

## ENTREPRENEURSHIP IN MULTINATIONAL CORPORATIONS: THE CHARACTERISTICS OF SUBSIDIARY INITIATIVES

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*This paper defines initiative as a key manifestation of corporate entrepreneurship, and examines the types of initiative exhibited in a sample of six subsidiaries of multinational corporations. From a detailed analysis of 39 separate initiatives, four distinct types are identified, which we refer to as 'global,' 'local,' 'internal' and 'global–internal hybrid,' to correspond to the locus of the market opportunity whence each arose. Two important conclusions are indicated. First, entrepreneurship at the subsidiary level has the potential to enhance local responsiveness, worldwide learning and global integration, a much broader role than previously envisioned. Second, the use of contextual mechanisms to create differentiated subsidiary roles has its limitations because each initiative type is facilitated in different ways. © 1997 by John Wiley & Sons, Ltd.*

### INTRODUCTION

The ability of the large multinational corporation (MNC) to leverage the innovative and entrepreneurial potential of its dispersed assets is a fundamental strategic imperative (Bartlett and Ghoshal, 1989). While some studies have explicitly confronted the challenge of entrepreneurship in MNCs (e.g., Ghoshal, 1986), research has tended to focus on either the organization of the existing activities of the MNC or on corporate entrepreneurship as a generic managerial issue (Ghoshal, 1986: 6). As stated by Hedlund and Ridderstråle (1992: 5) the dominant theme in prior MNC research—particularly from a theoretical perspective—has been 'on the exploitation of givens (i.e., existing product–market combinations) rather than on the creation of novelty.' The need for research that explicitly links MNC management with studies of corporate entrepreneurship is therefore substantial.

The current paper examines initiatives in MNC

subsidiaries. An *initiative* is defined here as a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources (Kanter, 1982; Miller, 1983). An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity. In this sense, the term is narrower than related constructs such as 'internal corporate venture' (Burgelman, 1983a) which involve both the initiative and the ongoing management of the resultant business activity. Several prior studies have used the initiative construct (e.g., Burgelman, 1991; Cohen and Machalek, 1988; Sathe, 1985).

*Subsidiary* is defined here to be any operational unit controlled by the MNC and situated outside the home country. This definition ensures that the artificial notion of a single parent–subsidiary relationship is avoided. The reality in most MNCs today is that subsidiaries have a multitude of linkages with other corporate entities in the home country and worldwide (Ghoshal and Bartlett, 1991), but academic research has—for the most part—continued to work on the basis of a single parent–subsidiary relationship. By working at the

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initiative level this study breaks new ground in that it documents activities at a sub-subsidiary unit of analysis.

Why study initiative in MNC subsidiaries rather than in the parent company? The simple answer is that despite the compelling logic for tapping into local markets through the subsidiary network (Bartlett and Ghoshal, 1986), many corporations appear to neglect the creative potential of their subsidiaries. Thus, subsidiary initiative may be a relatively rare and underresearched phenomenon but its potential value to the MNC is high. While the most common form of subsidiary initiative is probably the identification and pursuit of a new product opportunity in the local market, this paper takes the concept further by showing that three other forms of subsidiary initiative can also be identified. The paper puts forward a conceptual framework, based on the network theory of the MNC (Ghoshal and Bartlett, 1991) through which subsidiary initiative can be better understood, and then describes the results of a detailed inductive study of 39 initiatives. The major contribution of the paper is the finding that subsidiary initiative has the potential to enhance local responsiveness, worldwide learning and global integration, a much broader role than previously envisioned.

This paper is organized as follows. First, the literature on corporate entrepreneurship is reviewed, in broad terms and then specifically in terms of MNC subsidiary management. Second, the network theory of the MNC is used to build a conceptual framework in which three types of subsidiary initiative are identified. Each type of initiative is also identified in the extant literature. Third, the research methodology is described. Fourth, the findings from the study are discussed—this section includes the identification and description of a fourth type of initiative, and a systematic description of the salient characteristics of all four types. Finally, the implications of the study for MNC management theory and for corporate entrepreneurship are discussed.

## CORPORATE ENTREPRENEURSHIP AND INITIATIVES

Corporate entrepreneurship is receiving increasing levels of research attention, and was the focus of a recent special issue of the *Strategic Manage-*

*ment Journal* (Guth and Ginsberg, 1990). In broad terms, three forms of corporate entrepreneurship can be identified (Stopford and Baden-Fuller, 1994): (1) the creation of new business activities within the existing organization; (2) the transformation or renewal of existing organizations; and (3) the enterprise changing the rules of competition in its industry. The focus of this study is on the first of these forms: the creation of new business activities within the existing enterprise.

There is a broad recognition, however, that the generation of new business activities or 'new combinations' (Schumpeter, 1934) alone does not constitute entrepreneurship. A research and development group, for example, has a clear mandate to innovate, but the behavior expected of its employees falls within established norms and guidelines. Entrepreneurship suggests more: a predisposition towards proactive and risk-taking behavior (Covin and Slevin, 1991; Miller, 1983); use of resources beyond the individual's direct control (Kirzner, 1973; Stevenson and Jarillo, 1990); or a 'clear departure from existing practices' (Damanpour, 1991: 561). Kanter (1982) proposed the following distinction between 'basic' and entrepreneurial activities:

Basic accomplishments ... are part of the assigned job and require routine and readily available means to carry them out. In contrast innovative accomplishments are strikingly entrepreneurial. They are sometimes highly problematic and generally involve acquiring and using power and influence. (1982: 97)

On the basis that within-firm corporate entrepreneurship involves a departure from existing practices or 'a new way for the corporation to use or expand its resources' (Kanter, 1982), the literature suggests two distinct models, which will be termed focused and dispersed corporate entrepreneurship respectively. Initiative, the focal construct in this research, is a manifestation of the dispersed approach.

*Focused corporate entrepreneurship* (also called corporate venturing) works on the premise that entrepreneurship and management are fundamentally different processes that require different modes of organization to occur effectively (Burns and Stalker, 1961; Galbraith, 1982; Kanter, 1985). This is typified by the New Venture Division, whose mandate is to identify and nurture new

business opportunities for the corporation (Burgelman, 1983a; Kuratko, Montagno and Hornsby, 1990; Sykes, 1986). The new venture division is typically a semi-autonomous entity with little formal structure, integration across traditional functional areas, availability of 'patient money,' and management support for risk taking and creativity (Galbraith, 1982; Kanter, 1985; Kuratko *et al.*, 1990; Quinn, 1985; Sathe, 1985). There are many examples of corporations that have pursued this approach to corporate entrepreneurship, including 3M, Kodak, and Exxon (Ginsberg and Hay, 1995; Sykes, 1986). Note that the mandate of a new venture division is fundamentally broader and more ambiguous than that of a research and development group, where the set of tasks and responsibilities can be fairly narrowly defined. In Schollhammer's terms (1982), the new venture division is a case of 'incubative' entrepreneurship while the R&D group is 'administrative' entrepreneurship.

*Dispersed corporate entrepreneurship* (also called intrapreneurship) rests on the premise that every individual in the company has the capacity for both managerial and entrepreneurial behavior *more or less simultaneously*. Rather than hiving off separate groups or divisions to be entrepreneurial, while the rest are left to pursue the ongoing managerial tasks (Galbraith, 1982), the dispersed approach sees the development of an entrepreneurial culture or posture as the key antecedent to initiative (Covin and Slevin, 1991; Goshal and Bartlett, 1994; Kanter, 1985; Stopford and Baden-Fuller, 1994). The design of an 'organic' (Burns and Stalker, 1961) or 'integrative' (Kanter, 1985) organization creates the facilitating conditions, but entrepreneurship is actually driven by the actions of employees who—for whatever reason—choose to pursue risky or uncertain ventures 'for the good of the organization' (Barnard, 1938: 200). The challenge for corporate management is to instill the personal involvement and commitment in its employees that drives entrepreneurship (Goshal and Bartlett, 1994).

Dispersed corporate entrepreneurship therefore assumes a latent dual role for every employee, consisting of (a) the management of ongoing activities and (b) the identification and pursuit of new opportunities (Kirzner, 1973; Penrose, 1959; Stevenson and Jarillo, 1990). The advantage of this approach over the focused approach is that

a greater diversity of opportunities will be sensed, because the entrepreneurial capability is dispersed throughout the organization, rather than restricted to a new venture division. The major disadvantage of this approach is that managerial responsibilities typically 'drive out' entrepreneurial responsibilities (Hedlund and Ridderstråle, 1992; Kanter, 1986) because they are more clearly defined and have more immediate rewards. Unless it is well managed the dispersed approach can actually inhibit entrepreneurship (Drucker, 1985).

