The Determinants and Consequences of Subsidiary Initiative in Multinational Corporations

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This paper examines corporate entrepreneurship in multinational corporations through a detailed study of initiatives taken by foreign subsidiaries. We develop a theoretical model in which two levels of organizational context (corporate and subsidiary) promote or suppress subsidiary initiative, and initiative in turn has a feedback effect on both subsidiary and corporate context. Using a multi-method study (229 questionnaire returns plus 5 in-depth case studies), the key findings are as follows: Subsidiary initiative is promoted by a high level of distinctive subsidiary capabilities, and is suppressed by a high level of decision centralization, a low level of subsidiary credibility, and a low level of corporatesubsidiary communication. Over time, we find evidence that subsidiary initiative leads to an enhancement of credibility (vis-à-vis the head office), head office openness, corporatesubsidiary communication, and distinctive capabilities.

There is a long tradition of research that views corporate entrepreneurship at lower levels of the organization as an important ingredient in the recipe for long-term success. Practitioner oriented books by Peters and Waterman (1982), Kanter (1985), and Pinchott (1986), and a host of academic studies (e.g. Biggadike, 1979; Burgelman, 1991; Guth & Ginsberg, 1990; Hornsby, Naffziger, Kuratko, & Montagno, 1993; Zahra, 1993) have all picked up on the importance of corporate entrepreneurship as a way of challenging the status quo in large organizations, and thereby as a stimulus for corporate renewal and adaptation to environmental change.

Corporate entrepreneurship takes many forms, but one useful distinction is between focused and dispersed corporate entrepreneurship (Birkinshaw, 1997). Focused corporate entrepreneurship occurs in specially created "new venture divisions" whose mandate is to identify and nurture new business opportunities for the corporation (Burgelman, 1983a, Kuratko, Montagno, & Hornsby, 1990; Sykes, 1986). Such divisions have little formal structure but provide "patient money" and support for risk taking and creativity (Galbraith, 1982; Kanter, 1985; Kuratko et al., 1990; Quinn, 1985; Sathe, 1985). Dispersed corporate entrepreneurship (or intrapreneurship) occurs throughout the firm. Rather than hiving off separate groups or divisions to be entrepreneurial, the dispersed approach sees the development of an entrepreneurial culture or posture as the key antecedent to initiative (Covin & Slevin, 1991; Ghoshal & Bartlett, 1994; Kanter, 1985; Zahra, 1993). The challenge for corporate management is to instill in its employees the personal involvement and commitment that drives entrepreneurship.

This paper focuses on the dispersed form of corporate entrepreneurship. Specifically, it examines cases of subsidiary initiative in the context of large multinational corporations. Initiative refers to a discrete, proactive undertaking that advances a new way for
the corporation to use or expand its resources (Kanter, 1982; Miller, 1983). A subsidiary initiative is one that begins within a foreign subsidiary unit, rather than the headquarters operations, of a large corporation.

Notwithstanding the obvious importance of environmental and individual-level factors, our approach in this study is to model subsidiary initiative primarily as a function of its organization context. As Burgelman (1983a) and others show, corporate-level elements of context will frequently suppress the occurrence of subsidiary initiative. But there are also subsidiary-level elements of context, which seem more likely to promote initiative. Thus, the first research question can be broadly stated as follows: What facets of organizational context promote or suppress subsidiary initiative? In the second part of this paper we take a longer-term perspective on subsidiary initiative and explore the possibility that over time subsidiary initiative is likely to effect changes in the corporation’s organizational context such that subsequent initiatives are more easily pushed through. The guiding research question can thus be stated as follows: What is the impact of subsidiary initiative on organizational context?

To answer these questions, we first review the literature on organizational context and put forward an integrative model that takes into account the various definitions of context as well as the multiple levels of context evident in large corporations. We then apply this general model to the specific case of subsidiary initiative, and develop a series of hypotheses relating various facets of context to subsidiary initiative. The latter parts of the paper then report on an empirical examination of the hypothesized relationships.

THEORETICAL BACKGROUND

What are the drivers of initiative? Recent integrative models in the field of corporate entrepreneurship have suggested that there are individual, organizational, and environmental components (Covin & Slevin, 1991; Hornsby, et al., 1993; Zahra, 1993; Zahra & Covin, 1995), but even such a simple categorization as this has problems. Individual propensity to act entrepreneurially is a function of motivation (Kets de Vries, 1977; McLelland, 1967), which in turn is a function of both an individual’s innate personality and the context in which he or she is working. Moreover, the boundary between organization and environment is far from clear when the organization is large and complex. The “environment” for a subsidiary company, for example, may represent all operations with which the subsidiary interacts, including those that are legally part of the same corporation (Ghoshal & Bartlett, 1990).

The approach taken in this paper is to view subsidiary initiative primarily as a function of organizational context. We define organizational context as the set of administrative and social mechanisms that shape the behaviors of actors in the organization, over which top management have some control. The essence of this definition is that initiative, like any other behavior, is a function of the setting in which it occurs, and that within an organization many of the critical facets of that setting are under the direct or indirect control of top management. Reporting relationships, access to financial resources, reward systems, development programs, and a host of other mechanisms all influence the way an individual behaves. These mechanisms together constitute organizational context (Bower, 1970; Prahalad & Doz, 1981). But the term “context” can also be viewed more broadly, in that the behavior of individuals in a subsidiary is shaped by more than just administrative and social mechanisms within the firm. One important set of cues for a subsidiary firm comes from its local environmental context, i.e. the set of customers, suppliers, competitors, and institutional bodies with which it interacts (West-

1. We will be more specific about the definition of initiative later.
ney, 1994; Ghoshal & Nohria, 1989). Another can best be labelled the subsidiary’s resource context (Pierce & White, 1999), which is the configuration of internal or external resources on which the subsidiary depends for its survival.

The Organizational Context Literature

A key part of the definition of organizational context is the recognition that both “administrative” and “social” mechanisms can be used to shape behavior. Two very distinct lines of thinking can be discerned in the literature representing these two sets of mechanisms. They will be referred to as structural context and behavioral context respectively.

Structural context. The term structural context was brought into common use by Bower (1970) in his study of the resource allocation process in a large diversified corporation. Structural context was defined as:

the set of organisational forces that influence the processes of definition (the economic characteristic of a project) and impetus (the force that moves it towards funding). These forces were found to be the elements of corporate structure: the formal organisation, the system of information and control used to measure performance of the business, and the systems used to measure and reward performance of managers (p. 71)

Bower’s focus, in other words, was on relatively direct mechanisms for “controlling” behavior, such as the availability of resources and reward and punishment systems. Many subsequent studies extended Bower’s original concept of context. Prahalad and Doz (1981), for example, used the broader term “organizational context” to refer to the direct mechanisms identified by Bower as well as some of the more indirect contextual mechanisms such as management development programs and socialization. Burgelman (1983a, 1983b) followed Bower’s usage of structural context to develop a model of initiative propogation in the case of an internal corporate venture unit. The influence of structural context on initiative has also been widely studied. Beginning with Burns and Stalker’s (1961) study of mechanistic and organic work environments, academic research has frequently drawn a link between the structure of the organizational unit and the presence of corporate entrepreneurship. One popular approach is to create a new venture division, which is a semi-autonomous unit with relatively little formal structure and good access to new product development funds (Burgelman, 1983a; Galbraith, 1982; Ginsberg & Hay, 1995; Sykes, 1986). This approach is built on the premise that entrepreneurship is stimulated by very different structural arrangements than ongoing managerial activity, so it needs to be kept separate from the rest of the organization.

Behavioral context. The term behavioral context was recently employed by Bartlett and Ghoshal (1995, p. 12) to refer to the “carefully nurtured, deeply embedded corporate work ethic that triggers the individual-level behaviours of entrepreneurship, collaboration and learning.” The central observation in Bartlett and Ghoshal’s research, as well as many related studies of organizational culture and climate, is that some organizations manage to instil in their employees an enthusiasm or level of involvement above and beyond that justified by economic rewards alone. Unlike structural context, which manipulates employees through a system of reward and punishment, behavioral context appears to encourage their involvement at an emotional level. Both shape employee behavior, but they do so in rather different ways.

