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Headquarters–subsidiary exchanges and relationship quality: Moderating roles of subsidiary establishment mode and managers' identity with the subsidiary

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ABSTRACT

Drawing on social exchange and social identity theories, we examine how the identity orientations of subsidiaries and subsidiary managers interact with interorganizational and interpersonal exchanges between headquarters and subsidiary (HQ–Sub) in shaping the quality of HQ—Sub relationships. Specifically, we argue that organizational and managerial exchanges between headquarters and subsidiaries have a positive impact on HQ–Sub relationship quality. The effect of HQ–Sub organizational exchange on HQ–Sub relationship quality is moderated by the subsidiary's establishment mode, while the effect of HQ–Sub managerial exchange on HQ–Sub relationship quality is moderated by subsidiary managers' identity with the subsidiary. Our arguments are empirically tested with survey data collected from senior managers of HQ–Sub dyads in 312 Chinese multinational enterprises. Theoretical contributions and practical implications are discussed in the paper.

1. Introduction

The management of the headquarters–subsidiary (HQ–Sub) relationship has long been recognised as one of the most critical aspects in the multinational enterprise (MNE) literature and has received considerable attention from international business scholars in recent decades. Given its complexity and multidimensionality, scholars have investigated several important issues within the scope of the headquarters–subsidiary relationship. These issues include headquarters control (e.g., Anderson et al., 2007; Birkinshaw et al., 2000; Chang & Taylor, 1999; Ito & Rose, 1994; O'Donnell, 2000; Yan & Gray, 2001; Chen et al., 2009), subsidiary autonomy (e.g., Ambos et al., 2010; Ambos et al., 2011; Fenton-O'Creevy et al., 2008; Wang et al., 2014), subsidiary behaviour (Hewett & Bearden, 2001), practice adoption in subsidiaries (Kostova & Roth, 2002), roles of headquarters and subsidiaries (Hewett et al., 2003), the quality of HQ–Sub relationship (Jiang et al., 2021; Li et al., 2016), among other topics.

Prior studies have examined these issues from several theoretical perspectives. Most notably, the transaction cost perspective (e.g., Roth & Nigh, 1992) focuses on the efficiency of HQ–Sub transaction but provides little assistance in understanding behavioural issues in managing the HQ–Sub relationship. The principal–agent perspective focuses on the agency problem that is rooted in firms' self-interest and goal incongruence within the MNE internal network (e.g., Chang & Taylor, 1999; O'Donnell, 2000; Mudambi & Navarra, 2004; Roth & O'Donnell, 1996). The resource perspective focuses on the possession of resources, and it emphasises that the power resides with the party that has control over resources, rather than with its hierarchical position in the organizational structure (Ito & Rose, 1994; Luo, 2003). Although these perspectives have been applied to examine the behavioural issues, such as managerial control and subsidiary decision-making autonomy, they offer limited explanatory power to the relational issues, such as the HQ–Sub relationship quality — the focal issue this study aims to examine. Furthermore, the underlying factors examined by prior studies through these theoretical lenses were primarily at the organizational level, offering limited insights into managerial-level influences (e.g., Chang & Taylor, 1999; O'Donnell, 2000; Roth & O'Donnell, 1996).

The shortcomings of these theoretical perspectives have motivated scholars to search for alternative approaches. The institutional perspective is regarded as one of the most useful theoretical frameworks for studying business and management strategies particularly in the context of MNEs from emerging economies (Cui & Jiang, 2012; Wright

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et al., 2005). For example, Li et al. (2016) applied the institutional perspective focusing on organisation's legitimacy rather than efficiency or resource control and deployment to examine HQ–Sub relationship quality. From the managerial cognitive capability perspective (Helfat & Peteraf, 2015), Jiang et al. (2021) examined HQ–Sub relationship quality by explaining how a managerial global mindset influences information processing, thereby affecting HQ–Sub relationship quality. Using similar perspectives, Nagaishi (2025) investigated how HQ–Sub relationships are shaped by mutual sense-censoring, generative exploration, and collaborative change in an Asian context.

More recent studies have examined the HQ–Sub relationship through the lens of social exchange theory (Emerson, 1981). For example, prior research has explored the roles of socialisation (Ambos et al., 2019; Chatzopoulou et al., 2023; Yu et al., 2019), mutual trust (Ambos et al., 2011; Ambos et al., 2023), and other related factors in the HQ–Sub relationship. The social exchange perspective has particular relevance in the Chinese context, as relationships have long as conduits for business activity. Relationship building, which involves social exchanges at various levels is widespread in China, and most Chinese, including Chinese managers, cultivate intricate and pervasive personal ties (Peng & Luo, 2000). Such ties shape their attitudes toward both social and business exchanges (Tsui & Farth, 1997). Hence, the social exchange perspective is an appropriate lens for examining the HQ–Sub relationship in Chinese MNEs.

HQ–Sub exchanges are the primary channel and mechanism through which headquarters exert their power to manage subsidiaries and the entire corporation (Johnston, 2005). They also serve as a means for both headquarters and subsidiaries to effectively deploy and/or acquire capabilities and knowledge that contribute to sustaining MNEs' competitive advantages (Jiang et al., 2023; Ocasio, 1997). Operating in the complex global environment, both headquarters and subsidiaries within the MNE network face a situation of mutual vulnerability (Kaufmann & Roessing, 2005; Li, et al., 2016), which induces them to engage in exchange relationships involving a series of resource transactions and deployments to realize their organizational goals (Ghoshal & Nohria, 1989; Jiang et al., 2021). The HQ–Sub relationship quality reflects the strength of the relationships. It captures the effectiveness of two-way communication, the level of mutual commitment and trust, and the extent of mutual satisfaction (Johnston & Menguc, 2007). Thus, HQ–Sub relationship quality can be a source of competitive advantage contributing to superior performance (Kostova, 1998). However, how the interactions and exchanges — specifically at both individual managerial and organizational levels —shape the HQ–Sub relationship quality is not adequately understood.

Social exchange theory has served as a relational mechanism for examining interorganizational exchange relationships (Ghoshal & Nohria, 1989; Oliver, 1990) and interpersonal or managerial exchange relationships (Flynn, 2005; Loi et al., 2009). Social exchange encompasses interparty interactions and transactions and can enhance interorganizational and interpersonal relationships (Cropanzano & Mitchell, 2005; Jiang et al., 2023). Thus, social exchange theory may reveal unique insights into how organizational- and managerial-level exchanges between headquarters and subsidiaries may affect the HQ–Sub relationship quality and, in turn, contribute to overall relationship effectiveness.

To this end, a critical question arises, "*Is the social exchange perspective alone sufficient to explain how managerial and organizational exchanges shape the HQ–Sub relationship quality*?" As Flynn (2005) revealed, parties involved in social exchanges may have their preferences regarding how they participate in exchanges according to their identity orientations, or social identity. These preferences may, in turn, influence the exchange dynamics and variations in exchange outcomes between headquarters and subsidiaries. Social identity refers to "an individual's knowledge or perception that the individual belongs to certain social groups together with some emotional and value significance to the individual of this group membership" (Tajfel, 1972, p. 292). While subsidiaries, as a sub-business units MNEs, serve global objectives but are also socially embedded in their host countries and respond to stakeholders' needs locally. Similarly, subsidiary managers hold dual responsibilities toward both the headquarters and the subsidiaries. However, there remains limited understanding of how these dual affiliations and responsibilities of subsidiaries and their managers may shape the influence of their exchanges on the HQ–Sub relationship.

To address these shortcomings identified above, we integrate social identity theory (Tajfel & Turner, 1986) with social exchange theory (Emerson, 1981) to unpack how subsidiaries' identity orientation and subsidiary managers' identity with their subsidiaries may shape how organizational and managerial exchanges affect the HQ–Sub relationship quality. At the theoretical level, the social exchange and social identity theories were developed largely in isolation from each other (Van Knippenberg et al., 2007). The integration of these two theoretical lenses may shed light on the psychological commitment in exchanges that helps reveal a more nuanced understanding of the nature of the relationship between the headquarters and subsidiaries. Therefore, we specifically examine the following two sets of research questions: (1) *How do the managerial exchanges between headquarters and subsidiaries affect HQ–Sub relationship quality? How such an effect may be shaped by the subsidiary manager's identity with the subsidiary?* (2) *How do the organizational level exchanges between headquarters and their subsidiaries affect their relationship quality? How such an effect may be moderated by the establishment mode of their subsidiaries?* To operationalise, we define organizational exchange as the degree or level of information exchanges between headquarters and their subsidiaries, demonstrating the importance of information sharing in decision-making and coordination between them. The managerial exchange refers to the quality of the social exchange relations between headquarters and subsidiary managers, reflecting the mutual interpersonal-level trust, commitment, and confidence between them.

We examine the research questions in the context of Chinese MNEs. In doing so, this study endeavours to make three theoretical contributions. First, we advance our understanding of HQ–Sub relationship quality by drawing on social exchange theory to examine how interorganizational and interpersonal exchanges between headquarters and subsidiaries affect HQ–Sub relationship quality. In this context, the social exchange theory may serve as a relational lens complementing formal governance mechanisms (Luo et al., 2001). Second, we integrate social exchange theory with social identity theory to propose a contingency theoretical framework that explains how identity orientations of subsidiaries and subsidiary managers interact with interorganizational and interpersonal exchanges, influencing HQ–Sub relationship quality. As such, our study develops an actionable theoretical framework that serves as an extension and elaboration of Flynn's (2005) theoretical propositions on integrating the social exchange and social identity theories. Finally, the integrated theoretical framework examines the social exchange and social identity theories at both individual and organizational levels, providing an extension of the application of the earlier theoretical development by Flynn (2005), whose work primarily focused on the individual level interactions and exchanges. Such cross-managerial and cross-organizational-level theoretical and empirical investigations are expected to offer more nuanced insights into the nature of the interorganizational relationships in general and HQ–Sub relationship quality in particular. We expect the findings to yield actionable insights that assist Chinese MNEs in managing HQ–Sub relationships effectively.

