

The competition-cooperation interplay for knowledge development: a headquarters-subsidiary perspective

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Abstract

Purpose – In this paper, the authors contribute with insights on competition and cooperation in multinational enterprises with a focus on challenges related to these governance mechanisms in a knowledge development context. The mechanisms have been widely recognized as important for developing knowledge, but their contradicting nature implies considerable complexity when it comes to governance. The complexity is further increased as a result of the headquarters-subsidiary relationships. The aim of this paper is to contribute with theoretical and empirical insights on these aspects by focusing on the research question: How and why does competition and cooperation in an MNE emerge over time?

Design/methodology/approach – A manufacturing MNE with headquarters (HQ) in Sweden is analyzed on both HQ and subsidiary levels. Interviews with 24 managers in Sweden and India have been performed.

Findings – The study illustrates that competition and cooperation are integral aspects in HQ-subsidiary relationships. The results show that both competition and cooperation depend on environmental, organizational and object-related conditions and that these conditions influence the dynamics of the interplay. The importance of including a subsidiary perspective and the interdependencies in an MNE setting are emphasized.

Originality/value – The authors add to the discussion on the interplay between competition and cooperation as they play an important role for knowledge development in MNEs. The results indicate that they do not take place simultaneously, and therefore, the authors suggest that the dynamic can be better understood by focusing on the interplay and analyze the concepts separately.

Keywords Competition, Cooperation, Knowledge, Interplay, Headquarters, Subsidiaries

Paper type Research paper

Introduction

In our fast-changing world, firms are under increased pressure to constantly evolve. Internationalization, knowledge development and learning are put forward as key factors,



but their complex interplay is often a challenge for management to handle (see, e.g. Freixanet and Federo, 2022). In this paper, we focus on two important governance mechanisms – competition and cooperation – and relate them to knowledge development in an international setting – that of the multinational enterprise (MNE). Both competition and cooperation have been widely recognized as important for developing knowledge (Cerrato, 2006; Gammelgaard, 2009; Luo *et al.*, 2006), but their contradicting nature implies considerable challenges with regard to governance. Furthermore, the role of geographically dispersed subsidiaries (see, e.g. Phene and Almeida, 2008; Strutzenberger and Ambos, 2014) must also be taken into consideration when discussing knowledge development, as headquarters (HQ) is not the only source of knowledge. Valuable knowledge also resides in the foreign subsidiaries.

Research addressing issues related to understanding competition and cooperation within MNEs has predominately focused on answering the question of why competition and cooperation exist in general (e.g. Luo, 2005, 2007; Luo *et al.*, 2006), while only a few studies have addressed the question of how these contradictory forces are managed. For example, Hong and Snell (2015) studied the competitive and cooperative routines in the knowledge development process in a Japanese foreign subsidiary, while Tippmann *et al.* (2018) focused on how subsidiaries managed the contradictory and paradoxical demands to both compete and cooperate when developing their role within the MNE through a sequencing of competitive and cooperative behavior over time. The findings by Tippmann *et al.* (2018) are related to the growing body of research that has focused on these contradictory logics under the umbrella concept of “coopetition”. Influential researchers within the coopetition field stress that in order to qualify as coopetition, competition and cooperation should take place *simultaneously* (see, e.g. Bengtsson and Kock, 2014; Bengtsson and Raza-Ullah, 2016; Dorn *et al.*, 2016). However, in line with Tippmann *et al.* (2018), we highlight that they do not necessarily take place simultaneously, but rather sequentially. We suggest that the dynamic can be better understood by focusing on the interplay and analyzing the concepts separately. In contrast to Tippmann *et al.* (2018), who focused on only the subsidiary level, we emphasize the importance of the HQ-subsidiary relationship – a key relationship explaining MNE behavior (Kostova *et al.*, 2016) – and consequently illustrate the interplay from both perspectives. This becomes of specific interest since subsidiaries are locally embedded and need to adapt to their specific environment but also belong to the same MNE with a need to cooperate internally to attain corporate goals.

Although research has recognized the importance of intra-firm competition and cooperation for knowledge development, less is known about what promotes competition and/or cooperation, how the two evolve, and how they might generate positive and/or negative outcomes. Hence, the aim of this paper is to contribute both theoretical and empirical insights on these aspects by focusing on the following research question: How and why do competition and cooperation in an MNE emerge over time? Furthermore, research on competition and cooperation has not sufficiently examined when either could or should be promoted (i.e. the sequential nature of these two contradicting forces) or illustrated from both HQ and subsidiary perspectives. Thus, we contribute to an increased understanding of how both headquarters and subsidiaries encourage and inhibit competition and cooperation. To explore conditions, dynamics, and outcomes of the competition-cooperation interplay, we conducted a single case study, in which we rely on interviews at the HQ level and subsidiary level as well as secondary data from the Swedish MNE SKF.

The next section introduces the conceptual anchoring of our study followed by a discussion on methodological choices and, thereafter, an introduction to the case. Empirical insights are discussed, and we then offer an extended explanation of the MNE organizing process of competition and cooperation over time with implications for knowledge development. Finally, we discuss our contributions and suggest ideas for future research.

