Contextualizing the Coordination of Multinational Corporations – The Role of Justice, Culture, and Structure in Organizational Alignment

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London, July 18, 2018 Nina Zobel

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ASEAN	Association of Southeast Asian Nations
BU	Business Unit
BUF	Business Unit function
CEE	Central Eastern Europe
CEO	Chief Executive Officer
cf.	confer (Latin), meaning “compare”
DF	Divisional function
e.g.	exempli gratia (Latin), meaning “for example”
EU	European Union
EVM	Experimental vignette method
GVC	Global value chain
i.e.	id est (Latin), meaning “that is to say”
IB	International Business
MNC	Multinational corporation
MU	Multinationales Unternehmen
NAFTA	North American Free Trade Agreement
PG	Perception gap
RHQ	Regional headquarters
RTA	Regional trade agreement
US	United States

Abstract

Multinational corporations (MNC) are a prominent form of organizations in today's world and as such stand for the phenomenon of globalization. With their geographical dispersion, they foster global trade and integration. However, MNCs constantly face the challenge of how to best structure and manage their organization. This dissertation addresses this overarching question in three independent studies, tying in with current debates in the respective fields.

The first study tackles the issue of organizational structure in investigating the phenomenon of MNC regionalization. This study reviews and integrates two opposing literature streams explaining the phenomenon of regionalization – the first taking on an external perspective, explaining MNC's regional concentrations with limits in their scope of operation; the second explaining regionalization from an internal perspective based on arguments of regional organizational structures.

The second study addresses the topic of how to best manage the MNC by specifically investigating the topic of headquarters-subunit alignment. In accounting for interdependencies among headquarters-subunit relationships within one organization, this study shows that not only the vertical headquarters-subunit relationship, but also the horizontal one among subunits matters for headquarters-subunit alignment. Specifically, it shows that social comparisons among subunits exist, evoking envy and thereby diminishing subunits' corporate practice implementation. Further, augmenting the comparison frame proves to aggravate, rather than alleviate this negative effect.

The third study also pertains to headquarters-subunit alignment. In this multi-method study, it is shown that justice perception gaps between headquarters and subunits reduce subunits' corporate practice implementation. Acknowledging culturally-induced differences in justice attitudes, this study further investigates whether cultural patterns in justice perceptions gaps exist, finding, however, no support. Rather, results indicate a compromised influence of culture on justice perceptions within an organizational setting.

In sum, these three studies contribute to the academic debate in providing new insights on MNC structure and management as well as offer practical advice for MNC managers.

Zusammenfassung

Multinationale Unternehmen (MU) gehören zu den bekanntesten Organisationsformen der heutigen Zeit und gelten als Symbol für die Globalisierung. Durch ihre geographische Verteilung tragen sie maßgeblich zum globalen Handel und globaler Integration bei. Dennoch müssen sich MUs permanent der Herausforderung stellen, ihr Unternehmen bestmöglich zu strukturieren und zu managen. Auf Basis aktueller thematischer Debatten, widmet sich diese Doktorarbeit diesem Thema in drei unabhängigen Studien.

Die erste Studie beschäftigt sich mit der Organisationsstruktur und untersucht das Phänomen der Regionalisierung von MUs. Dabei präsentiert die Studie einen Überblick zweier gegenläufiger Literaturströme und integriert diese im Anschluss. Der erste Literaturstrom erklärt die regionale Konzentration von MUs aus einer externen Perspektive, der zweite aus einer internen Perspektive basierend auf regionalen Organisationsstrukturen.

Die zweite Studie untersucht die Gleichausrichtung von Hauptsitz und Tochterfirmen unter Berücksichtigung interner wechselseitiger Abhängigkeiten. Die Studie zeigt, dass nicht nur die vertikalen Beziehungen zwischen Hauptsitz und Tochterfirmen, sondern auch die horizontalen zwischen den Tochterfirmen einen Einfluss auf die Gleichausrichtung haben. Die Studie weist auf soziale Vergleiche zwischen Tochterfirmen hin, die Neid auslösen und dadurch die Gleichausrichtung negativ beeinflussen. Eine Anhebung des Referenzrahmens der Vergleiche führt hier nicht zur Verbesserung, sondern Verstärkung der negativen Folgen.

Die dritte Studie untersucht die Gleichausrichtung von Hauptsitz und Tochterfirmen unter Kombination mehrerer Forschungsmethoden. Sie zeigt, dass Wahrnehmungsunterschiede zwischen Hauptsitz und Tochterfirmen in Bezug auf Gerechtigkeit einen negativen Einfluss auf die Gleichausrichtung haben. Kulturell hervorgerufene Unterschiede zum Thema Gerechtigkeit beeinflussen die Entstehung dieser Unterschiede nicht, sondern treten im Organisationskontext in den Hintergrund.

Zusammenfassend tragen diese drei Studien zum akademischen Dialog und der Praxis bei, indem sie neue Erkenntnisse zum Thema MU-Struktur und MU-Management präsentieren.

1. Introduction

The debate on multinational corporations (MNCs) is central to the international business literature (Kostova et al., 2016). MNCs are seen as the spearhead of globalization, stimulating international trade and thereby contributing to a more integrated world, which bears a lot of challenges for MNCs at the same time. Examples of these challenges are dealing with a variety of regulatory environments, realizing a balancing act between global integration and local responsiveness (Ghoshal & Nohria, 1993), overcoming geographical, cultural, administrative and economic differences (Ghemawat, 2001) or ensuring knowledge flows across the hierarchy between the MNC headquarters and its internationally dispersed subunits (Gupta & Govindarajan, 1991). At the core of these challenges lies the structure and management of the MNC – the organization's backbone to overcome them. The question of how to manage a MNC in the most efficient and effective manner thus marks the center of this debate. An organization is based on the idea of the division of labor in order to achieve maximum efficiency and capitalize on the specialization and division of tasks (Grant, 2013). While specialization increases productivity, it entails the challenge of coordinating and aligning these specialized units due to diverging interests and often conflicting goals. Research on how to tackle this issue centers around two aspects; first, coordination through organizational structure and second, the means of coordination themselves (Grant, 2013), where the latter pertains to the need for headquarters to manage the relationships with their subunits and align subunits' interest with their own (Kostova et al., 2016).

Organizational structure addresses the challenge of coordinating organizational units by determining clear responsibilities and reporting lines and thereby ultimately ensuring an (indirect) way of communication from headquarters to all units. Research on the organizational structure of MNCs developed around the organizational design itself, evolving from hierarchical, over network to matrix structures (Grant, 2013), as well as around the roles of organizational units, moving from headquarters-centered organizations towards more subunit autonomy marked by distinct subunit roles and mandates (Birkinshaw, 1996, Birkinshaw et al., 1998). This development shows a shift in ascribed importance from headquarters to subunits. As the locus of control in MNCs ultimately resides at headquarters, scholars started to strive for a balance, promoting intermediate layers of control. In view of the geographical dispersion in MNCs, the topic of regionalization gained increased scholarly attention in recent years. Regionalization

describes both a regional organization of a MNC's operations and a regional concentration of a MNC's business.

Regarding a regional organization of MNC operations, regional headquarters (Lasserre, 1996) developed as a prominent choice of intermediate layer. Acting as headquarters' agents, regional headquarters limit headquarters' direct management obligations and assign more autonomy to the regional level (Lasserre, 1996). Regional strategies may serve as the means to respond to the needs of a MNC to be both globally integrated and locally adapted (Bartlett & Ghoshal, 1989, Doz & Prahalad, 1984, Roth & Morrison, 1992, Rugman & Verbeke, 2004).

On the other hand, the regional concentration of a MNC's business is driven by its maximum scope of operation. As Rugman and Verbeke (2004) reported, the majority of MNCs does not operate beyond the confines of their home region. Expansion beyond the home region's borders is often not viable due to limits in the scalability and efficiency of a firm's operations. Following this logic, both intermediate organizational layers and regional clustering of subunits as well as a conscious decision to follow a regional concentration of operations are an approach to manage the MNC in the best possible way.

Even though organizational structure helps in coordinating a firm, the structure itself also entails its challenges by creating artificial boundaries, determining the distribution of power within the firm and thereby providing additional sources for (goal) conflicts. Perception gaps between headquarters and subunits are often the source of conflict (Birkinshaw et al., 2000, Chini et al., 2005), provoked by different views, motivations and experiences of the two parties. In order to overcome these challenges, organizations are in need of coordination means to best manage their chosen organizational structure. The early years of research on MNCs centered around the use of structural (departmentalization, (de)centralization) and formal control mechanisms (formalization, standardization, planning process and output and behavior control) (Martinez & Jarillo, 1989), before scholars acknowledged the importance of more subtle and softer means of control, so-called informal control mechanisms, such as informal communication (Kotter, 1982), expatriates (Harzing, 2001) or socialization / social control (Ambos & Reitsperger, 2004). Kim and Mauborgne (1993, 1995) extended the understanding of informal control mechanisms and proposed procedural justice, the fairness of processes between headquarters and subunits, as a means to ensure headquarters-subunit alignment. If subunits perceive to be treated fairly by headquarters, they display an increased willingness to comply with headquarters' directives (Kim &

Mauborgne, 1993). Hence, justice between headquarters and subunits serves as a means to ensure headquarters-subunit alignment and manage the structure of the MNC.

This dissertation is organized in two parts. The first part addresses the topic of organizational structure. The second part centers on the coordination and management of headquarters-subunit relationships. Building on past research findings in both areas, this thesis ties in with the latest debates in in these respective fields, offering new insights on structural aspects in an organization as well as headquarters-subunit alignment. In the first part, comprising one study, I continue the dialogue on regionalization in MNCs, analyzing and validating regionalization trends by focusing on the region of Europe. After dissecting the topic of a regional organization into two opposing streams, one centering on regional management, the other concerned with a firm's regional scope of operations, I offer an integrated explanation for why regionalization occurs. In the second part, consisting of two independent studies, I continue to shed more light on the role of justice in the coordination of MNCs. On the one hand, I extend the debate on the directionality of justice in showing that justice not only matters in the vertical dyad relationship between headquarters and subunits, but also horizontally among subunits in a MNC. On the other hand, I extend the study of justice as a means of headquarters-subunit alignment to other dimensions of organizational justice and explore the effect and cause of divergences of justice perceptions on headquarters-subunit alignment. In sum, by addressing both the topics of organizational structure and coordination, this dissertation puts the question of how to best structure and coordinate a MNC into context and advances the current knowledge in this field.

1.1. Research motivation

How to best manage MNCs has been the central topic over several decades of international business and strategy research. A considerable amount of conceptual and empirical rigor is required to fully capture and holistically address the challenges inherent to a MNC. This dissertation addresses three shortcomings in this field (see figure 1-1).

Study	Type	Theory	Level of analysis	Shortcoming 1 *In-/external*	Shortcoming 2 *Interdependencies*	Shortcoming 3 *Neglect of dyad*
Study 1	Theoretical / conceptual	*n/a*	*n/a*	■		
Study 2	Empirical, deductive theory testing	Social comparison theory, social identity theory	Organizational unit level		■	■
Study 3	Empirical, deductive theory testing	Justice theory	Organizational unit / individual level	■	■	■

■ Shortcoming addressed in this study

Figure 1-1: Research shortcomings

1.1.1. Shortcoming 1: Underdeveloped integration of internal and external perspectives

Following Kostova et al. (2016, p. 181) "separating the study of subunits, alliances and joint ventures, and international trade, appears ever more anachronistic". The authors call for more intertwined research which integrates insights from different fields of research that analyze and explain the functioning of a MNC. In view of the interdependencies among organizations and their external business partners, they propose more research beyond the confines of an organization's boundaries to account for inter-organizational relationships that are interdependent, require coordination and control (Hoenen & Kostova, 2015) and as such may affect an organization's internal setup. Following this line of thought, a shortcoming in the current literature is that some studies take on a purely external perspective when explaining organizational phenomena (e.g. studies building on embeddedness theory). Others take on a purely internal perspective, suppressing external influencing factors. However, as Kostova et al. (2016) implied, it is increasingly necessary to integrate both external and internal views when explaining organizational phenomena, thus acknowledging how external factors may influence internal aspects. Scholars have started to do so on an organizational level decades ago (Ghoshal & Bartlett, 1990, Ghoshal & Nohria, 1993, Ghoshal & Nohria, 1987, Nohria & Ghoshal, 1994) and have developed MNC organizational structures factoring in external factors, such as the metanational (Doz et al., 2001), the transnational (Bartlett & Ghoshal, 1989), or the heterarchical (Hedlund, 1986). However, thus far, they have largely refrained from integrating external environmental factors when explaining phenomena such as the headquarters-subunit relationship (Kostova et al., 2016). Inferring from this is a separation of externally- and internally-driven explanations of organizational phenomena. The literature on the phenomenon of

regionalization proves as a good example for this assertion. Two literature streams dominate the conversation, one explaining the regional presence of MNCs from an external perspective arguing that a MNC's scope is confined to the limits in the scalability and maximum efficiency of their operations (cf. Rugman, 2005, Rugman & Verbeke, 2003), largely building their arguments on transaction cost economics (cf. Williamson, 1981). The other one, however, takes on a more internal perspective arguing that MNCs' regional orientation occurs as a result of more efficient coordination and control of subunits (cf. Lasserre, 1996, Nell et al., 2011). This dissertation aims at answering this shortcoming through advancing research on organizational phenomena by factoring in the respective context, hence both internal and external perspectives.

1.1.2. Shortcoming 2: Disregard of interdependencies and heterogeneities in headquarters-subunit setting

The majority of studies on MNCs analyze organizational phenomena in an abstract and simplified manner. Especially within the context of coordination, the majority of studies explores the headquarters-subunit relationship in an artificial and isolated way. Thereby, most studies neglect the multitude of headquarters-subunit relationships as well as the heterogeneity and interdependences among subunits that most likely influence the character of the relationships between headquarters and subunits. Most studies in the headquarters-subunit context measure all headquarters-subunit relationships by the same yardstick, often simply referring to "headquarters" and "subunits" without any differentiation (e.g. Birkinshaw & Morrison, 1995, Kim & Mauborgne, 1991, 1993); although some studies exists that acknowledge varying subunit contexts and roles (e.g. Birkinshaw & Hood, 1998, Nohria & Ghoshal, 1994). As Hoenen and Kostova (2015, p. 106) summarize: "Since past research has typically focused on isolated HQ–Sub [headquarters-subsidiary] dyads, this condition of nestedness is not yet well understood. There is little research on the interconnectedness and interplay between individual dyads that are jointly embedded in the larger organizational architecture […]."

Nevertheless, it should be acknowledged, that there are viable reasons for a simplified view of the headquarters-subunit relationship. Holistic research on headquarters-subunit relationships in MNCs is very wide in scope, needs to capture a variety of different topics and thus implies complex analyses. Regarding the headquarters-subunit relationship in an isolated and artificial manner (generalizing and thereby simplifying it) then creates an experimental setting, which offers the opportunity to control for a variety of influencing factors (e.g. different subunit contexts, roles) and

examine one specific factor in detail, e.g. formal controls (Martinez & Jarillo, 1989), social controls (Ambos & Reitsperger, 2004), knowledge transfer (Asakawa & Lehrer, 2003). Consequently, creating a sterilized environment for the analysis enables scholars to ensure a clear focus in their studies without risking the results or their line of argumentation to be biased.

In addition, a simplified view of the headquarters-subunit relationship and an aggregated view of both "headquarters" and "subunits" may be suitable and justifiable when examining organizational-level phenomena as well as standardized processes and operations, where a specification of the individual units or even teams and employees within these units are not necessary for the discussion of the phenomenon. In this respect, some aspects do not call for more detailed analysis on individual unit-levels, as they universally apply organization-wide. Such organizational aspects are, e.g. knowledge and innovation flows (Asakawa & Lehrer, 2003), parenting strategies (Campbell et al., 1995, Goold, 1996, Goold et al., 1994) or subunit mandates (Birkinshaw, 1996).

However, I argue that a holistic understanding of the headquarters-subunit relationship within a MNC will not be possible without acknowledging the existence of multiple headquarters-subunit relationships and their interrelations, thus allowing for more fine-grained analyses.

1.1.3. Shortcoming 3: Neglect of dyad perspective in the headquarters-subunit relationship

Yu et al. (2009, p. 142) acknowledge that "[…] there is an apparent disconnect between what headquarters might want and how subsidiaries actually act". In line with this statement, another shortcoming in the headquarters-subunit literature centers on the neglect of the dyad perspectives in the headquarters-subunit relationship. Past research in this field takes on either the headquarters or subunit perspective and thus provides a one-sided view on certain topics concerning the headquarters-subunit relationship. Parenting literature analyzes the parenting relationship between headquarters and subunits purely from a headquarters perspective, discussing the capabilities and roles that headquarters can and should assume to manage their subunits (Campbell et al., 1995, 1995, Goold, 1996, Goold & Campbell, 2002, Goold et al., 1994). On the contrary, a literature stream concerned with subunit roles, mandates and charters largely views the headquarters-subunit relationship from a subunit perspective, sometimes putting the needs of subunits ahead those of headquarters (Birkinshaw, 2014, Birkinshaw & Hood, 1998, Birkinshaw et al., 2005, Bouquet & Birkinshaw, 2008).

Most studies in the headquarters-subunit literature rely on respondents' perceptions, hence subjective measures collected via questionnaires (Chini et al., 2005). However, the subjective perceptions of one party in a relationship do not necessarily reflect those of the other party (Luo, 2007). Especially perceptions between headquarters and subunits are likely to diverge due to different contexts and sets of experiences (Birkinshaw et al., 2000). Therefore, it is important to account for both perspectives in the headquarters-subunit dyad to avoid biased results and be able to identify differences in perceptions and needs. Rather than following the common saying "one size fits all", it is essential to acknowledge that both parties may need different solutions for problems within the headquarters-subunit relationship. As Arvidsson (1999), Asakawa (2001), Birkinshaw et al. (2000), Chini et al. (2005) found out in their studies, perception gaps between headquarters and subunits have detrimental effects on the organization; ultimately leading to a decreased performance. The cause for these perception gaps may lie in (1) in different sets of experiences of both headquarters and subunits with respect to the availability and interpretation of information (2) a suboptimal information flow or (3) subunits' increasing independence from headquarters (Chini et al., 2005). As these studies show, it is important to account for the dyadic relationship and the perspective of both parties when analyzing the headquarters-subunit relationship. Some scholars have even addressed this shortcoming as a limitation of their studies (Birkinshaw & Morrison, 1995) and others have picked up on this call in recent years (Nell et al., 2011). However, there is the undeniable need for more studies that take into account both the headquarters and subunit perspective in their analysis.

1.2. Theoretical foundation

The aim of this dissertation is to advance current research on MNCs within the field of international business. I address the two pertinent challenges of MNCs, which reside in a MNC's organizational structure and the management of that structure including the coordination of headquarters-subunit relationships. The guiding question that this work aims to provide an answer to is: *How to best structure and coordinate a MNC*? This question has been central to the MNC literature since the time of its emergence. Scholars have provided answers to it based on a variety of different theoretical perspectives. Addressing the three shortcomings presented in the previous section and tying in with recent debates in these fields, the three studies in this dissertation are based on a selected number of theories and research perspectives. In the following I will briefly discuss them along the lines of the three studies presented in this dissertation.

The first study is designed as a book chapter addressing the topic of how to best structure a MNC, thereby pertaining to the first shortcoming of achieving a more integrated view of in- and external research perspectives. It comprises a review of the basic concepts and perspectives on the phenomenon of regionalization as well as a conceptual part that discusses two different literature streams that explain the regional orientation and organization of MNCs, one arguing on the basis of regional scope, the other based on regional structures.

The second study of this dissertation addresses both the shortcoming on accounting for heterogeneities and interdependencies within the MNC as well as the neglect of the dyad perspective in this relationships. More specifically, it investigates whether social comparisons among subunits, invoking feelings of envy, have a negative effect on subunits' implementation of headquarters' directives. Further, the study explores whether the change of the comparison frame, i.e. by means of organizational socialization, has an alleviating effect on this supposedly negative relationship. The theoretical basis for this study is social comparison theory as well as social identity theory.

Social comparison theory centers on the assumption that individuals intuitively compare themselves to similar others (Festinger, 1954). The results of these comparisons can be both positive and negative for an individual depending on whether he/she feels to be better off or not. While positive outcomes were proven to lead to beneficial organizational effects and work attitudes such as commitment and trust (Wayne et al., 2002) or increased work performance (Weaver & Conlon, 2003), negative outcomes may provoke feelings of envy (Ben-Ze'ev, 1992, Nickerson & Zenger, 2008). Envy is then known to have negative effects on the organization such as leaving the organization (Festinger, 1954), reduction of effort (Adams, 1963), compromising and sabotaging others' outcomes and rewards (Cropanzano et al., 2003, Pruitt & Kimmel, 1977). While social comparison theory is an individual-level theory, implying social comparisons to take place among individuals, I use it as a theoretical base to explain how differences in resource distribution between subunits may lead to feelings of envy among them and thereby provoke subunits' negative attitude towards headquarters and reduced willingness to implement headquarters' directives.

In addition, social identity theory is used to argue for the possible shift in comparison frames to counter negative social comparisons. Social identity theory proclaims that every individual has a social identity as they tend to categorize themselves into so-called social units, with which he or she identifies (Brewer, 1991). Individuals view themselves as an exemplar of a particular group (Turner et al., 1987).

Following the line of thought – that individuals compare themselves to their peers (individuals that share their social identity) – the application of social identity theory in the headquarters-subunit context offers considerable explanation for the thought that lifting the comparison frame to a higher level within the organizational hierarchy through socialization renders lower level comparisons less important.

The third study of this dissertation further explores the relationship between headquarters and subunits in MNCs, addressing all three shortcomings identified before. In this respect the study answers the need for accounting for heterogeneities in the headquarters-subunit relationships and interdependencies among them as well as dyadic research to incorporate both headquarters' and subunits' perspectives in the theoretical and empirical analysis. Essentially, the study investigates whether justice perception gaps between headquarters and subunits have a negative effect on subunits' willingness to implement headquarters' directives. Further, it explores culture as a potential cause for the formation of perception gaps, thereby addressing the first shortcoming to further integrate in- and external perspectives.

The main argument of the study is based on perception gap literature. Perception gap literature argues that divergences in perceptions among two parties, and in the MNC setting between headquarters and subunits negatively affect the relationship between the two and thus incur negative organizational outcomes (cf. Arvidsson, 1999, Asakawa, 2001, Birkinshaw et al., 2000, Chini et al., 2005, Hauptmann & Kunisch, 2017). Second, this study builds upon justice theory in investigating whether perception gaps on selected justice dimensions negatively affect subunits' willingness to implement headquarters' directives. Following the principles of organizational justice, as coined by Greenberg (1987), perceived justice in organizations exists across four justice dimensions and contributes to positive organizational outcomes. Integrating both insights from the perception gap literature and justice theory, this study shows significant potential for complementation. Third, it draws on the concept of culture in exploring differences in subunits' cultural context as a reason for different justice attitudes and patterns in perception gaps, thereby addressing the shortcoming of combining in- and external factors in headquarters-subunit research.

1.3. Terminology

In order to achieve a common understanding of the most important terms used throughout this dissertation, I will briefly discuss their definitions. The most important terms that will be used in the three studies are the headquarters-subunit relationship as well as regionalization.

Headquarters-subunit relationship: The headquarters-subunit relationship is the relationship between the headquarters of an organization and its individual subunits. In order to understand the character of this relationship, it is first important to reach a common understanding of the terms "headquarters" and "subunits". The idea of corporate headquarters is related to Chandler's (1962, 1991) early work which conceptualizes the multi-business firm as consisting of a headquarters, which carries out a distinct set of activities and separate autonomous units. As such, headquarters are salient from their subunits, their roles and size, however, vary significantly across firms (cf. Collis et al., 2007, Kunisch et al., 2015). Furthermore, depending on the nature and size of the organization, different forms of headquarters may exist. These are foremost the corporate headquarters (Collis et al., 2007, Kunisch et al., 2015), regional headquarters (Lasserre, 1996) or regional management centres (Enright, 2005, 2005), divisional headquarters (Benito et al., 2011) and business unit headquarters (Birkinshaw et al., 2006), where the latter three describe a middle-level headquarters organization whose span of control is limited either geographically or functionally. The simple term "headquarters" thus collectively refers to these three different types of headquarters. In general, corporate headquarters have two roles to fulfill, the entrepreneurial (value-adding) or administrative (loss-preventing) role (Kunisch et al., 2015) vis-à-vis their subunits. Hungenberg (1993) adds to that in presenting two ways for corporate headquarters to add value, first, to define the business portfolio and second to coordinate the businesses.

Subunits, on the other hand, are understood as "relatively autonomous and discrete operating units" (Collis et al., 2007, p. 383) often located in a different country than the corporate headquarters. Birkinshaw and Hood (1998) understand the term subunit as to refer either to a single unit within a host country or the collective of multiple units within a host country. These country subunits might then again reflect the structure of the multi-business firm, having a country or subunit headquarters coordinating a number of relatively autonomous units within that country, so called host-country headquarters (Ma & Delios, 2010).

Following from this brief overview, the headquarters-subunit relationship is the relationship that any form of headquarters has with the relatively autonomous operating units – subunits – within its scope of action. Effectively managing this relationship has developed as one of the main challenges for MNC managers and is as such characterized by an interdependence between headquarters and subunits, which requires subunit integration (Roth & Nigh, 1992). The two main mechanisms for integration were then identified as coordination and control (Cray, 1984).

