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## Reverse Dependency

### *A Longitudinal Case Study Investigation into Headquarter-Subsidiary Relationship in the Context of an Emerging Economy*

Vijay Pereira,<sup>1</sup> Surender Munjal,<sup>2</sup> and M. K. Nandakumar<sup>3</sup>

<sup>1</sup>*Department of Organizational Studies and HRM, University of Portsmouth, Portsmouth Business School, Portsmouth, United Kingdom*

<sup>2</sup>*Leeds University Business School, Leeds University, Leeds, United Kingdom*

<sup>3</sup>*Salford Business School, University of Salford, Manchester, United Kingdom*

**Abstract:** This study provides a conceptual framework and typology to measure headquarters and subsidiary dependency on capabilities and resources. Using an in-depth longitudinal case study approach, it highlights a novel phenomenon called “reverse dependency,” which indicates that a headquarters dependency on its subsidiary is rising. This is an emerging phenomenon, probably related to increased globalization and convergence of world economies. The study offers implications for the theory of subsidiary entrepreneurship and location embeddedness.

**Keywords:** Headquarter-subsidiary relationship; reverse dependency; India; longitudinal study

In the context of the changing power balance between headquarters (HQ) and subsidiary, this study examines HQ dependence on subsidiaries in the context of the location where a subsidiary is embedded. We argue that when the subsidiary is based in an emerging economy, such as India, whose strategic assets and institutions are evolving, HQ benefits immensely from the knowledge transfer, strategic resources, and competencies of the subsidiary (see for e.g., Ramamurti 2012). In this context, we envisage that an HQ becomes dependent on its subsidiary.

In this study, we provide a theoretical framework that offers a typology of HQ-subsidiary dependence and allows for mapping of different degrees of dependence. Moreover, we extend the literature on HQ-subsidiary relationship by delineating the circumstances under which the subsidiary gains a degree of importance and control, such that the HQ then tends to depend on the subsidiary. Mudambi, Pedersen, and Andersson (2014) have recently explained how a subsidiary gains power in multinational corporations. Taking that argument further, this study proposes the consequence of such an eventuality i.e., where a subsidiary gains importance and control within an MNE, and the HQ may become dependent on the subsidiary.

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Address correspondence to Vijay Pereira, Department of Organizational Studies and HRM, University of Portsmouth, Portsmouth Business School, Richmond Building, Portland Street, PO1 3DE Portsmouth, UK. E-mail: [vijay.pereira@port.ac.uk](mailto:vijay.pereira@port.ac.uk)

Largely, this study has implications for resource dependence theory and suggestions for managers of Multi National Enterprises (MNEs). It also takes a closer look at the processes and drivers that provide power to the subsidiary within the MNE. There is a gap in the literature in its analysis of the processes and drivers of subsidiary evolution, and we intend to close this gap by providing empirical evidence through an in-depth examination of a longitudinal case study, involving a subsidiary of a foreign MNE in India. A case study enables us to provide findings that can be easily understood by managers in MNEs.

## LITERATURE REVIEW

An organization that controls and manages subsidiaries located in, at least, two countries can be termed as an MNE (Teece 1985). Headquarters implement different types of managerial activities, transfer knowledge and resources to their subsidiaries, and create an appropriate structure within the organization. The aim of HQ is to create a network, as has been described by Williamson's (1981) in his transaction cost economics (TCE) theory. TCE suggests maximization of MNE performance through the reduction of transaction costs. Thus, for example, the very basis of the offshore outsourcing phenomenon is cost saving, as the literature explains and suggests through the TCE theory (Williamson, 1981). This fact brings into perspective a strong focus on the HQ network role (Dellestrand 2011).

The extant literature in international business and strategy identifies different models of HQ-subsidary relationships. The traditional centralization-based models suggest that HQ is a pool of knowledge and resources of the MNE (for details see Ghoshal and Nohria 1989). It is traditionally suggested that the competitive advantages of the MNE are directly related to the knowledge, resources, and capabilities that should remain centralized, preserved, and controlled by the MNE's HQ (Bates and Flynn 1995).