2. Theoretical framework

Social exchange theory postulates that exchange parties can choose from two types of exchanges, economic (negotiated) exchange and social (reciprocal) exchange, when engaging in transactions (Blau, 1964). Relationships, in turn, can be the outcomes of interactions and exchanges between involved parties (Cropanzano & Mitchell, 2005). Each type of exchange can shape interactions differently, leading to distinct forms of relationships (Blau, 1964). The participants in social exchange may include individuals, groups, or organizations (Molm, 2003). Economic exchange, also known as negotiated exchange (Flynn, 2005), involves explicitly defined exchange protocols. In economic exchange, the duties and obligations to be exchanged are detailed and understood by the involved parties (Cropanzano & Mitchell, 2005). Mutual benefits are typically realised bilaterally and immediately for parties involved in economic exchanges (Malhotra & Murnighan, 2002). In contrast, social exchange operates according to the rule of reciprocity in the interactions between the involved parties (Cropanzano & Mitchell, 2005). Thus, it is also referred to as reciprocal exchange. The unique aspect of reciprocal exchange is its commitment to dyadic exchanges in which parties contribute to exchanges unilaterally and often on different occasions (Molm, 2003). Thus, social exchange is characterized by a long-term orientation, where one party's behaviour depends on the other's (Cropanzano & Mitchell, 2005).

Social exchange theory has been widely applied across various disciplines, notably in social psychology (Gouldner, 1960), sociology (Blau, 1964), and anthropology (Sahlins, 1972) to explain exchange process and relationship formation. The theory also serves as a suitable theoretical lens for understanding social exchange behaviours and relationship outcomes in the broader field of organizational behaviour studies (Cropanzano & Mitchell, 2005). For example, studies on leader-member exchange and organizational performance, viewed through the lens of social exchange theory, reveal that varying levels of interaction among organizational members lead to differing relationship qualities. These are categorized as out-group and in-group relationships, each with distinct implications for organizational outcomes (Dienesch & Liden, 1986). The out-group relationship is considered a lower in quality relationship, and it is similar to a formal contractual relationship in which parties simply fulfill predefined obligations. In contrast, the in–group relationship is perceived as a higher-quality relationship, which is characterised by mutual reciprocity, influence, formal and informal rewards, respect liking, and a shared sense of fate (Richter et al., 2006). Thus, in line with the logic of social exchange theory, we argue that the interorganizational exchange between headquarters and subsidiaries may be a significant predictor of the HQ–Sub relationship quality.

At the individual level, managerial interactions based on personal ties may help facilitate the acquisition of resources and capabilities from other organizations, which are essential for strengthening competencies and expanding business operations (Park & Luo, 2001). This suggests that interorganizational exchange activities may be shaped by the social ties of the individuals involved (Huang et al., 2016). This is because organizational actions can be embedded within personal relational network structures (Uzzi, 1997). As such individual relationships may influence not only individual behaviour but also the behavior of organizations to which those individuals belong (Jiang et al., 2023; Uzzi, 1997). Accordingly, HQ–Sub relationship quality may be shaped by exchanges occurring at both the interorganizational and interpersonal levels.

HQ–Sub interactions and exchanges may not only be guided by the formal structures, processes, and rules, but also involve significant psychological and emotional commitment or attachment at both the interpersonal and interorganizational levels (Jiang et al., 2023). However, social exchange processes imply a relationship in which the exchange parties remain psychologically distinct entities (Rousseau & Parks, 1993). Furthermore, the social exchange theory perspective focuses on reciprocal exchanges. The quality of the exchange relationship is shaped and sustained through cost–benefit evaluations. The exchange parties determine whether to continue the exchange based on their assessments of the rewards (benefits) and costs associated with the exchange relationship (Van Knippenberg et al., 2007). Therefore, social exchange theory—when applied in isolation —may only partially explain the nature of organizational and managerial exchanges between headquarters and subsidiaries, as well as their impact on HQ–Sub relationship quality.

According to Flynn (2005), the social identity orientation of organizational members involved in social exchanges may shape their expectations regarding social exchange outcomes. The anticipated exchange outcomes may influence the members' preference for how to engage in social exchanges between each other, which may, in turn, affect social exchange relations and outcomes. Social identity enables individuals to associate with organizations by situating themselves within a particular social and organizational context (Albert & Whetten, 1985; Albert et al., 2000). For individuals, once they are socially identified with a particular group, they tend to emphasise similarities with the members of the same group and accentuate differences between their own group and others (Hogg & Abrams, 1988). Thus, individuals may be motivated to contribute and pursue the goals of the group (Ashforth & Mael, 1989), act in favour of their fellow members in the same group (Tajfel & Turner, 1986) and be willing to interact and cooperate with the in-group members (Dukerich et al., 2002). Therefore, the social identity of parties involved in exchange may lead them to prefer particular forms of social exchanges, resulting in varied relationship outcomes (Flynn, 2005).

Although social exchange theory lens may conceptualize headquarters and subsidiaries as distinct exchange entities, subsidiaries are structurally embedded within the broader MNE network. Similarly, individual managers within the MNE network are employees of their respective headquarters or subsidiaries (Vora et al., 2007). Thus, their relationships and exchanges are embedded within the broader social context of the same MNE networks (Jiang et al., 2023). As Granovetter (1992, p.33) noted, 'economic activities and outcomes are affected by these actors in dyadic relations and by the structure of the overall social network of relations''. These dyadic HQ-Sub relationships, embedded in this social context at both organizational and managerial levels, may serve as a relational bond that fosters trust and enhance HQ–Sub relationship quality. Thus, the HQ–Sub interactions and exchanges may also entail psychological and emotional commitment between parties at both the managerial and organizational levels (Jiang et al., 2023).

Furthermore, headquarters and subsidiaries are collaborators while also being potential competitors for knowledge and resource development within the MNEs (Lagerstrom et al., 2023; Luo et al., 2006). Studies based on the agency theory lens (Ambos et al., 2019; Foss, 2019; Manolopoulos et al., 2021; O'Riordan et al., 2023) suggest that the HQ–Sub relationship can be characterised as a "principal–agent relationship". Headquarters and subsidiaries are bound by formal governance structures, processes, and rules. Thus, the agency problem may be inherent in the HQ–Sub relationship. In such relationships, there may be potential conflicts between the headquarters and their subsidiaries' management, because subsidiaries and their managers may prioritize their interests over headquarters. Accordingly, subsidiaries—acting as agents— may develop interests that diverge from those of headquarters which serve as principals (Foss, 2019; Manolopoulos et al., 2021). Such agency problems may intensify when subsidiaries identify strongly with the host country and subsidiary managers exhibit strong identity with their subsidiaries. This goal incongruence may foster opportunistic behavior on either side, ultimately harming HQ–Sub relationship quality (Nohria & Ghoshal, 1994).

The above discussion suggests that the exchange relationship between headquarters and subsidiaries may be reciprocal, grounded in cost–benefit evaluation between the two as separate entities. This principle lies at the core of the social exchange perspective (Rousseau & Parks, 1993; Van Knippenberg et al., 2007). To varying degrees, subsidiaries may perceive themselves—along with their local stakeholders—as a "collective self", while subsidiary managers may view their relationship with the subsidiary as a shared identify ("we"), reflecting the core premise of social identify theory (Ashforth & Mael, 1989; Hogg & Terry, 2000). Therefore, the social identity perspective may complement the social exchange perspective in explaining variations in HQ–Sub exchanges and their relationship quality.

In line with Flynn's (2005) integrative approach combining social exchange theory and social identity theory, we postulate that a subsidiary's identity shaped by its establishment mode may moderate how HQ-Sub organizational exchanges affect HQ–Sub relationship quality. The establishment mode of a subsidiary can influence its organizational design and strategic alignment, and thus, impact the HQ-Sub relationship (Harzing, 2002). In general, MNEs typically choose between two establishment modes: greenfield investment mode and merger and acquisition (M&A). MNEs may set up entirely new operational facilities in a host country or enter a market by merging with or acquiring existing firms (World Investment Report, 2013). Thus, establishment mode may activate distinct identity orientations within subsidiaries, shaping their preferences for different forms of HQ–Sub exchanges and resulting in variation in relationship quality.

In the context of MNEs, a subsidiary's establishment mode is regarded as a distinct organizational form (Romanelli, 1991) and is conceptualized by organizational ecologists as a type of socially coded identity (Pólos et al., 2002). At the same time, subsidiary managers can identify with both headquarters and subsidiaries (Reade, 2001; Vora & Kostova, 2007). Therefore, we contend that the effects of HQ–Sub organisational and managerial exchanges on HQ–Sub relationship quality may be contingent on two key factors: the subsidiary's establishment mode (i.e., greenfield vs. acquisition) and the degree of managerial identification with the subsidiary. To consolidate the above arguments and discussions, we propose a theoretical framework—presented in Fig. 1 — to guide the investigation of the research questions discussed earlier.

3. Hypotheses

3.1. Organizational exchange and HQ–Sub relationship quality

The survival and success of subsidiaries depend on interdependence between headquarters and subsidiaries, which facilitates the integration of subsidiary activities with the headquarters (Baliga & Jaeger, 1984; Cray, 1984). However, subsidiaries often operate in a dynamic and complex foreign market environments. As such, the organizational-level exchanges between headquarters and subsidiaries may become critically important in facilitating alignment and coordination between subsidiary operations and headquarters objectives (Roth & Nigh, 1992). According to the social exchange theory, dyadic interdependence is a defining feature that distinguishes social exchange from purely economic transactions (Emerson, 1981). This suggests that the ongoing exchanges between headquarters and subsidiaries are more likely to constitute a social exchange rather than an economic exchange.

According to Lawler and Yoon (1993), a higher level of exchange between parties can generate social effects, including mutual obligation, social approval, and affective attachment. Logically, increased exchange between headquarters and subsidiaries is likely to establish a relationship akin to in-group exchange, which can, in turn, enhance the quality of HQ–Sub relationship for several reasons.

First, due to the ever-changing institutional environment both at home and abroad, headquarters and subsidiaries may face increasing levels of environmental complexity (Luo, 2007). In such circumstances, higher-level HQ-Sub organizational exchange can promote cooperation, facilitating joint problem-solving, and help avoid or minimise HQ–Sub conflict (Schmidt & Kochan, 1977), thereby making organizational outcomes more attainable (Ghoshal & Nohria, 1989). As a result, interorganizational trust may be strengthened, ultimately benefiting both MNE and subsidiary operations.

