

PhD Thesis



**THE ROLE OF EMBEDDEDNESS AND TOP MANAGEMENT TEAMS ON
SUBSIDIARY INITIATIVE PROCESS**

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CHAPTER 1. INTRODUCTION

1.1. Background of the research

In a globalized and flat world, the role of Multinational Corporations (MNCs) in the world economy is every time stronger, with approximately 100.000 MNCs and almost 900.000 foreign affiliates according to the World Investment Report of 2011 (UNCTAD, 2011), and reaching sales of foreign affiliates of 37.570 billions of dollars and employment of 82.1 million in 2016 (UNCTAD, 2017). Not only are MNC important for their economic influence and their impact in nations' economies, but also for their complexity. Researchers have been captivated by MNC for several decades, as they face multiple challenges from the coordination of a large number of subsidiaries to the necessity to continuously innovate in order to compete in demanding globalized markets (Bartlett & Beamish, 2018). Hence, this is a changing and multidisciplinary research field that grows with the changes on the global economy, where MNC are no longer large companies exclusively but also small, hierarchic entities but also network firms, and with dispersed innovation among foreign subsidiaries instead of concentrated in HQ (Contractor, 2012).

Subsidiaries are central actors of MNC, then it is reasonable that they have been of interest for many researches, especially because their development and role has changed over time, going from simple implementers of HQ's mandate to entrepreneurial entities that contribute to the firm with specific resources and capabilities (Birkinshaw, Hood & Jonsson, 1998). Initially, subsidiary research focused on MNC structures with a hierarchical perspective of MNC and little attention was given to subsidiaries, adopting latter more flexible structures with decentralized subsidiaries (Bartlett & Ghoshal, 1988; Birkinshaw, 2001; Paterson & Brock, 2002). Later the relationship between HQ and subsidiary takes importance in the literature and in the eighties, the MNC classical control mechanism with a hierarchical approach was challenged (Kim & Mauborgne, 1993), opening up to a new heterarchical approach where MNC that are actively searching for opportunities, resources, competences and advantages from their subsidiaries (Hedlund, 1986). The importance of subsidiaries continued to increase, to the point of becoming a study unit for the

changes on their role as well as their development, even to consider the MNC an 'interorganizational network' where subsidiary enhance their position on the MNC network by accumulating capabilities and resources (Dasí, Pedersen, Gooderham, Elter & Hildrum, 2017; Pedersen, 2006).

The importance of subsidiaries reaches its pick with their entrepreneurial role. Subsidiary initiatives (SI) are seen as "discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources" (Birkinshaw, 2014, p. 203), which starts with the identification of an opportunity and should achieve the commitment of resources. Researches have centered on SI because of several reasons. First, initiatives are important because they allow the foreign units to build capacities based on the resources they control, and enhance the subsidiary's role (Birkinshaw & Hood, 1998). Subsidiaries also add value to the MNC by being entrepreneurial and building sustainable competences, acquiring resources and capabilities essential for the entire MNC, which improves their position on the network (Delany, 2000) and also creates a mutual dependent relationship with HQ (Ambos, Andersson & Birkinshaw, 2010; Pfeffer & Salancik, 1978). Additionally, subsidiaries have to respond to external and internal pressures, and subsidiary entrepreneurship becomes a strategy to compete in them (Birkinshaw, Hood & Young, 2005; Porter, 1980). This posit the subsidiary in a particular place regarding other firms, as were the subsidiary entrepreneurial competences focus not only on learning from the context to recognize opportunities, but gaining autonomy and approval of the initiatives is a challenge (Dimitratos & Jones, 2005). However, this important IB stream is said to be fragmented and many researchers are focusing on a process perspective, and demanding a more holistic approach (Schmid, Dzedek & Lehrer, 2014; Strutzenberger & Ambos, 2014).

Nonetheless, though initiatives are beneficial for the entire MNC (Bartlett & Ghoshal, 1988; Birkinshaw & Hood, 2000; Birkinshaw et al., 2005), they are not necessarily well receive by HQ but instead the MNC *corporate immune system* activates and initiative are rejected (Birkinshaw & Ridderstråle, 1999).

This happens because initiatives go beyond the subsidiary's mandate, and HQ's lack of knowledge or understanding of an initiative leads them to suspect from the initiative, as SI could not be aligned to HQ's goals (Bouquet & Birkinshaw, 2008). Therefore, subsidiaries must assertively sell their initiatives to HQ to gain support and approval. This constitutes an entire research stream, where the MNC is seen as a political arena and each subsidiary is attempting to be heard and supported, to exercise its voice and influence HQ, selling an issue or lobbying (Cantwell & Mudambi, 2005; Dörrenbächer & Geppert, 2009; Ling, Floyd & Baldrige, 2005; Mudambi & Navarra, 2004; Williams & Lee, 2011). Studies on HQ attention can also be found on this line of research, which studies how HQ give more attention to some units than others, as well as how subsidiaries gain this attention (Birkinshaw et al., 1998). Hence, an important question arises as to why some initiatives are accepted and successfully implemented while others not.

Subsidiary's position within an MNC, with a mandate and control from HQ, as well as horizontal relations with sister units, and in a local context, creates unique opportunities and challenges to develop entrepreneurial capabilities, defined as subsidiary-specific advantages (SSA). According to Rugman, Verbeke and Yuan (2011), these advantages result from the combination of knowledge acquired from the MNC network with novel created knowledge, from the subsidiary autonomous behavior, and from the subsidiary knowledge acquired from the local social ties in which is embedded. There are two critical variables involved in the development of these advantages, subsidiary managers and employees, and networks. The access to valuable and tacit knowledge and resources from the local environment allows the subsidiary to discover entrepreneurial opportunities, also it makes the capabilities of a subsidiary unique among the rest of the MNC, which are in many cases the result of managers/employees' interaction with local networks (Mahnke, Venzin & Zahra, 2007). Also, the subsidiary managers and employees develop this tacit knowledge by interacting with those networks, and by combining them with their previous knowledge, backgrounds and beliefs (Mahnke et al., 2007).

When studying subsidiary management, the main focus is the CEO and few authors study the TMT (Collings, Morley & Gunnigle, 2008; Gong, 2006; Harvey & Novicevic, 2002), as IB literature on TMT is concentrated on parent company. However, it has been recognized by several authors that decisions are not the result of a single person but of a group (O'Reilly, Snyder & Boothe, 1993), and the characteristics of the group can shape the outcomes or performance of the firm (Hambrick & Mason, 1984). Then, it is important to understand how the subsidiary top management teams (STMT) are composed, their interaction and how their traits influence the subsidiary's operation. Moreover, since diverse TMT are associated to innovation, studying the impact of heterogeneous STMT on subsidiary initiatives is very relevant. Understanding the composition of the STMT and their contribution to MNC can lead to managerial strategies to constitute the adequate team to promote entrepreneurship on foreign units.

Finally, regarding the role of networks on initiatives, embeddedness has been subject of study on IB as subsidiaries are embedded in the local context and the organizational (MNC) context (Birkinshaw, 1999; Ghoshal & Bartlett, 1990). External embeddedness, relations with host country actors, has been found to be positive for SI as subsidiaries would have access to valuable information, knowledge and resources from these networks (Andersson, 2003; Andersson & Forsgren, 1996, 2000; Andersson, Forsgren & Holm, 2002, 2007; Bresciani & Ferraris, 2016). Also, it has been related to SI success, since "Initiatives that are developed with the assistance and encouragement of network partners receive more attention and display a higher rate of survival" (Strutzenberger & Ambos, 2014, p. 321). Additionally, internal embeddedness, relations with HQ and sister units, is proven to have a positive impact on the implementation of the initiative, particularly in the approval by HQ (Ghoshal & Bartlett, 2005; Inkpen & Beamish, 1997; Najafi-Tavani, Giroud & Andersson, 2014). Hence, a dual and positive impact of both types of embeddedness is expected on SI; however, results are inconclusive as some studies support this dual effect while other found a trade-off (Achcaoucaou, Miravittles & León-Darder, 2014;

Asmussen, Foss & Pedersen, 2013; Ciabuschi, Holm & Martín, 2014; Figueiredo, 2011; Najafi-Tavani et al., 2014; Scott-Kennel & Giroud, 2015; Yamin & Andersson, 2011). Then, it remains important to determine if the joint effect of external and internal embeddedness is beneficial or not for SI.

1.2. Research framework and research objectives

Entrepreneurial activities within an organization have received increasing attention among scholars (Birkinshaw, 1997; Burgelman, 1983b; Miller, 1983), however, its definition is still ambiguous and it takes numerous terms, such as corporate entrepreneurship, corporate venturing, intrapreneurship, internal corporate entrepreneurship, internal corporate venturing, and organizational or strategic renewal. For the purpose of this thesis, I will concentrate on corporate entrepreneurship, which has received several definitions that were consolidated by Sharma and Chrisman proposing the following definition, “the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization” (1999, p. 18). Under the umbrella of corporate entrepreneurship, Birkinshaw builds the concept of subsidiary initiative, as the primary manifestation of dispersed corporate entrepreneurship, based on the assumption that “every individual in the company has the capacity for both managerial and entrepreneurial behavior more or less simultaneously. Rather than hiving off separate groups or divisions” (1997, p. 209). Nonetheless, subsidiary initiatives are a broader concept beyond corporate entrepreneurial literature, since subsidiaries are embedded in a local (host) and in an organizational (MNC) context; hence SI is a more complex phenomenon that should be studied outside the CE umbrella (Strutzenberger & Ambos, 2014).

Subsidiary initiative becomes an important research area in IB literature, with Birkinshaw as its principal exponent (Birkinshaw, 1997, 2014; Birkinshaw et al., 2005; Birkinshaw & Ridderstråle, 1999; Pedersen, 2006). A significant

number of theoretical approaches that study SI were identified by Schmid, Dzedek and Lehrer (2014), some perspectives applied individually while others complementing each other. Among the theoretical approaches Schmid et al. (2014) recognized the *decision process perspective* (Burgelman, 1983b), where autonomous strategic behavior takes place in a subsidiary independent of HQ mandate (Birkinshaw & Hood, 1998; Verbeke, Chrisman & Yuan, 2007). Also, theories regarding subsidiary's accumulation of resources attempt to explain SI, rooted on *network theory* (Ghoshal & Bartlett, 1990a) that understands subsidiaries as semiautonomous entities, capable of making decision but constrained by HQ (Birkinshaw, Holm, Thilenius & Arvidsson, 2000), as well as on the *resource-based view* (Barney, 1991), which interprets subsidiary evolution as the accumulation or depletion of capabilities over time (Birkinshaw & Hood, 1997; Delany, 2000). Moreover, *resource dependence theory* (Pfeffer & Salancik, 1978) and theories of *organizational politics* (Mintzberg, 1985) are used in the study of subsidiary's accumulation of power, as the result of accumulation of resources, locating SI in the center of HQ-subsidary relations. In studies regarding the subsidiary's motivations to conduct initiatives, *self-determination theory* (Ryan & Deci, 2000) has been used to propose that subsidiary managers pursue opportunities to satisfy their own personal needs (Ambos et al., 2010). While *bounded rationality* (March & Simon, 1958) allows to explain how MNC approve SI, as perception gaps can arise or HQ should accept subsidiary's actions in good faith (Birkinshaw et al., 2000, 1998). Although SI are a demonstration of entrepreneurship, only some exceptions have applied general theories of entrepreneurship to study this phenomenon (Liouka, 2007; Mahnke et al., 2007). As they concentrate on opportunity recognition, it is evident that SI should be studied as a process and theories of entrepreneurship must be implemented in this initial stage¹.

Consequently, several authors have called for the study of SI as a process, identifying three stages: opportunity identification, issue selling and

¹ An exhaustive list and explanation of these theoretical approaches can be found in Schmid et al. (2014) in Appendix A.

implementation (Strutzenberger & Ambos, 2014), or four stages: (1) opportunity identification, (2) resource attainment and utilization, (3) initiative selling, evaluation and approval, (4) commitment of resources and implementation (Dzedek, 2018). Similarly to SI, there is also a lack of integration on the theories and frameworks that examine SIP, missing a unified theoretical basis (Andersson, 1999; Dzedek, 2018; Schmid et al., 2014; Strutzenberger & Ambos, 2014). Additionally, very few studies examine the initiative process systematically, purposefully, and holistically; as most studies focus only on some stages of the process, the antecedents or the outcomes (Dzedek, 2018; Strutzenberger & Ambos, 2014). Furthermore, SIP is considered a multilevel phenomenon, which includes individuals, teams, organizations and the networks; but is has neglected levels such as teams on the existing studies (Mahnke et al., 2007; Strutzenberger & Ambos, 2014; C. Williams & Lee, 2009).

Considering the gaps mentioned on SIP literature, I have the following main objectives:

1. Understand why and how some subsidiaries are able to launch initiatives, by discovering opportunities, selling them and getting approval and support to execute them.
2. Examine the SIP more integrally by studying two stages of the process, opportunity identification and issue-selling, since these two stages are particularly different in SI for the external and internal pressures that face the subsidiaries.
3. Integrate different theoretical approaches on the study of SIP: IB and entrepreneurial literature, by analyzing the opportunity recognition phase; and consolidating the different approaches for issue-selling and initiative approval.
4. Study the SI as a multilevel phenomenon, including the role of CEO, TMT and networks.

Answering to the calls to study subsidiary initiative process more holistically, integrating theories and levels of actors, I will work through this thesis incorporating IB literature with entrepreneurial theories, Upper Echelon approaches as well as Network perspectives.

1.3. Methodology

This study follows a qualitative research based on case studies. Since multiple case studies are adequate when the same phenomenon is believed to occur in several situations, this thesis will conduct a multiple-case design, which contributes to the verification of results without discarding the importance of within case analysis (Yin, 1981). Yin's multi-case study approach was used in information analysis, complemented with Gioia's method to guarantee strong concepts. This procedure allows us to explore actors perceptions and interpretations, account for the context of participants (Yin, 2011), gather richer information on the subject studied (Yin, 2011) and allows the study the phenomenon more dynamically (Gioia & Thomas, 1996; Pettigrew, 1992).

In the selection of the cases, I identify the sample of MNC in the Colombian market. The selection of the cases guarantee that the companies fulfill certain characteristics such as size and international operation. Four (4) firms were selected from the AMADEUS that can be considered big MNC, with more than 4.000 employees and annual sales above 200 million USD. MNC with at least 3 subsidiaries abroad were studied in order to have several perspectives from the same MNC and identify differences in the entrepreneurial, embeddedness and TMT within the same MNC. From each MNC, a minimum of 2 subsidiaries were interviewed, for a total of 10 subsidiaries, making sure that their managers exhibited some degree of entrepreneurial behavior and have knowledge of the SI. These subsidiaries are located in El Salvador, Chile, USA, Costa Rica, Mexico, Peru, Ecuador, and Dominican Republic.

The literature on the three major phenomena discussed in this thesis was explored in order to identify relevant questions that guided the study. The questions were designed according to the literature review of chapters II, III and IV, specifically motivated by definitions and models of Birkinshaw (1997), Ardichvili et al. (2003), Baron (2006), Dutton and Ashford (1993), Andersson et al. (2002, 2007), Hambrick and Mason (1984). The data collection strategy was mainly based on semi-structured interviews with MNC actors from the three different levels; a protocol was prepared for the interviews, with open-ended and specific questions, and, participants were encouraged to complement aspects that they found interesting or relevant, giving flexibility to the protocol. In total, 25 interviews were conducted during seven months, including actors from different levels to triangulate information and ensure data reliability and validity (Eisenhardt, 1989; Yin, 2011): either the CEO of HQ or a TMT, subsidiary's CEO and in some cases a STMT member actively involved with the SI discussed. The semi-structured interview guide explores the international operations of the MNC, the initiatives from the most proactive subsidiaries, as well as the role of their teams and their networks on this entrepreneurship. To improve validity and reliability of the study, interviews were recorded and notes were taken, and later transcribed (Langley & Abdallah, 2011).

After the data was gathered, I followed Miles and Huberman (1984) recommended procedures to conduct the cross-case analysis, using tools to facilitate data reduction and visualization. Subsequently, I analyzed the participant's comments about subsidiary initiatives and their relationship with HQ, each case separately followed by constant comparison techniques among the participants' statements looking for similarities and differences (Glaser & Strauss, 1967). An iterative process was implemented to create mutually exclusive and exhaustive categories (Gioia et al., 2013). Following the Gioia et al. method (2013), I created a set of 1st-order categories entirely from the data, followed by the searched of similarities or patterns between the 1st-order categories, creating 2nd-order categories more related to the theory (Nag &

Gioia, 2012). The 2nd order categories were aggregated into broad concepts (1) *Subsidiary Initiative Process*, (2) *Dual Embeddedness*, and (3) *TMT composition*. Finally, I developed the thesis model and some propositions, in order to understand the relation between the different categories or phenomena identified in this work.

1.4. Main contributions of the study

From an academic perspective, this thesis contributes to IB literature by studying two phases of the SIP process: opportunity development and issue-selling, integrating theories and frameworks, hence contributing to a more holistic study of SIP (Andersson, 1999; Schmid et al., 2014; Strutzenberger & Ambos, 2014). Also, the findings demonstrate a positive impact of dual embeddedness in both stages of SIP, opportunity development phase and the issue-selling process, reinforcing the conclusion of several authors regarding the positive relation between dual embeddedness and subsidiary performance (Ferraris, 2014; Najafi-Tavani, Giroud & Sinkovics, 2012), but adding to the literature by focusing on subsidiary initiatives. A further contribution of this study is the suggestion of a dynamic role of embeddedness, which was possible to establish by considering different phases of a process. However, this last result was superficially treated in this thesis and future research is suggested.

The present study sheds light into International Human Resource Management literature, by analyzing the role of CEO and TMT on subsidiary initiative. This thesis proposes that subsidiary's CEO from parent company intensify the influence of internal embeddedness on selling an initiative and gaining approval. This work advances our knowledge on subsidiary top management team, by studying the impact of their composition on the SIP, demonstrating that a diverse STMT has a positive influence on the development of an opportunity and the process to gain initiative approval, particularly the impact on issue selling is interesting, as I found no studies exploring this aspect. This

is the most important result of this paper and it extends our knowledge on this neglected topic with few exceptions like Gong's (2006) work.

From a managerial perspective, this study is particularly relevant for MNC managers that are promoting entrepreneurship and proactiveness on their subsidiaries, to succeed in a competitive international arena. Hence, understanding the impact of STMT composition on subsidiary initiative, would allow the MNC to constitute the team that can become a sustainable competitive advantage for the entire MNC (Auh & Menguc, 2005; Barney, 1991). Additionally, although most of the network literature associates the development of external embeddedness to opportunity recognition by accessing to unique knowledge and resources, and internal embeddedness to issue selling, this work prove that it is important to leverage both types of embeddedness during the whole process of the initiative. Moreover, HQ management should promote an entrepreneurial culture in their foreign subsidiaries, since they are an essential source of innovation for MNC (Ambos et al., 2006; Yamin & Otto, 2004).

1.5. Structure of the thesis

The present dissertation is structured in six chapters as follows, including this introduction:

Chapter II focuses on a review of the literature on subsidiary evolution, emphasizing on the entrepreneurial role of subsidiaries and subsidiary initiatives. It starts with the literature that has studied the existence of Multinational Corporations (MNCs), from the economic perspectives to the evolution of subsidiaries. SI is located within the field of corporate entrepreneurship, and the chapter zeros in on SI definition, antecedents and the different phases of the SIP. Particularly, understanding the SIP as the varied perspectives and frameworks makes it a fragmented concept (Schmid et al., 2014; Strutzenberger & Ambos, 2014). The chapter closes with a section

that attempts to understand the SI in the MNC context, to identify the challenges and threats faced by a subsidiary in pursuing opportunities.

Chapter III concentrates on Top Management Team literature, since it is an important actor for the SIP and there is a call from several authors to include it on the subsidiary initiative analysis, as it is a multilevel phenomenon (Schmid et al., 2014; Strutzenberger & Ambos, 2014). The chapter begins by examining the Upper Echelon Model of Hambrick and Mason, and how demographic traits can influence a firm's strategic actions and performance. I explored the definitions and measures of TMT, as well as studies on TMT composition. Particularly, I zero in on the diversity of the subsidiary TMT and how different types of diversity influence the firm, especially the impact on subsidiary initiative, and what attributes influence the most the opportunity development phase as well as the issue-selling towards HQ.

Chapter IV studies the third key variable of this dissertation, embeddedness, and its role on SI. Since subsidiaries are constrained by both, external and internal networks, understanding how these actors are related and the closeness of subsidiary's relation to them is crucial. I studied the origins of the concept embeddedness, as well as the definition from different theoretical perspectives and the types of embeddedness. This overview allowed me to focus on two types of embeddedness that influence the MNC, particularly the subsidiaries, external and internal embeddedness. I conducted an exhaustive review of studies that evaluate the impact of external and internal embeddedness, separately, on the SI; as well as an examination on the papers that evaluate if dual embeddedness impacts the SI positively or negatively. Concerning the latter, I attempted to identify if there is a trade-off effect or complementarity.

Chapter V describes the research process, including the selection of the cases and the description of the MNC included in this thesis. Chapter V compares the quantitative and qualitative methodologies, and the reasons for choosing

an inductive approach and a qualitative research strategy. Additionally, it explains why the case study is selected as the research design. Next, the research process is described, including the process of the cases selection, the description of the MNC included in this thesis, as well as the data collection. Then, the analysis of the data is presented mainly based on the Gioia method, which includes the data structure of the present study, followed by the findings.

Chapter VI presents the discussion about the findings of the case-study analysis that was conducted for purposes of theory building. This chapter initially explores into the relation between external and internal embeddedness and the first stage of the SIP, opportunity development, discovering that both types of embeddedness have a positive impact in this SIP phase. Subsequently, the chapter analyses the results of the relation between STMT and opportunity development, finding different impacts regarding nationality, age and functional diversity. The chapter further explores the influence of external and internal embeddedness, as well as STMT diversity, on the issue-selling phase of the SIP. Three strategies for selling an issue were analyzed: involvement of actors, presentation of the proposal (preparation of initiative and financial aspects), and subsidiaries power, autonomy and attention; and unexpectedly the external embeddedness had a significant impact on this SIP phase while STMT had a limited influence mainly on the presentation of the proposal. This chapter concludes by presenting a conceptual model of the influences of STMT and embeddedness on the SIP, as well as consolidating associated propositions.

CHAPTER 2. SUBSIDIARY INITIATIVE

2.1. Introduction

The purpose of this chapter is to extensively review the literature on subsidiary evolution and to emphasize on the phenomenon of Subsidiary Initiative (SI). Particularly, understanding the subsidiary initiative process (SIP), as an international literature topic that has recently been contested by authors who argued for a more integrative approach in terms of theoretical approaches as well as the level of actors involved (Schmid et al., 2014; Strutzenberger & Ambos, 2014).

The structure of chapter II is as follows: Section 2.2 introduces the diverse literature that has studied the existence of Multinational Corporations (MNCs), starting from the economic perspectives, understanding the internationalization processes, and giving room to theoretical perspectives that justify the existence and evolution of subsidiaries, such as international entrepreneurship. In section 2.3 I have conducted a thorough review of the evolution on subsidiary, concluding the section with the most recent topics on subsidiary literature: Subsidiary entrepreneurship and knowledge transfer and learning.

Section 2.4 concentrates on identifying SI within the field of corporate entrepreneurship, as a call from many researches that find a gap on studying SI from the entrepreneurial perspective. Additionally, in section 2.5 the definition of SI is reviewed, as well as the antecedents and the different phases of the SIP. I have dedicated special emphasis to the recognition of the opportunity, with the aim to provide a more integrated entrepreneurship view; and to the selling of the initiative to better understand the role of subsidiary top management teams; both variables of interest in this thesis.

Section 2.6 closes the chapter, aiming to understand the SI in the MNC context, what are the challenges and threats faced by a subsidiary in pursuing opportunities that an independent firm does not face, and what phenomena

can help to mitigate these challenges and obtain HQ's approval and support to implement the initiative.

2.2. Theoretical approaches to MNC and subsidiary's study

The purpose of this section is to review the predominant theories for the analysis of MNCs, including economic theories that explain the reasons why firms go abroad, the processes or stages of internationalization, as well as the configuration of MNCs and their interactions in the MNC network. The economic perspective monopolized the beginnings of internationalization studies, but then disciplines such as strategic management and psychology complemented these views.

Transaction cost theory (TCT)

From an economic perspective, the transaction cost theory (TCT) has been used to explain the entry modes of firms in foreign countries, more specifically why firms choose to locate in foreign countries regardless of the costs of distance and unknown markets. According to Williamson (1985), even though the market is expected to function perfectly, there are market failures that generate transaction costs such as bargaining costs, information costs, and enforcement costs. A firm may choose an alternative to the market by internalizing the transaction (hierarchy instead of market), however, this may also present problems such as control losses or agency costs, or loss of efficiency (Williamson, 1985). Therefore, the transaction cost theory identifies coordination mechanisms as a continuum with two extremes, the firm and the market, in the middle of which several hybrid organization forms are possible including cooperation agreements (Williamson, 1985).

Regarding internationalization, transaction cost theory "analyses which entry mode minimizes the transaction cost associated with the exploitation of an existing competitive advantage in a foreign market" (Villar, Pla-Barber & León-Darder, 2012, p. 4). If transaction costs are low, the firm may decide to use the market for the transaction, in this case it refers to entry modes with less control, non-equity modes, such as franchising. Whilst when transaction costs are too

high, firms decide to internalize the transaction and establish their own subsidiaries in the foreign market (Williamson, 1985).

TCT has been used to further explain international phenomena, especially in HQ-subsidiary relations, such as the role of expatriates in subsidiaries (Peng & Beamish, 2014), the lower costs of transferring tacit knowledge from wholly owned units than by the use of contracts (Driscoll & Paliwoda, 1997), and subsidiary autonomy (Verbeke & Yuan, 2005). However, the emphasis on subsidiaries in this theory is not evident, instead the subsidiary is considered a black box.

The Eclectic Paradigm

Proposed by Dunning in 1980, the eclectic paradigm attempts to study the decision regarding where to locate the foreign activity. Hence, the eclectic paradigm focuses on how three factors influence a firm's decision to exploit its competitive advantages in other countries through FDI: ownership, location and internalization (OLI) (Dunning, 1980). This is based on Hymer's work (1976), who assumed that since local firms possess more knowledge about the market, then a foreign firm would locate in this market only if it possesses firm-specific advantages, or ownership advantages, to overcome the liability of foreignness (cost of doing business abroad for differences in culture, legal systems, etc.). The monopoly of ownership advantages and their exploitation imply the existence of market failure, which provides the opportunity to compete with locals in a foreign country (Hymer, 1976).

The ownership-specific advantage refers to inputs over which use a firm has property rights, such as commercial monopoly of specific assets, economies of scale and additional advantages derived from geographical diversification or multinationality (Dunning, 1980). If a firm possesses ownership advantages over firms from other nationalities, it has an incentive to enter the market (Dunning, 1980). The location advantages refer to inputs that are available in a particular location and must be used there, such for instance natural resources, proximity to markets, legislation and government intervention

(Dunning, 1980). If it is profitable for the firm to locate its plants in other country, this location advantage is an incentive to go abroad (Dunning, 1980). Finally, a firm could choose to exploit internally those advantages transferring them to foreign markets (FDI), because is a better alternative than to sell them to a firm located in the international market. This decision will depend on transaction costs, risk and uncertainty; the greater these market failures the more incentives the firm has to internalize the advantages (Dunning, 1980).

The OLI paradigm was clearly an MNC center theory, where the emphasis is placed on FDI, and when is it preferable through wholly owned subsidiaries and not licensing and joint venture. In this stream, subsidiaries and their role were not explored, but the focus was on the transfer of nonlocation-bound Firm Specific Advantage (FSA) from the center of the MNC, the HQ, to the periphery, or the host country subsidiaries (Rugman & Verbeke, 2001).

The Uppsala Model

Johanson and Vahlne (1977, 2009) described the internationalization process as a set of incremental stages, where firms gradually increase their involvement on international markets, starting by exporting via an agent, then establishing sales subsidiaries, and finally beginning production in the host country. The foundation of the model is that firms should have knowledge of foreign markets to have successful operations there. This knowledge can be only acquired by experience or *experiential learning*, which is obtained by entering the foreign market. Therefore, firms search first for closer markets and therefore with low *psychic distant*, where business practices, cultural and/or language differences are lower and then gradually enter more distant markets, as they learn about foreign markets. During the internationalization process companies gain *experiential learning* and hence, more knowledge about the market, that through time leads to increase their commitment to foreign markets (Johanson & Vahlne, 1977, 2009).

Although the Uppsala Model does not study the subsidiary, it starts to identify their importance, because the experiential learning is not exclusive of the

parent company but it also occurs at the subsidiary level (Forsgren, 2002). Additionally, on the revision of the Uppsala Model (Johanson & Vahlne, 2009) the role of networks becomes more clear, and the importance of subsidiary relations takes importance in this perspective.

International Entrepreneurship

Research on International Entrepreneurship has recently emerged and rapidly increased in scope, hence it is not surprising that some authors argued that it is a fragmented, inconsistent, and lacking unifying paradigms field (Keupp & Gassmann, 2009). Jones, Coviello and Kwan (2011) in an attempt to consolidate and organize the IE literature identified five research thematic areas: Venture Type, Internationalization, Networks and Social Capital (section 2.2.6.), Organizational Issues and Entrepreneurship.

As a recent field of study, international business literature and entrepreneurship research converge in order to explain why new ventures were internationalizing rapidly, what forces drive rapid internationalization of firms almost from inception and factors of Global Startups success, among others (Oviatt & Mcdougall, 1993). This perspective includes the born global (BG) literature, where BG were defined as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (Knight & Cavusgil, 2004, p. 125), and the advantages of small firms rely on the entrepreneurial actions taken by young firms to internationalize (Cavusgil & Knight, 2009).

In the case of Internationalization, it deals with patterns and influencers of internationalization. Welch and Luostarinen (1988) suggested that new firms achieve leapfrogging in their internationalization process and therefore the Uppsala model may not be suitable for these type of firms. Influencers of early and rapid internationalization include studies of enablers such as technology, competition, and knowledge (Oviatt & Mcdougall, 2005), networks (Bell, 1995), internet (Katz, Safranski & Khan, 2003).

Regarding organizational issues, studies focus on performance, orientation, knowledge and capabilities (Jones et al., 2011). Some of the factors that influence performance identified by Jones et al. (2011) are: international work experience and product differentiation (Bloodgood, Sapienza & Almeida, 1996), technological sophistication (Zahra, Neubaum & Huse, 1997), an entrepreneurial orientation (Jantunen, Puumalainen, Saarenketo & Kyläheiko, 2005) and organizational structure and opportunity-driven behavior (Kocak & Abimbola, 2009), hostility and heterogeneity of the domestic markets (Zahra et al., 1997) and uncertainty (Dimitratos, Lioukas & Carter, 2004). Concerning Orientation, they focused on entrepreneurial orientation (EO), zeroing in the international perspective of EO, by exposing Dimitratos and Plakoyiannaki's (2003) concept of international entrepreneurial culture. In terms of Knowledge and Capabilities, the ways knowledge is created is studied, focusing on how entrepreneurs recognize and exploit international opportunities (Zahra, Korri & Yu, 2005), and the combination of previous and recent knowledge (Casillas, Moreno, Acedo, Gallego & Ramos, 2009). An increasing stream studies knowledge and subsidiaries, focusing on the transfer of knowledge from HQ to the subsidiaries (Harzing, 2002) and on the importance of reverse knowledge from subsidiaries to HQ and other sister units of the MNC (Ambos, Ambos & Schlegelmilch, 2006; Gupta & Govindarajan, 2000).

As for entrepreneurship, the concept of corporate entrepreneurship takes relevance in IB literature and the stream on Subsidiary Entrepreneurship is born (Birkinshaw, 1997). Furthermore, the study of the entrepreneur, their characteristics and behaviors in the international arena are considered. Additionally, understanding how opportunities are identified and implemented on international markets is subject to study. In section 2.4 this stream will be thoroughly analyzed.

Resource-based view (RBV)

This perspective shifts the attention from international transaction to the nature of the MNC competitive advantages (Miravittles & Zhang, 2016). It tries to understand how MNC firms gain a sustainable competitive advantage and outrun other firms, it goes beyond the analysis of the industry (Porter, 1980) and the transactions of firms (Williamson, 1975), and it concentrates on the resources of the firm and how their combination can translate into competitive advantages (Barney, 1991). According to Barney (1991), a firm can achieve sustained competitive advantage if its resources are valuable and rare, imperfectly imitable, and not easily substitutable. This way, resources are heterogeneous and immobile, giving the firm unique capabilities to compete in an environment where other firms cannot imitate its resources. Therefore, "...specific organizational resources which are valuable, unique, and hard to imitate help separate winners from losers in global competition" (Cavusgil & Knight, 2009, p. 45). Additionally, the focus is no longer exclusive of the HQ, since subsidiaries' markets are also a source of value creation.

The RBV perspective is extremely influential on the IB literature, one of the primary notions of a MNC consists on having firm specific advantages (FSA) that can be located and exploited in other countries, as they are non-location bound (Rugman & Verbeke, 2001). Additionally, the literature has focused on the importance of the host country, and country specific advantages (CSA) that can occur at the host country or the parent country, and the influence that can have on FSA and/or subsidiary specific advantages (SSA). Furthermore, authors have recognized that the subsidiary can build SSA, which can be globally exploited but their internal diffusion within the organization is difficult, due to barriers such as low mobility, however they can manage to transfer some SSA to the MNC, when making them non-location bound is possible (Rugman & Verbeke, 1992, 2001). Birkinshaw and Pedersen (2001) suggested to study the recombination of these different types of advantages, even with other resources, instead of studying the SSA separately. As Rugman et al. concluded, "An SSA results from (a) recombining knowledge transferred from the network with newly created knowledge; (b) autonomously assumed

(extended) subsidiary roles; and (c) subsidiary knowledge embedded in idiosyncratic host country locations” (2011, p. 32).

Network approaches to internationalization

There are two perspectives regarding network theories in IB literature. The first research stream belongs to the contingency theory approach, the study of networks is related to the structure of the MNC, identifying the MNC as interorganizational network (Forsgren, 2004). The purpose of this approach is to understand how MNCs coordinate and organize their international activities (Miravittles & Zhang, 2016). Ghoshal and Bartlett defined the MNC as a “network of exchange relationships among different organizational units, including the headquarters and the different national subsidiaries that are collectively embedded in what Homans (1974) described as a structured context” (Ghoshal & Bartlett, 1990, p. 604). This perspective allows to study the MNC as a federation, paying attention to the interaction between the MNC actors in terms of information exchange, resource allocation, power distribution, among others (Andersson et al., 2007). Hedlund’s (1986) work on the heterarchical MNC, exemplifies this approach since the traditional M-form shift to a N-form (network based MNC), and the HQ is no longer the center of the MNC but instead is one of many centers including the MNC subsidiaries. Also, the importance of the position of the firm in the network is taking into account by these studies (Johanson & Vahlne, 2009). This perspective is present along this thesis, since the SI is a clear example of the importance of the subsidiary within the MNC, and their protagonist role among a network of organizations, where the HQ is part of this network and not the only center.

The second approach is based on business network theory, which focuses on individual business relationships, including subsidiaries, particularly on the networks that the MNC is embedded (Forsgren, 2004). Johanson and Vahlne (2009) included the importance of networks in their reviewed model, affirming that “internationalization is seen as the outcome of firm actions to strengthen network positions” (Johanson & Vahlne, 2009, p. 1423). Consequently, networks are considered as a starting point in the internationalization process

of a firm by helping firms to identify opportunities (Birkinshaw, 1997; Johanson & Vahlne, 2009); following customers to foreign markets or customers pulling firms (Bell, 1995), accessing information via suppliers (Bell, 1995; Zahra, Ireland & Hitt, 2000) complementing capabilities by knowledge and resources access (Oviatt & McDougall, 1995), entrepreneurs previous contacts impacting exports (Bonaccorsi, 1992), accelerating the internationalization process (Coviello & Munro, 1997).

In the network perspective, internationalization is no longer seen as the process between a firm and the market in general, but as the relationship of different firms that constitute a network (Madsen & Servais, 1997). Authors take a special interest on networks of subsidiaries, since they become sources of knowledge and resources, helping the subsidiary to identify opportunities and to build competitive advantages, hence reinforcing their position among the MNC network (Andersson et al., 2002).

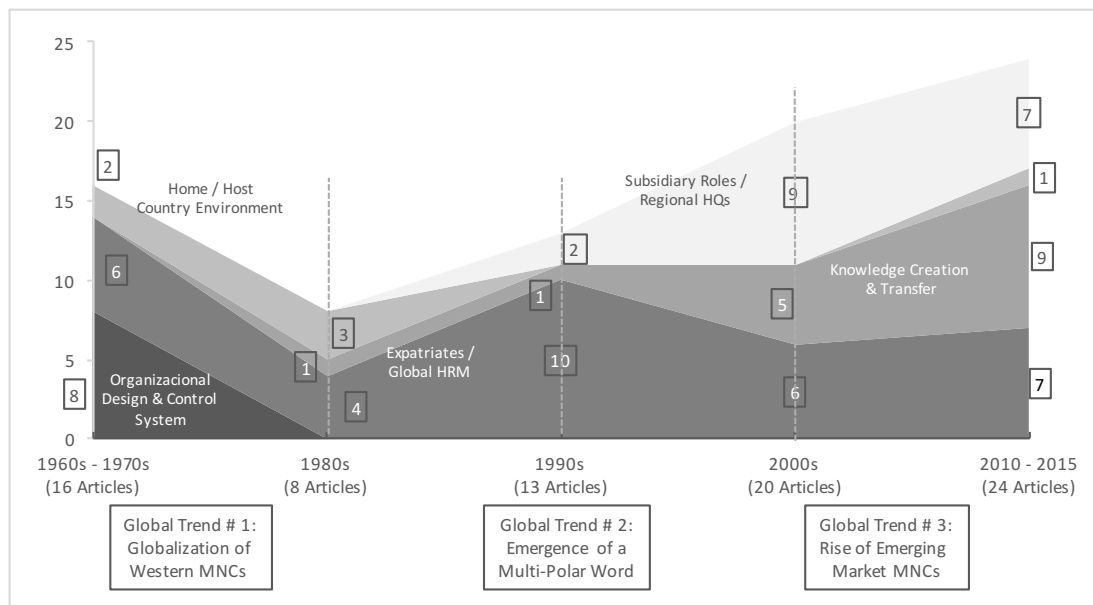
The two perspectives assumed a different perspective of the term network, because one sees it as a competitive resource of subsidiaries (the business relationships), and how the opportunities, information, and knowledge can be transferred to the rest of the MNC; while the other as the architecture of the MNC. Therefore, subsidiary networks, external and internal, are important while studying and understanding the MNCs; but also, the fact that the MNC is perceived and explained as a network (heterarchy), makes the subsidiary relations relevant.

2.3. Subsidiary Literature Evolution

Subsidiaries are critical actors of the MNC, hence, it is natural that IB literature bifurcated and started to play close attention to the evolution of subsidiaries. The field of management of multinational subsidiaries has significantly evolved from the 1960s to the present day, from a hierarchic perspective to a flatter view of the MNC. Paterson and Brock (2002) consolidated the literature in four major streams: the strategy-structure stream, the parent-subsiary

relationship stream, the subsidiary role stream and the subsidiary development stream. The authors review showed an increasing focus on subsidiaries as the approach shifts from hierarchic and heterarchic MNC, recognizing more and more the important role of MNC units not only as entrepreneurial entities but also as powerful sources of knowledge that can be transferred throughout the whole organization. Additionally, Kostova, Marano and Tallman (2016) updated the review of Headquarters–subsidiary (HQS) relationships until 2015.

Figure 2.1. Kostova et al.'s (2016) themes and trends in the research on HQS relationships



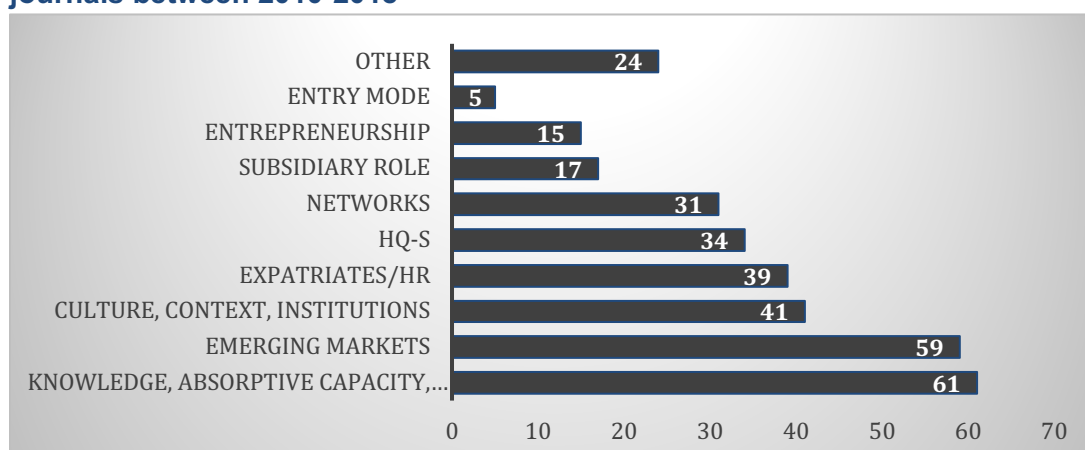
Source: Kostova et al. (2016)

As figure 2.1 shows, the authors consolidated the themes and trends in the research on HQS relationships into five areas: (a) organizational design and control systems; (b) home and host country context; (c) subsidiary roles and regional structures; (d) knowledge creation and transfer; and (e) expatriate management and global human resource management (HRM) (Kostova et al., 2016).

Complementing the work of Paterson and Brock (2002) and Kostova et al. (2016), I conducted a search on google academics by looking for papers

published on 11 of the best ranked management journals, *International Business Review (IBR)*, *Journal of International Business Studies (JIBS)*, *Academy of Management Journal (AMJ)*, *Strategic Management Journal (SMJ)*, *Journal of Management Studies (JMS)* and *Journal of International Management (JIM)*, *Journal of World Business (JWB)*, *Global Strategy Journal (GSJ)*, *Academy of Management Review (AMR)*, *Organization Science* and *Journal of Management (JOM)* from 2010 to 2018, with the words “subsidiary” or “subsidiaries” on the title. Excluding papers focusing on banking and case studies on subsidiaries but with no specific focus on subsidiary literature, 188² papers remain and the figure 2.2 demonstrates the main topics.

Figure 2.2 Main topics on subsidiary literature published on top management journals between 2010-2018



Source: the author

As it can be seen, these results are congruent with Kostova et al.'s (2016) since emerging markets are the global trend, where almost the majority of the papers studying subsidiaries on these markets (59 papers), surpassed by papers focusing on Knowledge, reverse knowledge, absorptive capacity and learning (61 papers), articles with a singular focus on culture, context and institutions (41 papers) and papers examining topics on human resources and

² The number of papers on the graphic is greater than the total, as a paper can focus on two topics at the same time, for example a paper on embeddedness and in China, which would be located in two categories: networks and Asia.

expatriates but none of them focused on TMT (39 papers); entrepreneurship (15 papers) being a topic with less attention in these period.

The strategy-structure stream

The early perspective of this stream related to the strategies and structure of MNC was a classical hierarchical perspective, while latter work adopted a more flexible structure of MNC (Birkinshaw, 2001; Paterson & Brock, 2002). Little focus was given to subsidiaries, since the purpose of this stream's works was to understand why MNC assumed particular structures and how structures would change over time in order to fit strategies (Paterson & Brock, 2002). Daniels, Pitts and Tretter (1984) worked on developing a framework to explain a MNC reasons to select an organizational design, taking into account the previous five classifications in literature: worldwide functional, worldwide product, international division, area, and matrix structure. Latter representatives of this stream, Bartlett and Ghoshal (1988), defined the "transnational organization" by contrasting firms with decentralized and independent subsidiaries supported by well-established networks, with firms more centralized in the home country.

The parent-subsidiary relationship stream

This is the first literature that acknowledges specifically the importance of subsidiaries (Birkinshaw, 2001). The traditional control mechanism with a hierarchical perspective started to be challenged (Kim & Mauborgne, 1993), and monitoring and incentives as a form of control does not seem to work on the modern MNC (O'Donnell, 2000), instead mechanisms such as information exchange between home-office and subsidiary management gains importance in coordinating and controlling MNC operations (Brandt & Hulbert, 1976), as well as a combination of differentiated HQ-S relationships regarding the context but promoting shared values as a governing mechanism (Nohria & Ghoshal, 1994).

As seen in Figure 2.1, during the eighties the importance of subsidiaries started to increase, hence this brought along a new conceptualization of the MNC and the relationship HQ-subsidiary, challenging the hierarchical approach and giving way to a new conceptualization of the MNC, the “heterarchical”, and the research that follows. Hedlund (1986) describes the heterarchical MNC as firms that exploit the competitive advantages from its home country, but that are actively searching for opportunities, resources, competences and advantages from their subsidiaries. The role of subsidiary managers goes beyond the subsidiary, and its strategic role becomes relevant for the entire MNC. Additionally, subsidiaries have greater autonomy and coordination challenges increase, new control mechanisms arise different to coercive regulations, such as corporate culture, management ethos, management style, cultural control, among others; and information flows efficiently among all the MNC (Hedlund, 1986).

The subsidiary role stream

The focus shifts from HQ to the subsidiaries as the unit of study, because of the uniqueness of some units, their strategic role within the MNC, and the levels of autonomy (Paterson & Brock, 2002). The increasing focus on subsidiaries as the center of the studies is evident in Kostova et al. (2016) figure, where the topic boosts in the nineties.

Authors have used different lenses to classify the roles of subsidiaries. White and Poynter (1984) grouped subsidiaries roles regarding local and global changing environments, as well as the subsidiary's valued added scope. In the case of Bartlett and Ghoshal (1986), determined four types of subsidiary roles that were latter consolidated in three by Birkinshaw and Morrison (1995).

Figure 2.3. Bartlett and Ghoshal's (1986) classification of subsidiary roles

		Strategic importance of local environment	
		High	Low
Competence of local organization	High	Strategic Leader	Contributor
	Low	Black hole	Implementer

Source: Bartlett and Ghoshal (1986, 90)

The *strategic leader* being a competent subsidiary located in a strategic market and with high levels of resources and expertise, it acts as a partner for the HQ in the development and implementation of the MNC strategy; the *contributor* with a clear and significant competence but located in a small and non-strategic market; the *implementer* as the name states has the function to implement the MNC mandate in order to contribute with the funds to keep the business

going, it has low competence and it is located in a low-strategic market; finally the *black hole* which has no competence and generates poor benefits, but its presence on a particular market is essential to maintain a global position (Bartlett & Ghoshal, 1986). Jarillo and Martínez (1990) based their classification of three subsidiary roles on a 2x2 matrix, considering the degree of the geographical localization of activities and the degree of integration of those activities in the focal unit and the other sister units. Birkinshaw and Morrison (1995) integrated previous classifications into three types of roles, local implementer, specialized contributor and world mandate.

The centers of excellence (COE) were included by Paterson and Brock (2002) as part of the subsidiary role stream. Centers of excellence have been seen as a subsidiary role (Surlmont, 1996), their definition is not entirely clear (Paterson & Brock, 2002), as well as the reasons for why and how they emerge (Andersson & Forsgren, 2000). Frost, Birkinshaw and Ensign defined centers of excellence as “an organizational unit that embodies a set of capabilities that has been explicitly recognized by the firm as an important source of value creation, with the intention that these capabilities be leveraged by and/or disseminated to other parts of the firm” (2002, p. 997). Some of the discussed

reasons for the existence of COE are the subsidiary's linkages to the MNC network by transactions of products or knowledge (Andersson & Forsgren, 2000), external factors such as the dynamism of the market and institutional context, as well as internal factor like subsidiary autonomy, capabilities and parent firm investment (Frost et al., 2002).

Subsidiary development

The development process of the subsidiary is a slow process, moving towards the MNC perceived less as ethnocentric and more as an integrated network, in which MNC "first install new resources in affiliates and then gradually adjust how they contribute to and are integrated into global activities" (Malnight, 1995, p. 120). Birkinshaw and Hood (1998) portrayed a similar idea while explaining *how subsidiaries change roles*, recognizing that it is not possible to define one unique evolution process, and proposing a five generic processes framework: Parent-driven investment, subsidiary-driven charter extension, subsidiary-driven charter reinforcement, parent-driven divestment, atrophy through subsidiary neglect. This model recognizes three drives of the evolution process: (a) *HQ assignment* is related to changes on the capabilities and the charter of the subsidiary, (b) the *subsidiary choice* deals with increasing autonomy and evolving to a more equal role on the MNC by increasing the stock of distinctive resources and been seen as part of a network (heterarchy), and (c) *local environment determinism* considering the challenges and opportunities that the local environment imposes on the subsidiary and influences its activities. Subsidiaries evolution results from the interaction of these three drivers, which in a cyclical process the subsidiaries can expand or reduce their charter, according to the enhancement of their capabilities (Birkinshaw & Hood, 1998).

Other authors have focused on a network perspective, where the MNC is seen as an 'interorganizational network' with different units related in a connected manner rather than hierarchical. The logic under this view is that subsidiaries accumulate capabilities and resources over time, mainly because of their

external networks, through the internal networks they shared with HQ and sister units whom become dependent of the focal subsidiary competences, and in turn this subsidiary enhances its position on the MNC network (Dasí et al., 2017; Pedersen, 2006).

Subsidiary entrepreneurship

The role of subsidiaries on IB literature became the center of attention from the nineties to the present. The entrepreneurial role of subsidiaries shifts the studies of HQ-subsidiary relationships from the HQ point of view to the power relations between them. Birkinshaw begins his work on the entrepreneurial behavior of subsidiaries, and introduces the concept of SI as “an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity” (Birkinshaw, 1997, p. 207). The SI is consolidated as a research area, and several authors studied the SI from its antecedents, the SI as a concept and its process, as well as the consequences. The antecedents of SI are thoroughly studied and classified in environmental, organization, and individual level, the consequences are focused on environmental, organizational, and individual level, the latter less developed (Schmid et al., 2014). Additionally, SI as a concept includes not only the different models to identify SI types, but also the SIP (Schmid et al., 2014). Authors have worked on disentangling the different phases of the process, however, it still remains the perception that the research on SIP is fragmented and several authors are calling for an integrated approach (Schmid et al., 2014; Strutzenberger & Ambos, 2014). The study of SIP allows the development of a new stream of research on the HQ-S relationship, based on the mechanisms and strategies used by subsidiary managers to combat the corporate immune system of HQ and obtain support for the initiatives, such as gaining attention (Bouquet & Birkinshaw, 2008), selling the initiatives (Dutton & Ashford, 1993), exerting power to gain support (Geppert & Dörrenbächer, 2014).

Although the main exponent of SI is Birkinshaw, other authors have proposed different perspectives to study this phenomenon. The Penrosean perspective discusses the quality and the quantity of managerial services needed for entrepreneurial activities among the MNC, particularly the subsidiary entrepreneurship (Verbeke & Yuan, 2007). Factors such as the complexity of the expansion and the coordination problems require more managerial services (Verbeke & Yuan, 2007).

Knowledge transfer, absorptive capacity and learning

International Business Literature on knowledge has shifted from the initial view of knowledge being transferred from the MNC headquarters to the periphery of the subsidiaries, for example through expatriates (Harzing, 2002), to a reverse knowledge transfer view where the focal subsidiary becomes the center of knowledge creation and transfer (Ambos et al., 2006; Gupta & Govindarajan, 2000).

The consolidation of subsidiary-centered models leads to an increasing interest on the dissemination of knowledge among the MNC as a network, and particularly the transfer of knowledge (KT) from subsidiaries to the HQ and other sister units. Najafi-Tavani, Giroud and Andersson (2014) found that creating knowledge is not sufficient to gain influence within the MNC, but it is important to transfer this knowledge or sell this knowledge to the HQ. Not all studies see a positive impact of KT in the entire MNC, Ciabuschi, Dellestrand and Kappen (2012) found that subsidiaries with more capabilities to transfer knowledge have a greater degree of bargaining power, since they constitute an important contributor of competitiveness and performance for the firm, but they demonstrated a rent-seeking behavior.

Nonetheless, KT by itself is not necessarily a value resource to the MNC, since it is crucial that the recipient can assimilate and use this knowledge. Hence, KT studies are complemented with studies on absorptive capacity, which discovered the effect of employees' abilities and motivation, as absorptive capacity proxies, in facilitating knowledge transfer among MNCs actors

(Minbaeva, Pedersen, Bjorkman, Fey & Park, 2003). Furthermore, the importance of expatriates is introduced because of their crucial role on the motivation for transfer knowledge (Miao, Choe & Song, 2011). Emphasis on the role of embeddedness on KT appears, since subsidiaries gain knowledge by being embedded in the external environment (Andersson et al., 2002) and if they internally embedded it is more likely that facilitate knowledge sharing (Meyer, Mudambi & Narula, 2011), however it could hamper autonomy and constrain the subsidiary's ability to gather knowledge form the foreign market (Song, 2014).

Because KT is complex due to the stickiness of knowledge, many authors have attempted to open the black box and understand the role of several factors that facilitate KT. Studies with a micro-level perspective that emphasize on the role of managers in organizational knowledge processes (Tippmann, Scott & Mangematin, 2012). Studies with HRM perspective focus on how to build knowledge transfer and absorptive capacity competences through human resource strategies is possible (Minbaeva et al., 2003; Schleimer & Pedersen, 2014). A recent perspective has focused on the role of language in knowledge transfer among the MNC, where MNC are multilingual organizations but the fluency is diverse and this is a challenge for knowledge transfer (Barner-Rasmussen & Aarnio, 2011).

2.4. Subsidiary and an entrepreneurial perspective

Subsidiary initiatives have been recognized as a manifestation of corporate entrepreneurship (Birkinshaw, 1999). However, some authors have called for the need to empirically study SI from the entrepreneurial theory perspective, and not only from the IB perspective (Strutzenberger & Ambos, 2014). Therefore, before reviewing SI literature, it is important to understand phenomenon of corporate entrepreneurship (CE); and in turn before studying CE it is important to review what different authors have defined as entrepreneurship, since this will determine the CE field.

Entrepreneurship

Stevenson and Jarillo (1990), clustered the studies on entrepreneurship on those focused on the consequences of entrepreneurship (what happens when entrepreneurs act), the causes of entrepreneurship (why entrepreneurs act) and the entrepreneurial behavior (how entrepreneurs act).

Economic consequences on the markets were studied (Cantillon, 1952), and the approach begins to expand to the point where Schumpeter (1934) considers entrepreneurship as the process that moves forward the economy as a whole because of disruptive innovations. Schumpeter (1934) defines it as the process of achieving new combinations, either as new products, new processes, organizational forms, the opening of new markets, new sources of supply, an entrepreneur is a person who carries out new combinations. Other authors saw entrepreneurship not as disrupting the market equilibrium, but rather the way to accomplish the equilibrium, since the entrepreneur's superior knowledge of the of market imperfections is used on his advantage to identify opportunities on the market (Kirzner, 1973).

Although understanding the *why*, *what* and *how* of entrepreneurship is important, a definition of entrepreneurship must be used to locate the study of corporate entrepreneurship. As corporate entrepreneurship is the area of research in this thesis, it is important to consider a definition of entrepreneurship broad enough to include activities that not necessarily conduct to creating a new venture (Sharma & Chrisman, 1999), but not so broad that can be any example of management styles. Hence, I will focus on two definitions that seem to complement each other, first the definition proposed by Stevenson, Roberts and Grousbeck "a process by which individuals - either on their own or inside organizations - pursue opportunities without regard to the resources they currently control" (1989, p. 23), because it focuses on opportunities, which is a key component of the SIP, as well as it focuses on the individuals. Second, Sharma and Chrisman's definition of entrepreneurship that "encompasses acts of organizational creation, renewal, or innovation that occur within or outside an existing organization" (1999, p.

17), since it's a broader concept that includes the creation of firms, renewal and innovation.

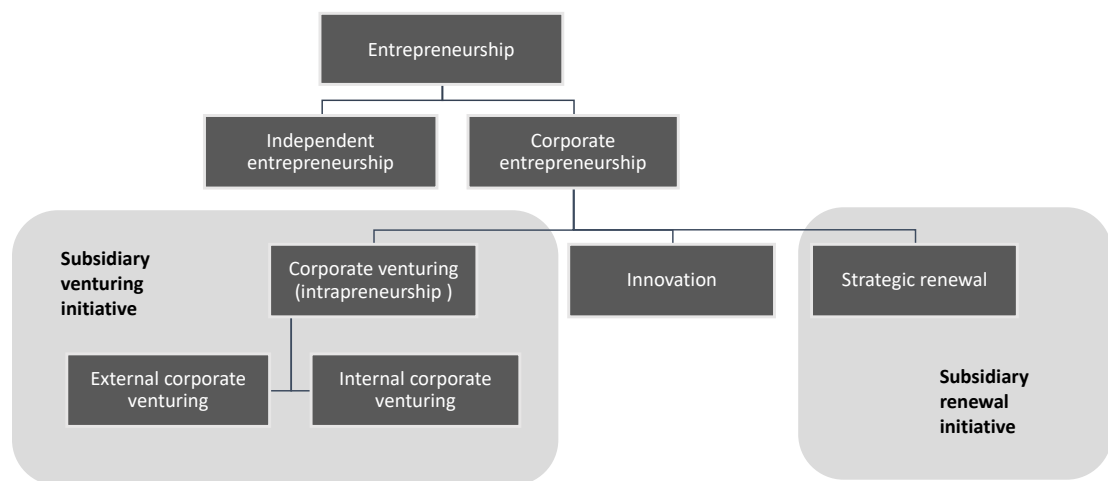
Corporate entrepreneurship

There is an increasing literature on entrepreneurial activities of companies, either within established companies or independent new ventures (Covin & Slevin, 1991). According to Stevenson and Jarillo (1990), an entrepreneurial organization pursues opportunities regardless of its available resources, it is influenced by individuals' attitude and entrepreneurial behavior, and the roles they are given to pursue opportunities, it is tolerant to failure in order to promote motivation to pursue opportunities, and fosters the creation of external and internal networks because of their potential to give access to information and resources. Hence, although the entrepreneur is important, the corporate entrepreneurship stream focuses on the company and its entrepreneurial activities. However, the definition is ambiguous, mainly because of the several terms used such as corporate entrepreneurship (Burgelman, 1983b; Covin & Slevin, 1991), corporate venturing (Biggadike, 1979; Block & MacMillan, 1993), intrapreneurship (Nielsen, Peters & Hisrich, 1985), internal corporate entrepreneurship (Jones & Butler, 1992), internal corporate venturing (Zajac, Golden & Shortell, 1991), and organizational or strategic renewal (Guth & Ginsberg, 1990; Zahra, 1993).

Some definitions of corporate entrepreneurship are broader than others (Biggadike, 1979; Burgelman, 1983b; Ellis & Taylor, 1987). But it is Miller (1983) who introduces three attributes that became a common ground to capture proactiveness in large firms: innovation, risk taking and proactiveness. He proposed a commonly used definitions of the entrepreneurial firm as "one that engages in product-market **innovation**, undertakes somewhat **risky** ventures, and is first to come up with "**proactive**" innovations, beating competitors to the punch" (Miller, 1983, p. 771). Guth and Ginsberg (1990) proposed a more integrated definition, taking into account, the birth of new businesses within existing firms, and the transformation of firms by renewal of their key ideas. Sharma and Chrisman defined corporate entrepreneurship as

the process where “an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization” (1999, p. 18), focusing also on the individuals that demonstrate the entrepreneurial behavior. As the definitions and scope of the terms have contradictions, ambiguity and some terms are used interchangeably, Sharma and Chrisman (1999) proposed a terminology tree in the field of corporate entrepreneurship, based on broad rather than narrow definitions.

Figure 2.4. Classification of Entrepreneurship, Corporate Entrepreneurship and Subsidiary Initiative



Source: Adapted from Sharma and Chrisman (1999)

The difference between independent and corporate entrepreneurship is that in the former an individual or a group of people create a new organization, but they act independently of any organization, while CE alludes to an individual or group of people that in behave of an existing organization, create a new organization, or initiate renewal or innovation activities within the organization (Sharma & Chrisman, 1999). As figure 2.4 shows, CE does not concentrate only on creation or venturing of a company but includes two other important processes that are considered entrepreneurial: innovation and strategic renewal.

Within the umbrella term, corporate entrepreneurship, the authors defined three different forms of entrepreneurial activities within an organization. Corporate venturing is defined as entrepreneurial efforts of a company that result in the creation of new business organizations within the same organization. They could or could not lead to creation of new organization units structurally different from existing organizational units, some of these new entities reside outside the existing organization domain (external corporate venturing) while other can reside within the existing organization domain (internal corporate venturing). While strategic renewal does not result in a new organization, instead the changes in an organization's business or the firm's strategy or structure, are the result of entrepreneurial activities. Both conduct to changes on the structure or strategy of the existing corporation and they may involve innovation, but the former results on the creation of new business, while the later in the reconfiguration of existing business within the firm.

Additionally, an important debate around corporate entrepreneurship lies on the question of who, within a firm, is behaving as the entrepreneur and how they (the intrapreneurs) interact with the organization's environment to conduct entrepreneurial actions (Elfring, 2005). Birkinshaw (1997) describe two forms of CE, as focused and dispersed. Focused corporate entrepreneurship, referred also as corporate venturing, sees management and entrepreneurship as different processes, and therefore, it separates small and autonomous units that have the role to innovate within a larger company. While dispersed corporate entrepreneurship, referred also as intrapreneurship, assumes that entrepreneurial activities and opportunity pursuing are not exclusive of a specific unit, instead they are dispersed across the entire firm and each employee has the ability to carry out both managerial and entrepreneurial activities; it is seen as an entrepreneurial culture along the entire organization (Birkinshaw, 1997; Elfring, 2005).

Subsidiary initiative

The initiative of a subsidiary is a demonstration of corporate entrepreneurship, as stated by Birkinshaw initiative is defined “as a key manifestation of corporate entrepreneurship” (1997, p. 207). The focus of Birkinshaw’s (1997) concept of “subsidiary initiative” was concentrated on new business activities within an existing company, falling into the corporate venture category; leaving behind the renewal of existing organizations and the firm changing the rules of competition in its industry (Birkinshaw, 1997). Additionally, corporate entrepreneurship can be focused or dispersed (intrapreneurship), the latter assumes that an individual is capable of behaving as a manager but also of having entrepreneurial behavior. Hence, any individual among the organization could come across an entrepreneurial opportunity while doing their every day job. Then, the entrepreneurial responsibilities are not exclusive of a group, but any employee with risky and proactive behavior can discover an opportunity in benefit of the firm, and the challenges reside on gaining the commitment of resources to make the opportunity a reality (Birkinshaw, 1997). Åmo and Kolvereid (2005) distinguished CE from intrapreneurship by describing CE as an entrepreneurial behavior among the company that answers to their mandate or role – top down, while intrapreneurship is an autonomous and own-motivated entrepreneurial behavior among the company - bottom-up.

This view of intrapreneurship matches the proposed SIP, since it seems the MNC more heterarchic, and it does not emphasize on the assigned roles to subsidiaries but instead on the assumed role; as the subsidiary’s strategy is mainly the result of the context and how the subsidiary responds to it, rather than the mandate of HQ. Then, the SIP starts with the opportunity identified in the local market (also within the internal market) by a subsidiary pertaining to a MNC, and the HQ support and resources are crucial for its implementation (Birkinshaw & Ridderstråle, 1999). However, subsidiary initiatives go beyond corporate entrepreneurial literature, as the fact that it belongs to the MNC and persuading mechanisms take place in order to gain HQ support, it makes SI a

more complex phenomenon that cannot simply be studied under CE umbrella (Strutzenberger & Ambos, 2014).

Furthermore, Verbeke, Chrisman and Yuan (2007) classified more the SI under the umbrella of corporate entrepreneurship, by differentiating subsidiary initiatives that affect an existing business (subsidiary renewal initiative - SRI) from subsidiary initiatives that result on the creation of a new venture within the subsidiary (subsidiary venturing initiative - SVI). SRI encompasses changes on the subsidiary's strategies, on internal processes, systems or structures of existing businesses; while SVI it is a new business inserted in the existing structure of a firm, which does not necessarily cause changes on the preexisting business (Verbeke et al., 2007). The authors call for a separate study of these two types of subsidiary initiatives, their predictors and consequences; since SRI imply structural changes it could be expected to occur at top levels, while SVI could be a bottom-up process coming from lower levels searching for opportunities

2.5. Subsidiary Initiative

Competence around the world is increasing and firms need to be as strategic as they can to exploit specific advantages and to develop new capabilities, to consolidate competitive advantages and to position themselves in the market as innovative companies. Changes in the role of subsidiaries exemplify this phenomenon, since subsidiaries are no longer simple implementers of HQ mandate, but also have a proactive role on searching and exploiting new opportunities in their local markets, develop innovations and exploit valuable resources. As subsidiary initiatives have gained importance, their study has also increased.