Fladmoe-Lindquist and Tallman (2002) suggest that HQs usually follow capability recognition strategies. HQ recognizes the subsidiary's current capabilities and distributes knowledge and resources on a need-to-know basis. Thus, HQ controls the amount of knowledge and resources that gets transferred to its subsidiary. However, such models seem to be inadequate to represent MNE activities due to an increase in the globalization and internationalization of businesses, especially the involvement of an emerging economy's subsidiaries. Subsidiaries that become centers for excellence (Holm and Pedersen 2000) tend to influence different functional areas of the MNE and actively shape its strategies (Bartlett and Ghoshal 1989; Birkinshaw, Hood, and Jonsson 1998).

Costello and Costello (2009) have developed a theoretical framework that explains the nature and design of the HQ-subsidary governance relationships. This framework is useful in examining the "types of bundles" of governance mechanisms that are used for better alignment of subsidiaries with headquarters and the reasons why a governance mechanism is adopted by a particular multinational enterprise. Their studies suggest that three types of subsidiary bundles of governance are used by MNEs: those that depend on parent-centered governance mechanisms, subsidiary-centered governance mechanisms, and parent- and subsidiary-centered governance mechanisms. Costello and Costello (2009) also posit that the MNE's international strategy, its subsidiary's importance, environmental uncertainty faced by its subsidiary, and the subsidiary's age are helpful in predicting the type of bundle selected to align the interests of headquarters with a subsidiary.

Nohria and Ghoshal (1994) have examined two different approaches, differentiated fit and shared values, for managing the relations between HQ and subsidiaries in MNEs. The differentiated fit approach is based on contingency theory and necessitates an understanding of specific control problems presented by the context of each subsidiary. It suggests that the MNE should make use of the right combination of formal structural elements to manage these contingencies.

In the decision-making process, conflicts between HQ and subsidiary occur. Conflict, in its dysfunctional form, is conceptualized to be unhealthy and associated with negative outcomes, e.g., distortion and withholding of information to the detriment of others within the organization and hostility and distrust during interactions (Thomas 1990). Arguably, dysfunctional conflict is associated with opportunistic behavior (Barclay 1991), information gatekeeping (Jaworski and Kohli 1993), and the creation of obstacles to decision making. In contrast, functional conflict is believed to have beneficial effects that flow from the consultative interactions that occur when functional conflict is present (Schwenk 1989). Under these circumstances, people feel free to express their opinions and to challenge the ideas, beliefs, and assumptions of others. Thus, a functional conflict positively affects the organization's performance while a dysfunctional conflict negatively affects its performance. Perceptions of both academics and managers regarding interorganizational conflicts between HQ and their foreign subsidiaries in MNE have undergone a transformation, and, consequently, these conflicts are no longer viewed as dysfunctional, but rather as a natural consequence of globalization (Schotter and Beamish 2011).

The shared values approach could facilitate the creation of a common set of values and goals and minimize the divergent interests among the actors. Such an approach could also create a feeling of mutual interdependence. This idea confers to the resource dependence theory (Salancik and Pfeffer 1977), which, in the context of a MNE, states that (sub) units in an organization depend on other (sub) units to stabilize the flow of resources.

MNEs allow for the flow of knowledge and resources within various subsidiaries that enhances "smooth global operations, gain more market power, and achieve faster market entry" (Xia 2011, 229). The role of human resources in the flow of knowledge and skills among subsidiaries is particularly noted in the literature. Further, the HQ orchestrates the flow of resources and skills between subsidiaries (Dellestrand 2011). However, in certain circumstances, such as when the pressure of global integration is low and local responsiveness is high, the HQ's mandate for subsidiaries is to localize (Bartlett and Ghoshal 1989). In these situations, subsidiary entrepreneurship and autonomy emerge.