Regionalization: Regionalization is a term that is understood in multiple ways. From an economic perspective, regionalization refers to a regional concentration of trade activities, often facilitated through regional trade agreements (RTA) (Sazanami, 1997). In a recent study by Chakravarty et al. (2017), the term regionalization is used as an umbrella term to refer to organizational phenomena concerning both regional strategies and regional structures. Examples of these are regional organizational structures, e.g. regional headquarters (Lasserre, 1996) or regional management centres (Enright, 2005, 2005), regional management mandates (Chakravarty et al., 2017) or a regionally limited scope of operations (Rugman & Verbeke, 2005). Following Ambos and Schlegelmilch (2010), a regionalization strategy is employed by MNCs to deal with their complexity and diversity. For this dissertation and in view of the first study of this doctoral thesis on regionalization, I follow Chakravarty et al. (2017) in their approach to use regionalization as an umbrella term. Required specification will then be presented within the first study itself.

1.4. Research approach

In order to fit the requirements and objective of the three individual studies in this dissertation, I chose different research approaches and empirical settings. For the first study, which is designed as a book chapter and thus comprises both a literature review and as well as conceptual discussion part, I applied a keyword search in the main scholarly databases (e.g. EBSCO, ISI Web of Knowledge, Google Scholar). I then manually selected the sources previously identified by my online search depending on their fit with the overall topic.

For the second study in this dissertation I employed a one-firm design empirical setting. As this study is concerned with exploring both the relationship between headquarters and subunits as well as among subunits, it is of utmost importance to cover all organizational units. The single firm used in this study is a large Swiss insurance corporation with subunits located in six European countries, where one of them is located in the same country as headquarters. The company reported revenues of US$ 7.7 bn in 2012. The data was collected via an online survey, with two different types of questionnaires, one to capture the headquarters' perspective, the other to capture the subunits' perspective. The two surveys were conducted in four parallel surveys from four types of respondents, top management at headquarters and subunits as well as functional management at both headquarters and subunits (see Schulte Steinberg, 2016, for the questionnaire). This setup allowed for the collection of data from the direct counterparts in headquarters and subunits as well as the unambiguous identification of

peer units (see figure 1-2). In sum, respondents from four divisions with 24 internal functions mirrored in headquarters and subunits, respectively, (with 10 exceptions), were selected. This configuration thereby enabled the analysis of both the vertical relationship between headquarters and subunits as well as the horizontal relationship among subunits, capturing the entire organization and its unit, thereby eliminating concerns regarding an internal selection bias. The survey was conducted in March and April 2013 based on the online survey tool Qualtrics™. Due to top management support of the research project, the setup and design of the survey was developed in close cooperation with the sample firm.

For the second study a similar approach regarding the empirical setting was chosen. In view of the objectives of this study, I also selected a single firm design. The empirical setting was a privately-owned, multinational steel processing company. The company is comprised of five business divisions with a total of 60 subunits, located in more than 60 countries worldwide and with a headcount of 2000 employees. For the purpose of this third study, the empirical scope is limited to one of these five business divisions, consisting of 19 subunits, organized in five business units worldwide, covering a wide range of cultural contexts (see figure 1-3).

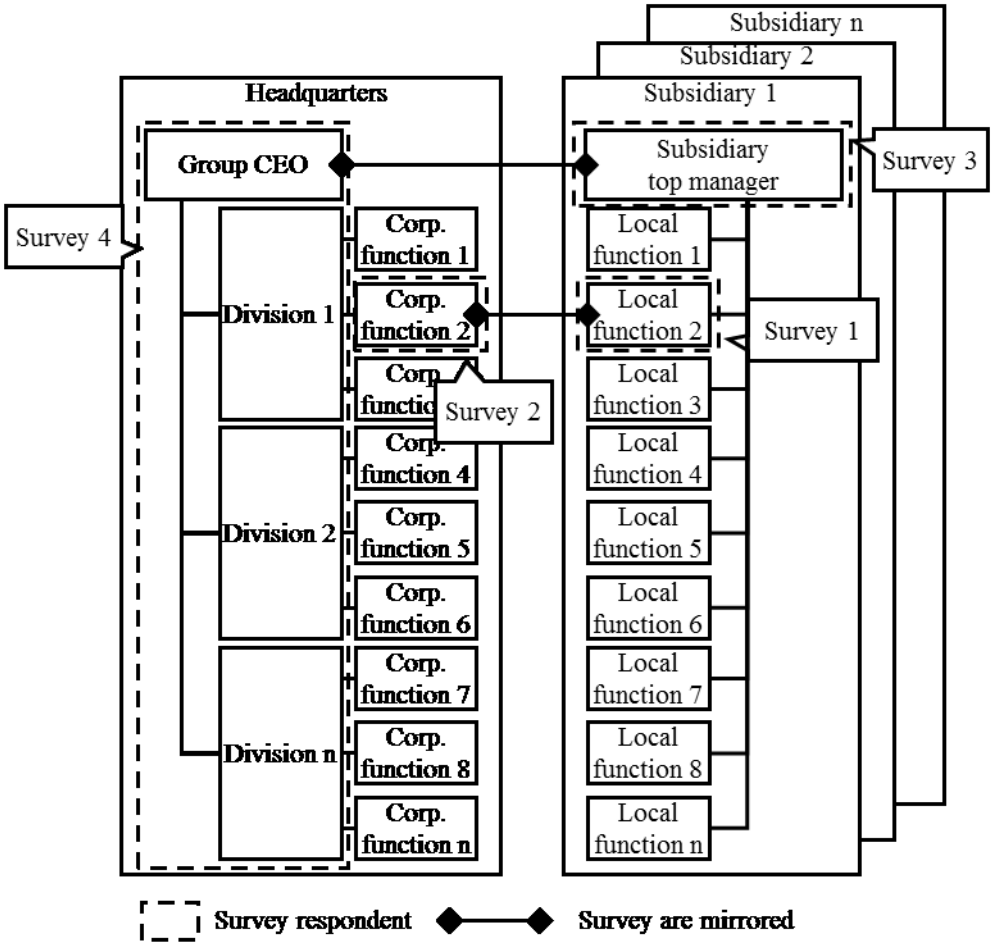

Figure 1-2: Survey setup (Schulte Steinberg, 2016)

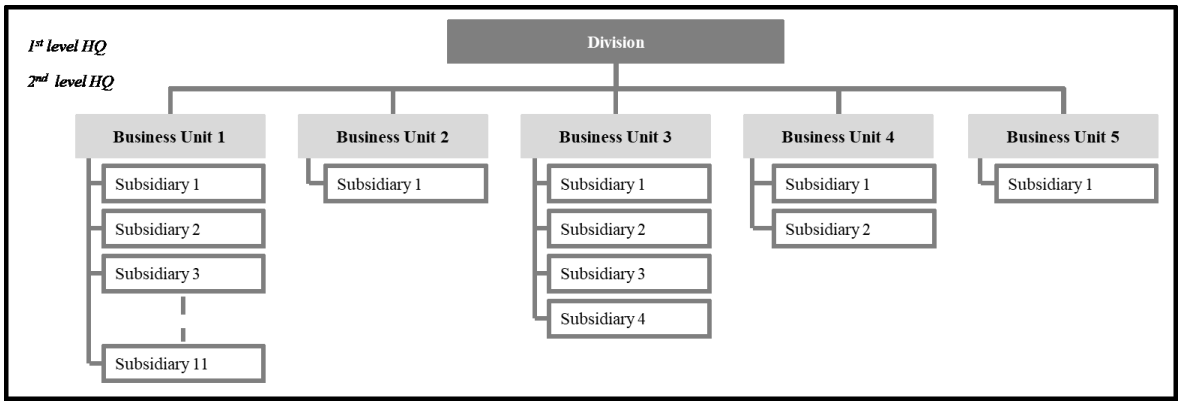

Figure 1-3: Organizational structure of the business division

As the third study comprises two research objectives with a different character, different empirical approaches are required. Therefore, I chose the method of data triangulation, combining different empirical methods to gain more multi-facetted, in-depth results that allow for a proper testing of the hypotheses. Consequently, the study consists of two parts, first, a quantitative analysis of survey data, second an experimental vignette method (EVM) study followed by semi-structured interviews. Secondary data was used for the analysis as exploring the effect of the cultural context required to include the Hofstede cultural index (Hofstede, 2001, 1980). In the following I will briefly explain both parts.

1.4.1. Study part 1

The survey was designed to match the organizational structure of the sample firm. In this setting, the challenge lied in two different levels of headquarters (1st level – divisional headquarters, 2nd level – business unit headquarters) responsible for a different set of functions (divisional functions and business unit functions). These different levels of functional responsibilities stem from the operational difference of the division' five business units. Some functions can be executed in a similar manner across all business units (and corresponding subunits) and some functions are very specific to one business unit. In total, four divisional functions that are led by divisional headquarters and four business unit functions that are led by business unit headquarters exist, all eight being mirrored by the corresponding function on subunit level.

For our survey, the interest lied in measuring the dyadic relationships between these functions, hence seeking responses from both functional heads on the headquarters level (divisional and business unit headquarters) and subunit level. Further, the top management interaction between all hierarchical levels was of interest, thus measuring the dyadic relationships between divisional and business unit headquarters top management as well as business unit headquarters and subunit top management. In figure 1-4, the structure of the survey is illustrated in a simplified manner. In summary, four types of dyadic relationships (two types of top management relationships / two types of functional relationships) were measured, resulting in eight different versions of the questionnaire (one version for each relationship counterpart) (see appendix 4.14. for a sanitized long-version of the questionnaire that was adapted in wording and choice of question to create each type of questionnaire required and match the respective perspectives). The online questionnaires were programmed using the online survey tool Qualtrics™. The setup and content of the questionnaires was developed in close

cooperation and with full consent from the sample firm. Data collection took place in March and April 2016.

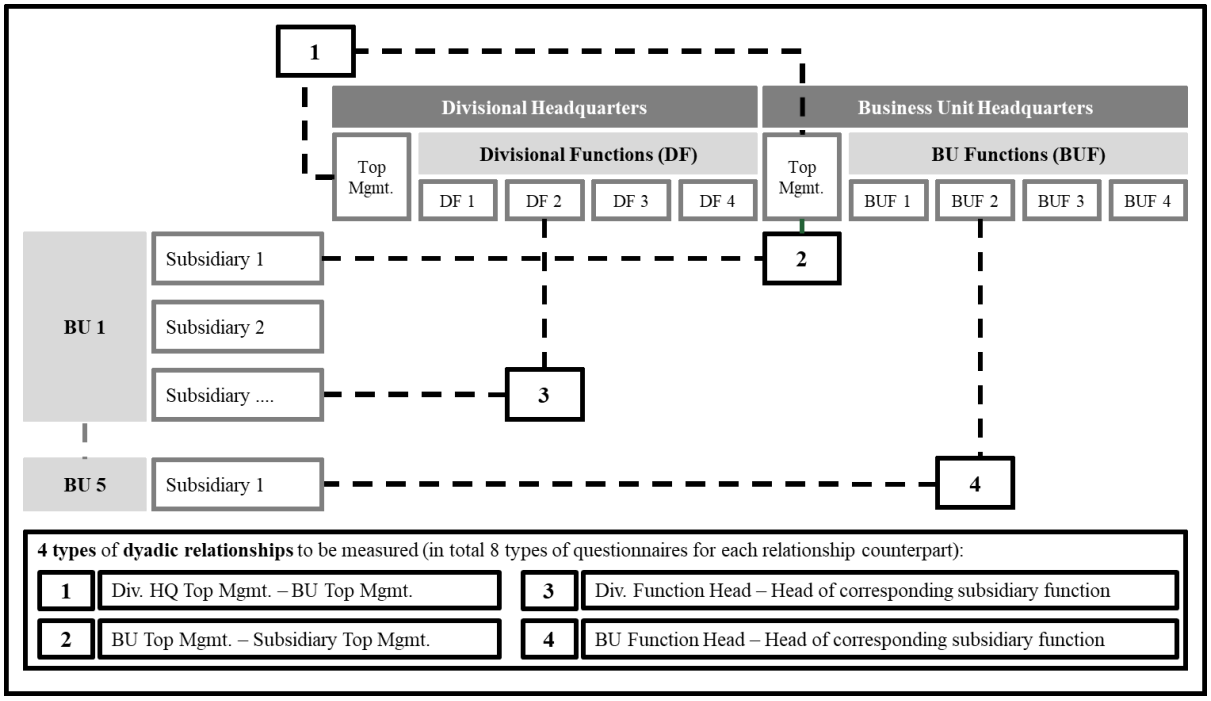

Figure 1-4: Simplified overview of survey setup

1.4.2. Study part 2

The second part of this study consists of an experimental vignette method (EVM) study and consecutive interview study. In order to conduct the EVM study (presenting each interviewee with short vignettes that he/she is asked to respond to) in combination with semi-structured interviews, a careful selection of interviewees was necessary. The Division CEO fully supported the research and allowed to conduct interviews in both headquarters and all subunits. In total, 25 interviews were conducted, 4 at headquarters and 21 at internationally dispersed subunits covering 8 out of 11 cultures as defined by Ronen and Shenkar (2013). Respondents were both top and functional managers to gain insights into different perspectives.

1.5. Structure of the dissertation

This dissertation is structured along the lines of the three studies that aim at answering the guiding question of this thesis. Accordingly, this introductory part which offered an overview about the topic and scope of this doctoral thesis, is followed by the three individual studies (see table 1-1 for a brief overview of the structure of this dissertation including additional information on each study). Thereafter, a final chapter will discuss the findings and contribution of all three studies and provide a final conclusion.

<table>
<tr><td colspan="2">Chapter 1: Introduction</td></tr>
<tr><td colspan="2">Chapter 2: European Business Research in Perspective: The focus of regionalization in the IB literature</td></tr>
<tr><td>Authors
Nina Zobel
Björn Ambos

Publication status
Conditional accept - revised and resubmitted

Publication outlet
Book: Routledge Companion to European Business , Publisher: Routledge</td><td>Abstract:
The phenomenon of the regionalization of multinational corporations (MNC) has been a prominent topic in the International Business (IB) literature for the past decades. Two main literature streams evolved that explain why regionalization of MNCs occurs. One stream centers on arguments of limits in a MNC’s scope of operation, the other focuses on arguments of organizational structure, promoting middle hierarchical layers such as regional headquarters. This book chapter reviews the magnitude of regionalization as well as common definitions of a region, before discussing and integrating the two opposing, but complementary literature streams. Representing the most advanced form of regional integration, the region of Europe serves as the exemplary region in this chapter.</td></tr>
<tr><td colspan="2">Chapter 3: The antidote to envy? – The role of socialization in alleviating the negative influence of envy in headquarters-subunit alignment (Study 2) – Earlier versions presented at the EIBA Conference 2016 in Vienna and to be presented at the Strategic Management Conference 2017 in Houston, submitted to ANZIBA Annual Conference 2018 in Brisbane</td></tr>
<tr><td>Authors
Nina Zobel
Phillip C. Nell
Björn Ambos
Sven Kunisch

Publication status
In preparation for submission

Publication outlet
Strategic Management Journal</td><td>Abstract:
In this paper we build on social comparison theory to investigate the role of lateral social comparisons among subunits on corporate practice implementation. Based on an analysis of 112 lateral subunit comparisons within one multinational corporation, our findings show that negative lateral comparisons evoke peer unit envy and subsequently lead to decreased corporate practice implementation by subunits. Further, we find that lifting a subunit’s frame of comparison to the organizational unit level, i.e. through increased levels of organizational socialization, aggravates rather than alleviates the negative effect of envy on implementation. These results counter the predictions of social identity theory. Raising subunits’ frame of comparison to the organizational level does not render peer unit comparisons less important. Rather, it further intensifies the importance of lateral comparisons in headquarters-subunit alignment.</td></tr>
<tr><td colspan="2">Chapter 4: Perception Gaps in the Headquarters-Subunit Relationship – Are Divergences in Justice Perceptions Culture-Bound? (Study 3) – Earlier versions presented at the Strategic Management Special Conference 2016 in Hong Kong, accepted to the EIBA Conference 2017 in Milan</td></tr>
<tr><td>Authors</td><td>Abstract:</td></tr>
</table>

Nina Zobel **Publication status** In preparation for submission **Publication outlet** Organization Science	Based on a multi-method study in a one-firm setting, we investigate the impact of justice perception gaps on headquarters-subunit alignment. Using questionnaire data we show that justice perception gaps between headquarters and subunits exist across different justice dimensions and negatively affect subunits' corporate practice implementation. Further investigating the cause for these justice perception gaps in an exploratory Experimental Vignette Method (EVM) and interview study, we find that culture does not induce justice preferences and patterns in perception gaps. Rather, justice perception gaps are formed independent of subunits' cultural context. This insight contradicts justice literature which links cultural preferences to justice perceptions.
Chapter 5: Discussion and Conclusion	

Table 1-1 Overview of dissertation

2. European Business Research in Perspective: The Focus of Regionalization in the IB literature

Nina Zobel
University of St. Gallen

Björn Ambos
University of St. Gallen

2.1. Introduction

Globalization has been a key topic in recent decades with many scholars, politicians and economists predicting that the world would become increasingly integrated on a global basis (cf. Economist, 1997, Friedman, 2005, Ghemawat, 2005). Nonetheless, a renewed interest in the phenomenon of regionalization and increasing scepticism about globalization can be observed in the international business (IB) literature (cf. Dunning et al., 2007, Rugman & Hodgetts, 2001). In fact, the world is not as global as previously believed. For example, many multinational corporations (MNCs) operate regionally rather than globally. Prominent studies by Alan Rugman and his peers (cf. Dunning et al., 2007, Flores & Aguilera, 2007, Rugman & Hodgetts, 2001, Rugman & Verbeke, 2004) largely build on the argument that firms' operations are not scalable beyond regional boundaries. These studies show that MNCs manage their businesses regionally. For example, more than 70% of large European MNCs' sales and assets are concentrated in Europe (Oh & Rugman, 2012). Other scholars, who postulate that MNCs seek a form of "semi-globalization" (Ghemawat, 2003), propose an intermediate version of MNCs' global integration in which global and national strategic advantages are balanced (Yip, 1989). Consequently, the call for more research into the more common type of MNCs – home-region-oriented MNCs – has become louder (Sammartino & Osegowitsch, 2013).

At the same time, the topic of organizational structures and management has become popular as a potential means for firms to cope with the complexities of global business. Organizational mid-layers, such as regional headquarters (RHQ) (Lasserre, 1996, Nell et al., 2011) or regional management centres (Enright, 2005), have been proposed as a better way to manage units in host regions. Regional management allows for the development of regional strategies (Schütte, 1997), helps in the sensing of local business opportunities and innovation (Hoenen et al., 2014), and reduces management

complexity by dividing authority between MNCs' headquarters and their subsidiaries (Paik & Sohn, 2004).

These two literature streams address the issue of *why regionalization occurs*. The first stream argues that MNCs are region-bound due to the limited scalability of their operations, while the second regards regional management as a way to better manage a global organization. While the two streams have been kept separate thus far, we draw on corporate strategy literature to argue that they are linked. We show that the tendency to regionalize reflects the interplay between the boundaries of a firm's scope and its capabilities to manage it. As Europe – especially the European Union (EU) – represents one of the most advanced forms of integration of regional organisations (Johnson & Turner, 2006, p. 60), we use it as an exemplary region in this chapter.

2.2. A corporate strategy perspective on regionalization

GOrganizations constantly face corporate-level issues, which can be grouped into the categories of scope and value creation (Johnson et al., 2008). On the one hand, firms need to decide which products to sell and where to sell them. On the other hand, they need to determine how to create maximum value, which parenting role to assume and how to manage their business portfolios. Issues of scope pertain to a firm's products and its international diversity. Issues of value creation are concerned with the role of headquarters and the management of dispersed business operations, which are essentially questions of organizational structure. Consequently, a regional focus among MNCs can be motivated by two factors – scope and structure. The former refers to what and where to sell, while the latter pertains to value creation through organizational structure (figure 2-1).

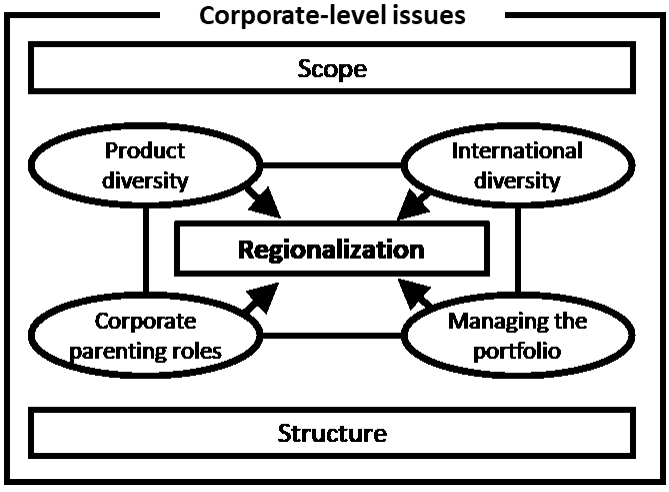

Figure 2-1: Framework coporate-level issues (adapted from Johnson et al. (2008)

Figure 2-1 summarizes the two distinct but complementary streams of literature that have evolved around regionalization. The first is concerned with MNCs *operating* regionally and the second focuses on MNCs *organizing* regionally. As such, the first stream touches on the question of scope and analyzes MNCs' tendencies to regionally limit their operations. The second stream

centres on the question of structure and focuses on organizational mid-layers, such as RHQs, as additional regionally-focused management and control bodies.

2.3. The magnitude of regionalization

Scholars have long shown an interest in the magnitude of globalization and regionalization, and the scope of MNCs' operations. Ohmae (1987, p. 17) postulated that global competition occurred in a tetrahedral world in which 85% to 90% of all value-added, high-technology products were manufactured and consumed in only three regions – the United States, Europe and Japan. Michalak and Gibb (1997, p. 266) research supported these results and showed that intra-regional trade accounted for 38% of merchandise imports and exports, while inter-regional trade represented only 10%. Rugman and Hodgetts (2001) study of trade data from 1997 also provided strong evidence for triad-shaped world trade. Rugman (2005, p. 11) further revealed that 84.2% of firms in his sample made more than half of their sales in their home region of the triad (Europe, North America, Asia). As such, Rugman (2005) was the first to provide evidence of MNCs' home-region orientation and to illustrate the limits of the scalability of a firm's operations and, thereby, its scope. Only 6.6% of the companies in his sample generated less than 50% of sales in their home region and at least 20% in two regions (including the home region), which made them bi-regional (Rugman, 2005, p. 12-13). The author characterized only nine of these firms as truly global, thereby refuting the prominent assumption that MNCs generally operate on a global basis. In general, firms prefer to internationalize within their home regions before moving into new territories (UNCTAD, 2007). Firms' assets also show patterns of regionalization as around 80% of MNCs' assets are deployed in their home region (Rugman & Oh, 2012, Rugman & Verbeke, 2008), confirming that most MNCs are not global but regional in scope. Large European MNCs are mostly home-regional, as less than 30% of their sales and assets are outside Europe (Oh & Rugman, 2012, p. 495). Syed and Colleen (2011) highlighted an increasing trend toward regionalization and reported a significant increase in intra-regional trade (e.g. intra-European trade increased from 51% in 1970 to 59% in 2006).

Banalieva and Dhanaraj (2013) went in a different direction. These authors analyzed which MNCs were the most prone to being home-region-oriented, and found that European MNCs were more home-region-oriented than MNCs from the US or Japan. The authors suggested that this finding was the result of comparably low institutional diversity in Europe, which can be attributed to the presence of the European Union – the most advanced system of regional integration in the world (Blevins et al., 2016).

All of these studies aim to improve our understanding of MNC scope, which is a key issue in strategy research (Johnson et al., 2008). Whether there is a relationship between multinationality and performance has been intensively discussed (Cardinal et al., 2011), but the results are inconclusive (Verbeke & Forootan, 2012). A variety of multinationality-performance relationships, including positive, negative, curvilinear, S-shaped, M-shaped and W-shaped relationships, have been proposed (Powell, 2014). Despite their divergence, all of these studies view multinationality as a continuum ranging from no multinationality to global coverage, thereby ignoring limits to multinationality arising from regional confines. The scope literature on regionalization opposes this view, as it regards multinationality as a set of stages in which each stage relates to a certain region. Essentially, a firm's spread is argued to be region-bound and its scope is limited by regional boundaries.

2.4. What defines a region?

A region is as a collective term referring to neighbouring countries or markets. As such, a regional orientation reflects a firm's deliberate choice to enter close, attractive markets in order to strengthen its competitive position (Sammartino & Osegowitsch, 2013). Regional clusters draw homogeneous countries closer together (Schlie & Yip, 2000). The meaning of the term "closer" depends on the chosen distance dimension(s): geographical, administrative, economic and cultural (Ghemawat, 2001). A region combines markets with low distance among them (Sammartino & Osegowitsch, 2013) based on one or more distance dimensions.

