Subsidiary Initiatives to Develop New Markets

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Local initiatives provide winning opportunities and new vitality for MNCs. But managers need tactical savvy, persistence, and luck to break through corporate barriers.

In 1980, NCR's subsidiary in Dundee, Scotland, was on the verge of closure. The operation had been established as a second-source manufacturer of NCR products, but a combination of technological changes in the marketplace, along with internal problems, had caused it to shrink from 6,500 employees in 1969 to 770 in 1980. Moreover, Dundee's most promising product, the automatic teller machine (ATM), was struggling in the British marketplace because of serious quality problems.

Jim Adamson, the newly appointed general manager, had a mandate to turn the operation around — or close it. At an operational level, Adamson worked on improving manufacturing quality and restoring the confidence of major customers. At a more strategic level, he began to develop a vision for Dundee as NCR's strategic center for the ATM business. Product development responsibility officially lay with headquarters (HQ) in Dayton, Ohio, but Adamson began directing his resources toward upgrading and renewing the Dundee product line to meet the emerging demands of its key customers, the big British banks. In the face of active resistance from the development group in Dayton, Adamson pursued a delicate strategy of cooperating with people.
there, while continuing privately to sponsor Dundee’s research program.

His persistence paid off. In 1982, Dundee launched a successful product upgrade and, eighteen months later, a next-generation ATM that set new standards in functionality, reliability, and serviceability. By 1984, Dundee had 20 percent of market share worldwide, and by 1985, headquarters officially transferred responsibility for the global ATM business to Dundee. By 1986, Dundee boasted 35 percent of worldwide shipments, surpassing competitors IBM and Diebold.

More than a good example of turnaround management and strong leadership, the Dundee success story provides insight into the changing relationship between headquarters and subsidiaries in large multinational corporations (MNCs). During a five-year period, NCR Dundee developed from being a second-source manufacturer, totally reliant on Dayton for product specifications, to a self-sufficient operation with leading-edge expertise in ATM development. More important, the turnaround went far beyond what corporate management had requested; indeed, many people in the head office had resisted Adamson’s shift into product development, hanging on to their idea of Dayton as the global center for ATM development. Ultimately, it was Adamson’s deliberately unconventional and somewhat subversive approach that provided the impetus for Dundee’s resurgence — and led to NCR’s leading position in the global ATM industry.

The NCR Dundee case is typical of what we call subsidiary initiative: the proactive and deliberate pursuit of a new business opportunity by a subsidiary company, undertaken with a view to expand the subsidiary’s scope of responsibility in a manner consistent with the MNC’s strategic goals. Subsidiary initiative is important for two reasons. First, it is the principal means by which MNCs tap into new opportunities in markets around the world. Second, it enhances operational efficiency through internal competition among units. But, at the same time, subsidiary initiative is an elusive beast. Many of the MNCs we studied actively discouraged entrepreneurial efforts in their subsidiaries, while others agreed to the concept in principle but hindered its development in practice. Subsidiary managers, it appears, need a lot of tactical savvy, persistence, and luck if they are to pursue initiatives effectively. As one manager described it, a “corporate immune system” lurks in most large organizations. Its role is to kill off intruding initiatives for fear that they might infect the rest of the organism.

In this paper, we report on a four-year research study of subsidiary initiatives in five countries. Our study examined the strategies that subsidiary managers use to conquer the corporate immune system, as well as the types of resistance they encountered. Our research also revealed a subtle shift in the locus of responsibility between headquarters and subsidiaries. Initiative is a sign that subsidiary managers are beginning to take responsibility for their operations’ destiny, which in turn suggests the need for a more central role for subsidiary units in the implementation of corporate strategy. Initiative activity also suggests new management issues for parent-company executives, as they reappraise their innate suspicion of maverick
subsidiary managers and learn how to exploit, rather than stifle, latent entrepreneurship in their far-flung operations.