Localizing the subsidiary embedded within the host location helps to access foreign technology, skills, and local market knowledge that are location bound, in order to carry on operations successfully (Bartlett and Ghoshal 1989). In localization strategy, HQ tends to preserve the subsidiary's autonomy because the subsidiary does not draw upon the central reserve of knowledge and resources of the HQ. Thus, in such situations, both subsidiary and HQ have low dependence on each other.

Figure 1 below depicts our conceptual model and maps the existing literature on HQ-subsidiary dependence. We call cell 1.1 "preservation," as it exhibits the scenario when both HQ and subsidiary act independently, preserving their autonomy. Preservation strategy closely refers to Bartlett and Ghoshal's (1989) multidomestic (or localization) strategies in the integrative responsiveness model. This type of strategy is particularly relevant when the pressure for localization is high and pressure for standardization is low. The MNE's subsidiary focuses on adaptation to the local market, and HQ interference is kept low. An excellent example of

Degree of 'dependence' on HQ	H	<b>Dependency</b>  Subsidiary conforms to HQ – <i>Dependence assimilation 1 (top-bottom)</i> <b>(3.1)</b>		<b>Transformation</b>  Both the HQ and subsidiary find new ways of sharing – <i>Dependence transformation</i> <b>(3.3)</b>
			<b>Best of Both</b>  Additive from both sides – <i>Dependence integration</i> <b>(2.2)</b>	
	L	<b>Preservation</b>  Subsidiary retains its independence – <i>Dependence autonomy</i> <b>(1.1)</b>		<b>Reverse Dependency</b>  Unusual case subsidiary dictating terms – <i>Dependence assimilation 2 (bottom-top)</i> <b>(1.3)</b>
	L	<b>Degree of 'dependence' on Subsidiary</b>		H

FIGURE 1 Dependency scenarios between HQ and subsidiary.

preservation utilized as a strategy is Unilever. Different subsidiaries of Unilever across the world preserve their autonomy in almost every functional area of management.

Cell 3.1 is called “dependence,” as it presents the traditional case of an HQ-centered strategy: the subsidiary is dependent upon HQ. This strategy refers back to a Ghoshal and Nohria (1989) type of centralization-based governance model of MNE, where resources and capabilities are controlled by HQ. This type of strategy is more applicable to MNEs that deal with standardized products, such as electronic equipment. In such cases, the subsidiary only performs the mandate given by HQ and remains dependent on HQ.

The traditional or conventional view suggests that knowledge transfer is likely to be either transplantation or supplantation (Mudambi 2002). When an MNE’s primary objective is to exploit local markets, it would infuse knowledge from HQ to either transplant a degree of its own knowledge or to supplant the subsidiary’s existing knowledge. Transplantation is essentially represented in cell 3.1 of our model. Supplantation is represented in cell 2.2, where knowledge and resources transferred by the HQ are supplemented by the subsidiary’s existing knowledge and resources. Gupta and Govindarajan (2000) suggest that subsidiaries may be motivated to transfer knowledge to their HQ, as it could strengthen their strategic position in the organization. However, HQ would only be interested in transfers when it deems them to be beneficial from its own point of view.

Cell 2.2 is, thus, called “best of both”; it shows that, in certain scenarios, HQ and the subsidiary can mutually exploit the capabilities and resources of each other. Fladmoe-Lindquist and Tallman (2002) referred to such a scenario as a “capability driven” strategy. It means that HQ and the subsidiary build, protect, and mutually exploit capabilities. For instance, the network of the subsidiary can further leverage the internationalization of the MNE and gain access to

resources not otherwise accessible to HQ. Thus, the subsidiary and its network resources not only provide competitive advantage to the MNE but also become a basis for their mutual existence.

Moreover, reverse knowledge transfer can be beneficial to HQ in terms of accessing local knowledge, coordinating a global strategy, improving processes in the MNE's network, and providing new products. Another way to look at this HQ-subsidary relationship of knowledge transfer can be through what Cantwell and Mudambi (2005) term "competence creation versus competence exploitation." On the one hand, the HQ expects competence-creating subsidiaries to introduce new, unique, and valuable knowledge that can be used by other corporate units and, for example, become centers of excellence (Holm and Pedersen 2000). On the other hand, competence-exploiting subsidiaries are expected to transfer and adapt knowledge from their HQ to local markets.

