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**RUSSIAN MANUFACTURING
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CORPORATIONS: SUPPORT
FROM PARENTS AND
COOPERATION WITH SISTER-
SUBSIDIARIES**

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RUSSIAN MANUFACTURING SUBSIDIARIES OF WESTERN MULTINATIONAL CORPORATIONS: SUPPORT FROM PARENTS AND COOPERATION WITH SISTER-SUBSIDIARIES

The paper presents the results of a medium-size survey of executives of Russian manufacturing subsidiaries of Western multinational corporations on relationship with the parents and sister-subsidaries. Manufacturing subsidiaries are completely dependent on parents in financing development projects. At the same time, when the subsidiary receives substantial financing for development projects from the parent, it also gets from the parent intensive support in all stages of implementation of such projects. Intensity of cooperation with sister-subsidaries strongly coincides with the intensity of support by the parent. However, high intensity of cooperation with sister-subsidaries was observed only for subsidiaries established before 2009. Several practical implications for new entrants into ownership of Russian industrial assets are presented.

Keywords: manufacturing, multinational corporations, subsidiaries, Russia

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INTRODUCTION

Since mid-2014, Russian subsidiaries of multinational corporations (MNCs) and indigenous Russian companies alike 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; third, the deep fall in world oil prices was immediately followed by a two-fold devaluation of the local currency. 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 a very special case, as investment in manufacturing is in great part site-specific, and the exit from manufacturing operations is usually accompanied by high sunk costs. As the 2015 predictions for industries oriented towards local demand (which most Russian subsidiaries of MNCs belong to) are predominantly somber, MNCs that opt not to exit their Russian production assets will exert considerable efforts to assist their Russian subsidiaries to survive during these tough times and to keep them afloat.

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

The aims of this paper are twofold. First, I describe the existing support for Russian manufacturing subsidiaries of MNCs from both HQ and sister-subsidiaries in order to depict the intensity of support in different areas of subsidiary functioning, and the interrelations between HQ actions and the actions of sister-subsidiaries. Second, I try to understand to what extent the support from both HQ and sister-subsidiaries coincides with different aspects of a subsidiary's competitiveness. In this way, I expect to predict the possible changes in intensity and the structure of MNCs' support for their Russian manufacturing subsidiaries during the current economic turmoil and to make some

suggestions for corporations that look towards acquisition of established Russian manufacturing subsidiaries of Western MNCs.

RESEARCH FRAMEWORK

In designing the research framework for this study, I relied on the extant literature on HQ-subsidary relations in several domains. Since the emergence, and especially during the rapid development (1940s–1960s), of a multidivisional form of large corporations (M-form), the relationship between the corporation and its subsidiaries has been a pivotal topic in organizational design and in corporate finances and accounting [Freeland, 2001; Joseph and Ocasio, 2012]. Major issues in managing the multi-business corporation pertaining to subsidiaries (namely, capital allocation between business units; determining the optimal level of subsidiary autonomy in technological, production, and marketing decisions; establishing appropriate control mechanisms for such decisions and their consequences; and promoting initiative and eliminating opportunistic and rent-seeking behavior at the subsidiary level) are well represented in the research literature [Tippettts and Livermore, 1941; Holden and Fish, 1948; General Motors, 1949; Chandler, 1962; Gomberg, 1963; Sloan and McDonald, 1964; Marris, 1971]. In the early 1960s, two distinctive approaches to managing subsidiaries became evident; 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" (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 is still valid today [see de Wit and Mayer, 2010].

Since the end of the 1960s, with the rapid internationalization of large U.S. and European corporations, topics of HQ-subsidary relations have moved to the international business (IB) literature [Aharoni, 1966; Perlmutter, 1969; McInnes, 1971; Stopford and Wells Jr., 1972; Hedlund, 1981]. The IB field combines theoretical perspectives borrowed from corporate finance, strategic management, and organizational theory (agency costs