**Two Distinct Forms of Subsidiary Initiative**

Early in our research, we could see that subsidiary initiative has two forms (see Figures 1 and 2). One form — which the NCR Dundee case typifies — was externally focused. It involved the identification of new or enhanced business opportunities through interaction with customers, suppliers, and government entities in the subsidiary's marketplace. The other form was internally focused, involving the identification of new business opportunities that the subsidiary could take on within the existing boundaries of the corporation. For example, we identified cases of subsidiaries bidding internally for planned, global-scale investments, as well as subsidiaries identifying poorly performing HQ-based activities that they could take over.

The common theme we saw in both external and internal initiatives was the entrepreneurial component. First, we saw the need for proactive, pushy, and sometimes Machiavellian tactics on the part of subsidiary managers as they sought to gain currency for their projects in headquarters. We also typically saw a skeptical reaction from HQ managers, for whom subsidiary initiative was something of an oxymoron. But, in many respects, the two forms of initiative were very different. They involved distinctly different tactics, faced different forms of resistance, and had significantly different impacts on the MNC's management as a whole.

**External Initiatives**

External initiatives arose typically out of customers' unmet demands in the local marketplace. In the NCR Dundee case, Barclays and the other major British banks were investing heavily in ATMs. The Dundee development group worked with them to incorporate their product needs into the next generation of ATMs. We saw several variants on this theme:

- In 1991, the business development manager at GE Canada responded to a government-sponsored program seeking energy-efficient lighting in federal buildings by starting a new enterprise called GE Energy Management.
- In 1992, Pharma's British subsidiary established a joint venture with a small U.K. company to develop a new technology for transmitting drugs through the skin.
- Using its international industry contacts, Hewlett-Packard's Panacom subsidiary (in Waterloo, Canada) identified an emerging market for the "X terminal," a RISC-chip-based workstation, in 1989.

No less critical than the identification of an interesting business opportunity was the need for a relatively high degree of autonomy in the subsidiary. Faced with the strong likelihood of rejection if the project were presented to HQ management in its embryonic form, subsidiary managers preferred to do the initial development work with their own funds. During the 1980s, for example, Hewlett-Packard (Canada) had access to development funds for country-specific projects. Those funds facilitated development of the X terminal, as well as several other projects. Many subsidiaries didn't
Initiative champions tested the idea in a small way, using subsidiary resources and without the knowledge of headquarters.

have this level of autonomy, however. Some were able to assemble skunk-works groups that explored the viability of their ideas on their own time, but others, because they had no access to development funds, saw their promising ideas languish.

A champion for the initiative always emerged in the early stages. Typically he or she was the individual who identified the business opportunity in the first place, although sometimes the subsidiary’s general manager took ownership of the project because of its importance. Initiative champions adopted a surprisingly consistent strategy. First, they tested the idea in a small way, using subsidiary resources and without the knowledge of headquarters. Then, as the project took shape, they sought out allies — typically local customers who were interested in buying the product or service, but sometimes, also, personal contacts or mentors in the home office. Finally, once they had demonstrated their project’s viability, they presented it formally to HQ managers and asked for investment funds and support. We saw this basic model in a variety of guises:

- At NCR Dundee, Jim Adamson initiated his product development efforts against the will of the R&D group in Dayton, but once Dundee’s second-generation product was so obviously successful, HQ management bowed to the inevitable and transferred responsibility for ATM development to Dundee.
- In 1985, Hewlett-Packard (Canada)’s former president Malcolm Gissing funded a small development group in Calgary to develop an oil-well data management system. The group existed as an “orphan” for seven years, without a line of reporting through one of HP’s business groups. It finally achieved corporate legitimacy in 1992, when it became a business unit within the Test and Measurement division.
- In 1987, a small group of engineers in Honeywell Canada bootlegged a PC interface for Honeywell’s TDC3000 process control system. The system, known as PCNM, gained support quickly with a number of Canadian customers. Subsequently, the development group gained permission from HQ management in Phoenix to build PCNM as a standard product worldwide.