Yang, Mudambi, and Meyer (2008) looked at leveraging knowledge from "geographically disparate" subsidiaries. They found that knowledge transfers to and from geographically dispersed subsidiaries were a crucial source of competitive advantage for MNEs. Findings in the study also revealed that organizational characteristics are important in conventional knowledge flows from headquarters, so that subsidiaries, provided with competence-creating objectives, receive significantly larger inflows. They concluded that knowledge characteristics are important in reverse flows to headquarters, so that subsidiaries whose knowledge is more relevant to HQ are able to transmit significantly larger outflows.

A recent article by Mudambi, Pedersen, and Andersson (2014) focused on how power is gained in MNEs and their subsidiaries. More specifically, they looked at the intraorganizational network of MNEs, drawing on the resource dependence literature. They found that mutual dependence and dependence imbalance provide strong explanations for the subsidiary's power. Findings from their study also suggested that subsidiary power over strategic decisions in the MNE is gained through functional power. This power is realized more in terms of the possession of technological, rather than business-related, power. Further, they found reinforcement between technological- and business-related powers, as both were strengthening the subsidiary's strategic power in the MNE network.

Through our conceptual model presented in Figure 1, we have portrayed a novel scenario where the subsidiary tends to gain greater power. In such a situation, HQ becomes more dependent on the subsidiary. This situation, shown in cell 1.3, is converse to traditional centralization-based models of HQ-subsidary relationships; hence, we term it "reverse dependency." This is a further step ahead to the scenario on HQ-subsidary mutual dependencies depicted in cell 2.2, because in such a situation HQ is dependent on its subsidiary, rather than having a balanced and mutual exploitation of knowledge, strategic resources, and capabilities.

We further argue that the reverse dependency scenario is an emerging phenomenon. A greater number of such cases (where there is higher HQ dependency on subsidiary than the reverse) are surfacing, due to increased globalization of the world economy. When the subsidiary's entrepreneurship and other capabilities, knowledge, skills, and resources rise to a significant level, the situation tends to contribute substantially and add greater value in terms of the overall position it holds in the MNE. For example, greater competencies, lower costs, skills, strategic positioning, power, client and customer satisfaction levels, and proven new business models are the seven a priori themes that emerge from the literature. Thus, when the subsidiary's share in the overall performance of the MNE reaches a certain point, HQ would naturally tend to be more dependent on the subsidiary's resources.

Mahlendorf, Rehrign, Schaffer, and Wyszomirski (2012) have concluded that the criteria, established by HQ to measure the performance of the subsidiary, tend to influence the subsidiary's decision making. However, once these performance criteria are overachieved by the subsidiary, the process may reverse itself and HQ decision making may tend to be influenced by the subsidiary. The phenomenon of reverse dependency is also associated with the location of the subsidiary. If the location of the subsidiary has unique immovable advantages (Dunning 1994), then reverse dependency would arise. Thus, the locational context is particularly important. This phenomenon is being described here using a case study about a foreign MNE and its subsidiaries in India.

We name cell 3.3, in the top right corner of the theoretical framework in Figure 1, "transformation." It shows a situation in which the dependency of HQ and the subsidiary upon each other is high and mutual. This shows a higher level of mutual dependence compared to cell 2.2. It is also posited that the higher order dependence is not one-sided as are the cases in cells 1.3 or 3.1. This fact demonstrates that the resources of HQ and the subsidiary are mutually exploited to a high degree. This exploitation can be associated with an efficient and effective utilization of resources that warrants high interactions and knowledge and resource flow between HQ and subsidiary. If such high order dependence is followed, we envisage it can bring organizational and performance transformation into the MNE. Having discussed the relevant literature and forming a theoretical framework, we now move to an explanation of the methodology.