*Initiative*, as used in this paper, is the primary manifestation of dispersed corporate entrepreneurship. The initiative process is bounded by the identification of an opportunity at the front end and the commitment of resources to the undertaking at the back end. Note that the long-term success of the resultant business activity is a secondary issue. The entrepreneurial challenge is to move from an idea to a commitment of resources; the managerial challenge is to make the resultant business activity profitable. It is important, moreover, to recognize that the focused and dispersed approaches are complementary rather than alternative. For example, an opportunity identified in a subsidiary may be nurtured and developed in the new venture division; equally, an innovation by the new venture division may inspire further innovation by an operating division. Clinical evidence suggests that successful entrepreneurial companies such as 3M and HP do indeed exhibit both approaches (Kanter, 1985; Peters and Waterman, 1982; Pinchott, 1985).

## INITIATIVE IN MNC SUBSIDIARIES

Parent–subsidiary relationships in MNCs have been studied for many years (Martinez and Jarillo, 1989). Most early research focused narrowly on facets of the parent–subsidiary relationship such as centralization, formalization, coordination and control (Brandt and Hulbert, 1977; Cray, 1984; Hedlund, 1981; Negandhi and Baliga, 1981; Picard, 1980). More recently, new conceptualizations of the MNC such as the heterarchy (Hedlund, 1986) or the transnational corporation (Bartlett and Ghoshal, 1989) enabled a more holistic understanding of the subsidiary as a semi-autonomous entity within a differentiated system. Within this broad school of thought, two distinct

views of the subsidiary can be discerned, with direct parallels to the two types of corporate entrepreneurship described in the previous section.

The first perspective viewed the subsidiary as having a 'role' in the MNC. Bartlett and Ghoshal (1986) made the observation that national subsidiaries can take one of four generic roles, based on the strategic importance of the local environment and the competence of the subsidiary. They further suggested that the MNC's structure should reflect this heterogeneity, so that certain subsidiaries receive, for example, much greater strategic autonomy than others. This study and others in the same genre (e.g., Ghoshal and Nohria, 1989; Gupta and Govindarajan, 1991; Jarillo and Martinez, 1990) shared a number of underlying characteristics: first, an implicit parent company perspective, in that subsidiaries were modeled in terms of 'relative capabilities' (vs. sister subsidiaries); second, the belief that the subsidiary's role was determined by the parent company and essentially assigned to the subsidiary in question; and third, the notion that the subsidiary's role was enacted through the definition of an appropriate set of coordination and control mechanisms (its structural context in Bower's, 1970, terms).

This model is entirely consistent with the description of focused corporate entrepreneurship above. Certain subsidiaries are given the responsibility for innovating or pursuing initiatives, while others are given implementational roles. These roles are enacted through the structural context of the MNC. As shown by Ghoshal and Bartlett (1988), autonomy, local resources, normative integration and interunit communication are associated with creation (of innovations) in subsidiaries, but negatively associated with adoption and diffusion.

The second perspective focused directly on the subsidiary level of analysis. This perspective envisioned a much greater element of strategic choice on the part of subsidiary management than the subsidiary role perspective. Thus, the subsidiary's strategy was constrained (rather than defined) by the structural context, and subsidiary managers had considerable latitude within the imposed constraints to shape a strategy as they saw fit. This body of research was predominantly Canadian, stretching back to Safarian's (1966) work on the foreign ownership of Canadian

industry and with key contributions from Crookell (1986), D'Cruz (1986), Poynter and Rugman (1982) and White and Poynter (1984, 1990). In part because of the high levels of foreign ownership in Canadian industry, academic thinking has pushed towards subsidiary managers utilizing their strategic discretion rather than simply responding to parental decree. White and Poynter (1984: 69), for example, noted that subsidiary managers 'Will have to adjust their strategies to successfully deal with changed circumstances ... Through the careful development of local capabilities the subsidiary manager can contribute to the evolution of the Canadian subsidiary's strategy.' This is consistent with the dispersed approach to corporate entrepreneurship. As suggested by White and Poynter (1984) and others, creativity and innovation should be endemic to the national subsidiary as the driver of its strategy. The subsidiary has ongoing managerial responsibilities but at the same time it has the responsibility to respond to entrepreneurial opportunities as they arise.

In summary, entrepreneurship in MNC subsidiaries is a subject that has received limited research attention but that can be informed by the broader literature on corporate entrepreneurship. As with the literature on corporate entrepreneurship, the implication here is not that one model of subsidiary management is superior to the other in terms of entrepreneurial capability but that the two are complementary. In particular, proponents of the subsidiary role perspective have made the observation that complete control of the national subsidiary through contextual mechanisms is neither possible nor desirable (e.g., Prahalad and Doz, 1981). There is clearly an interesting trade-off between control and autonomy in the parent–subsidiary relationship, and the fact that subsidiary 'role' research favors control and subsidiary 'strategy' research favors autonomy is essentially a function of the opposing perspectives of parent and subsidiary managers.

## CONCEPTUAL DEVELOPMENT

As defined above, an initiative is viewed as a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources. For the purposes of this research, this definition was subject to two additional con-

straints. First, the entrepreneurial thrust had to come from subsidiary managers, rather than those at head office. Second, the initiative had to lead to international responsibilities for the subsidiary, such as exporting intermediate products to affiliates or managing a product line on a global basis. This condition was set to exclude trivial initiatives. MNCs are becoming increasingly global in the configuration and coordination of their value-adding activities (Porter, 1986), and subsidiaries are likewise recognizing the interdependence of their activities with those of the global network. Particularly in a country such as Canada where the national market is small and the cross-border flows with the United States large, the likelihood of any new activity attracting corporate support is substantially enhanced when it has international scope.

### Conceptual framework

Notwithstanding the question of personal motivation, the origin of an initiative lies in the identification of an opportunity to use or expand the corporation's resources. In Kirzner's (1973) words, it is an 'alertness to hitherto unnoticed market opportunities' that stimulates the entrepreneur to act. In similar fashion, Stevenson and Jarillo (1990: 23) saw entrepreneurship as '... a process by which individuals—either on their own or inside organizations—pursue opportunities without regard to the resources they currently control.'

From the perspective of the MNC subsidiary, the notion of a *market opportunity* is usually understood in terms of its national market. The traditional role of the subsidiary was first to adapt the MNC's technology to local tastes, and then to act as a 'global scanner,' sending signals about changing demands back to head office (Vernon, 1966, 1979). More recently, it has been recognized that subsidiaries often have unique capabilities of their own, as well as critical links with local customers and suppliers. In such situations, the subsidiary's ability to pursue local opportunities itself, and subsequently to exploit them on a global scale, is an important capability (Bartlett and Ghoshal, 1986; Harrigan, 1983; Hedlund, 1986).

To view market opportunity solely in terms of the subsidiary's *local* relationships is, however, somewhat restricting. There is a growing body of

research that models the MNC as an interorganizational network (Forsgren and Johanson, 1992; Ghoshal and Bartlett, 1991), in which the subsidiary has multiple linkages to other entities both inside and outside the formal boundaries of the MNC. Viewed in this way, the national subsidiary sits at the interface of three 'markets:' (1) the local market, consisting of competitors, suppliers, customers, and regulatory bodies in the host country; (2) the internal market, which is comprised of head office operations and all corporate-controlled affiliates worldwide; and (3) the global market, consisting of competitors, customers and suppliers that fall outside the local and internal markets. This conceptualization is depicted in Figure 1. Global market relationships, of course, do not exist in all cases, but increasingly subsidiaries are taking on specialized roles and responsibilities within the MNC that give them access to international customers and suppliers (Roth and Morrison, 1992). Again using Kirzner's definition, three types of initiative are immediately suggested, namely *local market initiative*, *internal market initiative*, and *global market initiative*. These are defined by the locus of the market opportunity in each case.

