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Fiduciary Duty to Whom, Parent or Grandparent?
Aching Priorities within Stewardship Theory

An investigative study exploring assumed autonomy between a subsidiary and its owner from an agency- and stewardship theory perspective.

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Abstract

With increased globalization and competition, increased complexity in organizational structures has followed. How to best manage the branches of such structures has been the focal point in much of the previous research – why different branches behave in certain ways has however been less researched. The purpose of this study is, therefore, to better understand and explain what the driving forces are behind a relationship between a parent company and a subsidiary in a multinational company. In particular, what kind of behavior can be expected from a subsidiary. By conducting a single case study on a Swedish multinational company, with the theoretical frameworks of agency theory and its sub-branch stewardship theory, we aim to fulfill this study's purpose. We conclude that although a steward's (subsidiary's) behavior is first aligned with what is expected by the principal (parent company), this might change and even deteriorate over time. Not because the principal has changed its attitude or behavior towards the steward, but due to confirmation of biases. The biases stem from continuous, direct or indirect, interactions with a higher principal in the principal hierarchy. This may cause a goal convergent steward to become priority divergent, resulting in agency behaviors.

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Keywords: Agency theory, Stewardship theory, Assumed autonomy, Principal-hierarchy, Priority divergence.

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Glossary

Agent: An umbrella term representing the subsidiary, its interests, and actions from an agency theory perspective.

Steward: An umbrella term representing the subsidiary, its interests, and actions from a stewardship theory perspective.

Multinational company (MNC): A world-leading truck manufacturing corporation.

Parent company: The R&D unit within the MNC.

Principal: An umbrella term representing the board of directors and responsible executives in the R&D unit.

Assumed Autonomy: A term used to describe the subsidiary's position towards its parent company; a change in assumed autonomy results in a change of expected behavior.

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1. Introduction

In order to stay relevant and competitive, many multinational companies (MNC) have shifted towards setting up internal structures and networks that are far more complex today than they used to be, consisting of several layers of subunits or subsidiaries (O'Donnell, 2000; Hoenen and Kostova, 2014). With this increased organizational complexity and the fact that subsidiaries' tasks contribute to the overall functioning and success of an MNC, the study of the relationship between parent companies and their subsidiaries has been a focal point in much of the previous research on multinational companies (Nohria & Ghoshal, 1994; Johnston, 2005; Ambos et al., 2019). With this increased organizational complexity follows the risk of subsidiaries choosing to sub-optimize rather than to focus on the overall interest of the MNC. This has been the main concern in this field of research – how to align the behavior and interest of a subsidiary with that of the parent company (Roth and O'Donnell, 1996; O'Donnell, 2000; Ambos et al., 2019).

The nature of the relationship between parent and subsidiary can be viewed as that of a principal and an agent, a relationship found in the agency theory as discussed by Jensen and Meckling (1976). The agency theory has been a widely used theoretical perspective to understand, explain, and address the issues that potentially emerge between parent companies and subsidiaries (Eisenhardt, 1989; O'Donnell, 2000; Steinberg and Kunisch, 2016). However, despite its usefulness in explaining the relationships between parent companies and subsidiaries, the theory has received critique for its underlying assumptions of self-interest and opportunism. In fact, relationships and agents are not solely driven by these assumptions but other factors also play a part (Eisenhard, 1989; O'Donnell, 2000; Cuevas-Rodríguez et al., 2012).

Stewardship theory, developed by Davis et al., (1991;1997), is often seen as a complement to the agency theory by introducing a contrasting perspective with more socially oriented assumptions. Combining these two theories enriches the understanding of parent-subsidiary relationships, and in turn, how the two parties' behaviors towards each other evolve. However, although combining relevant theories within the field to explain why different behaviors occur, there are gaps in the literature. The effects of these different behaviors on a subsidiary's activities, and what the driving forces are, are not adequately chartered yet.

By conducting a single case study focused on the principal and agent in a parent-subsidiary relationship and their interactions, we aim to address the gap presented in the above paragraph. More specifically, we will study how changes in the behaviors of a principal and an agent towards one another can affect the subsidiary's priorities and what driving forces could be behind such changes in behavior. The case company is a subsidiary of a Swedish MNC, a manufacturer of trucks and buses, and its relationship with its parent company resembles in many ways an ordinary parent-subsidiary relationship. At the same time, however, the circumstances surrounding the subsidiary and the qualities it possesses are not commonly found, thus making it a compelling case to be studied and which may provide new theoretical insights.

We add to the literature by introducing a revised version of the Principal-Manager choice model (Donaldson et. al., 1997). By highlighting the importance of hierarchies of principals, our addition to the model is that a steward either has priority divergence or convergence towards the immediate principal's goals. In the case of priority divergence, the steward has aligned its priorities with a principal higher up in the principal hierarchy, and therefore showcase agency behaviors towards the immediate principal. However, since the goals are still convergent indirectly with the immediate principal's in the way that they both now serve the higher principal, the stewardship attitude remains intact. This transcending of fiduciary duty by the subsidiary to also take on the duty of its principal has in previous research not been recorded to the best of our knowledge.

2. Literature review

In this section, we will critically review the current literature in order to derive a research gap and to formulate a research question.

2.1. Parent-Subsidiary relationship

We will explain how using agency theory coupled with a sub-branch of it, the stewardship theory, can help us to advance our understanding of parent-subsidiary relationships.

Previous literature shows that the underlying assumption in agency theory is too simplistic, ignoring social aspects, and can not for this reason provide a full account of the dynamics that take place – stewardship theory tries to rectify this. These two theories together may help predict the behavior between a parent and a subsidiary. However, we have identified a gap where the theories contradict each other and provide no satisfactory explanation.

2.1.1. Agency theory

Much of the classical agency theory as we know it today was developed by Jensen and Meckling (1976). The theory stems originally from financial economics, ownership structure, and game theory. It was first focused on the relationship between shareholders of a company and the appointed CEO. Since then, the theory has been broadened to include many other forms of similar relationships. More specifically, the theory has been extensively used to study the relationship between headquarters (parent companies) and subsidiaries (O'Donnell, 2000; Hoenen & Kostova, 2014; Steinberg & Kunisch, 2016). In this literature, agency theory has been applied from a parent perspective when investigating control mechanisms (O'Donnell, 2000; Andersson, Björkman & Forsgren, 2005; Ambos, Kunisch, Leicht-Deobald & Schulte Steinberg, 2019) and subsidiary compensation strategies (Roth & O'Donnell, 1996). This might be reflective of the notion that "agency problems are problems of the principal" (Saam, 2007). However, in this study we will apply agency theory from the subsidiary perspective, increasing our understanding of the underlying mechanisms that govern agent behavior.

Agency theory depicts a situation where a principal (parent company) delegates decision-making authority to an agent (subsidiary) but where these two parties have goal divergence (Jensen & Meckling, 1976). The conflict might not only be found in the respective goals, but also in how to attain these goals (Tasoluk et al., 2006). The underlying assumptions that permeate agency theory have their roots in homo economicus, which means that people are extrinsically motivated, have bounded rationality, and are looking for ways to maximize their own utility (Eisenhardt, 1989). The difference in goals is called the agency problem and leads to additional costs if not mitigated. This is also known as agency costs and constitutes the axiom of the theory (Jensen & Meckling, 1976).

The difference in goals often exists because the agent tries to maximize its income, and the principal wishes to maximize its own return (Saam, 2007). Several scholars claim that this would entail a potential pursuit of self-interest by the subsidiary, at the expense of the parents' interests (Devers et. al., 2007; Harris & Bromiley, 2007; Tosi et. al., 2000; Westphal & Khanna, 2003). In its own act of self-interest, the principal attempts to mitigate the risk through some appropriate form of control mechanisms that are imposed on the agent such as executive compensation schemes or governance structures (Jensen & Meckling, 1976; Eisenhardt, 1989; Donaldson et. al., 1997). Bosse & Phillips (2016) nuance this view by claiming that the pursuit of self-interest by both actors often take place within perceived norms of fairness, such as whether monitoring mechanisms correctly reflect the perceived value or not. If actors perceive fairness, they reward it through positive reciprocal behaviors; contrarily, when they perceive unfair treatment, they punish it through negative behaviors (Bosse, Phillips, & Harrison, 2009; Hahn, 2015; Uhl-Bien & Maslyn, 2003). In fact, actors seem willing to incur additional costs to enforce the value of justice (Fehr & Gächter, 2000; Henrich et al., 2010; Hoff, 2010). Cohen et al. (2007) state that: "if individuals perceive an action to be unfair, they are less likely to take that action again, regardless of the potential payoff". Consequently, agency theory acts as a guideline for how to formulate optimal business policies and governance structures to ensure that the agent does not diverge from the interests of the principal (Jensen & Meckling, 1976; Eisenhardt, 1989), within the norms of fairness (Bosse & Phillips, 2016; Cohen et. al., 2007).

One of the central aspects of agency theory is the notion that agents are risk-averse and principals are risk-neutral. This is proposed as a result of the difference in income levels and risk diversification (Eisenhardt, 1989; Saam, 2007). Following this logic, a subsidiary should be more risk-averse than the parent company. However, some scholars argue for the inverse, that in situations where a subsidiary´s continued existence is under threat, it is less risk-averse than the parent (Delany, 2000; Schotter & Beamish, 2011). This entails that less risk-averse subsidiaries have a higher tendency to “assume autonomy” but without the explicit delegation from the parent company (Cavanagh et. al., 2017). Some scholars have found that subsidiaries assuming autonomy faced negative consequences such as the dismissal of subsidiary managers or divestment (Delany, 2000; Schotter & Beamish, 2011). On the contrary, there are also cases where subsidiaries have been rewarded for the same form of behavior (Balogun et al., 2011; Birkinshaw & Fry, 1998; Sandvik, 2010; Sargent & Matthews, 2006). Cavanagh et. al. (2017) explain that “Agents may undertake risks through assumed autonomy not only to maximize self-interest, but also as a result of being left with no choice but to do so due to head office indifference, or to maximize the efficiency of the wider corporation”.