However, some authors find a lack of integration on the theories and frameworks that study this phenomenon, and they recognized a theoretical pluralism on SI research efforts, and a fragmentation on the study of the SIP (Andersson, 1999; Schmid et al., 2014; Strutzenberger & Ambos, 2014). Some

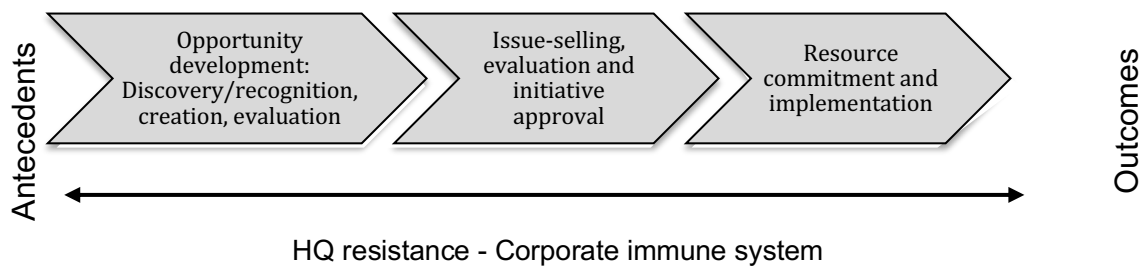
authors have focused on the definition or the concept of SI, and the identification of SI types (Birkinshaw, 1997; Delany, 2000; Verbeke et al., 2007); while others have concentrated in understanding antecedents (Ambos, Asakawa & Ambos, 2011; Ambos, Andersson & Birkinshaw, 2010; Andersson & Forsgren, 1996; Dörrenbächer & Geppert, 2010; Forsgren & Pedersen, 1998; Paterson & Brock, 2002), implementation³ (Ambos & Mahnke, 2010; Birkinshaw & Ridderstråle, 1999; Bouquet & Birkinshaw, 2008; Ciabuschi, Forsgren & Guy, 2011; Dörrenbächer & Gammelgaard, 2006; Gammelgaard, 2009; Mahnke, Venzin & Zahra, 2007) and consequences (Birkinshaw, 1999; Najafi-Tavani et al., 2014; Yamin & Andersson, 2011). An increasing interest has arisen to study and appreciate the phenomenon as a process, and recommending more integral perspectives to study it (Schmid et al., 2014; Strutzenberger & Ambos, 2014). Additionally, several authors have studied the resistance that the initiative causes through the so-called “corporate immune system” of the HQ (Birkinshaw & Ridderstråle, 1999). Hence, the implementation face takes importance and several authors attempt to integrate levels and theoretical frameworks to have a more coherent and complete explanation of this phenomenon.

Birkinshaw, as one of the main representatives in the field, defined the SI from a process perspective as “an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity” (1997, p. 207). Strutzenberger and Ambos (2014) simplified the process into three stages: opportunity recognition (OR), selling the initiative and implementing it (figure 2.5). The authors also recognized the antecedents and outcomes as important parts of the process, the latter considered understudy (Strutzenberger & Ambos, 2014). Other authors have focused on the entrepreneurial aspect of SI to define it as “proactive, autonomous and risk-taking activities that originate outside the home country in a foreign subsidiary

³ Subsidiary initiative implementation is here aligned to Strutzenberger and Ambos (2014) definition which includes three stages: opportunity recognition, gaining financial support (or selling the issue) and carrying out the initiative.

of a Multinational Corporation (MNC) and are initiated by actors in the subsidiary” (Schmid et al., 2014, p. 201). This behavioral perspective, based on qualifications such as proactive, innovative and risk-taking, has been widely used in the literature of subsidiary entrepreneurship (Birkinshaw, 1997; Boojihawon, Dimitratos & Young, 2007; Kanter, 2004; Miller, 1983; Zucchella, Palamara & Denicolai, 2007). Although the SI has been a problematic and hard to understand concept (Ambos et al., 2010), there are common aspects regarding the entrepreneurial focus, the stages that explain the SIP, and the crucial role that HQ-Subsidiary relationship plays on the implementation of the SI (Schmid et al., 2014).

Figure 2.5. Subsidiary Initiative Process



Source: Adapted from Strutzenberger and Ambos (2014) and Schmid et al. (2014)

Although Birkinshaw is one of the main authors positioning the SI concept and its study, there are other views regarding the entrepreneurial role of subsidiaries. Verbeke et al. (2007) following Birkinshaw and Hood (1998), complemented the study of SI within the corporate entrepreneurship literature, making the distinction between SI that impact the entire organization strategy (renewal) or SI that result in the creation of a new business (venturing). Rugman and Verbeke (2001b) studied SI as a broader concept, positioning the role of knowledge development and transfer in the center from a transaction cost approach (Schmid et al., 2014). Integrating the international entrepreneurship literature with corporate entrepreneurship literature, allows to understand the SI as a broader concept, where not only radical innovations with a significant impact on the MNC are included (Birkinshaw & Ridderstråle,

1999), but also incremental and value added activities are considered initiatives (Liouka, 2007).

Other authors based the study of SI in the accumulation of resources and power perspectives (Birkinshaw & Hood, 1998; Delany, 2000), assuming theoretical approaches such as network theory and resource-based view (Schmid et al., 2014). Birkinshaw and Hood (Birkinshaw & Hood, 1998) presented SI as a process of building capacity, conducive to extend the subsidiary's charter; and the mechanisms to build these capacities are by accumulating and exploiting resources. Because of the availability of resources such as valuable knowledge and information, market opportunities are identified, and the initiative process occurs. However, in the context of MNC the relationship with HQ and the potential for rejection calls for a broader perspective beyond focusing on firm-level capabilities. Delany (2000) sees the role of subsidiary as not mere implementers of mandate, but driven to exceed the expectation of HQ and develop initiatives that add value to the corporation. The SI is regarded as the search for market opportunities, exploiting the competences for example the knowledge of the market and the industry, or their local relationships, to build sustainable competences that positions the subsidiary higher in the MNC network.

In the case of Williams and Lee (2009), dispersed entrepreneurship as well as accumulation of power are the perspectives under which SI was studied. Initiatives are viewed as the result of managers and employees acting as individual entrepreneurs and not as a deliberate firm strategy. The dispersed discovery of opportunities is possible because knowledge is asymmetric and can be located or discovered in any part of the firm. Also, due to the dispersion, the decision making and resource allocation takes place in a political arena, in which each actor attempts to be heard and supported (C. Williams & Lee, 2009). Other approaches involved self-determination theory, aiming to understand what motivates subsidiary managers or employees to pursue opportunities, either their need for self-determination or autonomy or the need for affiliation with others (Ambos et al., 2010). Ambos et al. (2010) suggested

that once individuals have successfully achieved the mandate, they start to pursue opportunities that allow them to satisfy their personal goals, conducting activities such as creating initiatives and elevating their personal choices to the corporate level.

An increasing number of authors have used Porter's concept of competitive strategy (Porter, 1980) and to the integration-responsiveness framework (Prahalad & Doz, 1987) to explain the influence of external and internal context on the entrepreneurial behavior. Dimitratos and Jones (2005) take an approach where the subsidiary entrepreneurial competences are identified and differentiated from entrepreneurial competences in independent firms, since subsidiaries face the challenge to gain autonomy, navigate within the intra-MNE networking, and to learn from the local context. This study makes emphasis on the importance of embeddedness as an entrepreneurial competence, highlighting the importance of external and internal embeddedness in driving entrepreneurial initiatives. Birkinshaw, Hood and Young (2005) also frame the SI as a subsidiary's reaction to respond to two competitive arenas (Porter, 1980), the external arena in the local country with customers, suppliers, and competitors demands; and the internal arena constitute of customers, suppliers and competing actors in the MNC. The subsidiaries use their proactive entrepreneurial initiative to compete in these arenas and establish a strategic position.

Some authors study the initiative as an entrepreneurial activity or process (Birkinshaw, 1998, 1999; Julian Birkinshaw & Ridderstråle, 1999; Boojihawon et al., 2007). As seen before, SIP starts with the identification of an opportunity by an individual (or group) of the subsidiary, followed by a selling process to the parent company, and once evaluated and approved it results on commitment and the execution of the initiative (Birkinshaw, 1998, 1999). Birkinshaw and Ridderstråle, (1999) complemented this view by stating that the process is not sequential, there is an infinite variety of forms in which the SIP can take place, such as phases overlapping; they may be reciprocal

(Galbraith, 1982); the activities happening in parallel (Burgelman, 1983a), or simply not following a linear sequence (Van de Ven & Garud, 1995). As for Boojihawon et al. (2007), the SI is viewed as a developmental process, and three drivers of subsidiary development are acknowledged: subsidiary level determinants; corporate MNC determinants; and, local environment determinants (Birkinshaw et al., 1998; Paterson & Brock, 2002).

Nonetheless, not all SI are equal and there are two main classifications of subsidiary initiatives. First, Birkinshaw (1997) defined four types of SI based on the locus of the market of opportunity, if the opportunity is identified and pursuit in the local, internal or global market, and in some cases a hybrid initiative appears, where the opportunity is identified in the global market but pursuit or exploited in the internal market. The second type of initiative were introduced by Verbeke et al. (2007), who building among corporate entrepreneurship literature proposed two types of initiatives, subsidiary renewal and subsidiary venturing, which are different in the way the entrepreneurship activities relate to the existing business.

2.5.1. Subsidiary Initiative Antecedents

Several authors have studied the factors or antecedents of subsidiary entrepreneurial behavior (Ghoshal, 1986; White & Poynter, 1989), but it is Birkinshaw (1997, 1999) who deeply integrated these factors and complemented them with latter works (Birkinshaw & Hood, 1998) defining three contextual levels that impact SI: corporate context, subsidiary context, and environmental context.

Corporate context

Verbeke et al. (2007) unified previous works (Birkinshaw & Hood, 1998; Birkinshaw, 1999) and concluded that five corporate context factors could influence subsidiary:

1. The decentralization of decision making in the corporation: There is a positive relationship between decentralization of decision making, entrepreneurial behavior and innovation on subsidiaries, since subsidiary managers will have more autonomy to make decisions and to decide the future of the unit (Birkinshaw & Hood, 1998), as well as it fosters their creativity are feasible (Gupta & Govindarajan, 1994; Lumpkin & Dess, 1996).

2. Corporate assessments made about the credibility of subsidiary management: Birkinshaw (1999) proposes a positive relation between subsidiary credibility and SI, since it improves the HQ's awareness of the subsidiary and its resources and capabilities; as well as it allows the management at subsidiary level to develop a corporate identity focusing on relevant initiatives. Furthermore, past initiatives seem to increase the levels of credibility and autonomy of subsidiaries, increasing the probability of having future initiatives (Suwannarat & Leemanonwarachai, 2012).

3. The extent of communication between the corporation and subsidiary: Ghoshal and Bartlett (1988) suggested that high parent-subsidiary communication enhances the effective transfer of knowledge and innovation creation at subsidiary level. Birkinshaw (1999) proposes that corporate-subsidiary communication favors the exchange of information from the top to the bottom and vice versa, allowing the subsidiary to understand the HQ priorities and developing strong relationships which increases the probabilities of gaining support. Nonetheless, a negative impact was also found between communication and external initiatives in their initial stage (Birkinshaw, 1999).

4. Global vs. ethnocentric perspective of the company: an ethnocentric organization focuses more on the parent company national identity and the belief that this is superior to those of the subsidiary units and tends to leave the strategic decisions close to the center (Birkinshaw, 1995; Julian Birkinshaw & Hood, 1998). Hence, ethnocentric firms will show a higher corporate immune system and will be more aware of signals of subsidiary weaknesses, regardless

of the degree, and then more likely to return to the status quo or HQ control (Birkinshaw, 1995). While a geocentric or world oriented organization, overcomes country-bias and results on recognizing the subsidiary necessities and opportunities.

5. The competitiveness of the resource allocation mechanisms in the corporation: subsidiaries among a MNC compete for charters, either to steal an existing charter to a sister unit, or to win a new charter above the other subsidiaries (Birkinshaw & Hood, 1998). Additionally, subsidiaries compete for resources, instead of relying on the HQ planning process to allocate resources which tends to favor the local or the known. Fostering an internal competitive environment, challenges subsidiaries to go beyond their peers to obtain the HQ support, which in turn results on enhancing their capabilities (Birkinshaw & Hood, 1998).

Subsidiary Context

The determinants in this dimension are related to the subsidiary's specific organizational structure and culture or those characteristics that can be managed by the subsidiary management (Verbeke et al., 2007). Verbeke et al. (2007) integrated several works of Birkinshaw, and they synthesized four subsidiary context determinants:

1. Specialized (or distinctive) resources: distinctive capabilities refer to those value-adding capabilities that the subsidiary considers to be above those of other sister units among the MNC (Birkinshaw, 1999). Birkinshaw (1999) proposes a positive relation between distinctive resources and capabilities and SI, because these are demonstrated by technical capabilities and market-based expertise, which become powerful tools to justify the pertinence of an initiative and the probability of success.

2. Strong leadership: the role of top management on dispersed corporate entrepreneurship is key to create a supportive context that allows employees to actively search for opportunities and pursue initiatives (Ghoshal & Bartlett,

1994). Other studies have focused on the individual capabilities and competences as a determinant for successful initiatives (Boojihawon et al., 2007), as well studies inspired on self-determination theory that make emphasis on the intrinsic motivation of subsidiary managers, either to gain more autonomy or for recognition and status (Ambos et al., 2010).

3. Entrepreneurial culture: Under the premise that dispersed corporate entrepreneurship (SI) can be found in any member of the firm, it becomes crucial to have an entrepreneurial culture among the organization, where all subsidiary employees are alert and responsive to new opportunities (Birkinshaw & Hood, 1998). An entrepreneurial orientation of employees, demonstrates a constant search for innovative combination of resources or new ways to add value to the firm, which foster initiative creation on subsidiaries (Birkinshaw et al., 1998). Studies also found that an entrepreneurial culture within a subsidiary nourish entrepreneurial motivation, creativity and learning (Boojihawon et al., 2007), as well as autonomy and legitimacy in the subsidiary (Mu, Gnyawali & Hatfield, 2007). Additionally, an entrepreneurial culture is crucial for the development of specialized resources, which in turn affect subsidiary initiatives (Birkinshaw et al., 1998). Subsidiary management should encourage this entrepreneurial culture; however, some research has acknowledged that entrepreneurial behavior arises spontaneously and management only must be careful of not suppress it (Burgelman, 1983b). In the IB literature, authors such as Dimitratos and Plakoyiannak (2003) have proposed six dimensions to explain international entrepreneurship: international innovation propensity, international risk attitude, international motivation, international market orientation, international learning orientation, and international networking orientation, which are the key capabilities of executives to identify opportunities that will latter translate into a new product, a new process, a new innovation (explained in Annex I). These traits have been identified as antecedents of subsidiary initiatives, and more specifically for promoting the recognition of opportunities (Strutzenberger & Ambos, 2014).

4. Good relationships with corporate headquarters: Initiatives are evaluated more for the quality of individuals selling them than for their technical qualities (Birkinshaw & Hood, 1998). Subsidiaries work to enhance this relationship and to gain a strategic position within the MNC which impacts the SI (Ambos et al., 2010), influencing the level of HQ's attention by having a good corporate citizen' behavior, or building a strong profile (Bouquet & Birkinshaw, 2008). Autonomy is also important for the position of the subsidiary in the MNC, since the subsidiary's structural position within the MNC results from the level of autonomy (Birkinshaw & Morrison, 1995; Martinez & Jarillo, 1989) or the level of autonomy is determined by their position on the MNC or the specific resources of the subsidiary that guarantee that strategic position (Ambos et al., 2010). Ghoshal and Bartlett (1988) found a positive relation between subsidiary's autonomy and its ability to create and diffuse innovations. Young and Tavares (2004) determined that high autonomy seems important for local and global market initiatives but allied to positive motivation.

5. Subsidiary's track record: the results and achievements of the subsidiary could also impact the SI, either if they are above or below HQ expectations. Since all investment decisions imply uncertainties, by supporting a subsidiary that has demonstrated successful results in the past, the level of uncertainty is lower (Birkinshaw & Hood, 1998). Ambos et al. (Ambos et al., 2010) conducted a study on the consequences of past initiatives on subsidiaries, finding that SI could either result on HQ attention or control, and only if it achieves HQ attention a positive impact on subsidiary influence will occur. Hence, the subsidiary will increase their power position and therefore positively impact the future initiatives (Ambos et al., 2010).

Local context

1. Level of industry globalization: Birkinshaw et al. (1998) determined a positive relation between the level of globalization and initiatives. They compare two types of industries, global and multidomestic. In global industries, the activities of a subsidiary are more likely to be integrated with the rest of the organization network, while in the multidomestic industries there is not such

level of integration, since competition in one national market is fairly independent from competition in the other. Therefore, in global industries there are greater opportunities for initiatives to develop, since each subsidiary is expected to assume certain specific activities for the entire MNC, hence influencing the firm-specific advantage of the firm (Birkinshaw et al., 1998).

2. Dynamism of the local business environment: Birkinshaw (1999) expected that local dynamism, referred as a highly competitive local market with demanding customers, would drive innovation and upgrade capabilities. However, it appears that subsidiaries in host countries with weaker levels of competition have more probabilities to conduct initiatives, presumably because they may occupy a better position in the market to create relationships with customers, buyers and suppliers.

3. Support of the host government: Although the relation between host government support and SI has not been tested (Verbeke et al., 2007), Birkinshaw and Hood (1998) suggested a positive impact, because local governments can offer financial incentives for investments, and other type of incentives such as training, programs to support innovation, and infrastructural support. Nonetheless, other authors have argued that it is likely that host governments attempt to protect their national industries and not direct their investments to support foreign companies (Davis & Meyer, 2004).

4. Strategic importance of subsidiary's host country and relative cost of factor inputs: Since HQ study the benefits and constrains of investing in some countries or in others, both the relative cost of inputs and how strategic the subsidiary's country, are important factors to take those decisions (Birkinshaw & Hood, 1998). MNCs as well as invest in countries where the cost of factor inputs is lower. Though, those two factors are expected to have a weak impact on SI and this relation has not been empirically tested (Verbeke et al., 2007).

5. Networks and Embeddedness: Networks are an antecedent of SI mainly because of the access that gives to the subsidiary of local resources and privileged information (Birkinshaw & Hood, 2000). Subsidiaries are connected to internal or external networks (Birkinshaw, 1997). Additionally, the level of interdependence on the networks, understood as embeddedness, is important to study the influence of networks on SI. Particularly, external embeddedness (EE) - local customers, competitors, suppliers, government, research institutions- allows the subsidiary to have access to resources and capabilities beyond those of the MNC, such as knowledge, goods, innovations, services (Andersson et al., 2002). Also, the strong ties permit the actors to learn easier from each other, to better identify new information, to exchange information, and to assimilate this information more capably (Lane & Lubatkin, 1998). Also, a subsidiary with a high degree of EE is more capable of assimilate new technology from the host environment and to create new technology by working closely with the networks actors (Andersson et al., 2007), and without these close relationships the subsidiary may not have access to tacit, complex and privilege knowledge and information (Andersson et al., 2002). Internal networks, which constitute relations with the HQ or other sister units of the MNC, have also been recognized as determinants of SI. In one hand, because internal embeddedness (IE) has been associated to innovation and performance (Monteiro, Arvidsson & Birkinshaw, 2008; Vernaik, Midgley & Devinney, 2005), since it improves learning processes and motivates entrepreneurial efforts (Gnyawali, Singal & Mu, 2009). IE allows subsidiaries to have access to existing resources within the MNC network, and therefore being able to combine capabilities (Ciabuschi et al., 2014), by not being isolated it permits better and frequent knowledge sharing and exchanges more access (Monteiro et al., 2008). Nonetheless, IE is more related to the implementation process since it can facilitate SI approval (Ciabuschi, Dellestrand & Martín, 2011; Strutzenberger & Ambos, 2014; Yamin & Andersson, 2011).

2.5.2. Opportunity Development

The concept of opportunity is central on entrepreneurship literature; hence this is the SIP phase more linked to entrepreneurial literature. Shane and Venkataraman argued that the field of entrepreneurship embraces “the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them” (2000, p. 218). Ardichvili et al. (2003) recognized that “opportunities”, as a concept, is described as a wide phenomenon that started vague and it has been more developed over time. Kirzner (1997) described opportunities as imprecisely-defined market needs, or un- or under-employed resources or capabilities. Generally, an opportunity is considered as the occasion to fulfill a market need by creatively combining resources to provide a superior value (Ardichvili et al., 2003). Baron defines an opportunity as “a perceived means of generating economic value (i.e., profit) that previously has not been exploited and is not currently being exploited by others” (2006, p. 107), emphasizing the uniqueness and innovativeness. While Venkataraman (1997) conceives an entrepreneurial opportunity as the creation of new goods and services, that still don’t have a market.

Scholars have used several theoretical approaches leading to inconsistent conceptual and operational definitions (Hansen, Shrader & Monllor, 2011). Though, there is more consensus on the process to identify an opportunity, and there are three recognized views regarding opportunity identification.

i) **Opportunity recognition (OR):** The allocative view sees markets at equilibrium, the resources are being used efficiently, hence, there is an optimal use of scarce resources so there are not opportunities in the market. Opportunities arise when an actor finds a way to reallocate the resources and use them more efficiently, in short-time disequilibria while the market adjusts and goes back to equilibrium, or when a firm can cover the costs of accessing more information than other actors of the market and finding the opportunity (Sarasvathy, Dew, Velamuri & Venkataraman, 2003). This view proposes that

economic agents are equal, and there are not particular characteristics that make one individual especially able to gather more information than other; it seems the as purely random. Essentially, the opportunities are in the market and the entrepreneur has to recognize them by matching the demand to the supply. This view perceives the market very static and the small changes are quickly balanced to return to equilibrium (Sarasvathy et al., 2003).

ii) **Opportunity discovery:** When one side of the market exists (supply or demand) and the other side has to be discovered, in order to match them and discover the opportunity. This view acknowledges that the opportunities exist and are on the market, but they have to be discovered, hence it emphasizes on systematically scanning the environment to discover them (Alvarez & Barney, 2007). Not all individuals are able to discover opportunities, since information is available but not easy to access, like tacit information, and because new information requires other resources to be absorb, such as prior knowledge (Barney, 1991; Polanyi, 2009; Teece, 1986). Hence, it is assumed that entrepreneurs who discover existing opportunities are different from others because they have an ability to identify the opportunities in the market and exploit them, often called *alertness* (Kirzner, 1973). The dynamic flow of new information and the constant necessity to find the other side missing, makes this view more dynamic than the allocative view (Sarasvathy et al., 2003).

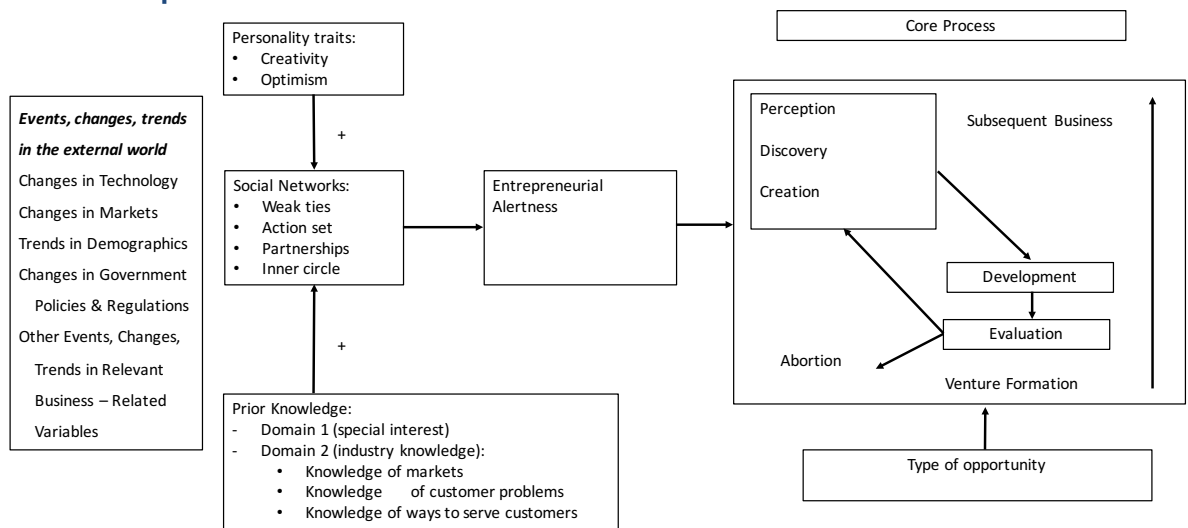
iii) **Opportunity creation:** In this view, there is no room for search, since the opportunities don't exist. They are not the result of disequilibrium or uncertainties in the market, they are created by entrepreneurs. Acting is the key in this view, the opportunities exist as a result of the actions taken by entrepreneurs to create them (Alvarez & Barney, 2007). This view answers more to Schumpeter's (1934) approach to entrepreneurs, since it argues that entrepreneurs do not discover opportunities but they create them. The creation process is dynamic and involves several interactions, entrepreneurs act upon their beliefs about opportunities and are aware to the responses of the market (Alvarez & Barney, 2007). Individuals (entrepreneurs and not entrepreneurs)

may not be significantly different before the opportunity creation process takes place, but this process can create substantial differences. This view involves more uncertainty, as the opportunity is new and there is no information regarding the possible outcomes (Alvarez & Barney, 2007).

As Liouka (2007) exposes, these three views are not necessarily mutually exclusive, there are attempts to integrate them. Sarasvathy et al. (2003) integrated these views first by recognizing that creation is a broader concept than recognition and discovery, since things need first to be created in order to be recognized or discovered. Also, the authors integrated the three views acknowledging that they can be context-dependent, for example the allocative view is more adequate when resources are clearly specified and goals are given; while the creation view seems more appropriate when the context is full of uncertainties (Sarasvathy et al., 2003).

As opportunities can be recognized, discovered or created, the process by which this occurs takes importance. There are several models of opportunity recognition and/or development in the literature (Bhave, 1994; De Koning, 1999; Schwartz & Teach, 2000; Sigrist, 1999; Singh, Hills, Lumpkin & Hybels, 1999), however they appear to focus on only one of the different steps and aspects of the process, and no consensus on the operationalization of the process existed (Ardichvili et al., 2003). Acknowledging these shortcomings and building on existing theoretical and empirical studies on entrepreneurial opportunity identification and development, Ardichvili et al. (2003) developed a model for the opportunity identification and development, more complex, that attempts to integrate the three previous views regarding opportunity identification. This model will be key in this thesis to explore the opportunities on the studied subsidiaries.

Figure 2.6. Ardichvili et al. (2003) Adapted model of opportunity identification and development



Source: Adapted from Ardichvili et al. (2003) and Baron (2006)

Based on the literature, which describes “opportunity recognition” not simply as recognition, the authors distinguish more complex aspects within the process of opportunity development. Since recognizing an opportunity does not guarantee that the entrepreneur will act upon it and it will result on the creation of a new product or business, opportunity development is a more appropriate term to understand the process composed of: perception (allocation view), discovery and creation. They see the creation of a successful business as the result of a successful opportunity development process; process that is cyclical and iterative, as entrepreneurs can recognize opportunities and evaluate them and make changes to the initial idea.

The development process is originated in the case of entrepreneurs with a high level of alertness, which is supposed to be more probable when personality traits converge with the proper information from social networks and defined by relevant and specific prior knowledge and experience of the entrepreneur (see Table 2.1 Factors affecting the opportunities development process). Additionally, Baron’s (2006) model of OR as “pattern recognition” acknowledges the role of changes, events and trends from the external environment which could pass through the filter of the determinants defined by

Ardichvili et al. (2003), and the individual alertness would translate in the recognition or discovery of an opportunity. Hence, not only the firm variables are drivers but also the context. Opportunities are evaluated at any stage of the opportunity development, and entrepreneurs can receive feedback along the process to adjust the proposal. No all opportunities become successful businesses, there are more market needs and un- or underemployed resources perceived than the number of opportunities implemented (Ardichvili et al., 2003).

Table 2.1 Factors affecting the opportunities development process

<p>Entrepreneurial alertness "the ability to notice without search opportunities that have hitherto been overlooked" (Kirzner, 1979, 48), however the "without search" factor is being reconsidered as some authors emphasize the importance of motivation (Gaglio and Katz, 2000).</p> <p>The ability of an individual to be aware of information about needs or problems in the market, in technology, new demographic trends, change in policies of governments, among others (Baron, 2006), that can conduct to the identification/recognition of an opportunity through a novel combination of existing resources (Ray and Cardozo, 1996).</p>	<p>Information asymmetry and prior knowledge An entrepreneur will discover/recognized only those opportunities associated to his or her prior knowledge and not necessarily is able to recognize other opportunities (Shane, 1999).</p> <p>Ardichvili et al. (2003) recognizes three dimensions of previous knowledge: prior knowledge of markets, prior knowledge of ways to serve markets, and prior knowledge of customer problems; which can be accumulated because of an interest of the entrepreneur on this topic or due to their job history.</p>
<p>Accidental discovery versus systematic search</p> <p>Some authors assume that an opportunity is recognized by a systematic search for available opportunities (Drucker, 1998; Herron and Sapienza, 1992)</p> <p>Other authors argue that people do not search for opportunities, instead they can recognize them without looking (Kirzner, 1997). This passive search or accidentally discovery is closely link to alertness, since those entrepreneurs that have more entrepreneurial awareness can recognize the opportunities than other non-alert individuals cannot (Ardichvili et al., 2003).</p>	<p>Social networks</p> <p>Entrepreneurs develop opportunities by interacting with a wide network, because they can gather information, think while interacting with others, and assess resources by these contact (De Koning, 1999).</p> <p>The broader and denser the social networks of an entrepreneur, the higher the entrepreneur's alertness and the more likely this individual will be to recognize opportunities by the information and knowledge accessible through the networks (Ardichvili et al., 2003; Hills et al., 1997; Granovetter, 1973).</p>
<p>Personality traits</p>	
<p>Studies on personality traits of entrepreneurs have been unable to identify differences among entrepreneurs (Shaver and Scott, 1991). Two personality traits related to successful opportunity recognition are including in the model: optimism and creativity.</p> <p>Perceived self-efficacy leads to optimism and this in turn to a higher propensity to see opportunities instead of risks in any given situation (Neck and Manz, 1992).</p> <p>Creativity is important for OI but this importance diminishes when the entrepreneur is well connected to networks (Hills et al., 1997).</p>	<p>Dimitratos and Plakoyiannaki (2003) studied subsidiary's distinctive entrepreneurial competencies, combining the fields of entrepreneurship and international business, and understanding entrepreneurial orientation a "commonly accepted as being entrepreneurial firm level behaviour (Covin and Lumpkin, 2011), which promotes initiative (Burgelman, 1983)" (Dimitratos and Plakoyiannaki, 2003, 66).</p> <p>The authors determined six subsidiary entrepreneurial competencies which drive opportunity recognition in international markets (Chandra, Styles and Wilkinson, 2009); hence, positively impacting subsidiary entrepreneurial initiative: innovativeness, risk-taking, proactiveness, learning, networking, and autonomy (Annex 1).</p>

Source: the author based on Ardichvili et al. (2003)

Complementing the model of Ardichvili et al. (2003), it is important to consider the firm factors that could foster opportunity development. Dimitratos, Liouka and Young (2014) studied subsidiary's distinctive entrepreneurial

competences, combining the fields of entrepreneurship and international business, and understanding EO as a “commonly accepted as being entrepreneurial firm level behaviour (Covin & Lumpkin, 2011), which promotes initiative (Burgelman, 1983a)” (Dimitratos et al., 2014, p. 66). The authors determined the existence of subsidiary entrepreneurial competences, which positively impact subsidiary entrepreneurial initiative: innovativeness, risk-taking, proactiveness, learning, networking and autonomy.

Table 2.2. Subsidiary entrepreneurial competencies

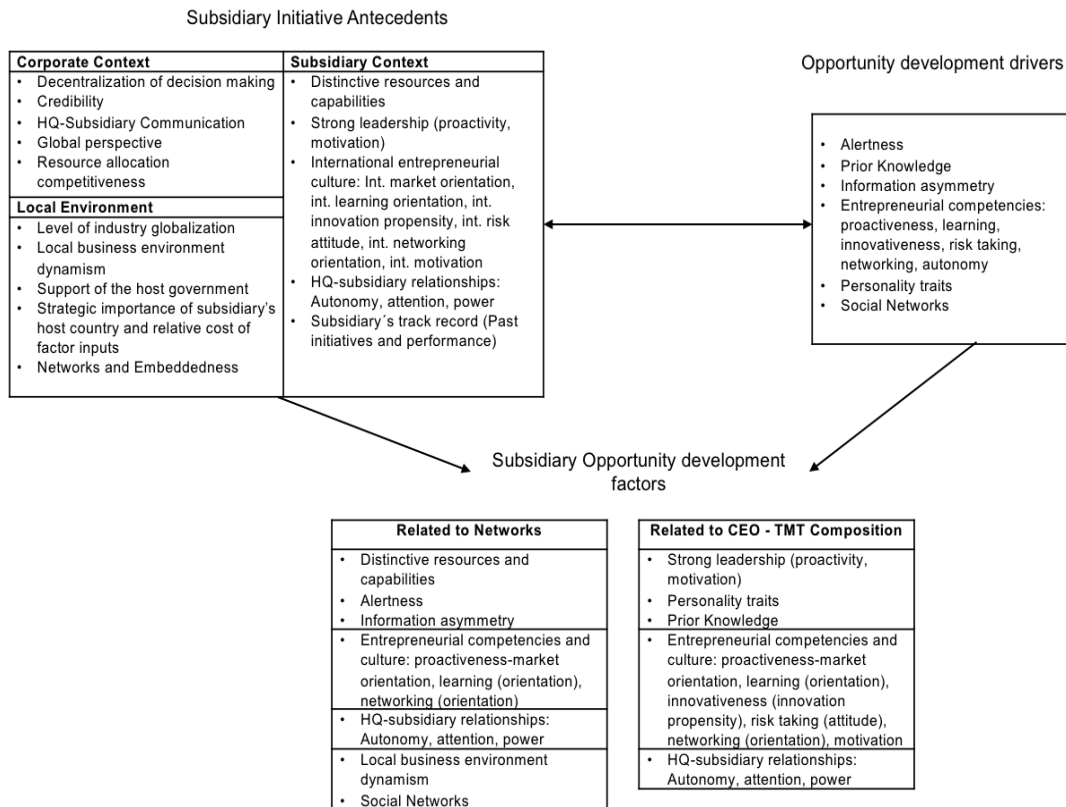
Dimension	Definition	Authors
Innovativeness	"Reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes"	Lumpkin and Dess (1996, 142)
Risk-taking	"the degree to which managers are willing to make large and risky resource commitments-i.e., those which have a reasonable chance of costly failures"	Miller and Friesen (1978, 923)
Proactiveness	Anticipating to the market needs and demands...	Lumpkin and Dess (1996)
	"first to come up with "proactive" innovations, beating competitors to the punch"	Miller (1983, 771)
Learning	MNEs can assimilate, integrate and create knowledge through their portfolio of subsidiaries	Dimitratos et al. (2014, 66)
	Subsidiary capacity to assimilate and exploit local knowledge	Rugman and Verbeke (2001)
Networking	External and internal relations that give access to valuable resources, information and knowledge	Andersson and Forsgren (1996)
		Figueiredo (2011)
Autonomy	independent activities and processes, free of organizational constraints, which allow subsidiary entrepreneurial initiatives to take place.	Dimitratos et al. (2014, 67)

Source: Dimitratos and Plakoyiannaki (2003)

Liouka argues that “subsidiary-specific resources and capabilities, elements in the corporate (MNC) setting in which the subsidiary operates, and characteristics of the subsidiary’s external (local and international) environment might to a great extent drive or inhibit subsidiary OI” (2007, p. 95). However, as I conducted the review of the antecedents of SI (context, subsidiary and local) and the drivers of opportunity identification, most of the coincidental variables correspond to subsidiary factors (figure 2.7). Contrasting

the antecedents of SI from the international business literature, and the drives of opportunity development from entrepreneurship literature, it is possible to define the factors that drive or influence the development of an opportunity in the subsidiary context. Two types of factors can be found: those related to networks and those related to the managers, or TMT composition of the subsidiary. Hence, in the following chapter of this thesis I attempt to further study these two types of factors and their role on SI.

Figure 2.7. Determinants of subsidiary opportunity development



Source: the author

2.5.3. Issue-selling, evaluation and initiative approval

In the process of SI once an opportunity is recognized, it needs to be sold to the HQ, since their support and resources are crucial to the SI success (Birkinshaw, 1997; Strutzenberger & Ambos, 2014). Subsidiaries have valuable access to specific resources and information because of location, which allows them to identify opportunities that cause uncertainty to the HQ due to foreignness; therefore, subsidiaries need to assertively sell the opportunity to gain HQ support. Because the lack of knowledge or understanding of an initiative from HQ, the parent company reacts suspiciously towards the SI and finally can result in rejection. This has been called the “corporate immune system” of the MNC, as the first impulse of HQ regarding the SI is to reject it to avoid errors, instead of analyzing it and understand it to decide whether to support it or not (Birkinshaw & Ridderstråle, 1999).

There are several determinants or processes identified in the literature that influence the HQ acceptance of SI, including the level of attention of HQ towards a subsidiary, HQ-subsidiary relationships, subsidiary power and the issue-selling.

HQ Attention

HQ attention has been studied by several authors, since due to geographic and cultural diversity it is complex for HQ to pay the same attention to all subsidiaries (Bouquet, 2005), hence, differentiated attention is given to subsidiaries (Prahalad & Doz, 1987). Therefore, studies on HQ attention have focused on how the parent company decides to give more attention to some units than others, as well as how the subsidiaries attempt to gain the necessary attention to conduct their mandate or novel ideas and contribute to the MNC (Birkinshaw et al., 1998). Bouquet and Birkinshaw introduced the concept of positive attention, referred as “the extent to which a parent company recognizes and gives credit to a subsidiary for its contribution to the MNE as a whole” (2008, p. 579). Ambos and Birkinshaw (2010) discovered that

subsidiaries with high strategic configuration within the MNC, for their autonomy, inter-unit power and entrepreneurial behavior, when they receive attention from HQ this leads to better performance of the subsidiary, among its sister units. This opens the opportunity for other authors to introduce the concept of negative attention, which can result from good intentions of HQ to support and get involved, but too much involvement may reduce the subsidiaries performance (Conroy & Collings, 2016). Conroy and Collings (2016) found two types of negative attention, direct negative attention when the subsidiary actions are considered illegitimate because are unknown or unaligned to parent company goals; and indirect negative attention that takes the form of *hyperattention* (Bouquet, Barsoux & Levy, 2015) and the HQ suffocates the subsidiary with attention, expectation, demands and support (Conroy & Collings, 2016).

Bouquet and Birkinshaw (2008) identified a dual process through which HQ shape attention to subsidiaries, a top-down structural process, which is determined by the internationally differentiated positions of an external subsidiary within the MNC firm, expressed as the local market strategic significance and the subsidiary strength within an MNE network. Additionally, a bottom-up relational process takes place, where the subsidiary has a voice of its own to attract attention and improve their position on the corporate system, which is achieved through SI taking, profiles building (improvement of subsidiary's image, credibility, and reputation). The importance of this study resides in the discovery that foreign units could also influence their level of HQ attention regardless of their current position on the MNC network (Bouquet & Birkinshaw, 2008).

Ambos and Birkinshaw (2010) found that TMT interpretations of strategic issues have a constant influence on subsidiary's strategic action and performance, hence further studies of their role are advised. Also, a MNC faces the challenge to effectively allocate attention among its subsidiaries, making sure that no potential opportunities are ignored, since attention is selective and

focusing on a subsidiary may left out another (Birkinshaw, 2011; Bouquet, Morrison & Birkinshaw, 2009).

Subsidiary Initiative-Selling

Managers allocate their attention to firm's strategic issues, which are defined as "events, developments, or trends that are viewed as having implications for organizational performance" (Dutton & Ashford, 1993, p. 397). However, an issue is not innately strategic, it gains relevance when the top management pays attention and identifies that it can impact the firm's performance; hence, the issue selling perspective is concerned with how issues become issues in the first place (Kingdon, 1993). This literature responds to a relational perspective, where subsidiary managers have a voice of their own and can appeal to selling strategies to gain support in their entrepreneurial activities. Dutton and Ashford (1993) defined issue selling as "individuals' behaviors that are directed toward affecting others' attention to and understanding of issues" (1993, p. 398), then subsidiaries must carry out strategies to help the HQ understand the issue or initiative, by revealing information to mitigate uncertainty, to gain HQ attention and to build relationships with HQ members to lobby for the initiative (Gammelgaard, 2009).

Essentially, Dutton and Ashford (1993) see the issue-selling process as carried out by middle managers (TMT), who receive the initiative from other firm employees and have more resources to sell it to upper managers. On MNC field, these middle managers are identified as the subsidiary manager (or TMT), who carries out the selling to the parent company (Dutton and Ashford, 1993; Dutton et al., 2001). Through the issue-selling strategy the subsidiary can increase its bargaining power within the MNE, which can rise if the HQ relies of subsidiary resources, legitimizing its role in the MNE (Birkinshaw, 2000; Gammelgaard, 2009). Both the subsidiary's seller and the HQ influence the issue-selling process, being more frequent when top management at HQ level is observed as supportive and open. On the other hand, individuals that believe to be located more centrally on the firm's communication network, will more probably initiate issue selling (Dutton & Ashford, 1993). Additionally, the

selling strategies can be influenced by the beliefs and assumptions of local managers that in turn are influenced by their cultural backgrounds (Ling et al., 2005).

Dutton et al. (2001) based on the influential work of Dutton and Ashford (1993) on operationalizing the selling of an issue, developed an issue-selling framework based on packaging the issue, how other actors are involved on the selling, and the process moves of the selling (table 2.2).

- **Packaging Moves:** refers to the way an issue is framed or presented, and it is being proven that framing an issue as a threat or a challenge results on more attention than packaging as an opportunity (Dutton & Ashford, 1993).
- **Involvement:** when individuals involve other in their selling of an issue, they are looking for increasing visibility of the issue and gain support and commitment to the subject from others. Hence, the authors were concerned on who the target of involvement are, and the nature of involvement.
- **Process moves:** Dutton et al. (2001) identified three moves, the formality in which the issue is presented, the level of preparation of the proposal, and the timing.

Table 2.3. Categories and subcategories of issue selling

Packaging moves	Involvement	Process moves
Presentation Use of logic business plan Make continuous proposals Package issue as incremental	Nature of involvement Involve people formally Wide range of involvement	Formality Use of formal process Use of written communication
Bundling Tie issue to valued goals-Profitability Tie issue to valued goals-Market share / organizational image Tie issue to concerns of key constituents Tie issue to other issues	Targets of involvement Involve other at upper level Involve other at same level Involve other outside organization Involve other at lower level	Preparation Timing Persistence in selling activities Opportune timing Early involvement

Source: Dutton et al. (2001)

Other studies on issue selling have focused on the channels, public or private, where private meetings could be more effective, since it can represent organizational legitimacy and show that the issue is important enough to be discussed publicly (Dutton & Ashford, 1993; Dutton et al., 2001). Also, issue

selling as a mechanism to gain attention has been studied, for example Conroy and Collings (2016) discovered four types of subsidiary issue-selling roles, according to their level of legitimacy and the level of attention received: passive citizens, corporate aggressors, budding stars and attention champions. Additionally, as well as subsidiaries differ in their selling tactics, issue selling has not the same effect on all subsidiaries, Dörrenbächer and Gammelgaard (2016) discovered that in less asymmetrical headquarters–subsidiary power relationships the necessity for selling an issue to obtain approval is low. While in highly asymmetrical relationships, issue –selling is necessary but it not a sufficient condition.

Subsidiary Power

Power is defined as the force capable of changing an individual’s behavior (Pfeffer, 1981); as the capacity to impose one’s will on others regardless of resistance (Blau, 1963; Galbraith, 1983), as “the capability to get what you want or to fulfill your identity” (March, 1995, p. 141) and as an individual’s ability to force other to do something that without this pressure they would not have done (Dahl, 1957). However, some authors have argued that these definitions apply for MNC but not for subsidiaries, since the hierarchic structure puts subsidiaries in an inferior rank (Dörrenbächer & Gammelgaard, 2011), hence, the power of subsidiaries is perceived more as their ability to influence the parent company decisions.

In MNC literature it has been recognized that HQ have challenges in controlling all its subsidiaries (Mudambi, Pedersen & Andersson, 2014) or are not able to know enough about the subsidiary and its environment, resulting in parent companies suffering from sheer ignorance (Ciabuschi et al., 2011). In many occasions, the subsidiary’s power is not exercised aligned to the HQ goals, but it can be used to influence MNC’s decisions to benefit the subsidiary interests and agenda (Ciabuschi et al., 2011; Andersson et al., 2007). From a business network perspective, the MNC understood as a federation where the HQ’s formal authority is not the dominant source of power, it is acknowledged that

subsidiaries can exert influence and politics within the MNC (Andersson et al., 2007; Forsgren, 2008). Since the subsidiaries seek support for their activities, they use their power to influence HQ's support among other sister units, therefore, in this political arena a struggle to influence others is established between parent company, the subsidiary and the other sister units (Forsgren, 2008).

Moreover, it is important to recognize where subsidiaries' power comes from (Birkinshaw & Ridderstråle, 1999; Dörrenbächer and Gammelgaard, 2011):

- **Structural power:** it is considered as the legally granted authority (Weber, 1947). In the MNC context, it can be understood as the authority the parent company gives to the subsidiary, mainly through the mandate. Subsidiaries hierarchically and geographically distant to the center, referred as peripheral, have low structural power, but they can over time create and enhance power resource power, as far as they develop unique resources or relationships in the local market (Birkinshaw & Ridderstråle, 1999).

- **Resource-based power (Resource-dependency power):** it exists when one actor controls valuable assets, and others depend on these assets (March, 1995; Pfeffer & Salancik, 1978). In the business network literature, this type of power derives from resource dependency situations, since MNCs are dispersed in different geographic places and HQs are not capable to control all the aspects in the local environments (Ghoshal & Bartlett, 1990; Yamin & Forsgren, 2006). Consequently, MNC are less hierarchical and act more as a network, where subsidiaries have closer access and control of resources, granting subsidiaries power and bargaining power over HQ because of the relevance of these resources (Andersson et al., 2007; Dörrenbächer & Gammelgaard, 2011). Some sources of power identified include subsidiary's external network (Andersson et al., 2007; Birkinshaw & Ridderstråle, 1999; Forsgren, 2008); internal links to its sister units (Forsgren, 2008); subsidiary's reputation (Birkinshaw & Ridderstråle, 1999; Pfeffer, 1992); and subsidiary's

knowledge (skills and individual's capabilities) (Dörrenbächer & Gammelgaard, 2011).

- **Systemic power:** this power is derived from the allocation of mandates in the value chain of the MNC (Roth & Morrison, 1992). Some subsidiaries are specialized in some goods and services for the entire MNC, which gives them power over a specific function that is crucial for the value chain (Dörrenbächer & Gammelgaard, 2011).

- **Institutional power:** this power comes from the host country institutional structures (Becker-Ritterspach, Lange & Lohr, 2002; Geppert & Williams, 2006), and the power derives from the subsidiary's proactive behavior of taking advantage of institutional structures, from the country protections against undesired company-wide practices and policies, and for HQ preferences to invest in certain countries (Dörrenbächer & Gammelgaard, 2011).

- **Micro-political bargaining power:** "refers to situations in which subsidiaries exercise their influence on headquarters through a combination of their own initiatives, issue selling, strategic information politics and manipulative behavior" (Dörrenbächer & Gammelgaard, 2011, p. 32). It is reflected by a subsidiary that exercises its voice and tries to influence HQ decisions by different strategies, such as issue-selling and lobbying behaviors (Cantwell & Mudambi, 2005; Dörrenbächer & Geppert, 2009; Ling et al., 2005; Mudambi & Navarra, 2004). Subsidiary bargaining power typically can increase if there is a resource dependency from HQ to subsidiaries, when the subsidiary can legitimize its behavior and if there are personal relations between subsidiary and the HQ's decision maker (Gammelgaard, 2009). Gammelgaard (2009) found that subsidiaries managed by parent-company nationals (PCN) have more bargaining power than units managed by host-country nationals (HCN), because PCN can translate context-specific information derived from the HQ and subsidiary's cultural distance better than HCN, they are also better

at packaging an issue to match HQ's requirements, and also, they are more skillful at framing an issue aligned to HQ's goals.

Role of Subsidiary Manager

The role and composition of subsidiary management are also determinants in influencing HQ's acceptance of SI (Gammelgaard, 2009; Raziq & Perry, 2013). Even if HQ's managers can reject or resist subsidiary initiatives, subsidiary managers can over-ride them and influence HQ's towards the acceptance and support of entrepreneurial activities (Birkinshaw & Ridderstråle, 1999).

Studies have found that subsidiaries are typically managed by HCN to guarantee alignment of subsidiary to local market requirements (Harzing 2002), however it has been acknowledged the importance of allocating PCN as subsidiary managers in cases of high cultural distances (Björkman, Barner-Rasmussen & Li, 2004; Gaur, Delios & Singh, 2007). Gammelgaard (2009) proved that PCNs may have a better performance than HCNs in selling an issue to parent company managers, hence, achieving more successfully SI approval. PCNs are more familiar with parent-company practices, have longer relationships with HQ's managers, are better at framing the proposal according to parent company norms, values and expectations, and have superior lobbying power due to stronger relations with HQ managers (Gammelgaard, 2009). However, Conroy and Collings (2016) found that subsidiaries attempt to gain support by positioning subsidiary individuals in key positions, they select individuals with high levels of relational and strategic knowledge that are not necessarily expatriates (Plourde, Parker & Schaan, 2014).

Raziq and Perry (2013) determined four factors that influence the role of subsidiary manager on selling an issue and influencing HQ's decisions: cultural, connectivity to HQ's managers, subsidiary manager's track record and managers' professional characteristics and orientation. Subsidiary manager's strong relations with HQ officials are essential for SI approval, they increase trust and understanding, weakening the initial resistance to novel ideas. They affirmed that "the better the relations and networks of the

subsidiary manager with head office officials, the more likely the proposal will be accepted” (Raziq & Perry, 2013, p. 12). A subsidiary manager with a good track record is a seller that projects reliability and trustworthiness, which can positively influence the selling of an issue (Ashford, Rothbard, Piderit & Dutton, 1998). Additionally, a well-connected subsidiary manager brings several benefits to the firm, therefore it gives them power and more capacity to get initiatives approved. Finally, the authors found that managers’ professional characteristics such as prior work experience, job status, and management expertise can influence subsidiary approval.

Evaluation

The entrepreneurial processes in the MNE goes beyond the identification of an opportunity, it also includes the recognition, evaluation and exploitation of opportunities in order to add value to companies (Shane & Venkataraman, 2000). Furthermore, each phase of this process can be located in different levels of the organization, which challenges the firm and its actors to be closely aligned on their interest, in order to successfully pursuit these opportunities (Ambos et al., 2010). This can be easily recognized in the SIP, where subsidiaries are more proactive and actively searching for opportunities, and due to their subsidiary specific advantages are more able to identify them. But the evaluation and approval of this opportunity may take place in other levels of the MNC, such as the parent company (Birkinshaw, 1997, 2014). The corporate managers are faced with the necessity to assess and evaluate different initiatives proposal from the subsidiaries, and to select the most promising ones (Birkinshaw, 1995; 2000; Verbeke & Yuan, 2005).

The evaluation can take diverse forms in different MNCs, for example it can have a focus on HQ, on subsidiary specifically, focused on the manager, or focused on the initiative characteristics (Mahnke et al., 2007; Raziq & Perry, 2013). Although some authors suggest that the decision of approval or rejection is discretion of HQ managers (Birkinshaw & Ridderstråle, 1999; Dörrenbächer & Gammelgaard, 2004), other authors, as seen in the previous section, recognized the subsidiary capacity to influence on the decision for its

role, mandate, capabilities, power, track record, etc. All these factors can influence the evaluation criteria and the decision of the corporate (Keupp, 2008; Raziq & Perry, 2013). The dispersion of this entrepreneurial processes introduces challenges to the MNC, since it is accompanied by uncertainty, but it does not mean that it is not a desire situation as there are several positive outcomes from SI that will be discuss in a following section.

2.5.4. Resource commitment and implementation

“Once an initiative is approved the subsidiary receives an official implementation mandate and is provided with the required resources to launch or further progress with the initiative” (Schmid et al., 2014, p. 207). There are few studies that focus on the specific process of resource commitment and implementation process, most of the attention is driven to the HQ-subsidiary relations, that affect the SI approval (Schmid et al., 2014; Strutzenberger & Ambos, 2014).

One of the few studies on SI implementation is the work of Keupp and Gassmann (2009), who proposed that after initiative approval an implementation mandate is sent, which is accompanied of political support, official endorsement, rights and/or budget. Then, the subsidiary has the role to transform the initiative into actions, to establish organizational routines, to create products or services. The implementation phase includes also handling opposition, guarantying continuity, redesigning and changing the initiative when it’s needed or has received feedback, and keep informed all stakeholders (Kanter, 1982; Keupp, 2008). The authors suggested that when the initiative goes global, it could be resistance in other sister units for phenomena such as the not-invented-here syndrome, due to the difficulty to accept knowledge and ideas from outside.

2.5.5. Outcomes

Three types of outcomes have been recognized from subsidiary initiatives, organizational, environmental and individual outcomes. Several studies regarding organizational consequences and outcomes of SI focused on improving MNC and subsidiary performance, in the development and evolution of the subsidiary, its position within the MNC, and the enhancement of subsidiary resources and capabilities. While few studies have studied the impact of SI on the local economy, and only one study has been recognized to study the impact on individual actors.

Organizational outcomes of subsidiary initiatives

Ambos et al. (2010) studied the consequences on past initiatives on the position of the subsidiary within the corporation. The authors did not find a direct relation, instead subsidiary managers need to achieve HQ's attention. Nonetheless, past initiatives could result on control and monitoring, instead of attention, and this could negatively influence subsidiary autonomy. The work of Gong (2006) is one of the few studies that focuses on the impact of subsidiary top management team (STMT). This study determines that diverse STMT (in terms of nationality) enhances subsidiary performance, since the members are more capable on accessing knowledge and resources from both the external and internal environments. Liouka (2007) studied the impact of SI in subsidiary entrepreneurial performance, which in turn has a positive impact on the overall subsidiary performance. Also, Ambos and Birkinshaw (2010) found that subsidiaries that conducted more entrepreneurial activities perform better, and they operationalized this variable through financial and management performance.

Birkinshaw and Hood (1998) discovered that subsidiary evolution could be an outcome derived from the subsidiary initiative. The authors proposed a subsidiary-driven charter extension as a result from corporate entrepreneurship. Similarly, Delany (2000) proposed an eight-stage mode of

subsidiary development, where subsidiaries interested in enhancing its mandate through SI should follow an incremental approach, from implementing successfully the mandate and exceeding original expectations to becoming as important for HQ's as to be involved on all major decisions to the MNC business. Other approaches suggest that instead of leveraging SI to gain autonomy, subsidiaries should build an interdependent relationship with the parent by aligning the proactive and innovative ideas to a common goal that benefit all MNC parties involved (Reilly, Scott & Mangematin, 2012a).

Subsidiary initiatives can enhance subsidiary resources and capabilities. Bouquet and Birkinshaw (2008) suggested that SI may lead to the acquirement of specialized resources that could result in competitive advantages of the subsidiary. Dörrenbächer and Geppert (2010) argued that subsidiary initiatives could develop subsidiary's technological and managerial capabilities, enhancing the subsidiary's position within the MNC network. Verbeke et al. (2007) determined that subsidiaries conducting initiatives can bring structural changes to the subsidiary (renewal) or resulting on the creation of new businesses (venturing). Birkinshaw et al. (1998) proved that subsidiaries can contribute to build firm-specific advantages, while interacting in the market. Several authors demonstrated the impact of SI in the transference of resources, technology and capabilities from the subsidiary to the corporate network (Rugman & Verbeke, 2001; Ambos & Birkinshaw, 2010). This phenomenon has been named as reverse knowledge transfer, which is a crucial result from SI to minimize the perception bias and lead to the recognition of the value created by the subsidiary (Mu et al., 2007; Najafi-Tavani et al., 2014).

In terms of learning, Zellmer-Bruhn and Gibson (2006) found that subsidiaries with more local responsiveness that lead innovation in the local market demonstrate more learning in their teams, than subsidiaries acting in a more global perspective. Additionally, SI enhances the entrepreneurial behavior of the subsidiary, Forsgren and Johanson (1992) found an impact on subsidiary's capabilities and entrepreneurial potential; while Scott, Gibbons and Coughlan

(2010) discovered a positive influence on strategy creativity, initiative generation and performance.

Environmental outcomes of subsidiary initiatives

The number of studies on environmental consequences of SI is small (Dimitratos, Liouka & Young, 2009; Jindra, Giroud & Scott-Kennel, 2009; Schmid et al., 2014; Zucchella et al., 2007). Dimitratos et al. (2009) found that subsidiary entrepreneurial output has a positive effect on host country economic development, because of a spillover effect on the local economy of these novel activities. Similarly, Jindra et al. (2009); discovered that subsidiaries taking initiatives have a higher share of forward (local customers) and backward vertical linkages (suppliers); both suppliers and customers can benefit from subsidiary initiatives, by diffusion of technology and exchange of managerial knowledge. Zucchella et al. (2007) proposed that subsidiary initiatives could impact the local industry conditions, their innovations could influence the industry or the relations with customers.

Individual outcomes of subsidiary initiatives

Frese and Fay (2001) studied the impact of SI in managers, who were perceived by others as having a proactive personality, having a positive impact on resources, support and their career development. Additionally, the authors found that managers with proactive behavior or conducting initiatives could find new jobs easier and are able to handle uncertainties in the market labor. Personal initiative was also positively related to developing clear career plans and to executing them, to individual performance and self-regulation (Frese & Fay, 2001; Frese, Fay, Hilburger, Leng & Tag, 1997).

2.6. Subsidiary initiative in the corporate context

As stated before, subsidiaries conducting entrepreneurial activities face challenges that independent firms do not, because they are immersed in a corporation with a parent company that exerts control and sister units that can behave competitively.

Because of this position of the subsidiary, there are several threats that the SI face. Birkinshaw and Ridderstråle (1999) studied the HQ's reaction to subsidiaries initiatives by an analogy with the human body, defining that the initiative acts as an alien body to the MNC and the reaction of the 'corporate immune system' is to reject it and destroy it. This is as an automatic reaction of parent company (and other actors), either due to ethnocentrism (Not Invented Here Syndrome), suspicion of the unknown and resistance to change (Birkinshaw & Ridderstråle, 1999). Because MNC have politics and procedures in place to assess and select which proposals to support, it should be expected an objective and effective mechanisms to select promising initiatives; however, political pressure from the actors as well as heuristics can conduct to rejection of good initiatives and approval of poor ones. Hence, it is important to understand what causes approval or rejection (Birkinshaw & Ridderstråle, 1999).

Apparently, the conservative behavior of MNC leads them to support and approve the known, hence the lower-risk projects, and to reject less known and uncertain proposals. Birkinshaw and Ridderstråle (1999) identified three behavioral traits from HQ managers, which coincide with the Not Invented Here (NIH) syndrome, which represents the tendency of a stable group to believe that they have the knowledge monopoly on a field and therefore, they reject different or new ideas (Katz & Allen, 1982). *Ethnocentrism* was the most common behavior conducive to rejection, which represents the corporate managers' preoccupation with their nationality and consider other nationalities to be below theirs, which can be translated into the parent company beliefs that the ideas of subsidiary are not as good and accurate as the HQ's mandate

(Hedlund, 1986). The second identified behavior was *suspicion of the unknown*, translated into the corporate manager reluctance to listen or believe on subsidiary managers unfamiliar to them, because of biased judgement towards and the time consuming process of equally analyzing all initiatives (Birkinshaw & Ridderstråle, 1999; Simon, 1976). Finally, *resistance to change* can be a driver for SI rejection, because corporate managers can see the initiative as a threat to their personal interest within the firm or because they don't understand the initiative and this leads to lack of trust (Kotter & Schlesinger, 1979). Yet, resistance is not exclusive from HQ, but it can happen in from any MNC actor such as sister units (Schmid et al., 2014).

Additionally, in the HQ-subsidary relationship **perception gaps** are identified, since both actors may have different perception regarding the role of subsidiaries, hampering the SI implementation (Birkinshaw et al., 2000). The authors understand perception gap as "the extent to which subsidiary managers overestimate the strategic role of their subsidiary vis-a`-vis HQ managers" (Birkinshaw et al., 2000, p. 322). There are three possible scenarios: (a) the subsidiary managers' perception of the strategic role is greater than HQ's perception; (b) HQ's overestimation of the subsidiary's role; and (c) small or non-existent perception gap, where the management of both sides match their perception regarding the subsidiary role. Among the causes for perception gaps, Birkinshaw et al. (2000) identified the different experiences of subsidiary and HQ managers, which influences not only the information they have but how they interpret it; the flow of information between HQ and subsidiaries, due to knowledge stickiness (Szulanski, 1996) and bounded rationality (Cyert & March, 1992); and the development of subsidiary independent from HQ, due to accumulation of valuable resources and capabilities, which leads to subsidiaries more autonomous and risky in taking initiatives (Birkinshaw & Hood, 1998; Liouka, 2007).

Other potential obstacle for SI is the **involvement of HQ** in the innovation or entrepreneurial process of subsidiaries. This involvement is driven by HQ's sheer ignorance; however, the lack of knowledge of the process, the subsidiary and its context, leads to HQ's lack of support to the innovation development (Ciabuschi et al. 2012). The threats can also be originated in sister units, since **intrafirm competition** can make an initiative (subsidiary A) challenge another subsidiary's mandate (subsidiary B), resulting on channeling resources from one sister unit (A) to other (B), causing downgrading of the subsidiary (B) within the MNC network (Becker-Ritterspach & Dörrenbächer, 2009). However, other authors have considered the interfirm relation positive, in the case of collaboration behavior (Bouquet & Birkinshaw, 2008). These challenges demonstrate the political arena that surrounds the MNC, where each actor has its own agenda and mechanisms to increase their power (Dörrenbächer & Gammelgaard, 2006; Dörrenbächer & Geppert, 2009).

Two variables have been demonstrated to help subsidiaries overcome these challenges and threats for their initiatives: **internal embeddedness** and **subsidiary staffing (with expatriates)**. Research on IE has shown that the close relationship between MNC actors can benefit the subsidiary in the process of SI support (Achcaoucaou et al., 2014; Ciabuschi et al., 2011; Ferraris, 2014; Yamin & Andersson, 2011). Research on subsidiary staffing through expatriates as a way to control the subsidiary, but it also can become a positive strategy due to the better ties of expatriates with HQ's, the level of trust they have, their understanding of parent company rules, and their higher capacity to transfer knowledge, all of which can positively influence the support of initiatives.

In subsidiary literature, internal embeddedness⁴ refers to the relationships that subsidiary has with the MNC actors, such as HQ and sister units; the closer and deeper these relationships the more internally embedded is the subsidiary (Yamin, 2005). High levels of IE allow the subsidiary to gather and exchange

⁴ Also used as corporate embeddedness and internal networks.

resources and activities (Ciabuschi et al., 2011; Uzzi & Lancaster, 2003), facilitates the involvement of HQ with subsidiary initiatives (Andersson & Forsgren, 1996) enabling HQ's support of entrepreneurial activities (Ambos et al., 2010; Bouquet & Birkinshaw, 2008; Yamin & Andersson, 2011), improves communication and knowledge transfer within the MNC actors (Andersson et al., 2002, 2007; Bresciani & Ferraris, 2016; Rugman & Verbeke, 2001a). Internal Embeddedness will be deeper study in chapter IV.

Moreover, the use of expatriates or parent company nationals (PCNs) as subsidiary managers also improves subsidiary-HQ communication and could positively impact the approval of SI. HQ managers believe PCNs better protect the corporate's best interest for two reasons, first because their future career may depend on HQ's evaluation of their contribution to the MNC, and second, because the scope of their perspective is broader and they on the entire parent company (Björkman et al., 2004). Additionally, they are better at knowledge transfer as their stronger social ties of PCNs with HQ managers built through the years give them an advantage over HCNs, because they have better and longer transmission channels (Gupta & Govindarajan, 2000), expatriation's experience and their relationship development capability (Choi & Johanson, 2012).

Because expatriates have a good understanding of the HQ's business environment, as well as broader international experience (Du, Deloof & Jorissen, 2015), they are effective at reducing information asymmetry between the subsidiary and HQ (Gong, 2003); and they can easily create a strong internal network with HQ which can benefit subsidiary's activities, such as entrepreneurial (Hyun, Oh & Paik, 2015; Michailova, Mustafa & Barner-Rasmussen, 2016). Furthermore, PCNs are perceived to be more trustworthy, to be able to better understand the added value that subsidiaries can provide to the entire corporation, and the lower communication problems they can have with corporate managers (Björkman et al., 2004; Gupta & Govindarajan, 2000). Staffing subsidiaries with expatriates can help to mitigate the tendency to reject SI *because of ethnocentrism*, also due to expatriates' relations to HQ

managers, for their previous jobs at HQ, corporate managers may not be suspicious of the unknown and the expatriate is more trustworthy to them (Naphiet & Goshal, 1998; Kostova & Roth, 2003). Finally, a better communication between expatriates and corporate managers conduces to less resistance to change and lower perception gaps, as the initiatives are not seemed so difficult to understand or threaten to the HQ's goals, as the expat is expected to be aligned to the corporate vision (Gupta & Govindarajan, 1991).

