Subsidiary Internationalization and Evolutionary Paths of Cross-Border Subsidiary Mandates

A Multiple Case Study Approach

Thesis

presented to the Faculty of Economics and Social Sciences of the University of Fribourg (Switzerland)

by

Nicolas LOHR
from Hamburg, Germany

in fulfilment of the requirements for the degree
of Doctor of Economics and Social Sciences

Accepted by the Faculty of Economics and Social Sciences
April 8th, 2013 at the proposal of
Prof. Dr. Dirk Morschett (first supervisor) and
Prof. Dr. Eric Davoine (second supervisor)

Fribourg, Switzerland, 2013

The Faculty of Economics and Social Sciences of the University of Fribourg (Switzerland) does not intend either to approve or disapprove the opinions expressed in a thesis: they must be considered as the author's own (decision of the Faculty Council of 23 January 1990).

Foreword

Internationalization processes have long been a core topic of International Business research. Scholars thereby usually assumed that the headquarters in the home country create a direct and immediate link to the activities in a specific foreign market. However, a quite different phenomenon can also be observed in practice: Subsidiaries in foreign markets in some cases take a charter – initiated by the headquarters or on its own initiative – beyond their original host market and internationalize themselves into third markets. This process which has been labeled “internationalization of the second degree” may help a multinational company to leverage its existing resources and capabilities in remote locations more effectively than the traditional approach.

Nicolas Lohr focused his doctoral thesis on the internationalization of the second degree. The topic has high practical relevance but has rarely been investigated in business research. In fact, there exists almost no other study that focusses explicitly on this phenomenon. Nicolas Lohr provides the first comprehensive study on this issue and it is the first study to investigate the reasons for the internationalization of the second degree as well as the dynamics of this mandate.

From his work as a business consultant, Nicolas Lohr already had a thorough understanding of business practices in internationally operating companies when he started his doctoral studies. He quickly understood how to take an academic perspective on precisely defined research questions and how to apply the adequate scientific research instruments in a rigorous manner. He investigated his research questions with a qualitative method, based on eleven case studies. Each case in itself is worthwhile reading and brings the reader interesting insights. But it is the identification of commonalities and differences between the cases by means of a systematic cross-case analysis that is the true accomplishment of Nicolas Lohr. With this procedure, he creates new knowledge and manages to propose extensions to existing theory.

Overall, Nicolas Lohr’s doctoral thesis provides a valuable and important contribution to the research in International Business. He contributes to our understanding of a very relevant phenomenon. First discussions on his results in the academic community already demonstrated that his findings are well received but also provoke debate.

I recommend every researcher who intends to investigate internationalization processes to read this book. Furthermore, it is also of great value for company executives whom it can help to reflect on their own business practices. I am convinced that the study will be widely read and will stimulate further studies into the issue by other scholars who will find the results of Nicolas Lohr a profound basis for their own research.

Fribourg, April 2013

Prof. Dirk Morschett

Acknowledgements

Carrying out a doctoral thesis can be both a lonely and seemingly infinite undertaking, especially if one is used to working in collaboration with teams and under defined deadlines. A thesis requires the self-discipline to set up one's own goals and timelines, even when it seems no one else would notice the difference. At the same time, this project has given me the opportunity to investigate a scientific research topic with a level of depth and engagement that is simply not possible in everyday working life. Although I've noted the solitary nature of my scientific journey, this thesis would not have been possible without the endless contributions of many individuals.

Firstly, I would like to thank my thesis supervisor Prof. Dr. Dirk Morschett for his support throughout this process. When I look back at our initial exchange about my study exposé and all our subsequent discussions about its progress, I recognize how he equipped me with the tools and framework I needed to master the challenge of qualitative research in subsidiary internationalization processes. Prof. Dr. Dirk Morschett was always willing to respond with prompt and constructive feedback, whether it was about my initial findings, the preparation for scientific papers and presentations, or even with the submission of my final draft. In addition, I would also like to thank Prof. Dr. Eric Davoine who served as my second thesis examiner, as well as the chair of the doctoral committee, Prof. Dr. Rudolf Grünig, for their constructive criticism and encouragement.

I would also like to express my gratitude to all seven companies and fifteen interviewees who agreed to participate in this study. They provided me with firsthand insight into the processes of subsidiary internationalization from both the corporate headquarters and the foreign subsidiary perspective. Unfortunately, confidentiality agreements prevent me from explicitly listing their names but I acknowledge and thank them for their invaluable contributions.

I also thank my current employer Oliver Wyman for financially supporting me throughout this study. This support gave me the freedom and the privilege to conduct my external research and to focus exclusively on completing this doctoral thesis.

Finally, I would like to thank my parents for their warm support and their constant encouragement.

Berlin, April 2013

Nicolas Lohr

Table of contents

List of figures

List of tables

1. Introduction to the study

1.1. Subsidiary internationalization: a topic for research

Over the last fifty years the unit of analysis in the research field of international business (henceforth 'IB') has seen a shift from a country to a firm and recently to a subsidiary level. Looking ahead, scholars are encouraged "to study the linkages among the key units of analysis adopted in the previous fifty years, with a focus on the subsidiary as the key building block, taking into account the reality of regional strategy and structure for most MNEs" (Rugman, Verbeke & Nguyen, 2011: 779). Understanding the emergence, evolution and potential collapse of subsidiary mandates beyond original host markets not only links the aforementioned units of analysis, but it also allows an initial look at the dynamic nature of subsidiary internationalization as suggested by Blankenburg Holm, Drogendijk, Hohenthal, Holm, Johanson and Zander (2009).

Since the development of the Uppsala or internationalization process (henceforth 'IP') model by Johanson and Vahlne (1977), the process of firm internationalization has been studied by numerous IB scholars around the globe (Johanson & Vahlne, 1990). The IP model investigates the expansion of business operations of a parent company from the home market to a single or to several foreign markets, a process called internationalization of the first degree. While IB literature on subsidiary roles has long emphasized that local resources of foreign subsidiaries can also be leveraged by the multinational corporation (henceforth 'MNC') to enter new markets (e.g. Bartlett & Ghoshal, 1986; Birkinshaw & Fry, 1998), internationalization processes at subsidiary level were not taken into consideration. Understanding why and how foreign MNC units themselves internationalize following the initial market expansion of their parent companies, a process also labeled as internationalization of the second degree (Forsgren, Holm & Johanson, 1992), therefore remains largely unexplored (Blankenburg Holm et al., 2009).

The few IB scholars who touched upon the topic in the past (e.g. Forsgren et al., 1992; Taggart & Berry, 1997; Forsgren, 2002) clearly demonstrated that subsidiary influence can stretch beyond host market borders but they failed to identify the drivers and restrictions of subsidiary internationalization. Given the continuous internationalization of markets and the need for firms to leverage resources on a global scale (Dunning, 2000) in combination with the growing relevance of regional integration strategies (e.g. Oh & Rugman, 2012; Rugman & Oh, 2010), the lack of research on subsidiary internationalization seems ever more surprising. Other than traditional internationalization processes that are by definition associated with increasing commitment to foreign markets (Welch & Luostarinen, 1988), cross-border reaching of foreign subsidiaries is not necessarily associated with an increased global presence of a firm's operation. In fact, it can initially relate to a capability and charter upgrade (Birkinshaw

& Hood, 1998) of a foreign sub-unit that causes declining or dissolving responsibility scopes at the other ends of the MNC. As shifting foreign market charters or mandates generally imply enhanced future market development through an alternative and decentralized approach, however, a firm's overall attitude towards foreign activities is modified, which alone characterizes it as an internationalization process (Johanson & Wiedersheim-Paul, 1975).

Internationalization trajectories of MNC units are based on relationships with external actors, with the MNC headquarters and with other MNC units located inside or outside of the host country (Araujo & Rezende, 2003). Understanding processes of subsidiary internationalization therefore requires a holistic study perspective, spanning the entire MNC (internal) and numerous business markets (external). Referring to the research topic, Blankenburg Holm et al. (2009: 15) note that "the MNC is likely to contain a portion of business opportunities for internationalization at the subsidiary level, which remains unrealized (or delayed) due to the inability of subsidiaries to act upon them, because of limited resources, the inability to communicate their potential, or due to limited influence on political processes within the MNC". Internal competition for corporate marketplace (Galunic & Eisenhardt, 1996) further suggests that subsidiary internationalization is likely to follow other process patterns than internationalization of the first degree.

Adding to the complexity of subsidiary internationalization, modern MNCs are characterized by a multiple embeddedness of their entities where knowledge acquisition may happen at one level while its application may take place at a geographically distant MNC unit (Tallman & Chacar, 2011). Subsidiary embeddedness can benefit the MNC by assimilating new knowledge (Andersson, Forsgren & Holm, 2001), by developing firm-specific advantages (henceforth 'FSA') (Birkinshaw, Hood & Jonsson, 1998), or by exploiting country-specific advantages (henceforth 'CSA') (Rugman & Verbeke, 1992). At the same time it creates an agency problem (Jensen & Meckling, 1976) due to information asymmetry or goal incongruence between an HQ and its subsidiary (O'Donnell, 2000). In combination with psychic (Johanson & Vahlne, 1977) and cultural distance (Kogut & Singh, 1988), subsidiary internationalization is likely to be accompanied by a high level of uncertainty that may influence corporate decisions. The challenge for corporate management therefore seems to be the exploitation of locational advantages of foreign subsidiaries in the international context (Rugman, Verbeke & Yuan, 2011) while maintaining the resulting risk at acceptable levels. By doing so, the MNC is faced with liability of outsidership, arising externally from uncertainty about foreign markets but also internally from a lack of HQ knowledge about subsidiary networks and actions (Vahlne, Schweizer & Johanson, 2012).

While business networks of foreign subsidiaries generally reach beyond host market borders at some stage of their evolution (Forsgren, Holm & Johanson, 2005), local subsidiary management is generally forced to seek HQ approval for the systematic allocation of local resources to foreign markets (Ambos & Birkinshaw, 2010). Obtaining cross-border mandates thereby appears to be facilitated by a mix of tactical maneuvering, endurance, and luck of subsidiary personnel (Birkinshaw & Fry, 1998) capable of more than offsetting countervailing forces of corporate immune systems (Birkinshaw & Ridderstråle, 1999). Foreign subsidiaries are generally best positioned in the perpetual bargaining process for intra-organizational power if they, in addition to strong local business networks, can contribute to MNC knowledge development (Andersson, Forsgren & Holm, 2007).

Even though the aforementioned determinants of subsidiary bargaining power across the MNC are largely supported by other studies of leading IB scholars (e.g. Mudambi & Navarra, 2004; Bouquet & Birkinshaw, 2008), the particularities of cross-border mandates as opposed to host-market or intra-firm-orientated mandates seem to be important for the study at hand. Internationalization generally requires the successful combination of existing FSAs with CSAs of the target market or region and this adaptation process is likely to involve varying degrees of time and cost (Rugman & Verbeke, 2005). Is the individual value-proposition of a foreign subsidiary to overcome liability of outsidership (Johanson & Vahlne, 2009) and inter-regional foreignness (Rugman & Verbeke, 2007) therefore decisive for obtaining significant cross-border reach or remaining largely host-market-restrained?

Following the initial mandate gain that sets the geographical and functional scope of a subsidiary's foreign market operations, responsibilities may be preserved, extended, reduced, or dismantled. The depletion or enhancement of subsidiary capabilities, driven by parent company, subsidiary and host country factors, thereby specify the direction of mandate evolution (Birkinshaw & Hood, 1998) and it is up to local subsidiary management to build on their distinct capabilities (Birkinshaw, 1996). Frequent regional HQ relocation as one form of cross-border subsidiary responsibility driven by aspects outside the local management's area of influence (Kähäri, Piekkari, Barner-Rasmussen & Hilvo, 2010), however, rather indicates the opposite picture. Are foreign subsidiaries therefore likely to have a pronounced stake in the evolutionary path of cross-border subsidiary mandates? And to what extent does the level of influence differ from relatively limited functional scopes, e.g. cross-border sales and service responsibilities, to important HQ-like functions (Lehrer & Asakawa, 1999) for an entire region?

Internationalization trajectories of firms are to this day often associated with gradualism as "experiential learning and building trust and commitment, the basic prerequisites for developing business, and hence for internationalization, certainly have not changed" (Johanson & Vahlne, 2009: 1421). This postulation raises an interesting aspect of subsidiary internationalization and the evolution of cross-border subsidiary mandates. While the degree of experiential learning and network development for the area covered by the subsidiary mandate is due to geographical proximity likely to be most pronounced among subsidiary management

(Forsgren et al., 2005), major commitment decisions are still taken by HQ personnel. HQ–subsidiary relationships that accompany any form of cross-border subsidiary mandates therefore appear to interrupt natural flows between learning, trust-building, and commitment increase observed for internationalization processes of the first degree (Johanson & Vahlne, 1977, 2009). Is it therefore reasonable to assume that internationalization trajectories of foreign subsidiaries equally embody elements of gradualism and discontinuity as suggested by Araujo and Rezende (2003)?

The study aims to contribute to the academic understanding of the internationalization of foreign subsidiaries by identifying process drivers and restrictions in modern MNCs. More specifically, it seeks to understand the initial opportunity-identification and the subsequent rent-seeking process involving all relevant stakeholders within and outside of the MNC. Following the initial mandate gain, the study further seeks to shed light on internationalization trajectories of foreign subsidiaries. The sustainability of cross-border subsidiary mandates as well as the factors that cause extending, stagnating, declining, or potentially dissolving foreign market responsibilities are thereby subject to thorough examination. Again, the focus will be set on identifying drivers that stimulate mandate change as well as underlying HQ rationales for the modification of decentralized market development approaches.

The study uses a multiple case study approach in order to contribute to the topic of subsidiary internationalization. Semi-structured interviews with process stakeholders from the corporate headquarters and the foreign subsidiaries thereby serve as the main sources of data. Overall, study findings are based on eleven cases of subsidiary internationalization at seven European MNCs from the manufacturing industry sector. While corporate headquarters of all MNCs are based in Western Europe, the case sample is characterized by significant heterogeneity with regard to subsidiary location and local value-add, geographical and functional mandate scopes, as well as internationalization trajectories. In addition to HQ- or subsidiary-driven initiatives with positive outcomes that resulted in initial mandate gains or subsequent extensions of cross-border subsidiary responsibilities, the case sample also exhibits failed subsidiary requests for extended geographical reach as well as truncated and reversed evolutionary paths of subsidiary internationalization.

1.2. Points of departure

The topic of internationalization processes of foreign subsidiaries already implies that the two IB research streams of firm internationalization and subsidiaries as part of the MNC need to be taken into thorough consideration when carrying out a scientific study in this field. The process nature of the topic further suggests equally making use of literature with a static as well as dynamic viewpoint. While studies with a static viewpoint can provide a better understanding of why firms internationalize or why firms internalize foreign market operations through the setting up of foreign subsidiaries, related research with a dynamic study perspective allow a clearer picture to be obtained about how the international operations of an MNC and the roles of foreign subsidiaries unfold over time.

As noted by Blankenburg Holm et al. (2009), IB research is still lacking the explicit study of internationalization processes of foreign subsidiaries, meaning that an obligatory starting point for the study does not exist. While the work of Forsgren et al. (1992) or Taggart and Berry (1997) may have identified certain characteristics that accompany cross-border responsibilities of local subsidiary management, none of them explicitly sought to understand process drivers and restrictions of decentralized foreign market development or evolutionary paths of cross-border subsidiary mandates. Other studies, however, were capable of providing some breeding ground to the study at hand. Birkinshaw (1996), for example, looked at how multinational subsidiary mandates are gained and lost. While failing to deal with process stimuli, the Birkinshaw (1996) study provided meaningful insights into why mandates change and where in the MNC evolutionary processes originate. Birkinshaw and Hood (1998), again, linked multinational subsidiary evolution to altering subsidiary capabilities and thereby clearly touched upon important elements of the study. Finally, Araujo and Rezende (2003), though not explicitly looking into subsidiary internationalization, sketched internationalization trajectories of foreign sub-units and thereby provided the investigator with some guidance at the offset of the study.

Overall, a lack of explicit IB studies on subsidiary internationalization processes forced the investigator throughout the entire study to rely on multiple research streams and to combine findings from different fields. A detailed description of relevant research streams is provided in Chapter 2 of this study. It should be noted that literature was only to a limited degree leveraged at the offset of the study in order to avoid an overly narrow approach for theory-building from a comparative case study (Eisenhardt, 1989b). When later comparing case observations with confirming as well as contrasting IB literature, however, numerous additional studies significantly helped to strengthen the robustness of the study findings.

1.3. Research questions, aim and approach

The main objective of the study is to obtain a better understanding of the internationalization processes of foreign subsidiaries. The focus is thereby limited to the process drivers and restrictions of subsidiary internationalization and the evolution of cross-border subsidiary mandates over time. Based on these goals the following four research questions guide the scientific approach:

1) How and where in the MNC are business opportunities for subsidiary internationalization identified?

2) Why are foreign subsidiaries assigned to develop foreign markets as opposed to exploiting identified opportunities centrally from corporate headquarters?

3) How and where in the MNC is the evolution of cross-border subsidiary mandates stimulated?

4) Do cross-border subsidiary mandates develop in a particular form (responsibility extension, preservation, decline, or dissolution) and if yes, why?

Based on the type of research questions (how, why), a comparative case study analysis was selected as the overall research design (Yin, 2009). The study thereby explicitly follows the advice of Blankenburg et al. (2009) to empirically investigate the topic of subsidiary internationalization on the basis of case studies.

1.4. Structure of the study

The overall PhD study is structured in six main chapters. This initial Chapter 1 is relatively short and aims to provide the reader with a broad overview of the study background, a classification of the research topic in IB literature, the overall research objective and approach, as well as the structure of the scientific approach. In Chapter 2 the most relevant terms associated with internationalization processes in general and with cross-border responsibilities of foreign sub-units in particular are defined. The main objective of this task is to avoid potential misinterpretations by the reader. The chapter further outlines IB literature that is directly or indirectly related to the topic of subsidiary internationalization processes. The aim here is not to offer an exhaustive excursus into relevant IB research but to provide a synopsis of interesting studies of the past that are capable of contributing to the observations made in the course of this case study analysis. Findings related to internationalization processes of the first degree, subsidiary roles including HQ–subsidiary relationships, and cross-border subsidiary charters or mandates constitute the core of the literature review.

The focus in Chapter 3 is set on thoroughly explaining the chosen study approach and illustrating the execution of the comparative case study analysis on a step-by-step basis. Initially, advantages and disadvantages of qualitative research in general and case study analysis in particular are outlined. Afterwards, detailed information is provided about how cases were added to the overall case sample, what type of data sources were used, how and with which techniques or instruments data was analyzed, and how the overall research quality was monitored and ensured. The aim of the chapter is to offer a maximum level of transparency in order to enable any reader to easily reconstruct the approach taken for this study and, based on this, to evaluate to what extent it is capable of contributing to contemporary IB research.

Chapter 4 provides the reader with an extensive description of all eleven cases of subsidiary internationalization, encompassing an overview of the MNC and the focal subsidiary as well as a thorough outline of each critical incident related to the foreign market participation of foreign subsidiaries. In addition, the outcome of the three most relevant within-case analysis techniques is highlighted. While critical incident charts extract relevant information from a vast amount of raw data, event-state networks further illustrate what event or state led to another and what conditions stimulated or facilitated the change. Finally, case dynamics matrixes, in which process stimuli and impacts are shown from a subsidiary as well as a parent company perspective, mark the end of each case description. The main goal of the chapter is to offer a comprehensive overview of the different cases, to show the main results of within-case analyses and thus to enable the reader to assess the subsequent cross-case analyses as well as the concluding discussions of the study.

While Chapter 4 already contains interpretative results on a case-by-case basis, Chapter 5 clearly constitutes the heart of the PhD study from an analytical standpoint. First, it thoroughly documents the outcome of the cross-case analyses and thereby provides the reader with observed cross-case patterns of subsidiary internationalization processes and associated evolutionary paths of cross-border mandates. In the subsequent discussion part, it contrasts cross-case patterns of subsidiary internationalization with confirming and conflicting IB literature in order to enhance the overall robustness of case study findings.

The PhD study concludes in Chapter 6 with a summary of the overall findings and their level of contribution to IB research. It further establishes a reference to business practices by outlining the managerial implications of the study results. Finally it states the main research limitations based on the selected research design, the identified case sample, as well as the observations made in the course of the study. It also makes suggestions for future research in the field of subsidiary internationalization. Additional material that was leveraged in the course of study but did not find space in any of the outlined chapters is illustrated in the study's Appendix.

2. Definitions and literature review

2.1. Introduction

The relatively unexplored research topic of internationalization processes at the subsidiary level initially suggested a rather inductive study approach, which would not or only to a limited degree require a thorough examination of literature in relevant research streams. Eisenhardt (1989b: 536) supported this point by postulating that "theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypothesis to test". Gummensson (2000), however, confronted this statement by questioning the need for continuously reinventing the wheel in the course of new studies and actually urged scholars to make use of existing theory also for qualitative research undertakings. A pragmatic middle ground had already been set by Perry (1998: 789), who established ties between the two perspectives by noting that "pure induction might prevent researchers from benefiting from existing theory, just as pure deduction might prevent the development of new and useful theory".

Understanding both sides of the highlighted scholars' debate and acknowledging the vast amount of research that has been carried out in the field of internationalization processes and subsidiary roles and evolutionary paths up to now, a selective use of literature was eventually chosen. The focus was thereby set on bridging mentioned literature streams in order to explicitly understand process drivers for subsidiary responsibility into foreign markets. Throughout the study particular attention was paid to the right balance of induction and deduction, thereby following Sminia's summarizing note (2009: 105) that "some amount of deduction is believed to help in guiding the researcher through the research without posing too much of a preconceived understanding on the particular course of events". In summary, the selected approach significantly helped to structure the overall data collection process while at the same time not limiting the subsequent data analyses and interpretations to already existing findings. The core benefit of qualitative research studies to develop new theories was therefore not constrained at any point of the study.

The following section will commence with a short definition of subsidiary internationalization processes encompassing the key process stakeholders as well as subsidiary mandates that stretch beyond host market borders. Afterwards, a selection of relevant IB research streams using the MNC and foreign MNC units as the core unit of analysis will be presented to the reader. Throughout the literature review a differentiation between static and dynamic research perspectives will be used in order equally understand rationales for and drivers of peripheral internationalization processes. At the same time, a distinction between the MNC and foreign subsidiaries as the core unit of analysis will be applied in order to obtain a differentiated picture of the two involved firm levels.

2.2. Definitions

Before examining in more depth past research findings directly or indirectly related to the internationalization process of foreign subsidiaries, a brief definition of the term 'subsidiary internationalization' and the involved process stakeholders and process items seems appropriate in order to avoid potential misunderstandings by the reader. The primary aim is to clearly specify the unit of analysis, internationalization processes of foreign subsidiaries. In addition, the two major process stakeholders, the MNC and the foreign subsidiary, will be defined and confined from similar organizational forms. Finally, various means of cross-border interplay between corporate and subsidiary management or forms of responsibility delegation and fulfillment that are often referred to as subsidiary mandates or charters will be briefly stressed.

2.2.1. Subsidiary internationalization

In the course of this study the term subsidiary internationalization or internationalization of the second degree (Forsgren et al., 1992) is defined as:

The process of increasing subsidiary involvement in international operations manifested in an official foreign market mandate

According to the initial part of the definition, 'the process of increasing subsidiary involvement in international operations', the internationalization of subsidiaries can equally refer to cross-border trade or foreign direct investment, whereby involved process stakeholders at any MNC level can select from a wide range of market entry modes in order to benefit from cross-border participation (Kutschker & Schmid, 2011). It can further relate to gradually increasing foreign market exposure (Johanson & Vahlne, 1977), e.g. from relatively low commitment stages like indirect exports up to the setting up of fully-owned foreign subsidiaries, as well as to internationalization moves that leapfrog certain stages of the establishment chain (Hedlund & Kverneland, 1985). Moreover, it acknowledges so-called 'born-globals' (Weerawardena, Mort, Liesch & Knight, 2007), where foreign subsidiaries may be involved in cross-border business operations from their very establishment. Finally, the definition encompasses outward internationalization, i.e. the marketing of goods and services abroad, and inward internationalization, i.e. the supply of input goods or know-how from outside the subsidiary's host market (Welch & Luostarinen, 1993).

The second part of the definition, 'manifested in an official foreign market mandate', highlights three important aspects. First, subsidiary internationalization refers to "the process of adapting firms' operations (strategy, structure, resource etc.) to international environments" (Calof & Beamish, 1995: 116). Even though "a non-exporter may first become involved in exporting in a reactive manner, responding to unsolicited orders" (Cavusgil & Czinkota, 1990: 179), the definition explicitly excludes uncoordinated internationalization efforts.

Throughout the study internationalization therefore only occurs if "management recognizes the important contributions international business can make toward accomplishing corporate goals" (Cavusgil, 1984: 197) and commits itself on a medium to long-term basis to a certain foreign market or foreign region. This restriction is important in order to reflect on corporate management's resource sovereignty across the MNC (Ambos & Birkinshaw, 2010) and the subsidiary's need to constantly claim its stake in the corporate marketplace (Galunic & Eisenhardt, 1996). Second, the term mandate points to a potentially temporary nature of cross-border subsidiary responsibility as it is generally seen "as a license to apply the subsidiary's distinctive capabilities to a specific market opportunity" (Birkinshaw, 1996: 489).

Finally, the term 'mandate' outlines another particularity of subsidiary internationalization that needs to be addressed when carrying out the defined study. When scholars refer to internationalization stages they generally refer to the development of new markets from a company's home territory (e.g. Johanson & Vahlne, 1977; Santangelo & Meyer, 2011). Nonetheless, from a subsidiary perspective obtaining foreign market responsibility, expressed by an official mandate, may represent the initial cross-border reaching even though the MNC has already obtained company presence in this territory in the past. Subsidiary internationalization can therefore equally refer to the development of markets without prior MNC presence and to a transfer of existing foreign market responsibilities or charters from one MNC unit to another (Birkinshaw & Hood, 1998). As the internationalization process of foreign subsidiaries represents the core unit of analysis, the study focus is primarily set on why and how subsidiaries internationalize while the question of whether this process leads to increased foreign market exposure of the MNC only comes second.

2.2.2. MNC

The internationalization process of foreign subsidiaries is likely to be impacted by a set of stakeholders (Tallman & Chacar, 2011). In addition to external parties like customers or competitors it may be shaped by corporate headquarters, affiliated subsidiaries and the focal subsidiary itself. As the latter three units constitute the MNC, a closer look at its definition seems appropriate. According to Forsgren et al. (2005: 1) the MNC, which is also referred to as the multinational enterprise (MNE), is "one of the most significant institutions of modern societies". Forsgren et al. (2005) further defined it as an entity that controls resources across borders and that operates in and between various countries. While the degree of resource control and the level of cross-border participation may significantly differ from one country to another, from one industry to another or one institution to another, the two aspects of cross-border resource control and business operations are most characteristic for an MNC. As with most technical terms in IB research, however, there is no single MNC definition that has been agreed upon by leading scholars around the world.

Taking different dimensions of the term ‘multinationality’ into consideration, Root (1990) offered a relatively solid overview of existing MNC definitions. He thereby differentiated by the criteria of ownership, nationality mix and organizational structure or business strategy, of which he only viewed the latter as an adequate means to distinguish MNCs. Perlmutter (1969: 11) already highlighted the difficulty in defining and measuring MNCs as “no single criterion of multinationality such as ownership or the number of nationals overseas is sufficient” and as “external and quantifiable measures such as the percentage of investment overseas or the distribution of equity by nationality are useful but not enough”. Advocates of ownership as key criterion for multi- or transnationality often postulated that an MNC exists if corporate headquarters are simultaneously owned by stakeholders of at least two nationalities. While this may hold true for exceptional cases like Shell or Unilever, most globally operating companies are owned by a parent company of a single nationality. Similarly, the criterion nationality mix comes up short and lacks generalizability for defining the MNC. According to it, a company is multinational only if its management at headquarter level is composed of individuals with varying nationalities. As many of today’s firms are strongly involved in international business activities with a management team all from the same country, the definition criterion does not seem to suit the need for the study at hand.

The remaining criterion, organizational structure or business strategy, finally sets a robust definition of the term MNC. Developing on earlier work of Vernon (1971) or Behrman (1969) and based on organizational as well as strategic considerations about the firm, Root (1994) developed a three-fold MNC definition that will be used in the course of this study. According to it, an MNC represents a business enterprise that (1) engages in foreign production through its affiliates located in several countries; (2) exercises direct control over the policies of its affiliates; (3) implements business strategies in production, marketing, finance and staffing that transcend national boundaries. The definition fits particularly well for the topic of subsidiary internationalization as it encompasses cross-border endeavor, resource sovereignty at a HQ or parent company level as well as strategy definition across various elements of the value chain. All three aspects are crucial to the study at hand.

2.2.3. Foreign subsidiary

Foreign subsidiaries represent one of several market entry forms (Kutschker & Schmid, 2011) and are viewed by some IB scholars as “the actual manifestations of the MNC’s international expansion” (Blankenburg Holm et al., 2009: 14). Despite the significant relevance that researchers attribute to foreign subsidiaries and their wide existence across countries and business segments, a clear and consistent definition is not as easy to obtain as an outsider may initially think. Having chosen the internationalization process of foreign subsidiaries as the core unit of analysis, however, a differentiation of subsidiary types as well as a stringent delineation from other MNC units represents an important task at the study’s offset.

Birkinshaw and Pedersen (2009: 367) defined the subsidiary as "a value-adding activity outside the home market" and thereby referred to wholly-owned subsidiary companies. By indicating the location of the subsidiary as outside the parent company's market, Birkinshaw and Pedersen (2009) set a clear separation from home market subsidiaries that may exist for organizational or strategic purposes. Nonetheless, wholly-owned subsidiaries represent only one of various MNC unit types and a clear definition therefore seems necessary. Gatignon and Anderson (1988: 314) used the level of control in order to classify MNC governance structures in foreign markets and came up with the following four-stage subsidiary typology:

- Wholly-owned subsidiaries (the MNC holds 100% of equity)
- Dominant partnerships (the MNC holds the dominant share of equity; that is, owns more equity than any other partner)
- Balanced roughly equally partnerships (the MNC's share is the same as that of the largest partner)
- Minority partnerships (the MNC holds less equity than the largest partner)

While all forms require equity-based investment, only wholly-owned subsidiaries (1) and dominant partnerships (2) also fulfill the subsidiary criterion of controlling interest by a single parent company of the MNC (Kutschker & Schmid, 2011: 906). Nonetheless, also equal (3) and minority partnerships (4) may qualify as subsidiaries if the controlling interest is achieved by other means (e.g. special voting rights).

By looking at the overall degree of control of a firm over a foreign entity, many IB scholars extend the definition of the foreign subsidiary beyond the aspect of equity investments. Morschett (2007), for example, called attention to the increasing relevance of non-equity-based cooperative forms in foreign market operations (e.g. licensing, management contracts or franchising). Morschett (2007) cited the statement of Buckley (1983: 43) that "it is not necessary to own a production process to control it" in order to underline the relevance of control. Joint ventures may therefore also constitute foreign subunits even though they may be influenced by stakeholders outside the MNC, e.g. joint venture partners. This view further corresponds with the definition of Birkinshaw and Petersen (2009) that a subsidiary needs to add value to the MNC as outlined at the offset of this section.

Despite the existence of various types and definitions of foreign subsidiaries, the study at hand is clearly limited to wholly-owned subsidiaries. The deliberate exclusion of any cooperative foreign market development form is aimed at avoiding additional complexity levels that may complicate the study's contribution to the unexplored research topic of subsidiary internationalization. It is acknowledged, however, that subsidiary internationalization may equally take place among other subsidiary types with potentially deviant process mechanisms.

2.2.4. Foreign market subsidiary mandates or charters

The decision to set up a foreign subsidiary by the means of a greenfield approach or acquisition is likely to have several, potentially overlapping, reasons. As laid out by Dunning (1993) the rationale for any MNC activity can be the seeking of markets, resources, efficiencies and strategic assets. A foreign subsidiary can thus serve its parent company by gaining foreign market access (market-seeking), by exploiting locational advantages (resource-seeking), by achieving higher productivity levels (efficiency-seeking) or by strengthening the MNC's competitive positioning (strategic-asset-seeking). The subsidiary's level of value-add to its respective MNC may therefore range from specialized R&D or sales functions to covering the entire value chain (Kutschker & Schmid, 2011: 906). In the latter case the local value-add can equal or surpass its parent company counterpart, in which case foreign subsidiaries are also referred to as miniature replica (White & Poynter, 1984). In addition to varying functional scopes, the geographical scope may also differ from one subsidiary to another. In fact, while the subsidiary's responsibility for a certain product may be nationally or regionally limited it may possess a world mandate for a specific product (e.g. Rugman & Douglas, 1986). The initial functional and geographical scope of a foreign subsidiary is in most cases the result of an HQ assignment. Nonetheless, both scopes of responsibility may alter over time driven by initiatives from either corporate or local subsidiary management (Birkinshaw & Hood, 1998).

