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Fighting the corporate immune system: a process study of subsidiary initiatives in multinational corporations

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Abstract

This paper examines *subsidiary initiatives*, which are entrepreneurial activities carried out by foreign owned subsidiaries in multinational corporations; and the forces that resist them that we refer to as the 'corporate immune system'. The study is based on case study analyses of 44 initiatives, both successes and failures, undertaken by Canadian subsidiary managers. The key finding is that subsidiary initiatives take two different forms. Internally-focused initiatives are based on opportunities identified within the corporation, and are pursued through a traditional bottom-up process. Externally-focused initiatives are based on opportunities in the external marketplace. The most successful ones typically gain allies outside the corporation early on, and only confront the corporate immune system once they are relatively well established.

This paper is concerned with *subsidiary initiatives*, which are entrepreneurial activities carried out by the foreign subsidiaries of multinational corporations. Our interest in studying subsidiary initiatives arises from two simple observations. First, it is widely acknowledged in the literature on international management that foreign subsidiaries *should* take initiative (e.g. Bartlett & Ghoshal, 1986; Vernon, 1979) as a means of tapping into new opportunities as they arise around the world. Second, the empirical evidence for the phenomenon is extremely limited. Despite the large

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number of empirical studies done in this area (see Birkinshaw & Morrison, 1995 for a review), only a few papers offer tangible examples of subsidiary initiative (e.g. Birkinshaw, 1995; Delany, 1998; Science Council of Canada, 1980) and these tend to be rather anecdotal in nature. We therefore decided to conduct a detailed study of subsidiary initiatives in order to shed light on this apparent mismatch between theory and empirical evidence.

Organization theory provided some clues as to why subsidiary initiative is a relatively rare phenomenon. First, it is widely recognized that activities of exploitation tend to 'drive out' activities of exploration or creation (Hedlund & Ridderstråle, 1992; Kanter, 1986; March, 1991; March & Simon, 1958). Reasons for this include that the feed-back loops and returns of creation activities are less certain and more remote in time (March, 1991). Second, subsidiary units are typically low in power,[1] which limits both their degrees of freedom in enacting change and the visibility of their initiatives in head office. The established architecture of the organization tends, therefore, to favor ideas developed in high-influence parts of the organization at the expense of those from the periphery (Burgelman & Grove, 1996; Hamel, 1996).

These arguments provide a basic explanation as to why the organization (in its totality) will often view subsidiary initiatives with suspicion or hostility. It seems there are disparate forces at various levels and locations within the organization that act to suppress subsidiary initiatives with the result that many efforts probably do not come to fruition. One way of viewing this process, we suggest, is to see the initiative as an alien body that the 'corporate immune system' seeks to destroy. This is because the merits of any given initiative cannot be known in advance, so the expectations of actors within the organization of its likely value is such that they would prefer to make a type I error (reject a promising initiative) than a type II error (let through a rogue initiative). This may, in fact, be the correct side to err towards if one is going to err at all, but it does mean that many promising initiatives are probably lost.

The purpose of this paper, then, is to examine the subsidiary initiative process in detail with a view to understanding: (a) the nature of the corporate immune system, i.e. the structures, systems and predispositions that resist subsidiary initiatives, and (b) the strategies pursued by subsidiary managers in their attempts to circumvent or fight the corporate immune system.

The rest of the paper is organized as follows. In Section 1 we provide some theoretical background and specify the research questions for the empirical study. In Section 2 we describe the research methodology. In Section 3 we describe the principal findings, in terms of the nature of the corporate immune system and the strategies used by subsidiary managers to circumvent or fight it. Finally, we discuss the implications of the study for theory and for practise.

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[1] Though obviously there are exceptions to this general rule, e.g. Philips' US subsidiary or NCR's Scottish subsidiary.

1. Theoretical background

1.1. The initiative process

Subsidiary initiative is a specific form of corporate entrepreneurship. In keeping with Kanter (1982); Miller (1983), we define initiative as a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources. As in a number of previous studies (e.g. Burgelman, 1991; Sathe, 1985), the initiative process becomes the fundamental unit of analysis in this research. *Subsidiary* initiative simply refers to any initiative that occurs outside the home country of the multinational corporation. In this study, all cases were of initiatives in Canadian subsidiaries of U.S. multinationals.

A variety of models of the initiative process have been put forward in studies of corporate entrepreneurship and innovation. A common approach is to see the process in three phases, whereby the initiative is conceived through the identification of an opportunity, it gathers support and impetus as it is pushed through the socio-political organizational system, and it is then implemented. At any stage along the way the initiative can fail to gather the necessary support or resource commitments and fail. This basic process can be seen in the study by Schön (1971) of the emergence of public policies, Marquis (1969), for the framework for the innovation process, Bower (1972) for the decision process model, and a number of more recent studies (e.g. Burgelman, 1983; Howell & Higgins, 1990; Maidique, 1980).

While this three-phase model captures the essence of the innovation process, it has over the years been refined and enhanced in a number of directions. One important observation is that the initiative process is not sequential. Phases of development are often overlapping (Imai, Nonaka & Takeuchi, 1985); they may be reciprocal (Galbraith, 1982); they may occur as parallel or overlain activities (Burgelman, 1983); and they may even occur in a non-linear sequence (Van de Ven & Garud, 1995). In its extreme form, such non-linearity begins to resemble the garbage can model of organizational decision making (Cohen, March & Olsen, 1972). A second issue is that ‘success’ can be measured on a number of different dimensions. One important measure of success is the commitment of resources to a project (e.g. Bower, 1972). Another is the commercial success or market approval of the resultant business activity (e.g. Day, 1994). However, there is also evidence that legitimacy is important, both from corporate management (Burgelman, 1983) and from other functional areas (Dougherty & Heller, 1994). If an initiative is to lead eventually to a new business activity for the corporation it seems logical that it needs to gain resource allocation, market approval *and* organizational legitimacy. However, the order in which these three outcomes are achieved, and their relative importance, is likely to vary enormously depending on the nature of the initiative, the structure and systems in the organization, and the industrial environment. In sum, it would appear to be rather limiting to put forward a single model of the initiative process, given the almost infinite variety of forms it appears to take. One key point that must, however, be borne in mind is that success is more than just a matter of resource allocation. A second point, which we deal with subsequently, is that resistance is likely to be encountered throughout the process.

1.2. Power and influence in the initiative process

Because the initiative process is driven to a large degree by the relative power of the subsidiary unit vis-à-vis the corporate headquarters, it is useful to briefly review the relevant literature in this area. Power is defined in a multitude of ways, but we can identify several key elements. First power is typically associated with *influence* over people's behavior and decision outcomes. Thus, Pfeffer (1981) argues that it is "a force sufficient to change the probability of an individual's behavior from what it would have been in the absence of the force", Galbraith (1983) outlines power as "the possibility of imposing one's will on the behavior of others", and March (1995: 141) describes it as "the capability to get what you want or to fulfill your identity". Second, power is *relative*, in that any actor has a unique power position in relation to each of the various external parties. Third, power is *situational* or *domain specific* (March, 1995), since the specific task or process in question may limit the power of some actors while others become more powerful. Fourth, power is *socially constructed* or *enacted* (Berger & Luckman, 1967; Weick, 1979) in that it is subject to different interpretations depending on the perspective of a single individual.

Where does power come from? In the literature a large number of different sources of power have been identified, but these can with some simplification be organized under two headings: (1) structural power; and (2) resource-based power.