However, there are also studies that highlight that PCNs are not the best option for subsidiaries, since they may not be as skillful as HCNs on developing local networks as well as having less autonomy, and therefore, they can have less access to valuable local information and knowledge (Dörrenbächer et al., 2013). Hence, they have a lower capacity to identify opportunities and implement initiatives that could benefit either the subsidiary or the entire corporation. Therefore, it is worth considering that a more heterogeneous STMT can be more appropriate, aligned to Gong's (2006) conclusion that a diverse STMT in terms of nationality has a positive impact on subsidiary performance.

Other authors have focused on the role of expatriates in controlling the subsidiary (Harzing, 2002). Harzing (2002) identified three types of control by expatriates, formal direct control (bear), socialization (bumble-bee) and informal communication (spider). The direct control is characterized by the manager acting as a mini-headquarter in the subsidiary, complementing or replacing HQ's centralization of decision making; the role of bumble-bee refers to the control expatriates exert through socialization as a mechanism to share and consolidate the corporate values with subsidiary employees; and the spider role consist on the creation of informal communication network, between the HQ and the subsidiary.

Additionally, studies have found that the number or presence of expatriates in subsidiaries is not static, instead there is a temporal evolution of subsidiary staffing through expatriates the longer the subsidiary has operated in the local

country (Collings et al., 2008; Gong, 2003). In early stages of the internationalization control through expatriates plays an important role (Briscoe & Schuler, 2004), but the more experience and competence the subsidiary management builds, the less presence of expatriates occurs (Collings et al., 2008).

2.7. Conclusions

This chapter focused on the Subsidiary Initiative, understanding how subsidiaries have evolved from merely following HQ's mandate and becoming proactive actors of the MNC network, which pursuit opportunities in their local markets. The antecedents of SI were reviewed, in order to understand the main variables that make possible or motivate subsidiaries to follow opportunities. The Subsidiary Initiative Process was reviewed, and special emphasis was made on two phases: opportunity development and issue-selling. From the entrepreneurial literature, drivers of opportunity development as well as models of recognizing opportunities were revised, identifying influencing factors such as the alertness of managers, social networks personality traits and entrepreneurial competences. All of these drivers coincide with some of the SI antecedents, specially variables related to social networks and traits of the subsidiary manager or the TMT. Therefore, the role of the TMT as well as the role of networks on SI should be further studied.

Additionally, not only the drivers but also determinants that influence HQ acceptance of subsidiary initiatives should to be taken into account, as well as threats and challenges of SI. In the phase of issue-selling, several processes that can impact the HQ's acceptance were reviewed, such as the level of HQ's attention, HQ-subsidiary relationships, the power of the subsidiary within the MNC network, and the issue-selling process. Additionally, threats to the initiative were explored, mainly the corporate immune system and perception gaps, and two variables that could help subsidiaries to overcome these challenges and threats for their initiatives: ***internal embeddedness*** and ***subsidiary staffing (with expatriates)***. Therefore, the need to zero in on the

role of networks (external and internal) as well as the composition of the STMT is reinforced.

CHAPTER 3. TOP MANAGEMENT TEAMS AND SUBSIDIARIES

3.1. Introduction

The purpose of this chapter is to extensively review the literature on Top Management Team (TMT) and its influence on international literature, particularly on SI literature, as an answer to the calls to study SI as a “multilevel phenomena by including individuals, teams, the organization and the external network in which it is embedded, which have been neglected so far” (Strutzenberger & Ambos, 2014, p. 2).

The structure of chapter III is as follows: Section 3.2 introduces the Upper Echelon (UE) Model by Hambrick and Mason (1984), as the consolidated model to study firm’s from a team perspective. Additionally, it shows how authors have focused on demographic characteristics of team members to understand the influence of the team on firm performance. As well as it reviews the changes of the UE model during the last decades.

Section 3.3 concentrates on definitions and measures of TMT, and how the description of the TMT can affect the results of studies. While chapter and 3.4 concentrates on TMT composition and characteristics, reviewing how demographic traits can affect firm outcomes, as well as it engages on the impact of TMT diversity on firm performance. The measures of TMT diversity are methodically discussed.

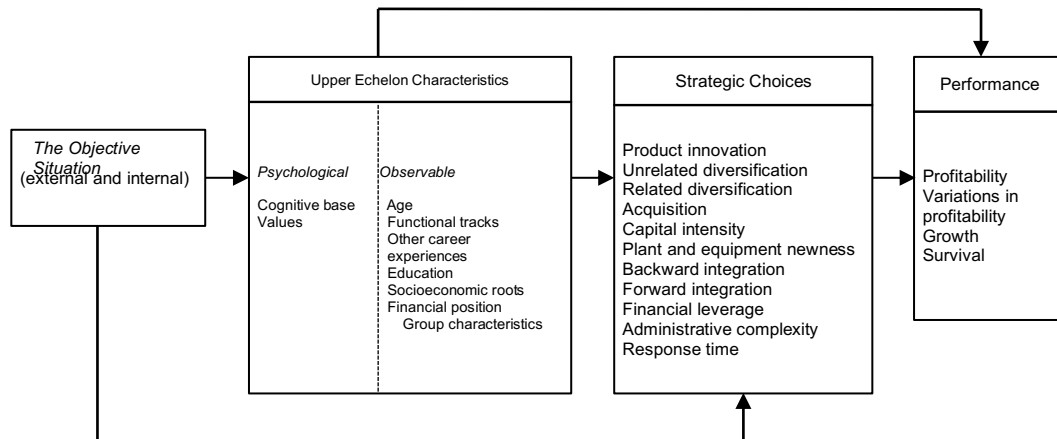
This chapter closes (Section 3.4) by integrating the Upper Echelon perspective and the SI. The purpose of the chapter is to understand what the characteristics of an entrepreneurial TMT are, and what particular composition of the STMT could be more appropriate to succeed at discovering opportunities and gaining HQ support, hence succeeding at implementing Subsidiary Initiatives.

3.2. Upper Echelon Theory

Management literature has increased its interest on other actors besides CEOs, going from the study of individuals to the team. Although the CEO is a crucial actor, in many situations the decisions are made among the team of top managers, and hence understanding the characteristics and composition of teams results in a mandatory task for management researchers. The parents of the Upper Echelon (UE) theory are Hambrick and Mason (1984), in their initial study on *Academic of Management Review*, the authors contributed to management literature on understanding why organization act in a certain way focusing not on the firm but on the individuals, particularly on the impact of the group of executives making the decision (TMT) in the firms' outcomes.

Hambrick and Mason (1984) supported their UE perspective on the fact that managers have bounded rationality (March & Simon, 1958) and their capacity to understand and consider all variables surrounding a decision is restricted. "Managers are confronted with far more information than they can handle, much of it ambiguous and complex, and will fall back on their experiences, preferences, and other biases to deal with this barrage" (Cho & Hambrick, 2006, p. 453). Therefore, the information they select is filtered by their cognitive base and values and combined with its managerial perception to assess the situation and make the decision (Hambrick & Mason, 1984). Additionally, the authors argued that cognitive bases, values and perceptions are TMT characteristics difficult to measure; thus, they relied on observable managerial variables such as age, functional tracks, education, socioeconomic roots, financial position and the composition of the team. The model suggests that external and internal situations of the firm influence the team's characteristics, and since the members of the team face bounded rationality, their cognitive bases and values in turn affect the way they interpret these external and internal situations Hambrick and Mason (1984). The combination of these situations and the characteristics of the members of the team results on strategic choices that will have an impact on the performance of the firm (Figure 3.1).

Figure 3.1. Hambrick & Mason's Upper Echelons Perspective of Organizations



Source: Hambrick & Mason's (1984)

Additionally, the UE perspective introduces the heterogeneity of the team, which led to an important stream of research; where some studies argued that homogeneous teams are better for performance than heterogeneous (Camelo, Fernández - Alles & Hernández, 2010; Jackson, Brett, Sessa, Cooper & et al, 1991; Wiersema & Bird, 1993), while others emphasized on the positive aspects of diverse teams on the firm (Bantel, 1993; Bantel & Jackson, 1989; Barkema & Shvyrkov, 2007; Carpenter & Fredrickson, 2001; Smith et al., 1994). Diversity is crucial to understand this perspective, since many characteristics of the TMT are measured on an individual level, such as motivation, risk taking, creativity, but in the case of distribution of the team or levels of homogeneity or heterogeneity, there are no individual equivalent measures (Jackson, 1992). There is still not a definite conclusion regarding what is the optimum composition of the team, however the importance of the team composition is undeniable.

In the UE model, Hambrick and Mason (1984) recognized limitations regarding the interdisciplinary of the proposed perspective, as the major emphasis was on strategy, and they call for more thorough research involving psychology and sociology insights claiming for future researchers to propose holistic measures for TMTs. Although the characteristics of the TMT remain important, focused

on demographic traits, there is still a black box regarding the psychological and social processes that condition the behavior of managers and therefore impact the outcomes of a firm (Aharoni, Tihanyi & Connelly, 2011; Carpenter, Geletkanycz & Sanders, 2004; Hambrick, 2007; Lawrence, 1997). As stated by Lawrence (1997), demographic models tend to present the relation between demographic traits and outcomes directly, while avoiding subjective constructs that help to explain this relationship or in other words, the mechanism that enables these associations. Hambrick (2007) updated the UE theory integrating new important moderators to enhance the theory: *managerial discretion, executive job demands and behavioral integration*.

Managerial discretion (Hambrick & Finkelstein, 1987) occurs when ambiguity is plausible due to the numerous alternatives to choose from. When executives have managerial discretion, demographic attributes will have an impact on performance, otherwise their characteristics are irrelevant. Hambrick and Finkelstein (1987) posited three forces that determined discretion: environmental conditions which allow change, organizational factors which permit executives empowerment to design and implement actions, and the executive's capacities to determine different courses of action (Hambrick & Finkelstein, 1987; Hambrick, Finkelstein & Mooney, 2005). Therefore, it can be expected that diverse TMTs with varied capacities could exhibit higher levels of managerial discretion.

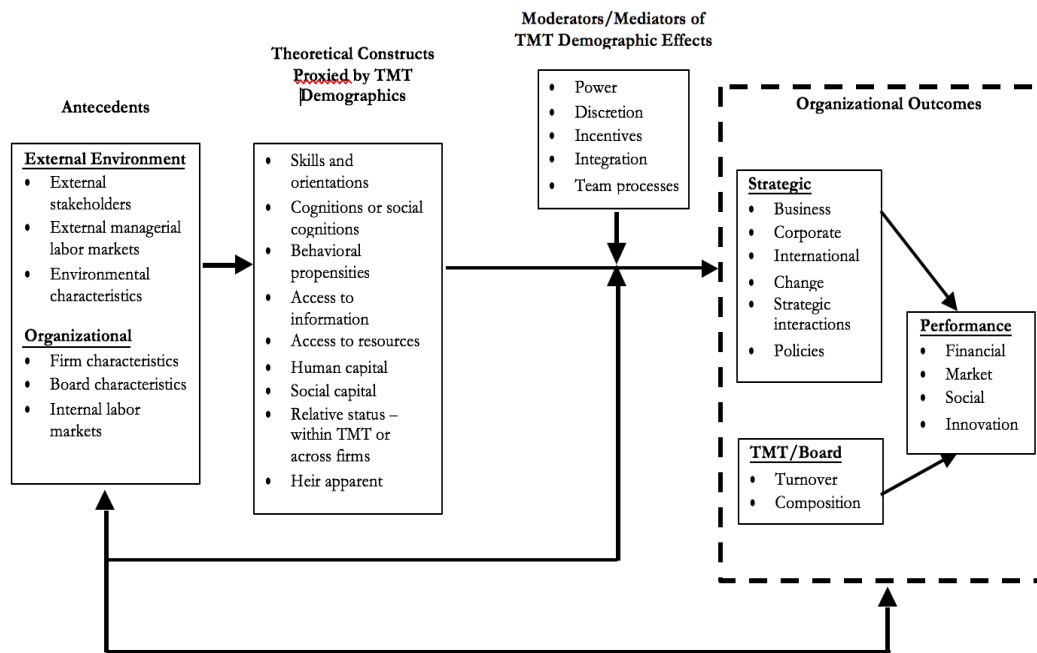
Hambrick et al. (2005) introduced the variable *job demands* as a moderator, considering the degree of challenge of job's executives, under the premise that not all executives have the same level of burden or heavy loads of work and pressure. Executives under pressure and high job demands are likely to take mental shortcuts and go back to familiar strategies or proven ways of doing this that previously worked for them. Therefore, the authors proposed that "the greater an executive's job demands, the stronger the association will be between the executive's characteristics (demographic and psychological) and

strategic choices” (Hambrick et al., 2005, p.480), because they will rely on previous experiences.

Regarding the concept of *behavioral integration*, Hambrick discovered that team properties of TMT are limited, since they interact independently as “barons” towards the CEO, but not as a whole. Therefore, Hambrick (1995) introduces the concept of “behavioral integration” to describe the level of collective interaction among the team members. Positive consequences of an integrated team have been proved on the use and combination of knowledge (Hambrick, 1995, 1997), on innovation (Li & Zhang, 2002), on firm performance (Lubatkin, Simsek, Ling & Veiga, 2006). However, the main contribution of the concept to UE theory is on the significance of TMT as a unit of analysis, if the members of the team do not act collectively but as independent individuals it does not make much sense to study the collective characteristics (Hambrick, 2007).

Carpenter et al. (2004) proposed a more complex framework named “*second generation*” *Upper Echelon Model* (table), where the authors focus on the processes by which executives influence firm performance. This model integrates empirical results on the literature with the original model, identifying antecedents of the TMT composition, such as external environment variables and organizational. Additionally, they used demographic variables as proxies of complex constructs, suggesting that “some important but complex psychological issues are bypassed in favor of an emphasis on broad tendencies that, if empirically confirmed, can be later held up to psychologist’s finer lens” (Hambrick & Mason, 1984, p. 196). The model complements the UE perspective by disentangling the “black box” of the relations between the TMT traits and organizational outcomes, by recognizing moderators and mediators of this relationship, with dynamic variables such as team process. Finally, the organizational outcomes are classified in strategic, performance and the TMT itself (Carpenter et al., 2004).

Figure 3.2. Carpenter, Geletkanycz & Sanders' Second Generation of the Upper Echelons Perspective



Source: Carpenter et al. (2004)

3.3. Top Management Team Definitions and Measures

Hambrick and Mason (1984) contributed on defining demographic characteristics of the TMT as a proxy for the team psychological framework, although not a precise and complete proxy it is a useful one, using variables such as age, functional background, experience, formal education, among others. This has led to an important number of studies that concentrated on characteristics of the TMT members (Ancona & Caldwell, 1992; Bantel & Jackson, 1989; Jackson et al., 1991; Michel & Hambrick, 1992; Reuber & Fischer, 1997). However, although there is a consensus on the definition of the unit of analysis, as stated in Carpenter et al. (2004) work, there is still ambiguity on the definition of the TMT.

In one hand, from a theoretical perspective the TMT has been defined by Hambrick and Mason (1984) from a dominant coalition perspective as the group of senior executives and the CEO, where not only the CEO exerts the power to make decisions, but also there are powerfull members on the

organization, according to title or position, and they share power and influence with the CEO on strategic decisions (Finkelstein, 1992; Hambrick & Mason, 1984). Research based on this TMT measure assumed that these executives (mainly due to their title) have a position on a strategic level in the firm, and therefore they could have impact on some of the results in the firm performance (Carpenter et al., 2004).

Additionally, other authors have focused more on the involvement of the executive on the decision rather than focusing on the title and position, such is the case of Jackson's work (1992) who followed an *issue processing* perspective in defining the TMT. Jackson (1992) argues that the unit of analysis is the issue not the team, a task force is created to manage the issue, and this is not merely composed of top executives (dominant coalition view), but rather it involves players from multiple levels that are given the responsibility to study and offer recommendations (Jackson, 1992). Hence, this approach does not rest on top members by title, but the members involved on the issue taking place. Pettigrew supports Jackson's view in the aim to solve definition problems, going further to also understand their participation by suggesting that "Rather than assuming titles and positions as indicators of involvement in choice and change processes, the first task for the process scholar is to identify which players are involved, and why" (Pettigrew, 1992, p. 178).

Moreover,, regarding empirical studies the definitions vary widely, mainly because these studies use case study methods with a convenience sampling approach (Carpenter et al., 2004). Nonetheless, major definitions can be identified when synthesizing Carpenter et al.'s (2004) analysis of 30 empirical studies of TMT. As table 3.1 shows, the majority (14) of the empirical studies identified corresponded to TMT measures regarding conceptual definitions, followed by 11 studies using Jackson's (1992) approach by including executives involved on the discussed issue, and fewer studies taking into consideration remuneration as a description of who the TMT are.

Table 3.1. TMT definitions on empirical studies

TMT measure on empirical studies	N. papers	TMT definition
Top managers involved in strategic decision making identified by the CEO	11	Top managers involved
All executives above vice president level.	4	Conceptual definition
Vice president and above	1	
Executive vice president and above; sensitivity analysis with all executives identified as officers of the corporation	1	
All members of the top management team	2	
All executives list on 10-K filing	1	
Top two tiers of an organization's management	2	
Top executives	1	
Chairman, vice chairman, CEO, president, CFO, and COO	1	
Chairman/CEO and key division CEOs	1	
All inside top-level executives, including CEO, COO, business unit heads, and vice presidents	1	
Top 5 highest paid executives	1	Others
CEO and direct reports	3	

Source: the author based on Carpenter et al. 2004

I have conducted an update of Carpenter et al. (2004) compilation of studies and their TMT definition (see Table 3.2), where most studies showed follow a conceptual definition, in some of these studies the researches ask the CEOs to identify the executives that generally make decisions that are important to the firm's future. In this case, one can assume that only TMT members by position or title were identified, since no reference is ask concerning a specific activity, such as SI, but firm's decisions in general. Only one of the studies (*) included top managers involved in strategic decision making identified by the CEO, and one study (**) on entrepreneurship focused on founders. Hence, it seems that conceptual definition remains the preferred TMT measure on empirical studies.

Table 3.2. TMT definitions on empirical studies from 2009-2015

Year	Author (s)	TMT Measure	Year	Author (s)	TMT Measure
2005	Kraiczky and Hack*	Top managers involved in strategic decision making identified by the CEO	2009	Heavey, Simsek, Roche, and Kelly	TMT identified by CEO
2005	Simsek, Vega, Lubatkin, and Dino	Group of senior managers, TMT, that generally makes decisions that are important to the firm's future	2011	Van Knippenberg, Dawson, West, and Homan	Team that is responsible for the performance of the organization as a whole
2006	Lubatkin, Simsek, Ling, and Viega	TMT members who were part of the CEO's decision making team.	2011	Buyl, Boone, Hendriks, and Matthyssens	CEO and all TMT members (Pitcher and Smith)
2006	Cho and Hambrick,	All executives above the level of vice president	2013	Qian, Cao, and Takeuchi	TMT identified by CEO
2007	Barkema and Shvyrvkov	Heads of the main functional departments, such as marketing, finance and accounting, and operations	2015	Hambrick, Humphrey, and Gupta	Senior vice presidents or higher.
2008	Cannella, Park, and Lee	All executives with titles above the rank of vice president	2015	Chowdhury**	Founders
2009	Boone and Hendricks	TMT identified by CEO			

Source: *the author*

Furthermore, Certo, Lester, Dalton and Dalton (2006) conducted a meta-analysis to study the relationship between TMT characteristics and financial performance, and its modest results led the authors to call for further analysis to find if different definitions of TMT could be the reason for mixed results. The authors conducted a confirmatory factor analysis (CFA) finding that “the array of TMT operationalizations affects researchers’ ability to draw definitive conclusions regarding relationships between the TMT and firm outcomes, whether strategic or financial” (Certo et al., 2006, p. 830).

Although different measures used on TMT studies could be considered a problem regarding how consistent the findings may be, Carpenter et al. argue that “studies using a variety of measures have reported significant associations between top management team characteristics and important firm outcomes”

(2004, p. 7); hence it can be inferred that studies could use any definition of the TMT as long as fits a conceptual definition or focuses on the involvement of the executives on the decisions. Specially, since it may answer the demands on the field to use tailor-made definitions adjusted to particular research questions (Jackson, 1992; Carpenter et al., 2004).

Nonetheless, the TMT approach faces critiques regarding the neglect of CEO hierarchy among the TMT and overlooking the influence of the CEO on the decision making process. Therefore, some authors recognize a continuum between models based on CEO and models based on TMT, where it is unlikely that a CEO makes decisions without consulting his team but also unlikely that decisions are made by team members with equal power and participation; hence, the reality relies along this continuum demonstrating diverse levels of interdependence among the members involved (Olie, van Iterson & Simsek, 2012).

3.4. Top Management Team composition and characteristics

The composition of the TMT is still a relevant question not only for researches but also for practitioners. Should the team be composed of executives with similar ages, or with a combination of younger and older TMT members? Should all the members have a long tenure, or is it more beneficial to have consolidated and expert members along with new executives with novel ideas and prone to risk taking? Perhaps TMT perform better when they have members from different functional backgrounds, or should all of them be economist or engineers?

Hambrick and Mason (1984) seminal paper in Upper Echelon was the milestone to many researches on TMTs, not only for their contribution of focusing on the group of managers as key actors on firm's decision making, but also on determining the demographic characteristics of the team members and its composition as proxies of those behavioral aspects that impact firm

outcomes. Most of the studies on TMT composition have followed two approaches of research: the impact of demographic attributes on the performances of the firm, and the effect of TMT diversity.

The first approach follows the UE logic, where the personal traits along with managers' perception influence the decision making process, and therefore the outcomes of the firm. Studies in this line of research acknowledged relationships between TMT demographic features and corporate strategies (Bantel, 1993; Bantel & Jackson, 1989; Finkelstein & Hambrick, 1990); international behavior (Herrmann & Datta, 2005; Tihanyi, Ellstrand, Daily & Dalton, 2000; Wiersema & Bantel, 1992), and corporate performance (Bell, Villado, Lukasik, Belau & Briggs, 2011; Carpenter & Fredrickson, 2001; Finkelstein & Hambrick, 1990; Finkelstein, Hambrick & Cannella, 2009).

Studies with the second approach focused on the heterogeneity of TMT members and its impact on corporate performance. Several studies recognized a positive relationship between heterogeneous teams and corporate strategic outcomes (Bantel, 1993; Bantel & Jackson, 1989; Certo et al., 2006; Hambrick, Cho & Chen, 1996; Nielsen & Nielsen, 2013; Wiersema & Bantel, 1992), corporate performance (Barsade, Ward, Turner & Sonnenfeld, 2000; Carpenter, 2002; Hambrick et al., 1996), internationalization (Barkema & Shvyrkov, 2007; Carpenter & Fredrickson, 2001; Rivas, 2012); others found no significant evidence of the impact on firm performance (Bell et al., 2011; Chowdhury, 2005; Homberg & Bui, 2013; Van Knippenberg, Dawson, West & Homan, 2011); and some studies discovered a negative effect on firm's outcomes (Camelo et al., 2010; Jackson et al., 1991; Knight et al., 1999; Michel & Hambrick, 1992; Rivas, 2012; Wagner, Pfeffer & Reilly, 1984).

Hence, the results regarding how this diversity influences the firm are still ambiguous (Carpenter et al., 2004; Horwitz and Horwitz, 2007), to the point that many authors have considered it a *double-edged sword* relationship

(Heavey & Simsek, 2013; Homberg & Bui, 2013; Milliken & Martins, 1996; Pelled, 1996; Van Doorn, Jansen, Van den Bosch & Volberda, 2013).

Authors have presented different arguments regarding the reasons for the inconclusive results about TMT heterogeneity and firm outcomes. From a methodological perspective, some authors have suggested that the poverty of TMT diversity measure explains the ambiguous results, since diversity can have different measures (Harrison & Klein, 2007) and also different types of heterogeneity can be taken into account (Nielsen, 2009; 2010a). Also, there are increasing critiques concerning the strong reliability that authors have given to demographic variables as behavioral and values proxies, to the point of calling for “a moratorium on the use of demographic variables as surrogates for psychosocial constructs” (Boal & Hooijberg, 2000, p. 523).

Hence, several authors have called for opening the “black box” of the demographic traits-firm performance relationship, and to pay more attention to how a particular demographic characteristic influences the firm’s outcome, that is to have better understanding of the intervening process (Lawrence, 1997).

This has led to an increasing stream of studies that argues that the impact of TMT traits on firm performance is not direct but mediated and moderated by other factors (Nielsen, 2010), either by the contextual factors like the environment (Eisenhardt & Schoonhoven, 1990; Finkelstein & Hambrick, 1990; Iaquinto & Fredrickson, 1997), and process-oriented variables such as social integration and communication (Barsade et al., 2000), conflict and debate (Knight et al., 1999; Simons, Pelled & Smith, 1999), collaboration and consensus among group members (Michiel, Dooley & Fryxell, 2002).

3.4.1. Demographic studies

As stated before, organizational demography approach (Pfeffer, 1983) has been prevalent on TMT literature while studying teams' characteristics, due to assertion that measuring psychological characteristics lacks reliable and valid measures; while demography characteristics are a suitable proxy (Hambrick and Mason, 1984; Nielsen 2010a). The common demographic characteristics among TMT studies are functional tracks, education, international and industry experience; while there is an increasing interest in later years for sex and race/ethnic aspects (Bell et al., 2011).

TMT Age and other bio-demographic aspects

Hambrick and Mason proposed that "Firms with young managers will be more inclined to pursue risky strategies... And will experience greater growth and variability in profitability from industry averages than will firms with older managers" (1984, p. 198). The authors argued that older executives are likely to be more conservative because physiological reasons that hampers they ability to learn new behaviors, they may be more prone to analyze information and make decision for longer time, or have a tendency to maintain the status quo and protect their positions and financial security (Hambrick and Mason, 1984).

There is an increasing call to focus on bio-demographic traits, specially sex and race (Horwitz and Horwitz, 2007), since research has found that "individuals take surface-level information (e.g., sex, race, age) into account when categorizing others" (Bell et al., 2011, p. 720). As emotional conflict hampers firm performance and work related conflict improves it, through debate and agreement seeking, the call for more research on bio-demographic traits is important (Knight et al., 1999).

Table 3.3. Studies on TMT age and firm performance

Authors	Variables	Relation
Bantel and Jackson (1989)	Age and innovation	Cognitive abilities lessen with age, younger executives are more risk-takers than older ones, and novelty of younger executive studies may result on superior technical knowledge
Wiersema and Bantel (1992)	Age and strategic change	Younger managers are more flexible and less resistant to change. Older managers are less confident about their decision (lower risk-taking), hence lacking leadership to carry out strategic change
Tihanyi et al. (2000) Herrmann and Datta (2005)	Age and firm international diversification	Risk linked to global expansion and the challenges on information-processing abilities

Source: the author

TMT Functional Background

The functional tracks refer to the different specializations that managers or workers hold within an organization, such as marketing, finance, production. The functional orientation of TMT members could influence the decision of the team, even though top executives are expected to have a general view to face situations, the functional areas of previous jobs defines the way executives perceive problems or the capabilities to face them (Hambrick & Mason, 1984; Menz, 2012).

Table 3.4. Studies on TMT functional tracks and firm performance

Authors	Variables	Relation
Chaganti and Sambharya (1987)	TMT functional background, strategic choices and environmental factors	Firms on stable environment don't need executives with production background, firms defending leader position need financial background, firms actively seeking for opportunities need marketing executives
Finkelstein (1992)	TMT financial backgrounds, firm diversification and acquisition activity	Executives with financial background are used to handle financial portfolio, and this is similar to managerial job in diversified firms

Authors	Variables	Relation
Wiersema and Bantel (1992)	R&D background and strategic change	The firms most likely to undergo strategic change had top management teams characterized by academic training in the sciences
Govindarajan (1989)	TMT functional background and competitive strategy	Greater R&D experience and internal locus of control contribute to implementation effectiveness in the case of a differentiation strategy
Tyler and Steensma (1998)	R&D background and technology alliances	The process to analyze information from different potential partners and assess potential technological alliances is influence by TMT background, managers with technical work experience favor these alliances
Boeker (1997)	TMT functional background and entrepreneurship	Entrepreneurs with experiences in research, design or development more prone to pursue a first-mover initial strategy. Executives with background in manufacturing and production were more prone to start organizations with a low cost strategy
Daellenbach et al. (1999)	TMT functional background and innovation	Positive relation between high levels of spending on R&D and more TMT and CEOs technically oriented

Source: the author

TMT Tenure

Organizational tenure (OT) refers to the time a member of the TMT has worked in the firm and it has been associated with maintaining the status quo, while the tenure of the team indicates how long the members of the TMT have interacted within the team, and it has been related with better communication and cohesion (Bell et al., 2011; Michel and Hambrick, 1992). Namely, OT indicates the longevity of executives in the firm, while team tenure represents the longevity of the team's interaction.

Table 3.5. Studies on TMT tenure and firm performance

Authors	Variables	Relations
Hambrick and Mason (1984)	Organizational tenure and firm performance	On stable environments, OT has a positive relation with profitability and growth due to deep knowledge and familiarity with the industry and the established relationships. On unstable environments, newer members make more changes and bring new and different perspectives from their previous experiences
Finkelstein and Hambrick (1990)	Organizational tenure and strategic change	Long-tenure executives have high commitment to their previous actions, to avoid risking financial and social position acquired; short-tenure teams pursue novel ideas
Wiersema and Bantel (1992)	Organizational tenure and strategic change	Shorter level of OT is related to strategic change; the assimilation of routines and perspectives of a TMT is prompt and based on higher commitment of status quo in longer tenures.
Herrmann and Datta (2005)	TMT OT and international diversification	The relation is negative, as longevity on the firm has been associated to narrower perspectives, less flexibility, more risk aversion, and less diversification search
Tihanyi et al. (2000)	Team tenure and international diversification	The relation is positive, executives working together for longer periods increase social cohesion and produce similar cognitive structures, and are more prepared to face new environments and assess more efficiently international opportunities
Chen (2011)	TMT tenure and internationalization	Long tenure positively influences internationalization as general understanding and shared cognitive structures about foreign markets lead to minimize the risk and uncertainty, build stronger networks during longer periods, and the accumulation of knowledge permits to identify opportunities

Source: the author

TMT Formal Education

Studies of Upper Echelon perspectives argue that “individuals with certain dispositions, aptitudes and cognitive styles tend to pursue certain compatible educational curricula and that these curricula, in turn, exert differential influence on attitudes” (Nielsen, 2009, p. 281); therefore, the knowledge and skill base of executives differs regarding their education and this impacts their managerial decisions. Hambrick and Mason (1984) focused on the difference of more sophisticated management of firms by executives with managerial education than others.

Table 3.6. Studies on TMT formal education and firm performance

Authors	Variable	Relation
Bantel and Jackson (1992)	Education and innovation	that team member with high levels of education constitute a team with more inputs to design creative solutions while dealing with complex problems
Wiersema and Bantel (1992)	Education and strategic change	Highly educated members were more likely to conduct strategic change, as high education is associated with information processing capacity, tolerance to ambiguity and innovation receptivity
Tihanyi et al. (2000)	Education and internationalization	TMT elite education has a positive relation to international diversification degree, as being exposed to international issues and foreign people could shape their values and incline them to be more open-minded and less averse to the uncertainty of international foreignness
Herrmann and Datta (2005)	Education and international diversification	complexity associated to international diversification requires executives with socio-cognitive capacities associated to higher levels of education: open-mindedness, tolerance of ambiguity, information-processing capabilities,

Authors	Variable	Relation
		competences to critically assess opportunities, and flexibility
Bell et al. (2011)	Education and performance	No relation between education level and team performance

Source: the author

TMT International experience

International experience “captures a person’s past interactions with foreign countries and the breadth of exposure to various cultural environments, which translates into a learned ability to process diverse information more effectively” (Greve, Nielsen & Ruigrok, 2009, p. 8). International experience is considered a valuable and scarce characteristic for companies, due to the knowledge and information that brings to the firm regarding foreign markets and business practices (Nielsen, 2009) and how rare and inimitable these attributes are (Carpenter, Sanders & Gregersen, 2001).

Table 3.7. Studies on TMT international experience and firm performance

Authors	Variable	Relation
Reuber and Fischer (1997)	International experience and internationalization	The relations are positive and mediated by two behaviors of internationally experience: development of foreign strategic partnerships and less delay of selling abroad after start-up
Tihanyi et al. (2000)	International experience and international diversification	Members with international experience are positively related to greater levels of international diversification: international assignments increase executives’ awareness of foreign opportunities and reduce international arena uncertainty anxiety
Herrmann and Datta (2005)	International experience and international diversification	The relation is positive, exposure to other countries and cultures reduces international operations uncertainty, they show more confidence on working on other international markets, less risk perception, and external networks then access to

Authors	Variable	Relation
		valuable information
Carpenter and Fredrickson (2001)	International experience and global strategic posture (GSP)	TMT international experience and a firm's GSP have a positive relation, the later measure by foreign sales, foreign production and geographic diversity
Carpenter et al. (2001)	International experience and performance	The relationship between international assignments and the performance of the MNC was greater when, both the CEO and the TMT, have this experience

Source: the author

3.4.2. Top Management Team Diversity

In line with Hambrick and Mason's (1984) contributions, several authors have acknowledged the approach in TMT studies, that demographic characteristics can impact the collective behavior of the team, and in turn have an effect on the firm's outcomes, most of these studies focused on the heterogeneity or diversity of the TMT composition, although others study homogeneity. The variety of reviews about TMT diversity confirmed that some studies find a positive influence on firm's outcomes or performance while others find a "double-edged sword" relationship where the TMT diversity effects are ambiguous or contradictory among studies (Heavey & Simzek, 2013; Homberg & Bui, 2013; Van Doorn et al., 2013). One of the reasons for the conflicting results has been based on the measurement of the construct, hence understanding how heterogeneity is measure on the field is essential.

3.4.2.1. Diversity Measures

Diversity is commonly known as "the distribution of differences among the members of a unit with respect to a common attribute" (Harrison and Klein, 2007, p. 1200), with several studies concentrating on demographic attributes and other on cognitive ones. However, the inconsistent results had increase the interest of authors to work on more refine ways to define and measure diversity (Bell et al., 2011).

Nielsen raises critiques concerning the construct of diversity as a general construct, since “No distinction is made between different aspects of diversity...and diversity is hypothesized to have uniform effects regardless of particular dimensions to which it is empirically applied” (2010a, p. 307). Nielsen and Nielsen made a call to move away “from treating diversity as a general construct and explore how the benefits and costs of TMT diversity vary depending on the specific attributes on which diversity is being considered” (2013, p. 378). Nielsen (2010a) consolidated different diversity dimension from the review of 60 papers, where functional heterogeneity is by far the most common.

Table 3.8. Diversity variables identified by Nielsen’s (2010)

Diversity Dimension	N. Studies	Diversity Dimension	N. Studies
Functional heterogeneity	30	Team tenure	17
Age heterogeneity	16	Education al background heterogeneity	14
Company tenure heterogeneity	10	Elite education	4
Industry experience	6	International experience	6
Others: shared TMT experience, prior firm experience, etc.	5		

Source: the author based on Nielsen (2010a)

Moreover, complex measures or definitions of TMT diversity have arisen, and they can be classified in four categories: demographic, cognitive, faultlines and typologies (Nielsen, 2009).

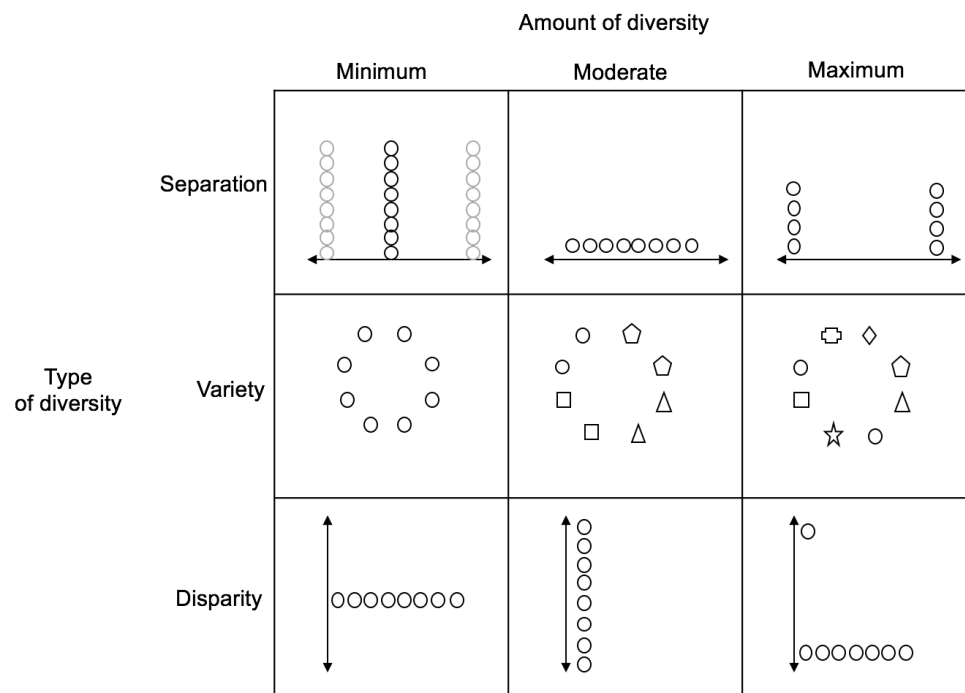
Typology

Several studies used a simple form of diversity, however Harrison and Klein (2007) suggested a framework where diversity was operationalized in three different ways: separation, variety and disparity. Table 3.9. describes these diversity dimensions, while figure 3.3 demonstrates graphically their meaning.

Table 3.9. Diversity dimensions identified by Nielsen's (2010)

Separation	Variety	Disparity
Separation refers to how close or how far members of a team are located, within a continuum, in terms of a unit. The maximum level of separation indicates a binomial distribution, where team members are in opposite places of the continuum. It is not a complex way to measure and it may leave behind valuable information regarding diversity.	Variety denotes "differences in kind, source, or category of relevant knowledge or experience among unit members; unique or distinctive information" (Harrison and Klein, 2007, p. 1203). Maximum diversity is represented by members each representing a unique category.	Disparity indicates "differences in proportion of socially valued assets or resources held among unit members; inequality or relative concentration" (Harrison and Klein, 2007, p. 1203). In management can show how some members of the team are privileged in relation to resources.

Source: the author based on Nielsen (2010a)

Figure 3.3. Pictorial Representation of Types and Amounts of Three Meanings of Within-Unit Diversity

Source: Harrison and Klein (2007)

Demographic diversity

The impact of individual characteristics on firm performance is one of the bases of the Upper Echelon perspective (Hambrick & Mason, 1984), and demographic traits were proposed as a proxy for psychological behavior of

executives. Pelled (1996) in a study relating to team diversity, conflict and firm performance (turnover and performance on cognitive tasks), proposed a typology of the diversity of these characteristics based on two dimensions: job-relatedness and visibility (Figure 3.4). He proposed an association between diversity of more visible traits, such as age, with affective conflict (interpersonal or emotional clashes) and diversity on job-related attributes connected to substantive conflict (intellectual disagreement).

Figure 3.4. Pelled’s (1996) typology of demographic diversity

VISIBILITY	HIGH	Age Gender Race	Group tenure
	LOW		Organizational tenure Education Functional background
		LOW	HIGH
		JOB - RELATEDNESS	

However, empirical studies trying to prove the relationship between TMT demographic diversity and firm performance have encountered mixed results, some have found a positive relationship between job-related diversity and performance but no relation between non-job related diversity and performance, while others found no association of either diversity with outcomes (Bell et al., 2011). Thus, the ambiguity of results led authors to expand their research to open the black box of this relationship, diversity and performance, by exploring how moderator and mediator effects can explain more thoroughly this relationship. Also, demographic diversity seems to fall short while understanding the impact of TMT attributes on performance and a there is a call for a cognitive approach (Bantel and Jackson, 1989).

Cognitive diversity

Cognitive diversity has been defined as the “variation in beliefs concerning cause–effect relationships and variation in preferences concerning various goals for the organization” (Miller, Burke & Glick, 1998, p. 41). These variables

become, in many studies, explanatory variables for the influence of demographic diversity and organization outcomes, hence CD is an attempt to solve the ambiguous effects and better explain the relation. Glick, Miller and Huber (1993) propose that demographic and structural diversity affects cognitive diversity, since it may impact values and beliefs. The authors suggest a measure of cognitive diversity in terms of disagreement in goals preferences and beliefs:

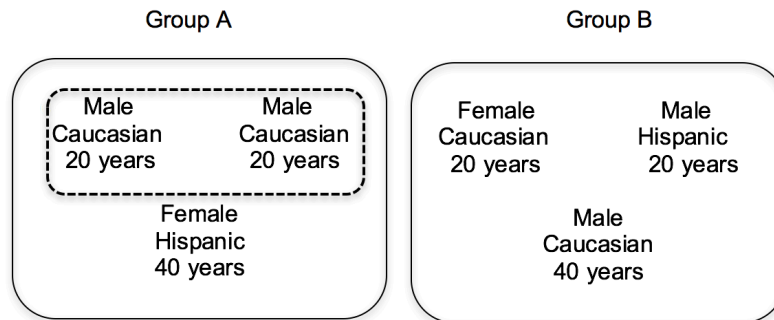
1. **Preference diversity:** importance of a given goal, in the study of human resource, profit and system maintenance goals.
2. **Belief Diversity:** TMT beliefs about the existence of a cause-effect relationship. Perceived efficacy of several business tactics (maintaining flexibility, low cost vs. differentiation tactics, and innovativeness) on firm's profitability.

Group Faultlines

Diversity from a faultline perspective does not focus on dispersion of some attributes, but it identifies multiple aspects of TMT member's traits and it creates sub-groups regarding the similarities of the members in more than one (Nielsen, 2010a). Among a diverse group, identified by traditional diversity measures, several sub-groups can be created because they share some traits; so, diversity measures how similar or dissimilar the whole group is (even if only one attribute is being used to determine diversity, such as education), while faultlines create sub-groups characterized by similar traits.

Lau and Murnighan's (1998) example is very clear, focusing on two groups of three people, each group is composed of two male individuals and one female, two Caucasian and one Hispanic individuals, two 20 years old and one 40 years old. However, the composition within the two groups is different (see figure 3.5), and group A has a clear faultline while group B, although with the same diversity, there are not possibilities to create subgroups, so there are no faultlines.

Figure 3.5. Lau and Murnighan's (1998) description of a faultline



Source: the author based on Lau and Murnighan's (1998)

3.4.2.2. Diversity impact on the firm performance

Results in relation to TMT diversity and the influence on firm's outcomes are not yet conclusive, some studies find positive association between diversity and performance variables such as turnover or innovativeness, but in other performance results not.

TMT Age Diversity

Aligned to Pelled's (1996) propositions, age diversity as a non-job related variable shows evidence of negative, more than positive, effects on firm performance. It appears that dissimilar groups tend to generate turnover, and the different beliefs and values look to be more difficult to reconcile or to positively channel conflict.

One of the first empirical studies of age heterogeneity by Bantel and Jackson (1989) found no evidence of a relationship between age diversity and innovativeness. The authors proposed that teams with different cohorts may have different attitudes and values which could facilitate group creativity, but this was not supported, and they sustained that the association was negative because it conducted to conflict and this impedes team cohesiveness. Subsequently, Jackson et al. (1991) found that age heterogeneity is associated to TMT turnover, since heterogeneous members were more likely to leave the firm than homogeneous. Wiersema and Bird (1993) found a positive

relationship between demographic diverse teams and management turnover, they found that younger executives had a higher turnover, in part due to external opportunities and the challenges of the power that members of a cohort could have in another cohort.

Wiersema and Bantel (1992) expected that age diversity was to influence strategic change, in that more heterogeneous teams would have broader perspectives on strategic topics around the firm. However, this relationship was not supported. Regarding other forms of firm performance, Tihanyi et al. (2000) found that age diversity was not associated to international diversification, while Zenger and Lawrence (1989) discovered that age diversity among a group impacted negatively the frequency of communication, which in turn affects project performance. Chowdhury (2005), in a study of entrepreneurship, found that age diversity (as well as gender and functional background) do not impact team-level cognitive comprehensiveness and team commitment, proposing that instead of considering demographic attributes highly committed teams with the capacity to integrate different perspective to problem solving are to be developed.

Nonetheless, recent studies have tried to refine research on these relationships finding more complex results. Richard and Shelor (2002) found a negative effect on return on assets but a positive influence on sales growth. The authors determined a curvilinear relationship between TMT age diversity and sales growth, where low and moderate levels of diversity are positive to sales growth but high levels start to present a negative impact.

Table 3.10. Studies on age diversity and firm performance⁵

Author (s)	Year	Med/Mod	Outcome	Relation
Bantel and Jackson	1989		Innovativeness	Negative
Zenger and Lawrence	1989		Frequency of communication	Negative

⁵ For a more comprehensive description of the diversity papers reviewed in this thesis go to Appendix V.

Author (s)	Year	Med/Mod	Outcome	Relation
Jackson, Brett, Sessa, Cooper, Julin and Peyronnin	1991		Turnover	Positive
Wiersema and Bantel	1992		Strategic change	No impact
Wiersema and Bird	1993		Turnover	Positive
Richard and Shelor	2002		ROA	Negative
Richard and Shelor	2002		Sales growth	Positive
Chowdhury	2005		Entrepreneurial team effectiveness cognitive	No impact

Source: the author

TMT Functional diversity

TMT functionally diverse team involves “a group of senior executives who have a narrow background in terms of their individual skills and knowledge. Put differently, a functionally diverse TMT indicates that members possess *depth* in their respective areas but not *breadth* across a range of other areas” (Auh & Menguc, 2005, p. 251), all of which translates in integrating diverse knowledge, skills, and expertise, combining rich cognitive resources for the firm. Studies on functional diversity and company’s outcomes are inconclusive, several studies determined a positive relationship in outcomes such as innovation, strategic orientation and performance in general, while others established a negative impact on information sharing, communication and competitiveness.

Bantel and Jackson (1989) studied the impact of TMT demographic traits and innovation in banking, founding that teams with higher education and diverse functional background have a significant impact on administrative innovation, for the influence on problem identification and resolution processes and because cross-functional communication enables creativity and integration of different perspective which facilitates innovation. Geletkanycz and Black (2001) determined a negative relationship between functional heterogeneity and commitment to strategic status (CSQ), proposing that these teams perceive less risk on novel alternatives and engage easier on strategic change.

Successively, Bantel (1993) discovered that groups with functional diversity develop clearer strategies leading to firm performance. Functional diversity exerts this influence as long as it brings a greater variety of perspectives, cognitive resources, different skills and knowledge; to propose solutions to complex problems. Hambrick et al. (1996) conducted a study on the relationship between TMTs heterogeneity and firm competitive moves, finding a double-edge sword impact on performance, since “heterogeneous teams are good (but slow) at creating, but that homogeneous teams are good at deciding” (Hambrick et al., 1996, p. 680). Nonetheless, the overall result on organizational performance is positive. Boone and Hendriks (2009) proposed that functional background diversity improves decision making, since information, knowledge and resources do not overlap but complement each other or promote debate, resulting in improving decision quality and organizational performance. This positive influence on firm performance depends on teams that collaborate, exchange truthful information, and participate in decision making (moderators). Pelled, Eisenhardt and Xin (1999), discovered that this type of diversity, more job related, conduces to task conflict instead of emotional conflict, the former positively linked to performance while the latter hampering performance.

Concerning TMT functional diversity and internationalization, Rivas (2012) demonstrated a positive relation between these two variables as well as CEO functional background diversity, because it provides a larger stock of resources, knowledge and skills, which help with the complex and demanding international arena. Similarly, Wally and Becerra concluded that “Dominance of a core specialization within the TMT seems to limit openness to change” (2001, p. 182), in other words, those MNC with broader functional background, and not only focused on core areas, demonstrated a higher international diversification.

An important influence on performance is also related to networks, as long as functional diverse teams “tend to have non-redundant peer networks

increasing access to unique information” (Buyl, Boone, Hendriks & Matthyssens, 2011, p. 151). Ancona and Caldwell (1992) found that functional diversity has a positive association with communications with outsiders, creating “easier access to the resources and information of multiple functional areas and historical perspectives” (Ancona & Caldwell, 1992, p. 7). which in turn is related to team performance. However, in their study, the direct negative effect of diversity on performance overshadows the positive indirect effects of external communication.

Nonetheless, functional heterogeneity has showed negative influences on firm outcomes. Knight, et al. (1999) discovered that functional diversity can increase interpersonal conflict within a team. As for Simons et al. (1999), the authors determined a relationship between functional diversity and performance that is moderated by debate, since debate allows to exploit the differences of TMT members and reach more thoughtful decision making quality.

Regarding the impact of functional heterogeneity on innovation, although as stated above some research demonstrated a positive relation, Auh and Menguc (2005) study found a negative effect on innovativeness. They found that if the costs of diversity (for poor communication and collaboration) outweigh the benefits (creativity, wider perspectives) then the impact of functional diversity on innovativeness will be negative. Therefore, to mitigate the negative impact of diversity costs and to capitalize the benefits from diversity in a group, the firm should promote interfunctional coordination.

Other studies have also focused on moderation and mediation effects, for example Cannella et al. (2008) conducted a study on TMT functional heterogeneity and firm performance, moderated by environmental uncertainty and member colocation. Executives with higher intrapersonal functional diversity (the within-member breadth of functional experience) benefit from the expertise they have in several areas as well as the larger networks, they are likely to be less narrow minded and within a team this type of diversity

enhances information sharing, moderated by environmental uncertainty (Cannella et al., 2008). While dominant functional diversity (heterogeneity in the functional areas in which each TMT member has served the longest) positively influences firm performance, with a stronger association when TMT members were less geographically distributed; while the relationship between IFD and firm performance was positively

The inconclusive results of TMT functional diversity's impact on firm outcomes/performance can be appreciated in table 3.11, most the relations are positive, due to the increasing articles responding to the call to identify mediators and moderators on these relationships (Buyl et al., 2011). Functional diversity seems to influence innovation, because team members' perspectives and knowledge complement and facilitate creativity, enable cross-functional communication, enables access to complementary and valuable information. However, these differences should be guided by coordination efforts.

Table 3.11. Studies on functional diversity and firm performance

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Bantel and Jackson	1989	Functional		Innovation	Positive
Murray	1989	Functional		Long term performance	Positive
Ancona and Caldwell	1992	Functional		Performance	Negative
Ancona and Caldwell	1992	Functional	Communication outsiders	Team performance	Positive
Bantel	1993	Functional		Clear strategies	Positive
Hambrick, Cho and Chen	1996	Functional		Performance	Positive
Knight, Pearce, Smith, Olian, Sims, Smith and Flood	1999	Functional		Conflict	Positive
Pelled, Eisenhardt and Xin	1999	Functional	Task conflict	Performance	Positive

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Geletkanycz & Black	2001	Functional		innovation	Positive
Wally and Becerra	2001	Functional		International diversification	Positive
Bunderson and Sutcliffe	2002	Functional	Geographical distribution	Performance	Positive
Auh and Menguc	2005	Functional		Innovativeness	Negative
Auh and Menguc	2005	Functional	Interfunctional coordination	Innovativeness	Positive
Chowdhury	2005	Functional		Entrepreneurial team effectiveness cognitive	No impact
Certo et al.	2006	Functional		ROA	Positive
Zimmerman	2008	Functional		Entrepreneurship	Positive
Boone & Hendriks	2009	Functional	Collaboration, exchange information, decentralized decision making	Decision quality	Positive
Boone & Hendriks	2009	Functional	Decision quality	Performance	Positive
Camelo et al	2010	Functional		innovation	Negative
Camelo et al	2010	Functional	Consensus	innovation	Positive
Nielsen and Nielsen	2012	Functional		Performance	Positive
Rivas	2012	Functional		Internationalization	Positive
Michie et al.	2002	Functional	Collaboration	Decision Quality	Positive
Simons, Pelled and Smith	1999	Functional	Debate	Performance	Positive

Source: the author

TMT Tenure diversity

Research on this type of demographic diversity has been one of the extensively studied, with inconclusive results. As with previous TMT demographic characteristics, research on tenure diversity begins to increase in complexity by searching for mediators and mediation relations.

Several researches have confirmed a positive relationship between TMT tenure heterogeneity and internationalization. Carpenter and Fredrickson (2001) determined that firms with diverse TMT tenure, as well as educational background and international experience, were more prone to be global, due to broader perspectives, skills, information and networks. However, they found that environmental uncertainty moderates the relationship, and it becomes negative on highly uncertain contexts. Barkema and Shvyrkov (2007) discovered that tenure heterogeneity increases a firm's probabilities to enter new markets, as an older member of the team could know the consolidated foreign markets of the firm, while a recent member could bring knowledge and experience from new geographic areas. Similar results were found by Tihanyi et al. (2000) regarding international diversification, as long as they exploit their different perspectives and follow insightful debates of international options. Nonetheless, Rivas (2012), found that homogeneous teams in terms of tenure are associated to internationalization. These unexpected results were explained because of the strategic consensus among homogeneous teams (Knight et al., 1999), which could reach answers and strategies easier in the international arena.

Srivastava and Lee (2005) studied relationship between TMT organizational tenure diversity and order of new product move, timing of the move, and the probability of being a first mover, proxies of corporate entrepreneurship. Based on the idea that organizational tenure diversity increases task-related conflict, which improves problem solving capacity and team performance, they discovered that organizational tenure heterogeneity was associated with earlier order and a greater chance of being first mover. Moreover, Heavey and

Simsek (2013) studied the implications of TMT tenure diversity on the firm's pursuit of corporate entrepreneurship. Homogeneous team will likely maintain the status quo; however, when younger members enter the team they tend to question the strategies, to inject energy and bring new ways of thinking and doing things.

Several authors have argued that tenure diversity could facilitate team innovation, because tenure diversity contributes with varied and broader skills, information, knowledge, resources, abilities and networks (Athanasiou & Nigh, 2002; Williams & O'Reilly, 1998); and also because diverse teams are more skillful on solving complex and non-routine problems. However, authors from decision-making and information perspective claimed that high levels of tenure diversity could obstruct shared values and beliefs or create conflict, hence jeopardizing the benefits of heterogeneity (O'Reilly III, Williams & Barsade, 1998). Van Knippenberg, De Dreu & Homan (2004) proposed that if teams are motivated and have task abilities, tenure heterogeneity may indeed improve team innovation. Likewise, low tenure diversity could conduce to redundancy of knowledge, experiences and perspectives; hence constraining the potential to design innovative ideas or strategies to solve complex problems (Ancona & Caldwell, 1992).

However, Camelo et al. (2010) determined a negative relationship between TMT diversity (tenure and functional background) and innovation, because conflict, differences on perspectives, experiences and points of view could have led to isolation and poor levels of communication. Strategic consensus, as a moderator, turns the impact of functional diversity positive, but zero effect on tenure diversity, reinforcing the result of a negative association to innovation performance. Chi, Huang & Lin (2009) tested a more detailed relationship between organizational tenure diversity and team innovation, answering the call for examining a curvilinear relationship between those variables (Jackson, Joshi & Erhardt, 2003; Van Knippenberg et al., 2004; Van Knippenberg & Schippers, 2007). The authors demonstrated the curvilinear relationship, with

a positive relationship at moderate levels of tenure diversity, and as it increases the influence on innovation becomes negative; but it is moderated by team-oriented human resource (HR) practices managing to maintain the positive relation even at higher levels of tenure diversity.

Ancona and Caldwell (1992) assured that *teams* with tenure diversity are related to higher team performance, since these groups show more clarity on their goals and priorities. They argued that teams facing market demands and obliged to respond with new goals and priorities, benefit more from members with numerous and varied perspectives and experiences. In contrast, Bell et al. (2011) in a meta-analysis of TMT demographic traits impact on firm performance, concluded that both team and organizational tenure diversity were not related to team performance.

Other authors encountered negative impact. Pelled et al. (1996) argued that as long as the members of the group have not belonged long enough to the group, their differences were more visible and therefore, more conducive to emotional conflict. Wagner et al. (1984) discovered that TMT tenure diversity was associated to group turnover, because differences in time of entry lead to conflict due to dissimilarities on shared organizational goals, values and beliefs. Jackson et al. identified similar results, emphasizing the effect of tenure diversity when “organizational cohorts have experienced meaningfully different organizational conditions, such as expansion versus decline or reliance on fundamentally different competitive strategies” (1991, p. 687). Milliken and Martins (1996), found evidence of the impact of tenure diversity in social integration and turnover, the former decreasing and the latter increasing.

Many authors have found no relation between tenure diversity and firm outcomes. Iaquinto and Fredrickson (1997), found no relationship between organizational tenure diversity and agreement or performance. Simsek, Veiga, Lubatkin and Dino (2005) found no relationship between both tenure and tenure diversity and behavioral integration. Bantel (1992) observed no

relationship between team and organizational tenure heterogeneity, as well as age diversity, and strategic change. Van Knippenberg et al. (2011) found no effect of tenure heterogeneity on organizational performance. Also, some authors have found mixed results, either because positive and negative impacts are found on some firm behaviors (Hambrick et al., 1996), or because the relation has been determined to be dynamic (Knight et al., 1999).

TMT tenure diversity has been broadly studied, however, there is no consensus regarding its impact on firm outcomes. Particularly on this thesis topic, tenure diversity shows a positive impact on internationalization and on entrepreneurial positions of the firm, for the importance of broader perspectives, skills, information and networks, as well as renewing ideas and risk taking behavior or new members. Regarding innovation, a crucial feature for subsidiary initiatives, tenure diversity has a curvilinear relation, and by promoting the adequate HR practices, the positive influence can remain even in highly diverse teams. Although, negative impact has been also widely found, and practices as consensus, collaboration and debate can help to mitigate the negative aspects of tenure diversity.

Table 3.12. Studies on tenure diversity and firm performance

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Wagner, Pfeffer and O'Reilly III	1984	Tenure		turnover	Positive
Murray	1989	Tenure		Long term performance	Positive
Ancona and Caldwell	1992	Tenure		Task processes	Positive
Michel and Hambrick	1992	Tenure		Interdependence	Positive
Wiersema and Bantel	1992	Tenure		Strategic change	No impact
Hambrick, Cho and Chen	1996	Tenure		Performance	Positive
Milliken and Martins	1996	Tenure		Turnover	Positive
Milliken and Martins	1996	Tenure		Social integration	Negative
Iaquinto and Fredrickson	1997	Tenure		Agreement / performance	No impact

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Knight, Pearce, Smith, Olian, Sims, Smith and Flood	1999	Tenure		GSP	Positive and Negative
Pelled, Eisenhardt and Xin	1999	Tenure	Personal conflict	Performance	Negative
Tihanyi, Ellstrand, Daily and Dalton	2000	Tenure		International diversification	Positive
Carpenter and Fredrickson	2001	Tenure		GSP	Positive
Carpenter and Fredrickson	2001	Tenure	Uncertainty	GSP	Negative
Simsek et al	2005	Tenure		Behavioral integration	no impact
Srivastava and Lee	2005	Tenure		First mover	Positive
Certo et al.	2006	Tenure		Strategic change	Positive
Barkema and Shvyrkov	2007	Tenure		Enter new markets	Positive
Chi, Huang and Lin	2009	Tenure		Team innovation	Curvilinear
Camelo et al	2010	Tenure		innovation	Negative
Van Knippenberg et al.	2011	Tenure		Organizational performance	No impact

Source: the author

TMT Formal Education diversity

Formal education background indicates not only the skills and knowledge of a person, but also can denote how an individual think, what are his/her values and cognitive preferences (Hambrick and Mason, 1984). Hence, having a heterogenic group of TMT members in terms of formal education, could bring different perspectives and strategies in benefit or firm performance. For example, a firm in the process of internationalization and composed only by lawyers will be more inclined to take into consideration legal issues of the expansion, but a firm more diverse could also focus on marketing (understanding the new markets), on management issues (efficient use of human capital), engineers (exploitation of resources of the new countries), and so on.

Education diversity, as a job-related demographic variable, is an important trait among TMT members since it leads to proactive behavior and also varied perspectives (Wiersema & Bantel, 1992). However, some authors found no relevant association between TMT educational diversity and firm performance, and even negative impact regarding turn over (Wiersema & Bird, 1993). Authors argued that the career decision is taken in early years, educational diversity is not expected to have a strong impact among the TMT as functional diversity (Williams & O'Reilly, 1998).

Wiersema and Bantel demonstrated a positive relation between heterogeneity in educational specialization and strategic change, "consistent with the theory that diversity in cognitive perspective facilitates adaptation" (Wiersema & Bantel, 1992, p. 114). They believed that the selection of a curriculum not only reveals the personality and cognitive style of a person, but also the degree in which certain profession shape the strategic decision making process of an executive. Bantel (1993) identified that TMTs composed of executives with different education majors have more strategic clarity, because the team benefits from cognitive diversity and different perspectives, analyzing and assessing more thoroughly the alternatives of a firm, and hence, making decision that lead to a clear strategic direction of the organization.

Further studies also discovered a positive influence on various indicators or variables of firm performance. Hambrick et al. (1996) demonstrated a significant and positive impact on action propensity, action noteworthiness and scope, but a negative relation with the speed of the action implementation. The results showed a negative impact on propensity and execution speed, a positive influence on competitive action but less inclination to respond to a competitor's actions. Additionally, Carpenter and Fredrickson (2001) argued that TMT education diversity is characterized by variation among perspectives, skills, knowledge and networks, which leads to firms capable of facing the challenges of a firm's global strategic posture (GSP). The result of their study

showed a positive relationship between TMT educational heterogeneity and GSP, also it became stronger in highly uncertain environments.

Dahlin, Weingart and Hinds (2005) discovered a U-shaped curvilinear relationship between educational heterogeneity and information use, showing a positive influence on information use and range which decreases when the team reaches high levels of diversity. The authors postulated that the variety on education allows the group to benefit from informational diversity, which in turn improves performance, because of the influence education has on the information, knowledge, and skills that each member contributes to the group. Nonetheless, when the teams are too different, benefit from the information gathered becomes troublesome due to the difficulty to integrate the distributed information, to connect the topics and achieving the necessary links to effectively exploit the team's ability to use the rich information (Dahlin et al., 2005).

Educational diversity has also demonstrated to be positive in entrepreneurship literature. Zimmerman (2008) confirmed that TMT educational and functional heterogeneity are positively related to the capital raised by a firm in its initial public offering (IPO)⁶. The impact is due to signaling, as a diverse team with different educational backgrounds seems as a predictor of greater information sources, broader perspectives, experiences, values, cognitive styles and then, a greater potential for innovation and performance. Bell et al. (2011) discovered that when the measure of team performance was illustrated by innovation and creativity or when the team is a TMT, there was indeed a positive correlation between educational diversity and performance. Because diversity in education background is related to different perspectives, cognitive styles, skills, and so on, it conduces easier to promote creative thinking and to produce novel ideas.

⁶ IPO: it is the point where a private firm becomes a public company by offering the shares of the company to the general public.

Nevertheless, some studies have showed negative results. Wiersema and Bird (1993) in a study in Japanese firms, discovered that TMT educational diversity in relation to the university's prestige had an impact on turnover. In Japan, there is a tendency to hire people from few elite universities, hence the TMTs are likely composed of individuals from similar universities and having shared experiences and traits which strengthens integration and group cohesiveness. Therefore, dissimilar groups coming from other rather than prestige universities are more prone to leave the firm because there is no belongingness to the group.

Another group of researchers have found no effects of TMT educational diversity. Bantel and Jackson (1989) studied the heterogeneity of the curricula of 17 major field of study among executives of almost 200 banks. The authors argued that formal education curriculum selected by individuals, demonstrates their cognitive styles and other attributes, but also it will define their professional career and therefore, it shapes their knowledge and experiences. Their assumption was that this variety of education will lead to innovativeness, however the results showed that heterogeneity related to educational major did not facilitates innovativeness. Simons (1995) attempted to prove that educational diversity had an impact on company performance, but that it was not evident until open debate was considered. The authors confirmed that TMT educational heterogeneity should be accompanied by task-focused conflict or debate, to benefit for the efficiencies that diversity brings to firm performance. Simons et al. (1999) included debate as a moderator of the relation between team diversity and team processes (decision) and outcomes (performance variables). Initially, educational diversity had a negative impact on decision comprehensiveness, but when interaction with debate was included, not only the relation became positive, but also the positive relation to change in profitability and in sales became significant and remained positive.

Tihanyi et al. (2000) proposed that a varied team would be more prepared to face the broader challenging issues that internationalization denotes. However,

the authors did not find a significant correlation between TMT educational diversity and international diversification of the firm. Similarly, Barkema and Shvyrkov (2007) did not find a relationship between educational diversity and internationalization. The authors posited that the experience gained as executives has already outshone the cognitive characteristics gained at university (Barkema & Shvyrkov, 2007), because the decision is taken too early on a person's life and it may not reflect their definite personality (Williams & O'Reilly, 1998).