Second, higher-level HQ–Sub exchanges may enhance ideological alignment and goal compatibility between headquarters and subsidiaries (Frazier, 1983). This may help minimise or even eliminate the need for hierarchical control and direct intervention by headquarters. Instead, it can promote more transformational coordination, thereby increasing satisfaction with the HQ–Sub relationship.

Third, information asymmetry between headquarters and subsidiaries may create perception gaps, which can be a significant source of HQ–Sub conflict. Such conflict can be mitigated through increased HQ–Sub organizational exchanges (Schotter & Beamish, 2011). Thus, it is reasonable to argue that communication effectiveness between headquarters and subsidiaries can be improved through increased information flow facilitated by the higher-level HQ–Sub exchanges. Furthermore, higher level of HQ–Sub exchange may enable headquarters and subsidiaries to better synergise their joint efforts, therefore contributing to improved financial performance (Luo, 2005).

These discussions support our argument that higher-level HQ–Sub organizational exchange can transform the HQ–Sub (interorganizational) relationship into a more in-group relationship, characterised by greater communication effectiveness, stronger trust and commitment, and higher satisfaction between headquarters and subsidiaries. Therefore, we hypothesize that:

Hypothesis 1 (H1). HQ–sub organizational exchange is positively associated with HQ–Sub relationship quality.

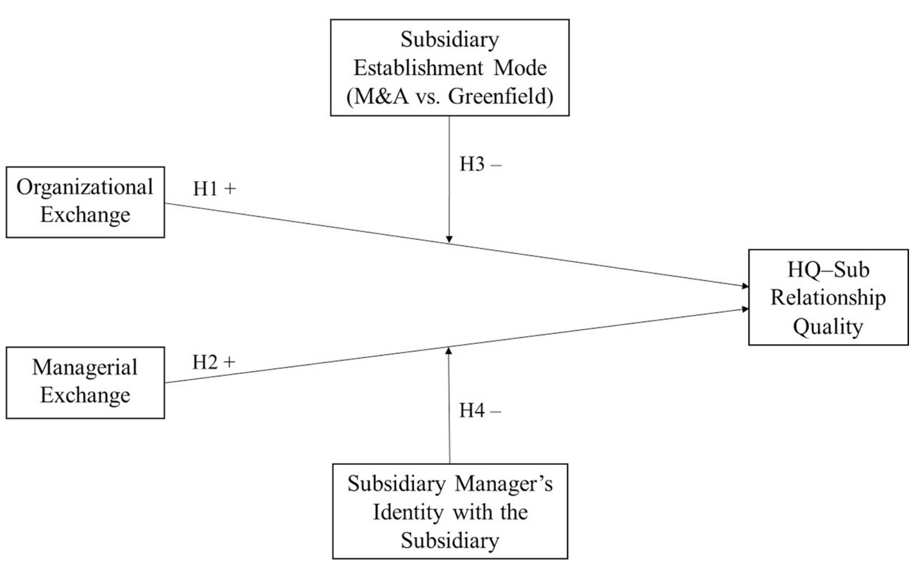

Fig. 1. Theoretical framework.

3.2. Managerial exchange and HQ–sub relationship quality

Studies have suggested that managerial-level relational factors (e.g., ties) can influence organizational-level outcomes (e.g., firm performance) (Li et al., 2009; Peng & Luo, 2000), as organizational actions can become progressively embedded within personal relationship structures (Uzzi, 1997). Extending the logic of social embeddedness to HQ–Sub relationships, we argue that interpersonal relationships between headquarters and subsidiary managers play a critical role in shaping HQ–Sub relationship quality through managerial exchange.

In MNEs, the subsidiaries are often established by headquarters to fulfill corporate goals (Mudambi & Navarra, 2004). Headquarters managers are responsible for formulating corporate-level strategies, while subsidiary managers are tasked with implementing those strategies and achieving organizational goals. Thus, headquarters managers can be viewed as leaders, while subsidiary managers can be viewed as members (Li et al., 2016). An increased level of exchange reduces risk and uncertainty and minimises the social and economic costs associated with explicit bargaining (Flynn, 2005), we argue that greater managerial exchange can lead to the development of personalised bonds of attachment and social exchange (i.e., in-group exchange). This, in turn, may influence HQ–Sub relationships at the organizational level. Such social exchange behaviours may be particularly relevant in a country like China, where organizations rely heavily on individual managers' social relationships as relational mechanisms for information sharing and acquisition, contract enforcement, and intellectual property rights protection, due to the imperfection of the formal institutional mechanisms (Wright et al., 2005).

Greater interaction between headquarters and subsidiary managers encourages reciprocity and cooperative behaviours, thereby facilitating collaboration and conflict resolution in HQ–Sub relationships (Jiang et al., 2021). Cooperation can enhance resource sharing between exchange partners (Gu et al., 2008) and foster mutual understanding (Huang et al., 2016). These dynamics may lead both headquarters and subsidiaries to perceive that each party is making sincere efforts to fulfil its duties and obligations, and that they genuinely care about one another's interests and goals (Granovetter, 1985). Therefore, increased managerial exchanges can foster cooperative behaviours and strengthen mutual commitment between headquarters and subsidiaries (Jiang et al., 2023).

Furthermore, increased managerial exchanges may help reduce interorganizational conflict, as the ties they foster can serve as informal mechanisms for information sharing and dispute resolution (Su et al., 2009). As discussed earlier, while increased HQ–Sub managerial exchanges can foster cooperative behaviours, they can also support collaborative conflict resolution aimed at identifying effective solutions (Mohr & Spekman, 1994). As a result, effective conflict resolution enables both headquarters and subsidiaries to fulfill their expectations, leading to a greater mutual satisfaction (Thomas, 1992).

In addition, managerial ties formed through managerial exchanges serve an important information-processing role by providing robust channels for effective knowledge sharing and transfer (Uzzi, 1997). Building on Grandori and Soda (1995), we argue that increased managerial exchanges between headquarters and subsidiaries enhance the information-processing function in HQ–Sub relationships by increasing information sharing and improving communication efficiency. Moreover, the stronger managerial ties fostered by a higher level of exchanges can act as a relationship lubricant (Park & Luo, 2001), helping to reduce psychological distance between exchange parties (Adobor, 2006). We expect that increased managerial exchanges between headquarters and subsidiaries can also function in this way—enabling both headquarters and subsidiaries to perceive each other as honest, sincere, and well-intentioned. These perceptions, based on the strong managerial ties developed through exchange, can lead to greater confidence in the relationship and a higher-level mutual trust between headquarters and subsidiaries. Therefore, we hypothesize that:

Hypothesis 2 (H2). HQ–Sub managerial exchange is positively associated with HQ–Sub relationship quality.

3.3. Moderating effect of subsidiary establishment mode

Prior research suggests that MNEs use different establishment modes to achieve their strategic goals (Cui & Jiang, 2009). MNEs seeking to exploit non-location-bound, home-based firm-specific advantages are likely to choose the greenfield establishment mode, which functions as a 'pipeline' for transferring their home-based firm-specific advantages. In contrast, when MNEs aim to explore location-bound, host-based firm-specific advantages, they tend to favor the M&A mode to access local knowledge and capabilities. Consequently, the two establishment modes may give rise to different identity orientations in subsidiaries, due to the tension between external legitimacy (toward host-country stakeholders) and internal legitimacy (toward the MNE network) (Balogun et al., 2019). According to institutional theorists, subsidiaries of MNEs face both external and internal legitimacy pressures when operating overseas (Kostova & Zaheer, 1999). External legitimacy refers to the acceptance by the host country stakeholders (Balogun et al., 2019), while internal legitimacy concerns its approval by headquarters and other MNE units (Balogun et al., 2019; Kostova & Zaheer, 1999).

Greenfield subsidiaries established by headquarters typically adopt the organisational structures, policies, and practices institutionalised within the MNE, thereby gaining strong internal legitimacy (Harzing, 2002). Logically, their identity orientation is likely to be more aligned with the MNE, and such alignment may intensify their liability of foreignness in the host country context (Zaheer & Mosakowski, 1997). Consequently, these subsidiaries may face heightened pressure to gain external legitimacy in the host country (Kostova & Zaheer, 1999).

In responding to institutional pressures in host countries, these subsidiaries may need to adopt an acquiescence strategy, which entails complying with local rules and accepting prevailing norms (Oliver, 1991). These dual legitimacy pressures may place subsidiaries in complex—and at times paradoxical—positions, complicating coordination and interaction with headquarters. As a result, the potential benefits of organisational exchanges in enhancing HQ–Sub relationship quality may be diminished—or even negated—under such conditions.

In contrast, merged and acquired subsidiaries may face greater pressure from their internal institutional environment than from the external one. Having been established as foreign entities prior to the M&A, these subsidiaries are likely to face reduced pressure to secure external legitimacy in the host country. However, they may require significant transformations in their institutional arrangements. These transformations may involve reconfiguring institutional logics—between the merging firms and between the subsidiary and headquarters (Cheng et al., 2023). In addition, organisational restructuring may be required to reconcile differences between the two entities (Meyer & Estrin, 2001).

Such a transformational process may help the subsidiary integrate into the broader MNE network, fostering an identity more closely aligned with the MNE (Cheng et al., 2023). The success of this transformation depends on effective information exchange and interaction between headquarters and subsidiaries, which may, in turn, strengthen HQ–Sub relationship quality. According to Kostova and Zaheer (1999), a subsidiary's internal legitimacy can be achieved by institutionalising the headquarters' structures, strategies, and practices within the subsidiary. Thus, M&A subsidiaries are likely to adopt a stronger reciprocal identity orientation toward headquarters, positioning them as boundary spanners or transformational agents in HQ–Sub exchanges.

According to the identity orientation framework (Flynn, 2005), entities with a reciprocal identity orientation are likely to engage in reciprocal exchanges and act to procure benefits for the other party in their exchange relationships. In the context of HQ–Sub relationships, a weaker reciprocal identity orientation of subsidiaries toward their headquarters—stemming from less reciprocal exchange—may help greenfield subsidiaries cultivate a more favourable image in the host country. This, in turn, may alleviate external institutional pressures in the host environment (Kostova et al., 2008). Therefore, the weaker reciprocal identity orientation typically seen in greenfield subsidiaries may reduce the intensity of HQ–Sub exchanges relative to M&A subsidiaries, potentially leading to lower relationship quality. Therefore, we hypothesise that:

Hypothesis 3 (H3). The positive relationship between HQ–Sub organizational exchange and quality of HQ–Sub relationships will be weakened if the subsidiary is established through greenfield but will be stronger if the subsidiary is established through the M&A method.