## METHODOLOGY

In order to investigate the phenomenon of HQ-subsidiary relationship in the context of knowledge and resource transfer, we adopt a longitudinal case study approach. The case study component of the research design is grounded in the approach set out by Yin (2009). A case study is defined as "an empirical inquiry that . . . investigates a contemporary phenomenon in depth and within its real-life context when . . . the boundaries between phenomenon and context are not clearly evident" (Yin 2009, 18). We use the case study approach, as much information can be collected through a thorough analysis of a few cases. We have selected and portrayed a case study about a rural Business Process Outsourcing (BPO), where an HQ from the advanced economy of the United States becomes dependent on entrepreneurial capabilities of the subsidiary in India, an emerging economy.

We have used a single, in-depth case study for several reasons. First, an in-depth case study is regarded as a better approach when triangulation occurs within data or theories (Snow and Anderson 1991). Second, scholars, such as Welch, Piekkari, Plakoyiannaki, and Paavilainen-Mäntymäki (2010), advocate the use of qualitative case studies in theorizing novel phenomena, such as HQ-subsidiary knowledge sharing strategies, as investigated in this study. Finally, scholars, such as Birkinshaw, Brannen, and Tung (2011, 573), suggest that, in order to understand "the complexities of emergent and evolving phenomena," such as in this study, it is often inappropriate to engage in large-scale, cross-sectional studies or reductionist methods in the absence of a well-developed theory. Hence, thick description, exploratory research, and comparative case analysis, which focus on inductive theory building and hypotheses generation, are more suitable in the context of this research. Another strength of this research is its longitudinal nature, as it was conducted over a two-year period. Longitudinal studies within organizations, being "time and resource intensive," are relatively rare (Pettigrew 1990, 284).

Interview data were recorded (with permission) and extensive summaries were produced from the recordings. A total of 12 interviews were carried out in two locations in the focal organization, over the two-year research period of 2010–12. The two locations for the study were Bangalore and Suratkal in South India. Interviews were conducted face-to-face and were tape-recorded, and data were transcribed as is normally done. The senior managers that were interviewed included two directors, one general manager, and three senior line managers. Six of the interviews were conducted in 2010–11 and the other six in 2011–12.

The analysis process started with detailed transcription of what Pettigrew (1990) calls “case history” for analysis within longitudinal research. Hence, within-case analysis typically involved detailed case study write-ups for each of the cases. These write-ups were often simply pure descriptions, but they were central to the generation of insight. Simultaneously, data were also analyzed using King’s (2012) “template analyses.” He explains that although this is an inductive process, in reality, a researcher will have some ideas as a result of research questions and the literature, and, therefore, it is possible to project what a priori themes may occur and then work from a bottom up approach (refer to list of seven a priori themes identified in the literature review). Thus, “themes are recurrent and distinctive features of participants’ accounts, characterizing particular perceptions and/or experiences, which the researcher see as relevant to the research question” (King and Horrocks 2012, 150).

The authors were aware that this method may result in the development of themes being overlooked without conscious analysis, and that they needed to be flexible in order to adapt the themes if they were not the most ideal method of depicting the data. The template is a process that can be modified continually through iterative analysis, and thus the template was followed here. King (2012) explains that template analysis is hierarchical in nature but, unlike other types of thematic analysis, the number of themes is not stipulated by the method of analysis but rather is developed through the process of analysis of the data for both the themes and subthemes, which are otherwise referred to as “nested codes.”

## CASE DESCRIPTION

The case study organization is a Rural BPO (RBPO) which is a subsidiary of a U.S. owned and headquartered MNE. They support human resource (HR) processes across the entire employee life cycle, what they call “hire to retire.” The BPO firm’s unique vision for its Indian model is “to position rural talent to deliver leading IT solutions to global business by leveraging strengths of rural India supported by best practices established by the growing IT industry” (RBPO firm’s website). Two of its operations in India are featured in this research: first, its center of excellence in Bangalore, and second, its rural BPO (RBPO) operations in Suratkal in South India.