Theoretical framework

In the following, we start by discussing governance mechanisms, some encouraging competitive behaviors and others encouraging cooperative behaviors, across the subsidiary units. Thereafter, we distinguish between HQ-led and subsidiary-led activities and conclude by depicting various conditions fostering competition and/or cooperation within the MNE.

Governance mechanisms for competition

From a HQ perspective, competition improves distribution efforts and efficient use of scarce resources, as it is a way to avoid duplication of activities and trigger innovative behavior among the geographically dispersed subsidiaries; thus, competition is seen as a means to increase overall efficiency in the MNE (Oliver, 2004; Paz-Vega, 2009). Competition can be encouraged through pricing policies that generate a type of internal market that requires units to compete for resources (Khandwalla, 1972; Paz-Vega, 2009). Because MNE resources, such as financial resources and knowledge, generally are scarce, competition for these often arises among subsidiaries (e.g. Birkinshaw and Lingblad, 2005; Mudambi, 2011).

Competition in MNEs is not limited to the above-mentioned resource dimension. Legitimacy, attention and/or status can also invite competition among subsidiaries. HQ faces time constraints with regard to directing their attention to specific issues; consequently, subsidiaries compete for the limited time available for their interests (Cantwell and Mudambi, 2005). The amount of attention a subsidiary receives depends on factors such as the subsidiary's position, location in the value chain, access to important information and ability to influence decisions made by HQ (Becker-Ritterspach and Dörrenbächer, 2011; Luo, 2005), as well as specific strategic efforts on behalf of the subsidiary to attract the attention of HQ (Gorgijevski *et al.*, 2019). For example, HQ's attention is associated with the subsidiary's ability to sell its image of being credible, reputable and a high performer (Conroy and Collings, 2016). Further, subsidiaries might protect local knowledge (Mudambi and Navarra, 2004) or make relocation of activities (Rugman and Verbeke, 2001) to reach a more favorable competitive position.

Another means of governance relates to the distribution and extension of mandates to subsidiary units – that is, the responsibility for specific tasks or processes assigned to a subsidiary based on its advanced capabilities (Birkinshaw *et al.*, 1998). Once a subsidiary is assigned a mandate, the new influential role can assist the subsidiary in accessing both more and new resources and consequently helping it develop its capabilities (Argote, 2012). For example, Cantwell and Mudambi (2005) found that HQ's product mandates can give a subsidiary global responsibility for a single product line, including development, manufacturing, marketing and sales. This arrangement provides subsidiary management with the opportunity to develop the mandate. Thus, successfully responding to a knowledge-creating mandate from HQ is intrinsically linked to an evolutionary process that depends on the subsidiary's capability base. In particular, the development of knowledge is related to the ability of a subsidiary to expand its own skills, competencies and expertise. HQ might compare subsidiaries' performance when deciding on mandate allocation (Birkinshaw and Hood, 1998), which results in competition when subsidiaries try to position themselves more favorably compared to other subsidiaries (e.g. Cantwell and Mudambi, 2005). Attaining a favorable position has also more long-term consequences; if a subsidiary performs well, HQ is likely to assign the subsidiary more mandates. In sum, competition can be enforced in MNCs through different means of governance, of which the distribution of scarce resources is perhaps the most obvious. However, legitimacy, attention and/or status also invite competition among subsidiaries together with the distribution and extension of mandates.

Governance mechanisms for cooperation

Although HQ might encourage competitive behaviors across its subsidiaries, there is also a need for HQ to stimulate cooperation. As noted by Tsai (2002, p. 180), “[t]o gain new knowledge and to exploit economies of scope for their business operations, organizational units have to cooperate with each other and learn from each other.” In addition to knowledge development, Tippmann *et al.* (2018) argued that cooperation is also vital for operational flexibility, which is necessary in interdependent systems. For instance, with many MNEs shifting towards global factory management styles (Buckley, 2011), interdependencies between subsidiaries have increased, and the output of one subsidiary is often the input of another (O’Donnell, 2000).

Subsidiaries commonly cooperate in three areas: technological, operational and financial (Fong *et al.*, 2007; Luo, 2005). Technology is closely interlinked to knowledge and human capabilities, while operational and joint financial optimization are closely linked to resource sharing. Subsidiary units can cooperate by pooling resources, leveraging knowledge, or contributing to the overall growth of the local industry infrastructure (Luo, 2005). In other words, subsidiaries cooperate to access resources, but they can also cooperate to reach a desired outcome, such as a more prominent position or status in the MNE. To conclude, cooperation is argued to improve when strategic interdependence and technological linkage across subsidiaries increase, while competition is intensified when subsidiaries’ responsiveness to demands in their local market context increases and when there is a market overlap (Luo, 2005).

HQ and subsidiary impact on MNE internal cooperation and competition

As indicated above, the choice of competing or cooperating can be initiated by HQ or by subsidiary that is be HQ- or subsidiary led. Traditionally, the focus has been on HQ governance, but HQ can also leave the choice to the subsidiaries. Hence, HQ can encourage, support, or promote the type of governance it considers most suitable to meet corporate goals.

