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Parenting styles of multinational corporations

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One-sided view of a corporation's role

"...all multi-business corporations need to be able to justify their ownership of their multiple businesses. ... The corporate-level strategy must show how the corporate parent **adds value** to its business, and must address issues such as allocation of resources between the businesses, the creation of synergy through linkages amongst the businesses, and choices concerning the businesses that should make up the corporate portfolio."

Goold, M. and Luchs, K. (Eds.) (1996). Managing the Multibusiness Company: Strategic Issues for Diversified Groups. Cengage Learning EMEA, Andover, UK.

The second corporation's role - extracting value

Type of value extracted	Methods of extraction
Profits	Dividends paid by subsidiaries to the parents
Revenues	Royalties for corporation's trademarks use, overpay for supplies (goods and services) from sister-subsidaries or for services provided by HQ
Equity and quasi-equity	Purchase by a subsidiary minority stakes in the parent or in sister-subsidaries
Cash flow	Zero-interest credits to sister-subsidaries, bills of exchange etc.
Knowledge	Unpaid transfer of know-hows to the parent or to sister-subsidaries, patenting valuable solutions outside the subsidiary
Talent	Transfer of talents from a subsidiary to the headquarters or relocation of talents to sister-subsidaries
Capacities	Transfer of equipment to sister-subsidaries
Deadweight loss (DWL) extraction	Purposeful decrease of subsidiary's output below the equilibrium level, temporary or permanent closing down efficient but "excessive" production plants etc.
Capital	Divestiture or liquidation of a subsidiary

Dunning's motives of oversea investments and preferred types of value to be extracted

Motive	Type of value to be extracted
Resource seeking	Profit, revenue
Market seeking	Profit, revenue, DWL
Efficiency seeking	Equity, cash flow, capacities, capital
Knowledge seeking	Knowledge, talent

Typology of parenting styles

		Adding value to a subsidiary	
		High	Low
Extracting value from a subsidiary	Low	Supportive style	Neglectful style
		The subsidiary constantly demands and receives additional resources from the corporation, no clear return is demanded or even expected from a subsidiary.	The subsidiary puts no demands for additional resources from the corporation; the corporation does not expect return from a subsidiary.
	High	Authoritative style	Exploitative style
		The corporation provides support and additional resources to a subsidiary in exchange to an uninterrupted flow of profits and other benefits from a subsidiary to the headquarters.	The corporation constantly squeezes value from a subsidiary depriving the subsidiary from an access to the pool of corporate resources.

Real argument behind parent-subsidiary exchange of value - the levels of mutual dependency

Type of dependency	Dependency of subsidiary on corporate parent	Dependency of corporate parent on subsidiary
Legal	Restriction on participation in a subsidiary's equity by other firms, control over large contracts	Reverse participation of a subsidiary in parent's equity, limitations on partnering of a parent with its subsidiary's competitors
Assets	The use of a corporation's trademarks and patents, preferred access to financial markets), worldwide pools of certified equipment suppliers, contractors, advertising and recruitment agencies, etc.	Inclusive non-transferrable rights of a subsidiary for specific assets (mining rights, proprietary technologies, governmental licenses for specific types of activities, quality certificates, etc.)
Financial	The share of current expenses and capital expenditures of a subsidiary covered by the corporation	The share of free cash flow generated from a subsidiary within the total free cash flow of the corporation
Mental	Corporate-wide mental models used as the common background for situation assessment, business planning, and decision-making (mental monopolistic situation)	Identification of alternative mental models (both in terms of thinking and decision-making) that are useful beyond the boundaries of the host country (mental oligopolistic situations)
Informational	The preferred access to corporate market databases, pools of patents and technologies, lists of suppliers and contractors, worldwide industrial information networks	Access to key decision-makers in the host country and secret information about market or economic conditions in the host country granted only to host country's citizens
Behavioral	Development of procedure manuals, performance standards, code of conduct that make the day-to-day activities of a subsidiary robust and efficient	Development of sets of efficient <u>deviant</u> practices, imitation and reproduction of such practices by sister-subsidiaries
Emotional	Creation and maintaining an organizational climate conducive for a subsidiary, trust and personal empathy of a subsidiary's employees towards a corporation's top management	Personal empathy and devotion of top corporate executives to a specific host country or to a specific subsidiary

Competing trends in multinational corporations

- *Increased hard dependency (legal, assets, financial) of subsidiaries on HQ*
- *Increased soft dependency of HQ (behavioral, mental, emotional) on subsidiaries*



“Protean” parenting style of the modern multinational corporation, simultaneous use of different parenting styles

Invitation to discussion



You are welcome
to contact me at
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to discuss
research and
practical
implications of
the presented
speculations