RBPO provides its clients with the opportunity to examine HR in a different BPO form. As the BPO industry has flourished in India, increasingly more companies began establishing operations in the metropolitan cities to capitalize on the available human resources and physical infrastructure. However, this convergence led to intense competition for available talent and frequent poaching of staff. Also, many employees considered a BPO job as short-term and opted for higher education or business management studies once they had earned enough money to support their plans. These factors resulted in high employee turnover and attrition rates and, in turn, increased recruitment and training costs for many BPO companies

(Budhwar and Bhatnagar 2009). This problem has two low cost solutions (NASSCOM 2010): the first is to shift operations, or part of the operations, to potentially low cost areas, such as China, Malaysia, and the Philippines. The second solution is to tap the vast skilled and cheap pool of workers in rural areas in India itself. A number of Indian BPO organizations have chosen the first option, locating some businesses in alternative business locations such as China, Hong Kong, and Singapore. A few BPO companies, including RBPO, took up the second option and have set up operations in smaller towns and villages. The low cost of operations and lower employee attrition levels are the key benefits that these companies derive from their rural operations. In contrast to the standard BPO industry, this case provides an opportunity to compare this organization's subsidiary entrepreneurial initiatives of operating in a rural location with the firm's Bangalore head office. Over time, it has become its country specific HQ (Budhwar 2012).

## FINDINGS

Seven major a priori themes emerged and were confirmed by data obtained from the respondents of the subsidiary dominating the case study organization. These were competition, costs, skills, strategic position to control employee attrition, control, client interface and satisfaction, and proven success of business models caused by institutional contexts. These are first defined and then are illustrated by evidence taken from the case.

*Competition* is defined as the process of trying to win or do better than other external and internal competitors. Faced with competition and a threat to their current and future existence, the subsidiaries found ways of getting into competitive advantageous positions by exploiting the human resource in rural areas in India. As discussed above, the organization was faced with both global and local competition. The Indian subsidiary of the U.S. HQ had two options: first, to allow HQ to shift operations, or parts of operations, to potentially lower cost countries; and second, to tap and exploit the vast pool of skilled and cheap workers in rural areas in India itself, as described in the following statement:

I also wanted to test a new kind of a model that would prove that rural talent in India can deliver to departments of Global clients ... so I started with this experiment on a very small scale... It's now almost two and a half years. We will be stepping into the third year. So that's the model we are working on ... it is still evolving. (founder member, interview, Bangalore, 2010)

*Cost* is defined as a process of calculating and lowering the price or expense of producing goods and/or services in comparison to the competition and previous costs. Thus, an ability to deliver goods and services at lower costs puts the subsidiary in an advantageous position. With increasing costs, over time, the largely metropolitan locations of the operations at the subsidiary were beginning to get very costly, as explained by the following quote:

[I]f you look at our rural models, which consists [*sic*] of our largest group of entry level employees, they are typically falling into a salary range used by any other big MNC ... probably we are almost at the same level. We pay around one lakh eighty thousand rupees [a hundred and eighty thousand rupees per annum (approximately 2900 dollars per annum)] or something like that. But if we look at a three or four-year period probably our Tier 2, Tier 3 salaries would be about 40% less than what an associate would earn in a big MNC company. (board member, interview, Suratkal, 2011)

*Skill* is defined as the ability to do something well, usually gained through training or experience so as to result in a competitive advantage. In this context, the subsidiaries built upon their existing skills and strived to improve their skill bases. Even though technology is important, the BPO industry is extremely people oriented and centered, and, hence, the reliance on people's technical, soft, and business management skills is extremely important. Both competition and cost are, thus, directly affected by the lack of quality and quantity of such skills, a finding that was brought out over time through our longitudinal data. The following quote explains it:

[I]f you look at the overall spectrum of the work in the Indian IT industry 70% to 75% is very low end services, which anybody and everybody can do, provided they have a few soft skills and technical knowledge... with which they can upgrade with our help. Yet, technically 30% to 25% of an Indian IT company's work force is required to run the high-end consulting, and, what we call, the front end staff. So I think that's the model we are operating upon. Hopefully we should do well in the next couple of years. (board member, interview, Suratkal, 2012)