3.4. Moderating effects of the subsidiary manager's identity with the subsidiary

Subsidiary managers play a central role in MNE operations, often acting as boundary spanners who coordinate and integrate activities across organisational units (Jiang et al., 2023; Vora et al., 2007). Given the importance of balancing global integration and local responsiveness (Prahalad & Doz, 1999), subsidiary managers are expected to serve the interests of both headquarters and their local units (Vora et al., 2007). Accordingly, subsidiary managers may develop a dual identity—that is, a sense of belonging to both headquarters and subsidiaries (Vora & Kostova, 2007). Dual identity may manifest in two forms: comparable—where individuals identify equally with both headquarters and subsidiaries—and disparate—where individuals identify more strongly with one over the other (Vora et al., 2007). This study focuses on the disparate form of dual identity, which may be either headquarters-oriented (i.e., stronger identification with headquarters) or subsidiary-oriented (i.e., stronger identification with the subsidiary).

According to Hogg and Terry (2000), individuals who identify with a social group are more likely to agree with and accept the group's values and norms, and to behave accordingly. A stronger group identity also promotes collaboration among organisational members, but may intensify competition with non-members (Dutton et al., 1994). When subsidiary managers identify more strongly with the subsidiary than with headquarters, they are likely to adopt the subsidiary's values and norms over those of headquarters. As a result, other subsidiary managers may more readily classify them as in-group members, given their shared organizational membership, norms, and values. Moreover, stronger identification with the subsidiary may lead managers to distance themselves from headquarters and perceive headquarters managers as out-group members. This weakened affiliation may foster negative attitudes, disagreement, and even intergroup rivalry (Richter et al., 2006).

Drawing on the identity orientation framework (Flynn, 2005), we propose that subsidiary managers who strongly identify with the subsidiary may exhibit a weaker reciprocal identity orientation toward headquarters managers. As a result, they may be less motivated to pursue outcomes that benefit headquarters or to seek mutually balanced exchanges. In contrast, subsidiary managers who identify more strongly with headquarters are more likely to cooperate with headquarters managers (Hogg & Terry, 2000). Therefore, we expect that such managers will adopt a stronger reciprocal identity orientation toward headquarters managers. This, in turn, may facilitate HQ–Sub managerial exchanges and enhance relationship quality. Therefore, we hypothesise that:

Hypothesis 4 (H4). The positive relationship between HQ–Sub managerial exchange and HQ–Sub relationship quality will be weakened when a subsidiary manager exhibits a stronger identity with the subsidiary in the host country.

4. Data and methodology

4.1. Data collection

We collected data from surveys conducted in 2012 among mainland Chinese firms (excluding Hong Kong, Macau, and Taiwan) that were engaged in outward foreign direct investment projects. We identified 13,000 Chinese firms that had undertaken foreign direct investment from the *Statistical Bulletin of Chinese Firms' Foreign Direct Investment*, an official publication of China's Ministry of Commerce. Of these, 1,381 firms provided complete contact details, and we used this subset as the sampling frame for the survey.

Two sets of survey questionnaires were developed—one for collecting data from headquarters managers and the other for subsidiary managers. We required one senior executive—such as a director or senior manager—from each headquarters and its corresponding subsidiary who held direct responsibility for managing foreign direct investment. Headquarters respondents were asked to assess the exchange relationship with their most recently established subsidiary. We administered the surveys to headquarters and subsidiary managers in two separate stages to minimise potential common method bias. We first distributed questionnaires to headquarters respondents. After receiving their responses, we initiated the second stage by sending questionnaires to the corresponding subsidiary managers. Reminders were sent every two weeks at each stage to boost the response rate. The full two-stage survey process spanned approximately two and a half months.

A total of 392 out of 1,381 firms returned completed survey questionnaires, with each of these firms submitting two completed questionnaires—one from the headquarters and the other from the corresponding overseas subsidiary. Of these, we obtained 312 usable dyadic responses from headquarters and subsidiary managers, yielding a 22.6 % response rate—similar to that of prior studies in similar contexts and therefore considered acceptable (Cui & Jiang, 2012; Jiang et al., 2021; Li et al., 2016).

4.2. Variable measurement

4.2.1. Dependent variable

HQ–Sub relationship quality. Following Johnston (2005) and Johnston and Menguc (2007), we adopted 24 items to measure HQ–Sub relationship quality across four dimensions: communication effectiveness (adapted from Anderson and Weitz, 1989; Menon et al., 1996), trust (from Ganesan, 1994), commitment (from Anderson and Weitz, 1992), and satisfaction (based on Smith and Barclay, 1997). Details are provided in Appendix 1A. Respondents rated their agreement with each of the 24 items on a five-point Likert scale ("1″ = strongly disagree; "5" = strongly agree). Following measurement modelling to assess convergent and discriminant validity and scale reliability (see Table 1), items with low factor loadings were removed to meet established reliability and validity. Eight items with sufficiently high factor loadings were retained to measure HQ–Sub relationship quality (Cronbach's $\alpha = 0.811$). Average scores were calculated and mean-centred for use in subsequent analyses.

4.2.2. Independent variables

Organizational exchange. Following prior studies, we measured organisational exchange using two dimensions: negotiation latitude (four items from Liden & Graen, 1980) and information exchange (eight items from Kozlowski & Doherty, 1989) to assess HQ–Sub interactions at the organisational level (See Appendix 1B). Respondents rated the level of organisational exchange between headquarters and subsidiaries on a five-point scale ("1″ = very low; "5" = very high), based on these dimensions. Following measurement modelling to assess convergent and discriminant validity and scale reliability (see Table 1), we removed items with low factor loadings to meet the minimum thresholds for construct reliability and validity. Five items with sufficiently high factor loadings were retained from Kozlowski and Doherty's (1989) information exchange scale to measure organisational information exchange ($\alpha = 0.724$). Average scores were then calculated and mean-centred for subsequent analyses.

Managerial exchange. We adopted an 11-item perceptual scale based

Table 1
Measurement properties of variable constructs.

Variables and items	Loading	α	CR	AVE	DisV
DV: *HQ–Sub Relationship Quality*		0.811	0.927	0.616	0.785
1. Our relationship with this subsidiary is a long–term one.	0.701				
2. We have a strong sense of loyalty to each other.	0.773	IV1:			**0.730**
3. We defend subsidiaries when others criticize subsidiaries.	0.834	IV2:			**0.680**
4. If problem arises, subsidiary is honest about it.	0.752	M:			**0.660**
5. Promises made by subsidiary are reliable.	0.813				
6. Subsidiary has been franking in dealing with us.	0.818				
7. Our staff communicate openly.	0.761				
8. We both communicate clearly.	0.816				
IV1: *Organizational exchange*		0.724	0.896	0.633	0.796
1. You let headquarters know what's going on in your firm.	0.730				
2. Headquarters seeks input or advice from your firm.	0.696	DV:			**0.730**
3. Confide firm information to headquarters.	0.866	IV2:			**0.670**
4. Headquarters' willingness to listen to your firm.	0.833	M:			**0.756**
5. You know what's going on in the headquarters.	0.840				
IV2: *Managerial exchange*		0.756	0.912	0.634	0.796
1. I will apply extra efforts to further headquarters' interest.	0.839				
2. Headquarters manager come to my defence if I were 'attacked'.	0.703	DV:			**0.680**
3. Headquarters manager defends my work actions to a superior, even without complete knowledge of the issue.	0.808	IV1:			**0.670**
		M:			**0.700**
4. Headquarters manager is a lot of fun to work with.	0.798				
5. I would like to have headquarters manager as a friend.	0.758				
6. I like the headquarters manager very much as a person.	0.860				
M: *Subsidiary manager's identity with the subsidiary*		0.703	0.850	0.576	0.759
1. If a story in the media criticized the subsidiary, he/she would feel embarrassed.	0.707	DV:			**0.660**
2. When he/she talks about subsidiary, he/she usually says 'we' rather than 'they'.	0.678	IV1:			**0.756**
		IV2:			**0.700**
3. He/she is very interested in what others think about the subsidiary.	0.808				

Note:
1. Model fitness: $\chi 2/df = 1.370$, CFI = 0.964, IFI = 0.965, TLI = 0.958, RMR = 0.023, RMSEA = 0.032.
2. DV: Dependent variable; IV1: Independent variable 1; IV2: Independent variable 2; M: Moderating variable Statistics in bold font are the correlations with each of the other latent variable constructs in the same measurement model. DisV: Discriminant validity.
3. Statistics in bold font are the correlations with each of the other latent variable constructs in the same measurement model.

on Liden and Maslyn (1998) to measure managerial exchange quality (see Appendix 1C). Respondents rated the quality of the exchange relationship between headquarters and the subsidiary managers on a five-point scale ("1″ = very low; "5" = very high). Following measurement modelling to assess the convergent and discriminant validity and scale reliability (see Table 1), we removed items with low factor loadings to ensure the construct met the minimum thresholds for reliability and validity. Six items with sufficiently high factor loadings were retained to measure managerial exchange relationship quality (Cronbach's α = 0.756). Average scores were then calculated and mean-centred for subsequent analyses.

4.2.3. Moderating variables

Subsidiary establishment mode was coded as a dummy variable ("1″ = greenfield establishment; "0" = M&A). To determine each subsidiary's establishment mode, managers were asked whether the subsidiary has been created through a merger or acquisition of a host country firm, or as a brand-new operation (i.e., a greenfield investment) initiated by the Chinese headquarters.

Subsidiary manager's identity to the subsidiary. We adapted six statements from Mael and Ashforth (1992) to measure subsidiary managers' identity with their respective subsidiaries (see Appendix 1D). Managers rated their level of agreement with the six statements on a five-point Likert scale ("1″ = totally disagree; "5" = totally agree), reflecting their identification with their subsidiaries. Following measurement modelling to assess convergent and discriminant validity and scale reliability (see Table 1), we removed items with low factor loadings to ensure the construct met required thresholds for reliability and validity. Three items with sufficiently high factor loadings were retained to measure this construct (Cronbach's α = 0.703). Average scores were then calculated and mean-centred for subsequent analyses.