When referring to global responsibilities for a single product, the term foreign market subsidiary mandates was first used. Based on empirical examination of mandate development of several foreign subsidiaries, Birkinshaw (1996) stressed local capabilities as a key driver for mandate growth and highlighted the transient nature of subsidiary mandates. A subsidiary mandate can to a large extent be equated with its individual corporate charter. While the initial definition by Galunic and Eisenhardt (1996: 256) as a "businesses (i.e., product and market arenas) in which a division actively participates and for which it is responsible within the corporation" referred to corporate divisions rather than foreign subsidiaries, Birkinshaw and Hood (1998) later claimed its similar suitability for subsidiary responsibilities. Birkinshaw and Hood (1998: 782) viewed charter as "a shared understanding between the subsidiary and the headquarters regarding the subsidiary's scope of responsibilities".

The existence of various types of FDI strategies for foreign subsidiaries (Dunning, 2003) that may or may not be manifested in a subsidiary's mandate or charter is well acknowledged by the author. Similar to multiple subsidiary types as outlined in the previous section, however, the study is limited to foreign subsidiaries with predominately market-seeking objectives. The study limitation is equally targeted to circumvent further complexity levels that may arise when seeking to embrace all FDI strategies for the unexplored topic of subsidiary internationalization. The author admits, however, that subsidiary internationalization may also happen in foreign subsidiaries that pursue FDI strategies other than market-seeking with possibly divergent process mechanisms.

2.3. Findings of relevant IB research streams

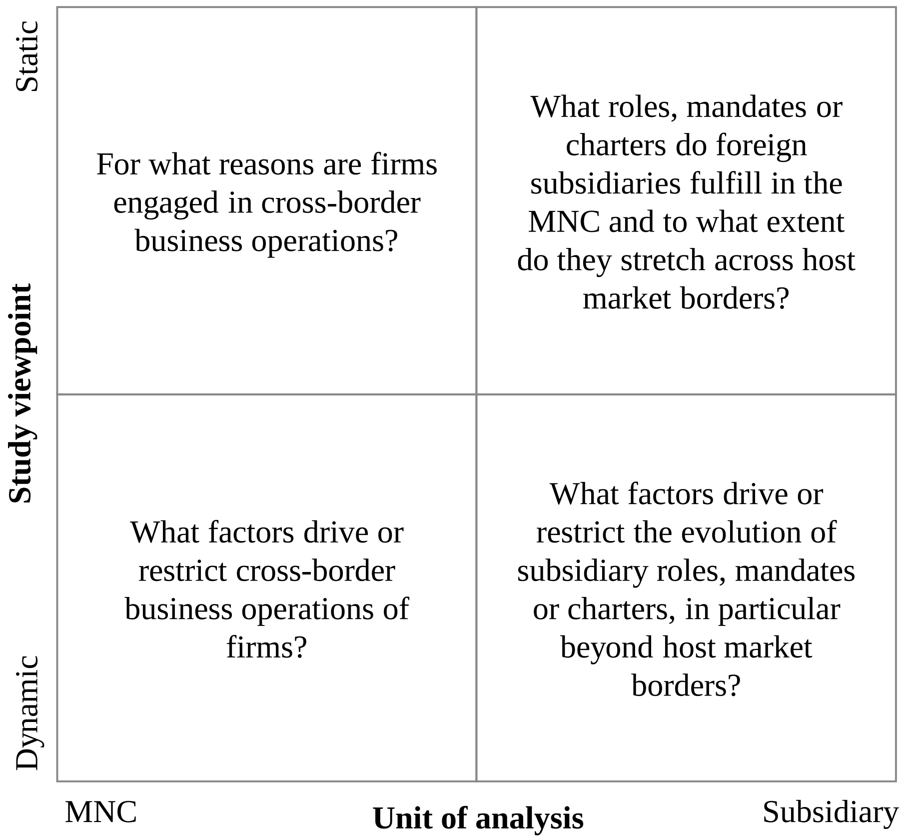
2.3.1. Classification of available literature

When examining fifty years of IB theory Rugman, Verbeke and Nguyen (2011) grouped most relevant research findings by their unit of analysis. While early, neoclassical studies predominately dealt with the country as the core unit of analysis, a shift of focus towards the firm in the international context marked a new era of IB research. Hymer (1960[1], 1976) is thereby seen as the “intellectual father of the second stage in modern IB studies” (Rugman, Verbeke & Nguyen, 2011: 756) as he first explicitly looked at the firm’s benefit from cross-border participation. More recently, scientists have increasingly paid attention to subsidiaries as they, in sum, constitute the MNC. Even though all three units of analysis (country, MNC and subsidiary) are at least partly interrelated, the literature review will be limited to cross-border aspects of the firm and the subsidiary as they make up the heart of the study. Limited transferability of macro-level observations with microeconomic aspects further supported this approach. As noted by Markusen (2001: 70), general-equilibrium analysis of foreign trade or direct investment theory “leaves it ill-equipped to deal with individual firms and the important role that the latter play in the real economy”.

The study examines internationalization processes of foreign subsidiaries and thereby seeks to understand why and how foreign subsidiaries obtain foreign market responsibility and how such a mandate evolves in the course of time. In order to support both types of research questions around the causality and modality of subsidiary internationalization, a further categorization of literature streams by static and dynamic viewpoints seemed appropriate. While research findings using a static viewpoint were expected to contribute to a better understanding of why foreign subsidiaries obtain foreign market responsibility, literature about dynamics of firm internationalization was browsed to shed light on how expansion processes are initiated and how they evolve over time. It should be noted that findings on the dynamic nature of firm internationalization are still relatively limited (Kutschker & Schmid, 2011) despite a request from leading scholars for a more process-orientated IB research focus for more than two decades (e.g. Doz & Prahalad, 1991).

[1] Not published until 1976.

Figure 2-1: Classification of relevant IB literature streams and guiding review questions



The aforementioned classification of relevant IB literature by the unit of analysis and the viewpoint is summarized in Figure 2-1 above. The two-by-two matrix was further enriched by four questions that guided the overall literature review process. As a result, the following pages are strictly limited to findings directly or indirectly linked to the rationale for and the processes of subsidiary internationalization. The matrix also shows that neither the units of analysis nor the study perspectives are mutually exclusive and that there exists a certain degree of overlap in the reviewed literature streams. Overall, this literature review does not claim to exhaustively cover all relevant literature streams related to subsidiary internationalization. In fact, they are deliberately limited to the study topic on why (causality) and how (modality) firms or subsidiaries internationalize, rather than covering other interesting and neighboring aspects like where (locality) or how fast (temporality) firms or subsidiaries expand their activities into foreign territories. In addition, a focus was set on foreign subsidiaries as the core unit of analysis and on dynamic study perspectives. In summary, the screening of past studies in the field of IB was aimed at facilitating the data collection process as well as the subsequent data analysis process without limiting the theory-development process desired from the chosen case study research design.

Table 2-1: Classification of relevant IB literature with the firm as core unit of analysis

Static viewpoint	Dynamic viewpoint
▪ Monopolistic advantage theory (Hymer, 1960, 1976) ▪ Transaction cost / Internalization theory (e.g. Williamson, 1975; Buckley & Casson, 1976) ▪ Eclectic paradigm (Dunning, 1977) ▪ Knowledge-based view (e.g. Kogut & Zander, 1993) ▪ Asset-seeking view (e.g. Doz, Asakawa, Santos & Williamson, 1997)	▪ Product lifecycle theory (Vernon, 1966) ▪ Uppsala model (Johanson & Vahlne, 1977) ▪ Helsinki school (e.g. Luostarinen, 1979) ▪ Network approach (e.g. Johanson & Mattsson, 1988) ▪ Innovation-related approach (e.g. Bilkey & Tesar, 1977) ▪ GAINS paradigm (Macharzina & Engelhard, 1991) ▪ Resource-based view (e.g. Teece & Pisano, 1994; Teece, Pisano & Shuen, 1997)

Source: Own illustration, based on Rugman, Verbeke & Nguyen (2011)

The classification of relevant IB literature with the MNC or the subsidiary as core unit of analysis can be viewed in Table 2-1 above and Table 2-2 below. The selection of relevant literature streams was strongly inspired and supported by two IB publications. While the work of Rugman, Verbeke and Nguyen (2011) facilitated the identification of the most relevant studies using the MNC as the core unit of analysis, the article of Birkinshaw and Pedersen (2009) strongly helped to obtain a better picture of studies with an explicit focus on foreign subsidiaries. Adding to this, significant efforts were made in order to come up with additional studies that were able to contribute to a better understanding of internationalization processes at the periphery of modern MNCs.

Table 2-2: Classification of relevant IB literature with the subsidiary as core unit of analysis

Static viewpoint	Dynamic viewpoint
▪ Generic subsidiary roles (e.g. Bartlett & Ghoshal, 1986) ▪ Specialized subsidiary roles (e.g. Rugman, Verbeke & Yuan, 2011) ▪ World product mandate (e.g. Rugman, 1982) ▪ Centers of excellence (e.g. Frost, Birkinshaw & Ensign, 2002) ▪ Regional headquarters (e.g. Lehrer & Asakawa, 1999) ▪ Divisional headquarters (e.g. Forsgren, Holm & Johanson, 1995)	▪ Subsidiary evolution (e.g. Malnight, 1995) ▪ Evolution determinants (e.g. Birkinshaw, 1997) ▪ Subsidiary internationalization (e.g. Forsgren et al., 1992) ▪ Internationalization trajectories of MNC units (e.g. Araujo & Rezende, 2003) ▪ Dynamics of regional headquarters (e.g. Kähäri et al., 2010)

Source: Own illustration, based on Birkinshaw & Pedersen (2009)

2.3.2. Studies with static views and the firm as core unit of analysis

As outlined above, research streams in the field of IB have seen shifting units of analysis over the last years, decades and even centuries. While early trade theories predominately used the country as the unit of analysis, for example by looking at country-specific advantages and its impact on national competitiveness (Smith, 1776; Ricardo, 1817), later studies applied a more microeconomic approach. Many scholars (e.g. Buckley, 2009; Kapler, 2007) view Stephen Hymer's work (1960, 1976) on the international firm as the starting point for modern IB research as it explicitly sought to provide answers to why and how firms internationalize. In addition, Hymer (1960, 1976) truly focused on the firm as the unit of analysis, which differentiated his work from previous macroeconomic perspectives. Rugman, Verbeke and Nguyen (2011: 756) emphasized this contribution of Hymer as he "pioneered a fundamental change in the unit of analysis adopted in IB studies: he positions the MNE and its FSAs at the core of his analytical approach". Moreover, his work significantly influenced subsequent IB research across the globe and set the breeding ground for two major research streams of firm internationalization: transaction-cost-based and internalization theories of the MNC (Kapler, 2007). Despite its existence for more than fifty years, his work will therefore be explained in detail in the following pages.

2.3.2.1. Monopolistic advantage theory of the MNC

In his PhD thesis on the international operations of national firms, Hymer (1960, 1976) provided a new explanation for how firms benefit from foreign production and why firms choose foreign production over relatively simpler selling or licensing of technology. With regard to the first question, Hymer (1960, 1976) argued that firms can develop certain proprietary or monopolistic advantages that eventually allow the firm to more than offset locational advantages enjoyed by market participants in a particular host market. These proprietary advantages therefore serve as a means to overcome barriers to international business operations. Extending Bain's (1956) work on national barriers of competition across different sectors, Hymer (1960, 1976: 45) stated that "there are as many kinds of advantages as there are functions in making and selling a product. The firm's advantages may be that it can acquire factors or production at a lower cost than other firms. Or it may have knowledge or control of a more efficient production function. Or the firm may have better distribution facilities or a differentiated product."

Regarding his second research question, Hymer postulated that firms opt for foreign direct investment rather than selling or licensing technology in order to lower or even eliminate competition. Competitive strength can be achieved by acquiring foreign firms and by maximizing the exploitation of aforementioned proprietary advantages. His argumentation is based on the existence of market imperfections like uncertainty. Through foreign asset ownership the firm "internalizes or supercedes the market" (Hymer, 1960, 1976: 48), which may yield a higher return to the company. By highlighting the aspect of market failure in the context of firm internationalization, Hymer (1960, 1976) not only gave rise to the following transaction-cost-based research streams on the MNC but also to numerous studies of internalization of cross-border business operations. As noted by Kapler (2007: 290), Hymer "predicted 'internalization' of international exchanges of intermediate knowledge-based products for the purpose of reducing contracting costs, as well as for maintaining monopolistic or oligopolistic advantages and maximizing rents on the basis of barriers to entry". The IB research stream of internalization theories is of particular interest to the study as it explicitly looks at the subsidiary as the core unit of analysis and the delegation of tasks across various MNC units.

2.3.2.2. Transaction cost and internalization theories of the MNC

The transaction cost and internalization theory of the international firm are closely related to each other and have shaped IB research up until today. The importance is underpinned by Buckley's statement (2009: 310) that "transaction cost theory provided a different perspective on the reasons for the growth of MNEs". Oliver Williamson (1975) is often seen as the pioneering scholar in the field of transaction cost and internalization theories of the MNC, but similar studies[2] were carried out independent of and parallel to his work. Ignoring their variances for simplicity purposes for one moment, both literature streams applied macroeconomic Coasian (1937) transaction cost theory to the MNC and shared the belief that "the cost of organizing a given transaction varies with the method of organization chosen to organize it" (Hennart, 2001: 133). Methods referred to either carrying out a transaction through the market or through the organization, i.e. by internalizing the market into the firm. Other than Hymer (1960, 1976), Williamson (1975) argued that the cost of organizing a given transaction is not only linked to structural market imperfections but also to natural market imperfections. Such imperfections, also labeled 'non-pecuniary externalities', may arise from bounded rationality as a result of information inefficiencies, from opportunism due to individual benefit maximization stretching from misinterpretation to fraudulent intent, and from asset-specificity that requires tangible and/or intangible asset investments. The mix of these imperfections therefore "produces the strongest incentive to internalise a transaction rather than to use contracts in the market" (Buckley, 2009: 311).

While Williamson's (1975) and similar transaction-cost-based approaches to the firm only briefly touched upon cross-border activities of an enterprise (Kutschker & Schmid, 2011: 456), internalization theory scholars made a stronger attempt to understand why firms are actually engaged in foreign production. The research focus was thereby shifted "from the conventional act of FDI at the country level, to the level of the institution making the investment, i.e. the

[2] e.g. Buckley & Casson (1976); Hennart (1977, 1982).

MNE" (Rugman, Verbeke & Nguyen, 2011: 759). The basic argument, however, that market imperfections may result in higher efficiency levels of organizing foreign business operations within the firm as opposed to organizing it through the market remained unaltered. With regard to the type of business activities that should best be internalized, IB scholars have taken numerous directions. Teece (1981), for example, proposed internalizing the procurement of raw materials and intermediary products to secure the company production supply. Buckley and Casson (1976) stressed the internalization need for business knowledge and experience as market failure (government intervention, information asymmetry between buyers and sellers etc.) for such intangible assets is particularly high. While this internalization list could be further extended to principally all activities where markets reveal any form of imperfections, Rugman (1981) added an interesting point to internalization theories by pointing out the existence of CSAs and FSAs as well as its relationship. According to Rugman (1981), each MNC is equipped with a unique set of capabilities or FSAs (production expertise, brand reputation etc.) that is built on the CSAs of a nation and that constitutes its competitiveness on a national and international level. He also stated that internalization serves as a valid means to avoid third party FSA dissipation. As noted by Rugman, Verbeke and Nguyen (2011: 760), three decades later the MNC "transfers, deploys and exploits its FSAs through the use of foreign subsidiaries that monitor, meter and regulate the use of FSAs abroad".

2.3.2.3. Eclectic paradigm

While the contribution of transaction cost and internalization theory of the MNC to modern IB research is undoubted, both literature streams fail to offer an integrated explanation of firm internationalization, i.e. by providing a holistic answer to why, where and how it occurs. Dunning (1977) was the first IB scholar who explicitly faced up to this challenge. According to Buckley and Hashai (2009: 58), his "approach to the complex phenomenon of the multinational enterprise (MNE) has proved robust and, over time, has become one of the most influential streams of thought in the international business literature". In his theory, which was renamed to eclectic or OLI paradigm at a later stage, Dunning (1977, 1988 and 1998) explained firm internationalization through three inter-related determinants: (1) <u>o</u>wnership, (2) <u>l</u>ocation and (3) <u>i</u>nternalization advantages. Ownership advantages are thus linked to an existing or potential MNC and can be split into tangible (e.g. production facilities) and intangible (e.g. knowledge) assets as well as coordination capabilities. Location advantages are associated with foreign markets and their individual characteristics like market size, labor costs or political environment. Internalization advantages in turn refer to efficiency gains resulting from an internal organization of activities through the organization rather than through the market.

In Dunning's eclectic paradigm, ownership advantages represent the prerequisite for any form of firm internationalization and their combination with location and internalization advantages determine the form of foreign market entry and market development (Kutschker & Schmid, 2011: 464). The impact of access to different advantage types on the likely entry mode for a particular market is highlighted in Table 2-3 below. While Dunning's work may have come short in fully establishing a clear separation between his three forms of advantages (Itaki, 1991), his framework has strongly contributed to IB research by synthesizing various isolated research streams and by allowing for a differentiation of market entry type modes.

Table 2-3: Market entry modes in Dunning's eclectic paradigm

		Categories of advantages		
		Ownership (O)	Internalization (I)	Location (L)
Market entry mode	Foreign direct investment	√	√	√
	Exports	√	√	-
	Contractual re-source transfer	√	-	-

Source: Kutschker & Schmid (2011: 464)

2.3.2.4. *Knowledge-based and asset-seeking views of the MNC*

While the screening of literature regarding the rationale of firm internationalization could long be continued, the remaining pages will focus on knowledge-based views of the MNC. What makes this literature stream particularly relevant to the study is its focus on cross-border knowledge and capabilities embedded in stakeholders within and outside the MNC. When seeking to understand subsidiary internationalization and the involved responsibility delegation by a parent company, the impact of knowledge accumulation, transfer and exploitation on firm internationalization may also provide scientific guidance for the study at hand. Knowledge-based views on the MNC, which challenge and aim to extend traditional transaction cost and internalization theories, constitute a relatively modern IB research stream. In fact, most of their advocates view knowledge as a core instrument for obtaining comparative advantages in the global marketplace. Other than transaction cost theory, knowledge-based views therefore no longer disregard the origin or the evolution of ownership advantages (Kapler, 2008: 295).

Kogut and Zander (1993) are generally seen as the scientific pioneers of knowledge-based MNC views. Tallman (2003: 495), for example, praised their article as "an important marker in the transition of the dominant conceptual model of the multinational firm from the market failure approach of internalization theory and transaction cost economics theory to the market imperfections approach of capabilities or knowledge-based theories of the firm". Challenging the earlier internalization theory view of knowledge as a public good and market failure as primary driver for the MNC, Kogut and Zander (1993) argued that firm determination lies in its ability to transfer and transform knowledge relative to other market participants. Their empirical study revealed that the more complex and the less codifiable and teachable the knowledge of a firm becomes, the more likely it selects the setting up of foreign subsidiaries as foreign market entry mode as opposed to other forms of transfer instruments like licensing. Moreover, in addition to viewing knowledge as a major source of firm competitiveness, Kogut and Zander (1993: 640) also highlighted the relevance of knowledge management capabilities by stating that the "limiting factor on their growth is not only the competitiveness of other firms and the demand of the market, but also the extent to which their advantage can be replicated more quickly by themselves than through imitation by competitors".

The importance of knowledge for a firm's competitiveness and its often tacit nature that makes it difficult to diffuse across the MNC (Haldin-Herrgard, 2000) also led to the strongly related research stream of asset-seeking internationalization rationales. The core idea is well summarized by Buckley and Hashai (2009: 58-59) as it "essentially implies that ownership advantage does not necessarily originate in a firm's home country, but rather may be acquired and augmented abroad, and thus serves as a motivation for firm internationalization". Doz et al. (1997), who elaborated a widely recognized working paper in this research field, actually coined the term 'metanational corporation' for an institution that deliberately seeks knowledge from outside its home market. As noted by Doz et al. (1997: 2), "the metanational creates value by accessing, melding, and leveraging distant capabilities and market knowledge" in order to respond to increasing dispersion and contextual embeddedness of relevant knowledge in its industry.

2.3.3. Studies with dynamic views and the firm as core unit of analysis

Given the study's aim to understand internationalization processes at the periphery of modern MNCs it seemed more than appropriate to dedicate sufficient time and effort to scan past IB research findings around the mechanisms of the phenomenon under investigation, in particular those that shed light on what drives or possibly restricts internationalization processes. Even though the product lifecycle theory of Vernon (1966) dealt to a large extent with macroeconomic aspects in the form of country-specific technology advantages, it can be viewed as an initial step towards a more dynamic view of firm internationalization. Since then, the school of thought has been strongly developed by Scandinavian researchers, in particular by Johanson and Vahlne (1977, 1990 and 2009) from the Uppsala University in Sweden who offered a new perspective on process patterns and internationalization models of enterprises. While their findings predominantly suggested an incremental and gradual internationalization process, later studies (e.g. Macharzina & Engelhard, 1991) also disclosed radical and revolutionary process elements. Despite limited empirical examination of the dynamics of firm internationalization (Oesterle & Richta, 2009), a number of valuable contributions have been made in the research field that will be summarized in the following pages.

2.3.3.1. *Product lifecycle theory*

As noted above, IB research on the dynamic nature of firm internationalization was initiated by the product lifecycle theory of Vernon (1966). The core assumption of his work was thus that the production of an enterprise is moved abroad once a product has reached a certain maturity stage in the home market. Emphasizing "upon the timing of innovation, the effects of scale economies, and the roles of ignorance and uncertainty in influencing trade patterns", Vernon (1966: 190) stated that firms from advanced countries, in particular the US, have technology-related and country-specific advantages linked to their home market operations. While such advantages can be best exploited in the home market at the early stage of a product lifecycle, they may still benefit the firm abroad once the product matures and becomes increasingly standardized. Product maturity stages are classified into new, maturing and standardized products. According to Vernon (1966), the initial stage is characterized by local value-add, i.e. US production and partial exports to other advanced countries, the second stage by increasing production in other advanced countries and first exports to less developed countries and the final stage by diminishing US production and increasing production in less developed countries.

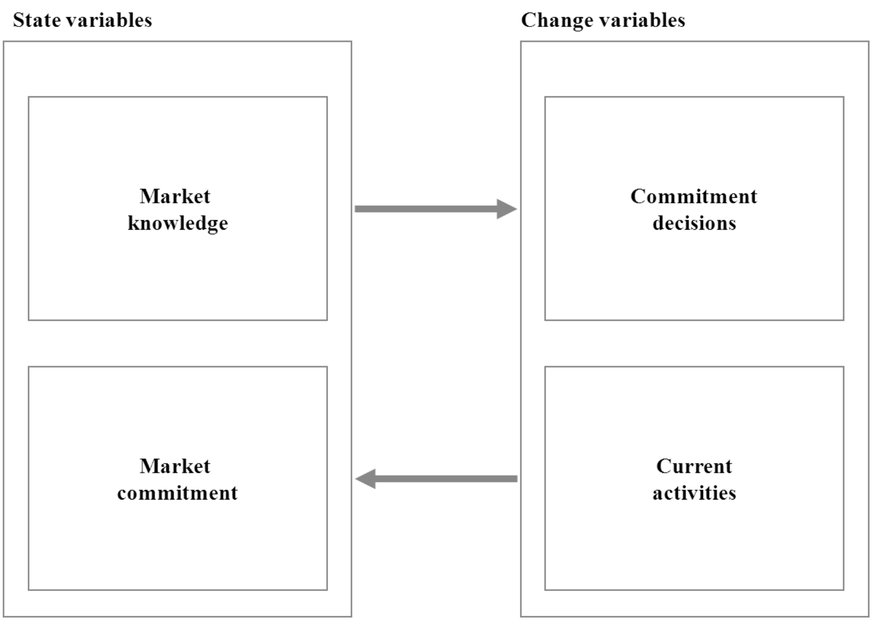
The work of Vernon contributed to modern IB research in three dimensions (Kutschker & Schmid, 2011: 441). Most importantly, it provided a first dynamic view on the topic of firm internationalization by looking at different stages in the product lifecycle and linking it to international business endeavors of the firm. In addition, Vernon managed to integrate several other research streams like the technology gap theory of trade by Posner (1961) so that he offered a solid ground for further process research. Finally, he already acknowledged the complexity of decision-making processes and thereby refrained from a purely cost-driven decision-making rationale. Most criticism regarding Vernon's work resulted from actual field observation on international manufacturing and marketing patterns other than those described in the model. Vernon's work is further criticized for its inability to provide a solid explanation of how internationalizing firms overcome locational disadvantages vis-à-vis local competitors (Giddy, 1978). Nonetheless, the significant contributions of Vernon's model to IB research are still valued today. As stated by Buckley (2009: 315), "its simple, yet powerful, dynamic, resting on the interaction of demand and supply over time, has never been improved".

2.3.3.2. *Internationalization models with an evolutionary process perspective*

With the Uppsala or IP model of Johanson and Vahlne (1977), the internationalization of a firm was for the first time explicitly treated as a process. Based on the behavioral theory of firms (Aharoni, 1966; Cyert & March, 1963), the underlying model explains internationalization as a result of knowledge development and increasing foreign market commitment. Drawing on empirical data from Swedish firms in the manufacturing industry, Johanson and

Vahlne (1977) argued that internationalization of a firm occurs over time along an establishment chain and a psychic distance chain. While the establishment chain stresses that a firm follows a defined pattern of increasing market commitment, the psychic distance chain postulates that a firm selects those markets for internationalization first where opportunities can be identified and perceived uncertainty is low. The internationalization process of a firm is driven by a constant interplay between state aspects, 'market knowledge' and 'market commitment', and change aspects, 'commitment decisions' and 'current activities', as illustrated in Figure 2-2 below. The process can therefore be seen as causal cycles. Within this cycle the aspect of learning takes a predominant role. The more a company knows about a foreign market or the less uncertainty about a certain region exists the more it is willing to commit resources to it. The primary process driver is therefore experiential knowledge about foreign markets resulting in an incremental nature of internationalization processes. As noted by Johanson and Vahlne (1990: 12), more than a decade later experiential market knowledge "generates business opportunities" and constitutes the "primary way of reducing market uncertainty".

Figure 2-2: Principles of the Uppsala or IP model

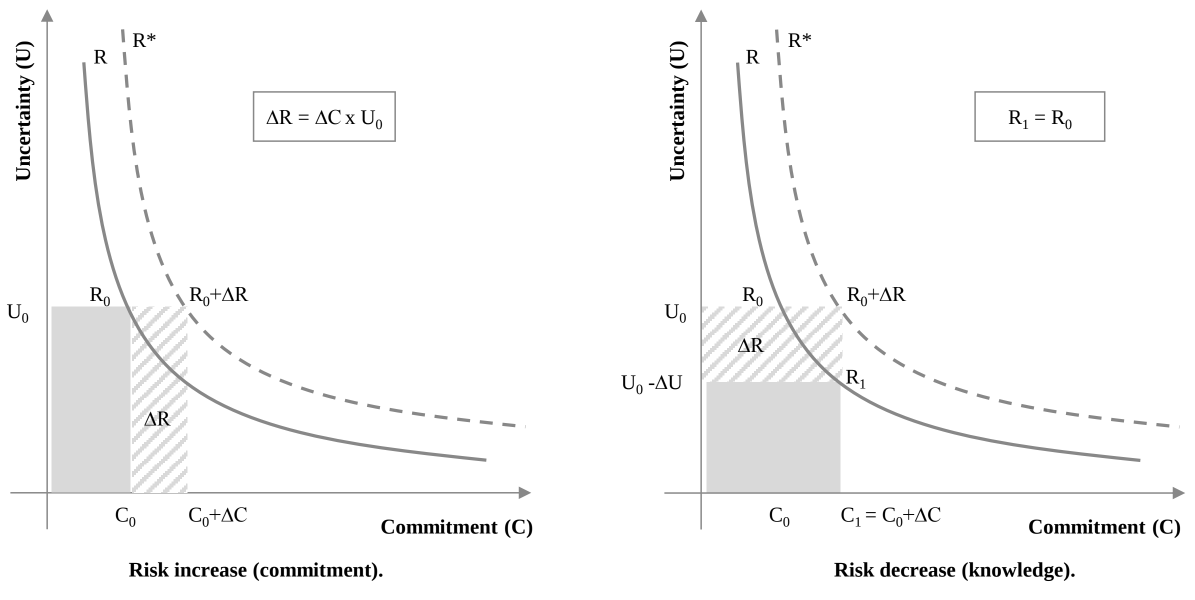


Source: Johanson & Vahlne (1977: 26)

With regard to the change variable 'commitment decisions', Johanson and Vahlne (1977) already pinpointed the relevance of risk levels perceived by corporate management. According to their risk formula a firm gradually increases its commitment for a specific foreign market only until "its tolerable risk frontier is met" (1977: 30). If a firm eventually commits itself to a particular foreign market or decides to extend its existing international operations, intensified market participation, e.g. in the form of customer exchange, is then likely to gradually reduce perceived uncertainty levels. Reduced risk levels would then again allow enhanced internationalization commitment. Figueira-de-Lemos, Johanson and Vahlne (2011) only recently built on the original risk formula of the IP model when analytically and graphically examining its variables ‘market commitment’ and ‘market uncertainty’. Regarding the initial IP model, Figueira-de-Lemos et al. (2011: 144) stated that the “model’s nuclear assumption – the internationalization mechanism – is analytically supported by a formula that relates risk, commitment, and uncertainty”. The visualization of risk-related aspects in the internationalization process is shown in Figure 2-3 below.

While R* refers to the maximum tolerable market risk for a particular firm, R stands for its actual risk level at a certain time, which is the product of market commitment (C) and market uncertainty (U). If a firm amplifies its foreign market commitment (ΔC) as shown on the left-hand side of Figure 2-3, the overall risk level increases (ΔR). Subsequent market participation would then lead to reduced market uncertainty (ΔU), which would bring risk levels back to a previous level (R_0) as highlighted on the right-hand side of Figure 2-3. Figueira-de-Lemos et al. (2011) pointed out in their work that increases or decreases of market uncertainty may also be impacted by variables other than market commitment and by factors outside the MNC, e.g. from altering government legislations or competitive landscapes.

Figure 2-3: Risk alterations as a result of internationalization moves



Source: Figueira-de-Lemos et al. (2011: 147-148)

Despite its apparent limitations, especially the narrow field of application (Andersen, 1993), the Uppsala model is still viewed as one of the leading theories in the field of internationalization processes. A number of scientists have therefore tried to support and expand the original model. In this context the network approach by Johanson and Mattsson (1988) deserves a particular mention as it linked the internationalization process of a firm to its changing position within foreign networks embracing competitors, customers, suppliers or regulators. Johanson and Mattsson (1988) equated internationalization with altering network positions in foreign territories that can be achieved by either developing new networks abroad, by penetrating existing networks or by connecting networks in different marketplaces. Overall, the network theory strongly contributed to process research on firm internationalization as it explicitly examines the business context of multinational enterprises. By highlighting the importance of business relationships across borders it improved the “understanding of the decisive factors behind internationalization as such” (Björkman & Forsgren, 2000: 13).

Johanson and Vahlne (2009) themselves revised their original model as a result of changing business practices and research findings of the past. While they maintained their dynamic character of the model with state and change variables they added and replaced certain variables in order to better reflect today’s business world. With regards to the state variables, ‘opportunities’ were integrated as a subset to knowledge, viewing it as the most important body of knowledge for the internationalization process. In addition, ‘market commitment’ was replaced by ‘network position’, assuming that internationalization processes are pursued within a given network. Regarding the model’s change variables, ‘current activities’ were replaced by ‘learning, creating and trust building’, whereby Johanson and Vahlne (2009) emphasized the outcome of business operations.

Finally, the term ‘commitment decisions’ was expanded to ‘relationship commitment decisions’ in order to underline the direction of commitment towards business networks. In order to highlight the relevance of business networks, Johanson and Vahlne (2009) viewed liability of outsidership rather than liability of foreignness as a key challenge for internationalization processes. Nonetheless, liability of foreignness, a term coined by Zaheer (1995: 341) and defined as “cultural, political, and economic differences”, is still expected to play a vital role in the revised IP model. As noted by Johanson and Vahlne (2009: 1414), “the larger the psychic distance, other things being equal, the more difficult it is to build new relationships. This is the effect of the liability of foreignness.”

While empirical findings on companies leapfrogging certain stages of the establishment chain (e.g. Hedlund & Kverneland, 1985), increasing observation of ‘born global’ firms (e.g. Knight & Cavusgil, 1996; Weerawardena et al., 2007) and country selection inconsistent with psychic distances (Madsen & Servais, 1997) may have served as catalysts for their revised perspective, Johanson and Vahlne (2009) did not provide a modified or new establishment chain. With regard to the aspect of leapfrogging, they actually denied market entry modes the ability to indicate the degree of market commitment and thereby indirectly admitted to the declining suitability of the establishment chain for explaining internationalization patterns. Criticism deriving from the observation of ‘born global’ firms was countered by arguing that ‘born globals’ are actually ‘born regionals’ as supported by recent studies (e.g. Rugman & Verbeke, 2007) and that learning and trust-building as the key drivers of business operations still take time. Regarding the psychic distance chain, Johanson and Vahlne (2009: 1421) claimed its ongoing validity even though “some companies and individuals have acquired more general knowledge of foreign environments, and perhaps this instils in them greater confidence in their ability to cope with psychic distance”. Respecting the standpoint of Johanson and Vahlne (2009), it seems appropriate to acknowledge the aforementioned major weaknesses of the model. At the same time, the model’s existence and ongoing relevance among leading IB scholars for more than thirty years alone suggests that it might serve as a powerful instrument for the study at hand.