In the subsidiary-led type, the choice of cooperating or competing can be an outcome of subsidiary autonomy, their local responsiveness and their competitiveness and expertise. Regarding local responsiveness, Luo (2005) found that subsidiaries with high local responsiveness face intra-firm competition, mainly because subsidiaries strongly depend on HQ’s scarce resources to help them overcome their liability of foreignness. On the other hand, subsidiaries with a strong position on the local market might also hold valuable knowledge, which is important for the MNE as a whole. For instance, Mudambi and Navarra (2004) found that subsidiaries that monopolize certain assets needed by other subsidiaries are expected to have higher bargaining power and therefore will be more successful in the internal competition for resources. Thus, subsidiaries that dominate certain activities and leverage important knowledge increase their status within the MNE and may have considerable influence in the whole MNE.

Conditions affecting the dynamics of competition and cooperation

Tippmann *et al.* (2018) suggest that how subsidiary managers frame a situation translates into either cooperative or competitive behavior of subsidiaries. Furthermore, they argue that the paradoxical demands are managed through a sequencing of cooperative and competitive behavior over time, as well as by a simultaneity of behavior over time. Our discussion is in line with their arguments when we focus on the interplay between competition and cooperation. We also put forward that whereas HQ makes efforts to direct subsidiaries’ behaviors to engage in competition and cooperation (Luo, 2005), subsidiaries also drive these behaviors themselves (Tsai, 2002). But how can we better understand why competition and cooperation emerge and what are the conditions affecting their dynamics?

To answer this question, we build on [Becker-Ritterspach and Dörrenbächer's \(2011\)](#) identification of three main conditions that may encourage competition among subsidiaries: environmental, organizational and object-related conditions. Environmental conditions are closely linked to market conditions. [Cerrato \(2006\)](#) suggests that uncertainty concerning market changes can lead to competition, and [Luo \(2005\)](#) adds that in high growth and prosperous markets, competition within units is expected to be high, since HQ may allow overlaps among subsidiaries as a means to increase performance. Organizational conditions are related to the overall organizational aspects, which are connected to control, structures, systems and processes implemented by HQ and are expected to influence the behavior of subsidiaries related to, for example, autonomy, promotion, overlaps and equality. Some of these aspects have already been indicated in the description above on competition and cooperation. Finally, object-related conditions are beyond the organizational and environmental conditions. [Becker-Ritterspach and Dörrenbächer \(2011\)](#) exemplify the object-related conditions with different types of knowledge and resources and relate to [Cerrato's \(2006\)](#) argument that intra-firm competition is less likely if knowledge is tacit and context-specific.

We put forward that these conditions may also explain different degrees of cooperation. [Luo \(2005\)](#) highlights that cooperation is observed between individuals; for example, managers from different units may share best practices or information as a means to outperform a competitor. In such a case, subsidiaries cooperate by pooling resources, leveraging knowledge through R&D, or contributing to the overall growth of the local industry infrastructure. For [Luo \(2005\)](#), because complexity, hostility, instability and uncertainty in the business environment encourage internal cooperation, the pursuit of collective rather than localized objectives become a relevant and predominant strategy used by HQ.

In sum, factors explaining different configurations of cooperation are related to the business environment and the organizational response to that environment as well as to object-related conditions, such as type of knowledge. [Becker-Ritterspach and Dörrenbächer \(2011\)](#) suggest that competitive relationships are facilitated by MNE organizational conditions, including internal strategies and structural characteristics such as the role of HQ, social communication between subsidiaries and reward systems. Building on [Becker-Ritterspach and Dörrenbächer \(2011\)](#) and the above-outlined discussion on governance mechanisms used to enforce competition and cooperation in MNEs, we claim that HQ can exert control over subsidiaries and transform a competitive relationship into a cooperative relationship and vice versa. Despite recognizing the impact HQ has on competition and cooperation, the role of the subsidiaries cannot be ignored, as the subsidiary managers' framing of and response to HQ governance can render either a competitive or a cooperative response of subsidiaries. Hence, the roles of both HQ and subsidiaries are taken into consideration when we explore how competition and cooperation in MNEs evolve over time and how competition and cooperation can be related to the conditions outlined above.

Method

Research design and selection of case

HQ and subsidiary engagement in competitive and cooperative activities is a complex and interdependent phenomenon that is not limited in terms of a strict headquarters-subsidary perspective but is affected by and affects the MNE as an organization and thereto related governance mechanisms for knowledge development. Due to the exploratory nature of this study, which aims to capture how and why the sequential nature of competition and cooperation from both HQ and subsidiary perspectives emerges over time in an MNE ([Siggelkow, 2007](#); [Welch et al., 2020](#); [Yin, 2009](#)), a longitudinal single case study approach

was used. With its aim to highlight the conditions, dynamics and outcomes of the competition-cooperation interplay, the case can be described as an instrumental case study (cf. Stake, 1995), as it provides illustrative empirical insights to develop and refine theories on governance mechanisms of competition and cooperation in MNEs. Indeed, case studies provide a unique means of sharpening and refining existing theory (Siggelkow, 2007, p. 21).

