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Russian Manufacturing Subsidiaries of Western Multinational Corporations: Support from Parents and Cooperation with Sister-Subsidiaries

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This article presents the results of a survey of executives of Russian manufacturing subsidiaries of Western multinational corporations (MNCs) regarding their relationship with parents and sister-subsidiaries. Manufacturing subsidiaries are dependent on parents to finance development projects. Accordingly, the subsidiary receives intensive support from the parent for all stages of implementation of such projects. Further, the intensity of cooperation with sister-subsidiaries strongly coincides with the intensity of support from the parent. However, a high intensity of cooperation with sister-subsidiaries was observed for subsidiaries established before 2009. Finally, several practical implications for new entrants into the Russian manufacturing industry are presented.

KEYWORDS *multinational corporations, subsidiaries, manufacturing, Russia, sister-subsidiaries, corporate parents*

INTRODUCTION

Since mid-2014, Russian subsidiaries of multinational corporations (MNCs) and indigenous Russian companies have experienced rapid and often unpredictable changes in the business environment. First, the West imposed economic sanctions on prominent Russian industrial corporations and banks; second, Russia issued a self-imposed embargo on the import of foodstuffs from the United States and the European Union; and third, the deep fall in

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world oil prices was immediately followed by a two-fold devaluation of the local currency. The 2015 predictions for industries oriented towards local demand, which includes most Russian subsidiaries of MNCs, are predominantly somber (World Bank 2015). The rapid, unpredictable changes in the business environment created new challenges for developing appropriate strategies and tactics for Russian subsidiaries of MNCs. Manufacturing subsidiaries are unique, as investment in manufacturing is greatly site-specific, and the exit from manufacturing operations is usually accompanied by a high amount of sunk costs.

Over the past two decades, the dominant view of MNCs has been to acknowledge their dualistic nature. On the one hand, MNCs are structured hierarchies formed from corporate headquarters (HQ), regional headquarters (RHQ), and individual subsidiaries with different roles (Jarillo and Martinez 1990) and functions (i.e., sales organizations, manufacturing units, R&D centers, shared services centers, intermediary holding companies, hidden corporate treasuries). On the other hand, MNCs are inter-organizational networks (Goshal and Barlett 1990). Thus, an MNC's support of its subsidiaries, including its manufacturing units, can be exercised by both the direct actions of HQ and by encouraging the other subsidiaries to take action.

The aim of this article is threefold. First, I describe the major patterns of the capital allocation process in Russian manufacturing subsidiaries. Second, I use this analysis to assess the overall level of support from HQ and sister-subsidiaries for Russian manufacturing subsidiaries of MNCs, the intensity of support in different areas of subsidiary functions, and the interrelations between HQ actions and the actions of sister-subsidiaries. Third, I reveal to what extent the support from HQ and sister-subsidiaries coincides with different aspects of a subsidiary's competitiveness. In this way, I foresee the possible changes in the intensity and structure of MNCs' support for their Russian manufacturing subsidiaries during the current economic turmoil.

RESEARCH FRAMEWORK

In designing the research framework for this study, I relied on the extant literature on HQ-subsidiary relations in several domains. Since the emergence and especially during the rapid development (1940s–1960s) of the multidivisional form of large corporations (M-form), the relationship between a corporation and its subsidiaries has been a pivotal topic in organizational design and in corporate finance and accounting (Freeland 2001; Joseph and Ocasio 2012). In the early 1960s, two distinctive approaches to managing subsidiaries became evident and these were satirically portrayed by Parkinson (1962) as a corporation's "masculine" and "feminine" parenting styles.

Last of all, the male organization is apt to treat its male offspring with some severity, telling them to fight their own battles and punishing any

whole gambling losses that seem excessive. . . . In a female organization the maternal instinct is highly developed. Towards its offspring, there is a protective attitude, a lenience which often goes beyond the bounds of its generally conservative finance. (Parkinson 1962, p. 169).

Such a distinction emphasizes the differences in the two key elements of “corporate parenting,” namely, the control of subsidiaries’ activities and the support for subsidiaries, and remains valid today (see De Wit and Meyer 2010).