*Strategically positioned to control employees attrition level* is defined as being strategically positioned for controlling the gradual reduction of the size of a workforce that occurs when employees are lost through retirement or resignation and are not easily replaced. In this case, the subsidiary was in a better strategic position than HQ to control and stem attrition levels. As is well documented in the literature, the Indian BPO industry is fraught with high levels of attrition, and the case study organization, too, faced this challenge. Thus, alongside the increased competition, increasing costs, skills shortages, and the increasing attrition levels, the Center of Excellence (CoE) influenced HQ to move operations to the rural location in India. Initially, management's role in the subsidiary was to be reactive to the attrition levels, a role that later was changed to control overall attrition levels. This phenomenon is explained below.

It is definitely a problem. Attrition is a big issue. The reason being is if the market picks up, so the demand for quality professionals and experience is always rated highly in the IT sector. So attrition is an issue for any company that is in the mid segment, which is from 100 to 400 employees. But there are ways and means to try and reduce attrition through various processes, strategies and policies. Our attrition rates last year were about 20%. This year it's gone up to 25%, but, again, this year we are planning to bring it down to about 15% to 18%, and slowly reduce it to about 10%. We, as the center of excellence, are better and more strategically positioned as compared to our HQ to control attrition. (board member, interview, Suratkal, 2011)

*Control* is defined as an ability or authority to manage or direct something. It also includes the process of limiting, or restricting, somebody or something, or the methods used in attaining this goal. Thus, overall, it is the authority, ability, and process to control something and/or somebody successfully. The subsidiary was now not only a center of excellence (CoE), but was also responsible for overall operations, with additional responsibility of strategic decision making, including budgeting and costing. The following quote explains this situation:

Our Indian operations are now self-sufficient and the centers of excellences in Mumbai and Bangalore are, in realistic terms, our Indian HQ. They have ideally minimized our overall control and are moving into being more strategic partners, solely responsible for our rural operations. (board member, interview, Bangalore, 2012)

*Client facing and satisfaction* are defined as the place, situation, or way, in which two things or people act together or affect each other, or the point of connection between things and the gratification with the way that this has been arranged or done. This definition is made in the context of clients and customers. When the rural operations took off in this case study organization, the client had to communicate through HQ and the subsidiary CoE. To bypass these two levels of communication and to have direct contact with the operations, the CoE at the subsidiary became the first point of contact for the clients. Thus, higher levels of client or customer satisfaction became the strength for the subsidiary. This is explained in the following quote:

[M]ost of the work at Suratkal did not require us to possess soft skills. Initially, we thought it was a necessity and an industry norm, but later realized it was not really required... [C]lients visited us on few occasions and we put forward our employees that met the criteria of soft skills ... that is speaking good English etc.... Clients were extremely impressed with the quality of our work. (manager, interview, Suratkal, 2012)

*Proven success of business models* is defined as the achievement of business models that were planned, or attempted, and that have been tried and tested on earlier occasions, and known to work or to be satisfactory. This success is due to the institutional context of a region/subsidiary. These aspects became the subsidiary's strength over time. Business development, in this case study, saw an expansion of business and exportation of this successful RBPO model. Thus, its newer subsidiaries, with its CoEs and rural operations, were yielding greater control and, hence, dependency levels. The previous arrangement/model of HQ control was proving to be less competitive, as explained in the following quote by a respondent:

We plan to continue with our new model where we will have centres of excellence based in cities where you can get thorough bred and high calibre people ... at the same time, 75% of our work first will be assigned to mainly rural tier 2 and tier 3 cities in the future, that's the model we are going to continue working on, as it has proven to be successful for us. In this ever evolving industry we have to continuously be on the lookout for such innovative models. (chief manager, interview, Bangalore, 2012)