perspective, resource dependency perspective, power and control perspective) with its own original concepts (Dunning's eclectic paradigm of international production [Dunning, 2000; Gray, 2003], the concept of cultural and institutional distances [Shenkar, 2002; Tihanyi et al., 2005; Xu et al., 2009], the concept of the dual embeddedness of MNC subsidiaries [Ciabuschi et al., 2014]). In addition, much attention has been given to knowledge flows within MNCs [see Bougleux, 2012; Michailova and Mustaffa, 2012; Montazemi et al., 2012; Kumar, 2013; Colakoglu et al., 2014], the causes and consequences of subsidiaries' initiatives [Birkinshaw, 1997; Birkinshaw et al., 1998; Birkinshaw, 2014; Schmid et al., 2014; Strutzenberger and Ambos, 2014], the emergence of regional management structures within global MNCs [Laudien and Freiling, 2011; Nell et al., 2011; Alfoldi et al., 2012], and the transfer of HRM and other organizational practices among countries [Liu, 2004; Björkman et al., 2007]. However, since the mid-1990s, when most large U.S. and European corporations became MNCs, the most sensitive topics related to MNCs (the corporate budgeting process and allocating capital between a firm's divisions, transfer pricing techniques, tax optimization using the advantages of multiple locations) have moved back into the domain of corporate finance and managerial accounting [Taggart, 1987; Graham and Harvey, 2002; Greene et al., 2009; Akbel and Schnitzer, 2011; Glaser et al., 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 next paragraphs, I summarize studies from the "mainstream IB" literature, as well as those from the corporate finance and management accounting literature, that pertain to three topics: HQ-subsidary relations in MNCs; relationships between MNC subsidiaries; and HQ-subsidary and interunit relations of MNCs in Russian settings.

HQ-subsidary relations in MNCs

A corporation begins overseas manufacturing operations through wholly owned subsidiaries for one of four possible motives [Dunning, 1981, 1992]:

- resource seeking,
- market seeking,
- efficiency seeking,
- knowledge seeking.

If the “resource-seeking” motive is relatively clear (the corporation wishes to establish exclusive rights to valuable resources abroad), the other motives have subtle but important nuances. Regarding market seeking, a particular foreign market could be absolutely unattainable without local wholly owned manufacturing subsidiaries (because of transportation costs for finished products, trade barriers, or regulatory requirements), or a corporation could just be seeking to expand its list of already realized options (imports from subsidiaries in other countries, local or foreign contract manufacturing) to supply the market with its products in order to create competition between supply channels. The efficiency-seeking motive also has different possibilities. On the one hand, there may be attempts to increase corporate-wide efficiency by establishing a subsidiary serving the needs of other subsidiaries (this often happens when corporations move into an upstream business). On the other hand, the corporation can experiment in a host country by establishing a greenfield investment “dream factory”—a production facility not bounded by obsolete industry standards and traditions in the home country that can become a new “center of excellence” [Gurkov, 2014a]. Sometimes, the attempts to create “offshore centers of excellence” [Holm and Pedersen, 2000; Frost et al., 2002; Ambos and Reitsperger, 2004] simply serve to create new and higher benchmarks for efficiency of subsidiaries’ operations to provide stronger reasons for suppressing obsolete manufacturing subsidiaries in home countries.

The knowledge-seeking motive for investment became particularly apparent as MNCs from emerging markets (EMNCs) started to pursue aggressive strategies aimed at transforming them into global players in the technology frontier [Luo and Tung, 2007; Mathews, 2006; Ramamurti, 2009a, b; Sauvant, 2008] through the extensive use of acquisitions in advanced economies. Again, just as efficiency seeking involves different possible motives, for knowledge seeking we should distinguish between the *initial motive* (an EMNC identifies in advance which knowledge it intends to “squeeze” from a target to address its home country comparative disadvantage and move up the technological ladder (Child and Rodrigues, 2005; Deng, 2007, 2009; Guillén and García-Canal, 2009; Li, 2007; Luo and Tung, 2007; Makino et al., 2002; Rui and Yip, 2008], and the *suddenly emerging motive* (an MNC from a developed economy suddenly recognizes the corporate-wide value of existing knowledge or development in an overseas subsidiary).

Irrespective of the initial motive(s) for investment, in order 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 subsidiary *resource*

dependence on the corporation [see Pfeffer and Salancik, 1978/2003]. Possible types of subsidiary dependence on a parent are presented in Table 1.