Aguilera et al. (2007, p. 8-9) argue that "physical immediacy is a precondition for a sense of unity or shared properties". The most prominent geography-based regional classification pattern is the triad-concept introduced by Ohmae (1985), which was initially composed of the United States, Europe and Japan, and later extended to a "broad triad" including North America, Europe and Asia Pacific (Rugman & Oh, 2012). Time zones are another aspect of geographical distance often used by firms to efficiently organize their operations (e.g. facilitate correspondence (Nan et al., 2009) or allow for closer monitoring (Elango, 2004)). Regional classification patterns that minimize administrative and economic distance are often manifested in regional trade agreements (RTA) (e.g. EU, NAFTA, ASEAN) (Fratianni & Oh, 2009) that minimize institutional diversity. Notably, MNCs strive for maximum uniformity in their institutional environments (Banalieva & Dhanaraj, 2013) in order to facilitate administrative work, increase efficiency, support regional scalability and simplify organizational control. Along these lines, RTAs lead to the formation of regional economic areas that bring

about economic proximity, tax and familiarity benefits; reduce tariff and non-tariff barriers; and facilitate governmental and business coordination (Hejazi, 2007). This regional focus, or regionalism (Suder, 2015), often gives rise to a trade bias for RTA-based regions (Fratianni & Oh, 2009). It is important to remark, however, that RTAs do not necessarily require geographic proximity (Suder, 2015), although that is often the case. Rather, an alignment in institutional matters is the key focus of RTAs, which allows them to span large geographical distances and facilitate trade among geographically-distant countries (Suder, 2015). The EU, which is the most far-reaching attempt at regional integration of independent nations in modern times, includes economic, social and political elements (Kolk et al., 2013). The EU not only encompasses a common European market, including uniform tariffs and trade regulations, but also a common governmental body (the European Commission), a political agenda and a common currency (at least in part) (Blevins et al., 2016), which further reduce perceived distance (Verbeke & Asmussen, 2016).

Cultural clusters that minimize (perceived) cultural distances are another way to define a region (Banalieva & Dhanaraj, 2013). They often share the same or similar languages as language is an antecedent of national culture (Ronen & Shenkar, 2013). Dunning et al. (2007) confirmed the existence of culturally-induced regions in a study on foreign direct investment.

2.4.1. Interaction of distance dimensions

There is little agreement on what determines a region or how it can best be operationalized (Dunning et al., 2007). We understand "region" as a spatial concept that combines proximate markets in terms of geographical, administrative, economic or cultural distance, where geography is the most prominent determinant (Banalieva & Dhanaraj, 2013). When they decide on their region(s) of operation, firms choose their spatial scope and a corresponding set of boundary conditions (Verbeke & Asmussen, 2016). Therefore, the perceived compound distance across distance dimensions within the region is lower than the distance to any area outside the region's border. In other words, a region's "outsiders" are characterized by a greater distance relative to a region's "insiders" (Verbeke & Asmussen, 2016). On the basis of salience theory, which suggests that the choice of a subject or referent partly depends on the relative salience of the objects (Tversky, 1977), we challenge this view. Salience theory predicts firms to choose their regions of operations based on a few firm-specific requirements that are salient compared to others. This argument is supported by distinctiveness theory, which asserts that individuals focus on aspects that are more peculiar than others (McGuire &

Padawer-Singer, 1976). The degree of peculiarity then influences the relative importance of certain features (Mehra et al., 1998).

Observing firms with operations in Europe, this idea is confirmed. European-based MNCs are seen as the strongest inter-organizational regional networks (Cantwell & Janne, 1999). They prefer to internationalize their R&D activities in this region due to its attractiveness in terms of knowledge base, industry-specific and cluster-based spillovers, and technological specialisation (Cantwell & Piscitello, 2002). Cantwell and Piscitello (2002) assert an increased regional focus based on technological advancement. Along these lines, due to a favourable regulatory framework within the EU, automobile supply chains are clustered intra-regionally (Rugman & Oh, 2012). Service activities are also more local than global (Rugman & Oh, 2012) and are likely to be clustered regionally. Within Europe, service firms tend to group their operations according to language. For example, Bain & Company, in parts, internally combines the markets of Austria, Germany and Switzerland, which all share German as the dominant language. In such situations, a common language appears as the most salient factor for setting operational boundaries.

In this respect, changes in the regulatory environment and language barriers appear to be natural fault lines that induce the splitting of groups (Lau & Murnighan, 2005). In other words, one or more distinguishing factors align in their uniqueness and form distinct schisms (Li & Hambrick, 2005) that then determine the boundaries of a subgroup. Therefore, while the European continent itself offers a natural regional definition, firms select certain factors that they find most salient given their needs and then determine their operational space accordingly. Thus, regional fault lines depend on the characteristics of an individual firm and its operational requirements (e.g. technological know-how, regulatory environment, common language). Rather than being determined by firms, a region can be seen as an induced "space" limited by schisms in the proximity of firm-specific, salient, regional denominators. These denominators form the same regional outer boundary. Therefore, regions do not always form based on a single factor, but can be the result of the interplay among similar specificities and a number of factors.

2.5. Why does regionalization occur?

MNCs are encouraged to "design strategies and adopt structures that focus on markets close to their countries-of-origin" (Goerzen & Asmussen, 2007, p. 66). Although MNCs often do so, they may also operate in host regions. In the European region, it is important to distinguish between European home-region MNCs and

European host-region MNCs. Given that firms face corporate-level issues that are concerned with either the firm's scope (i.e. strategy) or structure (figure 2-1), we aim to explain why many firms confine their operations to Europe or smaller regions therein.

2.5.1. Scope

In their commentary on Alan Rugman's theory of the regional multinational, Oh and Li (2015) summarize that Rugman describes the regional multinational as an organization whose business activities are mainly limited to the home region. A MNC's competitive advantage is based on a combination of firm- and country-specific advantages unique to a country (Rugman et al., 2012). The majority of companies follow regional strategies and remain in their home regions (Filippaios & Rama, 2008), where they build on (home-) region-specific advantages (Lee & Rugman, 2012, Suder, 2015), such as (a combination of) location-bound firm-specific advantages (Rugman et al., 2012) and country-specific advantages that are similar among countries within the region. This results in a home-region bias (Rugman & Oh, 2012) or home-region effect (Oh & Rugman, 2007), which pertain to the MNC's strength, especially in the home region. In Europe, this effect has been termed "Europeanization", which implies a regional economic concentration in Europe and refers to the rise of firms that operate on a truly European basis, such as EADS (European Aeronautics, Defence and Space). These firms build their competitive advantage on the region's characteristics and capabilities (Suder, 2011).

Consequently, a decision to expand into another region would be based on the combination of extant resources with host-country (Verbeke & Asmussen, 2016) or host-region resources. As Osegowitsch and Sammartino (2007, p. 46) note, "in an age of purported globalization, many of the world's largest firms appear to have barely ventured beyond the confines of their home region". Verbeke and Asmussen (2016) argue that a company's regional focus is largely induced by significant, noticeable discontinuities at the regional boundaries. Intra-regional distance is generally perceived as lower than inter-regional distance, and anything outside a region entails a "spike" in distance (Rugman et al., 2011). The firm's spatial scope, as marked by its regional boundaries, determines its barriers to resource combination. This implies that the deployment of firm-specific advantages is facilitated in markets located within a region.

A firm's adherence to a region is further supported by the liability of foreignness (Zaheer, 1995) that firms face outside their home region due to a lack of local knowledge, which represents a competitive disadvantage. The liability of foreignness increases as the perceived distance between markets increases. As such, it is higher

outside a region's boundaries. This is also termed the "liability of regional foreignness" (Rugman & Verbeke, 2007).

As such, a MNC's geographical scope is determined by its ability to redeploy its firm-specific advantages and link them to location-specific advantages in another country, where the benefits should outweigh the costs of redeployment associated with local adaptation (Rugman & Verbeke, 2005). MNCs can avoid these costs by simply sticking to their home region (Li, 2005). Therefore, regionalisation is essentially selectivity in internationalization (Rugman & Verbeke, 2005), and aims to achieve a balance between the scalability and efficiency of a firm's operations.

One topic that ties in with this view are global value chains (GVCs), which organize value-chain activities in such a way that a MNC's location and transaction costs are reduced. In other words, although these MNCs focus on their region, they source internationally outside their home region (Hernández & Pedersen, 2017). GVCs thus allow firms to operate within their regional boundaries while benefiting from the advantages of sourcing globally. GVC-based firms build on their region-specific advantages. According to Buckley (2016), MNCs within a GVC or "global factory" are part of a network of independent and interconnected firms that contributes to a context of trust and power within a volatile environment. This can most likely be attributed to the MNCs' regional specialization and uncontested regional dominance within the GVC.

In summary, this literature stream builds on the idea that MNCs strive for "regional embeddedness" in which business operations are managed and organized on a regional basis in order to capture economies of regionalization (Yeung et al., 2001). In this regard, Europe is seen as one of the three regional building blocks in which production is concentrated (Baldwin & Lopez-Gonzalez, 2013). For example, in the Netherlands, 55% of outsourcing is domestic and 34% is from within the EU, while only 11% is from global markets (Rugman et al., 2009, p. 388).

2.5.2. Structure

The second stream explaining the phenomenon of regionalization bases its arguments on aspects of organizational structure. Structure-related corporate-level issues include decisions regarding the role of headquarters and how to manage the portfolio of subsidiaries in order to add maximum value to subsidiaries (figure 2-1). The parenting literature suggests that headquarters' main purpose is to add value to the MNC's portfolio of subsidiaries (Nell & Ambos, 2013) – in other words, to settle on a particular parenting strategy (Goold, 1996). Essential to the right parenting strategy is the fit between the parent's characteristics and the subsidiary's parenting needs, as well as the parent's familiarity with the subsidiaries (Goold et al., 1994). A suitable organizational structure is therefore crucial. In this respect, hierarchical structures, especially RHQs, are undergoing a revival (Nell et al., 2011) (e.g. the number of European RHQs increased by 76% from 2000 to 2010 (Ambos & Schlegelmilch, 2010)).

RHQs are relatively autonomous units (Enright, 2005) responsible for managing a firm's operations in a host region (Yeung et al., 2001). As such, RHQs are a phenomenon limited to MNCs' host regions. As intermediaries between headquarters and subsidiaries, RHQs face the constant challenge of responding to both parties. Two main control relationships result – one between headquarters and RHQs and one between RHQs and the regional subsidiaries (see figures 2-2 and 2-3). Thus, an RHQ limits a headquarters' sphere of control by taking on the task of subsidiary oversight.

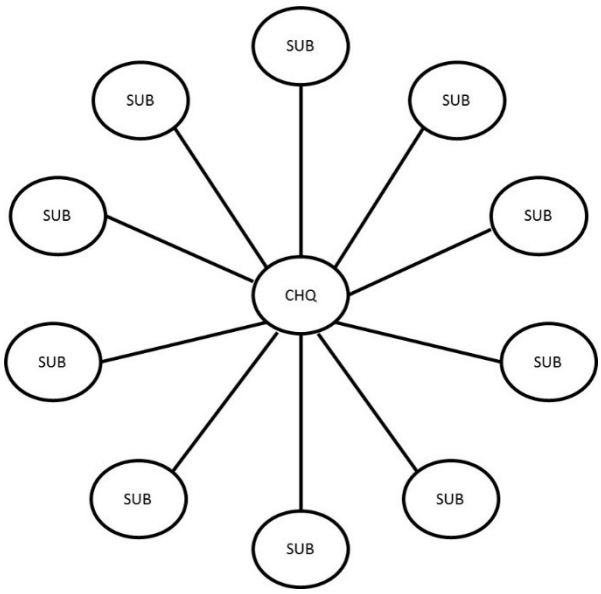

Figure 2-2: MNC without regional structures/RHQs

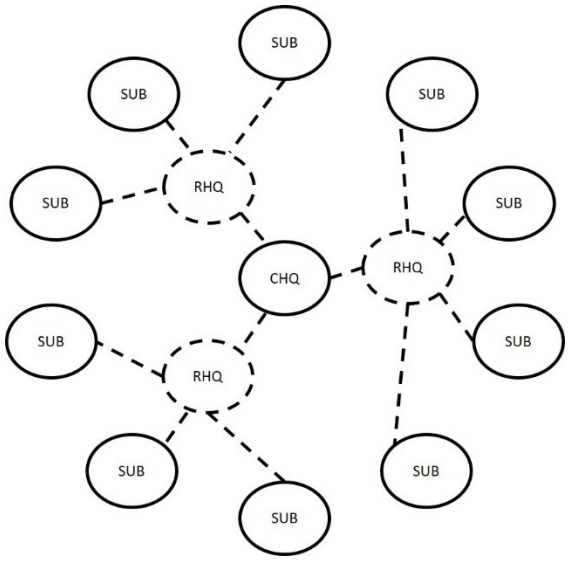

Figure 2-3: MNC with regional structures/RHQs

RHQs are believed to have intra-regional and inter-regional effects. As Yeung et al. (2001) observe, RHQs have a mandate to exercise control over subsidiaries that require local management despite assumed regional market homogeneity. As MNCs

need to simultaneously be locally responsive and globally integrated in order to benefit from global efficiencies (Doz & Prahalad, 1984), management from a distance may be inappropriate. An RHQ is a control unit that manages the subsidiaries in its realm (Yeung et al., 2001), balances the conflicting demands of globalization and localization as an intermediary unit (Paik & Sohn, 2004), and makes simultaneous exploitation possible (Schlie & Yip, 2000). RHQs serve as "two-way conduits of influence" (Kriger & Rich, 1987, p. 45) or "strategic mid-way houses" (Yeung et al., 2001, p. 165) with the purpose of implementing a firm's global strategies on a regional level. Regionalization can thus be seen as " a half-way house that meets these balancing and often conflicting pressures" (Khan, 2010, p. 28).

In Europe, RHQs were introduced by many MNCs to manage operations and carry out headquarters' functions in Central and Eastern Europe (CEE) after the fall of the Iron Curtain (Schuh, 2013). The main benefits of setting up an RHQ in CEE were regional knowledge bundling, adaptation of global strategies to a regional level, headquarters' complexity reduction and synergy creation (Schuh, 2013), as well as RHQs' positive nurturing effect for core competencies (Filippaios & Rama, 2008). RHQs enable MNCs to leverage synergies across countries in a host region (Werth, 2006). Moreover, they serve as a coordinating body for host-region operations that bundles supporting services for subsidiaries, which reduces costs (Mori, 2002). They also support knowledge transfer between headquarters and subsidiaries (Asakawa & Lehrer, 2003). Overall, RHQs are an organizational solution for maximizing the value added to subsidiaries. While headquarters are restricted in their parenting resources, RHQs can execute the headquarters' role on a regional level. As such, they can play an important part in coordinating GVCs with internationally dispersed, but regionally focused value-chain activities that are inherent to a single MNC.

Ghemawat (2005) critically reflects on the role of RHQs and challenges the view that RHQs are the enabling unit in regional strategies. While RHQs can help in the realization of regional strategies, it is far more essential for MNCs to determine how they plan to add value to their subsidiaries in a region. Regional organizational structures may be useful, but a fit between the parent's intention to add value and the roles and capabilities of the RHQ is essential.

In sum, this literature stream views regionalization as motivated by the desire to add maximum value to subsidiaries by means of regional organizational structures. RHQs provide MNCs with a means to limit headquarters' span of control and manage a region from a distance (Yeung et al., 2001). Furthermore, RHQs are host-region bound – they are established because they better understand the local environment (Lasserre,

1996) and, therefore, allow for regional synergy realization. However, as Ghemawat (2005) stresses, RHQs should not necessarily be regarded as the best method for implementing regional strategies. Rather, they are one of several alternatives.

2.6. Discussion – A holistic view on regionalization

MNC regions are defined in terms of regional denominators, such that markets within a region are perceived as closer than markets outside that region. The firm-specific saliency of certain regional denominators is likely to induce fault lines that determine regional boundaries. The formation of regions is explained in two streams of the IB literature centring on arguments of scope and structure. We posit that an integration of not only these two streams, but also other views on what defines a region would help answer the question of why regionalization occurs, and lead to a holistic understanding of the phenomenon of regionalization and its contingencies. We have identified two areas in which we see considerable potential benefits from such an integration.

First, a firm's scope and structure are interrelated. Whether firms regionalize and to which degree is dependent on two main corporate-level issues (see figure 2-1) – decisions regarding scope (i.e. which products to sell where) and decisions regarding structure (i.e. which parenting role to choose and how to manage the portfolio of subsidiaries). Given the principle of "structure follows strategy" (Chandler, 1962, p. 314), the chosen organizational structure (i.e. headquarters' decision on its parenting role/how to manage the portfolio of subsidiaries) must fit the chosen strategy as reflected in the choice of firm scope. Therefore, both perspectives must be taken into account. A firms' regional choice reflects a compromise between the maximum feasible scope from a strategic perspective and the maximum complexity that an organization can handle.

Second, the phenomenon of regionalization is evident in both home and host regions. Even though the majority of MNCs are predominantly oriented towards their home regions, bi-regionally oriented firms do exist (Rugman, 2005). In this respect, an analysis of the phenomenon from both the home- and host-region perspectives is beneficial. Arguments that certain firm-specific advantages do not qualify for redeployment beyond regional confines may also apply to advantages associated with host regions. As in a home region, host-region countries can be assumed to be homogeneous (e.g. the European market as a host region consists of proximate countries on a variety of distance dimensions, such as regulatory environment or geography). When explaining home-region orientation, ignoring host-country scope-related issues in the debate about RHQs or arguments about organizational structure and control can lead

to certain biases. Clearly, both home- and host-region orientations exist. They should therefore be analyzed jointly rather than in isolation.

2.7. Conclusion

In drawing from corporate strategy, this chapter offered a better understanding of the phenomenon of regionalization by discussing and challenging popular perspectives on the topic found in the IB literature. While regionalization seems to be well explained on an abstract level, these explanations leave significant room for clarification. We are forced to acknowledge that the extant research does not offer a clear answer as to why regionalization occurs. Therefore, we call for more research on this topic.

3. The Antidote to Envy? – The Role of Socialization in Alleviating the Negative Influence of Envy in Headquarters-Subunit Alignment

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Abstract

In this paper we build on social comparison theory to investigate the role of lateral social comparisons among subunits on corporate practice implementation. Based on an analysis of 112 lateral subunit comparisons within one multinational corporation, our findings show that negative lateral comparisons evoke peer unit envy and subsequently lead to decreased corporate practice implementation by subunits. Further, we find that lifting a subunit's frame of comparison to the organizational unit level, i.e. through increased levels of organizational socialization, aggravates rather than alleviates the negative effect of envy on implementation. These results counter the predictions of social identity theory. Raising subunits' frame of comparison to the organizational level does not render peer unit comparisons less important. Rather, it further intensifies the importance of lateral comparisons in headquarters-subunit alignment.

Keywords: headquarters-subunit relationship, implementation, social comparison processes, envy, socialization

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3.1. Introduction

The question of how to best align subunits' interests with those of headquarters has been a central topic in headquarters-subunit literature (Kostova et al., 2016). The problem arises as headquarters-subunit relationships can be understood as mixed motive dyads where actors have common goals but where goal conflict also exists (e.g. Ghoshal & Nohria, 1989, Nohria & Ghoshal, 1994). As a result, headquarters need to find ways to align their affiliates' goals to that of the overall firm (Kostova et al., 2016) and ensure them to implement corporate practices (Kostova & Roth, 2002). The traditional emphasis in the literature has been on the means of aligning subunit behavior to ensure corporate practice implementation (cf. Ambos & Reitsperger, 2004, Ghoshal & Nohria, 1989, Gupta & Govindarajan, 1991, 1994, Harzing, 2001, Kim & Mauborgne, 1991, 1993, Martinez & Jarillo, 1989, O'Donnell, 2000). Some scholars looked at the issue from a different angle and specifically investigated the causes for subunits not to implement corporate practices. Reasons for subunits not to implement have been found in i.e. an insufficient adaptation of these practices to the local context of subunits' host country (cf. Collings & Dick, 2011, Jensen & Szulanski, 2004, Kostova & Roth, 2002), the sequence and timing of the practice adaptation (Yu & Zaheer, 2010) or the approach and governance mechanisms chosen to transfer corporate practices (Björkman & Lervik, 2007). Rather than ascribing the non-implementation solely to shortcomings in the vertical headquarters-subunit relationship, we suggest that horizontal and interdependent relationships among subunits also play a role in this matter.

In this paper, we address this topic and apply social comparison theory to shed light on the impact of lateral social comparisons among subunits on their willingness to implement headquarters' directives. Social comparison theory argues that individuals have a natural tendency to engage in social comparisons and compare themselves to similar others (Festinger, 1954). Such comparisons can result in favorable outcomes or negative outcomes often manifested in envy (Ben-Ze'ev, 1992, Nickerson & Zenger, 2008). Similarly, we propose that negative lateral comparisons among subunits negatively affect the implementation of corporate practices within MNCs through evoking peer unit envy.

Building on data from lateral comparisons of 112 subunits in one large European MNC, we find support for the notion that negative lateral comparisons do indeed negatively influence subunits' implementation of corporate practices. Building on social identity theory, we further find that altering a subunit's frame of comparison by means of organizational socialization does not render lateral comparisons among subunits less important. Contrary to common assumptions, our results show that an augmented

comparison framing by means of organizational socialization aggravates rather than alleviates the negative effect of negative lateral comparisons on implementation. This points to an even larger importance of lateral comparisons in case of higher levels of organizational socialization and augmented comparison framings. Our findings bear implications for social comparison theory as well as the socialization and larger headquarters-subunit literature, which traditionally emphasizes the positive effects of socialization on alignment (Brenner & Ambos, 2013).

3.2. Social comparison theory within the MNC

Social comparison is a phenomenon that all individuals intuitively engage in. Social comparison theory suggests that individuals or groups of individuals tend to compare themselves to similar referents or reference groups ("peers") when evaluating how they are treated in specific situations (Festinger, 1954, Goodman, 1974). Similarity with referents is based on a variety of aspects such as e.g. demographics, positions, skills (Crosby, 1976, Festinger, 1954, Kulik & Ambrose, 1992). In an organizational setting, employees are likely to engage in social comparisons to evaluate whether they are being exploited in their social exchange relationship with their employer compared to colleagues in similar positions (Thau et al., 2007). While positive outcomes of social comparisons lead to satisfaction, negative social comparisons point to an exploitation in this exchange relationship and can induce feelings of relative deprivation or envy (Nickerson & Zenger, 2008).

Envy begins by simply asking the question "Why not me?" (Epstein, 2003, p.6) and is triggered by social comparison (Duffy et al., 2008). According to Ben-Ze'ev (1992), envy may be considered a "negative attitude towards another person's superiority" and thus "refers to a situation in which one person wants what another person has" (Cohen-Charash, 2009). Further, envy is described as an emotional state, in which individuals strive for equality elimination in order to eliminate the envious feeling and be abreast with the referent (Ben-Ze'ev, 1992). In case of perceived inequalities compared to peers, employees might show destructive and counterproductive work behaviors that potentially harm the organization (Bauer & Spector, 2015). Examples are the reduction of effort (Adams, 1963) or alteration of others' outcomes and rewards through e.g., sabotage, uncooperative behavior in collaborative settings or lobbying compensation decision-makers (Cropanzano et al., 2003, Pruitt & Kimmel, 1977). While competitive situations qualify as "breeding grounds for various feelings of ill-will" (Smith, 2000, p.193) and thus stimulate the rise of envy, the key to avoiding it lies

in providing an environment that allows for the appreciation of others' achievements (Duffy et al., 2008), putting less emphasis on social comparisons.

Within the context of the multinational firm, headquarters constantly face the challenge of achieving alignment with their subunits (Kostova et al., 2016). Companies are limited in their resources and thus need to decide how to best invest these resources across their subunits on a constant basis, which may incur unequal subunit treatment. Matters of justice in organizations have been shown to be subject to social comparison (Ambrose et al., 1991, Ambrose & Kulik, 1989). Extending this thought, subunits are prone to compare themselves on treatment by headquarters. The relationship with headquarters can be seen as a subunit's most essential link with the organization, determining its role and standing within it. While subunits' respective contexts may be different (e.g. in terms of customers, products, role), the relationship with headquarters is a common constant among subunits in an organization and thus likely to be the subject of comparison. Kim and Mauborgne (1991, 1993), for example, showed that procedural justice between headquarters and subunits improve headquarters-subunit alignment and increase subunit's willingness to implement headquarters directives. Their study supports the view that perceived justice of the headquarters-subunit relationship influences subunit's attitude towards headquarters and point towards the idea that characteristics of the headquarters-subunit relationship are the subject matter in peer unit comparison.

The issue of peer unit comparison can be illustrated by the example of GE Healthcare (Singh, 2011). In order to foster GE's performance in India and realize the country's huge potential for the company as an emerging market, GE headquarters decided to dedicate a disproportionate amount of attention to its Indian subsidiary, making it the first stand-alone country profit-and-loss center, despite it accounting for only less than 2% of revenues. GE headquarters thereby departed from their original strategy to divide their attention based on business contribution. During the course of pursuing this strategy, GE observed tensions between the traditional and emerging market businesses. This observation clearly indicates negative social comparisons of other subsidiaries with the Indian subsidiary in terms of attention by GE headquarters. Consequently, feelings of unfair treatment arise as the Indian subsidiary receives unduly more headquarters' attention.

Social comparison processes consist of three important parts – the initiation, the selection of referents and the evaluation (Goodman & Haisley, 2007). While the initiation of social comparison is intuitive and a natural process (Festinger, 1954, Goodman, 1974), the selection of referents is more deliberate. Referents are selected

within a reference group, whose members share a sense of belonging (Goodman, 1977). As such, reference groups set normative standards and enable social comparison (Goodman, 1977). Reference groups thus form the boundaries for social comparisons to take place. Within an organization, the choice of referent is determined by the availability of information about that referent (Goodman, 1974, Kulik & Ambrose, 1992). Only if the referent is perceived to be relevant to the comparing party, it will be selected for comparison (Goodman & Haisley, 2007). Further, as Goodman and Haisley (2007) claim, the appropriateness of the referent is defined by the distribution rules of the organization, which inform an organization's members that comparison among them is apt. They further argue that the understanding of the organization's distribution rules is shaped by socialization processes, which in turn influences the referent selection. Hence, referents for social comparison within an organization are selected based on a respective reference group, which is determined by socialization processes that purport the level of hierarchical identification. In sum, socialization processes within an organization influence the group of identification and as such the frame for social comparisons to take place.