Srivastava and Lee (2005) found contradictory results in the relation between TMT educational diversity and corporate entrepreneurship. In one hand, it had a positive and significant impact in the introduction of new products, the more diverse the team the earlier the new products are introduced. This result confirms previous research that posited that diversity enhances creativity and innovation. On the other hand, education heterogeneity did not show any relation to the probability of being a first mover. This could be explained because homogeneous teams agree faster on strategic decisions, hence, it is more likely that they enter the market first and not as imitators.

Authors argued that education has not clear impact on executives' attributes, but studies reviewed here did show a positive and coherent impact (table 3.13.). In regard to SI, education diversity has a positive impact on variables that could foster it, such as making decision that lead to a clear strategic direction, as well as combining different perspectives, skills, knowledge and networks, so the firm is more likely to pursue a global strategic posture (GSP). However, as in previous types of diversity, education variety needs to be positively channel, through promoting debate among team members and strategies to effectively integrate the distributed information.

Table 3.13. Studies on education diversity and firm performance

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Murray	1989	Education		Long term performance	Positive
Wiersema and Bantel	1992	Education		Strategic change	Positive
Bantel	1993	Education		Clear strategies	Positive
Wiersema and Bird	1993	Education		turnover	Positive
Smith et al.	1994	Education		ROI	Positive
Simons	1995	Education	Debate	Performance	Positive
Hambrick, Cho and Chen	1996	Education		Performance	Positive
Simons, Pelled, and Smith	1999	Education	Debate	Decision comprehensiveness	Positive
Carpenter and Fredrickson	2001	Education		GSP	Positive
Auh and Menguc	2005	Education	Inter-functional coordination	Innovativeness	Positive
Dahlin, Weingart and Hinds	2005	Education		Effective use of information	Curvilinear
Certo et al.	2006	Education		Diversification	Positive
Zimmerman	2008	Education		Entrepreneurship	Positive
Bell, Villado, Lukasik, Belau and Briggs	2011	Education		Performance (innovation or creativity)	Positive

Source: the author

TMT Internationalization diversity

Internationalization among TMT demographic characteristic has increased interest in a globalized area. To the point that is has been considered as “a valuable resource in the RBV framework, since such experience is still relatively uncommon for senior executives” (Finkelstein et al., 2009, p. 112).

Based on the influence of several authors about studying TMT members as a “bundle of attributes” (Carpenter et al., 2004), Nielsen (2010) proposed that TMT internationalization is a construct composed of two dimensions:

international experience and nationality diversity. Nationality diversity, deals with the influence of the culture of an executive's country of origin, but it does not include the impact of other cultures to which the executive may have been exposed to. Although authors "suggest that TMTs comprising multiple nationalities are a potentially valuable resource" (Greve, Biemann & Ruigrok, 2015, p. 675), it has been limited studied (Jackson et al., 2003). On the other hand, international experience diversity captures the knowledge from different countries and cultures, hence a proficient perspective from the global marketplace (Greve et al., 2009). Thus, the members' traits are studied together as valuable attributes that enable the firm to deal with the challenges of foreign markets.

Nielsen (2010b) demonstrated that both nationality diversity and international experience diversity, together as a construct, are positively related to foreign market decision, and hence have a positive impact on firm performance. First because nationality diversity is a broader and deeper source of knowledge about "economic and market factors and institutions as well as about culture, behavior and norms of foreign countries" (Nielsen, 2010b, p. 188), and also because international experience diversity contributes to the firm different perspectives, broader networks and variety of information (Athanassiou and Nigh, 2002).

Sambharya (1996) proposed that because international diversification is a complex phenomenon that requires teams with specific qualities such as novelty, adaptability, and innovation, and with a novel approach to nonroutine problems; hence, teams with international experience diversity would impact a firm's outcome. Not only they proved positively this proposition, but they also demonstrated that TMT with a higher average of years of TMT member international experience, as well as a higher proportion of TMT members with international experience, are also related to a firm's international diversification. Similar results were found by Carpenter and Fredrickson (2001), whom determined that top management diverse teams, in terms of the

scale of their international experience, are a predictor of highly internationalized firms.

Some authors have questioned the causality relation, arguing that the firms match their TMT executives to their corporate strategies, and that it is the strategy which determines the executives' traits. Greve et al. (2009) found that companies with an international posture showed teams conformed of higher levels of nationality diversity and greater international experience diversity, to have the human capital capable of facing the challenges of international markets.

Other authors have compared the benefits of having a team composed of members from different nationalities, or members with higher or different international experience, regardless of their nationalities. Nielsen (2009) demonstrated that when a firm's strategy is to increase the internationalization of its TMT, it prefers to include local executive with dissimilar international experience, rather than executives from other nationalities than the destination country, since this brings a novel international vision of global markets, as well as closeness to the local culture which mitigates communication problems. While other authors have found that when MNC are in distress, appointing foreign TMT members gives a signal to the market of future and significant organizational changes, because of the perceived superiority of the foreign executives (Greve et al., 2015).

Studies on the impact of internationalization diversity on firm performance are not as developed as others, such as tenure and education (table 3.14). However, it is clear that the variety on nationality and international experience has a positive impact, particularly on an internationalized posture of a firm. Hence, since globalization is increasing importance, the influence of internationalization diversity should be further studied.

Table 3.14. Studies on internationalization diversity and firm performance

Author (s)	Year	Diversity	Med/Mod	Outcome	Relation
Sambharya	1996	Internal. Experience		International diversification	Positive
Carpenter and Fredrickson	2001	Internal. Experience		GSP	Positive
Carpenter and Fredrickson	2001	Internal. Experience	Uncertainty	GSP	Negative
Nielsen	2010b	Nationality Internal. Experience		Foreign market decision (performance)	Positive
Nielsen and Nielsen	2012	Nationality		Performance	Positive

Source: the author

3.5. TMT and Subsidiaries Initiatives

Literature relating TMT and internationalization has not been extensive, as stated by Lohrke and Bruton (1997), in their review of 222 articles from journals of International Business and Strategic Management journals, lack of studies between 1986 and 1995 linking TMT and international strategies is notorious (Athanasios & Nigh, 2000). Additionally, Nielsen (2009) in a review of 60 articles regarding Top Management Teams found that only 5 of them focused on internationalization. However, Carpenter (2004) shows an increasing interest on the topic, exemplifying with 7 studies which explore the relation between TMT characteristics with firm globalization.

Concerning TMTs or subsidiary executives, IB and strategic management literature have focused mainly on expatriates working at subsidiaries in order to face foreign liability, as well as forms of monitoring and control (Gong, 2003; Harzing, 2002). In this way, HQ can have more certainty that their nationals are more connected to HQ culture and visions, hence, they will manage to maintain the MNC goals at foreign subsidiaries (Harzing, 2002). The farther located the subsidiary to the HQ, the more incline the MNC is to select expats as managers on the foreign market.

Additionally, other studies on TMT and internationalization have focused on the nationality diversity and international experience diversity. The first argues that variety in terms of nationality brings deep knowledge of each member's country culture, market and business dynamics (Gong, 2006; Sekiguchi et al., 2011). While the second recognizes that a person with international experience is preferred to a foreign, because a local with more experience abroad may have more impact on innovation and performance than a foreign without this experience (Nielsen, 2009). Hence, there is an opportunity to expand research linking several strategic management phenomena, such as entrepreneurship and TMT literature among the international arena.

3.5.1. TMT and Entrepreneurship

Studies regarding entrepreneurial processes within a firm, often referred as Corporate Entrepreneurship, are increasingly focusing on the role of the TMT of the firm, as central actors on the recognition of opportunities (Covin & Slevin, 2002; Heavey & Simsek, 2013). The corporate entrepreneurial process is complex and it has been proven that it does not rely only on one person, but on a group of people that regarding their composition some results are expected (Yang & Wang, 2014). O'Reilly, Snyder and Boothe affirmed that "there is clear support for the conclusion that the top team, rather than the top person, has the greatest effects on organizational functioning" (1993, p. 150), based on the complexities of responding to changing environments.

Thus, the focus has swing from the CEO to the role of the TMT and the mechanism through which they impact entrepreneurship (Ling, Simsek, Lubatkin & Veiga, 2008; Simsek, Veiga & Lubatkin, 2007), and recently the composition of the team has gained more attention (Ensley & Hmieleski, 2005). Yang and Wang, asserted that "entrepreneurship research should recognize that entrepreneurs are likely to be many individuals rather than a single individual, and a focus on the characteristics of TMT rather than on the individual top executive (e.g., CEO) will yield stronger explanations of organizational outcomes in entrepreneurship" (2014, p. 2). Some researches

even have included the CEO as part of the TMT (Olie et al., 2012), while other authors have focused on the effect of the CEO leadership role to shape TMT characteristics: decentralization of responsibilities, risk-taking propensity and long-term compensation; that makes the team more prone to search for corporate entrepreneurship (Ling et al., 2008). Although, TMT remains the key actor of the entrepreneurship, not many studies have gone further on studying their impact on the international field such as in the phenomenon of subsidiary initiatives.

Consistently with the increasing interferences of TMT on entrepreneurship literature (EL), researches have started to go from studying the CEO attributes to the TMT attributes. Van Doorn et al. (2013), when studying the moderator effect of senior team attributes in the relationship between entrepreneurial orientation and firm performance, highlighted two TMT attributes that could influence the former relation: task-related heterogeneity and shared vision. The logic behind the diversity of the team relies on its capacity to pull a portfolio of entrepreneurial initiatives, first because the combination of their knowledge, skills, information, expertise, allows them to better assess the different initiatives and select those that add more value. And secondly, the group's heterogeneity enables them to deal better with uncertainty and conduct those initiatives that best suit the firm, and combine them synergically to current activities of the MNC or the subsidiary (Van Doorn et al., 2013). However, this was found to be true only on stable environments. As for a team shared vision, it gives legitimacy to the entrepreneurial initiatives because the attention among a firm is distributed and sharing common goals and values can leverage the initiatives that are to be pursued. Additionally, it can help to mitigate the contradictions that arise when a firm has members more prone to innovate and other to maintain the status quo (Van Doorn et al., 2013).

Moreover, beyond the firm and individual traits some authors recognized the punctual characteristics of the TMT in the entrepreneurship activities, stating that "The pursuit of CE requires an ongoing alertness and orientation to

opportunities on the part of a top management team” (Heavey & Simsek, 2013, p. 840). Also, on international corporate entrepreneurship or SI literature, the characteristics of the TMT go beyond the entrepreneurial orientation traits, since the relationship with the HQ includes phases in the process, such as issue-selling, that call for other attributes in the TMT composition. The composition of the TMT in charge of a firm’s international strategy is complex, not only for the challenges that face the international arena, but also because the constitution of the optimal team is diverse and difficult to achieve. Additionally, the composition of the STMT is also significantly complex, since not only it has the responsibility to adapt to the local context and respond to local demands, but also it needs to guarantee the fulfillment of the HQ goals, gain attention from the HQ and be able to compete among the sister units. Hence, a STMT in order to have entrepreneurial orientation is expected to be unique and also complicate to form.

3.5.2. STMT and Subsidiary Initiative

As mentioned before, IB literature devoted to TMT topics has focused mainly on the Multinational Top Management Team rather than on the subsidiary Top Management Team (STMT). The role of TMT on decision making has been studied in IB in terms of the influence of TMT on the depth and scope of the internationalization process (Aharoni et al., 2011),

Related to TMT demographic characteristics and its impact on international strategies, it has been stated above that international experience and nationality diversity are positively related to a firm’s global strategic posture – GSP- (Carpenter, Pollock & Leary, 2003; Sanders & Carpenter, 1998), to increase the tendency to create international partnerships (Reuber & Fischer, 1997). Additionally, it can be concluded from the previous literature review that in terms of an MNC that has intentions of expanding internationally, some of the predictive characteristics of its TMT are international experience, TMT tenure diversity; TMT educational diversity, younger executives and higher average tenure (Reuber & Fischer, 1997; Tihanyi et al., 2000; Carpenter &

Fredrickson, 2001; Barkema & Shvyrkov, 2007). However, little has been said regarding the characteristics of STMT and their impact on firm performance, besides the role of expatriates to compensate and regarding the increasing importance of subsidiaries on the international arena and their proactive role, there is a gap on recognizing what the STMT should look like.

In terms of STMT and the impact on subsidiary performance, one of the few studies that I encountered was conducted by Gong (2006), whom tested the influence of STMT nationality composition of the performance of the subsidiary. The diversity of STMT was measured by considering the expatriate parent country nationals (PCNs), host country nationals (HCNs), and, in few cases, third country nationals (TCNs). The authors found a positive influence on subsidiary labor productivity when the STMT is diverse in terms of nationality, based on the variety of perspective and knowledge that bring to the team and that matches to the challenges of a firm's international strategy, a greater ability to access knowledge and resources, as well as legitimacy both from the local actors and the HQ (Gong, 2006). Subsidiary's age was found to moderate also, since the positive relation between STMT nationality heterogeneity and subsidiary performance becomes stronger when the number of years of the subsidiary's operation increases.

Another of the few studies related to STMT was conducted by Mu et al. (2007), whom tried to prove that learning from local environments is a key aspect to positively influence subsidiary innovation, and they identified three enabling aspects to learn and innovate in external markets: subsidiary local embeddedness, MNC corporate entrepreneurial culture and STMT heterogeneity. *Local embeddedness* was found to be positive for its importance to access local networks, and hence have access to privileged information and knowledge, that would not be accessible if the firm does not belong to the network. The more actors or networks the more access to diverse information and this fosters innovation. As for MNC corporate entrepreneurial culture, the positive relation was explained because of the MNC willingness to

take risk, to learn, the open communication, and the propensity to innovate (Mu et al., 2007).

The influence of *Subsidiary top management team heterogeneity* on subsidiary performance is an aspect to highlight. The authors demonstrated that “the greater the diversity of the TMT of a subsidiary, the greater the likelihood of localized innovation by the subsidiary” (Mu et al., 2007, p. 85). The argumentation behind the proposition that was tested and proven relies on suggestion that a diverse, not a homogeneous, STMT increases a subsidiary’s ability to learn from the local market and therefore, it positively increases the subsidiary innovation. Because a diverse TMT enables executives with varied perspectives and hence, a greater amount and variety on knowledge and information which leads to a group prone to create novel ideas (Finkelstein et al., 2009; Hambrick et al., 1996). Moreover, the absorptive capacity of the subsidiary in a foreign market is very important, in order to fully take advantage of the available information, thus a diverse TMT is composed of executives with expertise and knowledge from different areas and this increases the firm’s absorptive capacity (Alexiev, Jansen, Van den Bosch & Volberda, 2010).

This first attempt to study the influence of STMT diversity, measured by functional background, education, academic background and tenure heterogeneity, on subsidiary innovation raises several questions such as “will the influence of local embeddedness be more significant when top management team heterogeneity is also very high?” (Mu et al., 2007, p. 96); going beyond expatriates what will be the role of STMT diversity on innovation, and furthermore on issues such as subsidiary initiatives (Mu et al., 2007). These types of questions are highly relevant for MNCs selection practices, because as long as they attempt to exploit the local market and discover opportunities, the composition of the STMT would require particular characteristics in order to successfully develop a more proactive role.

Although the conclusion regarding how TMT must be composed, either homogeneous or heterogeneous, it appears by the analysis of previous theoretical and empirical studies that regarding the promotion of subsidiaries initiatives, though the double-sword edge character of diversity, the positive results outweigh the negative impacts. As entrepreneurship literature emphasizes, a subsidiary in search of initiatives should demonstrate an entrepreneurial alertness, which is displayed in three major attributes: active search for opportunities, alertness to opportunities, prior knowledge of a market, industry or costumers (Baron, 2006; Kirzner, 1973; Ardichvili et al., 2003) as well as entrepreneurial capabilities and traits, such as innovation propensity, risk attitude, motivation, market orientation, learning orientation, networking orientation and proactiveness (Dimitratos and Plakoyiannaki, 2003), while the STMT is expected to demonstrate alertness and orientation to opportunities (Heavey & Simsek, 2013). Consistent with the literature reviewed on the previous sections of this chapter, I believe TMT diversity promotes most of these attributes of a firm or their group of top executives, which increase the probability of a subsidiary to launch initiatives. Hence the importance of reviewing how different types of TMT diversity influences these variables.

Market orientation: Understanding the market, knowing the competitors and putting the customers first are signs of market orientation, and diversity in functional backgrounds education and organizational tenure, showed more propensity for action and the responses to compete on the markets were more substantial, although they are slower in responding to competitor's initiatives (Hambrick et al., 1996). Additionally, TMT with team tenure diversity show more clarity on their goals and priorities, because it has been found that teams facing market demands and obliged to respond with new goals and priorities, benefit more from members with numerous and varied perspectives and experiences (Ancona & Caldwell, 1992). Even some studies have demonstrated the positive results of different types of diversity on market share and profitability (Hambrick et al., 1996).

Learning orientation: as the ability to learn from the markets to benefit the firm, is related to TMT international experience, since international assignments increases executives' awareness of foreign opportunities and access to important information (Athanassiou & Nigh, 2000), which increases their skills and abilities to study the foreign markets and take decision in advantage of the firm (Tihanyi et al., 2000). Additionally, the capacity to efficiently use the information is found to be related to TMT educational diversity, because education determines what information is important for a team member, what is it relevant to take into the decision making process, and how to integrate this information (Dahlin et al., 2005), then the broader the team the more perceptions are integrated on the analysis of the market and the decisions.

Innovation propensity: Perhaps one of the entrepreneurial attributes more studied concerning demographic traits of executives and/or teams is innovation, which in turn is related to . First of all, age is found to be correlated to innovation, when younger executives are more innovative and older executives show less innovativeness; however, some studies found a negative relation between age diversity and innovativeness, since it conducts to conflict and hampers team cohesiveness (Bantel & Jackson, 1989). In relation to education, higher levels of education are related to cognitive abilities, and hence with innovation, since it signifies more capital to design novel solutions to complex problems (Bantel & Jackson, 1989). Also, education background heterogeneity is related to different perspectives, cognitive styles, and skills which promotes creative thinking and to produce novel ideas (Bell et al., 2011).

Pertaining to functional diversity, it was discovered that it enables innovativeness, due to the different perspectives that improve problem resolution, and the positive effects of cross-functional communication that translate into creativity (Bantel and Jackson, 1989). The combination of different approaches and knowledge, gives more confidence to a team when

pursuing novel ideas and disrupting status quo (Geletkanycz & Black, 2001). Nonetheless, the results are inconclusive and some authors have found a negative effect on innovativeness because of problems in communication and collaboration (Auh & Menguc, 2005; Camelo et al., 2010).

As for tenure diversity, it could facilitate team innovation because of the variety and larger skills, information, knowledge, resources, abilities and networks (Williams & O'Reilly, 1998; Athanassiou & Nigh, 2002). The relationship was proven to be curvilinear (Chi et al., 2009). At low levels of tenure diversity there could be redundancy of the resources and capabilities of the team members (Ancona & Caldwell, 1992), at moderate levels the impact on innovation becomes positive, and when increases the benefits dissipate because of the lack of shared values and beliefs and the presence of conflict, hence jeopardizing the benefits of heterogeneity (Chi et al., 2009). On an opposite perspective, Knight et al. (1999) discovered that moderate tenure heterogeneity increases the chances of investing in new geographic markets, but when diversity increases it develops into groupthink and the benefits of diverse are replaced by inertia and stiffness.

Network diversity and nationality heterogeneity have been found to have an impact on innovation, Hurtado et al. concluded that "that innovation is largely induced by opportunities for collaboration with partners of inter-organizational network from different backgrounds and knowledge bases, as well as with different geographical locations" (Hurtado-Torres, Delgado-Márquez & Córdón-Pozo, 2014, p. 221). Hence, having an internationalized diverse TMT seems to improve entrepreneurial behavior.

Although the results are not definite, TMT diversity seems to have a positive impact on innovativeness, but it appears to be clearer on high job-related attributes than on low job-related. Then, since innovativeness is a key predictor of subsidiary initiatives, understanding how TMT diversity impacts SI is one of the main goals of this thesis.

Risk attitude: a risky attitude is more common on younger executives than on older ones, since the conservative behavior of older executives respond to maintaining the status quo of a gained financial stability and position (Hambrick & Mason, 1984). Also, the younger executives are more flexible and less resistant to change, hence being able to pursue new opportunities and adapt to the strategic chances that pursuing them may carry (Wiersema & Bantel, 1992). It could be expected that a diverse TMT composed of both young and older members, not only bring the impetus of search for novel ideas, the capacity to deal with uncertainty and to consider or make risky decisions, but also a healthy balance to analyze the opportunities according to their knowledge of the firm and the market, as well as their input in the issue-selling process as they may have stronger internal networks with HQ and sister subsidiaries. However, studies regarding age diversity have mainly found negative or no impact on firm performance, due to conflict and increase on turn over (Bantel & Jackson, 1989; Jackson et al., 1991; Wiersema & Bird, 1993). This can be explained by Pelled's (1996) classification of traits, since age is a low job-related attribute and so personal conflict is more likely than substantive (task) conflict.

On the other hand, organizational tenure diversity does provide the expected balancing behavior of a heterogeneous team. First of all, firms with short-tenure teams tend to take risk and pursue novel ideas (Finkelstein & Hambrick, 1990). Then, diverse teams have a higher propensity to enter international markets (Carpenter & Fredrickson, 2001), since the risk-taking behavior is balanced with the prior knowledge of older-tenure members that have more experience entering new foreign markets (Barkema & Shvyrkov, 2007). Hence, the short-tenure members are not aligned to the firm's status quo and they are not accountable for the firm's previous decisions, therefore they are riskier at trying new activities and new ways of doing things, but the knowledge of older members allows the team to match the new ideas to the organization.

Regarding education heterogeneity, it has been proven that higher levels of education are positively associated to tolerance to ambiguity, hence allowing teams to face challenges and risk (Wiersema & Bantel, 1992). Also, as argued by Tihanyi et al. (2000) related to the executives benefited of elite education are more exposed to international issues, and then are more open-minded and prepared to face the uncertainty of international foreignness.

Networking orientation: as one of the most essential factors on International Entrepreneurship, can be related more direct to TMT diversity. On one hand, the diversity of a team in terms of functionality supposes a set of non-redundant networks, then having access to broader information and knowledge, which increases the probabilities of discovering opportunities (Ancona & Caldwell, 1992; Buyl et al., 2011).

But also, the other attributes are important, such as long-tenure because the executives could build relationships during a longer period of time (Chen, 2011), hence creating on stronger social and business networks, but since longer tenure is closely related to commitment to status quo (Finkelstein et al., 2009), the combination of short-tenure (risk behavior and novel ideas) with longer-tenure (stronger ties and more access to information) could benefit the subsidiary. Also, internationally experience managers value more the importance of foreign partners, and they have probably built a foreign business network that allows the firm to have access to critical resources, which promotes internationalization. Additionally, in the SI area, the “origin” of the relation becomes important. Since not only is necessary to have connections to the local actors, such as customers and suppliers, to have access to valuable knowledge and privileged information and discover opportunities, but also having connections within the MNC in order to gain support for the initiative is essential. Hence, being embedded in both networks, external and internal, is important for the success of the SI.

Orientation to opportunities: it implies an active search for information, can

be demonstrated by the propensity to search for new and foreign markets. Functional diverse teams are more predisposing to go beyond the narrow-mindedness of national markets, and due to their complex socio-cognitive behavior are more prone to search for international markets (Rivas, 2012). Also, TMT tenure, educational background and international experience diversity was related to internationalization because of broader perspectives, skills, information and networks (Carpenter & Fredrickson, 2001).

Rivas (2012) found, contrary to previous research, that homogeneous teams in terms of tenure are associated to internationalization. In regard to tenure heterogeneity, Rivas (2012) proposed that it could be associated to internationalization, because new members could bring novel ideas and energy to search for opportunities abroad, while older tenure executives could contribute with more knowledge and resources.

Then, further exploring how the different types of diversity could impact entrepreneurial behavior, and specifically subsidiary initiatives, remains an unanswered question that may require a qualitative approach, in order to deeply understand the influences of each type of diversity.

The challenges that STMT face are “complex and cross-national in nature because they must simultaneously work with the parent firm and country and respond to local conditions” (Gong, 2006, p. 776). Then, the challenge on the composition of the STMT resides not only on a team capable of recognizing opportunities, but also to be able to gain support and resources from HQ to the implementation of the initiative. Issue selling strategies are dependent on individual capabilities (Gammelgaard, 2009), therefore the composition of the TMT would influence the ability of the subsidiary to effectively communicate and to persuade HQ of supporting the initiative. In this sense, a STMT should include members with the appropriate traits and resources to be able to sell the initiative to the HQ and have a positive response, even surpassing the corporate immune reactions.

Interpersonal networks are perhaps one of the most important resources of the TMT to implement issue selling strategies, gain HQ attentions or to exert power. In that involving others to the selling of the initiative is a selling strategy, TMT with larger networks could have a broader set of actors to involve such as members of the MNC at a higher level (HQ CEO, Regional CEO or TMT from HQ actors), at the same level (sister subsidiaries), actors outside de MNC such as customers or client; as well as being able to involve these actors more easily (Dutton et al., 2001).

Having access to **different types of networks** brings more assets and capabilities to the firm, especially in terms of information that could translate in opportunity recognition (OR), and therefore on launching initiatives. The study of Heavey and Simsek (2013) supports the proposition that large TMT network ties conducts is related with CE pursuit, since having access to the market information through interfirm networks (external networks or embeddedness) increases the probabilities to discover entrepreneurial opportunities, while intrafirm networks (internal networks or embeddedness) allows the TMT members to have access to knowledge other employees have from different parts of the firm (and their networks in turn), and hence to integrate all this information enabling CE.

It is more likely that local managers or host-country nationals have a stronger EE, due to their previous experiences, both their personal and business networks built over time, as well as their knowledge of their home country culture (Athanassiou & Nigh, 2000; Gong, 2003; Muellner, Klopff & Nell, 2017); and it is also most likely that expatriates or parent-company nationals have developed stronger ties with HQ actors, because the lack of cultural distance, their previous experiences in HQ, the assertive communication with HQ, and its legitimacy (Gong, 2006; Sekiguchi et al., 2011). As exposed by Harzing (2002), there is a positive relationship between the level of expatriate presence and the level of informal communication between HQ and subsidiary

managers.

Furthermore, external relationships, internal contacts, control of critical resources, as well as subsidiary's reputation become sources of power, and increase the changes of a subsidiary to obtain support for their initiatives, among other sister units' initiatives (Ghoshal & Bartlett, 1990; Bouquet & Birkinshaw, 2008).

As exposed, the STMT is crucial for the success of a SI, as the appropriate combination of members with their particular attributes and capabilities could lead to some subsidiaries more skillful at exploiting the subsidiaries capabilities and local resources, but also to sell them to HQ and obtain support even above other sister units. This particular combination of STMT is aligned to the Resource Based View, where according to Barney (1991), a firm can achieve sustained competitive advantage if its resources are valuable and rare, imperfectly imitable, and not easily substitutable. This way, resources are heterogeneous and immobile, giving the firm unique capabilities to compete in an environment where other firms cannot imitate its resources. Therefore, I expect STMT of innovative firms to be composed of members with diverse functional backgrounds, broad and complemented networks, diverse organizational tenure, as well as internationally diverse, not only in terms of nationality but mainly in terms of their experience, which translates in strong ties both in host country and HQ. Hence, as other authors have considered the TMT a sustained competitive advantage of the firm, this particular STMT could constitute such resource of the firm, in that the particular combination of team members can be valuable, rare, imperfectly imitable and imperfectly imitable.

Valuable because the heterogeneous composition of the team allows the subsidiary to recognize opportunities from local markets, it could increase the capacity to access privileged information and also the ability to adequately exploit it. The team diverse relations, their prior knowledge and experience, allows the subsidiary to efficiently interpret and use the gathered information.

Additionally, the variety of members permits the team to merge the opportunities, identified on the local market, with the resources of the firm and the goals of the MNC. Also, this specific combination of team members is per se *rare*, when not only at the individual but also at the team level, they encompass organization-specific knowledge (Carmeli & Tishler, 2006). Then, the probabilities that several subsidiaries have the managerial talent to create perfect competition dynamics within the MNC are very low. A STMT cannot be imitable; an individual's experience, knowledge, networks and personal traits are unique, since it is most likely impossible for one person to demonstrate the same background of another person. As Hambrick and Mason (1984) established, the cognitive bases, values and perceptions of an individual shape the decision making process. Hence, if the decisions are taken by a team, the combination of each member uniqueness makes the human capital of the subsidiary *imperfectly imitable*. And it is for their specific knowledge, the fact that a diverse team can develop strong ties both on the local context as well as within the MNC, due to background of its members, makes it irreplaceable (Carmeli & Tishler, 2006).

3.6. Conclusions

This chapter focused on the Upper Echelon Model, where demographic traits of the firm's TMT influence the performance or outcomes of the organization. The impact of demographic traits on performance was reviewed to open the black box of the relation between demographic attributes and firm performance. Team processes, such as debate (Knight et al., 1999; Simons et al., 1999), shared vision (Van Doorn et al., 2013), social integration (Smith et al., 1994), information exchange (Boone & Hendriks, 2009), communication (Wiersema & Bantel, 1992; Zenger & Lawrence, 1989), seem to be important mediators and moderators.

TMT diversity influence on firm performance was broadly reviewed, 42 papers were examined, and several types of TMT diversity were found to have either a positive or a negative impact on firm performance or outcomes. Functional

diversity was found to have a positive relation to different types of firm performance, such as innovation, internationalization and performance in general. Education diversity has a positive impact on firm outcomes, innovation being one of the most common forms of performance, and only one negative relation was found regarding the impact on turnover. Tenure diversity is the most controversial, half of the papers on this type of diversity showed a positive impact on firm performance, mainly on GSP, and the other half a negative effect on performance, particularly related to increasing turnover. Studies on nationality diversity and international experience diversity are less common, but their influence on performance is mainly positive, particularly on GSP and diversification.

The importance of studying the STMT is established, especially because most literature connecting TMT and IB concentrates on the HQ's TMT, and there are only few studies that focus on the STMT (Gong, 2006; Mu et al., 2007). Considering the increasing importance of subsidiaries, and as seen in chapter 2, the rising interest on Human Resource topics among subsidiary literature, studying the composition of the teams in subsidiaries and their impact on the subsidiary performance, or even the MNC's, becomes essential. Particularly, the effect of STMT composition on subsidiary initiatives is analyzed, and from an entrepreneurial perspective the traits of team members that promote an entrepreneurial orientation are identified. The importance of networks diversity among the team is highlighted, since they are not only a powerful source of information access, but also as key aspect to approach the HQ with successful strategies to gain approval to conduct the SI. Consequently, it appears to be fundamental to zero in on the role of embeddedness, external and internal, in the SIP.

CHAPTER 4. EMBEDDEDNESS

4.1. Introduction

The purpose of this chapter is to review the literature on embeddedness and zero in on the role of embeddedness and subsidiaries. The relationships of a firm have several impacts on the firm's outcomes, including performance. Particularly for subsidiaries, there are two types of relations that impact the subsidiary's outcomes and specially its initiatives: the external and internal networks. Hence, understanding how these actors and the closeness of subsidiary's relation to them is crucial.

The structure of chapter IV is as follows: Section 4.2 introduces the origins of the embeddedness concept, from Polanyi to Granovetter (1985) and it reviews the different approaches within the IB literature, such as transaction cost, resource-based view, micro political approaches, network and economic geographers approaches (Andersson et al., 2002, 2007; Forsgren, Holm & Johanson, 2005; Hymer, 1976). Additionally, the different typologies of embeddedness are described focusing on relational and structural embeddedness, which are the most common types used on MNC literature. Following this section, in section 4.3, I have reviewed the IB definitions and measures of the concept which are strongly tied to the Uppsala school (Andersson, 1999; Andersson & Forsgren, 1996). Embeddedness, external and internal, is measured both quantitatively and qualitatively, assessing not only the number of ties and its density or closeness, but also the levels of adaptation and interdependencies between partners. I also rise the concern about the lack of dynamic of the concept and the lack of studies considering the industry or the context.

Section 4.4 describes the role of embeddedness in the MNC context, centering in the subsidiary network and the ties that can build with several actors. I have dedicated special emphasis to the relation of external and internal embeddedness in the subsidiary, and particularly their impact on SI. I

conducted a review of the studies on the impact of relations with external local actors, such as suppliers and customers, on , the importance and position of the subsidiary, its performance among others. Additionally, studies on the impact of IE were also reviewed, to understand the influence of connections with HQ and sister units on the SIP and specifically on the issue-selling phase. recognition of the opportunity, in order to integrate more the entrepreneurship view, and to the selling of the initiative in order to better understand the role of STMT; both variables of interest in this thesis.

This section closes the chapter by recognizing studies of dual embeddedness, and I elaborated a summary of studies supporting the positive influence on subsidiaries (initiative), the influence mediated and moderated by other variables, as well as studies arguing that dual embeddedness has no or negative impact on the subsidiary.

4.2. The origins of Embeddedness

The concept of embeddedness has sociological, anthropological, and economic roots, it focuses on understanding how social structures can affect economic life (Uzzi, 1997). Polanyi (1944) was one of the first authors to use the term, although latter it was revived by Granovetter (1985) but not with the same approach and purpose (Krippner et al., 2004), the author concludes that “Instead of economy being embedded in social relations, social relations are embedded in the economic system” (Polanyi, 1944, p. 57). He sees the market in a broad perspective, not only focusing on the networks, but rather as a social system with political, institutional, cultural, social and ideological forces; instead of the network approach that narrows this view to the social networks (Krippner et al., 2004).

Years later, Granovetter (1985) in an attempt to reach a middle point between the under-socialized view of neo liberal economist and the over-socialized view of substantive anthropologist, he introduces the concept of embeddedness

with the non-economic dimension in the middle contrary to Polanyi (Heidenreich, 2012). In his argument, economic transactions are influenced by social aspects and in turn rational behavior can influence the way individuals act, "Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive actions are instead embedded in concrete, ongoing systems of social relations" (Granovetter, 1985, p. 487). Hence, it is an approach that seeks to explain, "How social structures affect economic life" (Uzzi, 1997, p. 35).

Granovetter's (1985) concept of embeddedness is consistent with the business networks perspective in the International Business (IB) literature, where the closeness of relation between actors is characterized by the involvement of subsidiaries with their local business networks, the trust built, mutual adaptation of resources and practices with local actors (Andersson, 1999). Nonetheless, embeddedness within the IB literature has had several approaches, from transaction cost, from a Resource-based view and micro-political approaches, as well as the network perspective and approaches of economic geographers (Mai & Cassidy, 2016).

Transaction cost approaches are based on the works of Hymer (1976) where the MNC is pictured as a multi-plant, multi-activity organization that exploits local and foreign resources, to compete and have competitive advantages over the local competing firms in those foreign markets, overcoming the liability of foreignness (Heidenreich, 2012; Mai & Cassidy, 2016). However, because the MNC focuses on exploiting host countries locational advantages such as immobile resources like low labor cost, but not in the interaction with the context and neither on the contribution to the creation of these capabilities (Hennart, 2008). Hence, embeddedness in this perspective is coherent with Polanyi's view, where the decisions of MNC, the dynamics of market processes and corporate actors are shaped by local resources and factors, national policies and market regulations (Mai & Cassidy, 2016). Several authors

perceived this role of subsidiary embeddedness as stagnant and as a “bundle of static assets which can be exploited by appropriate location strategies” (Heidenreich, 2012, p. 10) but not contributing to the MNC development.

Resource-based view and micro political approaches emphasize on HQ-subsidaries relations and the bargaining power in this political arena. Subsidiaries are integrated in local host networks and in the MNC network, then as their embeddedness in the local market with customers, suppliers and competitors results on access to valuable resources and knowledge, this access creates power and gives them important assets to negotiate in the corporation arena in order to expand their role, gain attention or receive financial and resources from the HQ (Andersson et al., 2007). Hence, embeddedness in this perspective is related to the subsidiary’s control over unique resources in the host country that allows the unit to build specific capabilities and competences that enhances the bargaining power and position of the subsidiary (Heidenreich, 2012; Mai & Cassidy, 2016). This is the one of the preponderant views of embeddedness in this thesis.

Network approaches are based on a perspective of the firm embedded in a web of relationships with many interdependent customers and suppliers (Johanson & Vahlne, 2009). Under this approach, foreign subsidiaries are perceived as embedded in two networks; the external network integrated by local host actors and the MNC internal network integrated by HQ and other sister units (Forsgren et al., 2005). This imposes a challenge to subsidiaries as to respond to local demands and exploit the localization advantages, or to respond to global or HQ demands to exploit globalization advantages (Heidenreich, 2012). Although several authors recognized the existence of these two networks, a higher number of authors focused singularly on local embeddedness, paying close attention to close and long-term relationship with local actors as a source of valuable and unique resources, information and knowledge as well as facilitator for developing innovative capabilities (Almeida & Phene, 2004; Andersson et al., 2002; Johanson & Vahlne, 2009).

Nonetheless, the magnified emphasis put on EE has been recently challenged, by authors proposing that corporate embeddedness plays a crucial role because of the importance of reverse knowledge transfer, (Ciabuschi, Dellestrand, et al., 2011; Najafi-Tavani et al., 2014). Therefore, this perspective of embeddedness in the network approach corresponds to that of Granovetter, “the dyadic relationships with business actors which develop from arm’s-length relations into relatively stable, trust-based relationships based on mutual adaptation and knowledge learning and creation” (Mai & Cassidy, 2016, p. 82). However, authors suggested that strategic actors such as non-business local and regional actors were not included in this approach, and that other approaches taking into account regional and local actors should also be revised (Phene & Almeida, 2008). This is other of the preponderant views of embeddedness in this thesis.

Approaches of economic geographers involved the spatial dimensions of networks, by studying how economic actions of subsidiaries are embedded in specific spaces and places due to the strategic importance of some places such as industrial clusters (Mai & Cassidy, 2016). According to Heidenreich (2012), this perspective takes into account the institutional dimensions of the organizational context, understanding by institutions those described by North (1991) as the rules of the game, formal or informal, that influence individual and group behavior on the firm or outside the firm. Heidenreich (2012) proposes the institutional perspective of embeddedness related to the fact that subsidiaries build comparative advantages by the access to specific assets in local markets, since these assets are usually immobile and intangible then the institutional environment has an impact on the capacity of innovation of the firm.

Consequently, Henderson et al. (2002) identified two types of subsidiary embeddedness in the local context: territorial and network. Territorial embeddedness refers to the commitment of the MNC to a particular location

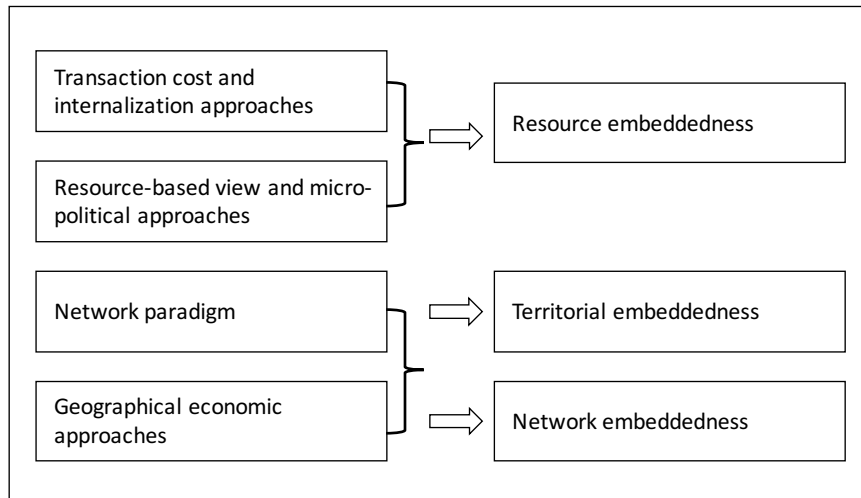
when it places subsidiaries in a country, it is not only related to established business there but also by being embedded with local actors, by being influenced or constrained by local economic activities and local social actors; hence, becoming attached to the place. Other institutional approaches of embeddedness focus on the heterogeneity of context pressures; diverse institutional environments affect the MNC and its subsidiaries, for the psychic, cultural or institutional distance between parent company and the host country's (Meyer, Mudambi & Narula, 2011). This is aligned to Henderson et al. (2002) second type of subsidiary embeddedness; network embeddedness which includes not only the connection to members of the networks on the country of origin or not only to business actors. Instead, network embeddedness includes other institutional actors such as government and non-government organizations, it "can be regarded as the product of a process of trust building between network agents, which is important for successful and stable relations" (Henderson et al., 2002, p. 21).

Authors such as Mai and Cassidy (2016), have attempted to integrate these approaches in a conceptual framework on MNC subsidiary embeddedness in host countries, by reconciling them and identifying three forms to understand or study embeddedness: resource embeddedness, territorial embeddedness, and network embeddedness (Figure 4.1). Resources embeddedness results from the transaction cost, resource based view and micro-political approaches. It acknowledges how local pressures (resources, politics and regulations) shape the actions of MNC and how subsidiary resources influence the competitive advantage and attractiveness in the network. Hence, unique and valuable local resources are important for international firms, the availability and sustainability of these factors motivates MNC to make more investments on these markets and to be more embedded. Territorial embeddedness combines economic geographers and network approaches, considering both the location to which it is committed, local, regional or international, and understanding the ties to business partners in this location. Network embeddedness is the result of MNC's structure and evolution of relationship in

the host country, with the purpose of accessing external resources and competences to enhance the subsidiary's role or position. The subsidiaries also behave entrepreneurially to improve their performance, and not only have ties with business actors, but also with nonbusiness actors, constituting a broader institutional network.

Zukin and DiMaggio (1990) classify four types of embeddedness within the economic field: cognitive, cultural, structural, and political embeddedness. The authors defined that *cognitive embeddedness* is concerned with the mental processes that constrain economic reasoning; *cultural embeddedness* deals with how the collective understanding and shared values can shape economic strategies and goals; *political embeddedness* refers to how the power of economic actors or institutions can influence the decisions of economic actors; and finally Granovetter's structural embeddedness (Zukin & DiMaggio, 1990). After this work, several authors suggested the interweave between cognitive and cultural embeddedness, to the point that cognitive embeddedness is subsequently defined as "the resources providing shared representations, interpretations, and systems of meaning among parties" (Nahapiet & Ghoshal, 1998, p. 244). Other authors have talked about dimensions of embeddedness, identifying in the literature mainly four common types: relational embeddedness, structural embeddedness, positional embeddedness and cognitive embeddedness (Marx & Lechner, 2005).

Figure 4.1 Mai and Cassidy Integrated Conceptual Framework of Embeddedness



Source: Mai and Cassidy (2016)

Structural embeddedness is concerned with the “contextualization of economic exchange in the pattern of ongoing interpersonal relations” (Zukin & DiMaggio, 1990, p. 18). There are broader and narrower views, Ciabuschi, Holm and Martín (2014) place the interest in how the relations of the firm are connected in the architecture of the entire network, while Nahapiet and Ghoshal defined it as “the impersonal configuration of linkages between people or units” (1998, p. 244) and it considers the quantity and configuration of relations (Moran, 2005). In MNC literature, structural embeddedness “highlights the advantage a subsidiary can derive from its position in the network rather than advantage from information exchange in individual relationships” (Andersson et al., 2002, p. 981). Gulati (1998) uses positional and structural embeddedness interchangeably. *Positional embeddedness* indicates the position that an organization occupies in the network and the influence on the alliances that can establish (Gulati & Gargiulo, 1999). The position of an organization on the network can influence the quantity and quality of information of potential alliances, its visibility and attractiveness for other members of the network; and the better position to have more information is the center (Gulati, 1998; Gulati & Gargiulo, 1999).

Nonetheless, relational embeddedness is concerned with the quality of the relations of the firm (Ciabuschi et al., 2014; Moran, 2005) and it studies the cohesion of tied actors. In the MNC literature, relational embeddedness discusses “the extent to which a subsidiary’s individual, direct relationships with customers, suppliers, competitors etc. can serve as sources of learning” (Andersson et al., 2002, p. 981). It considers interpersonal ties and it “describes the kind of personal relationships people have developed with each other through a history of interactions” (Nahapiet & Ghoshal, 1998, p. 244). Some authors argued that the closeness of relations (relational embeddedness) is beneficial because it provides access to fine-grained information, additionally the members from all ties know each other and this allows building of trust and cooperation (Coleman, 1988; Gulati, 1998). Also, relational embeddedness is perceived as influential for entrepreneurial behavior and innovativeness, since these close relationships are critical for the learning processes that are challenged by less tangible resources (Ciabuschi et al., 2014; Gulati, 1998). While other authors appeal to the benefits of belonging to several and independent networks, since it can guarantee non-overlapping information, they can access more diverse sources and hence identify different opportunities, which is more efficient for a firm and makes them more autonomous (Burt, 2001; Raider & Burt., 1996).

4.3. Embeddedness: the complexity of the concept

Network embeddedness has been measured in different ways, some measures have focused on a more quantitative approach in terms of the density of the network –structural (Andersson & Forsgren, 1996; Rowley, Behrens & Krackhardt, 2000), while others assumed a more qualitative approach in terms of the quality of the networks relationships such as trust, long term, interdependencies – relational (Hallin, Holm & Sharma, 2011).

The business relations were identified by Uzzi (1997) as a continuum, at one end he found weak ties or arms-length characterized by relations between

customers/suppliers based on economic considerations, with no reciprocity between the partners, non-repeated interactions, and likely to switch partners as a result of changes such as increase on prices. At the other end are embedded ties, which are long-lasting relationships between the firm and its customers/suppliers, where partners have adapted to each other and the relationship is characterized for mutual trust and commitment, exchange of fine-grained information and joint problem solving arrangements.

Regarding the density of networks or the degree of embeddedness, it was initially described by the Uppsala school either as the number of connections of the firm relative to all possible connections, which means that a high number of connections demonstrates a firm or an actor highly embedded or with tight relationships (Andersson, 1999; Andersson & Forsgren, 1996). However, this number neglects to explain the interdependency and adaptation between the actors, which can predict the level of embeddedness because of the difficulties to substitute what the partner brings to the relation and long-term relationships are more likely to form than arms-length. In latter works, authors from the Uppsala school included adaptation and interdependence to their measure (Andersson et al., 2002). Still, this interdependence is not to be interpreted only one way, the level of embeddedness would also be influence by the counterpart's dependence on the local subsidiary; hence the counterparts perception is lacking (Andersson & Forsgren, 1996). This remains an unresolved problem in the measure of embeddedness.

Nonetheless, several authors have used similar measures inspired in the Uppsala school's measure with some variations. Rowley et al. (2000) used an aggregate measure of both strong and weak ties, they were calculated separately by a similar density measure as the number of existing ties of the focal subsidiary divided by the total possible number of ties among its partners, and other indirect possible ties between them. This measure uses the concept of ego-networks, in which the focal firm (ego) is asked for its most important contacts and how much they know each other, as to further measure how close their relationships are.

Based on Uzzi's features of embeddedness, within the IB literature the Uppsala school develops a measure of relational embeddedness, represented by two forms of embeddedness which are independent: business embeddedness and technical embeddedness (Andersson & Forsgren, 1996; Andersson et al., 2002). Initially, Anderson and Forsgren (1996) focused on the degree of adaptation derived from a relationship, but they recognized that there are different dimensions in which the subsidiary can be embedded such as technology, or market access, product development, etc.; and a subsidiary can be embedded in only one or several of these dimensions. They focused in this study on subsidiary's technological embeddedness, measuring the subsidiary's level of adaptation of its product and production technology to its main relations contacts: customers, suppliers and other counterparts, by asking: *"To what extent has the relation with this customer/supplier/other counterpart caused adaptation for the subsidiary concerning.....product technology;.....production technology"* (Andersson & Forsgren, 1996, p. 498).

Consequently, this measure was used in several following papers with the acknowledgement of a limitation in adaptation, since while measuring embeddedness it is also important to assess the level of adaptation of the counterpart who was not interviewed. However, the authors recognized this limitation and emphasized that other studies have shown that adaptation is reciprocal, hence the answer of one side of the relation can also be a predictor of the commitment and trust of the other partner (Andersson & Forsgren, 2000). The concept of technical embeddedness was refined adding technical development, since "technical embeddedness should reflect the value of a business relationship in terms of a subsidiary's capacity to absorb new technology" (Andersson, 2003, p. 434). Then, the authors constructed the measure of technical embeddedness by combining two indicators of embeddedness and the two indicators of technical development: *"(1) the counterpart's importance to the subsidiary's product development, (2) the counterpart's importance to the subsidiary's production process development,*

(3) the adaptation of the subsidiary's product technology to the specific relationship and (4) the adaptation of the subsidiary's production process technology to the specific relationship" (Andersson, 2003, p. 435).

In the other hand, subsidiary business embeddedness "should mirror a subsidiary's capacity to understand changing business conditions and its ability to adapt to these conditions through its business relationships" (Andersson et al., 2002, p. 987). Then, the authors were interested in the adaptation of subsidiary business behavior as a result of its relations (with external actors: customers and suppliers), as well as how deep its relationship with partner are. To measure the degree of external business embeddedness, they asked the sales manager and the responsible for purchases "to what extent the subsidiary has adapted its way of doing business because of the relationships with the most important external customers and suppliers" (Andersson et al., 2002, p. 987), and to measure the level of investment on these relationships they asked them also to indicate how many and different functional areas of the firm were directly involved with customers and suppliers. These answers were also answered in a Likert scale and the general measure was elaborated from the relation between the score of adaptation and the number of external relationships of the subsidiary, similarly was done with the number of functional areas (Andersson et al., 2002).

Subsequently, authors adapted this measure to IE. Yamin and Andersson (2011) asked questions regarding technical and business embeddedness, directing the respondents to indicate if the counterpart was external or internal to the MNC. Other authors have asked the same questions of mutual adaptation in both types of partners (external and internal), but broadening the range of activities: sales and marketing practices, distribution practices, and management systems and practices (Najafi-Tavani et al., 2014). Uppsala's measure of IE appears to be narrower than other authors, since it concentrates only on sister units, while other measures take into account HQ, HQ's R&D centers, other R&D centers, sister units (Ambos, Asakawa & Ambos, 2011;

Bresciani & Ferraris, 2016; Gammelgaard, McDonald, Stephan, Tüselmann & Dörrenbächer, 2012). Additionally, other authors have attempted to measure the breadth and depth of both external and internal technical embeddedness with a wider range of agents, in the case of external with ties from the technical environment (e.g. local research institutions), while in the case of internal the actors are the usual (Achcaoucaou, Miravittles & León-Darder, 2017). Ciabuschi et al. (2014), in line with the relational understanding of embeddedness, recognized the importance of embeddedness as a predictor of innovation development and performance. Hence, the authors used the Uppsala's adaptation approach of embeddedness to measure both external and internal, and how these relations impact or are important for the innovation.

Some authors have attempted to construct more complex measures, to capture embeddedness in a more qualitative way. Djodat (2016) included not only a measure of network density, but also network centrality and range were quantified. The author was interested in measuring not only the number of contacts, but its diversity and closeness. Hallin et al. (2011) measured external and corporate embeddedness by asking to the relevant actors how the following relationship with actors from external business networks and with actors from internal business networks (HQ and sister units) are regarding: *“(i) degree of specific adaptations in technology among network counterparts (ii) the long-term orientation and stability of the relationships, and the level of; (iii) interdependence and of; (iv) mutual trust”* (Hallin et al., 2011, p. 367)

Although, other authors have used a simpler measure of embeddedness focusing on the frequency of interaction. Gammelgaard et al. (2012) referred to inter-organizational networks and intra-organizational networks, and they measured the number and frequency of subsidiary relations with both intra- and inter-organizational partners. This aspect is relevant, since it is possible that not in all contexts or not in all industries an organization can achieve deep relations with partner, as to mutually adapt their practices to them. Some industries or contexts may find more value on arm's length relations than in

highly embedded relations. But not many works have considered context in these studies concerned with relationships, and even fewer studies have taken into account a dynamic approach of embeddedness (Achcaoucaou, Miravittles & León-Darder, 2014; Ambos et al., 2011; Oehmichen & Puck, 2016; Sun, Mellahi & Thun, 2010).

Sun et al. (2010) studied the relation between MNC political embeddedness and their competitive position in the long-run in emerging markets, adding a novel approach by analyzing how strong and rapid changes in the local business environment affected the value of the MNC embeddedness. The authors found evidence that deep political embeddedness, in the long term and under strong environmental changes, could have a negative impact on firm's performance, since it can lead to cost-inefficiency and underdevelopment of host-market-based capabilities due to the firm's structural lock in the strong organizational ties.

Oehmichen and Puck (2016) assumed a contingent approach, suggesting that changes in ownership mode can impact the relation between internal and external embeddedness on performance, considering "the volatile internal and external parameters that determine MNEs' business" (Oehmichen & Puck, 2016, p. 17). The authors found that the effect of both internal and external embeddedness in subsidiary performance enhanced with changes in ownership, arguing that this is may occur because situations of change force the subsidiary to develop further capabilities to react and adapt to dynamic and uncertain environments. Therefore, ownership changes could lead to development of dynamic learning routines, which contribute to the subsidiary's capacity to exploit internal and external networks to acquired resources. The measure of EE is particularly interesting in this study, the authors did not focus on the number of ties or the adaptation from the relations, instead they measured the variable as the outcome of embeddedness by asking the level to which the subsidiary had been able to acquire local knowledge. The contextual perspective was crucial for this measure, since they recognized the relevance of local knowledge in emerging markets and the measure captures

particular elements of local knowledge such as knowledge about the economic situation in the subsidiaries' specific industrial sector, knowledge about the political situation in the subsidiaries' specific industrial sector, and knowledge about behavioral patterns in business relations with Chinese partners.

Achcaoucaou et al. (2014) is also one of the few studies considering a dynamic perspective of embeddedness, studying the impact of changes in dual embeddedness on subsidiaries' R&D role. The authors concluded that "a subsidiary can shape its own evolution by enhancing both its internal and external knowledge embeddedness" (Achcaoucaou et al., 2014, p. 88). While Ambos et al. (2011) studied the dynamic and static impact of both internal and external embeddedness on R&D subsidiaries' autonomy. They found that high IE in the past was positive for subsidiaries to have higher levels of autonomy in the future, while EE in the past had the opposite impact on future autonomy.

Further studies considering not only external changes, but also changes in internal processes, should be followed. For example, in the case of SI the impact of embeddedness on the SIP can change over time, or have a different impact on each of the stages. There is still a gap on the concept of embeddedness, since its measure has been mainly studied statically, not as a process and ignoring the context or industry particularities.

4.4. Embeddedness and Internationalization of the firm

Several authors who study embeddedness in the MNC context, conceptualize the MNC as Ghoshal and Bartlett (1990) like a group of geographically dispersed organizations that have a headquarters and foreign subsidiaries and which are connected as an interorganizational network. Each of the units from this network of firms is embedded in an external network in the host countries, compose of local customers, suppliers, competitors, government, and so on, and at the same time are embedded in the internal network with the MNC's

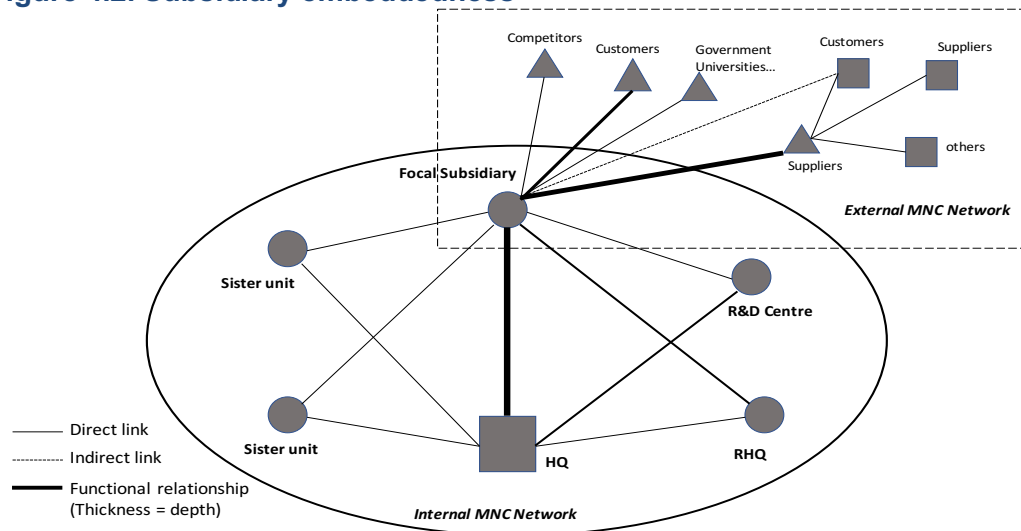
actors; facing both external and internal pressures (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). Hence, the MNC is portrayed as “a network of exchange relationships among different organizational units, including the headquarters and the different national subsidiaries” (Ghoshal & Bartlett, 1990, p. 604), all which are embedded in an external context that could influence the entire MNC.

Embeddedness in IB literature has been conceptualized from four different perspectives: the transaction cost and internationalization approaches, the network paradigm, resource base and micro-political approaches; and institutional approaches (Heidenreich, 2012). The resource dependence perspective, which acknowledges the influence of the characteristics of the networks in which the subsidiary is embedded, on the attributes of an MNC (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). Additionally, this view emphasizes the power acquired by the subsidiary, since its control over unique and valuable resources from the local country enhances its bargaining power and position within the MNC (Heidenreich, 2012; Mai & Cassidy, 2016). However, the business network perspective is perceived as a more detailed approach since it does not only consider the subsidiary’s access to critical resources, but it focuses on the relations with customers, suppliers and other counterparts that make this access possible; “in network theory a unit's most important resource is the web of specific relationships in which the subsidiary is embedded” (Andersson & Forsgren, 1996, p. 488). Both of these perspectives are relevant in this thesis and its main topic, subsidiary initiative, since they contemplate not only the web of networks that surround and influence the subsidiary, but also the control and power relations developed by HQ-subsidiaries as a result of this web of relationships.

Beyond the former classification of embeddedness, some authors have referred also to subsidiary strategic embeddedness, acknowledging the importance of the subsidiary and its capacity to impact the MNC’s strategy (Garcia-Pont, Canales & Noboa, 2009). There are two types of embeddedness

identified that can impact the MNC's strategy, external embeddedness and internal (or corporate) embeddedness. The first concern with the focal subsidiary relations to the host country actors and its interdependencies and influences towards each other; these external actors can be the host country suppliers, customers, competitors, government, universities, chambers, and so on. While corporate embeddedness deals with the relations of the focal subsidiary with its MNC's actors, such as the HQ, other sister units, regional HQ, and so on (Figure 4.2). Additionally, the focal subsidiary can be more embedded in some relationships than in others, as well as not only being influenced by the direct but also by the indirect links (Andersson & Forsgren, 1996).

Figure 4.2. Subsidiary embeddedness



Source: Adaptation from Andersson & Forsgren (1996) and Collinson and Wang (2012)

Authors have recognized that these relationships evolved during a period of time, and the degree of embeddedness is the result not only of time, but also of adaptation of resources and actor's activities interdependencies (Andersson & Forsgren, 1996). This can imply a challenge for the parent company as to how to manage subsidiaries embedded in external networks, since a subsidiary highly embedded in its local context the less it may depend on corporate resources, and the less control it may perceived from HQ; while a subsidiary highly embedded within the MNC network may perceived more

control from HQ (Andersson & Forsgren, 1996). This has become a common view of the MNC, called the political view of the firm which deals with the power of an actor derived from control on resources, it can be upwards, downwards or horizontally (subsidiary towards HQs, HQ towards subsidiary, or subsidiary towards other sister units) depending on who has control of the critical resources (Andersson, 1999). As this presents a challenge for HQ, the parent company may attempt to increase monitoring and control getting involved in the local subsidiary's networks and reducing subsidiary's contacts exclusivity, and hence undermining the capacity and power of the subsidiary to enhance its position within the network (Reilly, Scott & Mangematin, 2012b). Then, a better alternative for subsidiaries is to work closely not only to its external counterparts, but also to its corporate network, to become a key knowledge transferring actor from which other sister units and HQ benefit.

As chapter 2 showed, subsidiary started to take a more creative and proactive role, taking advantage of specific location assets and generating reverse knowledge flows to the HQ and other network actors, evolving to centers of excellence and/or establishing subsidiary initiatives; and the role of embeddedness in this process has raised interest. (Meyer et al., 2011). Subsidiary initiatives have been studied from several theoretical frameworks, from which the network and embeddedness perspective focused on the resources of location and the access to them, as well as focusing on how the environment can influence entrepreneurial behavior (Schmid et al., 2014). Andersson, Forsgren and Holm (2001) explored the nature of business embeddedness at the subsidiary level, suggesting that a subsidiary's embeddedness in a network of business actors may explained the differences between the market performance with those non-embedded. Subsidiaries with closer relationships to suppliers and customers are able to assimilate easier new knowledge from outside.

From an agency theory perspective, the subsidiaries (the agent) begin to have access to more information and resources in the host country than the HQ

(principal); hence, in order to take advantage of these resources the subsidiary develops, or its assigned, a more proactive and entrepreneurial role (Andersson et al., 2002). This new role provides subsidiary managers and employees with experience, developing tacit knowledge about the market needs, the way of doing business in specific contexts, the crucial networks to access valuable information, and therefore, are able to recognize valuable opportunities in the host country. This EE in the host country is not easily possible for the HQ but it becomes a powerful resource for subsidiaries, arising two potential problems. First, when the subsidiary's search for opportunities might not be strategically aligned to the MNE's objectives and the subsidiary acquires autonomy and pursues decentralization (Mudambi & Navarra, 2004), translating in suspicion from the HQ. Second, when HQ could have difficulties valuing these opportunities, due to lack of awareness of the potential benefits that lie beneath the subsidiary's tacit knowledge, increasing uncertainty due to information asymmetry, and therefore increasing the chances of rejection (Mahnke et al., 2007).

Studies have shown that EE among the local context, have an impact on the capacity to access resources and information and the capacity to develop competences (Andersson, 1999; Ciabuschi, Forsgren, et al., 2011; Yamin & Andersson, 2011). However, other authors have argued that EE creates a gap between the subsidiary and the MNC, resulting on a subsidiary that acts as an "autonomous baron" (Achcaoucaou et al., 2014; Ambos et al., 2010), or crucial network relationships that constrained the subsidiaries capacity to act within the HQ goals (Andersson & Forsgren, 1996). Most authors have focused on EE, ignoring the fact that subsidiaries belong to a MNE, and therefore, the IE plays a crucial role on explaining the differences between the levels of exploitation between subsidiaries, as well as "differences in their absorption, creation and sharing of knowledge and, hence, to different R&D roles" (Achcaoucaou et al., 2017, p. 182). Consequently, dual embeddedness is introduced in the SI literature along with its contributions to the role of subsidiaries (Achcaoucaou et al., 2014).

It should also be noticed, that the positive linear influence of embeddedness on subsidiaries has been challenged, proposing that over-embeddedness can reduce the subsidiaries' ability to gather novel information from a strong but redundant network a curvilinear relationship and the dangers of over-embeddedness (Uzzi, 1997). Nell and Andersson referred to over-embeddedness as "the idea that a network might be too closed and interconnected to allow for important novel information to get introduced into the network" (2012, p. 1090), concluding in their study that firms recognize the risks of over-embeddedness, since the relative benefits of continue nurturing these strong relations is counteracted by opportunity costs and decreased flexibility. In the same line, Marx and Lechner (2005) found that strong ties (over-embeddedness) can reduce the networks' group ability and willingness to change its partners portfolio, reducing the access to new information and the opportunity to create new knowledge.

4.4.1. External Embeddedness and Subsidiary Initiative

Subsidiary is embedded in several ties, external and internal, but when considering the SIP the external embeddedness has been associated to the opportunity recognition (Strutzenberger & Ambos, 2014). External embeddedness in a MNE context, relates to the relationships the company (subsidiary) has with the local suppliers, competitors, customers, policy makers, universities, etc. and how this relationship enhances the subsidiary's capacities, since they have more access to (new) information and their learning process is improved (Andersson et al., 2002). "The maintenance of strong, trustful and cooperative ties with local actors can potentially establish the basis for learning, generating and transferring knowledge beyond the boundaries of the firm" (Achcaoucaou et al., 2017, p. 183), which leads to exploiting opportunities, to innovating and, to creating new products and processes (Håkansson & Snehota, 1995).