Structural power in a corporation is ultimately a legally granted authority (Weber, 1947), in that the legal charter of an organization allows shareholders to grant a CEO and the CEO may push this authority further down the organization. Such structural power is typically manifest through the administrative system, or more specifically in a units' ability to control three primary integration mechanisms (Thompson, 1967): (1) standardization of work processes, output, or norms and belief systems; (2) planning, which refers to the different types of objectives that guide units' activities; and (3) mutual adjustment, which refers to more informal systems such as meetings, agendas, and information systems (Crozier, 1964; Hickson, Hinnings, Lee, Schenck & Pennings, 1971; Perrow, 1979; Pettigrew, 1973).

Resource-based power accrues to those who have control over valuable assets, because they represent assets on which others depend (March, 1995; Pfeffer & Salancik, 1974, 1978). Relatedly, knowledge is also a source of power, in the form of skills tied to certain individuals or supra-individual routines (Cyert & March, 1963; Nelson & Winter, 1982). Moreover, it is also important to recognize that the subsidiary's external network is an asset from which power can be derived, if it consists of relationships that can only be accessed through the subsidiary. Thus, by finding allies and tapping into their assets the power of the subsidiary unit may increase in relation to other actors within the organization. One further element of resource-based power is reputation, which is gained from performance in historical actions (Pfeffer, 1992). A subsidiary unit with a strong reputation will have its suggestions listened to with more respect by other corporate units, and will typically be favourably treated in resource allocation decisions (Beerlew & Hall, 1966).

These two basic sources of power provide a strong rationale for distinguishing between 'core' subsidiaries and 'peripheral' subsidiaries. Peripheral subsidiaries are situated away from the centre, both hierarchically and geographically, and are thus by definition low in structural power. Their resource-based power will also be low in the early years of their existence, though over time this situation is likely to change as the subsidiary develops unique resources or relationships of its own (Prahalad & Doz, 1981). Indeed, as this paper will show, many peripheral subsidiaries are very good at leveraging their limited resource-based power, such as a strong reputation or good external relationships, as a means of pursuing their initiatives.

1.3. The corporate immune system

From either a corporate entrepreneurship or a power perspective, it can be expected that subsidiary initiatives will encounter significant resistance from the existing power bases within the corporation. Resistance can take a multitude of forms, from strict funding criteria to bureaucratic inertia to subtle political manoeuvring. Surprisingly, however, most existing research has given limited explicit attention to the nature of such resistance.[2] The preference among scholars has been to focus on the active process, as manifest in the actions of the initiative champion, rather than the passive process as manifest in the action, or inaction, of other corporate actors.

Resistance to corporate entrepreneurship is, of course, absolutely appropriate. Corporations typically have well-defined procedures for assessing funding proposals in order that the most financially rewarding and strategically viable projects gain funding while others do not. Similarly, managers develop informal procedures or heuristics to help them evaluate and choose between the multitude of initiatives that they are asked to lend their support to. In a vastly oversimplified world where bounded rationality constraints and politically-motivated actions were absent, we could imagine a process that accurately distinguished between promising and unpromising initiatives. However, in reality it seems likely that errors are made in the selection of initiatives. While these may be both type I and type II errors, our expectation is that they will be predominantly of the type I variety (i.e. the rejection of a promising initiative) rather than type II (approving a rogue initiative).

Our approach therefore is to model the resistance from other organizational actors as a 'corporate immune system,'[3] which we see as the set of organizational forces that suppress the advancement of creation-oriented activities such as initiatives. The immune system in the body is built into the cells in the bloodstream. It has the task of eliminating or neutralizing any alien bodies that find their way into the system.

[2] Important exceptions are "ten rules for stifling innovation" (Kanter (1985): 101), the discussion of Van de Ven (1986) of the management of attention, and the discussion of Burgelman (1983) of strategic context definition.

[3] The Corporate Immune System metaphor has also recent been used by De Geus (1997), though he uses the term somewhat differently, e.g. to explain the problems encountered in mergers and acquisitions.

This system acts to prevent alien substances from affecting the body in a harmful way. However, as in the case of the rejection of an organ transplant, it is possible that the immune system may reject an alien body that is to its long-term benefit. By analogy, our belief is that most initiatives, and subsidiary initiatives in particular, face a corporate immune system that views them as alien and potentially harmful bodies.

It is important to note that the preceding argument is essentially a new way of conceptualizing an age-old observation about corporate entrepreneurship, namely that new ideas can expect to encounter resistance from the established power bases. Two lines of theory are relevant in this regard. First, it is well established that creation-oriented activities tend to be driven out by exploitation-oriented activities (Hedlund & Ridderstråle, 1992; March, 1991; March & Simon, 1958). Creation-oriented activities offer less certain and more remote returns on investment, they threaten existing power bases within the corporation, and they challenge institutionalized routines and behaviours. Moreover, it has been shown that the dominating coalition of the firm often base their control on competence in the areas in which the firm is currently pursuing exploitation (Leonard Barton, 1992). Second, the ability to gain support for an initiative has been found to vary directly with the power base of the championing individual or unit. As studies by Bower (1972); Day (1994); Rothwell (1977) have shown, the level of influence of the sponsoring unit is more critical to initiative success than the (proposed) technical or financial implications of the underlying project.

Our belief, then, is that the corporate immune system is fundamentally conservative. Individuals within the system prefer to work within existing routines, throw their support behind low-risk projects, and resist ideas that challenge their own power base. Rather than risk allowing a potentially-harmful initiative to gain currency, the corporate immune system would prefer to regard all such initiatives as harmful *even if that means a few worthwhile initiatives are rejected*. This discussion suggests the following research questions:

> *Research question 1. What is the nature of the 'corporate immune system' as it applies to subsidiary initiatives?*
> *Research question 2. What are the strategies used by subsidiary unit managers to circumvent or fight the corporate immune system in order to achieve initiative success?*

1.4. The multinational corporation

One final layer of theoretical background should be discussed, and that is the particular qualities of the multinational corporation (MNC). The MNC is frequently modeled as a network of semi-autonomous subsidiary units in different sovereign jurisdictions (Forsgren & Johanson, 1992; Ghoshal & Bartlett, 1990). Traditionally most MNCs gave their foreign subsidiaries exploitational roles, usually marketing and selling of the corporation's products in the foreign market. Increasingly academic thinking has suggested that subsidiary units should take on more value-added roles, and even take responsibility for building those roles themselves (Birkinshaw, 1995;

Bartlett & Ghoshal, 1986; Hedlund, 1986). The empirical evidence for this phenomenon is, however, mixed. While many studies have documented cases of subsidiary units taking on higher value-added roles (e.g. Bartlett & Ghoshal, 1986; Gupta & Govindarajan, 1994; Jarillo & Martinez, 1990), it is usually assumed that such roles have arisen through head-office assignment. A more interesting, and obviously more uncommon, situation is that in which the subsidiary 'assumes' such a role through its own initiative (Birkinshaw, 1995; Hagström, 1994). As noted in the introduction, though, the empirical evidence for such initiative is limited (Birkinshaw, 1995; Delany, 1998; Science Council of Canada, 1980).

Two further issues should be mentioned here in terms of the multinational corporation. First, subsidiary initiatives have to be pursued with the *objective of changing the charter of the subsidiary unit*. Charter refers to the business or elements or a business in which the subsidiary participates and for which it has responsibility (Galunic & Eisenhardt, 1996). Thus we see initiative as the pursuit of opportunities that have implications for the rest of the multinational corporation, rather than limited-scope projects that are of interest only to the subsidiary unit. Second, multinational corporations like many other large organizations often function as internal markets, so that the 'customer' for a product produced by one subsidiary unit may well be another subsidiary unit within the boundaries of the corporation. This is important because one of the criteria for initiative success is market approval. 'Market approval' can therefore be either internal or external to the corporation.