How much evidence is there for these types of initiative? No systematic research appears to have been done on either internal market or global market initiatives, while Ghoshal (1986) is the only detailed prior study on local market initiatives. The remainder of this section, then, will pull together the limited body of research that exists to provide a grounding for the current study. In addition to the locus of opportunity (by which the types are defined), three additional sets of characteristics will be considered: the facilitating conditions (i.e., those elements of the subsidiary's structural context that foster an environment in which initiative can occur), the initiative process; and the intended outcome. Figure 2 illustrates these elements. This framework is very similar to those used in several other process research studies, including Mintzberg, Raisinghani, and Theoret (1976) and Nutt (1993). Note that the relationships between these elements is not one of linear causality. Facilitating conditions and process, for example, probably interact with and reinforce one another, rather than one defining the other. Thus, the elements could best be described as configurations (Meyer, Tsui, and Hinings, 1993), which are 'tight con-

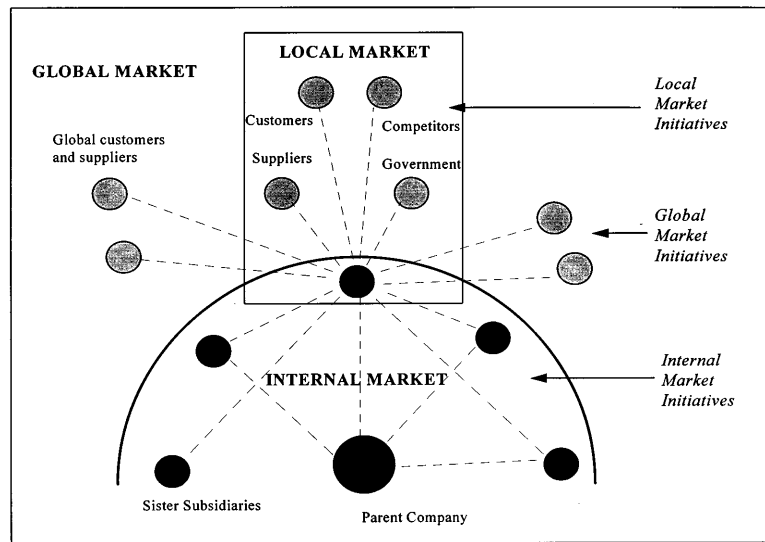


Figure 1. Conceptual model of the national subsidiary and three types of initiative

stellations of mutually supportive elements' (Miller, 1986: 236).

#### *Local market initiatives*

There are several well-documented cases of local market initiatives in the literature: examples include Philips UK's development of Teletext technology (Bartlett and Ghoshal, 1986) and Alfa Laval U.S.'s invention of the milking machine in 1917 (Hedlund and Ridderstråle, 1992). These two cases were both inspired by local product and/or market needs and subsequently exploited on a global scale.<sup>1</sup>

In terms of facilitating conditions, Ghoshal's (1986) detailed study of innovation in MNCs identified local resources, local autonomy, normative integration, subsidiary–HQ communication, and intrasubsidiary communication as factors that were positively associated with the 'creation' process. No other work has systematically addressed this issue, though several Canadian studies have hinted at the conditions in which local market initiatives occur (e.g., Etemad and Dulude, 1986). Some insight into the initiative

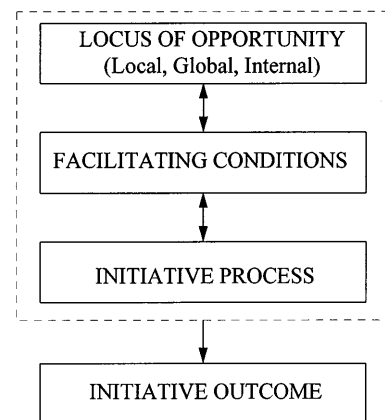


Figure 2. Organizing framework for process study

process can also be inferred from these studies. It appears to be quite protracted, involving considerable effort from subsidiary management to develop the concept in the first place, and even more effort to get it accepted in other countries. However, this is not significantly different from the generic innovation process (e.g., Howell and Higgins, 1990), or from the process that can be inferred from prior studies of global or internal market initiatives (see below). There is thus considerable scope for new insight in this area. Finally, the intended outcome, according to Bartlett and Ghoshal (1986), is to enhance worldwide learning.

<sup>1</sup> Note that in theory local market initiatives could remain within the local market, e.g., if a product is designed specifically for a segment of the local market. In practice, the sample used in this study exhibited no incidences of local initiatives that stayed local: all went on to become international products.

### Global market initiatives

These are driven by unmet product or market needs among *nonlocal* suppliers and customers. In theory, the subsidiary could potentially interact with any customer or supplier in the world, but evidence in the literature suggests that such initiatives probably occur as extensions to existing relationships.<sup>2</sup> Consider the case of Litton Systems Ltd. (Science Council of Canada, 1980). Litton developed an international business in the 1960s (through a local market initiative) around an inertial navigation system. On the basis of its worldwide customer base it then identified additional opportunities in related areas, and went on to develop products such as air traffic control systems and radar systems. These latter product introductions were global initiatives, because the locus of opportunity was outside the subsidiary's local market.

With the exception of the Science Council of Canada study, no evidence of global market initiatives was found in the literature. This is perhaps surprising, in that there are several examples of subsidiary companies taking on international product responsibilities (e.g., Hedlund, 1986; Roth and Morrison, 1992), which would naturally provide the circumstances in which global initiatives could transpire. In terms of the characteristics of global market initiatives, the Science Council of Canada suggested (a) that local autonomy, local resources and existing international responsibilities were facilitating conditions, and (b) that the intended outcome was to leverage the subsidiary's existing capabilities into related areas. However, these should be viewed as very tentative propositions because they arose from only three case studies. There was, unfortunately, no substantive insight into the initiative process, except insofar as it appeared to mirror the generic process described above.

### Internal market initiatives

The concept of an internal market initiative is somewhat unusual, in that it arises through 'market opportunities' identified in the corporate sys-

tem. The best way of explaining the concept is through an example: the quote below is with regard to Dow Chemical's internal market (White and Poynter, 1990: 56):

The internal product sourcing relationship between a manufacturing plant and a commercial department can be 'challenged' at any time . . . If the U.S. market for polyethylene could be sourced at lower out-of-pocket cost from a Dow Canada plant than elsewhere, that adjustment would be made.

The initiative in this case would be the Canadian plant challenging the incumbent in-house manufacturer for the rights to polyethylene production, on the basis that the incumbent was either not operating efficiently or was operating in a country where factor costs put it at a comparative disadvantage *vis-à-vis* the challenging plant. This type of initiative is thus subtly different from the other two types, because it is directed towards cost reduction rather than revenue enhancement.

The concept of an internal market, in which divisions or subsidiaries of a single company pursue competitive exchange relationships with one another, is well established in academic writing (e.g., Galunic and Eisenhardt, 1994; Halal, 1993) and is widely used in many large corporations. As before, however, the internal market *initiative* is implicit in prior research. Galunic and Eisenhardt (1994), for example, discussed competition from other subsidiaries as a stimulus for charter loss; and White and Poynter's description of the horizontal organization (above) included a clear example of subsidiary initiative that was not labeled as such. The characteristics of internal market initiatives can thus be inferred from the existing literature as follows: (a) local resources, some decentralization of decision making, good relationships with the parent company and shared decision premises as facilitators of initiative; (b) an entrepreneurial selling process, again very similar to that seen in other types of initiative; and (c) efficiency in global operations and desire for local value-added as the intended outcomes. Table 1 represents a summary of prior research.

In conclusion, this section set forth a conceptualization of subsidiary initiative that is consistent with the emerging body of literature on inter-organizational networks, but which at the same

<sup>2</sup> This point is substantiated by the body of literature on internationalization which sees international relationships growing incrementally through experience and existing contacts (e.g., Johanson and Vahlne, 1977).