Behavioral context research does not have a clearly defined academic heritage. Ghoshal and Bartlett (1994) were influenced by Weber’s thinking on the emergence of
a moral order in Western society and Barnard’s (1938) *Functions of the Executive*, one function of which is inspiring the “faith” of employees as a means of generating their willing co-operation. In similar fashion, Kogut and Zander (1997) saw the firm’s capacity for inspiring identity and belonging in its employees as a reaction to the disintegration of traditional patterns of social order described by Durkheim (1933) and others. Others have also acknowledged the sociological origins to our thinking on context (e.g. Burns & Stalker, 1961; Kanter, 1985; Thompson, 1968).

The implication of early writings, especially Barnard (1938), is that behavioral context exists as a set of guiding values and beliefs, the development of which is the responsibility of top management. The parallel literature on organizational culture (Denison, 1990; Ouchi, 1981; Pettigrew, 1979; Saffold, 1988; Schein, 1985) takes a similar position. As defined by Denison (1990, p. 2), culture is “the underlying values, beliefs, and principles that serve as a foundation for an organization’s management system as well as the set of management practices and behaviours that exemplify and reinforce those basic principles” (emphasis added).2

As with structural context, there is strong support in the corporate entrepreneurship literature for a link between behavioral context and initiative. Kuratko, Montagno, and Hornsby (1990) measured the “entrepreneurial environment” of an organization; Covin and Slevin (1991) referred to “entrepreneurial posture”; and Kanter (1985), Pinchott (1986), and Peters and Waterman (1982) all discussed various facets of organizational culture as a driver of initiative.3 In sum, behavioral context can be understood as that part of the organization’s culture that promotes the willing co-operation of employees (Barnard, 1938). It is, of course, possible for behavioral context to suppress co-operation as well—Bartlett and Ghoshal (1995), for example, discuss both the pathologies of context (control, constraint, compliance, and contract) as well as its desirable elements (support, stretch, trust, discipline). In both cases, behavioral context would appear to be a function of the sum of managerial actions over a long period of time. Unlike structural context, which can be modified very rapidly, behavioral context can only be changed through consistent and deliberate effort on the part of management.

**Structural vs. Behavioral Context**

While structural and behavioral context are substantially different concepts with different intellectual roots, there have been some attempts at combining the two. Kanter (1985) discussed both the structural and cultural facets of “integrative” organizations; Burns and Stalker’s (1961) “organic” organizations, likewise, had structural and behavioral dimensions; and some of the writing on multinational context management has discussed both structural and behavioral elements (e.g. Bartlett & Ghoshal, 1989; Prahalad & Doz, 1981). It would appear that structural and behavioral context are complementary, rather than competing, management approaches. In the context of corporate entrepreneurship, for example, companies such as 3M and Hewlett Packard are well known both for their entrepreneurial culture and for their use of new venture divisions for managing product development.

Another similarity between the two schools of thought is that both see the possibility of initiative having a feedback impact on context. As discussed above, Ghoshal and

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2. As we see it, the distinction between behavioral context and organizational culture is very slim. Perhaps the most clear-cut difference is that behavioral context is defined specifically in terms of its impact on desirable firm-level behaviors.

3. The alternative hypothesis, that a strong behavioral context suppresses entrepreneurship, has not really been considered, but it is not unreasonable: Consider the armed forces, where a strong context exists in association with conformity to rules and an absence of entrepreneurship.
Bartlett (1994) saw behavioral context evolving in part through the actions of management and in part through the emergence of entrepreneurship, co-operation, and learning as desirable organizational outcomes. The implication here is of a tight reciprocal relationship between context and entrepreneurship. In terms of structural context, the linkage between the two constructs was suggested by Burgelman (1983a): he proposed that autonomous action (i.e. initiative) could, in the long term, bring new ventures within the overall concept of corporate strategy, which in turn would lead to changes in the structural context of the corporation. The implication, in this case, is that the influence of initiative on structural context is relatively tenuous and relatively long term, but present nevertheless.

Other Forms of Context

The literature on multinational corporations frequently emphasizes the point that a subsidiary unit faces competing pressures: for responsiveness to host country demands, and for conformity to corporate norms (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987; Westney, 1994). This means that subsidiary initiative, alongside other behaviors, are shaped by the local environmental context as well as by elements of the organizational context. Literature in this vein includes Porter’s (1990) argument that the local “diamond” fosters innovation and superior competitiveness in participating firms; Westney’s (1990) study of isomorphic behavior among R&D subsidiaries in Japan; and Ghoshal’s (1986) concept of a differentiated network in which each subsidiary’s role is a function of its local environment as well as its own capabilities.

Finally, there is the concept of a “resource context.” Pierce and White (1999) built on evidence from management research (Burns & Stalker, 1961; Saxenian, 1995) and from other social sciences (Power, 1988, 1991) to argue that the distribution of resources (financial, human, physical) in the environment is what fundamentally shapes human behavior. Stated rather simplistically, they argued that centrally held resources tended to induce compliant behavior while more broadly dispersed resources tended to induce entrepreneurial behavior. This argument can be applied both within the firm (e.g. whether project funding is controlled by subsidiaries or by head office) and beyond the firm (e.g. the location of sources of venture capital financing).

Resource context, as described here, clearly has considerable overlap with both structural context and local environmental context. Our purpose here is not to reconcile the various bodies of theory, but simply to point out that a complete understanding of context must at least recognize these various elements. Our focus remains on the organizational context, i.e. those elements that are under the control of top management, but to the extent that they influence subsidiary initiative other dimensions of context will also be considered.

MODEL DEVELOPMENT

An important point that appears to have been overlooked in prior research is that large organizations, such as multinational corporations, have multiple levels of organizational context. Multinational corporations are, of course, typically divided into semi-autonomous operating units with responsibilities for a business group, a country, or both. Within these subsidiary units there are additional operating units, and at each level it is possible to conceptualize a distinctive context emerging. A large corporation could

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4. Indeed, it is argued by Pierce and White (1999) that structural context as described by Bower and others is essentially the way that managers manipulate the resource context of their employees.
potentially have three or four “nested” organizational contexts. Employees at the lowest level would presumably expect to be guided primarily by their immediate context (the innermost one), but to some extent would also be influenced by those surrounding it.

Furthermore, the nested layers of organizational context are not independent. A subsidiary unit may be largely autonomous, and therefore have its own unique context, but it still operates as part of the larger organization. Corporate management has the responsibility to select the president of that unit and define the scope of his or her responsibilities, and this in turn will substantially impact the nature of the unit’s organizational context. Thus, in the short term subsidiary unit contexts may appear to be independent of the broader organizational context, but in the longer term they are clearly subordinate to it.

A two-level model of organizational context is developed in this study (see Figure 1), to be consistent with the subsidiary-head office split observed in the empirical setting. The outer level is referred to as the corporate context, the inner level as the subsidiary context. Both contexts have structural and behavioral components, though their relative emphasis may vary at the two levels. In addition, the subsidiary also has a local environmental context, which it alone is influenced by. Our focus is on subsidiary initiative, which obviously occurs within both the subsidiary-level and corporate-level contexts. Following from the discussion above, the following broad propositions can be set out: subsidiary initiative is promoted or suppressed according to the nature of the subsidiary-level context (1) and the corporate-level context (2); subsidiary initiative, in turn, is expected to impact the subsidiary context (3); and the collectivity of subsidiary behaviors impact the corporate context (4). Note that the relationship between corporate context

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**Figure 1**

**Conceptual Model of Organizational Context and Subsidiary Initiative**

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**LOCAL MARKET CONTEXT**

Dynamism

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**CORPORATE CONTEXT**

Decision centralization
Communication
Credibility

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**SUBSIDIARY CONTEXT**

Behavioural context
Leadership
Distinctive capabilities

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**SUBSIDIARY BEHAVIOUR**

Initiative

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1.  
2.  
3.  
4.  
5.  

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and subsidiary initiative is, in effect, mediated by subsidiary management through its definition of a subsidiary context.

Finally, we should also add the concept of a local environmental context, which is the set of customers, suppliers, competitors, and government bodies in the host country that shapes the behavior of individuals in the subsidiary. To complete the model, we envisage that subsidiary initiative will be influenced by local environmental context (path 5 in Figure 1), though it seems unlikely that there will be a significant feedback effect from initiative to environment.\(^5\)

**RESEARCH PROPOSITIONS**

The empirical setting for this study is initiatives put forward by the foreign subsidiaries of large multinational corporations. To provide a tangible example, IBM Scotland extended its manufacturing operation in Greenock, backwards into monitor development (1991), and forwards into order fulfillment (1994), in both cases through proactive efforts rather than as a result of head office decree. Practically speaking, what marks out a subsidiary initiative is the decision to act for the good of the corporation without waiting for an invitation from head office. It is best captured by the words of an interview respondent who was asked why a certain initiative was successful:

> We were going to make this (project) happen; we were willing to stick our neck out and do it with low investment . . . we did a strong selling job, showing that people wanted the work, that people were committed to it.