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
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Of course, the most reliable way to increase a subsidiary's dependence on the parent is to squeeze the subsidiary's entire net profit, and, if possible, a great share of the operating profit too. This is achieved in many ways: through high dividend payments to the parent, specific transfer practices [see Rossing and Rohde, 2010], excessive payments for the use of the corporation's trademarks [Smith 2013, 2014], and so on. In such a situation, a subsidiary becomes completely dependable on HQ financing for all of its capital expenditures and enters a long-term game with the HQ over its share of the corporation's investment budget [Steele and Albright, 2004]. The rules of the game are simple: the corporation rewards subsidiary success by increasing the amount of corporate resources available for further subsidiary development (this may simply be an increase of the share of the free cash flow from the subsidiary's operations to be reinvested into the subsidiary's new projects). This statement has been well proven by the results of a recent survey of 1,000 U.S. and non-U.S. chief executive officers (CEO) and chief financial officers (CFO) [Graham et al., 2014]. It was found that more than 50% of both U.S. CEOs and non-U.S. CEOs stressed as "important decision criteria for capital allocation" just seven criteria: net present value (NPV) rank, manager reputation, manager confidence, cash flow timing, market share, previous return, and "gut feel." Certainly four criteria out of the seven (manager reputation, manager confidence, market share, and previous return) reflect the past objective and subjective performance of a subsidiary. From the other point of view, the subsidiary (more precisely, subsidiary managers) presumes that its successes will be properly and promptly rewarded in the corporation's capital allocation decisions. The violation of such "rules of the game" between the HQ and subsidiaries leads to conflicts in the HQ-subsidiary relationship [Dorrenbacher and Gammelgaard, 2011].

Like any resource-allocating mechanism, internal capital markets do not always work efficiently, as subsidiary managers may overstate the subsidiaries' mental, emotional, and network dependence in order to engage in rent-seeking behavior [Scharfstein and Stein, 2000; Ozbas and Scharfstein, 2010].

Nevertheless, in both "healthy" situations and situations of subsidiary rent-seeking behavior, the HQ must continuously support (or at least, demonstrate support for) the

activities of subsidiaries in order to justify the limitation of subsidiaries' autonomy [Chan and Makino, 2007; Chen et al., 2009].

Relationships between sister-subsidaries

The motives for investment in overseas manufacturing operations (resource seeking, market seeking, efficiency seeking, or knowledge seeking) have a profound impact on the content and intensity of the relationship between sister-subsidaries. It has been suggested by several researchers [Luo, 2005; Schmid and Maurer, 2011; Tsai, 2002] that the relationship between subsidiaries embraces both cooperation and competition. Competitive logic dominates the relationship with sister-subsidaries 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 weapon in conflicts over which country will supply particular markets is superior quality and lower costs of production from a particular manufacturing site, which is achieved through corporate-wide operations efficiency. Thus, sister-subsidaries are not inclined to cooperate closely, or, at least, they try to keep their most effective solutions (know-whys) to themselves.

The situation changes dramatically when knowledge seeking becomes an important motive for investment in a subsidiary (or when trade barriers make it completely 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 et al., 2004; Yang et al., 2008; Yacout, 2009] but subsidiaries become interested in cooperation between sister-subsidaries, saving time and money on the discovery and implementation of effective solutions [Zhao and Luo, 2005]. A clear indication of factors that provoke either competition (resource partition, charters, customers) or cooperation (resource sharing, knowledge, work splitting) between sister-subsidaries was recently presented in the literature as "opening a black box of the international business field" [Schmid and Maurer, 2011].

Previous studies on HQ-subsubsidiary and interunit relations in Russian settings

Although HQ-subsubsidiary relations are a well-studied topic and “a black box” of relationships between MNC subsidiaries has finally been opened, HQ-subsubsidiary and interunit relations in Russian settings is an almost unexplored field. This is in sharp contrast to the abundance of studies on MNCs and their subsidiaries in other Eastern European countries [Männik et al., 2005; Eckert and Rossmeissl, 2007; Pisoni et al., 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].

