rates, two-digit growth rates which have nothing to do with what our big sisters know today…our big sisters of European subsidiaries. So, one relies on us for growth. This is where we have to be…" (subsidiary manager of Ivory Coast).

Differences in economic growth rates also seem to influence the management of subsidiaries in emerging economies for Schneider Electric. For example, regions in the European division have different growth rates and then have to deal with different issues.

In emerging countries, it is usually necessary to adapt to the context of the local economic environment. In fact, the income per capita is lower than in developed countries, so that it is difficult to sell the same products without adapting them to local requirements. Moreover, economic distance leads emerging countries to search for competencies from developed countries. That explains the international development of France Telecom, which is facilitated by its image of being an expert.

"Around France Telecom, there is a strong image of expertise, of innovation, which goes beyond France. We are recognised. Therefore, there are two things for subsidiaries. On the one hand, France Telecom is the big bad wolf which wants to make cash, to have a maximum of dividends. And this is true to a certain extent. On the other hand, the image France Telecom for employees is that they can nevertheless gain knowledge" (former country manager, currently geographic area manager).

In emerging countries, subsidiaries thus attempt to benefit from the competence and expertise acquired at the French headquarters. It seems like a balance between the control of headquarters and the knowledge from headquarters.

"When we have difficult relationships like in Mauritius, I'm not welcome, because many employees from Mauritius Telecom are looking for knowledge and they will receive with open arms people who come to speak to them about customer relationships... If I come as a shareholder, it is like The Grand Inquisitor and they won't like that" (former country manager, currently geographic area manager).

Thus, relationships between headquarters and subsidiaries vary considering these two cases: the headquarters as an expert providing knowledge and the headquarters as a shareholder controlling activities of local subsidiaries. Moreover, an evolution of these relationships has to be observed, which can be explained by the financial difficulties of France Telecom in 1999 and 2000. In fact, the group had lost the image of being an expert.

"My personal feeling is that France Telecom's difficulties in 1999 and 2000 still have an impact. I believe that, as everyone knows, France Telecom almost went bankrupt, and it is not surprising that foreign companies which had trusted France Telecom have become more reluctant to open their capital when they saw what occurred. It is an obvious reaction, I think" (former country manager, currently geographic area manager).

At France Telecom, knowledge transfer takes only place from the headquarters to the subsidiaries of emerging countries. It can also help to overcome cultural rivalry.

Publicis did not nominate expatriates, but local managers at the head of subsidiaries. However, subsidiaries in emerging countries can temporally have expatriates as managers, due to the lack of local competence.

"Most country managers in large advertising markets are local managers of the country. In emerging countries, most country managers come from outside but only at the beginning. As soon as the country

can take over because the people have been trained for that, it is done. Thus, in China, it is still a foreigner, but in India it's done, it's an Indian. It is a foreigner in Japan, but it will soon be a Japanese. Expatriates in general are not French" (Vice President Executive, Publicis network).

Moreover, economic distance between headquarters and subsidiaries can lead to lateral relationships among subsidiaries located in emerging countries. For example, this is the case between Jordan and Poland for France Telecom. Knowledge is not always transferred from France to Jordan, but also from Poland to Jordan.

"We realised that solutions that existed in France did not fit with the Jordanian environment, which is smaller and does not have the same degree of maturity concerning regulation. However, in Poland where France Telecom also operates, they have a situation which is more similar to the Jordanian situation. Thus, there are experts in Poland who came to Jordan to help us in subjects where they have more experience. This arrives sometimes, indeed" (Manager in Jordan subsidiary).

For Schneider Electric, there are lateral relationships within a geographic region, but only according to personal networks of managers. Similarly, for Publicis, lateral relationships and knowledge transfer exist, but through the action of worldwide account managers. These managers aim to give coherence to international communication campaigns of their global customers and thus attempt to organise links between subsidiaries. They pay attention to all countries, but emerging countries appear to need more help than developed countries.

"All countries are important: the large ones, because they generate a lot of revenue and it is thanks to large countries that our partnership grows with the global customer; and the small ones because they are small and they need more help from us. […] Because they do not have high revenues, because the markets are more limited, because finding very skilled people in small countries is more difficult than in large ones […] they need us more than large ones. […] Small countries call us more often than large countries" (worldwide account manager).

Finally, for France Telecom, global competitors in developed countries can be partners in emerging countries. This situation can generate a risk of loosing competence.