As these vignettes suggest, other parts of the corporation almost universally opposed the subsidiary’s initiative. We termed this collective resistance the corporate immune system to illustrate its apparent intention to kill off the intruding initiative. The resistance to initiative took a wide variety of forms:

- Pharma’s British subsidiary encountered outright opposition from a competing development group at headquarters. The group even vetoed the project, but fortunately the British development group was able to arrange alternative funding through the company’s marketing arm.
- Two HP (Canada) initiatives, the X terminal and the Calgary development group, were challenged by U.S.-based divisions that were undertaking development work in similar areas. In both cases, the U.S. division argued that the development fell under its charter and urged that the Canadian operation be terminated.
- GE Canada’s energy management business was almost closed down when its parent division in the United States, GE Supply, rationalized its operations in 1994. The problem was not that the energy management business was performing badly; the parent simply saw it as too small and too far from GE Supply’s core business area to survive the rationalization.

The combination of outright opposition, internal competition, and passive indifference was a challenging set of obstacles for the initiative champions in our study. Just over half the initiatives survived this process, but that probably overstates the situation because it represents only those stories that subsidiary managers shared with us willingly. Our research focused on the latter parts of a long and mostly invisible process. Surely, many other initiatives fell at the first hurdle — or never left the starting blocks.

For those initiatives that survived, however, the rewards were impressive. NCR Dundee became a $1 billion operation; HP (Canada)’s X terminal business reached sales of $120 million four years after its inception; and GE Canada established a leading market position in the emerging energy efficiency industry. For the corporation as a whole, the rewards were
multifaceted. Most obviously, NCR, HP, GE, and others gained new and vibrant businesses in emerging areas. More subtly, they also benefited from the development and maturation of one of their foreign subsidiaries. Some might view this as a mixed blessing, but if we see business as becoming ever more global, then the nurturing of new and valuable capabilities in outlying parts of the multinational network can only strengthen the corporation’s global reach.

**Internal Initiatives**

Internal initiatives arose from opportunities that innovative subsidiary managers identified within the corporation. The subsidiary managers in our study understood their own unit’s strengths and weaknesses well and frequently were on the lookout for new activities elsewhere in the corporation that dovetailed with their capabilities. The following examples illustrate their ideas’ scope:

- IBM began manufacturing PCs in Greenock, Scotland, in 1982. Toward the end of the 1980s, plant managers were looking for ways to extend the scope of their operations. In 1991, they identified a small monitor development group near London that could be a logical complement to their manufacturing and succeeded in getting it relocated to Greenock. Subsequently, they identified order fulfillment and help center functions that could cover all Europe and be centralized in Greenock. Both initiatives were successful.

- Back in 1972, as a Honeywell Canada factory manager toured the plant of a sister subsidiary in the United States that made a control switch, he saw an opportunity. He proposed to headquarters that the Canadian plant take over the manufacture of the control switch with responsibility for sales throughout North America.

- In 1991, Monsanto Canada’s top management identified an interesting proposal in the corporation’s long-range plan. Monsanto was developing a new formulation for its best-selling agrochemical product, with the intention of bringing it to market around 1996. Seizing the opportunity, Canadian management argued — successfully — that the investment should be made in Canada because of the country’s strong agricultural industry.

Two conditions facilitated the development of internal initiatives. First, and in marked contrast to external initiatives, internal initiatives needed relatively tight integration into the corporate system. Subsidiary managers emphasized that it was important that they be tied into the corporate network, so they could hear about investment opportunities early. As one manager said, “The best way to win a competitive investment is to write the specifications.” One 3M Canada manager heard about an embryonic investment plan accidentally on a routine visit to St. Paul, Minnesota. That lucky break led to a $20 million investment in Canada.

Second, the subsidiary had to have, or be prepared to work hard for, a reputation as a trustworthy and reliable operation. Typically, subsidiary managers confronted an implicit challenge: Why would we risk investing in a foreign country when we can stick with tried-and-tested solutions closer to home? Often they responded by trying to mitigate the risk by capitalizing on personal contacts at headquarters. In other cases, such as at IBM Scotland, initiative success grew after many years of manufacturing excellence. In the absence of contacts or reputation, however, a subsidiary had very limited prospects.