Table 1. Previous research on three forms of subsidiary initiative

Locus of market opportunity (definition)	Local market initiative	Internal market initiative	Global market initiative
Facilitating factors	<ul style="list-style-type: none"> <li>Local resources, local autonomy, normative integration, sub.-HQ communication, intra-sub. communication (Ghoshal, 1986)</li> </ul>	<ul style="list-style-type: none"> <li>Local resources, some decentralization (Galunic and Eisenhardt, 1994)</li> <li>Local resources, good relations with parent (Science Council of Canada, 1980)</li> <li>Horizontal network and shared decision premises (White and Poynter, 1990)</li> </ul>	<ul style="list-style-type: none"> <li>Local resources, local autonomy, existing international responsibilities (Science Council of Canada, 1980)</li> </ul>
Process	<ul style="list-style-type: none"> <li>No discernible difference between process models in all three types. Generic model indicates a protracted selling process by subsidiary management to parent management (Etamad and Dulude, 1986; Science Council of Canada, 1980)</li> </ul>		
Intended outcome	<ul style="list-style-type: none"> <li>Enhance worldwide learning (Bartlett and Ghoshal, 1986)</li> <li>Maximize global innovation (Harrigan, 1983)</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency of global operations and local value-added (Science Council of Canada, 1980; White and Poynter, 1990)</li> </ul>	<ul style="list-style-type: none"> <li>Leverage existing subsidiary capabilities into related areas (Science Council of Canada, 1980)</li> </ul>

time suggests a much broader opportunity set for the subsidiary than previously thought. The three initiative types have been identified to varying degrees in the literature, so our *a priori* expectations are not sufficiently clear that research propositions can be explicated. The objective of the remainder of this paper is thus twofold: (1) to assess the validity of this conceptualization; and (2) to describe the facilitating conditions, the process, and the outcomes of the types of subsidiary initiative that are identified.

## RESEARCH METHODOLOGY

### Sampling methodology

Defining the research sample posed two methodological problems. The first problem was that many MNC subsidiaries have never undertaken initiatives, so it was necessary to identify a sample of subsidiaries that *had* undertaken initiatives.<sup>3</sup> The

second problem was identifying a sample of initiatives from the sample subsidiaries. The decision was made to research the entire set of initiatives in a small number of companies, on the grounds that the quality of data was a critical element of this study. The alternative of a one company—one initiative study would also have been possible, but would have entailed very few respondents per initiative, and therefore less richness in the data. If a single initiative had been studied for each subsidiary there would have been a danger of selection bias towards the respondents' more memorable—but not necessarily representative—initiatives. A third problem was anticipated but did not materialize, namely the identification of initiatives that met the definitions posed at the outset. Kanter (1982: 99) noted that the delineation between an entrepreneurial activity (i.e., an initiative) and a managerial activity is much easier in practice than it is in words, and this study bore out her observation. Likewise, the stated need for all initiatives to lead to international responsibilities never created any methodological problems, in that every initiative identified, even the local market type, quickly (i.e., within 24 months) led to international sales.

<sup>3</sup> Note that this does not impart a bias to the results: the research objective was to understand the characteristics of subsidiary initiatives, not to understand why some subsidiaries undertake them while others do not.



The following sampling methodology was adopted. Using the *Financial Post 500* index, a list of subsidiaries was drawn up with the following restrictions: (1) Canadian subsidiaries of U.S.-owned MNCs; (2) with 1992 sales revenues of greater than \$200 million; and (3) participating in a global industry (Morrison, 1990). These criteria were selected on the basis that a case research design should intentionally limit the variance in the sample to make cross-case analysis meaningful (Parkhe, 1993; Yin, 1984). There were also strong *a priori* reasons for the size and global industry restrictions, in that the strategic imperatives for smaller subsidiaries (which may be sales-only) and subsidiaries in nonglobal industries (with limited cross-border trade flows) are not germane to the management of the mature MNC. One additional criterion was also developed, namely clear evidence of initiative. By picking out those subsidiaries with an established record of success in taking the initiative or gaining international responsibilities we were able to avoid approaching companies that did not exhibit the necessary levels of entrepreneurship. Approximately 40 subsidiaries met all these criteria.

Subsidiaries from this sample were then approached on a convenience basis. Two of four initial selections agreed to participate fully. As research in these two subsidiaries progressed, additional subsidiaries were approached, and over the course of 9 months four more were added (with a further two declining to participate). The decision to stop at six sites was based on the principle of redundancy (Yin, 1984), in that no substantive additional insights appeared to be forthcoming towards the end of the study. The data collection period lasted from November 1993 to August 1994. Some basic facts about the subsidiary sample are displayed in Table 2.<sup>4</sup>

In each sample company, initiatives were identified through discussions with senior managers. The major initiatives, particularly those that had resulted in new international responsibilities, were identified immediately, but some careful investigation was required to pick out smaller or less-

successful initiatives. It was only towards the end of the research that some of the more interesting failures were uncovered, presumably because respondents' comfort level with the researcher increased with time. Between 3 and 10 initiatives were identified in each company to give a total sample size of 39 initiatives (Table 3).

### Data collection methods

The two primary sources of data were (1) semi-structured interviews with subsidiary and parent company managers, and (2) a questionnaire filled out by the key individual for each initiative. These data were complemented by business plans and other company documents, and secondary data compiled through a CD ROM library search. Interviews followed a carefully prepared protocol, with a mixture of specific questions ('What was the proposed dollar investment in this project?') and open-ended questions ('How did this initiative arise in the first place?'). For each initiative the intention was to speak to every manager who was actively involved. Thus, between 2 and 10 managers were interviewed for each initiative. In 65 percent of cases one or more parent managers involved in the initiative were interviewed. Interviews were taped and transcribed, and notes were also taken. A total of approximately 1500 pages of data were assembled through this process.

The questionnaire was put together towards the end of the research, as a means of validating the qualitative interview findings. Questions were drawn up to measure the emerging constructs, such as the nature of the market opportunity or the level of selling by subsidiary management. Following a careful preparation process, in which four academicians and three subsidiary managers (not in the sample) provided feedback on wording and design, the questionnaire was mailed to the key respondent for each of the 39 initiatives. Thirty-five questionnaires were returned, and in the four remaining cases the questionnaire was filled in by an independent research assistant following a careful reading of the interview transcripts.<sup>5</sup>

<sup>4</sup> The six subsidiaries in the final sample appeared to be typical of the larger sample of 40 subsidiaries. Their average sales revenues in 1993 were \$550 million compared to \$440 million in the larger sample. Furthermore, informal interviews were subsequently conducted in a further 12 of the 40 companies, with qualitatively very similar findings to those reported here.

<sup>5</sup> More specifically, the research assistant completed a questionnaire for every initiative (i.e., all 39) based on his reading of the transcripts. Interrater reliability for the 35 questionnaires where both the key respondent and the research assistant had completed them was 0.64 (using Cohen's kappa; Perreault and Leigh, 1989). Consistent with Nunnally (1978) this is

Table 2. Subsidiary sample

Company	Principal industry	Approximate size (1993 revenues)	Number of interviews
A	Industrial and consumer products	\$600 million <sup>a</sup>	22
B	Chemicals	\$450 million	19
C	Computer hardware/software	\$500 million	15
D	Computer hardware/software	\$800 million	19
E	Industrial products	\$420 million	14
F	Engineering systems	\$420 million	11

<sup>a</sup>Figures are in Canadian dollars.

## Data analysis

Five constructs were measured using questionnaire data.<sup>6</sup> The nonparametric Kruskal–Wallis test was conducted on these measures to determine whether there were any significant differences between the means of the different initiative types. Qualitative data were analyzed using the procedures recommended by Miles and Huberman (1984), which emphasize the use of tables and diagrams for reducing and visualizing data. The analysis was undertaken by both the researchers, and discrepancies reconciled through discussion. The qualitative findings were summarized in the form of a case history, and sent to the lead respondent to verify that the case was a fair portrayal of what actually happened. Specific constructs were then abstracted from the case studies and compared to the quantitative findings. The results section (below) provides both sets of data so that the convergence between the qualitative and quantitative techniques can be judged.

acceptable for the early stages of a research program. It was therefore decided that the research assistant's responses were a reasonable proxy in the four cases where no response was forthcoming.

<sup>6</sup> Questions, all on 5-point Likert scales except the last one, were as follows. AUTONOMY: (a) What level of strategic autonomy did the Canadian subsidiary have?; PROVEN RESOURCES: (a) To what extent did the subsidiary have previous international responsibilities? (b) To what extent did the subsidiary have a track record of success getting projects approved? PARENT–SUBSIDIARY COMMUNICATION: (a) What was the extent of the relationship between the parent and subsidiary management? INTERNAL SELLING: (a) What was the extent of the selling process followed by subsidiary management? (b) How active was the Canadian president's involvement in pursuing the initiative? APPROVAL: (a) What was the immediate outcome (explicit approval, implicit approval, rejection)?