In more abstract terms, we see an initiative 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 begins with the identification of a product or market opportunity (by a subsidiary employee) and ends with the commitment, by the corporation as a whole, of resources to that opportunity. We see subsidiary initiative as a key manifestation of corporate entrepreneurship. Clearly, corporate entrepreneurship is a broader concept, which has been defined in terms of new activity creation (Block & MacMillan, 1993), the pursuit of opportunity without regard to resources under one’s control (Stevenson & Jarillo, 1990), and corporate renewal (Guth & Ginsberg, 1990). Rather than take a position on these various definitions, we prefer to sidestep the argument and focus on initiative as a tangible activity that can be understood in terms of all these definitions. A number of other studies have taken the same approach (e.g. Burgelman. 1991; Kanter, 1985; Sathe, 1985). The unique dimension of this study is that our focus is on subsidiary-level initiatives, i.e. those that emanate from parts of the organization that are low in influence and power, and that therefore have to work much harder to achieve viability. As a result of this disadvantaged starting position, we expect there to be both inertia and outright resistance from certain aspects of the corporate-level context whose effect is to suppress initiatives.\(^6\) At the same time, we expect to see strong forces, primarily within the subsidiary, pushing to overcome the corporate-level resistance and bring the initiative to fruition. In the remainder of this section, we build a series of testable propositions linking specific dimensions of context to subsidiary initiative. We

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5. There is some indication that over the long term a foreign subsidiary can have an important influence on its host country environment (e.g., Kokko, 1992), but our relatively narrow focus on initiative makes such an effect unlikely.

6. To be clear, we view corporate-level resistance as simply acting very conservatively towards subsidiary initiatives. Some clearly get through (as the data shows), but corporate decision makers would prefer to make a type I error (turn down a promising initiative) than a type II error (let through a rogue initiative).

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should point out that the dimensions of context discussed are by no means comprehensive; rather we see them as the key elements that would be expected to have a significant relationship with subsidiary initiative.

The Impact of Corporate Context on Subsidiary Initiative

We identify three relevant dimensions of corporate context here, one of which is “structural” and two of which are “behavioral.” The structural dimension is decision centralization. Decision centralization represents the extent to which corporate management takes responsibility for decisions affecting the activities undertaken in the subsidiary. This definition therefore includes a sense of the relative power of corporate and subsidiary management within the corporation (Prahalad, 1975).

Subsidiary centralization is predicted to have a negative influence on subsidiary initiative, based on the theoretical argument of Pierce and White (1999) set out above, which suggested that “foraging” activity was likely to be discouraged where resources are centralized in the head office. There is related empirical support for this hypothesis as well. Many corporate entrepreneurship studies have suggested a link between decentralized decision making and entrepreneurial activity (Burns & Stalker, 1961; Galbraith, 1982; Kanter, 1985; Sathe, 1986). Similarly, studies in multinational corporations have shown a relationship between decision centralization and innovation (Ghoshal & Bartlett, 1988; Gupta & Govindarajan, 1994). Stated formally:

Proposition 1: A high level of centralization of subsidiary decision making will suppress subsidiary initiative.

The two behavioral dimensions are subsidiary credibility and corporate-subsidiary communication. Credibility is the extent to which managers in the head office are aware of and confident in the capabilities of the subsidiary unit. Corporate-subsidiary communication represents interaction on a face-to-face basis and through other media. Both arise as a function of the corporation’s socialization or normative integration process (Edström & Galbraith, 1978; Etzioni, 1961; Van Maanen & Schein, 1979). This is the process through which individuals’ beliefs, values, and norms of behavior converge. In large corporations it is often promoted very carefully through personnel exchanges, training programs, newsletters, international project teams, and so on. Socialization underlies both the development of ongoing communication between subsidiary and corporate managers and the development of subsidiary credibility in the eyes of corporate managers, both of which, we argue, promote subsidiary initiative.

Subsidiary-parent communication helps the flow of information from corporate management down (in terms of what sorts of projects are a priority) and from subsidiary management up (in terms of selling or championing new projects) (Burgelman, 1983a). Communication is also indicative of strong relationships between individuals in subsidiary and corporate management, which will further increase the likelihood of success in gaining funding (Bower, 1970). Furthermore, several previous research studies in rather different settings provide support for the link between communication and initiative (Kanter, 1985; Ghoshal & Bartlett, 1988). Thus:

Proposition 2: A high level of corporate-subsidiary communication will promote subsidiary initiative.

Subsidiary credibility is expected to enhance subsidiary initiative through a similar process. First, it creates a sense of corporate identity in the subsidiary managers, which helps them to focus their energies on relevant initiatives. Second, it raises the level of awareness of the subsidiary and its capabilities in the eyes of head office managers, which lubricates the initiative process. Thus:
Proposition 3: A high level of subsidiary credibility at the head office will promote subsidiary initiative.

Note that while both propositions 2 and 3 are worded in a positive sense, our expectation is that a large number of subsidiaries will have rather low levels of communication and credibility with their head offices, which will actually result in a suppression of initiative.

The Impact of Subsidiary Context on Subsidiary Initiative

Two facets of behavioral context are identified, subsidiary leadership and supportive context. Subsidiary leadership is defined to include the tangible actions taken by top management and the existence of a clear vision (Barnard, 1938). Following Ghoshal and Bartlett (1994), it is proposed that both of these elements will have a positive influence on employee initiative. The reasoning here is that strong leadership, no matter in what direction, will stimulate the involvement of employees and focus their efforts towards the declared objectives. Initiative will be one manifestation of that involvement.

Proposition 4: Strong subsidiary leadership will promote subsidiary initiative.

Similar arguments can be made for the proposed positive relationship between a supportive behavioral context and subsidiary initiative. If behavioral context represents the deeply embedded corporate work ethic in which entrepreneurship, collaboration, and learning occur (Ghoshal & Bartlett, 1994), our belief is that such a context will frequently emerge in a subsidiary setting. Subsidiary management has both the frequent interactions with, and the proximity to, their employees that corporate management cannot readily achieve. While the corporate-level context may provide the guiding value system, it is the responsibility of subsidiary management to transform it into cues and symbols that generate the desired behaviors. Thus we propose:

Proposition 5: A supportive behavioral context in the subsidiary will promote subsidiary initiative.

Propositions 4 and 5 are both very “obvious” from a theoretical perspective, to the extent that we would expect nothing else. However, our pilot study in the Canadian subsidiaries of U.S. corporations showed that this is a far-from-trivial issue. Many of these corporations were moving towards a “lean” model in which subsidiary management no longer had an important decision-making role (Quelch, 1993). The question of whether initiative and other desirable behaviors could be retained in the absence of strong subsidiary leadership is thus a very important one.

We also identify the existence of distinctive capabilities at the subsidiary level as an important driver of subsidiary initiative. Distinctive capabilities refers to the extent to which the subsidiary has value-adding capabilities that they believe to be superior to those in sister units around the world. As such, they can be modelled as part of the subsidiary’s “resource context,” which represents an important influence on initiative. We suggest that the link between distinctive capabilities and subsidiary initiative is potentially very strong, because the capabilities in question provide the technical and market-based expertise on which the initiatives are built. If we accept that there is resistance to subsidiary initiatives in the head office, a necessary but not sufficient condition for initiative success is that the subsidiary is able to demonstrate high technical capability in the area in question. Previous research has identified a link between distinctive capabilities and the subsidiary’s value-adding role (Roth & Morrison, 1992; Birkinshaw & Morrison, 1996). Thus:

Proposition 6: A high level of distinctive capabilities in the subsidiary will promote subsidiary initiative.
The Impact of Local Environment Context on Subsidiary Initiative

A common thread of thinking in multinational management research is that foreign subsidiaries tap into ideas and opportunities in the local market which can then be used by the corporation as a whole (Bartlett & Ghoshal, 1986; Vernon, 1979). If we are thinking in terms of the contextual attributes that promote or suppress initiative, then, it becomes clear that the local environment has an important role to play. In their everyday work, subsidiary employees will typically interact far more with customers and other firms in their local market than with corporate managers, so it seems likely that such interactions will be the stimuli for their initiatives. This is borne out by a host of recent studies linking management and economic geography, which show that innovation, capability upgrading, and competitiveness can be related to the presence of industry clusters (e.g. Krugman, 1991; Porter, 1990; Sölvell & Zander, 1997). Based on these studies, we therefore argue that subsidiary initiative will be promoted by the dynamism of the local environment, where dynamism refers to the presence of strong competition, related and supporting industries, and demanding customers.