Despite the popularity that agency theory has received, empirical findings show that in situations where goal incongruence is lacking or not as apparent, the theory suffers in its prescription of governance structures (Hoenan & Kostova, 2014). The theory has also faced scrutiny for being too cynical about people's own interest (Bruce et. al., 2005; Davis et. al., 1997; Lubatkin et. al., 2007), ignoring contextual- (Meyer, Mudambi, & Narula, 2011) and social factors (Cuevas-Rodríguez, Gomez-Mejia & Wiseman, 2012) that might affect the dynamics of the relationship. There may be other reasons to why subsidiaries undertake self-interest actions than simply to maximize their income (Sargent & Matthews, 2006). There have been attempts in closing this gap by introducing a socialization perspective to agency theory (O’Donnell, 2000; Johnson and Medcof, 2007; Ambos et al., 2019). Through job rotation across functions, improved communications, and management development programs, this perspective predicts that the need for control systems should decrease, as such socialization efforts lead to a convergence of interests (Johnson and Medcof, 2007).

Likewise, Eisenhardt (1989) argues that the agency theory is valid for organizational studies, but points out that the perspective in its classical form only provides a partial view of the complexity that surrounds organizations and suggests a relaxation of the premise that all actors are rational and self-interested. Jensen (1998) proposes that the deductive logic of agency theory is sound but adds that future refinements of the theory are likely to address the underlying assumptions. Scholars have also stressed the importance of additional theoretical lenses when analyzing the relationship between headquarters and subsidiaries (Johnson & Medcof, 2007; Ambos et al., 2019). One such theoretical lense is the social view of agency discussed by Cuevas-Rodríguez et al. (2012) and Hoenan & Kostova (2014). In specific, the stewardship theory.

2.1.2. Stewardship theory

Stewardship theory rests on contrasting underlying assumptions and speak to some of the scrutiny agency theory has received (O'Donnell, 2000; Cuevas-Rodríguez, et. al., 2012; Bruce et. al., 2005; Johnson & Medcof, 2007). Derived from psychology and sociology, stewardship theory investigates situations where agents are motivated to act in the best interests of the principal (Donaldson & Davis, 1991). Therefore, while agency theory is concerned with conflicting interests, stewardship theory discusses aligned and overlapping interests (Schillemans, 2013), which entails that the foundational conflict that agency theory rests upon is relaxed or might even disappear (Caers et. al., 2006). Stewardship has previously been applied when investigating family firms (Corbetta & Salvato, 2004), organization strategies (Fox & Hamilton, 1994), public sectors (Van Slyke, 2006; Kluvers & Tippett, 2011), private sectors (Dulewicz & Herbert, 2004) and organizational performance (Eddleston & Kellermanns, 2007).

Stewardship theory relies on the assumptions that agents, or stewards, and principals do not to a large extent differ in their interests, translating into goal convergence (Pastoriza & Ariño, 2008; Martin & Butler, 2017). In situations where there are conflicting goals, stewards put organizational objectives in front of personal ones (Wasserman, 2006). This entails a relationship based on trust, with high predictability and lower transaction costs (Cuevas-Rodríguez, Gomez-Mejia, and Wiseman, 2012; Jones 1995). The goal of governance is therefore to find structures and mechanisms to facilitate effective coordination between the parties, seek to highlight goal convergence and steward empowerment (Donaldson & Davis, 1991). It is believed that a steward will work better in an environment where monitoring activities are kept low (Martin & Butler, 2017), and when feelings of autonomy & responsibility are high (Donaldson, 2008).

The "model of man" that permeates stewardship theory emphasizes the higher utility gained from collaborative and pro-organizational behaviors in contrast to the lower utility of self-serving and individualistic behaviors (Corbetta & Salvato, 2004). The utility function of the steward is, in the eyes of the steward, maximized when the value for the principal (Donaldson et al., 1997), and other stakeholders (McCuddy & Pirie, 2007; Hernandez, 2012), is maximized. This is grounded in the belief that the organization is an extension of themselves (Ranft & O'Neil, 2001). When the organization is viewed as successful, the steward will be as well (Donaldson et al., 1997).

Stewards are motivated by intrinsic factors such as a sense of duty, achievement, and self-actualization. Emphasis is put on the collective achievement of goals which reduces agency costs and therefore enhances performance (Chrisman et al. 2007; Martin & Butler, 2017). This intrinsic approach to motivation is what differentiates the stewardship theory from the agency theory, which focuses exclusively on external motivation (Pastoriza & Ariño, 2008; Schillemans & Bjurstrom, 2019). Governance structures must reflect this to instill the steward with a belief of ability and desire to perform the task at hand (Sundaramurthy & Lewis, 2003). Informal incentives such as verbal praise are therefore especially important in a context of accountability and reputational concerns (Busuioc & Lodge, 2017).

According to Donaldson & Davis (1991), there are situational & psychological factors that determine whether an individual will take on an agent or steward role. For example, an involvement-oriented management philosophy, collectivistic culture, or a low-power distance context are situational factors that would predispose an individual towards stewardship. Psychological factors such as higher-order motivations, identification as a member of the organization, or orientation towards value commitment would also predict a stewardship role (Donaldson et al., 1997).

Donaldson et al. (1997) claim that both the manager and principal makes an assumption of which type of relationship that they will engage in. The different situational and psychological factors that each individual possesses govern what type of role they are predisposed to choose. Lastly, the decision is influenced by the expectations of which type of relationship the other party will choose. Combined, this will result in an agency or stewardship relationship as illustrated in figure 1. If there is a misalignment of roles chosen (quadrant 2 & 3 in figure 1), the relationship will over time deteriorate and eventually evolve into an agency relationship (Donaldson et al., 1997).

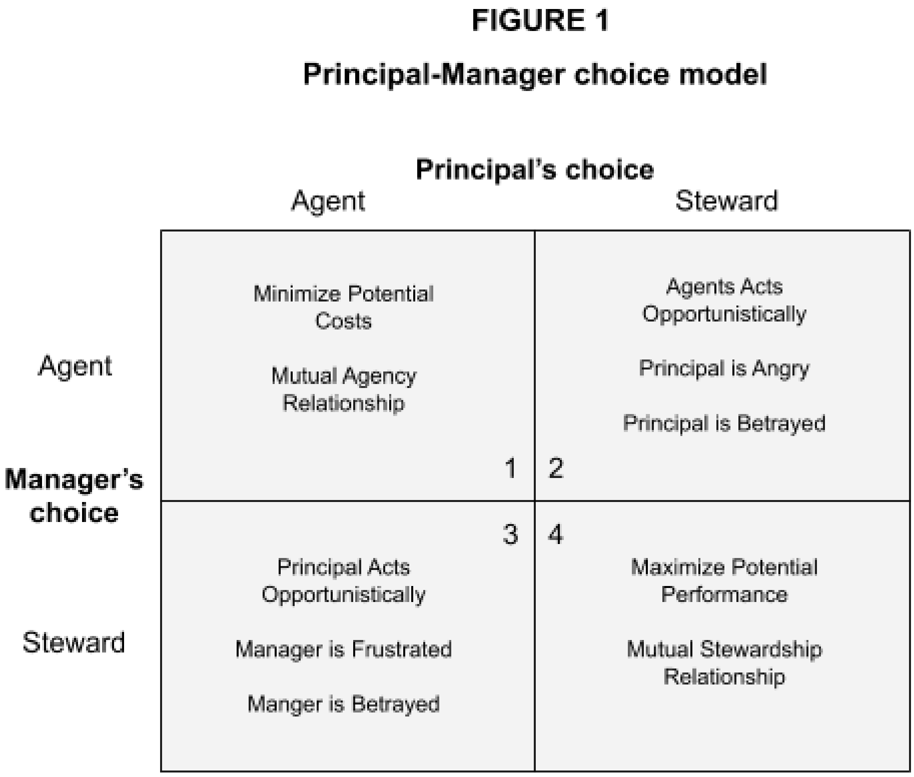

Figure 1: Principal-Manager choice model (Donaldson et. al., 1997)

However, as Pastoriza & Ariño (2008) point out, figure 1 is only a static picture of the relationship in which the choice of roles only happens once and assumes no conflict within the personal factors influencing that decision. When there are conflicting or changing factors, it is not evident how the relationship is affected. In addition, Lane et al. (1998) argue that there are situations where acting in the best interest of shareholders is also in the best personal interest of the steward, meaning that stewards might not be altruistic by default. Hence, there are situations where stewards are motivated by improving the perception of their individual performance through the performance of the organization (Daily et al., 2003). Albanese, Dacin & Harris (1997) take a critical stance by claiming that stewardship theory, in fact, is a special case of agency theory where the interests are aligned, and should not be treated as an independent theory. For this reason, stewardship theory should be seen as a sub-branch of agency theory and "the other side of the continuum" (Kluvers & Tippett, 2011).

2.1.3. Agent-Steward continuum

The prescriptive value of agency theory revolves around the formulation of optimal contracts, to ensure that the agent acts in accordance with the interest of the principal (Jensen and Meckling, 1976). Some previous literature have focused on predictions by using mathematical approaches to try to derive optimal contracts (Cadenillas et. al., 2007; Zhang & Zenios, 2008; Sannikov, 2008). Whereas others have not focused on the time aspect per se but rather see it as an iterative process: in scenarios in which there continues to exist a discrepancy in goals between principal and agent, over time and as the principal learn, new improved contracts will emerge (Holmström & Milgrom, 1991; Parks & Conlon, 1995; Shapiro, 2005; Hoenan and Kostova, 2014). Van Slyke (2007) concludes that as time progresses, relationships between a principal and agent can alter and turn into a more relaxed version of a classic principal-agent relationship. Although there might still be a focus on control and compliance, trust is developed over time, which in turn builds for more mutual understanding and alignment of goals.

Building on this more humanistic perspective and the works of Juan Antonio Pérez López (1991, 1993), a learning perspective between the two parties takes shape. Rosanas (2008) investigates these learnings within the interrelationships between people and their implications for organizational decision-making. The concept of learning rests on assumptions for bounded or unbounded rationality. Under bounded rationality (where rationality is limited), there is an element of learning that increases the agent's ability to foresee the future. However, this is subject to possible mistakes as a form of "superstitious" learning, where attributing the wrong causes to observed results are resulting in a confirmation of personal biases (March and Olsen, 1975; Yariv 2002). Agents may learn to practice actions and processes with less effort, but might also be unaware of their own preferences. Only when the action is completed do agents know whether they like or dislike the results (Rosanas 2008).
Under unbounded rationality (generalized rationality), uncertainty is implied. Agents have

some knowledge about the world and an unambiguous utility function that perfectly represents their preferences. When the agent engages with the real world the knowledge pool increases, he or she adjusts the utility function, and learning is achieved (Rosanas 2008).