## RESEARCH FINDINGS

### Types of subsidiary initiative

The conceptual framework suggested that three types of initiative should be identifiable, on the basis of the locus of the market opportunity (i.e., local, internal and global). This proposition was confirmed to the extent that all three putative types were in evidence, but in addition there emerged in the course of the research a fourth type that was essentially a hybrid between the internal market and global market forms. This hybrid type took the form of subsidiary management identifying and bidding for an embryonic corporate investment. For example, in one case subsidiary management read in the corporate long-range plan that a new plant was scheduled 4 years hence. They recognized a fit with the Canadian subsidiary's capabilities so they built a case for making the investment in Canada and solicited support for their proposal at head office. In this case the initial market opportunity was identified by head office managers but subsidiary management proactively pursued it. Thus, there was a heavy element of internal selling, to persuade head office management that the subsidiary was the appropriate site for investment, but the initial market opportunity was clearly global.

The hybrid case can best be understood in terms of the locus of opportunity vs. the locus of pursuit,<sup>7</sup> in that its locus of opportunity was global but its locus of pursuit was internal. In all the other three forms the locus of opportunity coincided with the locus of pursuit. This state of

<sup>7</sup> We are indebted to an anonymous reviewer for suggesting this distinction.

Table 3. Initiative sample

Sub.	Initiative	Outcome	Interviews
A	Initial proposal to manufacture in Ontario	Success	2
A	Proposal for plant extension in Manitoba	Success	2
A	Proposal to bring conversion to Ontario (a)	Failure	2
A	Proposal to bring conversion to Ontario (b)	Success	3
A	Proposal to bring finishing to Canada	Success	2
A	Proposal to consolidate production in Canada	Success	3
A	Bid for major new tape plant	Success	3
A	Restructure of sales and marketing organization	Success	8
A	Bid for plant extension	Success	5
A	New library security product	Mixed	2
B	Bid for new chemical facility in Canada	Failure	1
B	Incremental investment in Canadian plant	Success	4
B	Business management shifted to Canada	Success	5
B	Toll manufacture brought in-house	Success	7
B	Bid for new formulation of major product	Success	5
B	New dispensing product for major product	Success	2
B	Proposed technological innovation in Canada	Failure	2
C	New digital screen technology	Success	7
C	System controller product	Success	6
C	Cutting equipment innovation	Success	3
C	Electronics for defense missile	Success	3
C	Airport terminal product innovation	Success	4
C	New generation terminal product	Success	2
C	Second generation missile electronics	Failure	2
C	Communication network product	Failure	2
D	Local hardware company acquisition	Mixed	5
D	Industrial terminal product innovation	Mixed	6
D	New high-technology terminal	Success	6
D	Regional product development center	Success	10
D	Software development center	Mixed	3
D	New information protocol center	Success	3
E	Export of valve to Europe	Success	4
E	Export of switch manufacture to U.S.	Success	5
E	Rationalization of North American production	Success	10
E	Designation of two SBUs in Canada	Success	6
E	Software system for building controls	Mixed	1
F	Software/hardware system for oil flow	Success	6
F	New PC network management product	Success	5
F	Local high-tech company acquisition	Success	6

affairs serves to underline the complexity of the subsidiary's role within the 'interorganizational network' of the MNC. Rather than just focusing on one type of market opportunity at a time, there is also the need to reconcile emerging global opportunities with internal capabilities. We might argue that this is the job of the corporate center,

but the evidence shows that the proactive subsidiary can also take on parts of that role itself.

Table 4 lists the number of cases found of each initiative type, with a description to facilitate understanding. In terms of methodology, the fourth type (the hybrid) emerged during the data collection process. Then, during the data analysis

Table 4. Four types of initiative

Initiative type	Number of cases	Number of failures	Description
Local market initiative	13	2	Seek to develop a new product, market, or process through opportunities that are first identified in the subsidiary's home market
Internal market initiative	12	1	Promote the redistribution of existing corporate assets or resources such that they are more efficiently deployed. In the Canadian context the objective is typically to reconfigure a branch plant in the light of the North American Free Trade Agreement
Global market initiative	9	1	Seek to build on an existing mandate or proven capability to meet a perceived international product or market opportunity
Hybrid initiative	5	1	Seeks to attract a global investment which has already (in principle) received corporate support

stage each initiative was assigned by the lead researcher to one of the four types. The research assistant replicated the process, on the basis of the interview transcripts, and made the same assignment as the lead researcher in 37 of 39 cases. The remaining two were discussed and agreement was eventually reached regarding the appropriate type. Next, a discriminant analysis was undertaken on the questionnaire data, to check whether the four types could be distinguished on the basis of the 'drivers' of initiative.<sup>8</sup> This analysis yielded Wilks lambdas of 0.06, 0.23 and 0.54 respectively for the three canonical discriminant functions, representing a very high level of separation between the four groups. In sum, 33 of the 39 cases were correctly classified by this procedure, or 85 percent of the total. This is an excellent result, and provides further confirmation of the validity of the typology.<sup>9</sup>

<sup>8</sup> The seven initiative drivers were: (1) desire to consolidate operations with those of the parent; (2) creation of a North American free-trade environment; (3) routine product or business upgrade on existing product; (4) business opportunity defined by a parent request for proposal; (5) a product-market opportunity arising through interaction with local customers; (6) a product-market opportunity arising through interaction with international customers; and (7) desire by subsidiary management to enhance local value-added.

<sup>9</sup> As discriminant analysis assumes multivariate normality and equivalent variance-covariance matrices, neither of which was wholly present given the small sample size, this result should be interpreted with caution.

## Facilitators of initiative

### Local market initiatives

The 13 cases of local market initiatives suggested an interesting duality to the roles of subsidiary autonomy and parent-subsidiary communication as facilitators of initiative that had not been identified before. At the formative stage autonomy had to be high and communication correspondingly low so that subsidiary resources could be applied to the opportunity without head office interference; at the more advanced stage of viability a higher level of communication and a lower level of autonomy were more appropriate, in that subsidiary management had typically to achieve sponsorship for the business in question from a U.S.-based operating division. In one case a subsidiary manager built a \$20 million business from nothing in 4 years, but took a further 4 years to find a 'home' with one of the major corporate business groups. His observation was that autonomy had helped him to move quickly early on, but was a liability as he attempted to enlarge the business and integrate it into the corporate network.

In terms of resources, it became apparent in the course of the study that *proven* resources (i.e., those which were recognized by parent management) were a more important facilitator of initiative than resources *per se*.<sup>10</sup> However, in

<sup>10</sup> This finding is consistent with process models of strategy such as Bower (1970) in which resource allocation decisions are typically made on the basis of the individual's track record rather than on purely economic or technological arguments.

the specific case of local market initiatives, the sample companies only exhibited moderate levels of proven resources. Respondents commented that the subsidiary had to have sufficient experience and/or expertise to pursue opportunities as they arose, but without the high levels of proven resources that were necessary to succeed with some of the other types.

Respondents observed that *internal market initiatives* were facilitated most effectively by the credibility of the subsidiary in the eyes of the parent company, which was a function, in turn, of the subsidiary's high level of proven resources. In cases where the subsidiary had already built up a number of world product mandates through prior initiatives, subsequent initiatives progressed much more smoothly. Credibility was also a function of a high level of parent–subsidiary communication and, by the same token, a fairly low level of autonomy in that subsidiary managers had to be working very closely with their U.S. counterparts. As described by one respondent:

It is awfully important that we have a close association [with the U.S. management]. We are talking frequently about what are the issues in their business, what are their problems, what are the opportunities that we can offer to help them solve their problems. That is important to do.

One facilitator of internal market initiatives that had not been identified in prior research was the global orientation (Perlmutter, 1969) of the senior management in the United States. Some were essentially ethnocentric in their approach, which created enormous obstacles for subsidiary management; others took a geocentric attitude which streamlined the entire process, as the following quote suggests.

[The general manager] had a kind of 'let's do the right thing then tell everyone' attitude. Let's not be political about this, let's collaborate and do the right thing. What's right to do here is not what's right for our own camp, it's what's right for the corporation. So we got backing on this and got him interested. He then adopted it and became the overall mentor for it, and kept up the momentum.

