

# The journey of Spanish subsidiaries as international springboards in Latin America

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<https://doi.org/10.20420/eni.2023.656>

## Abstract

This study examines the transformation of ordinary foreign multinational subsidiaries into springboard subsidiaries. Using a case study approach, the research examines three Spanish subsidiaries of European multinationals that, targeting the Latin American market, have transitioned into springboard subsidiaries. The findings reveal that this evolution is driven by several factors: favourable economic conditions in the target region; location-specific advantages such as the ability to reduce the psychic distance and effectively transfer knowledge; and micro-political negotiations processes as a result of the subsidiary's strong initiative, peculiarities of the multinational structure and subsidiary's unique capabilities.

*Keywords:* Multinational, springboard subsidiary, psychic distance, regional expansion.

*JEL classification:* M16, F23

*Reference source:* Magomedova, N., Achcaoucaou, F., & Miravittles, P. (2022). The nascence of a springboard subsidiary: drivers of the evolution of a subsidiary role. *Management Decision*, 60(5), 1469-1491. <https://doi-org.sire.ub.edu/10.1108/MD-10-2020-1368>

## 1 Introduction

Foreign subsidiaries play a strategically important role in the international expansion of multinational corporations (MNCs) by exploring and leveraging new foreign market opportunities, especially in more distant regions. An intended strategy to address this challenge is to delegate certain administrative tasks to a local subsidiary in the region so it can serve as a management centre for that area. However, most recent studies find that due to certain intra-regional conflicts, these local management centres do not always handle their tasks successfully (Alfoldi et al., 2012). In this regard, rather than coordinating a new region directly, some MNCs use an already existing subsidiary outside of the region to take advantage of its managerial expertise and institutional knowledge about the target region (Villar, Dasí, & Botella-Andreu, 2018). Such units are known as springboard subsidiaries, and are defined as organisational units that are

located at an intermediate position between the home country and target region in terms of institutional distance and experiential knowledge (Pla-Barber & Camps, 2012). That is the case of Spanish foreign subsidiaries that represent a perfect platform for European companies that have intention to enter Latin American region due to their unique advantages (Pla-Barber et al., 2021). Thus, these units are characterized by (1) their extra-regional position, i.e., position outside the region that they administer (Pla-Barber & Camps, 2012), and (2) their intermediate psychic proximity to both corporate home country and a target region (Magomedova et al., 2017). MNCs tend to use springboard subsidiaries to fill a cultural gap between the headquarters (HQ) and the target region, which helps them adopt organizational behaviour when they follow their clients' expansion in new markets (Quesada-Chavez, 2018). All in all, the interest in springboard subsidiaries units have increased to the point that they have been listed among the

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most relevant intermediate organizational units in subsidiary management research.

Therefore, the aim of this study is to present a comprehensive analysis of the drivers of the conversion of an existing subsidiary into a springboard, paying special attention to the role of subsidiary management in this transformation. To do so, we perform an exploratory case study of three European MNCs that are expanding into Latin America through their Spanish subsidiaries.

## 2 Methodology

To assess how certain subsidiaries become springboards, as well as to reveal the interrelated factors behind such a transformation, we adopt an inductive qualitative case study research strategy (Eisenhardt, 1989). We structure the analysis following the framework in

Dörrenbächer and Gammelgaard (2006), who divide the contingency factors of subsidiary role transformation into those related to (1) host-country localisation advantages, (2) subsidiary capabilities, and (3) micro-political HQ-subsidiary negotiation processes. In turn, to allow for cross-case comparison, we chose three European MNCs (Dutch, German and French) with a springboard expansion strategy, but very different characteristics. The data was collected through semi-structured interviews by the three researchers in two rounds, complemented by financial statements, interim and annual reports, official websites and other documents provided by the MNCs. As for interviewees, all participants were deeply involved in the interregional expansion process of the MNC towards the Latin American region. Table 1 summarises the information about the companies.