The original (Johanson & Vahlne, 1977) and the revised (Johanson & Vahlne, 2009) IP models have recently been subject to further examination. Schweizer, Vahlne and Johanson (2010), for example, carried out a comprehensive case study and thereby emphasized the relevance of entrepreneurship in internationalization processes. According to them, internationalization may be driven by entrepreneurial capabilities in exploiting contingencies of MNC stakeholders. Later Vahlne, Ivarsson and Johanson (2011) incorporated configuration and coordination strategies of MNCs in the Uppsala model in order to better explain the entire globalization process of a firm. Most recently Vahlne et al. (2012) extended the original risk formula by internal uncertainty parameters that accompany internationalization processes and emerge from a corporate headquarters’ liability of outsidership vis-à-vis the business networks and actions of its foreign subsidiaries. By interpreting a parent company’s reluctance to approve subsidiary initiatives as a form of dealing with the “lack of knowledge and experienced uncertainty”, Vahlne et al. (2012: 227) viewed the internal form of liability of outsidership as a potential restriction in firm internationalization.

The Helsinki school (e.g. Luostarinen, 1979; Welch & Luostarinen, 1988; Luostarinen & Welch, 1990) had much in common with the Uppsala model but expanded the theory primarily in two ways. With regard to the establishment chain it allowed for a broader range of market entry and expansion modes and a more differentiated approach was taken when defining the psychic distance chain. In addition, the impact of various product categories (physical products, services etc.) was explicitly taken into account. Overall, the approach was based on a broader empirical base and showed numerous advantages compared to the scientific foundation of the Uppsala model but gained relatively little attention in the literature of international management (Kutscher & Schmid, 2011). Due to a lack of fundamental differences to the IP model that are of relevance when examining the internationalization process of foreign subsidiaries, findings will not be further detailed for the purpose of this study.

Innovation-related internationalization models represent another research stream with an evolutionary process perspective on firm internationalization. Studies of several IB researchers (e.g. Bilkey & Tesar, 1977; Cavusgil, 1980; Reid, 1980; Czinkota, 1982) were grouped by this school of thought even though they actually lack a uniform theory with regard to internationalization processes. What all of them have in common, however, is their aim of explaining the development of firm exports from a behavioral perspective and their dealing with internationalization as innovational processes. The aforementioned IB scholars vary both in terms of number of stages as well as description of stages. They further deviate in their belief at what point a firm enters the next stage of internationalization, i.e. what incentives a firm needs to start or intensify its export activities (Andersen, 1993). Overall, the limited applicability of innovation-related internationalization models to exports is one of their major shortcomings. Nonetheless, their overall contribution to IB research is still significant as they incorporated the aspects of innovation and entrepreneurial behavior in research about internationalization processes (Aspelund & Madsen, 2009).

2.3.3.3. Internationalization models with a revolutionary process perspective

Based on the limitations of traditional internationalization theories, modern approaches are taking a different view on the process of firm internationalization. In contrast to a purely evolutionary character of the IP or innovation-related models, Macharzina and Engelhard (1991) introduced a revolutionary process perspective. In their GAINS ('gestalt approach of international business strategies') approach, Macharzina and Engelhard (1991) postulated that internationalization processes are characterized by phases of incremental development and fundamental change that displace each other in the course of time. As a result of inertia, firms do not achieve continuous adaptation to their environment, which incrementally augments their need for change. Quantum leap changes are then initiated by critical incidents. The GAINS paradigm therefore takes a different perspective than the learning-based incremental approach found in the Uppsala school of thought. Underlining a quantum rather than incremental view on the internationalization trajectories of the firm, Macharzina and Engelhard (1991: 31) noted that the "regularities in adaptive behavior are evoked by imbalances and incongruities among environmental, structural and strategy-making variables. An initial key event causes such an imbalance which either requires or facilitates a series of subsequent environmental, structural and strategic changes. This event could be a decision such as to replace a top executive, introduce a new product or market strategy, modify the organizational structure or change administrative practices or procedures such as planning, control and information systems. After these adjustments have been made, the stress towards change is reduced until the next major unsettling incident." Despite its truly alternative approach, the work of Macharzina and Engelhard (1991) did not receive significant international attention. One reason for this might be the model's limited generalizability, which Macharzina and Engelhard (1991) themselves acknowledged.

2.3.3.4. *Resource-based views*

The resourced-based view of the firm, which is considered to be the principal conceptual paradigm of strategic management at present (Birkinshaw & Pedersen, 2009), is based on the guiding principle that the set of capabilities and resources is crucial for determining the competitiveness of a firm (Barney, 1991). Teece, Pisano and Shuen (1997) took on this idea when proclaiming that the competitive positioning of market participants is dependent on their 'dynamic capabilities'. 'Dynamic' here stands for a continuous change of a company's business environment whereas 'capabilities' relate to the challenge for strategic management in "appropriately adapting, integrating, and re-configuring internal environment" (Teece & Pisano, 1994: 196). In order to assert its competitive positioning in a marketplace a firm is therefore not only required to develop unique capabilities but also needs to constantly adapt its capabilities to environmental change.

Simon (2007) linked the aforementioned resource-based view with the aspect of firm internationalization by arguing that the internationalization process of a firm is the result of its resource base and its ability to develop resources (resource building) and to leverage resources (resource leveraging) in the international context. Following this approach, companies with weak capabilities for resource building and levering are expected to experience a rather evolutionary and incremental internationalization path, as postulated by the Uppsala school. In turn, if these capabilities are available and adequately leveraged, companies may follow a radical and revolutionary internationalization process in line with the GAINS model of Macharzina and Engelhard (1991).

2.3.4. Studies with static views and the subsidiary as core unit of analysis

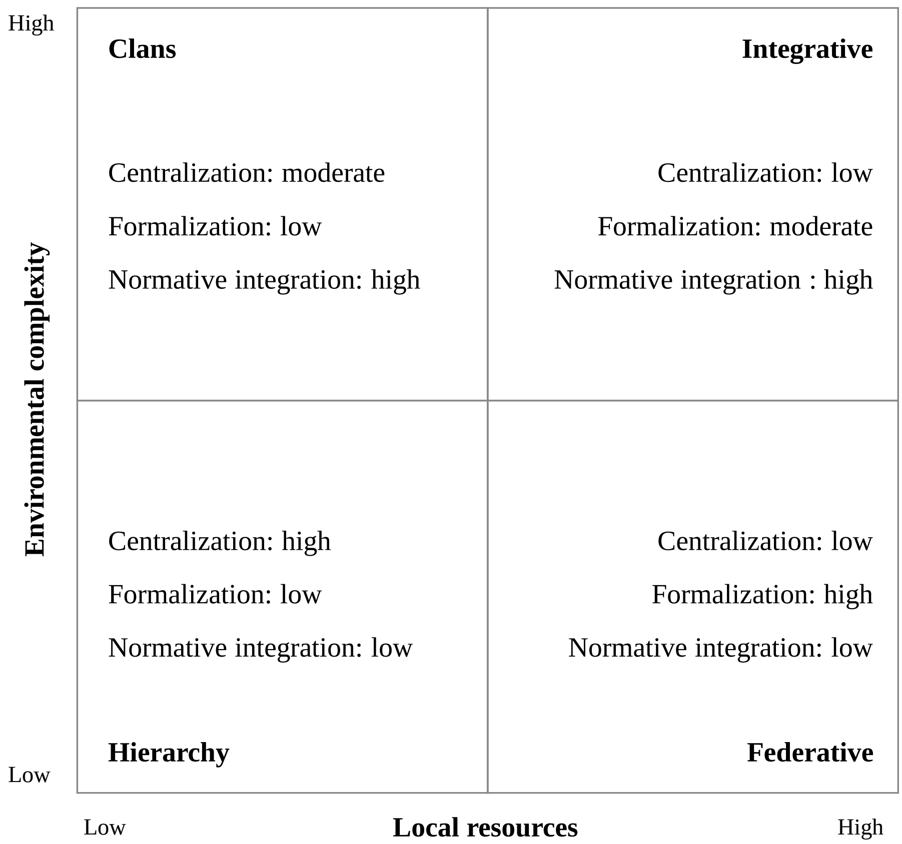
While IB research on subsidiaries of the MNC can be traced back to the 1960s, the systematic use of foreign sub-units as the core unit of analysis took almost another two decades (Birkinshaw & Pedersen, 2009). The focus in the following literature review will be set on HQ–subsidiary relationships and subsidiary roles even though other aspects like MNC structures or strategies are also at least partially related to the topic of subsidiary internationalization. While studies about HQ–subsidiary relationships are expected to provide a better understanding on how various MNC units are interlinked and how they interact, research on subsidiary roles should facilitate the obtaining of a broader picture of the set of functions and responsibilities that foreign subsidiaries take in modern MNCs. The topic of subsidiary functions and responsibilities will be further enriched by studies on specialized roles with a particular focus on cross-border business operations.

2.3.4.1. *HQ–subsidiary relationships*

One of the first IB literature stream that explicitly looked at foreign subsidiaries as the core unit of analysis was the examination of HQ–subsidiary relationships. According to Birkinshaw and Pedersen (2009), the aspects of subsidiary guidance and supervision as well as coordination and integration received particular attention. Earlier studies on HQ–subsidiary relationships (e.g. Picard, 1980) already highlighted that the level of subsidiary decision-making autonomy and HQ–subsidiary exchange strongly differs from one MNC to another and equally from one subsidiary to another. Amongst others, the availability of parent company resources, the performances of local subsidiary management and particular host market characteristics were found to influence HQ–subsidiary relationships. The focus of the following paragraphs will therefore be set on literature that acknowledged the heterogeneity of MNCs and foreign subsidiaries and its impact on HQ–subsidiary relationships. Particular attention will thereby be drawn to the relevance of agency theory (Jensen & Meckling, 1976) for subsidiary management.

Ghoshal and Nohria (1989) were one of the first IB scholars who requested and found empirical evidence for a more differentiated approach towards management and control of foreign subsidiaries. In their first study, Ghoshal and Nohria (1989) looked at 618 cases of HQ–subsidiary relationships in European and North American MNCs and found evidence that the contextual conditions of a particular foreign subsidiary in the form of local resource configurations and environmental complexity relative to other MNC units can be meaningfully classified into four generic situations. They referred to them as hierarchy, federative, clans and integrative. Ghoshal and Nohria (1989: 323) further revealed that each situation is associated with three different structural elements of HQ–subsidiary relationships: “(1) centralization, the lack of subsidiary autonomy in decision-making; (2) formalization, the use of systematic rules and procedures in decision-making; and (3) normative integration, consensus and shared values as a basis for decision-making”. Their contingency framework is shown in Figure 2-4 below.

Figure 2-4: Fit structure of headquarters–subsidiary relations in each context



Source: Ghoshal & Nohria (1989: 328)

Five years later, Nohria and Goshal (1994) reexamined and extended the above-mentioned framework for headquarters–subsidiary relations. Relying on data from numerous foreign subsidiaries of 54 MNCs, Nohria and Goshal (1994) showed that the more differentiated corporate management treats its affiliated companies in terms of centralization and formalization, the higher performance the MNC, as a whole, achieves. In addition, the study proved that a high level of shared values among corporate and subsidiary managers can also strengthen MNC performance. While the added-value of their second study may appear marginal to the reader at first sight, it strongly contributed to IB research by explicitly comparing headquarters–subsidiary relations with principal–agent relationships. Nohria and Goshal (1994: 492) noted in this context that "as the principal, the headquarters cannot effectively make all the decisions in the MNC since it does not possess and must, therefore, depend on the unique knowledge of the subsidiaries. At the same time, the headquarters cannot relinquish all decision-rights to the subsidiaries since the local interests of subsidiaries may not always be aligned with those of the headquarters or the MNC as a whole." As the topic of subsidiary internationalization also involves a high degree of responsibility delegation to peripheral MNC units, the principles of agency theory will be briefly discussed.

Jensen and Meckling (1976) are widely seen as the founding fathers of agency theory. In their widely cited work, Jensen and Meckling (1976: 308) defined agency relationships as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". Lacking goal congruency between the agent and its principal, however, was expected to result in relationship inefficiencies that the agent thrives to overcome at a certain cost. According to Jensen and Meckling (1976), such costs relate to monitoring efforts and/or incentive schemes aimed at aligning principal goals and resulting actions of both parties. Academics further differentiated agency problems by moral hazard or hidden action and adverse selecting or hidden information. According to Darrough and Stoughton (1986: 501), "moral hazard arises when the action undertaken by the agent is unobservable and has a differential value to the agent as compared to the principal. Adverse selection problems arise when the agent has more information than the principal." In addition to moral hazard and adverse selection, agency theory also refers to the problem of risk sharing in principal–agent relationships and varying risk approaches between the involved parties. Overall, agency theory uses the contract between principal and agent as the unit of analysis and thereby relies on several assumptions on humans, organization and information (Eisenhardt, 1989a: 58). A solid overview of agency theory is shown in Table 2-4 below.

Table 2-4: Overview of agency theory

Key idea	Principal–agent relationships should reflect efficient organization of information and risk-bearing costs
Unit of analysis	Contract between principal and agent
Human assumptions	▪ Self-interest ▪ Bounded rationality ▪ Risk aversion
Organizational assumptions	▪ Partial goal conflict among participants ▪ Efficiency as the effectiveness criterion ▪ Information asymmetry between principal and agent
Information assumptions	Information as a purchasable commodity
Contracting problems	▪ Agency (moral hazard and adverse selection) ▪ Risk sharing
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistleblowing, vertical integration and transfer pricing)

Source: Eisenhardt (1989a: 59)

Putting agency theory in the context of the MNC in general and HQ–subsidiary relationships in particular, agency problems are generally expected to arise if "subsidiary management makes decisions that are not congruent with those desired by headquarters, due to goal incongruence between headquarters and the subsidiary and self-interested behavior on the part of subsidiary management" (O'Donnell, 2000: 526). In order to minimize agency problems in

HQ–subsidiary relationships, corporate management can rely on various instruments like headquarter supervision (e.g. expatriates) and bureaucratic monitoring mechanisms (e.g. monthly reports). In addition, it can use financial incentives for local management in order to align corporate and subsidiary interests (O'Donnell, 2000).

2.3.4.2. General subsidiary roles

Schools of thought regarding subsidiary roles, mandates and charters have taken different perspectives in the course of time. While early research viewed subsidiary roles as largely predetermined by headquarter strategies, modern approaches grant more strategic choice to subsidiaries of an MNC (Birkinshaw & Hood, 1998). Altogether various different parameters were used in order to categorize subsidiaries by their role in the MNC. Due to the multiplicity of studies and plurality of approaches towards subsidiary role classification, a certain degree of overlap in research findings was inevitable. In general, IB scholars applied two or more dimensions directly or indirectly linked to the subsidiary in order to carve out several role types. Morschett (2007: 242-243) provided a comprehensive overview of studies on subsidiary roles and listed a total of 23 typology approaches. With the aim of focusing on aspects closely linked to subsidiary internationalization, i.e. encompassing the aspects of host market relevance, subsidiary capabilities and MNC contribution, the following literature review on subsidiary roles will be reduced to two different studies as outlined in Table 2-5. In addition, the work of Birkinshaw and Morrison (1995) will be touched upon as it sought to integrate various typology approaches.

Table 2-5: Selected subsidiary role typologies

Author	**Bartlett & Ghoshal (1986)**	**Gupta & Govindarajan (1991)**
Dimensions	▪ Strategic importance of local environment ▪ Competence level of local organization	▪ Inflow of knowledge from the rest of the corporation to the focal subsidiary ▪ Outflow of knowledge from the rest of the corporation to the focal subsidiary
Roles	▪ Strategic leader ▪ Contributor ▪ Implementer ▪ Black hole	▪ Integrated player ▪ Global innovator ▪ Local innovator ▪ Implementor

Source: Own illustration, based on Bartlett & Ghoshal (1986), Gupta & Govindarajan (1991)

Bartlett and Ghoshal (1986) applied a four-fold typology for subsidiary roles based on the degree of strategic importance of the local environment and the competence level of the local organization. In their case study they identified an increasingly differentiated approach towards subsidiary management across the MNC, which fundamentally differed from traditional symmetrical and hierarchical management styles and which they referred to as dispersed responsibility. Bartlett and Ghoshal (1986: 88) came across companies that were "experiencing with ways of selectively varying their roles and responsibilities of their national organizations to reflect explicitly the difference in external environments and internal capabilities" and that were "modifying central administrative systems to legitimize the differences". Based on these findings, the following roles were defined:

- Strategic leader (high strategic importance of local environment / high competence of local organization): active involvement in developing and implementing MNC strategy, e.g. identification of business opportunities and threats and elaboration of adequate response behavior

- Contributor (low strategic importance of local environment / high competence of local organization): distinct subsidiary capabilities, e.g. technology expertise, are leveraged across the MNC despite a relatively unimportant local market

- Implementer (low strategic importance of local environment / low competence of local organization): business operations and MNC influence of the subsidiary are limited to national boundaries and local management is requested to exploit the company's value-add and thereby contribute to its functioning

- Black hole (high strategic importance of local environment / low competence of local organization): local subsidiary management is not capable of exploiting significant market potential. The role only temporarily constitutes a valid option, e.g. as a 'sensory outpost'

According to the social science citation index (SSCI), the work of Gupta and Govindarajan (1991) represents one of the most important contributions to subsidiary typology IB research (Harzing & Noorderhaven, 2006). Viewing the MNC as a network of transactions and selecting knowledge flows from several transaction types[3], Gupta and Govindarajan (1991) used the magnitude and directionality of knowledge flows as determinants for subsidiary roles. Their approach was thereby significantly influenced by internalization theories of the MNC as underpinned by their statements (1991: 772) that "knowledge can be transferred more effectively and efficiently through internal organizational mechanisms rather than through external market mechanisms. This is so because external market transactions in knowledge are susceptible to several market imperfections, including problems in recognizing and disclosing knowledge and negative externalities, such as the risk of creating a new competitor." Based on this approach, Gupta and Govindarajan (1991) identified four subsidiary types that fulfill heterogeneous strategic functions in the international firm:

[3] e.g. capital and product flows.

- Integrated player (high inflow / high outflow of knowledge): comprehensively interlinked subsidiary that strongly contributes to the functioning of other MNC units while not being self-sufficient at the same time

- Global innovator (low inflow / high outflow of knowledge): relatively self-sufficient subsidiary that possesses specialized expertise (e.g. technology) that other MNC units depend on

- Local innovator (low inflow / low outflow of knowledge): relatively autarkic subsidiary whose influence is generally limited to its host market

- Implementor (high inflow / low outflow of knowledge): strongly input-dependent subsidiary that predominately operates within national boundaries

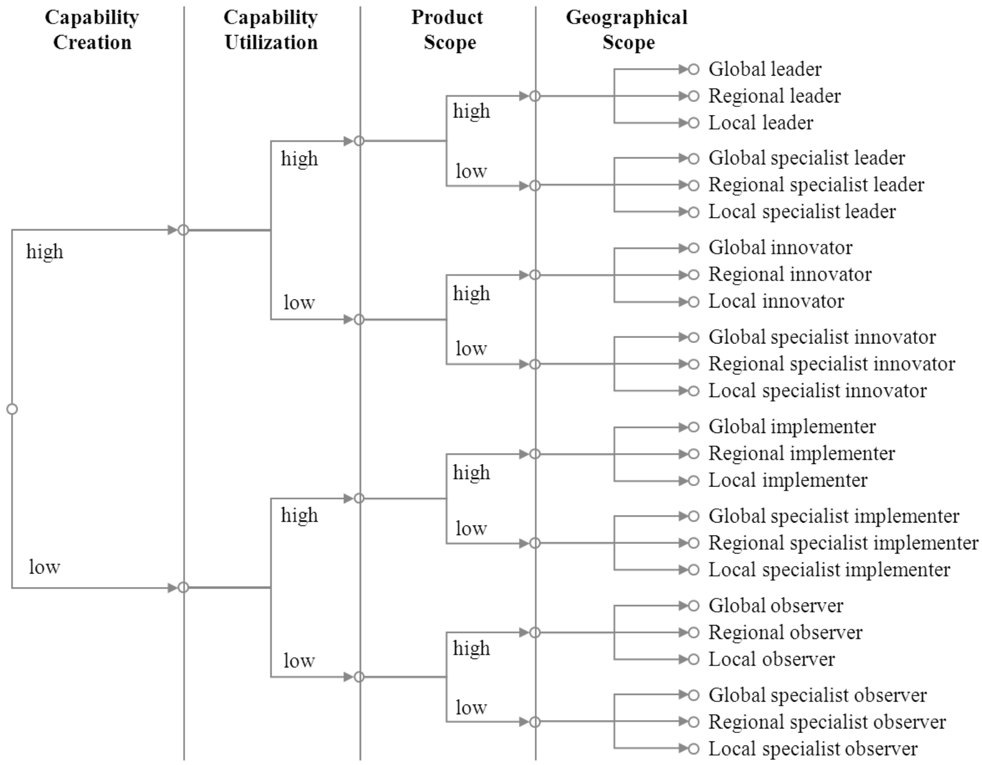
By outlining only two subsidiary typology approaches, inevitable repetitions and definitional overlaps already become apparent. For instance, Gupta and Govindarajan's (1991) global innovator largely resembles Bartlett and Ghoshal's (1986) contributor just as their implementor and implementer reveal similarities from the nomenclature itself. In an attempt to consolidate schools of thought in the field of subsidiary role, Birkinshaw and Morrison (1995) defined a three-fold typology. Local implementers, characterized by limited geographic, product and value-add scope, specialized contributors, equipped with considerable expertise in certain specific activities that are tightly coordinated within the MNC network, and finally world mandates, possessing a worldwide or regional responsibility for a product line or entire business typically with a full product and a wide value-added scope. While Birkinshaw and Morrison (1995) contributed to IB research by consolidating various typology approaches for subsidiaries their strict focus on three subsidiary types, their limitation to market- and product-related dimensions and their inability to provide empirical evidence for the defined subsidiary roles are viewed as major shortcomings (Morschett, 2007).

2.3.4.3. Specialized subsidiary roles

The continued relevance of traditional subsidiary typology approaches is highlighted by a recent reconceptualization of Bartlett and Ghoshal's (1986) work by Rugman, Verbeke and Yuan (2011). In order to respond to major changes in today's business environment predominately as a result of IT development leading to a specialization of activities at foreign subsidiaries, Rugman, Verbeke and Yuan (2011) asked for a more differentiated typology approach across the value chain. They proposed to thoroughly distinguish between locational advantages and subsidiary capabilities as it may be "inappropriate to assess the strength of a country's location advantages, and a subsidiary's opportunities for bundling these with internal resources, through a single, aggregate assessment that does not recognize differences across value chain activity sets" (Rugman, Verbeke & Yuan, 2011: 258).

Enright and Subramanian (2007) also relied on the aforementioned approaches when developing an organizing framework for MNC subsidiary typologies. Identifying simplicity and lacking synthesizability as major shortcomings of past typology efforts, Enright and Subramanian (2007) used capability creation and capability utilization as well as geographical scope and product scope as determinants of subsidiary roles that are expected to build on one another. Their rather complex approach is justified by "increasing regionalization and globalization pressures across many industries" (Enright & Subramanian, 2007: 919), resulting in MNC units with "varied and differentiated roles and mandates, and a multitude of linkages with other entities in the home country and worldwide". While the four-dimensional framework that is shown Figure 2-5 may appear over-structured at first sight, it encompasses relatively well the various options that foreign subsidiaries are facing with regard to capability creation and utilization and geographical and functional responsibility scopes. In addition, it equally accounts for increasing specialization of subsidiaries in modern MNC.

Figure 2-5: Complete subsidiary typology formulation



Source: Enright & Subramanian (2007: 912)

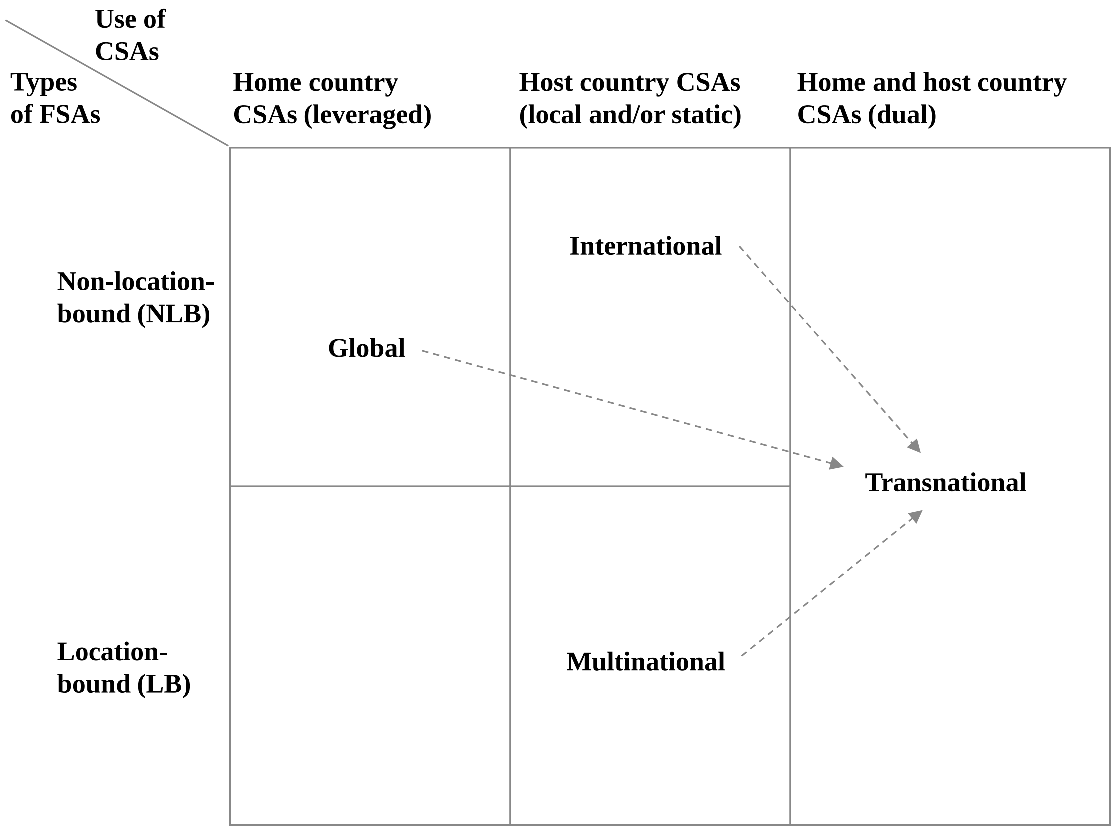
The studies of Rugman, Verbeke and Yuan (2011) and Enright and Subramanian (2007) highlighted today's challenge for IB scholars in dealing with the increasing complexity of subsidiary roles and specialization of subsidiary functions that are frequently summarized in mandates (e.g. Cantwell & Mudambi, 2005) or charters (e.g. Galunic & Eisenhardt, 1996). As previously outlined, subsidiary specialization may thereby refer to numerous aspects like value chain elements, product groups or geographies. While all of these aspects are crucial to the understanding of contemporary functioning of foreign subsidiaries, the responsibility scope of MNC units beyond host market borders is of particular interest to the study at hand. To what extent are foreign subsidiaries engaged in cross-border activities? What qualifies local management to participate in foreign market operations?

2.3.4.4. Subsidiaries with foreign market development roles

When assessing Bartlett and Ghoshal's (1989) work on the transnational solution, Rugman and Verbeke (1992, 2001) extended the transaction cost theory to three dimensions, which are relevant for this study. First, they postulated that firm-specific (or ownership-specific) advantages (FSAs) may originate outside the parent company. In addition, they denied the exogenous character of country-specific (or locational) advantages (CSAs), stating that CSAs "may create dynamic benefits to the corporation as a whole" (1992: 763). Finally, Rugman and Verbeke (1992: 763) distinguished FSAs by their applicability across the MNC. While non-location-bound FSAs can be exploited globally by an MNC, location-bound FSAs "benefit a company only in a particular location (or set of locations), and lead to benefits of national responsiveness". By acknowledging the applicability of location-bound FSAs in a set of locations, Rugman and Verbeke (1992) already touched upon the aspect of region-bound FSAs, originating in the parent company's home market or the host market of foreign subsidiaries, which they detailed in later studies (Rugman & Verbeke, 2004, 2005, 2007). Their three-tier approach towards FSA applicability, location-bound, region-bound and non-location-bound will be further detailed in a later section on regional headquarters.

By differentiating FSAs by their applicability across the MNC, Rugman and Verbeke (1992, 2001) aimed to emphasize the subsidiary's ability to contribute to the MNC beyond their national borders. They further confronted one of the major weaknesses of internalization theories that FSAs and thus sources of MNC competitiveness exclusively originate in the parent company's home market (Morschett, 2007). The core ideas of Rugman and Verbeke's work (1992), which can also be classified as a resource-based view of the MNC (Birkinshaw et al., 1998), are shown in Figure 2-6 below.

Figure 2-6: Sources of international competitive advantage – a transaction cost model



Source: Rugman & Verbeke (1992: 764)

According to Rugman and Verbeke (1992), CSAs can be used in three different ways in order to develop location- and non-location-bound FSAs and thus to contribute to the competitiveness of a firm: (1) leveraged use of CSAs linked to the parent company's home market; (2) local use of CSAs associated with the subsidiary's host market; (3) dual use of CSAs in both the home and host market. They further used the work of Bartlett and Ghoshal (1989) on the transnational solution in order to classify their four types of MNC configuration (global, international, multinational and transnational) by the dimensions of CSA exploitation and FSA type. Finally, Rugman and Verbeke (1992) further built on Bartlett and Ghoshal's (1986) four-fold subsidiary typology by modifying their two-by-two matrix dimensions. The strategic importance of the local environment was thereby replaced with the "perceived potential of CSAs for MNE's competitiveness" and the competence level of local organization with the "perceived contribution to FSA development for MNE's competitiveness" (1992: 768).

Rugman and Verbeke (1992, 2001) strongly contributed to IB research by distinguishing between location-bound and non-location-bound CSAs (Eden, 2005) and by acknowledging the ability of foreign subsidiaries to contribute to the MNC as whole. They did not, however, further detail in what form, i.e. by the fulfillment of what functions and in what markets, local management can actually benefit other MNC units, including its parent company. Later literature streams on subsidiary roles around world product mandates, foreign centers of excellence as well as regional and divisional headquarters therefore offer greater insight into the influence of subsidiaries across host market borders. In addition, Birkinshaw and Pedersen (2009: 378) questioned the transferability of transaction-cost-based theory to the aspect of FSA applicability across the MNC by stating that Rugman and Verbeke (1992, 2001) tried "to make sense of a phenomenon through a theoretical lens that was not really designed for the task".

2.3.4.5. World product mandate

The term world product mandate was first used by the Science Council of Canada (1980) when encouraging Canada-based subsidiaries of foreign MNCs to seek extended research and development, production and marketing responsibilities from their parent companies. According to Bonin and Perron (1986: 161), a world product mandate is defined as "an agreement between a multinational enterprise's parent company and one of its subsidiaries to grant the subsidiary exclusive rights to produce and market a product and, if circumstances warrant, to pursue the necessary research and development activity. As a result of such agreements, the firm generally acquires greater managerial autonomy because it has, in fact, become the international centre for a product." While the benefits of world product mandates for the host government in the form of augmented local value-add and for the foreign subsidiary in the form of extended responsibility are relatively straightforward, corporate management has to weigh advantages (e.g. local subsidies) and disadvantages (e.g. reduced control) of its decision. Applying internalization theories of the MNC, Rugman and Bennett (1982: 61) noted in this context that "the choice to the MNC depends upon the relative cost of private R&D (protected by the internal market) against subsidized R&D in its subsidiary where the risk of loss of control is positive".

Pearce (1992) added more clarity to the relatively generic term of 'world product mandates' by looking into scopes of geographical and functional responsibilities a subsidiary actually fulfills. According to Pearce (1992), a foreign MNC unit can very easily be exclusively responsible for only a set of markets or a particular region and thus be geographically specialized. Morschett (2007: 549) supported this view when empirically demonstrating that subsidiaries with a global product responsibility represent a relative rare MNC phenomenon whereas subsidiaries that act as regional product specialists are frequently found in international firms. In addition, having responsibility for research and development, production and marketing does not imply that a foreign subsidiary necessarily needs to be fully self-sufficient but that the "key distinction is the ability of the subsidiary to take responsibility for securing the crucial inputs" (Pearce, 1992: 45). Only a few attempts (e.g. Roth and Morrison, 1992) have been made in order identify subsidiary characteristics associated with global subsidiary mandates and these often resulted in rather counterintuitive results. Overall, it has never been proven that the world product mandate actually represents the most attractive specialization option (Birkinshaw, 1996).