Proposition 7: A high level of local market dynamism will promote subsidiary initiative.

A number of control variables were also considered as potential predictors of the level of subsidiary. We included measures of subsidiary size and the level of foreign sales in the subsidiary as factors that could potentially influence the propensity towards initiative. In addition, we also included dummy variables in our regression analysis to control for the subsidiary’s country (Canada, Sweden, Scotland) and the corporation’s home country (U.S. vs. other). As the analysis below will show, only the corporation’s home country had a significant influence on initiative level.

The Impact of Subsidiary Initiative on Organization Context

The use of a case-study methodology for one part of this study meant that it was possible to induce, to some degree, the causal relationships between variables. Rather than state specific propositions, our preference here is to base our thinking around two research questions. In general terms, our a priori expectation is that over time subsidiary initiatives will gradually lead to changes in the organizational context. More specifically, Burgelman’s (1983b) research on internal corporate venturing would suggest that subsidiary initiative has a positive impact on corporate-level dimensions of context, such as the level of centralization of decision making. Ghoshal and Bartlett’s (1994) research on behavioral context would suggest that subsidiary initiative has a positive impact on subsidiary-level dimensions of context, such as the strength of subsidiary leadership and the supportiveness of the subsidiary’s behavioral context. Overall, it seems likely that corporate-level context changes will occur over the medium to long term (Burgelman, 1983b), while subsidiary-level context changes occur over the short term (Ghoshal & Bartlett, 1994), but again, these are empirical questions.

Research question 1. What impact, and over what period of time, does subsidiary initiative have on the various facets of corporate context?

Research question 2. What impact, and over what period of time, does subsidiary initiative have on the various facets of subsidiary context?

RESEARCH METHODOLOGY

Two separate phases of data collection were conducted. To test propositions 1 to 7,
we used a mail questionnaire that was completed by 229 subsidiary managers in three countries (Canada, Sweden, Scotland). To answer research questions 1 and 2, we felt that a more exploratory approach was warranted given the lack of strong a priori expectations about relationships. Thus, we used a case-study methodology to analyze five subsidiaries over a ten-year period. The two phases of research were undertaken in the same period of time (1993-1996), but they will be reported on separately.

**Phase One: Questionnaire Data Collection**

The questionnaire was developed in a three-stage process. First, a draft version was reviewed by three academicians who suggested improvements in wording and advice on layout. Second, following a major revision of the questionnaire, it was sent out to six subsidiary presidents. They filled out the questionnaire, while the researcher did likewise on the basis of his prior research in the six companies. Responses were then compared, and where the differences between “actual” (i.e. from the subsidiary president) and “expected” (i.e. from the researcher) were substantial amendments to wording were made. In most cases, however, responses were very similar. At the same time, four pairs of subsidiary and head office managers were also asked to fill out the questionnaire, to ensure that the subsidiary’s answers were consistent with the perceptions in the head office. No significant differences were found. The inter-rater reliability for these four pairs was 0.65 (using Cohen’s Kappa), an adequate but not exceptionally good result. Finally, once the second round of corrections had been made, the questionnaire was sent to a group of three managers in another subsidiary. A researcher met with these individuals to discuss their responses, which resulted in a few small changes.

The questionnaire was sent to subsidiary companies in Canada, Scotland, and Sweden in 1995. We selected these three countries because the concept of subsidiary initiative assumes a low base level of power and influence at the head office. Canada, Scotland, and Sweden are all small, developed countries that lie on the periphery of their trading blocks, and that therefore would be expected to be homes to populations of relatively low-influence subsidiaries. In each country we attempted to sample all foreign-owned manufacturing subsidiaries with more than $30 million in sales revenues, though the lower boundary was eventually set at $50 million in Canada to keep the sample size comparable. In Canada we used the Financial Post 500, Report on Business 1000, and the Disclosure database; in Scotland we used the database compiled by Scottish Enterprise, the inward investment agency, which keeps track of all foreign investors in Scotland; in Sweden we used the databases of foreign-owned subsidiaries compiled by Veckans Affärer and Compass. Using a standard procedure of mailing the questionnaire to the subsidiary CEO and then mailing a reminder four weeks later we ended up with 229 responses. This represents a response rate of 35%, which is relatively high for research of this type (Harzing, 1996). After removing subsidiaries with less than $30 million in sales and those without manufacturing we ended up with 180 usable responses. Details of response rates and the characteristics of responding subsidiaries are listed in Table 1. The mean size of responding subsidiaries was $250 million, with a range from $50 million through to $3 billion. As might be predicted, the parent company was American.

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7. This is, of course, not as high a coefficient as we would have liked. Our sense from these questionnaires and from talking to the individuals was that head office managers were unable to adequately answer some of the subsidiary-specific questions (e.g. those relating to specialized resources and initiative), which lowered the level of inter-rater reliability.

8. The restriction to manufacturing subsidiaries was made because many of the initiatives we had earlier identified emanated from the manufacturing side. Generally, sales-only subsidiaries appear not to have the size or commitment necessary for initiative to occur.
TABLE 1

Sample Response Rates

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>Scotland</th>
<th>Sweden</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires sent</td>
<td>270</td>
<td>182</td>
<td>221</td>
<td>673</td>
</tr>
<tr>
<td>Returned blank, declined to participate</td>
<td>5</td>
<td>5</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Questionnaires returned complete</td>
<td>87</td>
<td>61</td>
<td>78</td>
<td>226</td>
</tr>
<tr>
<td>Response rate</td>
<td>32%</td>
<td>34%</td>
<td>35%</td>
<td>34%</td>
</tr>
<tr>
<td>Number used for statistical analysis (i.e. with revenues over $30m)</td>
<td>78</td>
<td>51</td>
<td>51</td>
<td>180</td>
</tr>
<tr>
<td>Mean size of responding companies</td>
<td>$375m</td>
<td>$292m</td>
<td>$92m</td>
<td>$250m</td>
</tr>
</tbody>
</table>

in a majority of cases (95), though there were also a large number of European parents. A test of non-response bias was conducted using annual revenues and country as dependent variables, and no significant differences were found.

Subsidiary initiative was measured using a specially developed scale which asked respondents to assess the extent to which six different types of initiative had been pursued. The scale was developed from an earlier clinical study of initiative in cooperation with six subsidiary presidents. The independent variables were measured using some existing scales and some scales developed specifically for this study. The specific wording of questionnaire items, and measures of reliability, can be found in the appendix.

We were aware that using a single questionnaire could lead to common method bias. Because the focus of our investigation was on privately held subsidiary companies it proved impossible to get consistent public-record data on the sample. Moreover, our desire to get a reasonable response rate meant that we felt obliged to restrict ourselves to a single mail questionnaire. To guard somewhat against common method bias, we worded the dependent variable questions in terms of tangible actions that subsidiary managers had taken, while other questions were attitudinal. In addition, the dependent variable was placed in a separate section of the questionnaire.

Phase Two: Case Study Data Collection

The second part of the investigation was on the relationship between subsidiary companies’ initiatives and their subsidiary and corporate contexts. We therefore needed to work with a sample of subsidiaries that had undertaken a substantial number of initiatives over a reasonable length of time. Canadian subsidiaries proved to be extremely appropriate in this regard on account of the 1989 Free Trade Agreement between Canada and the U.S. This deal triggered a high level of environmental uncertainty for Canadian subsidiaries, one result of which was a significant level of initiative, as subsidiaries attempted to identify new ways of competing and new areas of business which they could take on. The period 1983-1993 was selected for the study on the basis of preliminary discussions that suggested this was the period in which most initiatives had occurred. Next, we drew up a short list of forty companies that had a record of initiative in public-source documents. All were U.S.-owned, and had sales revenues of greater than $100 million to ensure comparability. Nine of these companies were approached and five were selected for study (four did not provide the required level of access). Basic data about the five sample companies is displayed in Table 2.
TABLE 2

