THE ROLE OF AUTONOMY IN SUBSIDIARY INITIATIVES AND DEVELOPMENT

Thesis submitted in fulfilment of the requirement

for the degree of

DOCTOR OF PHILOSOPHY

by

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DEDICATION

This thesis is dedicated

To my parents

Who have made me the person I am,
and always supported me in becoming the person I want to be.

DECLARATION

This thesis does not contain any material that has been accepted for the award of any other degree or diploma in any university or institution, and to the best of my knowledge, does not contain any material previously written or published by another person, except where due reference is made in the text of this thesis.

Signed: …………………………………………………………

Dated: ………………………………………………………….

ABSTRACT

The concept of subsidiary autonomy has featured prominently in recent subsidiary management research (Collinson & Wang, 2012; Gammelgaard, McDonald, Stephan, Tuselmann & Dorrenbacher, 2012; Gammelgaard, McDonald, Tuselmann, Dorrenbacher & Stephan, 2011; Pisoni, Onetti & Fratocchi, 2010; Tong, Wong & Kwok, 2012). Yet despite this, the notion is not yet fully understood. For example, studies by Miozzo and Yamin (2012), Balogun, Jarzabkowski and Vaara (2011), Gammelgaard et al. (2011), Sandvik (2010), Sargent and Matthews (2006) and Delany (2000) have claimed that instead of a subsidiary's autonomy being derived entirely through assignment from the head office, it may be developed beyond the assigned levels by the subsidiary itself. However, none of these previous studies have explicitly differentiated between different *types* of autonomy. Additionally, Gammelgaard et al. (2012), Pisoni et al. (2010) and Young and Tavares (2004) have noted that further research may be needed to redefine subsidiary autonomy in relation to the different value functions, such as marketing and finance. This is because recent studies such as those of Collinson and Wang (2012) and Gammelgaard et al. (2011) have proposed that a subsidiary's autonomy may vary across these value functions. This is in contrast with the traditional assumption held by the majority of previous studies (such as those of Couto, Vieira and Borges-Tiago [2005] and Takeuchi, Shay and Li [2008]) that a subsidiary's level of autonomy would be consistent across all value functions. The relationships between subsidiary autonomy and related concepts such as authority (Chiao & Ying, in press; Gammelgaard et al., 2011; Gupta & Govindarajan, 1991; Mudambi, 1999; Young & Tavares, 2004) have also yielded conflicting results, and require further investigation. Tong et al. (2012), Young and Tavares (2004) and Brock and Paterson (2002) noted that in order to address these gaps in the extant literature, research must first establish an understanding on how the nature and extent of autonomy (including its different types) are perceived and negotiated by the subsidiary and the parent company. Gammelgaard et al. (2012), Gammelgaard et al. (2011) and Young and Tavares (2004) have argued that more research is particularly needed to investigate the role that the different types of autonomy play in influencing the process of subsidiary development (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000).

Such an investigation must also consider the role of the different types of autonomy in the development of subsidiary initiatives, which are those actions by the subsidiary management that drive the subsidiary development process (Balogun et al., 2011; Birkinshaw, Hood & Jonsson, 1998; Cavanagh & Freeman, 2012). With this in mind, the current study's broad research problem was 'What role do the different types of autonomy play in subsidiary initiatives and role development?' In order to address this research problem, the study drew upon agency theory (Jensen & Meckling, 1976; Saam, 2007), the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1970; Burgelman, 1983a). In doing so, the study was able to answer the following research questions which emerged from the literature review:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*
Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

The study employed a qualitative research design through the use of multiple case studies. Qualitative data was found by Singh (1981) and Pisoni et al. (2010) to be necessary in order to fully explore the complexities of subsidiary autonomy in detail. A case study was selected as the most appropriate research strategy for this current study as it investigated a contemporary issue, and involved 'how' research questions (Yin, 2009). The current study employed a multiple case study design based on 10 cases so as to gain more powerful inferences than could be obtained from a single case (Yin, 2009). The cases were selected using judgement (purposive) sampling, snowball sampling and opportunistic sampling techniques (Patton, 1990; Tharenou, Donohue & Cooper, 2007). Of the 10 cases, 6 involved interviews with the head office, 9 involved interviews with the subsidiary, and 5 incorporated the views of both the head office and the subsidiary. This enabled the study to address the research gap identified by Brock and Paterson (2002), Tong et al. (2012) and Young and Tavares

(2004) through the development of an in-depth, multiple-perspective understanding of subsidiary autonomy. The data for the study was collected through semi-structured, in-depth interviews with senior managers at both the subsidiary and head office level within the selected cases. This data was supplemented by the addition of documentary evidence that was collected from newspaper articles, industry journals and company websites. Once the data had been collected through the interviews and documentation, the study used a template approach to data analysis (Crabtree & Miller, 1992). This approach involved four steps: 'immersion in the data', 'coding', 'creating categories' and 'identification of themes' (Green et al., 2007).

The findings of the current study make a number of key theoretical contributions to the field. First, the findings for Research Question 1a led to the development of a revised, comprehensive definition for subsidiary autonomy. This extended the key previous definitions of Ambos, Andersson & Birkinshaw. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004), and refined those of Najafi-Tavani et al. (2012) and O'Donnell (2000) by differentiating between autonomy and authority. The findings for Research Question 1a also extended the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) in two key ways. First, the findings recognised the need for the model's application at an interdepartmental, rather than organisational, level. Second, the findings identified that local environment factors will not only affect subsidiary behaviour, but will more specifically force the subsidiary to employ or develop autonomy.

The findings for Research Question 1b then identified and applied terminology for two separate and distinct types of autonomy: assigned and assumed. Assigned autonomy was found to be delegated to the subsidiary by the head office, and falls within the subsidiary's authority. Assumed autonomy, on the other hand, is developed by the subsidiary independently, and exceeds its authority. These findings thus addressed the research gap identified by Tong et al. (2012), Young and Tavares (2004) and Brock and Paterson (2002) in relation to the precise origins of a subsidiary's autonomy, and the resultant types of autonomy. The findings for Research Question 1b also had a number of implications for agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007). First, they refuted the agency theory assumption of *different risk preferences* by revealing that subsidiaries are often *less* risk averse than the head office. Second, the findings refined agency theory's *goal conflicts* assumption to include three additional causes of agents acting against their principal's direct instructions. These causes include: the subsidiary being forced to assume its own autonomy on account of indifference or lack of interest from the head office; the subsidiary assuming its own autonomy in order to maximise the efficiency and effectiveness of an operation; and the head office allowing or facilitating the extension of a subsidiary's autonomy beyond its authority. Third, the findings refined agency theory by recognising the difference between 'real' and 'stated' goals of the principal, and in doing so challenged the assumption that an agent's failure to follow its assigned charter will result in agency problems.

The findings for Research Question 2 (a & b) then identified assumed autonomy as necessary to not only generate subsidiary initiatives, but also to lead to successful subsidiary development. In doing so, the findings addressed the research gap identified by Gammelgaard et al. (2012), Gammelgaard et al. (2011) and Young and Tavares (2004). In order to facilitate this process, the findings revealed that a low level of subsidiary-head office communication in the formative stages of initiative creation is essential to their longer-term viability. In addition, head office endorsement of these initiatives was found to be imperative if they are to successfully translate into subsidiary development. This in turn was found to require a strong subsidiary-head office relationship. The findings for Research Question 2 (a & b) also extended the network model of the MNE by specifically noting that a subsidiary may only develop its role to a position of equality or even superiority vis-à-vis the head office through the use of assumed autonomy. Lastly, the findings for Research Question 2 (a & b) had three significant implications for the decision process perspective (Bower, 1970; Burgelman, 1983a). First, the study extended the application of the perspective to the subsidiary development context. This led to the replacement of Burgelman's (1983a) original terms 'induced' and 'autonomous' strategic behaviours with the more appropriate terms of 'assigned autonomy' and 'assumed autonomy' respectively. Second, the findings for Research Question 2 (a & b) extended the decision process perspective by revealing that a subsidiary's autonomous strategic actions (or assumed autonomy) can influence not only the strategic context, but also the structural context. Third, the findings challenged the perspective's assumption that corporate strategy did not affect the subsidiary's autonomous strategic actions (assumed autonomy) by revealing the importance of HQ endorsement of initiatives.

In addition to the aforementioned theoretical implications, the study's findings also have practical inferences for managers at both the subsidiary and head office level. For subsidiary managers, the study first recognised the need to assume autonomy in order to successfully develop the subsidiary's contributory role. The study also identified the need for subsidiary management to maintain a strong relationship with the head office so as to maximise the chance of initiatives being endorsed. At the same time, the study's findings revealed the need for subsidiary managers to limit the extent of communication with the head office in the initial stages of initiative generation in order to facilitate their development. For head office managers, the study first recognised the need to permit the subsidiary to assume autonomy beyond its formally assigned levels so as to aid the subsidiary development process. Second, the study also identified the need for head office management to be open to supporting and endorsing subsidiary initiatives.

Finally, while the current study has made a number of contributions (both theoretical and practical) to the understanding of subsidiary autonomy, these contributions must be viewed in light of the study's limitations. First, the study did not investigate in detail the effect of local environment factors (through their influence on subsidiary autonomy) on subsidiary initiatives and development. Future research could therefore further explore the role these factors play in influencing not only subsidiary initiatives and development, but also the types of subsidiary autonomy. Second, given the resource and time constraints, the current study was unable to employ a longitudinal design, which would have been ideal for assessing variations in the amount of autonomy possessed by a subsidiary or its value-chain functions over time (Gammelgaard et al., 2011; Pisoni et al., 2010). It is therefore anticipated that by employing a longitudinal design, future research could obtain an even greater insight into the dynamic nature of subsidiary autonomy. Finally, the study provided analytical generalisations, rather than statistical generalisations (Yin, 2009). It is therefore hoped that future research can use the current study's analytical generalisations as a basis upon which to develop quantitative measures to empirically test the conclusions drawn.

1. INTRODUCTION

1.1. BACKGROUND, RESEARCH QUESTIONS AND OVERALL RESEARCH PROBLEM

The notion of ‘autonomy’ in subsidiary management literature is one which, despite featuring prominently in a number of studies (for example, Chiao and Ying [in press], Collinson and Wang [2012], Gammelgaard, McDonald, Tuselmann, Dorrenbacher and Stephan [2011], Miozzo and Yamin [2012] and Tong, Wong and Kwok [2012]), has not yet been fully understood in its entirety. In their seminal review of the literature on autonomy within the context of the MNE subsidiary, Young and Tavares (2004) suggested that this may be largely due to the complicated and multidimensional nature of subsidiary autonomy. This complexity and multidimensional nature has resulted in the majority of studies focusing on a particular aspect or dimension of subsidiary autonomy, such as the influence of subsidiary autonomy on subsidiary performance (Gammelgaard, McDonald, Stephan, Tuselmann & Dorrenbacher, 2012) and reverse knowledge transfers within the MNE (Rabbiosi, 2011), the impact of subsidiary size on autonomy (Johnston & Menguc, 2007) or the determinants of autonomy (Chiao & Ying, in press; Pisoni, Onetti & Fratocchi, 2010; Tong et al., 2012). Additionally, Taggart (1997) devised- and subsequently, empirically tested (Taggart, 1999)- a subsidiary role typology that is based on the dimensions of procedural justice and autonomy (this and other subsidiary role typologies are discussed in greater detail in Section 2.2.4).

However, Young and Tavares (2004) reiterated a point made in previous work by Brooke (1984) that a consideration of ‘autonomy’ as a broad concept is insufficient. These authors noted that any study focusing on subsidiary autonomy must consider not only the different types of autonomy but also the many related concepts, including decentralisation (Gupta & Govindarajan, 1991; Paterson & Brock, 2002) and authority (Chiao & Ying, in press; Gammelgaard et al., 2011; Gupta & Govindarajan, 1991; Mudambi, 1999; Young & Tavares, 2004). Yet to this point, the relationship between the types of autonomy and a number of key related concepts has been overlooked by recent literature (Ambos, Andersson & Birkinshaw, 2010; Ambos & Birkinshaw, 2010; Collinson & Wang, 2012; Dorrenbacher & Stephan, 2011; Najafi-Tavani, Giroud & Sinkovics, 2012; Pisoni, et al., 2010; Rabbiosi, 2011; Sandvik, 2010; Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012; Tong et al., 2012). Thus further research was required in order to develop a more detailed and comprehensive knowledge of subsidiary autonomy. Brock and Paterson (2002), Tong et al. (2012) and Young and Tavares (2004) noted that such research must first establish an understanding on how the nature and extent of autonomy are perceived by both the parent company and its foreign subsidiaries. Such an understanding would then facilitate the investigation of the different forms of autonomy and how they are acquired, with agency theory (Jensen & Meckling, 1976; Saam, 2007) and its recognition of the agency relationship between the subsidiary and head office forming a key basis on which to explain the different ways in which autonomy is developed. With this in mind, Research Question 1 (which is comprised of two parts) is:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

Young and Tavares (2004), Gammelgaard et al. (2011) and Gammelgaard et al. (2012) have argued that more research was particularly needed to investigate the role that the different types of autonomy play in influencing the process of subsidiary development (Balogun , Jarzabkowski & Vaara, 2011; Birkinshaw & Hood, 1998; Delany, 1998, 2000) and the contributory role that the subsidiary plays within the MNE (Cavanagh & Freeman, 2012; Enright & Subramanian, 2007; Manopoulos, 2008; White & Poynter, 1984). As subsidiary-management literature has adopted an increasingly heterarchical and subsidiary-focused perspective (Birkinshaw, 2001; Scott & Gibbons, 2009) that was based on the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), there has been an increasing recognition of the importance of autonomy in subsidiary development (Ambos et al., 2010; Balogun et al., 2012; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Delany, 2000; Forsgren, Holm & Johanson, 1992; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Hood & Taggart, 1999; Krishnan, 2006; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat &

Leemanonwarachai, 2012). Indeed, the level of autonomy was identified (either explicitly or implicitly) as a key determinant of a subsidiary's charter within the MNE in the majority of subsidiary role typologies (Birkinshaw & Morrison, 1995; Gupta & Govindarajan, 1991; Roth & Morrison, 1992; Taggart, 1997). However, Young and Tavares (2004), Gammelgaard et al. (2011) and Gammelgaard et al. (2012) noted that while the connection between autonomy and subsidiary development had been established, the exact type and degree of autonomy necessary for the subsidiary to be able to influence its own contributory role within the MNE was not yet fully understood. In order to address this research gap, one must first consider the association between autonomy and the entrepreneurial actions by subsidiary management that drive the subsidiary development process, known as 'initiatives'.

Based on the decision process perspective as outlined by Burgelman (1983a), 'subsidiary initiatives' seek to develop the scope of responsibility of the subsidiary and therefore expand its value-adding capacity (Birkinshaw, Hood & Jonsson, 1998). A key explanation for such actions is provided by the agency theorists (Bohren, 1998; Fama & Jensen, 1983; Saam, 2007) who recognised that agents (in this case, subsidiary managers) represent individual actors who engage in opportunistic, self-maximising behaviours that may even run contrary to the interests of principals (in this case, the head office). However, while studies have considered the role of autonomy in subsidiary initiatives (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke, Chrisman & Yuan, 2007), the exact nature of that influence has not yet been fully explored. More specifically, Young and Tavares (2004, p. 231) stated that more research was needed to determine "how much and what type of autonomy is necessary to develop meaningful initiatives". This research gap was recently reinforced by Gammelgaard et al. (2012), who again highlighted the need for further research into the way in which autonomy may facilitate the development of subsidiary initiatives. In order to address this research gap and the aforementioned need to explore the role of autonomy in the overall subsidiary development process, Research Question 2 (which is also comprised of two parts) is:

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*
Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

In addressing the research gaps and aforementioned Research Questions outlined in this section, the current study seeks to address the broad research problem, which is:

What role do the different types of autonomy play in subsidiary initiatives and role development?

In order to address this broad research problem, the study integrated three previously distinct and separate theoretical perspectives, namely agency theory (Jensen & Meckling, 1976; Saam, 2007), the decision process perspective (Bower, 1972; Burgelman, 1983a), and the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). Each of these perspectives offered important insights into the role of the different types of autonomy in subsidiary development and initiatives. Agency theory (Jensen & Meckling, 1976; Saam, 2007) acknowledged that the subsidiary represents an actor for the parent company, and also helped explain why subsidiary managers may develop autonomy beyond that provided by the head office. The decision process perspective (Bower, 1972; Burgelman, 1983a) provided a further basis on which to understand the development of this form of autonomy, and also formed the foundation of subsidiary initiatives through its distinction between induced and autonomous strategic actions. Meanwhile, the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) recognised that a subsidiary is not always in a subordinate position vis-à-vis the head office, and may perform multiple contributory roles that are not necessarily assigned to it by headquarters. The current study therefore drew upon aspects of each of these three theories in order to develop a comprehensive understanding of the role of autonomy in subsidiary initiatives and development (see Figure 1.1).

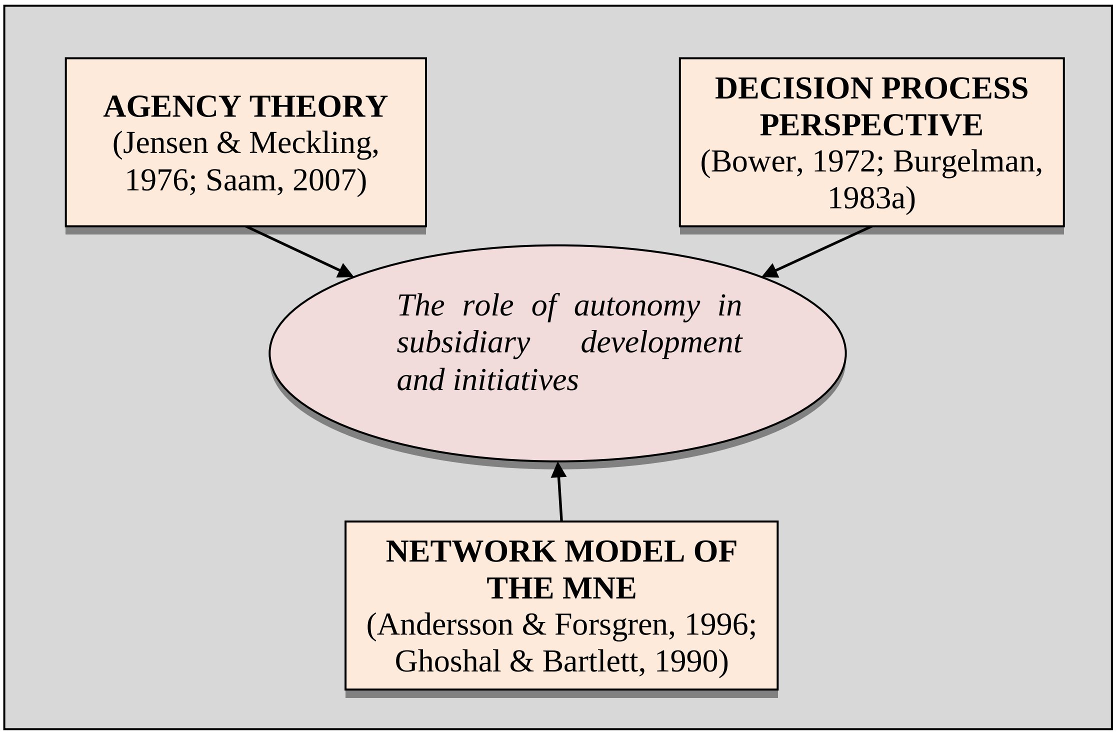

Figure 1.1: The theoretical perspectives drawn-upon in the study

1.2. RESEARCH OBJECTIVES

In order to guide the study and address the two key research questions (and thus the broad research problem), the current study developed six main objectives:

1. To develop a greater understanding of the role each of the different types of autonomy play in the development of subsidiary initiatives and subsequently, subsidiary development;
2. To understand how autonomy is understood by both the head office and its foreign subsidiaries (Research Question 1a), and how autonomy is negotiated between them (Research Question 1b);
3. To gain a comprehensive understanding of the role that the different types of autonomy (that emerged from the first research objective) play in the development of subsidiary initiatives (Research Question 2a), and also in the subsidiary development process (Research Question 2b);
4. To highlight the methodological contributions of the study;
5. To identify the managerial implications of the study; and

6. To identify areas for future research.

1.3. RESEARCH METHODOLOGY

In order to answer the two key research questions, the current study adopted a constructivist research paradigm. This paradigm is said to facilitate the researcher coming into direct contact with the phenomenon under investigation and as a result, gain a more holistic understanding of that phenomenon. The current study was therefore able to develop a comprehensive, holistic understanding of subsidiary autonomy within its context (the MNE). The use of the constructivist paradigm was particularly suited to the current study, since unlike the positivist paradigm, it does not aim to test or validate hypotheses (Guba & Lincoln, 1994). By employing a constructivist research paradigm, the current study also added to the field of international business (IB) research, which in the past has predominantly used a positivist paradigm (Doz, 2011; Piekkari, Welch & Paavilainen, 2009; Zalan & Lewis, 2004).

In terms of research approach and methodology, the current study employed a qualitative research design that used multiple case studies. Crabtree and Miller (1994) and Hurmerinta-Peltomaki and Nummela (2004) noted that qualitative data is often most appropriate in constructivist research. In addition, Singh (1981) and more recently Pisoni et al. (2010) have asserted that the issue of subsidiary autonomy requires the use of qualitative data in order to fully explore its complexities in detail. Birkinshaw and Hood (1997) and Dorrenbacher and Geppert (2009) identified the same need within subsidiary-head office relationship research. A qualitative research design was also selected because the current study wished to explore the role that autonomy plays in subsidiary initiatives and development, rather than test an existing framework or theory (Gordon & Langmaid, 1988; Miles & Huberman, 1994). In terms of the research strategy, Yin (2009) argued that a case study is most appropriate for studies like the current study which investigate a contemporary issue, and involve 'how' research questions. Ghauri (2004) noted that case studies also enable such studies to gain a deep understanding and clarify the issue of subsidiary autonomy, which is hard to quantify. Ghauri (2004) also identified that by employing a case study research strategy, the current study would be able to investigate this notion within its natural context, and also build theory rather than simply test it.

The current study employed a multiple case study design based on 10 cases so as to gain more thorough and robust inferences than could be obtained from a single case (Yin, 2009). The cases were selected using judgement (purposive) sampling, snowball sampling and opportunistic sampling techniques (Patton, 1990; Tharenou, Donohue & Cooper, 2007). In accordance with Yin (2009), the study employed both literal and theoretical replication of cases, with a particular focus on the latter strategy. This allowed the study to include four cases of service firms, so as to address the limited representation of service firms that existed in subsidiary autonomy research (Krishnan, 2006). Of the 10 cases, 6 involved interviews with the head office, 9 involved interviews with the subsidiary, and 5 incorporated the views of both the head office and the subsidiary. As noted by Brock and Paterson (2002), Tong et al. (2012) and Young and Tavares (2004), this allowed the current study to develop an in-depth knowledge of how subsidiary autonomy is understood and how it is negotiated.

The data for the study was collected through semi-structured, in-depth interviews with senior managers at both the subsidiary and head office level within the selected cases. In total, the study conducted 21 interviews. The interviews were conducted in Melbourne, either in person, over the phone, on Skype or on other online communication programs. This enabled the study to gain the views of respondents both from within Australia, and also from respondents in foreign head offices and subsidiaries. The interview data was supplemented by the addition of documentary evidence that was collected from newspaper articles, industry journals and company websites. The combined interview and secondary data was used to form a database for each firm. The interviews were based on open-ended questions and followed an interview protocol (see Appendix C). Once the data had been collected through the interviews and documentation, the study used a template approach to data analysis (Crabtree & Miller, 1992). This approach involved four steps: ‘immersion in the data’, ‘coding’, ‘creating categories’ and ‘identification of themes’ (Green et al., 2007). Open, axial and selective coding techniques were employed to extricate themes from the transcripts and other data sources (Strauss & Corbin, 1998). These themes were then analysed using pattern matching and explanation building to build an understanding of the issues raised by the research questions identified earlier in this chapter (Yin, 2009).

1.4. CONTRIBUTIONS OF THE STUDY

The first significant contribution of the current study is the development of a comprehensive understanding of subsidiary autonomy, its related concepts and perhaps most significant of all, the different types of autonomy. Thus far, most studies have focused only on a particular aspect or dimension of subsidiary autonomy, such as the influence of subsidiary autonomy on performance (Gammelgaard et al., 2012) or the determinants of autonomy (Chiao & Ying, in press; Pisoni et al., 2010; Tong et al., 2012). Additionally, the majority of studies have assumed there to be a single, generic form of autonomy. Yet Young and Tavares (2004) noted that more research was needed to explore the different facets of subsidiary autonomy, and reiterated the point of Brooke (1984) that viewing 'autonomy' as a broad concept is unsatisfactory. In particular, Young and Tavares (2004) noted that "information is lacking on the nature and extent of autonomy" (p. 231), and argued that further research was required to investigate the factors that determine the different types of autonomy. The need for further research to develop a greater understanding of subsidiary autonomy was recently reinforced by Tong et al. (2012), who stressed the need to "investigate the scope of subsidiary autonomy" (p. 22). This study addressed these research gaps by developing a detailed understanding of subsidiary autonomy that not only encompassed related concepts such as authority, but also recognised and applied terms to the different types of autonomy.

In order to develop such an understanding, the current study includes a second contribution: the incorporation of both head office and foreign subsidiary views in its findings. Previously, studies investigating subsidiary autonomy such as Gammelgaard et al. (2011), Pisoni et al. (2010) and Sargent and Matthews (2006) had only incorporated the views of the subsidiary while ignoring those of the head office. Miozzo and Yamin (2012) noted that this represented a significant limitation, since a foreign subsidiary's autonomy is often perceived differently from the head office perspective compared to the subsidiary perspective, even within a single MNE. Pisoni et al. (2010) asserted that this is particularly the case given the inherent subjective nature of interview-based, qualitative research, and consequently has led to a "non-convergence among the results" (p. 107). The current study therefore addressed the concerns of these authors and was able to develop a deeper, more comprehensive understanding of subsidiary autonomy than the previous research (Gammelgaard et al., 2011; Pisoni et al., 2010; Sargent & Matthews, 2006). In addition to extending the extant literature, the incorporation of both head office and foreign subsidiary perspectives also enhanced the validity of the current study.

By incorporating the views of both the head office and foreign subsidiaries and developing a comprehensive understanding of autonomy and its different forms, the study is then able to make a third key contribution. Gammelgaard et al. (2012) and Young and Tavares (2004) noted that within the subsidiary management literature, more research was particularly needed to explore "what type of autonomy is necessary to develop meaningful initiatives" (Young & Tavares, 2004, p. 231). In turn, a number of authors (Gammelgaard et al., 2011; Gammelgaard et al., 2012; Pisoni et al., 2010; Young & Tavares, 2004) have noted that additional research was required to determine the type of autonomy necessary to influence the subsidiary's contributory role through the subsidiary development process. Given that the current study is the first to fully investigate and assign specific terms to the two distinct types of subsidiary autonomy (in addressing Research Question 1), it was then able to address these two significant research gaps (through the combined findings for Research Question 2).

In order to address both Research Questions 1 and 2 (and thus the overall research problem), the current study makes a fourth key contribution: the integration of aspects from agency theory (Jensen & Meckling, 1976; Saam, 2007), the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1972; Burgelman, 1983a). While each of these theoretical perspectives offered important insights on their own, it was necessary to draw upon different aspects from each of them in order to fully understand the influence of the different types of autonomy on subsidiary initiatives and development.

The fifth contribution of the current study is the analysis of subsidiaries' autonomy across multiple value chain activities such as production, marketing and research and development (R & D). This is important because Young and Tavares (2004) and more recently Gammelgaard et al. (2012) and Pisoni et al. (2010) have noted the need to consider subsidiary autonomy in relation to different value chain activities, with previous studies (Collinson & Wang, 2012; Gammelgaard et al., 2011; Rugman & Verbeke, 2001; Vachani, 1999) indicating that a subsidiary's development behaviours may differ across value chain activities. Yet with the exception of studies by Collinson and Wang (2012) and Edwards, Ahmad and Moss (2002), the extant literature has only focused on autonomy within a single value chain activity function (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Couto et al., 2005; Ferner et al., 2004; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994; Takeuchi et al., 2008), or been conceptual in nature (Gammelgaard et al., 2011). The current study therefore extended the extant literature by gaining an understanding of how local environment factors may cause the different types of autonomy to vary across multiple value chain activities. This has a particularly significant implication for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), which previously assumed that local environment factors would have a consistent influence across the entire subsidiary.

1.5. OUTLINE OF THE STUDY

Following the completion of this introductory chapter, Chapter 2 presents a comprehensive and critical review of the extant subsidiary management literature relating to subsidiary autonomy. Chapter 2 first presents a background to the broad field of subsidiary management literature, including the evolution of different streams within this field. This leads to an evaluation of the literature concerning the notion of 'subsidiary autonomy' and its related concepts. Following this, the chapter reviews the literature specifically relating to the ability of this autonomy to influence first, the generation of subsidiary initiatives, and second, the process of subsidiary development. The main bodies of theory that are identified as being particularly relevant to these areas of research are agency theory, the network model of the MNE and the decision process perspective. It is through the process of extensively reviewing the literature that the current study developed two key research questions, listed previously in Section 1.1 of this chapter.

Chapter 3 outlines the methodological approach of the study. The chapter first establishes the advantages of employing a qualitative approach when investigating subsidiary autonomy. The chapter then outlines the importance of case studies, and the need to utilise a cross-case design to fully address the research objectives of the current study. The benefits of utilising semi-structured interviews and documentation as the methods of investigation are then delineated, before the chapter details the use of open, axial and selective coding as the method of data analysis. In addition, the chapter describes the cases under investigation and explains the criteria behind the selection of these cases.

Chapters 4 and 5 present the findings of the cross-case analysis for Research Questions 1 and 2 respectively. Each of these two chapters is comprised of two sections to address the (a) and (b) parts of each research question. The key themes and subthemes that emerged from the literature review and the data are then used as headings and subheadings within the chapters so as to clearly outline the contributions made by the findings in relation to the extant literature.

Chapter 6 outlines the key theoretical contributions of the study in relation to each of agency theory, the network model of the MNE and the decision process perspective. Finally, Chapter 7 outlines the theoretical, methodological and managerial contributions of the study. The chapter also includes a discussion of the limitations of the study and the suggested directions for future research. The outline of the study is shown in Figure 1.2.

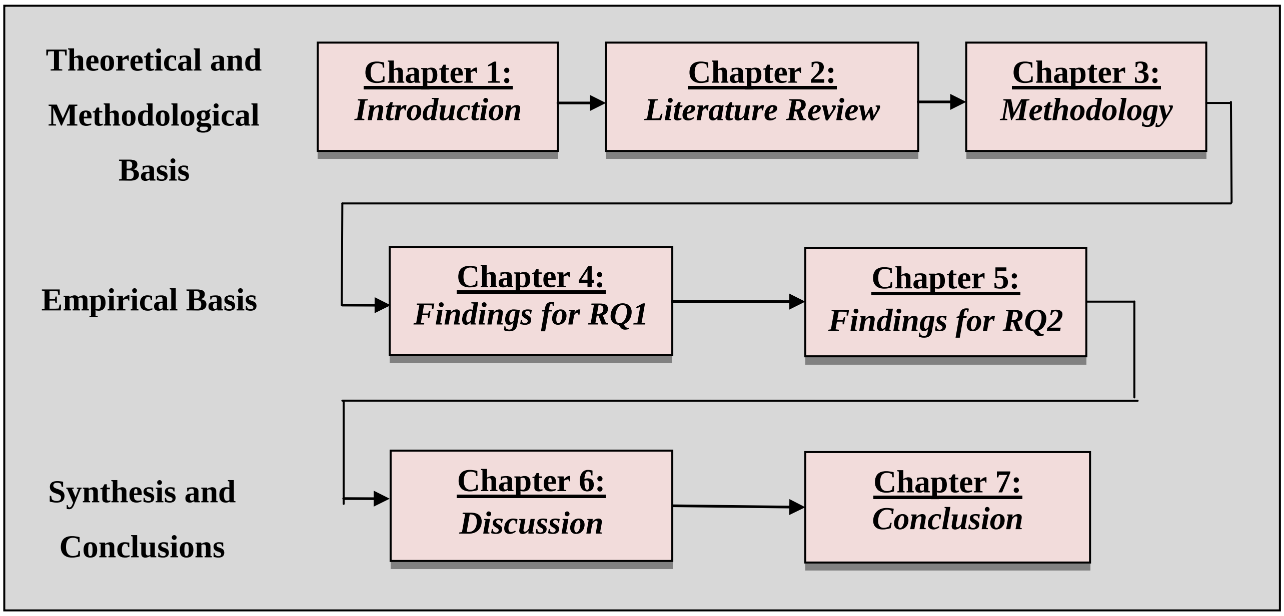

Figure 1.2: Structure of the thesis

1.6. SUMMARY

This chapter has both established the foundation of the study and also devised a guide for the remainder of the study. The chapter first provided a background to the study, and identified two key research questions and the key broad research problem. The chapter then outlined the research objectives, and provided a description of the methodology employed by the study so as to address these objectives. The intended contributions of the study were then delineated, and the structure of the remainder of the chapter was outlined.

2. LITERATURE REVIEW

2.1. INTRODUCTION

As identified in Chapter 1, the study's overall research problem is:

What role do the different types of autonomy play in subsidiary initiatives and role development?

With this in mind, the purpose of this following chapter is to critically review the extant literature on subsidiary management, with a particular focus on subsidiary autonomy and its role in the generation of subsidiary initiatives and the subsidiary development process. The chapter is set out in the following structure (as depicted in Figure 2.1). First, Section 2.2 delineates the increasing recognition of the significance of autonomy within subsidiary management literature, and highlights the need for further investigation into this complex issue. This includes defining the subsidiary, and an investigation of the perceived role of autonomy as a key factor in subsidiary role discussions and typologies. Following this, the literature relating to the notion of 'autonomy' in the context of the subsidiary is reviewed in Section 2.3. A current understanding of the term 'autonomy' based on the extant literature is established, with distinctions made between the types of autonomy across different value chain activities, and also in manufacturing organisations compared to service firms. Next, the relationship between autonomy and the related concept of 'decentralisation' is outlined, before the study then explores the distinction between the different types of autonomy. Subsequently, the limits on a subsidiary's assigned autonomy, as imposed by its designated level of authority, are examined. Following this, the chapter considers the role of autonomy in subsidiary role development in Section 2.4. To this end, the chapter explores how autonomy is linked to the entrepreneurial actions that may lead to subsidiary development called 'initiatives' in Sections 2.4.1 to 2.4.3. This concept is defined, and its precise role within the subsidiary development process is established. The section also examines the different types of initiative and the influence of the different forms of autonomy on these initiatives. This then leads on to the final part of the chapter (Section 2.4.4), which investigates the role of autonomy in subsidiary development. This includes an analysis of how autonomy influences the overall subsidiary development process and in particular, the role that autonomy plays as a potential driver of this process. Overall, this review of the extant literature resulted in the formation of two key research questions.

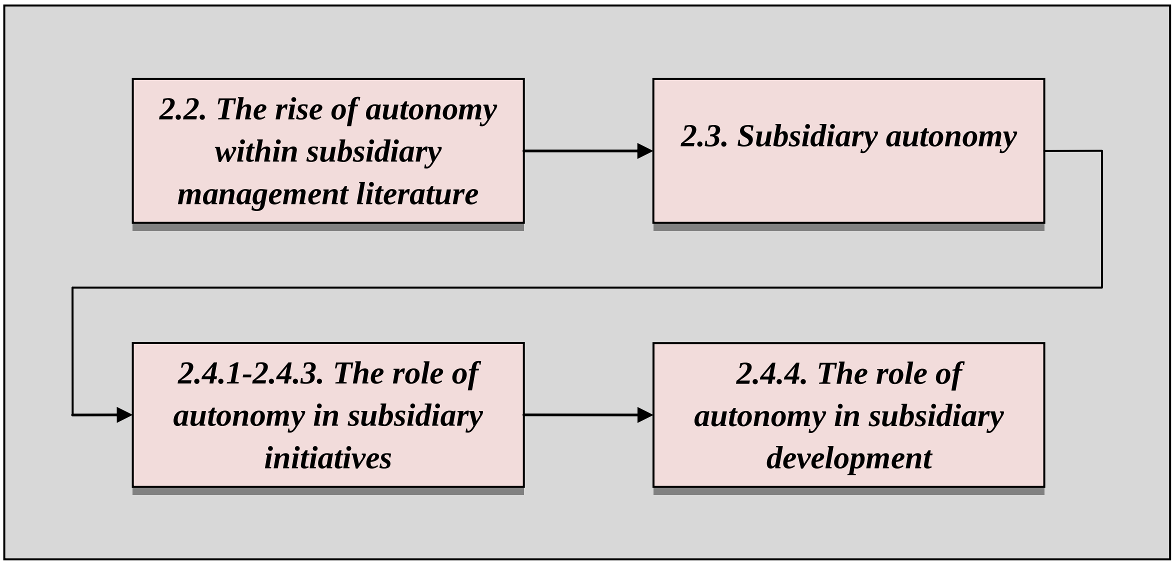

Figure 2.1: Structure of Chapter 2

2.2. THE RISE OF AUTONOMY WITHIN SUBSIDIARY MANAGEMENT LITERATURE

As stated in the Introduction in Chapter 1, the notion of 'autonomy' within subsidiary management literature is one which has featured prominently in recent research (Ambos et al., 2010; Ambos & Birkinshaw, 2010; Chiao & Ying, in press; Collinson & Wang, 2012; Dorrenbacher & Stephan, 2011; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Najafi-Tavani et al., 2012; Pisoni et al., 2010; Rabbiosi, 2011; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Tong et al., 2012). However, when considering the role that the different types of autonomy play in subsidiary initiatives and role development, one must first review the preceding subsidiary-management literature. This is necessary so as to gain an understanding of the unit of analysis in this study- the subsidiary. After a definition has been established for the term 'subsidiary', the literature review then develops an understanding of the accumulating significance of autonomy in the management of the subsidiary. Following this, the role that the subsidiary may perform within the MNE is explored, with particular detail given to the different role typologies that have emerged from the extant literature. Having investigated the subsidiary's role, the influence of autonomy on the development of that role is then briefly touched upon (a more detailed analysis will follow in Section 2.4 of this chapter). In addition to highlighting the increasing prominence of subsidiary autonomy as a topic of investigation, the following section also further emphasises the need for further research to fully understand it.

2.2.1. Defining the subsidiary

The definition attributed to the term 'subsidiary' is one that has changed frequently, and one that has varied significantly depending on the perspective of the author, even within the subsidiary management stream of literature. Authors such as Chiao & Ying (in press), Balogun et al. (2011), Pisoni et al. (2010), Sandvik (2010) and Delany (2000) have noted that from the 1950s until the emergence of subsidiary development literature in the 1990s, the subsidiary had been assumed to be subordinate to, and working under direct orders from, the head office. Much of the early literature within the subsidiary management field (Bartlett & Ghoshal, 1986; Jarillo & Martinez, 1990; Porter, 1986) adopted this viewpoint, suggesting that strategic decisions originate from the head office and are simply implemented by the subsidiaries. In this way, subsidiaries were seen as instruments of the parent company and were thought to carry out roles as assigned by the headquarters. Birkinshaw (1997, p. 207) therefore defined a subsidiary as "any operational unit controlled by the MNC and situated outside the home country". Although this definition is limited in that it does not account for subsidiaries that are located within the parent's home country (which are not the focus of the current study), it does include joint-ventures and crucially manages to avoid the artificial belief of a single, subservient parent-subsidiary relationship. Instead, it recognises that in reality, most MNEs today have a number of linkages with many other corporate entities (both in the home country and worldwide) that may influence, and be influenced by, the role of the subsidiary (Ghoshal & Bartlett, 1990). This recognition is a key aspect of the network model of the MNE, which is explained in greater detail in Section 2.4.5. Finally, it is worth noting that while many subsidiaries are established to perform the same value chain functions as the head office in a different location, others focus on specific functions. This is a particularly significant distinction in the current study, given that two of the cases' subsidiaries either were established purely to perform a particular value chain function (*Automation Plus'* Chinese subsidiary) or developed a speciality in a certain value chain function over time (*Strong-Weld's* Australian subsidiary). Subsidiary autonomy across value chain functions is discussed in greater detail in Section 2.3.2, while the current study's cases are outlined further in Section 3.6.

2.2.2. The perception of autonomy in early subsidiary management literature

The perception of a subsidiary's role has changed significantly over the last 50 years in subsidiary-management literature. Pisoni et al. (2010) echoed the earlier assertion of Birkinshaw and Hood (1998) that research on the management of the MNE subsidiary began in the 1970s. Since this period, Pisoni et al. (2010) and Paterson and Brock (2002) have identified four research streams within the wider subsidiary-management literature, namely Strategy-Structure, Headquarters-Subsidiary Relationships, Subsidiary Roles and Subsidiary Development. Each of these streams of literature has presented a different view of a subsidiary's role, and consequently, each has placed a different level of emphasis on subsidiary autonomy in the management of this role. As depicted in Figure 2.2, the recognition of the ability of the subsidiary to possess and display considerable amounts of autonomy has generally increased with each subsequent stream of literature. While the two latter streams form the major focus of this study, the following section briefly reviews the research relating to autonomy in the earlier literature.

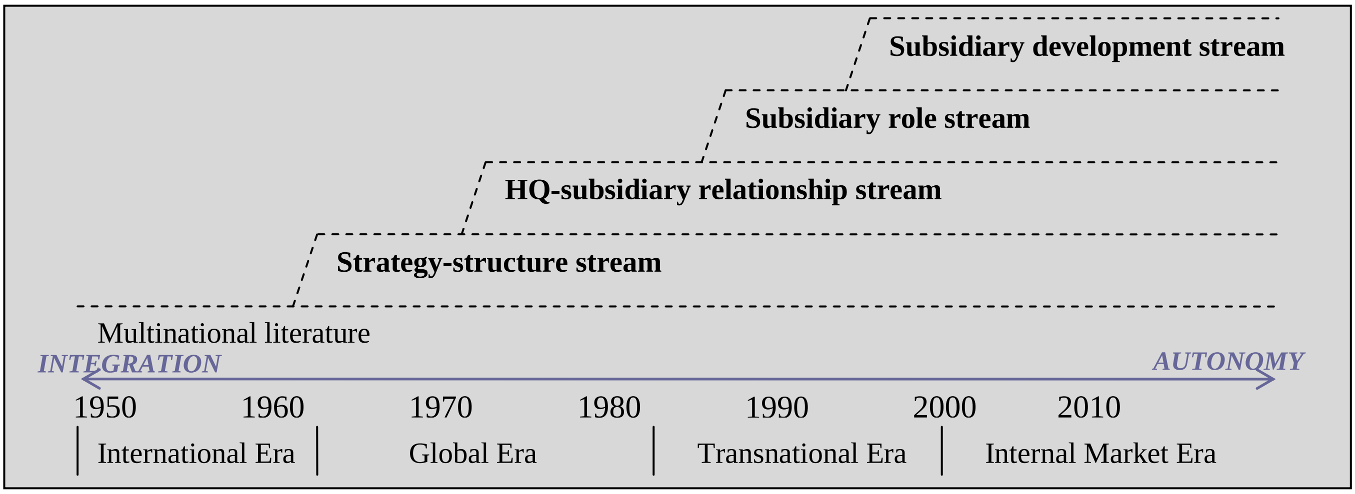

Figure 2.2: The increasing focus on autonomy in subsidiary-management literature

Adapted from Harzing (1999), Paterson and Brock (2002) and Pisoni et al. (2010)

The Strategy-Structure stream

The link between strategy and structure originated from the earlier literature on organisational management in the 1960s, and began to flourish at the beginning of what Harzing (1999) termed the 'Global Era'. The traditional structure for MNEs had been a confederation of country firms (Murtha, Lenway & Bagozzi, 1998). Within this arrangement, the home country assumed responsibility for the planning and initial manufacturing of products (Vernon, 1966). From this, literature began to focus on opportunities for centralization, formal control and organisation-wide strategies for cost minimisation (Fayerweather, 1969). Authors suggested that control over policy decisions should be moved to the regional (Williams, 1967), if not global (Buzzell, 1968), level. Others claimed that global standardisation of both product and image was becoming more pertinent (Dichter, 1962), while Clee and Sachtjen (1964) identified the responsibility for decision-making as being moved to higher levels of management. However, these initial authors within the Strategy-Structure stream, while identifying the importance of coordination and integration within the MNE, failed to recognise the potential benefits gained from a high degree of responsiveness to the local market.

Subsequent authors such as Bartlett and Ghoshal (1989) and Evans, Doz and Laurent (1989) began to recognise the importance for MNEs to simultaneously achieve integration and responsiveness within their global operations. Bartlett and Ghoshal's (1989) concept of the 'transnational organisation' represented the preferred organisational design for achieving these aims, and became one of the most significant notions of the stream. Importantly, the majority of the literature within the Strategy-Structure stream generally accepted Chandler's (1962) model of strategy and structure. This model implied that strategy (which incorporated levels of autonomy and centralization) was designed and determined by the MNE headquarters, and that the organisation's structure would be adapted to fit the chosen strategy. Despite the recognition of the importance of local responsiveness in a number of studies (Lee, 1965; Pryor, 1965), most still included little consideration for subsidiary-specific strategic directions. This resulted in analysis in this stream largely from the viewpoint of the MNE headquarters, which in turn emphasised issues such as efficiency and centralization (Fayerweather, 1969) and neglected the ability of the subsidiary to undertake strategic decisions and actions.

The Headquarters-Subsidiary Relationship stream

The Headquarters-Subsidiary Relationship stream began in the 1970s, and investigated aspects of the dyadic relationship between the subsidiary and the head office (Pisoni et al., 2010). Literature within this stream continued to focus on centralisation of decision-making (Gates & Egelhoff, 1986; Hedlund, 1981) and how best to integrate a portfolio of subsidiaries so as to maximise their value to the MNE headquarters (Picard, 1980). This stream coincided with the rise of globalisation literature in the late 1970s and early 1980s, which came to be regarded as the strategy of the future by authors such as Levitt (1983). At this stage, globalisation was viewed mainly from the perspective of headquarters, with the "efficient location of production, economies of scale and minimizing the duplication of activities" (Paterson & Brock, 2002, p. 152) representing the key motivators behind the globalisation of operations. As such, most of the globalisation literature (e.g. Levitt, 1983) failed to consider the provision of autonomy to subsidiaries in much detail.

However, a key feature of many other studies from the Subsidiary-Headquarters Relationship stream (Hulbert, Brandt & Richers, 1980; Prahalad & Doz, 1981) was the acceptance that subsidiaries *were* able to possess substantial autonomy and influence. As a consequence, headquarters were at least partially dependant on subsidiaries in decision-making and program implementation (Hulbert et al., 1980). The recognition of the heterogeneity of subsidiaries within the MNE was another vital attribute of the Headquarters-Subsidiary Relationship stream. In accordance with this acknowledgment and the work of proponents of the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990; Handy, 1992), it was noted that subsidiary-headquarters relationships may vary as a result of the subsidiary's environment (Hedlund, 1981), and that headquarters control techniques should vary depending on these factors (Bartlett & Ghoshal, 1986; Ghoshal & Nohria, 1989). However, Bartlett and Ghoshal (1986) noted that even by the mid-1980s, a number of MNEs continued to treat all subsidiaries alike. Furthermore, up until this time, the majority of subsidiary-management literature was limited by its depiction of the subsidiary-headquarters relationship as being static- that is, the balance of strategic power and influence were thought to remain constant over time.

In the following years, the dynamic aspects of the headquarters-subsidiary relationship were revealed. Prahalad and Doz (1981) proposed that headquarters' power over the subsidiary progressively obsolesces and that eventually, headquarters will strive to reassert their control. This theory of obsolescence was later supported by Ghauri (1992) and Forsgren, Holm and Johanson (1995) in their respective studies of Swedish multinationals' subsidiaries. Studies began to suggest, however, that headquarters were no longer able to exert control through formal control mechanisms or restrictions of autonomy (Herbert, 1999; Kim & Mauborgne, 1993; O'Donnell, 2000; Prahalad & Doz, 1981). At the same time, Paterson and Brock (2002) assert that this did not yet amount to support for autonomy, with Brandt and Hulbert (1976) claiming the surrendering of only 'perceived' power by headquarters. While it was not explicitly stated in the majority of literature, the primary goal of the MNE was still said to be one of control and integration (Paterson & Brock, 2002; Pisoni et al., 2010). Thus despite acknowledging the ability of the subsidiary to possess autonomy and influence within the MNE (Hulbert et al., 1980; Prahalad & Doz, 1981), literature within the Subsidiary-Headquarters Relationship stream still did not consider subsidiary-driven strategic decisions and actions.

2.2.3. The Subsidiary Role stream

As part of their review of the extant MNE literature, Dorrenbacher and Geppert (2009) incorporated a sociologist approach and noted that there is a long history of 'functional-structuralism' in international business research. According to this perspective, the function of the unit of analysis is the primary concern, with the enabling structure deduced from this function (Parsons, 1977). This functional-structuralism perspective is particularly apparent in the early subsidiary-management literature such as the Strategy-Structure and Headquarters-Subsidiary Relationship streams, with authors such as Vernon (1966), Johanson and Vahlne (1977) and Dunning (1979) viewing headquarters as the primary driver of subsidiary development. In this way, the headquarters were seen to determine the structural elements of the subsidiary so as to suit their desired function for the subsidiary. However, Dorrenbacher and Geppert (2009) noted that literature from the Subsidiary Role stream onwards, including studies by Balogun et al. (2012), Birkinshaw and Hood (1998), Collinson and Wang (2012), and White and Poynter (1984), has moved away from the functional-structuralist perspective by showing that the subsidiary, through its own strategy and initiatives, is able to drive the subsidiary development process.

With the increasing recognition of subsidiaries' ability to possess unique resources and considerable levels of autonomy, research in the mid-1980s began to focus on the potential strategic roles that they could fulfil within the wider organisation (Bartlett & Ghoshal, 1986). As highlighted by Pisoni et al. (2010), studies from the Subsidiary Role stream began to recognise that these unique resources and levels of autonomy resulted in subsidiaries being able to perform a variety of roles. Paterson and Brock (2002) noted that consequently, the unit of analysis in the Subsidiary Role literature shifted from the headquarters to the subsidiary, with the headquarters' influence representing an external factor. This represented a significant departure from the Headquarters-Subsidiary Relationship stream, which largely focused on the headquarters as the unit of analysis, with most studies from this stream (Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Picard, 1980) advocating the headquarters' need for control and integration. While efficient coordination of the subsidiary with the rest of the organisation remained an important aim, research now considered the interests of subsidiary management and its value to the network as a whole (Paterson & Brock, 2002). The Subsidiary Role stream coincided with the beginning of what Harzing (1999) described as the 'Transnational Era'. During the 1980s, authors began to view the MNE differently than in previous streams of literature, with the emergence of their conception as heterarchies, transnationals and networks (Pisoni et al., 2010). Within the Subsidiary Role stream, authors such as White and Poynter (1984) asserted that different subsidiaries within an MNE faced a diverse range of conditions and environmental factors, and as such actually necessitated subsidiary-specific administrative practices. Studies therefore considered differences in the subsidiary role within a single country (Jarillo & Martinez, 1990; Taggart, 1997) and across countries for a single MNE (Gupta & Govindarajan, 1991). In addition, studies within the Subsidiary Role stream also began to investigate the precise influence of the various local business environments and that of sister subsidiaries. This was in accordance with the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), which conceptualised the subsidiary as "a node within a complex network of relationships, both inside and outside the MNC" (Pisoni et al., 2010, p. 91). The significance of the network model of the MNE is outlined in greater detail later in this chapter.

In addition, a number of Canadian studies began to investigate the creation of World Product Mandates (WPMs) within subsidiaries (D'Cruz, 1986; Etemand & Dulude, 1986; White & Poynter, 1984). WPMs are defined as the entire development, production and marketing of a particular product line by an MNE subsidiary (Rugman & Douglas, 1986). As such, they require key functions such as R & D and strategic management to be located within that subsidiary (D'Cruz, 1986; Feinberg, 2000; Rugman & Douglas, 1986). Such WPM subsidiaries were seen to benefit from being both integrated within the MNE through the provision (often through exporting) of a particular product to other parts of the MNE, and also autonomous in that they enjoy a high degree of strategic independence over product-related decisions (Feinberg, 2000). Based on the decision process perspective (Bower, 1972; Burgelman, 1983a), the WPM studies proposed strategies for either local governments or the subsidiary itself to implement in an effort to acquire superior roles within the MNE. In a study of 445 Canadian subsidiaries, Feinberg (2000) found that obtaining a WPM resulted in increased reinvestment, a reduction in the risks of downsizing and importantly, greater decentralisation and autonomy. Further, WPM advocates such as White and Poynter (1984) revealed that such subsidiaries' primary objective was to justify their own existence, rather than simply improving efficiency (as argued by the headquarters perspective). This implied a substantial degree of autonomy on behalf of the subsidiary, and is representative of the increased prominence and general acceptance of subsidiary autonomy which had emerged within the literature in the Subsidiary Role stream. However, the studies advocating WPMs (D'Cruz, 1986; Etemand & Dulude, 1986; White and Poynter, 1984) have not been without criticism. Brock and Paterson (2002) argued that a number of these authors have not considered the position of headquarters, which are not always willing to accept such high levels of decentralisation. An additional limitation of WPM subsidiaries that has often been overlooked by its proponents is the considerable cost of establishing such a role due to, amongst other reasons, the costs of resource allocation (Birkinshaw, 1998) and the risk of failure. Furthermore, Rugman and Bennett (1982) argued that the number of WPMs that can be developed, and thus the success of the strategy overall, is likely to be limited, especially where the product is important to the MNE. Finally, and perhaps the most relevant criticism within the context of this study, WPMs fail to consider functional specialisation, where a subsidiary may hold expertise and a headquarters-assigned mandate in a specific function such as R & D, but not in others such as production (Birkinshaw, 1997; Feinberg, 2000). This is significant within the context of this current study because a number of extant studies (Collinson & Wang, 2012; Gammelgaard et al., 2011; Pisoni et al., 2010; Vachani, 1999; Young & Tavares, 2004) have suggested that the amount of autonomy that a subsidiary possesses may vary across different value chain functions. Gammelgaard et al. (2012) therefore noted that it is necessary to consider the ability of the subsidiary to specialise in a particular function and in some instances, attain a formal mandate within that area.

Many studies within the Subsidiary Role stream have also explored the Centre of Excellence (COE) role (Andersson & Forsgren, 2000; Frost, Birkinshaw & Ensign, 2003; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Gupta & Govindarajan, 1991). A Centre of Excellence may be defined as “an organizational unit that embodies a set of capabilities that has been explicitly recognized by the firm as an important source of value creation, with the intention that these capabilities be leveraged by and/or disseminated to other parts of the firm” (Frost et al., 2003, p. 997). Authors such as Bartlett and Ghoshal (1986), who established a subsidiary role typology based on the variables of subsidiary competence and strategic importance, have identified COEs as a way in which the wider corporation is able to take advantage of the unique resources of a subsidiary. In their review of the COE literature, Frost et al. (2003) were more specific, stating that COEs may be viewed as a form of ‘best practice’ that do not require a fixed location, but rather “represent the shared capabilities of a fairly small group of people” (Frost et al., 2003, p. 999). In their discussion of COEs arising from subsidiary specialisation, Gammelgaard et al. (2011) were even more direct. These authors stated that “as a result of this specialization, some subsidiaries will provide goods and/or services for all parts of the MNC or, at least, for large parts of it… Such subsidiaries are likely to operate within more narrowly defined areas of specialization” (Gammelgaard et al., 2011, p. 373). This conceptualisation solves the key limitation of much of the earlier COE literature (Bartlett & Ghoshal, 1986; Fratocchi & Holm, 1998; Holm & Pedersen, 2000; Surlemont, 1998), which viewed the subsidiary as a whole as the unit of analysis, and typically considered COEs as subsidiaries with responsibility for certain product areas or lines within the MNE, much in the same way as a WPM subsidiary. However, in a time when firms are creating COEs based around particular functional specialisations within subsidiaries, the subsidiary level is simply too aggregate a unit of analysis to form the basis of a valid definition (Frost et al., 2003; Gammelgaard et al., 2011). In this way, the notion of a COE as conceptualised by Frost et al. (2003) and Gammelgaard et al. (2011) is more precise than that of the WPM and addresses one of its key limitations through the acknowledgment of the possibility of functional specialisation within a subsidiary.

Subsidiaries or organisational units that fulfil the COE role have been shown to have the dual objectives of developing their skills and resources and also dispersing them throughout the wider organisation (Moore & Birkinshaw, 1998). However, Paterson and Brock (2002) noted that while literature widely agrees about the existence of

COEs and their benefits (Liebmann, 1996; Lyle & Zawacki, 1997), these studies have failed to consider the drawbacks involved with establishing COEs, such as the costs involved with the resulting resource reallocation within the MNE, and the reduced resource concentration in other subsidiaries.

Importantly in the context of this study, most of the discussion on COEs in the extant literature has implied at least some degree of autonomy for the subsidiary. For example, in their development of a subsidiary role typology based on knowledge flows, Gupta and Govindarajan (1991) suggested that the lateral independence of subsidiaries increases with the level of inflows and outflows, as happens with COEs. However, it must be noted that COEs are typically depicted as an attempt to exploit the efficiencies of certain locations and network integration (Andersson & Forsgren, 2000). Accordingly, the literature on COEs has retained a focus on headquarter benefits and integration (as in the earlier Strategy-Structure and Headquarters-Subsidiary Relationship streams) and neglected the strategic objectives and decisions of the subsidiaries themselves, including their desire for, and use of, autonomy. Further, some authors (Paterson & Brock, 2002) have argued that autonomy is not always necessarily indicative of a subsidiary's lateral independence, and therefore disputed the linkage between COEs and autonomy in the first place. Paterson and Brock (2002) claimed that the headquarter focus is a reflection of the fact that the talent and resource relocation (within the MNE) necessary to create a COE role can usually only be undertaken by the headquarters. This focus on headquarter benefits, coordination and integration is reinforced by the study of Frost et al. (2003) who, when investigating the major determinants of the attainment of COEs, found no relationship between subsidiary autonomy and achieving a COE role. This finding is in contrast with the previous findings of Crookell (1986) and Birkinshaw (1997), who had both established a link between autonomy and the development of COEs. A more recent study by Gammelgaard et al. (2011) found similar findings to Crookell (1986) and Birkinshaw (1997), identifying that autonomy can lead to subsidiary specialisation, which in turn can result in the subsidiary gaining a COE role. These conflicting findings led Gammelgaard et al. (2012) to suggest further research is needed to determine the precise influence of subsidiary autonomy on the achievement of subsidiary roles, such as COEs.

2.2.4. Subsidiary role typologies

In addition to exploring specific WPM and COE roles, a number of researchers have generated subsidiary role typologies (Bartlett & Ghoshal, 1986; Birkinshaw & Morrison, 1995; Prahalad & Doz, 1987; White & Poynter, 1984). While most focused on product flows within the organisation (eg. Kobrin, 1991), others have investigated the differences in subsidiary roles in terms of knowledge (Gupta & Govindarajan, 1991) and resource flows (Randoy & Li, 1998). These typologies have typically been conceptualised as second-order effects of strategies for managing international operations, with subsidiaries' types a reflection of their role within different international strategies (Enright & Subramanian, 2007). In this way, while the subsidiary is again the unit of analysis in the typologies, their role is simply an outcome of a headquarter-driven process. As a result, most typologies have overlooked the strategic considerations of the subsidiaries themselves. The proliferation of international strategy-based typologies (Bartlett & Ghoshal, 1986; White & Poynter, 1984) has reflected this, with the integration-responsiveness (IR) framework proposed by Prahalad and Doz (1987) being the most well-known. This IR framework is consistent with the key imperatives of the 'transnational organisation' (Bartlett & Ghoshal, 1989). The research on strategy-based classifications then led to the development of structure-based typologies, since the formulation of international strategy creates flow-on effects in relation to the configuration of the organisation's activities and resources. Authors such as Birkinshaw and Morrison (1995), Jarillo and Martinez (1990) and Taggart (1997) all incorporated structural elements into their role typologies.

Although the subsidiary roles have typically originated from the headquarters' international operations strategy, Paterson and Brock (2002) noted that almost all have acknowledged the significance of autonomy versus integration (or coordination) as a defining element of a subsidiary's role, either explicitly or implicitly (for example, in the typologies based on resource flows). This is reflected in a study by Manopoulos (2008), who reviewed and categorised the extant subsidiary role typologies. This study classified typologies as Scope Typologies (such as those of White and Poynter [1984] and Pearce and Papanastassiou [1996]), Knowledge-Related Typologies (such as those of Bartlett and Ghoshal [1989] and Birkinshaw and

Morrison [1995]), IR Typologies (such as those of Jarillo and Martinez [1990] and Taggart [1998]) or Autonomy and Procedural Justice Typologies (such as that of Taggart [1997]). While the Autonomy and Procedural Justice Typologies clearly distinguished between subsidiaries according to the level of autonomy they display, Manopoulos (2008) noted that even typologies that do not directly address the level of autonomy, such as that of Birkinshaw and Morrison (1995), still consider the degree of autonomy versus integration. Table 2.1 delineates the main extant subsidiary role typologies.

Table 2.1: Subsidiary role typologies

Authors	*Category*	*Empirical/ Conceptual*	*Level of Analysis*	*Sample*	*Variables*
White and Poynter (1984)	Scope	Conceptual	Subsidiary	Discussions with almost three dozen subsidiary managers	Product scope and market scope
Bartlett and Ghoshal (1986)	Knowledge-related	Empirical	Corporation	518 firms	Competence and strategic importance
Prahalad and Doz (1987)	Integration-responsiveness	Empirical	Corporation	Over 20 American, European and Japanese firms	Integration and responsiveness
Bartlett and Ghoshal (1989)	Knowledge-related	Empirical	Corporation	3 European, 3 American and 3 Japanese firms	Adaptation, coordination and use of competencies
Jarillo and Martinez (1990)	Integration-responsiveness	Empirical	Subsidiary	50 Spanish subsidiaries	Integration and localisation
Gupta and Govindarajan (1991)	Knowledge-related	Conceptual	Subsidiary	-	Knowledge outflows and inflows
Roth and Morrison (1992)	Integration-responsiveness	Empirical	Subsidiary	115 business units	Competencies and interdependencies

Authors	Category	Empirical/ Conceptual	Level of Analysis	Sample	Variables
Birkinshaw and Morrison (1995)	Knowledge-related	Empirical	Subsidiary	126 subsidiaries	Drawn from literature
Taggart (1997)	Autonomy-procedural justice	Empirical	Subsidiary	171 UK subsidiaries	Autonomy and procedural justice
Beechler, Bird and Taylor (1998)		Empirical	Subsidiary	147 Japanese MNE foreign subsidiaries	Dominant management perspective and size of changes (learning)
Randoy and Li (1998)	Knowledge-related	Empirical	Subsidiary	US MNE foreign subsidiaries in 25 industries	Resource inflows and outflows
Taggart (1998)	Integration-responsiveness	Empirical	Subsidiary		Integration and responsiveness
Solberg (2000)		Conceptual	Corporation	-	Market knowledge and autonomy
Enright and Subramanian (2007)	Scope and knowledge-related	Conceptual	Subsidiary	-	Capability creation, capability utilisation, geographic scope and product scope

Adapted from Cavanagh and Freeman (2012), Enright and Subramanian (2007), Manopoulos (2008) and Paterson and Brock (2002)

While most typologies have acknowledged (either explicitly or implicitly) the importance of autonomy as a defining subsidiary role variable, Enright and Subramanian (2007) noted that the vast majority are based on various dichotomous dimensions. Cavanagh and Freeman (2012), Birkinshaw et al. (1998) and Enright and Subramanian (2007) argued that this represents a significant limitation, as it is too simplistic to differentiate between subsidiary roles based on dichotomous, non-continuous dimensions. This is because subsidiaries are constantly developing factors such as their level of autonomy and consequently, their international responsibilities, in an ongoing manner. In other words, some subsidiaries will exhibit no forms of autonomy, others will display low levels of autonomy, while others will have developed a substantial amount of autonomy. The majority of extant subsidiary role typologies- with the minor exceptions of Jarillo and Martinez (1990) and Papanastassiou and Pearce (1994), which did consider changes in subsidiary role to a limited degree- are therefore restricted in their ability to fully explain the influence of autonomy on the subsidiary's contributory role, or the process by which the subsidiary obtains its role. A new stream of subsidiary-management literature was therefore created to explore the development process by which a subsidiary achieves and changes its role within the MNE- the Subsidiary Development stream.

2.2.5. The Subsidiary Development stream

As one of the key areas of research in this current study, the literature surrounding the topic of subsidiary development is fully reviewed in much greater detail in Section 2.4 later in the chapter. However, it is important at this point to briefly highlight the way in which the perception of- and attention given towards- subsidiary autonomy evolved in this stream. This is because in doing so, the following section will also emphasise the need for an even greater understanding of the concept of subsidiary autonomy, its related concepts and the role that it plays in subsidiary development.

Where previous streams within the subsidiary-management literature (including the Subsidiary Role stream) had assumed that a subsidiary's role was assigned by headquarters, studies from the Subsidiary Development stream recognised that the subsidiary itself is able to have a significant influence on its own development (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sargent & Matthews, 2006; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Tippermann, Sharkey Scott & Mangematin, 2012). In some instances, Paterson and Brock (2002) argued, this may be the case even in the absence of headquarters support. Like the Subsidiary Role stream, Subsidiary Development literature has adopted a predominantly subsidiary-centred perspective. However, where studies from the Subsidiary Role stream only sought to identify the actual contributory role that the subsidiary possessed within the MNE, authors within the Subsidiary Development stream (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sargent & Matthews, 2006; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) began to investigate the process by which subsidiaries obtained and extended their role within the MNE. Studies within this stream investigated how autonomy and proactive subsidiary management actions enable subsidiaries to increase their influence within an MNE (Dorrenbacher & Geppert, 2010; Forsgren et al., 1992; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) and facilitate the establishment of global mandates (Birkinshaw & Morrison, 1995; Gammelgaard et al., 2011; Gammelgaard et al., 2012).

The majority of the key studies from the Subsidiary Development Stream (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Collinson & Wang, 2012; Delany, 1998, 2000; Gammelgaard et al., 2011; Gammelgaard et al., 2012) have been strongly based on the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). This theory views the MNE as an interorganisational network of loosely related entities, with the subsidiary able to move from a position of subordination to headquarters to one of equality or even leadership. These studies (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Collinson & Wang, 2012; Delany, 1998, 2000; Gammelgaard et al., 2011; Gammelgaard et al., 2012) challenged the perceptions of subsidiary management from the earlier streams in two important ways. First, they questioned the rigid hierarchical organisational structure of MNEs in which all major strategic decisions are ultimately made by, or subjected to, the headquarters. Instead, authors such as Hedlund (1986) proposed a more lateral network of interdependent business units which consists of multiple ‘centres of excellence’ for respective value-adding activities within the MNE (Pearce, 2006). Second, and in accordance with the first development, studies such as Birkinshaw and Hood (1998), Balogun et al. (2011) and Cavanagh and Freeman (2012) recognised that subsidiaries were no longer passive recipients of predetermined mandates from the headquarters. Rather, they actively sought to develop their resources so as to enhance their value-adding role within the MNE. Authors such as Birkinshaw and Hood (1997, 1998), Holm and Pedersen (2000) and more recently, Dorrenbacher and Geppert (2010), Schotter and Beamish (2012) and Suwannarat and Leemanonwarachai (2012), have placed an emphasis on the proactive championing of subsidiary initiatives by subsidiary management, which as Section 2.4 outlines, involve a certain degree of autonomy.

