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Developing subsidiary contribution to the MNC—Subsidiary entrepreneurship and strategy creativity

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ABSTRACT

Despite its theoretical and managerial significance, subsidiary entrepreneurship and its effects on subsidiary contribution remain underexplored in the literature. We propose that subsidiary entrepreneurship encourages more creative strategic responses to escalating environmental change. We explore the direct and mediating effects of subsidiary entrepreneurship on subsidiary contribution to the MNC, particularly subsidiary strategy creativity. We use structural equation modelling to test our propositions on data generated from surveying the population of Irish subsidiaries of foreign MNCs, and find strong support for our theoretical predictions. The managerial implications of subsidiary entrepreneurship in generating creative strategy, prompting strategic initiatives and improving performance are discussed.

1. Introduction

The contemporary MNC must co-ordinate the activities of a complex network of subsidiaries operating in diverse environments to create competitive advantage (Andersson et al., 2007). Yet while the benefits of individual subsidiaries interacting with their particular local environment to create knowledge and initiatives for dissemination across the MNC is increasingly accepted (Almeida and Phene, 2004; Birkinshaw et al., 1998; Hansen and Lovas, 2004; Gnyawali et al., 2009), the potential for a subsidiary to exploit their local environment through developing *subsidiary entrepreneurship* has been underexplored (Young and Tavares, 2004).

The ability of subsidiaries to access knowledge, ideas and opportunities within their specific environments (Andersson et al., 2002) has led to a gradual acknowledgement of their role in sourcing learning and generating innovations for diffusion and exploitation across the wider organisation (Mudambi and Navarra, 2004; Mudambi, 2008). In response, a stream of literature (for example, Birkinshaw, 1997; Birkinshaw et al., 1998; Cantwell and Mudambi, 2005; Andersson et al., 2007) has examined the role of *subsidiary context*—which Birkinshaw et al. (1998) define as 'how the subsidiary relates to its parent, its corporate network [and] its local environment' (p. 223)—on its ability to generate initiatives. We suggest that the development of entrepreneurship within subsidiaries allows MNCs to exploit their global networks more effectively. We argue that such '*subsidiary entrepreneurship*' is associated with a combination of influences specific to the business of the subsidiary itself, its place within the MNC and its geographic location.

This study contributes by identifying which elements of a subsidiary's context are associated with entrepreneurship at the unit level. We investigate the direct relationship between the two—an approach that has not (to our knowledge) been taken

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previously, despite increasing demands for organisations to generate creative strategic responses (Ford et al., 2008) to escalating environmental change. We then explore the mediating effects of entrepreneurship to gain deeper insights into how it amplifies the effect of subsidiary context on subsidiary contribution. Besides its potential for theory development, this area is particularly relevant to practitioners, as understanding how entrepreneurship influences subsidiaries' added value is critical to protecting their position within the MNC.

2. Theoretical background

The evolution of the literature about MNCs demonstrates the increasing prominence of the roles and contribution of their subsidiary units. The proliferation of such MNC subsidiaries across the globe was initially considered as an agency dilemma, with the focus on how corporation headquarters could minimise opportunistic behaviour in their subsidiaries (Watson O'Donnell, 2000). Subsequently, studies have demonstrated the potential of subsidiary units to contribute to the MNC by generating initiatives, expanding their activities, markets or responsibilities, and developing resources and capabilities, often independently of their parent organisations (cf; Birkinshaw and Hood, 1998; Cantwell and Mudambi, 2005; Holm and Sharma, 2006; Kotabe and Mudambi, 2004). Subsidiaries are now recognised as sources of knowledge that can be diffused and utilised throughout the MNC network (Mudambi, 2008), helping to stimulate the continuous adaptation and 'constant reinvention' required to compete in the global environment. While the agency problem has not disappeared, it has been counterbalanced by the need to realise 'the many well documented benefits of strategically independent subsidiaries … learning from local systems of innovation, using and integrating local resources and competencies, and generally introducing a heightened level of dynamism into the parent MNCs' (Mudambi and Navarra, 2004, pp. 387).