The case on the sequential interplay between competition and cooperation in MNEs in this paper emanates from a larger study on Western MNEs' with a focus on leveraging business opportunities in emerging markets. In this particular paper, data are derived from SKF, a leading global supplier of products, solutions and services related to rolling bearings, seals, mechatronics, services and lubrication systems. SKF is headquartered in Sweden, and at the time of the study, the company was organized geographically for three product areas and by global product divisions for the two additional ones. The point of departure of this longitudinal study was the decision made by HQ to establish global R&D facilities at subsidiaries in a few locations, including India. India was increasingly important for SKF, as for many other MNEs, because of its market potential and R&D capabilities. The choice to focus on the Indian subsidiary was made because it pursued all value chain activities, and the intention from HQ was for the subsidiary to advance and eventually perform R&D activities globally. This allowed us to study competitive as well as cooperative activities as means of governance to achieve knowledge development (cf. Cantwell and Mudambi, 2005).

The study was carried out by applying an iterative process, wherein we moved between empirical insights and theory on competition and cooperation with the objective of matching theory and reality (cf. Dubois and Gadde, 2002). A core merit of this abductively inspired research process was that it facilitated a deeper exploration of the research phenomenon, as it allowed for a continuous reflective dialog between the case and theory (Conaty, 2021), which in turn allowed for novel and unanticipated results to emerge (Haig, 2005; Thomas, 2010).

Data collection and data analysis

A qualitative approach was chosen for data collection and analysis to gain an understanding and provide an explanation of how competition and cooperation unfold in an MNE setting. We conducted 24 interviews at SKF, which were supplemented by extensive secondary data. The first round of interviews took place at HQ in 2012 with five global top managers, including the CEO, the Senior Vice President of R&D and three divisional-level managers. These initial interviews helped us understand SKF's overall strategic approach and governance structure as well as how it viewed the role of the Indian subsidiary and the main agenda for the R&D activities locally and globally. In the interviews, we focused on understanding the process of leveraging the Indian market potential over time and how HQ managed the process. Hence, our analysis focused on the subsidiary in Bangalore and its expansion from a local R&D site to a global R&D center.

In total, 19 interviews were conducted at the subsidiary between 2013 and 2016. We held recurring interviews with the subsidiary head of R&D once a year for four years. All interviews were face-to-face, audio recorded, transcribed (more than 100 pages in total) and lasted approximately 90 min each. Whereas the first interviews in 2013 focused on collecting the history of the Indian unit, the remaining interviews focused on how the subsidiary experienced HQ-driven activities encouraging either competition and/or cooperation but also on the local unit's activities undertaken over time in relation to HQ and peer subsidiaries. The interviews were guided by the emerging theoretical framework, which in turn was influenced by insights reached when collecting data (cf. Dubois and Gadde, 2002).

The interviews were complemented by secondary data to further triangulate findings and limit retrospective bias of the interviewees (Eisenhardt and Graebner, 2007; Ghauri and Firth, 2009), as well as to enable the researchers to keep up with the continuous rapid development

in India for the studied MNE during the time that elapsed between the round of interviews. Interviewing members from different hierarchical levels and making use of different sources help to improve construct validity (Gibbert *et al.*, 2008; Yin, 2009). The secondary data consisted of corporate internal documents, press releases, annual reports, news articles and secondary talks and interviews (approximately 110 pages). The secondary data were collected prior to the interviews but also in parallel to the interviews carried out over the five years of the study.

We began the analysis of the data by constructing a narrative case description following a timeline to reconstruct the historical developments of the growth and development of the subsidiary unit in India together with the development of the MNE as a whole (Eisenhardt, 1989; Miles and Huberman, 1994) by triangulating interview and secondary data. The intent was to achieve a reliable and detailed view of the evolution of the Indian subsidiary in the MNE context. We categorized the data by using the words of the respondents to capture insights regarding SKF's governance structure in terms of activities that encouraged competition and/or cooperation, resource acquisition, HQ attention, knowledge development and knowledge sharing between subsidiaries, both locally and globally. In other words, we summarized recurrent and related activities into first-order concepts. This initial analysis of activities allowed us to ground our emerging insights in the activities being pursued by HQ and the Indian subsidiary. In our theorizing, we followed the above-mentioned abductive iterative process (cf. Conaty, 2021; Dubois and Gadde, 2002) of moving back and forth between theory and data. We linked the literature on competition and cooperation, subsidiary evolution, subsidiary mandate, knowledge development and knowledge sharing to highlight and relate to the conditions, dynamics and outcomes of the competition-cooperation interplay. In a final step, we increased the level of abstraction and aggregated the empirical findings even more to theoretical dimensions by relating them to environmental, organizational and object-related conditions, as outlined by Becker-Ritterspach and Dörrenbächer (2011).