According to Pastoriza & Ariño (2008), these learnings occur continuously and over long periods of time. This iterative process unfolds as interactions by the agent and principal who play the role of either as an active- or a reactive agent, in an action-reaction dyad illustrated in figure 2. Rosanas (2008) explains this by claiming that every interaction between two parties entails "external" or explicit outcomes of the interaction, but also "internal" outcomes. These internal outcomes are learnings that the two agents aggregate through each interaction and that will permeate the relationship going forward.

FIGURE 2
Interaction between two agents

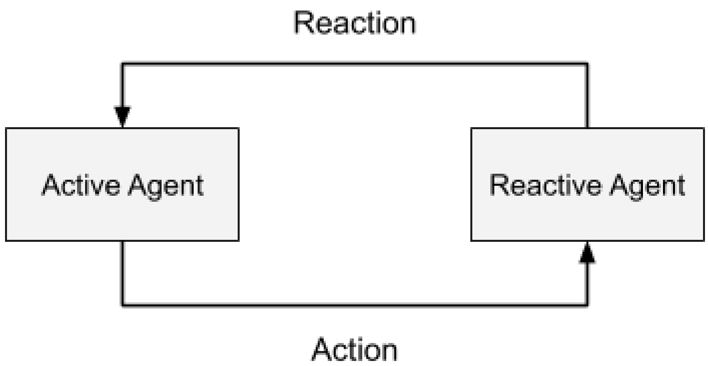

Figure 2: Interactions between executives & principals (Pastoriza & Ariño, 2008)

Therefore, learning is a crucial part of both sides of a relationship and will affect its future quality. There are two distinctive types of learning:

a) Operational learning - which is the type of learning that increases an agent's ability to perform a given set of tasks more efficiently. This includes increasing the knowledge about the real world. This can only have positive effects under unbounded rationality; however, it might be bad under bounded rationality in the form of "superstitious" learning (Rosanas, 2008).

b) Evaluative learning - which is the type of learning that allows agents to evaluate their own satisfaction with the results at hand, and whether the results fit their needs. These learnings are expected to be either positive or negative, depending on the learning outcome (Rosanas, 2008).

Hence, depending on the type and extent of the learnings made, the relationship will be affected in a positive or negative way following each interaction. Patil, Vieider & Tetlock (2014) further validate this by proposing that: “systems of accountability provide signals that give cues on how one is seen which, in turn, will affect how one behaves”.

This would introduce an evolving perspective to the agent-principal relationship through continuous learning and interactions. These learnings might affect the future behaviors of agents and therefore shift an agent towards stewardship or vice versa. Thus, the relationship can be regarded as a continuum where agent- and stewardship roles are two opposite extremes, and that each individual is situated somewhere along the spectrum (Kluvers & Tippett, 2011; Martynov, 2009; Martin & Butler, 2017; Hernandez, 2012). This would allow individuals to move along the continuum through learnings, and change their roles within the relationship over time (Pastoriza & Ariño, 2008; Rosanas, 2008).

2.2. Research gap

2.2.1. Synthesis of literature review

Scholars argue that agency theory is and has been useful for understanding how to best organize headquarter-subsidiary relationships (Eisenhardt, 1989; Donaldson et al., 1997; O´Donnell, 2000). In any context where one party delegates autonomous work to another party, the agency theory can be applied. The underlying assumption of the theory is that the parties involved are looking for ways to maximize their own wealth and that these endeavors are not always aligned, potentially causing damage to the principal. To rectify this, the principal can impose contracts that guide the agent to act in the interest of the principal (Jensen and Meckling, 1976), as long as they are within perceived norms of fairness (Bosse & Phillips, 2016). This process takes place over time; if the optimal contract has not been stipulated yet, it will after subsequent iterations (Shapiro, 2005; Hoenan and Kostova, 2014).
However, there are situations where subsidiaries even after several iterations still might disregard explicit expectations and assume a greater level of autonomy (Cavanagh et. al., 2017; Cohen et. al., 2007).

Agency theory has come under scrutiny for being too cynical about people and not encompassing social elements that can guide behaviors – people do not always look explicitly for ways to benefit themselves (Cuevas-Rodríguez, Gomez-Mejia, & Wiseman, 2012).
One theory that has been brought forth as a response to that critique is the stewardship theory, resting on contrasting underlying assumptions and predicting a more collaborative “model of man”. If both parties choose a more collaborative and pro-organizational approach, the theory predicts organizational success, lower agency costs, and steward empowerment structures (Donaldson & Davis, 1991). Conversely, if there is a misalignment of the choice of roles among the parties, the relationship will deteriorate and convert into an agency relationship.
The two contrasting perspectives have been extended by introducing an evolving element of the individuals in the relationship (Rosanas, 2008; Pastoriza & Ariño, 2008). Through multiple iterative interactions, individuals may move along the agent-steward continuum (Pastoriza & Ariño, 2008).

2.2.2. Research purpose & question

If an agent perceives an action mandated by the principal as unfair, an agent will respond in a negative way (Bosse & Phillips, 2016), making them less likely to take the action again (Cohen et. al., 2007). Employing agency theory logic, an action with a low perceived fairness required by the principal should generate a negative response, thus decreasing the likelihood of repeating that action again. The subsidiary’s assumed autonomy should therefore increase (Cavanagh et. al., 2017). Employing stewardship theory logic, an action with a low perceived fairness required by the principal should also generate a negative response and, similarly, decreasing the likelihood of repeating that action. However, stewards that discontinue taking actions required by the principal are weakening its empowerment structures (Donaldson et, al,. 1997). The subsidiary´s assumed autonomy should therefore decrease.

Previous literature does not explore these seemingly contradictory conclusions when incorporating changes of these roles within the continuum, showing evidence of incomplete theoretical understanding. Agents assume autonomy to maximize self-interest, facing head office indifference, or to maximize the efficiency of the wider corporation (Cavanagh et. al., 2017). But these theoretical predictions rely exclusively on agency theory assumptions,

disregarding the contrasting assumptions of stewardship theory. Considering that the two theories may be regarded as opposite ends of a continuum, current literature fails to provide a comprehensive understanding of the driving forces behind assumed autonomy in parent-subsidiary relationships.
In the spirit of addressing this research gap, we propose the following research question:

RQ: *What are the driving forces behind assumed autonomy by a subsidiary in a parent-subsidiary relationship?*

By investigating assumed autonomy from our subsidiary's perspective, using the two contrasting agency & stewardship perspectives, we can expand our understanding of parent-subsidiary relationships and create new insights into the dynamics of agent-principal relationships.

3. Methodology

In this section, we argue for a qualitative, single-case study methodological approach intended for answering the stated research question. First, we will provide a short reflection of the methodological fit, after which, a substantiation of the research design will be presented. Lastly, a critical evaluation of the quality of the study will be discussed.

3.1. Methodological fit

As outlined in the literature review above, the multiple factors predisposing what type of parent-subsidiary relationship and what that behavior will entail has not yet been studied. When also considering the multiple interactions that over time shape the relationships, one might appreciate the complexity that this prevails. The objective of the study is therefore to gain an in-depth understanding of the underlying mechanisms, making a qualitative study an obvious choice.

3.2. Research design

In order to answer the stated research question in a credible and extensive manner, the research design was developed according to the "Research Onion" proposed by Saunders, Lewis & Thornhill (2012) (appendix 8.1). The relevant components are outlined in the following sections.

3.2.1. Research philosophy

Considering the exploratory nature of the stated research question, the research philosophy chosen for this study is interpretivism. Interpretivism provides good support when considering several different stakeholder viewpoints (Flick, 2019). Moreover, the paradigm views reality as complex and ever-changing and is therefore suitable when incorporating emerging elements such as dynamic learning processes (Thomas, 2003). The philosophy of interpretivism has permeated the research design, data interpretation, and analysis of this study.

3.2.2. Research approach

Using an abductive research logic, we have applied an "emergent approach" ensuring flexibility in the research process that is desirable in an ambiguous and complex research setting (Lee & Saunders, 2017). This is aligned with the systematic combining theory proposed by Dubois and Gadde (2002), where "theoretical framework, empirical fieldwork, and case analysis evolve simultaneously". We started with a preliminary theoretical analysis to act as a foundation in the pre-study when collecting the initial data. As empirical data and interpretations of these findings have emerged, iterations of the evolving theoretical framework have been conducted. In this way, we have been able to move back and forth between theoretical framework, empirical findings, and case analysis, ensuring a good theoretical- and empirical fit (Dubois & Gadde, 2002).

In accordance with the systematic combining theory, the flexibility gained through the abductive research logic has also been applied to the interview guide which has co-evolved alongside the theoretical framework. This has facilitated the cross-fertilization of findings and theory (Dubois & Gadde, 2002).

3.2.3. Research strategy

In accordance with the research approach, the research strategy for this study is a case study (Dubois & Gadde, 2002). Although the case study approach has been criticized for providing an insufficient basis for scientific generalization (Yin, 2014), using case studies to understand and interpret phenomena in specific contexts is important since general findings tend to be unstable over time, making the criticism based on generalizability less applicable (Dubois & Gadde, 2002). Willis (2007) depicts the utility of case studies as rich, empirical descriptions of phenomena necessary for interpretivists to fully understand the context. With regard to the stated research question, understanding the underlying mechanisms of a complex parent-subsidiary relationship that may evolve, a case study is deemed as the most appropriate strategy.

We were influenced by several factors when choosing the case company. First, the availability of the current case company as a result of its ties with our university. A good relationship granted favorable opportunities for data collection and collaboration.

Second, the seemingly unique conditions surrounding the subsidiary at hand presented us with an opportunity to explore and apply theories in a context for which there had not been done so before. As described in the case description in section 4.1., a company that acts as a customer, supplier, and partner while simultaneously being a subsidiary of the R&D function is uncommon indeed. Considering the unique and complex circumstances surrounding the company, the decision of an in-depth, single case study was made.

Furthermore, the study was conducted as an “embedded case study”, including multiple units of analysis. Even though the main unit investigated was the direct relationship between a parent company and subsidiary, additional organizational units that influenced the relationship indirectly were added to allow a more extensive analysis of the stated research question (Yin, 2014).

Considering that learnings over time is one of the central contextual aspects of the study, one limitation of the chosen strategy might be in regard to the cross-sectional time horizon, meaning that the study was done within a short time-frame (Saunders et al., 2012).

3.2.4. Data collection & data analysis

As Saunders et al. (2012) explain, the collection & analysis of the data is paramount for the validity and reliability of a study.

Although our choice of research was primarily of qualitative nature and first-hand data, it was complemented with quantitative, second-hand data, collected in several formats; thus making it a mixed-method research. These multiple data sources increased the richness of the data set available to us, allowing for cross-validation of the findings and a methodological triangulation (Yin, 2014).