2. Research methodology

The sample for the study was drawn from the population of Canadian subsidiaries of U.S.-owned multinational corporations, which represents more than two-thirds of the total stock of foreign owned companies in Canada. Following an exploratory study, we drew up a list of potential research sites (i.e. in which initiative appeared to have transpired), based on our discussions with subsidiary managers, recent academic and popular-press articles, CD Rom databases, and discussions with industry groups and government bodies. The list was restricted to subsidiaries with a head office in the U.S., participation in a manufacturing industry, and annual revenues over $200 million, all to restrict variance. Forty companies were selected in this way. Thereafter we approached companies on a random basis. Two of the initial group of four were both appropriate (in terms of enough cases of successful and failed initiatives) and willing to grant us access. Subsequently a further five companies were added. We continued adding companies until we satisfied the redundancy criterion (Yin, 1984), that is until we stopped gaining any new substantial insights into the initiative process. The final sample, then, consisted of seven subsidiary companies and a total of 44 initiatives, 26 of which yielded sufficiently detailed accounts that we could conduct qualitative analysis on them. Table 1 provides some basic data about the sample. Table 2 lists the 26 initiatives.

Table 1
Characteristics of sample companies

Company	Principal industry	Approximate size (1993 revenues)	Number of initiatives studied	...of which detailed accounts:	Number of interviews
Alpha	Industrial and consumer products	$600m*	10	4	20
Beta	Chemicals	$450m	7	6	18
Gamma	Computer hardware/software	$500m	8	1	11
Delta	Computer hardware/software	$800m	6	3	18
Epsilon	Industrial products	$420m	5	4	12
Zeta	Engineering systems	$420m	3	3	11
Theta	Electrical and industrial products	$1100m	5	5	8

* Figures are in Canadian Dollars,

Table 2
Characteristics of initiatives (those for which detailed process information was gained)

Sub.	Initiative	Outcome	Interviews
A1	New library security product	Failure	2
A2	Proposal for new technology mfr. in Canada	Success	3
A3	Restructure of sales & marketing organization	Success	8
A4	Proposal to bring conversion to Ontario (a)	Success	3
B1	Bid for new formulation of major product	Success	5
B2	Business management shifted to Canada	Success	5
B3	Incremental investment in Canadian plant	Success	4
B4	Bid for new chemical facility in Canada	Failure	2
B5	Toll manufacture brought in-house	Success	7
B6	Proposed technological innovation in Canada	Failure	2
G1	Communication network product	Failure	2
D1	Industrial software product	Drawn out	6
D2	Software development centre	Failure	3
D3	New high-technology terminal	Drawn out	6
E1	Shift of production of heater to Canada	Success	4
E2	Development of building management system	Drawn out	2
E3	Rationalization of North-American production	Success	10
E4	Designation of two SBUs in Canada	Success	6
Z1	New PC network management product	Drawn out	5
Z2	Local high-tech company acquisition	Success	6
Z3	Software/hardware system for oil flow	Success	6
T1	New high-technology product adaptation	Drawn out	3
T2	Efficient energy usage business proposal	Drawn out	4
T3	Recycling proposal	Failure	1
T4	Growth strategy for industrial plant	Success	2
T5	Bid for new motor contract	Success	2

2.1. Data collection

Initiatives were identified through discussions with senior subsidiary managers. While we are confident that all successful and significant initiatives were identified, it seems likely that a number of ‘early casualties’ (i.e. initiatives that failed in their early stages) were missed, just because it was very hard to get managers to talk about them. Each initiative that was identified was researched as exhaustively as possible. All individuals involved were interviewed (as many as 10 people in one case) and archival material and secondary data was accessed where possible. In all cases the key subsidiary individuals (i.e. the champion and the sponsor) were interviewed, and in most cases we also spoke to the relevant parent manager. Unfortunately it was only possible to get detailed process accounts in twenty-six cases. For each of these we put together a database of interview transcripts, notes, our interpretations of the interviews, archival information and secondary data with between 30 and 150 pages of material. For the other eighteen initiatives we had a simpler account of the process.

We conducted a total of 108 interviews of approximately one hour each. The interviews themselves were semi-structured. Respondents were asked to recount the initiative process and the role they played in it. They were also asked specific questions regarding the roles of key individuals, factors they thought were critical in determining the initiative’s success or failure, and specific events, as well as a number of closed-ended questions asking for specific dates, levels of capital investment, and changes in annual revenues. It should be noted that the use of retrospective accounts as the primary source of data has its limitations, notably because of memory failure and attribution bias (Dougherty, 1992). The steps described above, i.e. the use of multiple informants from parent *and* subsidiary, access to secondary sources of data, and analysis of successes and failures from the same companies, were taken to minimize the impact of these limitations.

2.2. Data analysis

The data was analyzed using a variety of qualitative data analysis techniques (Miles & Huberman, 1984; Van de Ven & Poole, 1990). For research question 1 (nature of the corporate immune system) two researchers independently analyzed the interview transcripts for the 26 initiatives and picked out all paragraphs or phrases that in any way mentioned the resistance of corporate individuals or units to the initiative. 146 such paragraphs were picked out and stored in a separate database. We then conducted a sorting procedure (independently) before coming together to discuss how we had grouped the paragraphs. This gave rise to another phase of sorting, which eventually resulted in the specification of the corporate immune system that is presented in this paper. A full list of all transcript quotes is available from the authors.

For research question 2 (strategies pursued by subsidiary managers) we independently read through the interview transcripts and recorded all actions taken by subsidiary and corporate managers on a timeline (cf. ‘incidents’ (Van de Ven & Poole, 1990). Using this construction of the process, we then reconciled our interpretations. In so doing we deduced what appeared to be the critical manifestations of the corporate immune system and the critical actions by subsidiary managers in each case. Tables 4 and 5 provide a summary of this analysis.

3. Findings: the corporate immune system

Our attempt to induce the nature of the corporate immune system quickly revealed a complex, multi-level phenomenon.[4] The model that emerged from our analysis had two layers (Fig. 1). At the top were the visible *manifestations* of the corporate immune system—the actions taken (or lack of action) by individuals at various positions in the corporate system that provided resistance to the initiative. Underlying these were the *interpreted predispositions* of the same individuals, which represented the (sometimes subconscious) rationales for the actions that provided resistance to

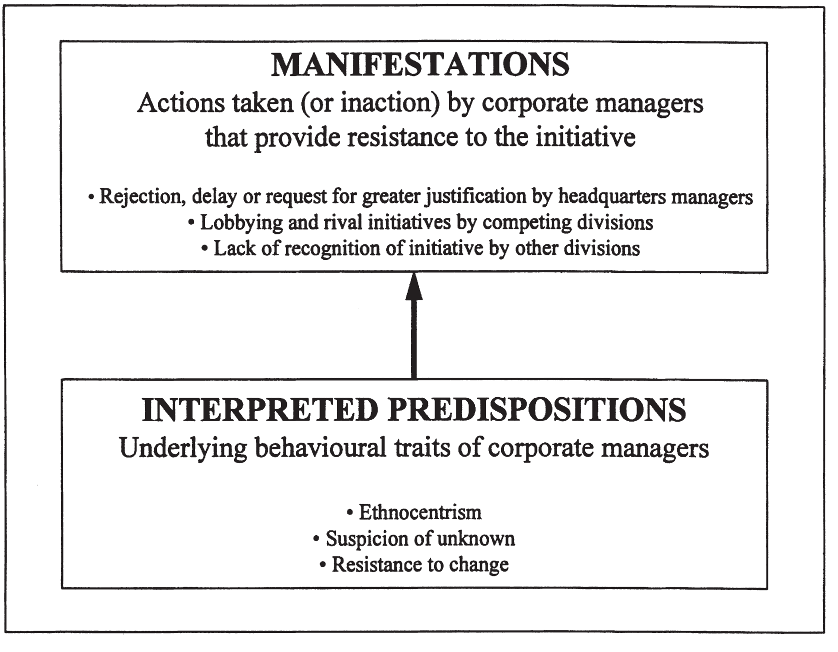

Fig. 1. Nature of the corporate immune system.