« We were several times in these foreign subsidiaries through partnerships with operators […] who are also strong competitors in other markets. It can be European or American operators and it is very complex to manage because it is obvious that we don't want to give France Telecom's knowledge to our competitors through a subsidiary even if it is located at 10 000 km. […] Moreover, the policy of France Telecom and almost all operators is to say […]: we will go abroad through subsidiaries only if we keep the control" (Latin America geographic area manager).

This was the case of the Argentinian subsidiary shared between France Telecom and Telecom Italia, a strong competitor of the group in European markets. The subsidiary has been sold by the group.

Finally, it is interesting to note the impact of regionalisation on headquarters-subsidiaries relationships. In fact, regionalisation can contribute to give a more strategic role to emerging countries. This is the case of the subsidiary set up by Publicis in Morocco. This subsidiary is a "regional hub", which is in charge of the coordination of global accounts in Africa (like Nigeria, Kenya). It has the delegation of power from the French headquarters to supervise the African region. International communication campaigns are developed in Morocco and implemented in Africa. Thus, the Moroccan subsidiary acts as a subsidiary, which depends on France and the North African Region, and as a coordinator in the African region.

"I have two missions. I have a first mission which is to be the agency director of Publicis Morocco. So, for all accounts, both vis-à-vis our customers and financially. I have to generate profits. And then, in an operational perspective, I assume a coordinating role for all the needs of our customers in the region. And reporting to headquarters, of course, everything is developed in the region for which I am responsible" (subsidiary manager, Morocco).

The Moroccan subsidiary has no hierarchical authority over other African subsidiaries, but it has an operational authority concerning the international communication campaigns developed: it has to make sure that choices made by each country of the region match the guidelines set by worldwide account managers. It acts as regional headquarters with a role of coordination in the region.

4. Discussion of findings

This study of three MNEs contributes to analyse how the four forms of distance, identified by the "CAGE framework" of Ghemawat (2001), shape the relationships between headquarters of French MNEs and their subsidiaries in emerging economies. Thus, cultural distance can lead to conflict relationships between headquarters and subsidiaries due to differences in managerial practices. It can be reduced by the action of geographic areas if they are localised in emerging countries. The choice to have different nationalities in subsidiaries (French or third-country nationals) can favour better exchanges between entities. Cultural distance can also reduce lateral links between subsidiaries. Administrative distance shows especially the role of the local government which can be a shareholder of the subsidiary, mainly because of the recent privatisation of companies in these countries. The government is then torn between company's goals and society's expectations, especially if the industry is considered as strategic for the country. Geographic distance can lead to both subsidiary autonomy and more formalised control especially through expatriation. Economic distance can be observed through the question of knowledge transfer. Knowledge transfer tends to go from headquarters to subsidiaries. Lateral relationships between subsidiaries can also be limited. Expatriates can been used due to the lack of competencies in emerging countries, but only temporarily and with the objective to train local managers who will then take the head of the subsidiary.

Impact of different forms of distance on headquarters-subsidiaries relationships

The research shows the impact of distance on subsidiary autonomy, control used by headquarters, knowledge transfer, and expatriation. Thus, the study of distance helps us to assess expatriation in the three MNEs. The roles of expatriation (Edström and Galbraith 1977) have been specified for the case of emerging countries. Our results identify a role of socialisation (Schneider Electric, Publicis) for the expatriation due to cultural distance. Expatriation has also a role of knowledge acquisition (Publicis) linked to economic distance. Finally, a role of control (France Telecom) for expatriates can be identified due to geographic distance.

The study highlights the link between cultural distance and corporate culture in MNEs. Indeed, the development of a strong corporate culture contributes to go beyond cultural differences which can exist between headquarters and subsidiaries, and even among subsidiaries themselves. One can consider that people do not belong to a national culture, but to the same company through a process of socialisation (Edström and Galbraith, 1977).

A specificity of emerging countries concerns the place of knowledge in MNEs. Due to economic distance, knowledge is not localised in emerging countries, but in the home country or developed countries. Following Gupta and Govindarajan (1991), knowledge is characterised by its location and its transfer direction. In emerging countries, headquarters seem to have a crucial role for knowledge transfer: knowledge is located at the headquarters (France Telecom), or the headquarters organise knowledge transfer from one subsidiary to another (Publicis, Schneider Electric).