4.2.4. Control variables

To reduce the possibility of alternative interpretations of our findings, we included control variables at multiple levels: cross-national institutional differences, geographic distance between headquarters and subsidiary countries, subsidiary industry, and managerial demographics at both headquarters and subsidiaries. The control variables described below may directly and/or indirectly influence the HQ–Sub relationship quality examined in this study.

At the cross-national and institutional level, we controlled for regulative, cultural, and geographic distance between China and the host countries of the local subsidiaries. Regulative distance between home and host countries can affect the external and internal legitimacy for MNEs and their subsidiaries (Kostova & Zaheer, 1999), thereby influencing interorganisational interactions and relationship formation (Oliver, 1990).

We adopted seven items from Gaur and Lu (2007) to measure regulative distance between China and the host country, based on subsidiary managers' perceptions. Respondents rated each item on a five-point Likert scale ("1" = very low; "5" = very high). The items include fiscal policy, anti-trust regulation, political transparency, intellectual property protection, judiciary system efficiency, rarity of market dominance in key industries, and inflation.

Cultural distance was included to capture external uncertainty (Slangen & Van Tulder, 2009), which may influence the quality of HQ–Sub relationships. Following Drogendijk and Slangen (2006), we measured cultural distance using a five-item Likert scale ("1" = very low; "5" = very high) based on Hofstede's (2005) five classical cultural dimensions. We calculated the average of the five items to construct the cultural distance variable.

Geographical distance has long been cited as a key contributor to the liability of foreignness for firms operating in overseas markets (Hymer, 1976). Greater distance tends to increase overall costs and complicate coordination between headquarters and subsidiaries (Li et al., 2016). We calculated the geographic distance between China and each subsidiary's host country using the GeoDistance Calculator (www.geodatos.net). At both the headquarters and subsidiary levels, we controlled for MNEs' percentage of sales to overseas markets, subsidiary industry sector, headquarters size, subsidiary size and age, and the parent's ownership stake in the subsidiary. The percentage of an MNE's sales derived from foreign markets reflects its degree of international involvement and dependency on those markets (Gomes & Ramaswamy, 1999). This, in turn, may influence the balance of decision–making authority and the locus of control between headquarters and subsidiaries.

Subsidiaries in different industry sectors may serve distinct strategic and operational roles for their headquarters, thus requiring varying levels of commitment (Hewett et al., 2003). Consistent with prior studies (Mudambi & Navarra, 2004), we coded *subsidiary industry* as a dummy variable ("1" = manufacturing; "0" = non-manufacturing).

The size of subsidiary and headquarters may reflect underlying firm capabilities and resources (Penrose, 1959), which can shape how each party perceives each other's value and strategic importance (Johnston & Menguc, 2007). Accordingly, the size of headquarters and subsidiaries may influence the HQ–Sub relationship. *Headquarters* and *subsidiary size* were each measured by the total number of employees at the respective units.

Subsidiary age refers to the number of years a subsidiary has in the host country. *Subsidiary age* may influence the parent company's strategic decisions concerning operations, investments, and long-term planning (Peltokorpi, 2015), which in turn can affect HQ–Sub relationship quality. In line with Monteiro et al. (2008), we calculated subsidiary age by subtracting the year of establishment from the year of data collection.

Similarly, *headquarters age* refers to the number of years the parent firm had been operating at the time of the survey. Headquarters age may affect key performance aspects—such as profitability, growth, and innovation—which can influence strategic decisions toward subsidiaries and ultimately shape HQ–Sub relationship quality. We calculated headquarters age by subtracting the year of establishment in China from the year of data collection.

Parent ownership in a subsidiary may reflect the subsidiary's strategic importance to the MNE and influence the distribution of decision-making authority between headquarters and subsidiaries. A higher ownership stake typically signals increased attention and resource commitment from headquarters (Bouquet & Birkinshaw, 2008), which can, in turn, influence HQ–Sub relationship quality. We measured this variable using the percentage of shares owned by the Chinese parent in the respective subsidiary.

Finally, at the managerial level, we controlled for the *subsidiary manager's nationality*. Subsidiary managers with host-country nationality may possess better knowledge of the local operational environment (Gupta & Govindarajan, 1991). This may enhance their ability to meet host-country stakeholder expectations, thereby strengthening the subsidiary's external legitimacy. This dynamic may alter the balance between external legitimacy (with host-country stakeholders) and internal legitimacy (with headquarters and other MNE units), thereby affecting HQ–Sub relationship quality (Kostova & Zaheer, 1999). We coded subsidiary manager nationality as a dummy variable ("1″ = Mainland Chinese manager; "0" = non-Mainland Chinese manager).

4.2.5. Non-response bias test

We split the responding firms into two groups—early response and late response—based on the dates their survey responses were received. The early response group comprised the first 50 per cent of the sample firms that returned usable survey questionnaires. This approach assumes that late respondents are similar to non-respondents (Armstrong & Overton, 1977; Li et al., 2016). We conducted independent-sample t-tests to compare the group means of the dependent variable and the two independent variables. Both headquarters and subsidiary responses were tested. The *t*-test results indicate no significant differences in mean scores between early and late responses for the dependent variable of HQ–Sub relationship quality (HQ data: $t = -0.262$, $p = 0.793$; Sub data: $t = -0.375$, $p = 0.708$) and the independent variables of organisational exchange (HQ data: $t = 0.360$, $p = 0.719$; Sub data: $t = -0.452$, $p = 0.652$) and managerial exchange (HQ data: $t = -1.218$, $p = 0.224$; Sub data: $t = -0.917$, $p = 0.360$), suggesting that non-response bias is not a concern in this study.

4.2.6. Scale reliability and construct validity

We tested scale reliability (Cronbach's alpha) and performed measurement model procedures to test scale composite reliability (CR), construct convergent validity measured as average variance extracted (AVE), and discriminant validity measured as maximum-shared squared variance (MSV) for the independent variables (organizational exchange and managerial exchange), dependent (headquarters–subsidiary relationship quality), and moderator (subsidiary manager's identity with the subsidiary) variable constructs, respectively. The results are reported in Table 1. The model fitness indices ($\chi 2/df = 1.370$, CFI = 0.964, IFI = 0.965, TLI = 0.958, RMR = 0.023, RMSEA = 0.032) indicate a good fit of the measurement models. The scores for Cronbach's alpha > 0.700, CR > 0.700, and AVE > 0.500 met the required standards and were acceptable. The discriminant validity (DisV) score for each of the variables is greater than its covariances with each other, suggesting that the discriminant validity between these variables is at an acceptable level.

4.2.7. Common method bias

As our data were collected via a survey instrument, a key concern is common method bias, particularly given the use of perceptual measures (Podsakoff et al., 2003). To address this issue, we followed the procedures recommended by Chang et al. (2010). We developed two sets of questionnaires as data collection instruments. One questionnaire was administered to headquarters managers, primarily to collect data for the dependent variable, while the other was administered to subsidiary managers, focusing on data for the independent and moderating variables. This approach allowed us to obtain data from different sources, thereby reducing the risk of common method bias (Podsakoff et al., 2003). During the data collection process, we administered the survey in two phases, as described earlier. We began by collecting data from headquarters managers and only initiated data collection from the corresponding subsidiaries after all headquarters responses had been received. Collecting survey data at two different points in time reduces the likelihood of response coordination between the two sources.

5. Results

5.1. Descriptive statistics

The descriptive statistics for the dependent, independent, control, and moderating variables, along with the Pearson's correlation coefficients among them, are presented in Table 2. As anticipated, the dependent variable is significantly correlated with the independent variables. The correlation between the two independent variables—organisational exchange and managerial exchange—is considered high ($r = 0.713$, $p < 0.001$). However, diagnostic tests indicate that multicollinearity is not a significant concern. Specifically, all variance inflation factor (VIF) values are below 5.0, well under the commonly accepted threshold of 10.0. The collinearity tolerance values exceed the recommended minimum of 0.1 or 0.2. Additionally, none of the eigenvalues approaches to zero, and all condition indices range from 1.0 to 6.8, which are well below the critical thresholds of 15 or 30. The results of these checks suggest that multicollinearity is not a significant concern in the data (Hair et al., 1998; Jiang et al., 2023).

Theoretically, organisational and managerial exchanges are conceptually distinct. Organisational-level exchanges are typically governed by formal interorganisational structures, processes, and rules

Table 2
Descriptive statistics and correlations (n = 312).

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8
1	Headquarters–subsidiary relationship quality	3.788	0.488	1.000							
2	Organizational exchange	3.732	0.513	0.580**	1.000						
3	Managerial exchange	3.745	0.534	0.582***	0.713***	1.000					
4	Subsidiary manager's identity with the subsidiary	3.747	0.552	0.444***	0.543***	0.511***	1.000				
5	Subsidiary establishment mode	0.330	0.470	0.079	0.034	0.089	0.162**	1.000			
6	Sales to the overseas market	29.260	22.460	0.120*	0.237***	0.221***	0.197***	–0.033	1.000		
7	Subsidiary size	7181.40	33179.86	–0.046	–0.009	–0.010	0.011	–0.015	0.076	1.000	
8	Subsidiary age	8.189	6.421	0.088	0.086	0.081	0.135*	0.083	0.063	0.181**	1.000
9	Subsidiary industry	0.503	0.501	0.090	0.064	0.088	0.098†	0.049	0.039	–0.035	0.0442
10	Subsidiary manager's nationality	0.780	0.420	0.109	0.154**	0.105	0.116*	–0.038	0.146*	0.047	0.046
11	Headquarters size	59387.34	172142.41	–0.020	–0.019	–0.021	0.033	–0.097	–0.058	0.079	0.042
12	Headquarters age	22.154	66.220	–0.088	–0.045	–0.012	0.036	–0.076	0.029	0.026	0.111
13	Headquarters–subsidiary geographical distance	6092.30	3902.82	–0.072	0.068	0.048	0.000	0.029	0.033	0.088	0.102
14	Host and home country regulatory distance	0.023	0.675	0.396**	0.350**	0.297***	0.339***	0.137*	0.130*	0.029	0.063
15	Host and home country cultural distance	0.014	0.731	0.354***	0.303***	0.298***	0.307***	0.104	0.238***	0.068	0.125*
16	Parent ownership in a subsidiary	76.529	25.188	0.061	0.049	0.059	0.078	0.069	0.000	–0.114*	–0.138*
	Variables	Mean	S.D.	9	10	11	12	13	14	15	16
9	Subsidiary industry	0.503	0.501	1.000							
10	Subsidiary manager's nationality	0.780	0.420	0.013	1.000						
11	Headquarters size	59387.34	172142.41	–0.088	0.074	1.000					
12	Headquarters age	22.154	66.220	–0.041	0.016	0.013	1.000				
13	Headquarters–subsidiary geographical distance	6092.30	3902.82	0.066	–0.014	0.014	0.124*	1.000			
14	Host and home country regulatory distance	0.023	0.675	–0.021	0.087	0.054	0.039	0.104	1000		
15	Host and home country cultural distance	0.014	0.731	–0.027	0.128*	0.055	–0.034	0.049	0.536***	1.000	
16	Parent ownership in a subsidiary	76.529	25.188	0.086	0.084	–0.157**	0.002	–0.146*	–0.059	0.028	1.000

† $p < 0.10$,
* $p < 0.05$.
** $p < 0.01$,
*** $p < 0.001$; (2–tailed).