[4] An obvious problem that emerged early on was the asymmetrical perception of the corporate immune system between subsidiary and headquarters. Typically subsidiary managers would interpret the actions of headquarters managers in terms of their resistance to initiative; headquarters managers would focus on a successful outcome or an externally-driven reason for failure e.g. the market would not have accepted it. This meant that our understanding of the nature of the corporate immune system had to rely to a very high level on the descriptions provided by subsidiary managers.

initiatives. Table 3 lists the number of occasions that each facet of the corporate immune system was mentioned.

3.1. Interpreted predispositions

In aggregate terms, the set of interpreted predispositions we encountered were entirely consistent with the Not Invented Here (NIH) syndrome, which is defined as the tendency of a project group of stable composition to believe it possesses a monopoly of knowledge of its field, which leads it to reject new ideas from outsiders (Katz & Allen, 1982). The NIH syndrome does not, however, appear to have been subject to detailed academic analysis, so our framing of the concept draws instead from a variety of behavioural and sociological literatures. Three broad groupings of predispositions were identified, and while they are partially overlapping they each build on a distinct intellectual tradition.

By far the most common grouping of observations fell under the category 'Ethnocentrism'. Ethnocentrism represents a preoccupation on the part of corporate managers with their own national identity and a belief in its superiority over others (Gage Canadian Dictionary, 1983). Ethnocentrism has frequently been discussed in the multinational management literature (e.g. Hedlund, 1986; Perlmutter, 1969) as a typical head-office trait of managers from large countries (U.S., Japan, U.K.) whereby it is assumed that foreign subsidiaries will adopt the proven policies and technologies from the home country. Ethnocentrism can also be understood with reference to the sociological literature on Nationalism (Greenfield, 1994; Fayerweather, 1982; Kanter, 1996: 132), in that individuals learn to overvalue the positive characteristics of their own group (in this case, the nation) and denigrate those of outsiders as a means of enhancing their own self-esteem. However, we are careful to avoid using the nationalism label, because it could apply equally to American and Canadian managers. Ethnocentrism is more generic, in that it represents the attitude of those at

Table 3
Frequency analysis of various facets of corporate immune system

Feature	Number of initiative cases (of 26) for which feature was mentioned at least once	Number of extracted paragraphs (of 146) for which feature was mentioned at least once
Predispositions:		
Ethnocentrism	18	48
Suspicion of unknown	9	15
Resistance to change	11	17
Manifestations:		
Delay, rejection, or request for greater justification of initiative by corporate managers	20	35
Lobbying and rival initiatives by competing divisions	13	16
Lack of legitimacy in other units	12	15

the centre towards those at the periphery. The following three quotes are typical of the comments that were recorded:

> A lot of people in HQ would never accept it that we did development here in Canada.

> we presented it to them (head office managers) but they did not have the market need.. its unfortunate that they did not look beyond their own doors because at the same time four other countries were starting to look at the idea

> The world doesn't exist north of the 49th parallel. Well it does, but its an educational process for them (to learn about Canadian capabilities), and one that requires constant reinforcement.

There were also a number of comments that betrayed a lack of understanding of the Canadian subsidiary's interest in developing new ideas. This we can ascribe to the history of the corporations in this study, in that they had all become large entities before they internationalized, and still had a vast majority of their assets in the U.S. Managers had good reason to judge home-grown innovations as successful and to view their foreign subsidiaries as recipients of technology transfer rather than as innovators. Thus when faced with a Canadian initiative, HQ managers were predisposed to reject it on the basis that they had simply not equated 'subsidiary' with 'initiative' before. As one individual commented:

> ...Some opposed the plan for efficiency reasons, but some don't even see themselves as opposed to the plan, *they're just not aware of it* (italics added)

Furthermore, there was a high level of ignorance among some head office managers of the opportunities in Canada. This may reflect the relative sizes of the two countries rather than ethnocentricity per se., but it certainly increased the problem of convincing HQ managers of the merits of the Canadian initiatives.

> ...(Headquarters) people didn't know anything about Canada, or Indonesia or Malaysia for that matter. They thought Canada was closed in winter, a socialist country. They thought the costs would be prohibitive.

The second grouping of interpreted predispositions was labelled 'suspicion of the unknown'. This manifested itself as a reluctance to listen to or to attach credibility to arguments put forward by subsidiary managers with whom the corporate manager was not familiar.

> There was initially some scepticism as to whether the team could do it because they didn't have the credibility in this new business area

> A lot of the resistance came from marketing being concerned about taking something of that magnitude and picking it up and moving it across the border to a group of people that a lot of those here didn't really know that well

The theoretical roots for this predisposition can be traced back to the work of Simon (1957); Simon, (1976) on cognitive simplification and bounded rationality. Decision makers, according to this view, develop simplified mental models of reality based on cognitive heuristics and biases (Barnes, 1984; Schwenk, 1988; Tversky & Kahneman, 1974). Relevant biases, in the context of the corporate immune system, are selective perception (i.e. head office managers screen out unfamiliar initiatives), conservatism (i.e. a preference for tried and tested solutions), and availability (i.e. easily-recalled events are judged preferentially) (Schwenk, 1988: 44). The implication is that corporate decision makers are essentially 'biased' in their judgements of initiatives, towards individuals or subsidiaries that have been successful before. These biases arise simply out of the need to process complex information in an efficient manner, and in that regard they are distinct from ethnocentric predispositions as discussed above. There are a number of academic studies that provide evidence for this phenomenon (e.g. Bower, 1972; Day, 1994; Rothwell, 1977).

The third category of interpreted predispositions was labelled 'resistance to change'. It was clear from the transcripts that even in cases of openness towards the subsidiary's initiative, there was another category of concerns that related specifically to the impact of the initiative on the corporate manager in question. Resistance to change has been extensively studied by organization behaviour theorists (Coch & French, 1948; Kotter & Schlesinger, 1979; Lawrence, 1954; Watson, 1982), primarily in terms of broad-based changes in structure or organizational culture. In the context of the corporate immune system the proposed change was typically much smaller and more localized, but the resistance we observed was driven by more or less the same sets of concerns.

Most common was the form of resistance that Kotter and Schlesinger refer to as *parochial self-interest*. In the context of this study, the corporate managers in question resisted because they saw the initiative as a threat to their personal livelihood or status within the corporation. This occurred most noticeably when the initiative proposed the displacement of an activity from the U.S. to Canada. In such cases, U.S. management actively lobbied against the proposal to protect their existing asset base.

> There was extreme amount of local resistance, marketing, engineering, everybody had an ownership of the thing, how could you ship your son the foster child, how could you do that? Look at all the things that could go wrong! We've earned the right to continue, that sort of thing... it was a significant part of the factory

> Within the company some people are not neutral, they are kind of biased.. sometimes it is a fight within the company. People don't want to lose what they've already got.