Introducing the case company SKF

Founded in 1907, SKF rapidly grew into a global company. As early as 1920, the company was well established in Europe, Asia, Africa and North and Latin America. At the time of the study, SKF had businesses in more than 130 countries and more than 100 manufacturing sites and sales companies supported by about 15,000 distributor locations including six manufacturing sites in India. Since 2000, the subsidiary in Bangalore had a local R&D unit responsible for serving the local market. In 2009, the subsidiary was upgraded to a Global Testing Center for design, process and supplier validation, generating increased support for local and global customers. SKF's investments in India continued to grow, and the subsidiary was assigned the role of Global Tech Center in 2011, responsible for testing and providing advanced technical knowledge for design, process, product and supplier validation. In addition, the subsidiary conducted bearing analysis and had a fully equipped laboratory to analyze and support the Indian market's needs. In 2013, the subsidiary also demonstrated its R&D competence for all of SKF's platforms and, thanks to HQ support, embarked on the journey toward becoming a global R&D center.

Results

The results from the case study are organized in line with our research question – that is, how and why the sequential nature of competition and cooperation in an MNE emerges over time. We start with the more descriptive “how” question below and focus on the subsidiary and its expansion from a local R&D site to a global R&D center.

Dynamics of the cooperation-competition interplay

The case discussion explores HQ's focus on and activities towards enabling an interplay of cooperation and competition, which are linked to some of the conditions observed by Becker-Ritterspach and Dörrenbächer (2011). In Figure 1, we illustrate how the interplay evolves from HQ to subsidiary in relation to the core competitive and cooperative activities and events that played out during the years 2003–2014.

The governance structure of SKF was initially built on competition. The first activities of cooperation took place in 2004 during the development of a training system to facilitate knowledge sharing and cooperation as well as the location of a center for application development (ADC). Initially, HQ's initiative for increased cooperation was connected to changing environmental conditions that led HQ's perspective on India to shift from a market for local opportunities and tech initiatives to a market for global initiatives. Hence, HQ envisioned the development of a Global Tech Center responsible for attending to both local and global demands. HQ was strategically motivated to temporarily introduce a culture of cooperation among subsidiaries with R&D activities around the world to help the Indian subsidiary develop, in contrast to the previously predominant competitive governance structures. Even if the Indian subsidiary had gained attention and support from HQ, tensions among the other subsidiaries in the MNE and their resistance to cooperating with this subsidiary remained, suggesting the existence of tensions in going from a competitive to a cooperative internal environment.

In 2008, HQ allocated resources to the Indian subsidiary for knowledge development, and in 2014 another investment was made when a small specialized unit for lubrications was added. These conditions advanced the subsidiary's position and thereby contributed to its potential to compete with other subsidiaries in the MNE. Thus, the development of the subsidiary and the interplay between competition and cooperation came about as an outcome of external environmental conditions in the local market as well as internal governance conditions. The subsidiary also contributed to both competition and cooperation by developing new knowledge and capabilities, autonomy and local response to the Indian

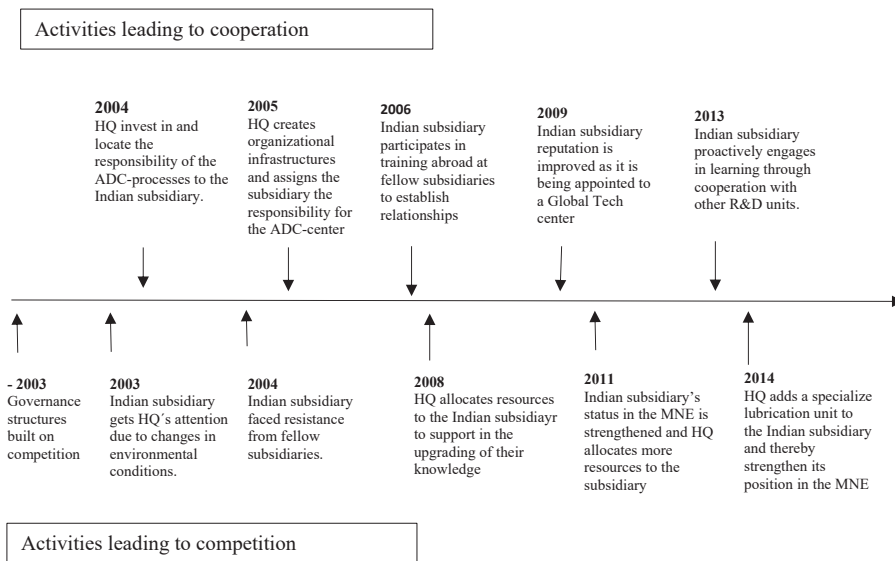


Figure 1. The competition – cooperation interplay in SKF

market while also serving the MNE global market with its local tacit knowledge. This stage represents what Becker-Ritterspach and Dörrenbächer (2011) call the “object-related condition”. When the subsidiary possessed what was required to develop technical knowledge on its own and also achieved autonomy, the HQ reverted to governing by internal competition.

In the next sections, we turn to the “why” aspect of our research question. We draw on the thoughts of Becker-Ritterspach and Dörrenbächer (2011), who argue that environmental, organizational and object-related conditions influence MNE competition, and we use the same conditions to show that they also influence cooperation between various subsidiaries.