Burgers and Van De Vrande their corporate entrepreneur work, highlight that “opportunities are out there, waiting to be discovered by (corporate) entrepreneurs” (2011, p. 488). If opportunities are in the local market waiting to be discovered, the more embedded a person is in the host country the more access has to knowledge and contacts that could lead to the discovery of these opportunities. Therefore, the prior knowledge, background and ties of the person (subsidiary) will have an impact on the discovered opportunity, when the subsidiary has the capacity to exploit of the host country’s resources (knowledge, innovation, science, etc.) and transform it into competitive advantages to create build opportunities (Achcaoucaou et al., 2014; Strutzenberger & Ambos, 2014). The network view emphasizes the important role of the ties stating, “opportunities are likely to emerge as a consequence of the privileged knowledge that the two partners develop during their interaction. This knowledge may allow them to recognize opportunities that others do not” (Johanson & Vahlne, 2009, p. 1419). Achcaoucaou et al. (2017) argue that subsidiaries that can exploit the valuable resources of a country’s context, such as relations with suppliers, information from ties, market conditions, etc.; can higher benefit from this if they have a high degree of local embeddedness, concluding that *the greater the external embeddedness the greater the opportunities that can be recognized or identified in the local market.*

External embeddedness has an influence on the importance of a subsidiary, its development or role within the MNC network (Andersson, 2003; Andersson & Forsgren, 2000, Andersson et al., 2002, 2007). Subsidiaries institutional context can affect the decision of parent company to invest more in those locations, since these are immobile factors (e.g. legal and administrative systems) the company needs to adapt to them, hence driving the MNC to select the most cost efficient (Meyer et al., 2011). Therefore, subsidiaries located in more attractive countries for their local institutions would have more importance in an MNC network. Andersson and Forsgren (2000) conducted a study to understand how the external relationships of the subsidiary could influence their role as centre of excellence. Through the external ties, the

subsidiary accesses information regarding other business actors' activities, it influences also the company's operation and capability, since they are dependent on these networks for their mutual adaptation in products, technology, administrative systems, etc. Therefore, the authors argued that the external network can influence internal parts of the MNC; and the subsidiary capacity to influence the MNC results from the resources and capabilities that it can transfer to the firm and which were available to the subsidiary by its external networks. They demonstrated that subsidiary EE is an important and significant determinant for the subsidiary to be considered important to the MNC, and these ties also influence the future behavior of the corporation, and that the "external network embeddedness constitutes an important source for a subsidiary's ability to fulfil its role as a centre of excellence in the MNC" (Andersson & Forsgren, 2000, p. 341).

Andersson et al. (2002) conducted a study to identify the influence of EE on subsidiary's performance. The authors defined two types of EE, technical embeddedness and business embeddedness, and they searched their impact on the subsidiary's market performance. Technical defined as "the interdependencies between firms in terms of their product and production development processes" (Andersson et al., 2002, p. 982) and business embeddedness, which refers to the long-term relationship of actors, which have make transactions during a long period, are used to exchanging information concerning the market, and have adapted their business to each other. The results of the study reflected a positive impact of technical embeddedness on the subsidiary's expected performance as well as in its role in products and production processes development. This positive influence was explained because the close and long-lasting relationships between actors conduces to inventory efficiency resulting from a low-uncertain relationship between customers and suppliers, better marketing (purchasing) activities since closeness allows a firm to better understand it customers' needs, awareness and exploitation of the counterpart's heterogeneous resources, and

the potential to innovate due to a high degree of information exchange (Andersson et al., 2002).

Andersson (2003) determined that EE has an impact on the subsidiary's assigned role, and this role in turn has an impact on the MNC's capability development. Subsidiaries highly embedded in their external networks would have developed a greater absorptive capacity that allows them to develop capabilities and competences, all of which can be transferred to other sister units. Hence, this capability development increases HQ attention, and lead to the corporate management to give the subsidiary more responsibility and enhance its role (Andersson, 2003).

Andersson et al. (2007) in a federative view of the MNC, discovered that subsidiaries externally embedded could have access to several competences, but this does not necessarily mean that the subsidiary expects to contribute to the global MNC performance. The capacity of a subsidiary to identify and assimilate new technology from the local context is dependent on its close external relations, hence, if the subsidiary is highly embedded it can assimilate and create new technology. The authors expected that these competences acquired though a high EE would impact the subsidiary's strategic position within the MNC; however, they found that in order for EE to have this impact the subsidiary should be able to transfer these competences (from the external ties) to the sister units and other MNC actors (Andersson et al., 2007).

Other authors have acknowledged the positive influence of EE on the subsidiary's capacity to access information (Andersson, 1999, 2003; Andersson & Forsgren, 2000; Andersson et al., 2001, 2002, 2007; Bresciani & Ferraris, 2016; Cohen & Levinthal, 1990; Lane & Lubatkin, 1998). Some authors have studied the importance of individuals or firms' capacity to acquire and exploit external knowledge and information from markets, arguing that it is dependent on their capacity to absorb that knowledge, and in turn the individuals should possess certain characteristics to be able to develop this

absorptive capacity (Cohen & Levinthal, 1990; Lane & Lubatkin, 1998). One of the critical variables is the type of knowledge that individuals own, especially in terms of having the contacts or ties that allows them to identify where the valuable information or knowledge resides in the market (Cohen & Levinthal, 1990). Then, organizations with broad and active external networks would strengthened the firms absorptive capacity, and firms with “higher levels of absorptive capacity will tend to be more proactive, exploiting opportunities present in the environment, independent of current performance” (Cohen & Levinthal, 1990, p. 137). Bresciani & Ferraris (2016) suggested that the accumulation of external knowledge allow the firm to absorb easier internal knowledge, hence increasing the probabilities for IE and being able to transfer tacit knowledge to the MNC.

Andersson and Forsgren (2000) assumed that organizations are constantly importing resources from the context in order to survive, but even more, in the case of subsidiaries with a strategic position such as centre of excellence, their role is influence by the characteristics of its external networks. Andersson (1999) defines two ways a firm can learn from its external networks, passive learning and active learning. By passive learning the author refers to more superficial information, which can be acquired un arms-length relations and constitute knowledge concerning objective and observable facts of the capabilities of the other firm. While active learning deals with tacit knowledge, more difficult to acquire and imitate, but can be accessed through deeper and interactive relationships, building trust and personal ties. Therefore, the author affirms that “the more a certain relationship with a customer, supplier or some other counterpart has developed into a close relationship, the higher the possibility for a firm to acquire new knowledge through exchange with this counterpart” (Andersson, 1999, p. 15). Andersson et al. (2007) in their study argued that the closeness of subsidiary’s external relations determines the subsidiary’s capacity to identify new technologies in the market and assimilate them. Additionally, they posit that subsidiaries highly embedded with external networks not only allow them to assimilate this new technology but also to

create new technology by interacting with its partners (Andersson et al., 2007). Andersson et al. (2002) goes a step further as to consider a firm's network a resource in itself, since through these relations a firm can access resources and capabilities otherwise not available to them, and because the closer and longer the relationship the more tacit the knowledge available, these relations are path-dependent and difficult to imitate. Hence, the relation constitutes a valuable resource per se due to the valuable and inimitable knowledge resulting from this relationship.

External embeddedness also influences the capacity of a firm to innovate and learn. Because close and long-lasting relations with external business networks increases the subsidiary capacity to absorb resources and knowledge, this can improve its capacity to learn and innovate (Andersson et al., 2001), but at the same time it allows innovation coming from HQ to be implemented by the subsidiary and its counterparts (Bresciani & Ferraris, 2016). When the relations with external ties established by the subsidiary are strong and their good communication is an asset, the subsidiary is able to better explain its counterparts the innovation-oriented task assigned from HQ and find a way to exploit them together, as a mechanism to combine capabilities and resources and in turn improving subsidiary's business performance (Bresciani & Ferraris, 2016).

External embeddedness also impacts the power and autonomy of the subsidiary (Ambos et al., 2011; Gammelgaard et al., 2012; Young & Tavares, 2004). Based on previous literature that assures that autonomy responds more to the behavior of subsidiaries and not the assignment by the parent company (Birkinshaw, 1997), Young and Tavares (2004) determined that strong relations with external networks and industry clusters enhances subsidiary's capabilities, reduces HQ control and increases autonomy; while strong IE conducts to more control from HQ. However, in a less static approach, Ambos et al. (2011) studied the dynamic impact of embeddedness, both external and internal, in subsidiaries' autonomy. Contrary to expectations, subsidiaries

highly embedded with external networks can conduce to lower autonomy in the future, but subsidiaries internally embedded could have in the future more autonomy. Although it is expected that the power gained by subsidiaries, for their external networks and the resources accumulated, will allow the subsidiary to have autonomy in the long run; the authors proposed that HQ would react to subsidiary's high levels of power and increase control of the subsidiary in the future hindering its autonomy (Ambos et al., 2011). Gammelgaard et al. (2012) discovered that external relations can increase the number of internal relations, since the close relationship of subsidiaries with local partners can increase HQ dependence on subsidiaries, also because subsidiaries are encouraged to increase internal links so MNC can also exploit the resources obtain from external networks, improving network centrality.

Subsidiaries embedded in the external business network also can gain power within the MNC (Garcia-Pont et al., 2009), since the national system business has been proved to be the source of subsidiaries power instead of HQ assignment because the resources and capabilities built through this networks to retain its charter, to be less dependent of HQ resources, and to have more control over its business activities (Geppert, Williams & Matten, 2003).

Although several of the variables impacted by EE and reviewed above can also influence subsidiary's entrepreneurial behavior, other authors have acknowledged the direct effects. As it was mentioned on chapter 2, networks and embeddedness are determinants of subsidiary initiatives. Djodat (2016) conducted a study to prove that networks are determinants of subsidiary entrepreneurial orientation. Based on previous studies that support that a highly embedded subsidiary, both with external and internal context, are able to find more diverse information and knowledge (Ciabuschi, Forsgren, et al., 2011), the author suggested that because of this embeddedness the subsidiary is "more inclined to detect and proactively act upon market changes and information pertaining to novel business concepts than less strongly embedded subsidiaries" (Djodat, 2016, p. 8). These networks provide valuable information

to subsidiaries as to motivate them to proactively pursue opportunities in the market, the information reduces the subsidiaries perceived risk of the environment expanding its risk-taking posture, it increases subsidiary's competitiveness, and allows the unit to be less dependent of HQ's resources because of those provided by the networks (Djodjat, 2016). All of these, results on a more entrepreneurial subsidiary which due to external strong embeddedness presents a higher entrepreneurial orientation. However, the authors found a strong relation between IE and entrepreneurial orientation, but the effect of EE was not significant.

In a broader approach, Hoenen, Nell and Ambos (2014) discussed the differences on the impact of EE in subsidiaries, Regional HQs and corporate HQs. They posit that the three actors are embedded in their context, which puts the HQ in a situation of weak embeddedness to the several markets where its units are located, hence there are difficulties to understand the local markets and the opportunities that exist there. Therefore, because RHQs are embedded in diverse context and networks, including the subsidiary's, they access to heterogeneous information through EE and by doing so build entrepreneurial capabilities (Hoenen et al., 2014). On the other hand, other authors see the subsidiary as the broker of knowledge from the local market or the local linkages to the HQs, making emphasis on the importance also of having IE to achieve entrepreneurial actions (Ambos et al., 2011; Buckley & Casson, 1998).

Furthermore, studies have studied the importance of network diversity by analyzing the composition of the TMT. Mu et al. (2007) suggested that a subsidiary in order to learn from the local environment should be embedded in the local network of relations to access knowledge and information, but also to achieve this the subsidiary must have a TMT capable of creating and cultivating a heterogeneous network to access non-redundant information and combine it with its own knowledge and capabilities to innovate and conduct entrepreneurial actions. Because they acknowledged the importance of having

a broad and diverse series of networks, it is important to establish an entrepreneurial culture in the subsidiary where all managers and employees are motivated to pursue new ideas, to be creative and experiment, to create knowledge reach out; all of which can be achieved by having a diverse TMT that “will foster learning and innovation by identifying and integration the diverse local knowledge to develop more synergistic knowledge”(Mu et al., 2007, p. 81).

As discussed above, since studies regarding EE have failed to totally explain/demonstrate a positive relationship with the implementation of an initiative by a subsidiary, further consideration is going to the role of IE. Studies have identified the crucial role of internal networks in the process of gaining HQ attention towards the subsidiary, especially on their position to sell the initiative to the HQ. Hence, there is a necessity to reconcile both the network theory (mainly focus on the role on access information) and the Resource-based view and micro-political approaches (focused on the subsidiaries' bargaining power due to their privileged access to resources).

4.4.2. Internal Embeddedness and Subsidiary Initiative

As mentioned before, foreign subsidiaries face the challenge to respond to local (external) and corporate (internal) pressures (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). In the case of internal pressures, the subsidiary is internally embedded in the corporate network, composed of HQ and sister units, which has been called IE and it has been neglected as an important variable of MNC development (Garcia-Pont et al., 2009; Yamin, 2005). Most of the recent studies on IE focused on the role of subsidiaries in development of innovation for the entire MNC, as units transferring knowledge to the HQ, and as an important variable that influences subsidiary's importance (Ciabuschi, Dellestrand, et al., 2011; Yamin & Andersson, 2011).

Authors have used other terms besides IE, such as corporate embeddedness (Ciabuschi et al., 2014), intra-organizational network relationships (Gammelgaard et al., 2012) and social capital (Bresciani & Ferraris, 2016). Gammelgaard et al. (2012) defines it as the network between HQ and other subsidiaries of the MNC. Ciabuschi et al. referred to it as corporate embeddedness, and defines it as “an integrating mechanism that creates the awareness and ability to communicate business-related innovation requirements and opportunities” (2014, p. 3). Bresciani and Ferraris (2016) refer to the relationship, trust, shared norms, informal and formal relations between the subsidiary and the rest of the MNC.

Although the role of IE in the international business literature has been shy compared to EE, several authors have studied its influence, mainly on the role of subsidiaries vs HQ and in the SIP. Opportunity recognition is very important for the SI, however if the initiative does not have the support of the HQ it is unlikely to occur. As mentioned in chapter 2, the threat to the initiative process has been studied and identified as the corporate immune system (CIS); explained by Birkinshaw and Ridderstråle, the initiative is seen “as an alien body that the ‘corporate immune system’ seeks to destroy” (1999, p. 150). The initiative can be seen as a suspicious project or one that is not strategically aligned to the MNE objectives, but it is attempting to increase the subsidiaries position and power on the MNE network. Therefore, the alignment of strategies between HQ and the subsidiaries can be conflictive, and even resulting in a power contest (Dörrenbächer & Gammelgaard, 2006; Mahnke et al., 2007; Mudambi & Navarra, 2004). Although some authors expected that units with internal business ties will be more tightly constrained by the MNC (Yamin, 2005); other authors have argued that subsidiaries highly embedded in the MNC network could gain more importance within the network as well as to have more bargaining power within the MNE (Andersson et al., 2002, 2007), counteracting the CIS.

Accordingly, although EE is important for the opportunity recognition process, it also seems logical that the HQ-S relationship is “vital for the execution phase” (Strutzenberger & Ambos, 2014), since the success of the SI will depend on HQ approval and support. Internal embeddedness allows subsidiaries to have access to existing resources within the MNC network, and therefore being able to combine capabilities (Ciabuschi et al., 2014). The importance of this internal network relies on knowledge transfer from the subsidiary and the HQ and other MNC’s units (Najafi-Tavani et al., 2014), since it will allow controlling valuable resources (SI) for peer subsidiaries and HQ, positioning itself stronger in the MNC network (Andersson et al., 2007; Young & Tavares, 2004). As put by Achcaoucaou et al. “After accessing local external knowledge, the subsidiary must be able to transfer it internally within the firm so as to gain recognition and to be deemed important for the whole MNC” (2017, p. 185). Birkinshaw et al. (2005) discovered a blend relationship between subsidiaries and its sister units, where they share and transfer ideas between them, but they are also competing for HQ’s investment and their survival. Other authors have proved the effects of strong IE on transferring knowledge, especially tacit knowledge, because of the closeness, trust, support and cooperation built through the relation (Andersson et al., 2002, 2007; Gammelgaard et al., 2012). This embeddedness has a positive impact on innovation, since it increases awareness and ability to communicate innovation opportunities and requirements between HQ and subsidiaries, making easier the adaptation or approval of these innovations (Ciabuschi et al., 2014; Schulz, 2003).

The impact of IE on subsidiary autonomy has also been studied, most of the authors arguing that it obstructs subsidiary and recent studies with a more dynamic view stating the opposite in the long term (Andersson & Forsgren, 1996; Asakawa, 2001; Burt, 2001). Andersson and Forsgren (1996) discovered that stronger IE is related to a higher probability of HQ control over the subsidiary, however the control could vary regarding the case, since in cases of green-field investment characterized by a bigger HQ’s knowledge of subsidiary’s resources and shared values could be higher than in acquisitions.

Also, in cases where IE is excessive, the knowledge and information shared can be redundant (Burt, 2001) conducting the subsidiary to be so ingrained in the MNC network, that it would not be motivated to generate valuable resources and be less autonomous (Ghoshal & Bartlett, 1990). Additionally, this close IE might isolate the subsidiary from the external context, limiting the subsidiary's capacity to conserve unique resources and build capabilities for the future (Gargiulo & Benassi, 2000). Asakawa (2001) suggested that IE hinders autonomy in Japanese subsidiaries, since they tend to have this embeddedness due to expatriates positions in foreign units, limiting the creativity of local scientist in the subsidiaries.

However, Ambos et al. (2011) studied the phenomenon in a dynamic perspective, identifying that in the future IE can grant more autonomy to the subsidiary. Based on social exchange theory, they posit that there is a principle of reciprocity, and subsidiaries sacrifice autonomy to headquarters in the present expecting that this favour will be return in the future with more autonomy since trust has been built. This willingness to give up autonomy shows the HQ that the subsidiary is not striving for power, gaining HQ trust and resulting in a more open-minded approach to the subsidiary's activities in the future, represented in more autonomy.

In terms of the impact of IE in subsidiary's importance, authors have channeled their studies in the influence on the position of the unit within the MNC network (Gammelgaard, 2009; Ghoshal & Bartlett, 2005), others have suggested the impact on the level of competence due to attracting HQ's attention (Ciabuschi, Forsgren, et al., 2011), also a positive impact on subsidiary's performance has been proved (Monteiro et al., 2008; Vernaik et al., 2005), and Garcia-Pont et al. (2009) demonstrated that IE allows subsidiaries to build distinctiveness within the MNC. Ghoshal and Bartlett (2005) demonstrated that subsidiaries more embedded in the internal network can obtain a higher or central position in this network, which increases the chances of the subsidiary to influence HQ's behavior in its own benefit, achieving higher performance. In the line of

bargaining power, Gammelgaard (2009) acknowledges that a subsidiary with closer relations to the parent company will have a more central position and power, since personal relations between managers are developed.

Ciabuschi et al. (2011) found a positive impact of IE on innovation impact on the subsidiary, as long as HQ is involved. They discovered that subsidiary IE leads HQ to get involved in innovation development, which in turn has an influence on innovation-related output at the subsidiary and the general importance of innovation in the MNC. Then, the authors concluded that IE impact the innovation or the innovation's perceived corporate importance, only when HQ gets involved, resulting in an increased of the subsidiary's level of competence.

Concerning the impact of IE on subsidiary performance, Venaik, Midgley and Devinney (2005) found a positive impact due to the stronger corporate culture and information sharing that characterized firms with higher levels of networking. As the managers of parent and subsidiaries work in different customer, competitive and country environments, they bring together a diversity of experiences, resulting in corporate decision-making that is superior to that by any individual country manager. Thus, pooling of MNC managerial skills and capabilities also results in better managerial decisions and improved corporate performance. Monteiro, Arvidsson and Birkinshaw (2008) suggested that subsidiaries isolated from knowledge-transfer activities within the corporation are missing the opportunity to have access to other sister unit's knowledge as well as being alienated from a corporate information network that provides the firm with pertinent communication regarding challenges and opportunities. The authors concluded that those units that are connected and not isolated would have higher performance than those that do not share or receive knowledge from the internal network. Gnyawali, Singal and Mu (2009) proposed that underperforming subsidiaries that develop internal relations can reduce their vulnerability through these relationships. They proposed that in a critical situation where the unit decides to conduct "*a problemistic search*" and

find a partner that would help it to find a solution, the safer partner or allied is a sister unit, since the probabilities of betrayal and malicious behavior with another subsidiary of the MNC should be lower than with another firm from the market. Hence, subsidiaries with strategic vulnerability would benefit from IE.

Garcia-Pont et al. (2009) argue that subsidiary's internally embedded can build distinctiveness within the MNC. By distinctiveness the authors refer to a measure of differentiation of a subsidiary with the rest of the corporation. They suggested that distinctiveness is an integral part of the strategy of the subsidiary, as well as their efforts to continue existing or to improve their role. Distinctiveness is perceived as an intermediate outcome in the relation between IE and performance, if subsidiaries are embedded with the internal network, they build distinctiveness by contributing to other corporate units and in turn to the MNC as a whole. Nonetheless, Li, Liu and Thomas (2013) found an opposite result, since they proved that IE does not lead to the subsidiary's development of specialized resources, since the subsidiary has less incentives to invest on the creation of unique resources and relies on those of the MNC network. Since the development of specialized resources is costly and it involves uncertainty, subsidiaries know that they can compete in the local markets by enhancing its resources through internal embeddedness; so, the more they rely on corporate technological resources, the more it needs to be embedded in the network and, the less incentive demonstrates to develop its own unique resources.

Although EE has been the principal studied variable on access to resources in network theory, IE has also been recognized as a source of knowledge and information. Reilly, Scott and Mangematin (2012a) suggested that it is better for subsidiary's survival to be integrated to HQ's strategy and have a more interdependent relationship with HQ, than to conduct subsidiary initiatives that can be rejected. The authors proposed that this closed interaction in the internal network increases awareness of the MNC resources and capabilities, that can be shared and exploited by interacting and collaborating more in this

network, allowing the subsidiary to combine resources and build valuable capabilities. Consequently, Ciabuschi et al. (2011) claims that subsidiary internally embedded have access to knowledge and resources distributed along the corporate network, and subsidiaries used them to combine it with its own resources and create capabilities. Dimitratos, Plakoyiannaki, Thanos and Förbom (2014) discusses two types of learning in the subsidiary, managerial and entrepreneurial learning. Managerial learning refers to information acquisition of the host country environment, with the purpose of exploiting opportunities because of the demands of the market; while entrepreneurial learning refers more to learning by doing or subsidiaries exploring opportunities in the market by experimenting. The authors found that managerial learning was more related to networking activities and relation in the internal corporate network, as entrepreneurial learning was related to external linkages. They concluded that a high degree of IE conduced to achieving managerial learning, since the subsidiary acknowledges the importance of HQ's assigned mandate and, hence they collaborate closely to other MNC actors to accomplish the mandate.

Also, IE influences entrepreneurial behavior. Gnyawali et al. (2009) proposed that subsidiaries IE would motivate entrepreneurial behavior for three reasons. First, since knowledge creation capability becomes a bargaining power, subsidiaries are likely to look for knowledge in other sister units. Second, accumulation and assimilation of knowledge is crucial for future learning and creation of knowledge advantages. Third, a proactive and entrepreneurial behavior would stimulate subsidiaries to search for innovative projects, which requires more knowledge-seeking and internal partners are good allies. However, other authors argued that strong IE may create a cognitive lock-in and lead subsidiaries to depend too much on the internal network and hide its possibilities to acquire more knowledge (Song, 2014).

But perhaps one the main studied roles of IE in subsidiary literature is found on its impact on subsidiary initiatives. As it has been exposed, parent company

faces uncertainty regarding the SI and its corporate immune system activates and possibly rejects the initiative (Birkinshaw & Ridderstråle, 1999); hence, subsidiary managers need to release information or develop a closer relationship with the parent company in order to help HQ's managers understand the issue. This aspect is crucial to the study of subsidiary initiatives, since one of the main reasons why HQs reject these initiatives is because they do not understand the host norms, values and context in general, making it difficult for subsidiaries to provide grounds for their activities or initiatives (Gammelgaard, 2009). Then, subsidiary managers must balance the option to exploit the local opportunities, launching a value-adding initiative that allows them to take advantage of location specific, and at the same time to align this initiative to the MNE strategic goals, so it will gain HQ attention and support instead of rejection. Subsidiary managers wanting to implement an initiative need to consider the importance of the relationship with the HQ, using internal mechanisms and being internally embedded to effectively communicate the SI and gain HQ attention. As Ciabuschi et al. affirmed, "Internal embeddedness potentially gives the subsidiary support, resources, and cooperation from other subsidiaries and from headquarters, while facilitating MNE leverage of local knowledge and capabilities once they are available for transfer" (2011, p. 1615).

A stream of literature has focus on headquarters attention and monitoring, as a solution to maintain the subsidiary goals within the MNE's goals and for the subsidiary to gain support for the initiatives (Ambos et al., 2010; Bouquet & Birkinshaw, 2008). However, monitoring has been recognized as having a negative effect on proactive and entrepreneurial behavior, or even driving away managers or key actors owners of tacit knowledge under high control mechanisms (Mudambi & Navarra, 2004). Thus, the authors suggested that headquarters attention seems to be a better mechanism to avoid opportunistic behavior and to foster subsidiary strategies aligned to the MNEs goals, which can be achieved through IE. Reilly et al. (2012a) in their study suggested that subsidiaries should build strategic embeddedness with the HQ, since creating

greater interdependencies between the subsidiary and the HQ is a better alternative to local initiative taking, due to a more aligned initiative. The authors identified that a SI would take place when it was carried out in secrecy, so that when the HQ was informed it was unlikely for the HQ not to support the initiative. On the contrary, if the initiative was shared to the HQ and this considered it valuable for them, they would “buy” the initiative and as a result monitoring and control (M&C) are established. The increase in M&C creates a liability of appropriateness of the local ties from the HQ, diminishing the subsidiaries role on the MNE network; hence, finding that interdependence not autonomy is a better strategy.

A literature stream has focus on studying issue-selling as a mechanism to achieve headquarters attention (Bouquet & Birkinshaw, 2008; Dutton & Ashford, 1993). Dutton and Ashford (1993) studied issue selling as the process that influences the way top managers select which issues are strategic and which are not. The authors made emphasis on the way middle managers shape the agenda to position their issues, and this has been included in SI literature, since subsidiary managers need to strategically gain HQ attention by portraying the SI as a benefit for both the subsidiary and the MNE as a whole. It is important to highlight the fact that subsidiary managers need to develop strategies or communication forms that package the issue as important to HQ managers, but specially to be understood by HQ⁷. It can be argued that communication between the subsidiary and the HQ is important, as well as the person who is communicating the issues, since crucial aspects such as language distance can have an effect on the message exchange, as stated by Hoskisson et al. “subsidiary managers sponsor corporate initiatives within the subsidiary and use technical experts who often negotiate with the corporate headquarters over technology standards” (2011, p. 1150). Then, the relationships developed by the seller or the can influence the approval of the

⁷ Although it is possible to find a difference between managing to get HQ attention by selling an issue, and obtaining the desired reaction from the top management to tackle the issue, issue selling literature has taken as a similar outcome of the issue selling process, the achievement of top management attention (Dutton & Ashford, 1993).

subsidiary, as determined by Gammelgaard “a ‘personal’ relationship between the subsidiary manager and the decision makers in the parent company is, therefore, predicted to allow the subsidiary to take up a powerful position” (2009, p. 217).

Additionally, Gammelgaard (2009) defined other strategies to achieve SI approval, such as making the parent company understand the issue and lobbying at the parent company. Because the knowledge or information that subsidiary needs to explain in order for HQ to be more familiarize with the initiative can be tacit (Gammelgaard, 2009), it is important that the sender of the information can understand the language and style of HQ to make himself understand better; this could be easier to achieve if strong links are previously formed in the internal network and trust and fluid communication exists. When lobbying to the parent company, the relation between the sender and the receiver is important (Y. Ling et al., 2005), the personal relation between these two can positive influence this exchange, such is the case of expatriates that can have leverage from the relationship built in previous assignments either in other sister units or HQ (Gammelgaard, 2009).

However, authors have found a the impact of IE on subsidiaries as a double-edged ‘sword’ (Yamin & Andersson, 2011). Internal embeddedness has an impact on the visibility of the subsidiary within the MNC, however this visibility not necessarily is positive for the subsidiary. Yamin and Andersson (2011) found that this visibility impacted negatively the subsidiary’s importance for product development. As well as the trade-off explained above with subsidiary’s autonomy.

4.4.3. Dual Embeddedness: trade-off or complementarity?

Although EE is important for the opportunity recognition process, resistant presents a challenge to the approval and implementation of the subsidiary. Some authors have argued that attention has been mainly focus on EE, but

the subsidiary as part of a larger organization and how the subsidiary creates embeddedness within the MNE internal network has been relatively overlooked (Ciabuschi, Dellestrand, et al., 2011; Ciabuschi, Forsgren, et al., 2011; Garcia-Pont et al., 2009; Najafi-Tavani et al., 2014). Andersson and Forsgren referred to total embeddedness as “a combination of external embeddedness and corporate embeddedness” (1996, p. 494), which is latter called by other authors “dual embeddedness”. Achcaoucaou et al. addressed this issue finding that studying the impact of dual embeddedness on the SI is crucial to understand how the SI is implemented, concluding that **“Although most of the network literature associates the development of external embeddedness with the genesis of the evolution in a subsidiary’s R&D role, managers should also seek to develop internal embeddedness so as to exploit dependencies and influence the assignment of mandates”** (2014, p. 13).

Other authors have referred to multiple embeddedness to describe the complex interdependencies of the MNC and its subsidiaries in different locations, which imposes challenges to MNC, since it should respond to the diverse context of multiple locations, and be able to exploit opportunities in the differences and similarities of these numerous locations (Meyer et al., 2011). Moreover, it also supposes a challenge for subsidiaries which are both confronted with opportunities offered by external context, and also the necessity to be sufficient internally embedded to be able to exploit the potential of external networks. This multiple embeddedness is perceived by some authors to generate a trade-off between external and internal embeddedness for the subsidiaries, for example high externally embedded subsidiaries may developed context specific knowledge through this relationship that is difficult to transfer to the rest of the MNC (Andersson et al., 2002); or the more internally embedded the subsidiary the less necessity of acquiring resources in the local context it has (Ciabuschi et al., 2014). While other authors consider that these diverse networks are complementary and contribute to the strategy, position and role of the subsidiary, for example Achcaoucaou et al. (2014)

found that by being simultaneously embedded in external and internal networks, a subsidiary can evolve towards a competence creating mandate, if instead it concentrates only on one network it can fluctuate between being isolated from the local context or exerting a competence-exploiting mandate; and if both embeddedness diminish it can even jeopardize its R&D mandate. Nonetheless, this is an area yet to be explore since there are only few empirically works on the impact of dual embeddedness (Ciabuschi et al., 2014; Meyer et al., 2011).

Among the works that support the role of dual embeddedness, Ciabuschi et al. (2014) studied the impact of both external and internal embeddedness on innovation-related business performance in subsidiaries demonstrating that they are complementary context and not a trade-off. They found that EE has a positive impact on innovation-related business activities, because of the closed relationship and knowledge of the local market and its actors which allows the unit to better understand and assess the needs and requirements of the local partners resulting in more sharing of innovation-related interests. On the other hand, no direct impact of corporate embeddedness on innovation-related business performance was found, however a mediation effect of subsidiary influence was discovered. Corporate embeddedness will enhance the influence of the subsidiary within the MNC, which in turn has a positive impact on innovation performance. They concluded that their results support the impact of dual embeddedness on subsidiaries, positing that "the subsidiaries that are able to hold a strong position of both external and corporate embeddedness are probably in a favorable situation" (Ciabuschi et al., 2014, p. 10).

Achcaoucaou et al. (2014) conducted a study to understand how a subsidiary's interaction with different knowledge networks can influence the evolution of its mandate, since the subsidiary capabilities can be affected. They found that a subsidiary's evolution towards a competence creating mandate results from dual embeddedness, from gaining access to knowledge and information from

different sources (external) and transfer it within the MNC network; recognizing the subsidiary as a bridge in the process of knowledge-transfer from the local country to the MNC network. They acknowledged the role of EE on allowing the subsidiary to gain access strategically have access to resources, and the more frequent, deep and highly qualitative the linkages it forms within the local partners, the better innovative performance it demonstrates. While IE is recognized as important, since otherwise a subsidiary completely autonomous that does not transfer to the MNC the develop knowledge abroad, may be perceived as an autonomous baron and face more control from HQ. The authors proved that it is by dual embeddedness that a subsidiary can evolve towards a competence-creating mandate, more entrepreneurial and proactive and seeking HQs attention. Otherwise, focusing only on internal network embeddedness in detriment of external leads the subsidiary to a competence-exploiting mandate but not a proactive and strategic role; while focusing on internal network embeddedness and leaving behind the close relation to HQs results on a subsidiary isolated from the rest of the MNC. Furthermore, reducing both types of embeddedness can diminish its R&D role upgrading and even conduct to mandate depletion (Achcaoucaou et al., 2014).

In a following study, Achcaoucaou et al. (2017) emphasized the importance of a subsidiary's dual embeddedness as a moderator of corporate- and country-level conditions and the enhancement of the subsidiary's role. As expected both country and corporate level predictors influence subsidiary's competence creating R&D role, but not directly since this relation is mediated by internal and external embeddedness. In the case of country levels, EE plays an important role on the competence-creating R&D role because a positive environment is not enough to generate a greater mandate and developing linkages with external partners to explore new technologies and knowledge is necessary. While IE is crucial on the impact of corporate level predictors and subsidiary competence-creating R&D role, since without the channels developed through IE there is no clear relation between corporate-level predictors and a subsidiary's competence-creating R&D role. Hence, the

authors concluded that “because much of the influence of external embeddedness on a subsidiary's competence-creating R&D role is conducted through the channels of IE, our study confirms the need to consider dual network embeddedness as a key predictor of the role played by subsidiaries as R&D contributors” (Achcaoucaou et al., 2017, p. 192).

Asmussen, Foss and Pedersen (2013) attempted to explain how the MNC different knowledge sources influence knowledge transfer. They found that both sources of knowledge, internal and external are different and may interact; in order for external knowledge to be positive and significant in terms of benefits superior to the cost, there should be a sufficient level of internal knowledge. Furthermore, they proposed that there is a tipping point of IE the subsidiary must exceed if the rest of the MNC is to benefit from the external knowledge acquired by the unit in the local context. Hence, they support the complementarity of both internal and external embeddedness. This is congruent with other studies that zero in on reverse knowledge transfer (Najafi-Tavani et al., 2014; Rabbiosi, 2011).

Figueiredo (2011) proved that subsidiaries with both internal and external knowledge intensive linkages, with high frequency and also increasing quality, achieved higher innovative performance levels than those that developed less frequent and unchanged quality linkages. They found that subsidiaries with higher innovative performance were different from others in the sense that they developed several linkages, internal and external, were also able to explore complementary knowledge and combine it with their previous knowledge, as well as demonstrating spill overs in terms of knowledge to other sister units; as a result of their dual embeddedness. Bresciani and Ferraris (2016) posited that the characteristics of the network relationships can influence the subsidiary's ability to adopt and implement the innovation it receives from HQ or sister subsidiaries. Hence, the authors tested if high levels of dual embeddedness would influence the impact of an innovation a subsidiary receives from other MNC actors. They found that subsidiaries with dual embeddedness showed

more interdependencies between external and internal networks demonstrated in knowledge exchange argument; and resource dependency view. First, the subsidiary is more active in knowledge creation for the whole subsidiary and not only receives innovation from other sources, this is possible in a way for the knowledge acquired by external sources and transfer through internal sources, the enhancement on absorptive capacity these subsidiaries achieved. Second, subsidiaries both internally and externally embedded can also increase their MNC dependency on them, because by the external sources it has access to valuable and unique resources which may lead to MNC being dependent to the subsidiary's key resources and capabilities. This EE requires an effective means of exploitation that can be achieved by internal relations, supporting the authors argument about interdependencies.

Other studies have supported the positive impact of dual embeddedness on subsidiaries but possible through the mediation and moderation of other variables. Najafi-Tavani et al. (2014) in a study on subsidiary influence trying to prove that knowledge-based and network-based activities are determinants, found that the power of EE persists when facilitating knowledge development and reverse knowledge transfer (RKT) occur. The authors acknowledged the impact of both types of embeddedness, since EE allows the acquisition of knowledge and access to unique resources, which generates MNC dependency on subsidiary's resources and then more power gains the unit (Andersson et al., 2007; Mudambi & Navarra, 2004). It is important for HQ's understanding of subsidiary's activities and recognize its competences, this can lead to more power for the subsidiary and improve its position in the network. This can be achieved through IE, since it improves the possibility of RKT which is crucial to transfer tacit knowledge to the rest of the MNC. The authors determined that developing new knowledge is not enough for subsidiary influence, but network-based activities (both internal and external) are important and they suggest that subsidiaries engage in issue-selling activities.

Nonetheless, there are other authors that do not support dual embeddedness. Scott-Kennel and Giroud (2015) studied the contribution of network knowledge and strategic orientation to firm-specific advantages (FSAs); particularly they were interested on the role of network knowledge in both, HQ and subsidiary FSAs. They recognized the capacity of subsidiaries to be a source of knowledge and their potential to two-way internal knowledge flows within an MNE, and that beyond the capacity of the unit to develop knowledge itself, it can also access through external business networks or by internal corporate sources. This knowledge creation capabilities result on competitive advantages and the creation of FSAs. The authors concluded that internal network knowledge influences more HQ specific advantages (HQSA) than subsidiary specific advantages (SSA), while external network knowledge is important for both HQ and subsidiaries. In Yamin and Andersson (2011), IE has a negative impact on subsidiary's importance for MNC product development, while EE has a positive effect. When interactions were conducted, the authors found that there is a negative interaction effect between internal and external embeddedness, which affects the influence of EE on a subsidiary's importance for production development, it does not occur on product development. Although they recognized that IE could increase subsidiary's corporate visibility and in turn benefit its visibility regarding its external competence in production and technology development, the authors proved that the actual impact is negative, supporting former suggestions about the trade-off and efforts to increase IE may in fact undermine the efforts of the subsidiary to develop its competences through external linkages.

Table 4.1. Summary of empirical studies of dual embeddedness

Authors	External Embeddedness	Internal Embeddedness	Dual Embeddedness
Ciabuschi, Holm & Martín Martín (2014)	Positively affects innovation related business activities directly, due to close relation and knowledge of market and local actors	Corporate embeddedness is a predictor of subsidiary influence, which in turn impacts innovation-related business performance	Supports the impact of dual embeddedness on subsidiaries, <i>"the subsidiaries that are able to hold a strong position of both external and corporate embeddedness are probably in a favorable situation"</i> (10). External embeddedness has a positive effect on corporate embeddedness, supporting dual embeddedness

Authors	External Embeddedness	Internal Embeddedness	Dual Embeddedness
Achcaoucaou, Miravitlles & Leon-Darder (2014)	Used by the subsidiaries to strategically have access to resources	Subsidiary's strategy consisted on create interdependence within the MNC network through competences and knowledge assets sharing, gaining influence on resource allocation and mandates	Through case studies they found that a subsidiary's evolution towards a competence creating mandate results from dual embeddedness, from gaining access to knowledge and information from different sources (external) and transfer it within the MNC network
Achcaoucaou, Miravitlles & Leon-Darder (2017)	EE partially mediates the relation between country level predictors and subsidiary competence creating R&D role. Other variables can affect this relationship, such as knowledge spillovers and institutional effects	Internal embeddedness completely mediates the relation between corporate level predictors and subsidiary competence creating R&D role. Without IE, there is no relation	Dual embeddedness is crucial as a mediator of country and corporate level variables and subsidiary competence creating R&D role
Asmussen, Foss & Pedersen (2013)	External knowledge comes from sources external to the MNC such us host suppliers, customers, local research institutions	Internal knowledge has been transferred from the HQ or other sister units to the focal subsidiary	Internal and external knowledge are important for intrafirm knowledge recombination, then knowledge from subsidiaries gains importance on the MNC network because is different to the existing but not so much that it can be useful for the MNC
Figueiredo (2011)	Local linkages were built over time, allowing to increase the level of knowledge links internal and external	On early stages, regarding the development of innovative capabilities, the subsidiaries use with more frequency knowledge intensive internal linkages than external	The study proved that subsidiaries with both internal and external knowledge intensive linkages, with high frequency and increasing quality, achieved higher innovative performance levels that those that developed less frequent and unchanged quality linkages
Najafi-Tavani, Giroud & Andersson (2014)	Allows subsidiaries to access unique resources	HQ recognizes subsidiary competencies, then the subsidiary gains bargaining power	Developing new knowledge is not sufficient to gain influence, subsidiaries should engage in activities such issue-selling. The relationship between dual embeddedness and subsidiary influence is mediated by knowledge-based activities, such as reverse knowledge transfer
Scott-Kennel & Giroud (2015)	Important for both HQ and subsidiary specific advantages	Greater influence on HQ specific advantages than on subsidiary specific advantages	HQ exploits both internal and external network knowledge; However, subsidiaries only external. Does not support dual embeddedness for subsidiaries
Yamin & Andersson (2011)	EE has an influence on a subsidiary's competencies in production and product development	Internal embeddedness has a negative impact on subsidiary's importance for product development	Negative interaction effect between internal and external embeddedness, which affects the influence of EE on a subsidiary's importance for production development, it does not occur on product development

Source: the author

4.5. Conclusions

This chapter focused on the concept of embeddedness, its typologies, measures and impacts on the MNC, and particularly on the subsidiary and its initiatives. The types of embeddedness and measures were examined, and special emphasis was put on understanding relational and structural embeddedness. Structural embeddedness concerned with the position of the firm in the network and the benefits from this position, while relational embeddedness more concerned with the quality of the relationships, how close they are and how this can benefit the firm. Relational embeddedness appears to be the common variable on IB studies, several of which involving subsidiaries and the role of embeddedness were revised and I found gaps on their measures of embeddedness. The concept is mainly used static and not considering context specifics or industry particularities, raising the call to revise the role of embeddedness in subsidiaries but with a more dynamic perspective.

The MNC is presented as a group of units dispersed geographically with a headquarters and foreign subsidiaries, which are connected as an interorganizational network. This locates the subsidiary in a position where it responds to the local country pressures and to the corporate pressures, and at the same time it is embedded in relationships with both external (local) and internal actors. Two types of embeddedness are common on IB studies with this networks approach: external and internal embeddedness, the former deals with the ties to local customers, suppliers, competitors, universities, governments, and so on; while the latter deals with the internal relations of the subsidiary with its HQ and other sister units. The impact of EE on the level of subsidiary's autonomy or HQ's control was discussed, conducing to the need to include IE on the studies of subsidiary's relations as it appears to better exploit the advantages of EE without counteractions from HQs.

Hence, according to the empirical review in section 4.4.3., it is not clear yet whether dual embeddedness has a positive, a negative or no impact on

subsidiaries (see summary table 4.1). Particularly, in subsidiary initiatives some studies have recognized the positive impact of dual embeddedness, since external ties influences positively innovation due to close relation and knowledge of market and local actors (Ciabuschi et al., 2014), allowing subsidiaries to have access to unique and valuable resources (Achcaoucaou et al., 2014). While IE is important for subsidiary influence (Ciabuschi et al., 2014), by transferring knowledge to the rest of the MNC and therefore gaining more influence (Achcaoucaou et al., 2014) and more bargaining power (Najafi-Tavani et al., 2014). In some case studies have recognized the value of both embeddedness as sources of knowledge (Asmussen et al., 2013), which can improve the capacity of the firm to innovate and be entrepreneurial; how firms with high frequency and increasing quality of connections with both types of networks achieved higher innovative performance levels (Figueiredo, 2011). However, other studies found that IE hinders the positive effects of EE (Yamin & Andersson, 2011) or only one type of embeddedness has an impact on subsidiaries (Scott-Kennel & Giroud, 2015). Therefore, it remains important to further study not only the impact but also the concept of embeddedness, because the gaps on its measure such as the lack of a dynamic approach, could explain some of the inconclusive results.

CHAPTER 5. RESEARCH METHODOLOGY

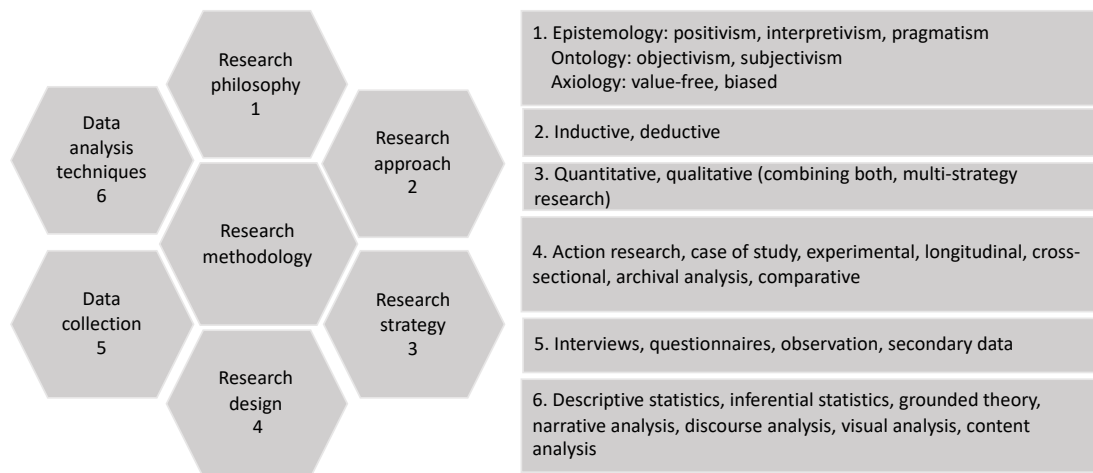
5.1. Introduction

Although quantitative research deduces its analysis of numerical information and this tends to be considered by some authors as Wooldridge (2006) as "precise" or "accurate" (since mathematics has that deductive logic), qualitative information justifies the operationalization of this numerical logic of results with a deductive reason, allowing to theorize from multiple work questions or micro hypothesis.

Wilson, for example, attributes the quantitative "precision" to the fact that qualitatively there is not a single approach to data analysis and immediately converts this factor into a strength for every investigative process by saying that "however, qualitative analysis often deals with a huge amount of raw data" (2014, p. 279), with which, the researcher must handle more flexible tools and concepts that harmonize with the conclusions he/she wants to reach.

Following this, Glaser indicates that qualitative analysis is "any kind of analysis that produces findings or concepts and hypotheses, as in grounded theory, that are not arrived at by statistical methods" (Glaser in Wilson: 2014). Qualitative research based on grounded theory are appropriate for cases when the phenomena needs further understanding and when through deep and iterative analysis and comparison of data, as it can contribute to literature about these inconclusive concepts (Eisenhardt, 1989; Glaser & Strauss, 1967). In this way, Miles and Huberman argue that qualitative analysis "consist of three concurrent flows of activity: data reduction, data display and conclusion drawing/verification" (1984, p. 23). Moreover, some authors have expose research methodologies to approach knowledge and analyze it, such as Wilson's (2014) Honeycomb of research methodology (Figure 5.1).

Figure 5.1. The honeycomb of research methodology



Source: Wilson (2014)

Each of the 6 instances described by Wilson must be taken into account in order to approach the object of study, without implying that all are used with the same rigor. It is necessary to identify priorities when using some of the Honeycomb analysis units. To do this, after defining what qualitative and quantitative methods are, one must identify whether the conclusions to which the researcher wants to reach must be deduced or induced from the results.

Etymologically, inductive alludes to the general conclusions that are reached from particular observations and the deductive considers that the conclusion is implicit within the premises (Erickson, 1986). Inductive approaches create concepts through the analysis of the data, while deductive approaches define what data is relevant according to previously defines concepts or categories (Yin, 2011). This puts inductive approaches in the qualitative area and deductive approaches with the quantitative one; however, “inductive and deductive logics are mirrors of one another, with inductive theory building from cases producing new theory from data and deductive theory testing completing the cycle by using data to test theory” (Eisenhardt & Graebner, 2007, p. 25). Also, inductive and qualitative approaches are appropriate for novel topics or theoretically incomplete, “If only limited theoretical knowledge exists

concerning a particular phenomenon, an inductive research strategy that lets theory emerge from the data can be a valuable starting point.” (Siggelkow, 2007, p. 21).

Qualitative analysis, based on case studies, are more desirable to conduct in-depth studies and understand how and why questions regarding these topics; "if one is desirous of answering “how” and “why”; questions instead of or in addition to questions of frequency, case studies are the more appropriate strategy” (Yin, 1981, p. 100). Following this idea, Báez y Pérez de Tudela argue that "The qualitative method is phenomenological and seeks to answer why is happening whatever that is happening. For this he observes and speaks with the actors (consumers, customers, employees, experts ...) about that reality (...) the quantitative method is ascribed to positivism and its purpose is to measure the facts of consumers in a numerical dimension of what happens " (Báez y Pérez de Tudela, 2009, p. 83).

By their own, Cook and Reichardt ask about the scope of qualitative versus quantitative, arguing that not necessarily the researcher who uses quantitative procedures is logical-positivist, nor the one who uses qualitative procedures is a phenomenologist because “on the one hand, many social researchers who use quantitative methods subscribe to a phenomenological stance (...) on the other hand, it would be possible, though perhaps unlikely, for an ethnographer to conduct research from a logical-positivist stance (...) a researcher who uses a measure and who verifies an individual’s possessions by ethnographic fieldwork would be subscribing to logical-positivism while using qualitative methods” (Cook & Reichardt, 1979, p. 12).

So, in front of the proposed construction of quantitative and qualitative approaches, we can conclude, for the purpose of this investigation, that one method should not dispense with the other. However, by the nature of this work, I have chosen to use the qualitative inductive method, because I am

demonstrating reasons that explore the decision making process of these companies for pursuing initiatives.

In this regard, Tesch argues that "for better or worse, qualitative data means any data that are not quantitative, i.e., qualitative data are all that cannot be expressed in numbers (...) and the analysis is the process of making sense of narrative data" (1990, p. 3). From this statement, I review what I have done in this research: make sense of semi-structured interviews, hermeneutical analysis, clarification of epistemological perspectives, definition of sub-methodological approaches and triangulation of strategies and uses for secondary data .

To do this, I agree with Yin when saying that the qualitative has not been defined, mainly because "The diversity of what is called qualitative research, because of its relevance to different disciplines and professions, challenges anyone to arrive at a succinct definition. Too brief a definition will seem to exclude one discipline or another. Too broad a definition will seem uselessly global" (2011, p. 7). However, he does identify five features of qualitative research: (1) studying individual's life under real conditions and not in a laboratory-like setting, (2) representing the individuals views and perspectives instead of those of the researchers, (3) incorporating contextual conditions that could influence events, (4) the purpose of explaining human and social behavior through existing or emerging concepts, and (5) use of multiple sources to increase credibility and trustworthiness (Yin, 2011).

Moreover, I have made it clear that the use of the qualitative approach does not prevent the use of quantitative tools for data analysis. This is when the need to compare, contrast and extract information inductively and deductively appears. Then, the option to triangulate the information according to what the qualitative method offers appears, seeking to use different sub methods, from the honey comb research methodology, as well as some figures or raw quantitative data.

In this regard, Berg says that “Triangulation is a term originally more common in surveying activities, map making, navigation, and military practices. In each case, three known points or objects are used to draw sighting lines toward an unknown point or object. Usually, these three sighting lines will intersect, forming a small triangle called the triangle of error. The best estimate of the true location of the new point or object is the center of the triangle, assuming that the three lines are about equal in error.” (2009, p. 5). This initial application of the concept of triangulation has served to objectively analyze a central point of study (or several important points within the same "macro" analysis), surrounded by lines that delimit it conceptually and theoretically. These lines represent more complex analysis options, which may eventually be useful to enrich the future conclusions of the investigation.

To short up, qualitative approach allows to analyze my object of investigation with additional tools, different from statistics, looking for a wider range of possibilities for further conclusions. Its importance lies in knowing how to triangulate information using both quantitative and qualitative data and how to delimit tools for the investigative purposes in each phase of this process.

5.2. Qualitative Research Approach

As reviewed in the theoretical chapters, there are inconclusive results in both studies concerning dual embeddedness. Additionally, SIP needs to be better understood linking its phases and including different levels of analysis (such as including CEO –individual and TMT-group analysis). Hence, it may be necessary to conduct deeper and exhaustive studies on these phenomena, and particularly how can they be interrelated. As the phenomena that I am studying in this thesis needs further and deeper understanding, I have decided to conduct a qualitative study based on case studies, attempting to answer how and why questions regarding these topics (Yin, 1981, 2011). Additionally, this methodology allows us to explore actors perceptions and interpretations as well as to capture the context of the participants (Yin, 2011), which is

particularly appropriate in studies of executives constructions of organizational events (Maitlis, 2005), as well as to gather richer information on the studied subject (Yin, 2011) and permit to study the phenomenon more dynamically than static (Gioia & Thomas, 1996; Pettigrew, 1992).

Along to the inconclusive results on this thesis discussed phenomena, it is also recognized by different authors that more in-depth studies should be conducted. Several authors have also indicated that empirical studies in the topic of subsidiary initiatives, with tangible examples of SI, are scarce (Birkinshaw & Ridderstråle, 1999). In the case of SIP, Schmid et al. (2014) recognized that studies between 1995 and 2010 of SI appear to be balanced between quantitative and qualitative research, however from the 52 studies analyzed only 8 focused on SIP. This is consistent with Strutzenberger and Ambos (2014) conclusion on their literature review paper about the necessity to conduct more studies on SIP.

Researchers have started to conduct qualitative studies on SI to better understand the process and how other variables affects it, such as dual embeddedness (Achcaoucaou et al., 2014). Additionally, as Kanter (2004) stated identifying the difference between and entrepreneurial activity (such as an initiative) and a managerial activity is easier in practice than in words, therefore a qualitative study closer to the participants and with personal interaction could positively impact the identification of the initiatives as well as the understanding of its entire process. Birkinshaw et al. (1998) acknowledged the limitation on his quantitative study, since some crucial aspects of the subsidiary that contribute to build firm-specific advantages were not capture, such as sharing of ideas and knowledge flows, because of their qualitative nature.

Furthermore, the results concerning the influence of dual embeddedness on SI are not conclusive. Some authors found a positive impact of dual embeddedness on SI since external relations, with local customers, suppliers,

governments; influence the capacity of the unit to access unique and valuable local information and knowledge (Achcaoucaou et al., 2014; Ciabuschi et al., 2014), enhancing innovation and entrepreneurial behavior. Internal relations, with HQs and sister units, can also be a source of knowledge and information (Asmussen et al., 2013). Additionally, it also gives the unit more bargaining power and influence suggesting issue-selling efforts (Achcaoucaou et al., 2014; Najafi-Tavani et al., 2014), as it controls these unique resources and shares them with the rest of the MNC, developing dependence as the transfer of knowledge could benefit the whole corporate network. Nonetheless, other studies found impact of only one type of embeddedness (Scott-Kennel & Giroud, 2015), or a trade-off when both networks interact together (Yamin & Andersson, 2011). Additionally, the concept of (dual) embeddedness is yet to be explored, since most of the previous research have assumed a static instead of more dynamic perspective, as well as lacking the context. Hence, it seems necessary to study these relations more deeply and considering a dynamic perspective, since it appears that the influence of the networks can vary depending on the SIP phase that is under study. Therefore, qualitative research to further explore the impact of dual embeddedness on SI and its process is appropriate.

Regarding TMT studies and its influence on MNCs and particularly on subsidiary initiatives, few qualitative studies have been published, compared to the amount of existent quantitative studies (Nielsen, 2010a). Many of the meta-analysis and literature review on the impact of TMT on the firm focused on quantitative research (Homberg & Bui, 2013; Horwitz & Horwitz, 2007). Additionally, there are still inconclusive results concerning the impact of TMT diversity on executive's decision making (Homberg & Bui, 2013). Dörrenbächer and Geppert (2010) conducted a qualitative study based on four exploratory cases, to explore subsidiaries' CEO motives to pursue initiatives. The authors acknowledged the need for studies that help to understand how subsidiary initiatives are socially constructed, calling for more qualitative studies in this area. Carpenter et al. (2004) claim longitudinal and qualitative

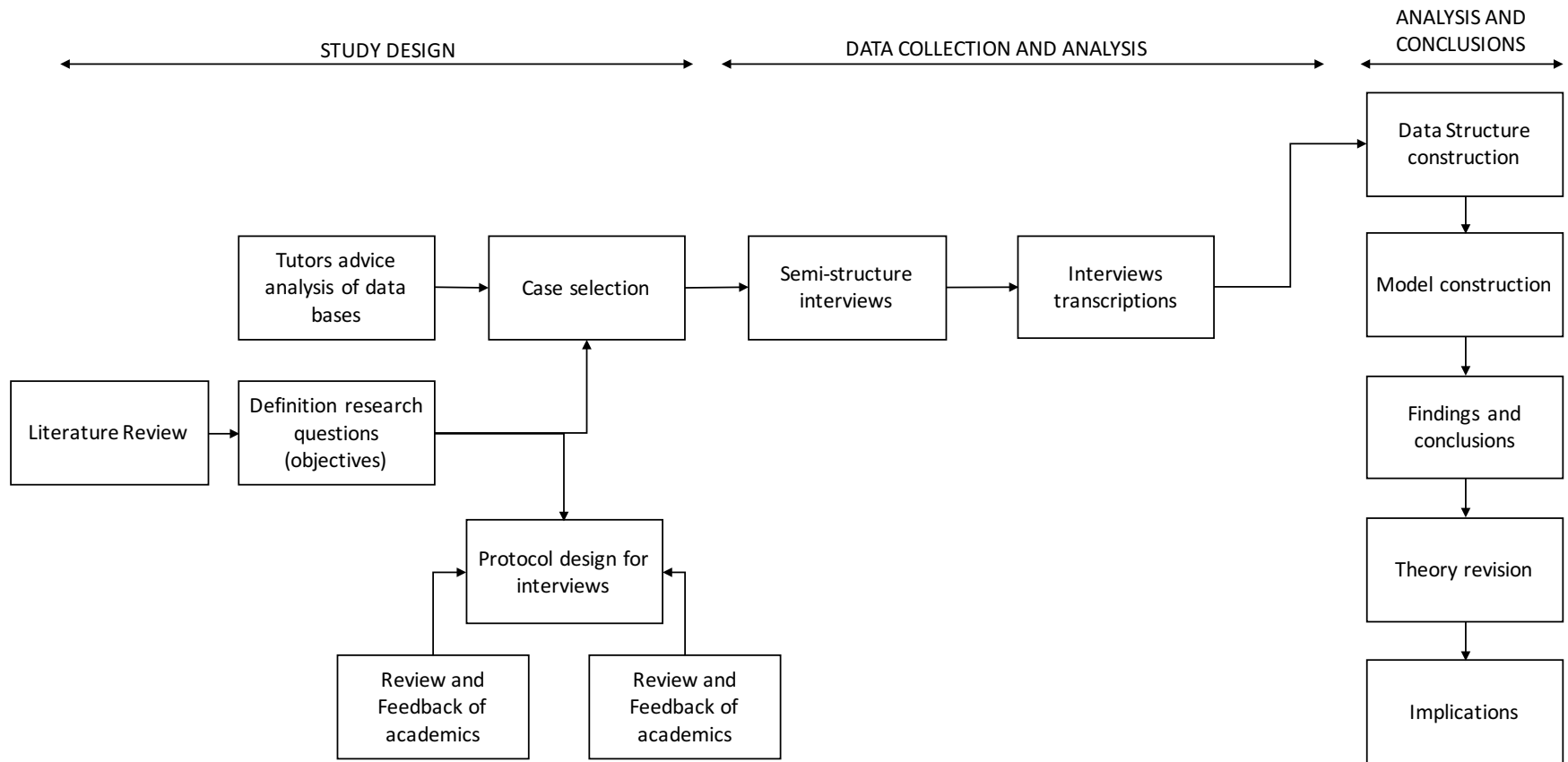
studies, since they proposed that executive perspectives and attributes are not static and may change over time; hence, its impact on strategic decisions can also vary and this could be better perceived by qualitative and longitudinal studies. Hambrick (2007) also recognizes the need to understand the black box of TMT behavior, and how some characteristics impact their strategic choices, suggesting qualitative studies to complement quantitative information. Strutzenberger and Ambos (2014) showed that studies on SI at the team level are the lowest, compared to individual, organization and external network, and most of them are theoretical, suggesting an interesting gap on the literature.

Since multiple case studies are adequate when the same phenomenon is believed to exist not in a unique situation but in several situations, this thesis will conduct a multiple-case design, which contributes to verification of results; not leaving behind the importance of within case analysis (Yin, 1981). Additionally, following the logic of replication Eisenhardt's (1989) suggestion about the number of cases was taken into consideration, where 4 to 10 are an acceptable number considering that theoretical saturation is achieved and the phenomenon of study is thoroughly explained, enhancing the rigor of the study. To ensure trustworthiness and rigor of the qualitative study, I followed Gioia, Corley and Hamilton (2013) recommendations on focusing on the concepts instead of the constructs, and applying an iterative process to assure categories mutually exclusive and exhaustive.

In the current thesis, Yin's multi-case study approach was used, complemented with Gioia's method to assure strong concepts (Figure 5.2). First the literature on the three major phenomena discussed in this thesis was explored, in order to identify relevant questions that guided the study. The second phase was the selection of the cases, in this moment the decision was to conduct 4 cases in order to follow replication and theoretical saturation, according to Eisenhardt's (1989). After the data was gathered, mainly through semi-structured interviews, the cross-case analysis was conducted following Miles and Huberman (1984) recommended procedures, such as the use of

tables and diagrams to facilitate data reduction and visualization, as well as following constant comparison techniques attempting to identify similarities between the participant's answers. Following the methodological approach of Gioia et al. (2013), when analyzing the data and based on constant comparison method (Glaser & Strauss, 1967) an initial set of 1st-order categories was conducted, focusing entirely on the data, the facts and the participants terms (Van Maanen, 1979). Next, I searched for similarities or patterns between the 1st-order categories, to consolidated them in higher-order themes, or 2nd-order categories. This 2nd-order categories are more abstract, theoretical, and research induced (Nag & Gioia, 2012), which are "the basis for the emergent theoretical frame work" (Gioia, Price, Hamilton & Thomas, 2010, p. 13). Finally, the 2nd order categories were aggregated into broad concepts (1) *Subsidiary Initiative Process*, (2) *Dual Embeddedness*, and (3) *TMT composition*; and the final data structure which demonstrates how the research process went from raw data to structure categories and dimension demonstrating rigor (Gioia et al., 2013). Finally, based on the data and the theory, and with more abstraction, this thesis model is developed allowing us to understand the dynamic relation between the different categories or phenomena identified in this work. Figure 5.2 summarizes the methodological process followed in this thesis, taking into account all the aforementioned recommendations.

Figure 5.2. Case study method



Source: the author

5.3. The research process of the present study

5.3.1. The selection of cases

In the selection of the cases, I expected to control the influence of the countries hierarchical relations and the institutional context; hence I decided to identify the sample of MNC in the Colombian market. The selection of the cases should guarantee that the companies would fulfill certain characteristics such as size and international operation, which were generated and selected from ORBIS⁸ databases. The size of the MNC, measure by the number of employees and sales volume was important because it would predict the magnitude of its international operation and the size of its teams. As stated by Birkinshaw “smaller subsidiaries (which may be sales-only) and subsidiaries in nonglobal industries (with limited cross-border trade flows) are not germane to the management of the mature MNC” (Birkinshaw, 1997, p. 215). All four (4) selected firms have more than 4.000 employees and annual sales above 200 million USD, hence they are considered big MNC. The aspect considered was precisely the number of foreign subsidiaries of the firm. It was expected to study MNC with at least 3 subsidiaries abroad, in order to have several perspectives from the same MNC and identify differences in the entrepreneurial, embeddedness and TMT within the same MNC. One of the firms selected originally was discharged because it had several foreign subsidiaries but in a diverse number of businesses, hence it did not fulfill the condition of having at least 3 subsidiaries. This condition was further refined by gathering information from different internet sources, and the selected MNC have between 5-14 foreign subsidiaries.

⁸ This database provides information from approximately 180 million private companies and consolidates data from different sources, such as Amadeus, Bankscope, Isis, and Osiris. Orbis provides certain data that permits users to select companies regarding financial aspects and ownership.

I was careful to assure that at least 2 subsidiaries from each MNC were interviewed in this process, guaranteeing the participation the CEO of subsidiaries that have exhibited some degree of entrepreneurial behavior and could described its unit's initiatives; and in those cases, were the participation of the team was evident, I ensured that at least one member of the STMT participated. In total 10 subsidiaries from 4 MNCs were included in the study, and 25 participants interviewed. Table 5.1 summarizes the characteristics of each firm, as well as the characteristics of its subsidiaries included in the present study. According to Eisenhardt (1989), in *comparative case analysis* having between 4-10 cases is considered adequate to reach theoretical saturation and obtain rich information, enhancing the methodological rigor of the study. Additionally, to search for possible differences on firm's age, the foundation year was taken into account and 2 firms were relatively newer than the other 2, with differences ranging from 60-47 years. This characteristic attempted also to make possible the further selection of consolidated and recent subsidiaries.