In other cases, the resistance was more measured. Sometimes the initiative proposed a redefinition of responsibilities which meant a loss of control on the part of certain corporate managers; at other times there was an anticipation of future loss, as in one case where the subsidiary was beginning to undertake its own development work:

> If the sub gets away with this, what else are they going to develop? and if they are developing it there, it wont be developed at (HQ)

Moreover, in situations such as this, the reaction among corporate managers was not equivocal. Some felt their personal status being threatened; others were not directly impacted and they could therefore see some of the merits of the initiative.

> It was never totally clear what the SBU's attitude was; some were supportive and some were not. I had a nasty feeling that there were people who were facing both ways depending on who they were talking to.

A second form of resistance we observed was what Kotter and Schlesinger refer to as *misunderstanding and lack of trust*. This was most common when an initiative had to get broad-based support from large numbers of corporate managers. In one case, for example, the subsidiary got support from the VP marketing, but this individual then encountered resistance from other people at HQ because they perceived the subsidiary's initiative as an intrusion into their jurisdiction, rather than an attempt to make some leading-edge thinking available to them.

> The VP marketing initially like the concept, but he then hit some difficulties in HQ selling it, and became not against it but less happy; he has been supportive...he has had a lot of hassle and still gets it from some of the people in the central functions who don't like the project and will object to the project..

Taken together, the three categories of interpreted predispositions represent a formidable barrier that the subsidiary initiative has to overcome. In some cases the attitudes of the key decision makers were such that resistance was negligible; in other cases, we saw the three predispositions acting in a multiplicative fashion, so that for example the possibility of personal loss would exacerbate the level of resistance generated by ethnocentrism or suspicion of the unknown.

3.2. Manifestations

The corporate immune system manifested itself in the actions of three sets of corporate actors, namely (a) individuals in the 'vertical' line of command, i.e. individuals with direct accountability for the subsidiary sponsoring the initiative; (b) competing (or potentially competing) divisions; and (c) other corporate units. This in itself is an interesting finding, because prior research has focused on only the first of the three (i.e. the vertical line of command). Consistent with both the network conceptualization of the multinational corporation (Ghoshal & Bartlett, 1990) and the analogous human immune system,[5], we found that the corporate immune system was a dispersed function that existed throughout the corporate network. Subsidiary strategies had therefore to take into account the multiple places that resistance could come from, and the likely form the resistance would take in each case.

The first manifestation was *delay, rejection, or a request for greater justification by corporate managers* to whom the subsidiary was accountable i.e. managers in the vertical line of command. Delay appeared to indicate complete disinterest in the initiative by corporate management, and possibly a hope on their part that it would not be pursued. The following two quotes capture this sentiment:

> We sent the report to the manufacturing organization in the US and like anything that goes to corporate they kind of say great, and you get some comments back. But my assessment was those particular comments were very superficial. This was kind of a 'strategic plan for the top shelf'.

> We did the trials, we proved from an economic standpoint that this was better; the trials were good and then..... nothing moved! It was so slow. Nobody was making a decision. The management were comfortable, this was a change for them.

Rejection was obviously a more categorical 'no' than delay. However, the two tactics can be grouped together because there were many cases in which delay was subsequently followed by rejection. In these cases, corporate management chose to delay the initiative but after further efforts by subsidiary management they eventually rejected it. For example, one initiative entailed persistent efforts on the part of a technical manager in Canada, leading eventually to rejection in the U.S. headquarters. As he explained:

> ..They decided not to pursue it because it would be a non-US business. At that time the company was not interested in non-US businesses... so the project was scrapped partly because we could not demonstrate at a senior enough level that the technology would warrant corporate attention.

Request for greater justification for the initiative occurred in most cases. When faced with a subsidiary initiative, many corporate managers appeared to see some merits in the idea but at the same time had major concerns. These concerns, briefly, were of three types. First, the initiative had typically to exceed the corporation's expectations for return on investment because it was perceived as somewhat more risky than normal. Second the initiative had to demonstrate strategic fit with the corporation's current priorities. Third, the subsidiary had to demonstrate that is was

[5] Unlike other bodily systems the immune system has no central organ (e.g the respiratory system has the lungs). Instead, the various parts of the system are spread throughout the body.

best positioned (of any entity in the corporation) to take responsibility for the activity in question. The following quotes give a flavour for each of these criteria:

> *Exceed expectations*: ‘We had to put some seasoning into (the proposal) to make it more attractive. You want to everyone on your side, because people who are making the decision do not look just at money....They look at marketing growth and things... We had to promise good quality.... We had to commit to a one week time for delivery of the product’.

> *Strategic fit*: ‘Head office have certain technologies they’re interested in.. they saw PCs as not being an area of technology that really had any applicability to their industrial environment’

> *Best relevant capabilities*: ‘Well you’re not tied into the rest of the headquarters product managers’ they argued, ‘you don’t have access to the sales people...’

In all these cases the initiative was *contested*, meaning there was typically a U.S.-based division within the corporation that was fighting to undertake the same business activity. As a result, there was often a formal review board formed, whose task it was to decide which unit should win the contested activity. Interestingly, the vast majority of these decisions (10 of 13) went in favour of the focal subsidiary, suggesting that the review board is probably only formed when the subsidiary has a very strong argument.

The second manifestation of the corporate immune system was *lobbying and rival initiatives by competing divisions* (Galunic, 1996). This approach was prevalent in those corporations that made active use of internal market principles, for example by encouraging sister divisions to compete for the right to make a new product. In these cases, the subsidiary typically had the necessary resources to get its initiative funded, but it still had to work hard to gain market approval and organization legitimacy.

Active lobbying against the subsidiary was seen in a few cases. This was in situations where the subsidiary was attempting to take a business activity from a U.S. division, or where the U.S. division thought it had the right to undertaken the activity in question on the basis of its existing product-market scope. In such cases there was, not surprisingly, active resistance to the subsidiary’s initiative:

> There was a factory sitting back and assuming the product was theirs by rights. They were visibly upset.. there were obstacles put in our way... I was not welcome back there!

> There were some competitive situations where we ended up competing with one of the entities in California... there was some political BS that went on where

> they were saying we were out of business and they were in business.. they asked an executive vice president to shut us down.

In the other cases, the competitive rivalry took the form of another division (always in the U.S.) working independently on a product which was in direct competition with that being championed by the subsidiary. It did not appear that there were any clear-cut rules for deciding which unit would win out in such situations. In three cases the Canadian subsidiary's initiative survived, primarily because the opportunity was better suited to it than to the competing division:

> There were a lot of competitive forays from other divisions... We were worried that (ABC) division were interested in this area, so we explored their intentions and it came out that the volume was too low to warrant their attention.

In the other two cases, the U.S. division prevailed in large part because they had the support of head office.

> We did not have the world-wide responsibility (for this product) as such and we were opportunistic. We built the niche.. but the US factory were working on the next generation product and they were twenty times larger, so their product came in and ours was phased out... it wasn't global management.

The final manifestation of the corporate immune system was a *lack of legitimacy of the initiative in other units* (Dougherty & Heller, 1994; Galunic & Eisenhardt, 1996). By legitimacy we mean consistency with the prevailing norms of the corporation. There were three distinct ways evident through which the lack of legitimacy of the initiative was made clear.

First, some of the initiatives took a very long time, or failed, to align themselves with the appropriate division or group. For the corporations in question this was a critical matter, because global sales activities were organized by group. Non-aligned, or 'orphan' businesses typically had a very difficult time generating sales:

> If you are not attached you can't get a salesforce.. and then you have no way to grab their attention. Sales organizations are quite good at saying no to business they don't want.