Characteristics of Case Study Companies

<table>
<thead>
<tr>
<th>Indistroy name</th>
<th>Atlantis</th>
<th>Borneo</th>
<th>Cassius</th>
<th>Destina</th>
<th>Electra</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Industrial control systems</td>
<td>Residential control systems</td>
<td>Computers and related products</td>
<td>Specialty chemicals</td>
<td>Consumer and industrial products</td>
</tr>
<tr>
<td>1993 sales (approx)</td>
<td>$100 million</td>
<td>$200 million</td>
<td>$800 million</td>
<td>$450 million</td>
<td>$600 million</td>
</tr>
<tr>
<td>1993 exports</td>
<td>None</td>
<td>$10 million</td>
<td>None</td>
<td>$9 million</td>
<td>$25 million</td>
</tr>
<tr>
<td>1993 exports</td>
<td>$38 million</td>
<td>$55 million</td>
<td>$190 million</td>
<td>$54 million</td>
<td>$190 million</td>
</tr>
<tr>
<td>% growth in exports</td>
<td>Infinite</td>
<td>550%</td>
<td>Infinite</td>
<td>600%</td>
<td>760%</td>
</tr>
<tr>
<td>No. interviews</td>
<td>11</td>
<td>14</td>
<td>19</td>
<td>19</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Company records, interviews, questionnaire responses

Data collection proceeded first with the identification and documentation of the major initiatives in the period 1983-1993 and then with an extensive examination of the elements of, and changes to, organizational context over the period of study. Semi-structured interviews were the primary mode of data collection. Questions were of two types. One type was addressed to individuals associated with specific initiatives, such as “what impact did this initiative have on your credibility/relationships with head office?” The second type was addressed to individuals with a perspective on the whole period of study, such as “How have the structure/culture/head-office relationships changed over the last ten years?” A total of 81 one-hour interviews were conducted. Respondents included the subsidiary president (5 interviews), most other top managers in the subsidiary (15), all the individuals associated with specific initiatives (46), and managers from the U.S. head office most familiar with the activities of the subsidiary (15). All interviews were written up immediately afterwards, and then transcribed subsequently.

Two other forms of data were also collected. A questionnaire was administered to the individuals most involved with the 31 initiatives, asking them about the date the initiative was started and various aspects of the organizational context at that time. All questionnaires were returned and usable. Also, secondary and archival data were collected, to provide confirmation and elaboration of interview data on such issues as the dates of initiatives, structural changes, leadership changes, and operating systems. The use of multiple respondents and several types of data was considered especially important because of the retrospective nature of the study. For key events, care was taken to get at least two, and sometimes as many as six, accounts from the appropriate individuals as well as archival validation. For the analysis, we were guided by Miles and Huberman (1984) and Yin (1984) in our use of an interactive process of data collection and analysis. As new ideas emerged, they were incorporated into an emerging model, which was subsequently confirmed or falsified through additional interviews. Table 6 summarizes the output from this analytical process, in terms of the facets of corporate and subsidiary context that were impacted by initiative in the five sample companies. For this table the data analysis was done independently by two researchers, and then reconciled through a discussion of the findings.

Subsidiary initiative was measured by identifying all cases of significant initiatives over the ten-year period of study. While we were guided by our concept of a “discrete, proactive undertaking” there was no hard rule about which initiatives to include and which to exclude. We were naturally drawn to those cases that had resulted in significant
new products or markets, but we also included cases that had a high level of visibility even if their immediate impact was harder to measure. Where a project had obviously been steered by the head office it was excluded, because it failed to meet the criterion of proactive behavior. A total of 31 major initiatives were identified. The average initiative lasted approximately 18 months, attracted $3.9 million of corporate investment, and resulted in additional exports of $8.4 million within two years. Figure 2 provides a diagrammatic representation of the timing of initiatives in the five companies over the period of study.

For the other constructs, we relied on broad definitions in the interviews. Thus, respondents were asked about lines of reporting, relative power between subsidiary and parent, and organizational structure, rather than narrowly about “decision centralization.” The appendix lists our more specific questions as they relate to each construct. The questionnaire filled out by the 31 initiative managers provided a little more specificity, in that closed-ended questions were asked that related to decision centralization, communication, credibility, etc. These questions are spelled out in the appendix. Unfortunately there is a weakness here, because this questionnaire was administered before the subsidiary-level questionnaire (the one with 229 responses), and it used rather more experimental questions. We have elected to present these questionnaire findings despite their flaws because they offer some interesting insights, but they should be interpreted in the spirit of inductive research as hypotheses rather than definite findings.

FINDINGS: DETERMINANTS OF INITIATIVE

Two regression analyses were performed. We ran a linear regression model with subsidiary initiative as the dependent variable and the eight dimensions of context as the independent variables. The analysis yielded an R-square value of 0.292 (adjusted R-

Figure 2

Timing of Major Initiatives in Case Study Companies

<table>
<thead>
<tr>
<th>(Pre-</th>
<th>1983</th>
<th>1985</th>
<th>1987</th>
<th>1989</th>
<th>1991</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantis</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Borneo</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Cassius</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Destina</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Electra</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

Key: Solid bar represents a discrete initiative, of approximate duration shown.
Source: Company documents, interviews
square, 0.248), significant at $p = .0004$. Significant predictor variables were distinctive capabilities and subsidiary credibility (both at $p < .05$) and local market dynamism (at $p < .10$). We also performed a logistical regression analysis, using a dichotomous measure of subsidiary initiative as the dependent variable ($1 = $ some level of initiative, $0 = $ no initiative). This analysis yielded a significant model (likelihood ratio $X^2 = 40.06$, $p < 0.000$), which suggests that the variables as a group discriminated well between initiative-taking and non-initiative-taking subsidiaries. The model correctly classified 71.5% of the subsidiaries, an improvement over the 50% one would expect by chance alone. Significant predictor variables were distinctive capabilities, subsidiary credibility, and local market dynamism (all at $p < .05$), corporate-subsidiary communication, and decision centralization (at $p < .10$). Table 3 lists the results of both models. Zero-order correlations between the nine constructs are presented in Table 4.

**TABLE 3**

**Regression Analysis: Factors Associated With Subsidiary Initiative (n = 180)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Hyp#</th>
<th>Linear regression model, dependent variable: level of initiative</th>
<th>Logistical regression model, dependent variable: initiative (yes/no)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>.614</td>
<td>−2.24</td>
</tr>
<tr>
<td>Decision centralization</td>
<td>1</td>
<td>.130</td>
<td>1.050†</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.354)</td>
<td>(.628)</td>
</tr>
<tr>
<td>Corporate-subsidiary communication</td>
<td>2</td>
<td>.069</td>
<td>0.385‡</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.130)</td>
<td>(.225)</td>
</tr>
<tr>
<td>Subsidiary credibility</td>
<td>3</td>
<td>.213*</td>
<td>.603*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.161)</td>
<td>(.288)</td>
</tr>
<tr>
<td>Subsidiary leadership</td>
<td>4</td>
<td>.025</td>
<td>.058</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.171)</td>
<td>(.313)</td>
</tr>
<tr>
<td>Behavioral context in subsidiary</td>
<td>5</td>
<td>−.140</td>
<td>−.510</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.153)</td>
<td>(.779)</td>
</tr>
<tr>
<td>Distinctive capabilities</td>
<td>6</td>
<td>.355***</td>
<td>.942**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.157)</td>
<td>(.294)</td>
</tr>
<tr>
<td>Local market context</td>
<td>7</td>
<td>−.138†</td>
<td>−.473*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.115)</td>
<td>(.217)</td>
</tr>
<tr>
<td>U.S. head office</td>
<td></td>
<td>.140†</td>
<td>.790*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(.239)</td>
<td>(.422)</td>
</tr>
<tr>
<td>R-squared</td>
<td></td>
<td>0.292</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td></td>
<td>0.248</td>
<td></td>
</tr>
<tr>
<td>Anova F value</td>
<td></td>
<td>6.60</td>
<td></td>
</tr>
<tr>
<td>Significance level</td>
<td></td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Pearson’s $\chi^2$</td>
<td></td>
<td>40.06</td>
<td></td>
</tr>
<tr>
<td>Significance</td>
<td></td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Overall classification rate</td>
<td></td>
<td>71.5%</td>
<td></td>
</tr>
</tbody>
</table>

† $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$

*Note: U.S. parent was retained as a control variable because it was a significant predictor of initiative. We also added dummy variables for host country (Sweden, Canada, Scotland), and measures of subsidiary size and subsidiary export as control variables but none of these had a significant impact on initiative.
While the two regression models had somewhat different objectives (the first sought to explain variance in the level of initiative across the sample; the second sought to discriminate between initiative-taking and non-initiative-taking subsidiaries), the results will be discussed together. Essentially, they provide alternative ways of testing the eight propositions, so our preference is to focus on those independent variables that were significant predictors in both cases.