As the notion of subsidiary autonomy has become a prominent issue within subsidiary management literature, likewise the need to fully understand it has also increased (Manopoulos, 2008; Sandvik, 2010). This research gap was first identified by Brock and Paterson (2002) who, in their comprehensive review of the subsidiary management literature, identified the development of a greater understanding of subsidiary autonomy as one of the key areas for future research in this area. This research gap has recently been reaffirmed by Pisoni et al. (2010) and Gammelgaard et al. (2011). Pisoni et al. (2010) noted that subsidiary autonomy has become one of the most important areas of research within international business literature. Gammelgaard et al. (2011) reinforced this sentiment, stating that “autonomy has been identified as one of the most important areas of research in terms of the relationship between subsidiaries and the competitiveness of MNCs” (p. 369). As outlined in the introduction of this chapter, there is a particular need to understand the precise role the types of autonomy may play in the subsidiary development process (Young & Tavares, 2004). In order to achieve this, a more comprehensive understanding is required of not only what constitutes subsidiary autonomy, but also of its different types and how it relates to associated concepts such as authority (Young & Tavares, 2004). The literature surrounding these matters and others relating to subsidiary autonomy is therefore reviewed in the following section.

2.3. SUBSIDIARY AUTONOMY

As stated previously, one of the key limitations of the majority of extant studies relating to subsidiary autonomy (Ambos et al., 2010; Balogun et al., 2011; Chiao & Ying, in press; Collinson & Wang, 2012; Gammelgaard et al., 2011; Gammelgaard, McDonald et al., 2012; Dorrenbacher & Geppert, 2009, 2010; Najafi-Tavani et al., 2012; Pisoni et al., 2010; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Tong et al., 2012) is that they viewed 'autonomy' as too broad a concept (Gammelgaard et al., 2011; Young & Tavares, 2004). In an effort to simplify the complexities and multidimensional nature of subsidiary autonomy, these authors have employed the generic term 'autonomy' when describing the constrained freedom or independence that a subsidiary may possess.

However, Tong et al. (2012), Young and Tavares (2004) and Brooke (1984) have noted that in order to fully understand the notion of subsidiary autonomy, one must go beyond such a vague representation and into greater detail. This necessitates investigating not only the different types of autonomy and the way in which they may vary both across, and within, MNEs, but also the many related concepts. For example, studies by Miozzo and Yamin (2012), Balogun et al. (2011), Gammelgaard et al. (2011), Sandvik (2010), Sargent and Matthews (2006) and Delany (2000) have claimed that rather than only being assigned to the subsidiary by the head office, autonomy may be developed beyond the formally assigned levels by the subsidiary itself. Yet despite this, none of these previous studies have explicitly differentiated between different *types* of autonomy. In addition, a number of studies (Collinson & Wang, 2012; Edwards et al., 2002; Gammelgaard et al., 2011; Rugman & Verbeke, 2001; Vachani, 1999) have indicated that rather than having an equal measure of autonomy across all the different value chain activities such as manufacturing, marketing and human resource management (HRM) (as implied by studies such as those of Couto, Vieira and Borges-Tiago [2005] and Takeuchi, Shay and Li [2008]), the amount of autonomy that a subsidiary possesses may vary from one function to another. Yet with the exception of the studies by Collinson and Wang (2012) and Edward et al. (2002), none of the extant literature has provided empirical evidence of such a variation in the levels of autonomy across value functions. The relationship between the types of autonomy and a number of key related concepts has also been overlooked by recent literature. The notions of decentralisation, which concerns the extent of decision-making power that is delegated to the subsidiary (Paterson & Brock, 2002; Gupta & Govindarajan, 1991), and subsidiary authority, which relates to the formally assigned limits of a subsidiary's autonomy (Chiao & Ying, in press; Gammelgaard et al., 2011; Gupta & Govindarajan, 1991; Mudambi, 1999; Young & Tavares, 2004), are crucial to developing a comprehensive understanding of subsidiary autonomy. However, these related concepts and their relation to autonomy have been neglected by the aforementioned subsidiary autonomy literature. Thus further research is needed to recognise and integrate not only the different types of autonomy, but also the key related concepts such as decentralisation and authority, in order to develop a more detailed knowledge of subsidiary autonomy. This in turn will then allow the study to investigate the role that the different types of autonomy play in subsidiary role development and initiatives.

2.3.1. Defining subsidiary autonomy

The first step in developing a comprehensive understanding of subsidiary autonomy is to establish a definition for the term. However, 'autonomy' as a concept is difficult to define, since it is comprised of a multitude of dimensions and its meaning varies according to the context in which it is applied. Within the subsidiary management literature, a number of authors have attempted to define 'autonomy'. Brooke (1984, p. 9) states that a subsidiary that displays autonomy is one which possesses "the ability to take decisions for themselves on issues which are reserved to a higher level in comparable organizations". Ambos et al. (2010, p. 1108) address the term directly, defining autonomy as "the extent to which the subsidiary managers are able to make decisions without headquarters' involvement". In her study of subsidiary management of US-based MNEs, O'Donnell (2000, p. 528) added a more specific scope, proposing that autonomy is "the degree to which the foreign subsidiary of the MNE has strategic and operational decision-making authority". Najafi-Tavani et al. (2012, p. 1694) also adopted a practical definition, viewing autonomy as "the extent to which subsidiaries are allowed to make decisions about their most strategically important activities or issues". Similarly, Ambos and Birkinshaw (2010, p. 453) stated that autonomy encompasses "hierarchical decision-making authority".

While these definitions are useful, they do not specify the way in which the subsidiary obtains its autonomy. A number of more recent studies have viewed autonomy as being only assigned to the subsidiary by the head office. Tong et al. (2012, p. 4) defined autonomy as "the degree of decision-making power authorized by a MNC to its subsidiaries", while Gammelgaard et al. (2012, p. 1162) viewed subsidiary autonomy as "the decision-making rights that are granted by parent companies". Similarly, Chiao and Ying (in press, p. 2) stated that subsidiary autonomy "refers to the decision-making limits allowed by the parent companies to improve the efficiency and flexibility of subsidiaries in dealing with the affairs of the host country". According to Young and Tavares (2004, p. 228), however, this view of autonomy as being only assigned by the head office is limited, and these authors instead propose that autonomy "concerns the constrained freedom or independence available to or acquired by a subsidiary, which enables it to take certain decisions on its own behalf". This definition built on that of Bjorkman (2003) and importantly, implies that a subsidiary may possess and utilise autonomy even if it has not been formerly granted to the subsidiary by the parent company. In this way, the autonomy may still be "available to" the subsidiary, even if it has not been "acquired" from the parent in a specific, formal process. A number of studies that have investigated autonomous, entrepreneurial actions by subsidiaries (Balogun et al., 2011; Birkinshaw & Hood, 1998; Dorrenbacher & Geppert, 2009; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) have found that subsidiaries are able to *extend* their autonomy beyond the formally assigned levels through their own actions. While these studies are discussed in greater detail in Section 2.4, they highlighted the need for further research to investigate- and distinguish between- the processes by which subsidiaries either are *allocated* autonomy, or *extend* their autonomy beyond the formally assigned level. This distinction is explored in Section 2.3.7.

A key feature of all the above definitions is their recognition of the agent-principal relationship between the subsidiary and head office, which is the core construct of agency theory (Jensen & Meckling, 1976). This theory views the organisation as a 'nexus of contracts' (Knapp & Dalziel, 2007; Maitland, 1994; Shankman, 1999), and focuses on the *agency relationship* as its unit of analysis. The 'agency relationship' may be defined as "a contract, under which one or more persons (the principal[s]) engage another person (the agent), to perform some service on their behalf which involves delegating some decision making to the agent" (Jensen & Meckling, 1976, p. 308). In the context of this study, the headquarters represent the principal, while the subsidiaries and their managers represent agents. This definition explicitly mentioned the *delegation* of decision making authority. This highlights that ultimately, the subsidiary is accountable for its actions (including any displays of autonomy) to the head office and is limited- at least in theory, if not practice, as Section 2.3.6 outlines- in these actions by its assigned level of authority. The link between autonomy and authority is explored further in Section 2.3.6.

While the definition offered by Young and Tavares (2004) addressed the limitations of earlier attempts by specifying the way in which the autonomy may be obtained, the definition did not outline the precise type of activities in which the subsidiary displays autonomous behaviour. As outlined in greater detail in Section 2.3.7, this is a significant omission as there may be a difference in perception between the head office and the subsidiary as to what actually constitutes 'autonomy'. In addition, a number of studies (Collinson & Wang, 2012; Gammelgaard et al., 2011; Pisoni et al., 2010; Vachani, 1999; Young & Tavares, 2004) have proposed that the amount of autonomy that a subsidiary possesses is not necessarily the same across all value functions within a subsidiary. The implications of these findings within the context of this current study are discussed in the following section.

2.3.2. Autonomy by value function

According to Porter's (1985) seminal work on firm competitive advantage, a firm (which in the context of this current study includes subsidiaries) should be viewed as a composition of a number of different functions which Porter termed 'value chain activities'. These value chain activities were classified as either 'primary' or 'support' activities (Porter, 1985). Primary activities are those that involve the physical creation of a product and its sale, and encompass:

Inbound logistics: the reception, warehousing, sorting, handling, stocktaking and transportation of goods;
Operations: all activities that convert the inflow of goods into end products, including machining, packaging, assembly, plant maintenance and testing;
Outbound logistics: the shipment, warehousing and physical distribution of products to buyers;
Marketing and sales: the advertising, promotion, choice of distribution channels and pricing of products; and
Service: all activities that maintain and enhance the value of the delivered product, including installation, repairs, training, spare parts and modification (Porter, 1985).

Support activities, on the other hand, are those that facilitate the primary activities, and comprise:

Firm infrastructure: activities relating to management, planning, finance, accounting, legal business, public sector-relations and quality management;
Human resource management: the recruitment, training, development and remuneration of all personnel;
Technology development: all activities that involve technological advancements to support the value chain activities, including research and development, process automation, design and redesign; and

Procurement: the purchasing of supplies, including raw materials, spare parts, buildings and machines (Porter, 1985).

In their review of autonomy-related international business literature, Young and Tavares (2004) suggested that the notion of autonomy may need to be redefined in relation to the different value chain functions. More recently, as part of their review of the literature relating to subsidiary autonomy, Gammelgaard et al. (2012) and Pisoni et al. (2010) again reiterated this as an area requiring further research. This is because some studies (Collinson & Wang, 2012; Edwards et al., 2002; Gammelgaard et al., 2011; Rugman & Verbeke, 2001; Vachani, 1999) have indicated that a subsidiary's development activities may differ across the value chain activities or functions. Particular attention has been paid in the extant literature to the prevalence of the subsidiary's decision-making autonomy within the functions of manufacturing, financing, marketing and especially human resource management (HRM) (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Collinson & Wang, 2012; Edwards et al., 2002; Fenton-O'Creevy, Gooderham & Nordhaug, 2008; Ferner et al., 2004; Ferner et al., 2011; Gammelgaard et al., 2011; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994). The combined results of these studies indicated that the tendency towards subsidiary autonomy is higher in operational areas, such as HRM, than in more strategic areas, such as finance and R & D (Vachani, 1999).

More specifically, a study by Couto et al. (2005), which looked at the amount of decision-making autonomy within the marketing activities of 195 subsidiaries in Germany, France, Portugal, Sweden and the United Kingdom, found high levels of autonomy in relation to 'production operations' on marketing activities (such as advertising and public relations), and low levels in relation to R & D of those activities. In addition, a study by Takeuchi et al. (2008) focused on the HRM activities of mainly Western-country subsidiaries in 82 different host countries, including Indonesia, China, Malaysia and Thailand. Based on a survey of 187 expatriate general managers and 24 corporate headquarter executives from the global hotel industry, the study revealed a high degree of autonomy in the subsidiaries' HRM activities, particularly through the assignment of decision-making autonomy to expatriate managers.

However, with the exception of the study by Edwards et al. (2002), that investigated the extent of autonomy across numerous value functions in 71 foreign-owned Malaysian subsidiaries, and also the study by Collinson and Wang (2012), that compared the levels of autonomy across a variety of value functions within five Taiwan-based subsidiaries in the semiconductor industry, the extant literature on value function-specific autonomy has either only focused on a subsidiary's level of autonomy within a single value chain function (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Couto et al., 2005; Ferner et al., 2004; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994; Takeuchi et al., 2008), or been conceptual in nature (Gammelgaard et al., 2011). These studies are therefore unable to provide a comprehensive understanding of the amount of autonomy that a subsidiary as a whole may possess, and also failed to provide a comparison of the different amounts of autonomy in each value function. This current study therefore considers the subsidiary's aggregate level of autonomy by examining its autonomy across all of the value functions.

2.3.3. Autonomy by business type- service versus manufacturing firms

When exploring the concept of subsidiary autonomy and in particular, its role in the subsidiary development literature, Krishnan (2006) noted that the majority of extant studies have focused on manufacturing subsidiaries and their challenge of balancing the dual aims of responsiveness to local product tastes and requirements, and also the efficiencies of scale and integration within the wider corporation (Barlett & Ghoshal, 1989). This was recently supported by Najafi-Tavani et al. (2012), who identified that while autonomy has been shown to generate knowledge development capability in manufacturing subsidiaries, its influence on service firm subsidiaries has yet to be established. As recognised by Boojihawon et al. (2007), this focus on manufacturing subsidiaries has extended throughout the wider subsidiary management stream of literature, with Manopoulos (2008) specifically identifying that a key limitation of the vast majority of subsidiary role typologies (as outlined previously in Section 2.2.4) is that they are based primarily on manufacturing subsidiaries. Of the extant literature that has examined subsidiary autonomy, only a small number of studies appear to have deliberately focused on subsidiaries of service firms. These include one by Najafi-Tavani et al. (2012) that investigated the role of autonomy in knowledge development in 184 UK-based subsidiaries in the knowledge-intensive business service (KIBS) sector; another by Takeuchi et al. (2008), which investigated autonomy amongst individual subsidiary managers in the global hotel industry; and finally, that of Boojihawon et al. (2007), which focused on the autonomy and entrepreneurial culture of subsidiaries in the advertising industry in the United Kingdom. Miozzo and Yamin (2012) thus noted that further research is required in order to develop a greater understanding of not only the management of subsidiaries of MNEs in service industries, but in particular the prevalence and types of autonomy within such subsidiaries.

This latter area is of particular interest to this current study, as Miozzo and Yamin (2012) claimed that the desired level and type of autonomy for a subsidiary of a service firm may be different to that of a manufacturing firm's subsidiary. According to Miozzo and Yamin (2012), this is due to four key characteristics of service firms: intangibility of their products, simultaneity of production and consumption, their heterogeneity and the effects of regulation. First, because the 'products' of service firm subsidiaries are intangible, there is less concern over globally-consistent branding or economies of scale. This often means that the subsidiary is permitted more autonomy than those of manufacturing firms. Second, the simultaneity of production and consumption of service firm products means that no two services can be supplied in exactly the same way. Thus autonomy is often required by service firm subsidiaries so as to ensure each service can be tailored to suit each purchaser and situation. Third, service firm subsidiaries tend to offer customised services for their customers and differ significantly from subsidiary to subsidiary, which means they require a greater deal of autonomy than manufacturing subsidiaries producing standardised products. Finally, subsidiaries of service firms generally need to offer a service that is specifically tailored to local economic and legal requirements. This study will therefore consider the nature of autonomy in both service and manufacturing firm subsidiaries by incorporating the views of both types of MNEs.

2.3.4. The determinants of autonomy

A number of studies (Chiao & Ying, in press; Pisoni et al., 2010; Tong et al., 2012) have also attempted to gain a greater understanding of subsidiary autonomy by exploring its determinants. The study by Pisoni et al. (2010) investigated the determinants of Italian MNE subsidiaries' autonomy as part of a study on the effect of the subsidiary-head office relationship on internationalisation. Based on a review of the literature relating to subsidiary autonomy, Pisoni et al. (2010) first classified the determinants of subsidiary autonomy as either 'entire company level' or 'subsidiary level' variables. Entire company level determinants included such things as interdependence, firm size, product diversification and entry strategy. Subsidiary level variables included such things as subsidiary size, age, performance and geographic distance. These determinants are shown in Figure 2.3. The study of Pisoni et al. (2010) then empirically investigated the influence of many of these determinants of subsidiary autonomy, with the findings revealing factors such as the subsidiary's age and entry mode as key factors in determining a subsidiary's level of autonomy in Italy.

The study by Tong et al. (2012), on the other hand, explored the determinants of MNE subsidiaries in China. The study, which surveyed 132 high-level managers within Chinese subsidiaries of foreign MNEs, sought to identify the role, autonomy and relationship with their respective head offices of these subsidiaries. Tong et al. (2012) identified a number of factors as being significant determinants of subsidiary autonomy, including the HQ-subsidiary dyadic relationship, the subsidiary-MNE dependence, the subsidiary's resources and the subsidiary's network. These factors are incorporated into Figure 2.3 and combined with those determinants identified by Pisoni et al. (2010). The study of Chiao and Ying (in press) also explored the determinants of subsidiary autonomy, albeit within a more limited scope. The study examined a sample of 1473 Taiwanese manufacturing firms, and investigated the determinants of subsidiary autonomy from a network model (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) perspective. The study of Chiao and Ying (in press) reinforces the importance of the network model of the MNE within subsidiary management literature. Chiao and Ying (in press) supported the view of Gammelgaard et al. (2012), Pisoni et al. (2010 and Ghoshal and Bartlett (2005) that subsidiaries represent a node within a network of relationships both inside (with actors such as the head office and other subsidiaries) and outside (with actors such as customers, suppliers and competitors) of the MNE. Based on these theoretical underpinnings of the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), the study of Chiao and Ying (in press) found that a more external network range and stronger external network strength leads to greater autonomy in subsidiaries than a more internal network range and stronger internal network strength. This finding is also represented in Figure 2.3, and incorporated with the findings of Pisoni et al. (2010) and Tong et al. (2012).

While the studies of Pisoni et al. (2010), Tong et al. (2012) and Chiao and Ying (in press) offer valuable insights into the extant understanding of subsidiary autonomy by investigating its determinants, the current study will not focus on further exploring these determinants. This is because not only has this area of research been already extensively and thoroughly addressed by the aforementioned authors (Chiao & Ying, in press; Pisoni et al., 2010; Tong et al., 2012), but these authors themselves conceded that future subsidiary autonomy research should be directed in other areas. For example, the study of Pisoni et al. (2010) stated that future research should investigate how subsidiary autonomy influences the achievement of subsidiary roles through the process of subsidiary development. Similarly, Chiao and Ying (in press) argued that future research should explore the outcomes, rather than antecedents, of subsidiary autonomy. At the same time, Tong et al. (2012) noted that future research should focus on what precisely falls within the scope of subsidiary autonomy. These areas of research will all be investigated as part of the current study.

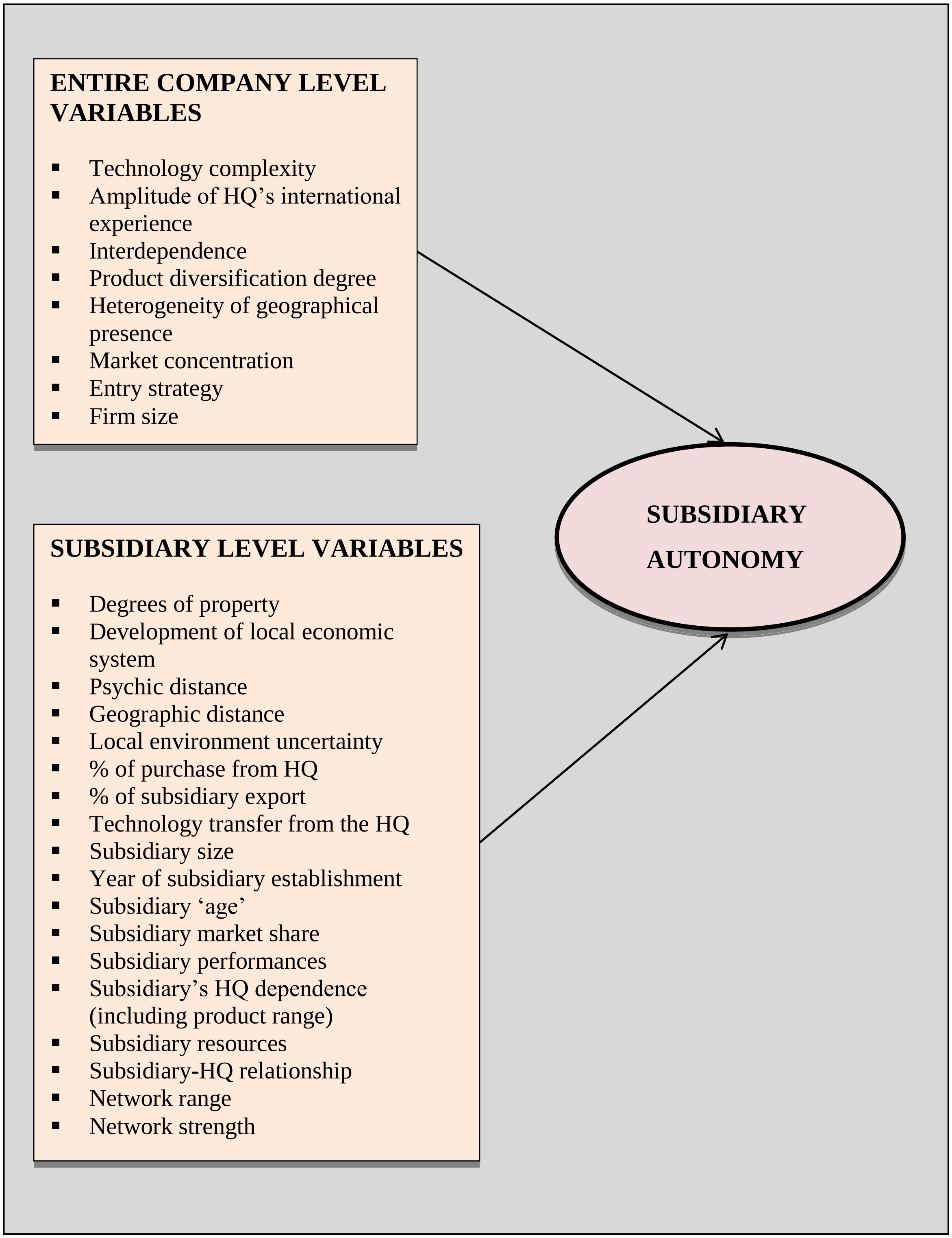

Figure 2.3: The determinants of subsidiary autonomy

Source: Chiao and Ying (in press), Pisoni et al. (2010) and Tong et al. (2012)

2.3.5. Autonomy and decentralisation

Before considering the different types of autonomy, it is worth considering the distinction between autonomy and some related concepts, such as 'decentralisation' in MNEs. While Brooke (1984) used the terms interchangeably, a key difference between the two has been established. Paterson and Brock (2002) asserted that the level of decentralisation is concerned with the extent to which decision-making is concentrated in a single location or diffused throughout the wider organisation, while the level of autonomy is said to refer to the extent of decision-making authority (Brock, 2003). An important contribution to the current understanding of decentralisation was made by Gupta and Govindarajan (1991, p. 785) who, in their subsidiary role typology based on the extent of knowledge inflows and outflows to and from the subsidiary, defined 'decentralisation' as "the extent of decision-making authority that is delegated to the general manager of a subsidiary by corporate superiors". Thus it is implied that the extent of decentralisation within an MNE is entirely determined by the head office, while autonomy may be either delegated by the headquarters or developed by the subsidiary (Chiao & Ying, in press; Dorrenbacher & Geppert, 2010; Miozzo & Yamin, 2012; Young & Tavares, 2004). The use of the word 'authority' is also a key element of the above definition by Gupta and Govindarajan (1991), in addition to the definitions for 'autonomy' offered by O'Donnell (2000), Ambos and Birkinshaw (2010) and Tong et al. (2012). This highlights the need to understand the notion of a subsidiary's authority, particularly in relation to its level of autonomy.

2.3.6. Autonomy and authority

A number of studies (Chiao & Ying, in press; Gammelgaard et al., 2011; Gupta & Govindarajan, 1991; Mudambi, 1999; Young & Tavares, 2004) have considered the term 'authority'. In an empirical study of the strategic independence of 85 United Kingdom MNE subsidiaries, Mudambi (1999, p. 199) defined 'authority' as the "extent of responsibilities". While authors such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) did not differentiate between 'autonomy' and 'authority', others such as

Gupta and Govindarajan (1991) and Young and Tavares (2004) have attempted to make a distinction between the two, and stated that “authority concerns the defined limits within which autonomy may be pursued at subsidiary level” (Young & Tavares, 2004, p. 229). According to the latter view, a subsidiary may possess autonomy, but this autonomy will be limited (through the subsidiary’s defined level of authority) to a particular scope, be it geographic, product-related or otherwise. Also implicit in the definitions of Mudambi (1999), Tong et al. (2012) and Young and Tavares (2004) is the assertion that authority is defined by the headquarters and assigned to the subsidiary.

The recognition of an imposed limit to a subsidiary’s autonomy through its authority is significant, as it effectively provides a ‘cap’ for the amount of autonomy that a subsidiary may develop. If a subsidiary’s decisions and actions are constrained by its authority (as defined by the headquarters), then it follows that there must also be a point beyond which a subsidiary, as part of the MNE, is simply not permitted to act by the headquarters. While this viewpoint has not been expressed explicitly in extant literature, it also follows that subsidiaries that do engage in autonomous actions beyond their limit of authority face negative consequences for doing so.

Although it did not explicitly set out to explore the limit of subsidiaries’ authority (and thus autonomy), a study by Delany (2000), which examined the proactive, autonomous actions of 28 Irish MNE subsidiaries, revealed that having ‘too much’ autonomy can disadvantage a subsidiary. In this study, a number of Irish subsidiaries indicated that a greater level of autonomy coincided with a reduced strategic importance and lower integration within the MNE. The case of a particular electronics manufacturing subsidiary from this study (Delany, 2000) represented a particularly good illustration of the dangers of ‘too much’ autonomy. This subsidiary found itself providing ‘non-core’ business activities within the corporation following a takeover of its former parent by another MNE. Since the subsidiary was performing well, the new parent company decided against divesting it, and instead provided the subsidiary with a high degree of autonomy to continue its existing business activities. This resulted in short-term advantages, with the subsidiary able to address specific end-customer needs. However, this assigned autonomy also led to extreme difficulties in attracting long-term investment from the parent, with subsidiary management not having any influence over headquarters' decision making due to its lack of integration with 'core activities'. Consequently, the subsidiary was eventually divested. This case highlights that even formally assigned autonomy can in some cases represent a substantial *disadvantage* to subsidiaries. This finding contrasts with those in a number of other studies, including Dorrenbacher and Geppert (2010), Sandvik (2010), Sargent and Matthews (2006) and Birkinshaw and Fry (1998), which indicated that rather than being disadvantaged, subsidiaries may instead benefit from engaging in autonomous actions beyond their assigned level of authority. The current study will therefore investigate not only the benefits of engaging in such autonomous actions, but also the potential disadvantages.

2.3.7. Different types of autonomy

The previous section has shown that the head office of an MNE will attempt to install a limit on the amount of autonomy that a subsidiary may possess by assigning it a level of authority. However, as implied by the definition of autonomy proposed by Young and Tavares (2004), there may in some instances be a difference between the amount of autonomy available to- or possessed by- the subsidiary, and the level of autonomy that has been formally and explicitly assigned to it by headquarters within its level of authority. Early research in particular (Hedlund, 1981; Picard, 1980; Vernon, 1966) adopted the viewpoint later expressed by Mudambi (1999), with autonomy being purely *assigned* to the subsidiary. According to this view, the amount of autonomy available to the subsidiary was determined by how much was formally allocated by the MNE headquarters. This perspective is demonstrated by Taggart (1997, p. 55), who devised a subsidiary strategy typology based on the dimensions of autonomy and procedural justice, and suggested that autonomy "may be regarded as a decision-making process that evolves through bargaining between centre and periphery in an organisation". More recently, this view was exemplified by the study of Gammelgaard et al. (2012, p. 1162), which defined subsidiary autonomy as "the decision-making rights that are granted by parent companies". The studies of Suwannarat and Leemanonwarachai (2012) and Chiao and Ying (in press) also used the term 'grant' when describing autonomy as being given to the subsidiary by the head office. A more specific interpretation of this view of autonomy was displayed by Birkinshaw and Ridderstrale (1999), who conducted 44 case studies of initiatives (both successful and unsuccessful) by Canadian subsidiaries. These authors argued that autonomy in the form of such things as higher value-adding roles is usually formally assigned by the headquarters. This argument was also put forward by Young and Tavares (2004) in their review of extant literature on subsidiary autonomy. However, the assumption that autonomy may only be assigned by the headquarters has little empirical support, with Young and Tavares (2004, p. 228) even conceding that there is "limited direct evidence on this subject" (the sources and in particular, the types of subsidiary autonomy). Furthermore, these aforementioned studies (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997) did not consider the ability of the subsidiary to engage in autonomous actions without being formally assigned autonomy- that is, beyond their level of authority. This oversight, combined with the limited current evidence on how a subsidiary acquires its autonomy, highlights the need to investigate the different forms of autonomy and how they are developed.

A small number of key extant studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren, Pedersen & Foss, 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) have investigated the possibility of a subsidiary engaging in autonomous actions beyond its authority without the formal assignment of autonomy. The first such study was that of Birkinshaw and Hood (1998), which explored the subsidiary evolution process and its drivers in a conceptual paper. These authors argued that autonomy may not only be explicitly assigned to the subsidiary, but can also be taken on without being formally granted by the head office. While the drivers of subsidiary development will be discussed at length later in this chapter, it is worth noting here that a study by Forsgren et al. (1999) refuted the findings of Birkinshaw and Ridderstrale (1999) that autonomy in the form of higher value-adding roles is usually assigned by the headquarters. Instead, the study by Forsgren et al. (1999, p. 184), which investigated the factors that influenced the success of Danish MNE subsidiaries, found that “a subsidiary’s strategic role is not only, and perhaps not primarily, a consequence of a formal decision at headquarters level”. These studies thus began to implicitly acknowledge that in addition to a subsidiary being given the power by headquarters to engage in autonomous actions within the scope of its authority (as indicated by earlier studies), it may also in some instances take it upon itself to engage in autonomous actions that fall beyond the extent of its authority. In this way, a subsidiary’s autonomy could be seen to be either allocated from the head office, or developed further by the subsidiary. However, despite this important acknowledgement, the studies of Birkinshaw and Hood (1998) and Forsgren et al. (1999) featured two major limitations in the context of this study. First, despite the study of Forsgren et al. (1999) being empirical in nature, neither provided direct support for a subsidiary’s ability to specifically develop autonomy that is beyond its formally assigned level of authority. Second, neither study considered the role of the parent company in facilitating the development of such autonomy by the subsidiary.

The findings of Birkinshaw and Hood (1998) and Forsgren et al. (1999) were recently reiterated and expanded upon by the study of Dorrenbacher and Geppert (2010). This study involved a multiple case study based on four German subsidiaries in France, and explored the personal motives of subsidiary CEOs for undertaking initiatives in order to extend the subsidiary’s mandate or role. The study of Dorrenbacher and Geppert (2010) built on that of Morgan and Kristensen (2006), who conceptualised subsidiary managers as either ‘global subsidiary managers’ or ‘boy scouts’, or ‘local subsidiary managers’ or ‘subversive strategists’. Dorrenbacher and Geppert (2010) extended these perspectives to the context of subsidiary initiatives, and identified that subsidiary CEOs followed two generic approaches to gain the resources needed for their initiatives. First, subsidiary CEOs could lobby the head office for the resources to be assigned to them. Second, and more importantly within the context of this current study, the subsidiary CEOs could independently develop the necessary resources locally within their subsidiary or in the local environment through coalitions with local environment groups. This latter approach implied the subsidiary engaging in autonomous actions beyond its direct authority in order to develop resources. According to Dorrenbacher and Geppert (2010), a subsidiary

CEO may adopt this approach due to a number of factors, including a strong career aspiration, access to local resources, and specific skills to form internal and local coalitions. While the study of Dorrenbacher and Geppert is therefore significant in its documenting of subsidiaries engaging in autonomous behaviours beyond their authority and also providing explanations as to why this may be so, it was also limited within the context of the current study. For while it recognised the specific ability of the subsidiary to develop resources, it did not directly address the issue of subsidiary autonomy or its different types.

Perhaps the best illustration to date of the existence of- and in some instances, need for- subsidiaries extending their levels of autonomy beyond their authority is provided by Sargent and Matthews (2006), who investigated the importance of subsidiary initiative in 50 Mexican subsidiaries (subsidiary initiative is discussed in Section 2.4). The findings of the study revealed that many subsidiaries were able to- and in some instances, forced to- develop their role within the MNE through proactive, entrepreneurial actions. This autonomous development was achieved even in the face of apathy and in some cases direct opposition from headquarters. One Mexican subsidiary manager, for instance, made a bid to the head office for his plant to be assigned autonomy in the form of design responsibilities, only for this appeal to be refused by the Japanese parent. So the subsidiary manager instead sent a small team of engineers to Japan to learn the design process, and once they returned instructed them to establish an unofficial design centre. Ten years later, the subsidiary was assigned a formal design role after the Japanese headquarters recognised the value of the design expertise it had developed (Sargent & Matthews, 2006). A similar occurrence was observed by Birkinshaw and Fry (1998) in their study of a Scottish automatic teller machine manufacturer, and also by Kristensen and Zeitlin (2005) in their study of Danish, British and US subsidiaries of a British engineering MNE. An additional Mexican subsidiary manager from the study of Sargent and Matthews (2006) demonstrated an extension of his autonomy beyond his authority when responding to the question of whether or not his subsidiary was conducting design work: “According to corporate we’re not, but unofficially yes” (p. 241). Another subsidiary manager went further, engaging in autonomous actions that were not just beyond the assigned level of authority, but were actually in direct contradiction to his orders from the head office. These actions involved taking control of a supply chain when headquarters had expressly told it not to. The subsidiary manager argued that "it's better to apologize rather than ask permission" (Sargent & Matthews, 2006, p. 241), and claimed that this move had improved the subsidiary's profitability and value within the MNE.

The study by Delany (2000), despite revealing the potential dangers for a subsidiary of possessing too much autonomy, also obtained similar findings to Sargent and Matthews (2006), with many MNE headquarters seen to be hostile to subsidiary initiatives and keen to severely control the subsidiary's operations. Delany (2000) found that in response to this corporate attitude, a number of subsidiaries displayed autonomy beyond their authority by deciding to engage in skunkworks-type activities in order to keep the 'perceived risk' of such initiatives at the corporate level low. The subsidiaries often subsequently sought to have their initiatives legitimised after demonstrated successes. Delany (2000) noted that this final step is especially necessary when the subsidiary is driving mandate expansion; if the head office does not legitimise a display of such autonomy, the initiative will be seen as lying beyond the subsidiary's limit of authority and will often not be allowed. The importance of this legitimisation of autonomous displays was demonstrated by the case of an Irish consumer healthcare subsidiary of a US parent company, which identified a product development opportunity, but believed it would be ignored by the head office. The subsidiary therefore established a small product development unit without the head office's knowledge by using a budget provided by headquarters for manufacturing engineers to hire development engineers. The unit successfully developed the product and, upon subsequent presentation of this product to the head office, was formalised and expanded (Delany, 2000).

In contrast with these cases of proactive, highly-driven entrepreneurial actions, Sargent and Matthews (2006) revealed that subsidiary management may occasionally be *forced* to assume its own autonomy due to a lack of corporate support. One subsidiary manager told of how the parent company did not inhibit the development of its contributory role, but did not support it through formally assigned autonomy either (Sargent & Matthews, 2006). Thus the responsibility to develop the contributory role fell on the subsidiary management, which led to the subsidiary having to assume its own autonomy. This case highlighted that not all autonomous subsidiary actions performed without specific consent from the parent company will result in the subsidiary acting against the wishes of headquarters or contradicting its charter.

Indeed, based on the findings of Delany (2000), it is often in the best interests of the MNE for the headquarters to facilitate a setting in which the subsidiary feels free and able to pursue autonomous actions beyond their formally assigned charter or level of authority. Delany (2000) argued that parent companies should stop punishing and start rewarding those subsidiaries that engage in autonomous actions beyond their authority. The study based this argument on the findings that such actions may add value to the overall MNE (Delany, 2000). The author asserted that while “many parent offices will be initially negative about the type of subsidiary initiative-taking described in this article” and “subsidiaries will be seen as out of control, not complying with the parent’s requirements, and serving their own interests…competition in all industries is now so intense that creativity and initiative-taking is required throughout the organization” (Delany, 2000, p. 240).

An alternate perspective that has received little attention in the extant literature (Sandvik, 2010) is that parent companies are already intentionally providing subsidiaries with sufficient scope to pursue proactive actions beyond their formally assigned authority. According to this perspective, the subsidiary views itself as extending its levels of autonomy, but the resultant actions are actually sanctioned by headquarters, despite being beyond the explicit level of assigned autonomy. This implicit authorisation of ‘assumed’ autonomy by the headquarters would thus represent as much a part of the parent company’s planned subsidiary-management strategy as the formal assignment of autonomy to the subsidiary. Such a strategy would be pursued with a view to taking advantage of the subsidiary’s “creativity and initiative-taking” that can add value to the overall MNE, according to the aforementioned findings of Delany (2000, p. 240).

One example of such a scenario is the study by Sandvik (2010) which examined a single case study of a Canadian mining firm with a Norwegian subsidiary. The study revealed that the manager responsible for the operation of the Norwegian subsidiary would often engage in actions contradictory to his directions from the head office, despite already being provided with a significant amount of assigned autonomy. If funds for a particular investment were declined by the head office, the manager would often make the investment anyway, camouflaging it in the operating expenses of the subsidiary. However, it was discovered that the head office was neither unaware of such subversive actions, nor unhappy with the subsidiary and its manager for undertaking them. Instead, the head office adopted the view that there was no reason to intervene since the subsidiary was making a considerable profit, and establishing control mechanisms would not justify the cost (Sandvik, 2010). It is clear from this example that in some situations, the subsidiary may perceive itself to be engaging in autonomous actions beyond its authority, yet in reality their behaviour is being fully sanctioned by headquarters. This indicates that any analysis of the different forms of autonomy must also include an investigation of how these different types of autonomy are viewed and perceived by both the subsidiary and the parent company.

When considering those instances where the subsidiary and its managers develop their own autonomy without the explicit sanctioning by the head office, Dorrenbacher and Geppert (2009) have noted that it is necessary to consider agency theory (Jensen & Meckling, 1976; Saam, 2007) in order to understand the theoretical underpinnings for such actions. As stated previously, this theory views the organisation as a ‘nexus of contracts’ (Knapp & Dalziel, 2007; Maitland, 1994; Shankman, 1999), and focuses on the agency relationship as its unit of analysis. This relationship sees the subsidiary and its managers acting as agents on behalf of headquarters (who represent the principal), with the managers being delegated decision making authority by the headquarters so as to “perform some service” (Jensen & Meckling, 1976, p. 308) on their behalf. Thus according to agency theory, the subsidiary and its managers are ultimately accountable for their actions- including any use of autonomy- to headquarters, with the limits to the subsidiary's authority defined by the head office.

However, this is not to say that agency theory views the agent as merely a puppet of the corporation. Indeed, agency theorists (Bohren, 1998; Fama & Jensen, 1983; Saam, 2007) have portrayed agents as individual actors who engage in opportunistic, self-maximising behaviours that may even run contrary to the interests of principals. Importantly, this highlights agency theory as a key potential explanation for why subsidiary managers may undertake autonomous actions beyond their authority. This study therefore adopted the view of Tempel and Walgenbach (2003) and Dorrenbacher and Geppert (2009) that subsidiary managers, as actors of the corporation, are "neither the executive organs of given structures, nor fully autonomous" (Dorrenbacher & Geppert, 2009, p. 103). While the subsidiaries are bound to organisational rules, restrictions and resources, these structural ties do not necessarily prevent subsidiaries from pursuing their own goals and strategies.

Saam (2007) stated that according to agency theory, there are three reasons why the actions of the agent may differ to those desired by the principal(s). The first is due to *information asymmetry*, which occurs because the principal cannot be fully aware of the agent's competencies, intentions, knowledge and actions. This appeared to have been the case in the Sargent and Matthews (2006) case study. The second reason is *different risk preferences*. In a 'standard agency situation', agents are assumed to be risk averse while the principal is assumed to be risk neutral. This is because the agent has low income compared to the principal, and any reductions in income endanger the agent's existence, and also because the principal is able to diversify their business activities, and the agent is not (Eisenhardt, 1989; Saam, 2007). However, the findings from Delany (2000) revealed that at least in some cases, the agent (the subsidiary) is less risk averse than the principal (the headquarters), as evidenced by its willingness to undertake autonomous actions beyond its charter (and the headquarters' initial reluctance to support these actions). Further research is therefore required to assess whether the 'standard agency situation' is relevant in the context of subsidiary initiatives and development. The third reason is *goal* *conflicts*, which arise because both the principal and the agent wish to maximise their individual utility. The agent wants to maximise their income, while the principal wishes to maximise their return. This appeared to have been the case in the studies of Birkinshaw and Fry (1998) and Sargent and Matthews (2006). While agency theory assumes that greater effort from the agent leads to greater returns, such effort is also related to greater disutility on the side of the agent. The agent therefore wishes to maximise their income while minimising disutility of effort, whereas the principal wishes to maximise their returns from the agent maximising their effort (Saam, 2007). Any problems that arise from this goal conflict are known as 'agency problems' (Arrow, 1985; Saam, 2007).

A number of authors (Ambos et al., 2010; Balogun et al., 2011; Suwannarat & Leemanonwarachai, 2012) have noted that within the context of the subsidiary-head office relationship, agency problems frequently arise due to the nature of this relationship as a 'mixed-motive dyad' (Ghoshal & Nohria, 1989). As Balogun et al. (2011) noted, this type of dyadic relationship exists where "members have interdependent as well as independent interests" (p. 767), which results in the two sides seeking different outcomes (Ghoshal & Nohria, 1989; Suwannarat & Leemanonwarachai, 2012). As Ambos et al. (2010) explained, the head office views subsidiaries displaying autonomy with ambivalence, seeking to ensure its control over the subsidiary but while also encouraging the subsidiary to reach its potential. The subsidiary, on the other hand, is interested in maximising its autonomy and contributory role within the MNE. According to Ambos et al. (2010), this results in the subsidiary generally complying with its head office-assigned mandate, but occasionally its behaviour will diverge from what is expected, either to pursue a value-adding opportunity overlooked by the head office, or sometimes to pursue 'empire building' behaviour (Taggart, 1997).

Agency theory therefore represents a key explanation as to why the subsidiary may undertake autonomous actions beyond its assigned charter. At the same time, it importantly recognises that subsidiaries, as actors for the parent company, are in theory bound to act within limitations imposed by the head office (as denoted by their level of authority). However, the theory is unable to explain why in some instances a subsidiary undertaking autonomous actions beyond their authority will face negative consequences from the head office (Delany, 2000), while other subsidiaries engaging in the same form of activities are rewarded for doing so (Balogun et al., 2011; Birkinshaw & Fry, 1998; Sandvik, 2010; Sargent & Matthews, 2006). These conflicting findings highlighted the need to develop a greater understanding of the types of autonomous actions performed by subsidiaries and the consequences of those actions. Additionally, agency theory is unable to outline the precise process by which the different types of autonomy may be "available to or acquired by the subsidiary" (Young & Tavares, 2004, p. 228), nor can it explain how they are viewed by the head office and the subsidiary.

Further research is therefore required to explore not only the different types of autonomy and how they are acquired, but also how these different forms are viewed and dealt with by both the headquarters and the subsidiary. This research gap was noted by Young and Tavares (2004, p. 231), who claimed that "information is lacking on the nature and extent of autonomy", and argued that further research was required to investigate the factors that determine the different types of autonomy. In their comprehensive review of the subsidiary-management literature, Paterson and Brock (2002) similarly identified the development of a greater understanding of subsidiary autonomy as one of the key areas for future research in this area. This need for a greater understanding of autonomy was reinforced by the recent study of Tong et al. (2012), who noted that more research is still needed to "investigate the scope of subsidiary autonomy" (p. 22). In particular, the inability to acknowledge and investigate the different types of autonomy has remained a common and significant limitation throughout the subsidiary management literature. To this point, even those studies that have provided empirical evidence of subsidiaries assuming autonomy beyond their authority (Birkinshaw & Fry, 1998; Delany, 2000; Dorrenbacher & Geppert, 2010; Sandvik, 2010; Sargent & Matthews, 2006) have not recognised the existence of different types of autonomy, let alone devised any terminology for these different forms of autonomy. As part of their study into the influence of autonomy on the creation of skilled jobs in subsidiaries, Gammelgaard et al. (2011) discussed 'effective autonomy' as a distinct type of autonomy, referring to "the ability of subsidiaries to implement their decisions" (p. 368). The authors went on to briefly state that “effective autonomy may be deliberately granted by the parent company or can be exercised by subsidiaries within the constraints of the control policies of the parent company” (Gammelgaard et al., 2011, p. 368). Yet the study did not explore these two different forms of autonomy in any detail, nor did it assign terms to them. Similarly, in their study of the determinants of the subsidiary-headquarters relationship, Miozzo and Yamin (2012) recognised that subsidiaries could possess ‘negative power’, which involves the ability to ‘assert autonomy’ and avoid control from the head office. Yet Miozzo and Yamin (2012) did not directly differentiate between the different types of autonomy. In their review of the literature on subsidiary autonomy, Young and Tavares (2004) in part addressed this limitation by describing the two forms of autonomy with the terms ‘formal’ and ‘informal’ autonomy, as well as ‘assigned’ and ‘assumed’ autonomy. However, no other study appeared to have applied either of the phrases ‘formal autonomy’ or ‘informal autonomy’, while the terms ‘assigned’ and ‘assumed’ were actually applied to subsidiary roles, rather than types of autonomy, by the original author (Birkinshaw, 2000). This study therefore aims to generate an appropriate set of terminology for the different types of subsidiary autonomy by exploring the understanding of both subsidiaries and headquarters of autonomy and its different forms, and the processes by which these different forms are developed. Thus the first research question is:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

As stated previously, an additional research gap that must be investigated centres around the *consequences*- particularly in relation to a subsidiary’s development and role within the MNE- of the subsidiary engaging in different forms of autonomous actions. The identification of this research gap has led Gammelgaard et al. (2012), Gammelgaard et al. (2011), Manopoulos (2008) and Young and Tavares (2004) to note that more research is specifically needed to explore the role that the different types of autonomy play in the process of subsidiary development (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000), and their influence on the subsidiary’s contributory role within the MNE. By gaining a greater understanding of subsidiary autonomy (as the current study aims to do through the first research question), Young and Tavares (2004) asserted that one is then able to better comprehend the ability of the subsidiary to drive its own development and influence its contributory role. Such an understanding is of great significance and relevance, given the recent emphasis placed on the subsidiary as a driver of its own development and contributory role (as outlined previously in Section 2.2 of this chapter). Where early studies within the subsidiary management literature (Gates & Egelhoff, 1986; Hedlund, 1981) had focused on the MNE headquarters as the unit of analysis, with an emphasis on centralisation and formalisation of decision-making, the concept of subsidiary development (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000) and the role that a subsidiary plays within the multinational corporation (Enright & Subramanian, 2007; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Manopoulos, 2008; White & Poynter, 1984) have emerged as prominent areas of research within the IB and Strategic Management fields. The following section therefore explores the subsidiary development process and reviews a number of key studies in this area. Particular attention is paid to the notion of subsidiary initiatives, including establishing an appropriate definition for the term, and assessing the drivers of these initiatives.

2.4. THE ROLE OF AUTONOMY IN SUBSIDIARY INITIATIVES AND DEVELOPMENT

The first studies to explore the actual manifestations and consequences of subsidiary autonomy emerged from the Subsidiary Development stream within the subsidiary-management literature. Where previous streams (as outlined in Section 2.2 of this chapter) had assumed that a subsidiary's role was assigned by headquarters, studies from the Subsidiary Development stream recognised that the subsidiary itself is able to have a significant influence on its own development (Young & Tavares, 2004). In some instances, Paterson and Brock (2002) argued, this may be the case even in the absence of headquarters support. Authors within the Subsidiary Development stream (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) investigated the process by which subsidiaries obtained and extended their role within the MNE. Of particular importance to this current study is that studies within this stream have investigated how autonomy and proactive subsidiary management actions enable subsidiaries to increase their influence within an MNE (Dorrenbacher & Geppert, 2010; Forsgren et al., 1992; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) and facilitate the establishment of global mandates (Birkinshaw & Morrison, 1995; Gammelgaard et al., 2011; Gammelgaard et al., 2012).

Much of the early literature on subsidiary role development (e.g. Crookell, 1987) viewed any changes in a subsidiary's role as part of either rationalisation (through deskilling) or COE creation. These earlier studies adopted a headquarter focus, with the control, coordination and integration of subsidiaries (so as to take advantage of any unique resources or capabilities) within the MNE seen as the major motivation for subsidiary development. For example, Malnight (1995), in his study of the globalisation process of a traditionally ethnocentric MNE and the role performed by its subsidiaries, considered role change as a slow process of integration into the wider corporation. However, a key limitation of the earlier studies within the stream (Crookell, 1987; Malnight, 1995) is that they assumed subsidiary role development to be a strictly parent-driven process, with the only strategic considerations being those of the headquarters. Studies have since revealed that subsidiaries are able to influence and in some instances, drive, the subsidiary development process. The premise of a subsidiary developing its role on the basis of its own strategic actions and choices was first considered by Prahalad and Doz (1981) in their research into, and resultant classifications for, the different types of strategic control capabilities. Following this, authors such as Birkinshaw and Hood (1997, 1998) and Holm and Pedersen (2000) began to place an emphasis on the proactive, autonomous championing of subsidiary initiatives by subsidiary management (which are outlined in greater detail later in this section). Other studies, such as that of Balogun et al. (2011), have employed a critical discursive approach and considered the development of a subsidiary's role as a result of the subsidiary's back-and-forth negotiations with the head office. More recently, the study of Cavanagh and Freeman (2012) explored the continuous influence of resource development on a subsidiary's contributory role.

Perhaps the most prominent and well-recognised of the early subsidiary development studies is that of Birkinshaw and Hood (1997). In their empirical study of subsidiary development within 13 mature, US-owned subsidiaries in Scotland and Canada, Birkinshaw and Hood (1997) sought to explore these development processes, and identified two distinct and contrasting processes. The first was labelled mandate development, and leads to the development of a world mandate subsidiary. In contrast with earlier studies (Crookell, 1987; Malnight, 1995), this process was shown to be driven by proactive, autonomous actions by the subsidiary management, with the local government and in particular, the parent company, often providing limited and passive roles. In contrast, the specialist development process, which leads to the product specialist subsidiary, is typically driven by the parent company, although still requires active effort from the subsidiary. Similarly, Holm and Pedersen (2000) differentiated between the autonomous and integrative processes of subsidiary development. The former involves furthering relationships with parties external to the organisation at the expense of greater integration within the MNE, while the latter focuses on the expansion of internal relationships with a view to becoming more involved in the decision-making within the MNE. However, both of these key studies within the Subsidiary Development stream featured significant limitations. The Birkinshaw and Hood (1997) study not only focused on just two host countries and one home country, but also conducted its analysis 'post hoc' rather than in real time. Furthermore, this study failed to consider the influence of the different *types* of autonomy in the subsidiary development process. Holm and Pedersen's (2000) work was also limited since the subsidiary development processes that it outlined were purely conceptual, and have not been empirically tested.

The study by Balogun et al. (2011) adopted a critical discursive approach to subsidiary development, and investigated subsidiary role evolution resulting from subsidiary-head office negotiations as part of a single case study (focusing on the European sales division of a large FMCG MNE). Rather than trying to categorise the particular development processes, Balogun et al. (2011) explored the micro-level political dynamics involved in subsidiary development, particularly relating to the level of subsidiary autonomy. The study followed on from previous studies (Andersson, Forsgren & Holm, 2007; Dorrenbacher & Geppert, 2006) in highlighting the importance of subsidiary autonomy and power in subsidiary development. Importantly within the context of this current study, Balogun et al. (2011) reiterated the earlier work of Ambos et al. (2010) by recognising that subsidiaries often have differing goals to the head office, and may engage in autonomous actions that do not align with their head office-assigned mandate. This not only highlighted the importance of agency theory (Jensen & Meckling, 1976; Saam, 2007), but also reinforced the need to explore the different types of subsidiary autonomy. However, the study by Balogun et al. (2011) did not acknowledge the different types of subsidiary autonomy, and was also restricted by only exploring a single value function within a single case.

Delany (2000) sought to extend the previous understanding of the subsidiary development process by developing a framework that delineated the ‘eight steps’ of subsidiary development. The study, which based this model on interviews and research workshops involving 28 managing directors of MNE subsidiaries in Ireland, modelled the stages of development based on the cumulative effects of initiatives by the subsidiary over time. The first three steps of this process involved the establishment of the subsidiary, and then the subsidiary fulfilling its basic mandate in a ‘superior way’ (Delany, 2000). Steps four and five involved the subsidiary extending its mandate, first through ‘low risk’ activities that were not seen as a dramatic extension of the former, more basic mandate by headquarters, and then into a higher risk, more strategically important role within the MNE. The final three steps involved the subsidiary extending its strategic importance within the MNE. This may first involve the subsidiary becoming a ‘strategic centre’ or ‘strategic pivot’ that has MNE-wide expertise in a particular product segment, before the subsidiary potentially becomes the head office within the corporation. Delany (2000) noted that the final three stages are rarely achieved by subsidiaries, and conceded that in some instances (for example, if the subsidiary is established with the expectation that it will immediately become the COE for a particular activity or area within the MNE), the model requires flexible interpretation.

The eight step framework of subsidiary development identified by Delany (2000) is particularly useful in emphasising the continuous nature of subsidiary development. This continuous nature was highlighted further by the study of Cavanagh and Freeman (2012), which investigated the development of subsidiary roles as part of a case study focusing on the Australian Motor Vehicle Manufacturing Industry (AMVMI). Cavanagh and Freeman (2012) extended the subsidiary development framework by incorporating specific contributory roles. Subsidiaries within the AMVMI were shown to be able to achieve the more significant contributory roles as they developed specialised resources, and combined them with subsidiary initiatives. While the study of Cavanagh and Freeman (2012) provided valuable insights into the process by which subsidiaries may attain extended contributory roles within the MNE, it did not directly explore the influence of subsidiary autonomy on this process.

Perhaps the most significant contribution of Cavanagh and Freeman (2012) and Delany's (2000) research in the context of this study is its recognition and exploration of the need for proactive, entrepreneurial actions, or 'initiatives', by subsidiary management to extend a subsidiary's role beyond its initial basic mandate. The notion of subsidiary initiatives was first devised by Birkinshaw et al. (1998) in their study on subsidiary role development. As part of their study, Birkinshaw et al. (1998) noted that there was no clear relationship between a subsidiary's specialised resources and its contributory role except through initiative. However, while the studies by Cavanagh and Freeman (2012), Delany (2000) and Birkinshaw et al. (1998) (in addition to a number of other studies, such as Krishnan [2006], Sargent and Matthews [2006] and to a lesser degree Balogun et al. [2011]) identified the importance of initiatives in the subsidiary development process, neither investigated the role that the different types of autonomy play in such initiatives and the overall development process.

This current study therefore investigates the concept of subsidiary initiatives in detail, including an examination of the different types of autonomy as potential drivers of such initiatives. In doing so, the study is then better able to assess the influence of the different types of autonomy on the greater subsidiary development process. Birkinshaw and Fry (1998) stated that subsidiary initiatives are important for two reasons. First, they are the primary means by which MNEs take advantage of new opportunities around the world. Second, they enhance operational efficiency through internal competition among units. It is therefore of significant importance that MNEs understand the different types of subsidiary initiative and corporate entrepreneurship, the role that they play in developing a subsidiary's contributory role within the corporation, the drivers and inhibitors of initiative, and also the role of autonomy in subsidiary initiative. Young and Tavares (2004) and subsequently, Cavanagh and Freeman (2012), noted that further research is particularly required to determine the factors that drive the development of initiatives, including the role that autonomy plays in this process. This research gap was recently reinforced by Gammelgaard et al. (2012), who noted that further research is still required to explore the influence of autonomy in facilitating entrepreneurial activities (such as initiatives) that extend the subsidiary's contributory role. Thus the following section delineates the extant literature on subsidiary initiative, and also highlights the current research gaps.

2.4.1. Defining and classifying initiatives

The concept of 'subsidiary initiatives' originated from the study by Birkinshaw (1997) of Canadian subsidiaries of US MNEs, which in turn was based on the decision process perspective research by Burgelman (1983a). According to this study, an 'initiative' may be defined as "a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources" (Birkinshaw, 1997, p. 207). It was also stated in this study that an initiative is fundamentally an entrepreneurial process that begins with the identification of a potential opportunity for the subsidiary, and ends with the commitment of resources towards the achievement of that opportunity. In this way, an 'initiative' is more finite than the related concept of 'internal corporate ventures' as proposed by Burgelman (1983b), which involve not only the initiative but also the ongoing development of the resultant business activity. Similarly, initiatives are more specific than the notion of 'non-standard problem solving' by subsidiaries as described by Tippermann et al. (2012), which entail subsidiaries devising autonomous solutions to "novel or unique situations for which current organizational practices and routines offer no predetermined responses" (p. 747).

Young and Tavares (2004, p. 232) viewed subsidiary initiatives (in light of the definition provided by Birkinshaw [1997]) as "a form of corporate entrepreneurship, encompassing proactive and risk-taking behaviour, the use of resources beyond the subsidiary's direct control and the acquisition and use of power and influence". Tseng, Fong and Su (2004, p. 94) added a more practical perspective to these earlier definitions, stating that subsidiary initiative "is manifested in product modifications, new product development, innovations of the manufacturing process, acquiring MNE investment projects and innovations of marketing and organizational processes." The definition proposed by Birkinshaw (1997) was later refined by Birkinshaw et al. (1998, p. 223), who described initiatives as "autonomous subsidiary actions…that sought to develop the international value-added scope of the subsidiary". This definition clearly highlights the link between initiatives and autonomy. This connection was further reinforced by Ambos and Birkinshaw (2010), who conducted a study on the influence of headquarters' attention on subsidiary performance involving 283 subsidiaries across three countries. These authors claimed that autonomy is directly related to subsidiary initiatives, with the two concepts helping to make up strategic configuration or 'strategic choice'. Also implicit in the Birkinshaw et al. (1998) definition was the assertion that initiatives may involve autonomous actions that are beyond the scope of their authority. Krishnan (2006, p. 62) was more explicit, stating that "individuals within corporations may lead initiatives for renewal and growth even though they are not specifically mandated to do so."

By considering the variety of definitions for the term 'subsidiary initiatives', the current study has revealed a key inconsistency amongst the extant literature as to what activities are included as initiatives. When the notion of 'subsidiary initiatives' was first employed by authors such as Birkinshaw and Hood (1997, 1998) and Holm and Pedersen (2000), it was used to describe those subsidiary management actions that attempted to develop or evolve the subsidiary's role. In this sense, it is linked to the *extension* of a subsidiary's role, beyond that which it currently performs. This view was demonstrated by Verbeke et al. (2007, p. 586), who defined initiatives as "the independent strategic decisions of a subsidiary to expand or otherwise alter its role." Dorrenbacher and Geppert (2010) reinforced this view, viewing initiatives as requisites for developing the subsidiary or gaining a new role or mandate. This understanding of initiatives was also implied in a number of the aforementioned definitions (particularly that of Birkinshaw et al. [1998]). In contrast, other definitions were more broad and potentially ambiguous, claiming subsidiary management may implement initiatives "for renewal" (Krishnan, 2006, p. 62) of particular business activities. Tippermann et al. (2012), for example, claimed that initiatives "create and renew MNC's knowledge and competences" (p. 747). Even the original wording of the term as defined by Birkinshaw (1997, p. 207) is vague, with initiatives said to include the "use" of a subsidiary's resources. Yet the simple 'renewal' of business activities or 'use' of resources does not necessitate the extension of a subsidiary's contributory role within the MNE, and as such these definitions diverged from the original application of the term. This indicates that subsequent studies, including this current study, require clarification as to precisely what is, and what is not, classified as a subsidiary initiative.

The confusion amongst the literature surrounding precisely what constitutes an initiative has been exacerbated by the attempts of a number of authors (Birkinshaw, 1997; Delany, 2000; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) to classify the different *types* of subsidiary initiative. The study by Delany (2000), which investigated the development process of 28 Irish MNE subsidiaries, built on the earlier terminology of Thompson (1967) and developed a three-type classification for subsidiary 'initiatives': domain developing, domain consolidating, and domain defending. 'Domain developing initiatives' include those aimed at pursuing a new business opportunity in the local market and extending the subsidiary's mandate. 'Domain consolidating initiatives' include improving the subsidiary's performance and increasing its input into corporate decisions. Finally, ‘domain defending initiatives’ include efforts to retain existing operations and relationships with headquarters. However, subsidiary actions to consolidate or defend its existing mandate are not examples of “corporate entrepreneurship, encompassing *proactive* and risk-taking behaviour” (Young & Tavares, 2004, p. 232) by the subsidiary through “independent strategic decisions…to expand or otherwise alter its role” (Verbeke et al., 2007, p. 586). As such, they do not fit the criteria to be classified as initiatives according to the original application of the term by Birkinshaw and Hood (1997, 1998) and Holm and Pedersen (2000), or according to the more recent understanding of authors such as Dorrenbacher and Geppert (2010).

A similar problem may be found in the initiative classifications proposed by Verbeke et al. (2007). These authors argued that a further limitation of not only the study by Delany (2000), but also of that of other authors (Birkinshaw, 1997; Rugman & Verbeke, 2001; Verbeke, Chrisman & Yuan, 2004), is their failure to recognise the critical distinction made in mainstream corporate entrepreneurship literature between ‘renewal’ and ‘venturing’ initiatives, and its implications within the subsidiary initiative context. This is despite renewal and venturing representing fundamentally contrasting concepts that are influenced by different internal and external stimuli, must be managed by different processes, and potentially yield different organisational results (Verbeke et al., 2007). Thus Verbeke et al. (2007) classified initiatives as either ‘subsidiary renewal initiatives’ or ‘subsidiary venturing initiatives’. Subsidiary renewal initiatives are said to be those that “directly and intentionally affect a subsidiary’s *existing* businesses” (Verbeke et al., 2007, p. 586), while subsidiary venturing involves those initiatives that are “aimed primarily at creating *new* business ventures within a subsidiary” (Verbeke et al., 2007, p. 586). However, like the ‘domain defending’ and ‘domain consolidating’ initiatives outlined by Delany (2000), Verbeke et al.’s (2007) ‘subsidiary renewal initiatives’ do not fit the description of subsidiary initiatives as outlined by Birkinshaw and Hood (1997, 1998), Holm and Pedersen (2000), or Dorrenbacher and Geppert (2010). This is because they do not entail proactive strategic actions to develop a subsidiary’s role *beyond* its current charter.

Indeed, the only set of classifications for the different types of initiatives that has managed to follow the original description is the study of Birkinshaw (1997) himself, which was subsequently supported by the study of Suwannarat and Leemanonwarachai (2012). These studies were based on the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), which views the subsidiary as having multiple linkages to entities both inside and outside the formal boundaries of the MNE. As such, Birkinshaw (1997) originally employed this theoretical basis when categorising the types of initiative that a subsidiary may take. The study claimed that a subsidiary sits at an interface of three 'markets' (Birkinshaw, 1997): the local market, which is comprised of customers, competitors, suppliers and regulatory bodies within the host country; the internal market, which consists of the head office and all other subsidiaries; and the global market, consisting of customers, competitors and suppliers that are external to both the local and internal markets. Accordingly, Birkinshaw (1997) stated that subsidiary initiatives were based on the recognition of opportunities within these three markets, and thus suggested that initiatives could be classified as either local market initiatives, internal market initiatives or global market initiatives. As part of their investigation into the influence of initiatives on the subsidiary-head office relationship, Suwannarat and Leemanonwarachai (2012) provided supporting examples for each type of initiative. They listed Philips UK's development of Teletext technology and Alfa Laval US's invention of the milking machine in 1917 as examples of local market initiatives. For global market initiatives, Suwannarat and Leemanonwarachai (2012) described the example of a Canadian production plant challenging the head office manufacturer for rights to polyethylene production. Litton Systems Ltd's inertial navigation system was lastly put forward as an example of an internal market initiative. A fourth type of initiative was also identified by Birkinshaw (1997) that was said to be a 'hybrid' between the internal and global market initiatives. This type of initiative typically took the form of subsidiary management identifying and bidding for an emergent corporate investment which is global in scale, yet still requires internal selling against other subsidiaries. Thus the study by Birkinshaw (1997) extended that of Ghoshal (1986), who differentiated only between local and global market opportunities. In terms of entrepreneurial processes, internal and hybrid market initiatives represent internal entrepreneurship, while local and global market initiatives are the manifestations of external entrepreneurship. However, the study by Delany (2000) found that of the 84 'initiatives' described by MNE subsidiary general managers, fewer than 60% fitted the descriptions of Birkinshaw's (1997) classifications. The study by Delany (2000) also found that of those initiatives that did fit into Birkinshaw's (1997) classifications, a large number failed and consequently, subsidiaries frequently found themselves in a position where they had to defend their current mandate, or consolidate it through performance improvement.

Overall, the studies that have attempted to devise typologies for subsidiary initiatives have created classifications that either failed to fulfil the originally-defined purpose of an initiative (Delany, 2000; Verbeke et al., 2007), or have been shown to be unsuitable for real-world application (Birkinshaw, 1997; Suwannarat & Leemanonwarachai, 2012). In the end, rather than bringing clarification, they have added to the confusion surrounding what exactly constitutes a subsidiary initiative. This current study therefore rejects the proposed initiative typologies of the aforementioned studies. Instead, it adopts and focuses on the original understanding of subsidiary initiatives (Birkinshaw & Hood, 1997, 1998; Holm & Pedersen, 2000) that has since been supported by authors such as Young and Tavares (2004) and Dorrenbacher and Geppert (2010): that subsidiary initiatives are strategic, proactive and risk-taking behaviour that aim to develop and extend the subsidiary's role. The precise way in which initiatives develop the subsidiary and its role are outlined in the following section.

2.4.2. Role of initiatives in subsidiary development

A number of studies (Balogun et al., 2011; Birkinshaw & Fry, 1998; Birkinshaw et al., 1998; Cavanagh & Freeman, 2012; Delany, 2000; Krishnan, 2006; Sargent & Matthews, 2006) have highlighted the importance of subsidiary initiative in the development of a subsidiary's contributory role. However, this relationship was first identified empirically by Birkinshaw et al. (1998). This study sought to identify the way in which subsidiaries are able to contribute to the firm-specific advantages of the firm by developing their contributory role. The findings of the study indicated that subsidiary leadership and an entrepreneurial culture both promote the development of specialised resources, which are in turn strongly associated with the presence of subsidiary initiative (Birkinshaw et al., 1998). Importantly, however, no clear relationship was found between a subsidiary's specialised resources and its contributory role except through initiative. This finding highlighted the need for subsidiary management to undertake proactive, entrepreneurial actions if they wish to influence the role they perform within the MNE.

The findings of Birkinshaw et al. (1998) were supported by Krishnan (2006) who, in a study of Indian software subsidiaries, examined the influence of subsidiary initiatives at different stages of the subsidiary's growth. The findings indicated that initiative played a significant role in developing the subsidiary's role in the initial stages, and was also critical if the subsidiary wished to reposition its role in the MNE. A study of Mexican subsidiaries by Sargent and Matthews (2006) extended the findings of Birkinshaw et al. (1998) by establishing that subsidiary initiative was an important driver of subsidiary development in developing host countries, in addition to developed nations such as Canada, the UK and Sweden. The findings of this study are also important in that they demonstrated how subsidiaries were able to develop their role through initiative even in the face of apathy and in some cases opposition from headquarters. The study by Delany (2000) of 28 Irish MNE subsidiaries supported these findings, revealing that in order to accommodate hostile corporate attitudes towards subsidiary initiatives, many subsidiaries develop initiatives in the form of skunkworks-type activities. This enables the subsidiary to reduce the head office's 'perceived risk' of such initiatives until the subsidiary has demonstrated sufficient success with the new initiative for it to be legitimised, and often results in the subsidiary being formally granted a new mandate.