3.3. Hypotheses

In establishing a link between envy felt by subunits towards peer subunits and their subsequent adoption of a corporate practice, we develop our first hypothesis. For our second hypothesis, we then ascribe a moderating effect on this relationship to a change in comparison framing.

Thau et al. (2007) describe members of an organization who experience negative social comparisons to be "more likely to exhibit behaviors that harm the organization or its members". Further, Greenberg et al. (2007) deem unfavorable procedures, hence processes that are applied differently, to infer feelings of injustice. In the headquarters-subunit context, perceived inequalities between peer units in terms of procedural treatment by headquarters, or in other words process differences, are likely to evoke envy between them. Support for this assumption can be found in a paper by Bedeian (1995) who deems a perceived imbalance in resource distribution to inevitably lead to feelings of envy. In addition, Duffy et al. (2008) suggested the organizational and often combative system in place to be responsible for the emergence of envy among organizational parties. Inferring from the above, organizational subunits are surmised to develop feelings of envy when they find themselves to be treated unfairly compared to their peers and exploited in their relationship with headquarters. Envy is then associated with costs to the organization as perceptions of inequality generally lead to the

willingness to expand efforts at emasculating these (Nickerson & Zenger, 2008). Ambrose and Kulik (1989, p. 130) propose "the most intense dissatisfaction should arise from a discrepancy between self and referent for both procedure and outcome". In a headquarters-subunit setting, we thus postulate subunits to manifest their envy, as an outcome of process differences in their relationship with headquarters, in a negative attitude towards headquarters, thus less willingness to implement headquarters' directives. Subunits may further engage in sabotage of other subunits' implementation (Cropanzano et al., 2003), for example by manipulating implementation guidelines through false inputs. These efforts then further limit headquarters' ability to implement portfolio-wide strategies across subunits, diminishing the alignment between them. We consequently propose the following:

H1: Peer unit envy is negatively related to implementation of headquarters' directives.

Social comparisons require a reference group to whom to compare to and which defines the frame of comparison. Within the MNC, this comparison frame is amorphously defined as identity and reference differ and may be influenced by the degree of normative integration, or socialization between the units. Thus, it becomes important to look at the moderating influence of socialization in this relationship. Socialization is the process by which an individual comprehends an organization's values, abilities, expected behaviors and social knowledge, which form the basis for organizational membership (Chatman, 1991, Fisher, 1986, Louis, 1980, Van Maanen & Schein, 1979). Socialization is thus understood as a strong identification with an organization (Ashforth & Mael, 1989), the sharing of values, goals and perspectives. Applying rigorous socialization measures, thus imposing an intense confrontation with an organization's characteristics, fosters individual's assimilation with an organization and inspires them to pursue organizational interests (Chatman, 1991).

Duffy et al. (2008) deemed an organization to possess a toxic climate for envy when competitiveness dominates the organizational atmosphere and lets organizational goals fade into the background. This thought can be transferred to the competitive setting between subunits. Increased organizational identification alters a subunits' frame of comparison, shifting a subunit's interest from a subunit to the organizational level and thereby distracting from lower level sensitivities. The appropriateness of referents for social comparison determines whether or not social comparisons take place (Goodman & Haisley, 2007). With a stronger organizational identification, the appropriate frame of comparison is thus lifted to the organizational level, rendering lower level referents and social comparisons inappropriate. Özdemir and Ergun (2015)

demonstrate the level of socialization to be a solid indicator for organizational identification. Accordingly, socialization serves as a catalyst for subunits' organizational identification and contributes to changing a subunits' frame of comparison to the organizational level, through aligning subunits' interest with those of the overall organization. As such, socialization fosters a better contribution of subunits to organizational tasks, such as e.g. innovation adoption (Bartlett & Ghoshal, 1989).

An individual's identification or self-categorization has important implications for social comparison processes through determining the reference group for comparison (Goodman & Haisley, 2007) and thus the comparison frame. Social identities are understood as "categorizations of the self into more inclusive social units that depersonalize the self-concept, where I becomes we" (Brewer, 1991, p. 476). Turner et al. (1987, p. 50) described social identity as "a shift towards the perception of self as an interchangeable exemplar of some social category and away from the perception of a self as a unique person". Peer unit comparisons thus take place within subunits' frame of comparison, determined by their level of social identification. Consequently, with a strong unit identification, the comparison frame comprises fellow subunits. As the level of identification determines the frame of comparison, the level of hierarchical identification is decisive for the level of social comparison taking place (Nickerson & Zenger, 2008). Just as individuals' identification can take place on an individual or group level (Brewer & Gardner, 1996), different levels of unit identification, and thus comparison frames, are likely to exist in organizations. For example, teams that do not engage in socialization measures with their department are likely to only strongly identify with themselves, whereas they identify more strongly with the entire department in case of participation in socialization measures. Continuing this line of thought, an organization offers different comparison framings, from the team-level, over subunit, to the organizational level, the latter implying a strong identification with the entire organization.

Van Knippenberg (2000, p. 360) postulated that identification on the organizational level entails "a sense of oneness" with the organization, thereby inducing the adoption of organizational goals and perspectives. Perceptions of inequity vary across different levels of the hierarchy as social proximity invokes larger perceived inequity (Singh, 1994). Comparison frames on lower levels of the hierarchy thus imply a closer social proximity and thus larger perceived inequity, whereas an identification with the entire organization reduces the level of perceived inequity.

In sum, augmenting comparison frames by the means of organizational socialization has the potential to weaken the proposed negative correlation between

envy, caused by process differences, and implementation. Socialization raises a subunit's comparison framing by fostering organizational identification and the sharing of perspectives, goals and cognitive frames. Thereby, individual units' sensitivities and the need for peer unit comparisons are rendered less important, alleviating the potential destructive effect of envy as a consequence of process differences on headquarters-subunit alignment. Consequently, by increasing the hierarchical level of comparison framing by means of socialization, headquarters may diminish negative effects on subunits' willingness to implement their directives, which ultimately has a positive effect on firm performance. Consequently, we propose the following:

H2: Socialization has a positive moderation effect on the negative relationship between peer unit envy and the implementation of headquarters' directives.

Our hypotheses are summarized and illustrated in our research model in figure 3-1.

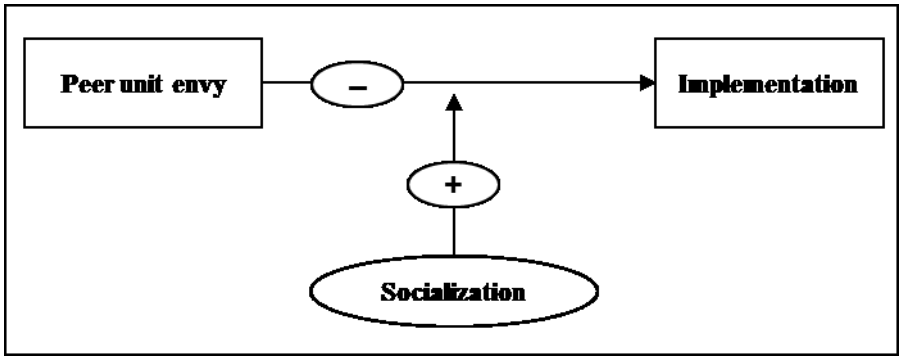

Figure 3-1: Research model

3.4. Methods

To test our hypotheses, we chose a single firm design, attempting to capture the full configuration of organizational subunits and their relationships with headquarters' including a subject-matter of comparison. Our empirical context was a large European insurance corporation, with annual sales of US$7.7 billion in 2012, operating in six European countries. The survey took place in the corporate headquarters as well as 134 subunits spread across the six markets. Before the data collection was started, the CEO announced the project internally, which helped to secure a high response rate. Data was collected in April and May 2013 through two parallel online surveys; one for headquarters and one for subsidiaries. The research team reminded those who had not answered in two waves (first by e-mail and then by phone). We received complete data

from headquarters and subsidiaries for 112 dyadic observations (83.6%)[1]. The reliance on two parallel surveys with different target groups to obtain the data greatly reduces the risk of common method bias. Further, the questionnaires were designed to avoid consistency motives in that the relevant questions for the dependent and independent variables were separated by other questions in the questionnaire as well as different scales were used.

3.4.1. Variables and Measurement

Dependent variable

We measured *implementation* on a 9-item Likert scale originally developed by Kostova and Roth (2002). In order to confirm the suitability of this measurement construct for our dataset, we conducted a confirmatory factor analysis (CFA) to test the validity of the multiple item scale. The CFA confirmed that all nine items significantly loaded onto the latent variable (all p-values 0.000). The Raykov's composite reliability factor, indicating the reliability of the scale by assessing the measure's internal consistency was 0.971, which is far above the required threshold of 0.7. To further assess the convergent validity of the measure we calculated the average variance extracted (AVE) by the latent variable implementation. AVE was 0.576, which is also above the required level of 0.5 and thus indicates convergent validity. We also calculated the Chronbach alpha of our scale, which was α=0.93, thereby pointing to a high internal consistency of the measure.

Independent variables

Peer unit envy. We treat one of our key variables as an abstract intervening concept, similar to Ambos and Schlegelmilch (2007). As *peer unit envy* is triggered by negative peer unit comparisons on headquarters' treatment, it is the mechanism that drives effects on subunits' implementation of headquarters' directives. It is therefore the concept of interest in this study and serves as the argumentative basis to explain implications of social comparison in the headquarters-subunit context. Consequently, we measure *peer unit envy* based on the differences in headquarters' treatment of subunits that trigger feelings of envy among them. We use Kim and Mauborgne's (1995) established measure of procedural justice (α=0.84) as the base construct. We define *peer unit envy* as differences between peer subunits' perceived degree of procedurally just treatment by headquarters. For each subunit, *peer unit envy* was calculated as the difference between the subunit's procedural justice evaluation (a subunit's evaluation of

[1] The original sample size had to be reduced from 131 to 112 dyadic observations due to missing data for required variables used in this analysis.

the justice of procedural treatment by headquarters) and the highest procedural justice evaluation among its peer subunits (the maximum evaluation of the justice of procedural treatment by headquarters within a subunit's peer group). Large numbers thus indicate large process differences among peer subunits, which then trigger feelings of envy.

Peer subunits were defined as units that belong to the same function (e.g. marketing, controlling), but are located in a different country. For example, the peer units of the marketing unit in one country would be all marketing units in the firm's other countries.

Socialization. Following Ghoshal and Nohria (1989), Nohria and Ghoshal (1994) and Nell and Ambos (2013), we measured *socialization* with a four item construct. With the aim to create an objective measure, we applied the approach of Björkman et al. (2004) and generated an aggregate measure, consisting of two binary and two continuously measured items. First, respondents were asked 'Do you have a (formal or informal) mentor at the corporate parent (coded 1 for 'yes' and 0 for 'no')?'. The second questions was 'If any, how many months have you worked at the corporate parent?'. Managers with more than one year of experience at the corporate headquarters were assigned a value of 1, the remaining were assigned a value of 0. Third, respondents were asked the question 'How often do you approximately visit the corporate parent per year?', again creating two groups. Given that headquarters could be reached within approximately two hours from all subsidiaries by car, train or plane, managers that visited headquarters at least once a month were assigned a value of 1, whereas the remainder was coded as 0. Fourth, respondents were asked (4) 'Have you ever participated in any training about corporate strategy (coded 1 for 'yes' and 0 for 'no')?'. Following the coding, we aggregated the scores, creating a measure with a scale from 0-4.

Control variables

Previous research identified a number of factors that also impact subunits' corporate practice implementation. Thus, to account for these effects we included the following control variables. (1) In line with headquarters-subunit literature we controlled for common control and coordination practices employed by headquarters to ensure subunit alignment (cf. Collis et al., 2007, Kostova et al., 2016). Thus, we accounted for the degree of *centralization*, *formalization* as well as *output control*. We measured *centralization* (α=0.98) and *formalization* (α=0.85) as proposed by Cardinal (2001). For *output control* (α=0.50) we relied on the scale introduced by Nell and Ambos (2013). To ensure objectivity and comparability of the alignment measures, we collected

these three variables from the 24 headquarters-units as counterparts to the subunits in all subsidiaries.

(2) In addition, we also controlled for *influence* (of the subunit on headquarters' decisions), assuming that a subunit' *influence* represents a form of power within the organization, assigning more weight to the opinion or needs of that subunit. A subunit's higher influence on headquarters' might affect headquarters' directives in their interest and thus have a positive effect on subunit's implementation. We measured *influence* with a 6-item construct (α=0.93) on a 7-point Likert scale ranging from 1=no influence at all to 7=very high influence. The six items concerned subunits' influence on long-term corporate wide functional objectives, corporate wide functional service/product portfolios, corporate-wide functional pricing strategies, corporate wide functional service/product development, investments in corporate wide functional services/products as well as the direction of the corporate wide functional strategies. In order to get objective evaluations, we also collected this construct at headquarters.

(3) To account for possible effects on the degree of implementation stemming from a subunits' standing within the MNC, we statistically controlled for subunit size which influences a subunit's relative importance and independence within an organization (Bouquet & Birkinshaw, 2008, Nell & Ambos, 2013). We defined *unit size* as the number of employees working in a subunit. In addition, the length of the relationship between headquarters and subunits may influence the character of the relationship itself as both headquarters functions and subunit roles tend to change over time (Birkinshaw & Hood, 1998, Kunisch et al., 2015). A change in the relationship may then have an effect on the alignment between headquarters and subunits and also subunits' willingness to implement headquarters' directives. Consequently, we also controlled for *unit age.* We used the logarithms of both variables. In line with Kostova and Roth (2002), we further controlled for the institutional context of a subunit, which is deemed to influence a subunits' understanding of and thus also their willingness to implement headquarters' directives. To account for location-specific subunit variability, we included subsidiary dummies. In addition, we also include the maximum implementation of a respective peer unit to control for the fact that the maximum among peers marks the basis of the peer unit envy measure.

3.5. Results

To test our hypotheses, we used OLS regression with robust standard errors as implemented in STATA 13. The correlation analysis showed no significant correlations for all variables above 0.5, and variance inflation factors (VIF) were all below 5.5, which is below the recommended threshold of 10 (Myers, 1990), suggesting no problems with multicollinearity. Table 3-1 depicts the descriptive statistics.

First, we built a control model including only our control variables as well as direct effects of the moderating variable (Model 1). Adjusted R-squared was at 0.28 and we found no significant effects for neither the main control variables nor the moderator, only for two subsidiary dummies. Second, we tested Hypothesis 1, which stated that envy has a negative effect on implementation, in Model 2. The effect was significant at p= 0.0001. The adjusted R-squared was reported with 0.46. Third, we tested Hypothesis 2, which proposed the main effects to be weaker with higher levels of socialization, in Model 3. This positive moderation effect was not supported. Instead, we found a strongly significant negative moderation effect at p= 0.005 with an adjusted R-squared of 0.51. All findings are illustrated in Table 3-2.

Variables		Mean	StD	1	2	3	4	5	6	7	8	9
1	Implementation	4.75	1.1	1								
2	Unit age	1.8	0.89	-0.106	1							
				(0.268)								
3	Unit size	2.32	1.75	0.00451	-0.290	1						
				(0.962)	(0.002)							
4	Influence	3.04	1.19	0.0364	-0.302	0.266	1					
				(0.703)	(0.001)	(0.005)						
5	Output control	3.56	1.26	0.0837	0.146	-0.0312	0.251	1				
				(0.380)	(0.125)	(0.744)	(0.008)					
6	Centralization	4.92	2.37	0.0208	-0.359	0.0484	-0.0142	-0.154	1			
				(0.828)	(0.000)	(0.613)	(0.882)	(0.106)				
7	Formalization	4.09	1.45	-0.107	0.154	-0.0433	0.172	0.0665	-0.0611	1		
				(0.260)	(0.106)	(0.650)	(0.069)	(0.486)	(0.522)			
8	Maximum Implementation	5.77	0.42	0.254	0.121	0.0531	0.0973	0.276	0.0981	-0.0906	1	
				(0.007)	(0.205)	(0.578)	(0.308)	(0.003)	(0.303)	(0.342)		
9	Socialization	0	0.97	0.0534	-0.150	0.212	0.198	0.0595	0.244	-0.0506	0.286	1
				(0.576)	(0.113)	(0.025)	(0.036)	(0.533)	(0.009)	(0.596)	(0.002)	
10	Peer unit envy	1.43	1.22	-0.456	0.110	0.0771	0.0672	-0.0811	0.102	0.148	0.0680	-0.0420
				(0.000)	(0.247)	(0.419)	(0.482)	(0.395)	(0.284)	(0.118)	(0.476)	(0.660)

p-values in parentheses

Table 3-1: Descriptive statistics

		DV: Implementation		
Variables	Hypotheses	Model 1	Model 2	Model 3
Constant		1.3957	1.6569	1.2338
		(1.3011)	(1.0309)	(1.0397)
		0.2862	0.1114	0.2384
Controls				
Subsidiary dummies		yes	yes	yes
Unit age		-0.0082	0.0805	0.0988
		(0.1606)	(0.1519)	(0.1352)
		0.9594	0.5974	0.4668
Unit size		0.0797	0.1024	0.0930
		(0.0611)	(0.0574)	(0.0517)
		0.1958	0.0775	0.0751
Influence		-0.0394	0.0032	0.0325
		(0.1001)	(0.0907)	(0.0836)
		0.6943	0.9715	0.6987
Output control		0.0193	-0.0543	-0.0300
		(0.1273)	(0.1030)	(0.1017)
		0.8798	0.5993	0.7690
Centralization		-0.0070	0.0402	0.0226
		(0.0569)	(0.0507)	(0.0485)
		0.9030	0.4302	0.6424
Formalization		-0.0565	-0.0310	-0.0219
		(0.0738)	(0.0640)	(0.0595)
		0.4459	0.6287	0.7141
Maximum Implementation		0.6385	0.6845	0.6988
		(0.2286)	(0.1850)	(0.1899)
		0.0063	0.0004	0.0004
Socialization		-0.1254	-0.1155	0.1909
		(0.1194)	(0.1058)	(0.1388)
		0.2963	0.2776	0.1723
Main effect				
Peer unit envy	*H1*		-0.3740	-0.3756
			(0.0936)	(0.0831)
			0.0001	0.0000
Moderator				
Socialization x peer unit envy	*H2*			-0.2060
				(0.0714)
				0.0049
Observations		112	112	112
R-squared		0.4280	0.5506	0.5947
Adjusted R-squared		0.317	0.458	0.506
Delta R-squared			-0.1405	-0.1884
F statistic		4.1285	7.1388	7.8813
Prob>F		2.96e-06	0	0

Robust standard errors in parentheses
p-values

Table 3-2: Regression output

To further explore the interaction between socialization and peer unit envy, we provide an interaction graph. The interaction graph (see figure 3-2) clearly supports the moderating effect of socialization on the relationship between peer unit envy, showing that high levels of socialization further aggravates the negative relationship between peer unit envy and implementation.

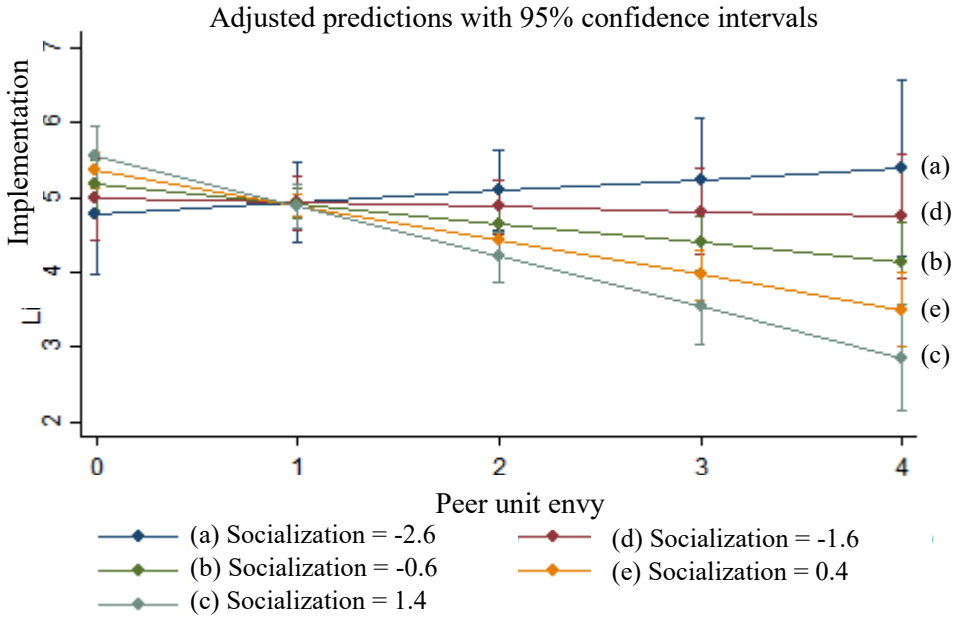

Figure 3-2: Interaction graph

3.5.1. Robustness tests

Support for our approach to treat *peer unit envy* as an abstract intervening concept is found in the analysis of the prerequisites for social comparison, and thus envy, to occur. In order for envy to arise as the result of unfavorable process differences, two essential requirements for social comparisons have to be met. These are the degree of interaction among the referee and the referent party and the availability of information (Nickerson & Zenger, 2008), the latter naturally being influenced by the former. Social comparisons can only take place if information to compare is available. Accordingly, we investigated whether interaction among subunits, a necessary condition for lateral comparisons to take place, exists. Specifically, we tested the relationship between *peer unit communication* and *peer unit envy*, implying that process differences between subunits are only noticeable for subunits in case they have information about their peer subunits and their respective relationships with headquarters. Our communication measurement subsumes face-to-face communication, but also phone, letter and digital

means of communication, measured on a scale from 1 (once every few months and less) to 7 (daily). We tested the relationship by means of a standard OLS regression including all control variables as described in the previous section. We further controlled for other types of communication (e.g. between subunit and the correspondent headquarters unit). Results indicate a positive relationship between *peer unit communication* and *peer unit envy* (p= 0.01) (see table 3-3). These results confirm the viability of treating *peer unit envy* as an abstract intervening concept and operationalizing the mechanisms of envy by measuring differences in procedural treatment by headquarters.

To further validate our model, we ran a similar regression, defining peer units in a different way. Peer subunits were consequently defined as units that are located in the same country, but belong to a different function (e.g. marketing, controlling). Just as in our main model, results were very similar, showing a highly significant negative relationship between *peer unit envy* (with country peers) and *implementation* (p=0.0018) as well as a negative moderation effect of socialization on this relationship (p=0.02). As an additional robustness test for our original model, we also ran the regression with robust clustered standard errors, again yielding very similar results and thus further support for our model (H1: p=0.0015; H2: p=0.106).

To exclude the possibility for *peer unit envy to* act as a mediation variable between *peer unit communication* and *implementation* rather than the main predictor, we further calculated a mediation model with *peer unit envy* as the mediator, yielding, however no significant results.

Variables	**Peer unit envy**
Constant	1.42
	(1.64)
	0.39
Control variables	
Subsidiary dummies	yes
Unit age	0.24
	(0.18)
	0.18
Unit size	0.11
	(0.08)
	0.15
Influence	0.04
	(0.11)
	0.72
Output control	-0.17
	(0.12)
	0.16
Centralization	0.11
	(0.05)
	0.03
Formalization	0.05
	(0.08)
	0.55
Maximum Implementation	0.27
	(0.30)
	0.37
Communication same HQ function	-0.34
	(0.09)
	0.00
Communication other HQ function	-0.08
	(0.09)
	0.42
Communication other subunit same subsidiary	-0.02
	(0.06)
	0.74
Communication other subunit across subsidiaries	-0.25
	(0.14)
	0.07
Main effect	
Peer unit communication	0.29
(peer subunits at other subsidiaries)	(0.11)
	0.01
Observations	112
R-squared	0.45
Adjusted R-squared	0.312
F-statistic	5.026
Prob>F	2.15e-08

Robust standard errors in parentheses
p-values

Table 3-3: Robustness test - regression output

Our empirical analyses provide interesting results for further discussion. First, results show support for hypothesis 1, confirming that peer unit envy, triggered by process differences, has a negative effect on implementation. Just as envy among individuals in an organizational setting negatively influences the organization through negative performance effects and job dissatisfaction (Smith & Kim, 2007), envy among subunits caused by differential process treatment of headquarters decreases their willingness to adopt corporate practices, ultimately resulting in a decreased organizational performance. Imbalances in resource distribution across units in an organization are a natural phenomenon as firms constantly need to decide how to best configure and where to most efficiently and effectively use their limited resources (Barney, 1991, Ghoshal & Bartlett, 1990). A balanced procedural justice treatment by headquarters across subunits consumes resources, such as employee time, and thus may contravene an efficient and effective resource distribution across the organization. As both a suboptimal resource deployment as well as imbalances in procedural justice treatment across subunits incur costs to the firm, e.g. through the creation of sunk costs as well as harmful employee behavior (Amit & Paul, 1993, Greenberg, 1990, Oliver, 1997), it is important for headquarters to always be aware of this dilemma in order to make the best choice for the company.

Further, the confirmation of our first hypothesis ratifies that social comparisons not only take place on an individual level, but also on an intra-organizational unit level as proposed by Goodman (2007). With this revelation, this study thus broadens social comparison theory's current area of application and presents it as a new lens to explain organizational phenomena in the headquarters-subunit literature. Many studies have explored and discussed a variety of factors that influence the direct relationship between headquarters and subunits. To our knowledge, however, this study is novel in applying social comparison theory to the organizational unit setting and investigating lateral comparisons among subunits. In doing so, it becomes evident that lateral comparisons have an impact on the headquarters-subunit relationship by influencing subunits' willingness to implement headquarters' directives and thereby triggering negative organizational outcomes.