Since the end of the 1960s, with the rapid internationalization of large U.S. and European corporations, studies of HQ-subsidiary relations have included international business (IB) literature (Aharoni 1966; Perlmutter 1969; McInnes 1971; Stopford and Wells 1972; Hedlund 1981). The IB field combines the theoretical perspectives from corporate finance, strategic management, and organizational theory, such as the agency costs perspective, resource dependency perspective, and the power and control perspective, with its own original concepts, such as Dunning’s eclectic paradigm of international production (Dunning 2000; Gray 2003), cultural and institutional distances (Xu and Shenkar 2002; Tihanyi, Griffith, and Russell 2005; Xu et al. 2009), and the dual embeddedness of MNC subsidiaries (Ciabuschi Holm, and Martín 2014). Additionally, much attention has been given to the knowledge flows within MNCs (see Bougleux 2012; Michailova and Mustaffa 2012; Montazemi et al. 2012; Kumar 2013; Colakoglu, Yamao, and Lepak 2014), the causes and consequences of subsidiaries’ initiatives (Birkinshaw 1997; Birkinshaw, Hood, and Jonsson 1998; Birkinshaw 2014; Schmid, Dzedek, and Lehrer 2014; Strutzenberger and Ambos 2014), the emergence of regional management structures within global MNCs (Laudien and Freiling 2011; Nell, Ambos, and Schlegelmilch 2011; Alfoldi, Clegg, and McGaughey 2012), and the transfer of human resources management (HRM) and other organizational practices among countries (Liu 2004; Björkman, Fey, and Park 2007). However, since the mid-1990s, when most large U.S. and European corporations became MNCs, sensitive topics related to MNCs, including the corporate budgeting process and allocating capital between a firm’s divisions, transfer pricing techniques, and tax optimization using the advantages of multiple locations, have returned to the domain of corporate finance and managerial accounting (Taggart 1987; Graham and Harvey 2002; Greene, Hornstein, and White 2009; Akbel and Schnitzer 2011; Glaser, Lopez-De-Silanes, and Sautner 2013) or have been pushed to the periphery of the mainstream IB field (Ushijima 2005; Azémar and Corcos 2009; Maitland and Sammartino 2009; Beladi and Yabuuchi 2010). Thus, in the following section I summarize studies from “mainstream IB” literature and from corporate finance and management accounting literature that pertain to three topics: HQ-subsidiary relations in MNCs; relationships between MNC subsidiaries; and HQ-subsidiary and interunit relations of MNCs in Russian settings.

HQ-Subsidiary Relations in MNCs

A corporation begins overseas manufacturing operations through wholly owned subsidiaries to get preferred access to resources, markets or knowledge (Dunning 1981, 1992). Irrespective of the initial motive(s) for investment, to justify the control of a previously independent (in the case of acquisition) or non-existing (in the case of greenfield investment) organization, the corporation must create the subsidiary's *resource dependence* on the corporation (see Pfeffer and Salancik 1978/2003). Possible types of subsidiary dependence on a parent are presented in Table 1.

The most reliable way to increase a subsidiary's dependence on the parent is to squeeze out the subsidiary's entire net profit, and, if possible, a great share of the operating profit. This is achieved in various ways, including through high-dividend payments to the parent, specific transfer practices (see Rossing and Rohde 2010), or excessive payments for the use of the corporation's

TABLE 1 Elements of Dependence of a Subsidiary on a Corporate Parent

Type of dependency	Factors of dependence
Legal	Restriction on participation in a subsidiary's equity by other firms, control over large contracts, appointment of subsidiary's top executives by the headquarters
Use of intangible assets	The use of a corporation's trademarks and patents, restrictions on the use of alternative trademarks and patents
Network restrictions	The ability of a subsidiary to use at preferential terms the services of corporation contractors (R&D and engineering services, equipment suppliers, building contractors, auditing and consulting firms, advertising and recruitment agencies, training centers and individual trainers etc.); restrictions on the use of alternative services suppliers and contractors
Financial dependency	The share of current expenses and capital expenditures of a subsidiary covered by the corporation's funds, the type of financial subsidies (unrestricted internal grants, conditional grants, credits from the corporate treasury or from sisters-subsidiaries to a subsidiary, guarantees by the corporation for the subsidiary's loans from foreign and local banks, etc.)
Mental dependency	Corporate-wide mental models compulsory for situation assessment, business planning, and decision-making (mental monopolistic situation)
Informational	The preferred access to corporate market databases, pools of patents and technologies, worldwide industrial information networks (conferences, seminars, industry associations, trade fairs, etc.); restrictions on the use of alternative sources of information
Behavioral	Imposing the mandatory use of procedure manuals, performance standards, codes of conduct, HRM policies, etc.
Emotional	Creation and maintaining an organizational climate conducive for a subsidiary, trust and personal empathy of a subsidiary's employees towards a corporation's top management and the management and employees of sister-subsidiaries

trademarks. For example, one of the world's largest pharmaceutical companies that made more than 40% of its sales in the U.S. between 2010 and 2012 reported no federal taxable income in the U.S. for the past 5 years while booking billions of US\$ profits offshore (Smith, 2013, p. 2). In such a situation, a subsidiary becomes completely dependent on HQ for financing its capital expenditures and enters a long-term competition with HQ over its share of the corporation's investment budget (Steele and Albright 2004).