The literature that touches the issues of HQ-subsubsidiary and interunit relations in Russian settings is sparse: just one academic book provides a systemic overview of the evolution of several Russian subsidiaries of German MNCs [Anghel, 2012]; one non-academic book provides a description of the Russian experience of a particular MNC [Pepper, 2012]; one case study looks at a Western MNC building “a center of excellence” in Russia [Gurkov and Kossov, 2014]; and one synthesis of case studies on the innovation activities of Russian subsidiaries of MNCs [Gurkov, 2014a; Gurkov and Filippov, 2013] that touches somehow the issues of HQ-subsubsidiary and interunit relations in Russian settings. We should also mention a study on establishing MNC stakeholder networks in Russia [Holtbrugge and Puck, 2009] that depicts how MNCs gain admittance to and acceptance in an institutional environment that is not always very receptive to “strangers.” There is also a number of studies on “soft issues” of management in Russian subsidiaries of multinational companies [Fey and Bjorkman, 2001; Engelhard and Nagele, 2003; Kovesnikov et al., 2012] but with a few exceptions [Gurkov, 2014b] such studies do not evaluate the autonomy of subsidiaries in HRM issues.

Despite the lack of studies on HQ-subsubsidiary and interunit relations in Russian settings, we presumed that these relations would follow the common patterns of relationships within MNCs. Thus, we formulated three major propositions:

Proposition 1: In order to justify and defend corporate control over a subsidiary in a hostile institutional environment, the parent must put the subsidiary into a situation of dependence on the parent in several areas.

Proposition 2: In a complex and often unpredictable environment, the parent must continuously support the subsidiary.

Proposition 3: Sister-subsidaries are inclined to cooperate with a Russian subsidiary when the latter demonstrates superior efficiency of operations in at least one area (and thus serves as a source of valuable solutions to be copied by sister-subsidaries).

RESEARCH DESIGN

The instruments

The study has a two-stage design. The first stage was a series of interviews with the heads of Russian operations (country managers or heads of regional HQ). Through the interviews, we tried to get an overall picture of the relations between a Russian subsidiary, the HQ, and sister-subsidaries. The semi-structured interviews touched upon the most sensitive topic in HQ-subsidiary relations, namely, the internal mechanics of internal capital allocation within MNCs and the algorithms and processes the subsidiaries use to obtain resources for their capital investments (CAPEX). Through the interviews, we got the overall picture of the process of CAPEX applications and approval. In some cases, real documents (letters to HQ with demands for investment, reconciliation sheets with the signatures of top corporate executives) were shown to us. Through the interviews, we obtained the picture of overall subsidiary dependency on corporate parents and of the elements of such dependency.

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

The questionnaire included the following core instruments:

- First, respondents assessed the degree of support by the parents in 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, support in personnel 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).
- Second, respondents assessed the level of particular aspects of enterprise functioning relative to "the average level in the parent corporation" on a four-point scale ranging from "worse than the average in the corporation" to "one of the best enterprises in the corporation." The list of items to be assessed included "reliability of supplies," "level

of equipment,” “robustness of the major production processes,” “manufacturing culture,” and so on (Cronbach’s alpha of the instrument was 0.847).

- Third, respondents assessed the intensity of cooperation with sister-subsidaries in seven possible areas (similar to that used to assess the intensity of support by the parent but excluding “support in personnel development”, as we devoted a special instrument to a detailed description of cooperation between sister-subsidaries in that area) 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.

Additional questions revealed the year of establishment or acquisition of the subsidiary, the relative size of the subsidiary compared to its sister-subsidaries, and an assessment of the product mix and technologies in the subsidiary.

The sample

For the interviews, we identified 20 corporations with a share of Russian manufacturing operations exceeding 5% of their global sales. Of these 20 corporations, we were able to establish contacts and conduct face-to-face interviews with eight heads of Russian operations (country managers or heads of regional HQ).