A number of more recent studies have reinforced the findings of the earlier studies of Birkinshaw et al. (1998), Krishnan (2006), Sargent and Matthews (2006) and Delany (2000) in relation to the importance of initiatives in the subsidiary development process. The study by Balogun et al. (2011) employed a critical discursive approach to investigate the micro-political elements of the subsidiary-head office relationship in the subsidiary development process. The study, which focused on the sales division of a major European FMCG MNE, identified subsidiary initiatives as a key element in negotiations between the subsidiary and head office regarding the legitimisation of a new role or mandate for the subsidiary. The study of Cavanagh and Freeman (2012), on the other hand, investigated the continuing subsidiary development process of subsidiaries within the AMVMI. This study created a revised subsidiary development framework, which incorporated four subsidiary roles that reflected varying levels of specialised resource development. Cavanagh and Freeman (2012) revealed that it was only possible for the subsidiary to achieve a more significant contributory role with international responsibilities if it displayed repeated initiatives.

The combined findings of Birkinshaw et al. (1998), Krishnan (2006), Sargent and Matthews (2006), Delany (2000), Balogun et al. (2011) and Cavanagh and Freeman (2012) contradict the findings of a number of studies (Birkinshaw & Morrison, 1995; Reilly, Scott & Mangematin, 2012; Roth & Morrison, 1992) that claimed that subsidiary development could be achieved without initiatives. The study by Reilly et al. (2012) recognised that as a result of a number of threats, including disaggregation of value chains and increased head office monitoring and control, many subsidiaries face a cycle of decline. As such, it investigated the responses by Irish subsidiaries of foreign-owned MNEs to these threats. The findings of Reilly et al. (2012) claimed that long-term subsidiary development was best sustained through strategic alignment with the head office, rather than through initiatives. Yet the study did not totally discount the importance of initiatives in subsidiary development, and in particular conceded that the generation of initiatives was highly important for short-term subsidiary development. In addition to that of Reilly et al. (2012), the studies of Birkinshaw and Morrison (1995) and Roth and Morrison (1992) also purported that subsidiaries could achieve subsidiary development without initiatives. These studies focused on the acquisition of world product mandates solely through the development of subsidiary resources. However, it should be noted that these studies were limited as they did not even consider the potential influence of- and need for- initiatives in translating the specialised resources into greater contributory roles.

The studies by Birkinshaw et al. (1998), Krishnan (2006), Sargent and Matthews (2006), Delany (2000), Balogun et al. (2011) and Cavanagh and Freeman (2012) are all important within the context of this study since they each demonstrated the significance (and in some cases, necessity) of proactive, subsidiary-driven initiatives in the subsidiary development process. However, while all of these studies recognised the importance of subsidiary autonomy- and in the majority, those displays of autonomy where subsidiary management go beyond their assigned level- in relation to subsidiary initiatives, none explicitly discussed or compared the roles of the different types of autonomy in the development of subsidiary initiatives. Consequently, the respective roles that the types of autonomy play in subsidiary initiatives had not yet been fully understood (Gammelgaard et al., 2012; Young & Tavares, 2004). Research must therefore consider the potential varying impacts of the different types of autonomy on subsidiary initiatives. The role of the types of autonomy as determinants of subsidiary initiatives is explored in the following section.

2.4.3. Determinants of subsidiary initiatives

In their study of the actions of R & D subsidiaries, Birkinshaw and Fey (2000) found that autonomy enabled a subsidiary to create an internal market through proactive, entrepreneurial actions (Birkinshaw & Fey, 2000). In addition, other studies (Ambos et al., 2010; Birkinshaw & Morrison, 1995; Forsgren et al., 1992; Hood & Taggart, 1999; Suwannarat & Leemanonwarachai, 2012) have revealed that subsidiary autonomy is both a beneficial outcome of, and precondition for, subsidiary development. However, while this link between autonomy and subsidiary development has been established (and is discussed in greater detail in Section 2.4.5), Gammelgaard et al. (2012) noted that further research was required to ascertain the precise influence of subsidiary autonomy on the initiatives which drive the subsidiary development process. This is despite the study of Young and Tavares (2004) already having noted that future research should focus on the exact types of autonomy needed to develop successful initiatives eight years earlier.

A number of studies (Boojihawon et al., 2007; Dorrenbacher & Geppert, 2009, 2010; Verbeke et al., 2007) have attempted to explore the factors that affect the development of subsidiary initiatives. However, these extant studies have tended to focus on factors other than subsidiary autonomy as drivers of subsidiary initiatives. Dorrenbacher and Geppert (2009), for example, limited their study to the micro-political determinants of initiatives within the subsidiary, while Boojihawon et al. (2007) concentrated on the influence of the subsidiary's entrepreneurial culture. The most comprehensive delineation of the drivers of subsidiary initiative was by Verbeke et al. (2007), who extended the work of Birkinshaw and his associates by outlining the determinants of both strategic renewal and corporate venturing initiatives (the proposed different types of subsidiary initiatives were discussed in detail in Section 2.4.1). Verbeke et al. (2007) asserted that the determinants of subsidiary initiatives may be categorised into the local environment context, the corporate context, or the subsidiary context. These classifications were later reiterated by Dorrenbacher and Geppert (2010) as part of their study into the role of the personal motives of subsidiary CEOs in subsidiary initiatives. However, like the other research on the determinants of subsidiary initiatives, the studies of Verbeke et al. (2007) and Dorrenbacher and Geppert (2010) were limited in the context of this study as they did not directly address the influence of subsidiary autonomy on initiatives. Furthermore, the study of Verbeke et al. (2007) only reviewed extant literature, and did not empirically investigate the influence of the identified factors. The study of Dorrenbacher and Geppert (2010) also neglected to investigate the influence of the factors, except for the subsidiary context factors which were perceived as originating from subsidiary CEOs such as 'strong leadership'.

One study that at least partially addressed these limitations was that of Boojihawon et al. (2007), who, as part of their research on the entrepreneurial cultures of eight UK subsidiaries of advertising firms, also investigated the determinants of 'entrepreneurial behaviour'. Through the use of a qualitative case study method, the study provided empirical support for the work of Birkinshaw and Hood (1998) and Paterson and Brock (2002) by identifying that such behaviour may be influenced by either the subsidiary, the headquarters, or a combination of both. Boojihawon et al. (2007) also identified that subsidiary-driven entrepreneurial actions necessitate autonomy at the subsidiary level, while headquarters-driven entrepreneurial behaviour typically involved limited subsidiary autonomy. However, the study featured a number of limitations. First, it neglected to differentiate between the different types of autonomy and their respective influences. Second, the study focused on the subsidiary's entrepreneurial culture and the resultant 'entrepreneurial behaviour', and did not directly consider the influence of the autonomy on subsidiary *initiatives*. Finally, the study by Boojihawon et al. (2007) failed to consider the influence of the local environment. For these reasons, this current study will employ the classifications proposed by Verbeke et al. (2007) (and later supported by Dorrenbacher and Geppert [2010]) as a template for considering the role of subsidiary autonomy in initiatives. These classifications are depicted in Figure 2.4, which is adapted from the framework diagram of Birkinshaw et al. (1998).

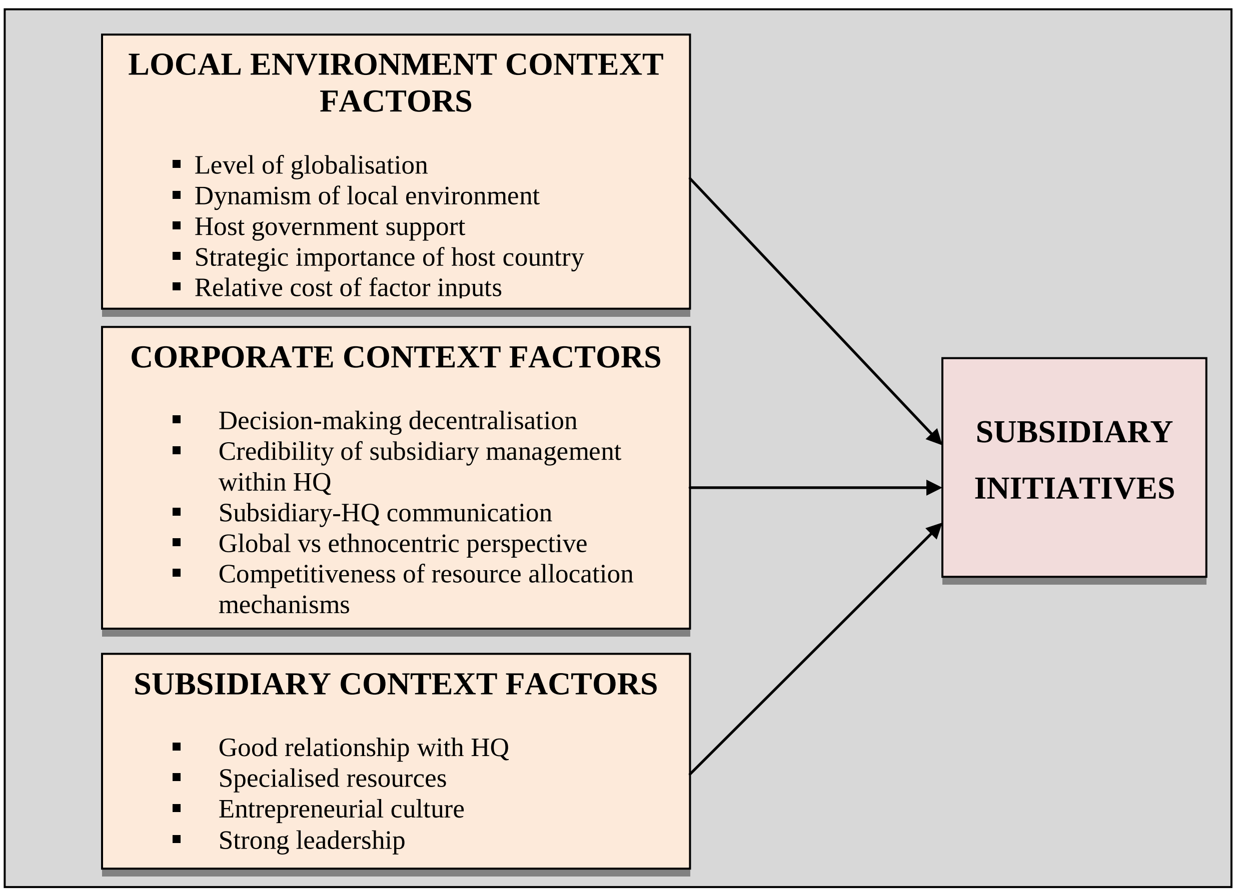

Figure 2.4: Determinants of subsidiary initiatives

Source: Birkinshaw et al. (1998), Dorrenbacher and Geppert (2010) and Verbeke et al. (2007)

Local environment context factors

Verbeke et al. (2007, p. 592) defined the local environment context as “those industry and host country considerations external to the subsidiary and its relationships with the corporate parent that could influence the development of subsidiary initiatives”. These factors have been referred to by a variety of different terms, including local environment context determinants (of subsidiary initaitives) (Dorrenbacher & Geppert, 2010), country- and industry-level factors (Birkinshaw et al., 1998), local market context factors (Birkinshaw, 1999) and host country factors (Birkinshaw & Hood, 1998), but were labelled ‘local environment context factors’ by Verbeke et al. (2007); this last phrase is adopted by this study, as it encompasses all elements of the local environment, including both market- and country-specific forces. Verbeke et al. (2007) synthesised the local environment context parameters as outlined in the studies of Birkinshaw (1997, 1999), Birkinshaw and Hood (1998) and Birkinshaw et al. (1998), which led to the identification of five local environment factors that influence subsidiary initiatives: 1) the level of industry globalisation; 2) the dynamism of the local business environment; 3) host government support; 4) strategic importance of the subsidiary’s host country to the parent company; and 5) the relative cost of factor inputs in the host country.

Research by Birkinshaw et al. (1998) revealed a significant positive relationship between the level of industry globalisation and initiatives, while a negative relationship was found by Birkinshaw (1999) between the level of dynamism of the local business environment and initiatives. Birkinshaw and Hood (1998) proposed that a weak relationship exists between the strategic importance of the subsidiary’s host country and the relative cost of local factor inputs, and initiatives. However, the influence of these two determinants, together with that of host government support, on subsidiary initiatives has not been empirically tested to date. While this suggests further research is required to identify the precise influence of these factors, this issue is not the main focus of the current study. This is because this study is focused on the role of autonomy in subsidiary initiatives, and as such is primarily concerned with either how the headquarters assign autonomy that may stimulate initiatives (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press;

Gammelgaard et al., 2012; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997), or how the subsidiary may 'assume' autonomy that leads to the development of initiatives (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). Thus the current study focuses mainly on the corporate context and subsidiary context factors. However, the study is also mindful of the ability of local environment context factors to potentially lead the head office to assign autonomy, or lead the subsidiary to assume autonomy (Andersson & Forsgren, 1996; Chiao & Ying, in press; Gammelgaard et al., 2012; Ghoshal & Bartlett, 2005). In this way, the study acknowledges that local environment context factors may interact with corporate context and subsidiary context factors to influence the different types of autonomy and subsequently, to lead to the creation of initiatives.

Corporate context factors

Corporate context factors may take the form of either inducements for subsidiary managers to act in a particular way, or the corporate management's perceptions of subsidiary actions (Burgelman, 1983a, 1983b). A synthesis of the corporate context factors outlined by Birkinshaw and his colleagues led Verbeke et al. (2007) to the identification of five corporate factors that influence the development of subsidiary initiatives: 1) the decentralisation of decision making within the MNE; 2) the extent to which the headquarters assess the credibility of subsidiary management; 3) the extent of communication between the headquarters and the subsidiary; 4) the degree to which the headquarters adopts a global, as opposed to ethnocentric, perspective of the MNE; and 5) the competitiveness of the resource allocation mechanisms within the MNE. It must be noted, however, that while this synthesis of corporate context factors is consistent with those identified by Birkinshaw and associates, the naming and grouping of these determinants in the study of Verbeke et al. (2007) was relatively arbitrary. This is because previous authors have in some instances outlined different parameters in different studies, and named and grouped them in a number of ways. For example, Birkinshaw (1999) selected three corporate context parameters (decision centralisation, corporate-subsidiary communication, and subsidiary credibility), while Birkinshaw and Hood (1998) identified a different set of parameters (competitive internal resource allocation, decision making decentralisation, and ethnocentrism of parent management). In addition, Birkinshaw and Hood (1998) based 'credibility of the subsidiary' on its track record and classify it as a subsidiary context factor, while Birkinshaw (1999) viewed credibility as a corporate context factor.

Of the five corporate context determinants of subsidiary initiative outlined by Verbeke et al. (2007), the most important within the context of this study are the decentralisation of decision making within the MNE, and the extent of communication between the headquarters and the subsidiary. The former is significant because as explained in Section 3.3.4, the concept of decentralisation is closely related to that of autonomy. Indeed, the study by Birkinshaw et al. (1998) employed the term 'subsidiary autonomy' when referring to the decentralisation of decision making by the head office. However, as established in Section 2.3.5, the extent of the decentralisation of decision making within the MNE is determined entirely by the head office, while autonomy may either be assigned by the headquarters or developed by the subsidiary (Chiao & Ying, in press; Dorrenbacher & Geppert, 2010; Gupta & Govindarajan, 1991; Miozzo & Yamin, 2012; Young & Tavares, 2004). Thus the current study views decentralisation as referring to the autonomy that is formally assigned by the head office to the subsidiary. Verbeke et al. (2007) proposed that the autonomy provided to the subsidiary by the head office (through the decentralisation of decision making) is more important for subsidiary venturing initiatives (relating to new business opportunities) than subsidiary renewal initiatives (relating to the subsidiary's existing businesses). The authors argued that this is because the head office typically reserves the right to approve subsidiary decisions that are made relating to renewal initiatives, "given their perceived high degree of expertise and sense of decision-making entitlement as regards to the subsidiary's core businesses" (Verbeke et al., 2007, p. 590).

The recent study of Miozzo and Yamin (2012) has supported the importance of decentralisation in the development of subsidiary initiatives. The study developed a conceptual framework of the determinants of the subsidiary-head office relationship across eight UK service multinationals operating in China, Korea, Brazil and Argentina. As part of their study, Miozzo and Yamin (2012) found that decentralisation facilitated the development of "commercially relevant local initiatives" (p. 30). This finding reinforced those of earlier research by Birkinshaw (1999) and Birkinshaw and Hood (1998), which similarly found evidence of decentralisation promoting subsidiary initiatives. In combination, the findings of Verbeke et al., (2007), Miozzo and Yamin (2012), Birkinshaw (1999) and Birkinshaw and Hood (1998) appeared to confirm the significance of subsidiary autonomy in the formation of such initiatives. However, the study of Dorrenbacher and Geppert (2010) revealed contrasting findings to these aforementioned studies, and suggested that decentralisation within an MNE may hamper subsidiary initiatives. As part of their investigation into the personal motives of subsidiary CEOs for undertaking initiatives, Dorrenbacher and Geppert (2010) found that decentralisation by the head office reduced the instances of successful subsidiary initiatives, since the subsidiaries were already being provided with autonomy by the head office and did not perceive the need to try and extend their role and level of autonomy further. These contrasting findings in relation to the influence of decentralisation (and thus, autonomy that is assigned by the head office) highlighted the need for further research in this area.

This need to comprehend the way in which autonomy is negotiated between the head office and the subsidiary emphasised the importance of the extent of communication between these two parties as a key corporate context driver of subsidiary initiatives. Like the decentralisation of decision making within the MNE, this driver of initiatives is closely linked to subsidiary autonomy (Gammelgaard et al., 2012; Scott & Gibbons, 2009). As noted previously in Sections 2.3.6 and 2.3.7, it is through this communication that the head office would explicitly assign the level of autonomy available to the subsidiary and establish the limit to this autonomy- that is, it's level of authority (Birkinshaw & Ridderstrale, 1999; Taggart, 1997; Tong et al., 2012; Young & Tavares, 2004). In their study of how Irish subsidiary managers may grow their subsidiaries, Scott and Gibbons (2009) identified that managing the relationship with headquarters and maintaining regular contact with the parent company were vital in order for the subsidiary to grow its autonomy. On the other hand, the study of Gammelgaard et al. (2012), which explored the impacts of subsidiary autonomy and intra- and inter-organisational relationships on subsidiary performance, identified a negative relationship between subsidiary autonomy and intra-organisational communication. Gammelgaard et al. (2012) claimed that this was because greater autonomy led to more independent activities, which required less communication with the head office. At the same time, it has also been shown that a lack of communication between the head office and subsidiary may result in the subsidiary being forced to develop its own autonomy without explicit assignment from the headquarters, either from scratch or beyond the formally assigned levels (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). These combined results indicated that the extent of communication between the head office and the subsidiary was firmly linked to the level of autonomy that a subsidiary possesses. In turn, studies by Birkinshaw (1997, 1999) have identified a relationship between the extent of this communication and the successful development of subsidiary initiatives. This therefore suggested that the possession of autonomy (in any form) is at minimum an indirect factor (through the extent of subsidiary-head office communication) in the formation of subsidiary initiatives.

However, the findings from the aforementioned studies by Birkinshaw (1997, 1999) have yielded conflicting results regarding the extent of communication’s influence on subsidiary initiatives. Birkinshaw (1997) first suggested that communication may be negatively related to local and global market initiatives. However, in a later study by the same researcher, it was found that a weak positive relationship existed between communication and initiatives (Birkinshaw, 1999). Verbeke et al. (2007) argued that the reason for this discrepancy in results was due to the influence of communication differing across the different types of initiative. These authors claimed that communication by the subsidiary with the parent company is important for subsidiary renewal initiatives, since the head office generally seeks to control efforts surrounding renewal of existing activities by the subsidiary. More importantly within the context of this current study, Verbeke et al. (2007, p. 590) assert that in contrast, "intensive communication may have a neutral or even a negative impact on subsidiary venturing [initiatives]". This is because this type of initiative was said to be more likely to fall outside the scope of the existing corporate strategic context (Burgelman, 1983) and would therefore benefit from being insulated from the 'corporate immune system' (Birkinshaw & Good, 2001). However, the propositions outlined by Verbeke et al. (2007), while based on extant literature, were not empirically tested, and are therefore limited in their ability to explain how research has provided conflicting results regarding the influence of communication on initiatives.

Another potential explanation is that provided by the earlier findings in relation to autonomy (Birkinshaw & Hood, 1998; Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006; Taggart, 1997; Young & Tavares, 2004). A number of studies (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997) have indicated that in many instances, a *high* level of communication between the head office and subsidiary would result in the formation of initiatives because the subsidiary may be explicitly provided with autonomy by the headquarters, which provides the freedom to undertake initiatives (as indicated by Birkinshaw et al. [1998] in their definition of 'initiatives'). Alternatively, in other situations a *low* level of communication may result in the creation of initiatives because the subsidiary takes the development of autonomy upon itself (in the absence of explicitly-assigned autonomy from negotiations with the head office) in order to expand its role (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). To this point, however, no extent study has fully explored the linkage between the different types of autonomy, the extent of communication between the head office and subsidiary, and subsidiary initiatives. The study by Suwannarat and Leemanonwarachai (2012) came closest to addressing this research gap. The study explored the relationship between subsidiary initiatives and subsidiary autonomy, and also considered the influence of intra-organisational communication on a variety of other relationships (such as that of initiatives and 'head office heed'). However, while Suwannarat and Leemanonwarachai (2012) revealed a positive relationship between initiatives and subsidiary autonomy, they did not directly explore the role of subsidiary-head office communication in this relationship. As such, the study identified this connection as a key research gap requiring further investigation. Through addressing this research gap, the current study also evaluates the validity of the earlier explanation proposed by Verbeke et al. (2007) for the conflicting results regarding the influence of subsidiary-head office communication on initiatives. The following section particularly focuses on the ability of the subsidiary itself to develop its own autonomy when pursuing initiatives.

Subsidiary context factors

According to Verbeke et al. (2007, p. 591), factors within the subsidiary context include all "those determinants of initiatives that are either characteristic of the subsidiary's specific organizational structure and culture or can be managed by the subsidiary itself". Based on the research of Birkinshaw and his associates (Birkinshaw, 1997, 1999, 2000; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998), Verbeke et al. (2007) identified four subsidiary context factors (which were subsequently supported by Dorrenbacher and Geppert [2010]) that influence subsidiary initiatives: 1) 'good relationships' with corporate headquarters; 2) specialised (or distinctive) resources; 3) entrepreneurial culture; and 4) strong leadership.

'Good relationships' with corporate headquarters has not yet been empirically tested as a determinant of subsidiary initiatives. However, Verbeke et al. (2007) argued that factors such as the assessment by headquarters of the credibility of subsidiary management (Dorrenbacher & Geppert, 2010) and the extent of communication between the headquarters and the subsidiary (Birkinshaw, 1997, 1999; Gammelgaard et al., 2012; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007)- both of which constitute corporate context factors in this study- represent at least partial surrogates to measure the quality of the relationship between headquarters and the subsidiary. The extant empirical research on specialised resources has suggested that they are closely linked to subsidiary initiatives (Birkinshaw, 1999; Dorrenbacher & Geppert, 2010; Suwannarat & Leemanonwarachai, 2012). Dorrenbacher & Geppert (2010, p. 602) noted that "subsidiary initiative-taking is influenced… by the different resources subsidiaries can draw upon", while Birkinshaw (1999, p. 29) was even more explicit, and suggested that subsidiary resources "represented the foundations on which successful initiatives were built". Entrepreneurial culture, conversely, has shown a weak to non-existent linkage with initiatives amongst the extant literature. This point was noted first by Verbeke et al. (2007), and then later reinforced by the findings of Dorrenbacher and Geppert (2010), who found a corporate culture built on high levels of trust was more conducive to the development of initiatives than one of entrepreneurship.

The most important subsidiary context factor identified by Verbeke et al. (2007) and Dorrenbacher and Geppert (2010) in the context of the current study is that of strong leadership. This is because one of the key objectives of the current study is to understand how the different types of autonomy (including that which is developed independently by subsidiary managers) influences subsidiary initiatives. To this point, research investigating the connection between strong leadership and initiatives has yielded contradictory findings. For example, the study of Dorrenbacher and Geppert (2010) noted that the majority of extant literature within the International Human Resource Management (IHRM) field (Dowling, Welch & Schuler, 1999; Gong, 1993; Tarique, Schuler & Gong, 2006) assumed that a subsidiary manager's nationality, rather than leadership characteristics, was the main driver of their inclination to undertake initiatives. Similarly, in a study of 229 manufacturing subsidiaries across Canada, Scotland and Sweden, Birkinshaw (1999) found no evidence of strong leadership promoting initiatives. Yet the study by Dorrenbacher and Geppert (2010) itself revealed that many aspects of a subsidiary CEO's leadership, including their ability to access resources and form internal and external coalitions, was a crucial element in developing initiatives. This reinforced the earlier findings of Birkinshaw et al. (1998) who, in their study on the role of initiative in determining a subsidiary's contributory role, proposed that strong subsidiary leadership was essential for the development of initiatives. These conflicting results indicated that further research was needed to explore the role that subsidiary managers play in the development of subsidiary initiatives. This is especially important within the context of this current study, as research by authors such as Birkinshaw and Hood (1998), Delany (2000), Gammelgaard et al. (2011), Miozzo and Yamin (2012), Sandvik (2010) and Sargent and Matthews (2006) have shown that subsidiary managers may develop autonomy on behalf of the subsidiary beyond the autonomy provided to them (if any at all) explicitly by the head office. Thus by developing a greater understanding of how subsidiary managers drive subsidiary initiatives, the study also aims to ascertain a clearer understanding of the role of the different types of autonomy in the generation of subsidiary initiatives. This also highlights the importance of developing a greater understanding of the different types of autonomy and how they are developed through the first research question of this study.

As stated by Dorrenbacher and Geppert (2009), it is necessary to consider agency theory (Jensen & Meckling, 1976; Saam, 2007) when considering the role of subsidiary management in developing initiatives. As stated previously, this theory focuses on the agency relationship as its unit of analysis. In this relationship, the subsidiary managers are seen to be acting as agents on behalf of headquarters (who represent the principal), with the managers being delegated decision making authority by the headquarters so as to "perform some service" (Jensen & Meckling, 1976, p. 308) on their behalf. Importantly, where many earlier studies (Dunning, 1979; Johanson & Vahlne, 1977; Vernon, 1966) and much of the Subsidiary Development literature (Birkinshaw, 2000; Birkinshaw & Hood, 1998) overlooked the role of subsidiary managers in developing subsidiary initiatives, agency theory acknowledges the ability of these actors to not only create such initiatives, but in doing so to also impact the state of the corporation. As an illustration, Arrow (1985, p. 37) defined the agency relationship as one involving "two individuals… [where] one (the agent) must choose an action from a number of alternative possibilities. The action affects the welfare of both the agent and another person, the principal". The agent is therefore able to exert considerable influence on the state of the principal.

The most important contribution of agency theory (Jensen & Meckling, 1976; Saam, 2007) within this section of the current study, however, is its acknowledgement that subsidiary managers, despite representing actors on behalf of the parent company (the principal), may engage in entrepreneurial actions in order to capitalise on self-maximising opportunities. As noted previously, this is due to the ‘mixed-motive dyad’ between the subsidiary and the head office, where the desired outcomes of the two sides are not always in sync (Ambos et al., 2010; Balogun et al., 2011; Ghoshal & Nohria, 1989; Suwannarat & Leemanonwarachai, 2012). As identified in Section 2.3.7, these actions by the subsidiary involve some form of autonomy, be it assigned by the headquarters, of developed by the subsidiary managers on their own (Dorrenbacher & Geppert, 2009; Saam, 2007). However, while both agency theory and the studies by Verbeke et al. (2007) and Dorrenbacher and Geppert (2010) have implicitly identified autonomy as a factor in the development of subsidiary initiatives, neither has directly considered the influence of autonomy itself (and in particular, it’s different forms) as a key determinant of initiatives. This was first identified as a significant research gap by Young and Tavares (2004) in their review of the role of autonomy within subsidiary management literature, and more recently reinforced as a significant research gap by Gammelgaard et al. (2012). The following section therefore considers the extant studies that have addressed the issue of autonomy as a determinant of initiatives to varying degrees.

Autonomy as a determinant of subsidiary initiatives

While the study by Verbeke et al. (2007) indirectly considered the influence of autonomy on subsidiary initiatives by exploring the influence of such factors as the extent of headquarters-subsidiary communication and strong leadership, a number of other studies (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012) have directly explored the role of subsidiary autonomy in subsidiary initiatives. In their review of the role of autonomy as a driver of specialist subsidiary capabilities, Collinson and Wang (2012) noted that autonomy allows a subsidiary to invest in initiatives with reduced head office intervention. This was supported by the empirical findings of Balogun et al. (2011) as part of their study into the negotiations relating to subsidiary development between the subsidiary and head office. Balogun et al. (2011) revealed that subsidiaries employed autonomy as a key part of initiatives in two distinct situations: to develop a new business opportunity, or to correct a 'misalignment' between the head office's mandate and the subsidiary's desired role.

In a more specific focus, Birkinshaw (1997)- along with studies by Birkinshaw and Fry (1998), Delany (2000) and Krishnan (2006)- investigated the role of subsidiary autonomy directly as a facilitator of the different types of initiative that he had devised. For local market initiatives, it was found that autonomy was beneficial in the preliminary stages of the initiatives, but less appropriate in the latter stages. This suggested that subsidiary autonomy may be necessary in the formative phase so that subsidiary resources may be applied to the opportunity without interference from head office, but becomes a liability as the business opportunity grows and requires integration into the corporate network. Birkinshaw and Fry (1998) added that autonomy is crucial in the initial stages because there is often a strong likelihood of an external (local or global) initiative being rejected by headquarter management in its embryonic stage. This outcome therefore requires the subsidiary to be able to carry out the initial development work independently and with its own funds. The study of Gammelgaard et al. (2011) broadly supported the findings of Birkinshaw (1997) and Birkinshaw and Fry (1998), but was less specific in its focus. Gammelgaard et al. (2011) claimed that subsidiaries with autonomy possess superior information that can lead to local market initiatives, although did not differentiate between the influence of autonomy in the early or latter stages of such initiatives. Global market initiatives were also found to be facilitated by high levels of autonomy (Birkinshaw, 1997). This was demonstrated by one particular subsidiary that had established a viable international business through a high level of autonomy, only to have that viability curtailed by the parent company restricting the subsidiary's autonomy due to corporate financial difficulties. This meant that it became difficult, time-consuming and frustrating for the subsidiary to pursue further global market initiatives (Birkinshaw, 1997).

Conversely, for internal market initiatives, Birkinshaw (1997) found that a low level of autonomy was required in order for the subsidiary to be able to work closely with the head office and establish credibility. This then improved the chance of success of a subsidiary's internal market initiative. Similar results were found for hybrid initiatives, which also required substantial levels of credibility and therefore low subsidiary autonomy. Birkinshaw and Fry (1998) supported these findings, claiming that subsidiaries require tight integration into the corporate system and a reputation as a trustworthy, reliable operation to achieve successful internal (internal market and hybrid) initiatives. While the study by Krishnan (2006) of Indian software subsidiaries revealed internal market initiatives were characterised by high levels of autonomy, the author acknowledged that these findings are most likely industry-specific, which limited their validity. A more significant problem with the study by Birkinshaw (1997) and it's classifications for the different types of initiative was identified by Delany (2000). As stated previously, Delany (2000) found that of 84 'initiatives' described by MNE subsidiary general managers, fewer than 60% fitted the descriptions of Birkinshaw's classifications. The study by Delany (2000) also found that of those initiatives that did fit into the classifications, a large number failed and accordingly, subsidiaries frequently found themselves in a position where they had to defend their current mandate, or consolidate it through performance improvement.

The study by Delany (2000) therefore built on the earlier terminology of Thompson (1967) and developed a three-type classification for subsidiary 'initiatives': domain developing, domain consolidating, and domain defending. Its findings revealed that autonomy, even when assigned to the subsidiary by headquarters, is not always advantageous for the subsidiary when pursuing initiatives; in this respect, they supported the findings of Birkinshaw (1997) and Birkinshaw and Fry (1998). Delany (2000) argued that in the case of a number of the Irish MNEs featured in the study (including an electronics manufacturing subsidiary and a sales subsidiary of a European capital equipment company), autonomy often comes at the expense of strategic relevance or centrality. Forsgren and Pahlberg (1992) termed this strategic relevance 'systemic power', which specifically involved "the degree of involvement of the unit in the overall corporate system or network" (Delany, 2000, p. 238). Thus even if a subsidiary is assigned autonomy, if it lacks systemic power it may be difficult for any initiatives to be approved or even noticed by the headquarters (Delany, 2000). Although the study by Delany (2000) made an important contribution to our understanding of how autonomy may influence the success of an initiative, it did not differentiate between the *different types* of autonomy or consider how they may impact initiatives differently.

A number of more recent studies (Ambos et al., 2010; Suwannarat & Leemanonwarachai, 2012) have also investigated the relationship between subsidiary autonomy and initiatives, but unlike the aforementioned studies in this section (Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Verbeke et al., 2007), viewed initiatives as a precondition to subsidiary autonomy, rather than vice versa. These studies continued on from the earlier research of Birkinshaw and Morrison (1995), Forsgren et al. (1992) and Hood and Taggart (1999), who discussed subsidiary autonomy as both a beneficial outcome of, and precondition for, subsidiary development. The study by Ambos et al. (2010) explored the consequences of subsidiary initiatives across a sample of 257 subsidiaries located in Australia, Canada and the United Kingdom. The study found that a subsidiary is able to extend its level of autonomy by developing initiatives, which grows its resource base and thus its bargaining power vis-à-vis the head office. This finding was reinforced by the study of Suwannarat and Leemanonwarachai (2012), as part of their investigation of the influence of initiatives on the subsidiary-head office relationship of foreign subsidiaries located in Thailand. These authors developed a framework to reflect this influence, and noted a positive relationship between initiatives and subsidiary autonomy. Whilst highlighting the reciprocal relationship of subsidiary autonomy and initiatives, the studies of Ambos et al. (2010) and Suwannarat and Leemanonwarachai (2012) are limited in the context of the current study in two key ways. First, neither study focused on the ability of subsidiary autonomy to generate initiatives. Second, neither study acknowledged the different types of autonomy.

While the findings of the studies outlined in this section (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) shed some light on the role that autonomy plays in subsidiary initiatives, they each contain at least one significant limitation within the context of this current study. First, a number of the studies (Birkinshaw, 1997; Birkinshaw & Fry, 1998; Delany, 2000; Krishnan, 2006; Verbeke et al., 2007) attempted to delineate how the need for autonomy could differ depending on the type of initiative. However, this created a number of problems. First, a number of the initiative classifications (such as Verbeke et al.'s [2007] 'subsidiary renewal initiatives' or Delany's [2000] 'domain defending initiatives') do not involve the extension of a subsidiary's role, and therefore do not meet the requirements as true initiatives as defined in this current study (Birkinshaw & Hood, 1997, 1998; Dorrenbacher & Geppert, 2010; Holm & Pedersen, 2000; Young & Tavares, 2004). Second, a number of these initiative classifications, such as that of Birkinshaw (1997), have been shown to be unrepresentative of real-life behaviour by subsidiaries (Delany, 2000). Finally, when investigating the importance of autonomy for the proposed types of initiatives, a number of studies (such as Birkinshaw [1997] and Krishnan [2006]) have yielded conflicting findings, even for the same type of initiative. The studies of Ambos et al. (2010) and Suwannarat and Leemanonwarachai (2012), on the other hand, are limited in that their focus was on the role of initiatives in influencing subsidiary autonomy, rather than on the role of subsidiary autonomy in influencing initiatives.

In addition to the problems relating to subsidiary initiative classifications and the direction of the autonomy-initiatives relationship, more research is also needed to identify the *type of autonomy* required to develop these initiatives. This issue has been overlooked by the extant literature outlined above (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007). For example, by exploring the influence of the level of decentralisation on initiatives, Verbeke et al. (2007) implicitly proposed a positive relationship between assigned autonomy and subsidiary venturing initiatives. Yet the study failed to consider the influence of autonomy that was assumed by the subsidiary beyond the assigned levels. In addition, the study by Verbeke et al. (2007) neglected to consider the direct influence of autonomy as a stand-alone factor on subsidiary initiatives. The study of Balogun et al. (2011) identified different situations in which subsidiaries would utilise autonomy in developing initiatives, but did not acknowledge the potential varying influence of the different types of autonomy. The study by Birkinshaw (1997), on the other hand, examined the importance of 'autonomy' itself as a facilitator of the different types of initiative, yet did not differentiate between the different types of autonomy, and therefore was not able to identify the influence of each type on subsidiary initiatives. Krishnan (2006) also investigated autonomy as a facilitator of the different types of initiative and identified a positive relationship between it and all forms of subsidiary initiative. Yet like Birkinshaw (1997), Krishnan (2006) overlooked the influence of these two different types of autonomy. Similarly, while Birkinshaw et al. (1998) found that subsidiary autonomy had a positive relationship with both initiatives and a subsidiary's contributory role, their study did not identify the impact of different types of autonomy on the two concepts. Furthermore, while the study by Delany (2000) recognised the potential negative effect of autonomy on subsidiary initiatives, it too failed to consider the influence of the different types of autonomy. Finally, while the studies of Ambos et al. (2010) and Suwannarat and Leemanonwarachai (2012) recognised a positive relationship between initiatives and subsidiary autonomy, neither differentiated between the different types of autonomy.

This failure to consider the impacts of the *different types* of autonomy on the different types of subsidiary initiatives represented a key research gap. This research gap was acknowledged by Young and Tavares (2004) in their discussion of the directions for future research in relation to autonomy within the MNE. These authors stated that more research is needed "to determine…what type of autonomy is necessary to develop meaningful initiatives" (Young & Tavares, 2004, p. 231). Despite a number of studies investigating the role of the broad notion of 'subsidiary autonomy' in developing initiatives (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007), and even noting the need for further research to fully understand this relationship (Gammelgaard et al., 2012), the extant subsidiary management literature has failed to investigate the specific influence of the *different types* of subsidiary autonomy on initiatives (and thus address the research gap identified by Young and Tavares [2004]). Thus the first part of the second research question is:

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*

Once the study is able to determine the role that autonomy plays in the development of subsidiary initiatives, it may then begin to investigate the influence that the different types of autonomy have on subsidiary development. This is because as outlined in Section 2.4.2, a number of studies (Balogun et al., 2011; Birkinshaw et al., 1998; Cavanagh & Freeman, 2012; Delany, 2000; Krishnan, 2006; Sargent & Matthews, 2006) have revealed that initiatives are vital in achieving subsidiary development. By ascertaining the influence of the different types of autonomy on the subsidiary development process, the study may then address a key research gap within the subsidiary management literature, as identified by Young and Tavares (2004). The following section therefore considers the role that the different types of autonomy and a number of other factors play in driving the subsidiary development process.

2.4.4. Drivers of subsidiary development

As outlined in the beginning of Section 2.4, a number of studies (Balogun et al., 2011; Birkinshaw & Hood, 1997; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Holm & Pedersen, 2000; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) have considered the broad processes of subsidiary development. However, none of these studies directly explored the specific drivers of subsidiary development. One study that addressed this research gap was that of Birkinshaw and

Hood (1998), which investigated the factors that may potentially lead to the extension of the subsidiary's role. As supported by the recent study of Tong et al. (2012), Birkinshaw and Hood (1998) identified three specific and complementary drivers of subsidiary development: head-office assignment, local environment determinism and subsidiary choice. These three drivers of subsidiary development are outlined in Figure 2.5.

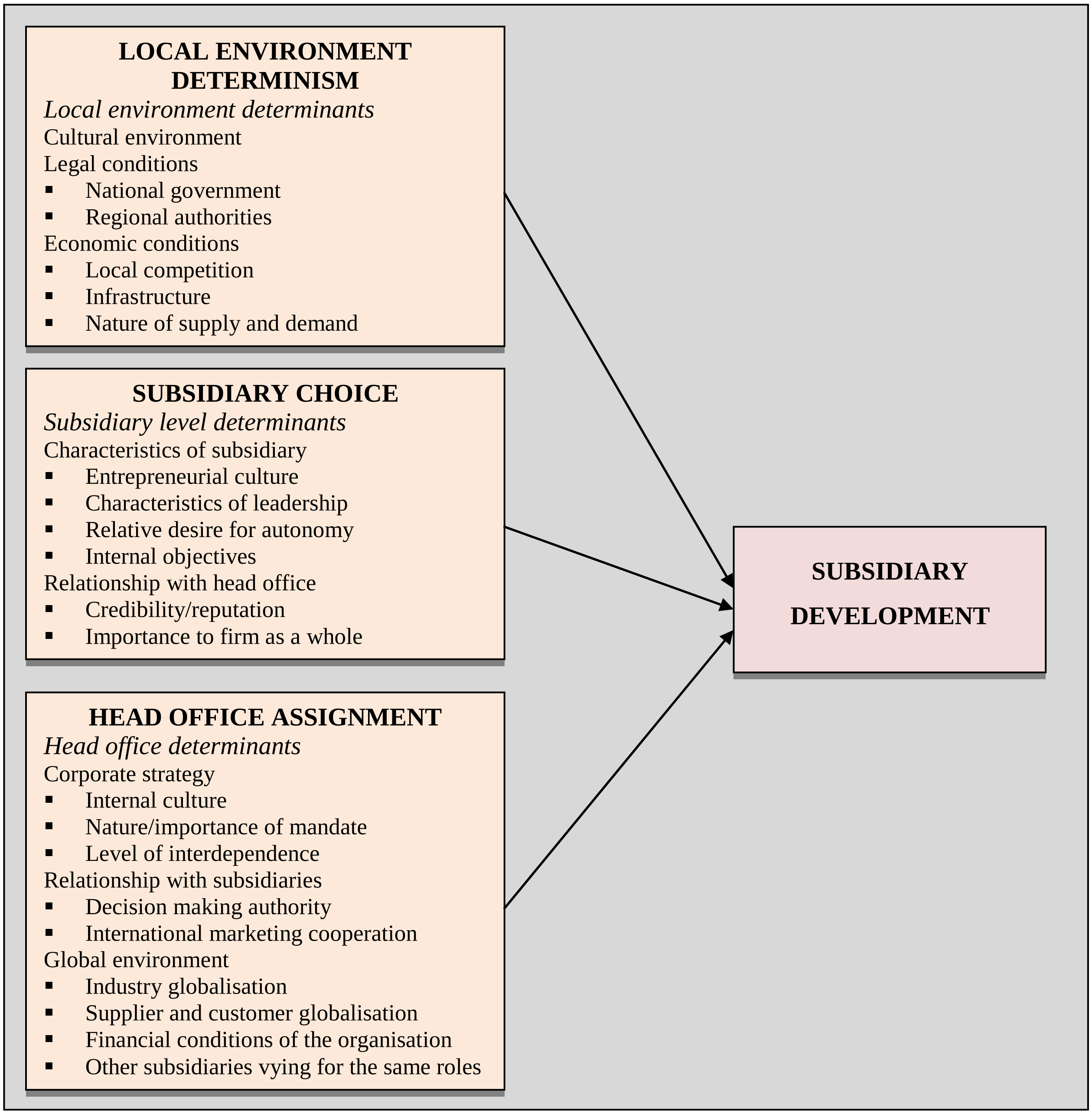

Figure 2.5: Drivers of subsidiary development

Adapted from Birkinshaw and Hood (1998), Paterson and Brock (2002) and Tong et al. (2012)

Head-office assignment is where the subsidiary's development is directed by the parent company and therefore represents an extension of corporate strategy (Manopoulos, 2008). In such instances, the head office will deliberately assign the subsidiary an extended contributory role. Factors such as the global environment, competition from other subsidiaries, changes in the charter assigned to the subsidiary, the subsidiary's perceived capabilities and the headquarters' preference for central control all represent head office assignment drivers (Bartlett & Ghoshal, 1986). It is worth noting that the recognition of 'decision making authority' (as shown in Figure 2.5 above) as a *head office* driver of subsidiary development reinforced the earlier discussion (see Section 2.3.6) regarding authority as a 'limit' to a subsidiary's autonomous actions to develop its contributory role. As noted by Tong et al. (2012), Mudambi (1999) and Young and Tavares (2004), a subsidiary's authority is determined by the head office and assigned to the subsidiary. As such, the head office is ultimately able to 'cap' the amount of autonomy available to the subsidiary, which in turn affects its ability to drive the subsidiary development process (Birkinshaw & Hood, 1998; Paterson & Brock, 2002).

The head-office assignment mechanism is based on two theoretical perspectives: the International Product Life Cycle (IPLC) model (Vernon, 1966) and the internationalisation process model (Johanson & Vahlne, 1977, 2006, 2009, 2011). Both perspectives assume the subsidiary to be an instrument of the MNE and thus act solely with regard to headquarter-determined imperatives. The IPLC model (Vernon, 1966) describes how a subsidiary's role changes over time- from initially servicing the local market, to adapting the product to suit local requirements, then exporting back to the country of origin and eventually contributing to product development (Harrigan, 1984; Vernon, 1979). However, the IPLC model was limited in the context of this study because it assumes that the subsidiary is always subordinate to the head office while more recent studies (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) have proved otherwise.

In the internationalisation process model, Johanson and Vahlne (1977, 2006, 2009, 2011) explain how firms move beyond their national borders by outlining the reciprocal relationship between levels of knowledge about, and existing commitment to, a foreign market, and decisions regarding further commitment to that market. When applied to the context of a subsidiary, the parent company can be seen to commit to a subsidiary by developing its operations based on its current strengths and weaknesses (*market knowledge*) and a desire to increase the investment in that country (*market commitment*). This decision therefore leads to increased commitment, greater understanding of the local business environment and the potential for further investment into the future. Like the IPLC model (Vernon, 1966), the internationalisation process model (Johanson & Vahlne, 1977, 2006, 2009, 2011) assumes that the head office determines the strategic direction and importance of the subsidiary, and thus its role. It was therefore similarly limited in its ability to fully explain the subsidiary development process, given the recognition of the subsidiary's ability to influence this process itself (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012).

There are a number of studies which have provided empirical support for the notion of head-office assignment. The majority of these are older literature from the formative stages of the Subsidiary Development stream, and focused on subsidiaries in the United Kingdom (Hood & Young, 1983; White & Poytner, 1984) and the United States (Chang, 1995, 1996; Hamel & Prahalad, 1985). However, more recent studies such as that of Cavanagh and Freeman (2012), Balogun et al. (2011) and Sandvik (2010) have established that head-office assignment is not the sole driver of a subsidiary's role. Further, Birkinshaw and Hood (1998) noted that most of the empirical studies within this perspective documented head-office assignment of roles at the low value-added end of the scale. This suggested that this mechanism may be a driver of subsidiary roles in the preliminary stages of a subsidiary's development. While this indicated the need for further research into the influence of head-office assignment in the later stages of a subsidiary's development, the current study is focused on the influence of the subsidiary autonomy. As such, it instead focuses on the ability of the subsidiary to develop its contributory role *without* head-office assignment in the various stages of the development process.

The second driver of subsidiary development is local environment determinism (Birkinshaw & Hood, 1998; Tong et al., 2012). Many researchers (Chiao & Ying, in press; Collinson & Wang, 2012; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1989; Miozzo & Yamin, 2012; Najafi-Tavani et al., 2012; Rosenzweig & Singh, 1991) have proposed that each subsidiary within the MNE operates in a unique local environment, as defined by the customers, competitors, suppliers and government bodies (Chia & Ying, in press), to which it must adapt. In this way, the local environment can be seen to constrain or determine the activities and role of the subsidiary. The theoretical rationale behind this perspective is that certain aspects of knowledge transfer occur more effectively between local organisations than between a subsidiary and its overseas parent. This is due to the geographical proximity and cultural similarity (Kogut & Zander, 1992; Krugman, 1991; Porter, 1990; Solvell & Zander, 1998). Another key theoretical underpinning of the local environment determinism perspective is the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), which views the MNE as a 'differentiated inter-organisational network' or 'federation' (Andersson et al., 2007; Gammelgaard et al., 2011; Handy, 1992) of loosely connected entities, as opposed to a hierarchical monolith (Ghoshal & Bartlett, 1990). Gammelgaard et al. (2011) noted that such a notion encapsulates a decentralised structure and variety amongst subsidiary roles. This view of the MNE is depicted in Figure 2.6.

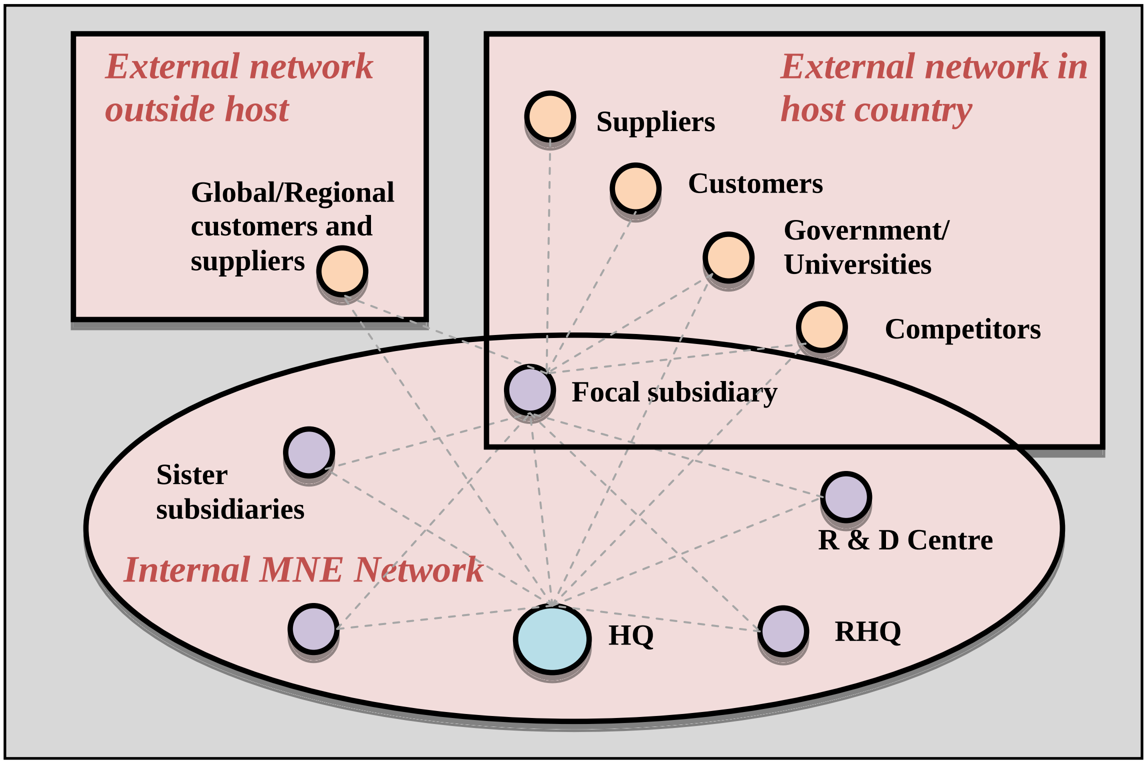

Figure 2.6: The network model of the MNE

Source: Collinson and Wang (2012)

Following the approach of Gammelgaard et al. (2012), the current study acknowledges that the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) as discussed here incorporates the perspective of the MNE's inter-and intra-organisational relationships (Ghoshal & Bartlett, 2005), the differentiated network view (Nohria & Ghoshal, 1997) and the heterarchy perspective (Hedlund, 1986). When combined, these perspectives view MNEs as decentralised, differentiated units, where the head office's relationships with each of its subsidiaries are unique in terms of the scope of activities, resource flows, autonomy and strategic mandates (Gammelgaard et al., 2012). This highlights the significance of the network model of the MNE to subsidiary development: by developing its contributory role within the MNE as part of subsidiary development, the subsidiary is also influencing both the head office and the host-country actors (Gammelgaard et al., 2012). More specifically, the significance of the network model of the MNE in explaining local environment determinism lies in its recognition that in addition to the 'strategic role' that is assigned to the subsidiary by headquarters, a subsidiary's behaviour may also be shaped by its specific relationships with customers, suppliers and other counterparts (including fellow subsidiaries) (Chiao & Ying, in press; Gammelgaard et al., 2012; Ghoshal & Bartlett, 2005). Of particular importance within the context of this study (given the premise that a subsidiary may develop autonomy beyond its formally assigned levels) is the argument put forward by Andersson and Forsgren (1996) that as a result of the various networks formed through these relationships, a subsidiary may develop a role in a particular network that is quite separate from its headquarters-assigned 'strategic role'. Empirical evidence for this perspective has been limited, however, and the extant theoretical research has tended to focus on the influence of the local environment in the early stages of subsidiary role development. Thus the role that the local environmental factors play as drivers of subsidiary development (particularly in the more advanced stages), and their interaction with the other drivers, has to this point been underexplored. However, since this study is focused on the ability of the subsidiary to either be assigned (by headquarters) or assume (through its own actions) autonomy, an exploration of the role of local environmental factors is beyond its scope.

The third driver of a subsidiary development is subsidiary choice (Birkinshaw & Hood, 1998; Tong et al., 2012). This perspective is based on the strategic choice argument of Child (1972) and asserts that the role performed by the subsidiary is determined by its own decisions and actions. Factors such as an entrepreneurial culture, the subsidiary's need to justify its own existence and- most important of all within the context of this study- subsidiary management's desire for increased autonomy all represent subsidiary choice drivers (Birkinshaw & Hood, 1998; Paterson & Brock, 2002; Tong et al., 2012). This study is primarily concerned with the subsidiary choice mechanism, since it sought to examine the level and type of autonomy required for a subsidiary to generate successful subsidiary initiatives and influence its contributory role. The subsidiary choice view, and indeed much of this study, is underpinned by two key theories: the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1970; Burgelman, 1983a).

As stated previously, the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) views the MNE as an interorganisational network of loosely related entities, rather than a hierarchical monolith (Andersson et al., 2007; Chiao & Ying, in press; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Ghoshal & Bartlett, 1990; Handy, 1992). One of the key assumptions of the network model of the MNE is that ownership advantages do not have to originate from the home country but can instead by developed by a foreign subsidiary (Rugman & Verbeke, 1992). Thus the significance of the network model of the MNE within the context of this study lies in the fact that unlike the IPLC model (Vernon, 1966), it recognises that a subsidiary's role does not have to be assigned to it, and nor do subsidiary management necessarily face a role of subordination vis-à-vis the head office (Tong et al., 2012). This links directly to the subsidiary development literature (Balogun et al., 2011; Birkinshaw & Hood, 1998; Cavanagh & Freeman, 2012; Delany, 1998, 2000; Dorrenbacher & Geppert, 2010; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012; Tippermann et al., 2012) which, as outlined earlier in Section 2.4, revealed that subsidiaries are able drive their own development and extend their contributory role within the MNE.

The decision process perspective (Bower, 1970; Burgelman, 1983a) originates from a body of literature that examined the strategic decision-making process in large and complex organisations. Like the internationalisation process model (Johanson & Vahlne, 1977, 2006, 2009, 2011), the decision process perspective assumes bounded rationality on the part of the individual subsidiary managers, and has provided much of the foundations for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). Of most relevance to this study from within the decision process perspective is the work of Burgelman (1983a). Based on his earlier work on 'internal corporate ventures' within the MNE (Burgelman, 1983b), this study developed a process model to elucidate cases of strategic behaviour within large, complex firms; this model is shown below in Figure 2.7. According to Ambos et al. (2010), this decision process perspective research (Burgelman, 1983a) represents a key basis upon which to understand why subsidiaries employ autonomy in attempts to develop initiatives (which in turn aim to drive the subsidiary development process). Using an extension of Bower's (1972) resource allocation model, Burgelman's (1983a) model explored the link between such strategic behaviour and the structural and strategic contexts within the firm. The model's most important contribution within the context of this current study (as highlighted in Figure 2.7), however, was the recognition that managers at the product or subsidiary level may engage in either 'induced' or 'autonomous' strategic behaviour. Induced strategic behaviour involves actions that are determined by the existing structural context and corporate strategy, and includes such things as new product developments and strategic capital investments for existing businesses. Autonomous strategic behaviour involves entrepreneurial actions at the operational or market level that precede changes in corporate strategy, and include such things as conceiving new business opportunities, engaging in project championing efforts for these opportunities and performing strategic forcing efforts for further development. This acknowledgment of the subsidiary's ability to undertake autonomous strategic behaviour that is beyond the existing corporate strategy represents a key foundation for understanding the different types of autonomy. Similarly significant is the acknowledgement that such autonomous behaviours have the potential to impact the strategic context of the MNE, which includes the role played by the subsidiary (Ambos et al., 2010; Burgelman, 1983a).

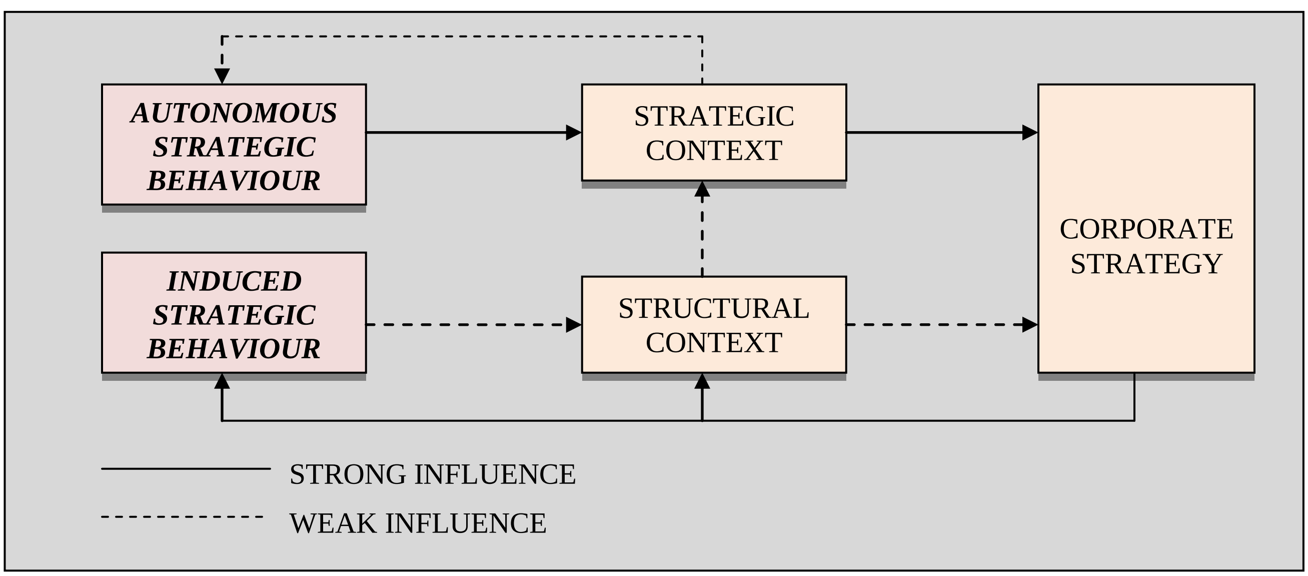

Figure 2.7: Strategic behaviour process model

Adapted from Burgelman (1983a)

There has been substantial empirical support for the subsidiary choice perspective, much of which is based on Canadian subsidiaries. Authors such as Bishop and Crookell (1986) and Birkinshaw and Hood (1998) showed that a number of Canadian subsidiaries had been able to develop WPMs through autonomous actions. Similarly, studies by Balogun et al. (2011), Cavanagh and Freeman (2012), Delany (2000), Krishnan (2006), Sandvik (2010) and Sargent and Matthews (2006) have provided further empirical support for subsidiary choice as a driver of subsidiaries' roles in Europe, Australia, Ireland, India, Norway and Mexico respectively. For example, the study by Cavanagh and Freeman (2012) demonstrated how subsidiaries within the AMVMI were able to drive the subsidiary development process and achieve specific contributory roles through a combination of specialised resources and initiatives. A key feature of these and the majority of other studies that have advocated the subsidiary choice mechanism is the recognition of the importance of subsidiary autonomy in the development process. An example is the study of Balogun et al. (2011), which identified subsidiary autonomy as a key element in the micro-level political dynamics in subsidiary development. Additionally, in their study of five R & D subsidiaries, Birkinshaw and Fey (2000) asserted that autonomy enables a subsidiary to not only improve local responsiveness but also to create an internal market. Other authors (Birkinshaw & Morrison, 1995; Forsgren et al., 1992; Hood & Taggart, 1999) have gone further and claimed that subsidiary autonomy is both a desirable outcome of, and prerequisite for, subsidiary development.

However, significant research gaps have remained, particularly in relation to determining the precise influence of key subsidiary choice variables. For example, Gammelgaard et al. (2011) and Gammelgaard et al. (2012) noted that the precise influence of one of the most important factors in the context of this current study, 'relationship with head office', has yet to be empirically proven. This is despite a significant amount of research (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 1012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) having investigated the subsidiary-head office relationship. Birkinshaw and Hood (1998) first proposed this relationship as a significant subsidiary context factor in subsidiary development, yet did not provide any empirical evidence to support this hypothesis. The study by Delany (2000), on the other hand, emphasised the importance of the subsidiary establishing strong relationships with local customers in realising subsidiary development, but did not explore the relationship between the subsidiary and head office as a key factor.

In addition, a number of recent studies (Balogun et al., 2011; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012) have focused on the subsidiary-head office relationship, yet have not investigated its influence on subsidiary development. The study by Gammelgaard et al. (2012), as discussed previously, investigated the impacts of subsidiary autonomy and inter- and intra-organisational relationships on subsidiary performance through a survey of 350 subsidiaries in the UK, Germany and Denmark. As part of its literature review, the study proposed that increased subsidiary autonomy is likely to reduce the strength of the subsidiary-head office relationship, since autonomous actions by their very nature disassociate the subsidiary from other units within the MNE. However, the study found no direct evidence of the negative influence of autonomy on the subsidiary-head office relationship. Even more significantly, the study found little evidence of a link between intra-organisational relationships and subsidiary performance, and did not even directly investigate the influence of the subsidiary-head office relationship on subsidiary development. An additional study by Miozzo and Yamin (2012) looked into the institutional and sectoral determinants of the subsidiary-head office relationship across eight United Kingdom service subsidiaries. The study found that the nature of the subsidiary-head office relationship was determined by a number of factors, including globalisation triggering greater subsidiary integration through global corporate practices and sourcing, the characteristics of the service industry and host country regulations. However, the study of Miozzo and Yamin (2012) did not explore the influence of the subsidiary-head office relationship on subsidiary development.

Even the studies of Drogendijk and Holm (2012), Balogun et al. (2011), Reilly et al. (2012), Sargent and Matthews (2006) and Sandvik (2010), which indirectly revealed evidence of the influence of the subsidiary-head office relationship on subsidiary development, did not directly investigate this connection. The study by Drogendijk and Holm (2012), for example, investigated the effect of national culture on the subsidiary-head office relationship within 1529 subsidiaries across Europe. The study found that the level of acceptance of power differences at both sides of the relationship is linked to the head office's influence on subsidiary competence development. Yet despite this finding, Drogendijk and Holm (2012) did not directly investigate how the subsidiary-head office relationship influenced the ability of the subsidiary to drive the subsidiary development process. The study of Balogun et al. (2011), on the other hand, revealed the importance of three discourses- 'selling', 'resistance' and 'reconciliation'- in the deconstruction and reconstruction of the subsidiary-head office relationship. The study then developed a process framework for the role of these three discourses in the reconstruction of subsidiary roles. Thus while the study indirectly linked the subsidiary-head office relationship to subsidiary development, it did not directly explore this connection. At the same time, Reilly et al. (2012) investigated how subsidiaries could respond to the threat of greater head office control in their study of Irish subsidiaries of foreign MNEs using qualitative and quantitative measures. In contrast to the findings of the earlier studies by Sargent and Matthews (2006) and Sandvik (2010), the study of Reilly et al. (2012) claimed that subsidiary initiatives offered only a short-term solution, and instead argued that a subsidiary's long-term survival depended on creating a close relationship with the head office. The authors stated that this relationship should be one of strategic alignment with the head office, which consists of strategic, relational and knowledge embeddedness. However, like the studies of Sargent and Matthews (2006) and Sandvik (2010), the study of Reilly et al. (2012) failed to directly investigate the influence of the subsidiary-head office relationship on subsidiary development. This need to investigate the role of the subsidiary-head office relationship on subsidiary development is further heightened by the identification in Section 2.4.3 that no extant study has directly explored the linkage between the different types of autonomy, the extent of communication between the head office and subsidiary, and subsidiary initiatives (Suwannarat & Leemanonwarachai, 2012). Further research is therefore required in order to determine precisely how important factors such as the 'relationship with head office' are in achieving subsidiary development.

Furthermore, Young and Tavares (2004), Gammelgaard et al. (2011) and Gammelgaard et al. (2012) have noted that while the connection between autonomy and subsidiary development has been established through a number of studies (Ambos et al., 2010; Balogun et al., 2012; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Delany, 2000; Forsgren et al., 1992; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Hood & Taggart, 1999; Krishnan, 2006; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012), the precise nature of this connection requires further research. As stated previously, assignment by the head office has been shown to often be a strong driver of a subsidiary's role in the preliminary stages of a subsidiary's development (Birkinshaw & Hood, 1998). At the same time, autonomy has been revealed to be a prerequisite for subsidiary development (Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Forsgren et al., 1992; Gammelgaard et al., 2011; Hood & Taggart, 1999), and a number of studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) have shown evidence of subsidiaries undertaking proactive, autonomous actions that utilise autonomy beyond the formally assigned (by headquarters) levels in order to develop its contributory role. This implies that even if the headquarters are driving the subsidiary development process in the initial stages, they must have assigned at least some level of autonomy to the subsidiary, and in some instances the subsidiary may display a level of autonomy beyond that assigned to them by headquarters in the subsidiary development process. However, as noted by Young and Tavares (2004), the exact types and levels of autonomy required by the subsidiary to influence its own contributory role through the subsidiary development process (especially in the later stages of the process) have yet to be determined by the extant literature. Gammelgaard et al. (2011) reinforced this research gap, stating that research is particularly needed to investigate the interplay between subsidiary autonomy, intra-organisational relationships and subsidiary development. Similarly, Gammelgaard et al. (2012) added that further research must also explore how subsidiary autonomy translates into initiatives, which in turn lead to higher contributory roles such as a centre of excellence. This need for further research on the influence of subsidiary autonomy on the achievement of contributory roles was also noted by Pisoni et al. (2010). Having explored how the different types of autonomy are developed and perceived by both headquarters and the subsidiary through the first research question, the current study will then investigate the role that these different types and levels of autonomy have on the subsidiary development process through the second part of the second research question:

Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

2.5. SUMMARY

This chapter detailed an extensive, critical review of the extant literature relating to subsidiary management and in particular, the understanding and use of autonomy by subsidiaries. This review led to the development of two research questions:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*
Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

The following chapter outlines the method employed by the current study that best enabled the researcher to address the above research questions.

3. METHOD

3.1. INTRODUCTION

This chapter delineates the method used to explore the current study's broad research problem, which is:

What role do the different types of autonomy play in subsidiary initiatives and role development?

To this end, the chapter first outlines the choice of research paradigm in Section 3.2. Section 3.3 then explains the selection of the study's research approach, before Section 3.4 outlines the methodological approaches of prior studies. Section 3.5 details the multiple-case study method, while Section 3.6 provides a brief description of each of the cases included in this study. Section 3.7 then outlines the method of investigation in this study, before the data analysis techniques employed in the study are covered in Section 3.8. In Section 3.9, the issues surrounding reliability and validity in case studies are explained, before the limitations of the case study approach are considered and addressed in Section 3.10. Finally, Section 3.11 delineates the study's ethical considerations. A diagrammatic outline of this chapter is shown in Figure 3.1.