**Table 1. Sample description and interviewees' profile**

	HQ location, year founded	Industry	N° of employees	Turnover	Springboard subsidiary location	Interviewee, location
<b>SOFTW</b>	Holland, 1993	Software	Ca. 130	Ca. 20 million €	Barcelona, Spain	Spanish Subsidiary's Top Manager, Spain México & Caribe Regional Manager, México Ecuador General Manager, Ecuador
<b>EDIT</b>	Germany, 1835	Editorial and communication	Ca. 170000	Ca. 17 billion €	Barcelona, Spain	Spanish Subsidiary's Chief Officer, Spain Spanish Subsidiary's Top Manager, Spain
<b>TRANSP</b>	France, 1928	Transportation	Ca. 34500	Ca. 6,9 billion €	Madrid, Spain	Spanish Subsidiary's Top Manager, Spain Previously, Latin American Regional Manager, Brazil.

## 3 Results

### *Changes in a target region and subsidiary's home country*

Changes in home and host market's conditions are important to evolve towards a springboard subsidiary. For example, the

SOFTW company detected a major industrial transformation in the Latin American market that led to an increasing interest in the MNC's software. The company viewed that as a "favourable circumstance" to expand their activities into this region. Similarly, the EDIT top management noticed a steady improvement in education level across all Latin American

countries, which created significant growth in the number of people interested in reading and predicted further increase in the future.

Contrarily to the positive change in the Latin American market, this was a period of stagnation in the subsidiaries' home market, Spain. The interviewees stated that although the Spanish subsidiaries wanted to grow domestically, their local market opportunities were limited, which pushed them to look for new markets. Therefore, their propensity to benefit from the opportunities in the Latin American market was even stronger. The slowdown in domestic sales created a stimulus for Spanish subsidiaries to explore new opportunities elsewhere. As TRANSP's subsidiary manager posits:

*“The process of gaining a springboard role partially coincided with the crisis of 2001, when the local [Spanish] market started to decline. We started looking for [new] opportunities outside the local market and Latin America was a somewhat natural choice for us. When we started analysing this market, we realised that we could propose the maintenance service offered in Spain. It opened a completely new market for the company, which was substantial in size and much more stable.”*

We therefore consider that the coincidence of favourable conditions in the target region environment with unfavourable conditions in the subsidiary's home market drives the development of a springboard role.

### ***Subsidiary capabilities***

Another core factor involved in a change in a subsidiary's role is the development of its own capabilities. First, the interviewees highlighted that the Spanish subsidiaries were more capable of understanding the local market's needs and facilitating communication between HQ and the target region due to the psychic proximity between Spain and Latin American countries. As the interviewees posit “sharing the same

language accelerates a large part of the business processes.” In the words of the interviewee from the EDIT subsidiary:

*“I, as a Chief Officer [of a Spanish subsidiary], always insisted that all the negotiations must go through us, because we kind of filter the information so that both parties understand each other better. And it is not because of the language: there is a person at HQ that speaks Spanish perfectly, but when he speaks to Latin American colleagues, they don't understand each other, because the way of doing things, the way of thinking is different.”*

Additionally, Spain has very strong institutional connections with the European countries, which, as the EDIT interviewee posits, “European investors feel more comfortable working with the unfamiliar Latin American market through Spain.” This intermediate psychic proximity of Spanish subsidiaries means they act like “bridges” between the two regions, which means they are able to understand local markets better, facilitate inter-regional communication and, consequently, develop their strategic role.

Furthermore, the extra-regional impartiality seems to be positively perceived by the HQ as well. According to all three Spanish subsidiary managers, the fact that they were not located within the Latin American region was perceived as counterintuitive only at the beginning. But on reflection and judging from the results of such extra-regional coordination, HQs viewed springboard subsidiaries as a “neutral territory”, with a truly intermediary role, which made balancing global integration and local responsiveness easier and more natural.

In turn, a better understanding of local markets and ability to coordinate these subsidiaries' regions helped them to improve their ability to transfer knowledge between their HQs and Latin America. The loss of the “nuances” during the process of transferring

knowledge across borders results in a less effective internationalisation process. This makes it more difficult for HQ to work with Latin America directly, which presents an opportunity for Spanish subsidiaries, with their superior knowledge transfer capabilities, to propose themselves as intermediate units.

Therefore, we propose that a subsidiary's ability to transfer knowledge increases the likelihood of achieving a springboard role.

### ***Impact of micro-political processes and subsidiary initiative on HQ's intended strategy***

The third main driver of the transformation of a subsidiary into a springboard is related to intra-organisational micro-political bargaining processes. The interviewees from the Spanish subsidiaries commented that they needed to “fight” against other organisational units for the springboard role. In the SOFTW and EDIT cases, their intra-firm competitors were US subsidiaries, because a priori this seemed somewhat more logical to the HQ due to “geographical proximity, time zone and common business practices” with Latin America, as the EDIT interviewee posits. In the TRANSP case, the rival was the International Department at the HQ itself and “the attempt to compete for the role against that department was essentially an attempt to change the status quo.”