Table 3
Regression of HQ–Sub exchanges on HQ–Sub relationship quality (Data source: Headquarters managers).

DV: HQ–Sub relationship quality	Model 1	Model 2	Model 3	Model 4	Model 5
Independent variables					
H1: Organizational exchange		0.479***	0.478***		
H2: Managerial exchange				0.483***	0.375***
Moderators					
Subsidiary establishment mode			0.027		
Subsidiary manager's identity with the subsidiary					0.142**
Interaction terms					
H3: Organizational exchange × Subsidiary establishment mode			–0.176**		
H4: Managerial exchange × Subsidiary manager's identity with the subsidiary					-0.167**
Control variables					
Sales to the overseas market	0.007	–0.056	–0.055	–0.051	–0.018
Subsidiary size	–0.030	–0.044	–0.044	–0.045	–0.058
Subsidiary age	0.039	0.048	0.047	0.060	0.048
Subsidiary industry	0.026	0.041	0.041	0.017	0.023
Subsidiary manager's nationality	0.017	–0.005	–0.004	0.024	0.023
Headquarters size	–0.035	–0.012	–0.010	–0.030	–0.034
Headquarters age	–0.015	–0.061	–0.060	–0.082†	–0.081†
Headquarters–subsidiary geographical distance	–0.044	–0.128**	–0.120**	–0.112*	–0.103*
Host and home country regulatory distance	0.130**	0.169**	0.166**	0.197***	0.175**
Host and home country cultural distance	0.099**	0.123*	0.123*	0.108†	0.116*
Parent ownership in a subsidiary	0.028	0.024	0.022	0.016	0.012
Model fit					
N	312	312	312	312	312
R^2	0.210	0.398	0.439	0.410	0.444
Adj– R^2	0.178	0.372	0.414	0.384	0.415
F value	6.706***	15.271***	16.003***	16.022***	15.672***

† $p < 0.10$,
* $p < 0.05$,
** $p < 0.01$,
*** $p < 0.001$; (2–tailed).

(Seabright et al., 1992; Williamson, 1985). In contrast, the quality of managerial exchanges often depends on interpersonal psychological or emotional attachments between boundary spanners, fostered through increased trust and commitment (Jiang et al., 2023; Luo, 2001). Given these distinctions, both variables were retained in the analytical framework. To mitigate potential effects of their high correlation, a restricted modelling approach was employed by testing their relationships with the dependent variable in separate statistical models, as reported in Table 3 for hypothesis testing and Table 4 for robustness checks. This approach aligns with methodologies adopted in prior

Table 4
Robustness test: Regression of HQ–Sub exchanges on HQ–Sub relationship quality (Data source: Subsidiary managers).

DV: HQ–Sub relationship quality	Model 1	Model 2	Model 3	Model 4	Model 5
Independent variables					
H1: Organizational exchange		0.590***	0.590***		
H2: Managerial exchange				0.658***	0.527***
Moderators					
Subsidiary establishment mode			0.034		
Subsidiary manager's identity with the subsidiary					0.236***
Interaction terms					
H3: Organizational exchange × Subsidiary establishment mode			–0.113**		
H4: Managerial exchange × Subsidiary manager's identity with the subsidiary					–0.114**
Control variables					
Sales to the overseas market	0.141	0.053	0.055	0.050	0.063
Subsidiary size	–0.043	–0.021	–0.021	–0.020	–0.030
Subsidiary age	0.093	0.054	0.052	0.066	0.045
Subsidiary industry	0.026	0.011	0.010	–0.023	–0.024
Subsidiary manager's nationality	0.005	–0.044	–0.042	–0.009	–0.016
Headquarters size	0.013	0.036	0.040	0.015	0.010
Headquarters age	–0.049	–0.010	–0.008	–0.035	–0.039
Headquarters–subsidiary geographical distance	–0.014	–0.058	–0.059	–0.041	–0.029
Host and home country regulatory distance	0.246***	0.126*	0.1232*	0.151**	0.113*
Host and home country cultural distance	0.106	0.018	0.015	–0.013	–0.017
Parent ownership in a subsidiary	0.126*	0.086†	0.083†	0.070	0.058
Model fit					
N	312	312	312	312	312
R^2	0.164	0.449	0.451	0.536	0.581
Adj– R^2	0.131	0.425	0.447	0.515	0.559
F value	4.945***	18.830***	19.105***	26.617***	27.188***

† p < 0.10,
* p < 0.05,
** p < 0.01,
*** p < 0.001; (2–tailed).

research on international business and organisational behaviour (Herrmann & Datta, 2002). Correlations among other variables are below 0.60, which is considered acceptable (Churchill, 1991). Furthermore, all VIF values for these variables are below 2.0, indicating no significant multicollinearity issues in the data (Hair et al., 1998).

5.2. Hypothesis test results

We used different sources of data for the dependent variable, independent variables and moderators when testing hypotheses. Specifically, we used the data collected from the headquarters managers for measuring the dependent variable – HQ–Sub relationship quality and the data collected from the subsidiary managers for both independent variables – organizational exchange and managerial exchange, and for the two moderators – subsidiary establishment mode and subsidiary manager's organisational identity for performing hierarchical moderated regression procedures. The empirical results are shown in Table 3. Except for Model 1, the base model that consists of the control variables only, all other models from Model 2 to Model 5 are statistically significant ($p < 0.001$), which indicates the models fit the data well.

Hypothesis 1 proposed that HQ–Sub relationship quality is positively related to the HQ–Sub organizational exchange. The results in Models 2 and 3 provide support for Hypothesis 1 ($\beta = 0.479$, $p < 0.001$; $\beta = 0.478$, $p < 0.001$; respectively).

Hypothesis 2 proposed that HQ–Sub relationship quality is positively related to the HQ–Sub managerial exchange. The results in Models 4 and 5 provide support for Hypothesis 2 ($\beta = 0.483$, $p < 0.001$; $\beta = 0.375$, $p < 0.001$; respectively).

Hypothesis 3 proposed that the greenfield establishment mode negatively moderates the positive relationship between the HQ–Sub organizational exchange and HQ–Sub relationship quality, while M&A positively moderates the positive relationship between organizational exchange and HQ-Sub relationship quality. The results in Model 4 show support for hypothesis 3 ($\beta = -0.176$, $p < 0.010$). Consistently, the graphical presentation of the moderation effect in Fig. 2 demonstrates

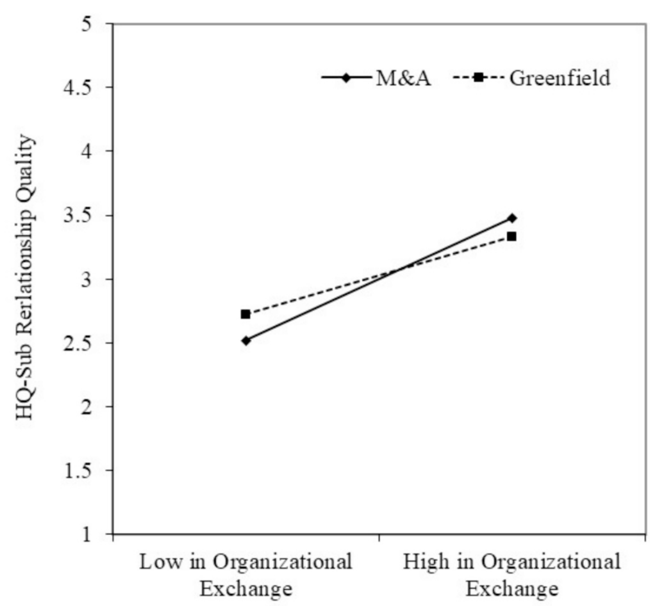

Fig. 2. Moderation effect of the subsidiary's establishment mode.

that the positive effect of HQ–Sub organizational exchange on the HQ–Sub relationship quality is weaker with a greenfield subsidiary, while it is stronger with an M&A subsidiary, supporting Hypothesis 3.

Hypothesis 4 proposed that a subsidiary manager's identity with the subsidiary negatively moderates the relationship between the HQ–Sub managerial exchange and HQ–Sub relationship quality. The results in Model 5 show support for Hypothesis 4 ($\beta = -0.167$, $p < 0.010$). Consistently, the graphical presentation of the moderation effect in Fig. 3 presents that when the subsidiary manager's identity with the subsidiary is stronger, the positive relationship between HQ–Sub

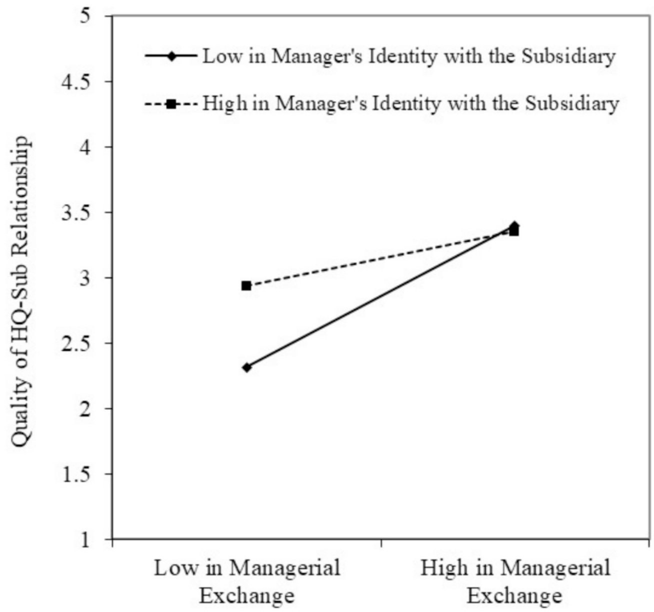

Fig. 3. Moderating effect of subsidiary managers' identity with the subsidiary.

managerial exchange and HQ–Sub relationship quality becomes weaker, supporting Hypothesis 4.