Propositions 1 and 2 received weak support. Initiative is suppressed by a high level of decision centralization and promoted by corporate-subsidiary communication. However, these two variables were only significant in the logistical regression, suggesting that they may be important only for determining whether initiative will occur, rather than its level. Proposition 3 was strongly supported. Credibility with the head office is a very important predictor of subsidiary initiative, both as to whether it occurs and its level. It seems likely that credibility and communication are mutually reinforcing elements, though the correlation between them was not actually very high (Table 4). Propositions 4 and 5 received no support. This is a surprising finding because theory suggests that subsidiary-level context should have a strong impact on subsidiary initiative. It is possible that our measures were too narrow to tap into the context-development process that is thought to drive initiative. It is also possible that the corporate-level factors are more important. Proposition 6 received very strong support. Distinctive capabilities, it appears, are the single most important predictor of subsidiary initiative. It also seems likely, from the case study research, that the relationship between initiative and capabilities is a reciprocal one (see below). Proposition 7 received strong support but in the opposite direction than expected. What this finding showed, essentially, is that initiative was promoted in cases where there was weak local market competition. Our insights from the case study phase of research suggested that the reason for this relationship is that many subsidiaries actually thrived on having a high local profile. In very competitive local markets, many subsidiaries found themselves crowded out, but where competition was less intense, they had more opportunities to build relationships with important local customers and suppliers. Finally, of the control variables we added, the existence of a U.S. parent company, rather than one from Europe or Japan, had a positive impact on the

### TABLE 4

**Descriptive Statistics and Zero-Order Correlation Coefficients**  
(n = 229)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.D.</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative</td>
<td>1.56</td>
<td>1.54</td>
<td>.15</td>
<td>-.04</td>
<td>.40*</td>
<td>.20*</td>
<td>.05</td>
<td>.43*</td>
<td>-.13</td>
</tr>
<tr>
<td>Decision centralization</td>
<td>1.58</td>
<td>.37</td>
<td>-.12</td>
<td>.05</td>
<td>.28*</td>
<td>.30*</td>
<td>.22*</td>
<td>-.09</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>3.33</td>
<td>.91</td>
<td>-.03</td>
<td>-.08</td>
<td>-.07</td>
<td>.01</td>
<td>-.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary credibility</td>
<td>5.29</td>
<td>.91</td>
<td>.45*</td>
<td>.21*</td>
<td>.51*</td>
<td>.01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiary leadership</td>
<td>5.44</td>
<td>.94</td>
<td>.64*</td>
<td>.34*</td>
<td>-.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Behavioral context</td>
<td>5.68</td>
<td>1.05</td>
<td>.33*</td>
<td>-.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distinctive capabilities</td>
<td>4.59</td>
<td>.93</td>
<td>.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local market dynamism</td>
<td>5.23</td>
<td>1.05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p > .05

ENTREPRENEURSHIP THEORY and PRACTICE

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presence of subsidiary initiative. Why U.S. parent companies should generate more initiative in their subsidiaries than others is not immediately obvious, particularly given their history of centrally controlled product development (Bartlett, 1986). This issue will have to be held over for a subsequent study.

FINDINGS: IMPACT OF INITIATIVE ON CONTEXT

The five case studies indicated a complex and rather inconsistent pattern of relationships between subsidiary initiative and the various facets of organizational context. The approach taken in this section is first to present the statistical analysis from the questionnaires, and second to discuss the processes that we were able to discern through the case studies.

Statistical Analysis

The 31 managers most closely associated with each initiative were asked to assess the level of decision centralization, communication, credibility, openness to initiative, and capabilities at the time of their initiative. These measures were then correlated with the year of the initiative (1970 – 0), to indicate how, if at all, they had changed over time. As Table 5 shows, decision centralization had not changed at all (i.e. the correlation with the year of initiative was close to zero), while the four others had all changed to a substantial degree (positive correlations with year).

Our interpretation of these results is that the informal contextual systems (more communication, stronger credibility, more openness) compensated for the lack of substantive shifts in formal systems (i.e. decision centralization). This finding is consistent with prior studies albeit in somewhat different contexts. Bartlett (1979), for example, showed how strategic change had been achieved in a sample of pharmaceutical companies through informal mechanisms rather than through structural change. Likewise, Prahalad and Doz (1981) spoke of the need to utilize a wide variety of informal tools to achieve substantive control over foreign subsidiaries. In the context of the current study it nonetheless represents an important finding because it emphasizes the importance of informal contextual mechanism as a means of reducing the resistance to initiative. While corporations do not make changes to their formal structure as a result of initiative, it seems they do accommodate them through other means.

TABLE 5

Changes in Corporate Context Over Time

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision centralization</td>
<td>0.015</td>
<td>0.94</td>
</tr>
<tr>
<td>Corporate-subsidiary communication</td>
<td>0.537</td>
<td>0.002</td>
</tr>
<tr>
<td>Credibility</td>
<td>0.337</td>
<td>0.06</td>
</tr>
<tr>
<td>Openness to initiative</td>
<td>0.323</td>
<td>0.07</td>
</tr>
<tr>
<td>Distinctive capabilities</td>
<td>0.288</td>
<td>0.11</td>
</tr>
</tbody>
</table>

Fall, 1999
Case Study Analysis

A summary of the case study analysis is presented in Table 6. This table indicates the extent to which subsidiary initiative impacted organizational context for each case in turn. The most clear-cut finding, not surprisingly, is that each case reveals a different pattern. The final column indicates the average impact when the five cases are viewed in aggregate. The results are fundamentally consistent with the statistical analysis above, though with some differences. Four points should be made.

First, initiative had a very low impact on decision centralization, with only Atlantis showing a significant change that could be attributed directly to the initiatives taken. Instead, changes in the level of decision centralization appeared to be determined more by exogenous factors. Second, the more behavioral corporate-level contextual variables (communication, credibility, openness) were all impacted to a moderate level by subsidiary initiative, just as the statistical data above suggested. Third, we observed a high level of impact of initiative on subsidiary-level behavioral context. This is a new insight and an important observation because it indicates a relationship between context and initiative that the quantitative data was unable to shed any light on. In our assessment the relationship was reciprocal, with initiative both driving and drawing from the behavioral context of the subsidiary (cf. Ghoshal & Bartlett, 1994). The discussion below elaborates on the processes we identified. Finally, distinctive capabilities were impacted to a high degree by initiative, while subsidiary leadership was not impacted to any noticeable degree. Both these findings are in line with the earlier discussion.

Process Insights

The last part of the findings section explores some of the processes we identified. These processes are presented to give some color to the rather mechanical approach dictated by Tables 5 and 6. The most visible and probably the most interesting process of interaction between subsidiary initiative and context was at the subsidiary level. We observed three rather different processes through which initiative affected context.

The first process was essentially one of momentum, and was most evident in Destina. In this case, there was no evidence of initiative until 1989, when the new subsidiary president arrived. His first concrete action was to relocate a small business up to the Canadian subsidiary. At the same time, he articulated to the subsidiary his vision, and the mechanisms by which he hoped it would be pursued. The result was that over the following four years, three additional initiatives were executed. While most of the necessary ingredients had been in place prior to 1990, the missing element was essentially conviction. The first symbolic initiative provided the missing element, on which the subsequent initiatives could then build.

The second process was one of sense-making, and it applied to the cases where the vision of the subsidiary was emergent, specifically Borneo and Electra. In these two cases, the memory of management was of a clear development and building process, whereby the learning from one initiative was then applied to the next. As one Electra manager commented “What you do is build each new program on the success of previous programs.” The extent to which this process is purely retrospective rationalization (Weick, 1979) cannot be assessed of course, but the point is that the process became an enabler of action. Electra’s vision of the future was a mirror of its past successes (Burgelman, 1983b; Weick, 1987), and to that extent its prior initiatives had a very clear impact on its context.

