5. PRACTICAL INSIGHTS

Chapter 5 examines the real-world applications of management theory in various organisational contexts, and explores key issues faced by managers and executives within multinational corporations. It highlights how theoretical concepts translate into practical challenges for leaders, particularly in the areas of subsidiary management, change management, and corporate governance. The content also addresses the importance of adapting management strategies to diverse international contexts, drawing on examples from different industries and regions.

5.1. The dual role of a Subsidiary CEO, and their relation to the parent company (Károly Salamon)

5.1.1. Introduction

In this chapter, we will examine the tasks and responsibilities of a CEO heading a subsidiary of a multinational company, with a particular focus on their relationship with the parent company. The key question is the extent to which the CEO has the freedom to formulate and implement the subsidiary's strategy, or whether their role is increasingly limited to executing decisions and requirements set by the parent company. Due to advancements in information technology, there has been a noticeable shift, with parent companies not only becoming more involved in strategic decision-making but also seeking greater control over day-to-day operations, while subsidiary CEOs desire more autonomy (Jarvenpaa & Ives, 1993). The mechanisms of control exercised by the parent company or the Board provide insight into whether the CEO is primarily seen as a middle manager, executing decisions made by superiors, or whether they have a significant influence on decision-making, not only within their subsidiary but potentially at the parent company level as well (Josefsson & Alm, 2007).

5.1.2. Mother company and Subsidiaries

The delegates of the parent company in the governing bodies of their subsidiaries abroad act as representatives of the owners. However, in most cases, they are executives at various levels within the headquarters, each with their own targets, responsibilities, and incentives, which may be aligned with or diverge from the subsidiary's objectives.

The top executive of a subsidiary occupies a dual role: on one hand, they are perceived as the CEO by the local market; on the other hand, from the parent company's perspective, although they are appointed as the CEO and their title is acknowledged, they are often regarded as a middle manager within the broader hierarchy of the international parent organisation (Josefsson & Alm, 2007). This duality raises the question of how local CEOs can navigate this complex role most effectively, fulfilling the parent company's requirements while also achieving their personal ambitions and meeting the expectations of the local market.

Organisations are composed of human and physical infrastructure, structured with long-term goals, formal rules, and a framework that allows voluntary membership transitions (Dobák & Antal, 2010). From the local CEO's perspective, this often translates into a fixed-term contract, providing flexibility for both parties. We will now explore the four distinct roles unique to subsidiary CEOs and what differentiates them from other CEOs in similar positions.

5.1.3. CEO Roles and Functions

In strategy formulation, setting objectives, and allocating resources, the CEO shares responsibility with other Board members. However, the Chairman of the Board, often a delegate of the parent company, orchestrates the entire process, transferring the expectations of the owner and aligning local objectives with those of the parent company. As the person responsible for local operations, the CEO plays a crucial role in defining the roadmap to achieve these objectives. In practice, they must often advocate for necessary resources (human and infrastructural), which can lead to conflicts with the Board. The local CEO, frequently viewed as a middle manager, is pressured to align with the goals of the headquarters, potentially at the expense of the subsidiary's interests.

With advancements in IT, the parent company exercises stronger control over daily operations, from marketing and product development to finance. Efforts to better utilise company-wide resources may result in difficult decisions for the subsidiary, such as downsizing or outsourcing. Headquarters can establish a robust control mechanism, often with immediate online access to operational data, but local sales operations, benefiting from an understanding of the local culture and environment, remain largely led by the subsidiary.

Local CEOs feel that these new organisational methods, control mechanisms, and reporting requirements limit their autonomy, pushing them into the role of middle managers focused on technical expertise. This shift can spark competition among subsidiaries for resources, with each vying to become a centre of competence in specific areas. The development of regional boards, where local CEOs no longer report directly to top executives but to regional managers, adds another layer of hierarchy. This creates a sense of demotion in the corporate structure, as regional delegates, with their own goals and ambitions, exercise bureaucratic control over local subsidiaries, perceiving the local CEO more as an implementer than a strategic leader.