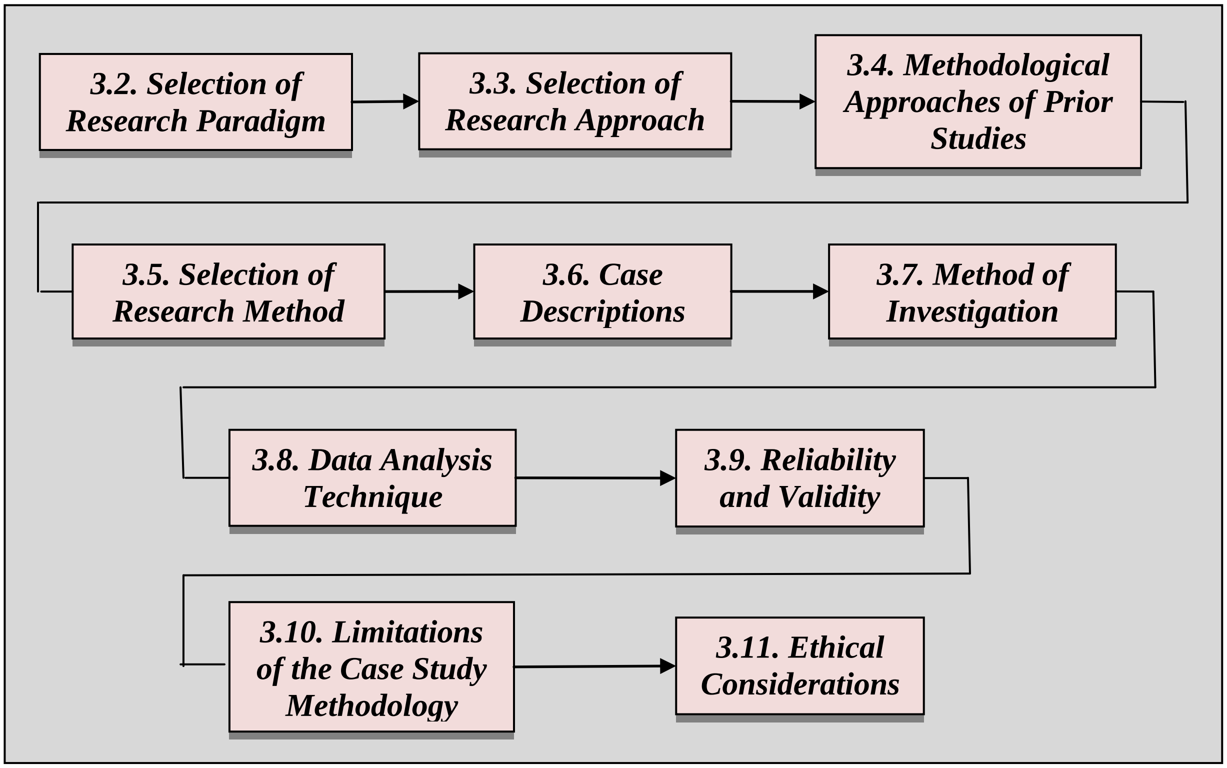

Figure 3.1: Structure of Chapter 3

3.2. SELECTION OF RESEARCH PARADIGM

A paradigm represents a collection of assumptions in relation to reality (ontology), knowledge of reality (epistemology) and ways of knowing about reality (methodology). More specifically, Guba and Lincoln (1994, p. 105) defined a paradigm as “the basic belief system or worldview that guides the investigator, not only in choice of method but in ontologically and epistemologically fundamental ways”. Thus the choice of paradigm guides the selection of the appropriate research approach. Guba and Lincoln (1994) discussed four broad paradigms which a researcher may employ in their study: positivism, post-positivism, critical theory and constructivism. These paradigms are shown in Table 3.1.

Table 3.1: Research paradigms

Issue	*Positivism*	*Post-positivism*	*Critical theory*	*Constructivism*
Inquiry aim	Explanation, which enables prediction and control of phenomena		Critique of structures that limit humankind by engaging in confrontation or conflict	Understanding and reconstruction of people's constructions
Nature of knowledge	Verified hypotheses established as fact or law	Non-falsified hypotheses that are likely facts or law	Structural or historical insights that change with time	Individual reconstructions coalescing around consensus
Quality criteria	Internal and external validity; reliability; objectivity		Historical situatedness; erosion of ignorance	Trustworthiness; credibility; transferability; dependability; confirmability

Adapted from Guba and Lincoln (1994)

A positivist paradigm is most appropriate for studies involving the testing of hypotheses. As such, this paradigm often involves the use of quantitative data. A constructivist paradigm, in contrast, facilitates the researcher coming into direct contact with the phenomenon under investigation and consequently, gaining a more holistic understanding of that phenomenon. For this reason, qualitative data is often employed by researchers that favour the constructivist paradigm (Crabtree & Miller, 1992; Hurmerinta-Peltomaki & Nummela, 2004). Traditionally, IB research (as part of the wider social science field) has employed a positivist paradigm in an attempt to establish its legitimacy by building and testing theory (Piekkari et al., 2009; Zalan & Lewis, 2004). However, Doz (2011) noted that in order to develop the field of IB research, future research should consider other paradigms. With this in mind, the current study employed a constructivist paradigm. Through the use of the constructivist paradigm, the current study sought to develop a comprehensive, holistic understanding of subsidiary autonomy within its context (the MNE). At the same time, the current study did not aim to test or validate hypotheses, further highlighting the suitability of the constructivist paradigm.

3.3. SELECTION OF RESEARCH APPROACH

The two broad and divergent research approaches are quantitative and qualitative research. Creswell (1994, p. 2) stated that quantitative study involves "an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and analysed with statistical procedures, in order to determine whether the predictive generalisations of the theory hold true." Conversely, a qualitative study is "an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting" (Creswell, 1994, pp. 1-2).

Authors have suggested a number of factors on which the selection of a study's research approach should be based. As stated in the previous section, Guba and Lincoln (1994) asserted that the research paradigm should guide the choice of research approach. Simons (2009) and Tharenou et al. (2007) both argued that the research approach should also be based on the underlying purpose and overarching aims of the study. As an extension, Yin (2009) stated that the nature of the research questions should influence the selection of the study's research approach.

In terms of research paradigm, the previous section (Section 3.2) outlined that the current study adopted a constructivist paradigm. As such, qualitative research appeared to be the most appropriate approach (Guba & Lincoln, 1994). This choice was reinforced by the purpose and aims of the study. Crabtree and Miller (1992) stated that there are five general aims for scientific inquiry: identification, description, explanation-generation, explanation-testing and control. A quantitative approach is suitable for the explanation-testing and controlling of hypotheses, and the identification of statistically significant relationships between precisely measured variables (Crabtree & Miller, 1992; Tharenou et al., 2007). A qualitative approach, on the other hand, is appropriate when the aim of the study is identification, description, and explanation-generation. This approach offers detail, process, richness and sensitivity to context, and is useful for understanding meaning and constructing theoretical explanations from participant understanding

(Simons, 2009; Tharenou et al., 2007; Yin, 2009). Table 3.2 below outlines the contrasting characteristics of qualitative and quantitative research. Given that the current study sought to identify the precise way in which autonomy is viewed and negotiated by the subsidiary and the head office, and also generate an explanation for how subsidiary autonomy influences subsidiary initiatives and development, a qualitative approach appeared to be most appropriate.

Table 3.2: Characteristics of qualitative and quantitative research

Qualitative	***Quantitative***
Soft	Hard
Flexible	Fixed
Subjective	Objective
Political	Value-free
Case study	Survey
Speculative	Hypothesis testing
Grounded	Abstract

Source: Halfpenny (1979)

The nature of the research questions of the current study also reflected the need for a qualitative research approach. According to Tharenou et al. (2007), questions of incidence and measurement of variable relationships, and which test 'how many' or 'how much', are generally best suited to quantitative methods. In contrast, questions that are more exploratory and speculative in nature, and involve 'how' and/or 'why', for instance, are more likely to require a qualitative approach (Yin, 2009). The nature of the current study's broad research problem *('What role do the different types of autonomy play in subsidiary initiatives and role development?')* indicated that exploratory research was required to address this problem. This was reinforced by the review of the extant literature in Chapter 2, which revealed that there had been limited research conducted on the role of autonomy in subsidiary initiatives and development (Gammelgaard et al., 2012; Gammelgaard et al., 2011; Manopoulos, 2008; Young and Tavares, 2004). The need for a qualitative research approach was also highlighted by the research questions that were identified in the literature review in Chapter 2:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*
Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

An examination of these questions revealed that they are all exploratory in nature, and seek to increase the understanding of the way in which autonomy is perceived and the role it plays in the subsidiary development process. This is evidenced by the use of 'how' and 'what role' in the wording of the questions. This in turn suggested that a qualitative approach may be more appropriate, since qualitative research aims to gain a broad understanding of the issue, as opposed to quantitative research, which involves precise measurement within specified boundaries (Gordon & Langmaid, 1988). Further, it must be noted that this study sought to gain an understanding of the role that autonomy plays in subsidiary initiatives and development, rather than test an existing framework or theory. Consequently, it required a more qualitative approach, which exhibits richness and holism and provides thick descriptions that are vivid and nested in a real context (Miles & Huberman, 1994; Simons, 2009; Tharenou et al., 2007; Yin, 2009).

3.4. METHODOLOGICAL APPROACHES OF PRIOR STUDIES

While an examination of the factors as outlined by Yin (2009) and the other aforementioned authors in the previous section (Crabtree & Miller, 1992; Guba & Lincoln, 1994; Miles & Huberman, 1994; Simons, 2009; Tharenou et al., 2007) revealed a qualitative approach to be most appropriate, it was also useful to review the methodology of key prior studies in the area of subsidiary initiatives and development. This helped the researcher gain an understanding of the types of research designs and strategies that are best suited to research in this area. Table 3.3 below outlines the research designs employed by a number of key studies identified in the literature review in Chapter 2.

The studies included in Table 3.3 were all identified in Chapter 2 as being key recent studies (Balogun et al., 2011; Cavanagh & Freeman, 2012; Collinson & Wang, 2012; Dorrenbacher & Geppert, 2010; Miozzo & Yamin, 2012) or seminal older studies (Delany, 2000; Sargent & Matthews, 2006) in the area of subsidiary initiatives and development. Furthermore, each of these studies highlighted the importance of subsidiary autonomy in relation to this area of research. As Table 3.3 reveals, these key studies have employed a predominantly qualitative approach. This supported the reasoning of the previous section, with the focus of this current study lending itself to qualitative research and in particular, exploratory studies, since it required an in-depth understanding of the role that autonomy plays in subsidiary initiatives and development. Table 3.3 also highlights the high prevalence of the case study method, which is outlined in greater detail in the following section. Each study employed a number of interviews with respondents from the cases under investigation, which ranged between one and 40 in number (although five of the seven studies employed eight or fewer cases). The majority of the key studies in Table 3.3 employed a multiple case study method, and generally interviewed senior management at either just the subsidiary level (for example, Collinson and Wang [2012], Dorrenbacher and Geppert [2010] and Sargent and Matthews [2006]), or at both subsidiary and head office level (for example, Miozzo and Yamin [2012]). In order to explore how autonomy is viewed and negotiated by both the subsidiary and head office, and also across multiple MNEs, the current study employed a multiple case study method based on ten cases, and interviewed respondents at both the subsidiary and head office level. A number of the studies in Table 3.3 also included secondary data sources; this method was incorporated into the current study to triangulate the data, and is discussed in greater detail in Section 3.7.2.

Table 3.3: Methodological approaches of prior studies

Author	*Research Objective*	*Research Design*	*Research Method*	*Data*	*Focus*
Collinson and Wang (2012)	Explored how subsidiary autonomy contributed to the development of specialised subsidiary roles and capabilities	Qualitative	Multiple case study	- 5 cases - 55 in-depth, semi-structured interviews with project, middle-level and senior managers at the subsidiary level - Documentation also included	Taiwanese subsidiaries of foreign-owned MNEs in the semi-conductor industry
Miozzo and Yamin (2012)	Explored the determinants of the subsidiary- HQ relationship, including autonomy	Qualitative	Multiple case study	- 8 cases - In-depth, semi-structured interviews conducted with 54 senior managers from the head office, subsidiary and major suppliers	Large UK service MNEs with subsidiaries in China, Korea, Argentina and Brazil
Cavanagh and Freeman (2012)	Developed a revised subsidiary role framework that incorporated elements of subsidiary development research	Qualitative	Single case study	- 1 case - In-depth, semi-structured interviews with senior subsidiary managers, government figures and industry experts within the single case - Documentation also included	Foreign subsidiaries within the Australian Motor Vehicle Manufacturing Industry (AMVMI)
Balogun et al. (2011)	Employed a critical discursive approach to exploring subsidiary role evolution	Qualitative	Single case study	- 1 case - 'Narrative style' interviews with subsidiary managers	European sales division of a large, FMCG MNE
Dorrenbacher and Geppert (2010)	Explored the personal motives for subsidiary managers undertaking initiatives	Qualitative	Multiple case study	- 4 cases - Interviews with senior subsidiary managers - Documentation also included	German subsidiaries in France
Sargent and Matthews (2006)	Explored the role of subsidiary initiative in subsidiary role evolution	Qualitative	Multiple case study	- 40 cases - Semi-structured interviews with subsidiary managers	The Mexican subsidiaries of US-, Asian- and European-owned parents
Delany (2000)	Explored subsidiary development through subsidiary initiatives	Qualitative	Multiple case study	- 28 cases - Semi-structured interviews with senior managers of the 28 Irish subsidiaries, as well as with 10 'subsidiary management' experts - Also included a half-day workshop	The Irish subsidiaries of foreign-owned MNEs

3.5. SELECTION OF RESEARCH METHOD

Having established the need for a qualitative research approach, an appropriate qualitative research method was required. Yin (2009) argued that three factors determine the choice of research method, irrespective of whether the study is quantitative or qualitative in nature. These factors are:

1. The type of research questions;
2. The degree of control of the investigator over the behavioural events of the respondent; and
3. The focus on contemporary versus historical events.

These factors and the resultant research strategies are displayed in below in Table 3.4.

Table 3.4: Research method selection criteria

Strategy	***Type of Research Questions***	***Control Over Behavioural Events***	***Focus on Contemporary Issues***
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival Analysis	Who, what, where, how many, how much	No	Yes/No
Historical Analysis	How, why	No	No
Case Study	How, why	No	Yes

Source: Yin (2009)

As discussed previously, the research questions of this study are mainly ‘how’ questions that investigated both the perceptions of autonomy and the role that it plays in subsidiary initiatives and development. In addition, although the overall research problem is a ‘what’ question, a deeper analysis revealed that the question was in fact considering ‘how’ autonomy plays a role in the development of subsidiary initiatives and development. This study did not necessitate control over the behavioural events of the respondents, and clearly focused on a contemporary issue. Thus the case study method appeared to be the most appropriate within the context of this study. Gillham

(2000, p. 1) defined a case study as "a unit of human activity embedded in the real world which can only be studied or understood in context", while Piekkari et al. (2009, p. 569) added that the case study is "a research strategy that examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of ''confronting'' theory with the empirical world." These descriptions fitted the aim of this study, with the subsidiaries' autonomy (which is utilised by subsidiary managers, thus the "human activity" or "phenomenon") being studied in a real-life, "naturalistic" business environment (MNEs) that had the potential to heavily influence such actions (Ambos et al., 2010; Balogun et al., 2011; Collinson & Wang, 2012; Gammelgaard et al., 2011; Suwannarat & Leemanonwarachai, 2012). According to Feagin, Orum and Sjoberg (1991), case studies are most suitable when an in-depth investigation is required so as to generate a holistic understanding of an issue. Gabrielsson, Sasi and Darling (2004) added that this research strategy enables the researcher to inductively construct an understanding from the data.

Ghauri (2004) and Doz (2011) highlighted a series of advantages of the case study method within the context of IB. First, case studies allow the researcher to clarify any issues which frequently arise in cross-cultural studies so that a mutual understanding is gained between the researcher and respondent. This is in contrast with questionnaires, which do not provide such an opportunity to either party (Ghauri, 2004). Second, case studies are also valuable when the phenomenon under investigation is difficult to study and understand outside the context of its natural environment (Doz, 2011; Ghauri, 2004). Third, by employing a case study, the researcher is able to build theory rather than just simply test theory as a result of the level of depth in which the case is analysed (Doz, 2011; Ghauri, 2004). This current study utilised an adaptive theory approach, where existing theory contributes towards and guides the research, but also allows for the extension or adaptation of the theoretical concepts (Layder, 1998). The final advantage of the case study method is that many IB concepts are difficult to quantify and require a holistic understanding (Ghauri, 2004); the ability to gain such an understanding through deep insights is said to be a key feature of case studies.

Yin (2009) outlined two types of case studies: single case and multiple case. A single case study method is frequently used when undertaking a longitudinal study or investigating a unique case or previously inaccessible events. The external validity of a single case study is generally weak. In comparison, a multiple case study method is viewed as more robust, since the cases are carefully and specifically chosen so as to facilitate the exploration of commonalities or variations between the cases (Herriott & Firestone, 1983). Yin (2009) argued that given the required resources, multiple case studies are preferred over single case methods since they reduce the risks from having "all your eggs in one basket" or from basing results on "unique or artifactual conditions" (p.61), and also enhance the analytical benefits from having two or more cases. Furthermore, the multiple case study method, in the same manner as multiple experiments, exhibits higher external validity than a single case method (Eisenhardt, 1991; Yin, 2009). This is because a multiple case study method facilitates the identification of common themes across a number of cases and helps avoid chance associations (Eisenhardt, 1991). With these reasons in mind, a multiple case study method was employed in the current study.

3.5.1. Case study procedure

This study proceeded through a series of steps in order to improve the understanding of the role of autonomy in subsidiary development and initiatives. By outlining these steps, the following section presents an extended version of the 'audit trail' outlined by Lincoln and Guba (1985). An 'audit trail', which originally comprised 6 steps derived from mathematical audits, is similar to Yin's (2009) notion of a chain of evidence in that both aim to clearly delineate the process by which the outcomes and conclusions of the study were derived from the evidence collected. By providing an extended audit trail, this study's reliability is also enhanced (Lincoln & Guba, 1985; Yin, 2009); this issue is discussed further in Section 3.9. The steps of this study were as follows:

1. A comprehensive and critical review of the extant literature led to the development of two research questions;
2. An interview protocol was designed to gain an insight into the role played by autonomy in subsidiary development and initiatives. The interview questions were derived from key gaps within the extant literature;

3. The cases for the study were selected following the current study's criteria (as outlined in Section 3.5.2). Individual case descriptions may be found in Section 3.6 of this chapter;
4. Following approval from the Monash University Human Research Ethics Committee (MUHREC), the respondents from each case were selected and contacted, explaining the study and seeking approval;
5. Access was gained to the participating firms and their respective senior managers;
6. Sufficient resources for the interviews were gathered, including a digital voice recorder and an appropriate space for the interview to be conducted;
7. Semi-structured interviews with the participants were conducted and guided by the interview protocol;
8. The recorded data files from the interview were transcribed. The recordings were then replayed to verify the accuracy of the transcripts;
9. Following the transcription of the interview recordings and some preliminary analysis, follow-up interviews were conducted in order to clarify any uncertainties or issues, and explore certain constructs more deeply;
10. The follow-up interviews were also transcribed;
11. A secure database was produced for each firm. This database contained not only the interview transcripts, audio files and notes, but also relevant secondary data, including company websites and trade journal articles. This enhanced the validity of the study;
12. The data was then coded using the template approach and analysed through the principles of pattern matching and explanation building. The data analysis is explained further in Section 3.8 in this chapter; and
13. The findings of the analysis were discussed and summated to form a contribution to the understanding of the role of autonomy in subsidiary development and initiatives. The findings are outlined in Chapters 4 and 5, while the theoretical contributions and implications of these findings are delineated in Chapters 6 and 7 respectively.

This procedure is illustrated in Figure 3.2.

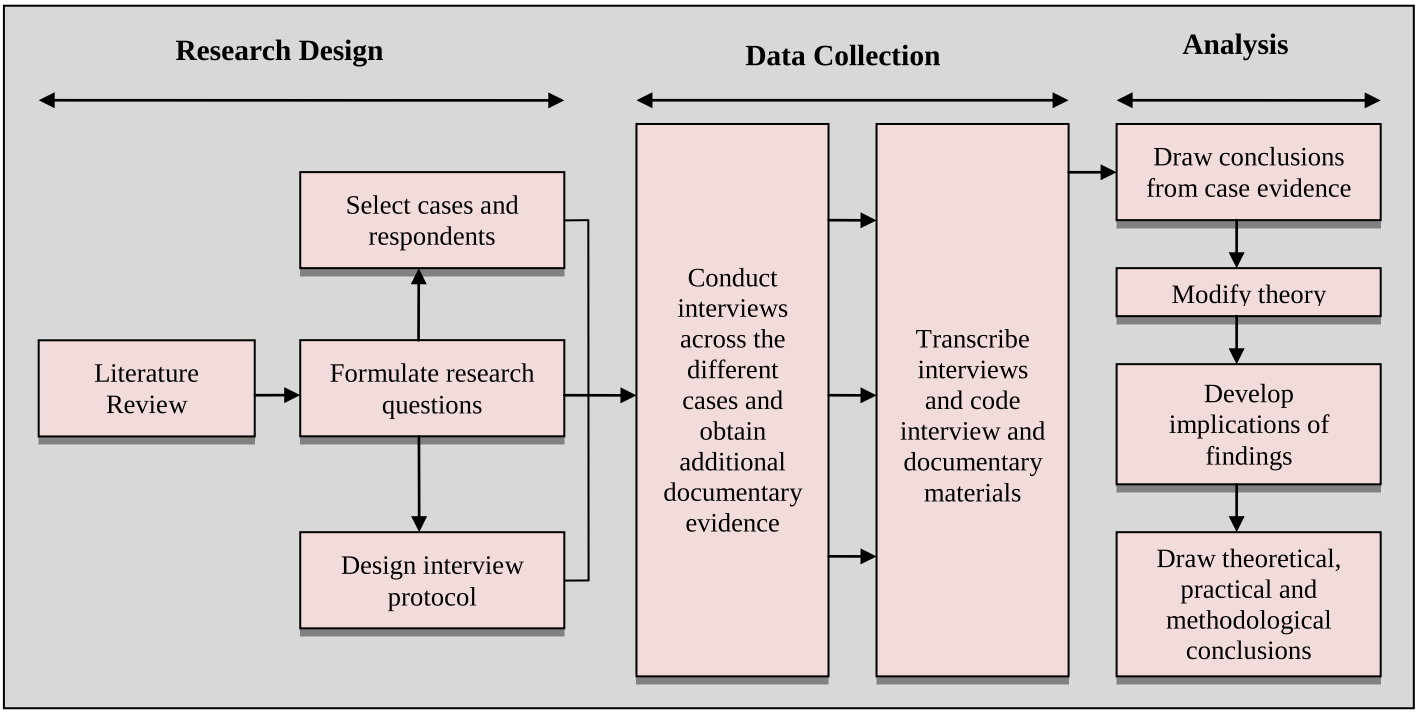

Figure 3.2: Case study procedure

Adapted from Yin (2009)

3.5.2. Selection of cases

Yin (2009) stated that researchers should employ 'replication logic' when designing multiple-case studies, which involves treating the different cases as multiple experiments. After the initial case has been chosen, subsequent cases should be selected so that they either a) predict similar results as the original case, which is known as *literal replication*, or b) predict contrasting results but for anticipatable reasons, which is known as *theoretical replication*. The current study selected cases based on both literal and theoretical replication logic, but with a particular emphasis on the latter form. The need for a rich theoretical framework upon which to base the research was also emphasised by Yin (2009). This framework may then become a basis upon which to generalise new cases, and also allows for the extension or revision of relevant theory (including agency theory, the decision process perspective and the network model of the MNE) if the empirical cases do not perfectly fit the theoretical assumptions from the extant literature (as identified in Chapter 2).

The actual case selection process in qualitative research such as this current study is quite different to that found in quantitative studies. Where quantitative research is dependent on larger samples chosen through probability sampling techniques, qualitative studies should focus on depth of information through small samples carefully chosen through non-probability sampling approaches (Patton, 1990; Tharenou et al., 2007). As an extension, Eisenhardt (1989) argued that case study research in particular should be based on theoretical, rather than statistical, sampling, with cases deliberately selected in order to either replicate previous cases or facilitate the extension of theory through the generation of contrasting results. A number of authors (Eisenhardt, 1989; Yin, 2009) have asserted that the selection of cases represents the most important issue in case study research, and should be determined by the research problem (Ghauri, 2004). Further, the cases should be 'information rich', which are those cases "from which one can learn a great deal about issues of central importance to the purpose of the research" (Patton, 1990, p. 169).

When deciding on the number of cases to be selected, Ghauri (2004) argued that this decision should be determined by the research objectives and problem. This can be problematic, however, as there are no prescribed upper or lower limits to the number of appropriate cases. Eisenhardt (1989) suggestd that although there is no definitive answer for the ideal number of cases, selecting between four and ten cases is most appropriate for a multiple-case study. This is because with fewer than four cases, it is difficult to generate theory, and with greater than ten cases the amount of data becomes impractical to deal with (Eisenhardt, 1989). Another problem with including a large number of cases in a multiple-case study is that this dilutes the purpose of the case study method itself; the depth and richness of the data becomes sacrificed for breadth in such cases, and makes it difficult to generate the holistic understanding of an issue that case studies are designed to provide. Piekkari et al. (2007) noted that this use of a large number of cases has been an increasing trend in IB literature. An examination of the methodologies of related prior studies in Table 3.3 supported this assessment, revealing that the number of cases used in these studies ranged from three to 40, with four of the 6 studies employing 13 or more cases. This current study employed a compromise between Eisenhardt's (1989) recommendations and the approaches used by the prior studies and most important of all, considered the research questions when selecting 10 cases. These firms were selected through a combination of judgement sampling, snowball sampling and opportunistic sampling, which are discussed in the following section.

Judgement (purposive) sampling

The main sampling technique employed in this study is known as judgement or purposive sampling, which "occurs when a researcher selects the sample on the basis of his or her judgement concerning a characteristic required of subjects that are included in the study" (Tharenou et al., 2007, p. 56). This type of sampling is also known as 'criterion sampling' (Patton, 1990). The criteria or required characteristics for the respondents in this current study were derived from the constructs that emerged in the form of research questions from the literature review in Chapter 2, and could be summarised as follows:

- The firm's headquarters must have had at least one subsidiary located in a foreign country;
- Each individual respondent must have been a senior manager;
- An emphasis was placed on attaining the perspectives of both the head office and its subsidiary or subsidiaries from each case;
- A further emphasis was placed on ensuring a variety of respondents who represented- or at least possessed knowledge of- different value chain functions within the respective subsidiaries.

In order to ensure that the selected cases met these criteria, an explanatory statement (see Appendix A) that outlined the nature of the study and required respondent characteristics was first sent to the relevant contact within the organisation. This was then followed up with email or telephone correspondence so as to certify the suitability of the chosen organisation. This judgement sampling technique was employed when selecting the cases of Strong-Weld, Thermo-Energy and Global Recruitment, amongst others. Importantly, the technique led to the inclusion of respondents from both head office and subsidiary positions, and also from Porter's (1985) operations (*Resource Extractors* Subsidiary General Operations Manager), outbound logistics (*IT Pro* Subsidiary Delivery Program Manager), marketing and sales (*PharmaSee* Subsidiary Senior Data Analyst), firm infrastructure (*Thermo-Energy* HQ Managing Director), human resource management (*Global Recruitment*

Subsidiary Director of Talent Management) and technology development (*Automation Plus* Australian Subsidiary Head of Engineering) value chain functions.

Snowball sampling

The second sampling technique employed in this study is known as snowball sampling (Patton, 1990; Tharenou et al., 2007). This technique involved firstly sampling a number of people who satisfied the aforementioned criteria. The researcher then asked these initial respondents to identify any other respondents at organisations that fit the criteria. These subsequent respondents then identified others, who in turn were able to identify others, creating a 'snowballing' effect. Although not all initial respondents were able to identify other potential respondents, the study was able to incorporate Resource Extractors into the study through this method. This case was included after they were referred to the researcher by the Oz-Mining HQ Risk Management Executive.

Opportunistic sampling

The final sampling technique used in this study was opportunistic sampling (Patton, 1990), also known as 'convenience', 'accidental' or 'haphazard' sampling (Tharenou et al., 2007). Unlike in experimental studies, qualitative designs are able to include sampling strategies that take advantage of new or previously unforeseen opportunities (Patton, 1990). As such, this study also incorporated this form of sampling (albeit to a lesser degree than the other two sampling techniques), whereby respondents were included because they were previously known to the researcher and were also known to fit the required criteria. Tharenou et al. (2007) noted that although this sampling technique is suited to exploratory research (such as this study), it can also make it more difficult to generalise beyond the selected cases selected as there is no way of guaranteeing that they are representative of the population. For this reason, only the case of Primary Investors was included using this technique. In that particular instance, the Primary Investors HQ Chief Loans Manager was an acquaintance of the researcher and agreed to take part in the research, and subsequently referred the researcher on to an additional relevant respondent within the subsidiary (the HQ Senior Loans Manager).

3.6. CASE DESCRIPTIONS

3.6.1. Automation Plus

Automation Plus is a leading engineering company that focuses mainly on robotics and power and automation technologies, and was first established in its current form in 1988 (although its full history spans over 120 years). Based in Zurich, Switzerland, the company is one of the largest conglomerates in the world, operating in over 100 countries- including its subsidiary in Australia- and employing over 145,000 employees worldwide. Automation Plus reported revenue figures of US $39.337 billion in 2012, with a profit in the same year of US $2.704 billion. The company is traded on the SIX Swiss Exchange in Zurich, the Stockholm Stock Exchange in Sweden and the New York Stock Exchange in the US. Its global operations include research centres in seven different countries, including the United States and Germany. In terms of global organisational structure, Automation Plus exhibits a divisional structure based on its five divisions: Power Products, Power Systems, Discrete Automation and Motion, Low Voltage Products, and Process Automation. The current study incorporated interviews with the Australian Subsidiary Head of Engineering and the Chinese Subsidiary Operations Manager, which enabled the study to assess the similarities and differences in the degree and perception of autonomy across two different subsidiaries within a single MNE. The views of the Chinese subsidiary were especially significant, given that the subsidiary was established purely to focus on the manufacturing function.

3.6.2. Global Recruitment

Global Recruitment is a large firm within the fields of human resources, performance improvement, consultative management, permanent and temporary staffing and technology solutions. Established in Winnipeg, Canada in 1951, the company's head office is now located in Toronto, Canada. The company currently has subsidiaries in 9 countries across the globe, with the Australian subsidiary comprising 22 branch locations including a national headquarters in Melbourne. The interviewees selected from Global Recruitment included the Director of Talent Management and the HR

Manager from the Australian subsidiary, and the Head HR Manager from the head office. This enabled a direct comparison of the views of both the Canadian head office and the Australian subsidiary through senior managers from each. The data from the interviews was also supplemented with secondary data from the Global Recruitment website, which provided insightful additional information into the company's corporate philosophy, particularly in relation to entrepreneurship and autonomy.

3.6.3. IT Pro

IT Pro is a large IT firm, serving more than 1 billion customers each year in over 170 countries. The company was established in 1939 in Palo Alto, California, and has grown to now employ over 350,000 people worldwide. IT Pro's revenue was listed at US $126.357 billion in 2012, while the company posted a profit of US $6.9 billion in the same year. It is also currently listed on the New York Stock Exchange. IT Pro operates in a number of both manufacturing and service industries, including computers and laptops, monitors, printers, computer software, networking services, servers and storage. The Australian subsidiary is based in Melbourne, and employs approximately 5,500 people across Australia and New Zealand. The subsidiary's structure is divided according to its markets into the following business divisions: Home & Home Office; Small & Medium Business; Enterprise Business; Public Sector, Health & Education; and Graphic Arts. The Subsidiary Delivery Program Manager and the HQ Head Programming Manager were interviewed, and are both involved in the services side of the business and were selected to ensure the incorporation of a service firm perspective to the study. In addition to the interview data, the current study also included secondary data from a trade journal, which provided more detailed information in relation to the autonomous activities of the Australian IT Pro subsidiary.

3.6.4. Oz-Mining

Oz-Mining is a large gold mining company, ranked within the top five globally in terms of gold production, reserves and market capitalisation. Originally founded in 1966, the company is based in Melbourne, Australia, and has subsidiary operations in

Indonesia, Papua New Guinea, and the Ivory Coast. The company currently employs approximately 19,000 employees globally, including around 7,500 across Papua New Guinea, 2,300 in Indonesia and approximately 1,000 in the Ivory Coast. The company reported revenue of AU $4.416 billion in 2012, and produced a profit of AU $1.117 billion in the same year. Oz-Mining is currently listed on the Australian Stock Exchange, the New York ADR's, the Port Moresby Stock Exchange and the Toronto Stock Exchange. The Commercial Manager from the Papua New Guinean subsidiary was interviewed as part of the study, as were the Risk Management Executive, the Group Auditing Manager and the Senior Planning Manager from the Australian headquarters. This enabled the study to gain an in-depth understanding of the dyadic subsidiary-headquarters relationship, and to also compare the opposing perspectives. The ability to do so was heightened by all of the head office respondents possessing significant experience in dealing with the Indonesian and Papua New Guinean subsidiaries. In addition, the Commercial Manager from the Papua New Guinean subsidiary had formerly worked at the head office level. This further enriched the data from their interviews, and increased the validity of their views in relation to the subsidiary-head office relationship.

3.6.5. PharmaSee

PharmaSee is a large consumer goods company, with brands and products servicing a wide range of different industries, including cleaning agents, personal care products, and pet food. Established in 1837, the company is headquartered in Cincinnati, Ohio in the Unites States, and today serves over 180 countries and 4.6 billion people. PharmaSee currently employs 126,000 people worldwide, and has featured in the top five places of Fortune magazine's 'World's Most Admired Companies' list. In 2012, PharmaSee's global revenue totalled US $83.68 billion, and contributed to a profit of US $10.75 billion for 2012. Currently, PharmaSee trades on the New York Stock Exchange, the Down Jones Industrial Average and the S & P 500. PharmaSee's Australian subsidiary employs approximately 250 people, and is based in Macquarie Park, New South Wales. Its corporate structure is derived from the global corporate structure, and involves four pillars: Market Development Organizations; Global Business Units, which comprises Beauty and Grooming, and Household Care subdivisions; Global Business Services; and Corporate Functions. The Subsidiary Senior Data Analyst was interviewed as part of the study.

3.6.6. Primary Investors

Primary Investors is a large global investment banking and diversified financial services firm, offering banking, financial, advisory, investment and funds management services. Established in Sydney, Australia in 1969 as a subsidiary of a London banking company, it has grown from just three staff to become a major global player in the banking industry, with operations in over 70 countries. The company employs over 13,400 people, with subsidiaries established in 28 countries. Primary Investors reported revenue figures of AU $7.0 billion in 2012, and a profit of AU $730 million. The company is currently listed on the Australian Stock Exchange and the OTC Pink. Primary Investors has established a number of international strategic alliances so as to combine its technical expertise and specialist skills with the local market strength of an existing company. The company employs a non-hierarchical, divisional structure, with the following six businesses operating under the guidance of the Executive Committee: Capital, Securities Group, Fixed Income, Currency and Commodities, Funds Group, Banking and Financial Services Group, and Corporate and Asset Finance Group. The two interviewees from Primary Investors, the HQ Chief Loans Officer and the HQ Senior Loans Manager, were both from the Banking and Financial Services Group, which is the major function of the company's Melbourne office.

3.6.7. Resource Extractors

Resource Extractors is a large metals and mining corporation, specialising in five principal product areas: Aluminium; Copper; Diamonds and Minerals; Energy; and Iron Ore. The company also has two major support groups, Exploration and Technology and Innovation. Resource Extractors was founded in 1873, and is headquartered in London, United Kingdom. Resource Extractors currently has operations across the globe, with the majority located in North America and Australia, and at last count in 2011 employed 67,930 people worldwide (including over 18,000 in Australia and New Zealand). In 2012, Resource Extractor's revenue totalled US $50.967 billion, which contributed to an overall profit of US $3.004 billion for the year. The company is currently listed on the Australian Stock Exchange, the London Stock Exchange and the New York Stock Exchange. The company has a number of subsidiaries within Australia, with the General Operations Manager from one of the largest of these subsidiaries interviewed as part of the current study.

3.6.8. Strong-Weld

Strong-Weld is a large welding and cutting equipment company that produces equipment, accessories and consumables. Originally founded in 1913, the company's headquarters are located in St Louis, Missouri in the United States, and now serves customers across North and Latin America, Europe, Africa, Asia, the Middle East and Australia. Strong-Weld currently employs 2,100 people worldwide, and serves a wide variety of markets through its many subsidiaries; these markets include heating and gas welding, brazing and soldering, hardfacing and hardbanding, and plasma arc welding. The company reported total revenue of US $487.4 million in 2012, and also posted a profit of US $6.7 million for the year. Strong-Weld is currently listed on the NASDAQ stock exchange. The company's major Australian subsidiary is based in Preston, Victoria, and was introduced in 1985. This subsidiary performs a Centre of Excellence role within the wider corporation, specialising in marketing and operation management. As such its Finance Executive, who reports directly to the head office, was interviewed as part of the current study. The study was also able to incorporate a head office perspective by gaining the views of the HQ CEO through conference proceedings. This not only facilitated triangulation of the data but also ensured a more balanced, comprehensive understanding of how subsidiary autonomy is viewed and negotiated in Strong-Weld.

3.6.9. Tech Experts

Tech Experts is a large global IT firm, which focuses on the key areas of consulting, technology and outsourcing services. Founded in 1981 by seven people with only US$250, the company relocated its head office to its current location in Bangalore in

1983. Tech Experts now have 66 offices and 69 development centres across the US, India, China, Australia, Japan, the Middle East, the UK, Germany, France, Switzerland, Poland, Canada and a number of other countries. In total, the company currently employs over 153,000 people worldwide. In 2012, Tech Experts reported revenue of US $7.00 billion, and announced a profit of US $1.71 billion for the same year. The company is listed on a number of stock exchanges: the Bombay Stock Exchange, the National Stock Exchange of India, the New York Stock Exchange and the BSE SENSEX. Tech Experts' Australian subsidiary is one of its largest, employing almost 2,000 people and working with many of the world's largest banks and enterprises from its base in Melbourne. As with IT Pro, the current study focused on the service side of Tech Experts so as to ensure adequate representation of service firms within the study. As such, the Australian subsidiary Senior Programming Manager and HR Manager were interviewed, as was the Head Programming Manager from the head office in India.

3.6.10. Thermo-Energy

Thermo-Energy is a relatively new company that has quickly become a significant firm within the renewable energies industry, with a particular focus on geothermal energy. Established in 2008, the company is headquartered in Melbourne, Australia, and has operations across Australia, in addition to a joint-venture subsidiary operation in Indonesia. Thermo-Energy's revenue totalled AU $480,370 in 2012, and the company reported a loss for the same year of AU $2.836 million. The company is currently listed on the ASX. As a much smaller company than the other organisations involved in the current study, Thermo-Energy provided a different perspective on the relationship between the subsidiary and the head office, and resulting implications for autonomy. The study incorporated the views of the HQ Managing Director and a Senior Executive from the Indonesian subsidiary so as to fully explore this relationship.

Table 3.5: Case descriptions and data sources

Company Name	Industry	Founded	Size (employees worldwide)	Profit (loss)	HQ Location	Relevant Subsidiary Location(s)	Interviewee(s)	Secondary Data	Secondary Data Source
Automation Plus	Robotics, power and automation technologies	1988	Approx. 140,000	US $2.704 billion	Switzerland	Australia, China	- Australian Subsidiary Head of Engineering - Chinese Subsidiary Operations Manager		
Global Recruitment	Human resources, performance improvement and staffing	1951	Information not available	Information not available	Canada	Australia	- HQ Head HR Manager - Subsidiary Director of Talent Management - Subsidiary HR Coordinator	Company Website	- HQ Communications Manager
IT Pro	IT products/ services	1939	Over 350,000	US $6.9 billion	United States of America	Australia	- Subsidiary Delivery Program Manager - HQ Head Programming Manager	Trade Journal	- Subsidiary Infrastructure Manager
Oz-Mining	Gold mining	1966	Approx. 19,000	AU $1.117 billion	Australia	Papua New Guinea	- HQ Risk Management Executive - HQ Group Auditing Manager - HQ Senior Planning Manager - Subsidiary Commercial Manager		
PharmaSee	Consumer goods, including cleaning and personal care products	1837	Approx. 126,000	US $10.75 billion	Singapore	Australia	- Subsidiary Senior Data Analyst		
Primary Investors	Investment banking and financial services	1969	Over 13,400	AU $370 million	Australia	Global	- HQ Chief Loans Officer - HQ Senior Loans Manager		
Resource Extractors	Metals and mining	1873	67,930	US $3.004 billion	United Kingdom	Australia	- Subsidiary General Operations Manager		
Strong-Weld	Welding and cutting equipment and accessories	1913	Approx. 2,100	US $6.7 million	United States of America	Australia	- Subsidiary Finance Executive	Conference Proceedings	- HQ CEO
Tech Experts	IT consulting, technology and outsourcing	1981	Over 153,000	US $1.71 billion	India	Australia	- HQ Head Programming Manager - Subsidiary Senior Programming Manager - Subsidiary HR Manager		
Thermo-Energy	Geothermal and renewable energies	2008	Information not available	(AU $2.836 million)	Australia	Indonesia	- HQ Managing Director - Subsidiary Senior Executive		

NB- The names of all organisations, and in a number of cases, roles of the respondents, have been changed to maintain their anonymity. This is a requirement of the Monash Ethics Committee (SCERH) for conducting research at Monash University. Thus while the case information in this section was gathered from the respective company websites, these websites could not be cited as this would compromise the anonymity of the organisations.

3.7. METHOD OF INVESTIGATION

3.7.1. Semi-structured interviews

As stated previously, the aims of this study and the limited extant literature on the role of autonomy in subsidiary initiatives and development suggested an exploratory study. Malhotra, Hall, Shaw and Crisp (1996, p. 85) argued that "the primary objective of exploratory research is to provide insights into, and an understanding of, the problem confronting the researcher". The data collection method that best facilitates the achievement of this objective is the semi-structured interview (Fowler & Mangione, 1990). This method involves guided, concentrated, focused and open-ended communication that is co-created by the interviewer and interviewee (Miller & Crabtree, 1992). Although the interviews were directed by the line of enquiry as set out in the interview protocol, the communication between the researcher and the respondents was more like guided conversation than structured queries (Yin, 2009). The series of questions and their arrangement in the interview protocol were also designed to be fluid rather than rigid (Yin, 2009). These interviews are said to provide the best means of exploring and highlighting processes, including individual decision making processes, and providing explanations (Barbour, 2008; Ghauri, 2004). Semi-structured interviews thus represented an ideal data collection method to explore the way in which managers decide to employ autonomy in the development of initiatives, and how this in turn influences the subsidiary development process.

Semi-structured interviews allow the researcher to explore issues in depth, and are well suited when the researcher wants to gain an understanding of an issue from the perspective of the interviewee, and understand how and why they have this perspective (King, 2004). Importantly, interviews allow the researcher to "develop a deeper rapport with informants" (Daniels & Canniece, 2004, p. 187). The generation of such a rapport increased the likelihood of gaining accurate and honest responses from the interviewee. In addition, the researcher was able to extract referrals from the respondent once the rapport had been established (Daniels & Canniece, 2004). Thus by employing the semi-structured interview, the study was able to gain an in-depth insight into firms' perceptions and use of autonomy, and the way in which the subsidiary managers used their autonomy in initiatives to facilitate subsidiary development.

The interviews took place between February 2011 and April 2013. Each interview lasted between 30 to 90 minutes and was digitally recorded for subsequent transcription and review. Prior to the recording of each interview, permission was sought from the respondent to do so, in accordance with Yin's (2009) insistence for the need for approval and consent. All of the respondents consented to the recording of the interview either in person, over the phone or via an online medium. Once recorded, the interviews were transcribed verbatim by the researcher so as to guarantee the accuracy of the data. Following this, transcripts were provided back to the interviewee to allow for their verification and to further ensure their accuracy.

Interview protocol

The interview protocol consisted of a series of open-ended questions, which established the territory to be explored while allowing the participant to take the direction that he or she wanted (Seidman, 1991) and thus elaborate on their responses. The questions were organised into broad topics, which improved the accuracy of the information given and the flow of the interview process (Tharenou et al., 2007). However, the interview structure was not so rigid that the order of the questions could not be altered; themes were examined as they arose. Background questions were first asked to set out the characteristics of the organisation, including the relevant industry, age and size of the organisation and the parent company's country of origin. Introductory questions were used to establish the theme to be explored, and were then followed by probing and specifying questions that aimed to elicit more detailed responses (Kvale, 1996). Consideration was given to the manner in which the questions were asked so as to ensure the researcher did not influence the respondent's answer. Examples of the types of the questions in the protocol are provided in Table 3.6, while the Interview Protocol itself may be found in Appendix C.

Table 3.6: Types of questions in interview protocol

Type	*Questions from Protocol*
Introductory questions	- How do you understand the term 'autonomy'?
Probing questions	- Have you ever engaged in actions that involved a degree of autonomy beyond the levels assigned by headquarters? If so, how and why? - Are these actions encouraged, implicitly allowed, ignored or discouraged by the parent company?
Specifying questions	- Did these actions involve the renewal of an existing business, or the creation of a new business opportunity? - Were these actions targeted at the local business market, the internal competition market within the corporation or the global marketplace?

Adapted from Kvale (1996)

3.7.2. Documentation

Documentation involves archival searches of documents such as public and private company documents, journals, memoranda, agendas, announcements, minutes of meetings, proposals, progress reports, previously undertaken formal studies, personal letters and diaries (Creswell, 2003; Lee, 1999). As noted by Tharenou et al. (2007), documentation is often a suitable method of data collection when the researcher wishes to supplement or reinforce primary data such as interviews. Further, document analysis is able to counteract the potential biases evident in semi-structured interviews, is unobtrusive and requires little, if any, coding (Tharenou et al., 2007). At the same time, however, it is often difficult to guarantee the accuracy of secondary documents. As such, Yin (2009) suggested that these documents should not be viewed as literal recordings, but should instead be used to substantiate and supplement the evidence collected from other methods such as interviews. If the documentary evidence contradicts, rather than corroborates with, the other data sources, then further investigation is required to investigate the cause of such a discrepancy (Yin, 2009). In the current study, documentary evidence in relation to the case study firms was collected from company websites, conference proceedings and industry trade journals. These documents were then incorporated into the study's case database in order to triangulate with the interview data and thus improve the reliability of the study.

3.8. DATA ANALYSIS TECHNIQUE

Once the data had been collected through the semi-structured interviews and documentation, it was able to be analysed through the content analysis technique known as 'template analysis'. As part of this analysis, the current study involved the use of open, axial and selective coding to develop themes and sub-themes from the interview transcripts and secondary data. The study employed the analysis tools of pattern matching, explanation building and cross-case analysis. By applying this exploratory approach to the data analysis, the current study was able to develop a greater understanding of the data through the process of creating order, structure and meaning (Freeman, Edwards & Schroder, 2006).

3.8.1. Content analysis

Content analysis is defined by Holsti (1969, p. 14) as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages". Tharenou et al. (2007) added that content analysis involves the extraction of thematic information from qualitative data sources. This method of analysis involves the identification, coding and categorisation of primary patterns in the data (Patton, 1990); in the current study, this data comprised the interview transcripts, and the secondary data sources. The content can be divided into specific topics and themes. Miller and Crabtree (1992) describe the overall form of content analysis employed in this study as 'template analysis'. This process involves generating a 'template' from the extant literature which comprises a number of themes that relate to the research problem and questions; this template is then used as an interpretive guide for analysing the themes within the data (Miller & Crabtree, 1992). The first step of template analysis involved the identification of themes in the extant literature that were expected to be relevant to answering the research questions that emerged from the literature review. These themes were then entered into a 'codebook'

(Crabtree & Miller, 1992) or 'start list' (Miles & Huberman, 1994) prior to the commencement of the fieldwork. Further themes were also added to the codebook after some initial exploration of the interview and documentation data. A key feature of template analysis is the open-ended, flexible nature of the list of themes in the codebook; the themes are interpreted rather than selected statistically (Tharenou et al., 2007). As further exploration of the data took place, the codebook was revised a number of times as codes were extended, modified or removed so as to develop a comprehensive categorisation of the themes. The coding process is described in greater detail in the following section.

3.8.2. Coding

Coding involves the process of organising data into segments or categories, naming each category and then bringing meaning to the categories (Creswell, 2003; Simons, 2009). In a simplified, practical sense, this involves assigning labels to segments of the text under analysis (Miles & Huberman, 1994; Tharenou et al., 2007). The data sources were coded manually in the current study, since this allowed the researcher to systematically and comprehensively search the data until the categories were saturated. This in turn enabled the research to gradually build an understanding of subsidiary autonomy and an explanation of how it influences subsidiary initiatives and development (Simons, 2009).

Open, axial and selective coding (Strauss & Corbin, 1998) were employed to extricate themes from the transcripts and other data sources, which were then used to build an understanding of the issues raised by the research questions in Chapter 2. Open coding is "the analytical process through which the components are identified and their properties and dimensions discovered in the data" (Strauss & Corbin, 1998, p. 101), and involved reading the interview transcripts and secondary data sources, and identifying main themes. The next step involved the creation of categories by linking the initial codes identified through open coding. This step required axial coding, which is "the process of relating categories to their subcategories" (Strauss & Corbin, 1998, p. 123). By grouping together related codes, common themes were able to be identified, as were exceptions and contradictions, which were recognised as potentially valuable pieces of information, rather than ignored or suppressed. While qualitative studies have frequently ceased the analysis at this stage by simply *describing* the common categories (mistaken as ‘themes’), this study went a step further and identified themes from the data that offered an explanation or interpretation of the issues under investigation. This identification of themes from the data represented the final step of the coding process. This final step involved not only the recognition of significant themes, but also the linking of these themes to the relevant theories. In doing so, the study was able to demonstrate not only the key categories, but also why these categories were significant. This is also known as selective coding, which is “the process of integrating and refining the theory” (Strauss & Corbin, 1998, p. 143). By linking the findings of this study back to theoretical concepts, the generalisability of the study was also improved.

3.8.3. Tools of analysis

Pattern matching

Pattern matching is a qualitative analysis technique that involves comparing the empirically-based patterns from the fieldwork-derived data with predicted patterns; that is, this approach entails the anticipation of a particular pattern of variables or outcomes prior to data collection (Tharenou et al., 2007; Yin, 2009). The expected pattern is derived from extant theory or a set of conceptual propositions, and acts as a benchmark with which to interpret case data (Yin, 2009). As such, it was ideally suited to the template analysis approach adopted by this study, where a codebook containing a list of literature-derived themes was employed as a ‘template’ to analyse the data. Lee (1999, p. 78) stated that the two steps involved in pattern matching are:

1. *An expected pattern must be specified among variables, events, or acts, or some other phenomenon of interest, before case data are collected. The expected pattern derives from a formal theory or set of less formal conceptual propositions; and*
2. *The expected pattern is compared with subsequently collected empirical data for its degree of fit.*

In the current study, the anticipated pattern of the role of autonomy in subsidiary development and initiatives was derived from a number of existing theories, including agency theory (Jensen & Meckling, 1976; Saam, 2007), the decision process perspective (Bower, 1970; Burgelman, 1983a) and the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). The expected pattern was then compared against empirical data collected in the field of this current study to assess the degree of fit of these theories with empirical results. When the anticipated pattern was found, the case study data confirmed the theoretical patterns established in the extant literature. When the anticipated pattern was not evident in the empirical data, the study either considered alternative theoretical explanations or in some instances was able to extend the existing theories' application within the context of subsidiary development and initiatives. For example, Chapter 6 outlines how the current study extended the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by recognising the need for its application at an interdepartmental level, rather than at the more common organisational level. Pattern matching represents a more deductive technique than a number of other qualitative approaches such as explanation building. By allowing the researcher to compare predicted patterns with empirical data, this approach helped to strengthen the internal validity of the study by generating a greater degree of causality than other more inductive techniques (Tharenou et al., 2007; Yin, 2009). The study also incorporated multiple cases in order to further increase the robustness of the study.

Explanation building

In those instances where the expected pattern (based on a particular theory) in the pattern matching process was not evident in the empirical data, the study employed an additional analytical tool called explanation building. This technique is particularly relevant in exploratory studies such as this current study (Yin, 2009), and is actually a special type of pattern matching. If a pattern based on a certain theoretical proposition was not evident in the empirical data, the study first attempted to develop alternative explanations using other relevant theories. If this alternative explanation also failed to fully explicate the phenomenon evident in the empirical data, the study then extended or adapted existing theories to provide a comprehensive understanding of the role of autonomy in subsidiary initiatives and development. For example, Chapter 6 outlines how the current study extended agency theory (Jensen & Meckling, 1976; Saam, 2007) by identifying three additional causes for goal conflicts between the subsidiary and the head office. In this way, extant theoretical concepts both fed into and guided the research, while simultaneously allowing for the extension of existing theoretical propositions (Layder, 1998).

Cross-case analysis

Cross-case analysis increases the cross-case generalisation whereby the common, interconnecting themes and issues across cases are identified (Simons, 2009; Yin, 2009). After themes are identified in a single case, these themes are re-examined as additional cases are examined in order to identify which aspects of the analysis are common in each case, and which vary from case to case. For example, the findings in Chapter 4 outline how the current study identified variations in the level of autonomy across the different value functions of the first case analysed, and then re-examined this theme in subsequent cases. This enabled the study to build an understanding of which value functions appeared to exhibit higher (and conversely, lower) levels of autonomy across a number of cases. From this, cross-case generalisations were able to be made, even if generalisations to the wider population were not (Simons, 2009).

3.9. RELIABILITY AND VALIDITY

While it is common practice for quantitative studies to evaluate the reliability and validity of the research in question, Andersen and Skaates (2004) noted that qualitative studies have tended to eschew the application of these tests on the research. Proponents of quantitative research techniques have particularly questioned the validity of case study research; as such, this issue must be addressed when evaluating the strength and vigour of a case study (Eisenhardt, 1989; Miles & Huberman, 1994; Yin, 2009). According to Shank (2002, p. 92), “validity deals with the notion that what you say you have observed is, in fact, what really happened”. Andersen and Skaates (2004) argued that the need to address the issue of validity is even more pronounced in IB studies for two reasons. First, validity is seen to be difficult to achieve in international research as a result of the varying cultural assumptions of both the researchers and the respondents (Andersen & Skaates, 2004). Second, validity may also be viewed as being socially constructed and thus differing across cultural and institutional contexts (Andersen & Skaates, 2004). Rather than ignoring the difficult issue of validity, however, this study sought to critically evaluate and maximise not only the validity, but also the reliability, of the research.

Yin (2009) argued that as a form of 'empirical social research', the qualitative case study should be subjected to four tests to assess the study's quality. These are:

- *Construct validity*: employing correct operational measures for the concepts being studies;
- *Internal validity (for explanatory or causal studies)*: establishing a causal relationship whereby particular conditions are thought to lead to other conditions, as opposed to 'spurious' relationships;
- *External validity*: ascertaining the domain to which a study's findings may be generalised; and
- *Reliability*: ensuring that the operations of the study, such as the data collection techniques, are able to be repeated with the same results (Yin, 2009).

In a similar manner, Lincoln (2001) emphasised the importance of ensuring the 'trustworthiness' of studies. This concept is comprised of not only internal and external validity and reliability as highlighted by Yin (2009), but also objectivity. Lincoln (2001) suggested that when these quantitative terms are applied to qualitative research, they may be viewed as assessing a study's 'credibility', 'transferability', 'dependability' and 'confirmability'. These concepts (together with that of construct validity) and the practices employed to ensure they are established in the study are presented in Table 3.7, and outlined in greater detail over the following section.

Table 3.7: Criteria for assessing the quality of a case study

Quantitative Term	*Qualitative Term*	*Case Study Tactic*	*Research phase in which tactic occurs*
Construct Validity	N/A	- Use multiple sources of evidence - Establish chain of evidence - Key informants review draft case study report	- Data collection - Data collection - Composition
Internal Validity	Credibility	- Pattern matching - Explanation building - Address rival explanations	- Data analysis - Data analysis - Data analysis
External Validity	Transferability	- Purposive sampling - Employ replication logic	- Data collection - Research strategy design
Reliability	Dependability	- Employ case study protocol - Develop case study database	- Data collection - Data collection
Objectivity	Confirmability	- Data triangulation - Practice reflexivity	- Data collection - Data collection

Adapted from Lincoln (2001) and Yin (2009)

3.9.1. Construct validity

Critics of case study research have often claimed that such studies fail to develop a sufficiently operational set of measures and that consequently, ‘subjective’ judgements are made when collecting data (Yin, 2009). As such, Yin (2009) recommended that researchers firstly define the key constructs and relate them to the original objectives of the study, and then identify relevant operational measures that match these constructs. In the case of this current study, the key constructs such as ‘autonomy’ and ‘subsidiary initiatives’ were clearly defined, and the different types of these constructs were delineated, including the defining characteristics by which each type may be classified.

While Yin (2009) did not differentiate between construct validity in qualitative studies as opposed to quantitative studies, he did outline three tactics for dealing with construct validity in case studies. These tactics were all utilised in this current study. First, the study used multiple sources of evidence, including semi-structured interviews, company websites, conference proceedings and industry trade journals. This triangulation of sources enabled convergent lines of inquiry, which in turn strengthened construct validity. Second, the study established a chain of evidence, as outlined in Section 3.3.2, so as to further clarify the process by which the collected data was used to develop theoretical conclusions. Finally, a draft of the case study report was provided to the key informants in order to ensure the constructs had been fully understood and interpreted correctly.

3.9.2. Credibility

Lincoln (2001) employed the term 'credibility' to describe the test of 'internal validity' when applied within the context of qualitative research; this term is therefore employed throughout the rest of this section. Yin (2009) noted that although exploratory case studies (such as this current study) do not attempt to establish causal relationships, they still necessitate the researcher to make 'inferences'. These inferences are made whenever an event or issue cannot be directly observed, and so the researcher is forced to 'infer' what occurred based on the various sources of data (Yin, 2009).

In order to increase the accuracy of these inferences and therefore strengthen the credibility of the study, Yin (2009) suggested researchers adopt the analytical technique of pattern matching. Where pattern matching alone is unable to link the empirically-based patterns to extant theory-derived predicted patterns, Yin (2009) proposed that researchers combine it with explanation building. By linking the empirical observations to theoretical propositions, the researcher is then able to make stronger and more valid inferences. Pattern matching and the other analytical techniques employed in this study are outlined in Section 3.8.1.

3.9.3. Transferability

When describing ‘external validity’ in the context of qualitative research, Lincoln (2001) employed the term ‘transferability’; this study therefore adopts this term for the remainder of this section. The issue of transferability has long been a major problem for case study research, with critics claiming that case studies offer a poor basis for generalisation (Yin, 2009). However, such critics are implicitly comparing this research strategy to survey research, which relies on statistical generalisation. Case studies, on the other hand, aim to generate analytical generalisation, which involves generalising a particular set of results to a broader theory (Yin, 2009).

With this in mind, this current study aimed to improve the transferability of its results firstly through purposive sampling (Patton, 1990; Tharenou et al., 2007). This sampling technique, which is outlined in greater detail in Section 3.5.2, is linked to Eisenhardt’s (1989) concept of theoretical sampling, in which cases are selected because they are deemed to represent the phenomenon under investigation. The majority of the cases chosen in this study were sampled purposefully. The sampling strategy employed in this study also featured replication logic (Yin, 2009). As outlined in Section 3.5.2, this logic proposes that after the selection of the first case, subsequent cases should be chosen so that they either predict similar results to the original case (literal replication) or predict contrasting results but for anticipatable reasons (theoretical replication). Once these replications have been made, the results are more likely to be accepted as providing a strong contribution towards the relevant theory (Yin, 2009), thus improving the analytical transferability of the study.

3.9.4. Dependability

Lincoln (2001) used the term ‘dependability’ when referring to the ‘reliability’ in the context of qualitative research; the former is used throughout the rest of this section. The key objective of dependability is to ensure that if a later investigator carried out the same case study procedure as this current study, that the same findings and conclusions would be obtained (Yin, 2009). This current study employed two tactics, devised by Yin (2009), to maximise its dependability. First, the study outlined a case study protocol, which involved documenting the procedure followed throughout the study and also acted as an audit trail (Yin, 2009). As delineated in Section 3.5.1, the protocol established a chain of evidence that would allow any future researcher to follow the same procedure on the same case and obtain the same results. Second, a case study database was created that contained all of the data sources for the respective cases, which further strengthened the chain of evidence and thus the study's dependability.

3.9.5. Confirmability

The last test that should be applied to test the quality of a case study is confirmability. This term was created by Lincoln (2001) to describe the quantitative term 'objectivity', and is employed throughout the remainder of this section. Two tactics were employed to maximise the confirmability of the current study. First, the triangulation of data sources meant that any bias that arose from the respondents in the semi-structured interviews was negated by the incorporation of secondary documents (Lincoln, 2001). The use of multiple data sources is outlined fully in Section 3.7. Secondly, the study followed Creswell's (2003) suggestion that the qualitative researcher should constantly reflect on who he or she is in the research and make his or her biases known so as to create an open and honest account of the data.

3.10. LIMITATIONS OF THE CASE STUDY METHODOLOGY

Despite having been established as a legitimate form of empirical enquiry, a number of traditional criticisms of the case study method still exist. One of the primary criticisms against the case study methodology identified by Yin (2009) is the inability to generalise findings. However, Punch (1998) contended that case studies are not designed to be generalisable, but are instead intended to understand the respective phenomenon in its entirety and complexity. Yin (2009) extended this by claiming that although statistical generalisations may not be produced from case studies, analytical or theoretical generalisations are able to be made. It is these theoretical generalisations that allowed this study to develop context and a broader understanding of the role played by autonomy in subsidiary initiatives and development (Sommer & Sommer, 1991).

Other key limitations of the case study methodology, according to De Vaus (2001), are the lack of reliability and internal validity. In order to improve the reliability of the measures, the study utilised multiple sources to allow cross-verification (Sommer & Sommer, 1991). The use of multiple sources also enabled data triangulation, which improved the internal validity of the study (Tharenou et al., 2007). A final criticism of the case study method is that it frequently takes too long and produces drawn-out and unreadable documents (Yin, 2009). As such, extra attention has been paid in this study to ensure the concise and succinct presentation of all parts of the thesis.

3.11. ETHICAL CONSIDERATIONS

Throughout the process of conducting research, this study aimed to ensure the ethical treatment of all respondents, which involved respecting the personality, rights, wishes, beliefs, consent and freedom of the participants (Tharenou et al., 2007). To this end, permission to conduct the research was sought from and granted by MUHREC, which outlined the prescribed guidelines for undertaking research. The case study method, as adopted by this study, involved the researcher having an intense interest in the personal views and circumstances of the participants. Thus it was essential that the respondent was aware that their participation was entirely voluntary and that they were able to withdraw at any stage (Tharenou et al., 2007); these conditions were communicated to the respondents via an Explanatory Statement, which can be viewed in Appendix A. Further, the Explanatory Statement also outlined the nature of the study, and explained that no information that may identify individuals would be provided to their respective company; instead, data would only be offered in aggregate form (Tharenou et al., 2007). All respondents were over 18 years of age and hence able to provide consent to participate in this study.

3.12. SUMMARY

This chapter has outlined in detail the multiple-case study method employed by the study. It outlined the justification for this method, and also outlined the precise multiple-case study procedure. The respective cases involved were described, as well as the process by which they were selected. The chapter also outlined the data collection methods and tools of analysis, in addition to a discussion of the issues of reliability and validity in relation to case study research. Next, Chapter 4 presents the combined findings for Research Question 1.

4. UNDERSTANDING AND NEGOTIATING AUTONOMY

4.1. INTRODUCTION

The following chapter presents the findings of the multiple case-study analysis for the first research question, which comprised:

Research Question 1a: *How do subsidiaries and headquarters understand autonomy?*
Research Question 1b: *How do subsidiaries and headquarters negotiate autonomy?*

In order to gain a comprehensive understanding of the concept of autonomy and how it is both understood and negotiated, the findings comprised the perspectives of both headquarters and subsidiaries. This allowed the study to gain a more balanced and unbiased understanding of autonomy and how it is perceived and negotiated (Miozzo & Yamin, 2012). According to Miozzo and Yamin (2012), this is important since there are often perceived differences in a subsidiary's autonomy from the head office perspective compared to the subsidiary perspective, even within a single MNE. The combination of head office and subsidiary perspectives thus enabled the researcher to identify any differences in this perception. This was particularly important given that agency theory (Jensen & Meckling, 1976; Saam, 2007) is focused mainly around the notion of the 'agency relationship' between the headquarters and the subsidiary.

The chapter first establishes a definition for the notion of 'autonomy' in Section 4.2.1. The chapter then investigates how autonomy differs across the value-adding activities within MNEs in Section 4.2.2. Following this, the precise relationship between autonomy and authority is outlined Section 4.2.3. Section 4.2.4 briefly discusses the findings in relation to subsidiary autonomy in manufacturing versus service firms. Having ascertained a comprehensive understanding of autonomy, Section 4.3 addresses Research Question 1b by exploring the way in which autonomy is negotiated and the resultant types of autonomy. Section 4.3.1 first outlines *assigned* *autonomy*, which is formally delegated by the head office, before Section 4.3.2 discusses *assumed autonomy*, which is developed by the subsidiary on its own. In doing so, the chapter identifies the origin and causes of the respective types of autonomy, as well as developing appropriate terminology for the two types and outlining their relationship to authority. The outline of the chapter is shown below in Figure 4.1.

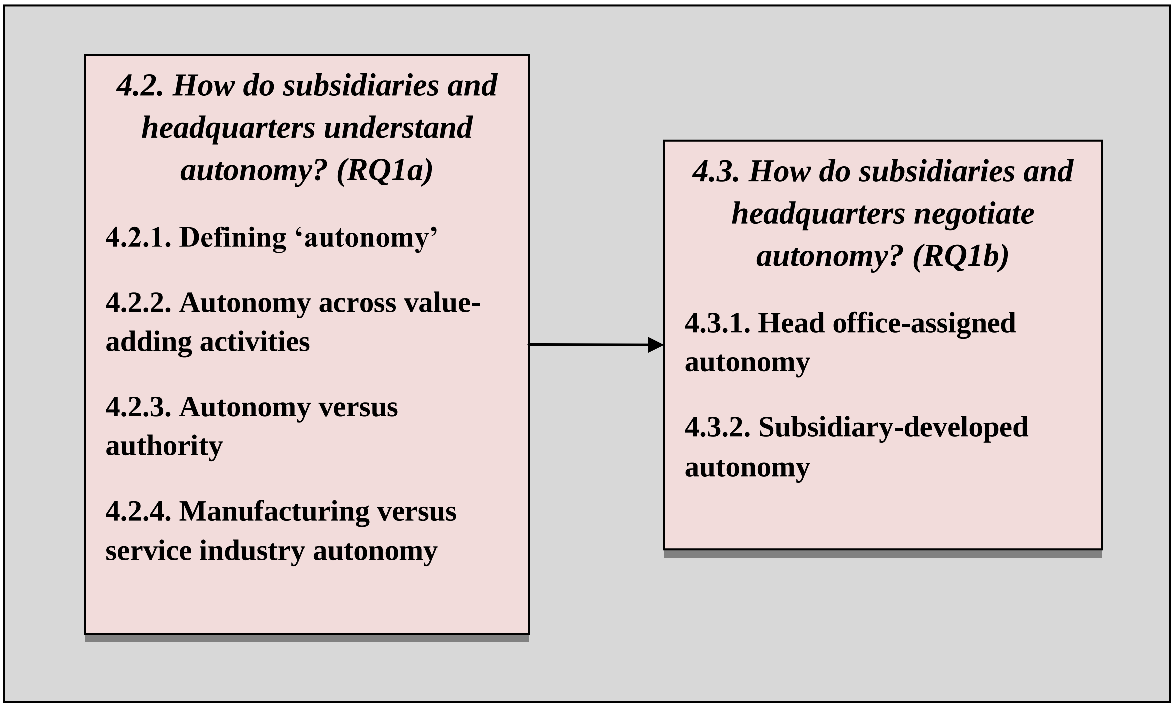

Figure 4.1: Structure of Chapter 4

4.2. HOW DO SUBSIDIARIES AND HEADQUARTERS UNDERSTAND AUTONOMY?

4.2.1. Defining 'autonomy'

As revealed in the literature review in Chapter 2, a significant research gap existed within the subsidiary management literature relating to "the scope of subsidiary autonomy" (Tong et al., 2012, p. 22). This was emphasised by Pisoni et al. (2010) and Gammelgaard et al. (2011) noting the importance of subsidiary autonomy as one of the key areas of research within IB literature. Specifically, Gammelgaard et al. (2011)

stated that "autonomy has been identified as one of the most important areas of research in terms of the relationship between subsidiaries and the competitiveness of MNCs" (p. 370). In order to develop a greater understanding of autonomy and its scope, the current study first looked to establish a revised, comprehensive definition. A number of previous authors (Ambos et al., 2010; Brooke, 1984; Chiao & Ying, in press; Gammelgaard et al., 2012; Najafi-Tavani et al., 2012; O'Donnell, 2000; Tong et al., 2012; Young & Tavares, 2004) had attempted to define 'subsidiary autonomy'. For example, Tong et al. (2012, p. 4) defined autonomy as "the degree of decision-making power authorized by a MNC to its subsidiaries", while Gammelgaard et al. (2012, p. 1162) viewed subsidiary autonomy as "the decision-making rights that are granted by parent companies". Similarly, Chiao and Ying (in press, p. 2) stated that subsidiary autonomy "refers to the decision-making limits allowed by the parent companies to improve the efficiency and flexibility of subsidiaries in dealing with the affairs of the host country". However, these previous definitions are all limited in that they either did not outline the scope of activities in which the subsidiary displays autonomous behaviour (such as those of Tong et al. [2012] and Gammelgaard et al. [20120]), or failed to outline the ways in the subsidiary may obtain its autonomy (such as those of Brooke [1984] and Ambos et al. [2010]). By developing a revised, comprehensive definition for subsidiary autonomy, the current study aimed to address these limitations of the previous authors. However, the review of the literature in Chapter 2 also revealed that establishing a conclusive definition for 'autonomy' is difficult because it is comprised of so many different dimensions, and its meaning varies depending on the organisational context. There were, however, a number of common themes that emerged from the interviews and documentation that facilitated the generation of a comprehensive definition for the notion of 'autonomy'.