The third and final process was concerned with building capabilities. Both Atlantis and Cassius’s presidents actively pursued major initiatives at the beginning of the research period, which gave the two companies businesses they had previously had no involvement in. In the case of Atlantis, the business in question created linkages with
<table>
<thead>
<tr>
<th>Decision centralization</th>
<th>Atlantis</th>
<th>Borneo</th>
<th>Cassius</th>
<th>Destina</th>
<th>Electra</th>
<th>Overall impact of initiative on construct:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major changes to formal structure and systems to accommodate new business activities in Canada, Europe</td>
<td>Decreasing centralization</td>
<td>No change</td>
<td>No change</td>
<td>No change</td>
<td>Decreasing centralization</td>
<td>Low impact</td>
</tr>
<tr>
<td>Corporate-subsidiary communication</td>
<td>Increasing communication</td>
<td>Increasing communication</td>
<td>Minor improvements, through formalization of new roles for subsidiary managers</td>
<td>No change</td>
<td>No change</td>
<td>Major improvements to formal and informal relationships through 1991 initiative</td>
</tr>
<tr>
<td>Subsidiary credibility</td>
<td>Increasing credibility</td>
<td>Increasing credibility</td>
<td>Canadian unit became seen as a major contributor to global product development</td>
<td>No change</td>
<td>No change</td>
<td>Subsidiary now widely recognized for its capabilities among HQ managers</td>
</tr>
<tr>
<td>Openness towards subsidiary</td>
<td>No change</td>
<td>Increasing openness</td>
<td>Some evidence of HQ not invented here in mid-1980s, now not noticeable</td>
<td>No change</td>
<td>No change</td>
<td>Gradual improvement in attitude towards subsidiary among HQ managers</td>
</tr>
<tr>
<td>Subsidiary leadership</td>
<td>No change</td>
<td>No change</td>
<td>Early initiatives had tenacious influence (at best) on subsidiary leadership</td>
<td>No change</td>
<td>No change</td>
<td>Leadership’s vision clearly influenced by stream of successes with initiative</td>
</tr>
<tr>
<td>Behavioral context</td>
<td>No change</td>
<td>No apparent impact</td>
<td>Build-up of employee commitment to vision following early successes</td>
<td>No change</td>
<td>No apparent impact</td>
<td>Clear build-up of employee commitment and conviction of expertise through series of initiatives</td>
</tr>
<tr>
<td>Distinctive capabilities</td>
<td>Increasing capabilities</td>
<td>No change</td>
<td>Capabilities already in place prior to initiatives</td>
<td>Increasing capabilities</td>
<td>Increasing capabilities</td>
<td>Subsidiary built very strong manufacturing capabilities over period of study</td>
</tr>
</tbody>
</table>

Source: Interview data coded and reconciled by two researchers
other businesses around the world, which eventually provided the contacts needed to pursue an initiative in 1991. In the case of Cassius, the product turned out to be a failure, but the group persevered and took a series of additional initiatives which eventually led to a successful new business. In both these cases new organizational systems were developed to accommodate the results of the early initiative, both internally to the subsidiary and with various external affiliates. This process was essentially driven by the specific capabilities of the subsidiary that created opportunities for further initiative (Kogut & Zander, 1992). There was, however, a context-enhancing element to it as well, in that systems had to be structured around existing activities.

The overall finding, as we have said, is that initiative had a clear impact on the subsidiary’s behavioral context and on its distinctive capabilities, and a limited impact on the vision and action of top management. The relationship between the four constructs appeared to be one of mutual interdependence, because it was only through successful initiative and capability building that the vision of the subsidiary president was confirmed and the work ethic of the subsidiary reinforced. Furthermore, the case studies suggested a short-term process, in which the impact of initiative on context was felt in a time scale of months rather than years.

In terms of the dimensions of corporate-level context, we saw a much less distinctive process. The impact of initiative on corporate context varied from none to very substantial, and the time lag between the initiative and its impact varied from one to five years. While the patterns across the five cases were far from equivocal, the findings shed light on some very important and interesting issues. Cassius, Borneo, and Destina were cases where initiative had little or no tangible impact on the corporate context. Despite the successes of the subsidiary managers in question, the only changes to the corporate context in the research period appeared to be driven by external factors. In the opinion of one respondent, this was a function of the subsidiary’s relatively insignificant role in the corporation:

That is the real dilemma for a small facility. The [head office] operation is trying to decide whether the things we do eminently well are the place they want to be. So it’s a pat on the back and a kiss-off at the same time. “You guys are doing a great job, that’s the good news; the bad news is its insignificant, and we’re not interested anymore... And don’t delude yourself that you’re important just because you’re doing things well.”

While this was certainly a factor, it was not sufficient to prevent Atlantis and Electra from impacting their corporate contexts. Of these two, Atlantis exhibited the most interesting change. Atlantis undertook three major initiatives between 1983 and 1991, each of which resulted in a major new business for the subsidiary. Historically, each subsidiary had been responsible for product development costs in its own jurisdiction, but as these three businesses became established, it eventually became apparent that a global funding mechanism was needed to ensure that future development was not stifled. Consequently, in 1992 a system was set up whereby the Canadian subsidiary gained corporate funding for its product development, and hence much greater influence over corporate strategy. Thus, in terms of the theoretical model under investigation here, Atlantis represented an extreme case of subsidiary initiative stimulating a change to the structure of the corporation. Certainly there were other precipitating circumstances as well, but the key driver, in the opinions of all respondents, was the success of the subsidiary-based businesses.

Electra achieved an important, but narrower change, to its corporate context. Through a president-sponsored initiative, Electra was able to redefine the relationship of Canadian business units with their U.S. counterparts to reflect the free-trade environ-
ment. While the level of autonomy of Electra was not significantly changed as a result of this initiative, corporate-subsidiary communication was substantially enhanced, in terms of both the frequency of interaction and the level of mutual respect between the two parties.

To summarize, when the impact of initiative on corporate and subsidiary contexts is compared, the case study evidence suggested two conclusions: (1) it was typically the softer facets of both contexts (the behavioral context of the subsidiary, the informal corporate-subsidiary relationships) that were impacted by initiative; and (2) subsidiary context was impacted more quickly and more directly than corporate context. Interestingly, decision centralization was not noticeably affected by subsidiary initiative, a finding that is contrary to expectation (Burgelman. 1983b). Instead, changes to decision centralization were found to occur as a result of independent changes in the corporation’s strategic priorities.

DISCUSSION AND CONCLUSIONS

What do the results of this study mean for subsidiary initiative? First, we found some evidence for resistance to initiative by the organizational context. The most significant obstacle to initiative success is a lack of subsidiary credibility, followed by a centralization of decision making and a lack of corporate-subsidiary communication. Second, we were able to interpret the “strategies” used by subsidiary managers to counter this resistance. The most important approach appeared to be the building of distinctive capabilities, which represented the foundations on which successful initiatives were built. The second approach appeared to be directed towards countering the resistance of corporate managers, through the building of personal relationships, and the development of credibility. There was also some evidence that local market relationships can be a source of stimulus for subsidiary initiative, though exactly how that works (given the negative correlation with local market dynamism) is less clear. Interestingly, we found no evidence for strong subsidiary leadership or a supportive behavioral context as ways of promoting initiative.

Perhaps most interesting for subsidiary managers was the finding that the organizational context does appear to change over time. In the five case studies we found good evidence that openness to initiative increased over the ten years of study, while communication and credibility both increased. In our interpretation, these changes are the result of a development process, in which subsidiary managers gradually build capabilities in their subsidiary and relationships in the head office, which, in turn, leads to a more receptive head-office audience for their initiatives.

In more general terms, the model of context and initiative was broadly supported. It was shown that the causal relationship between organizational context and subsidiary initiative is reciprocal, with certain facets of context driving initiative and other facets being influenced by initiative. It was also shown that behavioral and structural dimensions of context could be distinguished. However, it should be pointed out that while the model was generic, our proposition development and testing was specific to the case of subsidiary initiative. There is therefore considerable scope for taking the basic model and applying it to a variety of other subsidiary-level behaviors.