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Unlike external initiatives, which typically avoided confrontation with HQ managers in the early stages, internal initiatives had to pursue a more orthodox line of attack through the formal lines of authority. The Monsanto Canada initiative led to the establishment of a group whose role was to assess four possible locations for the new agrochemical investment. Similarly, 3M Canada pursued several initiatives aimed at winning new manufacturing investments in Canada, each of which had to pass through two operating committees in the United States. The process was methodical and incremental, with subsidiary management gradually moving up through the corporate hierarchy, building support and commitment from all the key individuals. Frequently, this process took as long as a year. In one case, the initiative was put on hold for two years until the arrival
Resistance from the corporate immune systems was inevitable, and it took a variety of forms.

of a new manufacturing director in the United States who was more amenable to the proposal.

We observed two additional tactics with regard to internal initiatives. One was a two-pronged approach. The initiative champion made a formal proposal through the official lines of authority. At the same time, the subsidiary president utilized his or her personal contacts at a much higher level in the home office to build legitimacy for the proposal and smooth its course through the system. The second tactic involved the use of a quid pro quo — some sort of concession by the subsidiary to compensate the losing party. The best example of this was Honeywell Canada's proposal in 1986 that it become the sole North American manufacturer of zone valves and "fan-and-limit" devices. The proposal encountered strong resistance from the plant in Minnesota that was making those products for the United States. The two parties negotiated a deal whereby the Toronto plant would swap its other manufacturing responsibilities for the exclusive production of zone valves and fan-and-limit devices. Both plants ended up shedding a few jobs, and both emerged with higher volumes and more efficient operations.

Internal initiatives were competitive by nature. Either the subsidiary was challenging other units for a new investment, or it was proposing a transfer that would leave the previous incumbent short. Resistance from the corporate immune systems was inevitable, therefore, and it took a variety of forms:

- The first line of defense was passive disinterest — If we ignore it, maybe it will go away. Honeywell Canada's initial proposal for a manufacturing rationalization came back with "superficial comments." As one manager noted, people considered it a "strategic plan for the top shelf, not something to incite quantum change."
- Skepticism about the subsidiary's abilities was the second line of defense, along with a suggestion to consider other options. Monsanto Canada faced this reaction initially when it proposed locating the new agrochemical investment in Canada, but through an innovative design, it was able to demonstrate a superior expected rate of return over the competing location in the United States.
- Outright resistance was the third line of defense. In one case, the magnitude of the loss that the U.S. operation faced provoked strong arguments to halt the initiative. As one manager recalled, "There was an extreme amount of local resistance — marketing, engineering, everybody. How could you ship your son to the foster child, how could you do that? Look at all the things that could go wrong! We've earned the right to continue."

At first glance, the outcome from internal initiatives was less spectacular than that from external initiatives. For IBM Scotland, the result was an "extended value chain" from development to market support. For 3M Canada, it was a robust, export-oriented manufacturing operation. For Monsanto Canada, it was a significant greenfield investment in the heart of the company's large prairie market. In each case, the net impact for the corporation as a whole appeared small. No new products resulted, and no immediate new customers. The cake was simply split in a different way, with the subsidiary getting a larger slice.

But a simple analysis of the configuration of activities before and after the initiative doesn't tell the whole story. As Gordon Brown, the controller of IBM's Greenock plant commented, "By extending the value chain and linking various activities together in one location, we saved millions of dollars, improved customer satisfaction, and increased market share." In essence, the process itself created a new vitality in the initiative-taking subsidiary. Subsequent improvements in performance were often spectacular.

The enduring value of internal initiatives was more subtle. Subsidiary managers were like entrepreneurs, looking for inefficient practices within the multinational system and proposing solutions to better them. For example, companies often retain their internal sourcing relationships because they have always done things that way. But guaranteed sales can make a plant lazy, and before long the internal customer is putting up with a substandard product or an inflated price from its supplier. Internal initiatives provide a mechanism for changing inefficient sourcing relationships. And their threat fosters a more challenging environment, which keeps manufacturing operations on their toes. The same principle applies to other value-adding activities. For example, we saw several
cases of product management jobs being shifted from the United States to Canada because a strong case was made that the job would be handled more efficiently there.