The first-hand data was collected through semi-structured, in-depth interviews with relevant stakeholders. The second-hand data was collected from company material & statistics in the form of the website, powerpoints, and excel sheets – data such as annual reports, KPI:s, stakeholder dependencies, and organizational chart. These were presented by the company and then provided to the authors for a more extensive analysis.

3.2.4.1. Pre-study

In order to get an initial understanding of the topic of interest, we conducted a pre-study. The pre-study consisted of three steps: addressing the theoretical framework, the empirical situation, and expert industry knowledge.

The first step consisted of an introductory investigation of possible literature frameworks, giving us some initial understanding of what to investigate. The second step consisted of a workshop at the case company's premises. Relevant stakeholders participated and an improved understanding of the empirical world was facilitated. By combining insights from literature & observations during the workshop, we were able to formulate some critical questions. In the third step, these questions were answered by an industry expert which guided us closer to an initial scope. In this way, the pre-study provided a general understanding of the challenges at hand, and how a contribution could be made (Flick, 2019).

3.2.4.2. Interview sample

The interview sample consisted of 17 interviews with an average length of 55 minutes. Some of the interviews were held in-person and on-site at the company. This allowed for a more holistic understanding of the working environment, co-workers, and company culture. Some of the interviews were conducted via skype due to the precautions recommended in response to a prevailing pandemic.

Interview subjects were identified and approached together with the contact person at the company, different stakeholders with contrasting perspectives were included at different organizational levels, and in a strategic sequence. As data were accumulated, the theory was adjusted and better-defined questions could emerge. In this way, theoretical sampling was adopted and with its iterative nature, aligned with the research approach (Bryman & Bell, 2015).

Even though theoretical sampling, as a branch of purposive sampling, is not a strategy that can be expected to be generalizable to a larger population, it is a good strategy for an in-depth understanding of a phenomenon in a qualitative study (Flick, 2019).

After 17 interviews, no relevant new data were emerging. The categories were well developed in multiple dimensions and dynamics in the relationships had been established, fulfilling the theoretical saturation criteria (Bryman & Bell, 2015). Hence, we regarded the main data collection process as concluded.

3.2.4.3. Interview design

The semi-structured interview design adopted by us allowed the interviewee to share information in a conversational rather than in a formal way (Flick, 2019). Acknowledging the human factor in the interview process, we took inspiration from the responsive interviewing model (Rubin & Rubin, 2005), which is in alignment with the interpretivism philosophy and aims to create both a broad and an in-depth understanding.

While interviewing, we relied on a predefined interview guide with general themes that was, to an extent, customized according to the interviewees' profile. We could, therefore, govern the direction of the conversation through open-ended questions and follow-up questions on relevant topics, while trying to minimize our own involvement. This allowed the interviewees to speak freely and unveil previously unexpected findings.

Rapport-building techniques such as small talk before starting the interview were included. The initial questions of the interview were about the personal background and careers of the interviewees in order to further strengthen the rapport-building efforts. We recognize the propositions of Given (2008); *"increasing the willingness of interviewees to share their viewpoints, and the authors' ability to comprehend them, will lead to a better account of reality"*.

Before each interview, interviewees were informed of confidentiality issues, the anonymity of the study and were asked for permission to record the interview in accordance with ethical guidelines.

3.2.4.4. Data processing

The recorded interviews were transcribed shortly after completion and were made available to the respective interviewee for respondent validation if requested. The secondary data collected was read, relevant sections were extracted and underwent further analysis separately.

The raw data were read through numerous times, which were later coded and categorized according to themes, i.e. responses that were of similar character. The emerging themes were further validated using secondary data. Both of us – the authors – actively transcribed the data, individually re-read and interpreted the transcriptions before jointly discussing the mutually identified themes. This process was intended to minimize individual bias through investigator triangulation (Yin, 2014).

3.3. Quality of study

In order to establish quality control criteria for qualitative case studies, a set of logical tests can be applied (Yin, 2014). Three of these criteria have been selected; Reliability, Credibility, and Transferability. In this section, these criteria will be critically evaluated.

3.3.1. Dependability

As a parallel to reliability in quantitative research, dependability is concerned with the trustworthiness of the study (Bryman & Bell, 2015). In an attempt to adopt an "auditing" approach, the researchers gave significant attention to documenting the data collection process (Bryman & Bell, 2015). Second, following an interview guide (appendix 8.2) was thought to be helpful in standardizing the core of the conversations. Third, by taking the opportunity to practice interviewing during the pre-study gave us valuable insights that could further increase the comprehension of our findings (Flick, 2014).

3.3.2. Credibility

Credibility is concerned with whether the findings and conclusions that the authors present are believable based on the data collected (Bryman & Bell, 2015). In this study, we have addressed credibility through three measures: first, the interviewees were given the opportunity to revisit the transcripts to ensure an accurate representation of data collected (Bryman & Bell, 2015); second, combining first- and second-hand data allowed for investigator triangulation to depict a more confident representation of reality (Yin, 2014); third, the interviewing process kept going until fulfilling theoretical saturation criteria, meaning that the data could confidently be categorized in distinctive themes and interview insights kept depicting these themes (Bryman & Bell, 2015).

3.3.3. Transferability

Transferability is concerned with whether the findings and conclusions can be applied beyond the occurring study (Bryman & Bell, 2015; Flick, 2019). Because of the inherent small sample size and contextual dependence of a single case study, transferability is a hard criterion to mitigate; we have however taken some actions into consideration.

First, we adopted an interview sample inspired by theoretical sampling, allowing for thick descriptions and a deeper understanding of the underlying mechanisms (Lincoln & Guba, 1985). Therefore one can argue that given similar conditions and characteristics, the findings in this study might be applicable. Second, the preconditions of the multi-purpose subsidiary case company are unique indeed; however, because of increasing global competition and high requirements for financial returns, companies will look for growth in many areas including

M&A, improved management, and other synergies (DePhamphilis, 2005). Hence, in a decentralization spirit, multi-purpose subsidiaries might increase in relevance in the near future. Therefore, companies have an opportunity to evaluate the learnings from this case study.

4. Empirical findings

In this section, we will outline the relevant findings of our case study. The findings below are structured according to identified interrelated themes. First, there is an introductory case description of relevant subsidiary conditions to provide a holistic view of the situation. Second, a deep dive into carefully selected aspects of the parent-subsidiary relationship is made to lay out interesting findings.

4.1. Case description

In 2008 the head of R&D at a Swedish truck- and bus manufacturer initiated a project to set up a subsidiary aimed at providing the R&D division and other related units with various kinds of insights such as customer insights. Instead of having to rely on external customers and their feedback regarding any unsatisfactory occurrences, this set-up – using an own subsidiary – was seen as a more accurate, reliable, cheaper, and faster way to generate this feedback.

In practice, this was done by having the subsidiary itself act as a customer to the MNC, going through all the phases that an ordinary customer would go through, from beginning to end. That is, from purchasing the trucks and all relevant add-on services to the usage of the products and services. Moreover, the usage of the products was to be done while operating as a transporting unit for the MNC, delivering components from one manufacturing plant to another, this was the subsidiary's source of income. In addition, the subsidiary was tasked with providing benchmarking data, comparing the parent company's trucks to those of the competitors, which was done by acquiring competitors' vehicles and operating them in the same way as the subsidiary is doing with the MNC's vehicles. By incorporating these tasks in the responsibilities and having it serve multiple stakeholders, the subsidiary was made more meaningful and multifaceted. It was also believed that by combining these tasks the subsidiary would eventually be able to reach profitability and thus the insights generated would in turn become free of charge.

However, since its inception the subsidiary has been struggling with fulfilling this ambition for free-of-charge insights. Although having come a long way in improving the results, it is far from turning the negative numbers into positive ones, a situation which is aching the subsidiary. The subsidiary is provided with state-of-the-art trucks, a highly-skilled workforce specialized on those trucks and receives a competitive remuneration for its transportation service. Some in the management of the subsidiary and other stakeholders involved consider the requirements to reach profitability to be fair and reasonable. Therefore, the absence of profits has left them confounded, especially the CEO who fears that the business may be in jeopardy over the longer term, and in particular, whenever a recession hits and costs are being scrutinized.

As mentioned, the initiative to launch this venture came originally from the R&D division and took for this reason full ownership of it. However, since one of the main objectives was to generate customer insights which would also benefit the commercial operations division, the two divisions agreed to split the ownership of the subsidiary between them. It was understood that the subsidiary would run on losses in its first years of operation and by having two distinct main owners, the financial pressure on the subsidiary was somewhat relaxed since the losses would now be covered by two owners. However, as time passed by and the losses continued, commercial operations re-evaluated its stake in the subsidiary and eventually decided to drop out, a move that took place in 2019. Having itself been subject to scrutiny from above, commercial operations argued that the value provided by the subsidiary did not correspond to the cost it had to pay and could not justify it any longer. Even less so after 2016 when the subsidiary was made to focus more on generating product testing insights. As a result, the R&D division was once again the sole main owner of the subsidiary.

The purpose of the subsidiary to take on several different roles as a customer, internal transport unit, benchmarking provider, and in essence, a product testing unit, has not changed over time; however, the importance of these different roles has changed. The weight on being a customer was heavier in the first years of the subsidiary's operations, but this role is somewhat subdued today. Instead, being a product testing unit coupled with a transport unit is the primary objective now. This change in importance of roles came in connection with the introduction of a new truck generation in late 2016, for which the R&D division saw a greater need to verify and test these trucks; although a change, customer insights were not neglected but still remained a priority.

In addition, instead of having to purchase the trucks from the parent company's reseller, the R&D division now started to provide the subsidiary with new, soon-to-be-launched trucks to be tested. This further tilted the subsidiary away from the customer role and towards a product testing unit. By moving the subsidiary upwards in the value chain, the subsidiary was tasked with a much more crucial role as compared to previously. In the customer phase, the products were essentially fully developed and the feedback provided to stakeholders was primarily related to minor, post-launch issues that was of more concern to commercial operations. But with this new role, the feedback generated by the subsidiary now was to a greater extent incorporated into the product development. The testing of the trucks was conducted as previously, by acting as a transport unit for the parent company. In other words, the underlying operations of the company have not changed, meaning that the company was still running on losses.