Table 5.1. Characteristics of MNCs in the sample

Level	Characteristics	Alpha		Beta				Gamma		Delta	
HQ Level	Year of founding	1977		1920				1930		1980	
	Industry	Packaging		Consumer Goods				Consumer Goods		Consumer Goods	
	HQ	Cali - Colombia		Medellin - Colombia				Cali - Colombia		Bogotá - Colombia	
	Sales Group	454 million USD		2.9 Billion USD				738 million USD		250 million USD	
	% international sales	87%		38%				35%		40%	
	Number of employees	6200		44000				9500		9200	
	Number total subsidiaries	5		14				10		6	
	N. Countries exports	14		70				70		NA	
	CEO country of origin	Colombia		Colombia				Colombia		Colombia	
	Subsidiaries	Chile, Ecuador, México, Perú, Salvador		CAM (Costa Rica, Nicaragua, Panama, Puerto Rico), Chile, Ecuador, Dominican Republic and Caribbean, México, Perú, USA				Chile, Costa Rica, Ecuador, Guatemala, Honduras, Panama, Perú, Puerto Rico, Salvador, Spain, USA, Venezuela		CAM (Guatemala, Honduras, Nicaragua and Salvador), Ecuador, Mexico, Perú, República Dominicana	
Subsidiary Level	Subsidiary location	Salvador	Chile	USA	Costa Rica (CAM)	México	Perú	USA	Ecuador	Colombia	Dominican Republic
	Year of subsidiary creation (or acquisition)	2007	2012 (2011)	2010	2004	2008	2007	2007	2005	1980	1998
	Percentage owned by MNE	100%	92%	100%	100%	100%	100%	100%	100%	100%	100%
	Entry mode	Acquisition	Acquisition	Acquisition	Acquisition	Acquisition	Acquisition	Greenfield	Greenfield	Greenfield	Greenfield
	Number of employees	640	142	620	1340	800	850	22	90	3800	1160
	Sales Group	12%	NA	20% (Cookies)	25% (Cookies)	9% (Chocolate)	15% (Chocolate)	7,6%	5%	40%	18%
	CEO country of origin	Salvador	Chile	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia	Colombia

Source: the author

5.3.1.1. Description of MNC participants

Company 1 - Alpha

Alpha is a Colombian MNC located in the southwest of the country operating in the packaging industry, serving the foodservice, industrial y agro-industrial sectors. The company is a family company and it was established in 1977 and it has expanded to a total of 5 foreign subsidiaries in America, exports to 20 countries, with an approximated total of 4.400 employees and a year average of 454 million USD on sales, 87% of which are in the international markets. The company belongs to a holding that includes businesses in other industries such as paper, education, industrial furniture, technology, communications and B2B, with a total of 19.000 employees in 14 countries in America.

The internationalization process started in the mid 1990s by the acquisition of the majority of shares of a company in Lima, Peru. In 2007, Alpha continued its expansion process and the first firm in El Salvador is bought, followed by the acquisition in Chile and Mexico in 2011. The Mexican foreign subsidiary has five plants along the country, allowing Alpha to have commercial operations in the south of the USA market. In 2012, Alpha bought its second plant on El Salvador , and in 2015 the company is established in Ecuador. The firm's internationalization process is based on acquisitions and the image of the original brands remained because of its market position on those countries. As a result of the internationalization process, the company decided to concentrate its activities in only four types of packages to efficiently exploit its capabilities: foam, thermal material, metallic material and rigid plastic products. However, the company is now facing the challenges of this industry, and it is conducting continuous research for sustainable technologies, creating new two directions in 2016: New Businesses Direction and Sustainable Direction.

Two foreign subsidiaries were considered in this thesis: El Salvador and Chile.

Alpha-El Salvador

El Salvador subsidiary started from the acquisition of a firm on 2007, Alpha with the majority of shares (80%), but the remained shares were quickly bought in 2009 due to differences in the business cultures. Currently Alpha owns 100% of the subsidiary, with 640 employees and an average of total sales of approximately 54 MM USD, representing 12% of the sales group. This subsidiary has successfully increased its sales from the acquisition, and it is currently the most rentable subsidiary of the group; it has a market share between 30% and 35% in Central America followed by the next competitor with approximately a market share of 10%. They have two productions plants and its strategic position allows them to export 80% of its production to Panamá, Costa Rica, Guatemala, Nicaragua and the Caribbean. Three other acquisitions followed the first on in 2007, some of them were strategically done to close the competitors' fabrics, due to the lower quality of the products and the opportunity to capture their portion of the market.

Alpha-Chile

The Chilean subsidiary started from the acquisition of a firm on 2011, Alpha with the majority of shares (92%), and shared with the partner from the acquired subsidiary in Peru (8%). Strategically the subsidiary depends directly of Peru, and indirectly from the HQ, because it was established as an opportunity to expand the market for the product made in Peru; however, the HQ has been more involved in Chile in the past years. This subsidiary has had a rough start, since the cultural and institutional context differences of the Chilean, Peruvian and Colombian markets led to a strike and changes in the subsidiary's CEO and strategies. They are currently a proactive subsidiary looking to take advantage of its resources and competences to enter not only South American markets but also any market where they can compete, encouraging other sister units to work jointly.

Company 2 - Beta

Beta is a Colombian MNC located in the center of the country and operating in

the consumer goods food industry. The company was established in 1920 and it is currently a holding with 8 business units: Cold cuts, biscuits, chocolates, coffee, retail food, ice cream, pasta and a Chilean business group (Tresmontes Lucchetti-TMLUC). The MNC sells its products on more than 70 countries and is present in 14 countries, in some countries with more than one subsidiary since they are separated by businesses: Colombia, Chile, Costa Rica, Guatemala, Mexico, Panama, USA, Venezuela, Argentina, Ecuador, El Salvador, Nicaragua, Peru, Dominican Republic. The company has over 45.000 employees and a year average of 2.9 USD Billion on sales, 38% of which are international sales.

The internationalization process started in the 70s with timid exports, a second wave based on distribution allies in other countries, followed by the third wave where owned distribution was established and early 2000s the firm began with a stronger model of joint ventures and distribution, followed by establishing wholly owned subsidiaries through acquisitions, and in fewer cases mergers and joint ventures. The expansion began in 2004 with acquisitions in Costa Rica and Puerto Rico, followed by acquisitions in Panama in 2006, in 2007 they entered the Peruvian and Nicaraguan markets, in 2009 Mexico and 2010 USA, followed by Dominican Republic, Chile and Malaysia (see table 5.2. the chronologic process and the specification of the businesses in each country).

Currently the firm's internationalization process is based on acquisitions of healthy companies with strong brands, human resources and distribution and commercial capacity, keeping in many cases the name of the local company, the brands, and the original teams, excepting the CEO which is most of the time Colombian. and the image of the original brands remained because of its market position on those countries. Although in the majority of the internationalization process the foreign subsidiaries have had autonomy with strategic coherence, recently the group is changing the strategy to jointly exploit the different resources and capabilities of all the subsidiaries, and they are aiming at developing transversal and more universal brands.

Table 5.2. Summary of Beta's internationalization process

Year	Country	Entry mode	Business
2004	Costa Rica	Acquisition	Chocolates and Biscuits
	Puerto Rico	Acquisition	Distribution services
2006	Costa Rica	Acquisition	Biscuits
	Panama	Acquisition	Cold cuts
2007	Peru	Acquisition	Chocolates
	Panama	Merger	Biscuits
	Nicaragua	Merger	Biscuits
2008	Panama	Acquisition	Cold cuts
	Costa Rica	Merger	Biscuits
2009	Mexico	Acquisition	
2010	USA	Acquisition	Biscuits
2011	Panama	Merger	Cold cuts
	Dominican Rep.	Acquisition	Retail Food
2012	Costa Rica	Acquisition	Retail Food
	Malaysia	Acquisition	TMLUC (Coffee)
2013	Chile	Acquisition	TMLUC
2014	Malaysia	Joint Venture	Coffee

I will concentrate in this thesis on second and third most important businesses of Beta: chocolates and biscuits, since the first business (cold cuts) is more local and almost 82% of its sales are national.

- **Biscuits**

This is the second most important business of the group, representing almost 20% of the total sales. It has direct presence on 10 countries and has two foreign subsidiaries with production plants: Costa Rica and USA. Approximately 50% of its sales are international, with around 5.825 employees from which circa of 33% are international.

Beta - USA

The US subsidiary started from the acquisition of a firm on 2010, which consisted of a company with a production plant of sweet biscuits. Currently it

has 620 employees and its sales represent 20% of the biscuits business. This subsidiary represents a challenge for the business and the group, since it is the first time they enter this market and to compete in a segment different to the rest of the group: value service, where they compete for prices instead of brands. Hence, this was a great opportunity for the entire group, not only to enter the US market but also to compete beyond the Hispanic market and in the American market with big companies; as well to learn from a new market and a new segment. They have three production plants and one of this expansion represented a pivotal point for the subsidiary and the whole firm, since they entered the market of crackers (salty biscuits) becoming the first company in the west to produce crackers and successfully exploiting this market.

Beta – Costa Rica

The Costa Rican subsidiary started from the acquisition of a firm on 2004, which consisted of a strong and traditional company with more than 100 years of history to the date. Currently it has 1.340 employees and its sales represent 25% of the biscuits business. This subsidiary has become a distribution platform of the Beta group in Central America, since they inherent strong distribution networks when they acquired the company. Their main strengths are strong brands, very connected to the consumer, valuable and efficient ties with suppliers and distributors; and a highly-committed team. In the occasion of the 100th birthday of the company, the subsidiary faced the challenge to design the strategic plan for the next years, discovering after a thorough market investigation that their brand was perceived as old fashion, and this provided an opportunity for the firm to dramatically change its image.

- **Chocolates**

This is the third most important business of the group, representing 16% of the total sales. It has direct presence on 11 countries and has three foreign subsidiaries with production plants: Costa Rica, Mexico and Peru.

Approximately 37% of its sales are international, with around 3.800 employees from which circa of 47% are international.

Beta - Mexico

The presence on Mexico results from an acquisition in 2008, in a strategic market for the group due to the size of the Mexican market. The subsidiary has 800 employees and its sales represent almost 10% of the chocolate business. The subsidiary has a high level of knowledge in the chocolate business, which was brought along with the acquisition, which combined with the quality of the inputs results in a very competitive firm not only in the Mexican market but also in Central America. They export to 12 countries and are planning to expand their exports to other 4 countries. It is a subsidiary characterized by innovation, since the challenges of a big and competitive market, with presence of strong competitors, plus a country facing instability, increase in taxes and fluctuation of its currency; forces the unit to rely on innovation to compete and remain a strong competitor.

Beta - Peru

The Peruvian subsidiary started from the acquisition of a firm on 2007, the unit it has 850 employees and its sales represent 15% of the chocolate business. Currently it is a subsidiary with complementary technologies of the rest of the group, which preserves the strong distribution network, and has very powerful brands for the Peruvian market. Its complementary technology allows the Peruvian subsidiary to team up with other businesses of the group to develop innovative products, which are latter adopted by other countries, for example mixing biscuits and chocolates in its products. Additionally, because of its particular technologies are unique in the production of certain products, having the opportunity to export them to several markets such as USA, Central America, Ecuador and Bolivia.

Company 3 - Gamma

Gamma is a Colombian MNC located in the southwest of the country operating

in the consumer goods food industry. The company was established in 1930 and it has expanded to a total of 10 foreign subsidiaries in America, and it has recently acquired a plant in Spain, exporting its products to 70 countries, with an approximated total of 9.500 employees and a year average of 677 million USD on sales⁹, 35% of which are international. It is worth mentioning that as well as Alpha, this is a family company.

The internationalization process started early in the 60s with exports to US, but it is only in 1994 by the acquisition of a Venezuelan company that Gamma decides to enter other markets with wholly owned subsidiaries, years later the plant is closed due to political instability of the country but the subsidiary remains with the role of distribution. In 2001, Gamma established a production plant in Guatemala by the acquisition of 50% of the shares of a company, acquiring the rest on 2016 to all total control of the company in Central America. In 2015 Gamma acquires a Spanish company on the traditional sector of Gamma: candies, as another step to consolidate its international strategy to become a strong competitor in other regions, such as Europe and Africa. The firm has 8 more subsidiaries with a single role of distribution.

Gamma - US

The US subsidiary started as a greenfield investment on 2007, after more than 40 years of exports and indirect distribution, now it has 22 employees (direct) and its sales represent 7,6% of the MNC's total sales. Its operation is highly outsourced with a network of 33 brokers around the country, some accounting for 4 people while other for 200 people. This is the only subsidiary to the date with innovation capacity, since the challenges and differences of the US market demands the MNC to treat the market differently and allow enough autonomy to the unit to propose specific products, packaging, distribution channels and so for. It is recognized that this subsidiary is a source of knowledge and

⁹ Average of the last three years: 741 million USD (2013), 711 million USD (2014) and 581 million USD (2015). The last years the company faced challenges in one of its most important markets, the Venezuelan market, as well as the impact of the Colombian peso depreciation. Hence the drop on annual sales from 2014 to 2015.

information from which the entire MNC has and keeps learning.

Gamma - Ecuador

The Ecuadorian subsidiary started in 2005, after the firm had a strong presence but new competitors were entering the market and it was evident the necessity to have a subsidiary in the country. It is a successful subsidiary focused on distribution of products produced in Colombia, which went from sales of 4 million USD in 2005 to 25 million USD in 2016 with the establishment of a direct office. The subsidiary has 90 employees and it represents 5% of the total MNC sales. Although the country's sales represents an important portion for the firm, when the firm attempted to establish a production plant on the country in 2014, the institutional instability led the firm to invest in the acquisition in Spain. As mentioned before, equal to the other subsidiaries except to the US, the subsidiary has no much room for innovation; however, this unit has managed to innovate in the display of its products considering the differences of the distribution channels, and these innovations have transferred to other sister units.

Company 4 - Delta

Delta is a Colombian MNC located in the capital of the country and operating in the consumer goods industry, including food and personal care. The company was established in 1980 and it is currently present in 8 countries: Ecuador, Mexico, Peru, Dominican Republic; and Guatemala, Honduras, Nicaragua, El Salvador, considered as the CAM subsidiary. The MNC has over 9.200 employees and a year average of 250 USD million on sales, of which approximately 40% are international sales.

This is a very heterarchic MNC, since all subsidiary's CEO respond directly to the international presidency and each of them is completely autonomous in their countries under a strategic framework. The Colombian subsidiary leads most of the innovation because they are the oldest and have a stronger team, but there is no reporting line from the other units to Colombia, only to the

president. The CEOs of all the subsidiaries conformed an international committee where ideas are shared and decisions are made in consensus. The secret of this company is a strong innovation culture as well as putting the consumers and the market at the center.

The internationalization process of this firm is entirely greenfield. In 1998, the company began its first exports to Dominican Republic, and it established the subsidiary in this country in 2004. In 2003, the first export operations were conducted in Ecuador, and in 2005 the operation was successful enough as to establish its own subsidiary. Also, in 2004 the Mexican subsidiary was established, entering one of the largest and more challenging markets for the firm. In 2009, the Brazilian operation was established, but after entering the country the firm identified the unviability on this market, mainly on the type of consumer and the country's taxes, and the subsidiary was rapidly closed. Other subsidiary that was recently closed is the Venezuelan, which was established in the early 2000's and the political instability of the country forced the closure.

Delta – Colombia

The Colombian office started in 1980 with the establishment of the company, with a team of only 7 people and one product. The subsidiary has approximately 5.000 employees (3.800 direct employees) and it represents approximately 40% of the total MNC sales. It has 6 production plants along the country and a significant portfolio of products.

Delta – Dominican Republic

The Dominican Republic subsidiary started as a greenfield investment on 2004, after only 6 years of exports and indirect distribution, now it has more than 2.600 employees (1.100 direct employees) and its sales represent 18% of the MNC's total sales. As the oldest subsidiary, after Colombia, it is considered the most innovative as it faces the challenges of a small territory, an island, and a peculiar consumer; hence the firm has managed to deeply

study its market and develop some innovative products that have inspired the Colombian subsidiary.

5.3.2. The collection of data

5.3.2.1. Data Collection Tools

For the purpose of this thesis I used different data collection strategies and different data sources, complying with methodological suggestions to guarantee validity (Eisenhardt, 1989; Yin, 2011). Three data sources were used (1) information was gathered from ORBIS regarding MNCs' number of employees, sales volume, foreign units, among others; (2) semi-structured interviews with MNC actors from three different levels: HQ's CEO or TMT member, subsidiary's CEO, and STMT member actively involved with the SI discussed; (3) and company documents (company's web page information, annual reports, company's presentation, published books) and information concerning the company on newspapers.

Semi-structured interviews were selected as the main data collection strategy, since they are an adequate (a recommended) instrument to gather rich information that also allows to understand the research context (Eisenhardt, 1989). For the semi-structured interviews followed a prepared protocol, with both open-ended and specific questions, to reduce undesirable variability in collecting the data and to assure that participant's perception of the main issues for the thesis were raised (Yin, 2011). Additionally, participants were encouraged to zero in on aspects of interest for both, them and the researcher, introducing flexibility to the study without losing focus.

Before beginning each interview, I briefly explained to the participants the objective of the study, I gave a broad explanation of the interview's structure, how much time it will take, and strictly academic use and anonymity of the

study was assured followed by asking permission to tape the interview. The interview began with participant's background questions to break the ice and it followed general and open-ended questions regarding the MNC and its subsidiaries, the interview became more specific attempting to discuss the main topics of these thesis: subsidiary initiative, discovering of the opportunity, selling of the issue, and the role of both TMT and networks (external and internal) on the entrepreneurial activity; but also combining structure and open-ended questions on these issues. The questions were designed according to the literature review of chapters II, III and IV, specifically motivated by definitions and models of Birkinshaw (1997), Ardichvili et al. (2003), Baron (2006), Dutton and Ashford (1993), Andersson et al. (2002, 2007), and Hambrick and Mason (1984). The protocol was initially reviewed by my thesis advisors and adjustments were made. Subsequently, it was reviewed by 4 research experts on either methodology or IB literature. Posterior to the feedback was included in the protocol, this was pilot with 2 executives of MNC and small changes were included, mainly to guarantee an adequate duration of the interviews (see protocol in Annex III).

All interviews were recorded and notes were taken, with previous approval from the participant and assuring anonymity of both the firm and executives; subsequently, the interviews were transcribed, techniques recognized to enhance validity and reliability of the study (Langley & Abdallah, 2011). A total of 25 interviews were conducted during a period of seven months, making sure to include actors from different levels, since interviews were conducted with members of HQ, in some cases the CEO and in other cases a member of the HQ TMT, with the subsidiary CEO and in most subsidiaries further interviews with STMT were followed. The purpose of this triangulation was to gather enough information to ensure data reliability and validity (Eisenhardt, 1989; Yin, 2011), and to avoid over or underestimation of the phenomenon by the actors. HQs tend to overestimate their role and underestimate the subsidiary's; while subsidiary CEO could overestimate his/her role and the STMT puts a broader perspective of the phenomenon. This is coherent with Yin's (2011)

recommendation of including units at both broader and narrower levels. More than 300 pages of data transcript were available at the end of the probes for this investigation.

5.3.2.2. Data collection procedures

After the companies were selected a contact person from the organization was identified in order to have a broad picture of the company and verify their pertinence in the present study, as well as to define the most appropriate interviewer from HQ. Following this first interaction, the contact person proceeded to arrange personal or skype interviews with an executive from HQ to conduct the first interview, and the person differed in each case as the structure and roles were slightly different (see table 5.3 for an overview of the participants):

- Alpha: CEO of the headquarters
- Beta: HQ's CEO of the biscuits and chocolate businesses
- Delta: International Director of the North American Region and rest of markets
- Gama: CEO of Colombians office

Conducting the first interview with a high executive from the MNC was important, since they could provide a global picture of the company, the company's international process, the subsidiaries characteristics and roles, as well as identifying those units more proactive and innovative.

The protocol constructed was based on the review of literature to understand the international operations of the MNC, initiatives from the most proactive subsidiaries, as well as the role of their teams and their networks on this entrepreneurship. All interviews started with open questions regarding the academic and professional background of the person, as well as questions regarding characteristics of the MNC, and open questions regarding the

international operations of the MNC and its relations to subsidiaries. The purpose was to have information regarding the characteristics and traits of the CEO that may influence the HQ-subsidary relations, the autonomy levels of the subsidiaries, the innovative or entrepreneurial culture of the firm, and so on. Additionally, this part of the interview attempted to gather information regarding the structure of the MNC, how the relations between the HQ and subsidiaries are, the communications, and levels of autonomy.

As the interview progressed, more structured questions were conducted such as questions to identify those entrepreneurial units that have conducted initiatives, followed by questions to give examples of entrepreneurial activities of its subsidiaries and to select a particular initiative of this (or these) subsidiary (ies). The purpose was to identify what subsidiaries to interview in the next stage, if these subsidiaries have conducted initiatives and to gather information from the HQ's perspective concerning these specific initiatives; hence, by asking subsidiaries' managers and TMT to describe these initiatives made triangulation possible.

Subsequently, they were asked to openly describe the process of the initiative from how these entrepreneurial activities emerged, how were developed and proposed, and how were the initiatives approved and supported (or not) by HQ. These questions intended to gather information regarding determinants of subsidiary initiatives, mainly of the recognition of opportunities that conducted to the initiatives implemented by the unit. Additionally, more structured follow up questions attempted to identify the role of the teams or the CEO, as well as that of the subsidiary's networks (external or internal), on the identification of the opportunities; as TMT diversity and dual embeddedness are key variables studied in this thesis. In those cases, where either the TMT or ties were identified as crucial roles in other phases of the SIP, the interviewers were encouraged to continue developing this impact in other steps of the process and to describe how was this influence. Questions regarding the approval process attempted to identify how the issue-selling process of the initiative was, and how the

subsidiary managed to obtain the HQ's support. The final part focused on the TMT and Networks, to capture the perspective of the HQ regarding the team and CEO of the subsidiary, as well as the influence of the external and internal ties of the unit.

The next stage of the interviews was conducted with the CEOs of the subsidiaries identified by the HQ. The interviews were very similar to the HQs but special emphasis was put on the identification of the team that participated in the initiative, as well as in the role on external and internal networks on the development of the initiative. More structure questions regarding the STMT were conducted, with the purpose of identifying the diversity or homogeneity of the team, and how this composition could (or not) impact the proactive behavior of the unit, and specifically of the discussed initiative; for example, questions to identify the international background and tenure of the team members. Additionally, the participants were encouraged to thoroughly described how the entrepreneurial activity was discovered, as well as the process of selling the initiative to the HQ. In those cases where the subsidiary's CEO acknowledged the importance of the team for the initiative, I asked for the possibility to interview one of the key team members on the initiative. In many cases, there was a third stage where the subsidiary team member was also interviewed. In this case, the interaction was based mainly on the SI, how was discovered, conducted and sell to the HQ; as well as deepened on the role of this and other members of the STMT as well as on the composition. Additionally, in those cases where networks were identified as key actors in the SIP, the STMT member was also asked to describe the types of ties of the subsidiary, and their role on the SIP.

In some cases, information was gathered from participants on three levels: HQ (CEO or TMT), subsidiary CEO, and STMT. When the HQ CEO had less availability, they suggested to interview first the subsidiary's CEO and the sequence of the interviews was adapted. Particular attention was put on asking

respondents to discuss the same SI in order to reduce possible bias (Eisenhardt & Bourgeois, 1988).

Table 5.3. Overview of MNC and Subsidiary Interviewees and other data sources¹⁰

MNC	Participants	Interviews		Other data sources
		Other sources		
		Date	Length	
Alpha	a. HQ CEO b. HQ Organizational Development Director c. HQ New Businesses Director d. El Salvador subsidiary CEO e. El Salvador subsidiary former CEO f. Chile subsidiary CEO	a. 19/12/16 b. 27/12/16 c. 30/01/17 d. 24/11/16 e. 27/12/16 f. 03/02/17	69 min. 57 min. 73 min. 53 min. 63 min. 95 min.	<ul style="list-style-type: none"> • Alpha web page • Alpha financial and executive annual reports • Online newspapers and business magazines
Beta	a. Corporative Finance Group Director b. Industry A HQ-CEO c. Industry A USA subsidiary CEO d. Industry A USA subsidiary TMT e. Industry A CAM subsidiary CEO f. Industry A CAM subsidiary TMT g. Industry B HQ-CEO h. Industry B Mexico subsidiary CEO i. Industry B Mexico subsidiary TMT j. Industry B Peru subsidiary CEO k. Industry B Peru subsidiary TMT	a. 02/12/16 b. 12/01/17 c. 20/01/17 d. 03/02/17 e. 20/12/16 f. 07/02/17 g. 11/01/17 h. 26/01/17 i. 08/03/17 j. 28/02/17 k. 29/03/17	84 min. 50 min. 70 min. 62 min. 105 min. 113 min. 45 min. 90 min. 130 min. 69 min. 104 min.	<ul style="list-style-type: none"> • Beta web page • Beta financial and executive annual reports • Beta public presentations • Online newspapers and business magazines
Gamma	a. HQ Export Director b. USA subsidiary CEO c. USA subsidiary TMT d. Ecuador subsidiary CEO	a. 22/02/17 b. 13/02/17 c. 21/02/17 d. 14/02/17	65 min. 95 min. 90 min. 64 min.	<ul style="list-style-type: none"> • Gamma web page • Online newspapers and business magazines
Delta	a. Colombia's CEO b. Colombia TMT c. Dominican Republic CEO	a. 06/01/17 b. 24/01/17 c. 17/02/17	45 min. 90 min. 30 min.	<ul style="list-style-type: none"> • Delta web page • Delta financial, executive and sustainability annual reports • Delta public presentations

¹⁰ Because the firms on this study accepted to participate anonymously, the punctual secondary information cannot be explicitly included.

MNC	Participants	Interviews		Other data sources
		Other sources		
		Date	Length	
				<ul style="list-style-type: none"> • Online newspapers and business magazines

5.4. The analysis of data

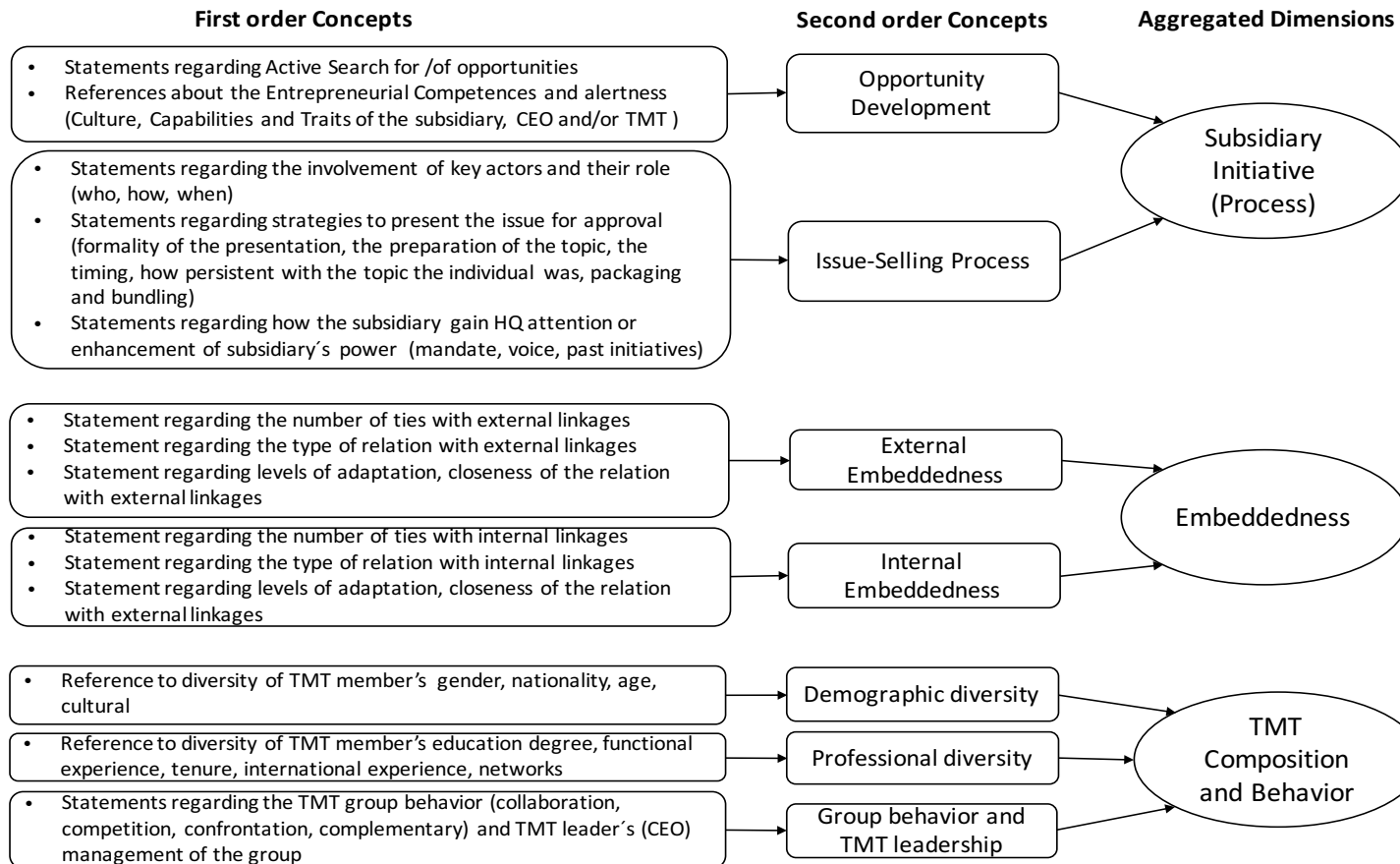
5.4.1. Data Analysis

Following Miles and Huberman's (1984) recommendation to analyze data, I focused on using diagrams and tables for data visualization and reduction. I started to analyze the participant's comments regarding subsidiary initiatives and their relationship with HQ, first studying in detail each case separately, and then followed constant comparison techniques among the participants' statements to find similarities and differences (Glaser & Strauss, 1967). I analyzed these data using an iterative process to create mutually exclusive and exhaustive categories (Gioia et al., 2013); for instance, during the data analysis comments like: "these ideation sessions are a Beta thing, they work for absolutely everything...nowadays we use them to create innovations", "additionally we had the support of an organization called B&CMA, they gave us technical support" and "...they offer different points of view...because their backgrounds are different, they do help in the construction process and the dynamics"; were emerging as the first order codes (Van Maanen, 2011).

Subsequently, following Gioia's methodology (e.g., Gioia et al., 2013; Nag & Gioia, 2012) I aggregated these codes on higher dimensions, or second-order codes, which contrary to first order codes (where I stayed close to the data) I relied on theoretical concepts from IB literature and research to create them. Finally, I assembled these second-order codes into three aggregated dimensions: Subsidiary initiative process, embeddedness and TMT composition and behavior; to create a framework from the data (Nag & Gioia,

2012). Following a peer review by two IB experts, the data structure was finally simplified into 118 first-order codes which were aggregated into 7 second-order codes and finally three aggregate dimensions, which allowed me to build the model of this thesis. Figure 5.3 shows a synthesis of the data structure, and the complete information including all statements is further analyze in the findings section.

Figure 5.3 Data structure



Source: the author

5.4.2. Findings

In this section, I will discuss the findings of this thesis, regarding the subsidiary initiative process, especially the opportunity development and issue selling, as well as the role of embeddedness and TMT in the initiative. The findings are the product of iterating the results from the in-depth analysis of interviews and the IB literature in the main topics of this work. The analysis will be conducted by the aggregated dimension found on the data structure.

A. Subsidiary Initiative Process

Subsidiary initiative was described by its main exponent as an entrepreneurial process, comprised of phases such as opportunity identification, the approval of the HQ and the commitment of resources to implement the initiative (Birkinshaw, 1997). In the process of this thesis, two phases related to the Subsidiary Initiative Process were expressed in the participants interviews: (1) Opportunity Development, and (2) Issue-selling strategies.

A.1. Opportunity development

During the analysis of this research, it became clear that two variables were key and common in the development of an opportunity: the active search for opportunities and the entrepreneurial culture and alertness either of the MNC, the subsidiary or the STMT (including their CEO).

A.1.1 Active Search for Opportunities

Most of the subsidiaries in the four MNC have an active search of opportunities in the market in common, where some differences can be found is in the reasons or motives for this search.

In the case of Alpha, two subsidiaries are recognized as very proactive in their opportunity search, by market understanding and staying alert to the markets: Peru and El Salvador . In the case of Alpha El Salvador, the subsidiary recognized a high demand of disposable packaging due to the food service

industry, and several of the competitors provided less value products than Alpha and were detrimental for the market since their price strategy was very aggressive, they found the opportunity to conduct acquisitions on some of the countries and capture the market.

“Everything started by understanding the market...when he (El Salvador´s CEO) decided to fire the person in charge of sales...he took his suitcase along with his sales force and started accompanying different people to each country” (Alpha_HQ_ODD)

“Food service demand for disposables is very big...We evaluated the market...we entered in the big buyers...the demand was there. Then, the chances to take it (the demand) were really big” (Alpha_SAL_FCEO)

In the case of Alpha Peru, the HQ highlights this subsidiary’s focus on developing new products and technologies by following trendsetters in other markets and focusing on the market. Peru is always thinking what the market needs, their success is to build from the company to the market, to stay ahead to the market needs.

“For example, it was evident that Peru was going to become a power in blueberries. Then, ¿how are these blueberries going to be pack? ¿what are the technologies? Then, Peru started to travel...” (Alpha_HQ_CEO)

In the case of Beta, the US subsidiary is recognized as the innovative one and the opportunities in this market are significant compare to those in other Latin-American countries. This subsidiary, as well as others such as Peru, demonstrates an active search for opportunities and very oriented to the market:

“There is a huge opportunity for this company if it would produce crackers...since the company was acquired we started an active research of the crackers market...we are located very central (in the US) and close to the West, and there are no companies producing crackers in the West, we found there a great opportunity...we started to

observe the crackers stands...and while visiting our clients...we asked them what their willingness to buy would be” (BetaA_USA_CEO)

“We observed that the market was growing, we could become a really big platform to sell on the LA market. We proposed to the HQ to increase the cookies plant as brownfield and become a bigger subsidiary...we are developing our exports due to a new technological opportunity...if the market is demanding we should respond...it is always from the market” (BetaB_PER_CEO)

The case of Delta is a particular case in the sense that its structure is in network, they do not have a HQ and the decisions are made in an international committee conformed by all CEOs from the subsidiaries in all countries, with the leadership of Colombia because is the oldest and most experienced subsidiary, but not a hierarchic relation. This MNC, although with a different and particular structure, also presents an active search of opportunities in the market in its units, and the core of its innovative culture is the study of the market:

“I believe we conduct the market research first hand, it is the only way we are going to find what others have not...the only thing that will allow us to be successful and different is our capacity to find something different in the consumer and this can be found in the market...because if we focus only on the guilds information, what the experts are saying, and what are the trends, everyone is seeing the same” (Delta_COL_TMT)

Regarding the different reasons why the subsidiaries develop this active search for opportunities, the participants talked about necessity, in terms of the units need to grow or to survive, which push them to stay alert and look in the market for opportunities.

In the case of Mexico, the challenging market pushes the subsidiary to an active and continuous search of opportunities, because of the competitors and the constant macroeconomic changes. The subsidiary's star product competes

in pricing, and it is based on chocolate and sugar, then when sugar taxes changed the whole business is put at risk.

“...Mexico is a business that requires more innovation...it is a market where you have to innovate more, to develop more, to be more competitive, because there are world class players, and the distribution is more demanding” (BetaB_HQ_CEO)

“we identified that something needed to be done with the product in order to increase its value and not to lose profitability...we started to make...ideation sessions...where we invite people from all areas different from marketing, because we notice that sometimes we are biased” (BetaB_MEX_TMT)

In the case of Alpha Chile, the plant was specialized in only one product and the expected results were not satisfactory for the HQ, but the country is very strategic in terms of geography and it has tradition of an open market, and the potential opportunities to grow and increase the subsidiary's role were identified and exploited when the CEO was changed:

“Chile wanting to make feasible these commercial exchanges, it started to knock everyone's doors beyond Peru... El Salvador ... México...you have things interesting for me (Chile) and that I have found opportunities on interested clients... (These countries) may have a more local perspective and are not recognizing the opportunities, come on (lets work together). And this is how all the other started, and this generated synergy and exchange opportunities (between subsidiaries)” (Alpha_HQ_ODD)

In the case of Beta, both subsidiaries Costa Rica and Mexico needed to actively search for opportunities. In the case of Costa Rica, it was crucial to make a structural change to its image or it could disappear:

“We finally recognized that if we wanted to stay here but we did not get the consumers insight and what's going on... we were going to be bombed from everywhere...; let's go the streets and get to know it... going more actively to the media was also very

helpful, when we entered the media, people started to say: Beta-Costa Rica looks old...it has not change in the last 50 years” (BetaA_CAM_CEO)

It was also evident from most of the MNC and its subsidiaries, that the active search for opportunities was not a contingent strategy or an accidental process, instead they demonstrate a systematic and they have formalization processes to conduct this search. In the case of Beta, the MNC has systematic processes in place and working along all the subsidiaries to motivate brainstorming, idea creation and innovation, they are called “ideation sessions” and are conducted by subsidiary teams regularly.

“...these ideation sessions are a Beta thing, they work for absolutely everything...nowadays we use them to create innovations” (Beta - CEO Mexico)

This formalization in the processes to systematically search for opportunities in the markets results on a significant rigor of subsidiaries market investigation and its execution along the entire MNC.

“we had three months of research work...basically in two aspects, at quantitative level the perception studies regarding the Brand as for qualitative the focus groups. Basically, we sat with teenagers, young adults and house wives” (BetaA_CAM_TMT)

Gamma also recognizes the formalization in the process of studying the market and searching opportunities, which demonstrates a systematic search instead of a passive search. In the case of the US subsidiary, the challenges imposed by this consolidated market pushes the subsidiary to higher standards and to permanently search for new projects, new products, innovative packaging, and so forth, in order to answer to market demands.

“We have been formalizing processes...first we have an exercise of market knowledge, understanding with information...an excellent source of information is precisely market research...another...is market observation...is to cross the data and

what is going on in the stores...besides we constantly go to fairs..."
(Gamma_USA_TMT)

Similarly, Gamma's HQ recognizes that a key aspect is to have contact with the market and the environment, to stay up with the latest tendencies by conducting different and rigorous strategies such as searching the market, assisting to fairs, doing benchmark with the competence, etc. They gather information from all possible sources to identify opportunities.

"We talk to our clients, we ask consumers, we conduct market research, sometimes we buy information from Nielsen, sometimes we buy information to other sources such as euromonitor" (Gamma_HQ_ED)

In the case of Delta, since this MNC has a network structure and no HQ figure, the decisions are taken by an international committee comprised by all subsidiaries' CEOs, as well as the definition of processes for the MNC operation. Colombia as the oldest subsidiary leads but has not mandate over the others. The MNC structured different networks between the functional areas of all subsidiaries which collaborate, for example the marketing departments share their research methodologies, the R&D departments share best practices, and they are either support or expansion networks, the latter when an opportunity can be expanded to other countries of the MNC.

"the way we do it in Colombia is the same way we do it in Ecuador and Dominican Republic. Our model for identifying ideas, development, publicity and approval is identical" (Delta_COL_CEO)

"we evaluate if there is an opportunity on the soup segment and if there are any variations...we observe what's going on with the consumers...our method is very rigorous in market research and consumer research techniques. Then, on the rigor of understanding food habits, we can identify opportunities, because if we understand the habits and we follow them up we can figure out simple things"
(Delta_DOMR_CEO)

A.1.2. Entrepreneurial Culture and Alertness

Different entrepreneurial competences and alertness were identified in the participants, some more related to the MNC, other to the subsidiary and other to the STMT, including their CEO. Overall, it became clear that an entrepreneurial culture was present on the participants of this research and the positive influence of this culture on the development of an opportunity.

In the case of alertness to the market it was evident that some CEO's demonstrated this capability as a personal trait, and the discovery of an opportunity is possible because this person not only screens the subsidiary's market for opportunities but also it takes advantage of any trip on any market to stay vigilant to new ideas.

"Last year I was in Central America and we saw a product...look it's amazing and when I see it I buy it in the market...it's from China...I tried and it tasted awful...but there is a capsule inside...look the toy it's amazing...it's a super idea, wonderful...we brought the idea...it's taking things that exist in the market, which gives you ideas that are completely susceptible of improving" (BetaB_MEX_CEO)

In other cases, the previous knowledge of the executive allows them to stay alert to opportunities in the market and to exploit them, because they already know the markets or because they have plenty of knowledge of the business for their tenure in the company. Such is the case of El Salvador's Alpha subsidiary, where the experience and knowledge of the previous CEO and his team, made possible several acquisitions on the region.

"We could say that the knowledge of the cultures, of the different cultures of the region...definitely that made the difference" (Alfa - CEO El Salvador)

"...there was a great opportunity, there was small competition and not a very good one...market knowledge, I had that strength for working for so long on packaging....it turned out... with the acquisition in Guatemala and two acquisitions in El Salvador" (Alpha_SAL_FCEO)

Other personal traits of the participants demonstrate an entrepreneurial culture. In the case of the CEO of the Chilean subsidiary of Alpha shows a proactive and risk taking behavior:

“I don’t like to talk about Multilatina, I prefer multinational...we are already beyond the Latin region, yea I am a little bit more ambitious” (Alpha_CHL_CEO)

While in the case of Peru, the new business director (NBD) from Alpha recognizes these same attributes on the Peruvian CEO and its team, which makes them highly innovative:

“Peru has always had an innovative spirit and it has been the risk taking subsidiary...our Peru’s partner leadership, because he is a visionary person, a person with entrepreneurial spirit, and in a way, he built a Company culture oriented to this (entrepreneurship)” (Alpha_HQ_NBD)

Other MNC have recognized an entrepreneurial culture on the subsidiary. In the particular case of Beta, the Costa Rican subsidiary is identified as a proactive unit with an entrepreneurial STMT. This can be seen both in the description of the behavior by the TMT member, but also recognized by the CEO of the HQ.

“You need an excellent team, and that’s what Beta_CAM_CEO has there, a great marketing team...another characteristic of the team is the entrepreneurial capacity to execute initiatives it has developed, which transform the brands, process and the Company, and a strong connection between of all teams, the commercial team which is sales, the product development team, and the management of a Company like Beta, so everything is synchronized and objectives are reached” (BetaA_HQ_CEO)

“When we started searching, we asked for help to social anthropologist and a clinical psychology...all of it was research...we went to the statistics and the government census” (BetaA_CAM_TMT)

In other cases, such as Beta, there is clearly a HQ mandate for entrepreneurship and innovative behavior. Several subsidiaries recognized that their proactive role or their drive to constantly look for new opportunities comes in the DNA of the MNC and permeates their subsidiary's culture.

"Innovation is a strategic objective, it is above all objectives in Beta. And it is something not only constantly promoted but when the initiatives arrive, there is room for support and they let it continue" (BetaA_USA_CEO)

"It is not from the subsidiary, it's a Group (MNC) thing, the Group promotes innovation and it has several ways to promote it...It has many methodologies that arrive to the subsidiaries and the businesses" (BetaB_PER_CEO)

Additionally, this entrepreneurial culture of Beta has formalization processes in place, which guarantees that all subsidiaries are looking for new ideas and staying alert and above the market.

"...There are in the subsidiaries successful goals of innovation that come from the Group, which includes participation mechanisms...goals of each area...creation of X ideas, in logistics X ideas..." (BetaB_PER_CEO)

In the case of Delta, although the structure of the company does not include HQ or mandate, they recognized that the company motivates innovation along all units, and it does penetrate their subsidiaries culture.

"This is an innovative subsidiary, since our organizational design establishes innovation, that's our Company's essence: innovation and new opportunity identification to grow and advance. Then, we live on it, our local teams are organized in a way that allows them to search those opportunities" (Delta_DOMR_CEO)

A.2. Initiative Issue Selling

During the process of analyzing how the initiative takes place, I found three general strategies of subsidiaries to convince the HQ to approve and support

their initiatives, which is known in the literature as the issue selling process of the initiative. The three strategies identified consist on the involvement of key actors on the initiative to gain their support and have more allies to sell the idea in the HQ; strategies regarding how the initiative is presented in order to gain support; and how the subsidiary gains HQ attention, enhances its power or develops autonomy, all of which helps in the initiative's approval.

A.2.1. Involvement of key actors and their role

During the analysis, what I found more common in the different cases was the importance of involving the HQ, either the CEO, members of TMT or functional areas; to keep them informed, to test the acceptance of the initiative, to gain feedback and to adjust the initiative to what is more expected in HQ.

“to make them part from the beginning...we include Colombian marketing for their experience...they don't define the strategy, Mexico does...but they contribute, their knowledge and experience make thins simpler, for their learned experiences” (BetaB_MEX_TMT)

“there is previous validation...when the final proposal is ready, it has had various validations through the process. Dismissing rejection possibilities...we have worked with the plants and R&D” (Gamma_USA_CEO)

This is similar for the case of the Costa Rican subsidiary in Beta, in the cookies business, with a mild difference concerning the HQ's CEO point of view. Although the subsidiary acknowledges the idea being generated by them and discussed and consolidated with the help of HQ, for the HQ's CEO there is no clear cut between the subsidiary and the HQ. For him, the communication is so fluid and constant, that the initiative is a joint effort and not necessarily the creation of the subsidiary.

“marketing (Colombia) contacts with marketing here (Costa Rica), we present them the Project, we receive input, they gave us some guidelines, finally when this went up we already had a share position and previous agreement between the different teams” (BetaA_CAM_CEO)

“there is not a separation between who does what, since we depend of a strategic unit, we plan and implement together” (BetaA_HQ_CEO)

In most of the cases the subsidiary involved the HQ in the process of the initiative, in some cases earlier in the process, in other latter, while for some subsidiaries and HQ is difficult to recognize the moment since the communication is so fluid that the project although led by the subsidiary is perceived as a joint effort.

In the case of Alpha, a recent changed is perceived, they established a new functional direction: new businesses, and the person in charged coordinates the innovation efforts of all subsidiaries to have a better knowledge sharing process. The role of the HQ’s TMT is now more active on the construction of the project and it does not limit just to approve or not the initiative. However, in the case of initiatives before 2017, the involvement of the HQ in the process is evident and important.

“To his president (in HQ), and this president contact the Company, they both explore the company’s willingness to sell...when they find a real possibility...he goes to the Board of directors, a consultant committee of the Board...they ask this committee permission to formally study the business (opportunity)...an interdisciplinary team of local and HQ people is formed...(this team) accompanies locally this country to explore (the opportunity)” (Alpha_HQ_ODD)

“from the beginning the relationship with the company’s president was very close, I reported from El Salvador to the president and it was very close, initially by telling him: I am working on this and we are going to present that, almost like selling the idea from the beginning...because he is finally the person who sells the idea, who has to go to justify it is the president” (Alpha_SAL_FCEO)

In the case of Beta and the Costa Rican subsidiary, the topic was very sensitive due to the cultural change and possible social reaction, therefore it appears that the strategy of involvement was developed at lower levels, between the

STMT and HQTMT, and when the initiative was consolidated the involvement escalated to higher levels. It is yet not clear for CAM's CEO whether this was the best strategy or not, because of the risk of keeping HQ's out of the project for most of the process, nonetheless the late involvement due to expected rejection at early stage and other selling aspects (see in next section: preparation) were determinant to guarantee approval.

"...Beta said that we should have raised our hand before, no when the Project was consolidated...but maybe it would have dye from the idea...I preferred to advance and have it well structured...but if I had to do it again maybe I would have make contact with people in Colombia earlier to gain consensus and support...although this could also increase risk of dilatation" (BetaA_CAM_CEO)

A.2.2. Strategies to present the issue for approval

According to the literature there are several strategies used by subsidiaries to present their ideas and initiatives to HQ while searching for their support and approval. Among these are the formality of the presentation, the timing, the preparation of the project, persistence in selling the activity, packaging and bundling (Dutton, Ashford, Neill & Lawrence, 2001).

In all the cases studied in this thesis, two common presentation strategies were identified as the key in selling the initiative to the HQ: the level of preparation of the project and financial aspects.

During the analysis, it was evident that **preparation** was the key determinant in some of the initiatives to gain approval and support. In the case of Alpha, preparation was the critical issue-selling strategy to convince HQ to support the initiative. El Salvador, for example, achieved support for the acquisition of a competitor's platform to close it and take the competitor's market share.

"...what set the difference regarding its credibility, influence and assertiveness was his way of selling it, he did it because of his knowledge...is a process where he and his team justified the proposal on market knowledge, by really going to the

supermarkets, grocery stores...building a simple and selling proposal"
(Alpha_HQ_ODD referring to Salvador)

In the case of the Chilean subsidiary of Alpha, when the new CEO took over after a complicated strike of workers, he identified the need to make a structural change of the subsidiary's role which required changes in its entire TMT. This team's makeover was successful and he converted its previous international team in a Chilean team, which allowed the subsidiary to work with a better understanding of the market and the potential to grow in other parts of the continent.

"I did not have resistance...when you propose a Project, an idea, a concept, you do it with foundation...the analysis and argumentation are so strong, because I care a lot about the justification" (Alpha_CHL_CEO)

In the case of Beta, the Costa Rican subsidiary in the biscuits business, it was clear from both the unit's and the HQ's perspective that the key factor of approval and support was the preparation of the proposal. The initiative was prepared during almost two months, research with professional from several disciplines, as well as intense contact with the market.

"the main factor was the confidence of having exhausted all issues, we had covered all risks and contingencies, we were very prepared" (BetaA_CAM_CEO)

"the research about the family profile on Costa Rica, that was the key element that achieved approval. Without that, the campaign would have not been approved"
(BetaA_HQ_CEO)

In Delta is also recognized that a well-structured, justified, and prepared initiative is important for the approval of the initiative.

"to present it with good facts and data, with rational and good arguments...the opportunity must be well justified, how we can capitalize the opportunity and the non-returning investment must be justified" (Delta_DOMR_CEO)

The second strong critical presentation are the **financial reasons**. In several cases, what is critical is the financial profitability of the project. In the case of Alpha, the CEO recognizes that the past results of a subsidiary are important, but they try to establish an objective evaluation system that allows them to support the strongest initiative in financial terms.

“the subsidiaries track weights...it is crucial to analyze case by case, because sometime you get carried away with the track records...to be guided by a process, with the appropriate methodological rigor, conduct the entire follow up not to get too confident...I have to be very strict in my evaluation process and this is how we have managed, and we have opportunities in the market right now and we want to make sure that we have a lot of rigor on their evaluation” (Alpha_HQ_CEO)

This is also confirmed by one of his TMT members, the Organizational Development Director, that acknowledges this objective role of their president.

“the president thinks, if I were an investor, which subsidiary generates more profitability? ¿which one gives me more ROI?, then I reward that one without sending a message of punishment to the others” (Alpha_HQ_ODD)

Additionally, the subsidiaries also perceived that the financial aspects are essential for the approval of their proposals. El Salvador for example, had a strong proposal with the right numbers and the timing for investment was perfect.

“the presentation to the Board was very formal...it went to the Board with all the results, with the projection of the numbers and the firm’s financial results...the financial strength (MNC’s) that allowed Alpha and El Salvador to get in debt...there was not too much risks. I believe the opportunities were higher than the risks---it was very well sold by the former CEO” (Alpha_SAL_CEO)

The case of the US biscuit subsidiary in Beta clearly demonstrates the importance of the financial variables in the approval of the project. The US subsidiary identified the opportunity to expand their business in this important market by entering the crackers segment, since their location allowed them to be the only producers in the East Coast and provide a demanded product with competitive advantages in terms of lower cost due to transportation savings. However, it required a significant investment since a new plant was needed. It took the STMT almost three years to get approval, since the figures did not satisfy HQ, although the opportunity was clear, the finances were not optimal. It was not approved until a space was freed in front of the initial plant, reducing significantly the costs and the project became financeable attractive for HQ.

“we did a presentation with the projects financial evaluation, the projections...they said no to the first initiative, then we refined the numbers...they said no again, the ROI took too much time...at the third time, when we found that building, and with more refined numbers, the sales potential, everything was more refined, at this time they said yes” (BetaA_USA_CEO)

In the case of Gamma, the financial variables are also key, especially because it is a family company and it is expected to have a proper balance between the short and the long term. However, not only the finances are important but also how aligned the project is to the company's strategy.

“since Gamma is a family business, today is as important as tomorrow...there are owners that need to see a green GDP every month...the first thing is to align the project/proposal to the brand development in a particular market...obviously it has to be accompanied by an important financial analysis...the profitability aspect is very important” (Gamma_USA_TMT)

“It has to be aligned to the firm's strategy in the country, it has to be a relative representative business, with the size, production efficiency in terms of volume, with future over time, profitable. Those are the elements” (Gamma_HQ_ED)

In the case of Beta, it becomes also apparent that although the finances are important, other factors excel in order to get approval. In the case of the biscuits business in the US subsidiary other variables also counted, such as the possibility to grow in a new category in one of the biggest markets in the world, to capitalize the fact that the HQ had an expertise of 100 years producing crackers, to offer their current clients an expansion on the portfolio within the same supplier.

“...until we could prove all of this, the technology or the adequate solution were found, we did not get an approval. When the investment, the production costs and the price, when all of this was together and a ROA was set, it was then when it was approved” (BetaA_USA_TMT)

For Beta Costa Rica, this strategic alignment and coherence played a crucial role in favor of the initiative. The brand needed a structural change and all the research led to a new definition of family, taking a diversity approach and understanding that nowadays families are diverse and this was an opportunity to appeal to these different types of families with a traditional product. However, this is still a polemic issue in Latin American countries and the MNC was afraid of the impact it could have. The subsidiary appealed to internal coherence since the topic of human rights and diversity was promoted since last year within company employees, and there was no reason to have a different perspective towards the market.

“by that time the firm was launching the human rights program to all the firm’s employees, where topics such as respect for diversity and inclusion was being discussed. Then, it was walk the talk, if we are saying that we are a diverse and inclusive firm...you can’t change the communication to please everyone, we had to be consequent with the firm’s human rights policy” (BetaA_CAM_TMT)

Albeit the preparation of the initiative and its financial variables are the common strategies to present and sell an issue in the analyzed cases, other variables such as strategic alignment were found important.

A.2.3. Subsidiary power, HQ attention and autonomy

After analyzing the cases, a third group of determinants for selling an initiative to HQ were identified, the level of trust of the subsidiary, the subsidiary's autonomy, and the HQ attention gain by the subsidiary. Although this last one has been discussed in the literature as either allocated by the HQ, earned according to the subsidiary's voice in the MNE, through power via external relationships, internal contact, subsidiary's reputation, and/or subsidiary capabilities; in the cases studied it was evident and common the attention gained because of the capabilities of the subsidiary.

In the case of Alpha, the trust on the CEO of El Salvador was evident and considered by the HQ, and both the former and current CEOs of the unit, as a key variable to get approval for the initiative to buy a plant in Central America. From the HQ perspective, the results of the CEO are the reason for this trust.

“that man is absolutely profitable, everything he touches turn into gold. This team has been given the opportunity to continue growing...because of his results, because when he says I am going to make 100 he does 100; and when he says I am going to make 95 because of these circumstances, he is telling the truth” (Alpha_HQ_ODD referring to Salvador)

In the case of the current and former CEO of El Salvador's subsidiary, the trust is derived from the tenure of the former CEO and its experience not only in the industry but in the company.

“I had an advantage, since I worked for so much in packaging, I went through all packages, the value of knowledge helps. He trusted me from the beginning (HQ's CEO) and we built a great relationship” (Alpha_SAL_FCEO)

“our results were showing that Central America was a profitable market and I would have had that also the trust on the former CEO here (El Salvador), a person that had already 40 years of experience in Alpha packaging, and who had been a CEO on

different packaging plants in Colombia...Definitely the good results, that gave practically blind trust on what was being proposed” (Alpha_SAL_CEO)

In the case of Gamma and Delta is also clear that the CEO’s trust or the results of the subsidiary are important for their credibility and support.

“you give the person the value regarding the history behind, if it is someone with proven successes or with a trajectory, there is probably more disposition to listen him/her than the ideas of a person that may have not given substantial results” (Gamma_USA_TMT)

“it is not the same to invest on subsidiary that generates profitability than in one that generates profit. Past success determines the future success probability, and this influences the decision...this is one of the most profitable subsidiaries, that has contributed more. And this makes us believe more that it going to be successful” (Delta_DOMR_CEO)

While other MNC take into account the trust on the CEO or the subsidiary only when there are scarce resources and not all initiatives can be supported.

“a successful subsidiary, with a great transformation capacity, that has demonstrated numbers, with a relevant growth, that has put its capacities to the MNC’s services; it has priority, at least in terms of trust...but there is not discrimination...when there are no resources the previous elements are used to prioritize, and when there are resources, they are share between all” (BetaA_HQ_CEO)

Another determinant for getting approval and support from HQ is the level of attention that the subsidiary gains from the parent Company. In the cases studied, I found that this attention was achieved due to the capabilities of the subsidiary. In the case of the Peruvian subsidiary in Beta, in the chocolate business, the essential capabilities of the unit are the technology. This subsidiary is the only one in the MNC that has several plants that produce different products in the same country, and the complementarity of technologies allows them to occupy a privileged position in the MNC.

“this subsidiary has complementing technologies that the MNC does not have in other geographies (sister units)...the distribution network, this firm had since 10 years ago more than 60.000 clients...strong brands in the Peruvian market” (BetaB_PER_CEO)

While in the case of Gamma US, both the CEO and the TMT member recognized that the particularities of this market gives them a privileged position and freedom to take risks and innovate. On the contrary, the rest of the subsidiaries are seen as implementers and not in this strategic position.

“at the beginning we were afraid and they had a lot of preventions, but also the level of changes we proposed were smaller. Nowadays we are more radical, because we make products were we already have a lot of market” (Gamma_USA_CEO)

“we have some sort of freedom given by the presidency, in developing these type of concepts, this even comes from the presidency’s vision...Colombia was almost the center of the world...US has help us to innovate for the world and then implement in other markets...an idea is developed, tested and adapted” (Gamma_USA_TMT)

The third determinant identified on this category for selling an issue was Autonomy, which was granted to the subsidiary either by mandate or because of its results. In the case of Beta, autonomy is part of the MNC’s DNA, they have a moto that was mentioned almost by all participants of this company “autonomy with strategic coherence” and it is perceived by the interviews as being implemented throughout the entire MNC. There are general guidelines, but since each acquisition is characterized by a healthy company with a strong local team, the MNC respects the acquired subsidiary’s history of doing things and their knowledge from the country and the market, hence providing significant autonomy within the MNC’s main principles.

“other MNC are super standardized and super political, as they are global brands...their autonomy is the extension of thus box where all brand tools already

come, in the case of Beta, there is nothing in this box, we have to create it, we have to really try, this gives an enormous level of autonomy” (BetaA_CAM_TMT)

“there is a magic...the independence and autonomy that we have here to make things, there are some things that I don’t ask too much, because when you ask too much things complicated...I think of it as the role in this directing positions, a role of risk, you need to risk thins, measured risks, I am not going to take a risk that compromises the firm...there are some innovations that require too much investment, then I do knock on the doors” (BetaB_MEX_CEO)

In the other MNCs studied, subsidiaries’ autonomy was recognized although not as a clear mandate as in Beta. Instead, the autonomy is perceived as a necessity in order to function in each unit according to the culture of the country. In the case of Alpha, the key for autonomy appears to be the executives’ profile and its accountability.

“we look for senior managers, they have to answer to absolutely everything that happens in the country and they have a lot of freedom” (Alpha_HQ_CEO)

In the case of Gamma, the CEO of Ecuador recognized the autonomy of the subsidiaries and how this may influence the approval of the initiatives.

“there are clear guidelines...we are very autonomous and we can be very creative...the approval processes are very quick, in our case our boss gives us total freedom. For example, my boss has never come to Ecuador. We have proved that we work by ourselves, we get a lot of freedom, always respecting the firm’s guidelines” (Gamma_ECU_CEO)

While Delta for its network structure acknowledges as natural the autonomy, since there is no HQ or central mandate, but a common construction of norms; then, each subsidiary is autonomous and it can learn from its peers but the decisions are based on what is best for its country.

“each operation (foreign unit) has strategic independence, each looks in the list of opportunities in the different countries, in the brands others have launched, and local operations identify local opportunities and decide what the most strategic is in each case” (Delta_COL_CEO)

B. Embeddedness

Embeddedness from a network perspective studies a company's relations to business partners, such as customers and suppliers, and other partners for example institutions and government (Andersson et al., 2002). These relationships are measured as weak ties or arms-length characterized by relations between customers/suppliers based on economic considerations, when only economic transactions occur and there is no reciprocity between the partners; and embedded ties, when the relationships are long-lasting relationships and partners adapt to each (Andersson, 1999; Andersson & Forsgren, 1996; Uzzi, 1997). Subsidiaries are embedded in both, an external network and an internal network, in the host countries by local customers, suppliers, competitors, government, and so on, and within the MNC by HQ and other sister units (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987). These networks have an impact on the SIP and during this study both external and internal embeddedness were identified.

B.1. External embeddedness

External relations and their role on the subsidiaries were identified in the interviews conducted, different types of relations were recognized, as well as how close these relations are and how and when they impacted the subsidiary. During the analysis of the participants' responses, it became clear that customers as an external tie can be troublesome in the types of companies analyzed, mostly consumer goods industry, since the customers are not their immediate client but distributors. The companies have not direct contact or close relation to the final customer; therefore, when talking about clients I will be referring to their distributors and EE to customer will not be considered in this study.

One of the identified patterns in external relations is the contact with governments or institutions, which are primarily described as essential for establishing the subsidiary in those countries or to guarantee its operation. In the case of Alpha, HQ recognizes the importance of the relations with the Ecuadorian government and institutions to understand regulations and the way of doing business.

“the first thing that happened in Ecuador was the building of external ties...to understand...how we had to land there, what type or relation this firm had to build with the Governor, the Major, the regulatory institutions. It was complex to understand how these external ties contributed to a more stabilized operation” (Alpha_HQ_ODD)

In the case of Salvador’s subsidiary, the former CEO acknowledges the crucial role of the governmental institutions to understand the laws, changes and opportunities. Since Alpha affirms that their CEO’s are well prepared and professionally consolidated, they are the MNC’s representation in important spaces such as embassies; and this role was crucial for the Salvadorian subsidiary.

“to get involved with the guilds...to show the firm’s philosophy...we earned a spot there...to look for close relations with consulates and embassies, I became good friend with the consul...when there were laws, forums, for example norms that were going to be changed...the closeness with these institutions is key, not to get involved in politics...but to stay informed and contribute in aspects that could affect us” (Alpha_SAL_FCEO)

In the case of Beta US, in the business of biscuits, the relationships with the government and guilds was fundamental in the pursuit of entering the market of crackers. In the case of the relations with the government, the STMT learned that US government supports new investments up to 15% if they generate employment. This financial support was key to achieving the selling numbers of the initiative and get approval from HQ.

“we learned here in the US...that the government supports significantly the R&D initiatives. They supported us with 15% of the investment, in return they ask for employment creation” (BetaA_USA_CEO)

Although the HQ had over 100 years of experience producing crackers, the type of crackers in the US was different, and through the connections in Biscuit & Cracker Manufacturers' Association (B&CMA), Beta US managed to develop a successful cracker and even have an impact on this market, challenging older competitors. Hence, the subsidiary's ties with the B&CMA allowed them to effectively enter this new market.

“...additionally, we had the support of an organization called B&CMA, they gave us technical support for the development of the formula, based on the way crackers were done in the US” (BetaA_USA_CEO)

Other companies perceived the role of governmental ties as non-existent, they described their relation as respectful of the law and authorities, but stated that they are focused mainly on the market or the clients.

“the responsible for answering and guarantying a good relationship with local suppliers are notified (of this responsibility)...We don't involve a lot external PR or sophisticated strategies. We manage a low profile, very focused on the market” (Gamma_HQ_ED)

“We get involved with our consumer, with our distribution channels...we don't get there through networks, neither by politics or anything else” (Delta_COL_TMT)

Regarding competitors, this relation was harder to distinguish in the interviews, since almost all participants answered with prevention. Their answers were textbook answer: we respect the laws of the country, we play by the book, we study the competitors from outside, and we don't engage in relations with the competition. However, the former CEO of El Salvador -Alpha, recognized that he had a previous relation with the competition and this was crucial to conduct the acquisition.

“I already had some contact (with the competition to whom he wanted to buy the firms), we met several times...it was a really fast negotiation” (Alpha_SAL_FCEO)

In the case of suppliers, the participants described this relationship as allies. In the case of Alpha and its subsidiary in El Salvador, the Colombian suppliers were in many cases the same as the potential suppliers in El Salvador. Then, the subsidiary capitalized the relations in Colombia to build this network in the subsidiary's country.

“El Salvador, although such a small country has treaties with all the everyone, there are tariff exceptions in many things, all those contacts that we had with suppliers here (Colombia), we could make them there (El Salvador), we were the naughty boys because we imported from everywhere” (Alpha_SAL_FCEO)

Moreover, in Chile is admitted the importance of this relation that should be characterized by trust and closeness; hence, showing interdependence between these actors.

“you should have a trustworthy and close relation with the client...you have to be next to him. You have to bring the suppliers close, you have to make them part of your chain, make them feel important...try to work with loyalty with both clients and suppliers” (Alpha_CHL_CEO)

While in the US subsidiary of Beta, the role of the suppliers allowed them to create the new line, to the point of calling the initiative a joint effort.

“we did the project with almost all American suppliers, we found in this company some suppliers with whom we had never worked before, and next to them we saw how the product line should be developed...it was a joint creation with them” (BetaA_USA_CEO)

Concerning the ties with customers, as stated above, in the cases analyzed in this thesis the final customer is not directly related to the MNC, in these cases the customers are the distributors and sometimes called clients, which are diverse in their nature. The clients can vary according to the distribution

channel, for example retail or brokers. In the case of Alpha Peru, the HQ highlights the subsidiary's relations to distributors as a key aspect for their outstanding role on the MNC, which was strategically constructed and it is characterized by loyalty.