Environmental conditions

What motivated the SKF Group to establish an R&D center at an Indian subsidiary? Our study shows that the changes in the business environment resulted in a change in HQ’s perception of the importance and value of the Indian market. The first targeted initiatives that raised the status of the subsidiary can be traced back to 2001. The change was in line with SKF’s overall corporate aspiration to create a global product development and engineering organization in India. Before this, the R&D activities had mainly provided support for limited product development for the local market. As a manager at the SKF HQ recalled, “*We had some small technical activities in India associated directly with factories doing straightforward factory support and some level of product development for the market.*” Changes in the market conditions clearly showed that SKF could no longer sell “outdated Western products” in the local market and consequently had to update the R&D activities in India. SKF’s CEO summarized the changes in India at that time: “*India has changed from being an importer of knowledge to being a developer of knowledge. We work together with customers, developing products with them, specifically for that market.*” SKF further realized that to take part in the growth in India, local Indian managers who understood the context, the customers and the market should be in charge. As pointed out by the CEO, “*In 2002, we took a conscious decision – if we want to develop SKF in India, we need to go for local managers. We gave the authority to the locals. We gave them the keys. We, however, also expected them to come to us and tell us what was needed – how we should assist them – in order to be successful in India.*” The CEO, however, clearly stressed the importance of being consistent in the way the company runs subsidiaries while also respecting differences among them: “*We do not run India differently from other operations. What is different is that the need for change is faster. That is why it is vital that management is close to the market; that is why I visit them regularly.*” The above statements support Luo’s (2005) assertion about prospering markets’ effect on intra-firm competition: the competition among subsidiaries tends to be high since HQ allows overlaps among them.

By choosing to upgrade the subsidiary in India with the responsibility of the ADC HQ encouraged competition between its European subsidiaries and the subsidiary in India, as all were competing for mandates and resources. The focus of the Indian unit was on the automotive market with particular emphasis on two-wheelers, as the Asian market is the largest in the world. The CEO reflected: “*Out of the 24 million two-wheelers produced globally every year, 20 million come from Asia. This almost amounts to 83% of the total production. SKF aims to strengthen its role as a global partner to its customers in all segments of the industry as well as its commitment to the Asian market and India in particular.*” The choice of location of the ADC at the subsidiary in Bangalore was made because the city had developed into the IT hub of the country with a large pool of engineers. As mentioned by the Senior Vice President for R&D: “*We will evolve over time – our vision is to have everything covered in India – from basic research to applications engineering to specific business units. All done for local markets, and this will be coordinated with research that we will not be doing in other parts of the world. Bangalore is extremely good at that.*”

The environmental condition of the market influenced the support HQ provided and the status assigned to the subsidiary; that is, HQ's attention and resources were directed to the Indian subsidiary. Subsidiaries compete for limited resources, and the business environment in India was seen as crucial to support from a HQ perspective, which would allow for an upgrade of the subsidiary's technological know-how and eventually strengthen its strategic position. This gave the subsidiary an upper hand in comparison to other subsidiaries, as they were all competing for both limited resources and attention from HQ. According to [Becker-Ritterspach and Dörrenbächer \(2011\)](#), HQ's attention to a specific subsidiary can result in conflicts among subsidiaries as a result of fierce competition, which in turn can create a race among subsidiary managers, whose careers depend on performance ([Bouquet and Birkinshaw, 2008](#)).

Organizational conditions

How have coordination and control processes been emphasized by HQ in the governance of the MNE and support of the subsidiary in India? The decision behind the transformation of the subsidiary into a global R&D center with the start of the ADC was made solely by HQ. That is, HQ mandated the subsidiary's role. As mentioned by the CEO: "*We needed to give them a technology center. You need to be able to develop things locally [. . .] you cannot expect that you can develop things in Europe to sell in India. If we would not have had a technology center in India, we would not have taken part in the market growth, we would not have had the right resources to meet our customer' demands.*" The ADC focused on the development of new technologies and optimization of the existing product range, thereby supporting SKF's global customers with knowledge and services.

When SKF inaugurated the subsidiary to a Global Testing Center in 2011 (i.e. a subsidiary with global R&D), it was able to achieve faster and more cost-efficient support to local and global customers. The process was again driven by HQ as part of SKF's overall technology enrichment strategy. The CEO pointed out that the center applied global standards in developing knowledge adapted to local customer-specific requirements: "*We are putting a knowledge infrastructure in place in India that allows us to provide state of the art technology solutions.*" Just as for the ADC, HQ intervened through governance and created new organizational conditions by allocating resources and mandates to support the subsidiary in developing technological knowledge.

An important decision made at HQ was that the subsidiary should house all types of R&D activities, which historically in Europe were located at different subsidiaries. Furthermore, in a press release in 2014, SKF described the plan to build two new Global Testing Centers – one in Sweden and one in the Netherlands – in addition to the ones in India and China. Despite the demand for developing new knowledge, it seems as if SKF has overlaps among the subsidiaries when it comes to products, markets and technologies. This finding is in line with previous research arguing that the insertion of overlaps at subsidiaries is a common strategy used by HQ to organize for competition ([Becker-Ritterspach and Dörrenbächer, 2011](#); [Phelps and Fuller, 2000](#)).