The key premise that was common to nearly all definitions and explanations offered by the respondents (and as demonstrated clearly in the comments below from the *IT Pro* Subsidiary Delivery Program Manager, the *Oz-Mining* Subsidiary Commercial Manager, the *Primary Investors* HQ Senior Loans Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Automation Plus* Chinese Subsidiary Operations Manager) was the ability of the subsidiary or business unit to undertake at least some decision or action independently from the head office. This finding supports the earlier definition provided by Brooke (1984).

"Autonomy means the ability to act independently from another authority" (Subsidiary Delivery Program Manager, *IT Pro*).

"So 'autonomy' means you don't have to defer the decisions you make to run your business" (Subsidiary Commercial Manager, *Oz-Mining*).

"Autonomy means just doing certain things by yourself without anybody above you hassling you or just looking from above" (HQ Senior Loans Manager, *Primary Investors*).

"That you'd be able to set your own direction and operate totally autonomously from any influence from a parent entity" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

"Autonomy means doing something without being controlled. I'd see it as not being micro-managed. The level of autonomy I have relates to how closely I am managed: whether the boss is trying to control every little thing in the day, or [conversely] someone who tends to be like "This is the target, how you get there is up to you"" (Chinese Subsidiary Operations Manager, *Automation Plus*).

While these definitions support the definition offered by Brooke (1984), further findings from this study extend Brooke's definition by providing an indication as to the precise decisions or actions to which the subsidiary is afforded control over through autonomy. More specifically, all of the subsidiaries from the current study were found to have possessed autonomy at least in relation to operational, day-to-day activities and decisions. This was hinted at in the previous quote from the *Automation Plus* Chinese Subsidiary Operations Manager, who mentioned that autonomy encompassed not having someone controlling all of your actions on a day-to-day basis. This autonomy in operational activities was further exemplified in the following quotes from the *Oz-Mining* HQ Risk Management Executive, the *Oz-Mining* Subsidiary Commercial Manager and the *Tech Experts* Subsidiary Senior Programming Manager. These findings revealed that subsidiaries often possess the necessary autonomy to fulfil the 'execution' of day-to-day decisions and interpret project methodology in regards to how things are sold and delivered. In contrast, strategic activities such as long-term planning and decisions relating to product portfolios are often left to the head office. These findings extend the definitions for subsidiary autonomy of Ambos et al. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004), which had not directly considered the scope of activities included in a subsidiary's autonomy.

"For a business unit, autonomy is the right to set direction and make the day-to-day decisions" (HQ Risk Management Executive, *Oz-Mining*).

"I think it's [autonomy] more with what I call the 'execution'- the day-to-day activities… There's a notion within Oz-Mining that the Site [the PNG subsidiary] is just there to execute and the strategy and long-term planning is done in Melbourne or Brisbane" (Subsidiary Commercial Manager, *Oz-Mining*).

"Tech Experts has a pretty strong project methodology which I'm bound to follow, but obviously there is a bit of a license to interpret how that methodology is used within any one particular project… There's not much autonomy in terms of what we sell, its [instead] more how we sell it and how we deliver it where the autonomy is" (Subsidiary Senior Programming Manager, *Tech Experts*).

While the findings widely indicated that a subsidiary's autonomy encompasses the responsibility for day-to-day decisions and activities, a number of the respondents also explained that some subsidiaries possessed autonomy that also encompassed a strategic element. As explicitly stated in the definitions offered by the *Oz-Mining* HQ Risk Management Executive and *Strong-Weld* Asia Pacific Subsidiary Finance Executive above, a number of subsidiaries claimed that they were able to 'set their own direction' in addition to taking care of the operational side of the business. This implied at least some degree of strategic input on the subsidiary's behalf. As outlined by the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, this autonomy in relation to setting the strategic direction of the subsidiary (and in some cases, the wider corporation) may stem from expertise that the subsidiary has developed.

"In terms of strategic, we used to be [more autonomous], but we've got pulled more towards the US now. But we're [in Australia] fairly unique... It's like the tail wagging the dog- they look for us for expertise. The actual CEO in the US is an Australian, and the guy who leads up one of the large product groups is an Australian; the guy who runs all their warehousing is Australian. They've actually bled the Australian operation to put some expertise into the US" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

This finding, together with the earlier findings in this section, appeared to confirm the understanding of autonomy as outlined by Najafi-Tavani et al. (2012) and O'Donnell (2000), both of whom incorporated a strategic element into their definitions of autonomy. Najafi-Tavani et al. (2012, p. 1694) discussed autonomy as "the extent to which subsidiaries are allowed to make decisions about their most strategically important activities or issues". Similarly, O'Donnell (2000, p. 528) talked of the subsidiary having "strategic and operational decision-making authority". However, as is discussed at length in Section 4.2.3, there is a clear difference between the terms 'autonomy' and 'authority', with authority concerning the *limits* to a subsidiary's autonomy. This then has implications for the way in which a subsidiary may obtain its autonomy (as is discussed in Section 4.3). As such, this study asserts that 'subsidiary autonomy' encompasses the ability of the subsidiary to undertake operational and in some cases, strategic actions and decisions independently from the head office. In this way, the findings from this study refine the understanding of autonomy of Najafi-Tavani et al. (2012) and O'Donnell (2000).

As stated previously, in order to develop a comprehensive understanding of the notion of autonomy, it is necessary to first establish a definition. In the literature review in Chapter 2, it was noted that the most extensive and complete definition was that of Young and Tavares (2004, p. 228) who, in their review of the subsidiary management literature relating to autonomy, stated that autonomy "concerns the constrained freedom or independence available to or acquired by a subsidiary, which enables it to take certain decisions on its own behalf". This definition importantly recognised that the autonomy may be developed in different fashions ('available to or acquired'), and that the autonomy is also limited or 'constrained' by the subsidiary's level of authority. As such, the definition by Young and Tavares (2004) represented an ideal basis upon which to construct a new, all-encompassing definition for autonomy.

The first key element to emerge from the findings in relation to building a definition of autonomy was the notion that decisions and actions may be taken independently from the head office. In addition, the findings revealed that this independence and decision-making freedom comprises day-to-day, operational matters and occasionally strategic input. By outlining the precise type of decisions and actions the subsidiary has control over, these findings extend the definitions of Ambos et al. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004), and refine those of Najafi-Tavani et al. (2012) and O'Donnell (2000) by differentiating between autonomy and authority. Thus by adding these findings to the Young and Tavares (2004) definition, this current study proposes that autonomy is:

'the freedom that is available to or acquired by the subsidiary to undertake decisions relating to day-to-day, operational (and in some cases, strategic) actions independently from the head office'

As stated previously, a key element of the study's proposed definition for subsidiary autonomy is the understanding that it almost always encompasses independence in relation to operational decisions, while only occasionally in relation to strategic decisions. This implies that the autonomy within a subsidiary may not necessarily be consistent across all value functions, such as sales and R & D. The following section outlines how and why particular value functions possessed more autonomy than others within a single subsidiary.

4.2.2. Autonomy across value-adding activities

In addition to developing a comprehensive definition for subsidiary autonomy, the current study sought to further extend the current understanding of subsidiary autonomy by identifying the way in which its levels may differ between the different value functions within a subsidiary. This represents a significant contribution because as noted in the literature review in Chapter 2, to this point the majority of the extant literature on autonomy in value chain functions (for example, Couto et al. [2005] and Takeuchi et al. [2008]) had neglected to compare the level of autonomy across multiple functions within the subsidiary. This oversight led to a significant research gap which has been addressed by the findings of this section. First, the findings not only identified varying levels of autonomy across different value functions, but also revealed the reasons as to why this was so and the implications for the understanding and interpretation of 'subsidiary autonomy'.

As noted by Gammelgaard et al. (2012), Pisoni et al. (2010) and Young and Tavares (2004) in their reviews of the autonomy-related IB literature, the concept of subsidiary autonomy needed to be examined at a more specific, functional level than simply a standardised, uniform measure across the entire subsidiary. This is because some studies (Collinson & Wang, 2012; Gammelgaard et al., 2011; Rugman & Verbeke, 2001; Vachani, 1999) had indicated that a subsidiary's development activities may vary across the value chain activities or functions. Despite this, a research gap existed in the current understanding of subsidiary autonomy, with the majority of extant literature (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Couto et al., 2005; Fenton-O'Creevy et al., 2008; Ferner et al., 2004; Ferner et al., 2011; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994; Takeuchi et al., 2008) failing to examine the level of autonomy across multiple functions within a subsidiary's value chain. Consequently, a subsidiary's level of autonomy in these studies was based on the level within a single function, and assumed to be consistent across all other value chain functions. Authors such as Vachani (1999) and Gammelgaard et al. (2011) had since drawn conclusions regarding the comparative prevalence of autonomy within the different value functions. Based on the aggregate findings of the extant literature, these authors noted that operational functions, such as human resource management, tended to be less centralised than more strategic functions, such as finance and R & D. However, only the studies of Collinson and Wang (2012) and Edwards et al. (2002) had been able to provide a true comparison by directly examining the varying levels of autonomy across multiple value functions in a *single study*. Yet the study of Collinson and Wang (2012) was limited to only five Taiwan-based subsidiaries in the semiconductor industry, while that of Edwards et al. (2002) focused only on Malaysian subsidiaries of foreign-owned MNEs. By limiting their focus to subsidiaries within a single country, the studies of Collinson and Wang (2012) and Edwards et al. (2002) were limited in their ability to provide a wide-ranging, valid assessment of how a subsidiary's level of autonomy may differ from function to function.

The findings of this current study, however, addressed this research gap by considering subsidiaries from Australia, Indonesia and Papua New Guinea, and by exploring those subsidiaries' level of autonomy across multiple departments of each subsidiary. As demonstrated by the *Global Recruitment* Subsidiary HR Coordinator and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the findings of this current study provided direct evidence that the level of autonomy displayed within different functions of an individual subsidiary (wherever it be located) often varies considerably. The quote from the *Global Recruitment* Subsidiary HR Coordinator explained that within the Australian *Global Recruitment* subsidiary, areas from the 'consulting side' of the business possess a greater degree of autonomy than those within the 'transactional side'. At the same time, the quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive outlined how within a single subsidiary (in this case, the Australian *Strong-Weld* subsidiary), a value function such as finance may possess a great deal more autonomy and freedom than almost all other value functions. These findings from the *Global Recruitment* Subsidiary HR Coordinator and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive contradict the assumption of the earlier studies (for example, Couto et al. [2005] and Takeuchi et al. [2008]) that a subsidiary's level of autonomy will be consistent across all of the value functions.

"I would say definitely different departments had different levels of it [autonomy]. What I did was in terms of the consulting side of the business rather than the transactional side. The transactional side is much easier to measure, and much easier to track. So there is more structure, and less autonomy around that side of the business. So there is that natural difference in terms of the level of autonomy" (Subsidiary HR Coordinator, *Global Recruitment*).

"I've been the finance manager there since 1997 and they've never visited me. They've had operations people come out, warehouse, quality, purchasing and all that,

but no one ever from finance has come. As far as finance is concerned, I run it fairly independently of them, but they know what we're doing at the same time" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

In addition to contradicting the assumptions of the earlier value function-related studies such as Couto et al. (2005) and Takeuchi et al. (2008), these findings are also significant in that they extend even those studies that had considered the possibility of variations in autonomy across value functions. Previously, authors such as Gammelgaard et al. (2011) and Vachani (1999) had only been able to postulate that a subsidiary's level of autonomy may vary across the different value chain functions or departments based on the cumulative findings of earlier research. This current study extends these previous studies by providing direct empirical evidence of the difference in the levels of autonomy between departments in a single subsidiary. By examining subsidiaries from multiple countries, the current study was also able to extend the findings of Collinson and Wang (2012) and Edwards et al. (2002). This is because as stated previously, the studies of Collinson and Wang (2012) and Edwards et al. (2002) had only focused on subsidiaries within the single countries of Taiwan and Malaysia respectively.

In addition to providing direct empirical evidence of the differences between departmental levels of autonomy within a subsidiary, the following quotes from the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also identified a higher prevalence of autonomy in particular value chain functions. These findings revealed that the level of autonomy was generally higher in the operational areas such as sales, than in the more strategic departments such as R & D, finance and in MNEs with global branding, marketing.

"Yeah, the sales team would have more autonomy than anybody in terms of the approaches that they use. The four major areas within a company like Tech Experts is the sales team; then there's the delivery team, which delivers what the sales people sell; then there's the internal functions such as HR, finance and legal and all that sort of thing; and then within Infosys there's the learning and development aspect. So in terms of those areas, sales would probably have the most autonomy" (Subsidiary Senior Programming Manager, *Tech Experts*).

"Sales is pretty autonomous anyhow in each region around the world. Marketing is probably more aligned than any other division within the business, because they're working on the new products coming through. So they are less autonomous" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

This illustration from the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive confirmed the hypotheses of Gammelgaard et al. (2011) and Vachani (1999) regarding the higher prevalence of autonomy within operational areas than in strategic areas. The quotes from the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also reaffirmed the studies by Collinson and Wang (2012) and Edwards et al. (2002), which revealed empirical findings to the same effect. However, while Gammelgaard et al. (2011) and Vachani (1999) recognised which departments or value chain activities were generally afforded the most autonomy, they did not explicitly elucidate the reasons as to why this was so. At the same time, the study of Collinson and Wang (2012) focused more on subsidiary autonomy as a determinant of different value function specialisations, rather than exploring why the level of autonomy differed between the value functions. Even the findings of Edwards et al. (2002) only identified determinants of a subsidiary's overall level of autonomy (including the assignment of product mandates, the level of integration into the global operations and the creation of 'decentralised federations') rather than why specific departments possess more autonomy than others.

In contrast, the findings of this current study went further by explaining the precise reasons why the level of autonomy tended to be higher in the operational areas than in the more strategic functions. The findings from the *IT Pro* Subsidiary Delivery Program Manager, the *IT Pro* Subsidiary Infrastructure Manager, the *Thermo-Energy* HQ Managing Director, the *Global Recruitment* HQ Head HR Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *Automation Plus* Australian Subsidiary Head of Engineering revealed that the head office is effectively *forced* to permit a significant degree of autonomy to these operational areas so as to enable the subsidiary to satisfy local consumer tastes, laws and statutes and cultural issues. As the quotes from the *IT*

Pro Subsidiary Delivery Program Manager, the *IT Pro* Subsidiary Infrastructure Manager, the *Thermo-Energy* HQ Managing Director and the *Global Recruitment* HQ Head HR Manager outlined, one of the reasons why the subsidiary is afforded autonomy in operational areas is because the head office does not possess the necessary knowledge required to deal with these local environment operational factors. The quote from *the IT Pro* Subsidiary Delivery Program Manager explained that these 'local country requirements' stem from differences (often 'cultural or geographic' in nature) between the subsidiary host country and the head office home country, and lead to 'gaps in head office programs'. To emphasise this point, the *IT Pro* Subsidiary Infrastructure Manager cited the example of the Australian market's unique consumer preferences and infrastructure, particularly in relation to computer platforms such as '.NET' and 'J2EE'. These unique market characteristics led to the *IT Pro* Australian subsidiary needing to develop a localised initiative to resolve the inconsistencies between the local market characteristics and the *IT Pro* global strategy. The *IT Pro* Subsidiary Delivery Program Manager noted that consequently, the head office provided the subsidiary with a sufficient degree of autonomy to deal with these local environment requirements.

"In reality some autonomy is allowed to cover local specific or unique situations… This is done to fill gaps in head office programs and meet local country requirements which for cultural or geographical reasons become necessary" (Subsidiary Delivery Program Manager, *IT Pro*).

"In Australia, there is a greater emphasis on Microsoft's .NET than on the Java side. There is a larger number of boutique players in the J2EE space… there is already the capability in the market for J2EE applications and infrastructure… In comparison, .NET has been around for about two years" (Subsidiary Infrastructure Manager, *IT Pro*).

The *Thermo-Energy* HQ Managing Director, which provided its subsidiaries with a limited amount of autonomy, also conceded that in terms of day-to-day activities, it is advantageous to allow the subsidiary a degree of independence because of their experience and knowledge of local market and legal factors.

"We've basically said to the Indonesians: "You understand the political terrain and territory here, you understand what's required to operate on the ground. We'll provide you with our input but day-to-day operationally and strategically, just get on with it" (HQ Managing Director, *Thermo-Energy*).

This was supported by the following insight from the *Global Recruitment* HQ Head HR Manager, who noted that the *Global Recruitment* subsidiary in Melbourne is provided with operational autonomy that allows them to expand into markets which they deem necessary to address. As the quote revealed, this is because the Melbourne office has a much greater understanding of the local market than the head office in Canada.

"They [the Melbourne subsidiary] expand into markets that are appropriate, when appropriate… Toronto wouldn't know the Melbourne market or that Geelong is well worth putting a branch in" (HQ Head HR Manager, *Global Recruitment*).

The following quotes from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *Automation Plus* Australian Subsidiary Head of Engineering identified a second reason why subsidiaries often possess more autonomy in operational value functions. The findings revealed that it is often not feasible for the head office to deal with the local environment operational requirements due to geographic constraints. These constraints arise from the sheer geographic 'distance' between the subsidiary and the head office. As such, the subsidiary's managers were given considerable autonomy in regards to how they ran the operation.

"One of the good things about it is that it's the distance that gives you the autonomy" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

"Yeah, we probably have more freedom than the Sydney people, and that's purely because the head office is over there and they've got all the main bosses sitting over there as well. So I think to a degree they probably have more restrictions than us" (Subsidiary Chief Loans Manager, *Primary Investors*).

"I'm pretty autonomous here. It helps that my direct boss is in Perth, so I don't have a lot of contact with him, so we kind of have to have autonomy [due to the distance]" (Australian Subsidiary Head of Engineering, *Automation Plus*).

These reasons identified by the current study for higher autonomy within a subsidiary's operational value functions have been recognised by many theorists within IB literature (such as Vernon's [1966] International Product Life Cycle Theory, Bartlett and Ghoshal's [1989] 'transnational organisation' concept and Dunning's [1980, 1989, 2001] Eclectic Paradigm) as key motivations for MNEs establishing operations in foreign countries. However, to this point they have not been recognised as factors that may result in particular value chain functions within a subsidiary possessing more autonomy than others. In this way, the findings of this current study extend those of the extant studies (Collinson & Wang, 2012; Edwards et al., 2002; Gammelgaard et al., 2011; Vachani, 1999) by identifying factors such as the head office's lack of foreign market 'know-how' and lack of proximity to that foreign market as key reasons why the level of autonomy is generally higher in operational, market-focused value chain functions. The importance of these local environment factors in influencing how much autonomy a particular value chain function or department may possess also has significant implications for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990), which will be discussed in greater detail in Chapter 6.

Thus far, the findings for the current section have revealed that autonomy tends to be higher in operational areas of the subsidiary (such as sales), and delineated two key reasons as to why this was so. However, the following insights from the *IT Pro* HQ Head Programming Manager, the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also indicated that it was still possible for more strategic value chain functions to possess significant amounts of autonomy. As outlined by the *IT Pro* HQ Head Programming Manager, a subsidiary's autonomy is not limited to operational, 'ad hoc' functions. The quote from the *Tech Experts* Subsidiary Senior Programming Manager was more specific, and outlined how managers within the strategic department of R & D possessed a significant degree of autonomy over their research direction. Similarly, the quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive detailed the autonomy within the finance department of the Australian *Strong-Weld* subsidiary. This finding contradicts those of the previous study by Edwards et al. (2002), which found that subsidiaries only possessed autonomy in operational value chain functions or departments. In their respective reviews of the literature relating to department-specific levels of autonomy, Gammelgaard et al. (2011) and Vachani (1999) had been slightly more accommodating to the possibility of autonomy within strategic areas of the subsidiary. However, both studies failed to provide any evidence of such an occurrence. Similarly, the study of Collinson and Wang (2012), while documenting different levels of autonomy across different value functions, did not directly establish the prevalence of autonomy within strategic value functions. In this way, the findings of the current study further extend these studies by producing evidence of high levels of autonomy within the R & D and finance departments of subsidiaries.

"Autonomy itself does not imply limitation to strategic, tactical or ad-hoc activities" (HQ Head Programming Manager, *IT Pro*).

"Research and development arm within Tech Experts, which is an internal function, they would have a fair degree of autonomy in what they investigate and what they do their R & D on" (Subsidiary Senior Programming Manager, *Tech Experts*).

"As far as finance is concerned, I run it fairly independently of them… It's on paper and everything, but none of us locally actually recognise that structure… We all still go off and do our own thing anyhow. So the marketing manager wouldn't have a clue what I'm doing in finance; he knows what's happening in sales, but he wouldn't know what's happening in warehousing. I finished up running the logistics as well" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

Overall, the findings for this section have contributed to the extant understanding of subsidiary autonomy in a number of ways. First, the findings provided empirical evidence of the variation in the levels of autonomy across departments within a single subsidiary. In this way, the findings contradict the assumption of earlier studies (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Couto et al., 2005; Fenton-O'Creevy et al., 2008; Ferner et al., 2004; Ferner et al., 2011; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994; Takeuchi et al., 2008) that the level of autonomy in a single department is representative of, and consistent across, the entire subsidiary. By considering subsidiaries located in a number of countries, the findings also extend those of Collinson and Wang (2012) and Edwards et al. (2002), who focused on subsidiaries within the single markets of Taiwan and Malaysia respectively. Furthermore, the provision of empirical evidence extends the studies of Gammelgaard et al. (2011) and Vachani (1999), which were only able to hypothesise about the difference in autonomy levels across value chain functions based on the aggregate findings of the aforementioned earlier studies.

The second key contribution of the findings of this section was the identification of the key reasons behind higher levels of autonomy being displayed in more operational value chain functions or departments than in more strategic functions. These reasons stemmed from the head office neither possessing the necessary knowledge to deal with local environment operational factors, nor being within a close enough geographic proximity to deal with these factors. These findings extend those of Gammelgaard et al. (2011), Vachani (1999), Collinson and Wang (2012) and Edwards et al. (2002), which failed to provide an explanation for this occurrence.

The third key contribution of this section’s findings was the recognition that despite the autonomy levels tending to be higher in operational value chain functions, strategic value chain functions could still possess significant amounts of autonomy. This finding refutes those of Edwards et al. (2002), and refines those of Collinson and Wang (2012), who had documented differing levels of autonomy across a number of value functions, but not specifically highlighted autonomy within strategic value functions. The finding also adds to the hypotheses of Gammelgaard et al. (2011) and Vachani (1999) by providing empirical evidence of the prevalence of autonomy in strategic value chain functions.

Before moving on from this section, it should be noted that the purpose of the section was to address the research gap in the extant understanding of subsidiary autonomy in relation to the way in which this autonomy could vary across different value functions within a subsidiary. Thus from hereafter, whenever the current study describes a subsidiary as possessing autonomy, it suggests that the subsidiary holds at least some autonomy in at least one value function.

4.2.3. Autonomy versus authority

Another key construct to emerge from the findings was the issue of authority, and its impact on the autonomy possessed by the subsidiary. As outlined in the literature review, there has previously been confusion surrounding the precise relationship between autonomy and authority, with the extant literature (Andersson & Pahlberg, 1997; Chiao & Ying, in press; Gammelgaard et al., 2011; Gupta & Govindarajan, 1991; Young & Tavares, 2004) yielding conflicting opinions regarding the interchangeable use of the two terms. Furthermore, those studies that did regard the two as separate constructs (with a subsidiary's authority said to represent a headquarters-imposed limit to the amount of autonomy it could possess) were conceptual in nature, and so were unable to provide empirical evidence to support their argument. The resulting ambiguity surrounding the current understanding of a subsidiary's authority warranted further exploration of the term, and how it related to subsidiary autonomy. The following section therefore addresses the distinction between the two terms, and outlines how a subsidiary's autonomy may be constrained by its level of authority, or through a self-imposed limit.

The first issue relating to a subsidiary's authority that was explored in this current study was attempting to establish whether or not a distinction needed to be made between it and a subsidiary's level of autonomy. As alluded to above and explained in the literature review in Chapter 2, some studies such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) used the two terms interchangeably, while others (Gupta & Govindarajan, 1991; Young & Tavares, 2004) had differentiated between the two. This study explicitly asked the respondents in the interviews what difference, if any, they perceived between the terms 'autonomy' and 'authority' within a subsidiary context. All respondents answered that they considered the two to be separate and distinct from one another, yet at the same time intrinsically related in some sense. This link between the two concepts was clearly demonstrated by the *Thermo-Energy* Subsidiary Senior Executive, who noted that the two terms are interrelated and that their levels often rose and fell in accordance with one another.

"The two [autonomy and authority] can and often go "hand-in-hand"" (Subsidiary Senior Executive, *Thermo-Energy*).

Although this insight from the Thermo-Energy Subsidiary Senior Executive initially appeared to support the assumption of authors such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) that the two terms may be used interchangeably, the following quotes from the *PharmaSee* Subsidiary Senior Data Manager and the *Tech Experts* Subsidiary HR Manager demonstrated this to not be the case. When questioned if they perceived any difference between autonomy and authority, a number of the respondents identified authority as a more substantial, concrete notion than that of autonomy. This view was exemplified by the following quote from the *PharmaSee* Subsidiary Senior Data Manager. The quote revealed that authority is often perceived as more tangible than autonomy and something that is encountered 'on a day-to-day basis', where autonomy is more ambiguous in its scope and application.

"I would just say that authority would come from something that, to me, is more tangible- [something] that I can see, something that I interact with on a day-to-day basis. Where the autonomy is coming from something like the term 'the cloud'- the cloud of head office: "these are your instructions, this is what we're doing"" (Subsidiary Senior Data Manager, *PharmaSee*).

A number of the other respondents understood authority as relating more to the 'end result' than autonomy, which involved a greater concern towards the freedom in determining how that end result can be achieved. This view was demonstrated by the following illustrations from the *Tech Experts* Subsidiary HR Manager and the *IT Pro* HQ Head Programming Manager. The quote from the *Tech Experts* Subsidiary HR Manager revealed that autonomy is effectively the freedom to undertake decisions and actions within the overall scope of one's authority. Similarly, the quote from the *IT Pro* HQ Head Programming Manager outlined that from a headquarters perspective, the subsidiary's authority is represented by 'goals' that are established by the head office in order to 'define and guide' the subsidiary's actions (including how much autonomy is afforded in order for the subsidiary to achieve those goals).

"So to me, 'authority' means the final decision to take. 'Autonomy' to me [is where] you're told what the end result should be, and is a little bit more the ability to decide

how you get there. So in that perspective, Tech Experts in Australia as a subsidiary would at times be told we need to execute 'X', this is the end result we want, how you go about it is fine" (Subsidiary HR Manager, *Tech Experts*).

"Authority describes your ability to define and guide the actions and behaviour of a person, project or organisation. You may choose to allow autonomy in how the goals are reached but you still set the goals and are accountable for the outcome" (HQ Head Programming Manager, *IT Pro*).

By establishing that authority is a distinct and separate concept from autonomy, the findings of this current study (as demonstrated by the above quotes from the *PharmaSee* Subsidiary Senior Data Manager, the *Tech Experts* Subsidiary HR Manager and the *IT Pro* HQ Head Programming Manager) challenge the assumption of authors such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) that the terms may be used interchangeably. Similarly, the findings also extend the studies of Gupta and Govindarajan (1991) and Young and Tavares (2004), who recognised that authority and autonomy had different meanings, but did not empirically investigate or provide evidence for this distinction.

The recognition by the *Tech Experts* Subsidiary HR Manager that authority involves the 'end result' while autonomy concerns the way in which this is achieved is significant in that it hints at authority effectively representing a boundary within which autonomy may be utilised. One of the key themes to emerge from the findings in relation to authority is that it was thought to provide a limit or cap to the amount of autonomy that a subsidiary is provided with by the head office. This theme is particularly evident in the following quotes from the *Oz-Mining* Subsidiary Commercial Manager, the *Tech Experts* Subsidiary Senior Programming Manager, the *Oz-Mining* HQ Risk Management Executive and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive. The quotes from the *Oz-Mining* Subsidiary Commercial Manager and the *Tech Experts* Subsidiary Senior Programming Manager both mentioned the way in which authority represents an 'official limit' to the autonomy that the subsidiary is provided with by the head office. The quotes also revealed that this limit is 'formally delegated' by the head office and ensures that the subsidiary is adhering to the MNE's 'policy' and 'process' standards. The recognition of a subsidiary's authority as a limit to its head office-assigned autonomy is significant, with implications not only for the classifications for the types of autonomy (as discussed further in Section 4.3), but also for the application of agency theory to subsidiary autonomy-related issues and the success or failure of subsidiary initiatives (which are in greater detail in Chapters 6 and 5 respectively). The finding also further extends the previous studies of Gupta and Govindarajan (1991) and Young and Tavares (2004) by providing empirical evidence (to support their previously unproven hypothesis) that a subsidiary's authority represents a limit to its head office-assigned autonomy.

"Authority is something which is more formally delegated; you have a delegated authority which tells you what your official limit is, and what you can and can't do in terms of policy or process" (Subsidiary Commercial Manager, *Oz-Mining*).

"Authority is mainly a reflective approach; a chain of command in terms of adhering to process and policy. So autonomy is freedom within the bounds of that authority I suppose" (Subsidiary Senior Programming Manager, *Tech Experts*).

In addition to recognising authority as a limit to the autonomy which it is assigned (and therefore reaffirming the above insights from the *Oz-Mining* Subsidiary Commercial Manager and the *Tech Experts* Subsidiary Senior Programming Manager), the following quote from the *Oz-Mining* HQ Risk Management Executive went further and outlined precisely who determines a subsidiary's level of authority. As the quote revealed, the Board of *Oz-Mining* implements the authority to the Papua New Guinean subsidiary on a recommendation from the Executive Committee. By providing direct evidence of the precise source of a subsidiary's authority, the insight from the *Oz-Mining* HQ Risk Management Executive further extends the previous studies of Young and Tavares (2004) and Gupta and Govindarajan (1991). This is because these previous studies had only discussed authority conceptually, and had not directly considered the precise origin of a subsidiary's authority.

"The authority is establishing absolute limits on people. Autonomy is a nice, vague term where you can sort of dodge your way through it. It's the authority that defines actually what can actually get done, and those authorities are, in effect, put in place

by the Board, on a recommendation of the Executive Committee" (HQ Risk Management Executive, *Oz-Mining*).

Additional illustrations from the *Oz-Mining* HQ Risk Management Executive, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Tech Experts* HQ Head Programming Manager added a more practical depiction of what authority constituted in a day-to-day sense. The quote from the *Oz-Mining* HQ Risk Management Executive noted that authority represents a limit to such matters as company representation and situational responsibilities, particularly in the event of a crisis. The quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive provided a more financial perspective, listing capital expenditure and purchase orders as two examples of matters that are limited by the subsidiary's authority. This quote also demonstrated that even if such a limit exists, a subsidiary will not necessarily either be aware of its exact nature or reach that limit. The Tech Experts HQ Head Programming Manager similarly stated that while a subsidiary is generally provided with autonomy by the head office, that autonomy will be limited (through its authority) to decisions of up to $10,000 dollars. The quote revealed that beyond this limit, the subsidiary must ask permission of the head office's Finance department. By empirically identifying specific areas in which a subsidiary's authority takes effect, this finding further extends the previous studies of Young and Tavares (2004) and Gupta and Govindarajan (1991). This is because as mentioned earlier, these conceptual studies only hypothesised about the nature of authority as a potential limit to a subsidiary's autonomy, and did not specify any operational actions or decisions that would fall within such a limit.

"There's a policy on limits to expenditure. Other key things are who can and can't speak to the outside world, [and] who can and cannot do things in the event of a disaster in your disaster management plan, where it's all pre-defined as to who can do what. It's for significant events, whether it be a death, whether it be an explosion, or other [events]. Those things are very much cast in stone, again as part of the policy as to who is able to do what" (HQ Risk Management Executive, *Oz-Mining*).

"For very specific things like capital expenditure, I've got a dollar limit and above that it has to go across to the US… Purchase orders and everything I've probably got

a limit but I don't even know what it is. I don't think I've ever hit it, but it's built into the system, so if I try and sign off on a purchase order for say, above 1 and a half million dollars, it will probably reject it. But I've never hit it; so there is a limit there, but I don't know what it is. It's at a point where it's high enough that it never interferes with us acting in Australia" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

"They [the subsidiary] have to report any spending of more than say $10,000 dollars, it has to be authorised… Anything more than $10,000 dollars [the subsidiary] should tell them [the head office Finance department], and they may look at it and say "That is fine, not a problem"… So autonomy is given, but when the autonomy relates to issues that impact the financial data of the organisation, that autonomy is limited" (HQ Head Programming Manager, *Tech Experts*).

In summary, the findings of this section have contributed to the understanding of the construct of subsidiary authority and its relation to subsidiary autonomy in a number of ways. First, by establishing the two concepts as being separate and distinct from each other, the findings challenge the assumptions of authors such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) that they were indistinguishable, and extended the research by Gupta and Govindarajan (1991) and Young and Tavares (2004) by providing empirical evidence of this discrepancy. These studies are further extended by the current study's findings establishing that a subsidiary's authority represents a limit to its head office-assigned autonomy; previously this notion had remained an unproven hypothesis in the aforementioned studies. The findings also identified specific matters that a subsidiary's authority may limit, namely company expenditure, company representation by individuals and the responsibilities of subsidiary managers and employees. This recognition of a limit to a subsidiary's autonomy has significant implications for the application of agency theory to subsidiary autonomy-related issues (see Chapter 6), for the resultant outcomes of subsidiary initiatives (see Chapter 5) and also for the categorisation of the types of autonomy. This last matter is addressed in greater detail in Section 4.3.

4.2.4. Manufacturing versus service industry autonomy

Before moving onto the discussion of the different types of autonomy, it is first necessary to briefly touch on the findings in relation to the comparison of subsidiary autonomy in manufacturing versus service firms. The literature review in Chapter 2 identified this as an area that had received relatively little attention in previous studies (Boojihawon et al., 2007; Krishnan, 2006; Manopoulos, 2008; Miozzo & Yamin, 2012; Najafi-Tavani et al., 2012). This research gap was highlighted by Krishnan (2006) who, when exploring the notion of autonomy within subsidiary management, noted that the majority of extant studies had focused on manufacturing subsidiaries. Najafi-Tavani et al. (2012) reinforced this research gap, identifying that while autonomy has been linked to greater knowledge development capability in manufacturing subsidiaries, its influence on service firm subsidiaries has remained unknown. Furthermore, Boojihawon et al. (2007) noted that this focus on manufacturing subsidiaries had extended throughout the wider subsidiary management literature, particularly the subsidiary role typologies (Manopoulos, 2008). As a result, there was a very limited understanding of subsidiary autonomy amongst service firm subsidiaries, and how this compares to the autonomy held by manufacturing firm subsidiaries. Miozzo and Yamin (2012) noted that additional research was therefore required to develop a greater understanding of the management of subsidiaries of MNEs in service industries, and in particular the prevalence and types of autonomy within such subsidiaries. This is particularly the case since Miozzo and Yamin (2012) claimed that the level and type of autonomy for a service firm subsidiary may be different to that of a manufacturing firm subsidiary.

With this in mind, the current study incorporated the views of four service firms (*Primary Investors*, *Global Recruitment*, *IT Pro* and *Tech Experts*) out of the ten total cases so as to investigate any potential differences between the autonomy in service firms against that in manufacturing firms. However, the findings of the current study indicated that there was no emphasised difference in the understanding of autonomy between managers in service firms and those in manufacturing firms. Furthermore, there was also no discernible difference in the prevalence of autonomy in service compared to manufacturing firms, nor did service firms display more of a particular type of autonomy or vice versa (the different types of autonomy are discussed in greater detail in Section 4.3 of this chapter). By comparing subsidiary autonomy in service versus manufacturing firms and identifying no emphasised differences, the findings of the current study thus addressed the research gap identified by Najafi-Tavani et al. (2012), Krishnan (2006) and Boojihawon et al. (2007). The findings also challenge the assertion of Miozzo and Yamin (2012) that the level and type of autonomy for a service firm subsidiary may be different to that of a manufacturing firm subsidiary. In order to verify this finding, the current study suggests that future research focus on further investigating any potential differences between the understanding and negotiation of subsidiary autonomy in service firms compared to manufacturing firms.

4.2.5. Summary: How do subsidiaries and headquarters understand autonomy?

The findings outlined in Section 4.2 set out to address Research Question 1a, which was: *How do subsidiaries and headquarters understand autonomy?* Having established a new, comprehensive definition for autonomy, outlined the differences in autonomy across a subsidiary's value functions, and highlighted the differences between subsidiary autonomy and authority, the current study's findings have addressed this research question. These findings were divided into four parts, and are summarised as follows.

The findings in Section 4.2.1 first developed an updated, comprehensive definition for subsidiary autonomy based on both subsidiary and head office insights. Insights from the *IT Pro* Subsidiary Delivery Program Manager, the *Oz-Mining* Subsidiary Commercial Manager, the *Primary Investors* HQ Senior Loans Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Automation Plus* Chinese Subsidiary Operations Manager highlighted the need for such a definition to incorporate the ability of the subsidiary to undertake decisions or actions independently from the head office. More specifically, the illustrations from the *Oz-Mining* HQ Risk Management Executive, the *Oz-Mining* Subsidiary Commercial Manager and the *Tech Experts* Subsidiary Senior Programming Manager demonstrated that subsidiary autonomy encompasses independent control over decisions or actions at an operational, day-to-day level. These findings extend the previous definitions of subsidiary autonomy as outlined by Ambos et al. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004), which had not directly considered the scope of activities within a subsidiary's autonomy. The quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also added that in some instances, a subsidiary's autonomy also includes strategic input. As such, the study developed a definition for subsidiary autonomy that covered both operational and strategic actions. The current study therefore defined subsidiary autonomy as *'the freedom that is available to or acquired by the subsidiary to undertake decisions relating to day-to-day, operational (and in some cases, strategic) actions independently from the head office'*. This definition refines that of Najafi-Tavani et al. (2012) and O'Donnell (2000), who focused more on operational and strategic *authority* rather than *autonomy*.

The findings in Section 4.2.2 then outlined the way in which autonomy was found to vary across value functions within individual subsidiaries. Insights from the *Global Recruitment* Subsidiary HR Coordinator and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive provided direct evidence of this difference across value functions, and in doing so, challenge the assumption of a number of studies (Beechler & Yang, 1994; Brandt & Hulbert, 1977; Couto et al., 2005; Fenton-O'Creevy et al., 2008; Ferner et al., 2004; Ferner et al., 2011; Levitt, 1983; Picard, 1977; Rosenzweig & Nohria, 1994; Takeuchi et al., 2008) that the level of autonomy in a single department is representative of, and consistent across, the entire subsidiary. By considering subsidiaries located in a number of countries, the findings also extend those of Collinson and Wang (2012) and Edwards et al. (2002) who focused on subsidiaries within the single markets of Taiwan and Malaysia respectively. Furthermore, the provision of empirical evidence extends the studies of Gammelgaard et al. (2011) and Vachani (1999), which simply hypothesised about the difference in autonomy levels across value chain functions. Insights from the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive then identified that the level of autonomy was generally higher in the operational areas such as sales, than in the more strategic departments such as R & D. As the quotes from the *IT Pro* Subsidiary Delivery Program Manager, the *IT Pro* Subsidiary Infrastructure Manager, the *Thermo-Energy* HQ Managing Director, the *Global Recruitment* HQ Head HR Manager, the *Strong-Weld* Asia Pacific Subsidiary

Finance Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *Automation Plus* Australian Subsidiary Head of Engineering explained, this is because the head office neither possesses the necessary knowledge to deal with local environment operational factors, nor is within a close enough geographic proximity to deal with these factors. These findings extend those of Gammelgaard et al. (2011), Vachani (1999), Collinson and Wang (2012) and Edwards et al. (2002), which did not provide an explanation for this occurrence. At the same time, the quotes from the *IT Pro* HQ Head Programming Manager, the *Tech Experts* Subsidiary Senior Programming Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also indicated that despite autonomy tending to be greater in operational value functions, strategic value functions could still possess significant amounts of autonomy. This finding challenges those of Edwards et al. (2002), and refines those of Collinson and Wang (2012), who had documented differing levels of autonomy across a number of value functions, but had not specifically highlighted autonomy within strategic value functions. The finding also adds to the hypotheses of Gammelgaard et al. (2011) and Vachani (1999) by providing empirical evidence of the prevalence of autonomy in strategic value chain functions.

Finally, the findings in Section 4.2.3 delineated the relationship between the two terms, autonomy and authority. Insights from the *PharmaSee* Subsidiary Senior Data Manager, the *Tech Experts* Subsidiary HR Manager and the *IT Pro* HQ Head Programming Manager first established that the two terms, although related, are separate and distinct from one another. In doing so, these findings challenge the assumption of authors such as Chiao and Ying (in press) and Andersson and Pahlberg (1997) that they were indistinguishable, and extend the research by Gupta and Govindarajan (1991) and Young and Tavares (2004) by providing empirical evidence of this discrepancy. These studies are further extended by the quotes from the *Oz-Mining* Subsidiary Commercial Manager, the *Tech Experts* Subsidiary Senior Programming Manager and the *Oz-Mining* HQ Risk Management Executive establishing that a subsidiary’s authority represents a limit to its head office-assigned autonomy; this notion was previously an unproven hypothesis in the aforementioned studies. Quotes from the *Oz-Mining* HQ Risk Management Executive, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Tech Experts* HQ Head Programming Manager also identified specific matters that a subsidiary’s authority may limit, namely company expenditure, company representation by individuals and the responsibilities of subsidiary managers and employees.

While the findings from Section 4.2 extended our understanding of the notion of 'subsidiary autonomy', the findings also highlighted the need to further explore the precise ways in which this autonomy may be developed. The processes by which autonomy may be either 'available to' or 'acquired by' (see Section 4.2.1) the subsidiary are therefore explored in the following section.

4.3. HOW DO SUBSIDIARIES AND HEADQUARTERS NEGOTIATE AUTONOMY?

One of the key limitations of much of the extant subsidiary management literature is that it has assumed that a subsidiary's autonomy may only be developed or obtained from a single source. The majority of research- particularly the earlier work- in the subsidiary management field (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966) has assumed that a subsidiary's autonomy was *formally delegated* to it from the head office of the MNE. However, more recent research (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) has indicated that subsidiaries may display a degree of autonomy beyond that which they were given by the head office. These conflicting views indicated that rather than there being a single source from which a subsidiary may obtain its autonomy, a subsidiary may gain its autonomy from multiple sources. Despite this, there had been no empirical research into the precise origins of a subsidiary's autonomy, or any investigation into the resultant types of autonomy (Brock & Paterson, 2002; Tong et al., 2012; Young & Tavares, 2004). This current study therefore sought to address these research gaps by first exploring the sources of a subsidiary's autonomy. Following this, the section devises appropriate terminology for the types of subsidiary autonomy. Finally, the section outlines how the resulting types of autonomy may or may not be limited by the subsidiary's authority.

4.3.1. Head office-assigned autonomy

Recently, a number of studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) have begun to explore the ability of the subsidiary to possess autonomy beyond that which is provided by the head office. However, the findings of this current study revealed that in a number of cases, the subsidiary obtained whatever autonomy it had from the head office. This was particularly evident in the case of *Thermo-Energy*. As revealed in the following quotes from both the *Thermo-Energy* Subsidiary Senior Executive and the *Thermo-Energy* HQ Managing Director, the amount of autonomy that a subsidiary possesses is often determined through a formal delegation process. This process involves the *assignment* of a specified level by the top level management of the parent company (in this instance, the Board of Directors) to the subsidiary. This finding indicated that in some cases, the subsidiary is given no say in the amount of autonomy it is delegated, and is effectively a passive recipient of a level of freedom in which to determine their own actions.

"Autonomy means the permission to take certain decisions within certain parameters… It's agreed upon setting up the subsidiary by the Board of Commissioners and the Board of Directors" (Subsidiary Senior Executive, *Thermo-Energy*).

"Generally it's [autonomy] the right to operate within a set of guidelines that have been essentially predetermined, in my case, by the Board of Directors. It's literally as simple as that" (HQ Managing Director, *Thermo-Energy*).

The following insight from the *Oz-Mining* HQ Senior Planning Manager added that in some instances, a subsidiary must earn autonomy before it will even be assigned any by the head office. According to the *Oz-Mining* HQ Senior Planning Manager, if a subsidiary is to earn autonomy, it must first demonstrate such things as an ability to regularly report to the head office in relation to its results, and consistently meeting forecasted outcomes.

"You earn autonomy. If you come down to Melbourne [from the PNG subsidiary] and give a presentation and it doesn't demonstrate you're on top of your business, or if you keep putting in forecasts and missing them by a mile and generally lose people's confidence, then you actually eat away at your autonomy" (HQ Senior Planning Manager, *Oz-Mining*).

The illustration from the *IT Pro* Subsidiary Delivery Program Manager below provided a more operational perspective. This manager indicated that while the subsidiary relies on the headquarters for its autonomy and as such is governed by the corporate policies and regulations, it is given freedom to deal with day-to-day issues. This finding was significant for two reasons. First, it is consistent with- and thus reaffirmed- this current study's revised definition for the notion of 'subsidiary autonomy' ('the freedom that is available to or acquired by the subsidiary to undertake decisions relating to day-to-day, operational [and in some cases, strategic] actions independently from the head office'). Second, it highlighted that the head office often affords the subsidiary a degree of autonomy in order to deal with location-specific situations that arise in the host market.

"At [IT Pro] all subsidiaries are expected to conform to head office policies and guidelines. In reality some autonomy is allowed to cover local specific or unique situations" (Subsidiary Delivery Program Manager, *IT Pro*).

Additional insights from the *Thermo-Energy* HQ Managing Director and Subsidiary Senior Executive revealed that upon being delegated their level of autonomy, subsidiaries are expected to utilise this autonomy in a manner that allows monitoring by the head office. This was evidenced by the *Thermo-Energy* HQ Managing Director outlining that any major decisions made by the subsidiary must be referred to, and permitted by, the head office. The *Thermo-Energy* Subsidiary Senior Executive reinforced this finding, stating that the company headquarters were aware of all decisions that are made at the subsidiary level.

"Basically if they're going to spend any money- substantial amounts of money [the subsidiary needs head office permission]… Any major investment decisions would be subject to all the appropriate governance that's in place, and those decisions would be taken at the Board of Commissioner [headquarters] level. Those major investment decisions would obviously require all the entities to not only approve funding for, but provide funding for, [the investment]" (HQ Managing Director, *Thermo-Energy*).

In aggregate, these findings at first glance appeared to support a number of studies (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966) that viewed subsidiaries as obtaining their autonomy through a process of formal delegation from the head office. However, upon closer inspection, the findings of this current study exhibited a key difference to those of the aforementioned studies. Where the earlier research assumed that subsidiaries could only acquire autonomy through this assignment from the head office, this current study proposed that there are additional sources of a subsidiary's autonomy. It is worth noting here that the recognition of multiple sources of subsidiary autonomy refutes the key implicit assumption of the aforementioned previous studies above that a subsidiary's autonomy must originate from the head office. These additional sources are explored in greater detail later in this section.

Selection of terminology

Having established the head office as a source of a subsidiary's autonomy, it was necessary to devise a term to describe the resultant type of autonomy. To this point, the majority of the relevant extant subsidiary management literature had failed to recognise the existence of different 'types' of autonomy. This oversight had stemmed from the aforementioned assumption that a subsidiary's autonomy is acquired or developed from a single source. This assumption was particularly prevalent in the research relating to head office-assigned autonomy (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966). Even those studies that revealed empirical evidence of subsidiaries engaging in autonomous actions beyond their authority (Birkinshaw & Fry, 1998; Delany, 2000; Dorrenbacher & Geppert, 2010; Sandvik, 2010; Sargent & Matthews, 2006) did not differentiate between any different *types* of autonomy. This led Young and Tavares (2004) to identify the need to better understand the potential types of autonomy as part of their review of the subsidiary management research. These authors proposed the terms 'formal' and 'informal' autonomy, and also discussed 'assigned' and 'assumed' subsidiary roles (Birkinshaw, 2000). However, neither of these sets of terms were based on any empirical evidence involving subsidiary autonomy. Similarly, although Gammelgaard et al. (2011) devised the term 'effective autonomy' to discuss a type of autonomy purportedly identified in their empirical study, it did not make any distinction between the types of autonomy that were either provided to the subsidiary by the head office, or developed by the subsidiary beyond its authority. In addition, Miozzo and Yamin (2012) recognised that subsidiaries could possess 'negative power', which involves the ability to 'assert autonomy' and avoid control from the head office. Yet Miozzo and Yamin (2012) did not directly differentiate between the different types of autonomy. Thus the current study sought to devise an appropriate set of terminology for the types of autonomy that emerge from its findings.

The first type of autonomy that required a suitable term is that which is sourced by the subsidiary through formal assignment from the head office. In order to find the most appropriate term, the transcripts were examined to identify the precise way in which autonomy was obtained from the head office. As the quotes from the *PharmaSee* Subsidiary Senior Data Manager and the *Tech Experts* Subsidiary HR Manager highlighted, the head office clearly 'hands over' the autonomy to the subsidiary. It was also clear that the autonomy is something that the head office has control over. This was demonstrated by the use of words such as "provided" and "given" in the quotes from the subsidiary managers below.

"I would say that it's also provided by the organisation… I don't think that autonomy is simply just what I give myself. I think that there is still an element of head office" (Subsidiary Senior Data Manager, *PharmaSee*).

"So you're given the autonomy to do it, but not necessarily the authority because the decision has already been made" (Subsidiary HR Manager, *Tech Experts*).

As indicated by the previous insights from the *Thermo-Energy* Subsidiary Senior Executive, the process by which the subsidiary obtains its autonomy from the head office is often very formal and deliberated over by the highest levels of the organisation (such as the Board of Commissioners). As such, the appropriate term for subsidiary autonomy that is sourced from the head office also needed to convey this sense of formality. With these considerations taken into account, the current study selected the term *'assigned'* to describe subsidiary autonomy that is sourced from the head office. It is worth noting that the term 'assigned' was suggested by Young and Tavares (2004) as a possible type of autonomy. However, the Young and Tavares (2004) study was conceptual in nature, with no empirical evidence in relation to subsidiary autonomy or theoretical justification for this choice of term. Instead, the term was originally used by Birkinshaw (2000) to describe a type of subsidiary role. Furthermore, Young and Tavares (2004) did not use the term to describe a particular type of autonomy; rather, it was simply proposed as a possible title to be used in future research. This current study therefore extends the study of Young and Tavares (2004) in two ways. First, the current study based the term 'assigned' on empirical evidence relating specifically to a type of autonomy. Second, the term 'assigned' was used to describe the type of autonomy that is sourced from the head office. The current study also extends the previous literature which viewed autonomy as being only delegated by the head office (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966) by identifying the existence of 'types' of autonomy, and also by establishing a term to describe that which is derived from the head office.

Authority as a limit to assigned autonomy

As stated above, when a subsidiary is assigned autonomy by the head office, it is expected to utilise that autonomy in a manner that is permitted and monitored by headquarters. As the following illustration from the *Oz-Mining* HQ Risk Management Executive explained, this is because the head office wishes to ensure that the subsidiary is not engaging in actions that might be detrimental to the wider corporation. The quote from the *Oz-Mining* Risk Management Executive revealed that the head office is often particularly concerned with ensuring that the subsidiary does not breach the corporate regulations through autonomous actions.

"But the businesses do not have a right to override the corporate regulations- the corporate policies and procedures… they cannot make decisions that overrule the corporate philosophies and policies" (HQ Risk Management Executive, *Oz-Mining*).

This insight from the *Oz-Mining* HQ Risk Management Executive implied that there will therefore be a limit to the amount of autonomy that the head office will assign to the subsidiary. Previous insights in this section from the *Thermo-Energy* HQ Managing Director were more explicit, showing that any major decisions made at the subsidiary level need to be referred back to, and approved by, the head office. However, this is not to say that any arrangement between the head office and the subsidiary relating to the assignment of autonomy will necessarily be a highly restrictive one. While not referring to his current organisation, an additional illustration from the *Thermo-Energy* HQ Managing Director revealed that subsidiaries are often assigned a large degree of autonomy with a very broad yet clear limit to that autonomy.

"In 1988, I had a boss that basically said "Look, we want to develop the Asian market- we being the Americans don't understand it, and are not particularly liked. So go up there, develop the Asian market, and there's only one rule: don't lose any money. You can do whatever you like, but don't lose any money. If you can make heaps [of money], all good and well, but don't lose any money." I suspect that's the way a lot of organisations still today- small, medium and large- tend to operate, particularly with respect to international operations" (HQ Managing Director, *Thermo-Energy*).

In this way, it could be seen that when a subsidiary is assigned a level of autonomy by the head office, there is also a distinct limit to this autonomy. This finding was significant, since it reinforced the earlier finding from Section 4.2.3 that a subsidiary may indeed face a limit to the amount of assigned autonomy it may possess. As the findings from Section 4.2.3 revealed, this limit is represented by the subsidiary's level of authority that is also delegated by the head office. As stated previously, this finding confirms the hypotheses of Gupta and Govindarajan (1991) and Young and Tavares (2004) by providing empirical evidence of subsidiary authority as a limit to its assigned autonomy. In addition, the finding extends much of the subsidiary management research (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966). Where these previous studies had documented the assignment of subsidiary autonomy by the head office, they had not explicitly recognised that this autonomy would be limited by the subsidiary's level of authority. In revealing direct evidence to this effect, the current study's findings extend these previous studies, and also extend our overall understanding of how autonomy may be 'acquired by' the subsidiary.

4.3.2. Subsidiary-developed autonomy

Thus far this section has explored those instances in which a subsidiary is explicitly assigned a level of autonomy by the head office. However, extant research existed which indicated that subsidiaries may also possess a degree of autonomy that has not been formally assigned to them (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). Despite this, Tong et al. (2012), Young and Tavares (2004) and Paterson and Brock (2002) noted that much more research was needed to understand how such autonomy may be developed, and how it differs from that which is formally assigned. The following illustration from the IT Pro Subsidiary Delivery Program Manager revealed that rather than being assigned autonomy, a subsidiary may develop its own autonomy.

"Autonomy would be developed by the subsidiary on its own. I've never heard of the situation were head office has explicitly assigned autonomy except when head office has dropped a program and expected subsidiaries to continue with the program on their own" (Subsidiary Delivery Program Manager, *IT Pro*).

This insight from the *IT Pro* Subsidiary Delivery Program Manager was significant for two reasons. First, it revealed that while the most common source of subsidiary autonomy is through head office assignment (see the previous Section 4.3.1), the subsidiary itself may represent a source of autonomy. Second, it revealed that as well as being an *additional* source of autonomy 'on top of' assignment from the head office, the subsidiary may in some instances be the *only* source of a subsidiary's autonomy. By establishing that autonomy may actually be developed by the subsidiary on its own accord, the findings of this current study extend those of previous studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). While these authors recognised the ability of the subsidiary to engage in actions beyond their charter, they did not specifically investigate the ability of the subsidiary itself to develop autonomy.

Causes of assumed autonomy

The insight from the *IT Pro* Subsidiary Delivery Program Manager was also important as it alluded to one of the causes for subsidiaries developing their own autonomy. This was significant because while existing research (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) had documented the occurrence of the subsidiary developing autonomy beyond its formally assigned levels, these studies did not directly explore the issue of *why* a subsidiary would wish to do so. This current study therefore sought to delineate the key causes behind a subsidiary developing its own autonomy. The four causes identified in the findings, and the respective cases to which they corresponded, are summarised in Table 4.1:

Table 4.1: The causes of subsidiary-developed autonomy

Cause	Cases
Developing autonomy through necessity due to head office indifference/lack of interest	1. *IT-Pro* Australian subsidiary
Developing autonomy in order to maximise efficiency and effectiveness	1. *Strong-Weld* Asia Pacific subsidiary 2. *Tech Experts* Australian subsidiary 3. South East Asian mining company subsidiary (as described by the *Oz-Mining* HQ Risk Management Executive)
Developing autonomy in order to maximise the personal gain of individual manager(s)	1. West Australian mining company subsidiary (as described by the *Oz-Mining* HQ Risk Management Executive) 2. Former *Strong-Weld* South African subsidiary
Developing autonomy through head office facilitation	1. West Australian mining company subsidiary (as described by the *Oz-Mining* HQ Risk Management Executive)

Developing autonomy through necessity due to head office indifference/lack of interest

The first of these causes involves the subsidiary being forced to develop its own autonomy due to a lack of interest or assigned autonomy from the head office. As indicated by the previous quote from the *IT Pro* Subsidiary Delivery Program Manager, the head office occasionally causes a situation that threatens the subsidiary's continued survival, prosperity or value within the wider corporation, such as 'dropping' a key program. As referred to by the respondent, the subsidiary will in some cases be assigned a level of autonomy by the head office, and expected to continue on independently with the program. However, the *IT Pro* Subsidiary Delivery Program Manager later went on to add (see the following quote) that in some instances, the subsidiary faces situations that it must decide on and deal with completely on its own.

"There can also be situations that have been created due to head office strategy, such as acquisitions, which creates anomalies that the local subsidiary has to deal with" (Subsidiary Delivery Program Manager, *IT Pro*).

As the *IT Pro* Subsidiary Delivery Program Manager stated previously, this generally requires the subsidiary the develop autonomy on its own, without any assignment from the head office. In such instances, the subsidiary may not even wish to engage in autonomous actions, but in effect be forced to by the lack of commitment or interest from the head office. In this way, such a lack of commitment or interest from the head office can be seen as one of the key causes of a subsidiary developing its own autonomy.

Developing autonomy in order to maximise efficiency and effectiveness

In contrast with this aforementioned case where the subsidiary was forced to develop its own autonomy, the findings also revealed that subsidiaries may deliberately develop autonomy beyond their assigned levels from headquarters. As the following cases reveal, this may be due to the subsidiary deeming it necessary to do so in order to maximise the efficiency and effectiveness of an operation. This cause of a subsidiary assuming its own autonomy was demonstrated by the case of *Strong-Weld*. The following quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive revealed that the subsidiary sometimes deems it necessary to develop its own autonomy beyond its authority to overcome problems that stem from head office inefficiencies. In such situations, the subsidiary is not forced to develop its own autonomy, but chooses to do so to benefit the overall corporation. In this particular instance mentioned by the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the subsidiary went beyond its authority and opened a new branch in another country without asking head office permission. The respondent justified this action on the grounds that had they acted within their authority (thus using assigned autonomy) and asked for head office permission before opening the new branch, the whole process would have been much less efficient and effective. The *Strong-Weld* Asia Pacific Subsidiary Finance Executive went on to cite a recent branch closure in Malaysia as a further example of the time that is often wasted when the subsidiary acts within its authority and asks the head office for permission. The quote from the Asia Pacific Subsidiary Finance Executive states that the Asia Pacific subsidiary could have already closed the Malaysian plant by February 2011 (when the quote was obtained) had it gone beyond its authority without asking head office permission. Yet the inefficiencies associated with involving the head office prolonged the process to such an extent that the closure of the Malaysian plant was not finalised until the end of 2011, as highlighted by the additional quote from the *Strong-Weld* HQ CEO (which was obtained in November 2011). In this way, it was evident that one of the causes of a subsidiary developing its own autonomy is due to the perceived need to avoid headquarters-related inefficiencies.

"We'll go and open up say, a new branch in Indonesia, and they won't even know about it. It might be there for 2 years, and then they'll go and have a look at our insurance renewals and say "Where's this address?" It's not for hiding anything from them, it's just that if you involve them in it, it slows the whole process down and they want justification and so forth… We're closing a branch down in Malaysia, and we told them about it and so then they wanted us to present to the senior team in the US. So we went to do that, and then they referred it from the senior team to all these people in the US. The thing has now been dragging on for six months… They just can't make decisions; they've just got to analyse and analyse it, whereas we would have already had the place wound up and closed" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

"On September 14, 2011, we announced the consolidation of our welding equipment manufacturing operations, based in Palau Indah, Malaysia, with our operations in Raweng, Malaysia, and Ningbo, China. This is [in] addition to the restructuring plan we previously announced in the second quarter, to consolidate… our North American plasma cutting operations… The consolidations of both our North American and Malaysian operations are expected to be substantially completed by the end of the year" (HQ CEO, *Strong-Weld*).

The *Tech Experts* Subsidiary HR Manager reinforced the insight from the case of *Strong-Weld* by also stating that the Australian *Tech Experts* subsidiary would occasionally assume autonomy to reduce the time taken to make decisions and implement policies and practices. According to the *Tech Experts* Subsidiary HR Manager, this was because the subsidiary possessed key local knowledge that enabled them to speed up such process that would otherwise be delayed by head office indecision. The subsidiary would therefore occasionally assume autonomy beyond its authority when applying remuneration structures or negotiating deal pricing to increase the speed and efficiency of these actions.

"In my role there were certain things where I would take the autonomy and the authority to take decisions. That could be on the way we applied our remuneration structures. That was purely because we had the relevant information around what would work in our industry and our environment in Australia… It [assuming autonomy] would happen. I did it, the CEO did it, because sometimes you just need to get something done without going through the head office. Within Infosys, one of the things with the subsidiary model is that the speed of the decision making is halted when you need to go through the headquarters. That's also a result of the national cultural differences, with India being not so individualistic as the Australian culture is. They like to have everybody involved in making decisions, and no one likes to make the decision first because they don't want to 'wear it' if the decision goes wrong. So there were often decisions that were taken simply because speed was needed to put them in place… So things like the deal pricing, from time to time she [the CEO] will need to make a decision and go with a lower percentage margin on a deal in order to secure the client. She would say "If they're not going to get back to me in time (as in head office) or I know they're not going to accept it, but there's a strategic reason why I want to get this client on board", and she would go with it" (Subsidiary HR Manager, *Tech Experts*).

The *Oz-Mining* HQ Risk Management Executive also cited an additional example of a subsidiary that developed its own autonomy in order to enhance its value-creating capacity within the wider corporation. The particular subsidiary in question was the South East Asian subsidiary of a separate mining corporation that the *Oz-Mining* HQ Risk Management Executive had previously worked for. As the following quote revealed, a manager within the subsidiary engaged in an unauthorised trade agreement with a number of parties. This trade involved the use of four and half million US dollars of the corporation's money in an attempt to generate an additional ten thousand US dollars. In this instance, the intention of the subsidiary was to create value for the wider corporation. In order to do so, the subsidiary deemed it necessary to go beyond its authority and employ a level of autonomy beyond its assigned autonomy from the head office. Where the previous examples from the *Strong-Weld* and *Tech Expert* subsidiaries involved the respective subsidiaries developing their own autonomy to overcome head office inefficiencies, this instance involved the use of subsidiary-generated autonomy with a more simple view to improving the profitability of the subsidiary, and thus benefitting the wider corporation. The finding also alluded to the dangers for the subsidiary when developing autonomy beyond their authority; these dangers are discussed in greater detail in Section 5.3.3 in Chapter 5.

"Another was a guy who entered into a three or four way trade agreement, as happens with trading companies. The deal back in those days was for four and a half million US [dollars], and the yield on the deal was ten thousand dollars- that was how much money they were going to make out of it" (HQ Risk Management Executive, *Oz-Mining*).

Developing autonomy in order to maximise the personal gain of individual manager(s)

As stated previously, the cases of the *Strong-Weld* Asia Pacific Subsidiary, the *Tech Experts* Australian subsidiary and the South East Asian mining company subsidiary (as described by the *Oz-Mining* HQ Risk Management Executive) highlighted that when a subsidiary develops its own autonomy beyond its assigned levels, it often does so with a view to benefitting the overall corporation. However, additional insights from the *Oz-Mining* HQ Risk Management Executive and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive revealed that this is not always the case. As the following responses explained, subsidiaries and their managers often develop their own autonomy so as to pursue their own personal agendas. The *Oz-Mining* HQ Risk Management Executive told of the West Australian subsidiary of the same mining company discussed in the last section that was being run by an individual manager who blatantly disregarded his assigned level of authority. This manager assumed his own level of autonomy in order to run the operation as he saw fit, with scant regard for the interests of the head office. This involved such things as appointing employees to approve his own personal transactions (and those of his wife) that were paid for using company funds. Additionally, the manager would also go beyond his authority in relation to operational matters, such as the excessive ordering and improper use of equipment and materials. In this way, it could be seen that the pursuit of an individual manager's personal objectives may cause a subsidiary to develop its own autonomy. It was also evident that the personal objectives may involve the manager's preference for how the subsidiary should be run, or direct financial gain for that manager.

"Yes, it has happened, at another place where the person who ran the operation well and truly overstepped all his authority levels and limits. We did a review and it was found that there were too many untoward practices, [and] backhanders going through where any business set up in that town would have to pay a percentage to this individual. It was run as you see in the old-time Western movies, where you had a person who controlled the town- that was this individual who controlled the town. He would do a patrol at about 6 o'clock in the evening around the town of about five and a half or six thousand people… He'd speak to somebody and tell them "I don't like the look of you, you're out of town tomorrow", and people would have to leave town. [There was] just incredible extravagance of flying flowers over from Tasmania for a function to the very furthest part of Western Australia. Just unbelievable things- new uniforms for each function to be held each week, and illegal use of all capital equipment. It just went on and on and on and on. So he well and truly exceeded his authorities. As a result, he appointed people who would sign his transactions, and his wife's transactions… He knew the limits [of his authority], and that's why he did the appointments of people to approve things" (HQ Risk Management Executive, *Oz-Mining*).

An additional case of an individual subsidiary manager developing autonomy on behalf of the subsidiary was provided by the *Strong-Weld* Asia Pacific Subsidiary Finance Executive. As the following quote outlined, the General Manager of the South African *Strong-Weld* subsidiary was found to be extending his level of autonomy beyond his headquarters-assigned authority by employing a form of 'insider trading'. Many of these autonomous activities not only advantaged the particular subsidiary manager (such as setting up external businesses without headquarters' knowledge to win *Strong-Weld* contracts), but also disadvantaged the head office and wider corporation (such as purchasing cheaper supplies from competitors instead of headquarters). In the case of this subsidiary, the extension of its levels of autonomy beyond its assigned authority was caused by a combination of reasons. First, the subsidiary manager extended his autonomy in order to overcome perceived inefficiencies and an ‘insular’ focus from the head office. This was in accordance with the aforementioned case of the plant closure in Malaysia also mentioned by the *Strong-Weld* Asia Pacific Subsidiary Finance Executive. However, the General Manager of the South African *Strong-Weld* subsidiary also extended his autonomy for a second reason: to satisfy his individual ambitions and maximise his own personal gain. This case therefore highlighted the complex nature of the type of autonomy that is developed by the subsidiary beyond its level of authority.