In addition to tax minimization motives, there are strong theoretical and practical reasons that limit a subsidiary's autonomy in capital investment decisions under conditions of excessive risks and or uncertainty. From a theoretical perspective, Agnion and Tirole (1997) suggested that in situations of uncertainty, the HQ (the principal) cannot design a perfect contract with the subsidiary (the agent). Moreover, in situations of high uncertainty, delegating authority over projects to the agents leads to the principal's loss of control over the choice of projects, resulting in a higher risk to endorse sub-optimal projects (Agnion and Tirole 1997). These theoretical propositions have been confirmed by both large-scale quantitative and qualitative empirical studies on environmental uncertainty, subsidiary autonomy, and the investment decisions of multinational corporations. For example, Shroff et al. (2014) evaluated the investment decisions of 6,298 unique foreign subsidiaries with 2,249 parent firms operating in 63 countries and they found that in countries with worse information environments, parent firms are more involved in the design and monitoring of investment projects. From a qualitative point of view, they stressed that "faced with the considerable risks (in the form of tangible and intangible investments) inherent to overseas subsidiaries, company headquarters generally and instinctively aim to centralize decision-making activities in order to maintain strict control over the overall business, which in turn implies restrictions on subsidiary autonomy" (Pisoni, Fratocchi, and Onetti 2013, p. 340). Such restrictions are necessary to avoid rent-seeking behavior of subsidiaries (Scharfstein and Stein 2000; Ozbas and Scharfstein 2010).

Thus, I formulated my first proposition:

Proposition 1: Under conditions of economic uncertainty and poor information, Russian subsidiaries of MNCs typically receive limited autonomy in capital investment decisions.

Further, *to counterbalance the limitation of the subsidiaries' autonomy, the HQ must support the development activities of subsidiaries* (Chan and Makino 2007; Chen, Park, and Newburry 2009). Such support can be presented in different forms, such as allocating capital resources for subsidiary's projects, designing new products at the parent R&D centers to be produced by a subsidiary, designing and installing new production facilities through the

parent's engineering centers or parent-selected contractors, transferring the parent's proprietary knowledge (process manuals, standards), or supporting the training and development of subsidiary's employees. Thus, I formulated my second proposition:

Proposition 2: Under conditions of economic uncertainty and poor information, HQ provide intensive support for their Russian subsidiaries in all areas of enterprise development.

Relationships Between Sister-Subsidiaries

The resource-seeking, market-seeking, efficiency-seeking, or knowledge-seeking motives for investment in overseas manufacturing operations and the limitations of authority for overseas subsidiaries have a profound impact on the content and intensity of the relationship between sister-subsidiaries. Several researchers (Luo 2005; Tsai 2002; Schmid and Maurer 2011) have suggested that the relationship between subsidiaries embraces both cooperation and competition. Competitive logic dominates the relationship with sister-subsidiaries for subsidiaries established and operating under motives of market seeking and efficiency seeking. Indeed, many markets can be supplied from different corporate manufacturing sites. As worldwide logistics improves and foreign trade barriers are lowered, the local demand in a particular country can be satisfied by the output of the local subsidiaries of an MNC or by imports from its subsidiaries in other countries. Thus, "border conflicts" between regional HQ over which markets will be supplied from manufacturing sites under their supervision are not uncommon (Mahnke et al. 2012). The strongest defense in conflicts over which country will supply particular markets is superior quality and lower costs of production from a particular manufacturing site, which are achieved through corporate-wide operations efficiency. Thus, sister-subsidiaries are not inclined to cooperate closely or they try to keep their most effective solutions and knowledge to themselves.

The situation changes dramatically when knowledge seeking becomes an important motive for investment in a subsidiary or when trade barriers make it impossible to supply some of a corporation's markets from foreign subsidiaries. In such situations, not only does HQ promote knowledge flows inside the corporation (Gupta and Govindarajan 2000; Schulz 2003; Björkman, Barner-Rasmussen, and Li 2004; Yang, Mudambi, and Meyer 2008) but subsidiaries become interested in cooperation between sister-subsidiaries to save time and money on the discovery and implementation of effective solutions (Zhao and Luo 2005). A clear indication of factors that provoke either competition, such as resource partition, charters, or customers, or cooperation, such as resource sharing, knowledge, or work splitting, between sister-subsidiaries

was recently described as “opening a black box of the international business field” (Schmid and Maurer 2011).

However, the question of how cooperation with sister-subsidiaries coincides with the support of the parent to a particular subsidiary is not completely answered. Some authors emphasize the pivotal role of HQ in cherry-picking sub-unit development projects and orchestrating the corporate-wide support for the development of a particular overseas subsidiary (Luo 2005; Andersson and Kappen 2010; Yamin, Tsai, and Holm 2011; Ciabuschi, Dellestrand, and Holm 2012). It has also been argued that MNC intrafirm relationships are largely a matter of power. Thus, despite direct orders from HQ and strong incentives to cooperate, subsidiaries have considerable discretion over their participation in the development projects of potential intrafirm competitors (Geppert and Dörrenbächer 2014; Michailova and Paul 2014). We proposed that for “newcomers” of the corporate family (newly acquired or newly built subsidiaries) relatively long periods are required to receive acceptance from sister-subsidiaries.