Second, results indicate that augmenting subunits' frame of comparison through increased levels of organizational socialization has an aggravating rather than alleviating effect on the negative relationship between process differences and implementation. This finding controverts the projections made by social identity theory. Here, augmenting subunits' comparison frame by means of socialization proves to be bane rather than boon with respect to peer unit comparisons in organizations. This raises the

question why socialization has a negative rather than positive effect in aligning employees with the organization's goals as posited by many scholars (Gomez & Sanchez, 2005). In the following, we will discuss potential explanations and answers to this question.

First, social comparison theory argues that relative standards are a prerequisite for comparisons and a correct interpretation of any related information (Corcoran et al., 2011). As organizations purport the norm for intra-organizational actions, any deviation from the norm leads to negative social comparison outcomes and thus further stimulates the engagement in these comparisons. This argument is also supported by happiness research in economics that argues human beings react negatively to any deviations from their aspiration levels due to being unable to make absolute judgements (Frey & Stutzer, 2002). In this respect, feelings of envy as negative outcomes of social comparisons are said to be relative (Thompson et al., 2016). Socialization lifts the comparison frame to the organizational level by fostering employees' stronger adoption of organizational norms and a formation of expectations and aspiration levels towards the organization and headquarters. Consequently, it potentially acts as a fertilizer for even stronger negative reactions and less willingness to implement headquarters' directives in case of negative peer unit comparison outcomes, hence any deviations from the norms and aspiration levels. In this case, an organizational-level comparison framing evoked by higher levels of organizational socialization appears as a nutrient medium for stronger negative implications of envy, arising as the outcome of negative peer unit comparisons, and as such displays destructive effects for the organization as a whole.

Second, the relationship between employees and the organization is considered to be a social exchange relationship, where both parties naturally fear to be exploited (Thau et al., 2007). In cases of high socialization, employees develop stronger ties with the organization. They thus assign more weight to their "exchange contract" and adopt an organizational-level comparison framing. In that case, the effect of negative peer unit comparison outcomes and feelings of envy may then be even stronger and worsen the negative impact on the willingness of subunits to implement headquarters' directives. Thus, with more socialization, the demands for a fair exchange relationship with the organization may rise.

Third, research on motivation in the field of economics might also offer an explanation for this counterintuitive finding. In his study on people's willingness to donate blood, Titmuss (1970) found out that monetary compensation negatively affects people's willingness to participate in blood donation by undermining an individual's civic duty. Frey and Oberholzer-Gee (1997) supported this claim and formulated the

motivation crowding theory (Frey & Jegen, 2001) arguing that compensation can undermine individual's intrinsic motivation to engage in altruistic behavior by being perceived like a form of control. In view of the fact that the relationship between headquarters and subunits is characterized by coordination and control (Kostova et al., 2016), this concept is applicable to the organizational setting. Accordingly, subunits perceive their compliance with headquarters' directives, to some degree, as an altruistic behavior benefiting the organization (tasks that reflect subunits organizational duty and are performed naturally). Thus, socialization may give the impression of a "hidden" or indirect control and as such as a negative external intervention. Consequently, subunits do not perceive socialization as means to foster organizational identification and a sense of unity with the entire organization, which causes them not to adopt an organizational-level comparison frame. Rather, socialization has a negative connotation and, as a social control (Ambos & Reitsperger, 2004), adds to formal and well known control measures already in place. With even higher levels of control, subunits are discouraged to engage in organizationally altruistic behavior. Increased levels of socialization then have an aggravating effect on the negative influence of envy on implementation. This explanation implies an important insight – when perceived as a form of control, socialization can be of negative influence. Subunits may feel forced to be united with the organization and more aligned with headquarters and thus perceive increased levels of socialization as a "bribe" – a hidden control only designed to make them compliant. It is thus important for headquarters' managers to realize that socialization can be a double-edged sword with positive effects in case of being perceived to foster a sense of organizational unity, but with negative implications in case of being perceived as an additional form of control, hindering subunits' intrinsic compliant nature.

Fourth, literature on the socialization of organizational newcomers in the field of human resources and psychology offers another expedient explanation for this surprising finding. Saks and Ashforth (1997) remarked that research on socialization is still missing a coherent theory that integrates the main aspects on socialization. They further point out that most research predominantly focused on the contents of socialization, rather than the level of socialization. Anderson and Thomas (1996) tie in with this view in pointing out that research on socialization has largely focused on the individual and organizational level of analysis, thus analyzing socialization that is concerned with familiarizing employees on the organizational level rather than lower-level units, such as work groups or teams. It does, however, make more theoretical sense to pay attention to the directionality of socialization in terms of organizational levels rather than only its contents (Klein & Weaver, 2000). Haueter et al. (2003) further point

out that employee's socialization should not only encompass the "history, politics, language, goals, values of the entire organization, but also of their particular work group, and of their job to be successful". In headquarters-subunit literature, socialization has been primarily understood to be aimed at the organization-level, designed to convey and familiarize with organizational aspects for the entire organization. In this respect, socialization has been explored in various aspects, such as, for example, a means for headquarters to control their subunits (e.g. Ambos & Reitsperger, 2004), assimilate the corporate culture across subunits (Bartlett & Ghoshal, 1989) or to integrate local subunit managers into the corporate culture (e.g. Harzing, 2001). To our knowledge, socialization aimed at the unit level, either at one specific unit or horizontally at peer units, has not been discussed so far within the context of headquarters-subunit relationships. Hence, the focus of socialization, in this study targeting the organizational level, could be another reason for the aggravating effect of socialization. Leaving out horizontal socialization with peer subunits, socialization leads to a higher familiarity and adoption of organizational-level goals and values, but overlooks the importance of (peer) subunit identification. Despite supporting a sense of unity with the organization as a whole, a sense of unity with subunits is not fostered and thus may not succeed in lifting subunit's frame of comparison to the organizational level. This effect is then likely to overshadow the positive effects of organizational-level socialization, thus aggravating the effects of envy rather than alleviating them.

3.7. Limitations and future research

Our study is limited in its research design as we measure our data within one firm only, which limits the generalizability of results. Future studies could replicate our analysis among firms of other industries or types (e.g., non-profit organizations). We have found counterintuitive and striking results regarding the effect of lifting subunits' comparison frame to the organizational level by means of socialization, compromising the so far clean slate of socialization. Thus, we encourage scholars to do more research in this area, shedding more light on the negative side of socialization and the role of socialization within a social comparison setting. Specifically, future research could investigate whether and how socialization affects subunits' comparison framings, thereby contributing to a better understanding of how social identities within organizations are formed, which build the basis for the selection of an appropriate comparison frame. Further, a better understanding of both positive and negative effects of socialization would also help practitioners to better ponder when (not) to apply measures of socialization to achieve headquarters-subunit alignment.

In this respect, we would also like to stress the need for attention to the direction of socialization and the organizational level it aims at. Socialization in the headquarters-subunit literature has been treated as a construct aimed at the organizational-level, neglecting the differences between and need for lower-hierarchical-/unit-level socialization. We encourage fellow scholars to pick up on this issue, exploring the differing effects of distinct levels and directions of socialization. A better understanding of the effects of socialization aimed at different organizational levels especially within the context of headquarters-subunit relationships would help to gain a better idea of how and for what socialization should best be applied and which impact it has on subunits' comparison framing. The findings of this study indicate the need for a clear distinction between organizational-level socialization and (horizontal) lower unit-level socialization. We strongly encourage fellow scholars to pursue this thought. We believe that more fine-grained analyses of the roles and effects of different kinds of socialization, especially within a social comparison context, will largely contribute to the headquarters-subunit literature and open new insights on and opportunities for headquarters-subunit management. Again, this suggestion points towards the importance and influence of horizontal inter-subunit relationships within the realm of headquarters-subunit relationships. Further, future research could make a great advancement in exploring socialization's "split personality". While having positive effects in case of being perceived as a means to foster organizational unity, being perceived as just another additional means of control seems to have negative organizational implications. Future studies could explore this effect and shed light on its context factors.

Another limitation of our study can be found in the restricted analysis of social comparison processes. In this study, we only looked at social comparisons on matters of differential headquarters' treatment, while other characteristics of the headquarters-subunit relationship might also be the subject matter of comparison among subunits. Future research could take on a more differentiated view and analyze a multitude of types of peer unit comparisons. In addition, we focused on envy as the key mechanism leading to less implementation which guided the development of our hypotheses. We treated it as an abstract intervening concept. Even though is not an uncommon approach to treat a central concept of a study (Ambos & Schlegelmilch, 2007), the development of an empirical measure for peer unit envy would certainly strengthen this field of research in the future.

Additionally, we encourage scholars in this field to make more use of social comparison theory as a lens to explain organizational phenomena and to establish it

within the headquarters-subunit literature. A further line of extension could also be exploring additional contingencies. As an example, the aspirations of subunits with regards to corporate objectives might be relevant for social comparisons with their peers; i.e., whether other subunits are considered as rivals (Garcia et al., 2006).

3.8. Conclusion

With this research study we present some important insights for both academia and practice. First, we add to current headquarters-subunit literature and social comparison theory by showing that social comparison processes do exist among peer subunits in an organization. We present social comparison theory as a theoretical backbone to explain organizational phenomena in the headquarters-subunit literature by lifting the concept from an individual to an organizational unit-level. Thereby, we point out that lateral relationships among subunits matter for headquarters-subunit alignment.

Second, we provide evidence that subunits tend to compare themselves on their relationship with headquarters, inducing feeling of envy as an outcome of differential headquarters treatment and ultimately diminishing headquarters-subunit alignment. We suggest managers in headquarters to be aware of their resource distribution and to consider potential negative effects of imbalances, especially with regards to their (un)equal subunit treatment. Naturally, headquarters should still weigh between the costs of equal resource distribution / equal subunit treatment and decreased implementation.

Third, we show that raising subunits' frame of comparison by means of organizational socialization has negative effects. We uncover socialization's dark side in showing that it does not always have a positive effect on the organization, depending on how it is perceived, and should thus be applied with care. We further challenge the, up to this point, one-dimensional use of socialization in the headquarters-subunit literature in focusing on organizational-level socialization, asking for the exploration of horizontally-aimed socialization measures.

4. Perception Gaps in the Headquarters-Subunit Relationship – Are Divergences in Justice Perceptions Culture-Bound?

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Abstract

Based on a multi-method study in a one-firm setting, we investigate the impact of justice perception gaps on headquarters-subunit alignment. Using questionnaire data we show that justice perception gaps between headquarters and subunits exist across different justice dimensions and negatively affect subunits' corporate practice implementation. Further investigating the cause for these justice perception gaps in an exploratory Experimental Vignette Method (EVM) and interview study, we find that culture does not induce justice preferences and patterns in perception gaps. Rather, justice perception gaps are formed independent of subunits' cultural context. This insight contradicts justice literature which links cultural preferences to justice perceptions.

Keywords: headquarters-subunit relationship, perception gaps, implementation, procedural justice, interactional justice, interpersonal justice, informational justice, culture

4.1. Introduction

Effective strategy implementation is a central issue for multinational corporations (MNC) (Lin & Hsieh, 2010). In this respect, past research showed that subsidiaries are more willing to implement corporate practices when they perceive their relationship with headquarters to be just (Kim & Mauborgne, 1991, 1993). However, as justice perceptions are subjective, they often diverge among two parties in a relationship (Luo, 2005, 2007), thereby causing the emergence of perception gaps. Headquarters-subunit literature asserted perception gaps between headquarters and subunits to create tensions between them (cf. Arvidsson, 1999, Asakawa, 2001, Birkinshaw et al., 2000, Chini et al., 2005). Combining these insights, not only justice perceptions, but rather differences in these justice perceptions between headquarters and subsidiaries are prone to affect the headquarters-subunit relationship. This study builds on this notion by investigating whether justice perception gaps between headquarters and subunits exist in the MNC context and how they affect subunits' corporate practice implementation.

MNC literature has traditionally emphasized the importance of acknowledging different contexts in the management of headquarters-subunit relationships (cf. Ghoshal & Nohria, 1989, Ghoshal & Nohria, 1987, Nohria & Ghoshal, 1994). As both headquarters-subunit perception gaps as well as justice perceptions are known to be influenced by their respective context, the latter foremost by the cultural context (Birkinshaw et al., 2000, Blake et al., 2015, Silva & Caetano, 2016), we further argue that the varying context within the MNC stimulates differences in justice perceptions between headquarters and subunits and thus drives the formation of justice perception gaps.

Employing a multi-method approach within a one-firm setting, we address these topics. First, building on survey data of 47 dyad headquarters-subunit relationships, we show that justice perception gaps among headquarters and subunits exist across different justice dimensions and negatively affect subunits' corporate practice implementation. Second, undertaking an exploratory experimental vignette method (EVM) and interview study, we shed light on the influence of subunits' cultural context on justice perceptions and the formation of justice perception gaps. Contrary to predictions of justice literature, we find little indication that justice preferences and justice perception gaps within the MNC setting are culturally-induced.

With this study we contribute to both headquarters-subunit and justice literature. First, we stress the importance of acknowledging justice perception gaps in the relationship between headquarters and subunits, revealing their negative effect on headquarters-subunit alignment. Thereby, we not only further support the positive effect

of justice in the headquarters-subunit setting, but also point to the need of accounting for both headquarters' and subunits' perspectives when investigating the headquarters-subunit relationship. Second, we reveal a subunits' cultural context not to be the cause for the formation of these perception gaps. Thereby, we question the context-dependence of justice perceptions within the MNC setting as suggested by justice theory.

4.2. The role of justice in the headquarters-subunit relationship

Justice in the organizational setting, also commonly referred to as organizational justice, is comprised of four dimensions (Greenberg, 1987). These are procedural justice (justice in processes), distributive justice (justice in decision outcomes), interpersonal justice (justice in personal interactions) and informational justice (justice in the flow of information), which all play an important role in organizations (Greenberg, 1987) and contribute to a fair organizational atmosphere. Organizational justice fosters positive organizational outcomes, such as organizational citizenship behavior (OCB) (Organ, 1988, Van Dyne et al., 1994, Williams & Anderson, 1991), positive leadership relationships (Pillai et al., 1999) or (job) satisfaction (Lowe & Vondanovich, 1995, Sweeney et al., 1990, Williams & Anderson, 1991). In the following, we discuss the characteristics of each justice dimension.

Distributive justice is concerned with the perceived justice of outcomes (Cohen-Charash & Spector, 2001) and thus pertains to a specific decision outcome that is evaluated in terms of justice. On the contrary, the other three justice dimensions (procedural, interpersonal, informational justice), all address different relational aspects and are concerned with the "human side of organizational practices" (Cohen-Charash & Spector, 2001, p. 281). In combination referred to as interactional justice, both interpersonal and informational justice are understood as the social dimensions of justice (Liu et al., 2012) Thus, procedural, interpersonal and informational justice pertain to different sources of justice, but are interrelated as they often evaluate the same situation or interaction. Consequently, whenever individuals experience procedural justice, they also experience a form of interactional justice as processes naturally take place between two (or more) parties – "By interactional justice, we mean that people are sensitive to the quality of interpersonal treatment they receive during the enactment of organizational procedures" (Bies & Moag, 1986, p. 44).. "[…] an analysis of interactional concerns should separate from an analysis of the procedure itself. […] a procedure generates a process of interaction […]"(Bies & Moag, 1986, p. 45). In this

respect, interactional justice is an independent, but interrelated justice dimension to procedural justice (Moorman, 1991).

Research on the headquarters-subunit relationship has been spearheaded by the quest to achieve alignment between headquarters and subunits. In this respect, justice in processes between headquarters and subunits, as initially investigated by Kim and Mauborgne (1991, 1993), is a recognized means for headquarters to ensure subunits to act in headquarters' best interest and foster subunit managers' willingness to implement headquarters' directives. Subunits have a more positive attitude towards headquarters, when they feel fairly treated in a process, hence when decisions are made consistently over time, when they are accompanied by extensive bilateral communication and when there is an opportunity for subunits to challenge the headquarters' view (Greenberg, 1987). With increased levels of perceived procedural justice by headquarters, subunits are more favorable of their decision outcomes and display increased levels of trust, compliance, and cooperation (Folger and Konovsky, 1998; Kim and Mauborgne, 1993, 1995; Colquitt et al., 2001). Hence, procedural justice between headquarters and subunits positively influences the headquarters-subunit relationship (Ellis, 2000, Ellis et al., 2009).

Despite the interconnectedness of procedural and interactional justice as well as their known positive effects, research on the role of justice in the headquarters-subunit setting did so far not account for the two interactional justice dimensions. Following Bies and Moag (1986), a process that takes place between headquarters and subunits is accompanied by interactional justice aspects simply because two parties are involved in the process and are thus part of an interaction. In the daily interactions between headquarters and subunits, matters of interpersonal justice, such as politeness, dignity, respect and informational justice, such as candidness, transparency, timeliness, needs-specific, and reasonability in communication (Colquitt, 2001) are thus prone to influence headquarters-subunit alignment, e.g. by influencing a subordinates' cognitive, affective, and behavioral reactions (Cohen-Charash & Spector, 2001) or trust in management (Kernan & Hanges, 2002). Higher levels of interpersonal treatment stimulate positive employee reactions for an organization as individuals decide to augment their level of inputs into the organization (Donovan et al., 1998). Further, the feeling to be valued and cared about by an organization fosters individuals' commitment to it (Eisenberger et al., 1990).

Accordingly, not only fair processes, but also fair interactional treatment in the course of a process raises subunits' attitude towards headquarters. A failure to distinguish between procedural and interactional justice aspects when evaluating justice

of a process thus serves as an explanation for why individuals sometimes feel unfairly treated even though the procedure itself met all justice evaluation criteria (Bies & Moag, 1986, p. 46). In this case, procedural justice evaluations are susceptible to biases by implicitly and subconsciously incorporating interactional justice aspects in the evaluation. In their studies, Kim and Mauborgne (1991, 1993) introduced their own procedural justice construct, tailored to the headquarters-subunit context, excluding interactional aspects despite their interdependence with procedural justice (Bies & Moag, 1986, Moorman, 1991). Consequently, their results do not unequivocally ascribe positive effects to procedural justice as they might subliminally capture interactional justice aspects.

4.3. Perception gaps between headquarters and subunits

Justice evaluations are purely perceptional (Luo, 2007) and subjective (Greenberg, 1987). A perception is the "outcome of individuals' information processing or a consequence of individuals' selective attention, selective comprehension, and judgment" (Waller et al., 2001, p. 586) and does not objectively reflect reality (McClelland, 2004). Divergences in perceptions among headquarters and subunits create tensions and thus negatively affect the headquarters-subunit relationship and MNC management in general (cf. Arvidsson, 1999, Asakawa, 2001, Birkinshaw, 1996, Birkinshaw & Hood, 1997, Chini et al., 2005), through i.e. conflicts of interests (Asakawa, 2001), lower levels of cooperation and shared interests as well as suboptimal decision-making (Birkinshaw et al., 2000). Variations in perceptions are caused by different factors that influence an individual's judgement, such as the use of different heuristics, cultural surroundings or information availability (Daniel, 2010, pp. 27-28) or different sets of experiences, reference points and world-views (Birkinshaw et al., 2000). "Perceptions of both parties may play a far more important role than the actual facts, or perceptions of just one party" (Tasoluk et al., 2006, p. 343). It is thus essential to account for the perceptions of both parties (Chini et al., 2005).

In light of the perceptive nature of justice evaluations, it is important to factor in perceptions gaps in justice perceptions. Pertaining to the studies of Kim and Mauborgne (1991, 1993), Birkinshaw et al. (2000) argued that perception gaps among headquarters and subunits are highest when procedural justice is judged to be low by subunit managers. Despite the one-directionality of this argument (assuming headquarters to be always fully just), it indicates that divergences in justice judgements between headquarters and subunits lead to perception gaps. A symmetry in justice perceptions positively affects the closeness of a dyad relationship by stimulating coupling behavior

between the two parties and thus leading to improved relationship performance (Liu et al., 2012, Luo, 2005). Thus, not only the magnitude (the degree of perceived justice), but also the symmetry (the agreement in justice evaluations between two parties) plays a significant role in a dyad relationship (Liu et al., 2012) and are thus prone to foster headquarters-subunit alignment. Asymmetry in perceptions between headquarters and subunits typically leads to a higher potential for conflict and a lower interest in collaboration (Tasoluk et al., 2006). Accordingly, in cases where headquarters' and subunits' perception differ, the behavior of one party will most likely not match the other party's expectations (Daniel, 2010). Such a misalignment in interests then manifests in a lower level of cooperation between headquarters and subunits (Birkinshaw et al., 2000). Especially in situations of headquarters-subunit practice transfer, perception gaps between headquarters and subunits inhibit a successful practice transfer as subunits are less motivated to adopt the practice and practice transfer consequently does not take place as intended by headquarters (Arvidsson, 1999). Inferring from this line of argument, just as lower levels of procedural justice have a negative effect on subunits' implementation of headquarters' directives, divergences in these justice perceptions then further diminish corporate practice implementation by preempting coupling behavior between headquarters and subunits. The larger the justice perception gaps between headquarters and subunits, the lower subunit's motivation to cooperate as expressed in lower levels of corporate practice implementation In view of the interrelatedness of procedural and interactional justice dimensions, we thus hypothesize:

H1: Headquarters-subunit perception gaps in procedural justice have a negative relationship with implementation.

H2: Headquarters-subunit perception gaps in interpersonal justice have a negative relationship with implementation.

H3: Headquarters-subunit perception gaps in informational justice have a negative relationship with implementation.

4.4. The culture-boundedness of justice perception gaps

MNCs are characterized by their geographic spread, thus exposed to a variety of different contexts. In MNC management it is important to account for different external surroundings (Doz & Prahalad, 1984, Hamilton & Kashlak, 1999, Nohria & Ghoshal, 1994). As perceptions are context-specific and thus influenced by i.e. differing surroundings, sets of values, experiences (cf. Birkinshaw et al., 2000, Daniel, 2010,

McClelland, 2004, Waller et al., 2001), MNCs' exposure to different contexts is prone to be the cause for the formation of perceptions gaps. With respect to justice perceptions, exogenous factors, i.e. an organization's environment, potentially influence justice perceptions in the headquarters-subunit relationship and lead to divergences between them (Tasoluk et al., 2006). As Silva and Caetano (2016) stated "much is known about organizational justice perceptions, yet there is limited knowledge about how the sociocultural context affects them" – accordingly, context variations within a MNC bear the potential of causing the formation of perception gaps.

Scholars in the fields of psychology and natural science showed that the cultural context is a key influencing factor on attitudes towards justice (Blake et al., 2015, House et al., 2013, Paulus, 2015) and thus point to the culture-boundedness of justice perceptions. An individual's sense of justice already develops in early childhood and is largely influenced by a child's respective cultural surrounding, hence the values and perspectives promoted by a culture (Blake et al., 2015, House et al., 2013, Paulus, 2015). Schäfer et al. (2015) further supported this idea in discovering that ideas of justice among children are not culturally universal, rather, different cultural practices are adopted during childhood that then frame their attitudes towards justice. This interplay between genes and culture, also termed culture-gene coevolution, is the basis of human's development of prosocial behavior (Chudek & Henrich, 2011), implying that an individual's attitudes and behavior are significantly influenced by culture. Culture is understood as the values, attitudes and perceptions that individuals share who face similar surroundings in their lives and can be described along six dimensions, on which each nation scores differently (Hofstede, 1980). Accordingly, depending on which cultural contexts individuals are exposed to, they may have developed different attitudes towards justice, which then influences how they perceive and evaluate justice later in adulthood.

Building on these insights that the development and magnitude of a sense of justice is culture-bound, we proclaim, in accordance with Schäfer et al. (2015), that "fair is not fair everywhere", also in the MNC setting. We regard culture as an influencing norm with respect to justice perceptions, prone to be the cause for the formation of justice perception gaps between headquarters and subsidiaries. Given the infancy of research on this particular matter, we aim to address this topic in an exploratory manner. Accordingly, we formulated the following research question to guide our analysis:

Does culture influence justice perceptions and cause patterns in justice perception gaps in the headquarters-subunit setting?

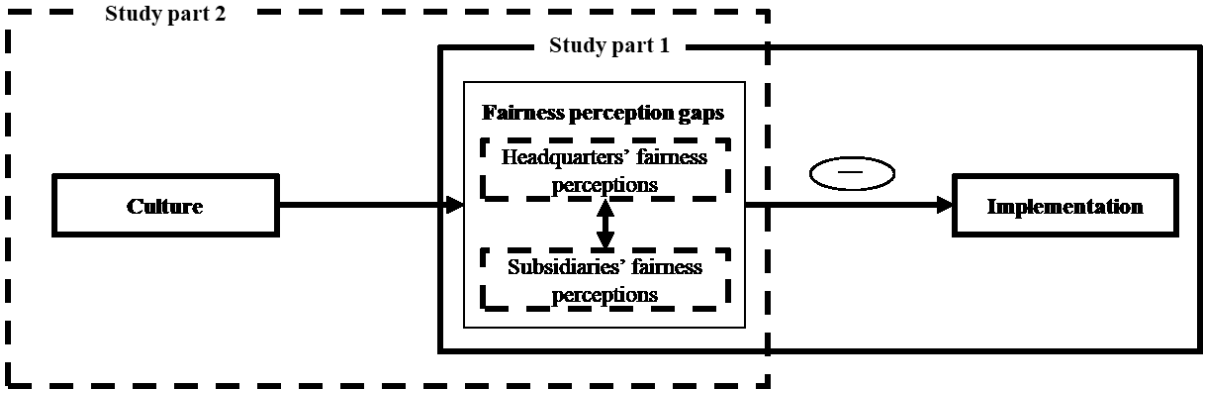

Figure 4-1: Research model

Given the affirmative character of the first part of this paper (leading to hypotheses 1-3) and the exploratory character of the second part, our empirical analysis consists of two steps. We summarized our two research interests in our research model (see figure 4-1).