The Spanish subsidiaries needed to demonstrate their superiority by taking initiatives to outpace internal competitors. For instance, the SOFTW subsidiary had been observing the development of the Latin American region for years prior to the MNC's entry, and was the first to point out the upcoming opportunities in this market to the Board of Directors. The TRANSP subsidiary chose another approach and deployed its own expertise to offer a service to the Latin American market that the company itself had never thought about before. In all three cases, the initiate always came from the Spanish subsidiary

itself. Such behaviours by individual subsidiary leaders made their HQs realise that these subsidiary unique resources were crucial for achieving successful inter-regional expansion.

This realisation, however, coincided with, and might be partly attributed to, another important issue – the peculiarities of the way that MNCs themselves are structured. In particular, in all three cases, that structure was decentralised, with considerable autonomy delegated to subsidiaries, which definitely influenced the capacity of the Spanish ones to act proactively. Moreover, in the cases of EDIT and TRANSP, the process of designating a springboard role to the Spanish subsidiary coincided with structural changes throughout the organisation – EDIT was consolidating its corporate structure after a series of mergers in the 2000s, whereas TRANSP was being reorganised from a product division to geographical division structure prior to the delegation of the springboard role. As TRANSP's interviewee posits:

*“The delegation of the springboard role happened in parallel with structural changes to the MNC. [...] So on the one hand, we were lucky. But on the other hand, the HQ could have delegated this role to a subsidiary inside the region, but didn't because it felt our unit was better prepared.”*

Such structural peculiarities made it easier to promote the subsidiaries' capabilities, and they actively used the period of general organisational restructure and somewhat blurred decision-making centre to gain bargaining power and negotiate the development of their own strategic role.

Therefore, a decentralised structure and organisational changes boost a subsidiary's initiative to develop the unique resources associated to a springboard role.



## 4 Conclusions

Prompted by the scarcity of empirical evidence on the process of how a subsidiary becomes a springboard, this paper analyses the drivers of such organisational change. In particular, we conducted an exploratory case study of three European MNCs that used their Spanish subsidiaries to expand into the Latin American market. This study shows that the delegation of a springboard role to the Spanish subsidiaries was not the MNCs' initial intent, but the result of a specific series of interrelated factors that created the necessary conditions for a subsidiary to be allocated the springboard role. Additionally, it is found that the development of a subsidiary role is not only closely related to the changes in a market where the subsidiary is located, but also is influenced by the dual environment complexity that differentiates springboards from all other types of intermediate level organisational units, and make them somewhat unique.

Therefore, this paper has important managerial implications for both HQ and subsidiary management. In an environment of growing rivalry and turbulence, HQ managers may myopically insist on direct entry in the distant regions, prioritising geographic proximity and mistakenly assuming that such an approach will accelerate their expansion. Instead, they should look within the corporation and give an opportunity to already existing subsidiaries that have developed unique capabilities to successfully act as bridges, or springboards, thus

enabling more effective coordination of regional activities. This entails the evaluation of market-related factors from both the target region and the subsidiaries' domestic market when making decisions. In turn, subsidiary managers need to set their mindset to understand an ensemble of factors, some of which are outside the scope of a subsidiary's influence (such as market-related factors and major changes to an MNC's organisational structure), but others are within (such as managers initiative and effective negotiating). Particularly, subsidiary managers should exploit their unique locational resources, such as historical, cultural and linguistic ties, to develop knowledge transfer capabilities beyond their own intra-regional market and, simultaneously, pursue emerging managerial opportunities in new regions. This will increase their value, as well as guarantee their survival in the long term, which is especially important for subsidiaries that operate in mature markets with limited growth possibilities.

Finally, this study is the first attempt to understand the process of the development of a springboard role and involves certain expected limitations. The analysis covers a highly specific context – Spanish springboard subsidiaries of European MNCs that coordinate activities in Latin America. Overall, given the growing interest in springboard subsidiaries, we encourage scholars or consultants to look for other possibilities around the world and propose a study that would analyse new geographical settings where subsidiaries can develop a springboard role.

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