Finally, the assessment of cultural distance highlights the necessity for MNEs established in emerging countries not only to manage their subsidiaries internally, but also to deal with relationships with stakeholders, such as the host-country government or the local society, or global competitors. Thus, by using the concept of distance, this research attempts to go beyond the classical frameworks of headquarters-subsidiaries relationships by considering the specific characteristics of emerging countries. In that way, dealing with emerging economies contributes to question more “classical” theories.

Distance and regionalisation in order to assess headquarters-subsidiaries relationships

The study of regionalisation contributes to revisit the global integration/local responsiveness framework (Prahalad and Doz 1987) by allowing MNEs to be globally integrated and locally responsive. This can explain the development of regional headquarters (Paik and Sohn 2004; Yeung et al. 2001), or even sub-regional headquarters (Li et al. 2010). Thus, regional headquarters can reduce geographic and cultural distance. MNEs implement, through regional headquarters, a form of proximity in headquarters-subsidiaries relationships. Moreover, regionalisation also contributes to give more autonomy to subsidiaries. This result is consistent with the differentiated network approach of the MNE (Nohria and Ghoshal 1997; Bartlett and Ghoshal 1989). Subsidiaries in emerging countries are not only considered as local implementers of the strategy decided at the headquarters but tend, through regionalisation, to be contributors to the strategy.

Impact of the country-of-origin on headquarters-subsidiaries relationships: French MNEs

Schneider Electric and Publicis seem to follow the same trend in becoming transnational companies and not only French companies with foreign entities. This is reflected by the subsidiary management involving different nationalities, and not only French expatriates. Both companies attempt to deal with cultural differences and more generally with distance, and to develop a global integration through a strong corporate culture. Even if these two companies are French MNEs, they tend to be less influenced by their country-of-origin.

Conversely, France Telecom still remains a French company, with a high use of French expatriates in order to control its subsidiaries. The group is characterised by the centralisation of its strategy. According to Bartlett and Ghoshal's (1989) typology, France Telecom can be considered as a global company, or an ethnocentric firm according to Heenan and Perlmutter (1979).

"Headquarters who want to control everything. This is the French arrogance. It is also this which appears. But this, I believe it is a phenomenon which is also deeply cultural" (former country manager, currently geographic area manager).

In that way, France Telecom tends to be a "*national firm with international operations"* (Hu 1992; Harzing et al. 2002). The country-of-origin effect has an impact on headquarters-subsidiaries relationships of this MNE.

Concerning the country-of-origin effect, companies have to be aware of the impact of the French history on the relationships between the headquarters and subsidiaries established in emerging countries. This can have an impact on the assessment of administrative distance. The past colonialism of France can thus have both a positive and a negative impact. It can favour knowledge transfer between countries thanks to the historically positive image of the home country as an expert. MNEs can also be confronted with negative cultural predispositions. The industry of the MNEs also appears to have an impact. Some sectors like telecommunications, aeronautics or defence are indeed considered as strategic and can involve cultural resistance.

The differences observed between the three MNEs allow to question the impact of the country-of-origin effect on headquarters-subsidiaries relationships. Like Schneider Electric and Publicis, an increasing number of French MNEs have become transnational companies, reducing the predominant role of headquarters, and thus of the characteristics of their country-of-origin. This finding also emphasises the fact that MNEs are not stable organisations, but evolve over time following internal and external forces.

Conclusion

Given the growing importance of subsidiaries located in emerging markets, MNEs from mature economies are facing new challenges concerning their headquarters-subsidiaries relationships. This research clearly indicates that the management of subsidiaries in emerging countries presents important differences with the more "classical" management of subsidiaries established in the home region of MNEs or other Triad nations. We attempted to analyse more specifically the location factor with the objective to understand the management of MNEs considering their expansion into emerging economies.

Our contribution shows that the impact of the country of origin on the management of headquarters-subsidiaries relationships can not be clearly established. It seems to depend on the fact whether the MNE remains a centralised organisation, deeply rooted in its home-country (like France Telecom), or whether it has shifted towards a transnational company (like Publicis and Schneider Electric). Transnational corporations are likely to adopt a different approach to location. However, our study clearly indicates that the management of subsidiaries in emerging economies is more difficult, mainly because of the distance separating the headquarters from their local subsidiaries. It appears that the relationships between headquarters-and subsidiaries continue to be shaped by cultural differences, but also by administrative, geographic and economic distance.