For the survey, we identified 400 Russian enterprises as manufacturing subsidiaries of foreign MNCs. From that set, we contacted 261 companies and received responses from the top executives of 52 companies from 48 MNCs (a response rate of 20%). We 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. Regarding the age of subsidiaries, there was a good combination of “veterans” (24% of enterprises were created before 1998), “sophomores” (50% were created between 1999 and 2008), and “novices” (26% were created after 2008). We 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. We were able to identify both the intermediate (nominal) and final parents. Intermediate owners were primarily companies located in the Netherlands, Luxemburg, and Cyprus, while the final parents represented most of the OECD countries. We 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 52 cases. There was 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, paints, etc.). We consider our sample to be non-representative but very demonstrative for the subsidiaries of MNCs in the abovementioned industries.

FINDINGS

Dependency of subsidiaries on corporate parents

The first results of interviews were clarifications of the motives of MNC investment in Russian manufacturing. The predominant motive was and still is market seeking. Efficiency seeking is rare and is achieved through unique cases of building “dream factories” on the brink of the existing corporate parent’s technical competencies. The knowledge-seeking motive is almost non-existent as the *initial* motive of acquisition of Russian assets, and there is a low chance of this motive becoming a suddenly emerging motive: both the corporate HQ and sister-subsidiaries in developed countries view knowledge created by Russian subsidiaries with arrogance.

However, through the interviews we were able to prove our Proposition 1. Our respondents confirmed high dependency of Russian subsidiaries of their parent in several areas.

The area of highest dependency is subsidiary CAPEX. In all cases, the total amount of investment in the coming year is subject to the approval of the HQ (and, in the case of multi-plant 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 listed MNCs, formal approval by the investment committee and the board of directors is needed for the subsidiary’s annual investment plan. The real investment plans are very detailed documents. In one case, the 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 on the investment plans. Subsidiary managers do not challenge the rights of the HQ to control all capital investments; the speed and smoothness of the process 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 a unique opportunity of local acquisition, an emerging need for facility enhancement, an unpredicted need for rapid development of

new technology, etc.). It is interesting to note that the ratio between the requested and the received amounts of investment is very high: subsidiary managers know the internal corporate criteria of capital allocation well and in general do not bother the HQ with poorly designed investment proposals.

The second type of high dependency of Russian subsidiaries is legal dependency: all the Russian subsidiaries we interviewed were incorporated as limited partnerships with 100% of shares owned by the parent, either directly or through holding companies located in “convenient” locations. Through the interviews, we learned that considerable efforts have been made to assemble 100% ownership in Russian subsidiaries. Moreover, when foreign MNCs acquired Russian listed companies, they immediately delisted them from local and international stock exchanges.

The third type of dependency that has been clearly demonstrated by managers of Russian subsidiaries of MNCs is “emotional dependency”: subsidiary managers’ trust of and (especially) personal empathy towards a corporation’s top management was sincerely expressed. During the interviews, we had to listen to numerous “heroic stories” about a particular corporation’s top executives. Special respect was given in such stories to the unique abilities of gray-haired “wizards”: corporate chief technology officers who were able to “X-ray” the production facilities and quickly identify all pitfalls, bottlenecks, and so on.

Other types of dependency vary in different subsidiaries at which we conducted interviews. Network restrictions (restrictions on the use of alternative service suppliers and contractors) were not as high as we expected: the subsidiary managers freely mentioned costly mistakes made by corporate-wide contractors while designing Russian production facilities with ignorance of local conditions. Behavior dependency was high regarding the production processes (the mandatory use of procedure manuals, performance standards, codes of conduct) and low regarding HRM policies (most HRM policies, including selection criteria, remuneration standards, and packages of additional monetary and non-monetary benefits are designed locally).

Position of Russian subsidiaries within their parent corporations

The results of the interviews, especially those related to the motives of Western MNC investments in Russian manufacturing assets, were not very encouraging. Thus, our first step in processing the results of the survey was to clarify the assessment of the technologies, production mix, and manufacturing processes.

The majority of respondents (78%) acknowledged that their factories use either manufacturing technologies standard for their parent corporations or standard technologies adapted to local conditions. Only 22% of respondents said, “some our technology is unique for the parent corporation.” In addition, more than 60% of respondents admitted that the production technologies were either stable or “changing slowly.”