The reason why these business activities failed to get alignment was largely a function of their peripheral location. They had been started as Canadian initiatives, and as a result they were not well known in the U.S. It took considerable effort by the initiative champion before a U.S. division was found to take responsibility for the activity in question.

Second, there was sometimes evidence of a lack of buy-in to the concept of the initiative by U.S. divisions. This was the case in one initiative that involved changing the relationship between the US and Canadian downstream operations. While there was substantial support for the initiative, there were also large areas of resistance:

> There are still some divisions that are 'hold outs'. They are xenophobic in terms of they are basically US-centred businesses... some don't even see themselves opposed to the plan.

Finally there was also evidence that other foreign subsidiaries had some concerns about the legitimacy of a major business activity being run out of Canada. The argument was that the activity would have more impact if it were run out of head office.

> It was suggested that if the marketing arm of the (business unit) was based out of head office the regions would pay a hell of a lot more attention to it..

All the above approaches suggested ways in which other parts of the corporation (not just headquarters) could resist subsidiary initiatives. While less definitive than a rejection by corporate management, such resistance still proved fatal for a number of initiatives.

4. Findings: initiative strategies

Two distinct types of initiatives were identified in the course of the analysis, labelled internal and external on the basis of the locus of the market opportunity. An internal initiative represented an opportunity recognized within the boundaries of the corporation. For example, one subsidiary submitted a proposal to head office asking that a manufacturing operation currently being undertaken in the US be brought up to Canada. An external initiative represented an opportunity sensed outside the boundaries of the corporation, such as the need to develop a new product for a large customer in the local market. Corporate entrepreneurship research has traditionally focused on external initiatives,[6] but as this section will show the distinction is important both for the type of outcome from the initiative and for the strategy pursued by the subsidiary unit.

4.1. Internal initiatives

By their nature, internal initiatives presented themselves through interactions between subsidiary managers and other individuals in the internal corporate system. Opportunities were either planned corporate investments, typically large-scale projects with lead times of many years, or they were existing activities that were being undertaken inefficiently by the incumbent operator. In both cases, the initiative was

[6] Though not exclusively. Burgelman (1983); Ginsberg and Kay (1994) also made the internal-external distinction, though in subtly different ways. Also, Pinchott (1986) was to some extent focusing on internal initiatives, though not in a multinational context.

'contested', either by the incumbent rival or by a number of other units seeking to win the planned investment on behalf of the corporation.

Internal competition created a significant problem to Canadian subsidiary managers. Because the rival division was typically in the US, they felt the Canadian operation was at a natural disadvantage. Given the predispositions discussed earlier, Canadian managers felt their initiative had to be particularly strong to overcome the liability associated with their non-American location. As a result, they worked hard to counter the lack of familiarity of the corporate decision makers to the Canadian subsidiary by making use of personal contacts and by selling their initiative very strongly.

In terms of the three criteria for initiative success, internal initiatives appeared to be concerned primarily with resource allocation (in all 14 cases). Most of the corporations in which internal initiatives were observed utilized somewhat centralized capital expenditure systems, so it proved necessary to follow a vertical line of authority to gain resources. Furthermore, market approval was tantamount to the same thing as resource allocation because the 'market' was defined by those in charge of resource allocation. Finally, organization legitimacy appeared to be a relatively minor issue (a factor in 7 of 14 cases) because the endorsement of corporate management was sufficiently strong to create buy-in elsewhere. Obviously there was resistance shown by the competing units during the initiative, but interestingly this did not create subsequent problems once the final decision had been made. The process, in other words, was very clear-cut, involving a single line of attack directed at corporate decision makers.

4.2. Case study: Beta's Tetra plastic initiative (B5 in Table 2)

> In 1989 Beta (a Canadian subsidiary) identified an opportunity to take on responsibility for a speciality plastic called Tetra. Tetra was being made for the corporation by a toll manufacturer in the US but Beta thought that their particular capabilities provided them with the necessary expertise to undertake Tetra production more efficiently. They first decided to undertake some trials to see if they could product Tetra in a cost-effective way. These trials were successful, but it was clear to them that simply putting forward an economic argument would not be sufficient. They made representations to managers in the U.S., explaining the potential benefits of Beta taking on production of Tetra, but they encountered considerable resistance, both through passive resistance and through arguments why it would not work. Eventually, the management in charge of the initiative asked the Canadian president to use his contacts to gain access to the manufacturing director in the U.S. This individual was thus persuaded to come up to the Canadian plant.
>
> The meeting with the manufacturing director was the turning point in the initiative. He was visibly impressed by the commitment of the Canadian plant employees and by their level of expertise. He subsequently provided the necessary impetus to get his boss's approval, which led to the decision being made to move the operation to Beta's plant. The Tetra initiative had a successful outcome. By

1991 Tetra was being made at Beta's plant in Canada, and the output doubled for each of the three following years.

4.3. Internal initiatives: generic issues

Table 4 provides a summary of all the internal initiatives in the sample in terms of the dimensions of the corporate immune system and the strategies pursued by subsidiary managers. All of the fourteen initiatives experienced a demand for greater justification from corporate managers, and nine also experienced delay or rejection. As with the Tetra case, corporate management were initially sceptical, so subsidiary management's response was to fight their scepticism with reasoned arguments. As one individual commented, "my job was to replace emotion with fact.. there was a lot of ignorance about Canada". Where this approach failed, subsidiary management then chose to circumvent the resistance where possible, by utilizing their (typically limited) sources of power. In the Tetra case it was a personal relationship between the Canadian president and the US manufacturing director that provided the necessary breakthrough. In another case, the corporate decision maker was put in touch with a separate US division that had earlier worked well with the Canadian subsidiary, again with satisfactory results. Altogether six initiatives made use of personal contacts at head office, and three built explicitly on the reputation they had gained in earlier initiatives.

One aspect of the internal initiative process that the Tetra case did not bring out was resistance from competing divisions, experienced in eight cases. Epsilon's North American Rationalization Program provided a good example of this. Here, the proposal from Canadian management was to move an entire assembly line across the border to Canada. Not surprisingly this created enormous pressure from the manufacturing manager of the incumbent plant, who saw the initiative as a threat to his operations.

> The factory manager on the US side, he knew what was happening here, he was fighting to have everything controlled in the US. No doubt in his mind at all... There was an extreme amount of local resistance; marketing engineering, everybody had ownership of this thing.

To his credit, the factory manager in question eventually subscribed in to the proposal once it was clear that his superior had bought in to the economic benefits. Generally speaking, however, the strategy adopted by subsidiary managers was to avoid conflict with the competing entities. They adroitly showed that as long as the key decision makers could be persuaded that the Canadian subsidiary offered the most attractive proposal, then the resistance from competing divisions would recede. Lack of legitimacy from other units was an additional source of resistance in four cases. In these cases, subsidiary managers made use of their recently-converted allies in corporate management to generate buy-in among the other units.