The empirical study presented in this article is based on French MNEs which are likely to have a specific approach concerning the management of their subsidiaries in emerging markets, especially in countries that are former colonies of France. It thus seems interesting to extend the study to other MNEs from mature economies in order to determine which managerial practices are specific to French MNEs and which managerial practices could be generalised to other MNEs. In this perspective, it would be relevant to consider the specific characteristics of European MNEs in order to find out whether they can be considered as a homogeneous group or not. Finally, it seems necessary to observe identified practices over a longer period of time, given the rapid changes faced by emerging economies.

References

Angué, K. & Mayrhofer, U. (2010), International R&D cooperation: the effects of distance on the choice of the country of partners, *M@n@gement*, *13*(1), 1-37.

Asmussen, Ch.G., Pedersen, T., & Dhanaraj, Ch. (2009). Host Country Environment and Subsidiary Competence: Extending the Diamond Network Model. *Journal of International Business Studies*, *40*(1), 42-57.

Bartlett, C.A., & Ghoshal, S. (1989). *Managing across borders: the transnational solution*. Boston: Harvard Business School Press.

Beddi, H. (2008), *Contribution à l'analyse de la diversité des relations siège-filiales au sein des firmes multinationales,* Doctoral thesis in business administration, University Paris Dauphine.
Birkinshaw, J.M., Hood, N., & Jonsson S. (1998). Building Firm-Specific Advantages in Multinational Corporations: The Role of Subsidiary Initiative. *Strategic Management Journal, 19*(3), 221-241.
Birkinshaw, J.M., & Morrison, A.J. (1995). Configurations of Strategy and Structure in Subsidiaries of Multinational Corporations. *Journal of International Business Studies*, *26*(4), 729-753.
Brouthers, K.D., & Brouthers, L. E. (2001). Explaining the National Cultural Distance Paradox. *Journal of International Business Studies, 32*(1), 177-189.
Buckley, P., & Ghauri, P. (2004). Globalisation, Economic Geography and the Strategy of the Multinational Enterprises. *Journal of International Business Studies, 35*(2), 81-98.
Dunning, J. (2009). Location and the Multinational Enterprise: A Neglected Factor?. *Journal of International Business Studies, 40*(1), 5-19.
Dunning, J.H., & Lundan, S.M. (2008). *Multinational Enterprises and the Global Economy*. 2nd ed., Cheltenham: Edward Elgar Publishing.
Edström, A., & Galbraith, J.R. (1977). Transfer of managers as a coordination and control strategy in multinational corporations. *Administrative Science Quarterly*, *22*, 248-263.
Eisenhardt, K., & Graebner, M.E. (2007). Theory building from cases: opportunities and challenges. *Academy of Management Journal*, *50*(1), 25-32.
Erramilli, M. K. (1996). Nationality and Subsidiary Ownership Patterns in Multinational Corporations. *Journal of International Business Studies, 27*(2), 225-248.
Flores, R., & Aguilera, R. (2007). Globalization and location choice: An analysis of US multinational firms in 1998 and 2000. *Journal of International Business Studies*, *38*, 1187-1210.
Gerlach, M. L. (1992). *Alliance Capitalism: The Social Organization of Japanese Business.* Berkeley: University of California Press.
Ghauri, P. (2004). Designing and conducting case studies in international business research. In R. Marschan-Piekkari & C. Welch (Eds.), *Handbook of qualitative research methods for international business* (pp. 109-124), Cheltenham: Edward Elgar.
Ghemawat, P. (2001). Distance still matters. The hard reality of global expansion. *Harvard Business Review*, *79*(8), 137-147.
Ghemawat, P., & Hout, Th. (2008). Tomorrow's Global Giants. Not the Usual Suspects. *Harvard Business Review, 86*(11), 80-88.
Goerzen, A., & Beamish, P. (2003). Geographic Scope and Multinational Enterprise Performance. *Strategic Management Journal*, *24*(13), 1289-1306.
Gupta, A.K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, *16*(4), 768-792.
Harzing, A.-W., & Noorderhaven, N. (2008). Headquarters-subsidiary relationships and the country-of-origin effect. *EURAM Conference*, Ljubljana, Slovenia.
Harzing, A.-W., & Sorge, A. (2003). The relative impact of country of origin and universal contingencies on internationalization strategies and corporate control in multinational enterprises: worldwide and European perspectives. *Organization Studies*, *24*(2), 187-214.
Harzing, A.W., Sorge, A., & Paauwe J. (2002). HQ-subsidiary relationships in multinational companies: a British-German comparison. In M. Geppert, D. Matten & K. Williams (Eds.), *Challenges for European management in a global context - experiences from Britain and Germany*.
Heenan, D., & Perlmutter, H. (1979). *Multinational organization development*. Addison-Wesley Publishing Company.