**Toward a Model of Internal Competition**

Our study suggests two potentially important roles for foreign subsidiaries. The first is driven by external initiative and falls under the category of *market development*. The role is well documented in the literature. The subsidiary both identifies and acts on new business opportunities in its local market. The second role is less well understood. We call it *network optimization* because the subsidiary seeks out and eliminates inefficient activities within the multinational network. Internal initiative, of course, drives the process of network optimization. We believe that some subsidiaries, by virtue of their history, their local environment, or their management, will pursue market development roles, while others, for equally circumstantial reasons, will pursue network optimization roles. A third group might choose neither role, but we believe that many more could move toward one or the other quite successfully.

The network optimization model has some far-reaching implications. First, it suggests that many value-adding activities that MNCs are undertaking are “contestable,” that is, potentially, they could be performed by a number of different units. Of course, a lot of activities are firmly embedded in their local environment, or they are so large and asset-specific that they could not be practically moved. But, in the course of our study, as we saw examples of manufacturing, development, logistics, marketing, and business management activities change locations, we concluded that much of what is done inside the MNC is neutral with regard to physical location. Moreover, increasingly, subsidiaries are seeking to “win” some of the more mobile activities that are not locked into a single location. The trend, therefore, is toward internal competition as a mechanism through which activities are allocated and reallocated within the MNC.

We don’t want to overstate this point because we are aware of the inertia that inhibits a high level of fluidity within the corporate network, as well as the need for collaborative relationships among units. But we see a number of trends that will push MNCs more and more toward an organizational model based on internal competition. One is the greater globalization of business, which reduces the cost of product and capital flows across borders. Another is the growing use of internal benchmarking as a way to highlight the relative efficiency levels of different units. This trend is particularly critical in Europe, where many MNCs are still going through the painful process of rationalizing their manufacturing networks. A third is the growing level of initiative on the part of subsidiary managers, along with internal investment agencies in pursuit of “mobile” investment.

Faced with such changes, many subsidiary managers we interviewed were thinking hard about their futures. They were asking themselves, “What is my unit’s unique value in this corporation? What do we do better than anyone else?” They were looking for what we might call their *sustainable competitive advantage* vis-à-vis their *internal competitors*. Two examples clarify this idea:

- Motorola’s East Kilbride, Scotland, operation was one of sixteen around the world that fabricated silicon wafers for semiconductors — and one of the corporation’s best performers. All the key performance measures, such as cost, service, and quality were easily compared, so obviously the company made new investments in the top-performing sites. East Kilbride’s managers had a clear goal, therefore: to stay ahead of their internal competitors on the most important performance metrics. If they could do that, their operation would receive new investment when times were good and avoid closure when times were tough.
- Honeywell’s Scottish subsidiary in Newhouse manufactured a range of control valves and related items for the European market. During the 1970s and early 1980s, control valves were mechanical devices, but Newhouse’s general manager realized the impending shift toward electronic devices and invested discretionary funds in the development of an electronic manufacturing capability. When, in 1991, corporate management decided to invest in a global-scale facility for electronic fan coils, Newhouse was the obvious location because all the necessary capabilities were already in place.

East Kilbride’s strategy was to be the lowest-cost/highest-quality source for silicon wafers; Newhouse chose to differentiate itself from its sister plants around the world by investing in a new technology. Both strategies appeared to create sustainable positions for the subsidiary. More important, both offered clearly defined benefits to the corporate parents.
When viewed this way, initiative offers a win-win solution; subsidiary growth also contributes to the MNC's competitive advantage. However, HQ and subsidiary managers' views are not always in harmony. Next we examine some perceptions — mostly those of HQ managers — which engendered uneasiness whenever we discussed subsidiary initiative, and which underlay the resistance we observed in our case studies.