In 2016 the CEO of the subsidiary left and a new CEO was recruited internally. A person who had spent his entire career at some of the parent company's branches; in other words, a person well acquainted with the culture, values, and the overarching mission of the group. The first activities performed by the new CEO were to interview the board members of the subsidiary on what was desired and expected by him and the subsidiary. Outlining that generating and gathering data was the primary activity to be focused on. The chairman and the rest of the board were overall positive with the subsidiary and the value it provides, accepting and understanding that a subsidiary may not be profitable financially – as was wished – but can be highly beneficial strategically. They have understood over time that reaching profitability is unlikely due to factors that lie outside of the subsidiary's control. For example, ordinary customers of the truck manufacturer disapprove if the manufacturer also becomes a competitor. Because of this, the subsidiary is only allowed to provide services on specific routes within the logistical network of the parent company. That is, they are not allowed to operate any other routes internally or externally without the permission of the parent company.

However, despite knowing that there is no pressure to focus on cost and that the degrees of freedom are limited for the subsidiary in terms of what it can do, the new CEO still made it his personal mission to reduce the losses when he took on the job. He is to this day still very keen on improving the profitability by reducing the subsidiary's costs. Although supported and affirmed repeatedly by the board at the quarterly board meetings and in-person by the chairman of the board that the losses are not a major problem, the CEO is still concerned, saying: "sure, this is the case when the relations are mutual, but what happens if this balance changes or if recession hits and losses need to be cut".

In conclusion, although the conditions laid out for the subsidiary are argued to be optimal by some, it is still far from reaching profitability. This is, however, nothing that overly concerns the board but is still worrying to the CEO. As a response, the subsidiary is exclusively pursuing cost-cutting strategies, disregarding other potential ways to justify the business.

4.2. Parent-subsidiary relationship

Bearing the case description in mind, this section aims to dissect the parent-subsidiary relationship. When analyzing the compiled empirical evidence, five distinct themes stood out. They are presented in the following subsections.

4.2.1. Characterization of organization

It is evident that the subsidiary is playing a multitude of roles, affecting the perceived characterization of the organization. Depending on whom you ask, the subsidiary is a different entity. From a controlling perspective, it is viewed as a separate subsidiary with autonomous responsibility for its actions and the consequences of those actions. For some R&D managers, the organization is rather perceived as an integrated testing unit within the R&D organization. Other R&D managers take a more business-oriented approach and perceive the subsidiary as a customer for leasing trucks, or supplier of insights. People working in the subsidiary have a more balanced perception, saying that they are both an autonomous subsidiary and an inherent part of the larger R&D organization.

"You can say that we are really an autonomous subsidiary and organizational unit at the same time."

- Employee of TransportLab

4.2.2. Organizational purpose

In a situation with many contrasting perspectives on the characterization of the organization, it might be difficult to agree on the purpose of the subsidiary. The majority of interviewees agree that the primary purpose is to provide knowledge. However, the subsidiary is primarily delivering two types of insights, which have changed in importance over the company's history.

At its genesis, the purpose of the subsidiary was that by acting as an autonomous hauling business it would simultaneously become a customer and therefore provide valuable and unfiltered insights. These insights would be used to mitigate potential pain points and to improve the overall customer experience. Since then, there has been a shift towards emphasizing vehicle validation through operating data and to a lesser degree the customer insights.

"The ambition was to establish a business that would not benefit from being a subsidiary of our truck manufacturing company. They should stand on their own legs, buy their own vehicles through the sales funnel, buy the fuel, hire drivers, etc."

- Board member

Even though the organization still has close ties with its original purpose, some stakeholders argue that a gradual and progressive change of purpose has happened as a result of a changing workforce.

"I don't think the purpose has been actively changed, but rather a progressive change as the original founders and workers have left, and new people are working with it now. I think that it is natural to consider the profitability and perceive it as a hauling business as a result."

- R&D manager

The fact that this knowledge is generated by operating like a hauling business seems to create some additional confusion among some of the stakeholders. Some admit that the purpose is to generate insights, but argue that this requires them to view the company as if it was a hauling business. Otherwise, they can't generate any insights to provide the R&D organization with.

"It is a hauling business, a hauling business that not only should make money like normal contractors, but also to supply the parent company with valuable knowledge."

- Controller

It seems as if most stakeholders agree that, in theory, knowledge creation is the primary purpose of the subsidiary. However, there are signs that tell a different perception of purpose in practice. Maybe this quote sums up the aggregated view on subsidiary purpose.

"You will receive different answers depending on who you ask. Everyone that has a stake of interest in the subsidiary see different purposes."

- Controller

4.2.3. Insights generated

There are two major types of insights that are provided to the R&D and other stakeholders. The first one is generating genuine hauling business experience insights with the objective of identifying areas of improvement towards real customers. This has historically been the most important type of insight provided. The second one is evaluating the hardware in soon-to-be-launched trucks, which is done by operating the trucks for long distances in a relatively short time frame to test the durability of components. Following an increase in demand for hardware testing, the relative importance of these two types of testing has shifted.

"In the past, we had to work very hard to get the attention we needed when we discovered a problem. Now we enjoy much more attention, and we do not have to chase it anymore."

- CEO

Overall, the R&D is satisfied with the quality of data that the subsidiary is generating. Many stakeholders are relying on a continuous flow of data and say that they are dependent on it. These insights have lead to improvements and mitigation of problems that regular customers otherwise would have experienced. Many R&D managers believe that the quality of the data generated is high, especially considering that the subsidiary is able to cover a long distance in a short time. The subsidiary claims that they are trying to be receptive to what stakeholders want, and have no major bottlenecks.

"External testing units have people that are not a part of this organization and don't participate in my management team meetings every week. This setup provides an excellent opportunity to generate high-quality data in a good way."

- R&D executive

However, there are also voices saying that the data provided have lower quality than other testing contractors. One R&D manager state that as a result of a more complicated feedback loop. The specifics of the feedback generated is much less detail-oriented, making it harder to diagnose the problem. The manager continues by saying that the subsidiary have been informed about this, but nothing has yet happened.

"We have informed them several times so they know our issue regarding the quality of the data. We try to support and help them as much as we can. They have requested an engineer to help them, but there are no engineers necessary when other contractors solve this problem, they use their drivers."

- R&D manager

4.2.4. Cost focus

Being a subsidiary to one of the world's largest truck manufacturers entails an inherent sense of pride and expert knowledge. This was especially evident in the early stages of the subsidiary´s history when the original founders were convinced that the manufacturer could tap into their expert knowledge in trucks and process optimization to teach the transportation industry about efficient transportation – a strong conviction that if somebody could make a transport hauling business profitable, it would be them. Even though the approach has become more sensible since then, elements of this pride and frustration for the lack of profitability still live on to this day. Especially since the subsidiary has been internally recognized within the parent company, further reinforcing its identity of operational excellence.

"We have received praise from the market side saying that: "wow, what the subsidiary has achieved in fuel reduction would have cost us billions in engine development costs." We show that by having the right specifications, educating drivers and driving smart can have a huge impact on fuel consumption. That was very valuable as a proof of what is possible."

- CEO

However, the board of directors emphasizes that cost is not an important issue for the subsidiary. There is a consensus view that the subsidiary is not to pursue a profitability strategy and therefore, the losses that the R&D pays each year is not a cause for concern – the value of the insights is greater than the cost of the ownership.

"We challenge the losses every other board meeting, especially when next year's budget is to be established. And we always conclude that it's worth it."

\- Board member

Although the board has and does not consider the profitability issue as something crucial, some actions and events have however implied otherwise. In 2019, commercial operations disclaimed their 50 % ownership in the subsidiary as a result of a cost-cutting initiative initiated by senior management of the MNC. The subsidiary then requested R&D to pay 100

% of its yearly losses. This meant that the losses went from being divided between two organizational functions to one.

"Commercial operations received increased pressure to prioritize costs, and they regarded the value as lower than the cost of paying 50 % of the subsidiary losses."

- R&D executive

Nevertheless, the losses covered by R&D need to be justified each year to senior management of the MNC. Therefore, there seem to be some concerns regarding a possible future cost-cutting program for the R&D division initiated from senior management, as commercial operations experienced in 2018.

"I can feel some concern for the senior management looking at the deficit, do they think it is worth it? In the end, it is the R&D executives who have to answer for that."

- Board member

4.2.5. Board of directors

The board of directors consists of three primary positions, led by the R&D executive who is also the chairman of the board, a representative from commercial operations (the former 50 % owners), and the subsidiary's CEO. There are three additional board members that are involved as representatives but lack any decisive power and they come from sales & marketing, sourcing, and logistics. This means that many board members are interested in the insights, but only one pays for the losses incurred. The CEO mentions that the board of directors has been very clear with its expectations regarding the focus on generating insights as the primary objective and that costs are secondary, but as in every other company's annual general meetings, income statements need to be reported and as such, they are also being discussed. Therefore, the evaluation of the subsidiary is from both a financial- and insights perspective.

"I would say that the evaluation is not pure numbers and not pure insights, they act as counterweights."

- Controller

The board is perceived as very friendly and respectful by all interviewees. There is no negative atmosphere in relation to the recurring losses and the people on the board are described as very just people. The board states that it is not trying to use a whiplash-strategy but rather provide the support that the subsidiary CEO needs.

"I would not say that the board has used a whiplash strategy for the CEO to show good financial results, it's rather the reverse. We are available for the CEO, we try to support him and provide guidance."

- Board member

The board, and in particular, the chairman of the board is defending the losses that the subsidiary incur towards the senior management of the MNC. The board is in unison regarding the value that the subsidiary brings, and claims that the multiple stakeholders that are relying on the insights would lose out if the subsidiary would cease to exist. Employees within the subsidiary share this perception as well and do not receive any other signs implying that the subsidiary's future is uncertain.

"As it looks to me, the subsidiary will remain where it is, and that has been my perception ever since I started working here."

- Controller

However, there are some voices that criticize executives within the MNC. They refer to the growing culture of short timeframes and a climate where political struggles for budgeting are increasing in intensity. The MNC takes great pride in their tradition of staying profitable since 1934. As a result, there are several places within the MNC that are under tighter financial evaluation.

"Executives spend 99 % of their time here and now. So it's a challenge, we try not to ask questions we don't want the answers to."

- R&D manager

The CEO seems to be anxious about the future stability of the mindset that the losses incurred by the subsidiary are worth it. As a veteran within other parts of the MNC, he was headhunted for the job and thought that he could turn the subsidiary around with a more business-oriented approach. However and as he explains, it has been difficult to find ways to reduce the costs further and no other revenue streams besides classical transportation hauling services have been identified. He is nevertheless stuck to the idea that he wants the MNC to enjoy the subsidiary's valuable insights without any cost and even dreams about becoming a profitable subsidiary that pays dividends to its shareholders one day. But as long as this is only a dream and reality tells of something different, the CEO believes that there exists a possible risk of a cost-cutting program within the R&D division similar to the one experienced by commercial operations, and that this might lead to the subsidiary's existence being questioned. In addition to his concern, the CEO is puzzled by the fact that although they are a subsidiary to a world-leading truck manufacturer, they still cannot reach profitability, whereas the MNC's customers can somehow.