Thus, I formulated my third proposition in two parts:

Proposition 3a: Cooperation of Russian subsidiaries of MNCs with of sister-subsidiaries typically correlates with the intensity of support from the parent.

Proposition 3b: Cooperation of Russian subsidiaries of MNCs with of sister-subsidiaries typically correlates with subsidiary age.

Previous Studies on HQ-Subsidiary and Interunit Relations in Russian Settings

Although HQ-subsidiary relations are a well-studied topic and “a black box” of relationships between MNC subsidiaries has been opened, HQ-subsidiary and interunit relations in Russian settings is a relatively unexplored field. This is in sharp contrast to the abundance of studies on MNCs and their subsidiaries in other Eastern European countries (Männik, Urmas, and Helena 2005; Eckert and Rossmessl 2007; Pisoni, Onetti, and Fratocchi 2010; Pisoni et al. 2013; Martins 2014; Poór et al. 2014), including those operating in some countries of the former Soviet Union (Estonia, Ukraine) (Moilanen 2008; Rogach and Balyuk 2012).

Literature that discusses the issues of HQ-subsidiary and interunit relations in Russian settings is sparse. Specifically, only one academic book provides a systemic overview of the evolution of several Russian subsidiaries of German MNCs (Anghel 2012), one non-academic book describes the Russian experience of a particular MNC (Pepper 2012), and several papers based on case studies (Gurkov and Filippov 2013; Gurkov 2014; Gurkov and Kossov 2014) touch on the issues of HQ-subsidiary and interunit relations in Russian

settings. Thus, the scarcity of empirical studies on HQ-subsi- diary and interunit relations in Russian settings, especially the lack of surveys on the topic, required me to develop some original research instruments.

RESEARCH DESIGN

The Instruments

The study had a two-stage design. The first stage was a series of interviews with the heads of Russian operations, specifically country managers or heads of regional HQ. The use of interviews in empirical studies on capital allo- cation in MNCs is a well-established research practice (see Segelod 1996; Szpiro and Dimnik 1996; Maccarrone 1996; Miller and O'Leary 1997; Partovi 1999; Chalos and Poon 2000; Swain and Haka 2000; Hartwig 2012).

The semi-structured interviews touched upon the most sensitive topics in HQ-subsi- diary relations, namely the internal mechanics of internal capital allocation within MNCs and the algorithms and processes subsidiaries use to obtain resources for their capital investments (CAPEX). Through the inter- views, I gained an understanding of the process of CAPEX applications and approval. In some cases, documents such as letters to HQ with demands for investment or reconciliation sheets with the signatures of top corporate executives were shown to me. Through the interviews, I also gained an understanding of the overall subsidiary dependence on corporate parents. The primary purpose of this research methodology was to find empirical evidence for my Proposition 1.

The series of interviews also enabled me to design a questionnaire to survey the heads of manufacturing units of MNCs in Russia to reveal the level of support from corporate parents and the intensity of cooperation with sister-subsi- diaries.

The questionnaire included the following core instruments:

- First, respondents assessed the degree of support by the parents in the following eight areas: financing of development projects, design of new production facilities, installation of and putting in motion new production facilities, mastering new technologies, design of new products, launch of new products, design of new elements of HRM systems, and support in per- sonnel development on a three-point scale (low, moderate, considerable) and were allowed to add to the list of areas of support by the parent (Cronbach's alpha of the instrument was 0.835). This instrument assessed the overall intensity of the parent's support and discovered correlations between various areas of the parent's support. I also expected to find empirical evidence for my Proposition 2.
- Second, respondents assessed the intensity of cooperation with sister- subsidiaries in seven possible areas similar to those used to assess the

intensity of support by the parent on a three-point scale (Cronbach's alpha of the instrument was 0.948) and were allowed to add to the list of areas of cooperation. However, I excluded "support in personnel development" as I devoted a special instrument to a detailed description of cooperation between sister-subsidiaries in that area. The goal of this instrument was to access the overall intensity of cooperation with sister-subsidiaries and discover correlations between the intensity of the parent's support and the intensity of cooperation with sister-subsidiaries in particular areas.

Additional questions revealed the year of establishment or acquisition of the subsidiary and the relative size of the subsidiary compared to its sister-subsidiaries. The assessment of the intensity of the cooperation with sister-subsidiaries, the relative level of subsidiary's operations, and the demographic data on the subsidiaries were intended to validate Proposition 3. Survey respondents also provided data on the dynamics of the sales of their factories in the past 3 years, and assessed the current economic situation in their respective line of business and short-term business perspectives. I expected to use this data as predictors of the intensity of support by the parents.