Table 4
Analysis of internal initiatives

	Major lines of attack pursued	Manifestations of Corporate Immune System	Strategies pursued by subsidiary managers
A2	Resource allocation	Request for greater justification; competing proposal from rival division	References gained from other US divisions who were pleased with subsidiary; strong proposal and selling of capabilities
A3	Resource allocation; Organization legitimacy	Some request for greater justification from corporate management; Lack of recognition of initiative from other divisions	Top level sponsorship achieved via subsidiary president; heavy selling both vertically and horizontally
A4	Resource allocation	Delay and rejection, followed by request for greater justification; competing proposal from incumbent manufacturer	Proposal and selling, followed by wait; renewed selling effort following change in top management in US division
B1	Resource allocation; Organization legitimacy	Request for greater justification; establishment of a committe to review proposals; competing proposals from two other locations	Careful selling process pursued by subsidiary president to gain legitimacy; well-thought out business proposal to counter rival proposals
B2	Resource allocation	Organization legitimacy; Delay, request for greater justification by corporate management	High level selling by subsidiary president using personal contact, followed by low-level championing at business management level
B3	Resource allocation	Request for greater justification by divisional management in U.S.; other investment locations considered	Development of strong proposal; initiative helped by precedent of an earlier investment of same type in Canada, and thus credibility of subsidiary
B4	Resource allocation; Organization legitimacy	Delay, request for greater justification, eventually rejection; competing proposals from rival divisions	High-level championing by subsidiary president; development of strong proposal
B5	Resource allocation	Delay, request for greater justification from corporate management	Development of strong proposal; use of contact in US to get manufacturing director to visit proposed location; strong selling

Table 4 (*Continued*)

	Major lines of attack pursued	Manifestations of Corporate Immune System	Strategies pursued by subsidiary managers
E1	Resource allocation	Request for greater justification from corporate management; competing proposal from incumbent manufacturer	Development of strong proposal; evidence provided of significant economic benefit to corporation
E3	Resource allocation	Organization legitimacy; Delay and disinterest at first; creation of a committee to consider proposal; active lobbying against initiative by incumbent manufacturer	Development of proposal; use of personal contacts to establish credibility for initiative; skilful negotiation with corporate management
E4	Organization legitimacy; Resource allocation	Request for greater justification; lack of recognition by other divisions	Skilful leverage of earlier initiatives to gain credibility; strong business argument put forward
T3	Resource allocation	Delay, request for greater justification for initiative, eventually rejection	Development and selling of proposal with corporate management
T4	Resource allocation; Organization legitimacy	Request for greater justification, review committee; active resistance from rival division; questioning of legitimacy by some individuals	Development of strong proposal; active selling of key decision makers in U.S.
T5	Resource allocation	Distinterest, followed by request for greater justification; competitive bid with rival divisions inside and outside of corporation	Development of strong proposal; use of personal contacts with senior managers in U.S.; use of credibility from earlier initiatives

4.4. External initiatives

External initiatives arose through interactions with customers and other entities beyond the boundaries of the corporation. This situation created two important differences vis-à-vis internal initiatives. First, there was no loser: the objective of the initiative was to create new revenues for the corporation rather than redistribute internal activities. This meant that the likelihood of fierce internal resistance was much reduced. Second, the initiative was typically able to start in a much less clear-cut manner. Often the subsidiary would start to work with a customer on a 'skunkworks' project, gradually adding resources as the initiative's viability became apparent. Unlike internal initiatives where the start of the work was clear cut (e.g. we can state that Tetra production began in Canada in October 1991), most external initiatives grew in small increments. Most of the external initiatives also occurred in corporations which had a relatively decentralized approach to resource allocation, which obviously facilitated the incremental nature of the initiative process.

The dominant approach with external initiatives, then, was to circumvent the corporate immune system entirely in the early stages by essentially hiding the initiative. Subsidiary managers attempted to utilize their external relationships to generate market acceptance, and subsequently presented their initiatives to corporate management as a *fait accompli*. Resistance was felt primarily from competing divisions and from other units, rather than from corporate management who did not feel the same level of threat.

4.5. Case study: Delta's Calgary operation (D1 in Table 2)

> Delta's Calgary development centre originated back in 1985, when the Calgary sales manager proposed to the Canadian president that a small software operation be established to respond to some of the unmet needs of the corporation's oil industry customers. He was given approval to establish a small skunkworks operation as part of the Canadian subsidiary.
>
> According to several sources, the initiative was kept secret from corporate management during this period. However in 1990 the Calgary operation became aware of a division in the US putting together a similar product, so it was necessary for them to demonstrate the progress they had made, and the major customers they had lined up, in order to fight off the rival division. This was achieved, but the unit still had the problem that it was not a legitimate entity within the global corporation. The Calgary manager started to look for a major division in the U.S. to take ownership of his development group, and after several years of effort, a division was found that recognized in the Calgary operation a technology that they could usefully make use of. The net result of the Calgary initiative was therefore a successful, legitimate business entity, but the process was extremely drawn out.

4.6. External initiatives: generic issues

Table 5 provides a summary of all the external initiatives in the sample. The majority (8 out of 12) of external initiatives began by building external market acceptance and avoiding the corporate immune system, in a manner similar to Delta's Calgary operation. The remaining four cases needed some level of corporate funding at an early stage, so they were undertaken with the full knowledge (even if not absolute approval) of corporate management. They met with requests for greater justification, but typically much less resistance than with internal initiatives because they were perceived as relatively insignificant and thus not very threatening by corporate management.

Resistance was encountered in two major ways. First, competitor divisions challenged the subsidiary's initiative. In the case of Delta's Calgary operation and four others the challenge occurred during the development stage, and in each case the response from the subsidiary was to demonstrate the advanced state of development of the product. In two other cases the challenge occurred after the product had become established. For example in Zeta's PC management system, a US division put together a new product that eclipsed the Canadian subsidiary's technology, making the Canadian unit's product obsolete. As the business manager at the time explained:

> We didn't have a worldwide mandate (for this product) as such and we were opportunistic, if you want to put it that way. We built the niche and the niche went away and we lost it

In these cases there was no effective response from subsidiary management. Essentially they failed to gain legitimacy with the necessary decision makers in the US, and their products were phased out.

The second area of resistance was from other units. As shown in the case of Gamma's Calgary operation, three initiatives had trouble building legitimacy because they could not gain the necessary strategic alignment with an existing corporate division. There were also four cases where other divisions resisted giving blessing to the initiative because they felt the operations would be better undertaken closer to headquarters.

In all cases of resistance to external initiatives, subsidiary managers made use of their existing customer contacts and the product itself to demonstrate that the initiative should be continued. For the most part this was a reactive process; it was only in cases where the subsidiary was looking for sponsorship from a corporate division that there was ever an active selling process.

In sum, external initiatives appeared to be championed according to the technical characteristics of the initiative, that is by generating tangible evidence that the subsidiary had both the capabilities and the customer base to effectively undertake the emerging business activity. This is in direct contrast to internal initiatives, which can be characterized as being championed primarily through personal relationships and through active selling to corporate decision-makers. In terms of the three lines