Perhaps, thanks to the dominance and stability of standard technologies, the respondents assessed “centrality” (robustness) of manufacturing processes and “manufacturing culture”—the two key elements of “world-class manufacturing practices”—*extremely positively*. Of the respondents 65% assessed “centrality” (robustness) of manufacturing processes in Russian manufacturing subsidiaries as at “the average level in the corporate parent” and 30% assessed them as “above the average level in the corporate parent.” Assessment of the “manufacturing culture and orderliness of operations” was even more positive: they were assessed as “average” by 49% of respondents and “above average” by 49% of respondents.

We found no differences in the overall assessment of the technical level of the enterprise depending on the way in which it became a subsidiary of a foreign corporation. In addition, there were no statistically significant differences in the assessment of particular parameters of production efficiency between “veterans” (subsidiaries established before 1998), “sophomores” (subsidiaries established between 1999 and 2008), and “novices” (subsidiaries established after 2009).

Thus, Russian manufacturing subsidiaries are not considered by their heads to be unique but are at least seen as “equal members of the corporate family” regardless of the year of establishment. Thus, it became even more interesting to see how such “equal members of the corporate family” strive to get their corresponding share of the parent’s support and attention.

Support of corporate parents

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

Table 2.

Intensity of support by the parent

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

Our Proposition 2 was successfully confirmed—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 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 received 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.*

We 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 (sales dynamics, 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).

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

Note: ** - 2-tailed sign. 0.010. * - 2-tailed sign. 0.05

We can see that the intensity of parent support in “financing new projects” is mostly related to support in designing new production facilities (corr. 0.654, sign. 0.000) and installation of new production facilities (corr. 0.718, sign. 0.000). We 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 completely the same to those presented in Table 3. *Thus, we may conclude that the majority of Russian manufacturing subsidiary facilities development projects are “all-inclusive packages”—in 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-subsidaries

To reveal cooperation with sister-subsidaries, we first computed the distribution of answers about the intensity of cooperation with sister-subsidaries in particular areas (see Table 4).

Table 4.

Distribution of answers to the question “In which extent your enterprise does cooperate with sister-subsidaries?”

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

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

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

Note: ** - 2-tailed sign. 0.010. * - 2-tailed sign. 0.05

We can see that, unlike in the case of support by the parent, where “designing new elements of HRM systems” falls apart from other areas of support, for sister-subsidaries, “designing new elements of HRM systems” is an integral part of cooperation.

We performed a series of different statistical tests (correlation analysis, ONEWAY analysis of variance, etc.) to assess the impact of the robustness and efficiency of a subsidiary’s manufacturing operations on the intensity of cooperation with sister-subsidaries. We have to admit that *our Proposition 3 should be rejected: neither the particular parameters of robustness and efficiency of a subsidiary’s manufacturing operations nor the composite measures of robustness and efficiency of operations have statistically significant impact on intensity of cooperation with sister-subsidaries in any area.*

Thus, we had to find other possible predictors of intensity of cooperation with sister-subsidaries. The first parameter that turned out to influence the intensity of cooperation with sister-subsidaries significantly was 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 lower intensity of cooperation with sister-subsidaries, 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, we determined the year at which the intensity of cooperation between older and younger subsidiaries in particular areas becomes equal (see Table 6).

Table 6.

Time required to establish average level of cooperation with sister-subsidaries 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

The data presented in Table 6 are very interesting. On average, a Russian manufacturing subsidiary of an MNC requires six to seven years to reach the average intensity of cooperation in 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 12–13 years. Finally, only subsidiaries established in 1999 or earlier reach the average intensity of cooperation in joint financing new projects (older subsidiaries still surpass younger ones in terms of the intensity of cooperation in that area, but the difference is not statistically significant).

However, the discretion of subsidiaries for intensity of cooperation with sister-subsidiaries is not absolute (see Table 7).

Table 7.

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

Note: ** - 2-tailed sign. 0.010. * - 2-tailed sign. 0.05

In general, cooperation with sister-subsidaries coincides with the intensity of support from the corporate parent. In the majority of cases, subsidiaries that receive considerable support from the parent in a particular area also cooperate closely with sister-subsidaries (except for financing new projects and development of new elements of HRM systems).