4.5. Empirical setting

We opted for a one-firm design study that allows to conduct both consecutive steps in our empirical study within one organizational frame. Our empirical setting is a privately-owned, multinational steel processing company, consisting of five business divisions with a total of 60 subunits, spread over 60 countries worldwide and 2000 employees. For our study, we limit the scope to one business division, responsible for 19 subunits worldwide. As our sample firm is globally present on all continents, we are able to make extensive comparisons in terms of cultural context-boundedness.

4.6. Part 1 – Methods

In addressing our three hypotheses, we assess the dyadic relationships between headquarters and subunits and explore whether perception gaps on matters of justice exist between headquarters and subunits and which impact they have on implementation. To do so, we chose to collect data via an online questionnaire. An online questionnaire allows for a systematic response of both headquarters and subunits in the dyad relationship of interest and consequently for quantifiable results whether justice perception gaps among the two parties do exist and which impact they have on implementation. We developed two kinds of questionnaires, one for headquarters and one for subunits. Respondents marked direct functional counterparts in both headquarters and subunits, thus providing evaluations of the relationship from both parties, which is deemed particularly valuable to assess the convergence of perceptions

between them (Birkinshaw et al., 2000). Data collection took place in March-May 2016 with two versions of the questionnaire, one for headquarters and one for subunits. We had strong top management support with the CEO sending out encouraging emails to all survey respondents to motivate participation in the survey. Consequently, we had a very high response rate of 100%, amounting to a sample size of 47 dyadic relationships or 94 responses in total.

4.6.1. Variables

For our measurement items, we relied on established scales where possible. To ensure the comprehensibility of the questionnaire, all questions were tested with company representatives beforehand and items were adapted to the individual firm context, where necessary (e.g. company-sp ecific terminology).

Dependent variable

To measure implementation, we took the original measure developed by Kostova and Roth (2002). *Implementation* was measured based on a 9-item measure on a 7-point Likert scale ranging from "1 = to no extent" to "7 = to a very great extent". To validate the scale, we ran a confirmatory factor analysis, which supported that all factors loaded significantly onto the lateral variable *implementation* (all p-values below 0.000). The Raykov's composite reliability factor was 0.911, which is far above the required threshold of 0.7. The average variance extracted by the latent variable implementation was 0.537, which is also above the required level of 0.5 and indicates convergent validity. We also calculated the Chronbach alpha of our scale, which was α=0.906.

Independent variables

We measured perception gaps in *procedural justice* based on the measure originally developed by Kim and Mauborgne (1991), comprised of six items evaluated on a 7-point Likert scale ranging from "1 = to no extent" to "7 = to a very great extent". We calculated the perception gaps in procedural justice based on the absolute differences in procedural justice evaluations between the direct subunit and headquarters counterparts. The Chronbach alpha of the subunit scale was α= 0.809 and for the headquarters scale α= 0.821.

For both perception gaps in *interpersonal* and *informational justice*, we relied on the measures suggested by Colquitt (2001). Interpersonal justice and informational justice were measured based on four and five items, respectively, both on a 7-point Likert scale ranging from "1 = to no extent" to "7 = to a very great extent". Again we measured perception gaps as the absolute differences between headquarters and subunit evaluations. The Chronbach alphas for interpersonal justice were α=0.862 (subunits)

and α=0.852 (headquarters) and for informational justice α=0.914 (subunits) and α=0.833 (headquarters).

Controls: Following the headquarters-subunit literature, we included different types of control mechanisms typically employed by headquarters that proved to influence headquarters-subunit alignment and might thus have an influence on implementation (cf. Collis et al., 2007, Kostova et al., 2016). We included *formalization* (α=0.593) and *centralization* (α=0.869) in our model and used the scales as proposed by Cardinal (2001). We further included *output control* (α=0.871) and relied on the scale put forward by Nell and Ambos (2013). To ensure objectivity and maximum comparability across subunits, we collected these measures from headquarters' representatives.

Following Bouquet and Birkinshaw (2008) and Nell and Ambos (2013), we further controlled for *unit size* (number of full-time employees) to eliminate potential biases due to a unit's higher relative importance within an organization. In addition, we controlled for the *unit type* (business unit affiliation) to avoid biases caused by business unit specificities. To account for the institutional context that a unit finds itself in, which may influence their perceptions as well as willingness to implement headquarters' directives, we further controlled for the respective *unit country*.

4.7. Part 1 – Results

We tested our first set of hypotheses employing standard OLS regression with robust clusters as implemented in STATA13. Clusters were defined based on both *unit type* and *unit country.* To avoid any other biases we checked our data for constancy, linearity, homoscedasticity and multicollinearity (Berry, 1993). The correlation analysis showed no significant correlations for all variables above 0.53 and variance inflation factors (VIF) were all below 1.9, which is far below the recommended threshold of 10 (Myers, 1990), suggesting no problems with multicollinearity. Table 4-1 depicts the descriptive statistics.

		Mean	Std. Dev.	1	2	3	4	5	6	7	8	9
1	**Implementation**	**4.94**	**1.07**									
2	**Unit country**	**5.40**	**3.94**	0.103	1							
				(0.489)								
3	**Unit type**	**5.36**	**1.07**	-0.102	0.371	1						
				(0.494)	(0.010)							
4	**Unit size**	**4.91**	**5.77**	-0.114	-0.217	0.257	1					
				(0.446)	(0.142)	(0.081)						
5	**Formalization**	**3.82**	**1.45**	-0.218	-0.0781	-0.139	-0.0271	1				
				(0.142)	(0.602)	(0.353)	(0.857)					
6	**Centralization**	**4.34**	**1.5**	0.110	-0.122	-0.201	0.0595	0.0649	1			
				(0.463)	(0.414)	(0.177)	(0.691)	(0.664)				
7	**Output control**	**4.82**	**1.4**	0.270	-0.232	-0.295	-0.0292	0.522	0.213	1		
				(0.066)	(0.117)	(0.044)	(0.846)	(0.000)	(0.151)			
8	**PG procedural justice**	**1.13**	**0.92**	-0.478	-0.123	-0.0811	-0.0164	-0.0088	-0.174	-0.336	1	
				(0.001)	(0.412)	(0.588)	(0.913)	(0.953)	(0.241)	(0.021)		
9	**PG interpersonal justice**	**0.91**	**1.07**	-0.425	0.0290	0.156	0.0699	-0.0655	-0.307	-0.392	0.249	1
				(0.003)	(0.846)	(0.295)	(0.641)	(0.662)	(0.036)	(0.006)	(0.091)	
10	**PG informational justice**	**1.46**	**0.96**	-0.214	-0.0342	-0.136	-0.0650	0.0462	0.0349	-0.0266	0.339	-0.0514
				(0.149)	(0.820)	(0.363)	(0.664)	(0.758)	(0.816)	(0.859)	(0.020)	(0.732)

p-values in parentheses

Table 4-1: Descriptive statistics (n=47), (PG = perception gaps)

In a first step, we built a control model including only our control variables (model 1). In a second step, we tested our three hypotheses (model 2) that perception gaps in procedural, interpersonal and informational justice evaluations have a negative relationship with implementation. We found support for hypotheses 1 (p-value= 0.0825) confirming that perception gaps in procedural justice evaluations have a negative effect on implementation. Further, hypothesis 2 was also supported (p-value= 0.0415), proving that perception gaps on matters of interpersonal justice have a negative impact on implementation as well. Hypothesis 3, on the other hand, was not supported and our hypothesis on perception gaps in informational justice evaluations consequently rejected. Results can be found in table 4-2.

	DV: implementation	
Variables	Model 1	Model 2
Constant	4.407	6.121
	(0.640)	(0.628)
	1.94e-06	1.31e-08
Controls variables:		
Unit size	-0.0211	-0.0194
	(0.0232)	(0.0180)
	0.375	0.295
Formalization	-0.362	-0.268
	(0.106)	(0.121)
	0.00314	0.0404
Centralization	0.0276	-0.0364
	(0.120)	(0.0925)
	0.821	0.699
Output control	0.394	0.193
	(0.107)	(0.118)
	0.00163	0.118
Main effect:		
PG procedural justice		-0.345
		(0.188)
		0.0825
PG interpersonal justice		-0.289
		(0.132)
		0.0415
PG informational justice		-0.121
		(0.124)
		0.341
Observations	47	47
R-squared	0.264	0.443

Robust standard errors in parentheses
p-values

Table 4-2: Regression output (PG = perception gap)

4.8. Part 2 – Methods

Culture is a complex and subjective topic with a high degree of variation across individuals that even "seem" to belong to the same culture. In this respect, we require a data collection method that allows for an exploratory analysis and questioning of results. The goal of the second part of this study is to better understand whether and how employees' cultural background influences their perceptions of and attitudes towards justice and thus causes the formation of justice perception gaps. To be able to better understand the impact of culture and go beyond the results of closed questions, we opted for an EVM study in combination with semi-structured interviews to trigger and receive realistic responses to scenarios of (in)justice and be able to question them. Hence, each interview session (in the following referred to as "interview" for simplicity reasons) consisted of an initial EVM part followed by a semi-structured interview. Due to our close relationship with the Division CEO, we were granted access to interviewees in both headquarters and all subunits. In total, we conducted 25 interviews, 4 at headquarters and 21 at internationally dispersed subunits. To infer any cultural differences from the interviews, an important criterion in the interviewee-selection process was a maximum coverage of cultures. We chose to conduct interviews in 8 out of 11 distinct clusters of cultural context as determined by Ronen and Shenkar (2013). Our interviews covered the cultural clusters "African", "Anglo", "Arab", "Confucian" "East Europe", "Far East", "Germanic", and "Latin Europe", missing the clusters "Latin America", "Near East" as well as "Nordic" [2]. We chose at least one subunit per cultural cluster to conduct our interviews to ensure a sufficient cultural diversity in our data and to be able to make qualified and informed conclusions regarding cultural differences. We conducted interviews with both top and functional management at headquarters and subunits to also cover differences with respect to employee's roles and responsibilities. Due to restrictions in terms of travel, time and availability, we conducted interviews in Switzerland on a face-to-face basis (except for one which was conducted via phone) and all interviews with foreign subunits on a video or phone basis. All interviews were semi-structured based on an interview guideline that was developed in cooperation with selected company representatives, recorded and transcribed.

In the setup of the EVM, we were geared to previous studies that investigated situation-specific behavior in seemingly realistic scenarios. Therefore, we chose to present our interviewees with short vignettes which can be described as "stories about individuals

[2] Missing cultural clusters: "Latin America", "Nordic", "Near East"; the clusters were represented by the following countries: African = South Africa, Anglo = USA, Arab = UAE, Confucian= China, Japan, East Europe = Poland, Germanic = Switzerland, Latin Europe = Italy

and situations which make a reference to important points in the study of perceptions, beliefs, and attitudes" (Hughes, 1998, p. 381). After being presented with a vignette, respondents are then typically asked to respond to the stories (Hughes, 1998), where response options may vary from open to close-ended or multiple-choice options (Weber, 1992). It is particularly important to carefully choose the number, type and content of the individual vignettes (Aguinis & Bradley, 2014, Wason et al., 2002, Weber, 1992). In light of the limited number of interviewees and with regard to our research aim, we chose to present all participants with the same set of a base vignette and three follow-on vignettes, pertaining to the justice dimensions of interest (procedural, interpersonal and informational). Using only one vignette enables comparisons of justice evaluations of the individual scenarios across interviewees and linking them to their cultural surrounding. We chose a narrative style to address the three justice dimensions as a continuous narrative keeps people interested longer (Hughes, 1998). All vignettes were developed in close cooperation with company representatives to be as realistic as possible and applicable to all subunits in all contexts (see appendix 7.2. for vignettes). We limited the EVM-part to interviews with subunit representatives due to limited access to headquarters' employees for interviews and the choice of a vignette from the subunit perspective. First, interviewees were asked to read the base scenario and were then subsequently presented with additional scenarios pertaining to procedural, interpersonal and informational justice. All interviewees were told prior to the EVM that the following scenarios are not real and were asked to imagine to be in that specific situation described in the vignettes. After reading the individual vignettes, we asked respondents to rate the degree of justice that they perceived on a seven-point Likert scale ranging from very unfair to very fair, before prompting for open-end explanations on each scenario. In total, we conducted 20 EVM-parts (one EVM-part with a subunit interviewee could not properly be conducted and was thus excluded from the analysis).

4.9. Part 2 – Results

In a first step of our exploratory analysis, we conducted a graphical analysis to recognize potential patterns in justice ratings across cultures. Following Hofstede (2001, 1980), culture can be described in terms of six dimensions that describe the character of a culture. For our analysis, we relied on past research findings in justice literature, which identified only two of these dimensions, namely individualism/collectivism as well as power distance as the two most influential cultural traits with respect to justice perceptions (Brockner & Wiesenfeld, 2005, p. 569, Fischer et al., 2011). While the dimension of individualism/collectivism implies that individuals stress more the I vs.

the we, power distance concerns the extent to which people accept that power is distributed unequally (Shao et al., 2013). The dimension of individualism/collectivism is decisive with respect to individuals' procedural, interpersonal and informational justice attitudes, as its degree determines how much individuals are concerned about their own rights and needs and are thus willing to accept injustices or do not perceive differential treatment compared to others as unjust (cf. Leung, 2005, Leung & Lind, 1986, Leung & Tong, 2004, Murphy et al., 2006, Ramamoorthy & Carroll, 1998). Similarly, as the dimension of power distance describes the acceptance of hierarchical structures and differences in status between supervisors and subordinates (Silva & Caetano, 2016), a higher acceptance implies a lower sensitivity towards injustice as individuals intuitively inculcate imbalances compared to others based on their cultural views and attitudes and thus legitimize imbalances in power (cf. Blader et al., 2001, Brockner et al., 2001, Leung, 2005, Lian et al., 2012, Lind et al., 1997, Wang et al., 2012).

Consequently, we plotted the respondents' justice rating on each scenario against the degree of the individualism/collectivism and power distance of the respondents' respective culture. We measured an individual's cultural configuration based on the cultural scores for both the individualism/collectivism and power distance dimensions as published by Hofstede (2001, 1980) and matched the cultural values for both individualism/collectivism and power distance based on the respondents' respective nationality. Following Bhaskar-Shrinivas et al. (2005) in their research on expatriates, we took the values of an expatriate's host country nation in case the expatriate has lived there for four years or more.

Graphical analysis of the results show that there is no clear relationship between the cultural surrounding and the degree of perceived justice across procedural, interpersonal as well as informational justice (figure 4-2). While there are differences in justice evaluations across all three dimensions, they do not seem to be linked to neither the degree of individualism/collectivism nor the degree of power distance.

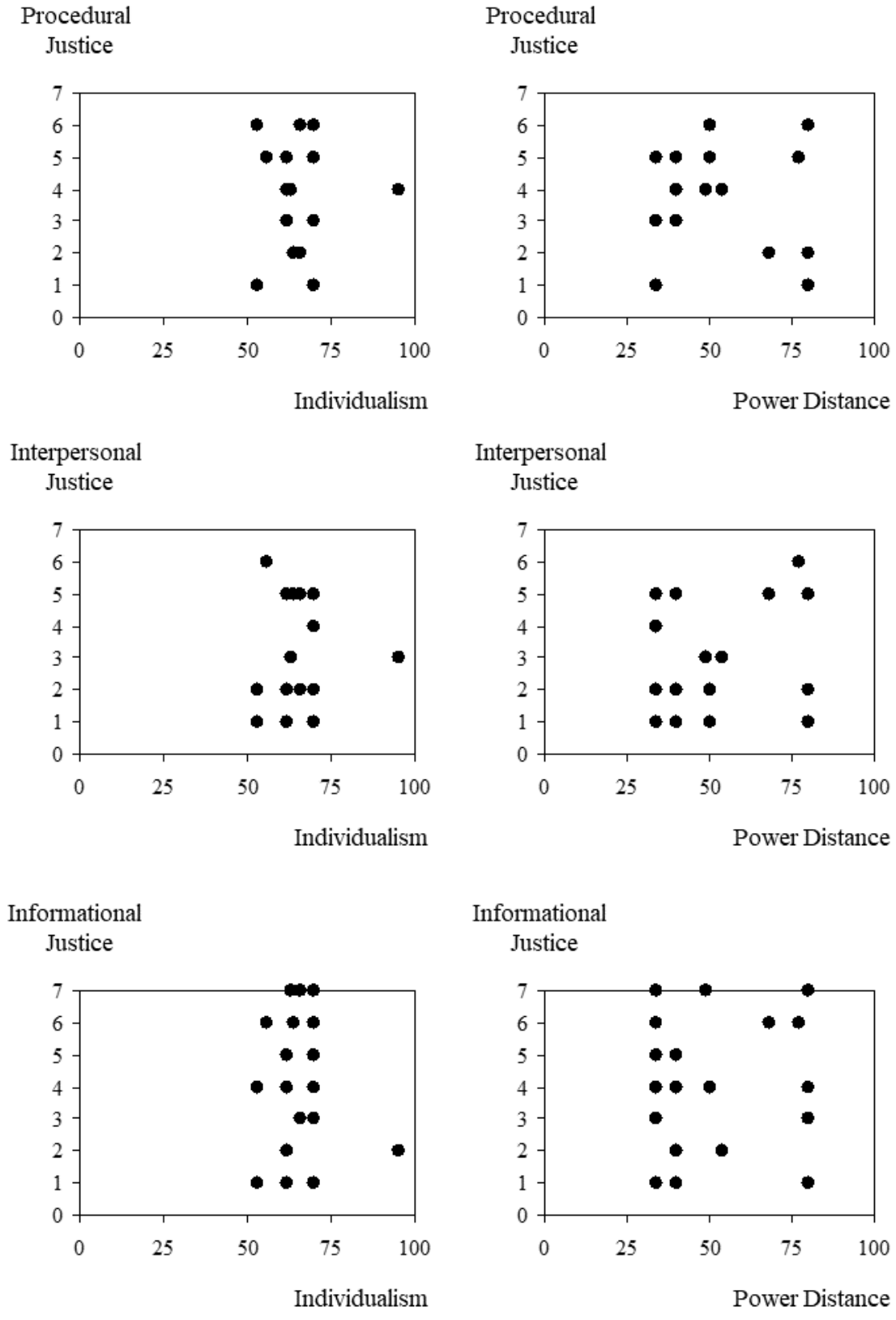

Figure 4-2: Scatter plots

In a second step, we looked at the content of the interviews, which supported the observation that the cultural surrounding, in fact, does not significantly induce patterns in perception gaps across all three justice dimensions. Interviewees were questioned about their general perceptions and importance of procedural, interpersonal and informational justice within the company. While the majority of them perceived all dimensions to be rather fair, some interviewees immediately brought up a specific example of a situation they had experienced in the past, where they felt unfairly treated on either one of the three dimensions. While their responses showed different levels of perceived justice across all these dimensions, these divergences do not indicate a clear pattern that can be ascribed to their cultural context. Rather these specific examples, where interviewees experienced situations of unfair treatment, seemed to be related to company- or subunit-specific factors, like e.g., the size of the subunit, job-specific tasks/events.

In order to elicit further insights on the role of culture, we specifically questioned the interviewees on the topic of culture, discussing the (existence of) the corporate culture as well as their national culture, with respect to both characteristics as well as implications on their (work) lives. Interviewees' responses indicated a larger influence of the organizational culture on company operations than that of their respective national culture. When specifically asked for the existence of a corporate culture, respondents gave mixed responses in terms of the level of the corporate culture (subunit, business unit or division level). However, when being questioned about the interaction with headquarters, the management style or headquarters' control measures, it became clear that the Swiss heritage, and with it the Swiss culture, largely coins the company's way of operating. Thus, even though not all interviewees consciously and explicitly asserted that there is a division-wide culture, most of them agreed on the company's Swiss character. This can hence be understood as the dominant coinage of the corporate culture. As one interviewee said: *"Personally I feel it's a proper Swiss culture."* Other respondents tied in: *"From what I have gathered here the group culture is they want quality products basically."* or *"We have certain values and these are partly Swiss.[3]"*

A common notion became evident in the interviews. While employees in different subunits all come from different cultural backgrounds, they are all exposed to the same Swiss corporate culture and Swiss way of operating. One interviewee used the following description: *"So we're, we are a Swiss subunit of a Swiss company. So I think there's strong identity there.[…] our identity draws itself on the fact that we use Swiss*

[3] Translated from German.

technology and manufacture Swiss products and, at the same time, we made that in the U.S. We have jobs in the U.S. […].” When being questioned about the culture of identification other interviewees responded: *“Yes. Indian culture as well as the [division name] culture, yeah.”,“Well, with the American culture, but as far as running the business I identify with both, yeah.”* or *“Overall, I think we are, of course, primarily driven by our local culture but we’ve had to adapt to the Swiss culture. […] Well, I feel like I’m part of this much larger group so even though I might complain a little about the micromanaging I still identify with that culture, I do.”*

Thus, as two respondents put it *“[…] we had some influence we have some shadows of European thinking […]* and *“[…] I find the things not so different from here and then Switzerland. Yeah, on corporate level -- “.* The interview results point to a clash of national culture with organizational culture, where the latter predominantly coins the way people act in the organization.

In sum, both experiments and interviews did not yield any results that pointed to divergences in justice perceptions induced by differences in the cultural surrounding. Rather they indicated a strong presence of the organizational culture, thereby pointing towards a potential reason for the missing effects.

4.9.1. Robustness test

In order to validate our results from the combined EVM and interview study, we referred back to our quantitative data and investigated whether variations in the degrees of individualism/collectivism and power distance, the most decisive cultural dimensions with respect to justice attitudes, have an influence on perception gaps on matters of procedural, interpersonal and informational justice. To do so, we employed an analysis of variance (ANOVA) and examined the differences between two groups (high/low values) on both the individualism/collectivism as well as power distance scale.

Variables	PG procedural justice	PG procedural justice	PG interpersonal justice	PG interpersonal justice	PG informational justice	PG informational justice
Controls						
Unit type dummies	yes	yes	yes	yes	yes	yes
Unit size	-0.0004	0.0008	0.0251	-0.0187	-0.0022	0.0040
	(0.0249)	(0.0259)	(0.0265)	(0.0273)	(0.0283)	(0.0302)
	0.988	0.975	0.351	0.499	0.938	0.896
Formalization	0.183	0.189	0.172	0.191	0.0317	0.0379
	(0.110)	(0.111)	(0.117)	(0.117)	(0.126)	(0.130)
	0.106	0.0966	0.152	0.112	0.802	0.772
Centralization	-0.112	-0.0990	-0.193	-0.172	0.0516	0.0197
	(0.0949)	(0.0929)	(0.101)	(0.0980)	(0.108)	(0.108)
	0.247	0.293	0.0645	0.0880	0.636	0.857
Output control	-0.378	-0.381	-0.340	-0.335	-0.0872	-0.0844
	(0.122)	(0.122)	(0.130)	(0.129)	(0.139)	(0.142)
	0.0037	0.0034	0.0128	0.0133	0.533	0.557
High individualism	-0.340		-0.607		0.868	
	(0.511)		(0.544)		(0.582)	
	0.510		0.272		0.144	
Low individualism	-0.244		0.886		-0.157	
	(0.357)		(0.380)		(0.406)	
	0.499		0.0255		0.701	
High power distance		0.0965		1.279		-0.422
		(0.411)		(0.433)		(0.480)
		0.816		0.0056		0.385
Low power distance		0.297		1.046		-0.229
		(0.399)		(0.421)		(0.466)
		0.462		0.0179		0.627
Observations	47	47	47	47	47	47
R-squared	0.268	0.267	0.385	0.395	0.128	0.081

Robust standard errors in parentheses
p-values

Table 4-3: ANOVA output (PG = Perception gap)

To generate two groups on the cultural dimensions, we cut off only the extreme values (high/low) on each dimension (more than 0.5 standard deviations from the mean) and ran in total six ANOVAs to test the relationship between individualism/collectivism and procedural, interpersonal as well as informational justice. Results (see table 4-3) showed that there is a significant relationship between individualism/collectivism and interpersonal justice (p-value =0.0255 for low individualism) as well as power distance and interpersonal justice (p-value= 0.0179 for low power distance, p-value= 0.0056 for high power distance). The ANOVAs did not yield any significant relationship between individualism/collectivism as well as power distance and both procedural and informational justice. Thus, the results do not fully confirm the results of the EVM and

interview study. However, they also support the notion that culture is not the main cause for the formation of justice perception gaps as only the relationship with interpersonal justice is significant.

4.10. Discussion

We found support for two of our three hypotheses, proving that perception gaps in procedural and interpersonal justice have a negative effect on implementation. In line with the findings on the role of justice perception gaps on long-term inter-organizational relationships (Liu et al., 2012, Luo, 2005), we found that perception gaps on matters of procedural and interpersonal justice do exist between headquarters and subunits and that they have a negative effect on implementation. These findings (partially) support the theoretical predictions derived in this paper. First, the results confirm that not only the magnitude of perceived justice, but also the symmetry of justice perceptions (Liu et al., 2012) between headquarters and subunits plays a role. In other words, not only the absolute level of justice perceived by subunits has a positive effect on implementation as suggested by Kim and Mauborgne (1995, 1993), but also the mutual agreement on the level of justice among headquarters and subunits significantly influences implementation. In case of a mutuality in justice perceptions, coupling behavior (Luo, 2005) and thus improved alignment of headquarters and subunits is fostered.