2.3.4.6. *Foreign center of excellence*

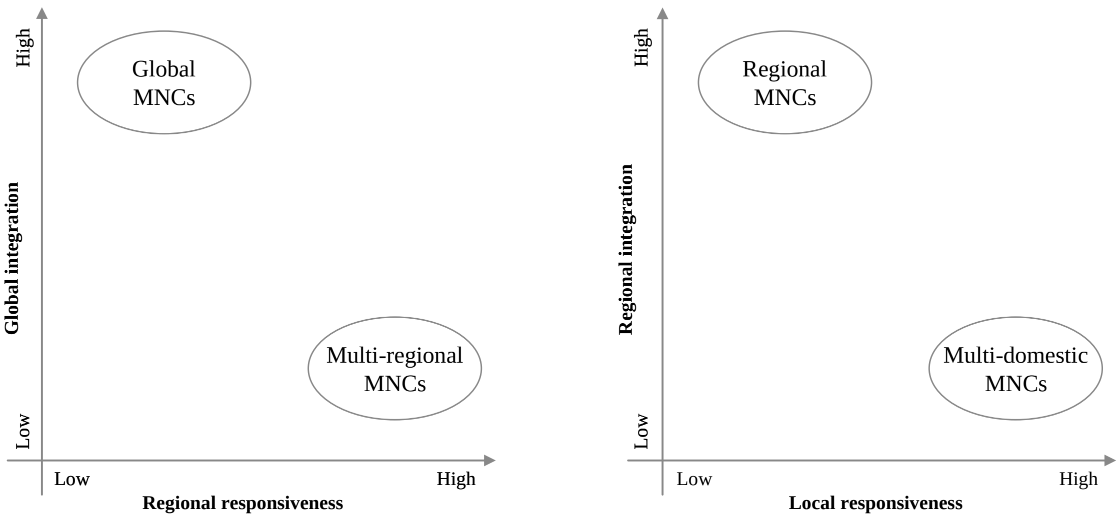
The term (foreign) center of excellence has been used in various forms by IB scholars in the past. Fratochii and Holm (1998), for example, viewed these centers as subsidiaries with a particular contribution to the MNC as whole, i.e. with an above-average value-add, leading to increased functional and/or geographical responsibility. Lyle and Zawacki (1997) referred to best practices or particular sets of capabilities that are found across the MNC. Criticizing both approaches for treating the "subsidiary as a whole" as well as for lacking precision, Frost, Birkinshaw and Ensign (2002: 997) 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". Analyzing 99 foreign subsidiaries in Canada, they further identified two influential factors for the subsidiary ability to become a foreign center of excellence for the MNC: parent company investment and local access to sources of competence, both within and outside of the MNC. Frost et al. (2002) therefore acknowledged the influence of external factors (customers, suppliers, competitors etc.) on the subsidiary's role in the firm.

Andersson and Forsgren (2000) already viewed external embeddedness of a subsidiary as a driver for centers of excellence in the MNC. Based on empirical studies they found that the more intense the linkages to external parties are, the more influential a subsidiary operates in the firm as a whole. Even though their analysis on centers of excellence was limited to R&D and technology contributions, it raised two highly interesting points. First, local adaptation of foreign subsidiaries appears to empower them to take on superior roles in the MNC. Andersson and Forsgren (2000: 344) stated in this context that "through these relationships, and maybe dependent on the psychic distance, the subsidiary can function as an important speaking partner in discussions about the future orientation of the MNC". Second, the study outcome showed that corporate headquarters need to have sufficient understanding of the subsidiary's operations, including its external network, in order to manage the transfer of capabilities across the MNC accordingly. Highlighting the importance of external factors on the development of such capabilities, Andersson and Forsgren (2000: 344) postulated that "the headquarters' knowledge about the subsidiaries' links to their most important customers and suppliers are critical, especially if these relationships are characterised by a high degree of external embeddedness".

2.3.4.7. *Regional headquarters*

Another interesting aspect of specialized subsidiary roles is the wide existence of regional headquarters (henceforth 'RHQ'), in which a foreign subsidiary manages and supervises one or several subsidiaries beyond its original host market. IB research in this field picked up in the 1990s with the aim of bridging study findings on corporate headquarters and foreign subsidiaries and shedding light on varying configurations of regional operations. Many scholars thereby based their work on the studies of Prahalad and Doz (1987) on the dual challenge for MNCs to respond to both, global pressure and local responsiveness. Lehrer and Asakawa (1994), for example, modified the integration-response framework of Prahalad and Doz (1987) by incorporating a regional perspective into the existing global and local view. They thereby split relationships across MNC units into two parts: (1) corporate headquarters and regional offices and (2) regional offices and foreign subsidiaries. According to their model, which is shown in Figure 2-7, the likelihood of regional structures is most distinct if strong pressure for regional responsiveness and integration exists at the same time. As noted later by Lehrer and Asakawa (1999: 272), "where strong pressures exist for both regional responsiveness (resulting in the delegation of important corporate tasks from world headquarters to the regional level) and for regional integration (requiring extensive coordination among country subsidiaries within a given region), the regional office can be expected to exercise an important administrative, headquarters-like function".

Figure 2-7: Modified integration-response framework of Prahalad & Doz (1987)



Source: Lehrer & Asakawa (1999: 272)

Understanding when and where an MNC should adopt global, regional and local structures also constituted the core of Schütte's (1997) study on the challenges for European operations in Asia. According to his work (Schütte, 1997: 441), one precondition for the existence of RHQs is that "the benefits from regional integration must be higher than the cost of an RHQ as an additional organisational unit and hierarchical level, especially the cost associated with the loss of relative independence of the national units". Adhering to the triadic model of Lehrer and Asakawa (1994), the role of regional headquarters is split into dealing with corporate management and dealing with local subsidiary management. While the former refers to functions like strategy development, budget control or intelligence gathering, the latter relates to enhancing efficiency and effectiveness of regional operations. Based on his study findings, Schütte (1997) offered a framework to evaluate the suitability of a foreign subsidiary for RHQs. According to it and using Japan as an example, the setting up of regional organizations is only desirable if there is a close link between local and regional activities and if the local market, in this case Japan, is important to the global success of the firm.

Rugman and Verbeke (2005) applied an interesting transaction-cost-based approach to the understanding of regional clusters in business operations. The starting point for their study was that a prerequisite for successful internationalization is the MNC's ability to combine FSAs with CSAs in a particular host market. Such adaptation to foreign environments requires investments "in the development of location-bound FSAs in foreign markets (leading to benefits of national responsiveness) to complement non-location-bound FSAs" as well as "in the development of new, non-location-bound FSAs in foreign subsidiaries" (Rugman & Verbeke, 2005: 12). Rugman and Verbeke (2005) further postulated that the more institutional and economic distance exists between home and host country, the higher the aforementioned investments or 'adaptation costs' are. As a result, redeploying non-location-bound FSAs in as well as tuning location-bound FSAs to a foreign market occurs at lower costs if the involved countries belong to a similar region. According to Rugman and Verbeke (2005: 14), "these FSAs can easily be made 'region-bound', to the extent that linking investments with high institutional and economy-related specificity can be avoided. In other words, it can be efficient for an MNE to expand within its home region; it does not need to go global."

Lower transactions costs are therefore the driver for the establishment of RHQs. In a later study, Rugman and Verbeke (2007) coined the term 'liability of inter-regional foreignness' when seeking to understand the increasing regionalization of world business (Rugman & Verbeke, 2004). They thereby argued that an "MNE's operations in the host region function on the basis of an overall FSA bundle that may differ significantly from the one deployed in the home region" (2007: 204). The main contribution to IB research of Rugman and Verbeke's studies (2004, 2005, 2007) is the recognition of 'region-bound' FSAs in addition to 'location-bound' and 'non-location-bound' FSAs, which allows for a more differentiated approach towards FSA contribution of foreign subsidiaries across the MNCs. Aforementioned criticism of their transactions-cost-based approach to this topic (Birkinshaw & Pedersen, 2009) remains unaffected.

Enright (2005a) also touched upon the aspect of locational advantages of foreign subsidiaries that stretch beyond host market borders. According to Enright (2005a), locations of subsidiaries "differ in their overall political and policy environments, quality of infrastructure, proximity to customers, quality of life that they offer managers and their families, proximity to the firms' other operations in the region, and the skills and capabilities found in the local workforce" and that these individual characteristics impact the role a subsidiary may obtain for a specific region. Ambos and Mahnke (2010) differentiated the headquarters' role by integrative and entrepreneurial charters. While the integrative function relates to the coordination of "the MNC's activities across the individual markets, and further achieving synergies by pooling resources and centralizing value-added activities", the entrepreneurial charter requires headquarter management "to scout and explore new business opportunities worldwide, to initiate new ventures across the globe, to stimulate and assist the local subsidiaries in understanding the changing nature of the business environment, and to help them integrate these changes into their business strategies" (Ambos & Mahnke, 2010: 406). According to Ambos and Mahnke (2010), the two types of charters need to be equally fulfilled by global, regional and divisional headquarters in order to avoid the risk of value destruction.

2.3.4.8. Divisional headquarters

Turning into an RHQ and thus taking responsibility for other MNC units beyond original host markets is not the maximum a foreign subsidiary can achieve along its evolutionary path. Almost two decades ago already, Forsgren, Holm and Johanson (1995) highlighted the increasing existence of divisional MNC headquarters that are located abroad, i.e. no longer situated in the parent company's home market. They further developed a model to explain the development of divisional headquarters as a consequence of power relationships deployed by the internationalization of a company. Arguing that the "division HQ location is a relevant issue in relation to strategic behavior of the MNC, especially if one considers that managers are influenced by the local context in their decision process", Forsgren et al. (1995: 476) tested several hypotheses with a sample of divisions of Swedish multinationals. Throughout their study they set a strong focus on interests and power bases among various stakeholders of the MNC that are expected to influence the subsidiary's ability to become a divisional headquarters.

Forsgren et al. (1995) further recognized 'countervailing forces' between subsidiary attraction and headquarter interest that are crucial to the understanding of divisional headquarters. While attraction force refers to a foreign subsidiary's ability to coordinate foreign business operations, headquarter interest relates to the goal of maintaining close links among division heads. Overall, the higher the degree of divisional internationalization, the more likely a subsidiary is to turn into a divisional headquarters. On the other hand, the higher the degree of MNC internationalization, the less likely a subsidiary is to become a divisional headquarters. Birkinshaw, Braunerhjelm, Holm and Terjesen (2006) also drew attention to the topic of divisional headquarters when examining the relocation of business units and corporate headquarters abroad. They found evidence that the business unit's degree of foreign operations and the attractiveness of an overseas market relative to the home market positively impact the development of divisional headquarters. In turn, they proved that high levels of interdependence between corporate and divisional headquarters as well as ownership concentration in the form of company shares negatively correlate with the setting up of business unit headquarters abroad.

Benito, Lunnan and Tomassen (2011) recently further developed the topic when examining the location and relocation of foreign-based divisional headquarters in Norwegian MNCs. Norway was viewed as a small and peripheral European country. Applying agency, resource-based as well as institutional theories, Benito et al. (2011) showed that the observed phenomenon is largely facilitated by efficiency advantages of co-locating with foreign subsidiaries. Such efficiency advantages appeared to further augment the more divisions exist in an MNC, i.e. the more divisionalized a company becomes. On the other hand, a negative correlation between headquarter relocation and the degree of corporate size as well as diversification was tested. Overall, Benito et al. (2011: 389) considered agency theory as the most suitable approach to understanding the topic and supported the aforementioned findings of Forsgren et al. (1995) by stating that "a division headquarter has agency relations both with subsidiaries (as a principal) as well as with corporate headquarters (as an agent), and our findings clearly show that there are good reasons both for locating divisional headquarters close to subsidiaries and for keeping them close to global headquarters".

2.3.5. *Studies with dynamic views and the subsidiary as core unit of analysis*

While the previous section aimed to provide an overview of subsidiary roles both within and beyond host market borders, the following excursus of literature seeks to add a dynamic viewpoint to subsidiary roles and responsibilities. The reflections will again be split into a general part on subsidiary evolution and a specific part on subsidiary evolution across borders. When approaching the research topic of subsidiary evolution, Bouquet (1999) offered a solid framework by subdividing it into evolution phases or stages and evolution drivers or determinants. As the study deals with the shift of subsidiary roles from nationally-bound to cross-border business activities, Bouquet's (1999) framework will also be used in the following literature review.

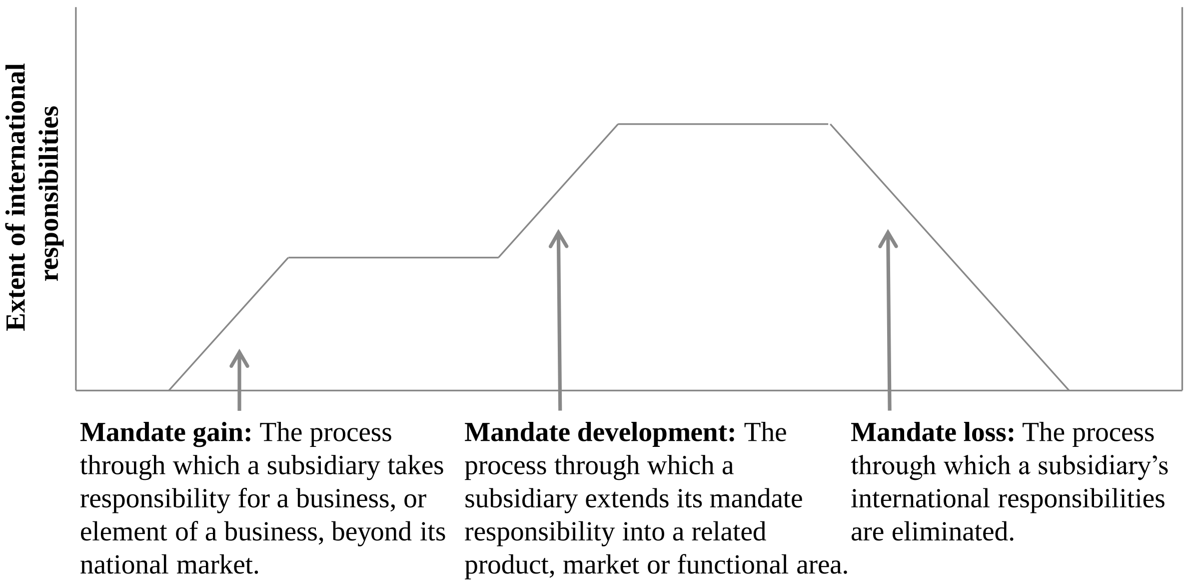
2.3.5.1. *Subsidiary evolution stages*

Sargeant (1990) was one of the first IB scholars who split subsidiary development into different evolutionary phases. Despite a highly simplistic approach and lacking empirical proof, his three-stage model for subsidiary evolution serves as a good starting point for the literature review. Analyzing the subsidiary's relationship to its parent company over time, Sargeant (1990) separated evolutionary stages by childhood, adolescence and adulthood. In its early existence or childhood a subsidiary is strongly HQ-dependent with business activities limited to simple sales, service or production responsibilities. As the subsidiary grows with regard to sales and asset volume as well as headcount level it increasingly fulfills administrative tasks and is exposed to augmenting sales and profit pressure from corporate management. If subsidiary management achieves further growth, it reaches the final evolutionary stage, its adulthood.

A more sophisticated stages model for subsidiary evolution that was also empirically backed was developed by Malnight (1995). According to Malnight (1995), a firm can pass through up to four stages in its evolutionary path: (1) appendage; (2) participation; (3) contribution; (4) integration. The original stage, appendage, is characterized by the exploitation of the parent company's resources and capabilities in a particular host market. In the participation phase, foreign affiliates already carry out a broader set of tasks with the aim of serving individual local needs. When reaching the contribution stage, foreign subsidiaries generally benefit from an upgrade of local resources in terms of headcount as well as capabilities in order to face increasingly global challenges. Finally, throughout the integration stage a firm tries to combine national and foreign activities through an integrated network and thereby to enhance global competiveness.

Having outlined two relatively simple stage models for subsidiary evolution, their lack of a lifecycle perspective that accounts for mandate gains and potential mandate losses soon becomes apparent. In addition, they equally failed to outline what capabilities a foreign subsidiary actually needs in order to advance in its evolutionary path. According to Birkinshaw (1996), a lifecycle framework is inevitable when assessing subsidiary evolution as value-adding activities migrate from one MNC unit to another for two reasons. First, and thereby referring to location-specific advantages found in transaction-cost-based theories of the MNC, altering comparative advantages in a particular country or region, e.g. in the form of rising labor costs, may result in modified local business operations at a foreign subsidiary. Second, a subsidiary may fail to adapt to environmental change, leading to a loss of distinctive capabilities. Birkinshaw (1996: 490) noted in this context that “as market opportunities shift, the ability of the subsidiary to adapt its capabilities is liable to be constrained, both because of the specialized nature of those capabilities and because of parent company preconceptions regarding the scope of the mandate. Failure to adapt may thus lead to mandate loss.” Birkinshaw (1996) therefore proposed a mandate lifecycle framework as shown in Figure 2-8 below.

Figure 2-8: Mandate lifecycle framework



Source: Birkinshaw (1996: 472)

2.3.5.2. Subsidiary evolution determinants

In addition to being one of the first IB scholars to elucidate the potential temporary nature of subsidiary mandates, Birkinshaw (1996) further identified a set of determinants for growing and declining responsibilities of foreign MNC units. His findings together with a selection of other relevant studies will be discussed in the next pages. In the past scientific research has either focused on examining the outcome of subsidiary initiatives potentially leading to mandate modifications or directly addressed drivers for mandate development over time. The following pages will therefore encompass studies on particular one-time mandate changes, e.g. as a result of parent- and/or subsidiary-driven initiatives, as well as lifecycle observations and scientific efforts to develop a driver model for subsidiary evolution.

IB scholars have taken different perspectives on determinants for the development of subsidiary mandates in the past. According to Birkinshaw and Pedersen (2009: 371), heterogeneous viewpoints are primarily the result of multiple process stimuli as evolutionary paths of foreign MNC units "can be driven from within (i.e. through the initiative of subsidiary managers) or from without (i.e. investment from the parent company or external forces)". Earlier studies (e.g. Birkinshaw, Hood & Young, 2005) had already demonstrated that subsidiary evolution can be driven by a combination of internal and external parameters, thus linking the aforementioned two perspectives. Adhering to both scientific articles, the application of a holistic viewpoint across the MNC as well as across external networks appears necessary when seeking to understand the phenomenon of subsidiary evolution in modern MNCs.

Birkinshaw is generally seen as the IB scholar who first shifted the research focus for subsidiary evolution onto the subsidiary itself (Rugman, Verbeke & Nguyen, 2011). His central idea was that the evolutionary path of a foreign MNC unit is not exclusively dependent on decisions at corporate headquarters but that local subsidiary management can actually strongly shape its development over time. Awarding foreign subsidiaries a certain degree of entrepreneurship, Birkinshaw (1997: 207) defined subsidiary initiative as "an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity" that leads to "a new way for the corporation to use or expand its resources" (1997: 210). In his study, Birkinshaw (1997) further distinguished initiatives by their 'locus of market opportunity' into local, global, internal and hybrid. Birkinshaw (1997) paid particular attention throughout the study to facilitating conditions, process elements as well as intended initiative outcome for all four initiative types. The results, which were based on quantitative as well as qualitative empirical research, are summarized in Table 2-6 below.

Table 2-6: Types and characteristics of subsidiary initiatives

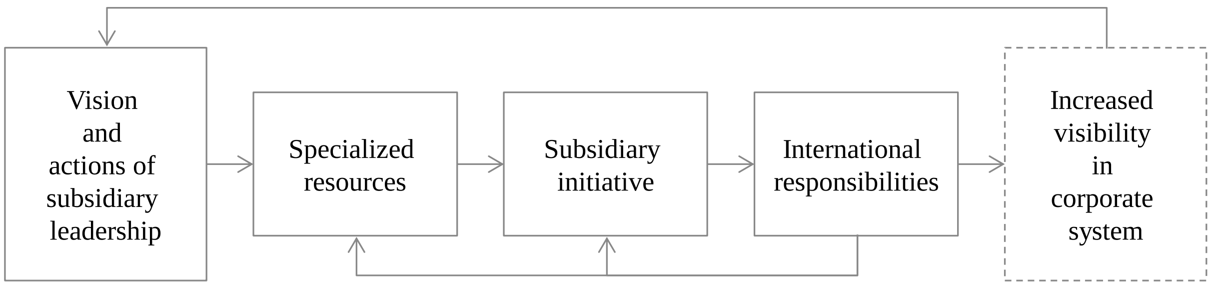
Initiative	**Local**	**Internal**	**Global**	**Hybrid**
Description	Seeks to develop a new product, market or process through opportunities that are first identified in the subsidiary's home market	Promotes the redistribution of existing corporate assets or resources such that they are more efficiently deployed	Seeks to build on an existing mandate or proven capability to meet a perceived international product or market opportunity	Seeks to attract a global investment which has already (in principle) received corporate support
Facilitating conditions	▪ Low parent–subsidiary communication ▪ High autonomy at first ▪ Moderate proven resources	▪ High parent–subsidiary communication ▪ Low autonomy ▪ Strong proven resources, hence credibility ▪ Geocentric perspective in parent company	▪ High autonomy ▪ Low parent–subsidiary communication ▪ Strong proven resources	▪ High parent–subsidiary communication ▪ Low autonomy ▪ Strong proven resources, hence credibility ▪ Geocentric perspective in parent company
Process	▪ Low to moderate internal selling ▪ Implicit approval process	▪ High internal selling ▪ Explicit approval process	▪ Low internal selling ▪ Implicit approval process	▪ High internal selling ▪ Explicit approval process
Intended outcome	▪ New business for the MNC; local opportunity leveraged worldwide	▪ Rationalization of existing activities; increased efficiency	▪ Enhancement and international leverage of an existing product line or business	▪ Optimum global siting of new value-adding activity

Source: Birkinshaw (1997: 218, 224)

Study findings of Birkinshaw (1997) revealed three very interesting characteristics of subsidiary initiatives. First, facilitating conditions and rent-seeking as well as approval processes appear to significantly differ from one initiative type to another. Despite varying numbers of involved stakeholders or intended outcomes, e.g. new versus existing activities, one might have expected a slightly more homogeneous picture across subsidiary rent-seeking activities. Second, global market initiatives of subsidiaries, which largely resemble subsidiary internationalization, seemed to flourish best if the subsidiary shows a high degree of autonomy and only sporadically communicates with its corporate headquarters. While Birkinshaw (1997) stressed the inability of local managers to await headquarter approval for global initiatives, the reader would have most likely expected a higher degree of subsidiary–headquarter exchange as well as more pronounced internal selling efforts for cross-border business expansion. Finally, for all initiative types a certain degree of proven subsidiary resources facilitated local efforts to obtain headquarter approval. It therefore appears that a minimum level of trust by corporate management is needed in order to delegate responsibility to foreign subsidiaries.

The impact of local resources and capabilities is also marked by Birkinshaw et al. (1998) when investigating whether subsidiaries themselves are actually able to develop FSAs of the MNC. Based on empirical evidence from more than 200 foreign subsidiaries with local production facilities, Birkinshaw et al. (1998: 225) investigated what impact subsidiary-level (leadership, entrepreneurial culture), corporate-level (subsidiary autonomy, subsidiary–parent communication) and country- as well as industry-level (local competition, industry globalization) factors have on the contributory role of a subsidiary. The impact was tested directly and indirectly through the constructs of specialized subsidiary resources and subsidiary initiatives. As a starting ground Birkinshaw et al. (1998) used a simple process model that is highlighted in Figure 2-9 below.

Figure 2-9: Process model of subsidiary activities and subsidiary resources



Source: Birkinshaw et al. (1998: 224)

Birkinshaw et al. (1998: 225) further built on the idea that subsidiaries can contribute to FSAs of MNCs if they possess non-location-bound resources that are specialized and thus "superior to those available elsewhere in the corporation", that are "recognized by the corporation" and that are "effectively utilized by the MNC". Testing a set of hypotheses through a survey with subsidiary managers, Birkinshaw et al. (1998: 221) were able to derive the following three key findings:

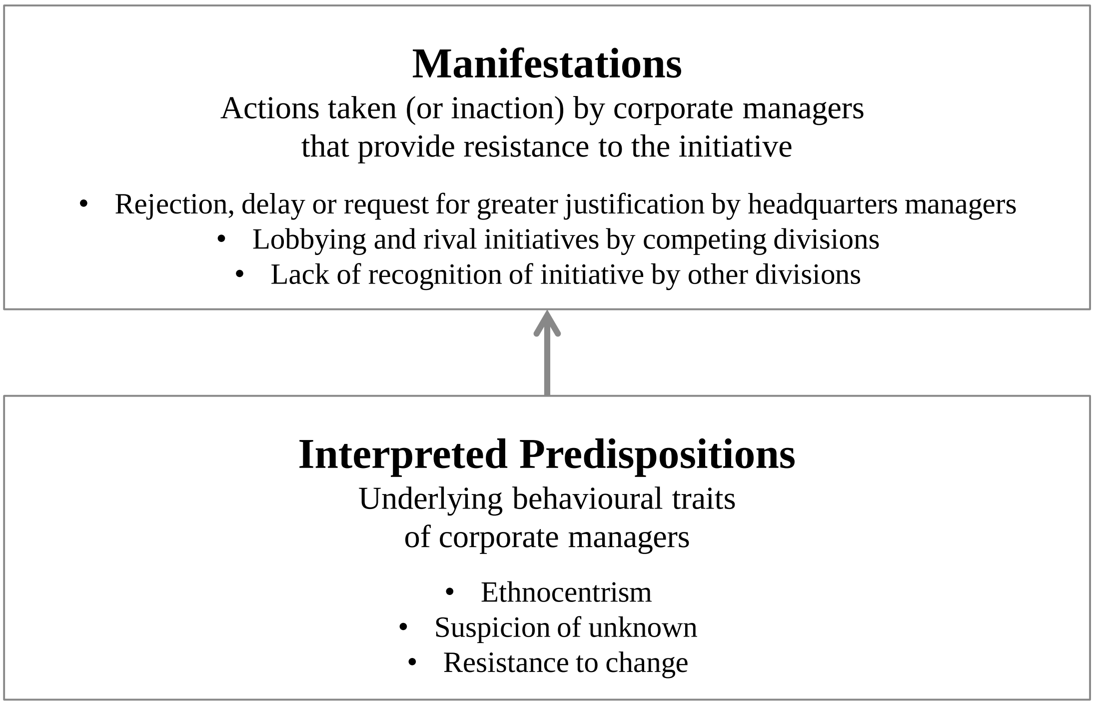
- Internal subsidiary resources in combination with initiative have a strong positive impact on the subsidiary's contributory role
- Subsidiary initiative is strongly associated with the leadership and entrepreneurial culture in the subsidiary
- Contributory role is strongly associated with subsidiary autonomy and a low level of local competition

The work of Birkinshaw et al. (1998) strongly contributed to IB research in two somewhat interlinked dimensions. First, foreign subsidiaries are capable of strongly contributing to the MNC as a whole, leading to an area of influence beyond host market borders. Second, it is up to local subsidiary management not only to identify business opportunities of any kind but also to act upon them by seeking HQ approval for their exploitation. As noted by Birkinshaw et al. (1998: 236), "subsidiary managers understand their resources better than anyone else" and "it is their responsibility to proactively seek out ways of utilizing those resources more effectively”. One major shortcoming of their study is, however, that they did not include the parent company’s perspective in the analysis.

Another approach for examining the outcome of subsidiary initiatives was taken by Birkinshaw and Ridderstråle (1999). Rather than looking at conditions that facilitate positive outcomes of subsidiary initiatives, in most cases leading to positive subsidiary evolution, they looked into potential barriers for obtaining HQ approval. In their study, Birkinshaw and Ridderstråle (1999) referred to the subsidiary’s rent-seeking and the HQ’s approval process as ‘fighting the corporate immune system’. The starting point for a rather negative view on the initiative approval process was that “the merits of any given initiative cannot be known in advance, so the expectations of actors within the organization of its likely value is such that they would prefer to make a type I error (reject a promising initiative) than a type II error (let through a rogue initiative)” (Birkinshaw & Ridderstråle, 1999: 150). Numerous subsidiary initiatives were examined, encompassing requests for intra-MNC (internal) as well as market responsibilities (external) in order to thoroughly sketch the ‘corporate immune system’ and to identify means for local subsidiaries to overcome barriers to initiatives.

Regarding the first aim of the analysis to understand the nature of the ‘corporate immune system’, Birkinshaw and Ridderstråle (1999) soon faced a relatively pronounced degree of complexity. The complexity was largely due to asymmetrical viewpoints taken by corporate and subsidiary management on the subject. Nonetheless, they managed to come up with a two-layer model that is shown in Figure 2-10 below. While manifestations refer to the actual responses of corporate managers to subsidiary initiatives, interpreted predispositions relate to the rationales for HQ actions or inactions. Study findings showed that ethnocentrism represents the key source of initiative failure and that rejection, delay or requests for greater justification were responses that subsidiary management most often had to deal with.

Figure 2-10: Nature of the corporate immune system



Source: Birkinshaw & Ridderstråle (1999: 158)

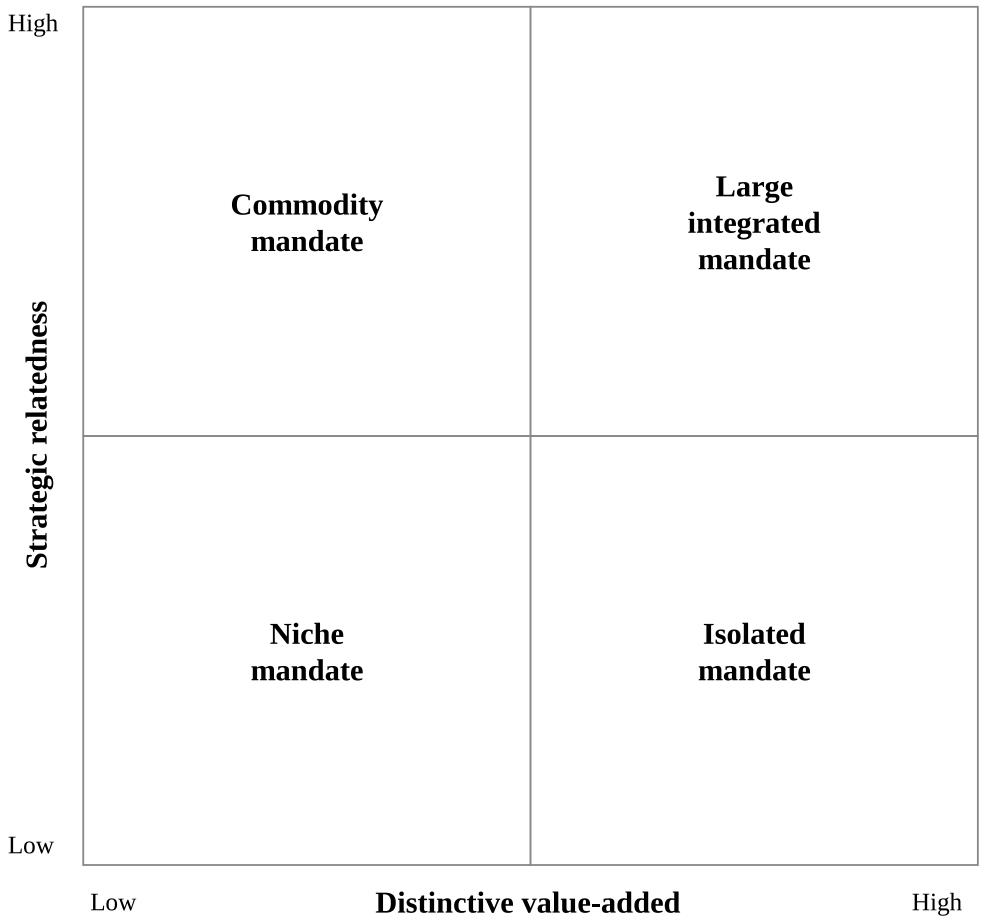
In addition to ethnocentrism, subsidiary initiatives also failed to obtain HQ approval as a result of 'suspicion of the unknown' as well as 'resistance to change'. Together with ethnocentrism, all three behavioral traits of HQ managers are by no means mutually exclusive as the aspect of general risk aversion towards granting new or delegating existing responsibilities to local subsidiary management characterizes them all. This is well summarized by Birkinshaw and Ridderstråle (1999: 154) when stating that MNC stakeholders generally "prefer to work within existing routines, throw their support behind low-risk projects, and resist ideas that challenge their own power base". Moreover, the aforementioned predispositions did not only lead to HQ rejection, delay or a request for greater justification of subsidiary initiatives; local managers were also confronted with lobbying and rival initiatives by competing divisions and/or a lack of legitimacy of the initiative in other units. Both aspects were also highlighted by Galunic and Eisenhardt (1996) when examining the continuous battle for charter among MNC units in the corporate marketplace.