"a big secret is the relationship with the distributors, since he decided not to go with big firms, but with small firms that are growing through the time with the Peruvian unit. The loyalty there is impressive" (Alpha_HQ_CEO)

Moreover, in the case of Beta US, the role of the CEOs and Commercial manager with the distributors, allowed them to identify the opportunity to expand the market from only cookies to also crackers.

"I think his experience (former owner and first CEO with Beta), a lifetime of selling crackers in the US...with strong ties in retail distribution...and a sales person, the sales CEO...that worked with the former owner and now with us. I believe these two people with their contacts, with their everyday talks with the clients, are who started to recognize this opportunity" (BetaA_USA_TMT)

Gamma in US also recognizes the important role of the buyers, but they described that is not in the formal encounters but in the informal ones where they can benefit more from these relations. The TMT member believes that the ideas can come from observation of the buyers, their reactions, their side comments; since they may be less self-conscious in these moments than in the formal conversation.

"the informal conversations...between lines, gestural communication, understanding better when something bothers or favors...when you met with them (buyers) or with suppliers to discuss a business idea, it surges more from the side comments than from the conversation per se...it may not be the main source, but if you have built the idea from observation and numbers, you can share it to refine it or reject it" (Gamma_USA_TMT)

In the case of Ecuador, also in Gamma, the CEO identifies the role of distributors as important during the implementation of their ideas. He recognizes that ideas come from within the firm and their ability to read the market, but it is thanks to the distributors that they can put them in execution.

“in the implementation, they (distributors) allow us to do the things, in the creation is more of an internal process, but the information or creation is there in the point of sale (final customer)” (Gamma_ECU_CEO)

B.2. Internal embeddedness

Internal relations between the subsidiary and its HQ or sister units was identified in the interviews conducted, as well as how it impacted the subsidiary and its initiatives. Differences between the origin of the relation was identified, such as IE promoted by HQ vs IE searched by the subsidiary. In the case of Alpha, the participants stated a change in these relations between the subsidiaries, with the latest CEO of HQ more cohesion and closeness was evident. For El Salvador, the relation with sister units is stronger now because is promoted by HQ.

“(the relation subsidiary-subsidiary) is nowadays better. It depends on the administration. I feel that (HQ)...is giving more spaces and communication. Information between unit and unit flows more, and there is also more knowledge regarding what each subsidiary is doing concerning innovation, and this is shared with the others” (Alpha_SAL_CEO)

In the case of Beta, there is a clear process with formalization to achieve IE between the sister units: business rounds. HQ organize twice a year business rounds in Colombia as a strategy to coordinate all operations, and all international key actors are invited to listen to what’s happening in Colombia as well as to share what’s happening in their countries. Several subsidiary’s CEOs from Beta recognized this as an ideal opportunity to learn from others, to demonstrate their innovations, and to begin doing business with their peers.

“the second important element to coordinate national and international operations are the business rounds...some take place in the first semester and the other in the second semester. We bring people from all international business, as well as local people essential for this. In these rounds we plan, we share information from here (HQ) to other geographies. They (foreign units) bring their next year plans, marketing strategy or their results, and the international cooperation is somehow coordinated”
(Beta_HQ_CFD)

The CEO from Costa Rica identifies these spaces as a starting point to connect with other subsidiaries and begin to work together.

“it is presented in 10 minutes, this is what we did in Central America, this is how it was handled and these are the results, this is the initiative, the initiative is handed over and it is the unit’s CEO who has to contact me to see who or which teams should be contacted...hey I want to contact Peru’s marketing, then I connect the with Costa Rica to get them talking“ (BetaA_CAM_CEO)

Moreover, other formal mechanisms were described by the CEO of Peru regarding the promotion of IE between subsidiaries by the MNC, which are an important tool in the decision-making process of the MNC, such as the decision to specialize or import.

“we have a competitive matrix that is permanently reviewed to see which subsidiary produces better W or Y product, and to decide where the product is produce, how is exported, and to generate learning from other subsidiaries...a not so formal communication with HQ, but mostly permanent with other subsidiaries”
(BetaB_PER_CEO)

In the case of Delta, their network and decentralized structure, this exchange is conducted in the international committees, which as explained above are coordinated by Colombia, not with authority but because of seniority. Since there is no HQ, these committees are crucial for the MNC as learning mechanisms between all subsidiaries.

“international committees, the Colombian CEO coordinates these committees, but they are knowledge networks...the first day Colombia presents the cases, and the other day and a half the cases of other countries, and everyone is present, listening, learning, participating and takes ideas from everywhere” (Delta_COL_CEO)

Other recurrent form of IE while analyzing the interviews was between the HQ and the subsidiary's CEO. In the case of Alpha's CEO in HQ and its relationship with El Salvador's CEO, one of the HQTMT members recognizes that this close and trustworthy relation allows the unit's CEO to take risk and innovate.

“his relationship with the CEO, because it is a relationship with trust, it is honest and continuous. There is nothing hidden, that allows this person (El Salvador's CEO) to be trusted, to get the trust to explore, to take risks, to understand and dream together” (Alpha_HQ_ODD referring to Salvador)

In the case of Beta, these internal relationships are also promoted by the continuous visit from HQ to each subsidiary, which constitutes an occasion to work together, and in some cases, also to get approval from some subsidiary's ideas.

“the relationship between the subsidiary and the HQ is very close...(the CEO of the business) comes every three months, he is here sharing with the people, there is closeness with the people, and he board which includes the CEO...come once a year” (BetaA_USA_CEO)

But not all mechanisms are face-to-face, in the case of Gamma the CEO of Ecuador stated that there is constant communication via skype or telephone with HQ's TMT, and monthly reports are sent to HQ where there is an important emphasis on achievements that could also be translated to other subsidiaries of the MNC.

“we send a report every month...when we sent the report X we emphasized on the success of this activity...there is a permanent communication with the Colombian

marketing team. We don't work as an island, we inform everything"
(Gamma_ECU_CEO)

Other type of internal relations identified was searched from the subsidiaries towards the HQ, and particularly to the TMT, looking for help and support on the development of new ideas, projects or initiatives. For the CEO of Costa Rica, in Beta, the opportunity to have face-to-face contact in Colombia allows the processes to go faster; hence, for example the marketing team in HQ has more opportunities to discuss ideas with the CEO or other TMT members than the marketing team of the subsidiary. Then, building relations between the subsidiary's marketing team and the HQ's marketing team to work on the initiatives is strategic and motivated by the subsidiary.

"finally, the closeness here (in Colombia) with the HQ, with the people, the presidents is different to the one we have in the subsidiary...in the spaces they have, not only formal but informal conversations emerge...these conversations help a lot, in this case between the marketing manager and the president, which I knew of...the one who inform us about the inquiries was the marketing manager not the president, and we were adjusting the project" (BetaA_CAM_CEO)

This joint work between the two teams was also evident for the HQ's CEO, who acknowledges that the Costa Rican initiative was built between these teams.

"this process results from a relation between CAM's marketing director and the biscuits marketing director in Medellin...there is a Brand manager, who is the marketing director in Colombia, between the two of them are nurturing the proposals, which are taken to the business presidency where the initiatives are approve"
(BetaA_HQ_CEO)

In other cases, this gap on the face-to-face relations is mitigated by decision such as having part of the subsidiary's team working in HQ. This is the case of Gamma, because everything is produce in Colombia for the foreign units, the marketing team is located in HQ to have constant and pertinent communication

with the different marketing teams of the businesses in Gamma. The geographic closeness in this case promotes even more the IE between the unit and HQ.

“everything is invented within the businesses, nothing is created outside, the US marketing manager is here, he works as a team with the other managers, with each business marketing team” (Gamma_HQ_ED)

However, the marketing manager from the US subsidiary in Gamma believes that there is still a gap on the relations between subsidiaries, and this is an opportunity to explore a more synergic work.

“we have a great opportunity to improve. Sometimes we lose synergies from ideas that we can share and adapt...there is not a formalized process...we have shared some things...but there is not a scenario where my team presents things, there is an important improvement opportunity” (Gamma_USA_TMT)

But the relations are not a static phenomenon, in the case of Beta albeit they have formal processes or strategies to achieve embeddedness between the units and with HQ, they are also evolving towards a more synergic structure. Previously each business, e.g. biscuits and chocolates, had their own CEO on a foreign country and they worked independently under a business system; now, they have created regional managers that oversee all the businesses in a region and attempt to conduct collaborative projects to optimize resources. Then, Beta is expected to have closer internal relations than before and it would be interesting to further follow the results of this structural change.

“We worked with presidents in each business... regional managers are emerging...until now each business has its own international area and manages its foreign operations...the transversal regional manager...has country responsibility, it responds for all businesses...for opportunity development, it is a broader vision” (Beta_HQ_CFD)

In the case of Delta, because of its structure, the IE is almost a given, since the construction of processes is done together between the CEO's and TMT of all subsidiaries.

"Sharing, strategic cohesion and operative synergy. We achieve it by the hierarchy and it arrives to the president...then we had a company common strategy"
(Delta_DOMR_CEO)

Delta has also formal procedures in place that promote these internal relationships and a joint work, they are called knowledge networks. These networks, as previously explained, are from functional areas and they share best practices and ideas; promoting not only closed relationships but also knowledge transfer between the units.

"we found a great opportunity of a lighter model....we implemented that idea from Colombia in Ecuador...we saw that idea in a knowledge network...it was because of these knowledge networks that Colombia identified the opportunity and took it to Ecuador" (Delta_COL_CEO)

C. TMT Composition and Behavior

There are different measures of TMT composition, where most literature is searching for the impact either of a homogeneous or heterogeneous team on firm variables such as performance. In this study, I could identify two types of diversity and patterns in the behavior of the group and its leader, that have an impact on the subsidiary.

C.1. Demographic diversity

The participants on this thesis mentioned the following demographic aspects in the composition of the subsidiary's TMT: nationality, age and culture.

In terms of nationality, there was not a unique clear pattern between the studied cases, except from the fact that the CEO is in most cases Colombian or comes

from a long tenure in HQ; hence it perceived that the CEO knows either the country of origin or the MNC's culture. Nonetheless, in several cases the preference for having locals is growing.

The US CEO in Gamma recognizes the increasing necessity to have more local staff, although in lower levels than TMT such as in the marketing or sales force. Although the TMT is Colombian, they are aware of the importance of local talent capable of understanding the context and the culture.

“what we see today is, every time we penetrate more the markets, we need more locals...trade marketing is done here and, lives here and has this country's habits. The more we increase the sales team, it happens the same, before the sales team we could have Latins the bigger our market the higher the need of the profile, it has to be an American that talks the American market” (Gamma_USA_CEO)

In the case of Alpha, the Mexican subsidiary has a Colombian CEO who faces the challenge to work with Mexicans and integrate them to the MNC but understanding and balancing the Mexican culture. To achieve this challenge, HQ supported the CEO through formation processes with teams from HQ working along with them in Mexico.

“This team...of Mexico is also in training, we have sent many people from Colombia as a strategy to expose them to new challenges, with more responsibility...that leader is also in that process (training). In a different country, with a cultural mix of Colombians and Mexicans, with a complex population base. Because mobilizing the Mexicans is not easy...then this person has the challenge of his life” (Alpha_HQ_ODD)

Beta, as mentioned before, acquires strong companies as its subsidiaries; then, as in most MNC the CEO remains Colombian but the rest of the team stays the same, because one of the reasons for buying the company is its human talent.

“The group has been clear on his model to get to the markets: the strategic autonomy of the operations (subsidiaries), the operations direction are mainly in charge of a Colombian, but the rest of the people remains unchanged. Then, most of the people working on the operations are locals that came with the acquisition” (BetaA_USA_CEO)

Nonetheless, in the case of Costa Rica one of the acquisitions kept the previous owner as CEO, and some the perception from member of other businesses in this country is not very positive.

“...we are sister companies but at the end we behave like strangers, and one of the reason is that the general manager has been here for 30 years, and why is he going to change now, if it has worked for him all his life to be independent and autonomous” (BetaA_CAM_TMT)

The case of Delta is less rigid in terms of the CEO's nationality, since they acknowledged that most of the time the CEO is Colombian but when the person has a long tenure in the MNC, working on the subsidiary, and embedded in its culture, this individual can also be the CEO of a foreign unit.

“In general, they are Colombian, if someone from other country has worked for several years in Delta, to have the culture...and market knowledge, he can do it. For example, in Mexico there are two marketing directors, one Colombian and the other Mexican. The person has been long enough in Delta, it's a part of it, is synergic, is interlocked in the Company. It's the same in Ecuador, both marketing directors are Ecuadorians, but they have worked for ten years in Delta” (Delta_COL_TMT)

Moreover, the CEO of Gamma in US also recognizes that the importance of nationality can change through time but it is essential at the beginning. Initially, having a Colombian CEO was important, during the establishment phase because of trust, credibility and closeness to the HQ's culture; as well as for the communication between HQ and the unit to make things work.

“what gives us more visibility is, obviously at the early stage my presence, but today is not so important a trusted person, instead a more a person from this market. Since we have developed a team and this team has achieved certain market knowledge, then the trust maintains...the factor here has been cultural...If the first five years an American (from the US) was in charge, probably he would have run because of all the objections, he would have not understood them” (Gamma_USA_CEO)

There was one special case in which the fact of having a Colombian CEO was detrimental for the operation, because there was a clear lack of understanding of the culture and the subsidiary faced a worker’s strike and the Colombian CEO was not capable to handle this challenge. It took a change of CEO for a local Chilean executive to stop the strike, and a later structural change of the TMT to a local one to set the overcome the crisis and become profitable.

“from the first team calibration, we realized that the commercial person did not suit. She was Colombian...in manufacture were Peruvians...but the resistance to foreigners ...today all of them are Chilean...and the turning point was done by the new commercial manager. He knew how to read the mandate. He knew how to read the Chilean market, he understood opportunities and started to materialize them through the training of his sales manager, given them a different profile” (Alpha_HQ_ODD)

Regarding age composition, there was a clearer pattern in the studied cases, since most teams are diverse and the participants recognized the importance of balancing experience individuals with younger individuals, and having new and risky ideas interact with expertise and knowledge.

In Beta, two subsidiaries discussed the varied composition of their teams in terms of ages, acknowledging the positive impact of having young people on the team and other demographic traits because it brings important aspects to the work, such as challenging questionings to the way things are done.

“(variety) in age too, the youngest of the team was C, he was 34, let’s see from the heads, I am 36, D I believe was 70, and he previous owner was around 60. There was cultural diversity, age diversity, and diverse of many things that bring interesting aspects to the table” (BetaA_USA_TMT)

“a very challenging team... very young and a team that issued some questions, that challenged me as the team’s leader. A healthy but ambitious questioning...a diverse team in terms of age, gender, background and even philosophy of live” (BetaA_CAM_CEO)

The exports director of Gamma described the progressive consolidation of the team in Chile, which had a transition from a senior team with knowledge from the market and the business, and the more the company understood the market the team was renovated and new and younger people with more energy and new ideas entered until a good balance between novelty and experience was achieved.

“we are not market experts, we don’t really know everything. If I have a young team, we are all novice. I am new and the team new, the result: failure ¿what did we do? All or most of the team, 80% was senior...this is a valid strategy but it does not last long...then it changes with time, renovating the teams and it ended up being young, middle age and older people. There is a little of everything” (Gamma_HQ_ED)

In the case of Beta Costa Rica, the type of diversity in the team that was acknowledged as important for this initiative was the diversity in the composition of the families. Since the project was oriented to recognize all types of families, this type of social diversity was reflected not only on the marketing team in charge of the campaign, but in the subsidiary this variety was also present.

“...(influence of the team diversity on the strategy) a lot. Each of them in their own family situations and all very diverse too. I think this had a lot of influence. B is same sex couple, C was recently divorced, A does not have a husband; there were in different familiar moments. Same with the directors, when we sat the first conversation

was ¿how is your family? That was one of the first questions from the team, tell me how your family is? and from them we corroborated what the anthropological studies were saying” (BetaA_CAM_CEO)

C.2. Professional diversity

Three variables concerning professional diversity were evident in the interviews: tenure, educational and functional experience, and international experience. In the case of tenure diversity, from the analysis of the cases it appears that the combination between people with long tenure or history in the company and new people with new ideas is ideal. However, in one case what appears as essential is the knowledge from the company and how embedded in the MNC the individual is; hence, preferring long tenure executives.

The CEO of the Chilean subsidiary in Alpha describes the team as diverse in their professional tenure, but not exclusively referring to experience on the company but in the labor market in general. This experience and maturity combine with less tenure and fresh ideas is the key of the team.

“we have experience and maturity...¿how do you balance experience, with energy and willingness to do things? With the right measure, between 15 and 25 years of working experience...we are three engineers and an organizational psychology on development (the longer tenure), she is our feet on the ground” (Alpha_CHL_CEO)

For the Peruvian CEO in Beta, the combination between long and short tenure provides some elements that allow to work in a fastest speed, to innovate more because of creativity, but also to take into consideration the experience.

“I believe it’s good to have not very heterogeneous teams...mixed, where experience and youth are combined, the youth proposes, is creative, seems to have no limits. But the experience...contributes...a dose of reflection, a dose of knowledge that allows...fast decision making, moved by those young people. That’s our team...not always was like that...most of them were veterans...I believe it is always

important...the mix between experience but also Young people, because they contribute speed and too much creativity” (BetaB_PER_CEO)

However, in the case of Delta what is most appreciated is the long tenure of individuals that have worked in the MNC and have past for different subsidiaries.

“most of the successful ones have been people with a professional career trained in Delta” (Delta_COL_TMT)

However, in the case of Beta Costa Rica the marketing leader perceives resistance to change in the oldest individuals in HQ, which are used to doing business one way and new ideas can be challenging.

“there is resistance, because in a Company like Beta where people have been working for many years, the rotation is low and my partners from Beta Colombia, one has been working for 18 years in the Company, the other for 15, other for 16. And suddenly, something called Beta is created and they say: this is Beta’s marketing way and this is what each of you needs to do. This generates resistance, obviously” (BetaA_CAM_TMT)

Educational and Functional diversity was found in most of the teams from the participants, who stated the positive effect of having these different perspectives in a team to bring diverse and novel ideas to the projects and the day to day work. In the case of Beta US, since many of the older TMT stayed and they have a lot of knowledge and connections, with the acquisition by Beta Colombia new people from Beta with new ideas came to conform the team, and this diversity was important for the projects they created. Additionally, the educational, functional backgrounds and professional experiences of the team involved in the initiative of the new crackers plant was varied. The team was interdisciplinary and with both experiences in Colombia and the US market, the leader of the team with a finance background, the operations director very integrated to the US culture and strong background in logistics, the sales manager with full emphasis on the market, a member of the international team

in Colombia that helped in the product development and put the global perspective, an expert on biscuits and people from R&D from HQ who helped to integrate the way of doing crackers in HQ and the subsidiary.

“There was variety within the team... in several things that bring interesting aspects to the discussion, since the way you approach a problem is very different regarding your pasta n experience, your knowledge and wisdom” (BetaA_USA_TMT)

In Beta Mexico, this diversity is strongly valued and exploit it when the innovative creation moments take place. In the “ideation sessions”, all individuals from different functional areas are invited to participate, because the CEO and marketing team consider that those are the people who bring the less predictable and novel ideas to the table.

“there is a crazy mix, then I am always challenging like, let’s talk about sales, ¿how are we doing on sales? I always tell them: of course, you are from human resources but I need you to ask questions ¿What is your question? ¿What is your concern? Tell me about the product, ¿do you like the product? Who says that you do or don’t know, on the contrary you have no bias” (BetaB_MEX_CEO)

Moreover, this functional diversity is equally recognized by the marketing member of the US subsidiary in Gamma.

“...they offer different points of view...because their backgrounds are different, the they do help in the construction process and the dynamics” (Gamma_USA_TMT)

The international background or experiences was also discussed in some interviews, in some cases the global exposure was essential while in others the experience working on other MNC was what it matter. In the case of Beta Costa Rica, the CEO searched consciously for a team with a global vision and experience in MNC.

“initially I wanted people with a global vision, not only focused on what they have done in Costa Rica but a global vision, not even regional, but I wanted them to have experience in other MNC at regional level” (BetaA_CAM_CEO)

In the case of Gamma US, although part of the team is in Colombia, mainly the marketing team, their profile is very international, they have experiences in international markets and are able to coordinate the work with teams from both locations.

“we have a marketing senior manager and a junior, both with international profile and exposure. People who have traveled, whom have had exposure to markets and such, but that live in Colombia. Mainly because they interact with production plants and with people from Colombia, so it’s important that they live in Colombia” (Gamma_USA_CEO)

However, in the case of the commercial team the preference is local. The US CEO recognizes that they have a professional experience in the US and knowledge of the culture. Then, in this case it appears that what it matters is the exposure to the US culture, more than having a broad international background.

“the permanent profile search for us focuses on people with experience and background on the position, obviously we don’t select a person for its nationality or its trajectory, but we search for people with a cultural and labor trajectory here (in Gamma)...they are 100% commercial” (Gamma_USA_CEO)

In the case of Delta, they prioritize executives that have worked for long in the MNC, this is translated in subsidiary CEO’s that have directed or worked in several subsidiaries and this has given them significant international experience.

“you find area directors that have worked on two, three of four of our subsidiaries...there are general directors that have worked in two or three

operations...¿what do they get from this? Well they continue with our formation, but they also have an additional expertise of understanding different markets, of adapting to other markets and cultures. But yes, in our international directors there are people with a lot of mobility between subsidiaries and Colombia, there are ones that after being in other subsidiaries come back to Colombia and contribute a lot” (Delta_COL_TMT)

C.3. Group behavior and TMT leadership

Along with the composition of the teams, during the analysis I found patterns in the behavior of the team as well as in the leadership of the TMT by the CEO. Regarding the behavior of the team, demonstrations of collaborative work were identified as well as trust and complementarity. In the case of Alpha, in the Peru and Chile subsidiaries, trust between the members of the team is a common trait, as well as respect for their ideas. This generates confidence and improves communication; hence, more freedom to share ideas.

“respect for each other, for each other’s work, for each other’s opinions, we are extremely respectful to each other...trust...honesty” (Alpha_CHL_CEO)

“What makes Peru like that? The trust of the team along the years and the knowledge they have of the market, as well as a culture of alertness and attentiveness” (Alpha_HQ_NBD)

In the case of Beta, HQ describes the teams as synergic and collaborative, but with a clear leadership.

“(MNC in general) are work teams, people who behave with a collective support, of give each other synergies, of a pragmatic collective work. With leadership, more than a boss...to work very coordinated. It’s a job that begins with human’s quality, gradually focalized, while the people acquired knowledge. But it is essential to start from the human beings which have a role of leaders in a team’s work” (BetaB_HQ_CEO)

In Alpha, the collaboration of the team was also mentioned, particularly in the case of Peru which is their most innovative subsidiary. Also, this team is recognized as highly curious and proactive.

“they understand each other, there is a good team, there is collaboration, there are procedures, ways to make things happen, experiments are conducted, trails are conducted, they are curious” (Alpha_HQ_NBD referring to Peru)

Complementarity was another trait found on the interviews, either because of the different backgrounds and experiences, the behavior or other characteristics of the teams that make them stronger united. In the case of Beta US, the member of the TMT acknowledges the importance of complementarity in the team to take risky but thoughtful decisions, which helped in the development of the initiative.

“C and I were the riskier. G (consultant) and the previous owner went like “hey, be careful with this”, then this mix helped us a lot in make it happen” (BetaA_USA_TMT)

As mentioned before, Mexico Beta highly values the diversity of its team, but also how they complement. The marketing team recognizes how the different areas provide creative ideas which can be the result of their functional knowledges.

“sometimes, people from all areas different to marketing are the ones with ideas...why didn't we think about that or they see it very simple...there are areas that see opportunities from their perspective, that perhaps we have not seen it because our lack of knowledge” (BetaB_MEX_TMT)

Moreover, for Mexico in Beta, the complementarity is not exclusive of the functional background or areas, but also the tenure. When new ideas are brought to the table, the older members can recall previous efforts as the one being proposed and make better decisions as how to continue with the pursue, consolidation or implementation of this project.

“I believe this is a good combination...there are moments on the market when we want to launch a new product...but instead of only chocolate we also add tropical fruits, that is us without knowing the company’s history. Then they (employees from before the acquisition) say that at the beginning of the company they figured out that those flavors are not sold there. These stories help us...we all contribute, the ones who know the history, the ones who come from Beta and the ones who come from outside. Then it is the sum of all this collective intelligence that contributes from all fronts” (BetaB_MEX_TMT)

But the team is also impacted by its leader. During the analysis of the interviews, I found the importance of the role of the CEO as the leader of the subsidiaries’ TMT. Particularly three patterns were found, the promotion of team work, the promotion of disperse entrepreneurship along the whole subsidiary and the entrepreneurial behavior of the CEO.

In the case of Beta Mexico, the CEO mentioned “collective intelligence” as the way of doing things, taking the decisions together as a team and not alone by the CEO. He even encourages and challenges the team to participate, to contradict, to feed the decision making process. Then, he expects ideas from all the subsidiary team, as disperse innovation literature proposes.

“I have always worked with our team telling them that the magic in every company resides on collective intelligence. We take the decision as a team, because I don’t believe in businesses with a leader that say what needs to be done and the rest obey. I personally challenge my team to criticize things...but constructive objections, objections with ideas. And that’s my role, challenging the team to bring ideas, sometimes you have to challenge them, but for disruptive ideas, you have to push them” (BetaB_MEX_CEO)

In the case of Gamma, the exports director from HQ stated also the importance of making all members participants in the creation of new ideas. Not only for the benefit of having more people bringing novel concepts and promoting

innovation in the entire MNC, but also as a managing style to make the individuals feel listened and valued.

“we are a Company with a model of people working close to people, very open, people participate, people give their opinion and question things, they give their ideas, it is very important because human beings feel valued when they are allowed to participate and give their opinion” (Gamma_HQ_ED)

The latest CEO of Mexico, in Alpha, was described by HQ as the one who achieve to a good balance and management style for this subsidiary. He is recognized as an entrepreneur leader, that takes controlled risks, and also motivates his team to work together.

“Mexico in about five to six years we have had three managers and today we finally found an equilibrium in the management...between the youth that takes risks and the wisdom of having past business experiences, the individual here (Mexico management) listens to all the areas and takes a team decision, but it is also balances the risks” (Alpha_HQ_ODD)

The importance of an entrepreneur leader was also stated by participants, such as the organization development director of Alpha, who praises the role of the Peruvian CEO in achieving a leader position as the most innovative subsidiary in the MNC. She distinguishes his strong leadership and entrepreneurial behavior as keys to occupy this important position on the MNC.

“with a strong leader, very visionary, very entrepreneurial, whom has help them (subsidiary’s team) to trace the road and this allowed them to build their own world” (Alpha_HQ_ODD referring to Peru)

CHAPTER 6. DISCUSSION

Subsidiary initiative literature has had a vast number of research in several aspects, such as the antecedents (Birkinshaw, 1997), however it still remains the need to better understand this phenomena and the possible enablers of a successful initiative (Schmid et al., 2014; Strutzenberger & Ambos, 2014). I have approached the question concerning why some initiatives are recognized and approved while other don't from two perspectives: the role of embeddedness and the role of the STMT. In the embeddedness literature, external and internal embeddedness have been studied regarding their impact on SI. Some authors have proposed that there is a dual impact from both types of embeddedness on the initiative, either because of their role on the information and unique resources access, which is essential for discovering opportunities (Andersson, 1999, 2003; Andersson & Forsgren, 2000; Andersson et al., 2001, 2002, 2007; Bresciani & Ferraris, 2016; Cohen & Levinthal, 1990; Lane & Lubatkin, 1998), or because of their role in HQ's support of the subsidiary's ideas and projects, by influencing the process of selling the initiative (reviewed by Scott-Kennel & Michailova, 2016). However, during this thesis I found on different cases that, not only external but also internal embeddedness, are considered key for accessing information, sharing ideas, and creating opportunities. Additionally, although there are plenty of studies that proved the positive influence of a diverse TMT on innovation or entrepreneurial activities (reviewed in Chapter 3), few studies exist regarding the role of STMT on the initiative of a subsidiary (Gong, 2006; Mu et al., 2007). In this work, most participants recognized the influence of a heterogeneous STMT on the identification of an opportunity or in the process of selling an initiative to the parent company.

When discussing with the participants how the subsidiaries identified opportunities, the most important process or strategy mentioned was market research, and in some occasions the role of external relations was mentioned. However, a strong and important role of internal relations was not expected as

essential sources of ideas and it appeared concurrently in the interviews. The participants mentioned the importance of having close relations both with HQ and their sister units, as sources of ideas and potential joint projects. Subsidiaries recognized this strengthening of relations between sister units or with HQ promoted by HQ, as a strategy to optimize resources and explore more transversal ideas. In some cases, the relation is so close that it is hard for HQ to recognize that the initiative arises in the subsidiary, but instead a clear cut between the subsidiary and HQ is not perceived. Nonetheless, the subsidiaries do recognize how the opportunity is discovered, created or recognized by subsidiary, but it is rapidly shared to members of HQ and the initiative is developed together. In some cases, there is not a formal space or process designed by HQ to achieve the synergic work between different subsidiaries in an MNC, and this is recognized by the subsidiary, for example in the case of the CEO of Gamma's subsidiary in the US who recognized it as a potential opportunity to improve. Since the studies regarding IE and SI have described its influence more in the phase of selling the idea and gaining support from HQ (Ghoshal & Bartlett, 2005; Najafi-Tavani et al., 2014), these findings are an interesting line of thought to continue exploring; because the cases studied here showed a more active role of IE in the opportunity recognition phase, perhaps even more than EE, which to my knowledge has only been proposed by Marin and Bell (2010).

Embeddedness and Opportunity Development

Contrary to expected, it appears that IE is more important to identify ideas than **external embeddedness**, since it was not clear that a strong role of external ties allowed access to unique resources and information that resulted in an initiative. There are however two clear exceptions where the role of external ties lead to identification of an opportunity. The first is the acquisition of El Salvador's plant by Alpha's subsidiary, where the former CEO's ties with competitors allowed him to identify the opportunity to buy some plants from competitors; which either by closing them or incorporating them to Alpha, would

permit them to increase their market participation by taking over the demand. The second case was the expansion of Beta's US subsidiary to the crackers market, which resulted from the previous contacts from the CEO (former owner) and later the initiative was consolidated by the contribution of other external actors, such as government and guilds. Except these two cases, the rest of the initiatives were described more as a result from actively studying the market for opportunities.

A dynamic role of external ties can be perceived in some cases along the process of the SI. In cases such as Alpha in Ecuador and El Salvador, the relationship with institutions and government is essential at the beginning, when the subsidiary is being established and it is important to understand the way of doing business in this new country. Later, in some cases relations with suppliers and competitors were important to recognize an opportunity, but what appears more important to identify new opportunities was the study of the market or market research. Most of the participants defined the processes of studying the markets as the main strategy to search for opportunities and innovations, basically the ideas came from understanding the market, knowing the consumers, sometimes creating the demand, basically understanding what the market wants or needs. As one of the TMT members in Delta Colombia recognizes, information from external sources such as guilds, is what others have access to, however, they believe that rigorous market research is the key to find opportunities others can't find. In most of the cases I could distinguish formalization in the processes of doing market research and, these processes are spread along the entire MNC as the key to identify novel ideas. Moreover, beyond external ties the innovation culture of the MNC was also identified as an important variable for subsidiaries to develop opportunities, the promotion from HQ to be creative and conduct business lead by innovation encourages subsidiaries to behave proactively and entrepreneurial. The role of external ties takes importance again in the process of consolidating and implementing the initiative. Once the opportunity is identified, the suppliers and distributors are fundamental either for developing the idea, such is the case of Beta US with

the creation of a new cracker, or implementing the initiative in the case of Gamma.

This formalization in the search for opportunities coincides with the theoretical approach that argues that an opportunity is recognized by a systematic (or active) search for available opportunities (Drucker, 1998; Herron and Sapienza, 1992). This approach differs from the Accidental discovery (or passive search) which stated that people recognized opportunities without looking for them (Kirzner, 1997), and their alertness and background allows them to capture them in the market. During the analysis of this thesis the active or systematic search for opportunities was very evident; nonetheless, there is not a clear cut between an active search and having alertness. Although the MNCs have created formalization in their processes for opportunity search, this search comes along with the background and alertness of the executives and TMT members in each subsidiary.

The case of Beta in Mexico exemplifies this idea. In the interview with the CEO, he recognizes the formalized processes of Beta to generate ideas and solve problems, such as the ideation spaces, and they are implemented in this subsidiary successfully creating new products. Nonetheless, it is also evident during the interview that the CEO has a high alertness to everything happening in the markets without specifically looking for an initiative. When he described his visit to Central America resulting on bringing a Chinese product discovered in the market and with a lot of potential to be improved and integrated in their brand, his personal traits of curiosity and his long experience in the business, allowed him to find a potential novel idea for the subsidiary. As illustrated in the case of Beta Mexico, the methodical and systemic search for opportunities is complemented with the background of the CEO as well as its personal traits, such as an entrepreneurial and proactive behavior which lead him to be alert to everything that is happening in the market. Therefore, albeit some authors have presented these two approaches as contraries (Ardichvili et al., 2003; Baron, 2006), the empirical results from this work showed a complementary

approach more aligned to authors that study the nature of alertness from a cognitive perspective (Amato, Baron, Barbieri, Belanger & Pierro, 2017; Tang, 2009; Tang, Kacmar & Busenitz, 2012), where the systemic search is accompanied by the individuals' alertness, which allows to identify the opportunity because of their backgrounds, previous contacts, past experiences, their capacity to absorb new knowledge, and so on.

As for the role of **internal embeddedness** in the recognition of an opportunity, it has been associated to innovation and performance (Monteiro et al., 2008; Vernaik et al., 2005), since it improves learning processes and motivates entrepreneurial efforts (Gnyawali et al., 2009). IE allows subsidiaries to have access to existing resources within the MNC network, and therefore being able to combine capabilities (Ciabuschi et al., 2014), by not being isolated it permits better and frequent knowledge sharing and exchanges more access (Monteiro et al., 2008). The case of Alpha's subsidiary in Chile demonstrates this influence, as after recovering from the worker's strike this subsidiary identified the need to improve its role or otherwise it could disappear. Hence, they discovered the potential to conduct business together with other sister subsidiaries. They started contacting its sister units to identify what products could be exchanged between them or what type of international clients could be attended by several subsidiaries. Chile saw the potential on the MNC to work synergically by connecting more with its peers. Although HQ is shy to recognize the impact of Chile's pressure to promote IE in search for initiatives, the interviews and the changes on the MNC certainly showed the influence of Chile in the creation of the New Businesses Direction. This new office was established to conduct innovation in a transversal manner from HQ and bringing together all subsidiaries; just as the New Business Director expressed *"...a first step that we want to take is that the subsidiaries present to the rest those successful innovation projects or those innovation process in the pipeline"*.

In the case of Beta, it is also evident how the business rounds are one of their most valuable moments to share ideas between subsidiaries and with HQ. The rounds allow them to complement each other and to discover opportunities that are working in one country and could be successful in another unit. These annual meetings are the first step to identify potential opportunities between subsidiaries, and it is latter upon them to keep in touch with their peers and develop them. Even more, in Delta with a different structure, this IE is an important aspect and it is also formalized in their knowledge networks, which are praised by the Colombian CEO as a moment where “...*everyone is there, listening, learning, participating and taking ideas from one place to the other...*”. The importance of this close relationship between subsidiaries for generation of new ideas is demonstrated in the case of Gamma, where some of the participants manifested that this is lacking in Gamma and it is a missing opportunity, such as one member of the US subsidiary stated “...*sometimes we are losing synergies of ideas that could have occurred to us or other and could be adapted or shared*”.

Embeddedness and Issue-Selling

Several determinants or processes that influence the HQ acceptance of SI are identified in the IB literature, which includes the level of attention of HQ towards a subsidiary, literature concerning HQ-subsubsidiary relationships, the power of the subsidiary within the MNC network, and the issue-selling process (Bouquet & Birkinshaw, 2008; Dutton & Ashford, 1993; Gammelgaard, 2009). During the analysis of this thesis, I could identify three groups of determinants used by the subsidiary participants to sell their initiatives to HQ and gain approval and support: involvement of actors, presentation of the proposal (preparation of initiative and financial aspects), and subsidiaries power, autonomy and attention.

One of the main determinants of initiative approval according to the participants is the preparation of the proposal or the project. Although some authors

expected activities such as lobby or close relations to play a crucial role (Bouquet & Birkinshaw, 2008; Gammelgaard, 2009), the interviews demonstrated HQ's attempted to conduct rigorous evaluation processes to determine what initiatives should be supported regardless of their past record, executives' relations with HQ, position on the network; as stated by Alpha's CEO *"it is very important to study case by case, because one can fall in love with the track record...I have to be very rigorous on my evaluation process"*. This is clear for the subsidiaries that recognized the importance of a well-structured proposal, as the CEO of Chile in Alpha stated, *"When you proposed a project, an idea, or a concept, you do it with foundations...the analysis and argumentation are so strong, because I am very concerned in arguing with foundations"*. Additionally, the importance of the projects profitability and alignment to the MNC's strategy are part of the presentation variables that influence the acceptance of the initiative.

External embeddedness as a variable that impacts the approval of an initiative has been more associated to the position these ties give to the subsidiary (Najafi-Tavani et al., 2014); however, I found a direct influence in the selling process related to the preparation of the initiative. In the case of Alpha in El Salvador, the opportunity recognized by the CEO consisted on acquisitions of competitors' plants to capture the demand of the region. But it was the previous relation of EE, Salvador's CEO with competitors and the knowledge of the market, which allowed him to consolidate a proposal of closing those acquired plants instead of continuing their operation, taking advantage of the company's reputation on the region as well as their capacity to take over the closing plants clients. In the case of Beta in the US, many external ties were crucial for the process of constructing a strong project. In one hand the guilds, that allowed the subsidiary to consolidate a team capable of building the proposal to execute the identified opportunity, *"we had the support of an entity called B&CMA (Biscuit & Cracker Manufacturer's Association), they gave us technical support for the development of the formulas based on the way crackers are made in the US"* (Beta_US_CEO). Moreover, the US government

was involved to obtain subsidies for building the plant, presenting an attractive initiative to the HQ, *“before getting approval from the MNC, the initiative was presented to the city and then the government stated their support”* (Beta_US_CEO). External embeddedness plays in these cases an important role on the preparation of the initiative, which is a crucial selling strategy identified in this thesis’s cases.

Nonetheless, other cases realizing the role of the preparation of the initiative have stated the importance of internal ties to achieve it. Even more, in some cases the preparation of the initiative is perceived as have being done jointly with HQ. In the case of Beta in the biscuits business, the CEO sees the constitution of a new project as always being done between the HQ and the subsidiary, not as a subsidiary’s process: *“the creation of new projects and processes is a joint activity...There are not significant or transforming initiatives done individually”*. In the case of US, the units also recognized the low cost structure conditions in a small and light operation, where the support of the HQ and other units is essential: *“the participation of the business is asked by us, especially in operation and production, there are many people from HQ and CAM that come and work with us...when we have big investment projects...people from maintenance, line operators come...”*. In the case of Beta CAM, the construction of the idea was supported by the marketing team in HQ, leveraging from the closeness of HQ-TMT and consolidating a selling proposal. As CAM’s CEO stated, *“the one that transmitted the concerns was not the president, but the marketing manager and we were mapping in CAM to adjust the project”*. This joint preparation is also visible in Gamma, where the Exports Director in HQ affirmed that *“everything is invented within the businesses, nothing is invented outside, the US marketing manager is here, then he works as a team with all the other managers”*.

Involvement was a selling strategy very evident in the cases, coinciding with the literature that defines this strategy as attempting to increase visibility of the issue and gain support (Dutton et al., 2001). Regarding this strategy, IE

appears to have an impact, not only due to the close relation to HQ's CEO but also for relations between the TMT of the subsidiary and the parent company. In the case of Alpha El Salvador, the close relation between the CEOs allowed the involvement of HQ in the process from the beginning, due to the recognition of the role of HQ's CEO in the approval process within the MNC, as stated by the former CEO in El Salvador, *"from the beginning the relationship with the company's president was very close ...by telling him: I am working on this...selling him the idea... because he is finally the person who sells the idea (to the board), who has to go to justify it is the president"*. In Alpha, the importance of working together became so strategic that, as mentioned before, the transversal office of New Business was created to coordinate all new initiatives or projects between the subsidiaries, the internal relations are so close that it appears as the selling process turns unnecessary, because the initiatives would be created together. As the New Business Director affirmed, *"now the corporative is not going to focus only on approving or not a financial evaluation of the project, but on actively participating in the construction of the process"*. This office is in charge of bringing together the subsidiaries, designing a common work plan and coordinate its execution.

The case of Beta is similar; however, the perception of the subsidiaries and HQ differ. Both recognized the existence of a close relationship between subsidiaries and the parent company, but one HQ's CEO does not recognized the initiative as originating in the unit, while the other appreciates a change nowadays towards a more integral work, as affirmed by the CEO of the Chocolate business, *"the previous phase was pull by the own initiative of each subsidiary, today this has changed, today there is a business in search of being more integral, more planned, more coordinated, more defined, the product strategies more unified..."*. However, the subsidiaries acknowledged the involvement of HQ in the project, in some cases building the initiative together, but the need to sell the project remained. In the case of Beta in CAM, the internal relations happened between the marketing teams from the HQ and the subsidiary. The initiative was designed jointly, sending and reviewing back and

forth the proposal, until both teams considered it was ready to present to higher levels. CAM's CEO recognizes this effort of working together, *"the networks need to be knit, not only from the CEO to the business president, but the networks need to be knit from the levels two and three of the organization"*.

Based on the discussion above regarding the relations between embeddedness and the subsidiary initiative process, the following propositions can be formulated:

P1: Internal and external embeddedness have a positive impact on the development of an opportunity phase in the subsidiary initiative process

P2: Internal and external embeddedness have a positive impact on the selling of the initiative phase in the subsidiary initiative process

TMT and Opportunity Development

Regarding a potential impact of TMT in the development of an opportunity, the findings differed according to the type of diversity discussed. In the case of nationality diversity, the Chilean subsidiary in Alpha showed that less diversity was better, since the cultural differences and a previous administration lack of understanding the country's culture lead to a significant change on the entire TMT. Contrary to the literature, where diversity in terms of nationality is expected to increase performance due to better decision making processes (Nielsen & Nielsen, 2013) and to bringing deep knowledge of each member country's culture, market and business dynamics (Gong, 2006; Sekiguchi, Bebenroth & Li, 2011). Chile went from a diverse team to a homogeneous Chilean team, achieving an enhanced capture of opportunities in the market and conducting the subsidiary to a better position on the MNC. As the CEO stated, *"Chile is starting to be relevant for the MNC..."*. The participants in Gamma also recognized, especially in the US subsidiary, that there is a transition into having more local teams with more knowledge of the market and the culture.

Several empirical studies on age heterogeneity found no evidence of a positive impact on performance variables such as innovativeness (Bantel & Jackson, 1989), strategic change (Wiersema & Bantel, 1992), international diversification (Tihanyi et al., 2000), and even negative impacts were demonstrated in the frequency of communication, which in turn affects project performance Zenger and Lawrence (1989). However, the findings in this thesis proposed a positive impact which coincides with the expectations in the aforementioned studies. In the studied cases, the participants acknowledged that most teams are diverse and they have both young and older team members, which resulted in a perfect combination of individuals behaving safely and others riskier, allowing the development of novel ideas that are well structured. Then, the younger people bring fresh ideas and challenging questions, which can nurture the team with ideas that older individuals are not aware of, but they can analyze them through more expert and knowledgeable lenses due to their seniority; managing an appropriate balance to generate innovative ideas but with more probabilities of success. As stated by the CEO of Peru in Beta *“experience contributes with a dose of contemplation...young people contribute with great speed and creativity”*.

The literature regarding the impact of functional diversity on firms is inconclusive, and some studies found positive impact on firm outcomes such as innovation (Bantel & Jackson, 1989), strategic orientation (Bantel, 1993), communications with outsiders (Ancona & Caldwell, 1992), and performance (Hambrick et al., 1996), others established a negative impact on information sharing, communication (Auh & Menguc, 2005) and competitiveness (Cannella, Park & Lee, 2008). During the analysis of this thesis I found that functional diversity was the common composition of the subsidiaries teams, but it was in 3 subsidiaries where was also mentioned functional diversity as positive attribute of a team, by bringing different perspectives to the table.

In Beta's subsidiary in Mexico and Gamma US, the positive impact was mentioned in the generation of the idea, while in Beta's US subsidiary in the development of the initiative. In the case of Mexico, they recognized the importance of the ideation session in the generation of new ideas, these sessions are interdisciplinary since all areas are invited to take advantages of different points of view. While Gamma US stated that *"they offer different points of view...because their backgrounds are different, then this helps in the construction process and the dynamics"*. In the case of Beta US, the challenges of entering the crackers market from scratch required not only a big team but also interdisciplinary, this initiative involved financial aspects, marketing, logistics, project management, technical information regarding the crackers sector. As one of the TMT members acknowledge, *"I think that the key in the development (of the initiative) was to have and interdisciplinary team. I don't think that a business like this could have been possible, if you don't have all the knowledge that overlap"*.

The inconclusive results of studies on diversity were attempted to be explained by more complex studies, which include mediation and moderation effects. The behavior of the team was one of the variables that could interact between diversity and a company's outcomes results (Hambrick et al., 2005). During the interviews, I found that collaboration and complementarity within the team was a common factor, this could explain why the participants manifested the positive relation between some types of TMT diversity and variables such as different perspectives, fresh ideas, creativity, speed; all of which are related to innovativeness.

TMT and Issue Selling

The work of Gong (2006) is one of the few works that studies the impact of STMT, and it centers on the role of its diversity in, though the members' access to knowledge and resources from both the external and internal environments. This may have an impact on the opportunity development process as it was previously analyzed. However, the impact of a diverse STMT on the process of selling the initiative is yet to be explored.

In this thesis, I found evidence that the STMT diversity may impact the process of selling an issue through the preparation of the proposal. The preparation of the initiative is one of the main determinants found in this thesis to positively impact the approval of an idea, and the role of the teams is essential for a thorough proposal. The clearest case is the initiative of the US subsidiary of Beta, where the consolidation of the proposal was complex and required the participation of a big and diverse team. A Colombian financial expert due to the high cost of the investment and his previous experience of acquisitions within this firm, a local plan manager with large knowledge from the culture and the business as well as technically strong in logistics and planning, a marketing expert, an expert on international business from Colombia, a US expert on the biscuit's industry, and a couple of executives from HQ experts on innovation, research and development. As the TMT member affirmed, *"I think that the key in the development (of the initiative) was to have an interdisciplinary team"*, which allowed the subsidiary to consolidate a proposal that although refused in several occasions, it was so well prepared that when it reached the financial optimum it received the support and approval to set a 35 million US plant.

Nonetheless, an influence of the team's diversity on the involvement of strategic actors, as well as in the enhancement of subsidiary power, HQ's attention or subsidiary's autonomy was not apparent. Then, STMT diversity seems to have a shy but positive effect on the Subsidiary Initiative Process,

both in the development of an opportunity and in the process of selling this idea to HQ and gain support and approval to implement it.

Based on the discussion above regarding the relations between the composition of the STMT and the subsidiary initiative process, the following propositions can be formulated:

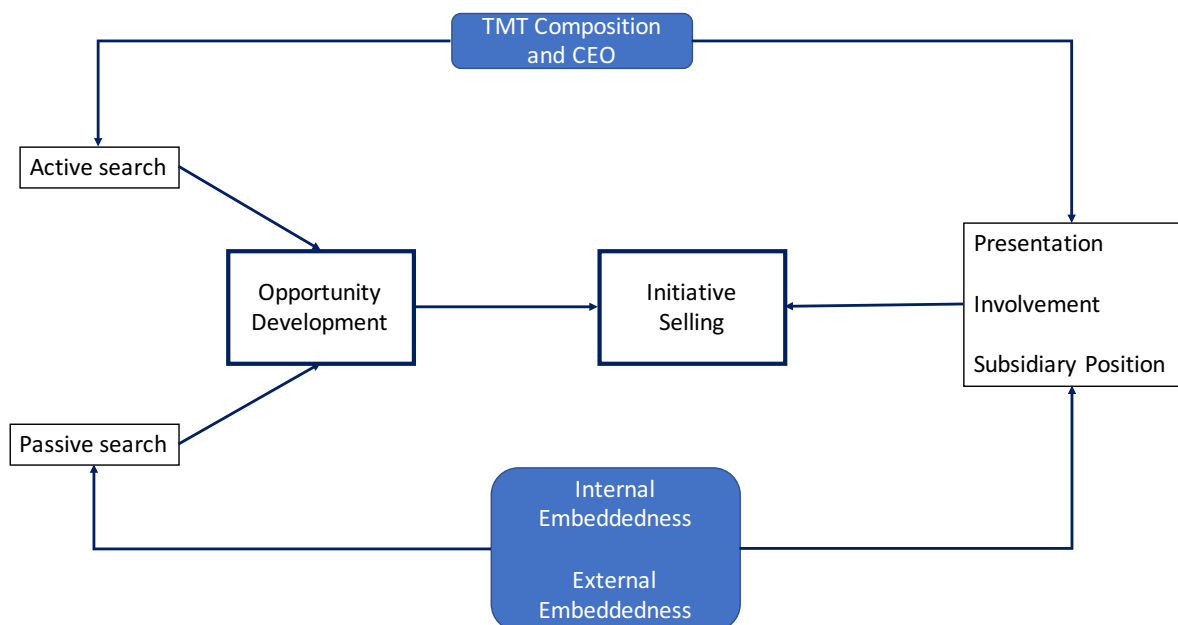
P3: The composition of the STMT, in terms of age and functional diversity, has a positive impact on the active search in the development of an opportunity

P4: The composition of the STMT, in terms of functional diversity, has a positive influence on the selling strategy: preparation of the initiative

P5: The traits of the CEO, in terms of promotion of team work, promotion of disperse entrepreneurship and the entrepreneurial behavior of the CEO have a positive influence on the Subsidiary Initiative Process

P6: The collaboration and complementarity of a diverse STMT influence positively the recognition of opportunities

Figure 6.1. STMT and dual embeddedness impact on subsidiary initiative



Source: the author

The main outcome and contribution of this work is an inductive model, that analyzes the subsidiary initiative process in a more integrated framework, including two stages of the process in this study (opportunity development and issue-selling); broadening the levels of study (CEO and TMT); as well as including several and complementing theoretical approaches to the study of SI (Upper echelon and network). The model (figure 6.1) demonstrates the impact of STMT composition and dual embeddedness on several phases of the SIP.

CHAPTER 7. CONCLUSIONS

Nowadays the role of subsidiaries goes beyond a simple implementer of Headquarters (HQ) mandate, playing a more proactive role, generating reverse knowledge flows to the HQ and developing competitive advantages for the entire MNC (Birkinshaw, Hood & Jonsson, 1998; Cantwell & Mudambi, 2005; Rugman & Verbeke, 2001; Yamin & Andersson, 2011). However, not all subsidiaries assume this proactive and entrepreneurial role, and from a HQ-subsidiary relationship perspective, external and internal embeddedness have been studied in order to understand why some subsidiaries develop initiatives while others do not. Additionally, the SIP has been studied in a fragmented manner of its phases and also focusing only on one level of actors (Schmid et al., 2014; Strutzenberger & Ambos, 2014). I am particularly interested in analyzing the role of individuals and the team level in the SI, as well as to better understand how dual embeddedness influences the entrepreneurial process of the subsidiaries.

Since the interplay between EE and IE and its impact on subsidiaries has not been extensively studied, and the results are inconclusive as some support a trade-off and others support their positive joint effect (Ciabuschi et al., 2014; Marin & Bell, 2010; Najafi-Tavani et al., 2014; Yamin & Andersson, 2011), I want to study how dual embeddedness impacts subsidiary initiatives (SI), how is the impact of embeddedness on the SIP and if it is a static or dynamic phenomenon, specifically considering the recognition of the opportunity and the selling of the initiative to the parent company.

In the case of the MNC literature, influencing factors related to the individuals or the team members have been recognized; several of these factors coincide with SI determinants. Studying both research streams, entrepreneurial and IB, I have concluded that social networks and traits of the subsidiary manager or the TMT are some of the most coincidental drivers in both areas. Moreover, the recognition of an opportunity not always leads to an initiative by the subsidiary, since many authors have recognized that the MNC's corporate

immune system could reject the initiative by considering that it is not aligned to the MNC's goals (Birkinshaw & Ridderstråle, 1999). Therefore, subsidiaries carry out issue selling strategies to communicate their initiative to the HQ and negotiate towards its approval and support. Additionally, selling an issue would have a greater impact on SI if the subsidiary were internally embedded in the MNC (Figueiredo, 2011; Meyer et al., 2011).

Since only few studies focus on the subsidiary TMT (Gong, 2006; Mu et al., 2007), and they appear to influence the SIP, I believe this composition can impact several phases of the SIP, and needs to be further studied. Moreover, I expect dual embeddedness and TMT composition to be related and have a joint impact on the SIP.

7.1. The impact of embeddedness on SIP

Subsidiaries are externally embedded in the host country and internally embedded in the MNC (Ghoshal & Bartlett, 1990; Prahalad & Doz, 1987), both types of embeddedness have been recognized to have an impact on subsidiaries, particularly on subsidiary initiatives. However, the results regarding this impact are inconclusive, since some authors find an impact only of EE or IE, while other find a positive impact of both embeddedness, dual embeddedness, and other authors a negative impact (reviewed in chapter IV). Most of the studies on dual embeddedness recognize the influence of EE on the access to knowledge and information in the host country which is related to the opportunity development phase of the SIP (Achcaoucaou et al., 2014; Ciabuschi et al., 2014) and the influence of IE on the subsidiary gaining more influence or bargaining power which impacts the issue-selling stage (Achcaoucaou et al., 2014; Najafi-Tavani et al., 2014). However, in this thesis I found a positive impact not only both types of embeddedness, but also an impact on both phases of SIP analyzed.

In the case of external embeddedness, the role of the external ties in the recognition of an opportunity was expected to be high; however, it was present

in a few cases as the common strategy in most firms was an active search for available opportunities through market research (Drucker, 1998; Herron & Sapienza, 1992). However, some external ties can be important for these market research, such as distributor which are a central actor to gather information about the market, as Gamma's exports director recognized "*We talk to our clients, we ask consumers, we conduct market research, sometimes we buy information from Nielsen, sometimes we buy information to other sources such as euromonitor*". Though the MNCs have developed formalization in their processes for opportunity search, this is accompanied by the background and alertness of the executives and TMT members in each subsidiary. Therefore, the composition of the TMT and CEO have an impact also on the recognition of an opportunity but in a passive way due to the alertness of these actors. Moreover, the role of EE on the selling of an initiative to gain acceptance was not expected, but since this study examined different forms of issue-selling separately, I was able to capture the influence of EE on the selling strategy: presentation. Such is the case of Beta US that after identifying the opportunity to enter the cracker market, the team consolidated the strategy to present it to HQ with the help of guilds and the government.

As for the role of **internal embeddedness** in the SIP, though the impact on the recognition of an opportunity has been studied (Andersson et al., 2002, 2007; Gammelgaard et al., 2012; Monteiro et al., 2008), it was not expected from the literature review to have a central role and superior to EE, except for the study of Marin and Bell (2010) who found that subsidiaries more integrated to MNC were more innovative than those integrated to host economy. Nonetheless, it was identified in most of the cases as an important way to identify opportunities, and in some cases, it was either promoted by HQ such is the case of Beta, or demanded by subsidiaries in the case of Gamma.

Moreover, as anticipated, IE influences the selling process to gain approval of the initiative, by involving HQ members on the project, by working together with HQ on the preparation and presentation of the project, and by capitalizing

previous good results. Still, through the interviews, I found that intensifying these internal ties is the fact that the subsidiary's CEO is Colombian, or that it has worked for a long time in the MNC and the firm's culture is embedded on the CEO. This trust of subsidiaries' CEO among the participants interviewed comes along with autonomy and in some cases subsidiary power, from previous positions and past relationships with HQ TMT members, or simply for a long tenure and excellent results. These results are more aligned to the works of Nahapiet and Ghoshal (1998) and Kostova and Roth (2003), which highlights the HQ's trust and less suspicious of the unknown due to expatriate relations to HQ managers for his previous jobs. These results also concur with the works of Gupta and Govindarajan (1991), whom affirmed that there is better communication between HQ and expatriates, resulting in more understandable initiatives. As stated by Alpha's Organizational Development Director, *"the internal aspects were given, because each of these men that went from here (Colombian HQ) to there (the subsidiaries) carried their own ties, specially their own cultural understanding of how the MNC operates"*.

These results are contradictory to those found by Dörrenbächer et al. (2013) whom concluded that parent company nationals (PCNs) may not be the best option for subsidiaries, since they may be less skillful as host country nationals (HCNs) on developing local networks and accessing valuable local information and knowledge, and as having less autonomy. The results on this thesis showed a different scenario, where expatriates have gained so much trust from their previous work that they have granted autonomy, and along with skillful and systemic strategies to reach the markets, they overcome the challenges of not accessing local information through external ties. Nonetheless, it is also evident that their team is composed of locals, and it can be expected that subsidiary initiatives can succeed because of a diverse STMT, which according to Gong's work (2006) results on a team more efficient on accessing knowledge and resources from both the external and internal environments.

Moreover, this work proposes a different perspective of embeddedness, as both internal and external influence several phases of the SIP and in different ways. Hence, the behavior of embeddedness seems more dynamic than static, an underexplored perspective of this concept. Further qualitative studies may be appropriate to understand how these ties influence the initiative of a subsidiary and the different parts of the process, if this differs from one context to the other, if their behavior changes from sector to sector, or if the influence of embeddedness is transformed with refined measure of embeddedness by including the perspective of the other actors of the relationship, such as the customers and suppliers. Consequently, the concept of embeddedness appears to have several improving opportunities.

7.2. The importance of STMT

A key objective of the present thesis has also been to identify the strategic role of subsidiary top management team (STMT) on the entrepreneurial activities of the subsidiary. The study of TMT under the UE perspective is complex, since the behaviors of TMT are difficult to measure and most studies rely on demographic traits, several studies are inconclusive regarding the impact of teams on firm performance (reviewed in chapter III). Moreover, studies concerning the diversity of TMTs show different results, and some authors have justified it for the variety of TMT measures as well as TMT diversity measures (Nielsen, 2010a). Hence, there is a call for future research to take into consideration multiple forms of diversity and not a general one, since this can allow a more detail study of TMT influence on firm performance (Nielsen, 2009). Additionally, the lack of studies focusing on the TMT of the subsidiaries but its importance on firm strategies decisions, such as SI, should encourage authors to focus on TMT as subject of study. As I conducted a qualitative study, inquiring participants for different aspects of the subsidiary TMT allowed me to analyze multiple types of diversity and to find results that differ from previous quantitative studies, then the interviews permitted me to study the phenomena deeply and find unexpected results that may contribute to IB and TMT

literature.

Particularly, on the impact of TMT heterogeneity on SI I found an influence of three types of diversity: nationality, age and functional diversity. In terms of nationality, the literature has emphasized the benefits of diversity in the development of an opportunity, since it is more likely that a heterogeneous team encompasses the entrepreneurial alertness and capabilities conducive to identify opportunities and develop initiatives, since nationality diversity is a broader and deeper source of knowledge about market, culture business from different countries (Nielsen, 2010), as well as a greater ability to learn from the local market (Finkelstein et al., 2009; Hambrick et al., 1996). However, during the interviews is evident that there is an increasing necessity for more nationality homogenous and local teams, while the CEO is most of the time Colombian. It appears that the MNCs recognized the knowledge of the market and the capacity to access information as a resource of locals and they do not recognize it as an asset of a varied team with different perspectives. Along with the entrepreneurial traits of the CEO, the TMT composition also allows a passive search for opportunities. Additionally, little was found regarding the STMT role on the process of selling the issue to HQ, but in one case where the national diversity as well as other types of diversity, allowed the team to consolidate and present a strong initiative that was approved regardless of the significant capital investment that it entailed. Nonetheless, the nationality of the CEO was crucial on the selling of an issue in most cases, either for their contacts with HQ, the trust for their tenure, experience or lower communication distance (Gammelgaard, 2009; Raziq & Perry, 2013).

In that case, the importance of the STMT diversity, although shy, it is evident while analyzing the entire SIP, since for opportunity recognition locals are crucial while for the approval of the initiative the role of expatriates is key. Moreover, the profile of the team may depend also on the functional area, since for a commercial team, locals are desired while for marketing teams, people with international experience are preferred, resulting in a heterogeneous TMT.

Nonetheless, in terms of nationality, when including the CEO as part of the TMT the teams are heterogeneous, but a deeper study of the TMT members should be conducted to identify their opinion regarding the impact of a Colombian CEO, and to explore the role of international experience as some authors believe that this diversity may have a clearer impact (Nielsen, 2010b).

Concerning the other two types of diversity, age and functional, although the intuition of the authors has been a positive impact, the studies' results are either inconclusive or found no impact. However, in this study I did find the recognition of the participants of a positive impact of both attributes, most of the teams have both age and functional diversity; in the former the combination of experience and cautiousness with riskier behavior and speed is acknowledged to generate novel and successful ideas. Also, functional diversity was stated to be present in most of the teams, but some participants highlighted its impact on SI claiming that without it the initiative would have been impossible to develop.

Furthermore, the STMT is crucial for the success of a SI, since the appropriate combination of members with their attributes and capabilities could lead to some subsidiaries more skillful at exploiting the subsidiaries capabilities and local resources, but also to sell them to HQ and obtain support even above other sister units. This specific combination of STMT is aligned to the Resource Based View, where according to Barney (1991), a firm can achieve sustained competitive advantage if its resources are valuable and rare, imperfectly imitable, and not easily substitutable. This way, resources are heterogeneous and immobile, giving the firm unique capabilities to compete in an environment where other firms cannot imitate its resources. Therefore, I expect STMT of innovative firms to be composed of members with diverse functional backgrounds, broad and complemented networks, diverse organizational tenure, as well as internationally diverse, not only in terms of nationality but mainly in terms of their experience, which translates in strong ties both in host country and HQ. Hence, as other authors have considered the TMT a

sustained competitive advantage of the firm, this exclusive STMT could constitute such resource of the firm, in that the particular combination of team members can be valuable, rare, imperfectly imitable and imperfectly imitable.

The corporate entrepreneurial process as well as internationalization are complex, then relying on one single person is difficult and at the end it is the result of a group of people, a TMT (O'Reilly et al., 1993; Yang & Wang, 2014). Literature relating TMT and internationalization has not been broadly explore, though it is increasing (Athanasios & Nigh, 2000; Carpenter et al., 2004; Nielsen, 2010a). Nonetheless, most of these studies focus on the HQ's TMT neglecting the importance of the role of the STMT. I have found evidence of the positive impact of a diverse TMT on subsidiaries by leading to the development of initiatives. In this study, I manage to study diversity separately and not as a unique concept, discovering a positive impact on three types of heterogeneity. Further research could focus on a way to measure varied types of diversity and analyze their impacts on the phases of SIP, in this case I approached the opportunity and issue-selling face leaving room to explore the implementation stage.

7.3. Main contributions of the study

7.3.1. Academic contributions

This thesis contributes to research on strategic management of MNC by integrating international business, entrepreneurship and Upper Echelon literature as it is discussed below.

1. Answering to the call of some authors to integrate the theories and frameworks that study subsidiary initiative process (Andersson, 1999; Schmid et al., 2014; Strutzenberger & Ambos, 2014), this thesis studied two phases of this process: opportunity development and issue-selling. By doing so, it was possible to identify the influence of both types of embeddedness on the stages

of the SIP, finding a positive impact of dual embeddedness in the opportunity development phase and the issue-selling process. This adds to the literature since most of the empirical studies on the impact of dual embeddedness on subsidiaries are related to subsidiary capabilities, innovation, performance, and evolution (Ferraris, 2014; Najafi-Tavani et al., 2012), and only a few on entrepreneurial capabilities (Birkinshaw et al., 2005; Lim, Hemmert & Kim, 2017) but not precisely on the initiative and even less on different phases of the process. Additionally, it reinforces the demand to study SIP more holistically, which should be further study to include unexplored phases of the SIP such as implementation and outcomes.

2. The present work suggests a dynamic role of embeddedness, as the role of embeddedness was identified at the beginning of the initiative, in the process of recognizing an opportunity and in the implementation phase in the process of selling this initiative to HQ. Additionally, in some cases the role of external embeddedness at the beginning of the establishment of the subsidiary was highlighted, when the subsidiary is being established and it is important to understand the way of doing business in this new country, while latter these ties become important on the subsidiaries' entrepreneurial activities. This dynamic aspect of embeddedness has been neglected in the IB literature, with few exceptions (Lattemann, Alon, Spigarelli & Marinova, 2017), and requires further and deeper study.