The Dangers in Initiative: Two Contrary Views

In the course of our research, we observed many instances in which there were no signs of subsidiary initiative, and we heard many opposing arguments to our view that MNCs should encourage subsidiary initiative. The arguments took two basic forms.

Some people argued that only those subsidiaries at the more "evolved" end of the spectrum should take initiative.

"Sometimes Acceptable"

The first argument saw subsidiary initiative as acceptable under certain conditions. For example, most corporations accepted that different subsidiaries have different roles—some are strategic centers, some have contributory roles, others are just implementers of corporate strategy. Using such an approach, some people argued that only those subsidiaries at the more "evolved" end of the spectrum should take initiative. Those units, they argued, had the capabilities on which to base further development, and the management expertise necessary to drive initiatives to completion. The rest should focus on their implementational roles.

We found considerable evidence to support this perspective. Just under half the subsidiaries we surveyed claimed to have pursued some form of initiative in the past five years; the rest saw themselves as implementers. When asked why they had not pursued initiatives, typically they answered, "We focus exclusively on meeting the needs of our local customers," or "It is not appropriate for us at this stage," or "It is very difficult because of the level of centralization in the corporation." Clearly, there are fundamental differences between the two groups that are based at least in part on the level of the subsidiary's development.

But a difficult question arises: How does a passive subsidiary transform itself into an initiative-taking one? Evidently, there is a development process that subsidiaries go through over time, in which they gradually build up resources, take on more and more responsibilities, and build their credibility within the corporation. Our evidence suggests that initiative is an important step in the development process. However, HQ executives may actively resist it. Initiative, after all, is easy to view as insubordination, which is galling for a corporate parent accustomed to a more docile and obedient subsidiary.

The "growing pains" experienced by Pharma's U.K. subsidiary were typical in this regard. This subsidiary saw itself as providing strategic leadership in one area of drug development, while managers at headquarters saw it as taking a much more modest marketing and drug-testing role. As a result, the two sides clashed repeatedly during a five-year period. The subsidiary proposed a series of initiatives, and business unit managers at the home office stalled, challenged, or rejected them all. The process was "exhausting and frustrating" for both sides, and, after five years, no clear progress had been made toward a more harmonious relationship. The situation at 3M Canada was more constructive. There, management started by taking on small manufacturing operations that U.S. plants didn't want. Gradually, 3M Canada built up its manufacturing capabilities, which led to some measure of credibility south of the border. Eventually, the subsidiary had the self-confidence and legitimacy to pursue more significant initiatives.

There is another problem with an approach that sees some subsidiaries as initiative takers and others as passive implementers. If the objective of initiative is to identify and pursue new opportunities, how can corporate executives know in advance where those opportunities will arise? If the Japanese, German, and British subsidiaries are charged with market development and network optimization, what happens to the great new business opportunity that the Italian manager spots? We believe that every subsidiary needs to have a latent entrepreneurial role, so they can pursue opportunities wherever they arise. This does not mean letting every subsidiary wander off to pursue its pet project, but it does mean that corporate systems need to help long shots find their way through corporate barriers.
Some managers felt that subsidiary initiative was simply more trouble than it was worth.

We want to dwell on this point a bit because it's usually the least understood. Taken to the extreme, an organizational system that encourages initiative could end up in anarchy. Initiatives could spring up in areas that lay far beyond the corporation's business domain, and head-office managers could be inundated with proposals that made little or no strategic sense. We take a more measured approach. Clearly, MNCs need control systems to constrain the number of poorly thought-out initiatives, but, increasingly, such systems should be based on the development of a shared understanding of the corporation's strategic priorities, rather than on intervention into subsidiary affairs.