Another unique responsibility of the local CEO is leading the local top management team. This role involves hiring and firing key personnel, fostering a team that not only possesses strong professional skills but also shares the CEO's values and loyalties – representing a form of clan control (Ouchi, 2012; Ouchi & Price, 1978). The CEO is responsible for maintaining consensus on objectives and implementing them efficiently as a Board member, and possibly as Chairman.

A significant challenge for local CEOs is to serve as role models for expected behaviours and to instil corporate values throughout the organisation. This task is non-delegable, as the CEO's approach to the parent company's objectives will set an example for their team, or even legitimates the behaviour of his followers. If the local and parent company's interests and values align, this process is straightforward. However, restructuring due to market, technological, or IT changes can impact the local subsidiary's future, as well as the CEO's career and livelihood. Aligning with the global vision and demonstrating a commitment to corporate values, while balancing local interests, is crucial for gaining trust from superiors. The CEO must show that their priority is the parent company's objectives, even if it temporarily harms local interests. Successful CEOs have longer term relation with their teammates, employees. It is understandable, that they prefer a longer implementation period in the change process meanwhile the representatives of the owner often prefer the hard landing even for higher temporary costs /losses. They expect more visible results in short term, especially if it is connected with their own targets and KPIs. It often leads to controversial discussions in the Board, but the weight of the central decisions is always heavier (Gordon, 1993).

Local CEOs also play a leading role in maintaining relationships with regulatory bodies and other influential entities. Their deep understanding of local customs, culture, and the political and economic environment helps the subsidiary find a competitive advantage (Vaszkun & Koczkás, 2024). Building relationships with top business, political, and social leaders is a task that often cannot be delegated, as access to these circles frequently requires a status that only the CEO can command.

5.1.4. The "Subsidiary CEO"

The role of the subsidiary CEO is characterised by its complexity, particularly regarding the balance of independence and control they hold. Subsidiary CEOs design and implement strategies within the parameters set by headquarters, operating under the oversight of the Board, while simultaneously managing HQ expectations, motivating local teams, and engaging with external partners in the local market (Josefsson & Alm, 2007).

The subsidiary CEO is not only accountable to the parent company but also, in some cases, to the subsidiary's Board of Directors. This dual role means that while they are perceived as a CEO by local peers and competitors, within the parent company's hierarchy, they may be treated as a middle manager whose primary responsibility is to execute the parent company's objectives. This can create what is referred to as a 'big-small boss syndrome'—being influential in the local market yet feeling relatively insignificant in the corporate environment. The extent to which the parent company trusts the CEO's managerial skills depends on their comfort with these dual roles. If the CEO aligns with the company's beliefs and values and finds professional growth, they will strive to achieve the set objectives. However, if they do not share these beliefs, feel their skills are underutilised, or encounter repeated conflicts over the subsidiary's strategic direction, it can result in a loss of trust and confidence among key stakeholders, potentially leading to resignation or forced departure.

5.1.5. Summary and Conclusion

The role of a subsidiary CEO in a multinational company is inherently complex, balancing both independence and stringent oversight from the parent company. This dual role presents challenges, as the CEO is seen as a top executive in the local market but is often regarded as a middle manager within the corporate hierarchy. Increasingly, the parent company exerts greater control over the subsidiary's strategy and day-to-day operations through technological advancements and regional governance structures. This can limit the subsidiary CEO's autonomy, positioning them more as an implementer of headquarters' decisions rather than a strategic leader.

The subsidiary CEO is responsible for setting objectives, managing resources, leading the local team, and representing the company to external stakeholders, such as regulators and business leaders. However, tension arises when the parent company's global priorities clash with local needs, forcing the CEO to balance corporate goals with local market realities. This conflict is intensified by differing expectations from the local market, the parent company, and the Board.

The dual role demands that the CEO effectively balance corporate demands with local realities. If the subsidiary CEO can align their values and objectives with those of the parent company, they can succeed. However, if they struggle to reconcile these conflicting roles, it can lead to dissatisfaction, a breakdown in trust, and ultimately, resignation or forced departure.

In conclusion, the subsidiary CEO's role is defined by a constant balancing act between international corporate control and local autonomy. Success hinges on the CEO's ability to navigate these tensions, align with corporate objectives, and maintain influence in the local market while managing expectations from both sides.

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