"Isn't that scary? Despite our best efforts, we can't understand how our customers achieve profitability when they use our products?"

- CEO

4.3. Empirical synthesis

To relinquish the dependence of external customers and their feedback, a subsidiary was set up to fill that role. However, the subsidiary was tasked with more than just being a customer, tasks such as testing products and transporting material – in this way the subsidiary was turned into an actor serving multiple stakeholders within the MNC.

As a result, the characterization of the organization is somewhat inconsistent whether it is an autonomous subsidiary, an internal testing unit, or a customer. Related to this, the perceived purpose of the subsidiary also seems incoherent where the purpose fluctuates between a hauling company or a product testing unit. Depending on which stakeholder perspective, there are different answers to the same question.

Furthermore, the subsidiary has clear directives from the board of directors to focus on generating insights and that operating with profitability is not the main priority.
However, because of a hypothetical risk of general future cost savings, the subsidiary is still very much focused on its profitability and seems to make this its top priority.

5. Analysis & discussion

The following section is an analysis of the subsidiary-parent relationship, culminating in unconfirmed theoretical predictions and a pressing question to answer. An attempt to answer that question is undertaken, resulting in new, distinctive findings.

5.1. Subsidiary-parent relationship

5.1.1. Distortion of purpose

The need to operate the subsidiary as a hauling business in order to generate insights creates confusion regarding the purpose and characterization of the organization. Some interviewees characterize the organization as an autonomous legal entity that is separate from the MNC, while others see it as an integrated testing unit in R&D. This entails a situation where the majority of interviewees perceive that the strategic purpose is indeed to generate insights, but that the operational purpose is that of a transportation hauling company. Even though profitability is explicitly stated as an unprioritized issue from a strategic perspective, it might receive higher priority from an operational perspective. Conversely, the generation of insights has high priority from a strategic perspective but might receive lower priority from an operational perspective. This would explain the difference in detail and quality of data generated from the subsidiary compared to other testing contractors which was expressed by a responsible manager.

Therefore, this perception of operational purpose entails a set of expectations and beliefs that are inconsistent with the strategic purpose. Hence, the agent from an operational point of view is more focused on the profitability than the principal is from a strategic point of view. As a result, the relationship showcase a seemingly inverted hierarchy of interests. Normally a principal is highly concerned with maximizing profitability and agents are highly concerned with maximizing income (Saam, 2007). In this relationship, however, the agent is highly interested in maximizing profitability while the principal is not.

5.1.2. Steward-principal characteristics

Following many loyal years as an employee of the MNC, the subsidiary CEO was headhunted for his position. His legacy within the MNC has resulted in a strong identification as a member of the organization. His motivations are nested intrinsically, desiring to contribute in the best way possible to the MNC. In addition, a major driving force for the CEO is the wellbeing of his workers; he puts a strong emphasis on following union regulations and seems to genuinely care for his workers, showcasing a consistent orientation towards value commitment. These are psychological factors that predict a steward rather than an agent (Donaldson et al,. 1997).

From a situational perspective, the CEO enjoys strong support from the board, indicating an involvement-oriented management philosophy. In addition, as an MNC veteran and board member, there is a low power distance towards the principal. Furthermore, he is an integrated part of a corporate collectivistic culture where many people stay within the company for decades; these are situational factors that would predict a steward (Donaldson et al,. 1997).

As mentioned, the evaluation of the subsidiary is a mix between financial information and the insights generated. With expected negative profitability, the emphasis is put on the insights generated in an attempt to counterweight the losses through added value. However, this is an unstable evaluation model since there is no reliable way to estimate the monetary value of these insights. Because of this, the subjective element of the evaluation process increases in significance, making the evaluation biased, which further increases the subsidiary's dependability on the principal. The principal is aware of this and makes explicit statements that profitability is not a major concern and that they regard the insights generated as valuable. The board seems to adopt an empowerment philosophy, showcasing a strong willingness to support and enable the CEO to run the subsidiary. Therefore, the relationship is to a large extent based on trust and high predictability which characterizes a steward-principal relationship (Cuevas-Rodríguez, Gomez-Mejia, and Wiseman, 2012; Jones 1995).

In brief, the CEO is showing multiple personal qualities that are in alignment with a stewardship role. The board seems to adopt an empowerment philosophy, showcasing a strong willingness to support and enable the CEO to run the subsidiary, in accordance with stewardship theory (Donaldson & Davis, 1991). They make it explicitly clear not to worry about the profitability issues since the objective is to generate insights. The relationship therefore showcases characteristics of a steward-principal relationship.

5.1.3. Agent-principal characteristics

There are major control mechanisms disguised as restrictions in place, limiting the degrees of freedom for the agent to pursue business activities that might allow for increased profitability. These control mechanisms are, however, not to limit opportunistic behavior from the agent as classical agency theory would predict, but to enable good quality insights. By controlling how trucks are used in its operations, the subsidiary can rely on the expertise of the parent unit without having it inhouse, thus enabling the subsidiary to fulfill the strategic purpose. These control mechanisms were put in place at the subsidiary's inception since the MNC recognized a risk of upsetting customers by entering their market as a competitor. In alignment with a steward type of reasoning, the subsidiary genuinely agrees with these restrictions as it is for the greater good of the MNC. Hence, these control mechanisms seem mutually agreed upon and are to empower the subsidiary to generate high-quality insights.

Furthermore, it is indeed an apparent misalignment of goals regarding profitability. However, the principal does share that goal of profitability, but the point of difference is the priority of the goal. There is no further empirical evidence of opportunistic behaviors from the agent. Therefore, even though there are characteristics of an agency relationship, the evidence for a stewardship relationship remains strong.

However, since the control mechanisms limit the ability to increase profitability, it also limits the ability to improve the only quantifiable evaluation measurement at hand. This is because of the challenge of translating the value of insights generated into monetary value. Although the purpose is to generate insights, the only reliable way to evaluate the subsidiary in an unbiased way is through its numbers, where profitability is in highlight. The nature of these control mechanisms and the evaluation setup will inherently create a situation where a majority of the efforts taken by the steward to comply with the principal are not reflected in the unbiased evaluation. Depending on the level of fairness of the monitoring mechanisms that agents perceive, they will respond accordingly (Bosse, Phillips, & Harrison, 2009; Hahn, 2015; Uhl-Bien & Maslyn, 2003). Cohen et al. (2007) state that ”if individuals perceive an action to be unfair, they are less likely to take that action again, regardless of the potential payoff”. This could be an element in the explanation as to why the steward is focusing on profitability even though the principal is very clear about the lower priority of that issue.

However, empirics do not in any other way indicate that the steward has a perception of low fairness. In fact, the steward stresses the fairness of the situation with the resources at hand. Empirics show a more stewardship type of reasoning where the inability as an expert organization to reach profitability is the source of frustration. This leaves the theoretical prediction unconfirmed.

In sum, although the relationship showcases some characteristics of an agency relationship, the evidence for a stewardship relationship remains strong and will thus be the main lens taken onwards. The steward genuinely agrees with the control mechanisms that are in place because they enable the valuable insights and sends a clear message that the MNC is not competing with its customers. However, the very same control mechanisms limit the ability to increase the profitability, which is the most prominent evaluation measure. This creates a situation where the actions of the steward are not adequately mirrored in the evaluation. According to theory, this should create a low perception of fairness (Bosse, Phillips, & Harrison, 2009; Hahn, 2015; Uhl-Bien & Maslyn, 2003), which would lead to assumed autonomy (Cavanagh et. al., 2017). However, empirics do not in any other way validate that the steward has a low perceived fairness, leaving the theoretical prediction unconfirmed.

5.1.4. Theoretical discussion

The relationship is best characterized as a stewardship relationship, but with some agency characteristics. It has created a situation where a distortion of purpose has occurred between

the strategic and operational meaning, entailing expectations, and biases. The steward is focused on reaching profitability, despite the principal's explicit directives to disregard it. Some empirical findings suggest that they generate insights of lower quality than their peers.
The steward showcases assumed autonomy by disregarding the principal's injunction to overlook profitability. But because of the inability to empirically validate a perception of low fairness (Bosse & Phillips, 2016; Cohen et. al., 2007), the theory remains unconfirmed. However, these theoretical predictions rest on agency theory assumptions. The contrasting assumptions of stewardship theory might offer a better theoretical logic.
Why have expectations and biases occurred, that leave a steward to assume autonomy, by disregarding the directives of its principal? There must be other forces at work.

5.2. The other forces at work

5.2.1. Learnings incorporated over time

At the time of the recruitment of the CEO, the subsidiary was owned by two divisions at the MNC that split the ownership equally between them. The chairman position could however only be held by one of them, a position that entails a heavier responsibility and control over the subsidiary as compared to the other board members. This position was held by commercial operations when the steward was hired, so it could be argued that the main, immediate principal for the subsidiary and the steward was the commercial operations representative. A position held by them until recently, 2019, when they decided to exit the subsidiary altogether and hand over the control to the R&D division, the other main owner. The primary reason for commercial operations to withdraw their stake in the subsidiary was because they themselves had been subject to scrutiny from their own principal and were pressured to reduce their costs. This made it natural to reevaluate their position in the subsidiary since the subsidiary was bleeding money and had been doing so since its inception. Having previously experienced how downturns have affected other businesses of the MNC and now experiencing this reshuffle of ownership first hand as a steward, had the effect that the steward is today concerned with the survival of the subsidiary in the long run.

As a response, the steward and principal embarked on an investment round, where stakeholders were approached with an investment opportunity. The purpose was to onboard each respective stakeholder to a corresponding extent to the benefit gained from the insights.

This would decrease the financial burden of the R&D division although remaining as the most important principal. However, even though the stakeholders that were approached showed interest, they were reluctant to accept any investment proposal, which further solidifies the steward's dependability on the principal.

The subsidiary has also gained internal praise within the MNC for the outstanding efficiency of its operations, a major driving force for a steward (Busuioc & Lodge, 2017). The fuel reductions achieved through operational optimization has been described as being equivalent to billions of SEK in engine development. International customers that are visiting the MNC often also visit the subsidiary, a way to impress the customers of what is possible with the right knowledge and attention to detail. The steward showcases frustration and urgency towards the notion that the subsidiary cannot provide the MNC with an understanding of how their customers stay profitable. A self-image that features operational excellence and duty for the MNC has therefore been substantiated.