Finally, the finding that distinctive capabilities was the most significant driver of initiative is interesting, because such resources and capabilities would not be normally considered part of organizational context. However, if capabilities are indeed a “mechanism that shapes the behaviors of actors” (as stated on page 3), then it may be that we have to incorporate an understanding of capabilities into our concept of organizational context. The idea of a resource context, which was discussed in the literature review, may be a suitable way of bringing together the two approaches.
Methodologically speaking, this study had a number of limitations. First, the case study data were collected at a single point in time. The difficulties associated with interpreting personal recollections are well known (e.g. Schwenk, 1988) and were understood in advance, so efforts were made to minimize the difficulties, including use of multiple respondents and analysis of archival and secondary data. While a longitudinal design would have been superior, and is recommended for future research, practical constraints meant that a single data-collection period was the pragmatic choice. Second, both the questionnaires had their weaknesses. The subsidiary-level instrument (n = 229) led to a possible common method bias because all data were collected through it. The initiative-level instrument (n = 31) used only single-question items to measure its constructs. We have discussed the reasons for these weaknesses in the body of the paper, but they do remain, and the results should be interpreted bearing them in mind. Finally, the generalizability of the findings to other settings is by no means clear. In terms of the use of foreign-owned subsidiary companies, we see only one international constraint per se, and that is our preference for focusing on relatively “peripheral” countries. Perhaps the lack of impact of initiative on corporate context is to some extent a function of subsidiary size, so that larger and more important subsidiaries (e.g. the Japanese subsidiaries of U.S. companies) would potentially have greater impact. Beyond that, the limits of generalizability, we would argue, relate more to the critical features of the chosen empirical setting, the most important of which is the presence of two hierarchical levels. As an earlier discussion indicated, many corporations have three or more discernable hierarchical levels, each of which could have subtly different contexts. The current study has two levels, so it could potentially be generalized to any other organizational setting with two distinct levels.

To conclude, the express purpose of this research was to shed light on the subsidiary initiative process in multinational corporations. The use of a two-phase methodology provided evidence for how subsidiary initiatives were suppressed and promoted, and how they were able to impact certain facets of their organizational context over time. We arrived at two important insights: that initiative appears to be driven primarily by the capabilities of the subsidiary and by the credibility of its management; and that the softer elements of context are more clearly impacted by subsidiary initiative over time than the harder elements. The broader contribution of this study is its in-depth examination of a complex and important managerial process. While much work remains to be done, it is hoped that this study provides a useful starting point for further research in this area.

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APPENDIX. Wording of Questionnaire Items

1. Subsidiary-level Questionnaire (n = 229)

   *Decision centralization.* The scale developed by Roth and Morrison (1992) was used, wording as follows: Which level in your business unit has authority to make the following decisions? (1. decision made in the subsidiary company; 2. decision made at the sub-corporate level; 3. decision made by corporate headquarters): (1) changes in product design; (2) Hiring top management in the subsidiary; (3) Entering new markets within the country; (4) Changes in subsidiary organisation; (5) Introduction of new products/services; (6) The approval of annual budgets; (7) subcontracting out large portions of the manufacturing instead of expanding the subsidiary’s own facilities; (8) switching to a new manufacturing process. Cronbach’s alpha = 0.87.

   *Corporate-subsidiary communication.* We used a two-item measure of communication frequency taken from Ghoshal (1986): How often do senior managers in your subsidiary communicate with their counterparts and bosses in head office (1 = daily, 5 = less than once a month); How often do senior and middle managers in your subsidiary make business trips to head office? (1 = twice a month or more, 5 = less than once a year). Cronbach’s Alpha = 0.82.

   *Subsidiary credibility.* A four-item scale was developed specifically for this study. Questions as follows. To what degree do you agree with the following statements (1 - strongly disagree; 7 - strongly agree). (1) The subsidiary has a history of delivering what it has promised to the parent company; (2) We make a significant value-added contribution to the corporation; (3) We are globally competitive in our area of operation; (4) We are regarded by the parent as an important subsidiary. Cronbach’s Alpha = 0.74.

   *U.S. vs. other head office.* Respondents were simply asked the nationality of their head office. The item was coded 1 if the head office was U.S.; 0 if any other country.

   *Subsidiary leadership.* We developed a three-item measure to assess the strength of subsidiary leadership: Indicate how characteristic the following statements are in describing your subsidiary: (1) The subsidiary has a history of strong, internationally-respected leaders; (2) The visibility of subsidiary top management is high; (3) The subsidiary CEO or president works with managers to focus their efforts towards the subsidiary’s objectives. (1 = strongly disagree, 7 = strongly agree). Cronbach’s Alpha was 0.65. This was not as high as one would have liked, but it was felt to be sufficiently high to retain all three items.

   *Subsidiary behavioral context.* A three-item scale was developed based around the findings in Ghoshal and Bartlett (1994). Cronbach’s Alpha = 0.84. Respondents were asked to indicate how characteristic the following statements were in describing the subsidiary: (1) there are strong working relationships between managers within this subsidiary; (2) subsidiary managers interact frequently and share ideas with one another; (3) there is a strong sense of community within this subsidiary. 1 = strong disagree, 7 = strongly agree. Cronbach’s Alpah = 0.81.

   *Distinctive capabilities.* Roth and Morrison’s (1992) scale was used. Wording as follows. Indicate your capability or distinctive expertise in the following areas relative to other subsidiaries in the corporation: (1) product or process R&D; (2) manufacturing capability; (3) marketing capability; (4) managing international activities; (5) innovation and entrepreneurship. 1 = far below average, 7 = far above average. Cronbach’s Alpha = 0.75.

   *Local market dynamism.* We used the measures developed by Woodcock (1994) to assess various aspects of the local market environmental context. Of these, we ended up using a scale of three items which tapped into the level of competition in the local...
market. Other questions relating to suppliers and customers proved to be less effective. Respondents were asked to respond to three statements with regarding local competition: (1) Local customers have exacting standards; (2) Competition in this country is extremely intense; (3) Domestic competitiveness is intense. 1 = not characteristic; 7 = very characteristic. Cronbach’s Alpha = .68.

*Subsidiary initiative.* We developed a new 6-item scale based on the results of an earlier case-based research study of subsidiary initiatives. The wording was as follows: To what extent have the following activities occurred in your subsidiary over the past 10 years? (1) new products developed in (e.g.) Sweden and then sold internationally; (2) Successful bids for corporate investments in Sweden; (3) New international business activities that were first started in Sweden; (4) Enhancements to product lines which are already sold internationally; (5) New corporate investments in R&D or manufacturing attracted by Swedish management; (6) Proposals to transfer manufacturing to Sweden from elsewhere in the corporation, 1 = never, 5 = plentifully. Cronbach’s Alpha = 0.87.

In addition to the above, we split the sample into those with any occurrence of subsidiary initiative (99 cases) and those without (81). This created a dichotomous variable (1,0) that indicated simply whether initiative, of any sort, had occurred.

2. Initiative Level Questionnaire (n = 31)

*Decision centralization.* What level of strategic autonomy did the subsidiary have? (ability to make decisions without parent company involvement) 1 - very limited, 5 - very high.

*Corporate-subsidiary communication.* What was the extent of personal relationships between the subsidiary’s management and parent company management? 1 - very limited, 5 - very strong.

*Subsidiary credibility.* To what extent did the subsidiary’s management have a record of success at getting projects approved by parent management? 1 - no prior success, 5 - extensive track record of success.

*Openness.* How open was parent company to initiatives of this type? 1 - very closed, 5 - very open.

*Distinctive capabilities.* To what extent were the required capabilities (e.g. technical skills, management experience, quality standards) to pursue this initiative already proven in the company? 1 - required a major extension of capabilities, into a new business, 5 - all required capabilities were proven.

3. Case Study Questions

*Subsidiary initiative.* Specific initiatives identified through interview (figure 2).

*Decision centralization.* Questions were asked regarding the freedom given to subsidiary management to make decisions regarding the subsidiary’s strategy. Related to this, broader questions were asked regarding the balance of power within the corporation between country subsidiaries and global business units (Prahalad, 1975).

*Corporate-subsidiary communication.* Questions were asked regarding the formal and informal modes of communication between the subsidiary and other corporate entities (both the head office and other divisions).

*Subsidiary credibility.* Questions were directed towards the quality of the relationships that existed between subsidiary managers and their counterparts in the head office. We also asked head office managers for their opinion of the subsidiary managers.

*Openness.* We asked broad questions about the difficulties that subsidiaries had had
getting their initiatives through. This brought up, without specific prompting, the reasons for resistance. In many cases these reasons were associated with a lack of openness on the part of corporate managers.

Subsidiary leadership. Interview questions attempted to understand the role subsidiary top management had played in driving the subsidiary’s initiatives. This included an assessment of their vision for the subsidiary, specific actions they had taken, and how they were viewed by middle managers in the subsidiary.

Subsidiary behavioral context. Questions were directed towards the work ethic of the subsidiary, in terms of the employees’ motivation for hard work and their involvement in and commitment to the pursuit of subsidiary top management’s strategic objectives. The quality of informal communication and interaction within the subsidiary was also assessed.

Distinctive capabilities. Questions were directed towards those technical, market-based or process-based skills that the subsidiary believed it was particularly strong in. We were also careful to ask head office managers for their opinions on the subsidiary’s capabilities vis-à-vis other units.