The Sample

For the interviews, I identified 20 corporations with a share of Russian manufacturing operations exceeding 5% of their global sales. Of these 20 corporations, I established contacts and conducted face-to-face interviews with eight heads of Russian operations, either country managers or heads of regional HQ. I chose country managers or heads of regional headquarters based on their position in the corporate hierarchies as being responsible for "squeezing out" corporate coffers for investments in the territories for which they were responsible (Laudien and Freiling 2011; Nell et al. 2011; Alfoldi et al. 2012). The sample size was similar to the studies on country-specific practices of capital budgeting (see Hartwig 2012).

For the survey, I identified 400 Russian enterprises as manufacturing subsidiaries of foreign MNCs, which represents around 30% of the total population of manufacturing subsidiaries of foreign MNCs in Russia. From that set, I contacted 261 companies and received responses from the plant managers of fifty-two factories that belong to forty-eight MNCs (a response rate of 20%, or 4% of the total population). I surveyed several plant managers in corporations that own numerous manufacturing sites in Russia, such as the American PepsiCo, the Anglo-Dutch Unilever, the French Danone, and the German Knauf. I chose plant managers as respondents because they are the major recipients of financial and non-financial measures of the parent's support, and also have the primary responsibility for executing cooperation with sister-subsidiaries. Regarding the age of subsidiaries, there was a good combination of "veterans" (24% of the enterprises were created before 1998),

“sophomores” (50% were created between 1999 and 2008), and “novices” (26% were created after 2008). I used 1998 and 2008 as cutoff points, as these were the years of the deep economic crisis that divides the recent economic history of Russia into three distinctive periods: high inflation and accelerated fall in industrial output (1992–1998), steady economic development (1999–2007), and slow economic recovery and unstable growth (2009–the first half of 2014).

The size of the surveyed enterprises ranged from 12 to 4,000 employees, with a mean of 730 and median of 370. I was able to identify both the intermediate (nominal) and final parents. Intermediate parents were primarily companies located in the Netherlands, Luxemburg, and Cyprus, while the final parents represented most of the OECD countries. I should highlight that Russian subsidiaries had a highly stable level of ownership, as the transfer of subsidiary ownership from one foreign company to another was reported in just two of the fifty-two cases. There was an almost equal distribution of the surveyed companies among four industries: food processing, machine building (including car assembly), chemicals, construction materials (gypsum plasterboards, rock wool, glass, and paints). I consider the sample to be non-representative but very demonstrative for the subsidiaries of MNCs in the abovementioned four industries.

FINDINGS

Dependency of Subsidiaries on Corporate Parents

The major result of interviews was the confirmation of Proposition 1. For all surveyed enterprises, the total amount of investment in the coming year is subject to the approval of the HQ and, in the case of multiplant subsidiaries, by the RHQ. In private, family-owned MNCs, the reconciliation sheets include between four and six signatures of top executives of the corporation, and in the listed MNCs, formal approval by the investment committee and the board of directors is needed for the subsidiary’s annual investment plan. The investment plans are very detailed documents. One investment plan included as separate items all expenses over 500 euros, and in another case, all purchases of machinery and equipment, regardless of their value, had to be listed as separate items. Subsidiary managers do not challenge the rights of the HQ to control all capital investments; the speed and smoothness of allocating investment funds is a matter of pride for subsidiary managers, especially if the investment was not foreseen in the annual plan. An urgent need to amend the annual investment plan can be caused by circumstances including a unique opportunity of local acquisition, an emerging need for facility enhancement, or an unpredicted need for rapid development of new technology. It is interesting to note that the ratio between the requested and the received amounts of investment is very high, indicating that subsidiary

managers know the internal corporate criteria of capital allocation well and in general do not present poorly designed investment proposals to HQ.

An additional result from the interviews was high emotional dependency of Russian subsidiaries on the parent. Subsidiary managers' trust of and personal empathy toward a corporation's top management was sincerely expressed. During the interviews, I heard numerous "heroic stories" about a particular corporation's top executives. Special respect was given to the unique abilities of the corporate chief technology officers, referred to as gray-haired "wizards," who were able to "X-ray" the production facilities and quickly identify all pitfalls and bottlenecks.

Other types of dependencies presented in Table 1 vary throughout the subsidiaries I interviewed. Network restrictions, such as restrictions on the use of alternative service suppliers and contractors, were not as high as I expected. The subsidiary managers freely mentioned costly mistakes made by corporate-wide contractors who were ignorant of local conditions while designing Russian production facilities. Behavior dependency was high regarding production processes, such as the mandatory use of procedure manuals, performance standards, and codes of conduct, and low regarding HRM policies as most HRM policies, including selection criteria, remuneration standards, and packages of additional monetary and non-monetary benefits, are designed locally.