While we found support that one part of interactional justice concerned with personal interactions, namely interpersonal justice, has a negative effect on implementation if perceived differently by headquarters and subunits, results did not indicate that the second part of interactional justice, concerned with informational justice aspects, has a similar effect. Perception gaps in informational justice between headquarters and subunits did not significantly negatively influence subunits willingness to implement headquarters' directives.

A possible explanation lies in the character of interactional justice, which concerns matters of the quality of interpersonal treatment and communication during the enactment of organizational procedures (Bies & Moag, 1986). As such, it comprises the distinct aspects of both interpersonal as well as informational justice (Colquitt, 2001, Greenberg, 1987), where the former captures matters of respect and propriety and the latter matters of justification and truthfulness (Colquitt et al., 2005). Soft skills, also referred to as interpersonal qualities or people skills, play a major role in organizations with respect to keeping its employees happy and satisfied (Robles, 2012) and thus very well reflect the interpersonal justice criteria. In this sense, informational justice criteria are of a "harder" nature as they can be evaluated in a more objective manner. Individuals

are more sensible to the softer factors of interaction as they directly pertain to the character of a personal relationship and easily hurt somebody's feelings. A violation of the soft factors, or interpersonal justice, thus more easily results in a negative attitude towards the other entity and a reduced willingness to follow that entity's instructions.

The violation of the harder factors of interactional justice, informational justice, concerning both content, formulation and timing, on the other hand, does not have such a strong effect on an individual. Rather, these aspects are mostly influenced by organizational factors that are not susceptible to modification by the transmitter of an information him-/herself. For example, the content of a message being transmitted from headquarters to subunits is standardized across the organization. It is thus not allowed to be altered in any way even though it does not respond to the specific needs of one subunit. Subunit employees then extract and identify this kind of injustice, but are not necessarily negatively affected by it.

A second important insight of the first part of this study is that perception gaps on matters of justice play a significant role in the headquarters-subunit relationship. With these results we advance current headquarters-subunit literature on the topic of perception gaps and show that they do not only play a role in matters of subunit roles (Birkinshaw et al., 2000) or autonomy/control (Asakawa, 2001, Chini et al., 2005), but also in matters of justice. This marks an important insight. While both the matters of subunit roles and autonomy/control are more tangible aspects as they are usually mandated or formally defined, justice can be regarded as a highly intangible aspect. Intangible aspects in an organization are naturally very difficult to measure (Bontis et al., 1999, Kaplan & Norton, 2004). Their evaluations are consequently perceptual and subjective. Despite the fact that the majority of evaluations in organizations are based on perceptions (Chini et al., 2005), it is important to stress that perceptual evaluations of intangible aspects are prone to be subject to larger divergences in evaluations. Hence, perception gaps on these matters have an even stronger impact than on others. With this finding we point towards an untapped research area that is worth investigating in the future. We posit that perception gaps on organizational aspects with a higher degree of intangibility bear higher risks and thus stronger destructive effects than perception gaps on aspects with a lower degree of intangibility.

In the second part of our study, we investigated whether attitudes towards procedural, interpersonal and informational justice differ across cultures and more specifically along the lines of varying degrees of individualism/collectivism and power distance. Contrary to previous research, our results of the EVM and interview study did not indicate justice evaluations to systematically differ across cultures. Rather, they

showed that culture may not be the determining factor in shaping justice attitudes. Our robustness test showed slightly different results indicating that only perception gaps on interpersonal justice may be fostered by differences in both individualism/collectivism and power distance. Thus, despite the fact that our EVM as well as interview study did not indicate a cultural dependence of justice perceptions, perception gaps on interpersonal justice may be influenced by different levels of both individualism/collectivism and power distance.

We will disentangle and discuss these results consecutively. First, contrary to past research on the role of culture in justice perceptions, both our EVM and interview study pointed to no culturally-induced patterns in terms of justice perceptions. While justice evaluations differed across interviewees, they do not indicate a cultural pattern. In the follow-up interviews, many interviewees raised an interesting topic with respect to cultural influence. Rather than being foremost influenced by their national culture, they indicated a large importance of organizational culture in influencing employees' judgements and actions. Thus, the irrelevance of cultural differences with respect to systematic differences in justice perception gaps might lie in the concept of culture itself. According to Hofstede and fellow scholars (Hofstede, 2001, 1980, Ronen & Shenkar, 2013), culture pertains to the values, perspectives and views promoted by that specific culture. While the national culture or the culture that individuals identify with, respectively, naturally crosses the boundaries of organizations and thereby influences individual's perceptions and attitudes in the organizational context, it also clashes with the organizational culture of the company, as clearly indicated by a number of respondents in our interview study. An organizational culture can be understood as "a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business" (Barney, 1986), and hence how its employees act. In this sense, organizations are a place where two different sets of values and attitudes converge and may peacefully co-exist or clash. In a study of global manufacturing operations, Naor et al. (2010) posit that both national and organizational culture influence operations and thus point to the question of their interplay. While some scholars argue for the ultimate dominance of national culture in driving values and influencing employees' behavior (Naor et al., 2010), others argue that the behavior of employees is not constrained by their national culture (Dastmalchian et al., 2000). In this sense, employees are seen as malleable entities at the time of organizational entry and consequently formed by the organizational culture (Naor et al., 2010). Organizational culture thus has the potential to gild the effect of national culture and is a powerful means to guide its members (Adler & Jelinek, 1986). These insights indicate that

organizational culture may compromise the strength of the national culture, as also explicitly stated that way in an interview, and thus diminish the influencing effect of the national culture on justice perceptions in the organizational setting. Thus, despite the fact that the national culture molds individuals' attitude towards justice from early childhood on, their entrance and consequent belonging to "another" culture significantly alters their previously formed justice attitudes and diminish the effects of national culture. In their study, Naor et al. (2010) found mixed results, pointing towards an interplay between organizational and national culture, where both have the potential to influence and pointedly dominate the other one. However, our interview study clearly points to a strong influence of the corporate culture on the daily operations within the organization, and how people behave in their work-setting.

Our robustness test showed that the degree of an individuals' individualism/collectivism as well as power distance orientation has no influence on the size of perception gaps of procedural and informational justice, but interpersonal justice. Specifically, results showed that a higher degree of individualism incurs higher perception gaps on matters of interpersonal justice between headquarters and subunits. The reason for this may lie in the fact that individualists are more sensible to any violation of their interpersonal justice standards, which also differ from those of collectivists. For example, Japanese (collectivistic) people prefer more sensible interpersonal forms with respect to justice impressions, whereas Americans (individualistic) are likely to choose more assertive forms (Itoi et al., 1996). In general, collectivists are likely to display a higher level of respect towards members of their group, are more concerned about saving their face and favor a more indirect communication of their interests and opinions, compared to individualists who are more direct in their communication and concerned about their individual rights (Leung, 2005).

With respect to the influence of power distance on perception gaps in interpersonal justice, a similar explanation holds. In cultures with a high power distance, hence with a more hierarchical organization of society, interpersonal justice is of less importance than in lower power distance societies as there is a higher acceptance of status differences (Silva & Caetano, 2016). This is due to the fact that a hierarchical orientation and paternalistic leadership are closely linked and require the subordinate party to show its superior loyalty and deference (Aycan, 2001), the latter also implying a violation of interpersonal justice. What these results points to, however, is that cultural differences especially on the scores of individualism/collectivism and power distance, may foster perception gaps on interpersonal justice. A higher or respectively lower score on these dimensions may induce a higher concern for interpersonal justice and thus leads

to a perception of violations more easily. Consequently, the risk of the formation of perception gaps is increased as a higher sensibility to justice in personal interactions naturally implies that people show more extreme and most likely also exaggerated reactions to any violations. Thus, the chances that both parties in the interaction feel (un)fairly treated to the same extent are limited.

Summarizing our findings on the role of culture in justice evaluations and deriving implications for the headquarters-subunit management, it is evident that more research needs to be done in this area. While the results of our exploratory analysis mostly indicate a non-significant influence of culture, these findings call for further clarification e.g. investigating whether there is a difference in the cultural effect between pure justice perceptions and justice perception gaps, or analyzing a potential interdependence between the organizational and national culture. At this stage, headquarters' managers are advised to consider that there may be an interplay between the corporate and national culture that influences employee's reactions and perceptions. Especially, with respect to the perceptions of justice in personal interactions with subunit representatives, managers should consider the fact that divergences in these perceptions may be caused by cultural differences on the dimensions of individualism/collectivism and power distance. As Brockner et al. (2001) proved, justice measures are applicable across cultures. Hence the criteria that people check when evaluating justice are universal, their interpretation, however, might be different. As our results indicate, this especially seems to hold true for interpersonal justice in the headquarters-subunit setting.

4.11. Limitations

Our study and its results are subject to a few limitations. Even though our one-firm study design has its clear advantages in allowing us to conduct an in-depth study of one specific firm, it implies a smaller sample size and naturally constrains the generalizability of our findings. Future studies may replicate the study to find out whether they also apply to other industries and types of firms. In addition, our sample firm is characterized by a medium size, implying a limited global presence. A study of larger-scale MNCs might yield different results due to an even larger exposure to different cultures, and a likely different dynamic in the headquarters-subunit relationship.

4.12. Conclusion

In sum, our study makes two important contributions. First, we shed light on the existence and role of perception gaps between headquarters and subunits on matters of justice. Our empirical analysis proves that perception gaps on matters of justice evaluations play a significant role in the headquarters-subunit relationship. A mutuality in justice perceptions between headquarters and subunits is revealed to positively influence headquarters-subunit alignment and the willingness of subunits to implement headquarters' directives. In addition, our study further adds to our understanding of the role of justice in the headquarters-subunit relationship by showing that not only procedural justice, but also a part of interactional justice, namely interpersonal justice, plays a role in the headquarters-subunit relationship. With this revelation, we extend current studies and prove that the concept of interpersonal justice is also applicable on the organizational unit level and may positively influence headquarters-subunit alignment. Our findings are in line with Bies and Moag (1986) who claimed interactional justice aspects to be inherent in any process and thus advocated a simultaneous evaluation of interactional and procedural justice aspects. Second, contrary to previous studies on the cultural-dependency of justice perceptions, we only find weak indications that justice perception gaps between headquarters and subunits may be culturally-induced as justice evaluations do not seem to be determined by national culture. Rather, the results point towards a weak importance of national culture with respect to justice attitudes in an organizational setting, thereby calling for more research on this matter.

5. Discussion and conclusion

This dissertation provides new answers to the question of *how to best structure and coordinate a MNC*. In three individual studies, this dissertation advances current knowledge on the topics of organizational structure and the means of coordination. More specifically, study 1 focuses on the topic of MNC regional concentration and structures, investigating what regionalization is and why it occurs. Study 2 and 3 then address the concept of justice as a means of organizational coordination.

5.1. Academic contribution

With its three individual studies, different research approaches and methodologies as well as topics of interest, this dissertation contributes to academia in four ways. First, my work adds to the debate about "subunit roles and regional structures" that Kostova et al. (2016) named as one ongoing stream in the literature on MNCs. In debating the phenomenon of regionalization by both reflecting on the literature stream pertaining to the regional scope of the firm (cf. Rugman, 2005, Rugman & Oh, 2012, Rugman & Verbeke, 2003, 2005) as well as on the literature stream centering on regional structures, such as regional headquarters (cf. Ambos, 2017, Enright, 2005, Lasserre, 1996, Schuh, 2013, Yeung et al., 2001), I show that an integration of both literature streams contributes to the holistic understanding of the phenomenon of regionalization. In combining two conversations that take a contrary perspectives on the phenomenon of regionalization, we show that the two literature streams are indeed complementary. Thereby, we start a more integrated debate on the phenomenon of regionalization and encourage fellow scholars to increasingly account for contrasting, but complementary perspectives when investigating a certain phenomenon. More specifically, we show that a regional orientation of MNCs is most likely the outcome of both issues of organizational structure and limits in the scope of a firm's business. Following Chandler's principle of "structure follows strategy" (Chandler, 1962, p. 314), we highlight that the fit between the regional scope of the firm, and how this scope is managed, is closely interlinked and should therefore be regarded jointly.

Second, this dissertation, specifically with study 2 and 3, contributes to the headquarters-subunit literature by accentuating the importance of accounting for both headquarters' and subunits' perspectives and perceptions when analyzing the headquarters-subunit relationship. Study 2 empirically investigates the applicability of social comparison theory (Festinger, 1954) to the MNC setting, showing that social comparison theory can be used to explain organizational and unit-level phenomena.

This study shows that social comparison processes exist among subunits in a MNC. Negative social comparisons evoke feelings of envy and negatively affect headquarters-subunit alignment. With this contribution, this dissertation breaks fresh grounds in factoring in the horizontal relationships between subunits when studying the headquarters-subunit relationship.

Study 3 then addresses the topic of perception gaps (Arvidsson, 1999, Asakawa, 2001, Birkinshaw et al., 2000, Chini et al., 2005), investigating perception gaps on matters of justice between headquarters and subunits. In building on organizational justice theory (cf. Cropanzano & Greenberg, 1997, Greenberg, 1990, 1993, 2001, 1987), this study extends the knowledge on the role of justice in the headquarters-subunit relationship. It is shown that not only procedural justice as originally shown by Kim and Mauborgne (1991, 1993), but also matters of interactional justice impact the headquarters-subunit relationship. Further, this study supports literature on perception gaps between headquarters and subunits (Asakawa, 2001, Birkinshaw et al., 2000, Chini et al., 2005) in providing further proof that headquarters-subunit alignment is negatively affected by differing perceptions of the two parties.

Third, this doctoral thesis answers a recent call for more novel contributions that expand the theoretical base in the headquarters-subunit literature voiced by Kostova et al. (2016). Study 2 applies an individual-level theory, which has its origin in the field of psychology, to the organizational context. In doing so, this study shows that individual-level phenomena are also applicable to the unit-level and help to explain organizational phenomena. Study 3 further expands the use of justice theory in the headquarters-subunit literature, extending the scope of analysis to other justice dimensions. In addition, this study incorporates insights from psychology and natural science, thereby enlarging the theoretical scope in studying the headquarters-subunit relationship. Both study 2 and 3 show that the principles and theories that explain individual-level behavioral pattern can also explain the behavior of groups, such as units in an organization.

Fourth, this work answers recent calls for mixed-method studies, hence a deeper integration and combination of research methods (Cuervo-Cazurra et al., 2016). Study 3 shows that the results of a mixed-method approach move beyond the potential results of either a purely quantitative or qualitative study. Here, a quantitative survey analysis served as the base for a consecutive EVM and interview study, thereby allowing for more in-depth results and shedding light on the reasons for certain results found in the preceding quantitative analysis. Specifically, the combined results of both the survey as well as EVM and interview parts indicate national culture to not induce patterns in

perception gaps. Rather, they point to a strong presence of the organizational culture – an insight that would not have been possible with either of the two methods alone. Therefore, this doctoral thesis aims at encouraging fellow scholars to follow suit and make use of mixed method studies as well as combinations of different sources of data to realize more versatile and holistic research.

5.2. Practical contribution

Next to the academic contributions, this dissertation presents some important insights for practice. Based on the results discussed in this thesis, I first encourage MNC headquarters' managers to be aware of the multitude of headquarters-subunit relationships in their organization and thus acknowledge that the dyadic relationship with one subunit is not isolated from all other relationships. Rather, subunits are likely to have information about fellow headquarters-subunit relationships within the same organization, which may consequently influence their own relationship with headquarters. Second, headquarters' managers are encouraged to account for the existence of perception gaps between headquarters and subunits. Being aware of differing subunits' perspectives and opinions enables headquarters managers to put themselves in the position of subunit managers. In displaying a better understanding of subunits' perspectives, headquarters managers can then actively address possible tensions between headquarters and subunits and thereby prevent conflicts and negative performance implications for the organization.

5.3. Conclusion

MNCs are a phenomenon that shape today's world and are central to the global economy. For more than 50 years, scholars have investigated headquarters-subunit relationships in MNCs, exploring how to best structure and manage them (Kostova et al., 2016). Despite this large volume in research, unchartered territory still exists. This significantly lies in the sheer unlimited number of organizational phenomena and interdependencies that appear and exist in MNCs. In dissecting different, but potentially interdependent topics, researchers do not achieve a holistic understanding of the MNC at once, but take a step by step approach, allowing for continuous learning throughout that journey and an in-depth study of specific phenomena.

In sum, this dissertation contributes to a better understanding of the functioning of a MNC, specifically advancing current knowledge on *how to best structure and coordinate a MNC*. While providing new insights on this topic, also by expanding research's current theoretical base, it simultaneously points to room for future research and thus calls for additional research in this field.

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7. Appendix

7.1. Study 3 – Questionnaire

Corporate Parenting at [MNC]

Survey to review the parenting concept of the [MNC]

Welcome!

Dear Participant,

Before starting, please read the following definitions carefully.

Parent	The Parent refers to the headquarters of your respective Business Unit (BU). It includes all parent functions and initiatives (i-e. all BU headquarters activities and services, such as e.g. operations).
Subsidiary (SUB)	A Subsidiary refers to an (inter)national legal entity of the [MNC]. Examples include [subsidiary x], [subsidiary y].
How things are vs. how things should be	As you will notice, some of the questions will ask about your opinion on how the situation Is today and how you think the situation should be in the future: "*in the current situation*": refers to the situation as it is today "*How it should be*": refers to the desired state, that is, how you believe the situation should be in the future.

Thank you very much for taking the time and effort to contribute to this project. Your input is highly appreciated.

Have you filled out a questionnaire of this survey before?

Some managers have been asked to fill out several questionnaires. In order to avoid asking similar questions multiple times, we need to know whether you fill out this questionnaire for the first time or not.

- ○ Yes, I filled out a questionnaire before.
- ○ No, this is the first questionnaire I fill out.

INTRODUCTION

Question 1 (out of 37): Please indicate the parenting model that best characterizes the role of the Parent. Please choose one of the six models.

Hands-off ownership.
The Parent focuses on creating value by adding new businesses to the portfolio and divesting others, without any ambition to exercise central control over strategic or operating functions.

Financial Sponsorship.
The Parent builds its strategy mainly on providing financial advantages, providing access to cheaper and more flexible funding, and reduced tax burdens.

Synergy creation.
The Parent focuses on deriving major benefits from synergies in sales, marketing, and operations across the Subsidiaries. The Subsidiaries, however, are fully accountable for their performance; the Parent limits its interference in strategic and operational issues.

Strategic guidance.
The Parent adds value by having superior strategic insight and experience and by defining a clear strategic direction for the businesses.

Functional leadership.
The Parent adds value through functional excellence, shared corporate resources and central services. It builds strong corporate functions that bundle expertise in areas that have a long-term influence on Subsidiaries.

Hands-on management.
The Parent goes beyond setting financial targets, providing strategic guidelines, or providing functional leadership, it gets deeply involved in the management of the Subsidiaries by influencing operational decisions at the level of the individual business.

Question 2 (out of 37): Please indicate to which extent you think the following are value drivers for the Parent…

	…in the current situation.							…how it should be.						
	to no extent						to a very great extent	to no extent						to a very great extent
	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Securing stable development of all SUBs through long-term committed core shareholders.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Optimizing the risk/return-profile of the BU-wide investment portfolio.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Supporting professionalization and improving efficiency in business processes.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Detecting and exploiting new business opportunities in products and markets.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Protecting and optimizing the BU's capital base and liquidity.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Securing access to capital markets.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Providing group reporting knowledge and standards.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Interacting with shareholders.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Enhance technical knowhow transfer across all SUBs (e.g. wire rope production)	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Enhance methodical knowhow transfer across all SUBs (e.g. project management)	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Leveraging the Swissness as part of the brands within the BU (e.g. better public perception).	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Harmonizing IT systems and processes.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Fostering knowledge transfer and best practice exchange across all SUBs.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Protecting and optimizing (top-) management talent pool.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Establishing a shared customer relationship management philosophy.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Fostering business alignment through synergy creation across all SUBs.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Engaging operationally in SUBs.	○	○	○	○	○	○	○	○	○	○	○	○	○	○

PART I: ORGANIZATIONAL CONTEXT

Please note:

The following questions will ask about the relationship between the *Parent* and a *SUB*.
In this questionnaire, you are asked to review the relationship between the [parent entity] and *your Subsidiary.*

[graphic showing relationship between parent and subordinate with logo]

Question 3 (out of 37): Please indicate how the Parent influences major decisions affecting your Subsidiary in the following areas:

	No influence at all						Very high influence
	1	2	3	4	5	6	7
Setting of budgets and financial targets.	○	○	○	○	○	○	○
Major capital investment.	○	○	○	○	○	○	○
Business strategy/new business creation and corporate development.	○	○	○	○	○	○	○
Setting accounting standards.	○	○	○	○	○	○	○
Risk and capital management.	○	○	○	○	○	○	○
Setting financial planning standards and procedures.	○	○	○	○	○	○	○
Supporting project managers in project execution.	○	○	○	○	○	○	○
Optimizing taxes.	○	○	○	○	○	○	○
Investor relations (interactions with the owners).	○	○	○	○	○	○	○
Product portfolio management and controlling.	○	○	○	○	○	○	○
Communications and branding.	○	○	○	○	○	○	○
IT operations, systems and services.	○	○	○	○	○	○	○
Human resources development.	○	○	○	○	○	○	○
Corporate social responsibility (code of conduct and compliance).	○	○	○	○	○	○	○
Customer relationship management.	○	○	○	○	○	○	○
Overall influence of the Parent on SUB decisions.	○	○	○	○	○	○	○

Question 4 (out of 37): Please indicate to which extent you agree that your Subsidiary is completely dependent on the Parent for the following processes:

	Strongly disagree 1	2	3	4	5	6	Strongly agree 7
Service and product operations (i.e. day-to-day business).	○	○	○	○	○	○	○
New product development.	○	○	○	○	○	○	○
Financial resources.	○	○	○	○	○	○	○
Managerial expertise.	○	○	○	○	○	○	○
Human resource management.	○	○	○	○	○	○	○
Marketing.	○	○	○	○	○	○	○
Strategy.	○	○	○	○	○	○	○
Information technology.	○	○	○	○	○	○	○
Investments.	○	○	○	○	○	○	○
Overall.	○	○	○	○	○	○	○

Question 5 (out of 37): Subsidiaries need to interact with the Parent on various dimensions. Please indicate to what extent your Subsidiary needs to exchange the following resources with the Parent:

	no need to exchange resources 1	2	3	4	5	6	very strong need to exchange resources 7
Information.	○	○	○	○	○	○	○
Know-how.	○	○	○	○	○	○	○
Managers.	○	○	○	○	○	○	○
Methodical/methodic experts.	○	○	○	○	○	○	○
Technical/topic experts.	○	○	○	○	○	○	○
Financial resources.	○	○	○	○	○	○	○

Question 6 (out of 37): Please indicate how much influence your Subsidiary has on the following BU-wide decisions:

	no influence at all						very high influence
	1	2	3	4	5	6	7
Long-term BU-wide functional objectives.	○	○	○	○	○	○	○
BU-wide functional services/product portfolio.	○	○	○	○	○	○	○
BU-wide functional pricing strategy *(including internal pricing, service agreement).*	○	○	○	○	○	○	○
Strategic direction of BU-wide service/product development.	○	○	○	○	○	○	○
Investments in BU-wide functional service/products.	○	○	○	○	○	○	○
IT strategy and operations.	○	○	○	○	○	○	○
Investments (incl. M&A, divestures)	○	○	○	○	○	○	○

Question 7 (out of 37): Please indicate to which extent the Parent delegates decision-making authority to your Subsidiary.