When observing means to circumvent or to overcome corporate obstacles for subsidiary initiatives, Birkinshaw and Ridderstråle (1999: 175) identified three strategies of local management for external initiatives, which are particularly important to the study at hand: (1) early generation of external market acceptance; (2) avoidance of all parts of the corporate immune system in early stages; (3) use of proven market acceptance to fight resistance from rival divisions and other units. It therefore appears that the local subsidiary is best advised to thoroughly assess the business opportunity or to even conduct successful trials prior to seeking official approval from corporate management. While studies on subsidiary initiatives like Birkinshaw and Ridderstråle's (1999) significantly contributed to the understanding of how a subsidiary is capable of growing its scope of responsibilities and what obstacles it is likely to face throughout the initiative process, they are usually focused on the mandate gain rather than mandate preservation or potential loss. As outlined earlier, Birkinshaw (1996) was one of the first IB scholars to take a lifecycle perspective on the mandate evolution of foreign subsidiaries. The reasons for the approach were described earlier in this chapter, so that the focus will now be set on why some subsidiaries achieve long-lasting mandates or even extend them over time and other experience decreasing responsibility scopes and potential loss of functions.

In his study, Birkinshaw (1996) looked at 31 cases of mandate gain, 25 cases of mandate development and seven cases of mandate loss at six foreign subsidiaries. Mandate gains or alterations were highly heterogeneous with regard to the primary mover or locus of initiative-taking, motives as well as responsibility scopes. Mandate gains, for example, were generally driven by subsidiary management when it was related to market-seeking initiatives while resource- and efficiency-seeking initiatives often involved corporate management in the initiative-taking process. With regard to mandate development, approximately one half of subsidiary mandates encountered a scope extension in the observed period. As for mandate gain, market-seeking was the primary development motive, with local expertise one of the key facilitators. According to Birkinshaw (1996: 480), "these were cases in which the subsidiary's mandate had led to the development of certain distinctive capabilities so that when the opportunity arose to make a subsequent investment in that area the subsidiary was able to offer the most attractive location". Surprisingly, mandate losses were not exclusively driven by corporate management but in three cases also had local subsidiary management as the primary mover. The reason for parent-driven phase-outs was in all cases a lack of subsidiary resources so that the responsibility was withdrawn by the parent company. Subsidiary-driven mandate loss, on the other hand, was the result of lacking market demand or an inappropriate strategic fit to the overall subsidiary strategy.

The study of Birkinshaw (1996) strongly contributed to IB research in general and to the literature stream of subsidiary evolution in particular in two different ways. First, he took a closer look at the sustainability of subsidiary mandates and identified two conditions in which they are at risk: lack of distinctive value-added or lack of strategic relatedness. Distinctive value-added thereby refers to the ability of a foreign subsidiary to carry out a particular task better than any other MNC unit. Another way of looking at this phenomenon is the subsidiary's degree of contestability. If it is low, "no other subsidiaries within the MNC have the necessary capabilities for undertaking that mandate" (Birkinshaw, 1996: 492). Strategic relatedness, on the other hand, depends on the fit of the subsidiary's mandate to the overall corporate strategy. While a subsidiary mandate may initially receive sufficient recognition and consequently resource allocation from corporate management, such headquarter attention can decline over time, resulting in a 'hazardous circumstance' for the mandate continuity. Based on the two challenges for mandate preservation, Birkinshaw defined four generic mandate types using a two-by-two matrix as highlighted below in Figure 2-11. As a result, only large and integrated mandates represent a sustainable option, whereas all other types are exposed to a certain loss risk.

Figure 2-11: Framework for subsidiary mandate types



Source: Birkinshaw (1996: 487)

The other contribution of Birkinshaw's work (1996) is the identification of subsidiary capabilities as a key driver for mandate development. Thoroughly contrasting continued and lost mandates, Birkinshaw (1996) argued that the specificity of local business and the existence of proven resources largely distinguish positive cases from negative ones. This observation found its expression in Birkinshaw's (1996: 489) mandate definition "as a licence to apply the subsidiary's distinctive capabilities to a specific market opportunity" and the potentially temporary and transient nature of the phenomenon, which strongly impacted the definition of subsidiary internationalization that was described at the offset of this chapter. Moreover, Birkinshaw (1996) also listed a set of factors that can prevent subsidiaries from losing a mandate, e.g. limited transportability of resources or political forces within and outside of the

MNC, and thus underlined the complexity of sketching a lifecycle model for subsidiary mandates.

Despite his unquestionable contribution to IB research on foreign subsidiaries, Birkinshaw (1996) himself admitted to a set of study limitations that need to be briefly addressed. One major shortcoming is the study's limited generalizability due to the relatively small sample of foreign subsidiaries that were all based in Canada. In addition, the study failed to incorporate the headquarters' perspective in its survey, which is crucial for thoroughly understanding evolutionary paths of cross-border subsidiary mandates. As noted by Birkinshaw (1996: 491), "the parent company motivations for allowing subsidiaries to build and retain mandates is still not adequately understood". Birkinshaw (1996) therefore urged IB scholars to study this "poorly understood phenomenon" through multiple empirical settings.

Drawing on the distinctiveness of subsidiary capabilities and only temporary assurance of mandate preservation, Birkinshaw and Hood (1998) theoretically developed a generic subsidiary evolution process model that is worth mentioning for the study at hand. Throughout their work (Birkinshaw & Hood, 1998: 773), subsidiary evolution is viewed as the "enhancement/depletion of capabilities in the subsidiary, coupled with an explicit change in the subsidiary's charter" and a focus is set on the examination of interlinks between capability and charter modification. Overall, subsidiary evolution can be driven by head-office assignment, subsidiary choice as well as local environment determinism.

According to Birkinshaw and Hood (1998), there are five evolutionary processes a subsidiary can pass through, which are shown in Table 2-7 below: (1) parent-driven investment; (2) subsidiary-driven charter extension; (3) subsidiary-driven charter reinforcement; (4) parent-driven divestment; (5) atrophy through subsidiary neglect. A core model assumption (Birkinshaw & Hood, 1998: 783) is thereby that capability and charter change can both represent influencing variables so that "capability change may lead or lag the change in the commensurate charter, but, for evolution to have occurred, the charter must eventually reflect the underlying capabilities". While situations 1 and 4 refer to a parent-driven charter change that subsequently leads to a capability enhancement or depletion respectively, situations 2 and 5 relate to capability change at subsidiary level that eventually triggers a charter gain or loss. In the remaining situation, number 3, local subsidiary management is capable of maintaining its existing charter by sharpening and strengthening its existing capabilities.

Table 2-7: Five generic subsidiary evolution processes

<table>
<tr><th>Contextual factors</th><th></th><th>Situation</th><th>Action</th><th>Outcome</th></tr>
<tr><td rowspan="5">Parent company factors
▪ Competitive internal resource allocation
▪ Decentralization of decision-making
▪ Ethnocentrism of parent management
Subsidiary factors
▪ Track record of subsidiary
▪ Credibility of subsidiary management
▪ Entrepreneurial orientation of subsidiary employees
Host country factors
▪ Strategic importance of country
▪ Host government support
▪ Relative cost of factor inputs
▪ Dynamism of local business environment</td><td rowspan="5">→</td><td>Parent-driven investment (1)</td><td>Parent: Decision to make investment; evaluation of various locations / Subsidiary: lobbying</td><td>Establishment of new charter in subsidiary; gradual development of commensurate capabilities</td></tr>
<tr><td>Subsidiary-driven charter extension (2)</td><td>Subsidiary: Identification of new opportunities; building capabilities; proposal to parent / Parent: Judgment on subsidiary proposal</td><td>Extension of charter in subsidiary</td></tr>
<tr><td>Subsidiary-driven charter reinforcement (3)</td><td>Subsidiary: Competitiveness-driven search; upgrading of existing capabilities</td><td>Reinforcement of existing charter in subsidiary</td></tr>
<tr><td>Parent-driven divestment (4)</td><td>Parent: Decision to divest; evaluation of various locations / Subsidiary: Lobbying</td><td>Loss or diminution of charter in subsidiary; atrophy of existing capabilities</td></tr>
<tr><td>Atrophy through subsidiary neglect (5)</td><td>Subsidiary: Inaction; atrophy of capabilities / Parent: Judgment on subsidiary’s lack of competitiveness</td><td>Loss or diminution of charter in subsidiary</td></tr>
</table>

Source: Birkinshaw & Hood (1998: 785)

One interesting aspect that Birkinshaw and Hood (1998) raised early in their article is the existence of internal competition for charter. Birkinshaw and Hood (1998: 782) thereby viewed the “latent mobility of charters and the competition between subsidiary units for charters” as “one of the fundamental drivers behind the subsidiary evolution process”. Surprisingly, the phenomenon is later only thoroughly reflected in situation 3, the subsidiary-driven charter reinforcement. There, local subsidiary management is pressured by external as well as internal competition from other sister subsidiaries, which subsequently leads to capability sharpening and strengthening efforts of the mandate possessing subsidiary. As such horizontal competition for corporate marketplace (Galunic & Eisenhardt, 1996) appears to be of significance, a slightly closer look will be applied to the topic in the following pages. The key questions in this context are how local managers are able to gain attention from headquarters when this is supposed to be a scarce and critical resource (Cyert & March, 1963) and how can a foreign subsidiary survive in the ongoing rent-seeking process (Mudambi & Navarra, 2004)?

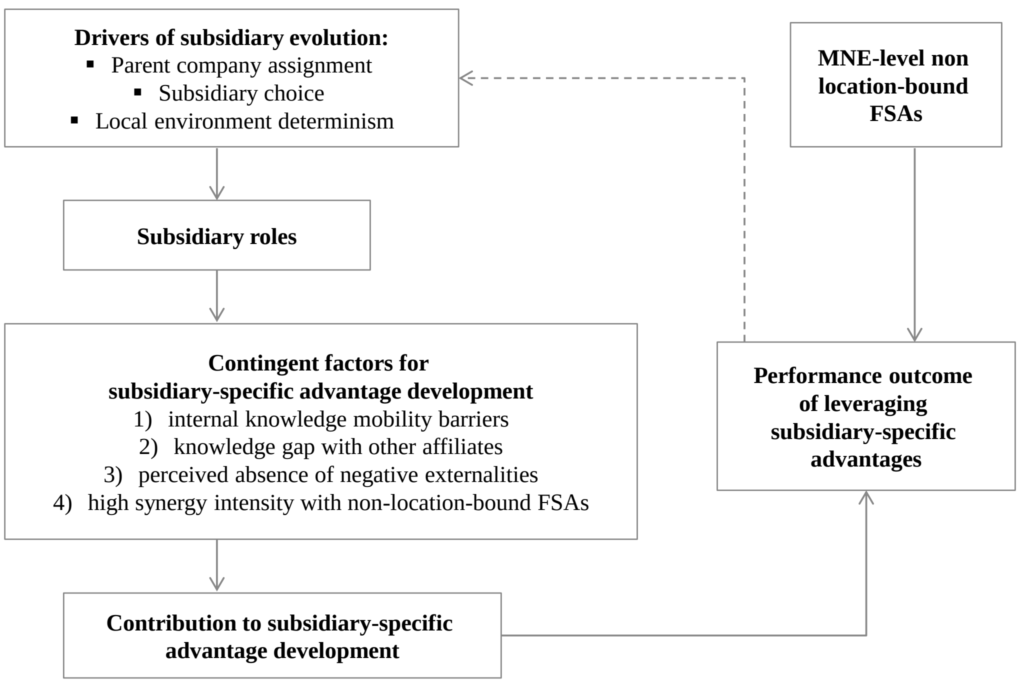
Regarding the degree of subsidiary influence within modern MNCs, Andersson et al. (2007: 802) argued that the strength of the local business networks plays a major role in the “perpetual bargaining process” between subsidiaries and headquarters and serves as a major power base to “influence strategic decisions” in the federative MNC. However, while strength of local business networks is solely viewed as a precondition, subsidiaries also need to provide technology within the MNC, i.e. to fulfill a contributory role. In turn, headquarters can “balance or moderate the influence of strong subsidiaries" by obtaining a broad understanding of their business networks (Andersson et al., 2007: 802). Mudambi and Navarra's (2004: 385) earlier findings also showed that "intra-MNC knowledge flows are a key determinant of subsidiary bargaining power", signaling likely benefits for foreign subsidiaries that are strongly integrated in the MNC as opposed to others that are executing autonomous functions. Mudambi and Navarra (2004) further claimed that subsidiary managers can leverage this power in order to pursue their individual or subsidiary-related targets. When putting findings in the context of subsidiary evolution the need for network integration has much in common with Birkinshaw's (1996) postulation of strategic relatedness for the sustainability of subsidiary mandates.

Other than looking at particular power bases, Bouquet and Birkinshaw (2008) applied a more comprehensive view on subsidiary influence by subdividing it into subsidiary weight and voice. Headquarter attention is thereby defined as "the extent to which a parent company recognizes and gives credit to a subsidiary for its contribution to the MNE as a whole" (Bouquet & Birkinshaw, 2008: 579). Based on empirical evidence a positive correlation with headquarter attention was found for the structural determinant, subsidiary weight, as well as the relational determinant, subsidiary voice. While subsidiary weight was broken down by strategic significance of local environment and strength of subsidiary within the MNE network, subsidiary voice was subdivided into initiative-taking and profile-building of the focal subsidiary. In addition a negative impact of geographic distance and pure focus on downstream activities, i.e. a limited value-add, on headquarter attention was proven. One major contribution of the study was to elucidate that headquarter attention can be shaped in a 'top-down structural process' based on subsidiary weight and in a 'bottom-up relational process' based on subsidiary voice. According to Bouquet and Birkinshaw (2008), especially the latter point is interesting as it implies that local management can influence decision-making processes at corporate level and thereby potentially shape the subsidiary's role in the long run. This is seen as additional proof that subsidiary-specific advantages (henceforth 'SSAs') can indeed add to FSAs as initially proposed by Rugman and Verbeke (2001).

The work of Rugman and Verbeke (2001) is also worth mentioning from an evolutionary perspective of subsidiary mandates. They identified ten FSA development process patterns in the MNC that have their origin in the firm's home market, in any host market of affiliated subsidiaries or in the internal network. The study thereby not only highlighted the importance of peripheral MNC units to the functioning of the entire corporation but also revealed by what means local management can shape its role over time. Rugman and Verbeke (2001) approached the topic of the development and diffusion of FSAs and the role that foreign subsidiaries take in this process in three steps. First, they (2001: 239) developed a theoretical framework based on FSAs and CSAs as they are "most critical to describe and explain the international expansion patterns of any MNE". The focus was thereby set on how CSAs, either non-location-bound (easy to diffuse across the MNC) or location-bound (difficult to diffuse across the MNC), which are ‘endogenized’ by the MNC can result in additional or enhance existing FSAs. Second, they described ten core development and diffusion pattern of FSAs. Finally, and most interesting to this study, Rugman and Verbeke (2001) took a closer look at the creation and dissemination of FSAs in host country operations and thereby examined patterns that largely reflect aforementioned global, internal and local subsidiary initiatives (Birkinshaw, 1997).

Building on Birkinshaw and Hood’s (1998) drivers for subsidiary roles, parent company assignment, subsidiary choice and local environment determinism, Rugman and Verbeke (2001) integrated two important aspects in their work, the distinction of non-location-bound or location-bound FSAs and the existence of SSAs. Rugman and Verbeke (2001: 244) thereby argued that the MNC’s strength is more than the sum of non-location-bound or location-bound FSAs but is also embodied in SSAs in the form of local competencies and capabilities that can be applied across borders even though they are “characterized by mobility barriers (i.e., isolating mechanisms) that make full absorption difficult throughout the MNE”. In order to classify SSAs, Rugman and Verbeke (2001) identified four distinct characteristics that need to be met simultaneously. The loss of any one of these characteristics is expected to result in diminished contributory roles of a foreign subsidiary. The development of such advantages and its direct and indirect impact on subsidiary evolution is depicted in Figure 2-12 below.

Figure 2-12: The development of subsidiary-specific advantages (SSAs)

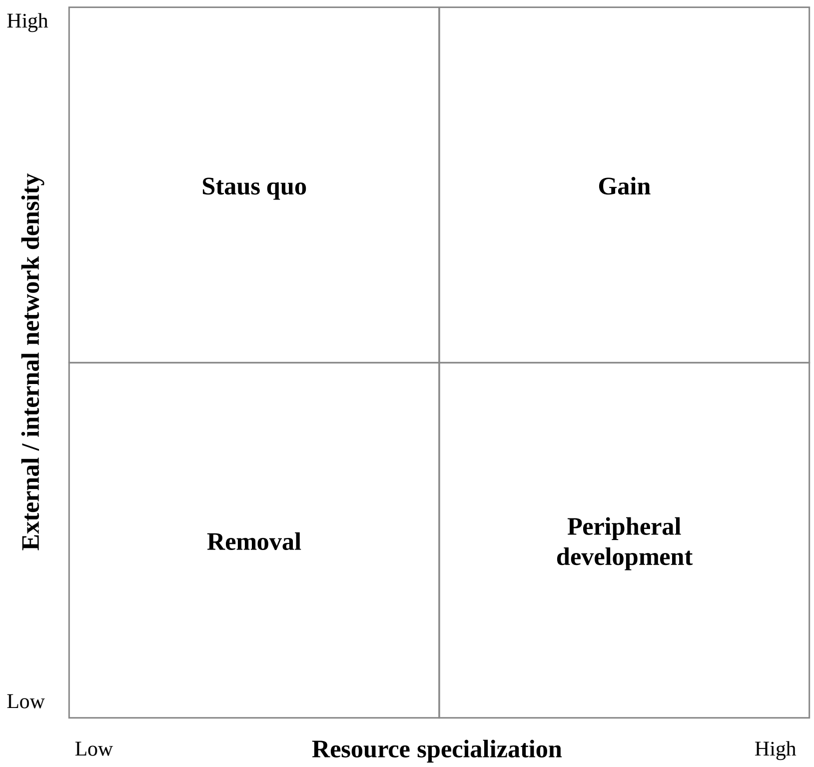


Source: Rugman & Verbeke (2001: 245)

Rugman and Verbeke (2001) indisputably contributed greatly to a better understanding of subsidiaries as a source of advantage for the entire MNC. Nonetheless, they did not explicitly look at the diffusion and exploitation of MNC advantages in general and SSAs in particular on a regional scale. For the topic of subsidiary internationalization the question therefore arises of what type of advantages are actually leveraged if the subsidiary is awarded with the responsibility to develop new territories beyond host market borders: location-bound FSAs, region-bound FSAs, non-location-bound FSAs or actually SSAs?

A relatively recent study by Dörrenbächer and Gammelgaard (2010) bridged the aforementioned aspects of charter evolution, distinct subsidiary capabilities as well as intra-firm competition among foreign subsidiaries very well. Based on an in-depth analysis of one case of charter removal at a Hungarian subsidiary of a German MNC, Dörrenbächer and Gammelgaard (2010) provided an inter-organizational network view of subsidiary charter development. In their approach, intra-firm competition, which is viewed as the main basis for charter reallocation, is driven by high resource dispersion across the MNC and low resource dependency of the parent company at the same time. For the individual foreign sub-unit the relative network centrality, based on its degree of resource specialization and external and internal network density, is decisive in the continuous battle for corporate marketplace. According to Dörrenbächer and Gammelgaard (2010: 214), "host country comparative disadvantages, a high dispersion of MNC resources and a low specialization of subsidiary resources, and a low degree of across and within density of network exchange relationships diminishes the subsidiary's degree of centrality in the MNC network and is likely to bring about a charter removal". Even though observations were limited to one case of charter removal, Dörrenbächer and Gammelgaard (2010) developed a simple two-by-two matrix for subsidiary charter development as outlined in Figure 2-13 below.

Figure 2-13: An inter-organizational network view of subsidiary charter development



Source: Dörrenbächer & Gammelgaard (2010: 214)

Recent work by Kähäri et al. (2010) also looked at the development of subsidiary charters and thereby focused on the fall of regional headquarters. Relying on a longitudinal study on Finnish subsidiaries of MNCs, Kähäri et al. (2010) observed a reduction in RHQs of more than 65% from 1998 to 2010. While the primary reasons for declining or diminishing regional headquarters status, as shown in Table 2-8 below, are relatively heterogeneous, the underlying motives revealed a clearer picture of the likely determinants for subsidiary responsibility.

Table 2-8: Dynamics of the status of regional headquarters from 1998 to 2010

RHQ status 2010	**Fully or partially lost**			**Σ**
Reason[4]	**RHQ terminated**	**RHQ relocated**	**Other/unknown**	
Growth of business	14	11	1	**26**
Market contracting	1	0	7	**8**
Parent MNC reorganization/restructuring	10	17	6	**32**
Parent MNC regionalization	3	22	5	**30**
Acquisition	7	7	11	**25**
Other or unknown	3	12	8	**23**
Missing	0	0	7	**7**
Σ	**34**	**50**	**49**	

Source: Kähäri et al. (2010: 14)

[4] Multiple reasons for status change are possible.

According to the study, the sustainability of regional headquarters mandates is significantly influenced by host market business growth, by mergers and acquisitions, by internal restructuring and reorganization projects and by a shifting geographical focus of corporate management. Furthermore, regional headquarters responsibility appears to be relocated rather than terminated as well as more often fully than partially lost. Such observations led Kähäri et al. (2010: 24) to grant regional headquarters mandates a temporary character, defining it a "structural arrangement which exists for a limited period of time to fulfill a certain purpose, and once this purpose has been attained the RHQ may be dismantled". While contributing to IB research on RHQs by underlining their often temporary and transient nature, Kähäri et al. (2010) failed to provide a lifecycle perspective on cross-border subsidiary mandates in general and RHQ responsibility in particular. In addition to only looking at mandate losses, the impact of foreign market mandates that a subsidiary received prior to turning into an RHQ, e.g. sales and service responsibility, and how satisfactorily it fulfilled these tasks was not taking into consideration.

2.3.5.3. Subsidiary internationalization

While many of the aforementioned studies on subsidiary evolution touched upon the topic of cross-border participation of foreign subsidiaries, none of them explicitly looked at process drivers and restrictions of subsidiary internationalization. Forsgren et al. (1992) were one of the first IB scholars who investigated the role of foreign-based centers in Swedish MNCs with regard to subsequent firm internationalization. Foreign-based centers were thereby defined (Forsgren et al., 1992: 237) as subsidiaries that control "resources on which other parts of the firm depend for their operations". A foreign-based center thus has "a strategic role and influence which goes beyond its local undertakings". Forsgren et al. (1992: 240) labeled this strategic role and influence beyond original host markets 'internationalization of the second degree' and defined it as the "proportion of the firm's foreign activities which are carried out within centres, measured by the number of employees".

While the study strongly contributed to the inter-organizational network perspective of modern MNCs by viewing them as "loosely coupled, political systems rather than tightly bonded, homogeneous, hierarchically controlled systems" (Forsgren et al., 1992: 247) and by highlighting external networks of subsidiaries as sources of power, it did not directly address the topic of subsequent internationalization processes at subsidiary level. In addition, defining internationalization of the second degree as the relative importance of foreign function centers within the MNC may be misleading today. At a later stage Forsgren et al. (2005: 79) defined the term as "sub-units becoming more international in their external market exchanges, perhaps by exporting to or importing from a third country", a definition that better suits the defined topic of the study.

Based on Hedlund's (1986) concept of the heterarchical MNC, Taggart and Berry (1997) studied UK-based subsidiaries from manufacturing industries in order to identify determinants for cross-border subsidiary operations. Such operations were labeled as 'second stage internationalization'. Second stage internationalization, the dependent variable, was measured in two different ways: export propensity of subsidiaries and decision-making autonomy of local subsidiary management with regard to the markets to be served and R&D to be undertaken. Even though study findings offered a rather "confused picture", Taggart and Berry (1997: 190) highlighted the importance of configuration strategies of MNCs (e.g. Prahalad & Doz, 1987) for understanding subsidiary internationalization, as it represents "a recognizable and stable quantum state of MNC subsidiaries that is informed and enlightened by both hierarchical and heterarchical methodologies".

Araujo and Rezende (2003) touched upon the topic of subsidiary internationalization when analyzing internationalization trajectories of MNC units. They argued (2003: 732) that the concept of "path dependence can be usefully deployed to capture the dynamics of internationalisation processes of experienced internationals". According to Araujo and Rezende (2003), internationalization processes of foreign subsidiaries are the result of three types of relationships: (1) relationships with external actors (customers, suppliers etc.) within or outside of the host market; (2) relationships with the MNC headquarters; (3) relationships with other subsidiaries of the MNC located inside or outside of the host country. They thereby argued that the evolution of a subsidiary may also be impacted by events outside of the host country, e.g. in the case of mergers or acquisitions at corporate level that lead to structural changes at subsidiary level at a later stage. As noted by Araujo and Rezende (2003: 728), "the evolution of a subsidiary is likely to follow an incremental path if it is strongly influenced by the network context of its host country but events at the corporate level (e.g. cross-border mergers) could overlap with the trajectory in the host country and introduce important discontinuities in this evolution".

Understanding the internationalization process as a path-dependent sequence, Araujo and Rezende (2003) proposed analyzing them as paths in space and time. The aspect of space suggests that the path of a subsidiary is "affected by the relationships it articulates across different geographical contexts as well as the territorial scope of its operations" (Araujo & Rezende, 2003: 729). In addition, paths in time signal that "relationships are articulated in different temporal contexts and that changes in any of these relationships can reinforce an existing sequence or redirect it to new paths" (Araujo & Rezende, 2003: 730). One major contribution of Araujo and Rezende (2003) to IB research was to significantly extend the view on internationalization processes of foreign subsidiaries. Rather than taking an exclusively incrementalist and host-market limited perspective, they urged future studies to acknowledge the existence of discontinuities and abrupt changes and to account for various types of relationships within and outside the MNC.

As outlined in the introductory part of this chapter, the examination of existing theory will be stopped at this stage in order to avoid an overly narrow approach at the beginning of the study. Despite the doubtless existence of further theory in related research topics, the past IB findings outlined on the previous pages were sufficient to elaborate the research design, to guide the overall data collection process and to draw from a solid ground when conducting within- and cross-case analyses on subsidiary internationalization.

3. Methodology

3.1. Introduction

The study relied on multiple case studies using a retrospective perspective in order to contribute to the academic topic of subsidiary internationalization processes. The defined qualitative research method therefore not only corresponds to the relatively unexplored research topic but is also in line with the note of Blankenburg Holm et al. (2009: 4) on peripheral internationalization processes in modern MNCs that “future research should study these issues empirically, preferably through case study methodologies and/or with longitudinal designs”. Throughout the preparatory work for the research endeavor the investigator was strongly inspired by the work of Pauwels, Lommelen and Matthyssens (2004) that analyzed the internationalization processes of service companies and thereby also relied on multiple case studies with a retrospective research perspective. In addition to having the same unit of analysis, namely internationalization processes, as well as a predominately dynamic study perspective, the work of Pauwels et al. (2004) further exhibited a similar number of cases as well as a clear focus on semi-structured interviews with key process stakeholders as the primary data source for the study. Moreover, from their experience a comprehensive guideline for multiple case study work was elaborated (Pauwels & Matthyssens, 2004) that turned out to be very helpful in defining the basic architecture of the study and in executing the data collection and analysis undertaking.

This chapter will commence with a general review of qualitative research methods, encompassing their overall benefits and limitations. A closer assessment of comparative case study analysis will then be carried out in order to explain the suitability of case studies in general and multiple case studies in particular for the examination of internationalization processes at subsidiary level. Thereafter, the chosen research design will be outlined in more detail using four different dimensions. First, the case selection process is thoroughly described in order to explain the emergence of eleven cases of subsidiary internationalization processes at seven European MNCs in the manufacturing sector. Second, the overall data collection process is disclosed, in particular by listing various types of data collection methods as well as sources and by commenting on their relevance to the study as a whole. Third, the data analysis process is thoroughly described, providing the underlying rationale for the selection of different analysis instruments and techniques and commenting on their impact on the interpretations that were drawn and mid-term theories that were developed in the course of the study. Finally, the multiple means for quality control in qualitative research and the extent to which quality-ensuring techniques and instruments were used throughout the study are commented on.

3.2. Qualitative research

According to Doz (2011: 582), IB is “a rich, open and complex field of study, partly because the world is intrinsically rich and complex, but also because IB is free from any single core paradigm, does not pursue a single dominant central research question and does not abide by generally accepted simplifying assumptions that would drive the choice of research methods and tightly bound areas of research relevance”. While such a description would actually suggest a significant amount of qualitative research approaches in order to provide answers to ‘how’ or ‘why’ research questions around the complex nature of the field of study, the reality is somewhat different. The vast majority of articles in leading IB journals is still based on quantitative research methods (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011) despite strong lobbying from leading IB scholars for more qualitative study approaches (e.g. Birkinshaw, Brannen & Tung, 2011).

But what are the reasons for a limited spread of qualitative research studies and to what extent could they actually contribute to IB research? What makes internationalization processes of foreign subsidiaries a study worth approaching with a qualitative research design? Before seeking to provide answers to the proposed questions a short definition of the term qualitative research seems appropriate. According to Van Maanen (1979: 520), “the label qualitative methods has no precise meaning in any of the social sciences. It is at best an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world.” Other than quantitative research, scientists that opt for qualitative research designs often know little about their actual unit of analysis and therefore often set the breeding ground for later quantitative verifications and/or falsifications (Doz, 2011). Given the complexity and multidisciplinary of IB research it is therefore even more surprising that qualitative approaches have not sufficiently staked their claim in the past.

Various explanations are provided by IB scholars for underrepresented qualitative research studies in related journals. Generally, the complex nature and the time-consuming research character associated with qualitative research methods are expected to put off many scientists in the first place (Pauwels & Matthyssens, 2004). A widely-spread preference for ‘hard facts’ as opposed to qualitative mid-term theory development among journal editors (Birkinshaw et al., 2011) as well as the presence of methodological vagueness among a number of scientists (Dubois & Gadde, 2002) have led to only limited recognition and valuation of qualitative studies in IB research up until today. This phenomenon is particularly disappointing in the field of IB research as it encompasses multiple facets of cultures, people and organizations and their impact on business operations across the globe. When referring to the ‘first-handedness’ of qualitative research and the comprehensive understanding of cross-border characteristics among the international scholar community, Birkinshaw et al. (2011:574) noted that "it is tragic not to leverage such basic research skills and competencies toward strong and novel contributions to IB research".

According to Doz (2011), qualitative methods can strongly contribute to IB research in several dimensions. First and most importantly, it can act as a catalyst for theory development that the field of study is currently lacking as a result of dominant theory borrowing and juxtapositions from other fields or disciplines (e.g. transaction cost theory). Second, qualitative research can also contribute to theory testing by bringing "a variety of theoretical lenses to bear on the phenomenon being investigated" and by systematically comparing "the nature and extent of the insights provided by these various theories" (Doz, 2011: 584). Finally, qualitative research may also significantly facilitate the process of outlining and highlighting of multiple theory dimensions through comprehensive descriptions and can thereby serve as a meaningful instrument for effectively communicating theory findings. Doz's (2011) listing is of particular interest to the study at hand as the chosen qualitative research design with multiple case study analysis was aimed at contributing to the IB topic of subsidiary internationalization by all three dimensions.

The selection of a qualitative research method was predominately driven by a lack of process research on subsidiary internationalization up to this point (Blankenburg Holm et al., 2009). In addition, meaningful studies on internationalization processes of the first degree (e.g. Johanson & Vahlne, 1977) suggested applying and testing existing theory at the subsidiary level of modern MNCs. Finally, the unit of analysis, internationalization processes involving stakeholders at various ends of the firm, clearly indicated the use of qualitative data sources. As already noted by Miles and Huberman (1994: 1) on the first page of their oft-cited book, qualitative research methods allow the researcher to "preserve chronological flows, see precisely which events lead to which consequences, and derive fruitful explanations". Having thoroughly contrasted the advantages and disadvantages of quantitative and qualitative research methods for the study at hand, a qualitative research approach was eventually selected.

3.3. Overall research design

While the selection of qualitative research as the appropriate method for the study at hand was relatively straightforward, the detailing of the explicit research design required considerably more efforts by the author and will be outlined in the following pages. According to Yin (2009), three different aspects need to be thoroughly evaluated when selecting the adequate qualitative research method from a variety of options:

- Type of research question(s)
- Extent of control over actual behavioral events related to the topic

- Degree of focus on contemporary events

When referring back to the four research questions outlined earlier in the introductory chapter of this study, the explorative nature of the overall study goal becomes apparent. All defined questions, no matter whether they begin with ‘how’ or ‘why’, already suggested the use of case studies, histories or experiments as they “deal with operational links needing to be traced over a certain amount of time, rather than mere frequencies or incidence” (Yin, 2009: 9). In order to further distinguish between case studies, histories and experiments, the desired extent of control over behavioral events served as a good indicator for the appropriate research design. Experiments are generally used when researchers can exert a certain degree of influence over behaviors and are generally applied in social sciences rather than IB research (Yin, 2009). As the deliberate study aim was to understand the reasoning for behaviors in the form of management initiatives and decisions in modern MNCs, the experimental approach was soon excluded from the list of potential research methods.