*Global market initiatives* appeared to be facilitated by high autonomy, a high level of proven resources, and a correspondingly low level of parent–subsidiary communication. The importance of autonomy was underlined by one case

in which the subsidiary had achieved great success in building a viable international business, but where the parent company had then curtailed its autonomy because of corporate financial difficulties. Pursuing initiatives suddenly became a time-consuming and frustrating process, as this quote suggests:

The basic dilemma facing [the general manager of the subsidiary] is lack of investment. If he wants \$100,000 to develop a product the customer is paying for he has to make a couple of visits to head office, which might take three months. By the time approval is granted, the opportunity has passed.

Proven resources here referred to a history of successful initiatives and an accumulation over time of specialized and valued capabilities. All the subsidiaries undertaking global market initiatives in this study were essentially building on existing international responsibilities or world mandates (Etemad and Dulude, 1986). With regard to parent–subsidiary communication, most respondents felt that initiative was facilitated by low levels of communication. This is not to suggest that communication is damaging, but that it is a low priority and is liable to be limited in a high-autonomy subsidiary. This quote is indicative of the level of parent–subsidiary communication that was observed:

... [The head office boss] was looking at the numbers, and 'other income' was quite large. He said 'What's that?' and [his colleague] said 'that's the electronics group up in Canada.' So my head office boss called me and said, 'We don't know what you're doing up there, but keep it up.' Isn't that representative of the relationship!

*Hybrid initiatives* were facilitated by very similar factors to internal market initiatives. That is, the credibility of the subsidiary with head office decision-makers was felt to be critical, and this was typically a function of moderate to high levels of proven resources, strong parent–subsidiary communication and relatively low autonomy. One subsidiary president commented on the nature of the bid process in his company:

You end up with a couple of sites that come pretty close and one that will have a minor advantage economically, but sitting in an operating committee in the States, what really swings you is the credibility of the organization that's asking for the order.

The fact that the market opportunity in the hybrid initiative was global had little bearing on the facilitating conditions, because the entire process was internal to the MNC. The evidence, in fact, suggested that hybrid initiatives required the highest level of 'selling' of all four types, which in turn necessitated a high level of ongoing parent–subsidiary communication.

### *Triangulation of qualitative and quantitative data*

The questionnaire data that tapped into the three main constructs under discussion is displayed in Table 5. The nonparametric Kruskal–Wallis test was conducted to determine whether there were any significant differences between the means of the four initiative types. Despite the small sample size (between 5 and 13 observations for each type), two significant results were recorded, both consistent with the qualitative data. First, the high level of autonomy in global market initiatives was confirmed, in relation to all other types. Second, parent–subsidiary communication was different (at a marginal level of significance) across the types, with local and global initiatives exhibiting low levels of communication and internal and hybrid initiatives exhibiting high levels. The two measures selected as proxies for proven resources (existing international responsi-

bilities and a record of success with initiatives) were not able to distinguish between initiative types, though there was a suggestion that proven resources were slightly lower in local market initiatives. While consistent with the qualitative data, this finding is at odds with Ghoshal's (1986) observation that local innovations are associated with high levels of local resources.

Taken together, the quantitative and qualitative data provided several important new insights into the facilitators of subsidiary initiative. Internal market and hybrid initiatives exhibited a higher level of integration (in terms of parent–subsidiary communication and low autonomy) than previous studies suggested, and appeared to rely on geocentrically minded parent company managers to be successful; local market initiatives appeared to be facilitated by a careful balance between autonomy and integration; and global market initiatives were exhibited only where the subsidiary was *very* autonomous. The fact that autonomy was apparently so critical to the global market type is interesting, because *a priori* one might not expect local and global market initiatives to be significantly different. This evidence suggests that subsidiaries can not easily build world mandate businesses while at the same time remaining integrated with the rest of the corporation, but it is at odds with several studies that have suggested this is a desirable combination (e.g., Bartlett and Ghoshal, 1989; Roth and Morrison, 1992).

Table 5. Questionnaire data on initiative facilitators

	Local market initiative	Internal market initiative	Global market initiative	Global–internal hybrid initiative	Kruskal–Wallis ANOVA ( <i>F</i> /sig.)	Pairs significantly different
Subsidiary autonomy	3.0	2.6	4.4	2.8	11.2/0.01	Global with all others
Specialized resources:						
(a) Existing international responsibilities	3.2	3.7	4.1	3.6	3.1/0.38	None
(b) Record of success with initiatives	2.9	3.8	3.4	4.0	4.3/0.23	None
Parent–sub. communication	3.1	3.9	3.0	4.2	7.4/0.06	Local and hybrid

All measures on 5-point likert scales where 5 = high; 1 = low.

## Initiative processes

The qualitative findings shed considerable light on the initiative process, though in broad terms they were consistent with expectations. Two distinct processes were identified: one internally focused and the other externally focused. The *internally focused* process was exhibited by internal market initiatives and hybrid initiatives, in that formal corporate approval was necessary for resources to be made available. There was therefore a high level of selling, first of all by middle-level managers to their superiors in the subsidiary, and subsequently by the top subsidiary managers to their superiors in head office. This process is encapsulated by the following quote by a middle-level manager regarding an internal market initiative:

I said really we should make a play for [this business], and started to build the argument. I sounded out the [U.S. business manager]: 'What are the possibilities here? What about running the business from Toronto? What do you think about it?' He basically thought it had merit, and he coached me. But my sales effort was not to try to convince U.S. people beyond my sphere of influence, it was really to get the people here convinced, to provide them a position that they could then embellish. So I worked with them and ultimately [the Canadian President] was the guy to say 'We would like to do this' at a very senior level in head office.

While much of the internal selling took the form of an upward progression through the hierarchy (Bower's 1970 'impetus'), there was also some evidence of horizontal selling as well. Many middle managers in the subsidiary were on global business teams, and were thus in a position to influence their head office and international peers, and subsidiary top management were typically connected into an extensive lateral network through which support for initiatives could be built. The following quote illustrates the extensive selling process undertaken by one subsidiary CEO:

First he had to get approval (for the initiative) from the operations committee, who report directly to the chairman. Then he went to the sector meetings, where you had the division VPs. There were three of them. ... He then went to a couple of other corporate bodies, typical places where you would showcase this kind of thing—the marketing council, the technical council as

well, which is a huge group of the laboratory managers. So having cascaded it down he tried to pick large bodies where he would get to the level below division VP.

The concept of a horizontal organization superimposed on the traditional M-form has been documented by several academics (Bartlett and Ghoshal, 1993; Hedlund, 1986; White and Poynter, 1990). In terms of subsidiary initiatives, it was a valuable source of support, though typically only as a complement to the vertical chain of command through which resource allocation occurred.

Were there any differences between the observed process in internal market initiatives and hybrid initiatives? The distinguishing characteristic was the level of involvement of parent company management, in that hybrid initiatives always had parent management support in principle from the start, whereas internal market initiatives had to build their own support. This created a rather subtle difference in process: internal market initiatives were iterative, involving several rounds of credibility building with parent management and refining of proposals; hybrid initiatives were 'take-it-or-leave-it' proposals in which parent management typically had to choose between several directly competing courses of action.

The local market and global market initiatives were *externally focused*. Head office approval was typically implicit, so the majority of the effort on the part of subsidiary management was dedicated to building a viable product for local and global customers respectively. In the case of local market initiatives the subsidiary usually took responsibility for developing the concept using local development funds or bootlegged resources, without the support—and sometimes even without the knowledge—of the parent company. As stated in the previous section, approval from the parent was only sought on average several years later when the business had become viable. In the case of global market initiatives the subsidiary almost always had authority to invest in new projects within the subsidiary's existing charter (Galunic and Eisenhardt, 1994). The appropriate parent company division was kept informed of all such investments, but they did not intervene in the process. Championing was thus relegated to an internal subsidiary activity, as middle managers sought to convince the subsidiary general manager that their initiative should be pursued.

In general terms, then, the initiative process took one of two forms, neither of which corresponded precisely to the classic formulation of Bower (1970). Where resource allocation was a centralized phenomenon (i.e., with internal market and hybrid initiatives), horizontal systems complemented the vertical chain of authority as a means of building legitimacy and momentum for the initiative. Where resource allocation was decentralized, selling occurred primarily within the subsidiary and head office approval was implicit. It is not clear the extent to which this finding is specific to the sample, which was deliberately skewed to favor initiative-taking subsidiaries. Bartlett and Ghoshal (1993) observed that their 'new' organizational model, which included a very similar extension to the Bower model of resource allocation, was induced from a sample of leading-edge companies, some of which were the same as used in the current study. Thus there is some suggestion that these processes may not be representative of the population of MNCs. Future research will be necessary to examine this question.