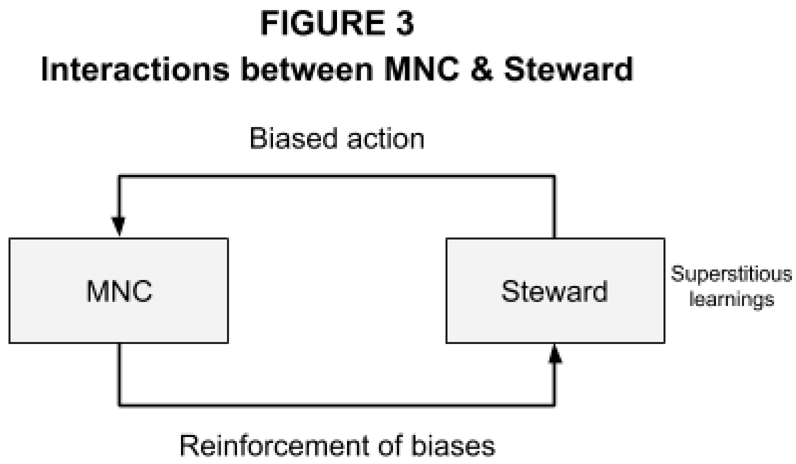

Figure 3: Interactions between MNC & Steward

These previous experiences have been reinforcing the biases and expectations (March & Olsen, 1975; Yariv 2002) of the steward, resulting in superstitious learnings (Rosanas, 2008). The immediate principal has to defend its losses upwards in the principal hierarchy, which increases the pressure for biased action. Considering the limiting control mechanisms to facilitate quality insights, the sensible risk-management strategy would be to focus on costs.

But why does a steward experience additional pressure for biased action because its principal is defending the losses?

5.2.2. Hierarchy of principals

Now fully owned by one principal (the immediate principal, R&D) that has endorsed the necessity of its existence and is defending its losses, the steward still does not seem to be reassured. Although having optimized everything that can be optimized, the subsidiary has been running on roughly the same level of losses for the last couple of years and will most likely continue to do so for a foreseeable future. In other words, in its current form the steward's dependability on the principal and the need to trust the principal's word regarding continued support increases.

The steward seems to be of the belief that the immediate principal might not be able to withstand the pressure if it were to become scrutinized by its own principal (the higher principal), since it is believed that the immediate principal has an agency relationship towards the higher principal. The immediate principal, as an agent, has to legitimize the losses towards the higher principal (principal's principal). As a result, the subsidiary's immediate principal could theoretically be pressured to review its costs, believing that this could highlight the low profitability and that the existence of the subsidiary would thus be questioned – this further reinforces the existing biases.

Looking at figure 4 below, the CEO of the subsidiary came in as a steward, trying to please the immediate principal and exhibited goal convergence, making the relationship one of stewardship. Thus, the relationship is situated in quadrant 4 (figure 1). However, as new events took place, the steward incorporated learnings and started to reevaluate his position towards the immediate principal. The steward still shares common goals with the immediate principal, but is exhibiting a priority of goals similar to the higher principal in the principal hierarchy.

The steward is aware that the immediate principal needs to defend the budget and losses to its own principal (higher principal). Although the immediate principal is okay with the subsidiary's losses, the necessity of defending them towards its own principal (higher principal) would be alleviated if costs were reduced. Which in turn would minimize the risk for the subsidiary to be put down in the long run. Since the steward and principal have collaborated closely before, as when they went out on an investment round, it is not surprising that the steward seems to view them as the same entity once more. In other words, the steward acts to serve the higher principal's interests; that is, the main priority is no longer entirely in line with that of the immediate principal, and instead, the steward focuses his stewardship towards that of the higher principal. Because of this, the steward begins to showcase agency behaviors towards the immediate principal and the contradictory part is that the steward does so in the best interest of the immediate principal. So in other words, the relationship does not seem to transform into a clear agency relationship as Donaldson et, al. (1997) predict, but the stewardship relationship still remains although somewhat diluted.

FIGURE 4

Stewards & Hierarchy of Principals

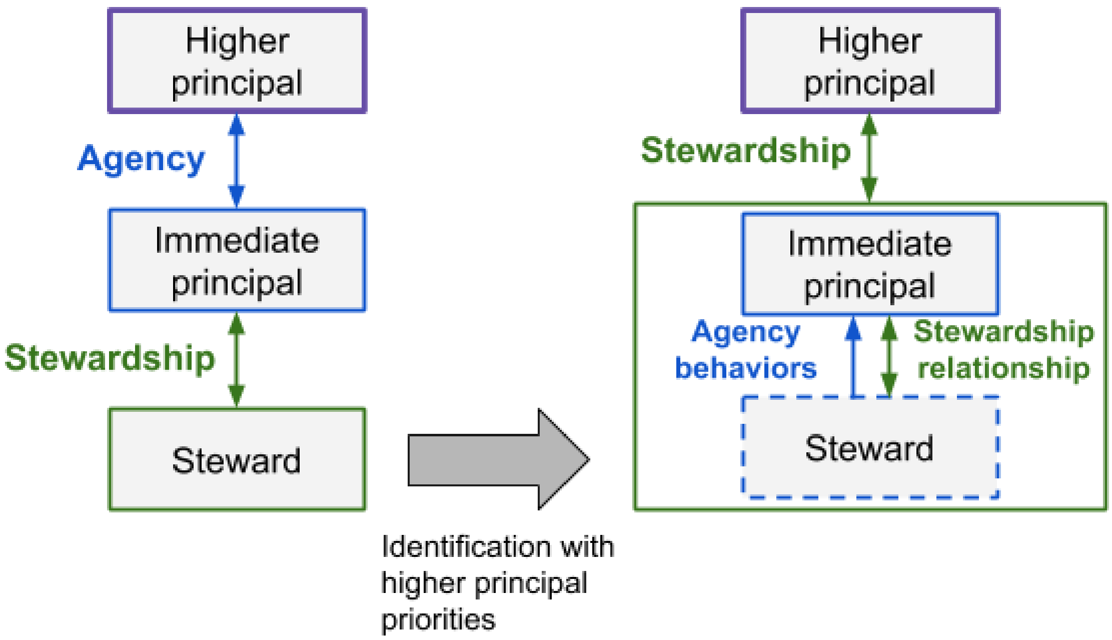

Figure 4: Stewards & Hierarchy of Principals

5.2.3. Concluding discussion

It can be argued that every business wants to optimize and reduce costs as much as possible and that there is not really a divergence of interests between the immediate principal and the subordinate in this case. However, it is somewhat confounding to focus on that when being explicitly told to focus on the strategic purpose and that profitability is not a problem, and especially there is room for improvement in terms of data gathering. Even though the steward and principal still share the same goals, they are differing in the priority of those goals. The pursuit of these diverging priorities has increased the stewards assumed autonomy.

The steward has incorporated superstitious learnings (Rosanas, 2008) as a result of multiple, direct and indirect, interactions which have caused biases to be reinforced. As a result, since the immediate principal has to defend the losses, the steward sees itself and the immediate principal as one party. Therefore, it assumes autonomy through operating according to its higher principal's priority. This suggests that in hierarchical set-ups with many levels of principals, a steward will most likely have its priorities influenced. Through assumed autonomy, the steward showcases agency behavior and has moved along the agent-steward continuum (figure 5).

FIGURE 5
Agent-Steward continuum

Figure 5: Agent-Steward continuum

6. Conclusion

Using agency- and stewardship theory as an analytical framework, and the research gap illustrated regarding assumed autonomy within parent-subsidiary relationships, we stated the research question: *What are the driving forces behind assumed autonomy by a subsidiary in a parent-subsidiary relationship?*

In the following section, we will conclude our findings in theoretical and managerial contributions, followed by a critical discussion and guidelines for future research.

6.1. Theoretical contributions

The theoretical predictions provided by existing literature remain unconfirmed. We argue that this is because of the difference in the underlying assumptions that contrast stewardship theory from agency theory. By investigating the assumed autonomy of the case company from a subsidiary and mainly a stewardship perspective, interesting findings have emerged.

We conclude that stewards indeed assume autonomy but not because of goal divergence as the agency theory predicts. The steward, by definition, still shares its principal's goals. They differ in the priority of these goals. The difference in priority drives the agency behaviors that the steward showcases. However, since the goals are still convergent with the principal, the stewardship relationship remains intact.

On that account, we introduce a revised version of the Principal-Manager choice model (Donaldson et. al., 1997), called the Hierarchy Principal-Manager choice model (figure 6). In our revised version, the theoretical prediction of a stewardship relationship remains when situated in quadrant 4. However, our contribution to the model is incorporating a perspective of hierarchy within principals. Stewards are influenced by priorities of higher-level principals, potentially causing priority divergence towards the immediate principal. In the case of priority divergence, the relationship falls in sub-quadrant 4b. Having priorities in line with the higher principal, stewards may showcase agency behaviors towards the immediate principal in their relationship.

