Subsidiary Task and Subsidiary Autonomy

It was argued in Chapter 1 that the relationship between headquarters and subsidiaries is central to the understanding of the functioning of multinational corporations and, as several authors have pointed out (Birkinshaw, Hood and Jonsson, 1998; Enright, 2000; Edwards, Ahmad and Moss, 2002), the subsidiary is playing an increasingly important role in generating competitive advantage for the overall MNC. The sometimes conflicting and sometimes cooperative nature of this connection has become a significant concern in international management. The ambivalence in the relationship frequently arises because the subsidiary requires or desires a degree of autonomy of decision-making that the HQ is not always disposed to concede. Over the last two decades, subsidiary autonomy has been the subject of considerable academic research. An important outcome of the nature of the task that the subsidiary performs on behalf of the overall corporation is its connection with the subsidiary’s level of autonomy. The first contribution of this chapter is to investigate the relationship between level of subsidiary autonomy and subsidiary task in the context of the range of strategies available to the MNC. The second results from subsidiary autonomy being a phenomenon independent of the factors used to derive the subsidiary task clusters in Chapter 6. Hence, by testing hypotheses regarding the task-autonomy relationship the investigation also adds important external validation to the clusters derived in Chapter 6.

The chapter begins by briefly reviewing the literature on subsidiary autonomy and presents a series of hypotheses that link that variable to the range of subsidiary tasks. The empirical section investigates the subsidiary task–subsidiary autonomy association. First the subsidiary tasks derived from unrelated and related diversification are compared and then the four related diversification subsidiary tasks are examined.
Literature and hypotheses

Subsidiary autonomy

The earliest approaches focused on identifying the factors that influenced the level of autonomy in the subsidiary. Several studies (Skinner, 1968; Stopford and Wells, 1972; Picard, 1977; Hedlund, 1981) proposed that the diversification process, both related and unrelated, led to subsidiary autonomy. Hedlund (1981) also argued that HQ influence was usually strongest on decisions involving access to central resources, when long-term obligations result or when common frameworks and organizational routines and practices were involved. Garnier (1982) proposed that MNC philosophy and perceptions of the local environment also influenced subsidiary autonomy. Gates and Egelhoff (1986) argued that MNC-wide conditions were more important than subsidiary specific factors although the latter could not be ignored. These studies were essentially early attempts to map the domain and, as such, they provide some basic indicative information.

From the standpoint of what Birkinshaw (1994) labeled the ‘process school’, subsidiary autonomy was seen as one factor in a dynamic pattern of forces that drives the MNC’s evolution (see for example, Prahalad and Doz, 1981a, b). In particular this approach emphasized how subsidiary autonomy was linked to MNC strategy with regard to the local environment. Closely allied to this perspective was the contribution by Bartlett and Ghoshal (1986). They examined the effects of developing subsidiary capabilities, the subsequent establishment of a mutually agreed strategy for the subsidiary and the required coordination techniques. For example, subsidiary autonomy was identified as a necessary condition for adoption of a world product mandate (Rugman and Bennett, 1982; Poynter and Rugman, 1982; White and Poynter, 1984). More recently, Birkinshaw, Hood and Jonsson (1998) demonstrated how the initiatives of subsidiaries were able to contribute to the firm specific advantages of the MNC. Young, Hood and Dunlop (1988) called attention to the subsidiary’s ability to make strategy-supportive decisions and, in a similar vein, Taggart (1996) demonstrated the contribution that subsidiary autonomy made to the MNC’s strategic evolution. Taggart (1997a) modeled subsidiary strategy using autonomy in conjunction with procedural justice (Kim and Mauborgne, 1991, 1993a,b) and linked the classifications to a subsidiary’s shift from one strategy state to another. Bartlett and Ghoshal (1989) examined the link between subsidiary autonomy and innovation. Greater subsidiary autonomy was proposed to facilitate the creation of local innovations.