#### *Triangulation of qualitative and quantitative data*

The questionnaire data that tapped into the two constructs under discussion are displayed in Table 6. The nonparametric Kruskal–Wallis test was conducted on the two internal selling measures; the approval process data were nominal so

they are presented in raw form. The results provide strong support for the qualitative findings discussed above. Both local and global initiative types exhibited a lower level of internal selling than their internal and hybrid counterparts, and this difference was significant for the subsidiary president's selling activity. Equally, the approval process was predominantly implicit for the local and global types (13 out of 19 cases), and explicit for the internal and hybrid types (14 out of 15 cases). In sum, there appears to be a very clear split between the two broad processes.

#### **Initiative outcomes**

Setting aside the five that were not successful, the 34 remaining initiatives all led to increased sales, investment from head office, and new jobs. As Table 7 shows, however, the differences in these measures between types were mostly small. The only substantive difference, in fact, was that the internal market and hybrid initiative types both involved higher levels of capital investment than the other two. This is presumably a function of the resource allocation system in the MNC. Where subsidiary managers had the authority to approve the initiative (as with local and global market types) they proceeded in an incremental fashion, investing relatively small sums each time. Where approval was centralized at the head office, investments were typically larger. As with the data on facilitating conditions and the initiative process, this process emphasized the simi-

Table 6. Questionnaire data on initiative process

	Local market initiative	Internal market initiative	Global market initiative	Global–internal hybrid initiative	Kruskal–Wallis ANOVA ( <i>F</i> /sig.)	Pairs significantly different
Internal selling:						
(a) by subsidiary management	3.6	4.1	3.3	3.8	3.9/0.27	None
(b) by subsidiary president	2.8	3.8	2.4	3.8	7.3/0.06	Local and internal; Global and internal
Nature of approval process	4 explicit 8 implicit 1 rejected	10 explicit 1 implicit 1 rejected	2 explicit 5 implicit 2 rejected	4 explicit 0 implicit 1 rejected	–	Local and global different to internal and hybrid

All measures on 5-point likert scales (except approval process) where 5 = high; 1 = low.



Table 7. Initiative outcomes

	Local market initiatives	Internal market initiatives	Global market initiatives	Hybrid initiatives
Average new investment in subsidiary as a result of approval	\$2.2 million	\$4.8 million	\$1.7 million	\$8.6 million
Average new sales for subsidiary within two years	\$5.2 million	\$10.5 million	\$7.8 million	\$9.2 million
Long term outcomes stated by respondents (subjective)	Local value-added Customer responsiveness New business for MNC	Local value-added Competitive subsidiary operations Integrated production	Specialized capability Local value-added Development of center of excellence	Local value-added Optimally located new facility

larity between the hybrid and internal market initiative types.

Qualitatively, the outcomes of the four types of initiative were markedly different. Local market initiatives led, in the first instance, to an enhanced service to local customers, but as they developed they led to new business opportunities for the MNC as a whole. Two of the 13 cases in this study became 'blockbuster' products (with revenues in 1994 of \$50 million and \$110 million respectively), while the rest led to niche businesses, or businesses that lasted a few years and were then phased out. Local market initiatives can therefore be viewed as enhancing worldwide learning as well, in that opportunities identified in the Canadian market were addressed and then applied in other countries. More broadly, local market initiatives are also instrumental to the imperative of corporate adaptation and renewal, in that they provide the variety that the MNC's systems can then select against (Burgelman, 1991). Without the diversity of opportunities and ideas that local market initiatives represent, the MNC's ability to adapt to changing environmental demands would be severely constrained.

Internal market initiatives, as predicted, led to a rationalization of activities between Canada and the United States, and hence a more efficient corporate system. Typically a branch plant went from producing a broad range of products for the

Canadian market to one or two products on a North American or global basis. Overall volumes stayed the same (initially at least), but both U.S. and Canadian plants increased their export sales. There were also cases of rationalization in administrative functions: in one case, for example, product management was relocated to Canada to be more closely integrated with the associated manufacturing. Both outcomes are symptomatic of the shift in MNCs towards a geographical concentration of value activities (Porter, 1986).

The outcome of the global market initiatives in the study was the maintenance and development of a specialized corporate capability. That is, each initiative sought to build a new product or market around an existing business line using the distinctive capabilities resident in that subsidiary. The term 'center of excellence' was used by respondents in this regard, with the implication that the parent company and other subsidiaries also stood to benefit from those capabilities. In terms of the corporate objectives identified at the outset, then, this is another facet of worldwide learning. Tangentially, it does suggest that the concept of worldwide learning is multifaceted, with at least two separate characteristics: (1) the transfer of information about customer needs within the corporate network, as achieved through local market initiatives; and (2) the transfer of proprietary technology and other capabilities

within the corporate network, as achieved through global market initiatives. Both appear to be important strategic imperatives for the MNC.

Finally, hybrid initiatives had a similar outcome to the internal market type, in that they led to a geographically concentrated value activity serving the North American or global market. The four successful cases identified in this study made use of both the comparative advantages of Canada (relative to the United States) such as cheap power and a low-cost, low-turnover workforce, and also the specialized capabilities of the subsidiary. This is a facet of the global integration imperative, but it is actually superior to the rationalization process that internal market initiatives promote because it results (in theory at least) in the positioning of the value-adding activity at the optimum global location, rather than an existing location. Table 8 provides a summary of the findings: it is similar in format to Table 1, so the findings can be easily compared to the *a priori* expectations.

## DISCUSSION

### MNC subsidiary management

A major contribution of this study is its documentation of an internal subsidiary phenomenon, in contrast to most previous research that has concerned itself more with aspects of the parent–subsidiary relationship. Many recent studies (Bartlett and Ghoshal, 1993; Birkinshaw, 1995; Humes, 1993; Quelch, 1992) have suggested that the parent–subsidiary relationship is multifaceted, in that it varies across business units and operates at multiple levels of management. By focusing here on the initiative as the unit of analysis the problem of defining a parent–subsidiary relationship was circumvented. Certain initiatives were found to be specific to a single plant so involved a single relationship with a U.S. manufacturing director; others involved the whole spectrum of business units and all their relationships with their U.S. counterparts. In all cases, however, it was possible to examine a generic process based around the nature of the initiative, rather than a

Table 8. Summary of findings from current study

	Local market initiative	Internal market initiative	Global market initiative	Hybrid initiative
Facilitating conditions	<ul style="list-style-type: none"> <li>● Low parent–sub. communication (quantitative)</li> <li>● High autonomy at first</li> <li>● Moderate proven resources (qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● High parent–sub. communication</li> <li>● Low autonomy</li> <li>● Strong proven resources, hence credibility</li> <li>● Geocentric perspective in parent company (all qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● High autonomy</li> <li>● Low parent–sub. communication (quantitative)</li> <li>● Strong proven resources (qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● High parent–sub. communication</li> <li>● Low autonomy</li> <li>● Strong proven resources, hence credibility</li> <li>● Geocentric perspective in parent company (all qualitative)</li> </ul>
Process	<ul style="list-style-type: none"> <li>● Low to moderate internal selling</li> <li>● Implicit approval process<sup>a</sup> (qualitative and quantitative)</li> </ul>	<ul style="list-style-type: none"> <li>● High internal selling</li> <li>● Explicit approval process<sup>b</sup> (qualitative and quantitative)</li> </ul>	<ul style="list-style-type: none"> <li>● Low internal selling</li> <li>● Implicit approval process<sup>a</sup> (qualitative and quantitative)</li> </ul>	<ul style="list-style-type: none"> <li>● High internal selling</li> <li>● Explicit approval process<sup>b</sup> (qualitative and quantitative)</li> </ul>
Intended outcome	<ul style="list-style-type: none"> <li>● New business for the MNC; local opportunity leveraged worldwide (qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● Rationalization of existing activities; increased efficiency (qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● Enhancement and international leverage of an existing product line or business (qualitative)</li> </ul>	<ul style="list-style-type: none"> <li>● Optimum global siting of new value-adding activity (qualitative)</li> </ul>

<sup>a</sup>The global market initiative process involved somewhat less internal selling and greater levels of implicit approval than the local market initiative process.