FIGURE 6
Hierarchy Principal-Manager choice model

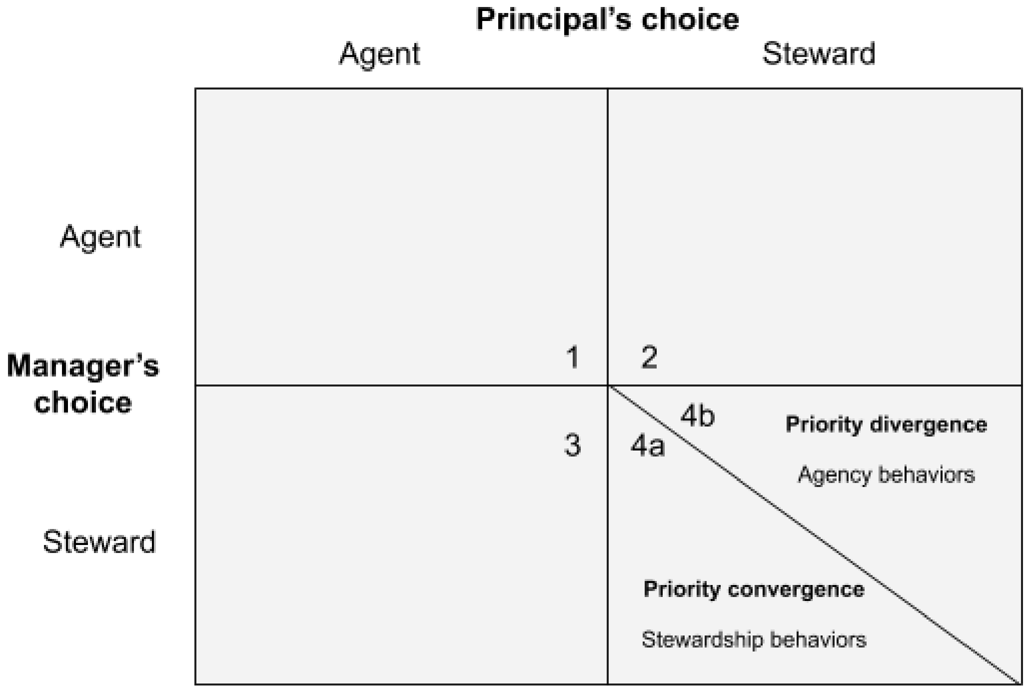

Figure 6: Hierarchy Principal-Manager choice model

A steward will always identify with the organization's interests; but in a hierarchy with multiple layers of principals, it is not evident that the steward will incorporate the priorities of its closest principal. This transcending of fiduciary duty is especially relevant in a setting with several layers of principals, with perceived different priorities, and where continuous interactions have translated into superstitious learnings. A steward may identify with the priorities of higher-level principals, since those might be regarded as more important and thus closer to the overall organizational backbone.

6.2. Managerial implications

The findings in this study can be extended to the real world and give guidance on how to view a relationship between a parent and a subsidiary, and thus also give some guidance on how to manage such relationships. From a parent's point of view, the findings show that although highlighted that there is only one relationship that the subsidiary needs to care and think about, the subsidiary seldom views itself as isolated from other, more indirect relationships – indirect relationships that can influence a subsidiary's priorities greatly. By being aware of this, a principal can take steps to have the subsidiary act differently and more aligned with its previous role of stewardship. Measures such as increased engagement to alleviate some of the restrictions to enable, i.e. carrot measures as prescribed by stewardship theory, or resorting to impose control mechanisms, i.e. the whip measures as described by agency theory. Measure(s) will have an effect on the relationship and depending on what kind of relationship is desirable moving forward, the measure(s) needs to be carefully chosen. Additionally, the measures need to often stretch beyond mere words as demonstrated in the case, because at the end of the day and as the saying goes, actions speak louder than words.

From a subsidiary’s perspective, the pressure that could potentially trickle down and affect its own situation might be hard to ignore. Nonetheless, to focus on something that is not a top priority, the subsidiary runs the risk of providing less value to its immediate principal than it might have could; not proving to be an invaluable actor could be a greater threat to the subsidiary’s existence, particularly if the principal finds someone who can perform the requested services better and cheaper. Furthermore, with the degrees of freedom limited, lobbying to loosen up these restrictions, or to look into other adjacent business areas to create more value and perhaps generate more profits might be a way forward.

6.3. Limitations & future research

Studying a subsidiary within a larger MNC network and its relationship to a parent organization is not a unique phenomenon per se and plenty of research has been conducted within the topic. However and contrary to our scope, much of the previous research has been from a headquarters perspective in relation to the subsidiary. In our study, the parent organization is a subunit of the headquarters (appendix 8.4.), but in order to find previous literature to anchor our work, the headquarter-subsidiary literature has been the most similar one to ours.

There are however differences in these two analogous types of relationships. In the case of headquarters-subsidiary, one can expect that the relation is more distinct and less disturbed by outside influences since the subsidiary is dealing directly with the core organization. Whereas in our case, the information given to the subsidiary by the parent is disturbed by information originated from higher levels in the MNC hierarchy.

Furthermore, the study has been conducted as a single case study and as such the matter of sample size comes into question. Although the relationship in focus has some characteristics similar to that of other parent-subsidiary relationships, comparisons to other similar relationships to validate the findings have not been possible. It can be the case that since we are dealing with a unique business setup, the findings might only pertain to the relevant industry or business. Therefore, to verify the findings, more comprehensive studies are required in future research, studies that include other types of industries and businesses.

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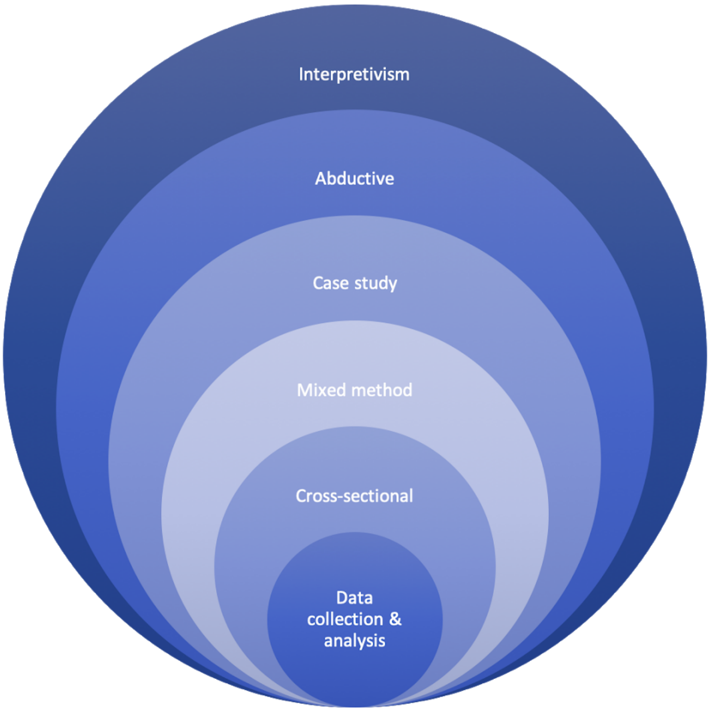
8. Appendix

8.1. Research onion



8.2. Interview guide

Explain your work?

What is your role regarding (the subsidiary)? For how long have you worked with (the subsidiary)?

What's your view on (the subsidiary)? Why do they exist?

How has that changed historically?

Has the evaluation of (the subsidiary) changed?

How does (the subsidiary) stand versus other R&D functions?

Why do you believe that (the subsidiary) is not profitable? (Why the focus on costs)

How important are the insights generated?

Who uses the insights? What do they use it for?

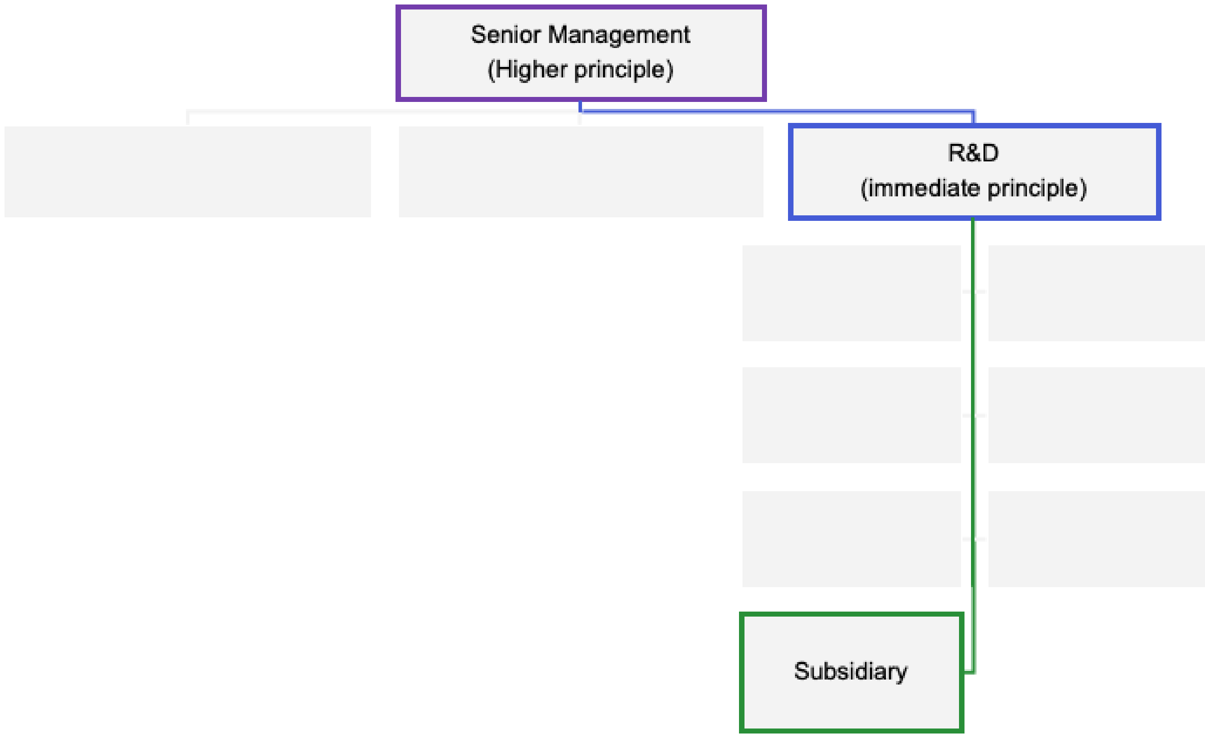
What do you think is the value of the insights? (external vs. internal)

8.3. List of interviews

Interview number	Role	Division	Date	Channel
1	CEO	Subsidiary	12/18/2019	Phone
2	CEO	Subsidiary	2/2/2020	Face-to-face
3	Controller	R&D	2/2/2020	Face-to-face
4	Data coordinator	Subsidiary	2/2/2020	Face-to-face
5	Controller	Subsidiary	2/2/2020	Face-to-face
6	Controller	R&D	2/28/2020	Face-to-face
7	Manager	R&D-research	2/28/2020	Face-to-face
8	Executive	R&D	3/2/2020	Face-to-face
9	CEO	Subsidiary	3/11/2020	Face-to-face
10	Data coordinator	Subsidiary	3/2/2020	Face-to-face
11	Controller	Subsidiary	3/26/2020	Skype
12	CEO	Subsidiary	3/11/2020	Face-to-face
13	Board member	Subsidiary	4/15/2020	Skype

14	Manager	R&D-testing	3/27/2020	Skype
15	Board member	Subsidiary	4/29/2020	Skype
16	Board member	Subsidiary	4/28/2020	Skype
17	Manager	R&D-validation	4/1/2020	Skype

8.4. Organizational chart



Note: Due to non-disclosure agreement, this is not an exact overview of the organizational chart but serves as an example to show the relationships between the different actors relevant in the case.