Support of Corporate Parents

I evaluated the perceived intensity of support by the parent in various areas of enterprise management (see Table 2).

My Proposition 2 was successfully confirmed and, in general, most subsidiaries receive significant support in all areas. Developing new products and launching the production of new products are the areas that receive the highest level of support by the parent (55% of the respondents indicated it as "significant"), but about half of the surveyed subsidiaries also receive

TABLE 2 Assessment of the Intensity of Support by the Parent (Percentage of Companies)

Area	Assessment		
	Low	Moderate	Substantial
Financing development plans	4	44	52
Designing new production facilities	8	41	51
Installation and putting in motion new production facilities	6	43	51
Mastering new processes and technologies	4	47	49
Developing new products	8	37	55
Launching new products	8	49	53
Design and implementation new elements of HRM systems	10	47	43
Personnel development and training	12	43	45

significant support from the parents in other areas. Even if the support is not considered “significant,” it does exist. In all cases, the subsidiaries receive at least “moderate” support in at least some areas. Only 20% of the surveyed subsidiaries claimed that they did not receive “considerable” support in at least one area, while 52% of subsidiaries receive considerable support in four or more areas. In addition, *“veteran,” “sophomore,” and “novice” subsidiaries do not differ in terms of the intensity of the parent’s support in any area.*

I should also note that the intensity of the parent’s support does not depend on the assessment of the current situation or the short-term forecast of the business conditions. Past performance, as measured by sales dynamics or the share of new products in the total production output, also does not significantly affect the support the corporate parents provide to Russian manufacturing subsidiaries.

Support in all areas excluding the “design and implementation of new elements of HRM systems” is closely interrelated (see Table 3).

The intensity of parent support in “financing new projects” is mostly related to the support in designing new production facilities (corr. 0.654, sign. 0.000) and the installation of new production facilities (corr. 0.718, sign. 0.000). I performed a correlation analysis, recoding the support of the parent into a binary variable (0: no support or moderate support, 1: significant support). The results are identical to those presented in Table 3. *Thus, the majority of Russian manufacturing subsidiary facilities development projects are “all-inclusive packages” in that, for the majority of cases, they rely on the corporation’s funds and are accompanied by intensive support from the parent in designing, installing, and mastering new facilities, including support in training personnel who must acquire new capabilities, knowledge, and skills to operate new equipment.*

Cooperation with Sister-Subsidiaries

To research the cooperation with sister-subsidiaries, I first computed the distribution of answers about the intensity of cooperation with sister-subsidiaries in particular areas (see Table 4).

Correlation analysis revealed an even stronger concordance of the intensity of cooperation in various areas than the results for the support by the parent (see Table 5).

In contrast to the support by the parent, where designing new elements of HRM systems is separate from other areas of support, for sister-subsidiaries designing new elements of HRM systems is an integral part of cooperation.

In general, cooperation with sister-subsidiaries strongly coincides with the support by the parent (see Table 6).

In the majority of cases, subsidiaries that receive considerable support from the parent in a particular area also cooperate closely with sister-subsidiaries (except for financing new projects and the development of

TABLE 3 Correlations Between Intensity of Support by the Parent in Various Areas

	Financing development plans	Designing new production facilities	Installation and putting in motion new production facilities	Mastering new processes and technologies	Developing new products	Launching new products	Design and implementation of new elements of HRM systems	Training and personnel development
Financing development plans	1	0.654**	0.716**	0.576**	0.434**	0.352*	0.233	0.068
Designing new production facilities	0.654**	1	0.567**	0.437**	0.517**	0.393**	0.175	0.259
Installation and putting in motion new production facilities	0.716**	0.567**	1	0.718**	0.569**	0.440**	0.268	0.352*
Mastering new processes and technologies	0.576**	0.437**	0.718**	1	0.387**	0.466**	0.177	0.322*
Developing new products	0.434**	0.517**	0.569**	0.387**	1	0.589**	0.190	0.364**
Launching production of new products	0.352*	0.393**	0.440**	0.466**	0.589**	1	0.159	0.471**
Design and implementation of new elements of HRM systems	0.233	0.175	0.268	0.177	0.190	0.159	1	0.418**
Training and personnel development	0.068	0.259	0.352*	0.322*	0.364**	0.471**	0.418**	1

**2-tailed sign. 0.010; *2-tailed sign. 0.05.

TABLE 4 Distribution of Answers to the Question: “In Which Extent Your Enterprise Does Cooperate with Sister-Subsidiaries?” (Percentages of Companies)

Area	Intensity		
	Insignificantly	Moderately	Closely
Joint financing of development projects	40	22	38
Design of new production facilities	26	31	43
Installation and putting in motion new production facilities	24	35	41
Mastering new technologies,	22	31	47
Design of new products	19	40	41
Launch of new products	18	31	51
Design of new elements of HRM systems	27	45	28

new elements of HRM systems). Thus, my Proposition 3a was successfully proven.