3. This thesis showed the role of a subsidiary's CEO from the parent firm's country, on intensifying the influence of IE in selling an issue. While analyzing the importance of internal embeddedness on the process of gaining initiative approval, the role of the CEO from the parent company nationality was essential due to the relationship with HQ actors, the gained trust, long tenure as well as previous results. Then, although different selling strategies were in place in the cases studied, a common and important factor for approval was the role of the CEO that was in most cases from HQ. This contradicts previous studies that have concluded that parent company nationals may not be the best

option for subsidiaries compared to host country nationals, as they have less autonomy and less capacity to develop local networks and access valuable local information and knowledge (Dörrenbächer et al., 2013).

4. Studies of TMT in IB literature focus mainly on the HQs team, and only few studies analyzes STMT (Gong, 2006; Mu et al., 2007). This work focuses on the influence of STMT composition, when the CEO is included in the team, on the development of an opportunity and the process to gain initiative approval. Then, it concludes that STMT composition, in terms of diversity, is positive for subsidiary's performance in an international context, due to knowledge, skills and resources that the complex and uncertain international arena requires. The impact of STMT diversity on issue selling is particularly interesting, as I found no studies exploring this aspect. However, the impact on opportunity development remains crucial, as I only found two studies concerning this relation. Hence, this dissertation proves the importance of understanding STMT and their role on subsidiaries, not only on their initiatives but in other types of management indicators.

7.3.2. Managerial contributions

This thesis has several implications for management, both for HQ and subsidiaries.

In particular, the results that indicate that the composition of the STMT has an impact on subsidiary initiative are key for MNC management. In a competitive international arena, having entrepreneurial and proactive subsidiaries contributes to MNC innovation and competitiveness; then it becomes crucial to select the adequate STMT that can create and consolidate embeddedness within MNC and with the local context, as well as implement successful initiatives. MNC should constitute a diverse STMT, with the adequate mix to become a unique, valuable, hard to imitate and difficult to substitute team, which could become a subsidiary sustainable competitive advantage (Auh &

Menguc, 2005; Barney, 1991). In this case, age and functional heterogeneity appear to be positive in the STMT, while nationality diversity is more complex as most of the innovative teams on this study are composed of local members and a parent company CEO.

From the analysis, I conclude that it is important for subsidiaries to develop both external and internal ties in every step of the way, since they have an impact on different stages of the subsidiary initiative. This is very important for both subsidiary and HQ managers, since the entrepreneurial behavior has positive impacts on the MNC performance (Cantwell & Mudambi, 2005; Rugman & Verbeke, 2001); hence the factors conducive to initiatives should be promoted. Particularly, subsidiary managers should be open to receive help from any tie along the process, for more unexpected that could seem, as for example external networks can also contribute on strategies to sell the initiative to HQ. For these, subsidiaries should put significant effort to build and consolidate contacts with local actors such as professional and guild associations, universities and research institutions, as well as governmental institutions.

Additionally, the consolidation of internal relations appears to be essential for both the subsidiary and the parent company, not only the relations between the subsidiary and HQ but between sister units. Management at the corporate level should consider fostering formal spaces or processes to achieve the synergic work between different subsidiaries in an MNC, which can be a rich source of knowledge, ideas and opportunities. MNC could be missing valuable opportunities by neglecting these exchange moments, and these units may be expecting or even pushing to create them. Setting these mechanisms would promote collaboration instead of competence between the units, taking advantage of possible regional or global initiatives that benefit the entire MNC. Moreover, management at subsidiary level

During the analysis of the firms, I discovered that in most cases the search for opportunities is the result of systematic and formalized strategies, instead of accidental ones. This is either because of a mandate from HQ or a subsidiaries behavior. Then, as other studies on subsidiary initiative suggest, this work also proposes that HQ management should promote an entrepreneurial culture in their foreign subsidiaries, since they are an essential source of innovation for MNC (Ambos et al., 2006; Yamin & Otto, 2004), by creating systemic and effective mechanisms to search opportunities. Then, subsidiaries with an innovative mandate would contribute positively to the MNC by transferring knowledge to HQ and sister units. Moreover, in cases where innovation is not the mandate, HQ should give the units the freedom to be proactive and support their entrepreneurial activities, with the adequate project evaluation.

7.4. Limitations of the study

This dissertation has some limitations that should be considered, taking into consideration and improve in future research.

First, since one of the objectives of this thesis is to better understand the impact of STMT and dual embeddedness on subsidiary, the work was based on the deep study of 4 cases instead of a larger number of firms. Because of this, generalization of the results is not recommended and this complicates drawing strong and general conclusions; although, the purpose of this work is to better understand this phenomenon and gain new insights regarding what influences the SIP. Then, future research on subsidiary top management teams should include quantitative investigations based on larger samples of firms. Second, since the MNC studied in this thesis are based on Colombia and belong to the same industry, the context of this study is very specific and the results should be limited to this particular country, industry or type of company. Future research should include other industries and countries, to avoid the risk that the results are only valid for other settings.

Another limitation of the present study relates to the ways to measure embeddedness. In the first place, the interviews include only the MNC, HQ or subsidiary perspective; but the perspective of the other actors of the relationship is not included. Future research should include customers, suppliers, sister units, or whichever actor is part of the network, in order to perceive interdependence in the relationship. Additionally, when analyzing external embeddedness in the interviews, identifying the buyers was complex due to the industry of these companies, since the buyer is not the final client but distributors or brokers, and there is no relation between the MCN and consumers but the buyer of the MNC are the distributors. The relation with consumers is restricted to the study of the market, and not closeness or

interdependence exists. Finally, this work does not take into account the risks of over-embeddedness, and this should be included in future studies.

Furthermore, most studies regarding dual embeddedness take a static perspective, and the analysis of IE/EE balance does not take into account their interaction or the weight of each variable. In this thesis I found unexpected roles of both types of embeddedness as well as an impact in different phases of the SI, Hence, the relationship between IE and EE goes beyond dual embeddedness, their interactions are complex and should be further studied.

7.5. Future Research

This study attempted to integrate more entrepreneurship literature to the area of subsidiary initiative, by doing so, interesting findings were encountered. Therefore, I believe future research on SI could be enriched by incorporating other aspects of entrepreneurship literature on the phases of the initiative.

The present study took a holistic view of the MNC by studying the SIP from different perspectives, HQ-CEO or managers and TM as well as subsidiary CEO and TMT. However, this thesis only considered, and not in all cases, the perspective of one member of the STMT, assuming that the views of the rest of the members would be similar. Future research should study deeper the perception of other STMT, in order to better understand the composition of the team and their contribution to the entrepreneurial activities of the subsidiary.

Additionally, some of the findings of this thesis showed that financial reasons were crucial on the selling of the initiative, HQ based the evaluation of their subsidiaries' proposals on financial aspects. This could indicate that other areas are not so deeply into the loop of HQ. Therefore, future studies could study the level of autonomy by areas in the process of discovering, selling and implementing an initiative.

Finally, as it was found in this dissertation, the dynamics of embeddedness are changeable along the initiative process, and both internal and external embeddedness influence the different stages of the process. Then, future research should zero in on this dynamic perspective of embeddedness and further explore their role in SI but also in other business phenomena that have previously been studied under a static perspective of the networks.

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RESUMEN

En un mundo globalizado y plano, el rol de las Empresas Multinacionales (EMNs) en la economía es cada vez más fuerte, con aproximadamente 100.000 EMNs y casi 900.000 filiales extranjeras según datos del World Investment Report of 2011 (UNCTAD, 2011); con ventas de 37.570 billones de dólares y 82.1 empleados en 2016 (UNCTAD, 2017). Las EMNs tienen gran importancia, no solo por su impacto en la economía de los países, sino también por su complejidad. Por varias décadas, investigadores han estado cautivados por este fenómeno, ya que las EMNs se enfrentan a diversos retos que van desde la coordinación de un gran número de filiales hasta la necesidad de estar constantemente innovando en unos mercados globales demandantes (Bartlett & Beamish, 2018). En consecuencia, como este campo de investigación es cambiante y multidisciplinario y va variando con los cambios de la economía global, donde las EMNs ya no son únicamente grandes empresas sino también pequeñas, jerárquicas sino también constituidas en redes, y con innovación dispersa por todas las filiales extranjeras y no concentradas exclusivamente en la casa matriz (Contractor, 2012).

Las filiales son actores centrales en las EMNs, por lo cual es de esperarse que sean de interés para muchos investigadores, en especial por los cambios en sus roles, pasando de simple implementadores del mandato de la casa matriz a ser unidades emprendedoras que contribuyen a la firma con recursos y capacidades específicos (Birkinshaw, Hood & Jonsson, 1998). Inicialmente, las investigaciones en filiales se centraban en la estructura de las EMNs desde una perspectiva jerárquica y poca atención se ponía a las filiales, pero luego se fue adoptando un enfoque más flexible de estructuras descentralizadas (Bartlett & Ghoshal, 1988; Birkinshaw, 2001; Paterson & Brock, 2002). Posteriormente, la relación entre la casa matriz y las filiales toma importancia en la literatura, y en los 80 la visión de las EMNs con estructura jerárquica y mecanismos de control clásicos es desafiada (Kim & Mauborgne, 1993), abriendo paso a un nuevo enfoque heterárquico donde las EMNs están buscando activamente en sus filiales, oportunidades, recursos, competencias

y ventajas (Hedlund, 1986). La importancia de las filiales exteriores continua incrementando, al punto de convertirse en una unidad de estudio por los cambios en su role al igual que en su desarrollo, hasta llegar al punto de considerar la EMN como una red interorganizacional, en la que las filiales incrementan y su posición en la EMN al acumular recursos y capacidades (Dasí, Pedersen, Gooderham, Elter & Hildrum, 2017; Pedersen, 2006).

La importancia de las subsidiarias llega a su cúspide con su rol emprendedor. Las iniciativas de las filiales son vistas como " actividades empresariales discretas y proactivas que buscan una nueva forma de usar o expandir los recursos corporativos" (Birkinshaw, 2014, p.203), que comienzan con la identificación de una oportunidad y deben lograr el compromiso de recursos. Las investigaciones se han centrado en las iniciativas de las filiales por varias razones. En primer lugar, las iniciativas son importantes porque permiten que las unidades extranjeras creen capacidades basadas en los recursos que controlan y mejoren el papel de la filial (Birkinshaw & Hood, 1998). Las filiales también agregan valor a la EMN siendo emprendedoras y desarrollando competencias sostenibles, adquiriendo recursos y capacidades esenciales para toda la EMN, lo que mejora su posición en la red (Delany, 2000) y también crea una relación de dependencia mutua con la casa matriz (Ambos, Andersson & Birkinshaw, 2010; Pfeffer y Salancik, 1978). Además, las filiales tienen que responder a presiones externas e internas, y la actitud emprendedora de la filial se convierte en una estrategia para competir en medio de estas presiones (Birkinshaw, Hood & Young, 2005; Porter, 1980). Esto sitúa a la subsidiaria en un lugar particular con respecto a otras empresas, dado que las competencias emprendedoras de las filiales subsidiarias se enfocan no solo en aprender del contexto para reconocer oportunidades, por lo que obtener autonomía y aprobación de las iniciativas es un desafío (Dimitratos & Jones, 2005). Sin embargo, esta importante corriente de la literatura relacionada con los negocios internacionales está fragmentada y muchos investigadores se están enfocando en una perspectiva del proceso de la

iniciativa de la filial y exigiendo un enfoque más holístico (Schmid, Dzedek & Lehrer, 2014; Strutzenberger & Ambos, 2014).

No obstante, aunque las iniciativas de las filiales son beneficiosas para toda la EMN (Bartlett y Ghoshal, 1988; Birkinshaw & Hood, 2000; Birkinshaw et al., 2005), no son necesariamente bien recibidas por la casa matriz, sino que el sistema inmunológico corporativo de las EMNs se activa y la iniciativa puede ser rechazada (Birkinshaw & Ridderstråle, 1999). Esto sucede porque las iniciativas van más allá del mandato de la filial, y la falta de conocimiento o entendimiento que tiene la casa matriz sobre una iniciativa lleva a sus responsable a sospechar de la misma, ya que la iniciativa podría no estar alineada con los objetivos de la casa matriz (Bouquet & Birkinshaw, 2008). Por lo tanto, las filiales deben vender asertivamente sus iniciativas a la casa matriz para obtener apoyo y aprobación. Esto constituye una línea de investigación completa, donde la EMN se ve como un arena política, donde cada filial intenta ser escuchada y apoyada, donde buscan ejercer su voz e influir sobre la casa matriz, “vender un asunto” o cabildear (Cantwell & Mudambi, 2005; Dörrenbächer & Geppert, 2009; Ling, Floyd y Baldrige, 2005; Mudambi y Navarra, 2004; Williams y Lee, 2011). También se pueden encontrar estudios sobre la atención de la casa matriz en esta línea de investigación, que estudian cómo la casa matriz presta más atención a algunas filiales que a otras, y cómo las filiales obtienen esta atención (Birkinshaw et al., 1998). Por lo tanto, surge una pregunta importante sobre por qué algunas iniciativas son aprobadas y se implementan con éxito, mientras que otras no.

La posición de una filial dentro de una EMN, con un mandato y control de la casa matriz, así como las relaciones horizontales con filiales hermanas, y en un contexto local, crean oportunidades y desafíos únicos para desarrollar capacidades emprendedoras, definidas como ventajas específicas de la filial. Según Rugman, Verbeke y Yuan (2011), estas ventajas resultan de la combinación de los conocimientos que la filial ha adquirido de la red interna y de los nuevos conocimientos, creados a partir del comportamiento autónomo

y del conocimiento adquirido a partir de las redes externas en las cual esta inmersa. Hay dos variables críticas involucradas en el desarrollo de estas ventajas, gerentes y empleados de la filial, y las redes. El acceso a conocimientos y recursos valiosos y tácitos del entorno local permite a la filial descubrir oportunidades empresariales, y también hace que las capacidades de una filial sean únicas entre el resto de la EMN, pues en muchos casos son el resultado de la interacción entre directivos/empleados con redes locales (Mahnke, Venzin y Zahra, 2007). Además, los gerentes y empleados de la filial desarrollan este conocimiento tácito al interactuar con esas redes y al combinarlas con sus conocimientos previos, antecedentes y creencias (Mahnke et al., 2007).

Al estudiar la gestión de la filial, el enfoque principal es el CEO y pocos autores estudian el equipo directivo de la filial (Collings, Morley & Gunnigle, 2008; Gong, 2006; Harvey & Novicevic, 2002), ya que la literatura de negocios internacionales relacionada con los equipos directivos se concentra en la empresa matriz. Varios autores han reconocido que las decisiones no son el resultado de una sola persona, sino de un grupo (O'Reilly, Snyder & Boothe, 1993), y las características del grupo pueden moldear los resultados o el rendimiento de la empresa (Hambrick y Mason, 1984). Entonces, es importante entender cómo se componen los equipos directivos de la filial, su interacción y cómo sus características influyen en la operación de la misma. Además, dado que los equipos directivos diversos están asociados a la innovación, estudiar el impacto de un equipo directivo heterogéneo en las iniciativas de las filiales es muy relevante. Comprender la composición del equipo directivo de la filial y su contribución a la MNE puede conducir a estrategias de gestión para constituir el equipo adecuado que promueva el espíritu empresarial en unidades extranjeras.

Finalmente, con respecto al rol de las redes en las iniciativas, la *embeddedness* ha sido objeto de estudio en la literatura de los negocios internacionales, ya que las filiales están inmersas en el contexto local y el

contexto organizacional (MNE) (Birkinshaw, 1999; Ghoshal y Bartlett, 1990). Se ha encontrado que la *embeddedness externa*, integración local o relaciones con los actores del país de destino, es positiva para la iniciativa de la filial, ya que las filiales tendrían acceso a información, conocimiento y recursos valiosos de estas redes (Andersson, 2003; Andersson & Forsgren, 1996, 2000; Andersson, Forsgren & Holm, 2002, 2007; Bresciani & Ferraris, 2016). Además, se ha relacionado con el éxito de la iniciativa, ya que "las iniciativas que se desarrollan con la ayuda y el estímulo de los socios de la red reciben más atención y muestran una mayor tasa de supervivencia" (Strutzenberger & Ambos, 2014, p 321). Además, se ha demostrado que la *embeddedness interna*, la integración corporativa o las relaciones con la casa matriz y las unidades hermanas, tiene un impacto positivo en la implementación de la iniciativa, particularmente en la aprobación de la iniciativa por parte de la casa matriz (Ghoshal & Bartlett, 2005; Inkpen & Beamish, 1997; Najafi-Tavani, Giroud & Andersson, 2014). Por lo tanto, se espera un impacto doble y positivo de ambos tipos de *embeddedness* en la iniciativa de la filial; sin embargo, los resultados no son concluyentes ya que algunos estudios respaldan este efecto dual mientras que otros encontraron una disyuntiva, *trade-off* (Achcaoucaou, Miravittles & León-Darder, 2014; Asmussen, Foss & Pedersen, 2013; Ciabuschi, Holm & Martín, 2014; Figueiredo, 2011; Najafi-Tavani et al., 2014; Scott-Kennel & Giroud, 2015; Yamin y Andersson, 2011). Entonces, sigue siendo importante determinar si el efecto conjunto de la *embeddedness* externa e interna es beneficioso o no para la iniciativa de la filial.

Marco de la investigación y objetivos

Las actividades emprendedoras dentro de una organización han recibido una atención creciente entre los académicos (Birkinshaw, 1997; Burgelman, 1983b; Miller, 1983), sin embargo, su definición sigue siendo ambigua y recibe numerosos términos, tales como corporate entrepreneurship, corporate venturing, intrapreneurship, internal corporate entrepreneurship, internal

corporate venturing, y organizational o strategic renewal. Para el propósito de esta tesis, me enfocaré en el emprendimiento corporativo (*corporate entrepreneurship*), que ha recibido varias definiciones y que fueron consolidadas por Sharma y Chrisman proponiendo la siguiente definición, "el proceso por el cual un individuo o un grupo de individuos, en asociación con una organización existente, crea una nueva organización o provoca la renovación o innovación dentro de esa organización" (1999, p.18). Bajo el paraguas del emprendimiento corporativo, Birkinshaw construye el concepto de iniciativa de la filial, como la principal manifestación del emprendimiento corporativo disperso, basado en la suposición de que "cada individuo en la empresa tiene la capacidad para el comportamiento gerencial y emprendedor de manera más o menos simultánea. En lugar de dividirse en grupos o divisiones separadas" (1997, p.209). No obstante, las iniciativas de las filiales son un concepto más amplio que va más allá de la literatura del emprendimiento corporativo, ya que las filiales están integradas en un contexto local (país destino) y en una organización (EMN); por lo tanto, la iniciativa es un fenómeno más complejo que debe estudiarse fuera del ámbito del emprendimiento corporativo (Strutzenberger y Ambos, 2014).

La iniciativa de la filial se convierte en un área de investigación importante en la literatura de los negocios internacionales, con Birkinshaw como su principal exponente (Birkinshaw, 1997, 2014; Birkinshaw et al., 2005; Birkinshaw & Ridderstråle, 1999; Pedersen, 2006). Schmid, Dzedek y Lehrer (2014) identificaron un número significativo de enfoques teóricos que estudian la iniciativa de la filial, algunas perspectivas se aplican individualmente mientras que otras se complementan entre sí. Entre los enfoques teóricos, Schmid et al. (2014) reconocieron la *perspectiva del proceso de decisión* (Burgelman, 1983b), donde el comportamiento estratégico autónomo tiene lugar en una filial independiente del mandato de la casa matriz (Birkinshaw & Hood, 1998; Verbeke, Chrisman y Yuan, 2007). Además, las teorías sobre la acumulación de recursos por parte de la filial intentan explicar la iniciativa, arraigada en la *teoría de redes* (Ghoshal y Bartlett, 1990a) que entiende a las filiales como

entidades semiautónomas, capaces de tomar decisiones pero limitadas por la casa matriz (Birkinshaw, Holm, Thilenius y Arvidsson, 2000) , así como en la *teoría de los recursos* (Barney, 1991), que interpreta la evolución de la filial como la acumulación o el agotamiento de las capacidades a lo largo del tiempo (Birkinshaw y Hood, 1997; Delany, 2000). Además, *la teoría de la dependencia de los recursos* (Pfeffer y Salancik, 1978) y *las teorías de la política organizacional* (Mintzberg, 1985) se utilizan en el estudio de la acumulación de poder de las filiales como resultado de la acumulación de recursos, ubicando la iniciativa de la filial en el centro de las relaciones filial-casa matriz. En estudios sobre las motivaciones de la filial para conducir iniciativas, la *teoría de la autodeterminación* (Ryan y Deci, 2000) se ha utilizado para proponer que los gerentes de las filiales buscan oportunidades para satisfacer sus propias necesidades personales (Ambos et al., 2010). Mientras que la *racionalidad limitada* (March & Simon, 1958) permite explicar cómo las multinacionales aprueban las iniciativas, ya que pueden surgir brechas de percepción o la casa matriz debe aceptar las acciones de la filial de buena fe (Birkinshaw et al., 2000, 1998). Aunque las iniciativas son una demostración de emprendimiento, solo algunas excepciones han aplicado teorías generales del emprendimiento para estudiar este fenómeno (Liouka, 2007; Mahnke et al., 2007). A medida que se concentran en el reconocimiento de oportunidades, es evidente que la iniciativa de la filial debe estudiarse como un proceso y las teorías del emprendimiento deben implementarse en esta etapa inicial.

En consecuencia, varios autores han hecho un llamado al estudio de la iniciativa de la filial como un proceso, identificando tres etapas: identificación de oportunidades, venta de la iniciativa e implementación (Strutzenberger y Ambos, 2014), o cuatro etapas: (1) identificación de oportunidades, (2) obtención de recursos y utilización, (3) venta, evaluación y aprobación de iniciativas, (4) compromiso de recursos e implementación (Dzedek, 2018). De manera similar a lo que ocurre con las iniciativas de la filial, también hay una falta de integración en las teorías y marcos que examinan el proceso, faltando

una base teórica unificada (Andersson, 1999; Dzedek, 2018; Schmid et al., 2014; Strutzenberger y Ambos, 2014). Además, muy pocos estudios examinan el proceso de la iniciativa de forma sistemática, con un propósito y de manera integral; ya que la mayoría de los estudios se centran solo en algunas etapas del proceso, los antecedentes o los resultados (Dzedek, 2018; Strutzenberger y Ambos, 2014). Adicionalmente, el proceso de la iniciativa de la filial se considera un fenómeno multinivel, que incluye individuos, equipos, organizaciones y redes; pero ha descuidado los niveles, como los equipos en los estudios existentes (Mahnke et al., 2007; Strutzenberger & Ambos, 2014; C. Williams y Lee, 2009).

Teniendo en cuenta los gaps mencionados en la literatura del proceso de la iniciativa de la filial, esta tesis tiene los siguientes objetivos principales:

1. Entender por qué y cómo algunas filiales pueden lanzar iniciativas, descubriendo oportunidades, vendiéndolas y obteniendo la aprobación y el apoyo para ejecutarlas.
2. Examinar el proceso de la iniciativa de la filial de manera más integral estudiando dos etapas del proceso, la identificación de oportunidades y la venta de la iniciativa, ya que estas dos etapas son particularmente diferentes por las presiones externas e internas que enfrentan las filiales.
3. Integrar diferentes enfoques teóricos sobre el estudio del proceso de la iniciativa de la filial: literatura de negocios internacionales y de emprendimiento, mediante el análisis de la fase de reconocimiento de una oportunidad; y la consolidación de los diferentes enfoques para la venta y la aprobación de iniciativas.
4. Estudiar la iniciativa de la filial como un fenómeno multinivel, incluido el papel del CEO, el equipo directivo y las redes.

Esta tesis responde al llamado de estudiar el proceso de iniciativa de la filial de manera más holística, integrando teorías de la literatura de negocios

internacionales con teorías empresariales, y los enfoques de Upper Echelon y perspectivas de la red.

Diseño metodológico

Este estudio sigue una investigación cualitativa basada en estudios de casos. Dado que los estudios de casos múltiples son adecuados cuando se cree que el mismo fenómeno ocurre en varias situaciones, la técnica de investigación que seguirá esta tesis es el estudio de casos múltiples, que contribuye a la verificación de resultados sin descartar la importancia del análisis individualizado de los casos (Yin, 1981). El enfoque de estudio de casos múltiples de Yin se utilizó en el análisis de la información, complementado con el método de Gioia para garantizar conceptos sólidos. Este procedimiento nos permite explorar las percepciones e interpretaciones de los actores, explicar el contexto de los participantes (Yin, 2011), reunir información más rica sobre el tema estudiado (Yin, 2011) y permite estudiar el fenómeno de forma más dinámica (Gioia y Thomas, 1996; Pettigrew, 1992).

En la selección de los casos, identifiqué la muestra de EMNs en el mercado colombiano. La selección de los casos garantiza que las empresas cumplan ciertas características como el tamaño y la operación internacional. Cuatro (4) firmas fueron seleccionadas de AMADEUS que pueden considerarse grandes multinacionales, con más de 4.000 empleados y ventas anuales superiores a los 200 millones de dólares. Se estudiaron las EMNs con al menos 3 subsidiarias en el extranjero para tener varias perspectivas de la misma EMN e identificar las diferencias en el emprendimiento, la *embeddedness* y los equipos directivos dentro de la misma EMN. De cada EMN, se entrevistó un mínimo de 2 filiales, para un total de 10, asegurándose de que sus gerentes mostraran cierto grado de comportamiento emprendedor y tuvieran conocimiento de la iniciativa de la filial. Estas filiales se encuentran en El Salvador, Chile, EE. UU., Costa Rica, México, Perú, Ecuador y República Dominicana.

La literatura sobre los tres principales fenómenos discutidos en esta tesis fue explorada con el fin de identificar preguntas relevantes que guiaron el estudio. Las preguntas fueron diseñadas de acuerdo con la revisión de la literatura de los capítulos II, III y IV, motivadas específicamente por las definiciones y modelos de Birkinshaw (1997), Ardichvili et al. (2003), Baron (2006), Dutton y Ashford (1993), Andersson et al. (2002, 2007), Hambrick y Mason (1984). La estrategia de recopilación de datos se basó principalmente en entrevistas semiestructuradas con actores de la EMN de los tres niveles diferentes; se desarrolló un protocolo para las entrevistas, con preguntas abiertas y cerradas, y se alentó a los participantes a complementar los aspectos que consideraban interesantes o relevantes, dando flexibilidad al protocolo. En total, se realizaron 25 entrevistas durante siete meses, que incluyeron actores de diferentes niveles para triangular la información y garantizar la confiabilidad y validez de los datos (Eisenhardt, 1989; Yin, 2011): ya sea el CEO de la casa matriz o un miembro del equipo directivo, el CEO de la filial y en algunos casos se entrevistó a algún miembro del equipo directivo de las filiales incluidas en el estudio, que estuviera o hubiera estado involucrado activamente con la iniciativa discutida. La guía de entrevista semiestructurada explora las operaciones internacionales de la EMN, las iniciativas de las filiales más proactivas, así como el papel de sus equipos y sus redes en este emprendimiento. Para mejorar la validez y la fiabilidad del estudio, se grabaron las entrevistas y se tomaron notas, y luego se transcribieron (Langley y Abdallah, 2011).

Después de reunir los datos, seguí los procedimientos recomendados por Miles y Huberman (1984) para realizar el análisis de casos cruzados, utilizando herramientas para facilitar la reducción y visualización de datos. Posteriormente, analicé los comentarios de los participantes sobre las iniciativas de la filial y su relación con la casa matriz, cada caso de manera separada y siguiendo técnicas de comparación constante entre las declaraciones de los participantes, buscando similitudes y diferencias (Glaser

y Strauss, 1967). Se implementó un proceso iterativo para crear categorías mutuamente excluyentes y exhaustivas (Gioia et al., 2013). Siguiendo el método de Gioia et al. (2013), creé un conjunto de categorías de primer orden exclusivamente a partir de los datos, seguido de búsquedas de similitudes o patrones entre las categorías de primer orden, creando categorías de segundo orden más relacionadas con la teoría (Nag & Gioia, 2012) Las categorías de segundo orden se agregaron en conceptos amplios (1) Proceso de la Iniciativa de la Filial, (2) *Embeddedness Dual* y (3) la composición del equipo directivo. Finalmente, desarrollé el modelo de la tesis y algunas proposiciones, para entender la relación entre las diferentes categorías o fenómenos identificados en este trabajo.

Conclusiones y contribuciones

Desde una perspectiva académica, esta tesis contribuye a la literatura de los negocios internacionales estudiando dos fases del proceso de la iniciativa de la filial: desarrollo de las oportunidades y venta de la iniciativa, integrando teorías y marcos teóricos, contribuyendo así a un estudio más holístico de dicho proceso (Andersson, 1999; Schmid et al. , 2014; Strutzenberger y Ambos, 2014). Adicionalmente, los hallazgos demuestran un impacto positivo de la *embeddedness dual* en ambas etapas del proceso, la fase de desarrollo de oportunidades y el proceso venta, lo que refuerza la conclusión de varios autores sobre la relación positiva entre la *embeddedness dual* y el desempeño de la filial (Ferraris, 2014; Najafi Tavani, Giroud y Sinkovics, 2012), pero contribuyendo a la literatura con un enfoque en las iniciativas de la filial. Una contribución adicional de este estudio es la sugerencia de un rol dinámico de la *embeddedness*, que se pudo establecer al considerar diferentes fases de un proceso. Sin embargo, este último resultado fue tratado superficialmente en esta tesis y se sugiere una investigación futura.

El presente trabajo contribuye a la literatura de la gestión de los Recursos Humanos Internacionales, mediante el análisis del papel del CEO y los

equipos directivos en la iniciativa de las filiales. Esta tesis propone que el CEO de la filial proveniente del país de la casa matriz, intensifica la influencia de la *embeddedness* interna/organizacional en la venta de una iniciativa y por lo tanto en la aprobación. Éste aporta al conocimiento sobre el equipo directivo, estudiando el impacto de su composición en el proceso del desarrollo de la iniciativa, demostrando que un equipo directivo de la filial heterogéneo tiene una influencia positiva en el desarrollo de una oportunidad y el proceso para obtener la aprobación de la iniciativa, particularmente el impacto en la venta de la iniciativa es interesante, ya que estudios explorando este aspecto no fueron encontrados. Este es el resultado más importante de este documento y amplía nuestro conocimiento sobre este tema poco explorado hasta la fecha, con algunas excepciones como el trabajo de Gong (2006).

Desde una perspectiva gerencial, este estudio es particularmente relevante para los gerentes de EMN que están promoviendo el espíritu empresarial y la proactividad en sus subsidiarias, para tener éxito en un escenario internacional competitivo. Por lo tanto, entender el impacto de la composición de STMT en la iniciativa subsidiaria, le permitiría a la EMN constituir el equipo que puede convertirse en una ventaja competitiva sostenible para toda la EMN (Auh y Menguc, 2005; Barney, 1991). Además, aunque la mayoría de la literatura de redes asocia el desarrollo de la integración externa con el reconocimiento de oportunidades al acceder a conocimientos y recursos únicos, y la integración interna con la venta de la iniciativa, este trabajo demuestra que es importante aprovechar ambos tipos de integración durante todo el proceso de la iniciativa. Además, la gerencia de la sede debería promover una cultura empresarial en sus subsidiarias extranjeras, ya que son una fuente esencial de innovación para las multinacionales (Ambos et al., 2006; Yamin y Otto, 2004).

Estructura de la tesis

La presente tesis esta estructurada en seis capítulos como se muestra a continuación:

En el capítulo I, la introducción, se hace un breve resumen de la justificación de la presente investigación, el marco teórico y la metodología utilizada. De igual forma se exponen las principales conclusiones y contribuciones de esta tesis.

El Capítulo II se centra en una revisión de la literatura sobre la evolución de las filiales, enfatizando en el rol emprendedor de las filiales y sus iniciativas. Comienza con la literatura que ha estudiado la existencia de las Empresas Multinacionales (EMNs), desde las perspectivas económicas hasta la evolución de las filiales. La iniciativa de la filial se ubica dentro del campo del emprendimiento corporativo, y el capítulo se centra en la definición de la iniciativa, los antecedentes y las diferentes fases del proceso de la misma. En particular, entender el proceso de la iniciativa de la filial desde las distintas perspectivas y marcos teóricos hace que sea un concepto fragmentado (Schmid et al., 2014; Strutzenberger & Ambos, 2014). El capítulo se cierra con una sección que intenta comprender la iniciativa de la filial en el contexto de las EMNs, para identificar los desafíos y las amenazas que enfrenta una filial a la hora de buscar oportunidades.

El Capítulo III se concentra en la literatura del Equipo de Alta Dirección, ya que es un actor importante para el proceso de la iniciativa de la filial y varios autores hacen un llamado a incluirlo en el análisis de iniciativa de la filial, considerada como un fenómeno multinivel (Schmid et al., 2014; Strutzenberger Y Ambos, 2014). El capítulo comienza examinando el Modelo de Upper Echelon de Hambrick y Mason, y cómo los rasgos demográficos pueden influir sobre las acciones estratégicas y el desempeño de una firma. Adicionalmente, en el capítulo exploro las definiciones y medidas del equipo

directivo, así como los estudios sobre su composición. Particularmente, me concentro en la diversidad del equipo directivo de la filial y cómo los diferentes tipos de diversidad influyen en la firma, especialmente el impacto en la iniciativa, y qué atributos influyen más en la fase de desarrollo de oportunidad y de la venta de la iniciativa a la casa matriz.

El Capítulo IV estudia la tercera variable clave de esta disertación, la *embeddedness* y su rol en la iniciativa de la filial. Dado que las filiales están restringidas tanto por redes externas como internas, es crucial entender cómo se relacionan estos actores y la cercanía de la relación de la filial con ellos. El capítulo estudia los orígenes del concepto de *embeddedness*, así como su definición desde diferentes perspectivas teóricas y los tipos de *embeddedness*. Esta revisión me permitió centrarme en dos tipos de *embeddedness* que influyen en la EMN, en particular en las filiales, la *embeddedness* externa y la interna u organizacional. El capítulo abarca una revisión exhaustiva de los estudios que evalúan el impacto de la *embeddedness* externa e interna, por separado, en la iniciativa; así como un estudio de los artículos que evalúan si la *embeddedness* dual impacta positiva o negativamente a la iniciativa de la filial. Con respecto a esto, intenté identificar si existe un efecto de trade-off o complementariedad.

El Capítulo V describe el proceso de investigación, incluidos la selección de los casos y la descripción de las EMNs estudiadas en esta tesis. Este capítulo compara las metodologías cuantitativa y cualitativa, y las razones para elegir un enfoque inductivo y una estrategia de investigación cualitativa. Además, explica por qué el estudio de caso se selecciona como el diseño de la investigación. De igual manera, se describe el proceso de investigación, incluido el proceso de selección de casos, la descripción de las EMNs incluidas en esta tesis, así como la recopilación de datos. Luego, el análisis de los datos se presenta principalmente basado en el método Gioia, que incluye la *data structure* del presente estudio, seguido de los hallazgos de esta tesis.

El Capítulo VI presenta la discusión sobre los hallazgos del análisis de estudio de casos llevado a cabo con el propósito de construir teoría. En su primera mitad, este capítulo explora la relación entre la primera etapa del proceso de la iniciativa de la filial, el desarrollo de oportunidades, y las *embeddedness* interna y la externa; descubriendo que ambos tipos de *embeddedness* tienen un impacto positivo en esta fase. Posteriormente, el capítulo analiza los resultados de la relación entre el equipo directivo de la filial y el desarrollo de oportunidades, y encuentra diferentes efectos en cuanto a nacionalidad, edad y diversidad funcional. El capítulo explora además la influencia de la *embeddedness* externa e interna, así como la diversidad del equipo directivo de la filial, en la fase de la venta de la iniciativa. Se analizaron tres estrategias para vender un tema: participación de los actores, presentación de la propuesta (preparación de la iniciativa y aspectos financieros) y poder, autonomía y atención de las filiales; e inesperadamente, la *embeddedness* externa tuvo un impacto significativo en esta fase, mientras que el equipo directivo de la filial, tuvo una influencia limitada principalmente en la presentación de la propuesta. Este capítulo concluye presentando un modelo conceptual de las influencias del equipo directivo de la filial, y la *embeddedness* en el proceso de desarrollo de la iniciativa de la filial, así como la consolidación de las proposiciones asociadas al modelo.

ANNEXES

ANNEX I. Dimitratos and Plakoyiannak (2003) dimensions to explain international entrepreneurship

Dimension	Definition	Relation to SIP
International Innovation propensity or innovativeness	"Innovativeness reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes" (Lumpkin and Dess, 1996, p.142)	It improves the subsidiary capacity to recognized opportunities (Liouka, 2007)
International Risk taking	Willingness to pursue new opportunities, in foreign markets (IB literature), even though this entitles a risky commitment of resources because if the uncertainty of the results (Lumpkin and Dess, 1996; Zahra, 2005)	Relevant trait, since the uncertainties of the international arena plus the plausible rejection of HQ could bring more risk to this entrepreneur
International Motivation	The efforts to make firm members prone to achieve international goals, this is achieved through internal mechanisms such as incentives (Dimitratos and Plakoyiannaki, 2003)	Trait that can be reflected on the drive to search for opportunities and to persist in gaining the support of HQ to develop the initiative
International Market orientation	"refers to the posture and behavior that the firm can adopt in order to create superior value for its customers in foreign markets" (Dimitratos and Plakoyiannaki, 2003, p. 193)	In IB this factor has mainly been studied on a reactive manner to respond to competitors moves, instead of a proactive behavior leading to the identification and exploitation of opportunities (Dimitratos and Plakoyiannaki, 2003)
International Learning orientation	The ability of the firm to actively collect and analyze information of their foreign markets, and take advantage of this market intelligence in benefit of the firm (Dimitratos and Plakoyiannaki, 2003)	This factor may enable the capacity of a subsidiary to understand the necessities of their local market, the more they study these markets, and even understand neighbor country markets, the more opportunities they could recognized
International Networking orientation	The willingness of a firm to obtain resources, such as information, from the foreign country, either by establishing alliances or by building relationships and being embedded on the foreign market (Dimitratos and Plakoyiannaki, 2003)	IB literature, particularly in the network perspective, the international firm is seen as part of a bigger network, not only is linked to its subsidiaries in foreign countries, but also the subsidiary is linked to local networks such as clients, suppliers, competitors, and these relationships are an important source of resources and information, which could lead to the discovery of opportunities and the development of subsidiary initiatives.

Source: the author

ANNEX II. Studies used on this thesis to explore the relation between TMT diversity and firm performance.

N.	Author (s)	Year	TMT diversity variable	Firm's output	Findings
1	Ancona and Caldwell	1992	Tenure and functional	<ul style="list-style-type: none"> • Performance • External communication • Task processes 	<ul style="list-style-type: none"> • Functional diversity is negatively related to performance (direct effect). • Functional diversity is positive related to communications with outsiders, which in turn is related to team performance (indirect effect) • Tenure diversity is positive related to task processes (indirect effect) • The direct effect overshadows the indirect effect. • Mediation: task processes and external communications
2	Auh and Menguc	2005	Functional, experience and educational	<ul style="list-style-type: none"> • Innovativeness • Interfunctional coordination 	<ul style="list-style-type: none"> • TMT experience and educational diversity on innovativeness increased as interfunctional coordination increased. • Functional diversity has a negative impact on innovativeness, only when the benefits (creativity, wider perspectives) outweigh the costs of diversity (for poor communication and collaboration) then the impact of functional diversity on innovativeness will be positive. • Moderator: interfunctional coordination
3	Bantel	1993	Functional	<ul style="list-style-type: none"> • Strategy clarity 	<ul style="list-style-type: none"> • Groups with functional and educational diversity develop clearer strategies.
4	Bantel and Jackson	1989	Age, functional, tenure and education	<ul style="list-style-type: none"> • Innovativeness 	<ul style="list-style-type: none"> • Evidence that functional heterogeneity enables innovativeness • No evidence of a relationship between age, tenure and educational major diversity and innovativeness
5	Barkema and	2007	Tenure	<ul style="list-style-type: none"> • Internationalization <ul style="list-style-type: none"> ○ Entering new markets 	<ul style="list-style-type: none"> • Tenure heterogeneity increases a firm's probabilities to enter new markets. • Education diversity was not related to entering new geographic areas.

	Shvyrkov				
6	Bell, Villado, Lukasik, Belau and Briggs	2011	Tenure	<ul style="list-style-type: none"> • Performance <ul style="list-style-type: none"> ○ Innovation ○ Creativity 	<ul style="list-style-type: none"> • Team and organizational tenure diversity were not related to team performance. • Educational diversity is positively related to performance, when the latter is measures as innovation or creativity.
7	Boone & Hendriks	2009	Functional	<ul style="list-style-type: none"> • Performance • Decision quality • Team collaboration • Information exchange • Decentralized decision making 	<ul style="list-style-type: none"> • Mediator: functional diversity impact on firm performance is mediated by decision quality. • Moderator: the authors found that this positive influence on firm performance depends on teams that collaborate, exchange truthful information, and decentralized decision-making transform functional diversity into teams that make high quality decision.
8	Bunderson and Sutcliffe	2002	Intrapersonal Functional and dominant Functional	<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • Dominant functional diversity is positively related to fir performance, moderated by less geographical distribution. • Intrapersonal functional diversity is positively related to performance under environmental uncertainty moderation. • Moderator: environmental uncertainty and member colocation.
9	Camelo et al	2010	Tenure and Functional	<ul style="list-style-type: none"> • Innovation 	<ul style="list-style-type: none"> • TMT tenure and functional background diversity are negatively related to innovation. • TMT functional diversity influence on innovation becomes positive when moderated by high strategic consensus • Moderator: strategic consensus

10	Carpenter and Fredrickson	2001	Tenure, education and international experience	<ul style="list-style-type: none"> Global strategic posture (GSP) 	<ul style="list-style-type: none"> TMT tenure, educational background and international experience diversity increase the likelihood to be global. The positive relationship becomes negative on highly uncertain environments, except for educational diversity which gets stronger. Moderator: environmental uncertainty
11	Certo et al.	2006		<ul style="list-style-type: none"> Diversification ROA Innovation 	<ul style="list-style-type: none"> Functional diversity is positively related to ROA Tenure diverse teams are more likely to challenge the status quo. Educational diversity is positively related to diversification. Specially on small or newly created firms.
12	Chi, Huang and Lin	2009	Tenure	<ul style="list-style-type: none"> Team innovation 	<ul style="list-style-type: none"> Tenure diversity and innovation have a curvilinear relationship, positive relationship at moderate levels of tenure diversity, and negative at high levels Moderator: Team-oriented HR practices
13	Chowdhury	2005	Age, gender and functional	<ul style="list-style-type: none"> Entrepreneurial team effectiveness cognitive Comprehensiveness Team commitment 	<ul style="list-style-type: none"> Age, gender and functional background diversity do not impact team-level cognitive comprehensiveness and the team commitment (entrepreneurial team effectiveness)
14	Dahlin, Weingart, and Hinds	2005	Education	<ul style="list-style-type: none"> Effective use of information 	<ul style="list-style-type: none"> Education heterogeneity has a curvilinear relation with information use, as diversity increases the team benefits from the use of varied information, but when diversity is too high it becomes problematic.
15	Geletkanycz & Black	2001	Functional	<ul style="list-style-type: none"> Commitment to strategic status (CSQ) 	<ul style="list-style-type: none"> Functional heterogeneity is negatively related to commitment to strategic status (CSQ), hence setting the field for innovativeness
16	Hambrick, Cho, and Chen	1996	Functional backgrounds, education and organizational	<ul style="list-style-type: none"> Competitive action and Competitive response Performance <ul style="list-style-type: none"> Market share 	<ul style="list-style-type: none"> TMT with functional backgrounds, education and organizational tenure diversity showed more propensity for action, action and the responses were more substantial. Diverse TMT are slower in responding or act towards competitor's initiatives.

			tenure	<ul style="list-style-type: none"> ○ Profitability 	<ul style="list-style-type: none"> • TMT diversity has a positive impact on performance (market share and profitability)
17	Iaquinto and Fredrickson	1997	Tenure	<ul style="list-style-type: none"> • Performance • Agreement 	<ul style="list-style-type: none"> • Organizational tenure (mean or diversity) was not related to agreement or performance
18	Jackson et al.	1991	Age	<ul style="list-style-type: none"> • Turn over 	<ul style="list-style-type: none"> • Age heterogeneity is associated to TMT turnover
19	Knight, Pearce, Smith, Olian, Sims, Smith and Flood	1999	Functional	<ul style="list-style-type: none"> • Global strategic posture (GSP) 	<ul style="list-style-type: none"> • The relationship between tenure diversity and global strategic posture (GSP) is dynamic, chances of investing in new geographic markets diminished as time passes. • Functional diversity can increase interpersonal conflict within a team.
20	Knippenberg et al.	2011	Tenure	<ul style="list-style-type: none"> • Organizational performance 	<ul style="list-style-type: none"> • Tenure diversity had no effect on organizational performance
21	Michel and Hambrick	1992	Tenure and Functional	<ul style="list-style-type: none"> • Interdependence 	<ul style="list-style-type: none"> • TMT diversity is positively associated to high-interdependence firms (unrelated firms) • TMT homogeneity is associated to low interdependence-firms (vertically integrated and related diversified firms)
22	Michie et al. 2		Functional	<ul style="list-style-type: none"> • Decision Quality 	<ul style="list-style-type: none"> • Functional diversity has a positive impact on Decision Quality • Mediator: team member collaboration • Moderator: goal consensus
23	Milliken and Martins	1996	Tenure	<ul style="list-style-type: none"> • Social integration • Turnover 	<ul style="list-style-type: none"> • Tenure diversity diminishes social integration • Tenure diversity increases turnover

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24	Murray	1989	Age, Tenure, Education and Functional	<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • Diversity is positively related to long term performance.
25	Nielsen	2010	Nationality International experience	<ul style="list-style-type: none"> • Foreign market decision 	<ul style="list-style-type: none"> • Nationality and international experience diversity were positively related to foreign market decision, and hence have a positive impact on firm performance.
26	Nielsen and Nielsen	2012	Nationality	<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • Nationality and functional diversity were positively related to performance. • Educational, age, industry and international experience diversity were not related to performance.
27	Pelled, Eisenhardt, and Xin	1999	Functional, race, age and tenure	<ul style="list-style-type: none"> • Performance • Task conflict • Emotional conflict 	<ul style="list-style-type: none"> • More job related diversity (functional background) conduces to task conflict and therefore to performance. • Less job related diversity (race and tenure) conduces to emotional conflict and therefore hampers performance. • Age similarity increases emotional conflict. • Moderator: task routineness and group longevity.
28	Richard and Shelor	2002	Age	<ul style="list-style-type: none"> • Return on assets (ROA) • Sales growth 	<ul style="list-style-type: none"> • Age diversity impacts negatively return on assets but a positively on sales growth. • Curvilinear relationship between TMT age diversity and sales growth, low and moderate diversity are positive to sales growth but high levels negative
29	Rivas	2012	Functional and Tenure	<ul style="list-style-type: none"> • Internationalization 	<ul style="list-style-type: none"> • Both TMT and CEO functional background diversity have a positive influence on internationalization. • Tenure diversity is negatively associated to internationalization.
30	Sambharya	1996	International experience	<ul style="list-style-type: none"> • International diversification 	<ul style="list-style-type: none"> • TMT international experience diversity was found to have a positive relation with international diversification.

					<ul style="list-style-type: none"> • TMT with a higher average of years of TMT member international experience is positively related to firm's international diversification. • TMT with higher proportion of TMT members with international experience, are also related to a firm's international diversification.
31	Simsek et al	2005	Tenure	<ul style="list-style-type: none"> • Behavioral integration 	<ul style="list-style-type: none"> • Tenure and tenure diversity were not related to behavioral integration
32	Simons	1995	Education	<ul style="list-style-type: none"> • Performance 	<ul style="list-style-type: none"> • TMT educational diversity had an impact on company performance, only when debate takes place. • Moderator: debate
33	Simons, Pelled, and Smith	1999	Diversity	<ul style="list-style-type: none"> • Performance • Debate • Decision comprehensiveness 	<ul style="list-style-type: none"> • Education diversity has a negative impact on decision comprehensiveness but moderated through debate it becomes positive. • Education diversity, when moderated by debate, makes significant the positive relation to profitability and sales. • Functional diversity has a positive effect on performance through debate moderator. • Moderator: Debate • Mediator: Decision comprehensiveness
34	Smith et al.	1994	Education	<ul style="list-style-type: none"> • Performance • Return on investment (ROI) • Sales growth 	<ul style="list-style-type: none"> • Education diversity is positively related to Return on investment (ROI) and sales growth
35	Srivastava and Lee	2005	Tenure, Education	<ul style="list-style-type: none"> • Corporate entrepreneurship <ul style="list-style-type: none"> ○ Order of new product move ○ Timing of the move ○ Probability of being a 	<ul style="list-style-type: none"> • Organizational tenure heterogeneity was associated with earlier order and a greater chance of being first mover. • Education diversity is positively related to the order of introduction of new products (more diverse-earlier), and no relationship with the probability of being first mover.

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				first mover	
36	Tihanyi, Ellstrand, Daily and Dalton	2000	Age, tenure and education	<ul style="list-style-type: none"> • International diversification 	<ul style="list-style-type: none"> • Age, functional and educational diversity were not associated to international diversification • Higher tenure diversity is associated to international diversification
37	Wagner, Pfeffer and O'Reilly III	1984	Tenure	<ul style="list-style-type: none"> • Turn over 	<ul style="list-style-type: none"> • TMT tenure diversity was associated to group turnover
38	Wally and Becerra	2001	Functional	<ul style="list-style-type: none"> • International diversification 	<ul style="list-style-type: none"> • TMTs with broader functional background are related to higher international diversification.
39	Wiersema and Bird	1993	Age	<ul style="list-style-type: none"> • Turn over 	<ul style="list-style-type: none"> • Younger executives had a higher turnover. • TMT educational diversity in relation to the university's prestige had an impact on turnover.
40	Wiersema and Bantel	1992	Age	<ul style="list-style-type: none"> • Strategic Change 	<ul style="list-style-type: none"> • Age diversity, team and organizational tenure heterogeneity do not influence strategic change. • Shorter organizational tenure and higher team tenure influence strategic change. • Educational specialization diversity is positively related to strategic change
41	Zenger and Lawrence	1989	Age	<ul style="list-style-type: none"> • Frequency of communication • Project performance 	<ul style="list-style-type: none"> • Age diversity impacts negatively the frequency of communication and project performance
42	Zimmerman	2008	Education and functional	<ul style="list-style-type: none"> • Entrepreneurship • Capital raised by IPO 	<ul style="list-style-type: none"> • TMT educational and functional heterogeneity were positively related to the capital raised by a firm in its initial public offering (IPO).

Source: the author

ANNEX III. Semi-structured interviews protocol

Protocolo de entrevista cualitativa – CEO HQ

Mi nombre es **Ana Bolena Escobar**, soy candidata a doctor en Gestión de la Empresa de la Universidad de Valencia. Estoy haciendo mi tesis doctoral en las iniciativas de las filiales exteriores de las Multinacionales, identificando el rol que los altos ejecutivos y las redes tienen en el resultado de las iniciativas.

El **propósito de esta entrevista** es conocer una o varias iniciativas de las filiales exteriores de Colombina, entender como ha sido el proceso de las mismas, los actores involucrados y sus roles, y la relación con la casa matriz durante el proceso. La duración de la entrevista será de aproximadamente 1 hora y media.

La información dada será **anonimizada** para efectos de análisis y presentación de resultados, ni la empresa ni las personas serán nombradas. Sin embargo, los resultados del mismo serán compartidos con la empresa.

Antes de empezar quisiera saber si **puedo grabar** la entrevista y tomar notas, dado que me permitirá volver fácilmente a lo discutido a la hora analizar los datos. En la entrevista pasaremos de lo general a lo particular y en algunos casos regresaremos a temas más globales.

¿Tiene alguna **pregunta o inquietud** frente al proceso?

¿Me autoriza a continuar y grabar la entrevista?

EL CEO (Aspecto demográficos)

Para empezar, hablemos un poco sobre su educación:

1. ¿Cuál es el grado más alto recibido en su formación **educativa**?
2. ¿Cuál fue el **título obtenido**? y dónde?
3. ¿Además de su maestría, alguno de sus otros **estudios** fue en otro país?
¿Cuáles y en dónde?

Frente a su rol en la empresa, cuénteme un poco sobre su llegada a Carvajal, su cargo actual, cuánto tiempo lleva en la empresa, ¿cuál ha sido su recorrido en la misma?

4. ¿Cuál es su **cargo** en la empresa?
5. ¿En qué año empezó a trabajar en ésta empresa?
6. ¿En cuál **área** ha trabajado durante más tiempo en esta empresa?
7. Describa por favor su **recorrido profesional** antes de trabajar en esta empresa.
8. Antes de pertenecer a esta empresa usted **trabajó fuera del país**:
 - a. SI, ¿dónde? _____, ¿por cuánto tiempo?

- b. NO, ¿tuvo alguna experiencia vendiendo o brindando servicios fuera de su país?

EMPRESA MULTINACIONAL Y LAS FILIALES (aspectos generales de la empresa)

Ahora hablemos un poco sobre la empresa Multinacional y las filiales

- 9. ¿En qué año fue **fundada** la MNC?
- 10. ¿Cuál es el **sector** o industria?
- 11. El grupo empresarial al que pertenece es
- 12. ¿Dónde es la **casa matriz**?
- 13. ¿Cuántos **empleados** de tiempo completo tiene MNC?
- 14. ¿Cuál es el promedio de las **ventas anuales** de la MNC de los últimos 3 años?
- 15. ¿Cuántas **filiales** y en dónde?
 - a. Número:
 - b. Dónde:
- 16. Cuáles de estas filiales son **100% propiedad** de la MNC:

Estructura y relaciones HQ-filial

- 17. ¿Cómo se relaciona la HQ con las filiales? ¿Es una relación vertical? ¿La HQ es el centro o es parte de la red?
- 18. ¿Existen filiales que se **destaquen** por ser innovadoras y proactivas?
- 19. ¿Cuál es su filial **más proactiva** e innovadora?, _____ ¿en qué país se encuentra? _____
 - a. ¿Cuál es la segunda? _____
 - b. ¿Cuál es la menos innovadora o seguidora?

Enfoquémonos en la FILIAL ESTRELLA por un momento:

- 20. ¿Cuál es el **origen** de la filial?
 - a. Filial fruto de una adquisición
 - b. Filial creada desde cero (Greenfield)
 - c. Filial fruto de una alianza (Joint-Venture)
- 21. ¿En qué **año** inició la filial en este país? _____
- 22. ¿Cuántos **empleados** de tiempo completo tiene? _____
- 23. ¿Cuál es el **porcentaje de ventas** que genera esta filial, sobre el total de la MNC?
- 24. ¿Cómo describiría usted el mercado en que se encuentra esta filial para la estrategia de la MNC?
- 25. ¿Qué tipo de **actividad** realiza esta filial?
- 26. ¿Cómo describiría las capacidades o competencias de esta filial?
- 27. ¿Qué hace a esta filial estratégica para la MNC?
- 28. ¿Ha desarrollado esta filial alguna **iniciativa** relevante para la MNC?, por ejemplo, que se haya replicado en filiales hermanas en otros países o en la misma casa matriz

29. ¿Cuál es el nivel de **autonomía** de esta filial, con respecto a las demás?
 30. ¿Quién es el **CEO de esta filial** y podría tener acceso a sus datos para poder contactarlo?

FILIAL MENOS INNOVADORA

31. ¿Cuál es el **origen** de la filial?
 a. Filial fruto de una adquisición
 b. Filial creada desde cero (Greenfield)
 c. Filial fruto de una alianza (Joint-Venture)
32. ¿En qué **año** inició la filial en este país? _____
 33. ¿Cuántos **empleados** de tiempo completo tiene? _____
 34. ¿Cuál es el **porcentaje de ventas** que genera esta filial, sobre el total de la MNC?
 35. ¿Quién es el **CEO de esta filial** y podría tener acceso a sus datos para poder contactarlo?
 36. ¿Qué tipo de **actividad** realiza esta filial, y porqué considera que tiene un rol más operativo?
 37. ¿Cuál es el nivel de **autonomía** de esta filial, con respecto a las demás?

Estructura y relaciones HQ-filial (Pregunta para CEO o TMT member de las filiales)

FILIAL ESTRELLA

38. ¿Cómo describiría la relación de la filial con la casa matriz?
 a. Comunicación
 b. Atención que recibe la filial
 c. Poder que tiene la filial.
39. ¿Cómo percibe usted la relación de la filial con las demás filiales? Con respecto al trabajo ¿es colaborativo, es una relación competitiva, de emulación?
40. ¿Cómo percibe usted la posición de esta filial dentro de la MNE?
 a. ¿Es una posición central? ¿Se diferencia de la posición de las otras filiales?
 b. ¿Cómo ha sido el proceso para llegar a esta posición?

INICIATIVA DE LA FILIAL (Preguntas sobre la iniciativa, el proceso, variables que inciden)

Las filiales inicialmente se constituían para implementar el mandato de la casa matriz, sin embargo, cada vez más se percibe que adquieren un rol más proactivo e innovador (Preguntas para ambos HQ-filial).

41. ¿Puede identificar una iniciativa que haya desarrollado e implementado esta filial que no venga del mandato de la casa matriz sino como una iniciativa propia y además innovadora? Si la iniciativa fue trasladada a otras filiales mucho mejor.
- a. *Nuevos productos desarrollados en la filial que se venden internacionalmente*
 b. *Expansión de las responsabilidades a nivel internacional de la filial*
 c. *Inversiones exitosas en el país de la filial*

- d. *Transferencia de procesos propios de la filial a otros países*
 - e. *Adquisición de compañías realizadas por la filial*
 - f. *Nuevas actividades de negocio internacionales creadas por la filial en su país*
 - g. *Incremento de líneas de producto adoptadas internacionalmente*
 - h. *Nuevas inversiones de I&D o procesos de producción*
42. Ahora **hablemos sobre el proceso de la iniciativa, ¿como surgió y como se desarrollo?**

Entender el proceso de **IDENTIFICAR LA OPORTUNIDAD**

43. ¿**Cuál fue la oportunidad**, problema o necesidad que **identificaron** en la filial exterior y de acuerdo a su conocimiento, qué los llevó a perseguir esa iniciativa?
- a. ¿Surge de una necesidad u oportunidad del mercado local? Interno de la MNC? Global?
44. ¿**Quiénes** estuvieron **involucrados** en la iniciativa? Particularmente en la identificación de la oportunidad.
- a. *Identificar en la respuesta si surge de una idea Individual o grupal*
45. ¿Qué **atributos** de los **involucrados** considera que fueron claves para identificar la oportunidad o llevar a cabo la iniciativa?
46. En términos de la filial como una empresa, ¿qué recursos y capacidades con que cuenta la filial considera fueron clave para identificar esta oportunidad?
47. ¿Qué **papel** jugaron las **redes** en esta identificación de la oportunidad?
Clientes, Proveedores, Centros de Investigación, Gobierno, HQ, Filiales hermanas
48. ¿Cuáles considera que fueron los **aspectos clave** para que la filial identificara esa **oportunidad**?

Las iniciativas de las filiales exteriores requieren apoyo de la casa matriz (ISSUE-SELLING):

49. ¿Cómo fue el proceso de la filial para **comunicar esta iniciativa** a la casa matriz?
- a. *¿Cómo?, ¿Quién lo hizo?, ¿A través de que formas? ¿Visitas? ¿Mails? ¿Informes?*
50. ¿En qué **estado de desarrollo** se encuentra la iniciativa cuando se le comunica a la sede central?
- a. *Desde el inicio que se identifica la oportunidad*
 - b. *Consolidada con un business plan*
 - c. *Implementándola*
51. ¿Cuál fue la **respuesta** de la casa matriz (**HQ**) con respecto a la iniciativa?
52. ¿Cuál fue la **respuesta** de las otras **filiales** frente a esa iniciativa?
53. ¿Cuál considera que fue el **principal (es) factor (es)** para lograr que la iniciativa tuviera **asignación de recursos** e implementarla?
- a. *¿Existió un proceso de negociación?*
 - b. *¿Cómo fue dicho proceso?*
 - c. *¿Cuáles aprendizajes quedaron de ese proceso?*
 - d. *¿De que herramientas se valieron para la negociación?*
54. **Voy a describir algunos procesos** que se han identificado en la “venta” de

- la iniciativa a la casa matriz, de los que no ha mencionado si identifica alguno de los siguientes por favor explicar cómo se llevó a cabo en la iniciativa que estamos discutiendo.
- a. **Involucrar** actores estratégicos al proceso de “venta” de la iniciativa
 - i. Actores en un nivel superior
 - ii. Actores en el mismo nivel
 - iii. Actores fuera de la firma
 - iv. Mantener al jefe informado
 - b. **Empaquetado** de la iniciativa, que significa como se va a presentar la iniciativa desde el punto de vista del lenguaje a usar, la forma de presentarla.
 - i. Presentación:
 1. Business plan, oportunidad
 2. Propuestas continuamente o solo una vez
 3. De manera incremental (dando pistas del proceso poco a poco)
 - ii. **Argumentado** con
 1. Consecuencias monetarias o de rentabilidad
 2. Objetivos de valor, imagen de la firma, posición de mercado
 3. Otros temas ya aprobados o en proceso de aprobación
 - c. **Procesos** o mecanismos para vender un tema:
 - i. Formalidad
 1. Formal o Informal
 2. Comunicación de manera escrita o en persona (face to face)
 - ii. **Preparación**
 - iii. **Timing**
 1. Perseverancia en vender las actividades o iniciativas
 2. Timing oportuno
 3. Involucramiento temprano en la iniciativa (por ejemplo HQ)
 - d. **Otros** de los factores que ayudan en la venta de una iniciativa son el nivel de Atención de HQ a la filial y/ o el poder de la filial en la MNC. En la medida que una filial es más importante que otra, es probable que necesite usar menos estrategias de venta pues ya tiene más probabilidades de ser apoyada.
 - i. **Atención:** Designada por HQ o ganada por la filial
 - ii. **Poder:** lo ha conseguido la filial a través de relaciones externas, contactos internos, reputación de la filial (o ejecutivos), capacidades de la filial
55. ¿Cuáles considera que fueron los **principales resultados** de la iniciativa?
56. De acuerdo a los discutido hasta ahora, la filial tiene una posición privilegiada en la MNE. ¿Considera que la **SI** tuvo un **impacto** en la **posición de la filial** dentro de la MNE?

LAS REDES DE LA MNC Y LAS FILIALES

REDES EXTERNAS

Las redes externas son las que una filial tiene en el país de destino, por ejemplo, los clientes, los proveedores, universidades, centros de investigación, la competencia, entidades del gobierno, entre otros.

57. ¿Cuántas y cuáles son las principales redes externas de sus filiales?
58. ¿De estos agentes con quienes tiene más contacto?
59. ¿Cuáles diría que son más fuertes?
60. ¿Son más importantes con clientes? con proveedores?
61. ¿Cómo se construyeron las relaciones?

62. ¿Cómo describiría o calificaría las relaciones con estas redes?
63. ¿Las relaciones hasta cuanto les permite estar coordinados?
64. ¿Cuál es el rol del gerente de la filial (CEO) y de los miembros del equipo directivo con estas redes?
65. ¿Que hace que un miembro de la MNC en particular logre desarrollar esas redes?
66. En la iniciativa que discutimos en particular, ¿Cuáles de estas redes incidieron y de qué manera incidieron en la iniciativa?
67. ¿En qué momento de la iniciativa siente que incidieron más estas redes externas y de qué manera?

REDES INTERNAS (INTERNAL EMBEDDEDNESS)

Las redes internas de una filial son las que están inmersas en la Multinacional, por ejemplo la casa matriz, filiales hermanas.

68. ¿Cómo son las relaciones tuyas o del equipo directivo con el gerente o los miembros del equipo de la filial estrella?
69. ¿Cómo se construyeron las relaciones?
70. ¿Cuál es el rol del gerente de la filial (CEO) y de los miembros del equipo directivo con estas redes?
71. ¿Que hace que un miembro del TMT en particular logre desarrollar esas redes?
72. En la iniciativa que discutimos en particular, ¿Cuáles de estas redes incidieron y de qué manera incidieron en la iniciativa?
73. ¿En qué momento de la iniciativa siente que incidieron más estas redes internas y de qué manera?

EL ROL DE TMT EN LA INICIATIVA

El rol del TMT en la iniciativa de la filial (posiblemente más adecuado para la filial)

El equipo de la alta gerencia, o el equipo directivo, se define como el grupo de ejecutivos senior que generalmente toman las decisiones importantes para el futuro de la firma.

74. ¿Cómo describiría usted al equipo directivo de la filial (estrella)?
75. ¿Cómo describiría usted la dinámica de trabajo de los miembros de ese equipo directivo?
76. ¿Cómo considera que ha sido el rol del equipo directivo de filial, en la iniciativa de la filial que hemos discutido?

Para finalizar, quisiera hacerle algunas preguntas para análisis demográfico:
(preguntas al CEO de la casa matriz y de la filial)

- 1) ¿Cuál es su nombre?
- 2) Género: F M
- 3) ¿En qué año nació? _____
- 4) ¿En qué ciudad o país nació? _____