## DISCUSSION AND CONCLUSIONS

We discuss evidence of reverse dependency presented in this study in the form of the seven themes above. First in terms of competition, evidence suggests that the subsidiary pre-empted the move abroad by encouraging HQ to take the decision of moving to a rural location as opposed to a foreign location. In effect, this action helped the subsidiary to become a center of excellence (Holm and Pedersen 2000), a location where more strategic work, planning, and budgeting took place. This success, in turn, led to the HQ being more dependent upon the subsidiary, given that the operations were extended and managed in rural India by the Indian subsidiary. Over time, this change resulted in a shift in the HQ-subsubsidiary relationship from a position of "best of both" (cell 2.2 of our model) to that of reverse dependence (cell 1.3 of our model). This shift was evident from the move in position in 2012 as compared to 2010. It was further supported through our second theme where, for the subsidiary to be cost effective, the decision to move its operations to a rural location in India was largely supported by HQ and the subsidiary. This move, eventually, also led to a greater dependence on the subsidiary. Our third theme (skills) was

complementary to the above two themes: to be competitive and cost effective, the numbers and level of high skilled people became paramount. To cater to these competitive elements, especially in the context of quality, quantity, and costs, HQ had to adhere inadvertently to the decision to move to a greater skill base (a combination of quality, quantity, lower attrition, and costs) in rural India.

Over time, the overall responsibility of managing attrition (our fourth theme) became the prerogative of the subsidiary and not of HQ. This change in the human resource practices within the MNE led to increased performance of the subsidiary (Fey and Björkman 2001), and, in terms of the relationship between the HQ and subsidiary, the responsibility of managing attrition was now that of the subsidiary. Thus, evidence suggests that, over time, a situation in the case study organization was leading to the strategic development of the subsidiary through “subsidiary initiative-taking” (Delany 2000). Moreover, such arrangements led to the subsidiary having greater control (our fifth theme) over its Indian operations in comparison to the foreign HQ. Hence, this shift increased dependence on the subsidiary. In essence, the control and power, over time, had now shifted from HQ to the subsidiary. This position has been defined by Budhwar (2012) as “country specific HQ.”

Our sixth theme further strengthens our argument, as there was evidence of direct foreign-client interface with the Indian operations, with HQ only getting involved with extremely urgent, quality- and time-related matters. Evidence suggests that this arrangement led to increased satisfaction levels for clients, which, in turn, led to greater dependency levels on the subsidiary. Overall evidence from the last theme (that of the RBPO model being successful), in the context of dependence of the HQ on the subsidiaries, suggests that reverse dependence is a newly emerging phenomenon.

This study synthesizes and extends the literature on the headquarter-subsidiary relationship in the context of location embeddedness of the subsidiaries. Through a longitudinal case study approach, it suggests that the subsidiary entrepreneurship has immobile location-bound advantages that may raise HQ’s dependence on the subsidiary. Consequently, we propose that when the subsidiary has access to location-bound advantages, the degree of HQ dependence on the subsidiary is likely to increase. This proposition should be empirically tested, and its corroboration may enhance the specificity of the resource dependence theory.

We also suggest that local institutional environments (at the subsidiary level) positively contribute to MNE success. Given the changing institutional environment in India, an emerging economy, the findings of this study need further testing. Further, the case study focuses on the knowledge intensive and service sectors, areas where not much HQ-subsidiary dependency research has been conducted. Thus, further research that elaborates on dependency is recommended in this industry.

This study offers a refined model of a typology of HQ-subsidiary dependency scenarios. The transformation scenario (cell 3.3) is highlighted as ideal for HQ-subsidiary relations, wherein HQ and its subsidiary (with higher degree) depend upon each other. This scenario is ideal because it brings about optimum utilization of resources, with HQ and subsidiary drawing upon each other’s strengths. We argue that future research is required to provide empirical evidence of transformation as an evolving situation that would prevail in MNE success. Last, our research aids managers in understanding the implications of subsidiary entrepreneurship and location embeddedness. It suggests that reverse dependency may be helpful for foreign managers as it

could help solve local issues and, at the same time, increase overall organizational productivity and performance by keeping morale and engagement of subsidiary employees high. Reverse dependency can bring beneficial elements to bargaining and negotiation processes within the multinational corporation, a fact that may also encourage healthy internal subsidiary level competition.

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