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, we may interpret the results as follows: when the parent decides to support its Russian subsidiary intensively, it also promotes cooperation between the Russian subsidiary and its sister-subsidaries. However, sister-subsidaries are reluctant to cooperate with “novices.” The detailed analysis confirmed that reasoning. For example, there was only one “novice” subsidiary (established after 2008) among the companies that simultaneously receive considerable support from the parent and cooperate closely with sister-subsidaries in “launching new products” (an area of high concordance between the parent’s support and cooperation with sister-subsidaries), and among companies that simultaneously receive considerable support from the parent and cooperate closely with sister-subsidaries in “designing new production facilities” (another area of high concordance between the parent’s support and cooperation with sister-subsidaries).

DISCUSSION

We presented a snapshot of the situation of Russian manufacturing subsidiaries after the first round of economic sanctions but before the sharp and rather unpredictable devaluation of the local currency (that happened in December 2014). Most of the surveyed subsidiaries had limited autonomy in capital allocating decisions: all significant investment decisions were made at the HQ. However, around half of the surveyed subsidiaries enjoyed strong support from the parent in financing development projects. Financing of development projects was not justified by the recent performance of the subsidiary or the current forecast of local business conditions. Most likely, the financing continued because it was necessary to complete long-term projects approved years ago. We may also speculate about the importance of “gut feel” in capital allocation decisions in a highly uncertain business environment. A parent’s financing of a development project is just the background to a parent’s support in other areas. The data (concordance between support in various areas) revealed the prevalence of “turn-key projects” in Russian manufacturing subsidiaries—once the investment project is launched, the subsidiary

receives intensive support through the whole cycle of the project: designing new manufacturing facilities, installing and putting in motion new manufacturing facilities, and training the personnel.

Among the half of cases in which significant parent support was observed, 40–60% of subsidiaries also enjoyed close cooperation with sister-subsidaries. Such cooperation strongly coincides with efforts by the parent, but sister-subsidaries are inclined to cooperate only with veterans: Russian subsidiaries established six to eight years ago or earlier.

CONCLUSIONS AND PRACTICAL IMPLICATIONS

Our study has profound practical implications, especially for EMNCs, which may consider Russian subsidiaries of MNCs from developed economies as appealing targets for acquisition. Four factors made Russian subsidiaries of developed-country MNCs especially attractive for EMNCs. First, as confirmed by our respondents, Russian manufacturing subsidiaries of MNCs from developed economies score high in “centrality” (robustness) of manufacturing processes and “manufacturing culture,” the two key elements of “world-class manufacturing practices.” This is congruent with the knowledge-seeking motive of EMNC investments. Second, the high concentration of ownership of Russian subsidiaries (predominant incorporation as limited partnerships with 100% ownership by the parent) makes the transfer of ownership an easy and smooth process. The third important factor that makes Russian subsidiaries attractive targets for acquisition by EMNCs is a very interesting consequence of the two-fold devaluation of the local currency in December 2014. As a result of the devaluation, the book value of assets of Russian subsidiaries calculated in US\$ decreased by 40–45%, while the sales for 2014 recalculated in US\$ at historical exchange rates decreased by 5–10% or even remained stable owing to the high inflation in 2014 (consumer prices in Russia rose by 12.5% in 2015; during the first six weeks of 2015, the consumer prices rose a further 5.5%). This increased the sales-to-book-value-of-assets ratio of Russian subsidiaries. The fourth factor that makes Russian subsidiaries attractive targets for acquisition by EMNCs is applicable only for listed MNCs. While private (family-owned) MNCs may tolerate high losses of particular subsidiaries for a long time and generally are not afraid to work in countries under economic sanctions [see Gurkov and Kossov, 2014], the CEOs of listed MNCs are

under constant pressure from shareholders to demonstrate continuously positive performance and to avoid “dangerous locations.”

However, in acquiring 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 “high manufacturing culture and discipline 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 have comparable levels of manufacturing culture and discipline of operations but are not cooperating closely with sister-subsidiaries.

These are just partial practical implications of the modest-sized survey in Russian manufacturing subsidiaries of MNCs. We suggest that continuation of the research may be very fruitful not only for the current monitoring of business conditions in the Russian economy but also for a better understanding of management practices of MNCs and for further development of the “strategy as practice” field of strategic studies.

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