Despite the continuous upgrade, parts of the global R&D organization doubted that the Indian subsidiary would be capable of delivering on time with sufficient quality. An observed aspect linked to the prevailing organizational and governance conditions in SKF was that the subsidiaries possessed a large degree of autonomy, which made them oppose to mandates allocated to other subsidiaries. This was observed when the Indian subsidiary was facing resistance due to its stillpoor reputation among other subsidiaries, some of which refrained from cooperating with the Indian subsidiary, including the exchanging of resources. According to the subsidiary head of R&D, managers were aware of the resistance and realized that the solution was linked to building credibility among counterparts in the

global organization: *“Proving credibility takes time, one should have patience [. . .] you push them enough to get them to give you work and then you leave them to judge.”* The management team understood that to develop further, the subsidiary needed a critical mass of projects. The corporate message to leverage the R&D capability was driven through committees at various levels where India needed to cooperate with other subsidiaries to develop its competencies and influence.

HQ also intervened to help the Indian subsidiary increase its reputation and credibility. Communication channels were implemented at several levels as a means to create an environment for cooperation and knowledge sharing. Training and education through in-house video-based learning and three months’ training abroad at other SKF units for employees in R&D were examples of means used to establish credibility. HQ was perceived as a key actor with legitimacy to encourage the subsidiaries to cooperate and share knowledge to a greater extent.

By implementing structures and processes for governance, interactions and training, HQ together with managers in India tried to develop relationships between the Indian engineers and engineers at other units. The main goal was to facilitate information and knowledge sharing between all subsidiaries with R&D activities, reflecting [Luo’s \(2005\)](#) observation that organizational infrastructure can stimulate cooperation within an organization. This view is also shared by a subsidiary head of R&D: *“The Indian engineers, when the relationship is still being established, do not openly express their opinions on new and better ways of doing a task to their global colleagues. This is due to the Indian culture of being obedient and polite. As the relationship progresses, rapport is built and these engineers become more confident and comfortable with their global colleagues and lose their initial shyness. They start expressing their opinions. We are only now entering that phase when they start to give suggestions. The global colleagues find this as an excellent value proposition. We have knowledge sharing sessions as part of the appraisal process.”*

Cooperation between the subsidiaries in India also had to be extended in order to increase knowledge development and sharing. As argued by the subsidiary head of R&D: *“One of the value propositions to our SKF colleagues in India is to bring global SKF knowledge home which will enable them to please their customers. One of the key elements towards achieving this is for us to build credibility through the acquisition of knowledge, and secondly to work with them to learn how it can be leveraged appropriately.”* It was further pointed out that the subsidiary in question now was accepted as a credible and reliable R&D community. According to the Senior Vice President for R&D, expectations had increased by 2012: *“By now, India is doing pretty much the same as Europe and is developing rapidly.”*

In 2013, the subsidiary was still in a phase of building a knowledge base on its own as well continuing to learn from other subsidiaries by cooperating in R&D. At this time, 60% of the work at the subsidiary was linked to global R&D activities, and the remaining 40% was related to work with Indian and Southeast Asian customers. The decision regarding what global R&D activities the subsidiary should engage in was based on priorities and workload leveling established by committees comprised of senior global executives. The subsidiary improved its R&D competence for all SKF’s platforms and also made a change in its development of new knowledge: *“In 2013, I tasked my team to create depth within the areas of which we already had width. In that connection, we engaged in a lot of initiatives on how to create knowledge. There are two ways to ensure knowledge transfer. One is to send our engineers there, and we have people from Europe to visit us to teach people here. The other approach was to start taking the help of external academic experts to help us.”*

Other examples of knowledge building and cooperation among subsidiaries were observed. A department head said, *“At my department, it was a journey, and we realized that the stakeholders, meaning our colleagues from the Netherlands who give us small work packages,*

started to appreciate our work. The reason being that we besides the normal job we did for them came with recommendations of how to make improvements.”

Overall, the activities undertaken and the strategies implemented suggested a need to attend to both local and global customers' needs at the subsidiary level. Cooperation was a prerequisite for the Indian subsidiary to be able to develop the necessary knowledge, but actions taken also verified the presence of competitive behavior in search of status, reputation and, not least, HQ's attention. One reason for the competitive behavior is that resources were limited and scarce while mandates were temporary and required continuous performance. Such a structure developed by HQ shows how the organization as a whole can be governed by means that encourage competition. Responsibilities allocated by HQ and in turn gained by an individual subsidiary, as observed by Phelps and Fuller (2000), may lead to intra-firm competition.

Object-related conditions

Based on the above observations, it is possible to conclude that the Indian subsidiary was developing both local and global knowledge. Following Cerrato (2006), competition is expected to occur among subsidiaries if developed knowledge can be used globally and if earlier received mandates were based on non-location-based resources, while competition is expected to be less prevalent when resources allocated from HQ to subsidiaries are only used to attend to local demands or for specific local purposes. A possible explanation for the outcome is that the knowledge developed by the subsidiary is context-specific and sometimes tacit, which implies a possibility for the subsidiary to exercise influence over HQ at the same time as it faces less competition for resources. Such tacit and context-specific knowledge is related to object-related conditions, as discussed by Becker-Ritterspach and Dörrenbächer (2011).