As their subsidiary roles have evolved, MNCs have shifted from hierarchical to more federal structures (Buckley and Ghauri, 2004), with the role of headquarters moving towards guiding their subsidiaries to best deliver MNC strategy, while simultaneously exploiting the benefits of their access to new knowledge, ideas and opportunities (Andersson et al., 2002). Headquarters retain an ultimate veto, but subsidiaries can increasingly build up their influence and responsibilities within the overall organisation (Cantwell and Mudambi, 2005). As agency theory anticipates, this may not always be to the benefit of the MNC, as subsidiary managers can then exploit their unit's position for their own objectives: Mudambi and Navarra (2004, pp. 399) warn that the value or knowledge subsidiaries hold can give them strong bargaining power that is difficult for the MNC to revoke, possibly resulting in inefficiencies or loss of shareholder value.

Efforts to date on identifying the determinants of subsidiary contribution to the MNC have focused on the direct relationship between subsidiary context (the combination of control and co-ordination mechanisms applied by the parent, what happens within the subsidiary and its idiosyncratic local environment) and subsidiary contribution (Birkinshaw, 1997; Birkinshaw et al., 1998; Hewett et al., 2003; Rugman and Verbeke, 2003; Taggart, 1998). The potential for subsidiary context to influence the development of entrepreneurship within the unit has been overlooked. We propose that individual subsidiaries will display similar tendencies to independent organisations, and that their levels of entrepreneurship will vary according to their individual context. We can consider this 'entrepreneurial orientation' as incorporating the levels of risk taking, proactiveness and innovativeness the subsidiary exhibits (Covin and Slevin, 1989; Covin et al., 2006), and to range from extremely conservative to very entrepreneurial (Barringer and Bluedorn, 1999). While the subsidiary's context directly influences its level of contribution to its parent MNC, we argue that this relationship is mediated by subsidiary entrepreneurship: in effect, more entrepreneurial subsidiaries will be better placed to exploit a favourable context and thus generate more contribution for their parent organisation.

To date, *subsidiary contribution* to MNCs has been considered (by for example, Birkinshaw, 1997; Birkinshaw et al., 1998; Andersson et al., 2002; Williams, 2009) largely in terms of business performance, initiative generation, and knowledge access and transfer within the MNC. In particular, the value of those initiatives generated by subsidiaries that can be adopted across the MNC organisation is now broadly accepted (Birkinshaw, 1997; Birkinshaw et al., 1998). However, prior research has neglected the (potentially) vital contribution of creative strategies developed by individual subsidiaries, despite recent exploration of individual level creativity within organisations (Gong et al., 2009; Hirst et al., 2009).

It is accepted that the latitude provided by federal MNC structures has enabled subsidiaries to engage in strategy development (Birkinshaw, 1997; Cantwell and Mudambi, 2005; Dorrenbacher and Gammelgard, 2006) which is concerned about the future direction of an organisation (Dess et al., 1997), but little is known about the drivers of variation in subsidiary strategy. Clearly, subsidiary level strategy focuses on its direction within the constraints of its MNC ownership and local environment, but recognises the potential for subsidiary managers to use their 'strategic discretion' in response to changing environmental conditions (Birkinshaw, 1997; White and Poynter, 1984). This discretion can give rise to autonomous strategic behaviour (Burgelman, 1984). Such autonomous action and behaviour has been studied, in other contexts, as corporate entrepreneurship (Covin and Slevin, 1991; Barringer and Bluedorn, 1999; Kuratko et al., 1990). For example, Burgelman (1983) demonstrates how corporate entrepreneurship leads to the conception of new business opportunities outside of the organisation's current concept of strategy, requiring re-examination of its boundaries and eventually a redefinition of its business strategy. We propose that similarly entrepreneurial behaviour can be observed at the subsidiary level. Prompted by Lumpkin and Dess's (2001, pp. 431) assertion that an entrepreneurial orientation captures 'a willingness to support creativity and experimentation', we suggest that entrepreneurial subsidiaries will be more willing to redefine their current strategy, will be more open to developing novel and creative strategies than conservative units, and will develop alternative strategic approaches that can then be adopted as appropriate across the MNC. Original and imaginative