Hennart, J.-F. (2009). Down with MNE-Centric Theories! Market Entry and Expansion as the Bundling of MNE and Local Assets. *Journal of International Business Studies, 40*(9), 1432–1454.

Hofstede, G., Hofstede, G.J. & Minkov, M. (2010), *Culture and Organizations. Software of the mind. Intercultural cooperation and its importance for survival,* 3rd ed., Cambridge-Massachusetts, McGraw Hill.

Hu, Y.-S. (1992). Global or stateless corporations are national firms with international operations. *California Management Review*, 107-126.

Hutzschenreuter, T., & Gröne, F. (2009). Product and Geographic Scope Changes of Multinational Entreprises in Response to International Competition. *Journal of International Business Studies*, *40*(7), 42-57.

Ill, L. G. Th., & Waring, G. (1999). Competing Capitalisms: Capital Investment in American, German, and Japanese Firms. *Strategic Management Journal, 20*(8), 729-748.

Johanson, J., & Vahlne, J.-E. (1977), The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments, *Journal of International Business Studies, 8*(1), 23-32.

Johanson, J., & Wiedersheim-Paul, F. (1975), The Internationalization of the Firm: Four Swedish Cases, *Journal of Management Studies, 12*(3), 305-322.

Li, G.-H., Yu, C.-M., & Seetoo, D.-H. (2010). Toward a theory of regional organization: the emerging role of sub-regional headquarters and the impact on subsidiaries. *Management International Review*, *50*(1), 5-33.

Marschan-Piekkari, R., Welch, C., Penttinen, H., & Tahvanaien, M. (2004). Interviewing in the multinational corporation: challenges of the organizational context. In R. Marschan-Piekkari & C. Welch (Eds.), *Handbook of qualitative research methods for international business* (pp. 244-263), Cheltenham: Edward Elgar.

Mayrhofer, U. (2004), International Market Entry: Does the Home Country Affect Entry Mode Decisions?, *Journal of International Marketing*, *12*(4), 71-96.

Mezias, S.J., Chen, Y.-R., & Murphy, P. (1999). Toto, I don't think we're in Kansas anymore: some footnotes to cross-cultural research. *Journal of Management Inquiry, 8*(3), 323-333.

Miles, M.B., & Huberman, A.M. (1994). *Qualitative data analysis*. Sage Publication.

Mintzberg, H. (1979). *The structuring of organizations: a synthesis of the research*. Englewood Cliffs, N.J: Prentice-Hall.

Nohria, N., & Ghoshal, S. (1997). *The differentiated network: organizing multinational corporations for value creation*. Jossey-Bass Publishers.

Ohmae, K. (1990). *The borderless world: power and strategy in the interlinked economy*. London: Harpercollins.

Paik, Y., & Sohn, J.H. (2004). Striking balance between global integration and local responsiveness: the case of Toshiba corporation in redefining regional headquarters' role. *Organizational Analysis, 12*(4), 347-359.

Porter, M. E. (1990). *The Competitive Advantage of Nations*. New York: The Free Press.

Prahalad, C.K., & Doz, Y.L. (1987). *The multinational mission: balancing local demands and global vision*. The Free Press.

Reich, R.B. (1990). Who is Us?. *Harvard Business Review, 68*(1), 53-64.

Richards, L. (2009). *Handling qualitative data: a practical guide*. Sage Publication.

Rugman, A. (2005). *The Regional Multinationals*. Cambridge: Cambridge University Press.

UNCTAD – United Nations Conference on Trade and Development (2009). *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development,* NewYork-Geneva.

Yeung, H.W.-C., Poon, J., & Perry, M. (2001). Towards a Regional Strategy: The Role of Regional Headquarters of Foreign Firms in Singapore. *Urban Studies*, *38*(1), 157-183.

Yin, R.K. (1994). *Case study research: design and methods* (2nd edition). Newbury Park, CA: Sage.