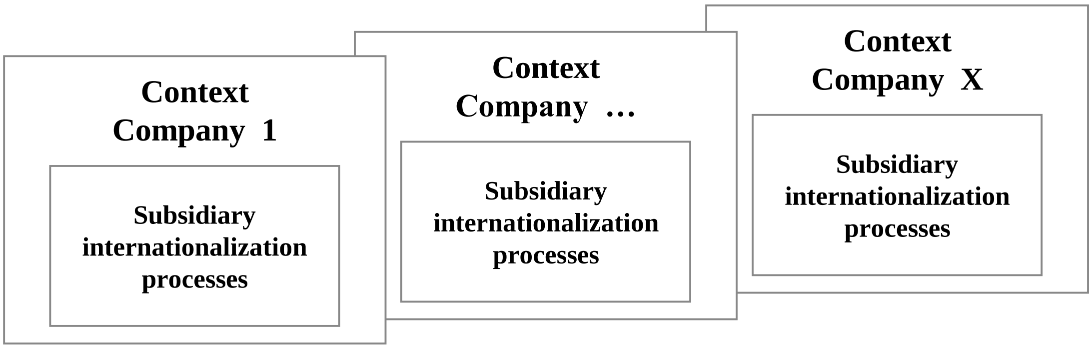
Finally, histories as already suggested by their nomenclature deal with the ‘dead’ past as opposed to case studies, which generally look at contemporary events. While the former approach predominately relies on historic data sources (e.g. archives), the latter also relies on direct observations of the events being studied or on interviews with relevant stakeholders who were part of the phenomenon under study. Despite applying a retrospective study perspective and thus looking at historic events of subsidiary internationalization, the study focus is clearly set on contemporary events and relies on contemporary data sources like interviews, annual reports or company websites as primary and secondary data sources. Having thus thoroughly contrasted different qualitative research methods as strongly suggested by Yin (2009), a case study design was chosen in order to shed light on peripheral internationalization processes and linked management decisions at corporate and subsidiary level.

With the selection of a case study approach, however, a guiding research framework had not yet been created. In fact, two questions still had to be answered: is the approach based on one or several cases and does it involve a single or multiple units of analysis? With regard to the first question, the decision between single and multiple case studies predominantly depends on the type of case(s) being studied. According to Yin (2009), five rationales exist for the use of a single case of which none were identified for the study at hand. As a result of a lack of prior research in the field of peripheral internationalization processes, the author was not capable of judging the existence of critical, unique or representative cases, which would all have suggested the use of a single case study approach.

Moreover, the author could not count on a revelatory case, i.e. with a unit of analysis that was previously inaccessible to IB research and that could have also indicated the use of a single case (Yin, 2009). Finally the author was not able to rely on a longitudinal research design, i.e. the study of the same phenomenon at different times, which might have also pled for the conducting of a single case study. While the examination of internationalization processes at subsidiary level and cross-border subsidiary mandate development through longitudinal research designs would have certainly contributed to the overall research, it was simply not possible for the author due to time and cost constraints as well as a lack of willingness among participating companies to being observed over a longer period of time. As a result a retrospective multiple case study approach was chosen. Despite such a backward-looking perspective, it should be noted at this stage already that for each case the subsidiary mandate beyond original host markets was reviewed at different periods of the past in order to allow the sketching and contrasting of mandate development paths across different MNCs.

Even though the aforementioned selection criteria of Yin (2009) helped to shift the investigator's focus towards a multiple case research design, they were most certainly not decisive. In fact, the 'black box' character of subsidiary internationalization processes with lacking understanding about core process drivers and restrictions across multiple organizational units and countries urged the author to apply a broader and more diversified picture to the topic and to thereby lose a certain degree of analysis depth. This is very much in line with Pauwels and Matthyssens' (2004: 5) postulation that "the only argument to switch from single to multiple case study research (at the risk of losing depth) is to create more theory-driven variance and divergence in the data, not to create more of the same". Other aspects like limited generalizability and potential misinterpretations in single case study designs (Tversky & Kahneman, 1986) or augmented external validity (Leonard-Barton, 1990) and enhanced robustness of multiple case study designs (Herriott & Firestone, 1983) were further considered by the author but did not serve as a core argument due to statistical insignificance of the chosen case sample.

Figure 3-1: Selected research design: Multiple cases with a single unit of analysis



Source: Own illustration, based on Yin (2009)

Finally, the unit of analysis for all cases being investigated was subsidiary internationalization processes throughout the entire study. The chosen research approach as shown in Figure 3-1 above can therefore be classified as a holistic case study not involving any further sub-units of analysis. Potential problems arising from a holistic design, in particular its lack of clear measures or data (Yin, 2009), were deliberately addressed by defining a set of adequate a-priori constructs in order to steer the overall data collection process from the very start of the undertaking. Overall, a-priori constructs, which will be highlighted in more depth at a later stage of this chapter, helped the investigator to avoid an overly general approach on the one hand and to stay within feasible limits of a single student PhD study on the other.

3.3.1. Case selection

According to Eisenhardt (1989b: 537), the case selection process is crucial to the overall success of a comparative case study design for three particular reasons: it "defines the set of entities from which the research sample is to be drawn", it "controls extraneous variations" and it "helps to define limits for generalizing the findings". While the contribution of this process would be maximized from infinite access to cases, the reality is somewhat different as the spectrum of potential cases is often constrained by several aspects. Nonetheless a significant amount of effort and time was spent by the investigator in order to come up with a suitable sample of cases for the topic of subsidiary internationalization. The overall process as well as its outcome will therefore be outlined in more depth in the following pages.

Case sampling was carried out in three rounds. During the first stage, more than fifty North American and European firms in the manufacturing industry were approached in order to assess the existence of cases of subsidiary internationalization and the company's willingness to participate in the study. The industry sector as well as geography selection was clearly linked to a wide range of existing relationships of the investigator's consulting company as well as personal experience and contacts of the investigator as a result of almost five years of consultancy work prior to this study. Regarding specific industry segments within the manufacturing industry or value chain positioning, however, no limitations were set. As original equipment manufacturers (OEM) or original equipment suppliers (OES), the selected companies thus ranged from segments like construction and agricultural equipment to engines or trucks. Overall, it should be noted that the initial industry selection did not follow any scientific guidance, e.g. the replication of manufacturing case companies from the Uppsala model (Johanson & Vahlne, 1977), but was predominately driven by access to decision-makers and their likelihood of participating in the study. Nonetheless, during his prior consulting projects in various countries the author came across multiple cases of subsidiary internationalization, which strengthened his intention to search for examples in the manufacturing industry.

Throughout the first round of sampling, the author paid particular attention to a high level of heterogeneity with regard to company size, ownership status as well as level of subsidiary delegation and internationalization experience. As a result, seven MNCs were identified that not only revealed one or several historic cases of subsidiary internationalization processes but that were also willing to participate in the study. The profiles of the participating companies are shown in Table 3-1. While corporate headquarters of all companies were located in Western Europe, the firms strongly varied with regard to further company characteristics. The final sample encompassed publicly-listed companies, family-owned enterprises as well as one relatively independent unit of a larger conglomerate that significantly differed by company size. Sales volume of the largest company, for example, exceeded its counterpart at the smallest company more than tenfold. Furthermore, the level of internationalization experience, indicated by the time of first proactive and large-scale internationalization efforts of a company, as well as the relevance of affiliated subsidiaries, indicated by the mere number of foreign MNC units and the existence of regional headquarters, strongly differed from one case company to another. In order to preserve requested confidentiality agreements that were signed with participating firms at the offset of the study, case companies were labeled from 'A' to 'G' as illustrated in Table 3-1 below.

Table 3-1: Profiles of participating firms

Firm	**Parent company location**	**2010**				**Interna-tionaliza-tion start**
		Ownership status	**Sales**	**MNC units (#)**	**RHQ(s)**	
A	Northern Europe	Conglomerate unit	< €0.5 bn	< 15	No	1990s
B	Central Europe	Family-owned	< €0.5 bn	< 15	No	2000s
C	Central Europe	Publicly-listed	€0.5 bn – 2.0 bn	15 – 30	Yes	1980s
D	Central Europe	Family-owned	> €2.0 bn	> 30	No	1950s
E	Central Europe	Publicly-listed	> €2.0 bn	> 30	Yes	1970s
F	Central Europe	Family-owned	€0.5 bn – 2.0 bn	15 – 30	Yes	1970s
G	Central Europe	Family-owned	> €2.0 bn	> 30	No	1960s

Source: Publicly available company information; expert interviews

During the next case sampling phase, potential cases were further assessed and compared by shifting the focus to foreign subsidiary characteristics like location, local value-add as well as the region for extended market responsibility. Finally, the author sought a negative example, i.e. when a subsidiary requested market responsibility for outside its host market but eventually did not obtain headquarter approval for its initiative. Such sampling of extreme cases or polar types is expected to lead to "very clear pattern recognition of the central constructs, relationships, and logic of the focal phenomenon" (Eisenhardt & Graebner, 2007: 27). As suggested by Yin (2009: 54), the study thus followed a replication as opposed to a sampling logic so that it "either (a) predicts similar results (a literal replication) or (b) predicts contrasting results but for anticipatable reasons (a theoretical replication)". In total, the study examined internationalization processes at ten foreign subsidiaries of seven European manufacturing companies. The case sample thereby encompassed eleven initiatives for subsidiary responsibility beyond original host markets, of which nine obtained HQ approval (cases #1 to #9) and two failed to obtain HQ buy-in (cases #10a and #10b). The latter negative case examples are both referring to a French subsidiary that repeatedly failed to receive a market development mandate for Northern Africa. With the exception of two cases (#3 and #9), all foreign market mandates were subject to subsequent modifications initiated either by headquarter or subsidiary management, which were further analyzed in the course of the study. The case sample, which is also characterized by its heterogeneity regarding subsidiary location and geographical mandate scope, is shown in Table 3-2 below.

Table 3-2: Profiles of parent companies, foreign subsidiaries and investigated cases

Firm	Parent company location	Case #	Subsidiary location	Mandate coverage	Initial mandate gain	Subsequent mandate alteration
A	Northern Europe	1	Poland	Former CIS countries	Yes	Yes
		2	Spain	Latin America	Yes	Yes
B	Central Europe	3	Singapore	East Asia / Oceania	Yes	No
C	Central Europe	4	Austria	Eastern Europe	Yes	Yes
		5	China	Asia-Pacific	Yes	Yes
D	Central Europe	6	Singapore	Southeast Asia	Yes	Yes
E	Central Europe	7	Singapore	East Asia	Yes	Yes
F	Central Europe	8	USA	Mexico	Yes	Yes
G	Central Europe	9	Brazil	South America	Yes	No
		10a	France	Northern Africa	No	-
		10b	France	Northern Africa	No	-

The overall case selection process took almost a year as cases were subsequently and only gradually added to the overall sample. The significant time gap allowed the investigator to incorporate findings from earlier cases into the sampling process, which strongly added to the overall quality (Yin, 2009). The more light that was shed into the ‘black box’ of subsidiary internationalization processes, the better the author could search for cases that would replicate or contrast with preliminary findings. Overall, cases were added to the sample until emerging frameworks and mid-term theories were backed by sufficient evidence. It should also be noted that time, resource and budget constraints also impacted the total number of cases. This is, however, in line with Eisenhardt’s (1989b: 545) note that “in practice, theoretical saturation often combines with pragmatic considerations such as time and money to dictate when case collection ends”. A further statement of Eisenhardt (1989b) that four to ten cases usually serve as an adequate sample for comparative case study analysis further supported the notion that a sound level of theoretical saturation was achieved at the end of the case sampling process.

3.3.2. Data sources and collection methods

One of the major strengths of a case study approach is its ability to draw from a variety of sources and thereby to allow data triangulation (Yin, 2009). In addition, case study research can involve qualitative data only, quantitative data only or both (Yin, 2009). Moreover, the data collection process can be enhanced by numerous methods like interviews, observations or documents and can be executed by a single or multiple investigators (Eisenhardt, 1989b). The benefits of multiple methods and investigators are twofold. First, it is expected to reduce potential measurement errors (Kumar, Stern & Anderson, 1993) and second it is likely to build upon the internal validity of the study by investigating a phenomenon from a number of different angles (Pauwels & Matthyssens, 2004). Finally, qualitative researchers can make use of computer software in order to facilitate the overall data storage and retrieval process (Miles & Huberman, 1994). Looking at the variety of options with regard to data sources and collection methods, the following pages are aimed at explaining the author's rationale for the pursued data gathering path.

With regard to data sources of the study, semi-structured interviews with key process stakeholders in the parent company and the focal subsidiary served as a main source of information. Only cases #9, #10a and #10b deviated from this norm in the sense that only exchange with an HQ representative was permitted. For these cases corporate management was unfortunately afraid that any exchange with local management on the study topic could dissuade local management from its core tasks (case #9) or may actually revive its wish to obtain extended geographical responsibility (cases #10a and #10b). An overview of interview partners across all eleven cases is offered by Table 3-3 below.

Primary data input on the same topic from corporate and subsidiary management and therefore from both ends of the MNC, i.e. "synchronic primary data source triangulation" (Pauwels & Matthyssens, 2004: 6), was particularly important to the study as it allowed the investigator to "slice vertically through the organization, obtaining data from multiple levels and perspectives" (Leonard-Barton, 1990: 249). The pronounced suitability of interviews for the understanding of change processes and management decisions (Gummesson, 2000) further encouraged the investigator to make them the core of the data sources for the study. A semi-structured interview design was deliberately chosen in order to allow the interviewee to tell his story about the relatively unexplored topic of subsidiary internationalization and to expand the interview focus beyond previously defined aspects or proposed questions (Rubin & Rubin, 1995). While an interview guideline that was sent out prior to the exchange helped the interviewee to prepare for the topic and allowed for a structured approach, it was not by any means aimed to limit the boundaries of the conversation.

Table 3-3: Overview of interview participants and number of interviews

Firm	Case #	Parent company	# of interviews	Focal subsidiary	# of interviews
A	1	Group Sales Director	2 (including initial exploratory discussion)	CEO	1
	2			CEO	1
B	3	Director Marketing	2 (including initial exploratory discussion)	CEO	1
C	4	Senior Vice President, Head of Corporate Development	2 (including initial exploratory discussion)	CEO	1
	5			CEO	1
D	6	Commercial Director	2 (including initial exploratory discussion)	CEO	1
E	7	Vice President Distribution Sales	2 (including initial exploratory discussion)	CEO	1
F	8	Head of Sales & Marketing	2 (including initial exploratory discussion)	CEO	1
G	9	Head of Sales	2 (including initial exploratory discussion)	Not permitted	-
	10a			Not permitted	-
	10b			Not permitted	-

In addition to gathering data from personal interviews, publicly available sources were used in order to extend and diversify the data set and thereby to allow additional perspectives. While company press releases, annual reports and newsletters in particular helped to build further evidence around the parent company's perspective on the topic under study, sources like newspapers and journal articles were leveraged to provide an external and thus more objective view on the firm's management decisions and actions. As suggested by Yin (2009), these documents helped to enrich the input from interviews at corporate and subsidiary level and served as a means to obtain a clearer picture of the overall setting of the investigated phenomena (Marshall & Rossmann, 1999). Stating the usefulness of documents and web-based information, the investigator was aware of the fact that any document may be subject to individual purposes and may therefore lead to further questions (Gummesson, 2000). Overall, the focus was clearly set on gathering qualitative data points from interviews as they were considered to be best suited to explain decision-making processes at corporate and subsidiary level. In addition, most other sources did not turn out to significantly enrich findings from interviews as they did not offer sufficient depth for the specific topic of subsidiary internationalization. However, data sources like annual reports and corporate or subsidiary websites greatly helped the author to quickly obtain a broad understanding of the case setting. An overview of all primary and secondary data sources is provided by Table 3-4 below.

Table 3-4: Primary and secondary data sources with varying topic perspectives

View	Parent company						Focal subsidiary				External	
Case #	Semi-structured interview	Interview summary		Web site	Annual reports	Other[5]	Semi-structured interview	Interview summary		Web-site[6]	Press articles	Industry data
		sent	confirmed					sent	confirmed			
1	√	√	-	√	√	√	√	√	√	√	√	√
2	√	√	-	√	√	√	√	√	-	√	√	√
3	√	√	√	√	-	√	√	√	√	-	√	√
4	√	√	-	√	-	√	√	√	√	-	√	√
5	√	√	-	√	-	√	√	√	√	-	√	√
6	√	√	√	√	-	√	√	√	√	-	√	√
7	√	√	-	√	√	√	√	√	√	-	√	√
8	√	√	-	√	-	√	√	√	√	√	√	√
9	√	√	√	√	√	√	-	-	-	√	√	√
10a	√	√	√	√	√	√	-	-	-	√	√	√
10b	√	√	√	√	√	√	-	-	-	√	√	√

Following each direct exchange with relevant process stakeholders an interview summary along with a request for approval or modification was sent to the interviewees. The aim of the summary was to enhance the credibility of interview findings and to avoid potential misunderstandings by the investigator. The column interview summary for parent company as well as focal subsidiary stakeholders was subdivided into ‘sent’ and ‘confirmed’ in order to highlight the cases for which the proposed interview summary was confirmed by the interviewee either orally or in written form. While all but one recipient (case #2) at subsidiary level responded to the request, a reply from HQ representatives in cases #1, #2, #4, #5, #7 and #8 could not be obtained. Due to the voluntarily nature of the study participation, however, the confirmation was not enforced by follow-up calls or additional e-mails.

The number of conversations with selected MNC stakeholders in the form of telephone interviews, face-to-face meetings or e-mail correspondence varied from one case to another. Nonetheless, each primary data source was tapped at least twice so that “diachronic primary data source triangulation” (Pauwels & Matthyssens, 2004: 6), i.e. subsequent input from the same source on the same topic, was also achieved throughout the data collection processes. Relying on primary and secondary data source triangulation as well as synchronic and diachronic primary data source triangulation, the study at hand fulfilled one of the key pillars for robust case study architectures as suggested by Pauwels and Matthyssens (2004). Another form of trian-

[5] Press releases, company newsletters or company magazines.

[6] Local websites with country-specific content.

gulation throughout the data collection process, observer or investigator triangulation, could not be achieved as the study was carried out by a single investigator.

In order to prepare the data collection processes the investigator strongly relied on a-priori constructs and propositions. As suggested by Yin (2009), this approach helped the investigator to move in the right direction at the very beginning of the undertaking. It further facilitated the shaping of the initial design, e.g. the guideline for semi-structured interviews, and allowed a more accurate measurement of the data once it had been collected. At the offset of the study, the investigator did not know how many interview partners he would eventually generate or how often he could seek information from each source, so he wanted to maximize the interview output and study contribution from the very start. The approach is very much in line with Mintzberg's (1979: 585) recommendation for qualitative case study researchers to always "go into organizations with a well-defined focus" and to "collect specific kinds of data systematically". Moreover, if a-priori constructs prove to be important in the course of the study, the researcher "has a firmer empirical grounding for the emergent theory" (Eisenhardt, 1989b: 536).

While the instrument provided significant guidance at the very start of the study, it should be clearly noted that all constructs and propositions were tentative and shifted as the PhD undertaking unfolded. The selected approach is supported by Miles and Huberman (1994: 50) in their urging of early analysis as "it helps the field-worker cycle back and forth between thinking about the existing data and generating strategies for collecting new, often better, data". The starting list of a-priori constructs and propositions is highlighted in Table 3-5 below.

Table 3-5: A-priori constructs at the offset of the study

A-priori construct / proposition	Aim	Potential data source(s)	Extant theory (excerpt)
Knowledge flows at the focal subsidiary	Understanding the focal subsidiary's role within the MNC	Semi-structured interviews	Gupta & Govindarajan (1991)
Autonomy of the focal subsidiary		Semi-structured interviews	Birkinshaw (1997)
Corporate entrepreneurship at the focal subsidiary		Semi-structured interviews	Knight (1997)
Capabilities / profile of the focal subsidiary		Semi-structured interviews, websites, annual reports, other[7]	Bouquet & Birkinshaw (2008)
Strategic relevance of the focal subsidiary's host market		Semi-structured interviews, websites, annual reports, other[7]	Bartlett and Ghoshal (1986)
Value-add of the focal subsidiary		Semi-structured interviews, websites, annual reports, other[7]	Bouquet & Birkinshaw (2008)
Degree of external embeddedness of the focal subsidiary		Semi-structured interviews	Forsgren et al. (2005)
Altering network positioning of the focal subsidiary (internal, external)	Understanding drivers and restrictions for subsidiary internationalization	Semi-structured interviews	Johanson & Mattsson (1986)
Altering levels of knowledge and network insidership in the MNC		Semi-structured interviews	Johanson & Vahlne (2009)
Altering resource configurations within the MNC		Semi-structured interviews, websites, annual reports, other[7]	Teece & Pisano (1994)
Altering parameters outside the focal subsidiary (HQ, sister units, external)		Semi-structured interviews	Forsgren et al. (2005)
Proven resources and trustworthiness of subsidiary management	Understanding HQ rational for responsibility delegation	Semi-structured interviews	Bouquet & Birkinshaw (2008)
Initiative channel / exchange setting		Semi-structured interviews	Shelby (1986)
HQ knowledge about the subsidiaries' external network		Semi-structured interviews	Andersson et al. (2007)
Level of exchange between HQ and focal subsidiary		Semi-structured interviews	Birkinshaw (1997)

Based on the initially defined research questions and inspired by multiple streams of literature, the a-priori constructs were split into three different blocks. While overall information and data about the focal subsidiary, including its positioning within the MNC, was relevant for all three research questions, other constructs were only related to the identification of international business opportunities at corporate or subsidiary level or to the allocation of resources to peripheral international business opportunities. In addition, the overall data collection process was not limited to the defined constructs, even at the beginning of the study. Given the inductive character of the defined case study design, the investigator was at all stages open to new findings and theory. The guiding principle throughout the study was thus a continuous iteration between findings and existing theory. Such flexibility is shown for example by the

[7] Press releases, company newsletters or company magazines.

development of an additional research question and a detailed examination of the evolution of foreign market mandates at foreign subsidiaries that was not expected to represent a major part of the PhD study at the start of the research undertaking.

With regard to data retrieval and storage, all semi-structured interviews, i.e. excluding initial exploratory discussions with HQ managers, were recorded with a voice recorder with the explicit permission of all interview partners. The author therefore followed Yin's (2009: 109) argument that "audiotapes certainly provide a more accurate rendition of any interview than any other methods". Following the initial data retrieval, recorded interviews were transcribed to a Microsoft Word document and uploaded to the specialized qualitative research software NVivo9[8] in order to allow subsequent data coding and analysis. Throughout this process the author relied on external interview transcription services in order to cope with the vast amount of recorded data points and to stay within the initially defined timeframe of the study. All interview transcripts were thoroughly examined and corrected if interview records were not adequately reproduced by external interview transcription services. While the overall recording and transcribing process created a vast amount of raw data it was clear from the start that only certain parts of each interview were actually capable of contributing to the understanding of subsidiary internationalization. Nonetheless, the author was not able to rely on other means to execute a comprehensive data coding and analysis process for the study.

3.3.3. Data analysis

According to Eisenhardt (1989b: 539), data analysis is "the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process". The difficulty in analyzing qualitative data points is due to the limited amount of guiding rules or fixed procedures that are offered to qualitative researchers. Yin (2009: 127) supported this point by stating that "much depends on an investigator's own style of rigorous empirical thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations". Given the complexity of qualitative data analysis, the following pages will be dedicated to illustrating the overall analysis process, from initial coding to subsequent interpretation, and to describing and justifying the instruments and techniques that were chosen in order to develop sufficient support and evidence for the study findings.

Data analysis involved within- and cross-case analysis, with the former preceding the latter. Within-case analysis strongly helped to deal with the vast amount of data at the early stage and provided the investigator with a rich familiarity with the individual case (Eisenhardt, 1989b). While, as outlined above, there is no existence of standards or rules for such analysis,

[8] NVivo9 is a software for qualitative research and is aimed at helping researchers with unstructured information like documents, surveys, audio, video and pictures (more information is available at www.qsrinternational.com).

Miles and Huberman (1994: 50-89) suggested eight early analysis techniques that were thoroughly considered at the start of the analysis process. Due to time and resource constraints as well as insufficient suitability of certain aspects for the study at hand, not all eight methods were extensively used by the author. Nonetheless, this is in line with Miles and Huberman (1994), who highlighted potential benefits of each technique but did not state that exhaustive use should be made of them. Table 3-6 below provides an overview of the proposed analysis techniques and shows to what extent they were leveraged in the course of the study.

Table 3-6: Use of techniques for within-case analysis throughout the study

#	Method	Description	Aim	Use in study
1	Contact summary sheet	Single sheet with focusing or summarizing questions about the case	Avoidance of getting lost in detail at the very beginning	Yes
2	First-level coding	Assigning descriptive or inferential codes to information (often raw data)	Avoidance of data overload through data packaging	Yes
3	Second-level / pattern coding	Assigning explanatory or inferential codes to information	Identification of emergent themes, configurations or explanations	Yes
4	Memoing	Write-up of ideas about codes and their relationships	Bundling of data pieces into recognizable clusters	Limited
5	Case analysis meeting	Summary of current case status to another critical person	Challenging of preliminary findings from an external perspective	Yes
6	Interim case summary	Provisional synthesis of case data and findings	Outlining of status quo and open issues until final case report	Yes
7	Vignette	Description of a series of representative or typical events	Formulation of core case issues in chronological order	Limited
8	Pre-structured case	Structured template to be gradually filled after each field visit	Limiting descriptive material and encouraging reflective remarks	No

Source: Own illustration, based on Miles & Huberman (1994: 50-89)

Throughout the within-case analysis process it soon became apparent that many of the proposed techniques actually build on one another. The contact summary sheet, for instance, which was developed by making notes on crucial case elements immediately after each interview, helped to guide the first and second-level coding process. Increasingly interpretative coding through triangulation of data sources from headquarter and subsidiary level allowed the author to transform initial notes from the contact summary sheet into interim case summaries that were sent out to each interview partner for approval purposes. Other techniques like memoing or vignettes, which due to time constraints were only leveraged to a limited degree, thereby helped to sharpen initial process explanations.

After the first three cases a summary of preliminary findings along with an interim case report was sent to the guiding professor at the University of Fribourg in order to gain an additional perspective, i.e. from investigator triangulation and to make sure that the study is advancing in the right direction. This form of case analysis meeting proved to be of great help as the investigator was forced to bring initial ideas to paper and to obtain a critical review at the early stage of the study. In turn, he received valuable feedback from his experienced professor. A pre-structured case was not elaborated prior to analyzing case data, predominately as a result of the inductive research nature and thus lacking conceptual framework at this stage of the study. Overall, the data coding process marked the heart of the within-case analysis and will therefore be presented in more detail in the following pages.

Table 3-7: Initial and predominately descriptive list of codes

Perspectives	**Main themes**	**Sub-themes**
Corporate headquarters, focal subsidiary, external	Opportunity-identification and initiative-taking	Locus
		Drivers
	Rent-seeking and responsibility-allocation	HQ–SUB exchange
		Drivers
	Mandate alteration	Mandate alteration
		Drivers
	Mandate outlook	Mandate outlook
		Drivers

Following the data gathering from various sources, all information was uploaded to the software NVivo9. At this stage data was not classified by relevance or explanatory character but exclusively by case number (cases #1 to #10b), source type (interview, annual reports, newspaper article etc.) and perspective (corporate headquarters, focal subsidiary, external). As a next step the ‘raw data’ was comprehensively coded, which turned out to be a highly time-consuming but unavoidable task, especially for case study analysis. Adhering to Miles and Huberman (1994: 57), coding was carried out in three rounds. First, descriptive codes were added to relevant paragraphs of interview transcripts or other documents. The main purpose of the activity was to classify document sections into various phases of peripheral internationalization processes and to equip them with main topic themes. Initial coding thus entailed only limited degrees of interpretation. Table 3-7 above shows the initial list of codes that were consistently differentiated by source type and thus topic perspective.

As a next step, defined themes and sub-themes were further examined moving from predominately descriptive coding to increasingly interpretative coding. The investigator thereby relied on previously defined a-priori constructs from literature in the field of internationalization processes and other related topics as thoroughly outlined earlier in this chapter. As shown in Table 3-8 below, the second round of data coding resulted in a slightly modified set of sub-themes as well as the need for additional sub-sub-themes. The differentiation by perspectives was maintained for the second coding round. It should be noted that the first and second lists of codes only represent snapshots of the overall coding process. In fact, in between these two lists significant effort and time was spent on coding and recoding in order to reach a point that reflected the contents observed in eleven cases of subsidiary internationalization well.

Table 3-8: Second and increasingly interpretative lists of codes

Main themes	**Sub-themes**	**Sub-sub-themes**
Opportunity-identification and initiative-taking	Initiative facilitator	Target market size / growth
		Cross-border knowledge / networks
	Initiative trigger	HR / organizational change
		Processes
Rent-seeking and responsibil-ity-allocation	HQ-related factors	Risk perception
		Resource configuration
		Strategic priority / focus
	Subsidiary-related factors	Subsidiary capabilities / trustworthiness
		Subsidiary networks
	Externally-related factors	Target market size / growth
		Host market characteristics
Mandate altera-tion and out-look	Initiative trigger	HR / organizational change
		Processes
		Results
	Drivers of mandate gain	Subsidiary capabilities / trustworthiness
		Host / target market characteristics
	Drivers of mandate loss	Subsidiary capabilities / trustworthiness
		Host / target market characteristics
		Target market company presence

After the early analysis phase, the author sought to understand in more depth the causal relations between process elements of subsidiary internationalization. The desired outcome of this form of within-case analysis was the identification of individual case patterns. In the words of Yin (2009: 134), pattern-matching logic “compares an empirically based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its internal validity.” Again, Miles and Huberman (1994) offered a set of methods for a better understanding of what events are taking place, how they are evolving and why they are proceeding in a particular form. Their emphasis is thereby set on ways to display data points so that the investigator can more easily attribute meaning to them. While all of their suggestions were thoroughly evaluated, the author chose the following three techniques that proved to be of great help throughout the process: (1) critical incident charts; (2) event-state networks; (3) case dynamics matrixes. For all three techniques the author relied on time-ordered displays as they are “preserving the historical chronological flow and permitting a good look at what led to what, and when” (Miles & Huberman, 1994: 110).

As the three techniques made up the core of the within-case analysis, which is described in detail in the following chapter, a closer look at their principles and objectives and how they were leveraged in the course of this study seems appropriate. According to Pettigrew (1997: 338), a process is “a sequence of individual and collective events, actions, and activities unfolding over time in context”. In the same article Pettigrew (1997: 338) further stated that the main objective of a processual analysis is to “account for and explain the what, why and how of the links between context, processes and outcomes”. In order to carve out the ‘what’ aspect of processual analysis the author relied on critical incidents charts that allowed the extraction of important events, actions and activities from a vast amount of qualitative data points and to select those incidents that play a critical role for subsidiary internationalization. Critical role thereby equally relates to setting the breeding ground for subsidiary internationalization processes, for stimulating actions or behavior of process stakeholders and for determining the direction of mandate evolution.

In all critical incident charts that are first shown in Figure 4-1 in the next chapter, time goes horizontally, generally from the establishment of the focal subsidiary until the current outlook of HQ management on future mandate development. In line with the time axis the chart is horizontally further split into initial mandate gain, composed of an opportunity-identification and a responsibility-allocation phase, and mandate development, composed of a mandate development and mandate outlook part. With the exception of mandate outlook, which refers to actions or activities anticipated by process stakeholders, the chart exclusively outlines historical incidents. Vertically the chart is further broken down by the type of process stakeholder, i.e. whether events, actions and activities were carried out or planned by HQ personnel, by subsidiary management or by elements outside the MNC. Finally it is worth mentioning that the charts represent a synopsis of qualitative data points provided by interviews with corporate and subsidiary management as well as external sources. They therefore already contain a certain degree of analytical consolidation of multiple perspectives.

According to Miles and Huberman (1994: 115), critical incident charts allow the investigator to “limit an event listing to those events seen as critical, influential, or decisive in the course of some process”. For the topic of subsidiary internationalization it meant that only those incidents were highlighted that directly or indirectly impacted opportunity-identification, initiative-taking, rent-seeking and responsibility-allocation processes and thus strongly shaped the evolutionary path of cross-border subsidiary mandates. Overall, critical incident charts not only helped to extract the most relevant information from a pile of data but also allowed the influential and decisive process elements to be carved out. In addition, putting these critical incidents into chronological order empowered the investigator to get a first picture of potential causal relationships.

Nonetheless, when elaborating critical incident charts it soon became apparent that incidents can be of different natures. While some incidents related to explicit and immediate actions of process stakeholders within and outside the MNC, others referred more to altering conditions that took place over longer periods of time. Especially evolutionary process elements that were identified across the entire case sample lacked an event character, so it was difficult to assign a specific date to them. Event-state networks, which are first illustrated in Figure 4-2 of the next chapter, thereby emerged as a meaningful instrument. They were predominately developed in order to approach the 'how' aspect of processual analysis, i.e. to illustrate how process elements are linked to each other. The objective of an event-state network is generally twofold. First, it allows a differentiation between events (shown as boxes) that "imply specificity and a narrow time span" and states (shown as bubbles) that "imply more diffuseness, less concreteness, existence over a longer time" (Miles & Huberman, 1994: 115). For subsidiary internationalization, states may serve as facilitating conditions or links between actual process elements. Second, by connecting boxes and bubbles, event-state networks helped to clarify causal relationships between incidents. Similar to critical incident charts, event-state networks maintain the differentiation between the type of process stakeholder, i.e. corporate headquarters (displayed in grey), local subsidiary (displayed in white) and elements outside the MNC (displayed in shaded grey). Event-state networks can also be viewed chronically from left to right. Due to shortage of space, however, sequences are also displayed from top to bottom and vice versa so that the time axis should only be viewed as indicative.