“I know when we had South Africa- we had three businesses in South Africa and for a while that came under me- there was no way the Americans could cope with the Afrikaans. The Afrikaans were just so independent that the Americans had no idea what they were doing, to the point where we were supplying them a product (we being Strong-Weld in the US), and one of our buyers ran into the GM of South Africa up in China. He was actually ‘back-dooring’ the company, because he could make more money buying Chinese product than buying Strong-Weld product out of the US. It was running very nicely and it was making a nice profit, but he just thought the US were a total pack of idiots, very insular and didn’t know what was happening with the world, and to a large extent he was right. He was just going and cherry picking the best products at the best prices around the world for the South African market which had a low tariff barrier and that sort of stuff, and he had to be competitive down there... the big mines have a maintenance program and they’ll shut down for two weeks a year, or ten days or something, and they’ll go through and do all the maintenance. Instead of doing maintenance, he set up another business without the US even knowing, and he was winning all these contracts to do all the maintenance. So he had a crew of people who’d go in and do all the maintenance, and he’d supply all the welding products for them. So he was making money out of maintenance, and he was supplying all the welding products. Then he started up a hire business and he was hiring all this stuff to all these companies. He’d do about two mine maintenances and he’d have the capital cost of that machine paid for...it was very smart business” (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

Developing autonomy through head office facilitation

To further add to the complexity surrounding the understanding of subsidiary-developed autonomy, the current study identified one final situation that may involve this type of autonomy. As the *Oz-Mining* HQ Risk Management Executive demonstrated in the quote below, in some instances the head office will be fully aware of- and sometimes even implicitly encourage- the subsidiary developing its autonomy beyond its authority. In such instances, the subsidiary may think that it has developed its autonomy without the knowledge of the head office and be engaging in covert operations, yet in reality the opposite is true. Such situations are different from the previously outlined cases involving subsidiary-developed autonomy, where the head office has been unaware of, and often opposed to, this type of autonomy. In contrast, these latest findings indicated that by implicitly allowing and facilitating the development of the subsidiary's autonomy beyond its authority, the head office may play a large role in subsidiary-developed autonomy. This situation was particularly evident in the following quote from the *Oz-Mining* HQ Risk Management Executive, which identified two separate cases of subsidiaries developing their autonomy beyond their authority. The first was that of the West Australian mining company subsidiary mentioned previously, where the subsidiary manager blatantly disregarded his authority and undertook drastically excessive spending on equipment and materials. The second was that of the bank NAB, which was involved in an unauthorised trading scandal. Although this second case did not involve a subsidiary as such, it further reinforces the finding from the West Australian mining subsidiary that when a business such as a subsidiary is performing well financially, the powers that be are sometimes willing to overlook instances where authority has been overstepped. Thus while the manager at the West Australian mining subsidiary thought that the development of his autonomy was unbeknownst to the head office, the headquarters were actually implicitly validating and encouraging that behaviour by choosing to take no action against him. This decision was made purely on the basis that the subsidiary was doing 'exceptionally well' and was 'the biggest business' within the corporation. Thus while the subsidiary is the primary cause of subsidiary-developed autonomy, this finding revealed that the head office may also play a large part in the subsidiary developing its autonomy beyond its authority.

"Provided that business is operating very well, and they turn a blind eye? Yes, that does happen. That's what happened in the example I gave you earlier, about the fellow who ruled the town. [It was] the biggest business, doing exceptionally well- no one would ever touch it. That's how it kept on getting further and further out of hand… It happens in a number of businesses. I can give you the quote, chapter and verse of what happened at NAB with the foreign exchange. I know full well that that was being reported through the system, but a lot of it nobody was all that interested in looking at purely because they were reporting fantastic results" (HQ Risk Management Executive, *Oz-Mining*).

Overall, the findings thus far in relation to the extension of autonomy by the subsidiary beyond its authority have made three key contributions to the extant literature. First, the findings have addressed two areas identified by Tong et al. (2012), Young and Tavares (2004) and Paterson and Brock (2002) as needing further investigation, namely how subsidiary-developed autonomy differs from that which is headquarters-assigned, and precisely how the former is developed. The current study addressed the first area by revealing that the subsidiary may not only develop autonomy in addition to that which is assigned by the head office, but in some instances may be forced to develop it on their own. The findings from the current study then addressed the second area by identifying and delineating four key causes of autonomy that is extended by the subsidiary beyond its authority. These causes are summarised as follows:

1. The subsidiary is forced to develop its own autonomy on account of indifference or lack of interest from the head office;
2. The subsidiary develops its own autonomy in order to maximise the efficiency and effectiveness of an operation;
3. The subsidiary develops its own autonomy so as to maximise the personal gain of individual managers; and
4. The head office allows or facilitates the extension of a subsidiary's autonomy beyond its authority.

In addition to identifying *how* a subsidiary develops its own autonomy, these four causes identified in the current study's findings also revealed *why* a subsidiary may do so. This was significant, since the extant literature relating to subsidiary autonomy (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) had failed to consider the reasons why a subsidiary may choose to extend its autonomy beyond its assigned authority. To this point, the existing studies have only considered the existence of subsidiary-developed autonomy without directly exploring the causes of its occurrence. For example, Gammelgaard et al. (2011) proposed that autonomy "can be exercised by subsidiaries" (p. 371), yet their study was conceptual in nature and did not provide evidence to support this claim. Miozzo and Yamin (2012) also discussed the ability of subsidiaries to develop autonomy beyond their authority, yet like Gammelgaard et al. (2011) did not include supporting empirical evidence. At the same time, the study of Sargent and Matthews (2006) found that subsidiaries may possess autonomy even in the absence of support from the head office, but was focused on the issue of corporate entrepreneurship and therefore did not directly investigate the reasons behind subsidiary-derived autonomy. Similarly, the study of Sandvik (2010) recognised that the extension of a subsidiary's autonomy beyond its authority may sometimes be implicitly sanctioned by the head office. However, that study was focused primarily on subsidiary development, and did not consider other reasons why a subsidiary may develop its own autonomy. The study of Dorrenbacher and Geppert (2010) came closest to identifying reasons for subsidiary-derived autonomy. These authors investigated the personal motives of subsidiary CEOs in undertaking initiatives, and revealed instances of subsidiaries acting beyond their authority. Yet Dorrenbacher and Geppert (2010) did not directly explore why the subsidiary managers developed their own autonomy. Thus by directly identifying a range of causes behind a subsidiary extending its autonomy beyond its authority, the current study extends these previous studies. It should also be noted here that the findings for this current section have significant implications for agency theory (Jensen & Meckling, 1976; Saam, 2007) and the notion of 'agency problems'. Agency problems are said to arise from a subsidiary not fulfilling its charter as explicitly requested (Arrow, 1985; Saam, 2007). However, the findings from the current study revealed that in some instances, the failure of the subsidiary to follow its instructions may in reality be neither caused by conflicting goals, nor result in problems for the head office. The findings' full theoretical implications are discussed in greater detail in Chapter 6.

Selection of terminology

So far, the findings of this section have established that a subsidiary is able to develop its own autonomy, and may do so for a number of reasons (as outlined in Table 4.1). It was then necessary to devise a suitable term for this type of autonomy. As was the case for the previous type of autonomy ('assigned'), the study examined the data to determine the exact way in which the subsidiary developed its autonomy. As the previous responses from the *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive revealed, the creation of this type of autonomy is clearly driven by the subsidiary. This was evidenced by the use of words such as "developed" and "take" (in previous quotes from the *IT Pro* Subsidiary Delivery Program Manager and the *Tech Experts* Subsidiary HR Manager respectively). This was in stark contrast to *assigned autonomy*, which is controlled and given away by the head office. Another key element of subsidiary-developed autonomy to emerge from the data was the perception by the subsidiary that the head office has neither any input into, or knowledge of, this type of autonomy. This perception was evident in the insight from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, who stated that they would often "take" autonomy without the head office having any knowledge. As such, the appropriate term for this type of autonomy needed to reflect this perceived lack of awareness by the head office.

"What value does the corporate office add? Very little. So you tend to take autonomy wherever you can, and not get them involved" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

This is not to say, however, that the head office will actually be completely unaware of the subsidiary developing its own autonomy. As the earlier findings from this current section revealed, a subsidiary's 'undercover' autonomous activities may in reality be completely known to the head office. In these findings, the *Oz-Mining* HQ Risk Management Executive told how a subsidiary may in some instances believe that it is developing its own autonomy unbeknownst to the head office. Yet in at least one instance, the head office was fully aware of the subsidiary's actions. This highlighted the need to select a term for subsidiary-developed autonomy that allows for the possibility of the head office being aware of its development.

With this and the aforementioned considerations taken into account, the current study chose the term *'assumed'* to describe autonomy that is sourced from the subsidiary itself. As with the term 'assigned', 'assumed' autonomy was previously suggested as a possible type of autonomy by Young and Tavares (2004). However, as stated previously, Young and Tavares' (2004) study contained no empirical evidence in relation to subsidiary autonomy. Instead, it borrowed the term from a study by Birkinshaw (2000) that originally used it to describe a type of subsidiary role; no theoretical justification was provided by Young and Tavares (2004) as to its suitability as a term relating to autonomy. Consequently, they were unable to apply the term to a particular type of autonomy. By applying the term 'assumed' autonomy to that which is developed by the subsidiary itself, the current study therefore extends that of Young and Tavares (2004) in two ways (as with the application of the term 'assigned autonomy'). First, the term 'assumed' was applied to a type of autonomy that has emerged from empirical evidence. Second, the current study employed the term to describe the specific type of autonomy that is developed by the subsidiary itself. Furthermore, while previous literature existed that documented the occurrence of this type of autonomy (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006), none of these earlier studies had applied a precise term to describe such autonomy. By applying the term 'assumed autonomy', the current study also extends this earlier body of literature.

Authority and assumed autonomy

From the findings of this section thus far, it has been revealed that assumed autonomy describes any autonomy that is 'assumed' by the subsidiary, rather than being 'assigned' from the head office. However, a further examination of this section's findings revealed that every instance of assumed autonomy also involved actions by the subsidiary beyond its level of authority. Whether the subsidiary was forced to assume its own autonomy, did so to maximise either the value of the subsidiary or a manager's individual ambitions, or was even implicitly encouraged to do so by the head office, the resulting actions never fell within the subsidiary's assigned authority. Thus this study asserted that assumed autonomy involves the use of autonomy by the subsidiary beyond its level of authority. This finding was significant for two reasons. First, it added an additional qualification to the current study's proposed notion of what constitutes 'assumed autonomy'. In doing so, it further extends the extant literature (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had not yet applied a specific term or described in detail the type of autonomy that is assumed by the subsidiary. Secondly, the finding challenges the assumption by Young and Tavares (2004) and Gupta and Govindarajan (1991) that a subsidiary's authority represented a limit to all types of autonomy that a subsidiary may possess.

4.3.3. Summary: How do subsidiaries and headquarters negotiate autonomy?

The findings presented in Section 4.3 set out to address Research Question 1b, which was: *How do subsidiaries and headquarters negotiate autonomy?* Having identified two types of autonomy, assigned and assumed, and delineated the process by which each is negotiated or developed (including their causes and relation to authority), the current section's findings have addressed this research question. The findings within this section were divided into two parts.

First, the findings in Section 4.3.1 outlined the type of autonomy that is delegated by the head office to the subsidiary. The *Thermo-Energy* Subsidiary Senior Executive, the *Thermo-Energy* HQ Managing Director, the *Oz-Mining* HQ Senior Planning Manager and the *IT Pro* Subsidiary Delivery Program Manager all provided evidence of subsidiaries being formally delegated autonomy from the head office. While the study recognised that much of a subsidiary's autonomy is explicitly assigned to it from the head office, it also identified that this is not the only way in which a subsidiary may obtain autonomy. In identifying this, the study challenges a key assumption of much of the literature relating to subsidiary autonomy (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012;

Taggart, 1997; Vernon, 1966) that a subsidiary is a passive recipient of its autonomy. The study then selected the term ‘assigned autonomy’ to describe that which was derived from the head office. In doing so, it extends the study of Young and Tavares (2004) by applying the term to describe a specific type of autonomy based on empirical evidence. The application itself of a term to describe autonomy that was delegated by the head office also extends the extant literature, which had failed to do so. The *Oz-Mining* HQ Risk Management Executive and the *Thermo-Energy* HQ Managing Director then identified a subsidiary’s authority as a limit to its assigned autonomy. By providing empirical evidence to this effect, the current study extends the extant literature (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Gupta & Govindarajan, 1991; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966; Young & Tavares, 2004).

The findings in Section 4.3.2 then outlined the type of autonomy that was assumed by the subsidiary itself. As demonstrated by the *IT Pro* Subsidiary Delivery Program Manager, the findings identified that autonomy may actually be developed by the subsidiary on its own accord. This finding extends those of a number of authors (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006), which recognised the ability of the subsidiary to engage in actions beyond their charter, but not specifically the ability of the subsidiary itself to develop autonomy. The *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *Strong-Weld* HQ CEO, the *Tech Experts* Subsidiary HR Manager and the *Oz-Mining* HQ Risk Management Executive then outlined four causes as to how and why a subsidiary may assume autonomy (refer to Table 4.1). In doing so, the findings further extend those of the aforementioned studies, which had only discussed the existence of subsidiary-developed autonomy without directly exploring the causes of its occurrence. The term ‘assumed autonomy’ was then selected as the most appropriate to describe that which was developed by the subsidiary. As with the selection and use of ‘assigned autonomy’, the application of ‘assumed autonomy’ extends the study of Young and Tavares (2004) by applying the term to describe a specific type of autonomy based on empirical evidence. The application itself of a term to describe autonomy that was assumed by the subsdiiary also extends the extant literature (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006), which had failed to do so. Finally, the findings revealed that assumed autonomy involves the use of autonomy by the subsidiary beyond its level of authority. In doing so, they refute the assumption of Young and Tavares (2004) and Gupta and Govindarajan (1991) that a subsidiary's authority represented a limit to all types of subsidiary autonomy. The two types of autonomy identified in Section 4.3, assigned and assumed, are depicted in Figure 4.2 below. The diagram illustrates the origins of the respective types of autonomy, and also portrays their relationship with the subsidiary's authority.

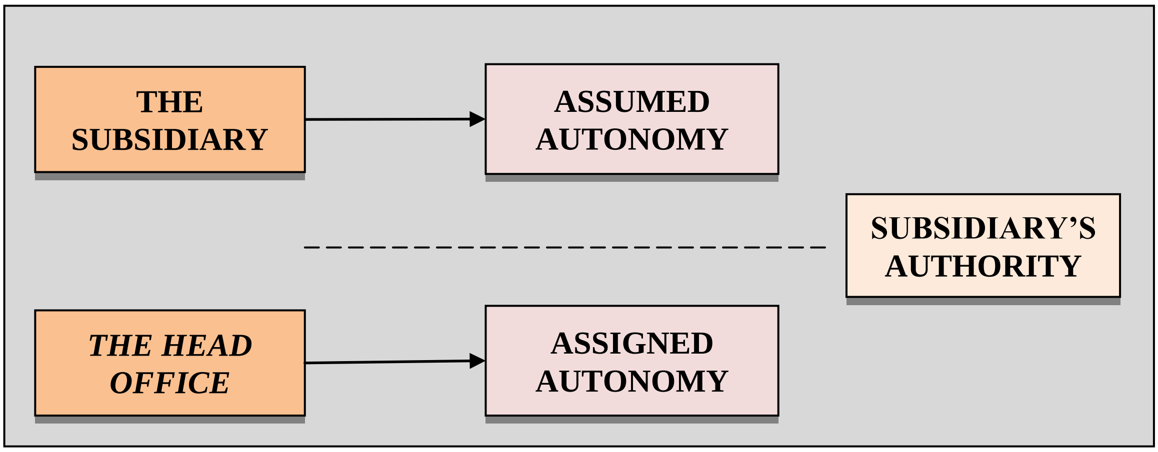

Figure 4.2: Assigned versus assumed autonomy: origins and relationship to authority

4.4. SUMMARY

The findings outlined in this chapter set out to answer parts a) and b) of Research Question 1. In doing so, the findings sought to develop a comprehensive understanding of the notion of subsidiary autonomy, its key related concepts, and its different types. Tong et al. (2012, p. 22) noted that more research was required in order to fully understand "the scope of subsidiary autonomy". The need to investigate this issue was highlighted by Pisoni et al. (2010) and Gammelgaard et al. (2011), who identified subsidiary autonomy as one of the key areas of research within IB literature.

Specifically, the need to investigate how the different types of autonomy are "available to or acquired by a subsidiary" (Young & Tavares, 2004, p. 228) remained. The areas in which the current study has extended the understanding of autonomy are shown in Table 4.2 below. The chapter first established a new, comprehensive definition for subsidiary autonomy. This definition not only incorporated the notion that decisions and actions can be taken independently from the head office, but also that this decision-making freedom comprises day-to-day, operational matters and occasionally strategic input. The chapter then outlined the way in which autonomy varied across value functions within individual subsidiaries. It was found to be more prevalent in operational value functions (such as sales) than in strategic value functions (such as R & D), although some subsidiaries did still display autonomy in strategic value functions. This is because the head office neither possesses the necessary knowledge to deal with local environment operational factors, nor is within a close enough geographic proximity to deal with these factors. The chapter also delineated the difference between a subsidiary's autonomy and its authority, with the authority found to limit the autonomy that the subsidiary is delegated by the head office. The findings also identified specific matters that a subsidiary's authority may limit, namely company expenditure, company representation by individuals and the responsibilities of subsidiary managers and employees. In doing so, the findings addressed Research Question 1a '*How do subsidiaries and headquarters understand autonomy?*'

The chapter then identified and applied terms to two types of autonomy, assigned and assumed. Assigned autonomy was shown to arise through the formal delegation of autonomy from the head office to the subsidiary, and was limited by the subsidiary's authority. Assumed autonomy was found to be developed by the subsidiary on its own, and was not necessarily limited by the subsidiary's authority. These findings thus addressed Research Question 1b '*How do subsidiaries and headquarters negotiate autonomy?*'

Having outlined the findings for Research Question 1 and highlighted how they extend the extant literature, the following chapter delineates the findings for Research Question 2.

Table 4.2: Contributions of the study to the understanding of subsidiary autonomy

Theme	Extant literature understanding	New understanding from current study	Supporting cases	Relevant Research Question
Definition	- Autonomy "concerns the constrained freedom or independence available to or acquired by a subsidiary, which enables it to take certain decisions on its own behalf" (Young & Tavares, 2004, p. 228).	- New definition not only included the freedom in taking decisions or actions, but also incorporated the scope of activities. - Autonomy is 'the freedom that is available to or acquired by the subsidiary to undertake decisions relating to day-to-day, operational (and in some cases, strategic) actions independently from the head office'.	- Primary Investors - Oz-Mining - Strong-Weld - Tech Experts	1a
Variation across value functions	- With the exception of a few studies, the majority of the extant literature (for example, Couto et al., 2005; Ferner et al., 2011; Takeuchi et al., 2008) assumed autonomy to be consistent across all value functions within a subsidiary. - Even those studies which allowed for variations were either conceptual in nature (Vachani, 1999; Gammelgaard et al., 2011) or only focused on subsidiaries from Taiwan (Collinson & Wang, 2012) or Malaysia (Edwards et al., 2002).	- Provided empirical evidence from subsidiaries across the world that autonomy often varies across value functions within a subsidiary. This autonomy is usually greater within more operational functions such as sales than strategic functions such as R & D.	- Primary Investors - Global Recruitment - IT Pro - Strong-Weld - Tech Experts - Thermo-Energy	1a
Autonomy versus authority	- A number of studies within the extant literature, such as Chiao and Ying (in press) and Andersson and Pahlberg (1997), assumed autonomy to be consistent across all value functions. - Even those that recognised a difference did so as part of conceptual papers (Gupta & Govindarajan, 1991) or literature reviews (Young & Tavares, 2004).	- Provided empirical evidence that authority is not only distinct from autonomy, but actually represents a limit to a subsidiary's head office-assigned autonomy. - Identified that in a practical sense, authority limits such things as company expenditure, company representation and the responsibilities of subsidiary managers.	- IT Pro - Oz-Mining - PharmaSee - Strong-Weld - Tech Experts - Thermo-Energy	1a

Theme	Extant literature understanding	New understanding from current study	Supporting cases	Relevant Research Question
Types of autonomy	- With the exception of a few studies such as Miozzo and Yamin (2012), Gammelgaard et al. (2011) and Young and Tavares (2004), the extant literature assumed all autonomy to be of the same type.	- Recognised and developed terms for two types of autonomy, assigned and assumed. - Assigned autonomy is formally delegated to the subsidiary from the head office. It is limited by the subsidiary's authority. - Assumed autonomy is developed independently by the subsidiary. It is not necessarily limited by the subsidiary's authority. - The study also identified the causes of each type of autonomy, and their relation to authority.	- IT Pro - Oz-Minng - PharmaSee - Strong-Weld - Tech Experts - Thermo-Energy	1b

5. THE TYPES OF AUTONOMY IN SUBSIDIARY INITIATIVES AND DEVELOPMENT

5.1. INTRODUCTION

The following chapter presents the findings of the multiple case-study analysis for the second research question, which comprised:

Research Question 2a: *What role do the different types of autonomy play in the development of subsidiary initiatives?*
Research Question 2b: *How do the different types of autonomy influence subsidiary development?*

As was the case in Chapter 4, this chapter incorporated the views of both the head offices and subsidiaries of the participating MNEs. This ensured that the understanding gained through the study in relation to the influence of autonomy on subsidiary initiatives and development is both highly informed and unbiased. By including the views of both the head offices and subsidiaries, the study also reflected the understanding of the MNE as an interorganisational network of loosely related entities, where each entity has its own goals and potentially, strategies (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990).

Having developed an understanding of the way in which the different types of autonomy are understood and negotiated by both the head office and the subsidiary in Chapter 4, this chapter sought to explain how these different types of autonomy come to influence subsidiary initiatives and subsequently, the subsidiary development process. As such, the chapter first considers the respective importance of both assigned (Section 5.2.1) and assumed autonomy (Section 5.2.2) in the creation of subsidiary initiatives. Having revealed the need for assumed autonomy in the conception of initiatives, the chapter then outlines the way in which assumed autonomy may both help (Section 5.3.1) and hinder (Section 5.3.3) the subsidiary development process. This analysis includes an explanation of the reasons behind the positive or negative influence of assumed autonomy. In addition, Section 5.3.2 explains in detail the need for head office approval of initiatives based on assumed autonomy, in order for these initiatives to lead to long-term subsidiary development. The structure of the remainder of the chapter is shown below in Figure 5.1.

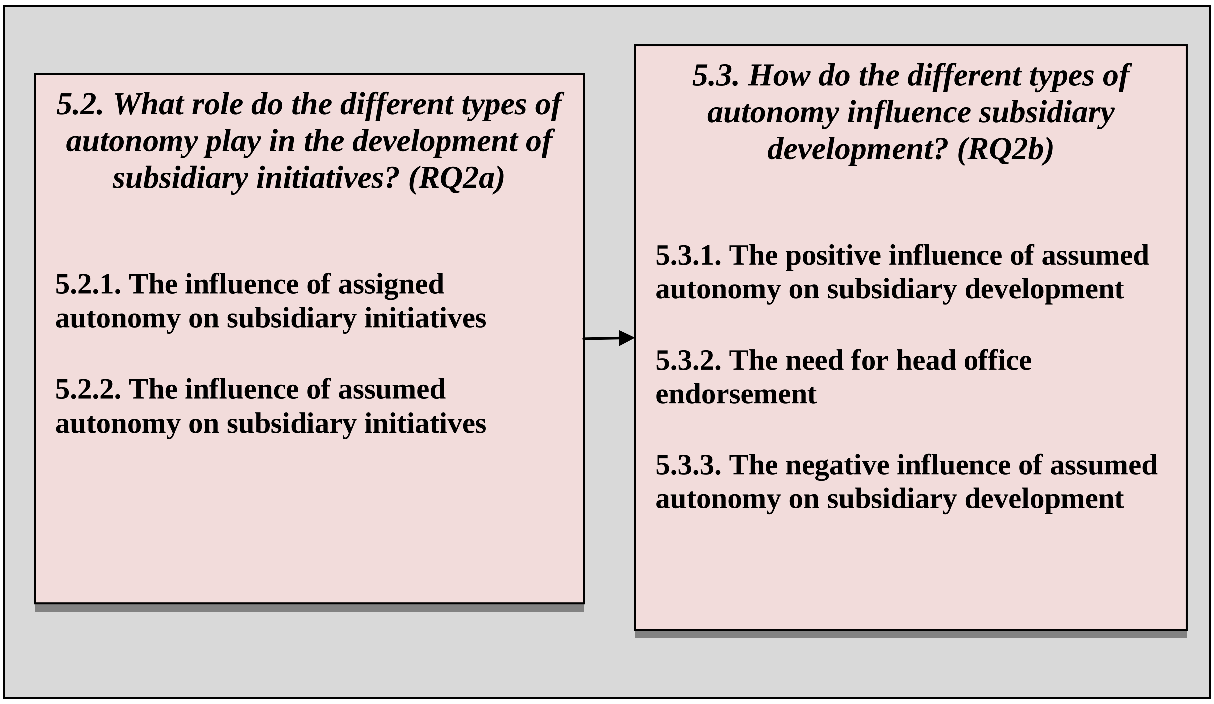

Figure 5.1: Structure of Chapter 5

5.2. WHAT ROLE DO THE DIFFERENT TYPES OF AUTONOMY PLAY IN THE DEVELOPMENT OF SUBSIDIARY INITIATIVES?

Within the extant subsidiary management literature, a number of studies (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) have investigated the connection between autonomy and subsidiary initiatives to varying degrees. However, as outlined in the literature review in Chapter 2, these previous studies each featured at least one key limitation. First, a number (Birkinshaw, 1997; Birkinshaw & Fry, 1998; Delany, 2000; Krishnan, 2006; Verbeke et al., 2007) explored the influence of autonomy on different types of initiatives, which were subsequently judged as unbefitting of the current study’s definition for initiatives, unrepresentative of real-life behaviour by subsidiaries, or yielding conflicting findings in relation to autonomy. Second, the studies of Ambos et al. (2010) and Suwannarat and

Leemanonwarachai (2012) focused on the role of initiatives in influencing subsidiary autonomy, rather than on the role of subsidiary autonomy in influencing initiatives. Finally, all of the aforementioned studies were unable to gain a comprehensive understanding of the influence of subsidiary autonomy since they failed to differentiate between the different types of autonomy, namely assigned and assumed autonomy. As such, a significant research gap remained in the extant literature, and was identified by Young and Tavares (2004) in their discussion of the directions for future research in relation to autonomy within the MNE. These authors stated that more research was needed "to determine…what type of autonomy is necessary to develop meaningful initiatives" (Young & Tavares, 2004, p. 231). This research gap was recently reinforced by Gammelgaard et al. (2012), who noted the need for further research into the way in which autonomy may facilitate the development of subsidiary initiatives. The findings presented in following section addressed this research gap.

In order to understand how the different types of autonomy influenced the development of subsidiary initiatives, it was first necessary to identify which of the cases within the current study actually developed initiatives. The demonstrated ability of the subsidiary to develop successful initiatives, or the lack of such ability, is presented below in Table 5.1. This table outlines not only the type of autonomy (assigned versus assumed) that was possessed by the respective subsidiaries in this study, but also whether or not the subsidiary was able to generate 'meaningful' initiatives.

Table 5.1: The subsidiaries' types of autonomy and ability to develop successful initiatives

Case/Subsidiary	**Assumed autonomy, or just assigned autonomy?**	**Developed successful initiatives?**
Automation Plus Australian subsidiary	Assigned autonomy	No
Global Recruitment Australian subsidiary	Assumed autonomy	Yes (eg. Sponsorship of Melbourne Football Club)
IT Pro Australian subsidiary	Assumed autonomy	Yes (eg. Developing programs to cover 'gaps' in HQ procedures)

Case/Subsidiary	Assumed autonomy, or just assigned autonomy?	Developed successful initiatives?
Oz-Mining Papua New Guinean subsidiary	Assumed autonomy	Yes (eg. US$1.3 billion plant upgrade)
PharmaSee Australian subsidiary	Assigned autonomy	No
Primary Investors Australian subsidiary	Assigned autonomy	No
Resource Extractors Australian subsidiary	Assumed autonomy	No
Strong-Weld Australian subsidiary	Assumed autonomy	Yes (eg. Introduction of new product lines)
Strong-Weld South African subsidiary	Assumed autonomy	No
Tech Experts Australian subsidiary	Assumed autonomy	No
Thermo-Energy Indonesian subsidiary	Assigned autonomy	No

The following section therefore explains the connection that was identified between the two types of autonomy and the ability of the subsidiary to develop initiatives so as to subsequently extend its contributory role within the MNE. The section will explicates the reason why the possession of assigned autonomy by the subsidiary is insufficient for it to generate initiatives. Following this, the need for assumed autonomy when developing initiatives is discussed. Finally, the section outlines why the findings of the current study indicated that a high level of communication between the subsidiary and head office is detrimental to the development of successful subsidiary initiatives. The significant implications for the extant literature of these three key sets of findings are also delineated.

5.2.1. The influence of assigned autonomy on subsidiary initiatives

Within the extant literature, a number of studies (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Dorrenbacher & Geppert, 2010; Miozzo & Yamin, 2012; Verbeke et al., 2007) have implicitly discussed the influence of assigned autonomy on subsidiary initiatives. This has mainly been through a consideration of the role that the decentralisation of decision making within the MNE plays in the development of initiatives (Verbeke et al., 2007). The findings of earlier studies, such as Birkinshaw (1999), Birkinshaw and Hood (1998) and Birkinshaw et al. (1998), indicated that autonomy that is explicitly assigned by the head office appeared to be an important factor in the development of subsidiary initiatives. The study by Verbeke et al. (2007) revealed similar findings, implicitly suggesting that assigned autonomy (by explicitly considering the decentralisation of decision making) was a significant factor in the generation of initiatives for new business opportunities. Miozzo and Yamin (2012) also supported the importance of decentralisation in the development of subsidiary initiatives. As part of their study, which developed a conceptual framework of the determinants of the subsidiary-head office relationship, Miozzo and Yamin (2012) found that decentralisation facilitated the development of "commercially relevant local initiatives" (p. 30). However, Dorrenbacher and Geppert (2010) revealed contrasting findings to these aforementioned studies, and suggested that decentralisation within an MNE may impede subsidiary initiatives. As part of their study on the personal motives of subsidiary CEOs for developing initiatives, Dorrenbacher and Geppert (2010) found that decentralisation by the head office reduced the number of successful subsidiary initiatives. This was because the subsidiaries were already being provided with autonomy by the head office and so did not try and extend their role and level of autonomy further. These contrasting findings in relation to the influence of decentralisation (and thus, assigned autonomy) highlighted the need for further research in this area. Furthermore, none of these previous studies directly investigated the notion of assigned autonomy or recognised the existence of different types of autonomy.

The current study addressed this research gap by directly exploring the connection between assigned autonomy and subsidiary initiatives. As can be seen from Table 5.1, a significant number of the subsidiaries included in the current study possessed only assigned autonomy- that is, they did not assume additional autonomy beyond their authority. The table also revealed that of those subsidiaries that were only assigned autonomy, none of them demonstrated an ability to develop subsidiary initiatives. This hinted that assigned autonomy may not be conducive to the generation of initiatives by the subsidiary. Upon a more detailed inspection of the responses of the interviewees from the respective cases, it became evident that rather than representing a positive influence on subsidiary initiatives (as indicated by the majority of the extant literature [Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Miozzo & Yamin, 2012; Verbeke et al., 2007]), assigned autonomy is unable to lead to the development of successful initiatives. This was particularly evident through the responses from the *Thermo-Energy* Subsidiary Senior Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *PharmaSee* Subsidiary Senior Data Manager, which are outlined over the following section.

The insights from the *Thermo-Energy* Subsidiary Senior Executive in particular were quite explicit in declaring that they were not permitted to develop initiatives while only being assigned autonomy from the head office. Previous findings from both the HQ Managing Director and the Subsidiary Senior Executive of *Thermo-Energy* in Chapter 4 revealed that within *Thermo-Energy*, the subsidiary's autonomy is determined and assigned purely by the Board of Commissioners and the Board of Directors at head office level. As the quote below from the *Thermo-Energy* Subsidiary Senior Executive revealed, by only being allowed to possess autonomy within a head office-defined scope, the subsidiary was unable to develop initiatives. The respondent claimed that this was due to the subsidiary having to first prove itself to the head office before it was able to pursue initiatives. This is despite the *Thermo-Energy* HQ Managing Director stating that the subsidiary was provided with a relatively large scope of assigned autonomy in which to operate within the local market (as revealed in the findings in Sections 4.2.2 and 4.3.1 of Chapter 4). This indicated that the subsidiary was unable to develop successful initiatives based on assigned autonomy, irrespective of the amount of assigned autonomy that it was afforded by the head office.

"No it [the subsidiary] does not [engage in the creation of subsidiary initiatives]…[It is] generally discouraged as we have yet to prove ourselves on a local level" (Subsidiary Senior Executive, *Thermo-Energy*).

Similar findings were found in the responses of the *Primary Investors* Subsidiary Chief Loans Manager. This subsidiary also relied entirely on its head office for autonomy, although it was assigned a much smaller degree of autonomy than that possessed by the *Thermo-Energy* Indonesian subsidiary. As the quote below revealed, the Subsidiary Chief Loans Manager did not feel comfortable attempting to generate initiatives because of the perceived pressure coming from the head office that was associated with having the subsidiary's autonomy assigned to it. This was slightly different to the case of the Indonesian *Thermo-Energy* subsidiary, which was explicitly discouraged from developing initiatives by the head office. The finding from the *Primary Investors* Subsidiary Chief Loans Manager therefore revealed that even if a subsidiary is not directly forbidden from developing initiatives based on assigned autonomy, it is often unable to do so due to a perceived pressure from the head office.

"It's not that you can't do anything on your own, it just seems that there's always someone looking from over your shoulders- just that added pressure on you. So while there might not actually be that [pressure], it just feels that way personally" (Subsidiary Chief Loans Manager, *Primary Investors*).

Perhaps the most direct and compelling evidence of subsidiaries being unable to develop successful initiatives based on assigned autonomy was provided by the insights from the *PharmaSee* Subsidiary Senior Data Manager. As revealed in the findings in Section 4.3.1 of Chapter 4, the *PharmaSee* Australian subsidiary's autonomy is generally assigned to it from the head office, rather than assumed by the subsidiary managers (as was the case with the *Thermo-Energy* and *Primary Investors* subsidiaries). The following quote reaffirmed these earlier findings, and revealed that as a consequence, the head office had a significant degree of control over the subsidiary and its actions. This meant that the subsidiary was not allowed to develop any initiatives, even if they might better enable it to meet the demands and requirements of the local market. The Senior Data Manager added that in most instances, any subsidiary manager that attempted to generate an initiative would face strong disciplinary action, and possibly even dismissal. This finding therefore represented a strong demonstration of subsidiaries being unable to develop successful initiatives when they possess only assigned autonomy.

"Head office [determine the subsidiary's level of autonomy]… Yes, because the role was designed by head office. My role is the exact same role that is being done in Boston, and being done in Paris…[Head office has] an incredible amount of control. They're at the top of the food chain. If we disagree with something, we've got no choice, even if we think it's better for our market. If they say that's the way we're going to go, that's the way we're going to go… [Any assumed autonomy-based initiative] would be a simple 'be fired, step down or be disciplined' [by the head office]. It's a conservative company, and all cogs have got to be going in one direction" (Senior Data Manager, *PharmaSee*).

The *PharmaSee* Senior Data Manager went on to describe one particular instance where he took it upon himself to go beyond his assigned autonomy, and assumed autonomy in an effort to develop an initiative for the subsidiary's local market. While the Senior Data Manager managed to escape a severe reprimand (such as being forced to 'step down', as previously described by the respondent) for assuming autonomy beyond the subsidiary's authority, the initiative was quickly dismissed and the Senior Data Manager was given a stern warning to not engage in such behaviour again. This insight was even more revealing than the previous quote from the *PharmaSee* Senior Data Manager in demonstrating that when subsidiaries are assigned autonomy, they are often explicitly forbidden from developing initiatives, even if the subsidiary has the capability to do so. Thus if a subsidiary possesses only assigned autonomy and not assumed autonomy, it follows that they will be unable to generate successful initiatives.

"I wasn't given any scope to do things differently, but I did [assume autonomy and try and develop a new initiative once], and it was frowned upon… I presented it [the initiative] to head office and said "We did something completely different". They were encouraging in that they said "You went outside the square", but they weren't encouraging in the sense of "We need to do this again." It was like "It worked, but no. That's too much effort, we don't want to do that again"" (Senior Data Manager, *PharmaSee*).

In combination, the insights from the *Thermo-Energy* Subsidiary Senior Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *PharmaSee* Subsidiary Senior Data Manager explained the reasons why subsidiaries are unable to develop successful initiatives based on only assigned autonomy. The illustrations from the *Thermo-Energy* Subsidiary Senior Executive and the *PharmaSee* Subsidiary Senior Data Manager revealed that when a subsidiary is assigned autonomy, it is often explicitly forbidden from developing initiatives. The quote from the *Primary Investors* Subsidiary Chief Loans Manager indicated that even if the subsidiary is not directly prohibited from generating initiatives, it often feels pressured against doing so if it possesses only assigned autonomy. Together, these findings elucidated the findings from Table 5.1, which revealed that no subsidiaries which possessed only assigned autonomy generated successful initiatives. The combined findings from this section also carried significant implications for the extant literature. As stated at the beginning of this section, a number of extant studies (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Dorrenbacher & Geppert, 2010; Miozzo & Yamin, 2012;

Verbeke et al., 2007) have investigated the influence of assigned autonomy on subsidiary initiatives. With the exception of the study by Dorrenbacher and Geppert (2010), these studies concluded that assigned autonomy was an important element in the subsidiary developing initiatives. However, the findings of the current study challenge the findings of these studies, and indicated that subsidiaries are unable to generate successful initiatives when the only type of autonomy they possess is assigned by the head office. Even the study by Dorrenbacher and Geppert (2010), which implicitly recognised the inability of assigned autonomy to generate subsidiary initiatives by finding that decentralisation reduced the number of successful initiatives, did not directly explore the influence of assigned autonomy. The findings of the current study therefore also extend Dorrenbacher and Geppert (2010) and the other extant studies (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Miozzo & Yamin, 2012; Verbeke et al., 2007) by specifically investigating the influence of 'assigned autonomy' on subsidiary initiatives, rather than the overly broad terms of 'decentralisation' or simply 'autonomy' employed by these studies.

Having identified the influence of assigned autonomy on subsidiary initiatives, the following section of the study explores the influence of assumed autonomy on these initiatives. The potential significance of this second type of autonomy in relation to initiatives was hinted at in the last quote from the *PharmaSee* Subsidiary Senior Data Manager. The quote revealed that when the Senior Data Manager went beyond his authority and assumed autonomy, he was able to develop an initiative. However, due to the decision by the head office that the subsidiary be permitted only assigned autonomy, this initiative was unsuccessful. This highlighted the need to explore the full potential influence of assumed autonomy on subsidiary initiatives.

5.2.2. The influence of assumed autonomy on subsidiary initiatives

As stated in the previous section, a number of extant studies had investigated the influence of the decentralisation of decision making on subsidiary initiatives (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Dorrenbacher & Geppert, 2010; Miozzo & Yamin, 2012; Verbeke et al., 2007), and in doing so, indirectly considered the influence of assigned autonomy. However, some existing studies had also directly explored the connection between 'autonomy' and subsidiary initiatives (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007). These studies considered the possibility that subsidiaries could possess autonomy that had not been explicitly assigned to them by the head office, and shed some light on the link between such autonomy and subsidiary initiatives. However, as outlined in the literature review in Chapter 2 and the beginning of this chapter, these studies featured a number of significant limitations within the context of the current study. First, a number (Birkinshaw, 1997; Birkinshaw & Fry, 1998; Delany, 2000; Krishnan, 2006; Verbeke et al., 2007) focused on the influence of autonomy on the different types of initiative, which have since been judged in this current study as incompatible with the current study's definition for initiatives, unrepresentative of real-life actions by subsidiaries, or yielding conflicting findings in relation to autonomy. Second, Ambos et al. (2010) and Suwannarat and Leemanonwarachai (2012) explored the role of initiatives in influencing subsidiary autonomy, but did not consider the role of subsidiary autonomy in influencing initiatives. Finally, all of the aforementioned studies failed to differentiate between the different types of autonomy, namely assigned and assumed autonomy. Thus the extant literature had been unable to develop a comprehensive understanding of how assumed autonomy may facilitate the development of subsidiary initiatives (Gammelgaard et al., 2012; Young & Tavares, 2004).

The current study addressed this research gap by directly investigating the role of this type of autonomy in developing subsidiary initiatives. By again looking at Table 5.1, it can be seen that six out of ten cases involved subsidiaries that possessed assumed autonomy- that is, autonomy that has been developed by the subsidiary beyond its authority and the level of head office-assigned autonomy. The table revealed that of the six subsidiaries that possessed assumed autonomy, four went on to develop successful initiatives. This indicated that while it is not guaranteed that assuming autonomy will lead to the creation of successful initiatives, it is at least possible to develop initiatives based on this type of autonomy. This is in contrast to assigned autonomy, which the previous section revealed to be insufficient when attempting to generate successful initiatives. The ability of the subsidiary to develop initiatives based on assumed autonomy is outlined in greater detail by the following insights in this section from the *Strong-Weld* Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management.

The following quote from the *Strong-Weld* Subsidiary Finance Executive was quite explicit in revealing that successful initiatives may be developed using assumed autonomy. As outlined previously in the findings in Section 4.3.2 of Chapter 4, the *Strong-Weld* Australian subsidiary often assumes its own autonomy beyond its authority. This was reaffirmed in the quote below, which described how the subsidiary managers often undertake initiatives that are based on assumed autonomy, such as the development of a new product without consent from the head office. It should also be noted from the quote that despite the subsidiary being forced to become more globally-aligned with the rest of the MNE, it was still able to assume autonomy and engage in activities beyond its current mandate without informing the head office. This demonstrated that even if a subsidiary has been assigned explicit instructions and limits to their autonomy and authority from the head office, they may choose to assume autonomy beyond these assigned levels in an initiative to extend their contributory role within the MNE. This in turn highlighted one of the key limitations of the previous literature relating to subsidiary autonomy and initiatives (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007). While these studies had recognised that a subsidiary may possess autonomy which was not formally assigned to it, they failed to recognise the different types of autonomy (assigned and assumed autonomy). As such, they were unable to explain that subsidiaries were able to possess more than one type of autonomy at the same time. By recognising that subsidiaries may possess assigned autonomy and assumed autonomy simultaneously, the current study therefore extends the findings of these existing studies (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007).

"We run more products than what the US do, so if we want to introduce a new product we'll go and do it [without telling head office]. But we don't have as many resources as we used to do now because we're trying to do it on a global basis. We still do it, but to a limited extent" (Subsidiary Finance Executive, *Strong-Weld*).

The following illustration from the *IT Pro* Subsidiary Delivery Program Manager represented an additional example of a subsidiary being able to develop successful initiatives through the use of assumed autonomy. As was the case for the *Strong-Weld* Australian subsidiary, the previous findings in Section 4.3.2 of Chapter 4 revealed that the *IT Pro* Australian subsidiary possessed assumed autonomy. When asked if the subsidiary develops initiatives, the Subsidiary Delivery Program Manager noted that the *IT Pro* Australian subsidiary does so occasionally, and emphasised that the process is very much driven by the local subsidiary management.

"Yes [the subsidiary develops initiatives] but rarely… Local subsidiary management would make this decision and then requesting their local employees to engage in this activity and make the necessary internal preparations and arrangements" (Subsidiary Delivery Program Manager, *IT Pro*).

When asked to explain whether this development of initiatives involved assumed autonomy, the *IT Pro* Subsidiary Delivery Program Manager explained that it was through this type of autonomy, combined with his "knowledge of how to use our internal systems and processes", which enabled him to develop successful initiatives. The Subsidiary Delivery Program Manager noted that his use of assumed autonomy when developing an initiative was supported by the local subsidiary management, despite his actions extending beyond the subsidiary's authority. The most significant aspect of these findings was that they shed some light on *why* subsidiaries are able to develop initiatives based on assumed autonomy. As described in the quote, assumed autonomy allows subsidiary managers to take advantage of specialised skill sets (such as a high proficiency in managing and maximising the efficiency of internal systems and processes) that they would otherwise be unauthorised to utilise within the boundaries of assigned autonomy. By employing these unique skills sets in 'non standard situations' beyond the subsidiary's authority, the subsidiary managers are then able to develop successful initiatives that enable the subsidiary to expand its contributory role. In identifying an explanation as to why a subsidiary is able to develop initiatives from assumed autonomy, the findings of the current study extend those of the extant literature (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007). While these earlier studies had documented instances of subsidiaries possessing autonomy beyond their assigned levels and developing initiatives, they not only failed to recognise assumed autonomy as a distinct type of autonomy, but were also unable to explain why this type of autonomy was able to lead to subsidiary initiatives.

"Yes I've done this [assumed autonomy] through my knowledge of how to use our internal systems and processes to cover non standard situations. This initiative was endorsed by local subsidiary management which commanded authority across the subsidiary but it did mean that I had to directly cover various gaps that our internal systems and processes could not cover" (Subsidiary Delivery Program Manager, *IT Pro*).

Perhaps the most explicit demonstration that successful initiatives may be developed using assumed autonomy came from the following quote from the *Global Recruitment* Subsidiary Director of Talent Management. The quote outlined how a number of managers at the subsidiary level had gone beyond their authority in assuming autonomy, and in doing so had been able to develop successful initiatives at the local market level. The Director of Talent Management also noted that the senior management at the head office level of *Global Recruitment* are quite supportive of proactive, entrepreneurial actions. This entrepreneurial culture at *Global Recruitment* was highlighted by the additional quote from the *Global Recruitment* HQ Communications Manager, who reiterated that the company's founder (Mr X) has led by example in encouraging entrepreneurial behaviour. As noted in the quote from the Subsidiary Director of Talent Management below, this often allows subsidiary managers to "talk themselves out of" breaching their authority. The finding from the *Global Recruitment* Subsidiary Director of Talent Management therefore demonstrated that a subsidiary may develop initiatives based on assumed autonomy, and will not necessarily be reprimanded for exceeding its authority.

"It's difficult to say, because Mr X has set Global Recruitment up so that it's very entrepreneurial. So if you go to him with a business case and set what you want to do, he's pretty much going to let you run with that, and you can normally talk yourself around it if you go beyond what his expectations are. Certainly there have been several people that have gone beyond in different ways, and they'll very quickly be able to talk themselves out of it or be fired" (Subsidiary Director of Talent Management, *Global Recruitment*).

"From the beginning, Global Recruitment has been an entrepreneurial company. Perhaps this is due to the nature of our founders' personalities – they were entrepreneurs at heart… The entrepreneurial culture of Global Recruitment may also be the result of Bill and Jim's shared obsession with finding better ways to do things. This is something that drove Global

Recruitment's co-founders to invest in new service lines, take chances on new technologies, and ultimately, build a company that offers much more than staffing solutions" (HQ Communications Manager, *Global Recruitment*).

This finding that the *Global Recruitment* Australian subsidiary is able to develop initiatives through assumed autonomy without being reprimanded by the head office challenges one of the key views of the earlier subsidiary management literature (Bartlett & Ghoshal, 1989; Chandler, 1962; Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Vernon, 1966). These early subsidiary management studies claimed that any use of autonomy by the subsidiary beyond its authority would be looked upon as an act of insubordination, and reprimanded accordingly (Birkinshaw et al., 1998). Yet the case of the *Global Recruitment* Australian subsidiary showed that this is not necessarily the case. This finding also contrasted with the earlier case of the *PharmaSee* Subsidiary Senior Data Manager, who also assumed autonomy beyond his assigned levels of autonomy and authority, but whose resulting initiative was turned down by the head office because of this. This indicated that while subsidiary managers are able to develop successful initiatives based on assumed autonomy, there may be other factors, such as the level of communication between the subsidiary and the head office, which also affect the ability of the subsidiary to develop initiatives. This assertion was supported by Table 5.1, which revealed that although successful initiatives were only developed by those subsidiaries that possessed assumed autonomy, not all subsidiaries possessing assumed autonomy necessarily developed successful initiatives. The communication between the subsidiary and head office, and in particular its effect on the connection between assumed autonomy and successful initiatives, is explored in greater detail in Section 5.2.3.

In combination, the insights in this section from the *Global Recruitment* Subsidiary Director of Talent Management, the *Global Recruitment* HQ Communications Manager, the *IT Pro* Subsidiary Delivery Program Manager and the *Strong-Weld* Subsidiary Finance Executive demonstrated that subsidiaries are able to develop successful initiatives based on assumed autonomy. This overall finding has significant implications for the extant literature. First, the finding challenges the view of much of the early subsidiary management literature (Bartlett & Ghoshal, 1989; Chandler, 1962; Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Vernon, 1966), which assumed that any use of autonomy beyond the subsidiary's authority would result in the subsidiary being reprimanded. Yet the findings of the current study revealed that rather than being reprimanded, subsidiaries are being allowed to develop initiatives to expand their contributory role. The findings also extend the more recent subsidiary management literature (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007). These studies had acknowledged that subsidiaries could possess autonomy that had not been explicitly assigned to them, and that these subsidiaries were able to generate initiatives. However, they did not differentiate between or recognise the different types of autonomy. Thus by revealing that subsidiaries could develop initiatives specifically through *assumed autonomy*, and demonstrating that this is not possible through a separate type of autonomy (namely, assigned autonomy), the findings of the current study extend those of the aforementioned studies (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007).

As an extension, the findings of the current study also extend those of the abovementioned studies (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) by recognising that a subsidiary may possess more than one type of autonomy- that is, both assigned and assumed- simultaneously. The final way in which the previous studies are extended by the findings of the current study is through the identification of a key explanation as to why subsidiaries may develop initiatives through assumed autonomy. The current study's findings identified that in order to develop an initiative, subsidiaries must in some instances utilise a specialised skill set that involves activities beyond the subsidiary's authority. Despite documenting instances of subsidiaries displaying autonomy beyond head office-assigned levels and generating initiatives, the previous studies had not directly recognised this as a key reason for the need for assumed autonomy when developing initiatives.

The most significant implication of the findings from Section 5.2.2, however, relates to the key research gap identified by Young and Tavares (2004) and Gammelgaard et al. (2012). In their seminal review of the subsidiary autonomy literature, Young and Tavares (2004) identified that one of the key areas within this stream of literature that must be addressed is "what type of autonomy is necessary to develop meaningful initiatives" (p. 231). This research gap was recently reaffirmed by Gammegaard et al. (2012), who stated that further research was still required to determine the precise way in which autonomy may facilitate the development of subsidiary initiatives. By revealing that subsidiaries must employ assumed autonomy in order to develop successful initiatives, the insights from the *Global Recruitment* Subsidiary Director of Talent Management, the *Global Recruitment* HQ Communications Manager, the *IT Pro* Subsidiary Delivery Program Manager and the *Strong-Weld* Subsidiary Finance Executive in this section addressed this research gap. This is because the findings from Section 5.2.1 revealed that subsidiaries are unable to develop initiatives when they possess only assigned autonomy. Thus when the findings of Section 5.2.1 are combined with those of the current section, it can be seen that subsidiaries must go beyond their assigned levels of autonomy and assume their own autonomy if they wish to develop successful initiatives.

The combined findings of this section thus far appeared to have addressed Research Question 2a by identifying the influence of both assigned and assumed autonomy in developing subsidiary initiatives. However, before moving on to the findings in relation to Research Question 2b, it was necessary to first consider the role that communication between the subsidiary and the head office plays in the development of initiatives. The literature review in Chapter 2 of this current study had identified this role of subsidiary-head office communication as an area requiring further investigation, particularly given the link between the subsidiary-head office relationship and the type of autonomy possessed by the subsidiary. The need to explore the influence of subsidiary-head office communication on initiatives was also further heightened by the insights in the current section from the *Global Recruitment* Subsidiary Director of Talent Management, the *IT Pro* Subsidiary Delivery Program Manager and the *Strong-Weld* Subsidiary Finance Executive. The quotes from each of these respondents either explicitly (in the case of the *Global Recruitment* and the *Strong-Weld* subsidiaries) or implicitly (in the case of the *IT Pro* subsidiary) discussed the level of subsidiary-head office communication (or lack thereof) as being significant in achieving successful initiatives. The following section therefore outlines the findings in relation to the influence of subsidiary-head office communication on the subsidiary’s ability to generate successful initiatives.

5.2.3. The influence of subsidiary-head office communication on subsidiary initiatives

As stated above, the influence of the level of subsidiary-head office communication on the development of initiatives was identified previously in the literature review in Chapter 2 as requiring further investigation. Prior to the current study, no studies had fully explored the connection between the different types of autonomy, the level of communication between the subsidiary and the head office, and subsidiary initiatives. For example, the studies of Gammelgaard et al. (2012), Suwannarat and Leemanonwarachai (2012) and Scott and Gibbons (2009) focused on the relationship between autonomy and the level of subsidiary-head office communication. Yet these studies yielded conflicting results as to whether autonomy was linked to lower (Gammelgaard et al., 2012) or higher levels (Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012) of subsidiary-head office communication, and neither directly linked this relationship to the development of subsidiary initiatives. Conversely, a number of studies had briefly touched on the influence of subsidiary-head office communication on subsidiary initiatives, but had also yielded conflicting results, and not included a consideration of the role of autonomy in this relationship. For example, Birkinshaw (1999) found a positive relationship between subsidiary-head office communication and initiatives, while other studies (Birkinshaw, 1997; Delany, 2000; Sandvik, 2010; Sargent & Matthews, 2006) found a negative relationship. Verbeke et al. (2007), on the other hand, claimed that both positive and negative relationships were possible depending on the type of initiative. Thus the current study investigated the influence of the extent of subsidiary-head office communication on the development of initiatives, while also including a particular focus on any potential link to assumed autonomy (which was identified in Section 5.2.2 as representing a key foundation for the development of subsidiary initiatives). The findings from Section 5.2.2 also hinted that there may be a connection between a low level of subsidiary-head office communication and the development of successful initiatives. As the following section outlines, more detailed insights from the *Global Recruitment* HQ Head HR Manager, the *Strong-Weld* Subsidiary Finance Executive and the *PharmaSee* Subsidiary Senior Data Manager confirmed that a subsidiary's ability to develop successful initiative is much greater if it minimises the communication between itself and the head office.

Within the findings from the previous section, the *Global Recruitment* Subsidiary Director of Talent Management outlined how the Australian subsidiary was able to develop successful initiatives through the use of assumed autonomy. As the following response from the *Global Recruitment* head office outlined, the process by which these initiatives are generated involves no communication with the head office. Instead, the initiatives are developed entirely ‘in house’ at the subsidiary level. The combined findings from the Subsidiary Director of Talent Management and the HQ Head HR Manager therefore indicated that subsidiaries are better able to develop initiatives when they maintain a low level of communication with the head office.

“So for example in Melbourne, say I had a strategic marketing idea that I wanted to take to market. I would go to the marketing team in Australia, and they would be very open: “Yeah, that’s a great idea! As long as you can prove an ROI on it, that’s fine!”… [Is there any knowledge of this in the head office?] Not at all- no communication at all” (HQ Head HR Manager, *Global Recruitment*).

These findings from *Global Recruitment* appeared to suggest that a key reason for minimising the level of subsidiary-head office communication is that this allows the subsidiary to assume autonomy and subsequently develop successful initiatives. This was recognised by not only the Australian subsidiary of *Global Recruitment*, but also by its head office. The finding from the *Global Recruitment* Subsidiary Director of Talent Management in the previous section (Section 5.2.2) noted that development of initiatives without informing the head office is often rewarded, rather than reprimanded. The Subsidiary Director of Talent Management stressed that this form of covert entrepreneurial behaviour was personally encouraged by the Managing Director at corporate level, which provided subsidiary level managers with the confidence to pursue initiatives based on assumed autonomy. These findings in relation to *Global Recruitment* (especially when combined with the above quote from the HQ Head HR Manager) thus illustrated that even some head offices recognise the benefit of allowing the subsidiary to forego regular reporting and communication in order to facilitate the assumption of autonomy and subsequent initiative development. The above finding from the *Global Recruitment* HQ Head HR Manager was particularly significant since it came from a source that not only works at the head office, but that had also previously worked at the Australian subsidiary. As such, this respondent had experienced both the subsidiary and head office perspectives of initiative development by the subsidiary. This therefore not only enhanced the validity of the finding, but also represented confirmation by the *Global Recruitment* head office that it is often neither aware of an initiative being developed by the subsidiary nor that the subsidiary is assuming autonomy at that time.

The following findings from the *Strong-Weld* Subsidiary Finance Executive not only reinforced the findings from the *Global Recruitment* HQ Head HR Manager regarding the need for a low level of subsidiary-head office communication when developing initiatives, but also provided a further indication as to why this may be so. The previous section (Section 5.2.2) outlined how the *Strong-Weld* Australian subsidiary has been able to develop successful initiatives based on assumed autonomy. The quote below extended this finding further, revealing that when engaging in the development of initiatives, the Subsidiary Finance Executive often decides against informing the head office. This results in the respondent's US head office boss generally remaining unaware of his actions or any initiative that is generated.

"What value does the corporate office add? Very little. So you tend to take autonomy wherever you can, and not get them involved… [Previously] the General Manager here in Asia Pacific could say "You do 'x'" and I'd obviously do 'x', now I've got a boss sitting in the US who wouldn't know what I'm doing half the time… It's been fairly autonomous the whole way along- no one's ever even visited me, and I like it that way" (Subsidiary Finance Executive, *Strong-Weld*).

The most important component of the above quote, however, was the statement from the *Strong-Weld* Subsidiary Finance Executive that the head office adds "very little" to the process of initiative development. The respondent notes that it is for this reason that he often neglects to discuss initiatives with the head office and does not involve them in the development of these initiatives. This reluctance by the *Strong-Weld* Australian subsidiary to inform the head office of initiatives was first touched on in the findings in Section 4.3.2 of Chapter 4. In these earlier findings, the Subsidiary Finance Executive told how the subsidiary would undertake initiatives, such as opening a new plant in Indonesia, without telling the head office because corporate-level management only served to slow down the process and create inefficiencies. These combined findings from the *Strong-Weld* Subsidiary Finance Executive were therefore significant as they identified the inability of the head office to contribute to the development of initiatives (except through potentially creating delays and inefficiencies) as a second reason for the need to minimise subsidiary-head office communication during the development process.

So far in this section, the findings from the *Global Recruitment* HQ Head HR Manager and the *Strong-Weld* Subsidiary Finance Executive have revealed the importance of maintaining a low level of subsidiary-head office communication by documenting the development of successful initiatives involving such a low degree of communication. Yet perhaps the strongest demonstration of the significance of this factor in the development of successful initiatives was by revealing the failure of attempted initiatives that involved a high level of subsidiary-head office communication. The following findings from the *PharmaSee* Subsidiary Senior Data Manager presented such an instance. As the previous findings from this respondent in Section 5.2.1 revealed, the *PharmaSee* Australian subsidiary generally possessed only assigned autonomy. The quote below revealed that as a result, the *PharmaSee* Australian subsidiary was required to inform the head office in Singapore of all "major strategic decisions" based on assigned autonomy, including the implementation of sampling programmes, in a quarterly report.

"The major strategic decisions in Australia they do know. We report per quarter, and say "This is what we're doing, these are the major areas." We celebrate a lot of our successes, so Singapore has a very clear idea… A lot of the decisions are communicated… When I looked at, say, implementing sampling programmes, I had to keep them in the loop because it was a major operation" (Subsidiary Senior Data Manager, *PharmaSee*).

Yet the previous findings from the *PharmaSee* Subsidiary Senior Data Manager in Section 5.2.1 also revealed that the *PharmaSee* Australian subsidiary had been unable to develop successful initiatives. These earlier findings revealed that this was the case even when the subsidiary presented a fully developed initiative to the head office (which had been generated through the use of assumed autonomy). The combined findings from the *PharmaSee* Subsidiary Senior Data Manager therefore revealed that a high level of communication between the subsidiary and head office would often be associated with assigned autonomy. This in turn indicates that a high degree of subsidiary-head office communication will be negatively related to the creation of successful initiatives, since assigned autonomy has already been identified in Section 5.3.1 of the current study as being insufficient for the development of successful initiatives.

Overall, the findings from the current section have a number of significant implications for the extant literature. First, the findings resolved the issue of conflicting findings amongst those studies that had considered the relationship between subsidiary autonomy and the level of subsidiary-head office communication, and also amongst those that had briefly touched on the influence of subsidiary-head office communication on subsidiary initiatives. The findings of the current study revealed that assigned autonomy was positively related to subsidiary-head office communication (as demonstrated by the case of *PharmaSee*), while assumed autonomy was negatively related to subsidiary-head office communication (as witnessed in the cases of *Global Recruitment* and *Strong-Weld*). By revealing that the different types of autonomy had contrasting relationships with subsidiary-head office communication, the findings of the current study extend those of Gammelgaard et al. (2012), Suwannarat and Leemanonwarachai (2012) and Scott and Gibbons (2009), which had assumed that all subsidiary autonomy was of the same type. This in turn explained why Gammelgaard et al. (2012) identified 'subsidiary autonomy' as being linked to lower levels of subsidiary-head office communication, while Scott and Gibbons (2009) and Suwannarat and Leemanonwarachai (2012) found it to be linked to higher levels of communication. Furthermore, by identifying a *low* level of subsidiary-head office communication as best facilitating the development of initiatives, the current study's findings challenge those of Birkinshaw (1999) and Verbeke et al. (2007), who had proposed a positive relationship between this communication and initiatives. In the same way, the current study's findings support the findings of a number of other studies (Birkinshaw, 1997; Delany, 2000; Sandvik, 2010; Sargent & Matthews, 2006) who had found a negative relationship between subsidiary-head office communication and initiatives.

Through these combined findings, the current study was also able to address a considerable research gap amongst the previous studies that had considered subsidiary-head office communication (Birkinshaw, 1997, 1999; Delany, 2000; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) by fully exploring the relationship between the different types of autonomy, the level of subsidiary-head office communication and subsidiary initiatives. The findings from the *Global Recruitment* and *Strong-Weld* Australian subsidiaries revealed that a low level of subsidiary-head office communication was linked to assumed autonomy, and often contributed to the development of successful initiatives.

Conversely, the findings from the *PharmaSee* Australian subsidiary demonstrated that a high level of subsidiary-head office communication was related to assigned autonomy, and was negatively related to the generation of successful initiatives.

The final contribution of the current section's findings to the extant literature relates to the identification of two key reasons behind the need for a minimal level of subsidiary-head office communication when attempting to develop successful initiatives. The findings indicated that a low level of communication firstly facilitates the assumption of autonomy (which has been shown to be necessary to develop initiatives), and secondly reduces the ability of the head office to create delays and inefficiencies in the development of initiatives. By identifying these two key contributing factors behind the need for a low degree of subsidiary-head office communication, the findings of the current study further extend the extant literature's (Birkinshaw, 1997, 1999; Delany, 2000; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) understanding of the relationship between the different types of autonomy, the level of subsidiary-head office communication and subsidiary initiatives.

5.2.4. Summary: What role do the different types of autonomy play in the development of subsidiary initiatives?

The findings presented in Section 5.2 set out to address Research Question 2a, which was: *What role do the different types of autonomy play in the development of subsidiary initiatives?* Having outlined the influence of both assigned and assumed autonomy on subsidiary initiatives, and also explained the effect of subsidiary-head office communication, the current section's findings have addressed this research question. When integrated, the findings from Section 5.2 may be depicted in diagrammatic form as shown in Figure 5.2.

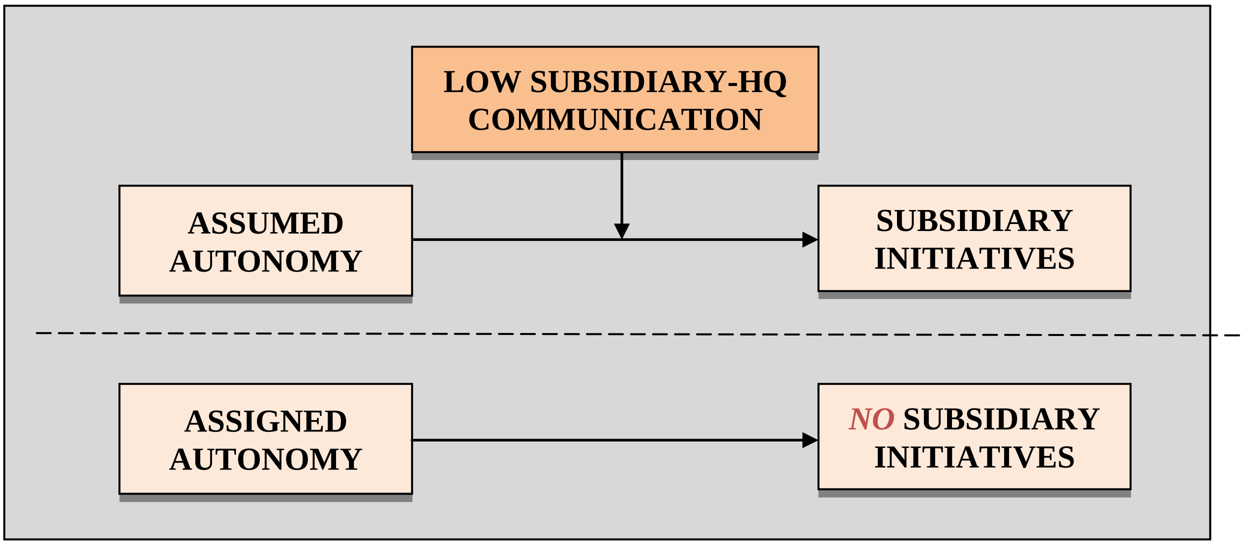

Figure 5.2: The influence of assigned and assumed autonomy on subsidiary initiatives

The findings within this section were divided into three parts. First, the insights in Section 5.2.1 from the *Thermo-Energy* Subsidiary Senior Executive, the *Primary Investors* Subsidiary Chief Loans Manager and the *PharmaSee* Subsidiary Senior Data Manager revealed that subsidiaries were unable to develop successful initiatives if they possessed only assigned autonomy. The findings indicated that such subsidiaries were either explicitly forbidden from generating initiatives, or felt pressured against doing so. This is indicated in the section below the dotted line in Figure 5.2. These combined findings from Section 5.2.1 challenge those of a number of previous studies (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Miozzo & Yamin, 2012; Verbeke et al., 2007), which had claimed that assigned autonomy was an important element in the development of subsidiary initiatives. The findings also extend the study of Dorrenbacher and Geppert (2010) which, despite recognising that decentralisation reduced the prevalence of successful initiatives, did not explicitly explore the influence of assigned autonomy. By directly identifying the influence of 'assigned autonomy' on subsidiary initiatives, rather than the exceedingly broad terms of 'decentralisation' or simply 'autonomy', the current study extends the study of Dorrenbacher and Geppert (2010) and the aforementioned studies (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Birkinshaw et al., 1998; Miozzo & Yamin, 2012; Verbeke et al., 2007).

The insights in Section 5.2.2 from the *Global Recruitment* Subsidiary Director of Talent Management, the *Global Recruitment* HQ Communications Manager, the *IT Pro* Subsidiary

Delivery Program Manager and the *Strong-Weld* Subsidiary Finance Executive then revealed that their respective subsidiaries were able to develop successful initiatives based on assumed autonomy. This is represented in Figure 5.2 above by the connection between ‘assumed autonomy’ and ‘subsidiary initiatives’. These findings challenge the view of much of the early subsidiary management literature (Bartlett & Ghoshal, 1989; Chandler, 1962; Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Vernon, 1966) by showing that rather than being reprimanded for assuming autonomy beyond their authority, subsidiaries are being allowed to develop initiatives to expand their contributory role.

The findings in Section 5.2.2 also extend the more recent subsidiary management literature (Ambos et al., 2010; Balogun et al., 2011; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Collinson & Wang, 2012; Delany, 2000; Gammelgaard et al., 2011; Krishnan, 2006; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) in three significant ways. First, the findings differentiated between the different types of autonomy. As such, the current study was able to identify that subsidiaries could develop initiatives specifically through *assumed autonomy*, and demonstrate that this is not possible through *assigned autonomy*. Second, the findings recognised that a subsidiary may possess multiple types of autonomy- that is, both assigned and assumed- concurrently. Third, the findings identified that assumed autonomy facilitates the development of subsidiary initiatives through allowing the use of specialised skill sets by subsidiary management that can only be utilised outside of the subsidiary’s authority.