The concept is similar to that of employee empowerment. The corporation gives subsidiary managers the tools they need to manage their operation effectively, along with a clear indication of the boundaries of their responsibilities. Within those limits, they have free rein to pursue opportunities as they see fit, on the assumption that they understand their operation and the local marketplace better than executives sitting in a distant head office. The subsidiary assumes new roles and responsibilities, therefore, rather than receiving assignments from above — an important distinction. Control systems are necessary to make it work, but the philosophy of empowerment underlying this model shifts the headquarters-subsidiary relationship from one of mutual suspicion and interference toward one of trust and shared destiny.

"Pure Opportunism"

Another opposition to initiative that we encountered was even less accommodating. Some managers felt that subsidiary initiative was simply more trouble than it was worth. One HQ manager recounted an unfortunate episode in which a subsidiary manager in his business area had undertaken a series of investments that he insisted were necessary to build market presence, but they had led to spiraling costs and slow decision making. The HQ manager viewed that as pure opportunism and "empire building." Since then he has shifted toward a system of fairly tight control over subsidiary expenditures.

That position is difficult to counter because there are occasional cases of empire building, where the subsidiary manager's initiative is not consistent with the corporation's best interests. One can never be sure whether a subsidiary manager is acting entrepreneurially or opportunistically. The interpretation will depend a lot on whether there is a strong level of trust between the individuals in question. Unfortunately, one bad experience can jaundice an HQ manager's attitude forever.

We don't believe that all subsidiary initiatives are proposed in good faith. Most probably are, but HQ managers need to scrutinize all initiatives carefully and do their best to separate the wheat from the chaff. We do believe, though, that initiative has a critical role in the transferal of information about dispersed sources of expertise throughout the MNC. The discussions we had with one Scottish subsidiary manager — let's call him John Bryant — illustrate this point. Bryant was in charge of a large Scottish assembly operation, a long way from the head office in Boston. He saw his employees' dedication and observed the high-quality output that left the plant every day. He also knew that corporate executives had a global network of plants to manage and that they could not know in detail how each worked. He believed his operation was one of the best and, as the leader of 500 people, was concerned about their livelihood.

When we asked him about initiative — Did he actively seek new investments for his plant? — he did not hesitate. "It is my obligation to seek out new investment," he responded. "No one else is going to stand up for these workers in the head office. They are doing a great job, and I owe it to them to build up this operation. I get angry with some of my counterparts in other parts of Scotland, who just tow the party line. They follow their orders to the letter, but when I visit their plants, I see unfulfilled potential everywhere."

Conclusion

Before subsidiary initiative becomes a legitimate and pervasive phenomenon in large MNCs, subsidiary and parent-company managers have to make significant, though subtle, shifts in their roles.

For subsidiary managers, we see an emerging role that is fundamentally more entrepreneurial than has been recognized historically. As one manager in our
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study pointed out, "No one in the head office wakes up thinking about what they can do in Canada today." That responsibility lies with the subsidiary manager. He or she has to be prepared to identify opportunities, then build support for them in the head office. But the process is difficult, and managers run the risk of wasting their efforts if their initiative is not chosen well. The following points are worth remembering:

- The magnitude of the initiative should be proportional to the subsidiary’s reputation in the head office. One subsidiary management team in our study spent a decade pursuing a "big hit" investment, to no avail. Now the team is pursuing a host of smaller projects with considerable success.

- Managers must understand the reasons why they are encountering resistance and look for ways to mitigate it. If the initiative threatens to put some people out of a job, they should look for some form of compromise to create a win-win situation. If none of the HQ managers knows them personally, they should try to involve someone with whom they already have a relationship.

- Managers should not emphasize nationalistic arguments. As one person put it, "If I go there wrapped in my Canadian flag, I provoke all sorts of unnecessary challenges.” Rather, they should focus on the technical or economic arguments as to why the location (which just happens to be in Canada) makes sense.

- Finally, it is important to recognize that initiatives can be either externally or internally focused, and that most subsidiaries are good at one or the other.