5.3. Robustness checks

We used data collected from subsidiary managers to replace the data collected from headquarters managers for measuring the dependent variable and performed moderated regression analyses consistent with the steps and procedures used in the hypothesis tests. The robustness results are presented in Table 4. In general, all models are statistically significant and demonstrate a good fit with the data. The signs of the beta coefficients align with the hypothesised directions for all independent variables, moderating variables, and interaction terms.

Specifically, the results show that the direct relationship between organisational exchange and HQ–Sub relationship quality is positive and statistically significant ($\beta = 0.479$, $p < 0.01$; $\beta = 0.478$, $p < 0.001$), consistent with the results for Hypothesis 1 reported in Table 3. The results in Models 4 and 5 indicate that the direct relationship between managerial exchange and HQ–Sub relationship quality is positive and statistically significant ($\beta = 0.483$, $p < 0.001$; $\beta = 0.375$, $p < 0.001$), consistent with the results for Hypothesis 2 in Table 3.

The results in Model 3 show that the positive relationship between organisational exchange and HQ–Sub relationship quality is weaker when the subsidiary is established through the greenfield method ($\beta = -0.176$, $p < 0.001$), which aligns with the results for Hypothesis 3 in Table 3. Additionally, the results in Model 5 indicate that the positive relationship between managerial exchange and HQ–Sub relationship quality is weaker when the subsidiary manager exhibits a stronger identity with the subsidiary ($\beta = -0.167$, $p < 0.001$).

In summary, the statistical results of the robustness tests presented in Table 4 are highly consistent with those reported in Table 3, suggesting that our findings are robust.

6. Discussions and conclusion

6.1. Major findings

This paper integrates the literature on HQ–Sub relationships with that on social exchange and social identity. Drawing on social exchange and social identity theories, our study contributes to these streams of literature by explaining when organisational and managerial exchanges between headquarters and subsidiaries affect the quality of HQ–Sub relationships, and how these effects are shaped by the subsidiary's establishment mode and the subsidiary manager's identity with the subsidiary, respectively.

Analyses of matched data collected from senior managers at headquarters and subsidiaries of Chinese MNEs reveal that HQ–Sub exchanges at both the organisational and managerial levels positively influence HQ–Sub relationship quality. The positive effect of organisational exchange on HQ–Sub relationship quality is weaker for greenfield subsidiaries, but stronger for those established through mergers and acquisitions (M&A). Similarly, the positive effect of managerial exchange on HQ–Sub relationship quality is diminished when subsidiary managers exhibit a stronger identity with their subsidiaries. These findings underscore the importance of both interorganisational and interpersonal exchanges as relational mechanisms influencing HQ–Sub relationship quality and highlight the critical role of identity orientations of subsidiaries and subsidiary managers in shaping this relationship.

6.2. Theoretical contributions

The conceptualization of this study with empirical evidence aim to make three major theoretical contributions. First, prior studies have primarily examined the HQ–Sub relationship through formal mechanisms, including institutional differences between home and host countries, MNEs' interorganizational operational protocols (Li et al., 2016), managerial capabilities (Jiang et al., 2021), subsidiary roles (Jarillo & Martíanez, 1990), and formal system of control and coordination of foreign subsidiaries (Chen et al., 2009; Luo et al., 2001). This study advances HQ–Sub relationship literature by linking HQ–Sub relationship quality to informal mechanisms, including the social relational perspective (i.e., HQ–Sub social exchanges) and the legitimacy perspective (i.e., identity of managers and the subsidiary). The relational perspective has served as an effective complementary to the formal systems governing interorganizational exchanges (Williamson, 1985). This informal mechanism is especially salient for guiding interorganizational relationships and exchanges within MNE networks in the Chinese context (Jiang et al., 2023).

Second, although both the social exchange perspective (e.g., Rousseau & Parks, 1993) and the social identity perspective (e.g., Ashforth & Mael, 1989; Hogg & Terry, 2000) address social interactions, they offer contrasting viewpoints, revealing theoretical tensions between them. Social exchange theory focuses on individual relationships and cost–benefit analyses, whereas social identity theory emphasises in-group membership and shared identity. Accordingly, social exchange theory implies a transactionally oriented approach to interactions and exchanges, while social identity theory emphasizes an in-group orientation. This suggests that interactions and exchanges with in-group members are characterised by greater commitment and loyalty toward the party with whom individuals feel more closely affiliated (Van Knippenberg et al., 2007).

Social exchange theory emphasises that relationships are formed and maintained based on perceived rewards and costs. The involved parties seek to maximise benefits and minimise losses in their interactions (Rousseau & Parks, 1993; Van Knippenberg et al., 2007). In contrast, social identity theory posits that individuals derive part of their identity and self-esteem from group memberships and seek to maintain a positive identity by favourably comparing their in-group to relevant out-groups (Ashforth & Mael, 1989; Hogg & Terry, 2000). Therefore, tensions may emerge when individuals prioritise personal benefits in a social exchange, even at the expense of their group's interests. Social identity theory also suggests that tensions can occur when individuals favour in-group members, even to the detriment of out-group members. In contrast, social exchange theory may focus on the potential for mutually beneficial exchanges with out-group members. Additionally, while social exchange theory emphasises that trust and commitment are developed through repeated positive interactions, social identity theory argues that they may also arise from shared group membership and a sense of belonging (Van Knippenberg et al., 2007).

In the context of HQ–Sub relationships, interactions and exchanges between headquarters and subsidiaries at both organisational and managerial levels encompass both in-group and out-group orientations. Although headquarters and subsidiaries are considered in-group members within the broader MNE network, subsidiaries are simultaneously embedded in their host country environments. Consequently, subsidiaries may be expected to prioritise their interests and exchanges with host country stakeholders, reflecting an identity alignment with the host country. Similarly, subsidiary managers—whether locally hired representatives or expatriates assigned by headquarters—maybe expected to prioritise loyalty to their respective subsidiaries.

These conditions can lead to tensions between headquarters and subsidiaries at both organisational and individual managerial levels, placing subsidiaries and their managers at the centre of these tensions. The nature of HQ–Sub relationships may depend on the interplay between cost–benefit-based exchanges and varying degrees of commitment and loyalty to specific stakeholders, such as the subsidiary or host country community. Accordingly, integrating social exchange and social identity theories offers a more comprehensive lens for understanding the dynamics and complexities of HQ–Sub exchanges and relationships with multiple stakeholders.

Beyond this line of theorisation, our study explains how the identity orientations of organisations and their managers may shape the predictive power of social exchanges on organisational outcomes. The conceptual development and empirical findings presented in this study support Flynn's (2005) proposition that the identity orientation of exchange parties influence their preferences for conducting exchanges, thereby shaping exchange outcomes. Accordingly, the study presents an actionable, predictive framework that extends and elaborates on Flynn's (2005) theoretical propositions integrating social identity and social exchange theories, while offering robust empirical support.

Third, the theoretical framework proposed and tested in this study incorporates integrates both individual- and organisational-level perspectives to simultaneously examine how interpersonal and interorganisational exchanges influence HQ–Sub relationship quality. Earlier studies on interorganisational relationships have primarily focused on interactions at either the organisational level (Ghoshal & Nohria, 1989) or the individual level (Huang et al., 2016). Other research has explored the role of organisational and managerial ties in predicting the likelihood of future interorganisational exchanges (Barden & Mitchell, 2007), as well as the commitment and exchanges between individual managers and their organisations (Jiang et al., 2023). This paper is among the first to simultaneously examine how and when both interpersonal and interorganisational exchanges affect the relational outcomes of interorganisational relationships—particularly, relationship quality.

By theorising and empirically validating the effects of interpersonal and interorganisational exchanges on HQ–Sub relationship quality, this study incorporates both managerial-level (individual) and organisational-level identity orientations to examine how contextual contingencies account for variations in HQ–Sub relationship quality. This extends the application of earlier theoretical developments (Flynn, 2005) from the individual level to the organisational level. Therefore, alongside offering robust empirical evidence, the integration of both individual- and organisational-level parameters in this study enhances our understanding of interorganisational relationships more broadly—and HQ–Sub relationships in particular.

6.3. Managerial implications

The findings of this study carry important implications for managers of MNEs. First, maintaining a strong headquarters–subsidiary relationship depends on effective interactions at both organisational and individual levels. These relational exchanges, as a complement to formal structural and organisational control mechanisms, can strengthen global coordination and support optimal MNE performance. Effective two-way interactions and exchanges foster trust and may help mitigate agency problems between headquarters and subsidiaries. This, in turn, can strengthen mutual commitment and facilitate more effective knowledge sharing and transfer—critical for sustaining MNEs' global competitiveness and ensuring the success of subsidiaries in host markets (Jiang et al., 2023).

Second, the findings also suggest that MNEs should consider their choice of establishment mode carefully when planning overseas expansion. M&A may may offer advantages over greenfield investment, as it facilitates the integration of existing local firms into the MNE or supports the formation of foreign–local joint ventures with shared ownership. This mode can facilitate higher levels of exchange between headquarters and the merged or acquired subsidiaries, thereby enhancing HQ–Sub relationship quality. Such relationships can help headquarters acquire strategic assets from subsidiaries and leverage location-bound, host-based firm-specific advantages (Harzing, 2002). More broadly, joint ventures with local partners can significantly enhance external legitimacy in host country markets. They also provide valuable local knowledge (Jiang et al., 2023), enabling MNEs to expand capabilities and compete more effectively in the global markets (Beamish & Berdrow, 2003).