Although the intensity of cooperation with sister-subsidiaries correlates with the support by the parent, there is another influential factor—the age of the subsidiary, measured as the year of the inclusion of a subsidiary in a parent corporation. “Novice” subsidiaries (established in 2009 or later) have a lower intensity of cooperation with sister-subsidiaries, and this difference is significant at 0.01 or less for all areas of cooperation. Through a series of *t*-tests with a moving cut point, I determined the year at which the intensity of cooperation between older and younger subsidiaries in particular areas becomes equal (see Table 7).

As shown in Table 7, on average, a Russian manufacturing subsidiary of an MNC requires 6 to 7 years to reach the average intensity of cooperation in the design of new products, launch of new products, and transfer of some elements of HRM systems. Reaching the average intensity of cooperation with sister-subsidiaries in designing and implementing new technologies requires 12 to 13 years. Finally, only subsidiaries established in 1999 or earlier reach the average intensity of cooperation in joint financing new projects, while older subsidiaries still surpass younger ones in terms of the intensity of cooperation in that area, but the difference is not statistically significant. Thus, my Proposition 3b was also successfully proven.

As Russian manufacturing subsidiaries of MNCs lack their own funds to finance development projects, cooperation in joint financing new projects requires creating “bidding pools” of different subsidiaries to acquire financing from the parent. An example of such a project was presented in Gurkov and Filippov (2013). The Russian manufacturing subsidiary of PepsiCo formed a “bidding pool” with other subsidiaries to finance a project to develop a new technological process to bottle iced tea in thin plastic bottles. The newly developed technology was then used across all manufacturing subsidiaries of PepsiCo.

TABLE 5 Correlations Between Intensity of Cooperation with Sister-Subsidiaries in Various Areas

	Financing development plans	Designing new production facilities	Installation and putting in motion new production facilities	Mastering new processes and technologies	Developing new products	Launching new products	Design and implementation of new elements of HRM systems
Financing development plans	1	0.761**	0.814**	0.753**	0.556**	0.695**	0.678**
Designing new production facilities	0.761**	1	0.877**	0.852**	0.661**	0.831**	0.687**
Installation and putting in motion new production facilities	0.814**	0.877**	1	0.846**	0.614**	0.857**	0.708**
Mastering new processes and technologies	0.753**	0.852**	0.846**	1	0.619**	0.809**	0.705**
Developing new products	0.556**	0.661**	0.614**	0.619**	1	0.686**	0.571**
Launching production of new products	0.695**	0.831**	0.857**	0.809**	0.686**	1	0.733**
Design and implementation of new elements of HRM systems	0.678**	0.687**	0.708**	0.705**	0.571**	0.733**	1

**2-tailed sign. 0.010; *2-tailed sign. 0.05.

TABLE 6 Concordance Between the Amount of Support of the Parent and the Intensity of Cooperation with Sister-Subsidiaries

Area	Correlation coefficients between support by the parent and cooperation with sister-subsidiaries in a particular area	Percentages of subsidiaries receiving “significant” support of the parent that also maintain close cooperation with sister-subsidiaries
Financing of development projects	0.137	42
Design of new production facilities	0.386**	65
Installation and putting in motion new production facilities	0.246*	54
Mastering new technologies	0.355*	60
Design of new products	0.386**	61
Launch of new products	0.420**	63
Design of new elements of HRM systems	0.491**	50

**2-tailed sign. 0.010; *2-tailed sign. 0.05.

As the intensity of support by the parent for Russian subsidiaries does not depend on the year of inclusion of a subsidiary in the corporation, when the parent decides to support its Russian subsidiary intensely, it also promotes cooperation between the Russian subsidiary and its sister-subsidiaries. However, sister-subsidiaries are reluctant to cooperate with “novices” and detailed analysis confirmed that reasoning. For example, there was only one “novice” subsidiary (established after 2008) among the companies that simultaneously received considerable support from the parent and cooperated closely with sister-subsidiaries in “launching new products” (an area of high concordance between the parent’s support and cooperation with sister-subsidiaries). Further, there was only one “novice” subsidiary among companies that simultaneously received considerable support from the parent and cooperated closely with sister-subsidiaries in “designing new production facilities” (another area of high concordance between the parent’s support and cooperation with sister-subsidiaries).