In combination, the findings from Sections 5.2.1 and 5.2.2 therefore recognised that subsidiaries must assume autonomy beyond their assigned levels if they wish to develop successful initiatives. This is significant, since Young and Tavares had previously recognised that one the key areas within subsidiary management literature requiring attention is identifying “what type of autonomy is necessary to develop meaningful initiatives” (Young & Tavares, 2004, p. 231). More recently, Gammelgaard et al. (2012) again highlighted this research gap, stating that further research was still required in order to understand how autonomy may facilitate the development of subsidiary initiatives. The combined findings from Sections 5.2.1 and 5.2.2 therefore addressed this key research gap by revealing that subsidiaries must possess assumed autonomy in order to develop successful initiatives.

The findings in the third Section (5.2.3) from the *Global Recruitment* HQ Head HR Manager, the *Strong-Weld* Subsidiary Finance Executive and the *PharmaSee* Subsidiary Senior Data Manager then added to the findings from Section 5.2.2 by outlining the way in which the level of subsidiary-head office communication impacts on the relationship between assumed autonomy and successful initiatives. The cases of the *Global Recruitment* and *Strong-Weld* Australian subsidiaries demonstrated that a low level of subsidiary-head office communication was linked to assumed autonomy, and in turn to the development of successful initiatives. Conversely, the case of the *PharmaSee* Australian subsidiary revealed that a high level of subsidiary-head office communication was related to assigned autonomy, and was negatively related to the development of successful initiatives. In doing so, the current study extends the previous literature (Birkinshaw, 1997, 1999; Delany, 2000; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) by fully exploring the relationship between the different types of autonomy, the level of subsidiary-head office communication and subsidiary initiatives. More specifically, by identifying the contrasting relationships between the different types of autonomy and subsidiary-head office communication, the findings of the current study extend Gammelgaard et al. (2012), Suwannarat and Leemanonwarachai (2012) and Scott and Gibbons (2009), who had assumed that all subsidiary autonomy was of the same type. This finding elucidated why Gammelgaard et al. (2012) revealed 'subsidiary autonomy' as being linked to lower levels of subsidiary-head office communication, while Scott and Gibbons (2009) and Suwannarat and Leemanonwarachai (2012) linked it to higher levels of communication. Furthermore, by identifying that a *low* level of subsidiary-head office communication best facilitates the development of initiatives, the current study's findings challenge those of Birkinshaw (1999) and Verbeke et al. (2007), who had claimed a positive relationship existed between this communication and initiatives. At the same time, the current study's findings support those of a number of other studies (Birkinshaw, 1997; Delany, 2000; Sandvik, 2010; Sargent & Matthews, 2006) who identified a negative relationship between subsidiary-head office communication and initiatives.

The findings in Section 5.2.3 also further extend the extant literature relating to subsidiary-head office communication (Birkinshaw, 1997, 1999; Delany, 2000; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Scott & Gibbons, 2009; Suwannarat & Leemanonwarachai, 2012; Verbeke et al., 2007) through the identification of two key explanations as to why a low level of subsidiary-head office communication assists in developing initiatives: it facilitates the assumption of autonomy beyond the subsidiary's authority, and reduces the delays and inefficiencies associated with head office involvement. The findings from Section 5.2.3 are represented in Figure 5.2 by the addition of 'low subsidiary-HQ communication' as a potential moderating variable on the relationship between assumed autonomy and subsidiary initiatives. This depicts the way in which the level of subsidiary-head office communication plays a significant part in determining the influence of assumed autonomy on the development of initiatives.

While the findings from this current section have thus identified the influence of both types of autonomy on initiatives and identified assumed autonomy as necessary for their development, this does not necessarily mean that assumed autonomy will lead to subsidiary development. As noted by Gammelgaard et al. (2012), additional research was required in order to ascertain how subsidiary autonomy can not only influence the development of initiatives, but then also translate those initiatives into subsidiary development (and the attainment of a higher contributory role, such as a centre of excellence). As the following findings in Section 5.3 outline, there are a number of factors that will affect the ability of subsidiary management to convert initiatives based on assumed autonomy into a successful extension of the subsidiary's contributory role. These include both positive and negative outcomes of assumed autonomy, and the endorsement of the initiatives by the head office. These factors are outlined in greater detail in the following section so as to address Research Question 2b.

5.3. HOW DO THE DIFFERENT TYPES OF AUTONOMY INFLUENCE SUBSIDIARY DEVELOPMENT?

Thus far, research regarding the influence of specific types of autonomy on subsidiary development has been limited. A number of studies have identified at least some form of a connection between autonomy and subsidiary development. For example, studies by Birkinshaw and Morrison (1995), Collinson and Wang (2012), Forsgren et al. (1992), Gammelgaard et al. (2011) and Hood and Taggart (1999) have revealed autonomy as a prerequisite for subsidiary development. Other authors (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) have revealed evidence of subsidiaries undertaking proactive, autonomous actions beyond their authority so as to develop their contributory roles within the MNE. However, Pisoni et al. (2010), Gammelgaard et al. (2011) and Gammelgaard et al. (2012) stated that further research was required to fully understand the precise nature of the connection between subsidiary autonomy and the extension of a subsidiary's contributory role within the MNE through subsidiary development. In particular, the exact types of autonomy required by the subsidiary to influence its contributory role had yet to be determined (Young & Tavares, 2004). The need for further clarification in this area was emphasised by conflicting findings regarding the consequences for subsidiaries of assuming autonomy beyond their authority. Thus far, some subsidiaries had been found to face negative consequences for assuming autonomy (Delany, 2000; Schotter & Beamish, 2011), while others had been rewarded for engaging in the same form of activities (Balogun et al., 2011; Birkinshaw & Fry, 1998; Sandvik, 2010; Sargent & Matthews, 2006). This section therefore examines the consequences of such actions by subsidiaries, and in particular, investigates the effect that assumed autonomy has on a subsidiary's development.

Before presenting the findings in relation to the influence of assumed autonomy on subsidiary development, it was necessary to re-establish precisely what constitutes subsidiary development. According to this current study, subsidiary initiatives are those strategic, entrepreneurial actions by subsidiary management to *expand* the subsidiary's contributory role, rather than just renew or continue with the same role. This view is in line with the original applications of the term by Birkinshaw and Hood (1997, 1998) and Holm and Pedersen (2000) that has since been supported by authors such as Dorrenbacher and Geppert (2010) and Young and Tavares (2004). As an extension of this view, the study also supported the view of authors such as Delany (2000) that subsidiary development, as the end result of successful initiatives, involves the actual expansion of the subsidiary's role or mandate. The following section therefore presents the findings relating to the ability of assumed autonomy (through initiatives) to lead to such a role expansion.

5.3.1. The positive influence of assumed autonomy on subsidiary development

As stated previously, the findings in Section 5.2 regarding the link between the different types of autonomy and subsidiary initiatives also had significant implications for this section on subsidiary development. This was because initiatives by the local subsidiary management have been acknowledged by a number of studies (Balogun et al., 2011; Birkinshaw et al., 1998; Cavanagh & Freeman, 2012; Delany, 2000; Krishnan, 2006; Sargent & Matthews, 2006) as being necessary to achieve subsidiary development. In this way, the findings from Section 5.2 effectively revealed that when using only *assigned* autonomy, subsidiary management are not able to influence subsidiary development. This is because assigned autonomy was shown to be unable to generate initiatives. Given that initiatives are necessary to achieve subsidiary development, assigned autonomy is therefore not able to influence subsidiary development. This relationship is depicted in Figure 5.3 below. This finding had significant implications for the extant subsidiary management literature. As stated previously, even those studies that had found a connection between autonomy and subsidiary development (Ambos et al., 2010; Balogun et al., 2012; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Delany, 2000; Forsgren et al., 1992; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Hood & Taggart, 1999; Krishnan, 2006; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012) had not been able to identify the precise influence of the different types of autonomy- including assigned autonomy- on the subsidiary development process. Thus by revealing that assigned autonomy is insufficient to generate subsidiary development, the findings of the current study addressed this research gap (as identified by Young and Tavares [2004]) and extend the aforementioned extant literature.

Conversely, the findings from Section 5.2 revealed that in certain instances, it is possible for subsidiary management to generate initiatives through the use of *assumed* autonomy. Thus there is a possibility that by employing assumed autonomy, the subsidiary management may ultimately drive subsidiary development. This relationship is also depicted in Figure 5.3. However, this influence is in no way guaranteed, since it is not certain that all initiatives that are based on assumed autonomy will definitely result in subsidiary development; some initiatives may not be successful due to a variety of reasons (these reasons are explored in Section 5.3.2). Thus further research was required to ascertain whether initiatives based on assumed autonomy could ultimately lead to subsidiary development.

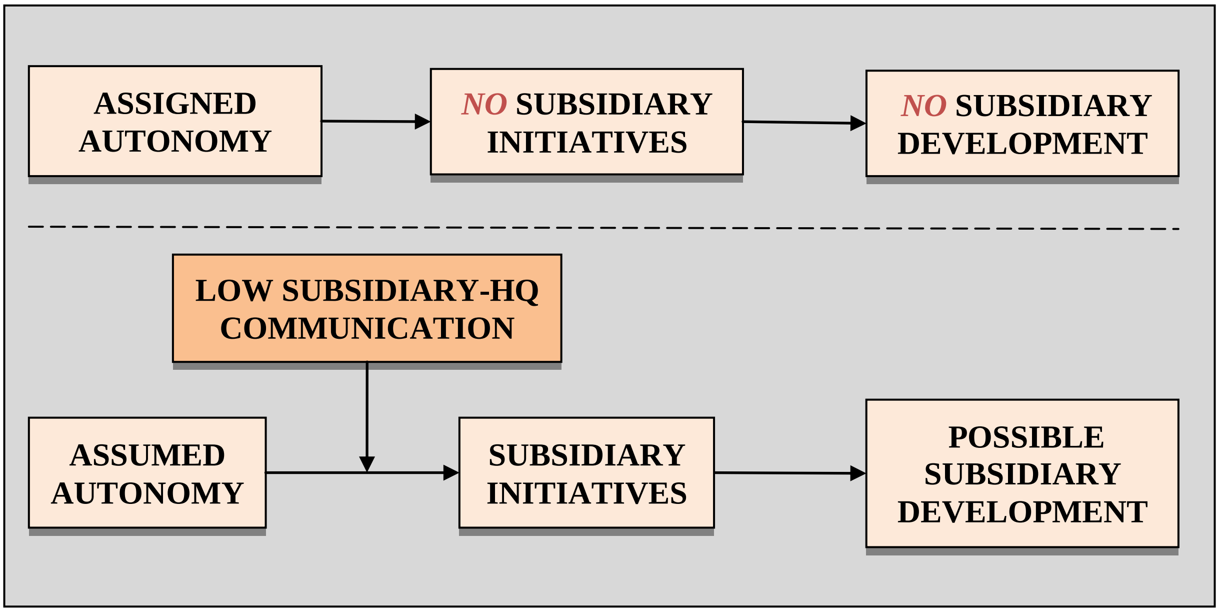

Figure 5.3: Implications of the findings from Section 5.2 in relation to subsidiary development

Within the extant literature, a limited number of studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) had revealed evidence of subsidiaries assuming autonomy in an effort to develop the subsidiary and its role. However, none of these studies had recognised the existence of assigned and assumed autonomy as separate and distinct types of autonomy, and as such did not apply the term 'assumed autonomy' at all. Consequently, these aforementioned studies were unable to directly establish the ability of actions based on assumed autonomy to ultimately lead to subsidiary development.

This current study therefore investigated whether the initiatives based on assumed autonomy that were identified in Section 5.2 did ultimately lead to subsidiary development. The findings presented in the following section therefore continued on from Section 5.2, and investigated the assuming of autonomy by subsidiary management as a potential driver of the subsidiary development process. As the section delineates, assumed autonomy was found to be not only necessary to generate initiatives, but also required for the extension of the subsidiary's contributory role through subsidiary development. The findings first outlines how the use of assumed autonomy-based initiatives can enable a subsidiary to extend its role to such an extent that it becomes a ‘strategic pivot’ within the MNE (as described by Delany [2000]), and a source of knowledge and advice for the head office. Following this, the section reveals that assuming autonomy is also necessary even if the subsidiary wishes only to extend its role to better suit the local environment.

The findings of the current study identified a number of subsidiaries that had been able to drive the subsidiary development process through the use of assumed autonomy. Perhaps the most compelling case was that of the Australian *Strong-Weld* subsidiary. As the findings in Section 5.2 revealed, this particular subsidiary employed assumed autonomy to develop new product ranges without having to inform the head office. Through the creation of this initiative, the Australian *Strong-Weld* subsidiary was then able to drive its own development and extend its contributory role. As the quote below indicated, the subsidiary was so successful with these assumed autonomy-based initiatives that it is now outperforming the head office. The *Strong-Weld* Asia Pacific Subsidiary Finance Executive states that consequently, the head office in the US frequently seeks advice and looks to take advantage of the subsidiary’s expertise by promoting subsidiary managers to head office positions.

“It’s like the tail wagging the dog- they look for us for expertise. The actual CEO in the US is an Australian, and the guy who leads up one of the large product groups is an Australian; the guy who runs all their warehousing is Australian. They’ve actually bled the Australian operation to put some expertise into the US… [Our role is] very significant- we punch above our weight. In terms of our performance our sales and on our return on sales, revenue and our percentage of costs of revenue and any measurement, just about, I think we always exceed the US” (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

As well as being a necessary requirement for substantial extensions of a subsidiary’s role (including taking on a ‘strategic pivot’ role), the findings revealed that assumed autonomy is also required for relatively minor extensions of a contributory role. The following illustrations from the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management explained that this will be the case even if the initiative is only aimed at changing the subsidiary’s role so that it is better suited to dealing with, and adapting to, the local market environment. As outlined in Section 4.3.2 in Chapter 4, the *IT Pro* Australian subsidiary was shown to be effectively ‘forced’ to assume autonomy. The following quote went further and revealed that the subsidiary uses this assumed autonomy to develop initiatives, in an effort to extend its role so that it can better produce high quality, low-cost solutions to local environment-specific situations. This was in contrast with the case of the *Strong-Weld* Australian subsidiary, which assumed autonomy as part of a strategic decision to dramatically extend its role so that it became a 'strategic pivot' within the MNE. A key element to note in the quote below was that by developing its capabilities as part of the initiative (which was based on assumed autonomy), the subsidiary was able to not only renew its existing business, but also develop its contributory role to include 'new business opportunities'. This highlighted that the subsidiary was able to achieve subsidiary development as it was understood in this current study.

"This [initiative] was done to enable the local subsidiary to be successful in a number of customer sales engagements by creating high quality and low cost support delivery capabilities in a non standard environment. Even though head office would not support this non standard initiative because it was so successful head office subsequently endorsed it!... The creation of this new capability did result in the renewal of existing business and then lead to the creation of new business opportunities" (Subsidiary Delivery Program Manager, *IT Pro*).

A similar insight was provided by the *Global Recruitment* Subsidiary Director of Talent Management. Like the *IT Pro* Australian subsidiary, the *Global Recruitment* Australian subsidiary was shown in Section 4.3.2 in Chapter 4 to assume autonomy beyond its authority, while the findings in Section 5.2.2 of this current chapter revealed that this assumed autonomy allowed the subsidiary to develop initiatives. The following quote went further, and provided a specific example of an initiative based on assumed autonomy that led to the extension of the subsidiary's contributory role. As the Subsidiary Director of Talent Management explained, the *Global Recruitment* Australian subsidiary independently engaged in an unauthorised sponsorship of a prominent local sporting team, and also devised a series of television advertising to coincide with the sponsorship. This assumed autonomy-based initiative was successful in extending the subsidiary's role so that it was able to take advantage of local market-specific opportunities, as was the case with the *IT Pro* Australian subsidiary. Importantly, the quote explicitly highlighted the way in which assumed autonomy represents a positive influence on subsidiary development; the use of this type of autonomy by the subsidiary is "considered a positive thing" by the head office, even after the Managing

Director of *Global Recruitment* jokingly "loses his mind" when the resultant initiatives are revealed to the head office.

"For example, we're sponsoring the Melbourne Football Club, and we've put together tv ads that Mr X hasn't approved. A lot of things don't get the final tick from Mr X [in the first place], then they get publicised, then he comes back and loses his mind. So people go beyond their scope, but it's considered a positive thing at Global Recruitment because Mr X is very entrepreneurial" (Subsidiary Director of Talent Management, *Global Recruitment*).

The insights from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management were significant for a number of reasons. First, they provided direct evidence that the use of assumed autonomy by subsidiary management (through initiatives) could indeed lead to subsidiary development. In doing so, they challenge the findings from the studies of Reilly et al. (2012), Birkinshaw and Morrison (1995) and Roth and Morrison (1992), which had claimed that initiatives were not a sustainable, long-term driver of subsidiary development. In the same way, the findings also extend the earlier studies that had considered the use of autonomy beyond a subsidiary's authority (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006), yet had failed to differentiate between the different types of autonomy, and as such had been unable to determine the precise influence of assumed autonomy on subsidiary development. The quote from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive had a particular significance to Delany's (2000) eight-stage development model for subsidiary development. Stage 7 of the model is said to involve the subsidiary "becoming a strategic pivot for the MNC for key activities" as "one of the few key locations for the parent world-wide and is engaged in activities which have major significance for the parent" (Delany, 2000, p. 232). The example from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive fitted this description, with the subsidiary performing a role where it is relied upon for knowledge and strategic direction by even the head office. Thus the findings appeared to support Delany's (2000) model of subsidiary development. However, the findings of the current study actually went further and added that in order to reach this stage of the subsidiary development model, the subsidiary must first assume autonomy when it is generating its initiatives. Although the study by Delany (2000) recognised the ability of subsidiaries to generate initiatives that extended the subsidiary's mandate, it did not investigate the type of autonomy required in this process. The insights from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive in this current study therefore extend Delany's (2000) eight-step development model for subsidiary development by specifically demonstrating the need for assumed autonomy in order for the subsidiary to achieve a 'strategic pivot' role within the MNE. The insights of the *Strong-Weld* Asia Pacific Subsidiary Finance Executive also have important theoretical implications. By identifying that assumed autonomy is necessary for the subsidiary to extend its contributory role to the point where it is a 'strategic pivot' within the MNE (Delany, 2000), this finding has significant inferences for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). These implications are discussed in greater detail in Chapter 6.

The second key implication of the quotes from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management is an extension of the first and addressed the key research gap identified by Young and Tavares (2004). As stated previously, these authors had stated that further research was needed to determine the type of autonomy required by the subsidiary to successfully lead to subsidiary development. This was because previously, even those studies that had identified a connection between autonomy and subsidiary development (Ambos et al., 2010; Balogun et al., 2012; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Delany, 2000; Forsgren et al., 1992; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Hood & Taggart, 1999; Krishnan, 2006; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012) had not been able to identify the precise influence of the different types of autonomy- including assumed autonomy- on the subsidiary development process. By demonstrating (through the quotes from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management) that subsidiaries may extend their contributory role by assuming autonomy, it was also deduced that assumed autonomy is *necessary* for subsidiary development. As explained at the beginning of Section 5.3.1, this was because assigned autonomy had already been shown to be unable to lead to subsidiary development. Thus, given that the responses from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management had revealed that assumed autonomy *could* lead to subsidiary development, it followed that a subsidiary must employ this type of autonomy if it wishes to extend its role through the subsidiary development process. By identifying assumed autonomy as the necessary type of autonomy required for subsidiary development (to either a substantial or relatively minor degree), the current study extends the aforementioned literature and addresses the key research gap identified by Young and Tavares (2004).

Finally, the insights from the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management highlighted the importance of the endorsement of initiatives by the head office. As described in the quote from the *IT Pro* Subsidiary Delivery Program Manager, the success of the subsidiary's initiative resulted in the head office eventually endorsing the initiative. In turn, the subsidiary was then able to obtain a new, extended role through 'new business opportunities'. This implied that a key part of the subsidiary extending its contributory role was the endorsement of the assumed autonomy-based initiative. The quote from the *Global Recruitment* Subsidiary Director of Talent Management similarly noted that even though the initiatives are developed independently by the subsidiary, the head office is eventually informed of their development. This implied that in order for the initiatives to be successful (as was the case with the sponsorship of a prominent local sporting team), they must be accepted and endorsed by the head office. The following section therefore discusses the importance of head office endorsement of the subsidiary management assuming autonomy in an attempt to drive the subsidiary development process.

5.3.2. The need for head office endorsement

So far, the findings of the current study have revealed that the subsidiary requires assumed autonomy in order to successfully influence and extend its contributory role, whether it involves a significant extension (as was the case with the *Strong-Weld* Australian subsidiary) or a relatively minor one (as was the case of the *IT Pro* and *Global Recruitment* Australian subsidiaries). However, the insights in the previous section from the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management indicated that assuming autonomy alone may be insufficient to ensure successful subsidiary development. These findings suggested that the head office must first endorse the display of assumed autonomy (in the form of the subsidiary's initiative) if the subsidiary is to be able to formally extend its contributory role. This was particularly evident in the previous response of the *IT Pro* Subsidiary Delivery Program Manager, who noted that the *IT Pro* Australian subsidiary was granted an extended role within the MNE (which importantly involved not only the “renewal of existing business”, but also “the creation of new business opportunities”), but only after the head office endorsed an initiative that was based on assumed autonomy. This need for head office endorsement in turn implied that the subsidiary must have developed a strong enough relationship with the head office for it to be willing to endorse an extension of the subsidiary’s role. The importance of the relationship between the head office and the subsidiary in relation to subsidiary initiatives and development had been recognised previously by a number of studies (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 1012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006), although none of these studies had empirically investigated its precise influence. The current study therefore considered the role of this relationship and investigated the importance of head office endorsement of assumed autonomy-based initiatives. As the following section outlines, the endorsement of a subsidiary’s initiative is as necessary to achieve subsidiary development as the assuming of autonomy in the first place.

The illustrations in the previous section from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and in particular, the *IT Pro* Subsidiary Delivery Program Manager, indicated that head office endorsement is required in order to transform initiatives (based on assumed autonomy) into a formal extension of the subsidiary’s contributory role within the MNE. However, the most categorical demonstration of the need for head office endorsement came from the following quote from the *Oz-Mining* HQ Risk Management Executive. This finding was of particular importance because it lent a head office perspective to the matter, where the previous findings had been from the subsidiary viewpoint. In doing so, it ensured that the findings presented in this section were balanced, and representative of the actual significance of both assumed autonomy from the subsidiary and endorsement by the head office. The following insight from the *Oz-Mining* HQ Risk Management Executive was also useful in that it discussed a subsidiary of a different MNE (the mining company discussed previously in Section 4.3.2 which shall be referred to as ‘Company X’ henceforth) to those that were interviewed as part of this study. By including a discussion of this MNE’s subsidiary- which was a former employer of the *Oz-Mining* HQ Risk Management Executive in the same industry- the study not only gained an additional source of information, but also improved the validity of the findings from the MNEs that actually took part.

While the quotes from the *IT Pro* Subsidiary Delivery Program Manager and the *Strong-Weld* Asia Pacific Subsidiary Finance Executive strongly suggested the need for head office endorsement, the quote below from the *Oz-Mining* HQ Risk Management Executive explicitly stated this to be the case. The respondent recalled the example of a subsidiary of 'Company X' that sought to expand its role to include the transportation of its produce. As such, they assumed autonomy beyond their authority by undertaking an initiative that involved purchasing their own ships. However, the *Oz-Mining* HQ Risk Management Executive noted that the subsidiary was only formally granted this new role within the MNE involving the shipping of produce after their initiative was approved by the head office. The quote also revealed that this is the standard procedure for a subsidiary in any situation being granted a new or extended role, with head office needing to 'approve the process' before the subsidiary development may occur.

"The business units do have a power to suggest things that they would like to do. An example with those chaps at ['Company X'] is with shipping, where they want to try and improve the way they're doing shipping [and] buy their own ships. This is something that you wouldn't normally do because you do your best not to tie up capital. They were eventually able to do that [the new role], but again it was something that they put forward to headquarters, and headquarters then say "Ok, you can do that". Because invariably what it involves is companies have to be set up, and people in business units can never set up their own companies; they can never set up their own bank accounts. It's all directed from the corporate centre, as a way of effective control... Normally it [the allocation of a new contributory role] is done in conjunction [with the subsidiary], and in some cases the initiative may come from one of the key specialist groups that operate out of headquarters to people at the operations. Other times the operations will come back and say "We've got this great idea for this, that and the other", and they'll [headquarters] go through and approve the process for that to occur. So it's not blocking innovation or anything like that, but it has to be a defined process" (HQ Risk Management Executive, *Oz-Mining*).

The insights from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Oz-Mining* HQ Risk Management Executive all represented examples of subsidiaries having their assumed autonomy endorsed by the head office. Yet perhaps the strongest demonstration of the need for head office endorsement in achieving subsidiary development was provided by those cases of subsidiaries that did not manage to have their acts of assumed autonomy endorsed. The following insights from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive revealed that if the subsidiary's displays of assumed autonomy are not endorsed by the head office, the subsidiaries may be sold off or consolidated. The examples below are in sharp contrast with the earlier cases outlined in this section of the findings, which revealed that if the subsidiaries were able to have their acts of assumed autonomy endorsed by the head office, they were able to drive the extension of their contributory role. In this way, the following findings revealed that the endorsement of the subsidiary's assumed autonomy by the head office is as necessary a component of subsidiary development as the subsidiary assuming autonomy in the first place.

The *Strong-Weld* Asia Pacific Subsidiary Finance Executive recalled the case of the South African *Strong-Weld* subsidiary. As outlined previously in Section 4.3.2 of Chapter 4, the General Manager of this subsidiary had assumed autonomy through employing a form of insider trading. The findings below revealed that this practice had led the subsidiary to become quite profitable. However, the General Manager's actions had also meant that the subsidiary was neither adhering to the corporate strategy, nor considered 'controllable' by the head office. Unsurprisingly, the head office elected not to endorse the subsidiary's display of assumed autonomy, and instead decided to sell off the business to the General Manager himself. This outcome, while favourable for (and possibly even the desired goal of) the subsidiary's General Manager, represented an unsatisfactory result in terms of subsidiary development.

"He didn't fit into their strategy, and no one thought they could wrestle the business back from him, so it was the easy way out to just sell it… In the end the US sold him the business because they couldn't control him. He's just a very entrepreneurial person who was going much too fast for a corporation to keep track of him. The Americans, by the time he put something to them, he'd already got the company going, turning over $5 million while they're still thinking about it" (Asia Pacific Subsidiary Finance Executive, *Strong-Weld*).

The *Oz-Mining* HQ Risk Management Executive discussed an additional instance of a subsidiary's display of assumed autonomy failing to be endorsed by the head office. As outlined previously in Section 4.3.2 of Chapter 4, the General Manager of a West Australian mining subsidiary assumed autonomy by considerably exceeding his expenditure limit and running the business in a manner that did not comply with the corporate strategy. The quote below revealed that these actions by the subsidiary's General Manager were initially ignored by the head office due to the business performing well financially. However, these actions were never formally endorsed by the head office, and eventually actions were taken against the General Manager and many of the senior staff within the subsidiary that led to their dismissal. Of greater significance within the context of subsidiary development, the subsidiary was also heavily consolidated and lost many of its mandates and operations. This example highlighted that no matter how well a subsidiary may be performing, if its initiatives are not endorsed by the head office it will not be formally granted an extended contributory role, and may even face negative consequences in relation to its development. In this way, the illustration from the *Oz-Mining* HQ Risk Management Executive also demonstrated that although assuming autonomy is necessary for the subsidiary to develop its role, doing so also carries significant risks for the subsidiary. This is especially the case in those instances where the subsidiary ends up falling out of line with the corporate strategy through its display of assumed autonomy.

"It ended up that he [the General Manager of the West Australian mining subsidiary] eventually left that organisation. The guy who was his admin manager and the like, he also was forced to leave, plus a number of people who reported to that individual… So it was a total clean out, and it ended up that [way] because it was part of the culture- that particular operation had been going on for years, and everyone would turn a blind eye to it. After the clean out, they brought in all different people to take over the operation and then combined a number of the operations into one operation" (HQ Risk Management Executive, *Oz-Mining*).

In aggregate, the insights from the *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive provided direct evidence that subsidiaries must have their initiatives (which are based on assumed autonomy) endorsed by the head office if they are to achieve subsidiary development. This is significant in the context of subsidiary management literature, as with the exceptions of Balogun et al. (2011) and Delany (2000), no previous studies had directly considered the important role that head office endorsement plays in subsidiary development. In this way, the findings of this current study extend the earlier literature on subsidiary initiatives and development (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 1012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006). The importance of the findings in relation to the need for head office endorsement was heightened by the earlier finding of this current study that subsidiaries require assumed autonomy to achieve subsidiary development. When combined, the findings from this current study therefore revealed that in order for the subsidiary to extend its role, the head office must endorse an initiative that was based on the subsidiary acting outside of its authority. This finding challenges much of the earlier thinking within subsidiary management literature, which had assumed that subsidiaries acting beyond their authority were not to be trusted and thus should be reprimanded (Birkinshaw et al., 1998).

This finding also has significant implications for the type of relationship between the subsidiary and head office that is best suited to facilitating subsidiary development. Gammelgaard et al. (2011) and Gammelgaard et al. (2012) noted that the precise influence of the subsidiary-head office relationship on subsidiary development had yet to be empirically proven. This was despite a significant amount of research (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) having investigated the subsidiary-head office relationship. For example, Birkinshaw and Hood (1998) first proposed this relationship as a significant subsidiary context factor in subsidiary development, but did not provide any empirical support for this hypothesis. The study by Delany (2000), on the other hand, stressed the importance of the subsidiary establishing strong relationships with local customers in achieving subsidiary development, but did not explore the relationship between the subsidiary and head office as a key factor. In addition, a number of recent studies (Balogun et al., 2011; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012) have focused on the subsidiary-head office relationship, yet have not investigated its influence on subsidiary development. The study by Gammelgaard et al. (2012) proposed that increased subsidiary autonomy is likely to reduce the strength of the subsidiary-head office relationship, while Miozzo and Yamin (2012) found that the nature of the subsidiary-head office relationship was determined by a number of factors, including the characteristics of the industry and host country regulations. However, neither study explored the influence of the subsidiary-head office relationship on subsidiary development. At the same time, a number of studies (Balogun et al., 2011; Drogendijk & Holm, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) indirectly revealed evidence of the influence of the subsidiary-head office relationship on subsidiary development, but like the studies of Gammelgaard et al. (2012) and Miozzo and Yamin (2012), did not directly investigate this connection. For example, Drogendijk and Holm (2012) found that the level of acceptance of power differences at both sides of the subsidiary-head office relationship is linked to the head office's influence on subsidiary competence development, while Balogun et al. (2011) developed a discursive process framework for the reconstruction of subsidiary roles. Yet despite indirectly revealing evidence of the influence of the subsidiary-head office relationship on subsidiary development, neither Drogendijk and Holm (2012) nor Balogun et al. (2011) directly explored this influence. The need to fully understand the influence of the subsidiary-head office relationship was made even more pertinent after it had been proposed as a subsidiary context factor influencing the development of initiatives (Birkinshaw et al., 1998; Dorrenbacher & Geppert, 2010; Verbeke et al., 2007). However, Section 2.4.3 of the Literature Review revealed that no extant study had directly explored the linkage between the different types of autonomy, the relationship between the head office and subsidiary, and subsidiary initiatives.

The findings from this current section addressed this research gap by revealing the need for both assumed autonomy and head office endorsement of the resulting initiatives in order to achieve subsidiary development. For the head office to be willing to discuss and endorse an initiative where the subsidiary has assumed autonomy beyond its authority, there must exist a strong relationship between the two parties, built on trust, communication and a demonstrated ability to serve one another's interests. This was particularly evident in the quotes from the *Oz-Mining* HQ Risk Management Executive in this current section. First, when discussing the case of their former employer in the mining industry, the *Oz-Mining* HQ Risk Management Executive outlined how the endorsement of initiatives was very much a collaborative effort based on negotiations between the head office and the subsidiary. The case of the West Australian mining subsidiary then demonstrated that if the subsidiary-head office relationship is fractured, it may lead to the dismissal of the senior subsidiary management and reduction in the scope of the subsidiary's contributory role. This case revealed that this would often be so even if the relationship had initially been strong, but then soured. Thus the findings of the current study extend those of the aforementioned studies (Balogun et al., 2011; Birkinshaw &

Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) by revealing that the subsidiary requires a strong relationship with the head office in order to achieve subsidiary development. This finding is depicted in diagrammatic form in Figure 5.4 below. This figure builds upon Figure 5.3 and adds the head office endorsement of initiatives as a key moderating factor in the ability of the subsidiary to translate initiatives based on assume autonomy into subsidiary development.

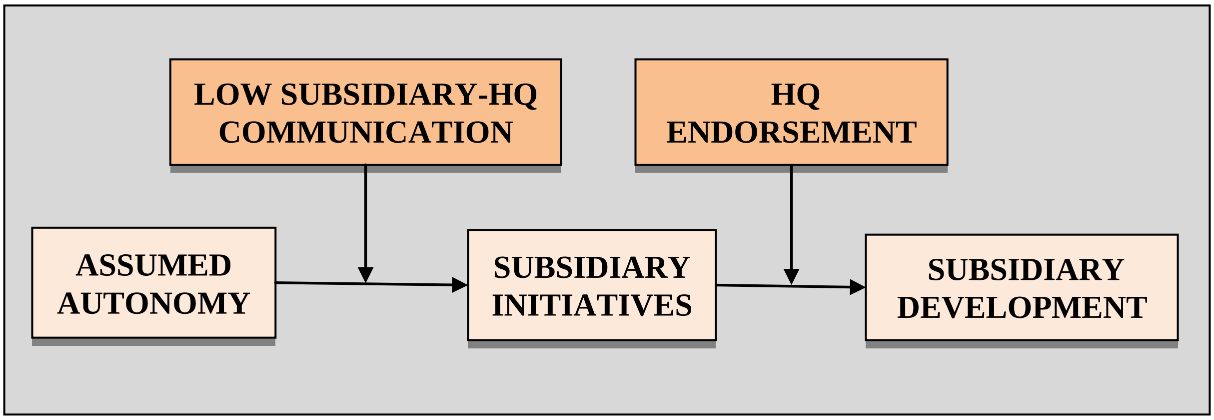

Figure 5.4: The influence of head office endorsement on the relationship between assumed autonomy-based initiatives and subsidiary development

It should also be noted that this need for a strong subsidiary-head office relationship neither contradicts nor is mutually exclusive with a low level of subsidiary-head office communication that was identified in Section 5.2.3 as necessary for successful initiatives. Instead, the current study viewed a strong relationship between the subsidiary and the head office as conducive to lower levels of communication between the two. As the case of the *Strong-Weld* and *Global Recruitment* Australian subsidiaries demonstrated, the establishment of a strong subsidiary-head office relationship built on trust and respect increases the likelihood of the head office permitting periods of low levels of communication. The current study therefore asserted that subsidiaries require not only a strong relationship with the head office, but to also combine that with low levels of communication in the initiative development stage, in order to successfully drive its development. In doing so, the findings further extend those of the aforementioned studies (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 1012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006).

In addition to emphasising the need for a strong relationship with the head office so that the subsidiary's initiative may be endorsed, the quotes from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive also had important implications for the influence of assumed autonomy on subsidiary development. So far, the majority of the findings presented in Section 5.3 of this chapter have demonstrated the *positive* influence of assumed autonomy as a necessary factor in the subsidiary development process. However, the cases of the South African *Strong-Weld* subsidiary and the Western Australian mining subsidiary demonstrated that not all instances of subsidiaries assuming autonomy will lead to the extension of their contributory role. In order to address Research Question 2b and determine precisely how assumed autonomy influences subsidiary development, it was necessary to understand both its positive and the potentially negative influence. The following section therefore outlines the way in which assumed autonomy may in some instances be detrimental to subsidiary development.

5.3.3. The negative influence of assumed autonomy on subsidiary development

As outlined in the literature review in Chapter 2, a number of extant studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) had documented the ability of the subsidiary to assume autonomy and engage in proactive, strategic actions beyond their authority in an effort to develop their contributory role within the MNE. Yet with the exceptions of Schotter and Beamish (2011), Delany (2000) and to a limited extent Sargent and Matthews (2006), none of the extant literature had directly explored the potential negative consequences of such actions. It is likely that the reason for this oversight lay in the assumption by these studies- in line with the views of the early subsidiary management literature (Bartlett & Ghoshal, 1989; Chandler, 1962; Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Vernon, 1966)- that any use of autonomy by the subsidiary beyond its authority would be viewed as disobedience, and reprimanded accordingly (Birkinshaw et al., 1998). This view was evidenced by the findings from Delany (2000), who found that subsidiaries that are seen as 'too autonomous' by the head office will find it difficult to achieve subsidiary development, and may even be divested. Similarly, the study of Schotter and Beamish (2011), which interviewed managers at both the subsidiary and head office level, found that subsidiary initiatives regularly led to conflict within MNEs that resulted in the initiative not only being rejected, but the dismissal of subsidiary managers. This limited extant understanding of the potential negative consequences of assuming autonomy, combined with the need to determine the precise influence of assumed autonomy on subsidiary development as part of Research Question 2b, led the study to investigate this research gap. Despite being recognised in Section 5.3.1 as a requirement for subsidiaries to achieve subsidiary development, the findings in the following section reveal that assuming autonomy may in some instances impede the extension of a subsidiary's contributory role.

So far in Section 5.3 of this chapter, the findings first revealed that assumed autonomy was necessary in order for the subsidiary to influence the subsidiary development process. Following this, the findings discovered that the manifestations of this assumed autonomy (subsidiary initiatives) must then be approved and endorsed by the head office if the subsidiary is to achieve subsidiary development. However, illustrations from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive also demonstrated that not all displays of assumed autonomy will necessarily lead to subsidiary development or be endorsed by the head office. Through the case of the West Australian mining subsidiary (as detailed in the findings from the *Oz-Mining* HQ Risk Management Executive), it was revealed that in some instances subsidiaries may not only be denied the opportunity to extend their role when assuming autonomy, but may even be reprimanded for doing so. This finding was reinforced in greater detail through the following responses from the *Oz-Mining* HQ Group Auditing Manager, the *Resource Extractors* HQ General Operations Manager and the *Thermo-Energy* HQ Managing Director. The first case was that of an *Oz-Mining* subsidiary that assumed autonomy and engaged in an unauthorised trade agreement with a number of parties, as first discussed in Section 4.3.2 in Chapter 4. As the quote below revealed, the trade agreement ended up falling through, with the subsidiary in question subsequently left with a four and a half million US dollar loss from the transaction. Once the head office learned of the subsidiary's decision to assume autonomy and the resulting loss, a number of senior subsidiary managers were removed from their positions, and the subsidiary itself was drastically restructured. The end result of this restructuring was that instead of leading to subsidiary development, the decision by the subsidiary to assume autonomy brought about the reduction of the subsidiary and its role by 80 per cent. This case highlighted the way in which assuming autonomy represents a significant risk for the subsidiary, despite the earlier findings of this current study revealing it to be a necessary step for the subsidiary to take if it wishes to achieve subsidiary development.

"He took his eyes off the trade. The key part of the trade was with North Korea, and they delivered their part of the trade to North Korea, and the North Koreans forgot to give him the next leg of the transaction. So he was left high and dry, four and half million [US dollars] out of pocket. As a result of that, the organisation's structure changed dramatically, so that they were no longer allowed to deal in third party products, which is what they were doing. They [now] had to deal solely with our own company products. This was in South East Asia. There was a consolidation, and the shrinking of that operation was the outcome. A number of people were put out on the street, and that whole business shrunk in size by about 80%. That was the corporate changes that were put in place" (HQ Group Auditing Manager, *Oz-Mining*).

The second case, as described by the *Resource Extractors* HQ General Operations Manager, was that of a *Resource Extractors* subsidiary. This subsidiary was the largest business unit within the MNE, and because of its resulting position of influence within the corporation, would often assume autonomy beyond its authority and employ systems and processes that were not in line with the corporate philosophies. For an initial period, this behaviour by the subsidiary had been tolerated by the head office due to its strong financial results; in this way, the situation surrounding this subsidiary is similar to that of the West Australian mining subsidiary. However, the quote below revealed that when a new CEO was hired, this behaviour (based on assumed autonomy) by the subsidiary was no longer tolerated. The Head of Finance at the subsidiary was summoned to the head office and told that the subsidiary was no longer permitted to assume autonomy, and that any noncompliance with this order would result in the dismissal of senior managers. Having established the need for assumed autonomy in the findings of Section 6.3.1, it could then be said that by denying the subsidiary the ability to assume autonomy in this instance, the head office was effectively negating its ability to influence the subsidiary development process.

"We had the problem of [a subsidiary], which was the iron ore mine that was the biggest business of all the Resource Extractors business units. They would constantly try and influence the decision making which enabled them to continue using their own systems and ways of doing things, and everyone else would have to change to suit them. When we had a

new CEO, the guy who was in charge of Finance of [the subsidiary] objected with very terse words to a change in the accounting policies. The guy in charge of Finance was then advised to come to Melbourne immediately, after voicing his displeasure about these particular accounting standards, to see the CEO/MD. So he flew over from Perth to Melbourne, [and] went in to see the CEO. The CEO then advised him that he is never to write or do anything like that again in the future, and if he does anything like that again, he will be removed from the role permanently, and that he is not going to be summonsed back to Melbourne again. He was immediately sent back to Perth" (HQ General Operations Manager, *Resource Extractors*).

The third case was that of *Thermo-Energy,* as described by its Managing Director. As noted in Section 4.3.2 of the findings in Chapter 4, Thermo-Energy's Indonesian subsidiary only possesses assigned autonomy, and as such is unable to develop initiatives or extend its contributory role. However, the finding from the HQ Managing Director revealed that if the subsidiary did attempt to assume autonomy and develop its role, it would face a considerable reprimand. As the following quote revealed, this is because the head office would perceive the subsidiary to have breached their agreement that they would not engage in such behaviour. The HQ Managing Director added that consequently, the head office would lose all trust in the subsidiary. This finding was significant for two reasons. First, it reinforced the previous two cases (as told by the *Oz-Mining* HQ Group Auditing Manager and the *Resource Extractors* HQ General Operations Manager) in highlighting the potential for the subsidiary to be reprimanded or disadvantaged for assuming autonomy. Second, it revealed a key reason *why* a subsidiary may face a reprimand for assuming autonomy: by engaging in actions beyond its level of authority, the subsidiary risks losing the trust of the head office, which as Section 5.3.2 outlined, is vital for the subsidiary's continued development.

"Well the very nature of our agreement and the way we've conducted ourselves, and the expectation that all parties conduct themselves in a similar manner, that would have been breached. That's the most important thing as far as we're concerned, that element of trust. They could make us all billionaires, but there would still be a major issue there in terms of our ability to trust those individuals going forward, and that would be a major concern for us" (HQ Managing Director, *Thermo-Energy*).

This case therefore reinforced the findings from the previous cases of the West Australian mining subsidiary, the *Oz-Mining* subsidiary involved in the failed trade agreement, and the *Resource Extractors* subsidiary. Together, they revealed that assuming autonomy may be *necessary* to achieve subsidiary development, but doing so will not necessarily *guarantee* subsidiary development. On the contrary, these findings revealed that assuming autonomy may actually result in the subsidiary facing a sanction or reprimand, and thus hinder the subsidiary's quest to extend its contributory role. While this finding still does not constitute support for the earlier subsidiary management literature (Bartlett & Ghoshal, 1989; Chandler, 1962; Gates & Egelhoff, 1986; Hedlund, 1981; Levitt, 1983; Vernon, 1966) that assumed that use of autonomy by the subsidiary beyond its authority should *always* be reprimanded (Birkinshaw et al., 1998), it does temper the earlier findings from Section 5.3.1 which revealed assumed autonomy as necessary to achieve subsidiary development. Thus the combined findings from Section 6.3 revealed that assumed autonomy is a necessary element in subsidiary development, but also creates a number of risks for the subsidiary which have the potential to hinder its development. In this way, the findings extend the majority of the extant literature (Birkinshaw & Hood, 1998; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had recognised the ability of subsidiaries to assume autonomy beyond their authority, but had not considered the potential negative consequences for subsidiary development of this autonomy.

This in turn reinforced the importance of a strong subsidiary-head office relationship in subsidiary development, a theme which was highlighted by the combined insights from the *Oz-Mining* HQ Risk Management Executive (the case of the West Australian subsidiary), the *Oz-Mining* HQ Group Auditing Manager, the *Resource Extractors* HQ General Operations Manager and the *Thermo-Energy* HQ Managing Director. As Section 5.3.2 outlined, a strong subsidiary-head office relationship is a vital element in successfully translating initiatives (based on assumed autonomy) into subsidiary development. The insights from these aforementioned cases not only reinforced that finding, but went further and indicated that the strength of this relationship is a key determining factor in ensuring that assumed autonomy represents a positive, rather than negative, influence on subsidiary development. In each of these aforementioned cases this relationship had deteriorated, either due to a perceived lack of respect for the head office (in the case of the West Australian subsidiary and the *Resource Extractors* subsidiary) or the loss of credibility for the subsidiary (in the case of the subsidiary involved in the failed trade agreement). The *Thermo-Energy* HQ Managing Director was particularly explicit in this regard, stating that even if an initiative based on assumed autonomy "could make us all billionaires", a lack of trust between the subsidiary and head office would represent a "major concern" in relation to the subsidiary's future development. Thus by further highlighting the need for a strong subsidiary-head office relationship in order to achieve subsidiary development, these findings also extend those of the previous literature (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent and Matthews, 2006).

Overall, the findings of this current section made a number of significant contributions. First, the quotes from the *Oz-Mining* HQ Group Auditing Manager, the *Resource Extractors* HQ General Operations Manager and the *Thermo-Energy* HQ Managing Director revealed that in some instances, assuming autonomy may lead to the subsidiary being reprimanded and denied the opportunity to extend its role. This finding was significant, since it revealed that despite assuming autonomy representing a necessary element to achieve subsidiary development, subsidiaries face substantial risks and dangers when doing so. This finding extends the majority of the extant literature (Birkinshaw & Hood, 1998; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had identified the ability of subsidiaries to assume autonomy beyond their authority, but had not explored the potential negative consequences of this autonomy for subsidiary development.

This finding also further highlighted the importance of a strong subsidiary-head office relationship. The responses from the *Oz-Mining* HQ Group Auditing Manager, the *Resource Extractors* HQ General Operations Manager and the *Thermo-Energy* HQ Managing Director revealed that a strong subsidiary-head office relationship not only ensures that initiatives based on assumed autonomy translate into subsidiary development, but also reduces the risk of negative consequences for the subsidiary's development. By outlining the precise importance of the subsidiary-head office relationship in subsidiary development, the finding extends the previous studies that had not yet fully investigated this relationship (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent and Matthews, 2006). When combined, the findings from this section extend the current understanding of assumed autonomy, particularly in relation to the potential negative consequences for both the subsidiary development process and the subsidiary itself. As an extension of this, the findings also addressed Research Question 2b of how the different types of autonomy influence subsidiary development.

5.3.4. Summary: How do the different types of autonomy influence subsidiary development?

The findings outlined in Section 5.3 set out to address Research Question 2b, which was: *How do the different types of autonomy influence subsidiary development?* Having identified the influence of both assigned and assumed autonomy on the subsidiary development process, and also explained the significance of a strong subsidiary-head office relationship in this process, the current section's findings have addressed this research question. These findings were divided into three parts, and are summarised as follows.

The findings in Section 5.3.1 firstly identified that assigned autonomy was insufficient for driving the subsidiary development process. These findings were an extension of those from Section 5.2, which revealed that subsidiary initiatives could not be developed using only assigned autonomy. Given that initiatives are required for subsidiary development, the findings thus concluded that subsidiary development requires more than just the autonomy that is assigned from the head office. This finding extends the previous literature (Ambos et al., 2010; Balogun et al., 2012; Birkinshaw & Hood, 1998; Birkinshaw & Morrison, 1995; Collinson & Wang, 2012; Delany, 2000; Forsgren et al., 1992; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Hood & Taggart, 1999; Krishnan, 2006; Sandvik, 2010; Sargent & Matthews, 2006; Suwannarat & Leemanonwarachai, 2012) which had identified a connection between autonomy and subsidiary development, but had been unable to identify the precise influence of the *different types* of autonomy, including assigned autonomy.

The findings in Section 5.3.2 then revealed that subsidiaries were able to drive the subsidiary development process through the use of assumed autonomy. The quote the *Strong-Weld* Asia Pacific Subsidiary Finance Executive outlined how a subsidiary was able to develop its contributory role using assumed autonomy to such an extent that it was able to achieve a 'strategic pivot' role within the MNE. Addition insights from the *IT Pro* Subsidiary Delivery

Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management explained that assumed autonomy was also required even if the subsidiary only wished to extend its contributory role to a minor degree (so that it may, for example, better serve the local market). These findings challenge the findings from the studies of Reilly et al. (2012), Birkinshaw and Morrison (1995) and Roth and Morrison (1992), which had claimed that initiatives were not a sustainable, long-term driver of subsidiary development. In the same way, the findings also extend the earlier studies that had looked into the use of autonomy beyond a subsidiary's authority (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006), yet did not differentiate between the different types of autonomy, and as such had been unable to determine the precise influence of assumed autonomy on subsidiary development. When viewed in aggregate, the findings from Section 5.3.1 address a key research gap identified by Young and Tavares (2004) by identifying assumed autonomy as the type required for the subsidiary to successfully develop its contributory role. In doing so, the findings also extend Delany's (2000) eight-step development model for subsidiary development by specifically demonstrating the need for assumed autonomy in order for the subsidiary to achieve a 'strategic pivot' role within the MNE

The findings in Section 5.3.2 then highlighted the need for head office endorsement of the subsidiary initiatives (that are based on assumed autonomy) if they are to translate into subsidiary development. Examples from the *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive all demonstrated the ability to successfully extend their contributory roles once their initiatives based on assumed autonomy were endorsed by the head office. At the same time, additional insights from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive reinforced the importance of head office endorsement by revealing cases of failed initiatives that did not receive such ratification from the head office. By establishing the need for head office endorsement, the current study's findings extend those of the previous literature (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 1012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006). When viewed in a broader context, the findings in Section 5.3.2 (particularly the insights from the *Oz-Mining* HQ Risk Management Executive) also identified the need for a strong subsidiary-head office relationship in the subsidiary development process. This not only facilitates the endorsement of any initiatives that are based on assumed autonomy, but also increases the likelihood of the head office permitting periods of low communication with the subsidiary (which were identified as necessary to develop successful subsidiary initiatives in Section 5.2.3). This finding extends a number of previous studies (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had considered the subsidiary-head office relationship, but not yet fully explored its role in subsidiary development.

Finally, the findings in Section 5.3.3 revealed that while assumed autonomy (when combined with head office endorsement) may be necessary for subsidiary development, it will not necessarily guarantee such an outcome. Insights from the *Oz-Mining* HQ Group Auditing Manager, the *Resource Extractors* HQ General Operations Manager and the *Thermo-Energy* HQ Managing Director revealed that in some instances, displays of assumed autonomy by the subsidiary may instead lead to a reprimand. This finding extends the majority of the extant research (Birkinshaw & Hood, 1998; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had recognised subsidiaries assuming autonomy beyond their authority, but had not considered the potential negative consequences of this autonomy for subsidiary development. The combined findings of Section 6.3.3 also reinforced the need for a strong subsidiary-head office relationship. The findings revealed that such a relationship not only ensures that initiatives based on assumed autonomy translate into subsidiary development, but also reduces the risk of the subsidiary facing a reprimand for assuming autonomy beyond its authority. In doing so, the current study's findings further extend those of earlier studies which had not fully explored the importance of the subsidiary-head office relationship (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent and Matthews, 2006).

5.4. SUMMARY

The findings contained in this chapter set out to answer Parts a) and b) of Research Question 2. In doing so, they also sought to address two key issues within the subsidiary autonomy-related literature identified by Gammelgaard et al. (2012), Gammelgaard et al. (2011) and Young and Tavares (2004) as requiring further research: the type of autonomy necessary to develop initiatives, and the type of autonomy required to extend the subsidiary's contributory role through subsidiary development. These findings are depicted in diagrammatic form in Figure 6.4 below. The chapter first identified that while assigned autonomy was insufficient to generate subsidiary initiatives, acts of assumed autonomy could potentially create successful initiatives. However, the findings revealed that this would only be so if a low level of subsidiary-head office communication existed in the formative stages of initiative development. In doing so, the findings addressed Research Question 2a '*What role do the different types of autonomy play in the development of subsidiary initiatives?*', and identified assumed autonomy as the type necessary to develop initiatives.

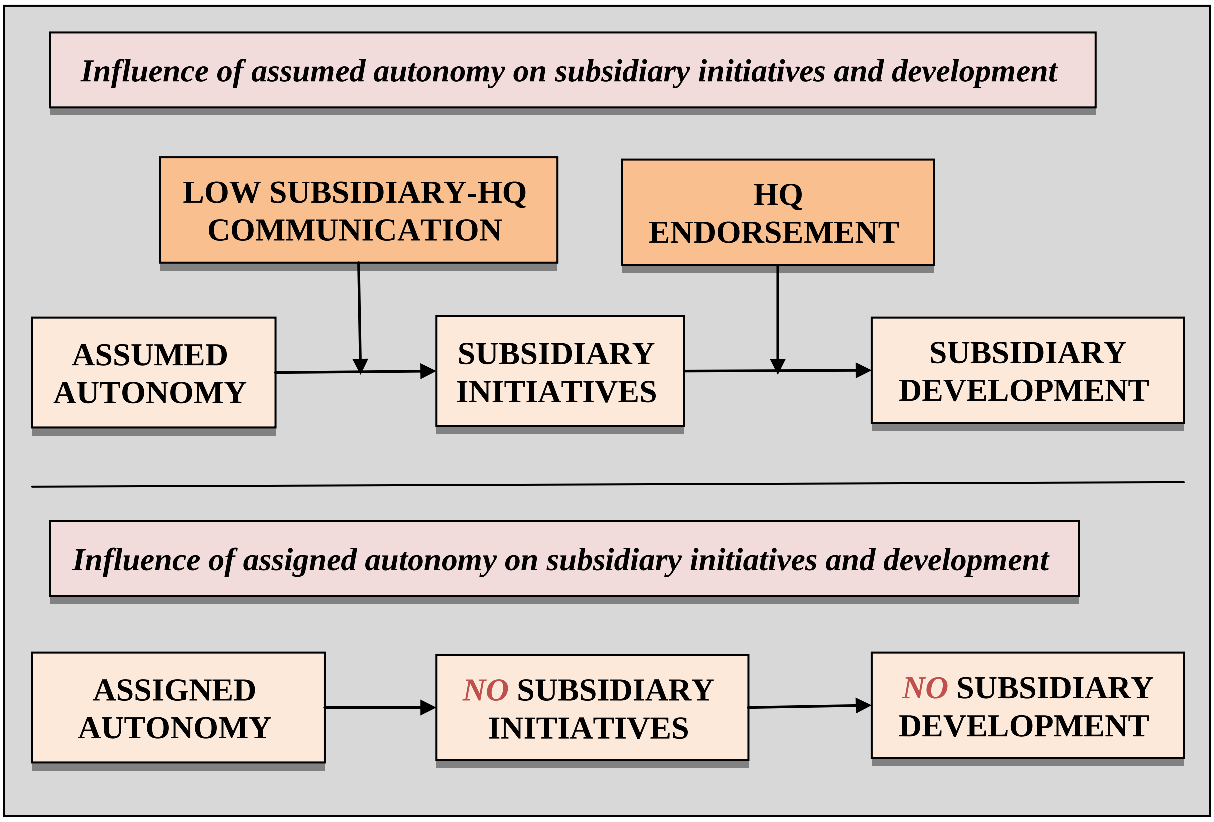

Figure 5.5: The influence of the different types of autonomy on subsidiary initiatives and development

The chapter then identified that subsidiaries were unable to drive the subsidiary development process based purely on assigned autonomy, and instead needed to develop initiatives based on assumed autonomy. The findings revealed that in order to ensure that such initiatives would successfully translate into subsidiary development, they must first be endorsed by the head office. The findings also went on to highlight the need for a strong subsidiary-head office relationship in order for the initiatives to be endorsed. In doing so, these findings addressed Research Question 2b '*How do the different types of autonomy influence subsidiary development?*', and identified assumed autonomy as the type required to extend the subsidiary's contributory role through subsidiary development.

Having outlined the findings of the current study and highlighted how they extend the extant literature, the following chapter will delineate the theoretical implications of these findings.

6. DISCUSSION

6.1. INTRODUCTION

The following chapter presents a discussion based on the aggregated findings from the previous two findings chapters (Chapters 4 and 5). The chapter considers the theoretical implications of the aforementioned findings, particularly in relation to the refinement or extension of three relevant theories, namely agency theory (Jensen & Meckling, 1976; Saam, 2007), the decision process perspective (Bower, 1972; Burgelman, 1983a) and the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). Section 6.2 looks at the theoretical implications of the findings in relation to agency theory and in particular, its key assumptions such as risk preferences, goal conflicts and agency problems. Section 6.3 then focuses on the current study's theoretical inferences for the network model of the MNE, including the significance of local environment factors as drivers of autonomy, the need for an interdepartmental application of the theory, and the importance of assumed autonomy in the subsidiary-head office relationship. Finally, Section 6.4 outlines the implications of the findings in relation to the decision process perspective, including the need to differentiate between the two types of autonomy, the ability of assumed autonomy to influence the structural context of the MNE, and the need for head office endorsement. The structure of the remainder of the chapter is depicted in Figure 6.1 below.

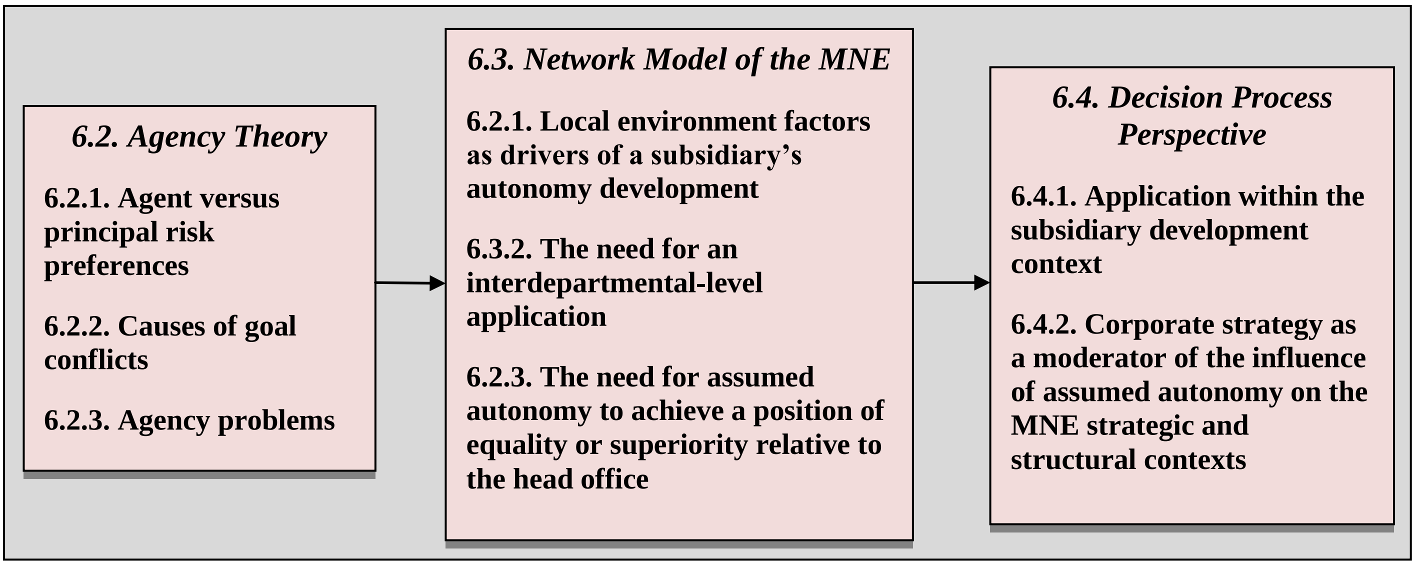

Figure 6.1: Structure of Chapter 6

6.2. AGENCY THEORY

The review of the extant literature in Chapter 2 revealed that when examining the relationship between the head office and the subsidiary, agency theory (Jensen & Meckling, 1976; Saam, 2007) represents a key theoretical explanation for the actions and motivations of the two parties. As Dorrenbacher and Geppert (2009) stated, the theory is particularly relevant when attempting to explain the process by which the subsidiary may acquire its autonomy. At the centre of agency theory's theoretical importance is its acknowledgement that in a 'standard agency situation', an agent (in this case, a subsidiary and its managers) may engage in actions that are different to those desired by the principal (in this case, the head office). Agency theory, therefore, potentially represents a key explanation as to why a subsidiary would choose to assume levels of autonomy beyond those explicitly assigned by the head office. According to Saam (2007), there are three reasons why an agent's actions may contradict the direction or desires of the principal: 1) *information asymmetry*, where the principal is not completely aware of the agent's intentions, knowledge and abilities; 2) *different risk preferences*, since the agents are assumed to be risk averse while the principal is assumed to be risk neutral; and 3) *goal conflicts*, where the agent wishes to maximise their income, while the principal aims to maximise their return. However, the findings from Chapter 4 indicated that at least two of these key assumptions of agency theory may not hold. First, the findings revealed that subsidiaries (as agents) are not always risk averse, and may in fact be less risk averse than the head office. Second, the findings demonstrated that subsidiaries may not always aim to maximise their income if they pursue an objective that differs from their charter. Finally, agency theory as outlined by Saam (2007) is unable to account for the findings where the subsidiary perceives itself to be serving its own interests ahead of its charter, when in reality these actions are sanctioned and sometimes even facilitated by the head office. As the following section outlines, by challenging the key assumptions of agency theory, the findings of this current study refine the theory itself.

6.2.1. Agent versus principal risk preferences

As stated above, one of the key underpinning tenets of agency theory is that the agent will be risk averse, while the principal will be risk neutral (Saam, 2007); this is known as the 'standard agency situation'. This assumption stems from the supposition that the agent will have lower income relative to the principal, and a reduction in income from a failed venture will jeopardise the agent's existence. Additionally, the agent is said to lack the ability to diversify their business activities and in doing so reduce the impact of a potential failed venture (Eisenhardt, 1989; Saam, 2007). When applied in the context of this current study, agency theory therefore suggests that the subsidiary should be more risk averse than the head office, and thus less likely to assume autonomy and potentially act against the head office's wishes. However, as outlined in the literature review in Chapter 2, the study by Delany (2000) suggested that in some instances the reverse may be true. Delany's (2000) findings appeared to indicate that subsidiaries may be less risk averse than their respective head offices, as demonstrated by their decisions to undertake autonomous actions beyond their charter (and the initial reluctance of the head office to support these actions). While the study of Delany (2000) did not discuss the implications for agency theory, its findings highlighted the need to investigate the legitimacy of the 'standard agency situation' in relation to subsidiary autonomy. Based on the accumulated insights from the respondents presented in Chapter 4, the findings of the current study revealed that the standard agency situation *does not* always apply in the context of subsidiary autonomy. This was particularly evident in the case of *Strong-Weld*, and also in the responses from the *Oz-Mining* HQ Risk Management Executive.

As delineated in Chapter 4, the *Strong-Weld* Australian subsidiary frequently assumed autonomy and engaged in practices that extended beyond its charter without the knowledge of the head office. Any such decision to assume autonomy represented a significant risk; this was made clear by the explicit statements from the majority of the head office respondents (for example, those from *Oz-Mining* and *Thermo-Energy*) that such actions would be punished severely if discovered. This attitude from the head office respondents also demonstrated their aversion to such risk taking by the subsidiary. In addition to the case of *Strong-Weld*, the *Oz-Mining* HQ Risk Management Executive also told of subsidiaries from a number of different MNEs that had assumed autonomy and in some instances, directly and intentionally contradicted their charter (and in doing so, contradicted the head office's wishes). This further highlighted the preparedness of some subsidiaries to take risks that their head office would rather they not undertake. Thus the findings of the current study challenge the agency theory assumption (Saam, 2007) that the 'standard agency situation' explains the differing risk preferences between the agent and the principal. Instead, the current study proposed that an agent (such as a subsidiary manager) may act in such a way that they contradict the direction or desires of the principal (such as the respective head office) because they are *less* (rather than more) risk averse than the principal. The precise reasons why an agent may be more willing to take on risks than the principal are outlined in the following section, which will also challenge a second key assumption of agency theory.

6.2.2. Causes of goal conflicts

According to the study of Saam (2007), which built upon agency theory, an agent's actions may also differ from those desired by the principal if there are *goal conflicts* between the two parties. Saam (2007) argued that goal conflicts arise because the agent wishes to maximise their income, while the principal wants to maximise their return. In order for the principal to achieve greater returns, agency theory states that the agent needs to invest greater effort. However, this results in greater disutility of effort for the agent, who wishes to only put in enough effort to maximise his income. Thus agency theory reasons that the agent and the principal will not always desire the same goal, which can lead to the agent undertaking actions that do not align with those desired by the head office (Saam, 2007). The previous findings of Birkinshaw and Fry (1998) and Sargent and Matthews (2006) supported agency theory's notion of goal conflicts- and its assumptions- as an explanation for a subsidiary undertaking autonomous actions without the explicit consent of the head office. The findings of the current study similarly identified subsidiaries as pursuing contrasting goals to those of the head office. However, the findings also indicated that there are a number of other causes for this goal conflict, rather than simply because the subsidiary is trying to maximise its income. Based on the aggregate findings presented in Chapter 4, the study identified three new, additional possible causes for the subsidiary (as the agent) assuming autonomy and pursuing its own goals. These causes are as follows:

1. The subsidiary is forced to assume its own autonomy on account of indifference or lack of interest from the head office;
2. The subsidiary assumes its own autonomy in order to maximise the efficiency and effectiveness of an operation; and
3. The head office allows or facilitates the extension of a subsidiary's autonomy beyond its authority.

By identifying three new reasons for goal conflicts, rather than just assuming that such conflicts stem from the agent's desire to maximise their income, the current study's findings extend agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007). This is not to say that the findings completely refute the assumption of the agent's income maximisation goal from agency theory. The findings of the current study revealed that a subsidiary manager (as an agent) may assume autonomy and pursue their own goal(s) with the sole intention of maximising their personal gain, which may include their income. This was the case with the former South African *Strong-Weld* subsidiary that was discussed in the findings. In addition, the third cause listed above explains that in some instances, the head office may implicitly allow the subsidiary to try and maximise its income if this also aids the attainment of the wider corporation's goals. This was the case with the West Australian mining company subsidiary (as described by the *Oz-Mining* HQ Risk Management Executive) that was discussed in the findings. However, agency theory (Saam, 2007) did not previously recognise the first two causes listed above as potential causes of goal conflicts and 'agency problems'. Thus by identifying these two causes (and three additional causes overall), the current study's findings extend the current understanding of agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007). Yet upon closer inspection, it was the third cause listed above, rather than the first two, that highlighted the most significant limitation of agency theory and its current application within a subsidiary management context. This limitation is explicated below.

6.2.3. Agency problems

As stated above, agency theory states that one of the reasons behind a subsidiary's failure to follow its head office-assigned orders is due to goal conflict between the two parties. According to theory proponents such as Arrow (1985) and Saam (2007), such situations are known as 'agency problems'. This is due to the apparent problems for the head office that arise from a subsidiary not fulfilling its charter as explicitly requested. However, the findings from the current study revealed that in some instances, the failure of the subsidiary to follow its instructions may in reality be neither caused by conflicting goals, nor result in problems for the head office. A case in point is that of the West Australian mining company subsidiary and its manager, as discussed by the *Oz-Mining* HQ Risk Management Executive in the findings from Chapter 4. In this instance the head office had assigned a specific role to the subsidiary with clearly defined goals, regulations and limits to its authority. Despite this, the subsidiary manager in question deliberately contradicted the subsidiary's mandate by pursuing his own personal goals and assuming his own autonomy. According to agency theory (Arrow, 1985; Saam, 2007), this particular situation represented a goal conflict between the principal (the head office) and the agent (the West Australian subsidiary), and should have created a problem for the head office since the stated goals were not being achieved by its agent.