Critical incident charts and event-state networks helped the author to clearly understand and carve out 'what' was happening in each case and 'how' internationalization processes unfolded. In addition, by continuously differentiating between the locus of incidents as well as events and states (corporate headquarters, focal subsidiary and external) both techniques also added clarity on 'where' process elements were taking place. They did not, however, provide sufficient guidance on 'why' the internationalization process of a foreign subsidiary unfolded in a particular form. Case dynamics matrixes, which are first outlined in

Table 4-4 of the next chapter, finally combined the outcome of the two aforementioned techniques and added an explanatory description to stimuli, causes and effects related to processes of subsidiary internationalization and evolutionary paths of cross-border subsidiary mandates. They therefore represent the most complex within-case analysis technique and seek to holistically explain the 'what', 'why' and 'how' aspects of processual analysis. Miles and Huberman (1994: 148) urged qualitative researchers to make use of this instrument as it "displays a set of forces for change and traces the consequential processes and outcomes".

For each critical incident that happened within or outside the MNC, case dynamics matrixes outline the individual trigger, cause and effect on corporate as well as subsidiary level. They therefore allowed an understanding of individual case patterns, which serve as the basis for cross-case analyses that are outlined in depth in chapter 5 (Figure 5-1). Case dynamics matrixes can take various forms (Miles & Huberman, 1994: 151) and the focus of those used in this study were to clearly understand what events stimulated subsidiary internationalization, what facilitating conditions or rationales made process stakeholders take the initiative and what impact these initiatives had on HQ and subsidiary personnel.

Following the within-case analysis process, identified individual case patterns were thoroughly compared with each other. Key to such “literal and theoretical replication across cases” (Pauwels & Matthyssens, 2004: 7) or cross-case analysis (Miles & Huberman, 1994) is looking at data points and blocks in many divergent ways. By doing so, Eisenhardt (1989b) urged case study investigators to take advantage of three tactics that were all used in the course of the study. First, define categories or dimensions that separate cases from each other and allow the investigator to identify within-group similarities and intergroup differences. Even though this task was already initiated throughout the case sampling process with the aim of identifying similar as well as polar cases, it was significantly intensified for the purpose of cross-case analysis. As highlighted in Table 3-9 below, a total of nine categories were used in order to develop initial cross-case patterns.

Table 3-9: Categories and classification of cases for cross-case analysis

#	Category	Classification of cases
1	Locus of initiative-taking	Parent company (cases #5, #6, #7 and #9), subsidiary (cases #1, #2, #3, #4, #8, #10a and #10b)
2	Date of initiative-taking	Before subsidiary establishment (cases #3, #6 and #7), past subsidiary establishment (cases #1, #2, #4, #5, #8, #9, #10a and #10b)
3	Outcome of initial request	Positive (cases #1 to #9), negative (cases #10a and #10b)
4	Functional mandate scope	Market responsibility (cases #1, #2, #3, #4, #6 and #9), regional HQ (cases #5, #7 and #8)
5	Subsequent mandate development	Extension (cases #2, #4, #5, #6, #7 and #8), reduction (cases #1 and #7), preservation (cases #3 and #9)
6	HQ mandate outlook	Positive (case #5), negative (cases #1, #2, #3, #4, #6, #7, #8 and #9)
7	HQ–subsidiary relative distance	Low (cases #1, #2, #4, #10a and #10b), high (cases #3, #5, #6, #7, #8 and #9)
8	MNC relative size	Small (cases #1, #2 and #3), medium (cases #4, #5 and #8), high (cases #6, #7, #9, #10a and #10b)
9	MNC relative foreign market experience	Low (cases #1, #2 and #3), medium (cases #4 and #5), high (cases #6, #7, #8, #9, #10a and #10b)

Having elaborated a set of case differentiation criteria, the second cross-case analysis technique of Eisenhardt (1989b) of selecting case pairs and listing process similarities and differences represented the logical next step. While all categories directly or indirectly helped the author to gradually craft cross-case patterns, categories 3 to 6 were particularly well-suited for this task for different reasons. Contrasting two negative to nine positive cases, for instance, helped to identify minimum requirements that a foreign subsidiary needs to fulfill in order to reach beyond national borders. Comparing foreign market mandates with regard to their functional scope shed light on what HQ-related, subsidiary-related as well as external factors determine how far foreign market responsibility can eventually stretch. Looking at positive as well as negative mandate alterations following the initial responsibility gain further revealed process drivers beyond those identified at the offset of the subsidiary internationalization process. Putting numerous cases with negative HQ outlook on local foreign market mandates in contrast to one single positive outlook helped to get an idea about the sustainability of such mandates and the degree of influence that local subsidiary management actually plays in the overall process. The final advice for cross-case analysis from Eisenhardt (1989b) – to separate data by different data sources and to hereby look at the evidence from various perspectives – was actually used from the very start of the analysis process, as data coding was persistently differentiated by perspectives and thus by data source.

Once a pattern model of internationalization processes of foreign subsidiaries had emerged from within- and cross-case analyses it was thoroughly compared to IB and related literature streams. The aim of such analytical generalization was to strengthen internal validity, generalizability and theoretical level of the chosen inductive case study approach. This task is particularly important for theory-building research as the investigator backs his findings on only a limited number of cases (Eisenhardt, 1989b). The benefits of this task are highlighted by Pauwels and Matthyssens (2004: 7), who stated that "the outcome of this analytical generalisation may indicate incompatibility with existing theories, which requires additional research, or overlap, which indicates that the 'new' mid-range theory is nothing more than a (partial) rephrasing of an existing theory". Adhering to this statement, the investigator paid particular attention to finding confirming as well as conflicting literature for his pattern models in order to gradually develop a mid-range theory for peripheral internationalization processes and the evolution and sustainability of subsidiary mandates beyond original host markets.

Triangulation of perspectives to the same data set, also referred to as theory triangulation (Patton, 2002), was initially based on a-priori constructs, as outlined earlier in this chapter. Nonetheless, due to the relatively unexplored research topic of subsidiary internationalization it soon became apparent that further theory was needed for the comparison of emerging patterns. Amongst others, risk dimensions in internationalization processes (e.g. Figueira-de-Lemos et al., 2011), cross-border and regional applicability of firm-, subsidiary- or country-specific advantages (e.g. Rugman & Verbeke, 1992, 2001, 2004, 2005, 2007) as well as the temporary nature of subsidiary mandates (e.g. Birkinshaw, 1996) that were initially not taken into consideration proved to be of great help to challenge and add meaning to preliminary study findings. Other studies like corporate entrepreneurship (e.g. Knight, 1997) or communication means (e.g. Shelby, 1986) that were expected to play a significant role in the process did not turn out to be of great significance. Nonetheless, their lack of relevance also revealed many particularities of subsidiary internationalization processes, e.g. lacking influenceability by subsidiary management, and therefore also contributed to the development of mid-term theory in the field of study.

Despite the fact that the study was carried out by a single investigator, triangulation among different evaluators was at least partially achieved. Following the analysis of cases #1 to #3, an interim case summary report along with initial cross-case analysis was sent to the guiding professor, which resulted in meaningful input with regard to the analysis approach in general and the contrasting of findings with literature in particular. Following within- and cross-case analysis of all eleven cases, another interim case summary report along with preliminary case study findings was submitted to the professor, which again resulted in constructive feedback in particular regarding previous studies worth comparing to the preliminary findings. Finally, it is worth mentioning that the software NVivo9 was intensively used throughout the entire analysis, which significantly facilitated the coding process and the comparison of qualitative data points. In addition, the software allowed the investigator to link data points from all sources and thus to apply a truly holistic view on the topic.

3.3.4. Quality control

Limited generalizability of the chosen case study approach (Yin, 2009) made the investigator aware of the necessity to maximize trustworthiness of his study from the very start of the undertaking. According to Lincoln and Guba (1985), trustworthiness in qualitative research depends on the study's credibility, transferability, dependability and confirmability. In the following pages, each quality criterion will therefore be briefly illustrated. In addition, proposed strategies for enhancing trustworthiness in qualitative research by different scholars will be outlined along the four dimensions and the extent to which the investigator made use of these strategies throughout the study highlighted.

Guba (1981) named truth value, applicability, consistency and neutrality as the four pillars that determine the trustworthiness of any scientific undertaking. It has long been acknowledged, however, that the criteria for assessing the rigor in scientific research are different for quantitative and qualitative research approaches. While the trustworthiness of quantitative studies using a positivist stance is generally evaluated along the dimensions validity (both internal and external, reliability and objectivity, the judging of qualitative approaches applying a non-positivist epistemological stance requires a different set of evaluation criteria due to varying underlying assumptions and study aims (Bradley, 1993). Lincoln and Guba (1985) therefore suggested assessing the trustworthiness of qualitative research based on its overall credibility, transferability, dependability and confirmability. The four general pillars of scientific rigor and its varying evaluation criteria for quantitative and qualitative research are shown in Table 3-10 below.

Table 3-10: Evaluation criteria for the trustworthiness of scientific research

Trustworthiness pillar	**Criterion for quantitative research**	**Criterion for qualitative research**
Truth value	Internal validity	Credibility
Applicability	External validity	Transferability
Consistency	Dependability	Dependability
Neutrality	Confirmability	Confirmability

Source: Own illustration, based on Guba (1981), Lincoln & Guba (1985)

According to Bradley (1993: 436), credibility refers to the “adequate representation of the constructions of the social world under study and can be assessed both in terms of the process used in eliciting those representations and in terms of the credibility of those representations for the community under study”. Despite the fact that Bradley (1993) was referring to qualitative studies in the field of social sciences, it can be simply transferred to the IB research in general and to studies on internationalization processes of foreign subsidiaries in particular. The challenge for the study at hand is therefore to “obtain and demonstrate truth-value” by thoroughly describing the research subject, approach and all derived findings to the reader (Pauwels et al., 2004: 194). A high level of transparency along the entire PhD study is therefore generally seen as a good means to augment the overall credibility of any scientific undertaking. In order to satisfy the trustworthiness criterion of transferability, in turn, the investigator needs to demonstrate to what extent the study findings can be applied to different settings or another context. Bradley (2003: 436-437) states that “this is a judgment that can be made only by comparing the two contexts, the burden of which falls not on the researcher but on those who wish to make the comparison. The researcher’s responsibility is to provide enough data, through rich, ample description, to allow these judgments to be made.” Again, structural coherence and sufficient degree of documentation both impacting the transparency level of the scientific research undertaking are viewed as instruments for obtaining a sufficient degree of transferability.

The third criterion, dependability, is concerned with the stability and consistency of findings (Guba, 1981). For this, the investigator must thoroughly describe all data gathering, analysis and interpretation methods that eventually led to the presented study findings. It is thereby necessary to prove to the reader the coherence of the internal process and to what extent he or she has accounted for altering conditions in the phenomenon under study (Bradley, 2003). In other words, in a non-positivist epistemological stance study findings cannot be easily replicated in another setting. The aim of a high degree of dependability in qualitative research is therefore to demonstrate that throughout the research process the existence of changing parameters has consistently been taken into consideration and that sufficient time and effort was spent in order to obtain a thorough understanding of the phenomenon under study.

Finally, confirmability refers to the objectivity and neutrality of study findings. If confirmability is relatively pronounced, an unbiased reader should "arrive at comparable conclusions given the same data and research context" (Krefting, 1991: 221). This again requires a maximum level of transparency along all steps of the scientific endeavor. To establish dependability and confirmability, Lincoln and Guba (1985) proposed audits that thoroughly describe the overall research process (dependability audit) and the interpretations and findings drawn from executed data analyses (confirmability audit). The two-stage auditing process therefore not only involves the documentation of raw data, e.g. in the form of interview transcripts, but also the documentation of the theory development process, e.g. in the form of different coding stages or the shift from simpler time-ordered displays to more complex case dynamics matrixes. In total, Lincoln and Guba (1985) named six categories of records that can be used in the course of a dependability and confirmability audit: (1) raw data; (2) data reduction and analysis products; (3) data reconstruction and synthesis products; (4) process notes; (5) materials related to intentions; (6) instrument development information.

Guba (1981), Lincoln and Guba (1985), Krefting (1991) and Pauwels et al. (2004) offered a helpful overview of possible techniques and methods for enhancing the trustworthiness of qualitative research along the aforementioned criteria of credibility, transferability, dependability and confirmability for the study at hand. While the first three researchers as educational scientists (Guba, 1981; Lincoln & Guba, 1985) and occupational therapist (Krefting, 1991) applied a more general and non-IB perspective to the topic, Pauwels et al. (2004) explicitly looked at internationalization processes in modern MNCs.

Table 3-11: Instruments and techniques for quality control used in the course of the study

Criterion	Method	Use in study
Credibility	Prolonged engagement	▪ Repeated interviews with same stakeholders ▪ In-depth industry knowledge of investigator
	Peer examination	▪ Multiple exchange with guiding professor & industry expert ▪ Paper submissions to and acceptance at leading scientific conferences (Academy of Management 2012 /European International Business Academy 2012)
	Member checking	▪ Repeated interviews with same stakeholders ▪ Distribution of interview summaries to each interviewee with request for approval
	Negative case	▪ Evaluation of two negative cases at one MNC
	Referential adequacy	▪ Documentation of all raw data in NVivo9 software for qualitative research ▪ Extensive case descriptions and documentation of raw data and interpretation stages
	Triangulation	▪ Triangulation of theory, data collection methods, data sources and investigators[9]
	Structural coherence	▪ In-depth theoretical chapters and detailed summary of data gathering, analysis and interpretation processes
Transferability	Documentation	▪ Detailed case descriptions, theoretical chapters and rich chain of evidence
	Nominated sample	▪ Heterogeneous case sample ▪ Gradual and subsequent case selection process
	Triangulation	▪ Triangulation of theory including iteration between literature and preliminary findings
Dependability	Audit	▪ Raw data storage (e.g. interview records and transcripts, annual reports) ▪ Data reduction & analysis products (e.g. interview summaries, case reports) ▪ Data reconstruction & synthesis products (e.g. time-ordered displays/case dynamics matrixes) ▪ Process notes (e.g. documented coding levels, summaries in NVivo9 software) ▪ Materials related to intentions & dispositions (e.g. interim/final study exposé) ▪ Instrument development information (e.g. standardized interview guideline)
	Traceability	▪ Dense description of research design and approach (in this chapter)
	Recoding	▪ Documentation of descriptive & interpretative coding stages (in this chapter)
	Peer examination	▪ Multiple exchange with guiding professor & industry expert ▪ Paper submissions to and acceptance at leading scientific conferences (Academy of Management 2012 /European International Business Academy 2012)
	Triangulation	▪ Triangulation of data collection methods
Confirmability	Audit	▪ Please refer to all instruments and techniques used for the dependability audit
	Triangulation	▪ Triangulation of theory, data collection methods, data sources and investigators[9]

Combining the input from various sources proved to be of great help and allowed the investigator to define an adequate set of quality enhancement techniques for the study at hand. In summary, almost all techniques proposed by Pauwels et al. (2004) and the majority of those suggested by Guba (1981), Lincoln and Guba (1985) and Krefting (1991) were leveraged by the investigator in order to maximize the trustworthiness of the applied qualitative research

[9] Investigator triangulation for data analysis and interpretation only.

approach. It should further be noted that the vast majority of quality criteria was identified at the very beginning of the study and that quality control therefore constituted a guiding principle throughout the entire study. An overview of applied quality control techniques, which will be explained in more detail in the following pages, is provided by Table 3-11 above.

Lincoln and Guba (1985: 290-330) listed prolonged engagement, peer examination, member checking, negative case analysis, triangulation and referential adequacy as core instruments for establishing credibility in qualitative research endeavors, of which all have been fulfilled in the course of the study at hand. The overall data gathering process took more than a year, largely due to repeated exchange with key process stakeholders at the different case companies. In addition, cases were gradually and subsequently added to the study sample in order to maximize advantages of theoretical sampling. Finally, at the offset of the study the investigator could already count on almost five years of experience in the manufacturing industry and in foreign market development strategies from his prior consulting work. Prolonged engagement for the purpose of understanding industry mechanisms was therefore not needed. With regard to obtaining peer review, the investigator relied on highly constructive feedback from his guiding professor, predominately encompassing aspects of existing theory, research methodology as well as data interpretation. Multiple member checks were again achieved through introductory and follow-up conversations with HQ management as well as interview summaries that were sent to all stakeholders at both the parent company and the focal subsidiary and commented on by the majority of recipients.

Further adding to the credibility of the study case sampling involved from the very start the search for a negative example, i.e. where a foreign subsidiary sought but did not obtain foreign market responsibility. As expected, the identification of negative cases proved to be even more difficult than the pursuit of positive counterparts. However, two cases were eventually identified that allowed for a different viewpoint on drivers and restrictions in subsidiary internationalization processes. In addition, all input used during the data analysis and interpretation phase is recorded in the NVivo9 software to allow referential adequacy. Moreover, the study counts on four different types of triangulation. First, multiple research streams were examined in order to develop a-priori constructs at the offset and to interpret findings at a later stage of the study, guaranteeing theory triangulation. Second, relying on primary and secondary data source triangulation of data collection methods was achieved. Third, using different sources within the same data collection method, e.g. in the form of interviews at corporate and subsidiary level, likewise satisfied the criterion of data source triangulation. Finally, leveraging the guiding professor for peer examination resulted in triangulation of investigators even though this form of triangulation was limited to data analysis and interpretation processes. In addition to the instruments proposed by Lincoln and Guba (1985), Guba (1981) also suggested structural coherence for credibility enhancement. For the study at hand in-depth theoretical chapters and a detailed summary of data gathering, analysis and interpretation processes were elaborated in order to avoid potential inconsistencies.

With regard to transferability strategies, Lincoln and Guba (1985) offered significantly lower advice to scholars with a qualitative research design. Viewing the transfer of study findings to other fields as not the core responsibility of the researcher, they simply proposed an extensive description of all study elements so that a third person can execute the desired transfer of findings. Having adhered to this advice, further instruments were searched for and eventually used for the study. A nominated sample (Krefting, 1991), also referred to as theoretical sampling (Pauwels et al., 2004), which is seen as a core method for the strengthening of the transferability of study findings, was used for the examination of internationalization processes of foreign subsidiaries. As a result, the final case sample revealed significant heterogeneity levels regarding for example company size, global MNC presence or functional and geographical scope of subsidiary mandate. Finally, Pauwels and et al. (2004) also viewed theory triangulation and constant iteration between literature and preliminary findings as a driver for transferability. Both instruments were extensively used in this study.

As outlined above, enhancing the dependability and confirmability in qualitative research can be achieved through audits with six different categories (Krefting, 1991). For the examination of subsidiary internationalization processes all six of them were used in order to augment the overall trustworthiness of the study. Raw data in the form of interview records and transcripts were stored on the computer of the investigator and could be easily retrieved for auditing purposes. Data reduction and analysis products are found in the NVivo9 software on the computer of the author in the form of cases summaries or in the following study chapter as case reports so that a third party could easily use them for dependability and confirmability audits. Moreover, records on data reconstruction and synthesis products exist in the form of time-ordered displays and case dynamics matrixes in the following chapter on case description and analyses. In addition, process notes were shown earlier in this chapter when the shift from first level and predominately descriptive coding to second level and increasingly interpretative codes is highlighted. Finally, materials related to intentions and dispositions and instrument development information are provided by varying types of study exposés and standardized interview guidelines respectively.

In addition to facilitating potential future auditing needs, the trustworthiness criterion of dependability was also addressed through an extensive description of all process elements, a coding recoding procedure, peer examinations as well as triangulation of data collection methods, of which the latter was explicitly proposed by Pauwels et al. (2004). Confirmability for the qualitative research approach was further strengthened by all four types of triangulation that were detailed earlier in this chapter. In summary, numerous trustworthiness-enhancing instruments and methods along the dimensions credibility, transferability, dependability and confirmability were used in order to guarantee a high level of scientific rigor. While some instruments and methods, like interview records, could not be integrated in the study due to capacity limitations, it should be noted that the investigator is willing to provide any reader with all necessary information to assess the trustworthiness of this study. Having said this, the author is also aware of the fact that there are additional facilitators for quality control like triangulation of observers of the phenomenon under study that were not leveraged in the course of the PhD undertaking due to overall resource and time constraints.

Finally, it is worth mentioning that the study was corrected by a native English speaker[10] in order to avoid any errors caused by insufficient language skills of the German author. While the corrections significantly contributed to the quality of the study they did not impact its content by any means.

[10] For more information please refer to www.englischkorrekturlesen.com.

4. Case descriptions and within-case analyses

4.1. Introduction

This chapter aims to provide the reader with an extensive description of each case of subsidiary internationalization, encompassing a brief overview of the case company and the focal subsidiary as well as a description of historic internationalization processes and future outlooks for related cross-border subsidiary mandates. Each case description will be split into the initial mandate gain and subsequent mandate modifications, including a current outlook for mandate development. Finally, the outcome of the three most relevant within-case analysis techniques – critical incident charts, event-state networks and case dynamics matrixes – will be outlined for each case. While critical incident charts should help the observer to quickly obtain a broader picture of the core process items, the subsequent illustration of event-state networks should enable third party investigators to get a sound understanding about what states or events caused subsidiary internationalization processes to unfold in a particular form. Finally, case dynamics matrixes should allow for differentiated perspectives from the parent company and the focal subsidiary on stimuli, causes and effects related to internationalization processes of foreign subsidiaries.

The following case descriptions already constitute a summary of all raw data that was used in the course of the study. While the investigator as described in detail in the previous chapter drew study findings on a set of data sources like company magazines, newspaper articles or corporate websites, the case summaries are predominately the outcome of semi-structured interviews with MNC stakeholders from the parent company and the focal subsidiary. Given the subjective nature of the recapitulation of the internationalization process at both ends of the MNC, the author combined both views in this chapter and also relied on the remaining data sources that provided additional and third party perspectives on the topic. Cases #9, #10a and #10b deviate from this approach as the investigator was not allowed to carry out interviews with subsidiary management in Brazil and France, so that case findings are mainly limited to the headquarters perspective.

4.2. Eleven cases of subsidiary internationalization

As already outlined in the last chapter, the study at hand rests on a total of eleven cases of subsidiary internationalization at seven Western European MNCs from the manufacturing industry. Several subsidiaries therefore belong to the same MNC, as will be outlined in this chapter. Each case, however, exhibits particular incidents and process elements that will be thoroughly described in the following pages.

4.3. Case #1: The internationalization process of a Polish subsidiary into former CIS markets

4.3.1. *Case description*

Case #1 refers to the internationalization process of the Polish subsidiary of a Northern European manufacturing company (Case Company A) into the former CIS markets of Russia, Ukraine, Belarus and Kazakhstan. The functional scope of the requested and eventually received foreign market mandate was limited to sales and service responsibilities. Since the initial subsidiary request and following parent company approval in the late 2000s, the mandate scope has been reduced by corporate management due to unsatisfying results. In fact, the parent company has retaken ownership of market development in former CIS markets so that the subsidiary's cross-border mandate, even though not yet officially announced, has largely been dissolved. Looking ahead, the subsidiary is expected to experience a further decline of responsibility or even an official mandate loss for former CIS markets as a result of specific HQ plans for the region in focus. Key characteristics for Case #1 are summarized in Table 4-1 below.

Table 4-1: Key characteristics of Case #1

Parent company location	**Initial mandate gain (year)**
Northern Europe	Sales and service responsibility (2008)
Focal subsidiary location	**Mandate development (year)**
Poland	Reduced functional scope / unofficial mandate loss (2010)
Mandate coverage	**Mandate outlook (year)**
Former CIS markets	Full (official) mandate loss (2011)

Case Company A is a Northern European original equipment manufacturer (OEM) in the manufacturing industries sector. The company started business after the First World War and has since then been characterized by a set of ownership changes. Today, Company A belongs to a larger conglomerate in Northern Europe and thus benefits from improved access to financial resources. With an annual turnover of less than €500 million, Company A represents a relatively small enterprise in the total case sample. The firm is organizationally split into three different divisions. The division in focus represents the largest unit, accounting for more than 70% of company revenues. The company covers the entire value chain, ranging from R&D, sourcing and production up to logistics and spare parts delivery. Despite relying on input from certain suppliers, the company develops, manufactures and markets its products in the home region as well as abroad. A broad company overview is provided in Table 4-2 below.

Table 4-2: Firm profile of Case Company A (cases #1 and #2)

Firm profile (as of 2010)	
Type	Original equipment manufacturer (OEM)
Ownership status	Conglomerate unit
Sales	< €0.5 bn
N° of foreign subsidiaries	< 15
Existence of regional headquarters	No
Expansion / internationalization start	1990s

Most revenues are still generated in the home market and other Western European markets. In the case of local company presence, products are distributed through own subsidiaries. Otherwise selected national importers are used in order to develop company presence abroad. In both cases, end-customers are managed by dealers in the respective markets. The main internationalization process of the company started in the 1990s when it acquired several competitors with sales offices and production facilities abroad. In addition to selective company acquisitions it also set up new offices in foreign markets through greenfield approaches. Today, the firm is equipped with several foreign production facilities and more than ten sales and service offices in Europe, Africa and North America. Nonetheless, given its late internationalization start and its still limited international presence, the relative internationalization experience of Company A compared to other enterprises in the case sample is low.

The Polish subsidiary of case Company A was founded in the early 1990s by a European competitor. At that time, the focal subsidiary was already used as a sales hub for developing selected Eastern European markets. It additionally served as a low-cost production plant for lower quality products well-suited to meet local and regional customer requirements and financial resources. Company A purchased the focal subsidiary towards the end of the 1990s and integrated it into the existing group structure. The main rationale for the acquisition was the subsidiary's location in Eastern Europe, allowing it to serve traditional markets in Western Europe as well as former CIS markets at a later stage. Moreover, Company A was attracted by the presence of production facilities for low-cost products suited for markets outside of Western Europe. Finally, local production facilities were expected to lower the overall cost structure of the company. At the time of the acquisition the parent company was facing serious financial difficulties, mainly as a result of escalating salary levels in the home country and thus looked for means to lower the cost structure across the group. An overview of the focal subsidiary is provided by Table 4-3 below.

Table 4-3: Subsidiary profile of Case #1

Subsidiary profile (as of 2010)	
Date of inauguration	Early 1990s
Company belonging	Late 1990s (through takeover)
Location / host market	Poland
Value-add	R&D, sourcing, production, sales and after-sales
Responsibility for other markets	Yes (former CIS markets)
Responsibility for foreign sub-units	No

At the end of the 2000s Company A decided to largely invest in the focal subsidiary with the aim to extend and modernize local production facilities. As a result the focal subsidiary has turned into one of the most relevant units within the company, representing one of the key producers and suppliers of components as well as end-products. Around the same time local management obtained extended sales responsibility for former CIS markets. The current subsidiary CEO has belonged to the entity since its inauguration at the beginning of the 1990s. He has therefore experienced all major corporate changes personally, including the extended responsibility for former CIS markets.

4.3.1.1. Initial mandate gain

<u>Opportunity-identification and initiative-taking</u>

The opportunity to market former CIS markets from the focal subsidiary was identified by local management in Poland in 2008. As a next step the opportunity was presented to the parent company in the course of a routine country visit and official responsibility for an extended geographical mandate requested. The locus of opportunity-identification and initiative-taking was set at the foreign subsidiary and therefore at the business 'frontline' to former CIS markets. The subsidiary's initiative to request extended geographical responsibility for former CIS markets was thereby triggered and facilitated by incidents within and outside the organization. These incidents are further characterized by gradual, long-term developments that can be viewed as facilitating conditions in the course of the opportunity-identification and of abrupt changes that represent the actual initiative trigger.

Due to geographical proximity the Polish subsidiary was exposed to former CIS markets from its inauguration at the beginning of the 1990s. This characteristic remained unchanged when Company A acquired the focal subsidiary towards the end of the 1990s. Irrespective of the host-market orientation, the focal subsidiary gradually developed market experience and external networks reaching into neighboring former CIS markets. This was additionally supported by similar product requirements of the host and former CIS markets. Following its takeover, the focal subsidiary was requested to carry out product and spare parts delivery to customers not only in Poland but also in former CIS markets. The new role added to the market experience in the target regions. When equipment markets in the former CIS region experienced a strong growth momentum from 2006 until 2008, the subsidiary faced increasing order entry from and product delivery to customers in former CIS countries. As a result of its limited mandate the focal subsidiary was forced to forward all customer orders from markets outside of Poland to the parent company until reentering the process for product delivery and other after-sales-related matters at a later stage. It was then that top management at the focal subsidiary questioned the efficiency of the customer handling process and came to the conclusion that fully steering the process from Poland was the more suitable approach. Process inefficiencies are thus considered to represent the core initiative trigger for subsidiary internationalization.

In the course of further reflection on the opportunity to manage former CIS markets from the focal subsidiary, the aspect of geographical and cultural proximity further strengthened the local management's opinion. In fact, one sales manager at the focal subsidiary spoke Russian, a capability that was distinct at Company A and seen as a key success factor for developing former CIS markets. In addition, the focal subsidiary already possessed a small and well-functioning network with customers in these markets that supported its perception of being best suited for managing the former CIS region. In summary, evident process inefficiencies triggered the initiative-taking process for extending the geographical scope of the focal subsidiary eastwards into former CIS markets. Regional market growth in the target region can be viewed as an external facilitating condition. Subsidiary-related characteristics in the form of cross-border business networks and Russian language skills and country-related aspects of geographical and cultural proximity represented additional supporting factors.

Rent-seeking and responsibility-allocation

The subsidiary initiative was first presented in 2008 at a regular monthly management meeting with middle management from the parent company. The exchange took place at the subsidiary premises in Poland. Later the request was passed on to the top management at the corporate headquarters. The content of the request was purely qualitative, not involving any business case calculations or preliminary trial results. No additional resources were requested in the course of the decision-making process. The subsidiary request was approved by corporate management and the overall approval process took approximately six months.

The financial pressure that prevailed at Company A at the end of the nineties and that led to the acquisition of the focal subsidiary continued to influence management decisions at corporate headquarters. When former CIS markets showed strong market growth from 2006 onwards, the company became aware of the huge potential for equipment sales in the region. Seeing other competitors moving into the markets by opening local sales offices further strengthened the urge for growth participation. HQ management then defined former CIS markets as a focus area for company growth. Limited financial capabilities, however, prevented the management from copying competitors' moves in the form of setting up local offices or even local assembly or production facilities. It was widely acknowledged at the parent company that former CIS markets could only be developed with a Russian-speaking salesperson. Confronted with the subsidiary request, which was backed up with subsidiary-specific capabilities of Russian language skills and country-specific advantages of geographical and cultural proximity, HQ management therefore seriously looked into the matter. The relatively long decision-making process was largely driven by the amount of other key topics on the management's agenda at that time.

The main reason for granting extended market responsibility to the focal subsidiary in Poland was the strong growth in former CIS markets. In addition, the presence of a Russian-speaking salesman as well as the geographical and cultural proximity to the target markets in combination with similar regional product requirements facilitated the decision-making process. Moreover, the overall risk level was relatively low as company presence in target markets was still limited and local market potential widely acknowledged. Finally, strong HQ involvement in other topics and thus central resource constraints might have also facilitated the management decision to use local resources for the opportunity exploitation.

4.3.1.2. Mandate evolution

Mandate development

In the execution of the extended geographical mandate the focal subsidiary experienced a loss of responsibility in early 2010. Even though the loss was not officially communicated it has become noticeable since then through a gradually increasing involvement of HQ personnel in the development of former CIS markets. In addition, major decisions regarding market development are no longer prepared or taken by local management in Poland. While back-office support is still provided by the Polish subsidiary, sales personnel in former CIS markets report directly to the parent company. The involvement of corporate management and thus reduced subsidiary responsibility was mainly triggered by a lack of subsidiary capabilities for managing personnel outside the host market and poor results in former CIS markets. HQ management became aware of the unsatisfying performance by talking to sales personnel in former CIS markets as well as looking into the overall sales figures.

Following the official mandate gain it became apparent that one Russian-speaking salesperson in Poland is not sufficient in order to develop the vast geographical scope of the former CIS markets. It was then decided in the corporate headquarters to hire an additional salesman working directly out of the Ukraine. When the focal subsidiary did not succeed in providing the additional salesman with sufficient support, corporate management increased its involvement and established a direct link to the salesman in the Ukraine. Officially, however, the mandate was not altered and the Ukrainian salesman remained on the payroll of the focal subsidiary.

When as a result of the global financial crisis former CIS markets deteriorated from 2009 onwards, HQ management significantly reduced its efforts in the region. In the course of the following reflection phase it was acknowledged that the focal subsidiary not only lacked the capability to drive projects and manage personnel outside its host market but also has no cultural understanding and suitability for former CIS markets. Cultural proximity that initially served as a major argument for allocating extended geographical responsibility did not prove to be as distinct as expected. HQ management thereby admitted to a misinterpretation of country- and subsidiary-specific advantages at the initial responsibility delegation in 2008. As former CIS markets are gradually recovering, corporate management is at present looking for a salesperson working out of Moscow to be responsible for the entire CIS region. While for tax and cost advantages again remaining on the payroll of the focal subsidiary, the new person will have a direct link to the parent company.