TABLE 7 Time Required to Establish Average Level of Cooperation with Sister-Subsidiaries in Particular Area

Area	Time required to reach the average intensity for younger subsidiaries (years)
Joint financing of development projects	14
Design of new production facilities	13
Installation and putting in motion new production facilities	12
Mastering new technologies,	12
Design of new products	6
Launch of new products	7
Design of new elements of HRM systems	7

DISCUSSION

In this article, I present an overview of Russian manufacturing subsidiaries after the first round of economic sanctions (March 2014) but before the sharp and unpredictable devaluation of the local currency in December 2014. Most of the surveyed subsidiaries had limited autonomy in capital allocating decisions as all significant investment decisions were made by HQ. However, around half of the surveyed subsidiaries enjoyed strong support from the parent in financing development projects. A parent's financing of a development project is the background of a parent's support in other areas. The data of concordance between the support in various areas revealed the prevalence of "turn-key projects" in Russian manufacturing subsidiaries. For these projects, once the investment project is launched, the subsidiary receives intensive support through the whole cycle of the project for designing new manufacturing facilities, installing and putting in motion new manufacturing facilities, and training the personnel.

Among the cases where significant parent support was observed, 40 to 60% of subsidiaries also enjoyed close cooperation with sister-subsidiaries. Such cooperation strongly coincides with efforts by the parent, but sister-subsidiaries are inclined to cooperate only with the veteran Russian subsidiaries established 6 to 8 years ago or earlier.

In general, these results are not altogether surprising. They correspond well to the theoretical constructions and the results of previous qualitative and quantitative studies on capital budgeting processes in overseas subsidiaries. However, two elements of my findings require special attention. First, the financing of development projects was not justified by the recent performance of the subsidiary or the current forecast of local business conditions, which can be explained in several ways. Development projects could be oriented towards leveraging sales in maturing markets with growing competition from local firms; the financing could have continued because it was necessary to complete long-term projects approved years ago; or development projects could be oriented towards the improvement of processes and overall technical efficiency of the subsidiaries. Thus, the reasons for the parent's support of an overseas subsidiary are beyond the current market conditions in a particular country.

The second finding that I consider to be a real discovery is the visible selectivity of support from sister-subsidiaries reserved for "veteran" subsidiaries. This finding has important implications for the ongoing debate about transforming a multinational enterprise into a "global factory" (see Buckley 2009; Buckley 2011; Yamin 2011). The visible reluctance of subsidiaries to cooperate with "novice" sister-subsidiaries indicates that transforming a multinational enterprise into a "global factory" does not go as smoothly as usually presented, and supports a more critical view on the capabilities of HQs to orchestrate the transferability of non-location-bound, firm-specific

advantages (FSAs) across the global factory network (Hillemann and Verbeke 2014).

CONCLUSIONS AND PRACTICAL IMPLICATIONS

This study has profound practical implications. Although academic studies rarely embark on predictions, the editorial mandate of the *Journal of East-West Business* as a journal “that deals with contemporary and emerging aspects of business studies, strategies, development, and practice...” compels me to make some predictions regarding the strategies of MNCs already owning manufacturing facilities in Russia and other MNCs, especially MNCs from emerging markets (EMNCs), that may consider Russian subsidiaries of MNCs from developed economies as appealing targets for acquisition. As the results of the study indicate, the intensity of the parent’s support does not depend on the assessment of the current situation or the short-term forecast of the business conditions. Thus, I foresee the divergence of MNCs strategies regarding their Russian manufacturing facilities based on the assessment of the current business situation. MNCs will either prefer to stop, at least temporarily, their manufacturing operations in Russia or strengthen their support of the Russian manufacturing subsidiaries. Such a divergence became quite visible in March 2015 when GM announced closing its major Russian factory while Toyota and Volkswagen announced the accelerated expansion of their manufacturing facilities in Russia. Thus, if the parent does not opt to exit the market, there is a high probability that the level of the parent’s support will increase to assist the subsidiary through difficult times.

For MNCs that opt to exit manufacturing operations in Russia, EMNCs are the likely to acquire those manufacturing assets. However, in acquiring the Russian subsidiaries of MNCs, EMNCs should pay attention to several factors. First, for most Russian subsidiaries of MNCs, the current parent is the first foreign parent. Thus, the transfer of ownership to another corporate parent may cause a deep “organizational trauma,” as employees are not accustomed to the transfer of ownership of their company. Second, the high dependency of Russian subsidiaries of MNCs on corporate parents and the active involvement of at least a quarter of subsidiaries in close cooperation with sister-subsidiaries creates serious challenges for the retention of the efficiency of operations without such support and cooperation. In this respect, the best acquisition targets for EMNCs are “novice” subsidiaries (subsidiaries established after 2008), as such subsidiaries do not cooperate closely with sister-subsidiaries.

These are the partial practical implications of my modest survey of Russian manufacturing subsidiaries of MNCs. I suggest continued research to monitor the current business conditions in the Russian economy to better understand the management practices of MNCs and to further develop the “strategy as practice” field of strategic studies.

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