<sup>b</sup>The internal market and hybrid initiative processes differed only in subtle ways. Hybrid initiatives involved significantly earlier parent involvement than local market initiatives, but the magnitude of the investment in question coupled with the competitive nature of the bid meant that a stronger selling effort was typically observed. The internal market initiative process, by contrast, tended to be slightly more incremental in nature, often taking several years to come to fruition.

somewhat artificial conceptualization of the parent–subsidiary relationship.

This research also embraced a broader conceptualization of subsidiary initiative than had previously been identified. Taking Ghoshal (1986) as the definitive piece of work in this area, subsidiary initiatives can be focused either on local market opportunities ('local for local innovations') or on global market opportunities ('local for global' or 'global for global' innovations). This research has shown, in addition, that initiatives can be internally focused, towards a rationalization of existing activities or the promotion of new ones. Viewed in this way, the subsidiary suddenly has the potential to enhance the local responsiveness, global integration *and* worldwide learning capabilities of the MNC. This is a significantly broader role than previous research has suggested. The implication is that the MNC that is able to harness the full entrepreneurial capabilities of its subsidiaries stands to gain competitive advantage.

How can the subsidiary's entrepreneurial capabilities be most effectively harnessed? The first challenge is to create an appropriate structural context, that is, one that facilitates entrepreneurship. Ghoshal's (1986) research showed that *ceteris paribus* high autonomy, specialized resources, high normative integration and high interunit communication were associated with subsidiary initiative. This study suggested a more complex set of relationships. Autonomy, for example, was shown to be positively associated with local and global market initiatives and negatively associated with internal market and hybrid initiatives.<sup>11</sup> Likewise, the other facets of structural context actually varied between initiative types as well. The implication is that a single structural context cannot facilitate all four types of initiative. If a subsidiary is highly integrated with its parent, for example, it can easily pursue internal market and hybrid initiatives, but less easily undertake local or global market initiatives.

The implicit trade-offs that the parent company faces in shaping the subsidiary's structural context are reduced when one recognizes that the subsidiary is itself differentiated. One division of the subsidiary can be closely integrated with its par-

ent; another may be largely autonomous. GE Canada, for example, has 11 divisions each one of which has a unique relationship to its respective parent division in the United States. Furthermore, the subsidiary's structural context and its assigned role are not cast in stone. Over time a successful initiative-taking subsidiary would expect to impact its own strategic context (Burgelman, 1983b) and hence its perceived role within the MNC. One of the subsidiaries in this study, for example, built a new business from scratch in Canada. As the division in question grew it developed an international customer base and a unique set of capabilities so that eventually it operated as a stand-alone global business. Over this period its emphasis shifted from local market initiatives to global market initiatives, and correspondingly its structural context also changed to accommodate its new role.

In sum, the idea that subsidiary roles can be differentiated through contextual mechanisms (Bartlett and Ghoshal, 1986) is a powerful one, but not without its limitations. This study has shown that context needs to be differentiated at the sub-subsidiary level (typically the division, business unit or plant) if the full scope of initiative types is to be facilitated. It has also suggested that a more dynamic approach to role and context management is appropriate, given that the subsidiary's opportunity set and internal capabilities are continually evolving.

The second challenge facing the MNC that is attempting to enhance the entrepreneurial capabilities of its subsidiaries is to develop an entrepreneurial culture, i.e., one that motivates its employees to take the initiative. The review of the corporate entrepreneurship literature identified this as a key imperative, but the current study was not able to shed light on it. By focusing on six companies that had all successfully pursued initiatives, it would be reasonable to deduce that all had relatively entrepreneurial cultures. Future research, in which a sample of initiative-taking subsidiaries is compared with a sample of noninitiative-taking subsidiaries, will be necessary to understand exactly what an entrepreneurial culture means for a MNC.

### Corporate entrepreneurship

Entrepreneurship in this paper was defined as alertness to market opportunity. While this con-

<sup>11</sup> Qualitatively, the evidence suggested a *causal* relationship between autonomy and initiative in the directions indicated, though this cannot be verified with the quantitative data.

ceptualization is well accepted in the literature (Kirzner, 1973; Stevenson and Jarillo, 1990), traditional usage was extended by modeling 'market' to include entities both internal and external to the MNC. This insight, in turn, led to a recognition that there were two distinct entrepreneurial processes at work in the sample companies: (1) 'internal entrepreneurship' (internal and hybrid initiatives) in which initiatives were subject to corporate selection mechanisms such as legitimacy and approval; and (2) 'external entrepreneurship' (local and global initiatives) in which initiatives were subject to environmental selection mechanisms such as customer acceptance and survival. The concept that the corporation can create its own variation–selection–retention mechanism is, of course, not new (e.g., Burgelman, 1991), but the data in this case provided strong empirical support for what is a relatively underresearched phenomenon.

To what extent did a sample of MNC subsidiaries make this research on corporate entrepreneurship a special case? The Canadian setting is interesting (and rich in data) because the recent transition to North American Free Trade, and the perceived threat to Canadian operations, has induced many Canadian subsidiaries to actively look for ways to add value. Furthermore, the problems of building relationships and gaining credibility with decision-makers are all exacerbated by the geographical and (relatively minor) cultural distances between subsidiary and head office. In addition, the concepts of 'local' and 'global' initiative are clearly designed to apply to foreign subsidiaries and not domestic entities. Notwithstanding these facts, our position is that the subsidiary context implies a difference of degree rather than of kind. It is a small stretch (conceptually and physically) to move a subsidiary plant in London, Ontario to Buffalo, New York, so we suggest that the issues illuminated here are no less portable. While the primary focus of the research was obviously on MNC subsidiary management, the implications for corporate entrepreneurship are substantial.

## CONCLUSION

The objective of this paper was to document an empirical investigation of subsidiary initiatives, and to understand them in terms of the existing

theory of the MNC. The key finding was that four types of subsidiary initiative can be identified. Previous research by Ghoshal (1986) had indicated that subsidiary initiatives can be focused either on local market or global market opportunities. This research demonstrated, in addition, that initiatives can be internally focused, towards a rationalization of existing activities or towards the promotion of new ones. This finding has two implications: first, it suggests that the subsidiary has the potential to drive the local responsiveness, global integration *and* worldwide learning capabilities of the MNC, a much broader role than previously recognized; second, it indicates that the differentiation of subsidiary roles through contextual mechanisms (Bartlett and Ghoshal, 1986) has its limitations. Both of these implications are explored in the discussion.

This study had a number of limitations. First, the sample was drawn from a single country, which was appropriate given the state of knowledge about subsidiary initiatives (Parkhe, 1993; Yin, 1984) but also limiting with regard to external validity. Subsequent research in other countries and with parents of other nationalities is the important next step in building knowledge about subsidiary initiatives. Second, the sample was selected to include only those subsidiaries with some record of success with initiatives. This, again, was appropriate given the need to understand the characteristics of initiatives, but it begs the question 'What factors are responsible for promoting initiative in some subsidiaries and stifling it in others?' Now that the types of initiatives are better understood a follow-up study addressing this question can be conducted.

In terms of the methodology, three limitations were evident. The first was the challenge of collecting data on failed initiatives. For a variety of reasons managers were reluctant to dwell on their less auspicious moments, so a small number of failed initiatives may have been missed in the sample companies. This problem could potentially be mitigated by spending longer in the company, but there are clear trade-offs in terms of diminishing returns and potentially alienating time-constrained managers. A real-time study would also solve this problem, but would be very time intensive. Equally problematical were those initiatives that died out before they took off. Rather than being failures *per se*, such initiatives simply did not register as important in the minds of the

respondents. Again, a real time study would be the only way to circumvent this concern. Finally, the questionnaire was deliberately short to ensure a high response rate, but this meant that one- and two-item construct measures were used. For future research greater attention needs to be given to the development of a valid and reliable measurement instrument.

Future research, then, is recommended in two directions. The first thrust should be towards a comprehensive understanding of the initiative phenomenon in other MNC settings, and in a larger sample of subsidiaries. Of interest here is not only the generalizability of the *initiative* characteristics identified in the current study, but also the characteristics of *subsidiaries* that exhibit initiatives. The second research thrust should be directed towards the personal motivation of employees to pursue initiatives. While the current study identified the intended outcomes behind initiatives, it was unable to inform the discussion of why certain individuals choose to pursue entrepreneurial opportunities while others do not. If we are to build a complete model of subsidiary initiative, the critical element may be the personal motivation and the spark of creativity that sets the whole process in motion.

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