The emerging role for HQ managers is no less demanding. We envision a subtle shift through which executives become more open to new, challenging ideas from the periphery of the organization. This does not mean abandoning the tried-and-tested systems by which they evaluate new proposals, but it does call for a change in attitude that will encourage more subsidiary managers to bring their initiatives forward for consideration. Again, a few points to consider:

- Corporations can institute systems that encourage the flow of initiatives in a controlled manner. Some corporations send out request-for-proposal invitations whenever they plan major capital investments; others have put in place "challenge" mechanisms for changing internal sourcing relationships.

- Executives can introduce other systems to break down cross-national prejudices. Several corporations that we studied used global business teams or the sharing or transfers of senior managers, or they made a point of managing business units outside the home country. These approaches foster a more welcoming environment for subsidiary initiatives.

- HQ executives need to be clear about the difference between challenging or resisting an initiative. Challenging means seeking additional information, looking at alternatives, and coming to a decision about the initiative’s merits. Resisting uses many of the same techniques, but it is fundamentally prejudiced and attaches greater importance to negative evidence.

We set out to explore the strategies that subsidiary managers used in pursuit of initiative, understand the forms of resistance they typically encountered, and assess the implications of initiative for MNC management. We believe strongly in the value of subsidiary initiative as a means for developing new markets and as a mechanism for improving the allocation of activities within the multinational. Yet there are still some strong arguments against subsidiary initiative, and subsidiary initiative remains a little-understood, risky proposition in most people’s minds.

We hope we have clarified some of the mechanisms and benefits of initiative, as well as potential costs. Our research yielded some outstanding success stories, and we believe there is potential for many more. We encourage the executives of multinational corporations to consider ways to foster the changing behaviors that enable initiatives to flourish.
References


2. The authors thank Gerhard Schmidt of Hewlett-Packard Company, who first suggested this concept of a corporate immune system. The theoretical underpinnings of the concept were developed more fully in a separate paper. See: J.M. Birkinshaw and J. Ridderstråle, "Fighting the Corporate Immune System: A Process Study of Peripheral Initiatives in Large Multinational Corporations" (Stockholm, Sweden: Institute of International Business, Working Paper 96/03).

3. The research comprised two phases. First, we conducted 132 intensive case study interviews at both the subsidiary and corporate headquarters levels in twenty subsidiaries and their parent companies in the United States, Canada, Great Britain, Sweden, and Belgium. We focused on specific initiatives that the subsidiaries had undertaken in order to understand how they came about, the resistance they faced, and their impact on parent-company strategies. The second phase, a large-sample questionnaire study of 260 subsidiary companies in three countries (Great Britain, Canada, Sweden), sought to test empirically the hypotheses developed in the first phase. It focused on the role played by subsidiary initiative as the mechanism through which subsidiaries gained international management recognition — for example, as "centers of excellence" or through "world product mandates."


5. This example is drawn from a teaching case. See: J. Birkinshaw, "The GE Energy Management Initiative" (University of Western Ontario, Ivey School of Business, 1994, 9-94-6005).

6. Pharma is the disguised name of a European pharmaceuticals corporation.

7. Bartlett and Ghoshal, for example, refer to contributor and strategic-leader subsidiaries, while many Canadian academics have used the concept of "world-mandate" subsidiaries. See: C.A. Bartlett and S. Ghoshal, "Tap Your Subsidiaries for Global Reach," Harvard Business Review, volume 64, November-December 1986, pp. 87-94; and H. Etemad and L.S. Dulude, Managing the Multinational Subsidiary (London: Croom Helm, 1986).

8. It should be clear that this distinction parallels Michael Porter's generic strategies as the basis for sustainable advantage vis-a-vis industry competitors. See: M.E. Porter, Competitive Strategy (New York: Free Press, 1980). See P. Hagström, The Wired MNC (Stockholm: Institute of International Business, Stockholm School of Economics, 1993). It should be pointed out that a key difference between the current work and the work of Bartlett, Ghoshal, and Nohria on the "differentiated network" is the suggestion that subsidiary units can assume roles, rather than parent companies always assigning them. See: S. Ghoshal and N. Nohria, "Internal Differentiation within Multinational Corporations," Strategic Management Journal, volume 10, pp. 323-337.

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