However, the findings from the *Oz-Mining* HQ Risk Management Executive revealed that the stated goals that were assigned by the head office differed from those that the head office actually desired. As the findings revealed, the head office's real desired goal for the subsidiary was for it to generate profit for the wider corporation, without any real consideration given to the manner in which it was achieved. Thus the findings of this current study indicated that inconsistencies may exist between the 'stated' goals that the agent is instructed to achieve, and the 'real' goals that the principal hopes the agent to achieve. As an extension of this, the agent may actually achieve the principal's 'real' goals by electing to disobey its explicitly assigned, 'stated' goals and pursue their own.

It therefore follows that by deciding to pursue their own goals (rather than the 'stated' goals explicitly assigned to them), agents will not necessarily create 'agency problems' for the principal. This assertion was validated by the findings in Chapter 4, which revealed that rather than being concerned by the actions of the West Australian subsidiary, the head office instead implicitly supported the subsidiary manager in acting against his set duties. Certainly, no action was taken against him, with the head office choosing to "turn a blind eye" because the subsidiary manager's actions had resulted in the subsidiary becoming "the biggest business, doing exceptionally well". In this way, it can be seen that the agent's 'disobedient' actions were perceived by the principal not as problematic, but rather as a desirable outcome (albeit one which was not explicitly condoned).

Overall, the key theoretical implication of these findings is that they challenge one of agency theory's (Arrow, 1985; Saam, 2007) key suppositions: that an agent's failure to follow its assigned mandate will always create 'agency problems'. While not contending the assumption's applicability across a wide range of situations, the current study does reveal that by choosing to follow their own goals (rather than those explicitly assigned to them), agents will not necessarily create agency problems. This is because an agent's individual goals may actually coincide with the head office's 'real' desired goals for the subsidiary. The current study therefore suggests that for future applications, agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) should recognise the difference between a principal's 'stated' and 'real' goals. In addition, the theory should acknowledge that an 'agency problem' will arise only when there is a goal conflict between the principal's *'real'* goals and those of the agent.

6.3. THE NETWORK MODEL OF THE MNE

The literature review in Chapter 2 of the current study identified the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) as an important theoretical explanation for the role that the subsidiary plays within the MNE. The model views the MNE as a 'differentiated inter-organisational network' or 'federation' (Andersson et al., 2007; Handy, 1992), and recognises that a subsidiary's behaviour may be shaped by its specific relationships with entities within its local environment network. Importantly, the model also acknowledges that subsidiaries may achieve a position within the wider MNE network where it will not necessarily face a position of subordination vis-à-vis the head office.

One of the key findings to emerge from Chapter 4 was the recognition of the varying levels of autonomy displayed across departments within a single subsidiary. As an extension, the findings also revealed the key reasons as to why operational value chain functions or departments, such as sales and HRM, generally held greater levels of autonomy than the more strategic functions, such as R & D. These reasons included the head office lacking the necessary knowledge to deal with the local environment operational factors, or being unable to deal with these factors due to the lack of physical proximity to the subsidiary. The findings from Chapter 5 then revealed that by assuming autonomy (either in a particular department or across the entire subsidiary), the subsidiary was able to achieve a 'strategic pivot'-type role where it was no longer in a position of complete subordination to the head office. As a collective, these findings have significant implications for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and its application within subsidiary management literature. First, the current study identified the local environment factors as key drivers of a subsidiary's autonomy development. Second, the study recognised the need to apply the network model of the MNE at an interdepartmental level, rather than at an organisational level. Third, the study specified assumed autonomy as being necessary for the subsidiary to develop its role from a position of subordination to one of equality or even superiority relative to the head office. These extensions of the current understanding of the network model of the MNE are outlined in greater detail in the following section.

6.3.1. Local environment factors as drivers of a subsidiary's autonomy development

One of the key assumptions of the network model of the MNE is that a subsidiary's role may be influenced and determined by the subsidiary's interactions with actors within the local environment (Andersson & Forsgren, 1996; Forsgren, 1990). Proponents of this theory argue that these interactions with local agents may even prove to be a greater influence on the subsidiary's role than any particular decision by the head office (Forsgren, 1990). The significant influence of the local environment factors (such as the need for local environment 'know-how' by accessing location-specific workers, and location-specific consumer tastes) on the subsidiaries and their roles within the current study was highlighted in the findings in Chapter 4. However, these findings went further and revealed that these local environment factors forced the subsidiary to employ- and in some cases, develop- a degree of autonomy so as to deal with these factors. By identifying this specific influence of the local environment factors on a subsidiary's autonomy, these findings extend the network model of the MNE. Previously, only research relating to the resource dependence theory (Pfeffer & Salincik, 1978) had directly considered the consequences specifically in relation to the constrained freedom and independence of the subsidiary. For example, authors such as Rao, Brown and Perkins (2007) had discussed the implications of the influence of local environment factors and agents on control mechanisms and power distribution within the MNE. However, the extant literature on the network model of the MNE (Andersson & Forsgren, 1996; Forsgren, 1990) had ignored the influence of local environment factors on a subsidiary's level of autonomy. By identifying these factors as key drivers of a subsidiary's autonomy development, the findings of this current study extend the network model of the MNE.

6.3.2. The need for an interdepartmental-level application

Another significant limitation of the current understanding of the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) was that it had only been applied at an organisational level. This had resulted in an overly simplistic representation of the impact of local environment factors and agents, with their influence assumed to be consistent across a particular organisation unit such as a subsidiary. However, as the findings from Chapter 4 indicated, the particular value functions and departments within the subsidiary are affected by the local environment to varying degrees. More specifically, local environment factors (such as location-specific consumer tastes) may cause a particular department to have a significantly higher amount or degree of autonomy than others within the same subsidiary. This was particularly the case in the more operational value functions or departments such as sales and HRM. These findings indicated that when discussing the influence of local environment factors on the behaviour of subsidiaries (and particularly when assessing the amount of autonomy that may be found within a subsidiary), the network model of the MNE needs to be applied at an interdepartmental, rather than at the organisational, level. In doing so, future research will avoid the overly simplistic generalisations of previous literature (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). In recognising the need for its application at an interdepartmental level, the findings of this current study further extend the current understanding of the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990).

6.3.3. The need for assumed autonomy to achieve a position of equality or superiority relative to the head office

The findings from Chapter 5 of this current study also made one final contribution to the existing understanding of the network model of the MNE. As detailed in the literature review in Chapter 2, this model recognises that a subsidiary’s role does not have to be assigned to it, and nor does the subsidiary necessarily face a position of subordination vis-à-vis the head office in its role (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). This was supported by the findings of the current study, with the Australian *Strong-Weld* subsidiary in particular developing its role to such an extent that it was performing significantly better than the head office in a financial sense, and was frequently looked to by the head office for strategic advice and direction. However, the case of the Australian *Strong-Weld* subsidiary also highlighted the need for subsidiaries to assume autonomy if they wish to move into such a position within the MNE. This is because as revealed in the findings from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *IT Pro* Subsidiary Delivery Program Manager, subsidiaries are only able to develop their contributory role through initiatives based on assumed autonomy. Thus the findings of the current study extend the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by specifically stating that only through assumed autonomy can a subsidiary develop its role to a position of equality or even superiority vis-à-vis the head office.

6.4. THE DECISION PROCESS PERSPECTIVE

As outlined in the literature review in Chapter 2, the decision process perspective (Bower, 1970; Burgelman, 1983a) represents a key theoretical explanation for how a subsidiary may generate initiatives, and then potentially translate those initiatives into subsidiary development. It does this by first classifying the actions of local subsidiary managers as either 'induced' or 'autonomous' strategic behaviour (Burgelman, 1983a). Induced strategic behaviour is said to include those actions that are determined by the existing corporate strategy, including new product developments and strategic capital investments for existing businesses. Autonomous strategic behaviour describes those entrepreneurial actions at the market level that extend beyond the current corporate strategy, and includes such things as generating new business opportunities, engaging in championing efforts for these opportunities and undertaking strategic forcing efforts for further development. Significantly, the research by Burgelman (1983a, 1983b) recognised that by undertaking this autonomous strategic behaviour, the subsidiary was able to strongly influence the strategic context of the MNE, which includes the strategic direction of the MNE and the ability of the subsidiary to influence that strategy.

However, the findings of this current study (as presented in Chapters 4 and 5) revealed that a number of the elements of the decision process perspective (Bower, 1970; Burgelman, 1983a) do not translate into empirical settings in relation to subsidiary autonomy and its influence on initiatives and subsidiary development. The findings of the current study therefore extend the decision process perspective in three key ways. First, the current study applied the perspective to the context of subsidiary development, rather than its original application to internal corporate venturing. In doing so, it recognised the need to differentiate between the different types of autonomy when considering the strategic behaviours of subsidiary managers. Second, the findings of the current study identified that not only can such strategic behaviours that are based on assumed autonomy influence the strategic context of the MNE, but they can also influence the structural context of the MNE by extending the subsidiary's contributory role. Finally, the findings of the current study revealed that the corporate strategy (through the endorsement of acts of assumed autonomy) can affect the ability of the subsidiary to influence both the strategic and structural contexts of the MNE.

6.4.1. Application within the subsidiary development context

Originally, the key decision process perspective literature of Burgelman (1983a,b) was based on that author's studies of 'internal corporate ventures' within the MNE. As outlined in the literature review in Chapter 2, these internal corporate ventures are strongly related to the notion of subsidiary initiatives. However, where initiatives involve only the actions to try and extend the subsidiary's contributory role, internal corporate ventures go further and also include the ongoing development of the resultant business activity (Burgelman, 1983b). This current study therefore sought to extend the perspective by applying it directly within a subsidiary development context. The first key implication for the decision process perspective when applied within this context related to its classifications for the different types of strategic behaviours by subsidiary managers. Upon a closer inspection of the descriptions (as outlined earlier in this section) of Burgelman's (1983a) induced and autonomous strategic behaviours, one was able to see that these descriptions are almost interchangeable with those revealed in the current study's findings for assigned and assumed autonomy respectively.

However, this also highlighted the limitation of the original terminology employed by Burgelman, (1983a) when applied within the subsidiary development context. Like much of the earlier subsidiary management literature, the perspective presupposed that all autonomy was the same in name and nature, and did not differentiate between assumed and assigned autonomy. This oversight was particularly significant for this perspective, given that

Burgelman (1983a) originally defined 'autonomous strategic activities' as "activities that fall outside the scope of the current concept of strategy" (p. 61). Yet as the findings in Chapter 4 revealed, assigned autonomy does not involve the subsidiary undertaking actions that are beyond the subsidiary's authority, and is assigned to the subsidiary by the head office as a deliberate part of its corporate strategy. This instead suggested that assigned autonomy is involved with the induced strategic behaviours, while assumed autonomy, which does involve the subsidiary actions beyond its authority and outside of the current corporate strategy, is closely linked to Burgelman's (1983a) autonomous strategic behaviours. Thus when applied within a subsidiary development context, the findings of the current study suggest that the decision process perspective needs to differentiate between assigned and assumed autonomy, and apply these terms instead of induced and autonomous strategic behaviours respectively. In doing so, the findings of the current study extend the decision process perspective (Bower, 1970; Burgelman, 1983a). The current study's suggested revisions to Burgelman's (1983a) original process model of strategic behaviour by subsidiaries are shown below in Figure 6.2, and are highlighted in red.

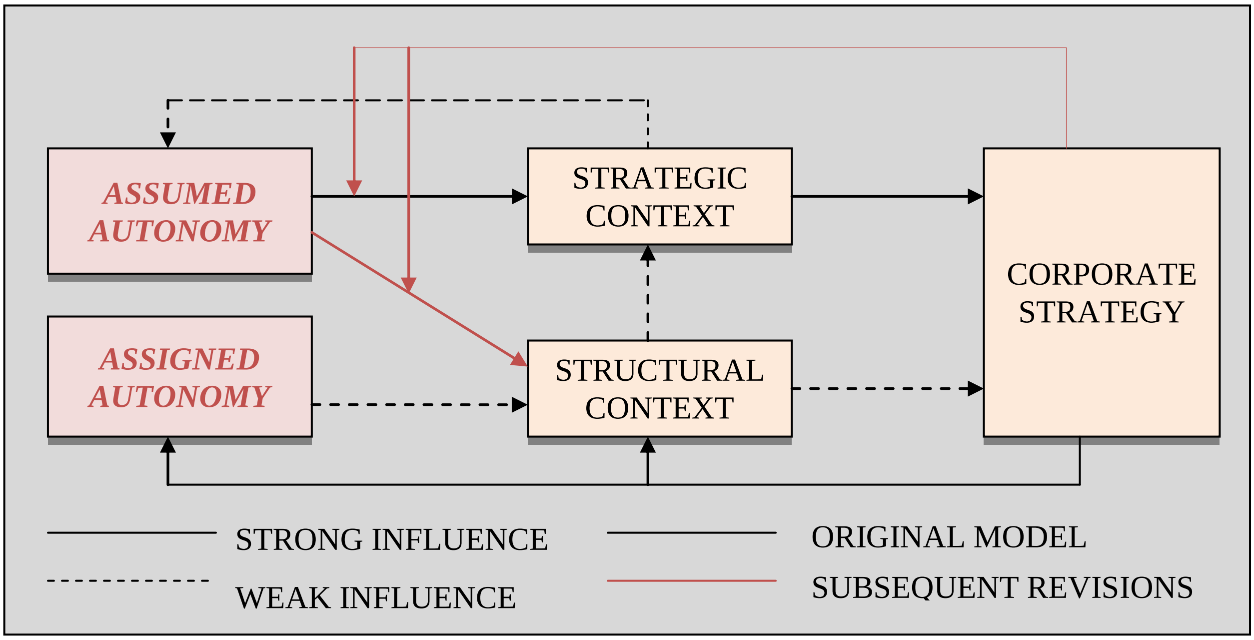

Figure 6.2: Revised strategic behaviour process model

Adapted from Burgelman (1983a)

6.4.2. The influence of assumed autonomy on the structural context of the MNE

The second key implication of the current study's findings for the decision process perspective was in relation to the influence of acts of assumed autonomy on the strategic and structural contexts within the MNE. In Burgelman's (1983a) original model, autonomous strategic behaviour (which has now been identified by the current study as constituting assumed autonomy) was said to strongly influence the MNE's strategic context. As stated previously, this is because such behaviour- through the use of assumed autonomy- enabled the subsidiary to extend its role or mandate and thus contribute to, and have a say on, the MNE's strategic capabilities (Burgelman, 1983a). The findings of the current study reinforce this connection, with the Australian subsidiaries of both *Strong-Weld* and *IT Pro* engaging in acts of assumed autonomy that enabled them to extend their roles, and contribute to the strategic direction of the MNE.

However, Burgelman's (1983a) original model did not identify any connection between a subsidiary's autonomous strategic actions (assumed autonomy) and the structural context of the MNE. This is challenged by the findings of the current study, with the case of the Australian *Strong-Weld* subsidiary representing a perfect example. The findings from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive demonstrated that this subsidiary was not only able to influence the strategic direction of the wider MNE, but was also able to achieve a 'strategic pivot'-type role. In doing so, the subsidiary advanced its strategic standing within the MNE, and reached a position where it was frequently looked to for strategic advice and direction, sometimes even by the head office. In this way, it could be seen that the Australian Strong-Weld subsidiary was able to alter the organisational structure of the MNE in an advantageous manner, and clearly affected the structural context of the corporation. Thus the findings of the current study extend the decision process perspective (Bower, 1970; Burgelman, 1983a) by revealing that when it is applied in the context of subsidiary development, autonomous strategic actions (assumed autonomy) of the subsidiary can influence not only the strategic context of the MNE, but also the structural context. This additional relationship is depicted in Figure 6.2.

6.4.3. Corporate strategy as a moderator of the influence of assumed autonomy on the MNE strategic and structural contexts

The final key implication of the current study's findings for the decision process perspective was in relation to the role that the corporate strategy plays in determining whether or not autonomous strategic actions (assumed autonomy) may influence the strategic and structural contexts of the MNE. The original model of Burgelman (1983a) proposed that the corporate strategy within the MNE represented a strong influence on a subsidiary's induced strategic actions (which were shown by the current study's findings to be synonymous with assigned autonomy). This connection was supported by the findings of the current study presented in Chapter 4, with *Thermo Energy*, *PharmaSee* and *Tech Experts* subsidiaries all employing autonomy that was explicitly and deliberately assigned to it as part of the respective head office's corporate strategy.

However, Burgelman's (1983a) original model asserted that the corporate strategy did not have any influence on the subsidiary's autonomous strategic actions (assumed autonomy). Although the findings of the current study did not identify a direct relationship between these two elements, they did reveal that the head office, as part of its corporate strategy, would endorse displays of assumed autonomy in order for the subsidiary to extend its contributory role. Findings from the *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive all demonstrated cases of subsidiaries only being able to take on expanded contributory roles after their respective displays of assumed autonomy (or autonomous strategic actions, as described by Burgelman [1983a]) were signed off on by the head office. Furthermore, additional cases from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive revealed that in the absence of such endorsement from the head office, the subsidiaries were unable to perform more significant roles within the wider corporation. Through these findings, it could be seen that the corporate strategy plays a significant role in determining whether or not assumed autonomy may influence both the strategic and structural contexts. This is because as stated previously in this section, a subsidiary is able to both contribute to the MNE's strategic capabilities (as was the case for the Australian *Strong-Weld* and *IT Pro* subsidiaries), and in some instances influence the organisational structure within the MNE (as was the case for the Australian *Strong-Weld* subsidiary) by developing its role. Yet these latest findings regarding the need for head office endorsement revealed that this can only be so when the displays of assumed autonomy are permitted and signed off on as part of the corporate strategy (as determined by the head office). Thus the corporate strategy plays a significant moderating role on the influence of subsidiary displays of assumed autonomy on the strategic and structural contexts of the MNE.

6.5. SUMMARY

In conclusion, the current study's findings extend three theories: agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007), the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1970; Burgelman, 1983a). For agency theory, the current study's findings led to three significant implications. First, the current study challenges the agency theory assumption of the 'standard agency situation' by revealing that an agent may be less (rather than more) risk averse than the principal. Second, by identifying three additional reasons for goal conflicts, rather than just assuming that such conflicts stem from the agent's desire to maximise their income, the current study's findings extend agency theory. Finally, by recognising the difference between 'stated' and 'real' goals, the current study challenges the agency theory assumption that an agent's failure to follow its assigned mandate will always create 'agency problems'.

The study's findings also extend the network model of the MNE in three significant ways. First, they identified local environment factors (such as the need for local environment 'know-how' by accessing location-specific workers, and location-specific consumer tastes) specifically as drivers of a subsidiary's autonomy development, rather than just influences on its behaviour and the role it performs. Second, the findings recognised that the network model of the MNE must be applied at an interdepartmental level, rather than at an organisational level. Third, the findings extend the model by adding assumed autonomy as a required element for the subsidiary to develop its role from a position of subordination relative to the head office to one of equality or even superiority.

Finally, the findings of the current study also extend the decision process perspective in three important ways. First, the current study applied the perspective to the context of subsidiary development, rather than its original application within internal corporate venturing. In doing so, the current study identified the need for decision process perspective theorists to differentiate between 'assigned' and 'assumed' autonomy, and to use such terminology (instead of 'induced' and 'autonomous' respectively) when considering the strategic behaviours of subsidiary managers. Second, the findings of the current study identified that when such strategic behaviours are based on assumed autonomy, they may influence not only the strategic context of the MNE, but also the structural context of the MNE by extending the subsidiary's contributory role. Third, the findings of the current study revealed that the corporate strategy (through the endorsement of acts of assumed autonomy) moderates the ability of the subsidiary to influence both the strategic and structural contexts of the MNE.

7. CONCLUSION

7.1. INTRODUCTION

The purpose of the current study was to investigate the notion of subsidiary autonomy, and explore how the different types of autonomy influenced the generation of subsidiary initiatives and the subsidiary development process. To this end, Chapter 2 presented a comprehensive, critical review of the subsidiary management literature, with a particular focus on subsidiary autonomy, subsidiary initiatives and subsidiary development. From this review of the literature, two key research questions emerged. Chapter 3 outlined the method employed by the study so as to address these two research questions. The findings in relation to Research Question 1 were then presented in Chapter 4, while the findings in relation to Research Question 2 were presented in Chapter 5. Finally, Chapter 6 highlighted the theoretical implications of the findings from the previous two chapters.

The purpose of the following chapter is to highlight the contributions (both theoretical and methodological) of the study, as well as the managerial implications and directions for future research. Section 7.2 delineates the contributions of the current study, with the theoretical contributions presented in Section 7.2.1, and the methodological contributions in Section 7.2.2. Section 7.3 outlines the managerial implications of the current study's findings, before Section 7.4 details the limitations of the study, and the suggested directions for future research. The structure of the remainder of this chapter is depicted in Figure 7.1 below.

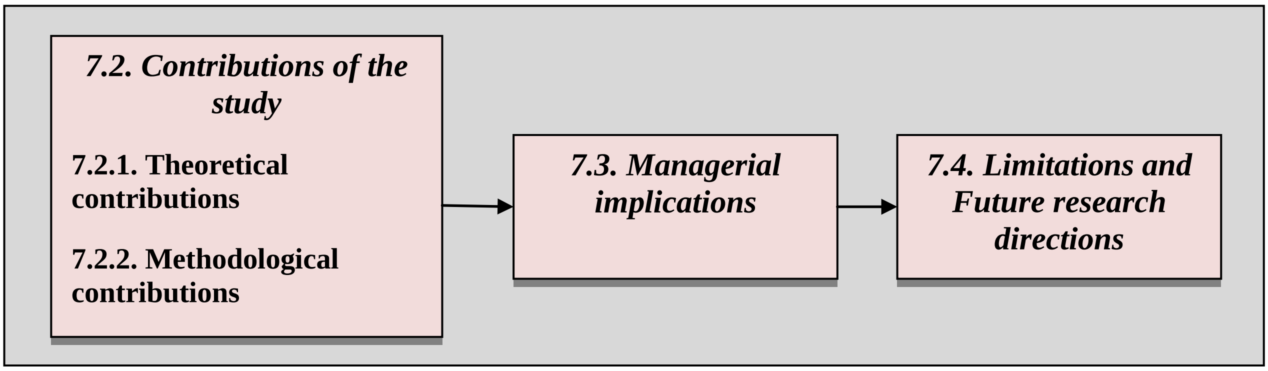

Figure 7.1: Structure of Chapter 7

7.2. CONTRIBUTIONS OF THE STUDY

7.2.1. Theoretical contributions

Chapter 2 outlined Research Question 1a as:

How do subsidiaries and headquarters understand autonomy?

In addressing Research Question 1a, the study made a number of significant theoretical contributions. The first of these was the development of a revised definition for 'subsidiary autonomy'. The literature review in Chapter 2 revealed a significant research gap within the subsidiary management literature relating to "the scope of subsidiary autonomy" (Tong et al., 2012, p. 22). This was emphasised by Pisoni et al. (2010) and Gammelgaard et al. (2011), who noted the need to develop a greater understanding of subsidiary autonomy as a vital area for future research within IB literature. In order to develop such an understanding, the current study first developed a revised, comprehensive definition for the concept. This is presented below:

'the freedom that is available to or acquired by the subsidiary to undertake decisions relating to day-to-day, operational (and in some cases, strategic) actions independently from the head office'.

This definition draws upon agency theory (Jensen & Meckling, 1976; Saam, 2007), the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1970; Burgelman, 1983a) to create a comprehensive understanding of subsidiary autonomy. This definition was based upon that of Young and Tavares (2004), but by outlining the precise type of decisions and actions the subsidiary has control over, these findings extend the definition not only of Young and Tavares (2004), but also the key prior definitions of Ambos et al. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012) and Tong et al. (2012), and refine those of Najafi-Tavani et al. (2012) and O'Donnell (2000) by differentiating between autonomy and authority.

The second theoretical contribution to emerge from the findings in relation to Research Question 1a related to the variation of autonomy across value chain activities and the network model of the MNE. The current study's findings revealed that while a number of subsidiaries did demonstrate autonomy in strategic functions such as R & D, there was a much higher prevalence of autonomy within operational functions such as sales or HRM. This is because the head office was shown to either lack the necessary knowledge to deal with local environment operational factors, or was unable to feasibly deal with these local factors due to geographic constraints. The finding has significant implications for the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). It demonstrated that when discussing the influence of local environment factors on the behaviour of subsidiaries (particularly a subsidiary's level of autonomy), the network model of the MNE should be applied at an interdepartmental, rather than organisational, level. In recognising the need for its application at an interdepartmental level, the findings of this current study extend the current understanding of the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990).

The recognition of the impact of local environment factors on the subsidiary has an additional implication for the network model of the MNE. Previously, the theory had only considered the impact of these local environment factors in relation to the subsidiary's behaviour and as an extension, its contributory role (Andersson & Forsgren, 1996; Forsgren, 1990). The current study's findings, however, went further and revealed that these local environment factors specifically forced the subsidiary to employ- and in some cases, develop- a degree of autonomy so as to deal with these factors. By identifying the precise influence of these local environment factors on the subsidiary's autonomy, the findings of the current study extend the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). The combined key theoretical contributions from Research Question 1a are shown in Figure 7.2.

- Developed a revised, comprehensive definition for subsidiary autonomy that extends previous definitions, such as those of Ambos et al. (2010), Brooke (1984), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004), and refines those of Najafi-Tavani et al. (2012) and O'Donnell (2000);
- Extends the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by recognising the need for its application at an interdepartmental, rather than organisation, level; and
- Also extends the network model of the MNE by recognising that local environment factors not only affect subsidiary behaviour, but will also force the subsidiary to employ or develop autonomy.

Figure 7.2: Key Theoretical Contributions from Research Question 1a

Chapter 2 revealed Research Question 1b as:

How do subsidiaries and headquarters negotiate autonomy?

In addressing Research Question 1b, the study made a number of further theoretical contributions. The key finding to emerge in relation to this Research Question was the identification of the two distinct types of autonomy, assigned and assumed, and the way in which each are developed. In doing so, the study addressed the research gap identified by Tong et al. (2012), Young and Tavares (2004) and Brock and Paterson (2002) in relation to the precise origins of a subsidiary's autonomy, and the resultant types of autonomy. Importantly, by differentiating between the different types of autonomy and applying more appropriate terminology to the subsidiary's strategic behaviour, the current study extends the decision process perspective (Bower, 1970; Burgelman, 1983a). Assigned autonomy was identified as that which was delegated to the subsidiary by the head office. By applying the term 'assigned autonomy', the study extends the extant literature, and in particular the study of Young and Tavares (2004), by employing the term to describe a specific type of autonomy based on empirical evidence. The findings in Chapter 4 also identified a subsidiary's authority as a limit to its assigned autonomy. The findings revealed that a subsidiary's authority was clearly distinct from its autonomy, and was explicitly established by the head office as a limit to its assigned autonomy. This challenges the assumptions of authors such as Andersson and Pahlberg (1997) who considered the two terms indistinguishable, and extends the research of a number of other authors (Birkinshaw & Ridderstrale, 1999; Chiao & Ying, in press; Gammelgaard et al., 2012; Gupta & Govindarajan, 1991; Hedlund, 1981; Mudambi, 1999; Picard, 1980; Suwannarat & Leemanonwarachai, 2012; Taggart, 1997; Vernon, 1966; Young & Tavares, 2004) by providing empirical evidence of authority as a limit to the assigned autonomy.

Assumed autonomy, on the other hand, was identified as that which is developed independently by the head office, and which exceeds the subsidiary's authority. By establishing that autonomy may actually be developed by the subsidiary on its own accord, and also the reasons as to why this may occur (as shown in Table 5.1 in Chapter 5), the findings extend those of the extant literature (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006). By applying the term ‘assumed autonomy’ to this type of autonomy, the study again extended Young and Tavares (2004) and the extant literature, which had neither recognised it as a distinct type of autonomy nor applied any terminology to describe it. Furthermore, by identifying that assumed autonomy involves the use of autonomy beyond the subsidiary’s level of authority, the current study challenges the assumption of Young and Tavares (2004) and Gupta and Govindarajan (1991) that a subsidiary’s authority limits all types of subsidiary autonomy.

By identifying and outlining the different types of autonomy and how they are developed, the findings in relation to Research Question 1b have a number of implications for agency theory (Jensen & Meckling, 1976; Saam, 2007). As outlined previously in the Discussion (Chapter 6), agency theory acknowledges that subsidiary managers (as agents) may assume autonomy beyond that which they were assigned by the head office (as principals). Agency theory (Saam, 2007) states that two of the reasons as to why this may be so are *different risk preferences* and *goal conflicts* between the subsidiary and head office. Yet the current study’s findings challenge these two agency theory assumptions. First, the findings revealed that rather than being *more* risk averse than the head office, subsidiaries are often *less* risk averse. This was evidenced by the *IT Pro* Australian subsidiary, the *Strong-Weld* Australian subsidiary, the *Tech Experts* Australian subsidiary and a number of other subsidiaries described by the *Oz-Mining* HQ Risk Management Executive, who all assumed autonomy despite not being explicitly allowed to by the head office. The risk in doing so was heightened by the predominantly negative attitudes displayed by the case head offices to such behaviour. The *Oz-Mining* and *Thermo-Energy* head offices, for example, both explicitly stated that any subsidiary exceeding its authority would face severe punishment. Such findings also demonstrated the strong risk aversion displayed by the majority of head offices in the current study. Thus the current study challenges the assumption of agency theory (Saam, 2007) that the subsidiary will be more risk averse than the head office.

The current study’s findings also challenge agency theory’s (Saam, 2007) explanation of *goal conflicts* as a cause for subsidiaries assuming autonomy. Agency theory states that goal conflicts arise because the agent wishes to maximise their income, while the principal wants to maximise their return (Saam, 2007). Yet the current study’s findings in Chapter 5 revealed that rather than having a single cause, goal conflicts may arise from four reasons. The findings identified that in addition to wanting to maximise their income (as suggested by agency theory [Saam, 2007]), subsidiaries may also assume autonomy for three new, additional reasons:

1. The subsidiary is forced to assume its own autonomy on account of indifference or lack of interest from the head office;
2. The subsidiary assumes its own autonomy in order to maximise the efficiency and effectiveness of an operation; and
3. The head office allows or facilitates the extension of a subsidiary's autonomy beyond its authority.

Thus by identifying three new, additional reasons for goal conflicts, rather than just assuming that such conflicts stem from the agent's desire to maximise their income, the current study's findings extend agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007).

The last of the three reasons identified above led on to an additional contribution of the current study's findings towards agency theory. Previously, agency theorists such as Saam (2007) had purported that any goal conflicts between the agent and principal would always lead to 'agency problems'. The findings of the current study, however, challenge this assumption. A case in point is the West Australian mining company subsidiary and its manager, as discussed by the *Oz-Mining* HQ Risk Management Executive in the findings from Chapter 5. This subsidiary manager deliberately contradicted the subsidiary's mandate by pursuing his own personal goals and assuming his own autonomy. Yet instead of creating an agency problem, the manager had actually achieved the head office's 'real goals' for the subsidiary, which were quite separate from the 'stated goals' that were provided to the subsidiary. The current study therefore suggests that for future applications, agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) should acknowledge the difference between a principal's 'stated' and 'real' goals. Furthermore, the theory should recognise that an 'agency problem' will only arise when there is a goal conflict between the principal's *'real'* goals and those of the agent. The combined key theoretical contributions from Research Question 1b are shown in Figure 7.3.

- Extends the decision process perspective (Bower, 1970; Burgelman, 1983a).by differentiating between the two distinct types of autonomy and applying more appropriate terminology to the subsidiary's strategic behaviour. Assigned autonomy is delegated to the subsidiary by the head office, and falls within the subsidiary's authority. Assumed autonomy is developed by the subsidiary independently, and exceeds its authority;
- Challenges the agency theory assumption of *different risk preferences* (Saam, 2007) by revealing that subsidiaries are often *less* risk averse than the head office;
- Extends agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) by refining its *goal conflicts* assumption to include three additional causes of agents acting against their principal's direct instructions; and
- Refines agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) by recognising the difference between 'real' and 'stated' goals of the principal, and in doing so challenged the assumption that an agent's failure to follow its assigned charter will result in agency problems.

Figure 7.3: Key Theoretical Contributions from Research Question 1b

Chapter 2 outlined Research Question 2 as:

a) What role do the different types of autonomy play in the development of subsidiary initiatives?

b) How do the different types of autonomy influence subsidiary development?

The current study identified two key findings in relation to Research Question 2a that had significant implications for theory development. First, the findings from Sections 5.2.1 and 5.2.2 revealed that assumed autonomy (beyond the level of assigned autonomy) is required if subsidiaries wish to develop successful initiatives. This finding addressed a significant research gap identified by Gammelgaard et al. (2012) and Young and Tavares (2004), namely "what type of autonomy is necessary to develop meaningful initiatives" (Young & Tavares, 2004, p. 231). The findings in Section 5.2.3 then added that the level of subsidiary-head office communication is inversely related to the development of successful initiatives. This was found to be due to two key reasons: a low level of subsidiary-head office communication facilitates the assumption of autonomy beyond the subsidiary's authority, and reduces the delays and inefficiencies associated with head office involvement. In doing so, the current study extends the previous literature (Birkinshaw, 1997, 1999; Delany, 2000; Gammelgaard et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006; Scott & Gibbons, 2009; Suwannarat

& Leemanonwarachai, 2012; Verbeke et al., 2007) by fully exploring the relationship between the different types of autonomy, the level of subsidiary-head office communication and subsidiary initiatives.

The findings for Research Question 2b continued on from those of Research Question 2a, and revealed that subsidiaries were only able to drive subsidiary development through the use of assumed autonomy. This addressed the key research gap (as noted by Pisoni et al. [2010], Gammelgaard et al. [2011], Gammelgaard et al. [2012] and Young and Tavares [2004]) in relation to the type of autonomy necessary to influence its contributory role through the subsidiary development process. These findings also extend the existing studies (Birkinshaw & Hood, 1998; Delany, 2000; Dorrenbacher & Geppert, 2009, 2010; Forsgren et al., 1999; Gammelgaard et al., 2011; Miozzo & Yamin, 2012; Sandvik, 2010; Sargent & Matthews, 2006) that had considered the use of autonomy beyond a subsidiary's authority, yet did not differentiate between assigned and assumed autonomy, and as such had been unable to determine their precise influence on subsidiary development. In addition, it was found that in order for initiatives based on assumed autonomy to translate into subsidiary development, head office endorsement of such initiatives was required. This in turn was found to require a strong subsidiary-head office relationship. These findings extend those of the previous literature (Balogun et al., 2011; Birkinshaw & Hood, 1998; Delany, 2000; Drogendijk & Holm, 2012; Gammelgaard et al., 2012; Miozzo & Yamin, 2012; Reilly et al., 2012; Sandvik, 2010; Sargent & Matthews, 2006) which had neither identified the full importance of head office endorsement of initiatives, nor fully considered the role of the subsidiary-head office relationship in subsidiary development. The aggregated findings for Research Questions 2a and 2b have a number of significant theoretical implications, each of which are outlined below.

The first theoretical implications of the findings for Research Question 2 are in relation to the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). The literature review in Chapter 2 noted that this model recognises that a subsidiary does not necessarily face a position of subordination vis-à-vis the head office (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). This was supported by the current study's findings in Chapter 5, with the Australian *Strong-Weld* subsidiary in particular developing its role to such an extent that it was delivering significantly higher profits than the head office, which had seen it assume a position of strategic expertise over even the head office in a number of areas. Importantly, however, the findings of the current study went further and specifically identified the need for subsidiaries to assume autonomy if they wish to achieve such a position within the MNE. This was demonstrated in the findings from the *Strong-Weld* Asia Pacific Subsidiary Finance Executive, the *IT Pro* Subsidiary Delivery Program Manager and the *Global Recruitment* Subsidiary Director of Talent Management, who revealed that subsidiaries are only able to develop their contributory role through initiatives based on assumed autonomy. Thus the findings of the current study extend the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by specifically noting that a subsidiary may only develop its role to a position of equality or even superiority vis-à-vis the head office through the use of assumed autonomy.

The second theoretical implication of the findings for Research Question 2 is in relation to the decision process perspective (Bower, 1970; Burgelman, 1983a). While this perspective is grounded in the notion of 'internal corporate ventures', the current study extends its application to the subsidiary development context. This in turn has a significant implication for the way in which the perspective is understood with reference to the 'induced' and 'autonomous' strategic behaviours originally described by Burgelman (1983a). The study noted that in their original application, these types of behaviours appear interchangeable with the respective behaviours involved with assigned and assumed autonomy in a subsidiary development context. Yet by selecting 'assigned autonomy' and 'assumed autonomy' instead of the original terminology, the current study avoided the misconception by Burgelman's (1983a) model that all autonomy is the same and involves "activities that fall outside the scope of the current concept of strategy" (p. 61). As revealed in the findings of Chapter 4, assigned autonomy will not fall outside the subsidiary's strategy (as assigned to it from the head office), and as such is more in line with 'induced' strategic behaviours. Thus by differentiating between the different types of autonomy and applying more appropriate terminology to the subsidiary's strategic behaviour, the current study extends the decision process perspective (Bower, 1970; Burgelman, 1983a).

The third theoretical implication of the findings for Research Question 2 is also in relation to the decision process perspective, and concerns the influence of assumed autonomy on the strategic and structural contexts of the MNE. Burgelman's (1983a) original model claimed that autonomous strategic behaviour (which the current study found to represent assumed autonomy) strongly influenced the MNE's strategic context. While supporting this claim through the findings from the *Strong-Weld*, *IT Pro* and *Global Recruitment* Australian subsidiaries, the current study's findings went further and identified that when applied in the context of subsidiary development, a subsidiary's autonomous strategic actions (or assumed autonomy) can also influence the structural context. This was demonstrated by the case of the Australian *Strong-Weld* subsidiary, which was not only able to influence the strategic direction of the MNE, but was also able to achieve a 'strategic pivot'-type role. In doing so, it could be seen that the Australian *Strong-Weld* subsidiary was able to affect the structural context of the corporation. Thus these findings extend the current understanding of the decision process perspective (Bower, 1970; Burgelman, 1983a).

The decision process perspective is also extended by an additional set of findings in relation to Research Question 2 that concerned the influence of corporate strategy in translating autonomous strategic actions (assumed autonomy) into changes to the strategic and structural contexts of the MNE. In its original form, Burgelman's (1983a) model asserted that corporate-level strategy strongly influenced the subsidiary's induced strategic actions (or assigned autonomy). This was supported by the findings of the current study, with Section 4.3.1 of Chapter 4 discussing the *Thermo-Energy*, *IT Pro*, *PharmaSee* and *Tech Experts* subsidiaries as employing autonomy that was assigned to them as part of their respective head office's corporate strategy. Yet the current study's findings challenge the original model's claim that corporate strategy does not influence the subsidiary's autonomous strategic actions (assumed autonomy). In particular, findings from the *IT Pro* Subsidiary Delivery Program Manager, the *Strong-Weld* Asia Pacific Subsidiary Finance Executive and the *Oz-Mining* HQ Risk Management Executive all highlighted cases of subsidiaries only being able to expand their contributory roles after their respective displays of assumed autonomy (or autonomous strategic actions, as described by Burgelman [1983a]) were endorsed by the head office (as part of corporate strategy). In this way, it can be seen that the corporate strategy plays a significant role in determining whether or not assumed autonomy may influence both the strategic and structural contexts. The combined key theoretical contributions from Research Question 2(a & b) are shown in Figure 7.4.

- Identified assumed autonomy as necessary to not only generate subsidiary initiatives but also lead to successful subsidiary development;
- Revealed a low level of subsidiary-head office communication in the formative stages of initiative creation as essential to their longer-term viability. Also identified the need for head office endorsement of initiatives if they are to successfully translate into subsidiary development. This in turn was found to require a strong subsidiary-head office relationship;
- Extends the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by specifically noting that a subsidiary may only develop its role to a position of equality or even superiority vis-à-vis the head office through the use of assumed autonomy;
- Extends the application of the decision process perspective (Bower, 1970; Burgelman, 1983a) to the subsidiary development context. This led to the replacement of Burgelman's (1983a) original terms 'induced' and 'autonomous' strategic behaviours with the more appropriate terms of 'assigned autonomy' and 'assumed autonomy' respectively;
- Also extends the decision process perspective by revealing that a subsidiary's autonomous strategic actions (or assumed autonomy) can influence not only the strategic context, but also the structural context; and
- Challenges the assumption of the decision process perspective that corporate strategy does not affect the subsidiary's autonomous strategic actions (assumed autonomy) by revealing the importance of HQ endorsement of initiatives.

Figure 7.4: Key Theoretical Contributions from Research Question 2(a & b)

7.2.2. Methodological contributions

The current study made three significant methodological contributions to both the broader international business literature and also the more specific literature on subsidiary autonomy: the use of qualitative data; the selection of fewer, more rich and targeted cases; and the representation of both subsidiary and head office perspectives in the data. The first of these contributions involves the qualitative nature of the study. As revealed in Chapter 3, qualitative data was identified as most appropriate in order to address the broad research problem of the current study; the use of 'how' and 'what role' research questions suggested the need for a qualitative study (Yin, 2009). In addition, Birkinshaw and Hood (1997) and Dorrenbacher and Geppert (2009) had both recognised that the relationship between the head office and the subsidiary, and the resulting development of subsidiary autonomy, is difficult to comprehend numerically and as such is best explored through qualitative research. Yet a review of the subsidiary autonomy literature by Pisoni et al. (2010) led those authors to conclude that despite the need for qualitative, potentially subjective data, a significant percentage of studies in this area had overlooked the use of qualitative data. Even a number of more recent studies on subsidiary autonomy, such as that of Tong et al. (2012), neglected to utilise qualitative data. Thus by employing a qualitative research design, the current study was not only able to develop a deep understanding of the way in which autonomy is perceived, developed and influences subsidiary initiatives and development, but also extended much of the extant literature on subsidiary autonomy.

The second methodological contribution of the current study is the selection of fewer cases so as to allow a deeper, richer understanding of those cases. In their study of four international business journals over an extended period, Piekkari et al. (2009) noted that in general, literature based on case study research had involved a large number of cases. In this way, these studies were seen to be sacrificing depth for breadth of information. This finding was reinforced by those of the current study, which identified that four of the six key studies relating to subsidiary autonomy violated Eisenhardt's (1989) recommendation of no more than 10 cases in a multiple-case study. This large number of cases made data analysis impractical (Eisenhardt, 1989), with the data frequently quantified and presented in convoluted displays. Piekkari et al. (2009) noted that this 'implied positivism' results in very little detail being provided about each individual case, which in turn limits the richness of the data. Furthermore, the literature review in Piekkari et al.'s (2009) study found little theoretical reasoning behind the selection of cases, which were instead chosen according to the logic of statistical sampling. The current study overcame these problems by employing only ten cases, each of which was deliberately selected because of its appropriateness and relevance to the study. For example, by including subsidiaries from a number of different countries, the current study was able to gain a greater understanding of how autonomy varied across value functions than the studies of Collinson and Wang (2012) and Edwards et al. (2002), which focused on subsidiaries within the single markets of Taiwan and Malaysia respectively. By limiting the number of cases to ten, the study was able to gain an in-depth, detailed understanding of not only the experience of each case, but also the way in which autonomy was perceived- by both head office and the subsidiary- and how it influenced the process of subsidiary development.

This incorporation of the views of both the head office and the subsidiary represents the final methodological contribution of the current study. To this point, the majority of the key studies that had investigated the notion of subsidiary autonomy, such as Gammelgaard et al. (2011), Pisoni et al. (2010) and Sargent and Matthews (2006), had only included the views of the subsidiary and overlooked those of the head office. According to Miozzo and Yamin (2012), this is a significant limitation since there are often perceived differences in a subsidiary's autonomy from the head office perspective compared to the subsidiary perspective, even within a single MNE. Pisoni et al. (2010) noted that this is particularly the case given the inherent subjective nature of interview-based, qualitative research, and identified that this had resulted in a "non-convergence among the results" (p. 107). Thus the current study was able to not only develop a deeper, more comprehensive understanding of subsidiary autonomy than the extant literature (Gammelgaard et al., 2011; Pisoni et al., 2010; Sargent & Matthews, 2006), but also enhance the validity of the study and its results. In doing so, the current study extended the existing literature.

7.3. MANAGERIAL IMPLICATIONS

Having outlined the current study's theoretical and methodological contributions to the extant literature, the chapter now highlights the key implications for managers within MNEs in relation to the use of subsidiary autonomy. These include implications for managers from both the subsidiary and the head office. For subsidiary managers, the study recognised:

- The need to assume autonomy to successfully develop the subsidiary's contributory role;
- The need to establish and maintain a strong relationship with the head office so as to increase the chance of initiatives being endorsed and leading to subsidiary development; and
- The need to limit the extent of communication with the head office in the initial stages of initiative generation in order to aid the development of these initiatives.

For head office managers, the study identified:

- The need to permit the subsidiary to assume autonomy beyond the formally assigned levels in order to facilitate the subsidiary development process; and
- The need to be open to supporting and endorsing subsidiary initiatives.

7.3.1. Implications for subsidiary managers

The first implication of the study's findings for subsidiary managers is the need to assume autonomy beyond the formally assigned levels in order to successfully develop the subsidiary's contributory role. The findings in Chapter 5 from the cases of *Thermo-Energy*, *Primary Investors* and *PharmaSee* demonstrated that subsidiaries were unable to develop successful initiatives if they possessed only assigned autonomy from the head office. Conversely, the cases of *Strong-Weld*, *IT Pro* and *Global Recruitment* then revealed that subsidiaries were able to develop successful initiatives based on assumed autonomy. Importantly, the chapter's findings also established that successful initiatives were required by subsidiaries in order to develop their respective contributory roles. As such, the current study was able to deduce that in order to drive the subsidiary development process, subsidiary managers must assume autonomy beyond the levels assigned by the head office. Although the use of assumed autonomy will not guarantee that a subsidiary will be successful in extending its contributory role, the findings did highlight that the use of this type of autonomy is the only method by which subsidiaries are able to drive subsidiary development.

The second implication for subsidiary managers is the need to establish and maintain a strong relationship with the head office. As stated previously, the findings of the current study suggested that in order to develop initiatives, the subsidiary managers must assume autonomy beyond their authority. The findings from Chapter 5 also revealed that in order for these initiatives to translate into subsidiary development, they must first be endorsed by the head office. In order for the head office to be willing to consider and then endorse an initiative that is based on the subsidiary assuming autonomy beyond its authority, it must have a strong relationship with the subsidiary that is based on trust, tolerance, understanding and a demonstrated ability to benefit one another. This was especially demonstrated by the case of *Oz-Mining*, where it was noted that the endorsement of initiatives was very much a collaborative effort between the subsidiary and the head office. It is thus recommended that subsidiary managers work to establish a robust level of trust between the subsidiary and the head office, not only through a strong performance in meeting set goals and targets, but also through successful previous initiatives.

The third implication of the current study's findings for subsidiary managers is the need to minimise the amount of subsidiary-head office communication in the initial stages of initiative development. Initially, this implication may appear to contradict the previous suggestion that subsidiary managers establish a strong relationship with the head office that is built on trust and understanding. The current study, however, challenges such a claim, and instead considers the establishment of a strong subsidiary-head office relationship as vital to the subsidiary gaining the trust of the head office. Once the head office trusts the subsidiary, it follows that it is more likely to allow periods of minimal communication with the subsidiary. The findings in Chapter 5 from the cases of *Global Recruitment*, *Strong-Weld* and *PharmaSee* revealed that a low level of subsidiary-head office communication was linked to assumed autonomy and in turn successful initiative development, while high levels of communication were related to assigned autonomy and no such initiative development. The study therefore purports that when subsidiary managers are first looking to develop initiatives, their chance of success will be highest if they do not inform the head office of their plans. Furthermore, any communication that could alert the head office to the existence of such initiatives (at least in their infancy) should be kept to a minimum. This will facilitate the assumption of autonomy beyond the subsidiary's authority, and also reduce the delays and inefficiencies associated with head office involvement.

7.3.2. Implications for head office managers

The first implication of the current study's findings for head office managers is the need to become more tolerant of subsidiaries assuming autonomy beyond their assigned levels. As stated previously, the cases of *Thermo-Energy*, *Primary Investors* and *PharmaSee* demonstrated that subsidiaries which possess only assigned autonomy from the head office are unable to develop successful initiatives. Thus while they may be able to achieve day-to-day, operational goals, their potential for subsidiary development- and therefore their ability to significantly contribute to the wider corporation- is limited. The findings of the current study therefore suggest that head offices should be more tolerant of (if not openly accepting) the subsidiary assuming autonomy beyond its authority. This is not to say that the head office should permit inappropriate behaviour from the subsidiary. As the cases of the South African *Strong-Weld* and West Australian mining subsidiaries demonstrated, there may still be occasions where the head office must reprimand a subsidiary for using assumed autonomy to further its own cause (or those of its managers) and potentially harm the wider corporation. However, where a subsidiary employs this type of autonomy in order to develop an initiative with a view to extending its role within the MNE (as demonstrated in the current study by the cases of *IT Pro*, the Australian *Strong-Weld* subsidiary and *Global Recruitment*), the current study recommends that the head office be much more open minded than the mindset exhibited by many of those in the selected cases. The benefits of this mindset by the head office were demonstrated in each of the aforementioned cases that achieved subsidiary development. The *IT Pro* Australian subsidiary, for example, was able to develop a greater role through the use of assumed autonomy which allowed it to cover 'gaps' within the local market that the head office-assigned systems and processes could not account for. The *Strong-Weld* Australian subsidiary, on the other hand, was able to extend its role through assumed autonomy to such an extent that it now performs a 'strategic pivot' (Delany, 2000) role within the MNE, and was able to disperse its expertise in marketing and operation management throughout the wider corporation. These benefits associated with the head office allowing the subsidiary to assume autonomy were already recognised within *Global Recruitment*, with its CEO encouraging the Australian subsidiary to engage in entrepreneurial activities and rewarding managers who develop initiatives based on assumed autonomy.

The second implication for head office managers is an extension of the first, and involves the need to be open to endorsing subsidiary initiatives. As outlined in Chapter 5, the cases of *IT Pro*, *Strong-Weld* and *Oz-Mining* highlighted that while assumed autonomy may be necessary to develop initiatives, these initiatives will only translate into subsidiary development if they are endorsed by the head office. Thus the current study suggests that head offices should not only be more tolerant of subsidiaries that assume autonomy beyond their authority, but should look to work together with the subsidiary with a view to potentially endorsing initiatives that are presented to it. Although these initiatives may involve the subsidiary gaining a larger contributory role within the MNE than was originally planned for it, they also have the capability to benefit the overall corporation, as highlighted by the examples of the *IT Pro*, *Strong-Weld* and *Global Recruitment* subsidiaries in the previous paragraph.

7.4. LIMITATIONS AND DIRECTION FOR FUTURE RESEARCH

Thus far, the chapter has outlined the key contributions of the current study to the extant literature (both theoretical and methodological), and also highlighted the managerial implications of the study's findings. Yet one must also be mindful of the limitations of the current study. This is necessary to fully understand the context from which the contributions emerged, and also to consider the avenues for future research.

The first limitation of the current study was its lack of a detailed investigation into the effect of local environment factors (through their influence on subsidiary autonomy) on subsidiary initiatives and development. Given the current study's focus on how autonomy is either delegated to the subsidiary by the head office (assigned autonomy) or developed independently by the subsidiary (assumed autonomy), the research centred on the role of head office- and subsidiary-level factors on subsidiary initiatives and development. This focus allowed the development of a detailed, comprehensive understanding of the two types of autonomy, and how they influence subsidiary initiatives and development. However, this focus did mean that the study was not able to fully investigate the influence of local environment factors (such as the local political and economic conditions, the dynamism of the local environment and the strategic importance of the local market) despite such factors being recognised as having an influence on subsidiary initiatives (Birkinshaw et al., 1998; Dorrenbacher & Geppert, 2010; Verbeke et al., 2007) and subsidiary development (Birkinshaw & Hood, 1998; Paterson & Brock, 2002; Tong et al., 2012). Notwithstanding this, the limited findings in relation to local environment factors revealed that in a number of cases, they led to the development of both assigned and assumed autonomy. In doing so, the findings extend the network model of the MNE (Andersson & Forsgren, 1996; Forsgren, 1990). It is anticipated that future research could extend these findings further by developing a greater understanding of the way in which the local environment factors may influence not only subsidiary initiatives and development, but also the types of subsidiary autonomy.

The second limitation of the current study related to the cross-sectional nature of the study. The studies of both Gammelgaard et al. (2011) and Pisoni et al. (2010) noted that the notion of subsidiary autonomy, particularly when assessed within the context of subsidiary development (as was the case in this current study), is often a dynamic construct, with the level of autonomy possessed by a subsidiary varying over time. As such, a longitudinal study is ideal for assessing any such changes in the level of subsidiary autonomy within the cases. However, due to resource and time constraints, the current study was cross-sectional in nature. In order to minimise this limitation, the current study carefully selected participants within the respective cases who had extensive experience in their role, which had enabled them to witness and assess any changes in the level of autonomy within their respective subsidiaries. This strategy was successful in documenting such changes in subsidiary autonomy, with participants from *Strong-Weld* and *Tech Experts* noting significant variations over time. However, by employing a longitudinal study, future research could develop an even greater insight into how a subsidiary's level of autonomy may change over time, and how this may affect subsidiary initiatives and development.

Finally, the study also contained limitations in relation to its methodology. As outlined in Section 7.2.2 of this chapter, the case study methodology was not only identified as being the most appropriate within the context of the current study, but also enabled the study to make a number of significant methodological contributions to the extant literature (Piekkari et al., 2009; Pisoni et al., 2010). Despite this, a number of biases against the research strategy still exist. De Vaus (2001) stated that the case study methodology features a lack of reliability and internal validity. The study addressed these concerns by utilising multiple sources (both in terms of multiple interview respondents and also the use of secondary data sources such as trade journal articles and company websites) from within each case as often as possible, which allowed cross-verification and thus improved the measures' reliability (Sommer & Sommer, 1991). The use of multiple sources also facilitated data triangulation, which improved the internal validity of the study (Tharenou et al., 2007). The case study methodology has also been accused of taking too long and producing drawn-out and unreadable documents (Yin, 2009). With this in mind, extra attention was paid to ensure that all parts of the thesis, particularly the findings, were presented in a concise and succinct manner.

Perhaps the most common criticism of the case study methodology is that it does not allow for statistical generalisations (Yin, 2009). However, this was not the aim of the current study. Instead, the case study methodology was selected so as to enable analytical generalisations that emerged from the rich, detailed insight into subsidiary autonomy that this research strategy produces (Hartley, 1994; Punch, 1998; Yin, 2009). It is hoped that these analytical and theoretical insights may form the basis upon which future research may develop quantitative measures and scales to test the findings of the current study.

7.5. SUMMARY

The topic of subsidiary autonomy is one which has received increasing attention within subsidiary management literature (Ambos et al., 2010; Ambos & Birkinshaw, 2010; Chiao & Ying, in press; Collinson & Wang, 2012; Gammelgaard et al., 2011; Gammelgaard et al., 2012; Dorrenbacher & Stephan, 2011; Najafi-Tavani et al., 2012; Pisoni et al., 2010; Rabbiosi, 2011; Sandvik, 2010; Suwannarat & Leemanonwarachai, 2012; Tong et al., 2012). This is particularly so in the last three years, with a number of different studies investigating a variety of different dimensions relating to subsidiary autonomy. Examples include research into the impact of subsidiary autonomy on reverse knowledge transfers within the MNE (Rabbiosi, 2011), the influence of autonomy on performance (Gammelgaard et al., 2012) and the determinants of autonomy (Chiao & Ying, in press; Pisoni et al., 2010; Tong et al., 2012). Yet prior to the current study, the notion of subsidiary autonomy remained one which had not yet been fully investigated or understood in its entirety, despite the encouragement of Paterson and Brock (2002), Tong et al. (2012) and Young and Tavares (2004).

Young and Tavares (2004) and Gammelgaard et al. (2012) noted that in particular, more research was required to identify the type of autonomy necessary to develop initiatives. At the same time, Gammelgaard et al. (2012), Gammelgaard et al. (2011) and Young and Tavares (2004) added that accompanying research must also focus on the type of autonomy required to extend the subsidiary's contributory role through subsidiary development. The current study therefore addressed these and other research gaps by first devising a revised, comprehensive definition of 'subsidiary autonomy'. This definition drew upon agency theory (Jensen & Meckling, 1976; Saam, 2007), the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) and the decision process perspective (Bower, 1970; Burgelman, 1983a), and built upon those of Ambos et al. (2010), Brooke (1984), Chiao and Ying (in press), Gammelgaard et al. (2012), Tong et al. (2012) and Young and Tavares (2004). The study also identified two distinct types of autonomy, *assigned* and *assumed*. Assumed autonomy was then revealed as necessary to firstly generate initiatives, and also to drive the subsidiary development process. As an extension, the findings highlighted a low level of subsidiary-head office communication in the formative stages of initiative creation as essential to their longer-term viability. The findings also identified the need for head office endorsement of initiatives if they are to successfully translate into subsidiary development. This in turn was found to require a strong subsidiary-head office relationship.

These findings led to the extension and refinement of theories such as the decision process perspective (Bower, 1970; Burgelman, 1983a), agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) and the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990). The aforementioned identification of the need for HQ endorsement challenges the decision process perspective (Bower, 1970; Burgelman, 1983a) assumption that corporate strategy does not affect the subsidiary's autonomous strategic actions (assumed autonomy). When applied within a subsidiary development context, the decision process perspective was also refined by the current study through the replacement of Burgelman's (1983a) original terms 'induced' and 'autonomous' strategic behaviours with the more appropriate terms of 'assigned autonomy' and 'assumed autonomy' respectively. In addition, the decision process perspective was also extended by the current study's finding that a subsidiary's autonomous strategic actions (or assumed autonomy) can influence not only the strategic context, but also the structural context.

The current study's findings also had a number of implications for agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007). First, the study challenged the agency theory assumption of *different risk preferences* (Saam, 2007) by revealing that subsidiaries are often *less* risk averse than the head office. Second, the current study refined the *goal conflicts* assumption of agency theory (Arrow, 1985; Jensen & Meckling, 1976; Saam, 2007) to include three additional causes of agents acting against their principal's direct instructions. Third, the study recognised the difference between 'real' and 'stated' goals of the principal in agency theory, and as a result, challenge agency theory's assumption that an agent's failure to follow its assigned charter will result in agency problems. The current study also extends the network model of the MNE (Andersson & Forsgren, 1996; Ghoshal & Bartlett, 1990) by applying it at an interdepartmental, rather than organisation, level. The network model of the MNE is also extended by the current study's recognition that local environment factors not only affect subsidiary behaviour, but will also force the subsidiary to employ or develop autonomy. Lastly, the study's findings extend the network model of the MNE by specifically noting that a subsidiary may only develop its role to a position of equality or even superiority vis-à-vis the head office through the use of assumed autonomy. In addition to developing a comprehensive understanding of subsidiary autonomy and its role in subsidiary initiatives and development, it is hoped that the current study's findings and theoretical implications may form a foundation for further research in this area.

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APPENDIX A: EXPLANATORY STATEMENT

MONASH University

Explanatory Statement - <Name of participant group if more than one>

Title: *The role of autonomy in subsidiary initiatives and development*

This information sheet is for you to keep.

My name is Andrew Cavanagh and I am conducting a research project with Dr Paul Kalfadellis (from the Department of Management at Monash University) and Associate Professor Susan Freeman (from the Department of Marketing at the University of Adelaide) towards a PhD at Monash University. This means that I will be writing a thesis which is the equivalent of a short book. The focus of the research project is on the role that autonomy plays in the development of subsidiary initiatives and subsequently, its influence on a subsidiary's role within the wider organisation.

Selection of participants

You have been selected because of your position as a multinational enterprise operating in both Australia and an overseas country. Your contact details have been obtained from your company website and/or Australian Government websites. I seek to interview one to two (1-2) senior managers in your organisation.

The purpose of the research

The aim of this study is to:

- Identify how both subsidiaries and parent companies understand the notion of autonomy;
- Understand how subsidiaries and parent companies negotiate autonomy;
- Identify the role that autonomy plays in the development of the different types of subsidiary initiative;
- Understand how this then impacts on the role of the subsidiary within the wider organisation; and
- Identify the implications for management at both subsidiary and head office level.

Possible benefits

It is anticipated that the findings from this research will enable organisations to better understand precisely what constitutes 'autonomy' and the process by which it is negotiated between the head office and the subsidiary. This in turn will enable subsidiary managers to identify the type or form of autonomy that that best facilitates the pursuit of initiatives, which have been identified in academic literature as a key requirement for expanding the role of the subsidiary within the wider corporation.

What does the research involve?

The study involves semi-structured, one-on-one interviews. The interviews will be audio-taped and the tapes will be used to create transcripts. The data from the transcripts will be collated to identify common themes, which will be used to support the research.

How much time will the research take?
For each interview, it is expected that the session will last for no longer than one (1) hour. Once the interview has been transcribed, the interviewee will be given the opportunity to revise his/her transcript in order to clarify and/or reconfirm the responses given.

Inconvenience/discomfort
It is not my intention to ask probing or personal questions that may make it difficult or uncomfortable for the interviewee to respond. Rather, it is anticipated that the information to be gathered through the interviews will be generally informative rather than highly specific and probing. The interviewee will be given the choice not to answer any interview question he/she would rather not, as well as having the opportunity to review his/her responses through the provision of a transcript of the interview.

Payment
The interview is purely voluntary and no monetary (or other) compensation will be provided.

Can I withdraw from the research?
Participation in this study is voluntary and participants can withdraw from the interview process at any time prior to the publication of the thesis without being penalised or disadvantaged in any way.

Confidentiality
Your anonymity will be guaranteed through the use of fictitious organisational names and numbered titles, eg. Senior Manager 1- not individual names.

Storage of data
Storage of the data collected will adhere to the University regulations and kept on University premises in a locked cupboard/filing cabinet for 5 years. A report of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

Use of data for other purposes
Please note, in the event that your anonymous data is used for other purposes (such as a journal article or conference paper), because it is anonymous data, nobody will be named and they will not be identified in any way.

Results
If you would like to be informed of the aggregate research finding, please contact Dr Paul Kalfadellis on [redacted]

If you would like to contact the researchers about any aspect of this study, please contact the Chief Investigator:	If you have a complaint concerning the manner in which this research is being conducted, please contact:
Dr Paul Kalfadellis Department of Management Monash University Caulfield Campus Tel: [redacted] Fax: [redacted] Email: [redacted]	Executive Officer Monash University Human Research Ethics Committee (MUHREC) Building 3e Room 111 Research Office Monash University VIC 3800 Tel: +61 3 9905 2052 Fax: +61 3 9905 3831 Email: muhrec@adm.monash.edu.au

Thank you.

Andrew Cavanagh

APPENDIX B: CONSENT FORM

MONASH University

Consent Form - *<Name of participant group if more than one>*

Title: ***The role of autonomy in subsidiary initiatives and development***

NOTE: **This consent form will remain with the Monash University researcher for their records**

I agree to take part in the Monash University research project specified above. I have had the project explained to me, and I have read the Explanatory Statement, which I keep for my records. I understand that agreeing to take part means that:

I agree to be interviewed by the researcher	☐ Yes	☐ No
I agree to allow the interview to be audio-taped and/or video-taped	☐ Yes	☐ No
I agree to make myself available for a further interview if required	☐ Yes	☐ No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way.

I understand that any data that the researcher extracts from the interview for use in reports or published findings will not, under any circumstances, contain names or identifying characteristics.

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the research.

I understand that any information I provide is confidential, and that no information that could lead to the identification of any individual will be disclosed in any reports on the project, or to any other party.

I understand that data from the interview will be kept in a secure storage and accessible to the research team. I also understand that the data will be destroyed after a 5 year period unless I consent to it being used in future research.

Participant's name

Signature

Date

APPENDIX C: INTERVIEW PROTOCOL

Interview Protocol

Title: *The role of autonomy in subsidiary initiatives and development*

TOPIC 1

How do subsidiaries and headquarters understand and negotiate autonomy?

1. How do you understand the term ‘autonomy’?
2. How does this differ from your understanding of ‘authority’?
3. To your knowledge, does autonomy cover day-to-day activities, or include more of a strategic element?
4. Does the level of autonomy differ between different departments or areas within the subsidiary?
5. Who determines how much autonomy the subsidiary possesses- the head office or the subsidiary?
6. Has the subsidiary ever engaged in actions that involved a degree of autonomy beyond your authority? If so, how and why?
7. Is the head office aware of all the decisions that are made at the subsidiary level? If not, why?

TOPIC 2

How do the different types of autonomy influence subsidiary development?

1. Does autonomy facilitate the creation of resources within the subsidiary? If so, has the subsidiary ever needed to assume autonomy beyond its authority in order to do so?
2. Is autonomy more important at different stages of the subsidiary’s development?

TOPIC 3

What role does autonomy play in the development of subsidiary initiatives?

1. Does the subsidiary ever engage in “independent strategic decisions… to expand or otherwise alter its role.” If so, how and why?
2. How does autonomy influence the achievement of these entrepreneurial decisions and actions?
3. Are these actions encouraged, implicitly allowed, ignored or discouraged by the parent company?

APPENDIX D: DETAILS OF THE INTERVIEWS

Interviewee	***Date of Interview***	***Interview Medium***	***Duration***	***Location***
Automation Plus Australian Subsidiary Head of Engineering	15 October, 2012	Face-to-face	1 hour	*Automation Plus* Melbourne offices
Automation Plus Chinese Subsidiary Operations Manager	15 October, 2012	Face-to-face	1 hour	*Automation Plus* Melbourne offices
Global Recruitment HQ Head HR Manager	4 October, 2012	Skype	30 minutes	N/A
Global Recruitment Subsidiary Director of Talent Management	4 October, 2012	Skype	30 minutes	N/A
Global Recruitment Subsidiary HR Coordinator	14 April, 2013	Internet chat	1 hour	N/A
IT Pro Subsidiary Delivery Program Manager	27 February, 2011	Internet chat	45 minutes	N/A
IT Pro HQ Head Programming Manager	7 February, 2013	Internet chat	30 minutes	N/A
Oz-Mining HQ Risk Management Executive	11 February, 2011	Face-to-face	1 hour 30 minutes	*Oz-Mining* Melbourne offices
Oz-Mining HQ Group Auditing Manager	11 February, 2011	Face-to-face	1 hour 30 minutes	*Oz-Mining* Melbourne offices
Oz-Mining HQ Senior Planning Manager	1 February, 2013	Face-to-face	1 hour	*Oz-Mining* Melbourne offices
Oz-Mining Subsidiary Commercial Manager	1 February, 2013	Face-to-face	1 hour	*Oz-Mining* Melbourne offices
PharmaSee Subsidiary Senior Data Analyst	27 March, 2012	Face-to-face	45 minutes	Monash University office
Primary Investors HQ Chief Loans Officer	19 January, 2012	Telephone	30 minutes	N/A

Interviewee	***Date of Interview***	***Interview Medium***	***Duration***	***Location***
Primary Investors HQ Senior Loans Manager	19 January, 2012	Telephone	30 minutes	N/A
Resource Extractors Subsidiary General Operations Manager	11 February, 2011	Face-to-face	1 hour	Melbourne cafe
Strong-Weld Subsidiary Finance Executive	6 February, 2011	Face-to-face	1 hour 30 minutes	Respondent’s house
Tech Experts HQ Head Programming Manager	8 December, 2011	Telephone	30 minutes	N/A
Tech Experts Subsidiary Senior Programming Manager	8 December, 2011	Telephone	1 hour 15 minutes	N/A
Tech Experts Subsidiary HR Manager	8 December, 2011	Telephone	1 hour	N/A
Thermo-Energy HQ Managing Director	21 March, 2011	Telephone	45 minutes	N/A
Thermo-Energy Subsidiary Senior Executive	14 February, 2012	Internet chat	30 minutes	N/A