Guided by HQ's strong vision and the need to increase the R&D knowledge at the Indian subsidiary, an initiative was undertaken to collaborate with a local Indian external consultancy firm, kick-starting the plan to increase efforts to not only exploit but also augment India's innovation potential by appointing it to a Global Tech Center. As pointed out by the Senior Vice President for R&D: “[We] looked at some top [Indian] universities and institutes, we visited different sites and a number of potential engineering consultancies.” As a result of the visits and increased understanding of the Indian market, HQ became even more determined to build up R&D capabilities in-house: “India's market growth, SKF India's customers, and the venture with the consultancy firm created a positive story for having a center in India.” Another positive aspect was that the previously challenging confidentiality and intellectual property issues when working together with local customers were solved. However, not everybody was pleased with the creation of the Global Tech Center at the Indian subsidiary. As mentioned by the Senior Vice President: “There was probably some resistance from people in Europe: ‘my job just went to India’. We told them that this was not the case; rather, it was to get extra work done. We are expanding in Asia, we have to be able to work in Asia and train people there.”

HQ and the subsidiary constituted key actors for the construction of competition and cooperation. The SKF case illustrates that India became an important market for the SKF group (environmental condition), and therefore the subsidiary at a certain moment was at the center of HQ's attention and allocation of resources (organizational condition). The initial step of advancement for the Indian subsidiary was to establish a local R&D center based on local, tacit knowledge at the subsidiary (object-related conditions). However, a prerequisite for the Indian subsidiary to advance to become a global R&D center was a need to train at and learn from other subsidiaries in the MNE, which was made possible through HQ's establishment of governance processes and structures to facilitate cooperation and knowledge sharing

(organizational conditions). When the Indian subsidiary started to advance its role and gain status in the MNE, an environment characterized by competition was created among the Indian subsidiary and its fellow subsidiaries.

Concluding discussion

Competition and cooperation are integral aspects in HQ-subsidiary relationships, and our case illustrates that their dynamic interplay over time is dependent on a combination of environmental, organizational and object-related conditions (Becker-Ritterspach and Dörrenbächer, 2011). Our case broadens Becker-Ritterspach and Dörrenbächer's (2011) argument that such conditions become determinants for intra-firm competition by also highlighting these conditions' relevance for cooperation. Thus, we extend their ideas and affirm that to enhance an internal competitive position for attracting HQ's resources, subsidiaries also see cooperation as a means to facilitate knowledge building. This implies that competition affects subsidiaries' willingness to cooperate and vice versa.

Hence, we highlight the important role of subsidiaries in an MNE setting with interdependent units. Although HQ's activities and means of governance can augment either competition or cooperation, subsidiaries may also have a considerable impact. Since subsidiaries often are expected to attend to both local and global demands, they need to handle both types of governance mechanisms: they must compete for resources to develop local knowledge, while it is also often necessary for them to cooperate with other subsidiaries to develop such knowledge globally. As shown in our case study, in many instances this knowledge development can result in a more favorable position for the subsidiary, with positive effects on legitimacy and trust within the MNE and increased attention from HQ.

In sum, our findings suggest that competition and cooperation are not limited to HQ's initiatives and strategic orientation but is also a subsidiary-led process. This means that the role the subsidiaries play cannot be ignored, as the subsidiary managers' framing of and response to HQ governance can render either competitive or cooperative response of subsidiaries. Our case study shows that the conditions, when combined, generated competitive and cooperative dynamics within the MNE. As a result, these dynamics had a positive outcome on the development of the subsidiary's knowledge. The knowledge development observed in the subsidiary created value for the subsidiary itself as well as for the MNE as a whole. Consequently, both competition and cooperation play an important role in explaining how MNEs organize mechanisms for knowledge development. However, our results indicate that competition and cooperation do not take place simultaneously; therefore, we suggest that the dynamics can be better understood by focusing on the interplay and analyzing these two concepts separately.

Based on the findings, we suggest that managers need to explicitly consider competitive and cooperative relationships as part of their strategic tool set. Hence, they need to manage situations that involve the competition-cooperation interplay among interdependent units within the MNE. In contrast to the study of Tippmann *et al.* (2018), who argue that the competition and cooperation paradox within MNEs is solved on the subsidiary level and is dependent on subsidiary managers' competence to cooperate, our study instead suggests that the sequencing of competitive and cooperative behavior within MNEs may be a result of HQ-subsidiary interaction and that both levels may play important roles for the emergence of competition and cooperation. In addition, we put forward the importance of taking the relationships with other subsidiaries into consideration, since interdependencies within the MNE affect the governance mechanisms.

This study has some limitations that also offer opportunities for future research. Our case study focused on only one case in one industry. To enable generalization, there is a need for future research covering additional cases as well as statistical measures for validation of the

theoretical findings. Future studies could, for example, examine how reward systems (Cerrato, 2006), mandates, and system positions encourage competition as well as cooperation.

Our case has provided knowledge on the HQ-subsiary relationship with a focus on the internal organization for competition and cooperation. Overall, this paper provides an outline for researchers to more systematically analyze how MNEs organize for knowledge development by using these governance mechanisms. We believe that our examination of the interplay between competition and cooperation provides a foundation for future conceptual and empirical research on this very important and evolving topic.

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