Third, subsidiaries of MNEs face concurrent external and internal legitimacy pressures when operating overseas, which are critically important not only to subsidiary performance but also to the HQ–Sub relationship (Balogun et al., 2019; Kostova & Zaheer, 1999; Li et al., 2016). To sustain effective exchanges and improve relationship quality, subsidiary managers should cultivate a dual identity. On one hand, a strong identification with the subsidiary is vital for achieving external legitimacy, as it helps mitigate the liability of foreignness in host country markets. On the other hand, maintaining strong identification with the headquarters is critical for preserving internal legitimacy within the MNE network—essential for securing resource support to compete effectively in the host country.

The key challenge for managers, particularly those in subsidiaries, lies in achieving an optimal balance between these dual identities in a dynamic and complex global business environment. If identity orientation is poorly calibrated, the manager may be perceived as an out-group member by either host country stakeholders or headquarters managers. Such perceptions can hinder effective exchanges and interactions, with potentially severe adverse effects on firm efficiency, innovation, and financial performance (Smith et al., 1995).

6.4. Limitations and directions for future research

We have identified several important limitations that present opportunities for future research. First, our measures of managerial and organisational exchange capture only select aspects of the complex dynamics at these two levels within MNEs. Because our current measures rely solely on managers perceived levels of exchange, they do not reflect the actual level of exchange—such as the frequency of interactions over time or the specific content of the exchanges. Future research could incorporate both perceptual and objective measures to gain a more comprehensive understanding of whether the actual frequency and nature of exchanges have similar impacts on the quality of the HQ–Sub relationship.

Furthermore, using establishment mode as a proxy for subsidiary identity may be applicable primarily in contexts where subsidiaries face dual pressures—gaining acceptance from host-country external stakeholders and securing internal approval from headquarters (Balogun et al., 2019; Kostova & Zaheer, 1999). However, establishment mode alone cannot be considered a definitive determinant of a subsidiary's identity. Although it may influence factors such as organisational culture, strategic objectives, perceived organisational image, and decision-making processes—all of which contribute to corporate identity (Van

Riel & Balmer, 1997)—it remains as a limited measure.

Future research is encouraged to broaden the conceptualisation of subsidiary identity by examining how employees construct their organisational identity through ongoing social interactions with stakeholders, embedded routines, and shared behavioural norms (Peverelli, 2000). These employee-based perceptions, when used alongside the establishment mode, can more effectively capture the dynamic and evolving nature of subsidiary identity orientation in the ever-changing global business environment.

Similarly, the three remaining items extracted from the original six-item scale by Mael and Ashforth (1992) primarily capture the individual manager's emotional attachment to the subsidiary. However, the excluded items may better reflect the manager's behavioural commitment and alignment with the subsidiary's organisational goal attainment—an aspect arguably equally important to HQ–Sub relationship quality. Consequently, the three-item measure of subsidiary managers' identity with their subsidiary may exhibit limited external validity beyond the specific context of Chinese MNEs and should be subject to further validation in alternative empirical settings.

Second, international business environments are evolving more rapidly than anticipated. Since the inception of this study, there have been significant developments in the global landscape. Notably, the rise of deglobalisation and the rapid acceleration of digital transformation across MNE business and management processes have profoundly reshaped global operations. Deglobalisation trends, characterised by heightened economic instability and increased protectionism, may fundamentally alter the way MNEs conduct international business (Witt, 2019), including the manner in which headquarters and subsidiaries manage their relationships. These shifts may require the development of new institutional arrangements across international, national, industry, and organisational levels. Consequently, some domains may witness increased HQ–Sub interactions and exchanges, whereas others may experience heightened tensions and conflict, requiring revised—or entirely new—forms of engagement.

Similarly, MNE practices are undergoing significant digital transformation, wherein enhanced global digital connectivity presents both new opportunities and substantial risks (Luo, 2022). These developments may profoundly influence the processes of communication, control, and knowledge transfer between headquarters and subsidiaries. While deglobalisation may result in more fragmented HQ–Sub relationships and diversified subsidiary operations, digitalisation may instead promote greater organisational homogeneity. Specifically, digitalisation may reduce coordination complexity between headquarters and subsidiaries, increase centralisation of decision-making at corporate and regional headquarters, and tighten control over subsidiary operations and performance (Gurkov & Filinov, 2023). However, these propositions warrant more systematic theoretical conceptualisation and robust empirical examination in future research.

Third, the data collected in this study relies on single respondents from each organisation, which may not fully capture the complexity and breadth of the two levels of exchange. Given that individual managers may hold differing perceptions regarding interorganisational and interpersonal exchanges, relying on a single informant could limit the accuracy and representativeness of the findings. Future research should incorporate multiple respondents from both headquarters and subsidiaries to reflect a more collective organisational perspective, thereby enhancing the validity of the data. Additionally, this study focuses exclusively on Chinese MNEs. While offering valuable insights, a single-country research design may constrain the broader applicability of the findings. Future studies are encouraged to test the hypothesised relationships in MNEs from other emerging economies that share institutional or developmental similarities with China (Peng & Luo, 2000). Replication in such contexts would enhance the generalisability and robustness of the proposed theoretical framework.

6.5. Conclusion

Drawing on the theoretical lenses of social exchange theory and social identity theory, this study develops and empirically tests an integrative contingency framework that elucidates the conditions under which HQ–Sub exchanges—at both the organisational and managerial levels—affect the quality of headquarters–subsidiary (HQ–Sub) relationships. Using data from Chinese multinational enterprises (MNEs), the findings demonstrate that both organisational and managerial exchanges positively influence HQ–Sub relationship quality. However, the strength of this positive effect depends on contextual contingencies. Specifically, the impact of organisational exchange is attenuated in subsidiaries established via greenfield investment compared to those formed through mergers and acquisitions. Similarly, the positive influence of managerial exchange weakens when subsidiary managers demonstrate stronger organisational identification with their subsidiaries.

In conclusion, this study highlights the critical role of social exchanges between headquarters and subsidiaries in fostering high-quality HQ–Sub relationships. Moreover, it underscores the importance of both subsidiary and managerial identity orientations in influencing these relational dynamics. The findings suggest that maintaining a strategic balance between a subsidiary's external legitimacy (with host country stakeholders) and its internal legitimacy (within the MNE network) is essential for sustaining effective and collaborative HQ–Sub relationships.

CRediT authorship contribution statement

Fuming Jiang: Writing – review & editing, Writing – original draft, Supervision, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization. **Li Xian Liu:** Writing – review & editing, Formal analysis, Conceptualization. **Jizhong Li:** Writing – original draft, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization.

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Appendix 1. Variable measurement

A. Quality of HQ–Sub relationships (Jiang et al., 2021; Li et al., 2016; Johnston & Menguc, 2007)

Communication effectiveness (Anderson & Weitz, 1989; Menon et al., 1996)

(1) We communicate candidly with each other; (2) Subsidiary always tell us everything we need to know; (3) We are responsive to the subsidiary's need for information; (4) Our communication is open and effective; (5) We have continuous interaction with each other; (6) We both communicate clearly; (7) Our staff communicate openly; (8) We have extensive formal and informal communication.

*Mutua trust (*Ganesan, 1994*)*

(1) Subsidiary has been frank in dealing with us; (2) Promises made by the subsidiary are reliable; (3) The subsidiary is knowledgeable regarding its operation; (4) The Subsidiary does not make false claims; (5) If problem arises, subsidiary is honest about it.

*Commitment toward the relationship (*Anderson & Weitz, 1989*)*

(1) We defend subsidiaries when others criticize subsidiaries; (2) We have a strong sense of loyalty to each other; (3) We expect to be

operating this subsidiary for some time; (4) We are quite willing to make a long–term contribution back to subsidiaries; (5) Our relationship with this subsidiary is a long–term one; (6) We are patient with our subsidiary even when they cause us trouble; (7) We are willing to dedicate whatever people and resources it takes to improve subsidiaries' operations.

Satisfaction with the relationship (Smith & Barclay, 1997)

(1) Overall, we are satisfied with the relationship; (2) This is the best relationship we have experienced; (3) We think the subsidiary is pleased with our relationship; (4) We would say our relationship could not be much better.

B. Organizational exchange

Negotiation latitude (Liden & Graen, 1980)

(1) Frequency of your firm (subsidiary) give suggestions to headquarters; (2) Headquarters' willingness to solve your firm's problem; (3) The flexibility of the subsidiary when dealing with your subidiary; (4) Headquarters bails your firm out at headquarters' expense.

Information exchange (Kozlowski & Doherty, 1989)

(1) You know what's going on in the headquarters; (2) Headquarters' willingness to listen to your firm; (3) Confide firm information to headquarters; (4) Your firm is a superior in the relationship; (5) Headquarters seeks input or advice from your firm; (6) Your firm is a trusted assistant in the relationship; (7) Subsidiary/headquarters confide firm information to your firm; (8) You let subsidiary (headquarters) know what's going on in your firm.

C. Managerial exchange (Liden & Maslyn, 1998)

(1) I like the headquarters manager very much as a person; (2) I would like to have headquarters manager as a friend; (3) Headquarters manager is a lot of fun to work with; (4) Headquarters manager defends my work actions to a superior, even without complete knowledge of the issue; (5) Headquarters manager come to my defence if I were 'attacked'; (6) Headquarters manager defends me if I made an honest mistake; (7) I am willing to apply extra efforts for headquarters manager that beyond my job description; (8) I will apply extra efforts to further headquarters' interest; (9) I am impressed with headquarters manager's knowledge; (10) I respect headquarters manager's knowledge and competence; (11) I admire headquarters manager's professional skills.

D. Subsidiary manager's identity with the subsidiary (Mael & Ashforth, 1992)

(1) When someone criticize the subsidiary, it feels like a personal insult; (2) He/she is very interested in what others think about the subsidiary; (3) When he/she talks about subsidiary, he/she usually say 'we' rather than 'they'; (4) The subsidiary's success is his/her success; (5) When someone praises subsidiary, it feels like a personal compliment; (6) If a story in the media criticized the subsidiary, he/she would feel embarrassed.

Data availability

The data that has been used is confidential.

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