Table 5
Analysis of external initiatives

	Major lines of attack pursued (in order)	Manifestations of Corporate Immune System	Strategies pursued by subsidiary managers
A1	External market acceptance; Organization legitimacy; Resource allocation	Disinterest in initiative by corporate managers; competitive product by Australian subsidiary; resistance to producing in Canada; eventual decision to manufacture it in U.S.	Development of product on bootlegging time, generation of market acceptance; competition then cooperation with Australian subsidiary; arguments to corporate management
B6	Organizational legitimacy; Resource allocation; External market acceptance	Delay, disinterest and eventual rejection by corporate management	Demonstration of market potential (though not actually proven); lobbying with various corporate bodies by middle-level subsidiary manager
G1	Resource allocation; Organizational legitimacy	Rejection by corporate management on grounds that initiative did not address strategic priorities for the corporation	Identification of market opportunity; proposal to corporate management for funding
D1	External market acceptance; Organization legitimacy	Competing product under development in rival division; lack of interest in new product on part of many US divisions and on the part of the sales organization	Development of product and creation of initial sales without knowledge of corporate managers; identification of parent division to take ownership of new unit once market viability established
D2	External market acceptance; Organization legitimacy	Distinterest on part of related product divisions in the U.S., and on the part of the sales organization	Development of new software in niche areas, and build up of customer base in those areas; pursuit of internal customers to leverage basic product
D3	Resource allocation; External market acceptance; Organization legitimacy	Competing product put forward by a rival division; challenge from another division that believed in had the charter for this product	Development of prototype to gain initial funding; demonstration of product capabilities to fend off internal rivals; creation of market demand
E2	External market acceptance; Resource allocation; Organization legitimacy	Request for greater justification; lack of acceptance of legitimacy of subsidiary group by other divisions; eventual eclipse as a result of new product introduction of rival division	Development of basic product to demontrate market interest; proposal to generate funding for further development

Table 5 (*Continued*)

	Major lines of attack pursued (in order)	Manifestations of Corporate Immune System	Strategies pursued by subsidiary managers
Z1	External market acceptance; Organization legitimacy	Lack of recognition of legitimacy of new product among US division; eventual eclipse of subsidiary product by next-generation US product	Development of basic product to demonstrate market interest; selling of product to interested divisions in the US
Z2	Resource allocation; Organization legitimacy	Request for greater justification for proposal	Identification of attractive acquisition candidate in Canada; proposal to corporate management building on complementary with existing assets
Z3	Resource allocation; External market acceptance; Organization legitimacy	Request for greater justification; subsequent suggestion that activity be moved to US because of its great strategic importance	Initial request to undertake development work; build up of external market acceptance without corporate involvement; use of market position as justification to invest more heavily in Canada
T1	Resource allocation; Organization legitimacy; External market acceptance	Delay, disinterest and eventual rejection by main business unit; request for greater justification and then approval by US marketing board	Development of strong proposal; Fierce internal lobbying for acceptance; use of personal contacts in marketing board to generate alternative funding
T2	External market acceptance; Organization legitimacy	Request for greater justification and some competition from US division; lack of sponsorship of new business by 2 US divisions	Development of market position very early; pursuit of support among US divisions using evidence of market acceptance

of attack introduced at the beginning of this paper, external initiatives were characterized by early market acceptance (by external customers) followed by the pursuit of organization legitimacy. Resource allocation was a minor issue, given that most of the subsidiaries had discretion to fund their own initiatives. Table 6 provides a summary of the contrasting processes identified in the two types of initiative.

5. Discussion

This paper began with the observation that subsidiary initiatives face—as one would expect—substantial resistance in the course of their progress from idea to funded business activity. Our purpose in the paper was to try to understand the nature of that resistance, and the strategies adopted by subsidiary managers to get through it.

In our analysis of the resistance that subsidiary initiatives face, it was suggested that managers within the corporation are to some degree ethnocentric, suspicious of the unknown and resistant to change. Of these three predispositions, ethnocentrism is probably the most contentious. Our preference, as stated in the course of the paper, is to see ethnocentrism simply as a learned response to the traditional dominance that the headquarters of the operation had over its foreign subsidiaries. There may also be some nationalistic tendencies, but these apply both to Canadian managers pushing initiatives and to US managers resisting them, so it is not necessary to give them much weight in the analysis.

Table 6
Summary of processes observed for internal and external initiatives

	Internal	External
Main organizational contingency	Centralized resource allocation decisions	Decentralized resource allocation decisions
Key lines of attack	Resource allocation critical	External market acceptance and organizational legitimacy critical
	Market acceptance and organizational legitimacy secondary	Resource allocation secondary
Critical manifestations of corporate immune system	Rejection, delay, request for greater justification by corporate managers	Lack of legitimacy in other units
	Lobbying and competing initiatives by rival divisions	Lobbying and competing initiatives by rival divisions
Strategies pursued by subsidiaries	Persistent selling of initiative to fight resistance	Early generation of external market acceptance
	Use of (limited) personal relationships with corporate managers to circumvent and/or fight major areas of resistance	Avoidance of all parts of corporate immune system in early stages
	Avoidance of conflict with competing divisions	Use of proven market acceptance to fight resistance from rival divisions and other units

Perhaps the most interesting aspect of the corporate immune system is its scope. Prior literature (e.g. Burgelman, 1983; Kanter, 1985) had discussed resistance to initiative primarily along the vertical chain of command. In this study, we showed that resistance is encountered from all sides: from above, from sister divisions, and from other units such as the sales organization (though see also Burgelman, 1996). Furthermore the resistance from sister divisions and other units cannot be ignored, because organization legitimacy is clearly an important criterion of success. The implication, from the perspective of the corporate entrepreneur, is that a strategy needs to be developed that explicitly considers the likely reactions of actors that are only tangentially impacted by the initiative, as well as the reactions from the more obvious sources of resistance.

The study also highlighted the importance of various sources of power to the subsidiary. Subsidiary managers proved themselves to be very adept at identifying their limited sources of power—external relationships, internal contacts, their reputation, various capabilities—and utilizing them to push forward their initiatives. Moreover, they also showed that it is possible to exercise a considerable amount of power vis-à-vis other units (e.g. by resisting incursions by head office or other units to shut initiatives down), without actually having a high level of influence at a corporate level. Influence, then, seems to be an important manifestation of power but it is by no means the only one.

The final issue that should be mentioned with regard to the corporate immune system is its evolution. In most of the corporations studied there was an explicit acknowledgement among top corporate management that more business activities had to occur outside the US. This meant, typically, that there was some level of sympathy, at a very high level, for Canadian initiatives, even though the vast majority of corporate managers still retained their customary predispositions. In a few cases, top management had actually installed systems that were designed to promote the entrepreneurial efforts of subsidiary managers—for example, the need to put out a request-for-proposal whenever a large global investment was planned. However, these were at an early stage of development and proved useful in only a couple of cases.

In addition to the usual constraints of a small-sample process study, this research suffered from one major methodological shortfall, namely the limited evidence for ‘early casualty’ initiatives. If the corporate immune system metaphor is to be taken seriously, we would expect that a majority of subsidiary initiatives fail. Instead, we found a majority of successes. Our assessment is that we were unable to identify, let alone research, the large group of initiatives that get no further than an exploratory ‘would you be interested in sponsoring this idea...’ discussion between the subsidiary manager and his/her corporate manager. It seems likely, given the importance of the *interpreted* predispositions of corporate managers, that many subsidiary managers do not even bother to put their ideas onto the table for fear that they will be rejected or laughed at. If this is so, the early rejection represents probably the most effective manifestation of the corporate immune system because it not only disqualifies the initiative in question, it also inhibits subsidiary managers from putting forward subsequent initiatives (for fear of embarrassment).

To conclude, this study sought to shed light on the resistance to initiative as a means of better understanding the initiative process. The result was a number of explicit and implicit hypotheses, both with regard to the nature of the corporate immune system and the strategies adopted in subsidiary initiatives, that future research should examine in larger samples or different settings. There is also the need for research to critically examine the basic premise of this research, namely that subsidiary initiatives face a more hostile corporate immune system than those emanating from the strategic core of the organization. It is, of course, too soon at this stage to say whether the corporate immune system metaphor is appropriate, given the untested state of many of the ideas in the paper. However, our hope is that this paper has at least suggested a few interesting and under-researched issues that will be of enduring importance to the fields of international business and corporate entrepreneurship.

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