	…in the current situation.							…how it should be.						
	to no extent						to a very great extent	to no extent						to a very great extent
	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Choosing projects to work on.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Choosing employee assignments for projects.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Hiring and firing staff.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Promoting staff.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Administering the salary administration system.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Allocating salary raises.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Making major expenditures.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Making minor expenditures.	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Question 8 (out of 37): How frequently does the Parent evaluate the activities and performance of your Subsidiary (SUB)? To what extent does the Parent…

	to no extent 1	2	3	4	5	6	to a very great extent 7
Have the opportunity to frequently observe your SUB's performance?	○	○	○	○	○	○	○
Informally evaluate your SUB's performance on a frequent basis?	○	○	○	○	○	○	○
Provide frequent informal feedback to your SUB concerning performance?	○	○	○	○	○	○	○

Question 9 (out of 37): Please assess the extent to which the following is true for your Subsidiary…

	…in the current situation. to no extent 1	2	3	4	5	6	to a very great extent 7	…how it should be. to no extent 1	2	3	4	5	6	to a very great extent 7
Written rules about functional processes exist.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
There are rules and procedures stating how to perform normal daily activities.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
There are standard procedures for individual tasks.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
There is strict enforcement of written rules and procedures.	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Question 10 (out of 37): Please indicate the relationship of your Subsidiary (SUB) to the Parent…

	…in the current situation.							…how it should be.						
	Strongly disagree						Strongly agree	Strongly disagree						Strongly agree
	1	2	3	4	5	6	7	1	2	3	4	5	6	7
Detailed rules and procedures used in my SUB are usually developed by the Parent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
There are written rules and processes developed by the Parent stating how to perform daily activities at my SUB.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Numerical records (e.g. financial ratios) are used as the main measure of my SUB's effectiveness.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Overall, detailed performance goals for my SUB are set by the Parent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
When evaluating the performance of my SUB, the Parent focuses on results.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
There is a strong commitment to training and development of skilled managers by the Parent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
The Parent puts a lot of effort into establishing a common corporate culture.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
My SUB's employees participate in extensive (functional) training initiated by the Parent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
My SUB's employees share the values of the Parent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Question 11 (out of 37): Please assess the relative amount of attention paid to your Subsidiary (SUB) compared to the other SUBs. *Please mark your Subsidiary at the right-most column and skip the respective row.*

	…much lower			..about the same			Much higher	This is my SUB
	-3	-2	-1	0	+1	+2	+3	
The amount of attention paid to this SUB relative to the [subsidiary 1] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 2] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 3] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 4] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 5] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 6] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 7] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 8] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 9] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 10] is...	○	○	○	○	○	○	○	○
The amount of attention paid to this SUB relative to the [subsidiary 11] is...	○	○	○	○	○	○	○	○

PART II: ENVIRONMENTAL CONTEXT

Question 12 (out of 37): Please assess the environment of your Subsidiary and indicate to what extent the following is true:

	to no extent 1	2	3	4	5	6	to a very great extent 7
Environmental changes in the local market are intense.	○	○	○	○	○	○	○
Clients regularly ask for new products and services.	○	○	○	○	○	○	○
In the local market, changes are taking place continuously.	○	○	○	○	○	○	○
Within the past year, nothing has changed in the market.	○	○	○	○	○	○	○
In the market, volumes of products and services to be delivered change fast and often.	○	○	○	○	○	○	○
Regulations that affect the local market change frequently.	○	○	○	○	○	○	○
The amount of customer complaints has changed significantly in the past year.	○	○	○	○	○	○	○

Question 13 (out of 37): Please indicate your agreement with the following characterizations of your Subsidiary's (SUB) environment?

	to no extent 1	2	3	4	5	6	to a very great extent 7
In my SUB's environment, customer preferences change substantially over time.	○	○	○	○	○	○	○
There is demand from customers who never bought/required my SUB's services/products before.	○	○	○	○	○	○	○
It is very difficult to forecast the technological development in the next three years that will affect my SUB.	○	○	○	○	○	○	○
A large number of new product and service ideas has been made possible through technological breakthroughs in the industry that might affect my SUB.	○	○	○	○	○	○	○
Competition with regards to products/services offered by my SUB in the market is very fierce.	○	○	○	○	○	○	○
Heavy price competition is a characteristic of the region/market, with impact on my SUB.	○	○	○	○	○	○	○
Many customers of my SUB are also important beyond the local level.	○	○	○	○	○	○	○
Many suppliers (for example, IT suppliers, and subcontractors of financial products) of my SUB are also important beyond the local level.	○	○	○	○	○	○	○
Many competitors of my SUB are also important beyond the local level.	○	○	○	○	○	○	○

Question 14 (out of 37): Please compare your Subsidiary with the other Subsidiaries of your respective BU. To what extent is the respective Subsidiary similar to them with regards to the following:

	to no extent 1	2	3	4	5	6	to a very great extent 7
Product use.	○	○	○	○	○	○	○
End customer types.	○	○	○	○	○	○	○
Competitors.	○	○	○	○	○	○	○
Product/service design.	○	○	○	○	○	○	○
Product/service technology.	○	○	○	○	○	○	○
Pricing.	○	○	○	○	○	○	○
General management skills.	○	○	○	○	○	○	○
Technical skills.	○	○	○	○	○	○	○
Administrative skills.	○	○	○	○	○	○	○
Brand identity.	○	○	○	○	○	○	○
Brand recognition.	○	○	○	○	○	○	○
Market knowledge.	○	○	○	○	○	○	○
Sales channel type.	○	○	○	○	○	○	○
After-sales types.	○	○	○	○	○	○	○
Supply channel types.	○	○	○	○	○	○	○
Suppliers.	○	○	○	○	○	○	○

PART III: INTERNAL PROCESS MANAGEMENT

Question 15 (out of 37): Please estimate the average frequency of personal, face-to-face contacts in the interaction between your Subsidiary (SUB) and…

	Once every few months or less						Very often (daily)
	1	2	3	4	5	6	7
The Parent.	○	○	○	○	○	○	○
Other SUBs in your BU.	○	○	○	○	○	○	○
Other BUs.	○	○	○	○	○	○	○
Other SUBs in other BUs.	○	○	○	○	○	○	○

Question 16 (out of 37): Please estimate the average frequency of other communication (letter, phone, digital) in the interaction between your Subsidiary (SUB) and…

	Once every few months or less						Very often (daily)
	1	2	3	4	5	6	7
The Parent.	○	○	○	○	○	○	○
Other SUBs in your BU.	○	○	○	○	○	○	○
Other BUs.	○	○	○	○	○	○	○
Other SUBs in other BUs.	○	○	○	○	○	○	○

Question 17 (out of 37): Please indicate the extent to which the following statements are characteristics of the processes between the Parent and your Subsidiary (SUB).

	to no extent 1	2	3	4	5	6	to a very great extent 7
Bilateral communication exists between the Parent and my SUB.	○	○	○	○	○	○	○
My SUB is able to challenge the views of the Parent	○	○	○	○	○	○	○
My SUB is able to contradict the views of the Parent.	○	○	○	○	○	○	○
The Parent employees involved in decisions regarding my overall unit are well informed and familiar with relevant specifics of my SUB.	○	○	○	○	○	○	○
My SUB is provided with a full account for the final decisions of the Parent.	○	○	○	○	○	○	○
The Parent applies consistent decision-making procedures across all SUBs.	○	○	○	○	○	○	○

Question 18 (out of 37): The following statements refer to decisions made by the parent that concern your Subsidiary (SUB).To what extent…

	to no extent 1	2	3	4	5	6	to a very great extent 7
…do the decisions made by the Parent reflect the effort your SU B puts into its work?	○	○	○	○	○	○	○
…are the decisions made by the Parent appropriate for the work your SUB has completed?	○	○	○	○	○	○	○
…do the decisions made by the Parent reflect what your SUB has contributed to the organization?	○	○	○	○	○	○	○
…are the decisions made by the Parent justified, given the performance of your SUB?	○	○	○	○	○	○	○

Question 19 (out of 37): The following statements refer to the representative of the Parent that you mainly interact with in your role. To what extent…

	to no extent 1	2	3	4	5	6	to a very great extent 7
…has the Parent-representative been candid in his/her communications with you?	○	○	○	○	○	○	○
…has the Parent-representative explained the procedures thoroughly?	○	○	○	○	○	○	○
…were the explanations of the Parent-representative regarding the procedures reasonable?	○	○	○	○	○	○	○
…has the Parent-representative communicated details in a timely manner?	○	○	○	○	○	○	○
…has the Parent-representative seemed to tailor his/her communications to individuals' specific needs?	○	○	○	○	○	○	○

Question 20 (out of 37): The following statements refer to the representative of the Parent that you mainly interact with in your role. To what extent…

	to no extent 1	2	3	4	5	6	to a very great extent 7
…has the Parent-representative treated you in a polite manner?	○	○	○	○	○	○	○
…has the Parent-representative treated you with dignity?	○	○	○	○	○	○	○
…has the Parent-representative treated you with respect?	○	○	○	○	○	○	○
…has the Parent-representative refrained from improper remarks or comments?	○	○	○	○	○	○	○

Question 21 (out of 37): Please assess the extent to which you agree with the following statements regarding the relationship between your Subsidiary (SUB) and the Parent.

	to no extent 1	2	3	4	5	6	to a very great extent 7
Roles, responsibilities and resources allocated to my SUB during the last year reflected the performance my SUB achieved.	○	○	○	○	○	○	○
Roles, responsibilities and resources allocated to my SUB during the last year reflected my SUB's relative contribution to the BU.	○	○	○	○	○	○	○

Question 22 (out of 37): Please indicate the extent to which the following statements are characteristics of the relationship between the Parent and your Subsidiary (SUB).

	to no extent						to a very great extent
	1	2	3	4	5	6	7
We keep the Parent well informed about what is going on at our SUB.	○	○	○	○	○	○	○
My SUB and the Parent make it a point to keep each other well informed.	○	○	○	○	○	○	○
My SUB hesitated to give the Parent too much information.	○	○	○	○	○	○	○
My SUB is quite involved in the planning effort of the Parent.	○	○	○	○	○	○	○
The Parent seeks my SUB's advice and counsel concerning their efforts.	○	○	○	○	○	○	○
The Parent is willing to let my SUB see their weaknesses as well as their strengths.	○	○	○	○	○	○	○

Question 23 (out of 37): Please indicate the extent as to which the following statements are true of the relationship between the Parent and your Subsidiary (SUB).

	to no extent						to a very great extent
	1	2	3	4	5	6	7
As we have been working together for so long, we can understand each other well and quickly.	○	○	○	○	○	○	○
In our contacts with the Parent, we have never had the feeling of being misled.	○	○	○	○	○	○	○
In this relation, both sides are expected not to make demands that can seriously damage the interests of the other.	○	○	○	○	○	○	○
In this relation, the strongest side is expected not to pursue its interest at all costs.	○	○	○	○	○	○	○
In this relation, informal agreements have the same significance as formal contracts	○	○	○	○	○	○	○
As we have been working together for so long, both sides know the weaknesses of the other and do not take advantage of them.	○	○	○	○	○	○	○

Question 24 (out of 37): Please indicate the extent to which the following statements are characteristics of the relationship between the Parent and your Subsidiary (SUB).

	to no extent						to a very great extent
	1	2	3	4	5	6	7
Some aspects of our work relationship with the Parent could be better	○	○	○	○	○	○	○
Overall, we are both quite satisfied with our working relationship.	○	○	○	○	○	○	○
My SUB is happy with the working relationship with the Parent.	○	○	○	○	○	○	○
Compared to other working relationships I've known or heard about, the one we have with the Parent is quite good.	○	○	○	○	○	○	○
My SUB is happy with its contribution in identifying and developing new business opportunities.	○	○	○	○	○	○	○
We think that the parent likes working with us.	○	○	○	○	○	○	○

Question 25 (out of 37): Please indicate the extent to which you agree with the following statements.

	to no extent						to a very great extent
	1	2	3	4	5	6	7
I am willing to put in a great deal of effort beyond that normally expected in order to help this organization to be successful.	○	○	○	○	○	○	○
I talk up this organization to my friends as a great organization to work for.	○	○	○	○	○	○	○
I would accept almost any type of job assignment in order to keep working for this organization.	○	○	○	○	○	○	○
I find that my values and the organization's values are very similar.	○	○	○	○	○	○	○
I am proud to tell others that I am part of this organization.	○	○	○	○	○	○	○
This organization really inspires the very best in me in the way of job performance.	○	○	○	○	○	○	○
I am extremely glad that I chose this organization to work for over others I was considering at the time I joined.	○	○	○	○	○	○	○
I really care about the fate of this organization.	○	○	○	○	○	○	○
For me this is the best of all possible organizations for which to work.	○	○	○	○	○	○	○

Question 26 (out of 37): How would you assess the level of implementation of the processes at your Subsidiary, i.e., to which extent have the following processes actually been put in practice at your Subsidiary?

	to no extent						to a very great extent
	1	2	3	4	5	6	7
Leadership and mission communicated.	○	○	○	○	○	○	○
Performance tracking.	○	○	○	○	○	○	○
Planning.	○	○	○	○	○	○	○
Allocation of decision-making authorities.	○	○	○	○	○	○	○
Job-specific trainings.	○	○	○	○	○	○	○
Usage of employee suggestions.	○	○	○	○	○	○	○
Process management.	○	○	○	○	○	○	○
Customer focus and satisfaction.	○	○	○	○	○	○	○
Overall level of implementation of corporate-wide functional processes	○	○	○	○	○	○	○

Question 27 (out of 37): To what extent do you agree with the following statements regarding your Subsidiary (SUB) (you and other employees)?

	strongly disagree						strongly agree
	1	2	3	4	5	6	7
We are willing to put in a great deal of effort beyond that normally expected in order to help implement BU-wide processes	○	○	○	○	○	○	○
We talk about BU-wide processes to friends as a great way to reorganize business.	○	○	○	○	○	○	○
We find that the values of our SUB and the values promoted by the parent are very similar.	○	○	○	○	○	○	○
The BU-wide processes really inspire the very best in us in the way of involvement at our work.	○	○	○	○	○	○	○
We are extremely glad that we are involved with the Parent.	○	○	○	○	○	○	○
We really care about the BU-wide processes and their future.	○	○	○	○	○	○	○
Often we find it difficult to agree with what BU-wide processes suggest.	○	○	○	○	○	○	○

Question 28 (out of 37): Please think of the actions taken by your Subsidiary (SUB) during the last year and indicate the extent to which you agree with the following statements:

	strongly disagree 1	2	3	4	5	6	strongly agree 7
My SUB followed the final decisions made by the Parent with extreme care.	○	○	○	○	○	○	○
My SUB accepted and fully implemented the Parent's decisions even if they were not parallel with the interests of my SUB.	○	○	○	○	○	○	○
When presented the opportunity, that is, room for managerial discretion, my SUB tended to disregard and even subvert the Parent's decisions in the interests of my SUB's.	○	○	○	○	○	○	○
Overall, my SUB's actions taken during the last year have been fully consonant with executing the decisions to the letter and spirit with which they were set forth.	○	○	○	○	○	○	○

Question 29 (out of 37): Please indicate the extent to which you agree with the following statements:

	strongly disagree 1	2	3	4	5	6	strongly agree 7
The relationship between the Parent and my SUB is productive	○	○	○	○	○	○	○
The relationship between the Parent and my SUB is effective	○	○	○	○	○	○	○

Question 30 (out of 37): Please indicate to what extent you agree with the following statements.

	strongly disagree 1	2	3	4	5	6	strongly agree 7
My SUB lacks some of the things other SUBs in my BU have.	○	○	○	○	○	○	○
My SUB feels envious towards other SUBs in my BU.	○	○	○	○	○	○	○
My SUB wants to have what other SUBs in my BU have	○	○	○	○	○	○	○
Other SUBs in my BU have things going for them better than my SUB does.	○	○	○	○	○	○	○

Question 31 (out of 37): Please indicate to what extent you agree with the following statements

	strongly disagree 1	2	3	4	5	6	strongly agree 7
My SUB lacks some of the things other SUBs in other BUs have.	○	○	○	○	○	○	○
My SUB feels envious towards other SUBs in other BUs.	○	○	○	○	○	○	○
My SUB wants to have what other SUBs in other BUs have	○	○	○	○	○	○	○
Other SUBs in other BUs have things going for them better than my SUB does.	○	○	○	○	○	○	○

PART IV: PARENTING PERFORMANCE

Question 32 (out of 37): How would you rate effectiveness of the Parent in the following areas?

	very low 1	2	3	4	5	6	very high 7
Ability to define and communicate strategy.	○	○	○	○	○	○	○
Ability to support implementation of strategy.	○	○	○	○	○	○	○
Cost effectiveness of the Parent.	○	○	○	○	○	○	○
Cost efficiency of the Parent.	○	○	○	○	○	○	○
Overall performance of the Parent.	○	○	○	○	○	○	○

Question 33 (out of 37): Please indicate to which extent you think the Parent adds value to your Subsidiary through the following activities:

	to no extent						to a very great extent
	1	2	3	4	5	6	7
ERP solutions [software name].	○	○	○	○	○	○	○
Audits (planning and execution).	○	○	○	○	○	○	○
BU-wide IT infrastructure.	○	○	○	○	○	○	○
BU IT architecture.	○	○	○	○	○	○	○
BU IT security.	○	○	○	○	○	○	○
Coordination and support for financial planning (budgeting, [company-specific name] planning).	○	○	○	○	○	○	○
Internal and external reporting.	○	○	○	○	○	○	○
BU-wide IT applications and processes.	○	○	○	○	○	○	○
Coordination and support of closings and reports (‘financial reporting’).	○	○	○	○	○	○	○
BU-wide standardization of processes.	○	○	○	○	○	○	○
Centralized investment processes and systems.	○	○	○	○	○	○	○
Mergers and acquisitions.	○	○	○	○	○	○	○
Compliance.	○	○	○	○	○	○	○
Coordination and support of embedded value calculations and profit analysis.	○	○	○	○	○	○	○
Coordination and support for project management.	○	○	○	○	○	○	○
Coordination and support for pre- and after calculations in project management.	○	○	○	○	○	○	○
Communications (external and internal).	○	○	○	○	○	○	○
(Top-) management development.	○	○	○	○	○	○	○
General HR support for (top-) management.	○	○	○	○	○	○	○
Corporate responsibility strategy development and update.	○	○	○	○	○	○	○
Tax management and support.	○	○	○	○	○	○	○
Business process management & documentation.	○	○	○	○	○	○	○
Quality management procedures & documentation.	○	○	○	○	○	○	○
Brand management (strategy and guidelines).	○	○	○	○	○	○	○

Question 34 (out of 37): Please assess the value- added aspects of the attention your Subsidiary (SUB) receives from the Parent by indicating to which extent you agree with the following statements:

	strongly disagree 1	2	3	4	5	6	strongly agree 7
The Parent provides cash bonuses and career opportunities to people in my SUB.	○	○	○	○	○	○	○
The Parent wants to learn more about my SUB's market and products.	○	○	○	○	○	○	○
The Parent helps diffuse best practices of my SUB across the entire BU.	○	○	○	○	○	○	○

Question 35 (out of 37): Please indicate to which extent you agree or disagree with the following statements...

	…in the current situation. to no extent 1	2	3	4	5	6	to a very great extent 7	…how it should be. to no extent 1	2	3	4	5	6	to a very great extent 7
The Parent’s way of challenging my SUB’s strategies and tactics has improved my SUBs performance.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Activities managed by the Parent relieve my SUB of administrative work.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
The Parent’s activities lead to substantial cost savings at my SUB.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Parent staff reduces value-destroying behavior of my SUB through tight performance monitoring.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Without the parent my SUB would receive less information that is important to the local business.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
The parent actively fosters cooperation between my SUB and other SUBs.	○	○	○	○	○	○	○	○	○	○	○	○	○	○
My SUB is encouraged by the Parent to share knowledge and talent.	○	○	○	○	○	○	○	○	○	○	○	○	○	○

Question 36 (out of 37): Please indicate to which extent you agree or disagree with the following statements:

	strongly disagree 1	2	3	4	5	6	strongly disagree 7
The Parent has insufficient expertise and skills with regard to the critical success factors of my SUB.	○	○	○	○	○	○	○
Central decision-making is predominantly driven by political matters (e.g., justification of past decisions).	○	○	○	○	○	○	○
Ongoing Parent interference decreases the motivation of my SUB's employees.	○	○	○	○	○	○	○
The Parent offers services which are not needed by my SUB.	○	○	○	○	○	○	○
The Parent overhead charges are too high given the scope and quality of the Parent services offered.	○	○	○	○	○	○	○
Some SUB resources are only needed to fulfill corporate requirements (e.g., reporting obligations).	○	○	○	○	○	○	○
Parent requirements prevent my SUB from supporting the local business effectively.	○	○	○	○	○	○	○
Complex Parent processes reduce flexibility and slow down decision-making.	○	○	○	○	○	○	○

Question 37 (out of 37): Please rate performance of your Subsidiary regarding:

	much worse than expected 1	2	3	4	5	6	much better than expected 7
Competitive position achieved in the national market	○	○	○	○	○	○	○
Strategic contribution to the BU	○	○	○	○	○	○	○
Cash flows generated from operations.	○	○	○	○	○	○	○
Efficiency of operations	○	○	○	○	○	○	○
Distinctive competencies built (e.g., new product development, R&D activities)	○	○	○	○	○	○	○
Growth rate	○	○	○	○	○	○	○
Overall financial performance	○	○	○	○	○	○	○

Optional questions:

It will be very interesting for the (MNC) to get your view on the questions below. However, answering these questions is optional.

Additional remarks:

Do you see any areas where the Parent should be involved to a greater extent and why?	
Do you see any areas where the Parent should be less involved, and why?	
Do you see any other improvement potential in the [MNC]?	
Do you have any additional remarks?	
If you could wish for one thing to change in the [MNC], what would it be?	

Thank you very much for your participation!

Your response has been recorded.

7.2. Study 3 – Vignettes

A: EVM – Scenario Base Case (every interviewee received the following to read)

Imagine you receive the following email:

Dear Mr./Mrs. X/Y,

With this email we would like to announce the introduction of a new reporting process. Based on new requirements from the [company name] headquarters, we are planning a simpler, more rigorous and standardized format that satisfies both the needs of our headquarters as well as is tailored to the individual needs of the Business Units and subunits. From April onwards the new reporting tool will be launched. It is an ERP application and will be made available to you through a regular over-night software update.

In the future, all subunit general managers as well as functional managers will be involved and asked to submit the reporting plans via this new online tool.

B: EVM – Scenario Procedural Justice (every interviewee received the following to read)

The new reporting tool was launched and designed based on the initiative of one headquarters employee. We also discussed the new features of the tool with some selected business unit and subunit representatives to ensure that all needs are considered and satisfied.

C: EVM – Scenario Informational Justice (every interviewee received the following to read)

Your boss from headquarters approaches you and tells you the following:

„Hello Mr./Mrs. X/Y. I hope you are doing well. I wanted to talk to you about the introduction of the new reporting tool. I hope you read the email about the new ERP process. I have already been in contact with some of your fellow functions two weeks ago and talked to them about how to best implement the new tool and how to best inform our people involved. We thought about organizing a training to present the new tool and practice using it. Some people suggested to organize it in three weeks at the headquarters in Switzerland. I hope this also works for you.”

D: EVM – Scenario Interpersonal Justice (every interviewee received the following to read)

Your boss pats you on the back and says: “I am really sorry to inform you this late, but as you know I am a very busy man and one has to set priorities.” He laughs and continues: “I am sure you will manage and understand that I first had to speak to the others as most of them have been with the company longer than you are.”

7.3. Curriculum vitae

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CURRICULUM VITAE

PERSONAL DATA:

Date of birth: 07/07/1989

Nationality: German

EDUCATION:

08/2015 – 09/2018	**Ph.D. General Management** (University of St. Gallen, CH)
09/2011– 08/2013	**CEMS MIM / MSc International Management**, Ø: 1,43[4] (WU Vienna, AT)
02/2012 – 05/2012	**CEMS Exchange Semester** (University of St. Gallen, CH)
09/2008 – 07/2011	**BSc International Business**, Ø: 8,05[5] (Maastricht University, NL)
08/2010 – 12/2010	**Exchange Semester** (Singapore Management University, SG)
08/2006 – 06/2008	**Käthe-Kollwitz-School Hannover**, Abitur: 1,4[6] (Hannover, DE)
02/2006 – 06/2006	**Nanaimo District Secondary School**, French Immersion Program (Nanaimo, CA)

WORK EXPERIENCE:

Since 10/2013	**The Boston Consulting Group**, Consultant – Insurance (Dusseldorf, DE / Zurich, CH)
08/2015 – 10/2017	**University of St. Gallen – Management Institute**, Research Associate (St. Gallen, CH)
01/2013 – 04/2013	**Monitor Deloitte**, Internship Consulting (Zurich, CH)
07/2012 – 10/2012	**The Boston Consulting Group**, Visiting Associate (Berlin, DE)
07/2011 – 08/2011	**ERGO Insurance Group**, Internship Corporate Development (Dusseldorf, DE)
06/2010 – 07/2010	**Gördes, Rhöse & Collegen** , Internship Consulting (Hannover, DE)
08/2009	**Süwag Energy AG**, Internship Controlling / Marketing (Frankfurt/Main, DE)
05/2008 – 06/2008	**Continental AG**, Internship Supply Chain Management (Hannover, DE)

PUBLICATIONS:

Zobel, N. Perception Gaps in the Headquarters-Subsidiary Relationship – Are Divergences in Fairness Perceptions Culture-Bound? *EIBA Conference Milan 2017*

Zobel, N., Nell, P.C., Ambos, B., Kunisch, S. & Schulte Steinberg A., 2017. The Antidote to Envy? Socialization's Role in Alleviating the Influence of Envy in Headquarters-Subunit Alignment. *Strategic Management Annual Conference Houston 2017*

Zobel, N., Nell, P.C., Ambos, B., Kunisch, S. & Schulte Steinberg A., 2016. The Antidote to Envy? – The Role of Socialization in Alleviating the Negative Influence of Envy in Headquarters-Subunit Alignment. *EIBA Conference Vienna 2016*

Zobel, N. & Ambos, B., 2016. Context Matters – The Role of Culture in Employing Justice to Achieve MNC Alignment *SMS Special Conference Hong Kong 2016*

Zobel, N. & Ipsmiller, E. 2013. From NPV Analysis to Real Option Analysis: The Application of Advanced Decision Tools for Capital Investments *AIB Southeast Asia Chapter – 2013 AIBSEAR Bali Conference*

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[4] AT Grading System: 1 (best) - 5 (worst)
[5] NL Grading System: 10 (best) - 1 (worst) – Ø 8,05 corresponds to Top 10%
[6] DE Grading System: 1 (best) - 6 (worst)

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EXTRACURRICULAR ACTIVITIES:

10/2011 – 06/2013	Active Member of the **CEMS Club Vienna**, study association (Vienna, AT)
10/2009 – 07/2010	Active Member of **FS Focus**, study association (Maastricht, NL)
10/2007	**Environmental Protection Project** (Ecuador)

LANGUAGES:

German	Native
English	Business fluent
French	Good command (Level B2 according to CEFR[7])
Dutch	Good command (Level B2 according to CEFR[4])
Spanish	Basic skills

ADDITIONAL SKILLS / CERTIFICATES:

Software	MS Power Point / Word (very good), MS Excel (advanced), Stata (advanced programming skills), SPSS (basic programming skills)
GMAT	Points: 680

ACTIVITIES:

Hobbies	Sailing, skiing, tennis, travelling, hiking, field hockey

[7] CEFR = Common European Framework of Reference for Languages