<u>Mandate outlook</u>

Looking ahead and assuming strong and relatively stable growth rates for former CIS markets, HQ management plans to set up a local office in Russia that will serve as regional headquarters for former CIS markets. In addition, local assembly facilities could also be beneficial in order to avoid high tax burdens on imports and to achieve competitiveness versus other OEMs that produce or assemble locally. In the event of a subsidiary opening with or without production facilities in one of the former CIS markets, the focal subsidiary in Poland is expected to entirely lose its extended geographical mandate. The main reasons for a full and official loss of cross-border responsibility for the Polish subsidiary in the event of the opening of a new office in former CIS markets are excessive risks of setting up sub-subsidiaries as well as the fact that subsidiaries always directly report to the parent company. While a lack of proven resources of the focal subsidiary for such tasks was not mentioned by corporate management, it might have further supported the HQ view.

4.3.2. Within-case analyses

As outlined in the previous chapter of this study, the author relied on extensive within-case analyses in order to develop a thorough understanding of the case content and to elaborate individual case patterns. While using numerous analysis methods like multi-stage coding of raw data or interim case reports and meetings, a critical incident chart as initially shown in Figure 4-1, an event-state network as first depicted in Figure 4-2 and a case dynamics matrix as originally outlined in

Table 4-4 were particularity helpful when crafting individual case patterns. The following eleven case descriptions will therefore consistently conclude with the outcome of these three within-case analyses.

Figure 4-1: Critical incident chart for Case #1

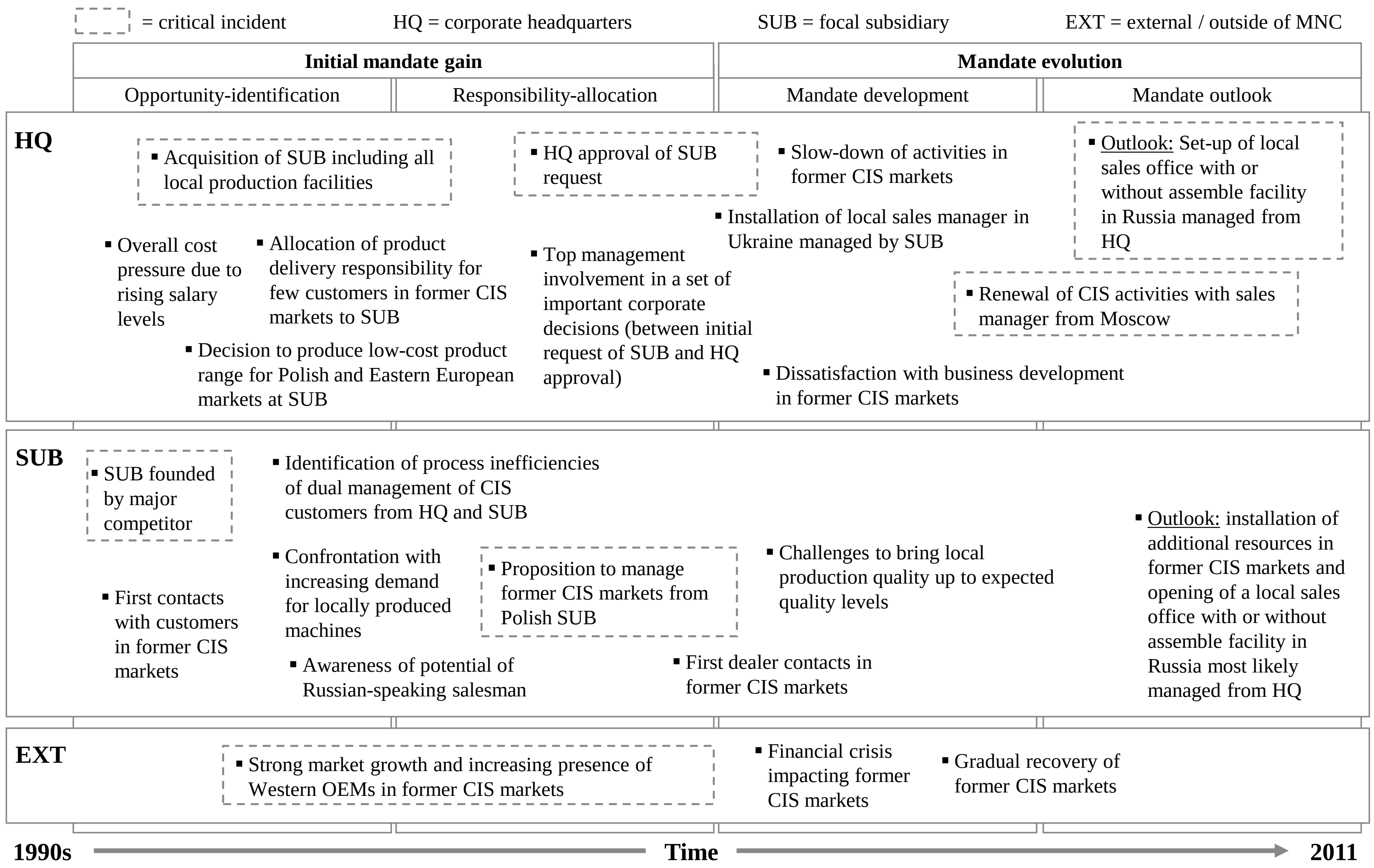


Figure 4-2: Event-state network for Case #1

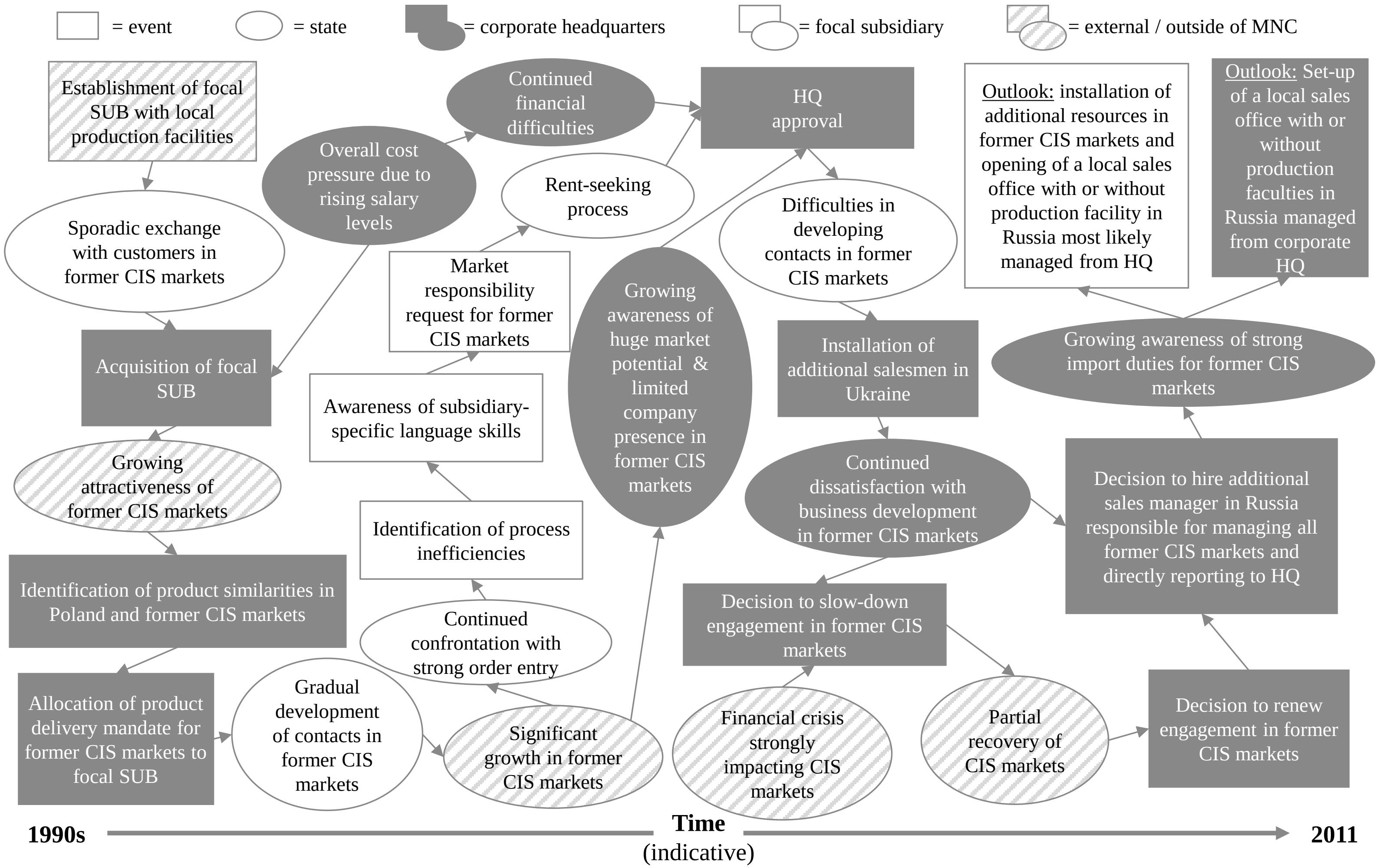


Table 4-4: Case dynamics matrix for Case #1

Critical incidents (locus / period)		**Initial mandate gain**					**Mandate evolution**	
		Opportunity-identification			Responsibility-allocation		Mandate development	Mandate outlook
		Focal SUB established (EXT / 1990s)	Focal SUB acquired (HQ / 1990s)	Strong growth in former CIS markets (EXT / 2000s)	Market responsibility request for former CIS markets (SUB / 2000s)	Approval of SUB request (HQ / 2000s)	Realignment of engagement in former CIS markets (HQ / 2010s)	Plan to set up office in Russia managed by HQ (HQ / Plan)
HQ	**Incident Trigger**	▪ n/a	▪ Cost pressure	▪ n/a	▪ n/a	▪ Focal SUB request	▪ Recovery of former CIS markets from prior financial crisis	▪ Increased import duties and production quota for financial support
	Incident Cause / Rationale	▪ n/a	▪ Low salary level in Eastern Europe ▪ Existence of local production facilities	▪ n/a	▪ n/a	▪ Low risk due to high market potential and weak company presence ▪ Language skills, geographical and cultural proximity of focal SUB	▪ Unsatisfying business development results and lacking cultural fit of focal SUB	▪ Avoidance of tax burden ▪ Limited trust in focal SUB capabilities ▪ Excessive risk of regional HQ construct
	Incident Effect	▪ n/a	▪ Proximity to former CIS markets and access to local production site	▪ Awareness of market potential and lacking company presence	▪ Need to decide on market approach for former CIS markets	▪ Reduced control	▪ Regained (unofficial) direct access to former CIS markets	▪ Increased control → reduced risk
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ Existence of process inefficiencies ▪ Possession of cross-border networks and language skills	▪ n/a	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ Optimize market penetration	▪ n/a	▪ n/a	▪ n/a
	Incident Effect	▪ Access to former CIS markets → business network development	▪ Receipt of product delivery mandate for former CIS markets	▪ Significant order and delivery increase → identification of process inefficiencies	▪ n/a	▪ Increased market responsibility	▪ Unofficial mandate loss	▪ Official mandate loss for former CIS markets

4.4. Case #2: The internationalization process of a Spanish subsidiary into Latin America

4.4.1. Case description

Case #2 refers to the internationalization process of the Spanish subsidiary of a Northern European manufacturing company (Case Company A) into Latin America. The functional scope of the requested and eventually received foreign market mandate was limited to sales and service responsibilities. The geographical mandate has been slightly extended since the initial subsidiary request and parent company approval and now also includes Chile. Looking ahead, the subsidiary's cross-border mandate may terminate if the localization degree in South America is augmented through the establishment of local company presence. Key characteristics for Case #2 are summarized in Table 4-5 below.

Table 4-5: Key characteristics of Case #2

Parent company location	**Initial mandate gain (year)**
Northern Europe	Sales and service responsibility (2007)
Focal subsidiary location	**Mandate development (year)**
Spain	Extended geographical scope into Chile (2010)
Mandate coverage	**Mandate outlook (year)**
Latin America	Full mandate loss (2011)

The Spanish subsidiary represents an affiliated unit of Case Company A that was described in detail for Case #1 (Table 4-2). The focal subsidiary was founded in the 1960s as a subsidiary of a close competitor. At that time the motive for establishing the subsidiary was to be equipped with a small-scale assembly in Southern Europe and thus to avoid taxes on finished machinery. From a sales perspective the subsidiary was assigned to develop Southern European markets. In the early 2000s Company A acquired the focal subsidiary in order to expand its product portfolio and thus to better meet the needs of Southern European customers. In the course of its evolution the focal subsidiary has significantly gained and lost charter on the production as well as the sales side. While additional production was shifted to the subsidiary shortly after its acquisition, it was to a large degree withdrawn again at a later stage. Today, the production scope of the focal subsidiary is limited to certain group components. The production loss was accompanied by an almost complete management dismissal. These two serious incidents had their origin in disappointing results concerning production quality and delivery times in the previous years. In addition, local management failed to operate profitably. A broad overview of the subsidiary is provided by Table 4-6 below.

Table 4-6: Subsidiary profile of Case #2

Subsidiary profile (as of 2010)	
Date of inauguration	1960s
Company belonging	Early 2000s (through takeover)
Location / host market	Spain
Value-add	R&D, sourcing, production, sales and after-sales
Responsibility for other markets	Yes (Latin America)
Responsibility for foreign sub-units	No

As a result of increasing pressure from the parent company, local management initiated an extensive restructuring program towards the end of 2000s in order to regain profitability and to avoid excessive financial dependency from the group. While the restructuring program is showing first results and the overall level of group collaboration has improved, HQ trust in local management capabilities is still relatively low. In the course of the restructuring program the focal subsidiary successfully requested market responsibility for Latin America. While the extended mandate initially excluded Chile it was added at a later stage. Today, the focal subsidiary looks after markets in Spain and Latin America.

4.4.1.1. Initial mandate gain

Opportunity-identification and initiative-taking

The opportunity for a decentralized market development for Latin America through the Spanish subsidiary was identified by local subsidiary management. While in a first step and without official HQ buy-in existing contacts and networks in Latin America were refreshed, the extended geographical mandate was officially requested around 2007. The locus of opportunity-identification and initiative-taking was thus set at the focal subsidiary in Spain.

As a result of its long presence in Southern Europe, the focal subsidiary also developed a small customer network in Latin America. The main reasons for occasional customer requests from this geographically distant region were similar product requirements as well as similar cultural background including the same language for most markets. At the end of the 1990s the subsidiary actually possessed running agreements with importers in three Latin American markets and had gained extensive market knowledge and experience in the course of time. With the takeover by Company A the focal subsidiary immediately lost market responsibility for Chile as the mother company was equipped with a strong local importer that was granted exclusivity status. For all other Latin American markets no decision was made regarding organizational responsibilities so that a dual market penetration was temporarily carried out. Lacking HQ focus and increasingly tied resources at subsidiary level due to new production responsibilities meant that the overall efforts were rather limited. When a subsidiary salesman was about to retire in 2004, local management decided to refresh existing contacts in Latin America. It was thus decided to spend some of the salesman's remaining company time on assessing potentials and potentially refreshing contacts in the region. The decision was not accompanied by an official HQ request and did not result in a significant increase in market presence in Latin America.

The incidents of full management dismissal in combination with the loss of production in the mid-2000s strongly impacted the subsidiary. In order to satisfy HQ requests for improved profitability levels the new subsidiary management initiated a restructuring program with the intention of lowering costs and identifying additional revenue sources. The initiative led, amongst other changes, to a reorganization of the sales department, freeing the resources of one sales manager. Considering sales as well as margin limitations in Southern European markets, the subsidiary requested HQ permission for partly assigning one sales manager for Latin America around 2007. While organizational change represents the core initiative trigger, target market growth in combination with economic pressure as well as existing market knowledge and networks are viewed as facilitating conditions.

Rent-seeking and responsibility-allocation

The exchange between HQ and subsidiary about the market responsibility was relatively informal. It did not involve any official meeting between representatives from both sides and was carried out by means of telephone calls and e-mail correspondence. The content of the subsidiary request was purely qualitative, not involving any business case calculation or preliminary trial results. No additional resources were requested at this stage. When corporate management of Company A received the subsidiary request in the mid-2000s it was dealing with a lot of corporate issues and developing Latin American markets did not represent a key priority. However, due to strong regional market growth from 2006 onwards, HQ management was aware of the significant local market potential.

Given the company's limited presence in Latin America and the overall low risk level of the undertaking with no involvement of additional resources, HQ management quickly approved the request. The country-specific advantages of language and cultural proximity were the main arguments for a decentralized market development approach. In addition, network positioning in

Latin America was perceived to be less distinct at the parent company than at its counterpart in the focal subsidiary. The previous trial phase when the focal subsidiary used its retiring sales manager for contact refreshment in Latin America might have further supported the HQ perception that its subsidiary in Spain is actually better suited for developing company presence down there. The overall process was strongly facilitated by a lack of HQ focus for Latin America that resulted from overall resource constraints.

4.4.1.2. Mandate evolution

Mandate development

The initial mandate allocation did not include the Chilean market as HQ management still had strong connections with the local importer at the time of the decision. In 2010 the focal subsidiary also received market responsibility for the remaining Chilean market. No subsidiary request preceded the HQ decision. It was exclusively taken by corporate management. The mandate alteration was triggered by an upcoming retirement of the responsible HQ sales manager for Chile. In the course of evaluating replacement options the existing approach was questioned and a decentralized market penetration through the focal subsidiary in Spain selected.

The HQ's reasoning for extending the geographical mandate of the focal subsidiary into Chile was threefold. First of all low sales volumes to Chile and overall disappointing relationships with the local importer did not suggest a continuation with the status quo. In addition, local management in Spain had at least partially demonstrated its ability to participate in Latin American markets and was already equipped with a dedicated, Spanish-speaking salesman for the region. Finally, overall financial resources were constrained so that corporate management had to focus its human and financial resources on a limited number of markets. Latin America did not represent one of the prioritized markets.

Mandate outlook

Looking ahead and assuming strong and relatively stable growth rates for Latin America, Company A still doubts that it will significantly increase its commitment in this far-distant region. If at some future stage Company A decides to establish a company presence in Latin America it is believed that the focal subsidiary would lose its mandate for the entire region. A new sub-unit would most likely directly report to the parent company in Europe and would look after all remaining markets in the region. The main reason for not significantly extending the company commitment to markets in Latin America is financial constraint. Reluctance in setting up sub-subsidiaries is largely the result of excessive risks, driven by a relatively low organizational maturity with regards to subsidiary management and ongoing doubt in the capabilities of local personnel.

4.4.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Case #2 will be illustrated: (1) critical incident chart as shown in Figure 4-3; (2) event-state network as shown in Figure 4-4; (3) case dynamics matrix as shown in Table 4-7.

Figure 4-3: Critical incident chart for Case #2

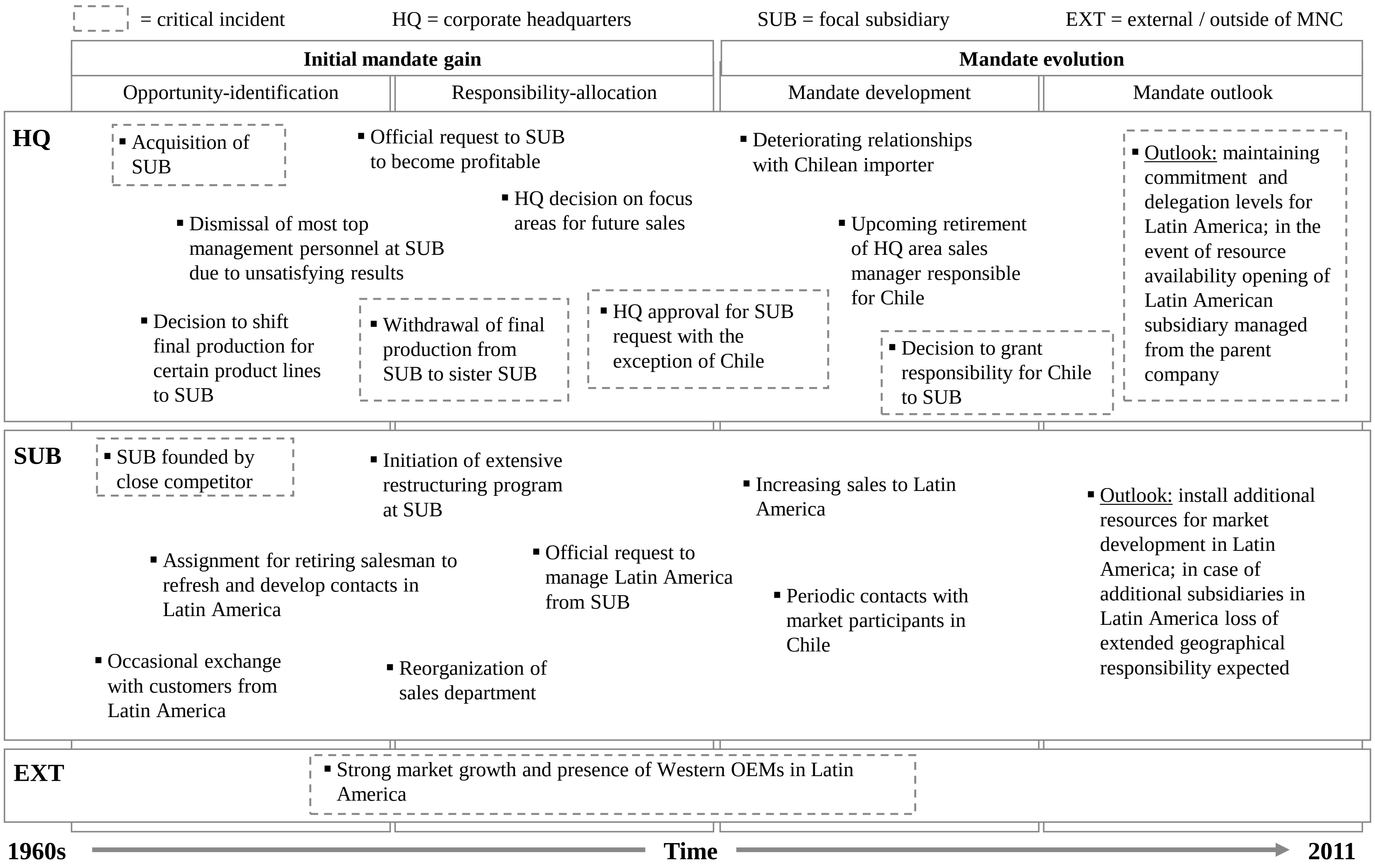


Figure 4-4: Event-state network for Case #2

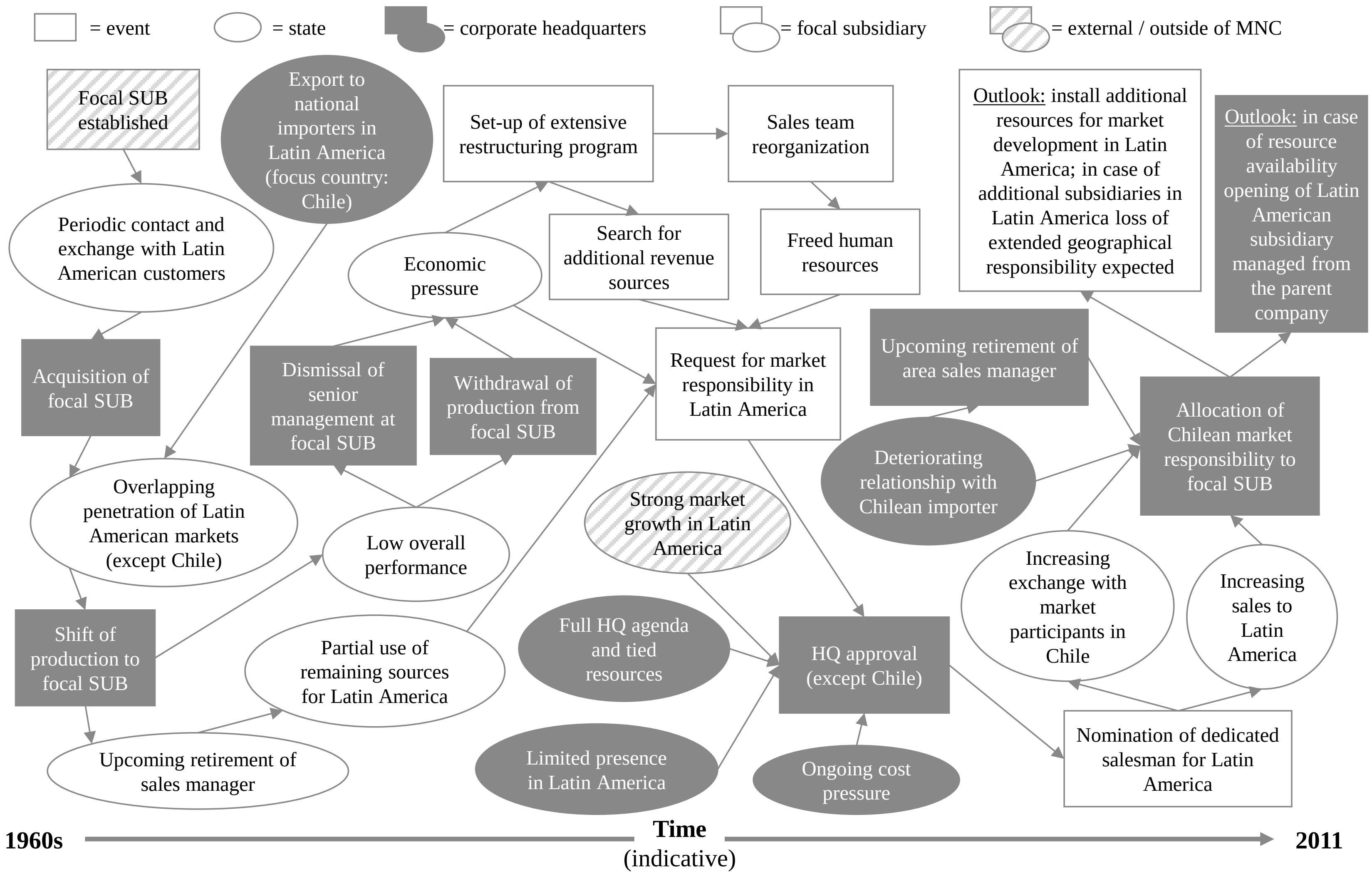


Table 4-7: Case dynamics matrix for Case #2

Critical incidents (locus / period)		**Initial mandate gain**					**Mandate evolution**	
		Opportunity-identification				Responsibility-allocation	Mandate development	Mandate outlook
		Establishment of focal SUB (EXT / 1960s)	Acquisition of focal SUB (HQ / 2000s)	Production withdrawal from focal SUB (HQ / 2000s)	Strong market growth in Latin America (EXT / 2000s)	Allocation of market responsibility for Latin America w/o Chile to focal SUB (SUB & HQ / 2000s)	SUB responsibility extended into Chile (HQ / 2010s)	Consideration to set up HQ managed office in Latin America (HQ / Plan)
HQ	**Incident Trigger**	▪ n/a	▪ Unknown	▪ Economic results ▪ Low production quality	▪ n/a	▪ Focal SUB request	▪ Retirement of HQ sales manager	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ Unknown	▪ Improve group results ▪ Augment pressure on focal SUB	▪ n/a	▪ Low risk due to high market potential and weak company presence ▪ Resource constraints at parent company ▪ Cultural proximity	▪ Deteriorating importer relations ▪ Proven SUB resources in Latin America & HQ resource constraints	▪ Significant Latin American market potential ▪ Limited trust in SUB resources ▪ Excessive risk
	Incident Effect	▪ n/a	▪ Enhanced access to Spanish-speaking markets	▪ Lacking confidence in focal SUB capabilities	▪ Increasing awareness of Latin American markets	▪ Reduced control ▪ Further loss of focus for Latin American markets	▪ Reduced control	▪ Regained direct access to markets and sub-units
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ Reorganization of sales department due to restructuring program → freed resources ▪ Latin American market growth and cross-border networks	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ Search for additional revenue sources ▪ Justify subsidiary existence	▪ n/a	▪ n/a
	Incident Effect	▪ Exposure to Latin American markets → network & knowledge development	▪ Loss of Chilean market mandate ▪ Dual market responsibility for remaining Latin American markets	▪ Management dismissal ▪ Loss of revenue sources ▪ Initiation of restructuring program	▪ Identification of alternative revenue sources (sales to Latin America)	▪ New market responsibility and revenue sources ▪ Possibility to regain HQ confidence ▪ Lacking access to attractive market in Chile	▪ Further market responsibility ▪ Improved reputation at parent company	▪ Loss of extended geographical market responsibility

4.5. Case #3: The internationalization process of a Singaporean subsidiary into East Asia, Australia and New Zealand

4.5.1. Case description

Case #3 refers to the internationalization process of the Singaporean subsidiary of a Central European manufacturing company (Case Company B) into East Asian markets as well as Australia and New Zealand. The focal subsidiary was equipped with an extended geographical reach from its inauguration and its functional scope was limited to sales and service responsibilities with some additional warehouse functions. Due to its recent establishment the initial mandate gain of the focal subsidiary remains unmodified. While the mandate may only be slightly functionally extended in the future, the focal subsidiary is likely to experience a geographical mandate decline if the company decides to open additional subsidiaries in the covered region. Key characteristics for Case #3 are summarized in Table 4-8 below.

Table 4-8: Key characteristics of Case #3

Parent company location	**Initial mandate gain (year)**
Central Europe	Sales and service responsibility (2010)
Focal subsidiary location	**Mandate development (year)**
Singapore	Initial mandate has not been altered yet (n/a)
Mandate coverage	**Mandate outlook (year)**
East Asia, Australia, New Zealand	Reduction of geographical scope (2011)

Case Company B is a Central European original equipment manufacturer (OEM) in the manufacturing industries sector. Business started in the years following the First World War and has grown to an annual turnover of approximately €500 million. Throughout its existence the firm has maintained its family-owned status. With regards to value-add, Company B is involved in the process of value creation encompassing research and development, sourcing, production as well as sales and after-sales. Despite ongoing globalization, enterprise sales are still predominately generated in Western Europe. Declining relevance of the company’s home market however is noticeable and markets in Asia have gained the focus of corporate management in the course of the last decade. Internationalization of the first degree, i.e. developing new markets from the corporate HQ, started around the turn of the millennium. Today, Company B has a company presence in three continents and is equipped with one foreign production facility. End-customer management is carried out by national dealers. An overview of Case Company B is provided by Table 4-9 below.

Table 4-9: Firm profile of Case Company B

Firm profile (as of 2010)	
Type	Original equipment manufacturer (OEM)
Ownership status	Family-owned
Sales	< €0.5 bn
N° of foreign subsidiaries	< 15
Existence of regional headquarters	No
Expansion / internationalization start	2000s

The Singaporean or focal subsidiary of Case Company B was founded relatively recently through a greenfield approach. It currently serves as Company B's Far East and Oceania sales and after-sales hub. Prior to the subsidiary opening, markets in East Asia as well as in Australia and New Zealand were managed from an area sales manager located at the headquarter premises in Central Europe. A closer look at the subsidiary characteristics can be obtained from Table 4-10 below.

Table 4-10: Subsidiary profile of Case #3

Subsidiary profile (as of 2010)	
Date of inauguration	2010
Company belonging:	2010 (greenfield approach)
Location / host market	Singapore
Value-add	Sales, after-sales, warehousing and spare parts
Responsibility for other markets	Yes (East Asia, Australia and New Zealand)
Responsibility for foreign sub-units	No

4.5.1.1. Initial mandate gain

<u>Opportunity-identification and initiative-taking</u>

The opportunity for a decentralized market development for East Asia, Australia and New Zealand through the focal subsidiary in Singapore was identified by local subsidiary personnel. The request was communicated by today's CEO of the focal subsidiary in the course of a job interview with the owners of Company B in 2010. Even though HQ management had envisioned the opening of an office in Asia prior to the interview it is generally believed that the applicant's proposition represented the actual process trigger. The locus of opportunity-identification and initiative-taking was therefore set at the focal subsidiary. The initiative was triggered by the HQ replacement needs of Company B for an area sales manager covering markets in East Asia, Australia and New Zealand from the headquarter premises in Central Europe. The vacant position led to the application of today's CEO of the focal subsidiary, who proposed the opening of a local sales office in Singapore as opposed to following the former centralized market approach.

The subsidiary initiative in the form of the applicant's proposition was strongly facilitated by the past working experience of today's CEO. Due to his market knowledge and contacts in the region he perceived a decentralized exploitation approach as beneficial. His experience also helped him to quickly estimate cost advantages of the proposed subsidiary opening. Finally, strong regional growth in most Asian markets strongly supported his initiative.

Rent-seeking and responsibility-allocation

The exchange between HQ and subsidiary about the extended market responsibility of the subsidiary in Singapore took place in the course of a job interview that was set up in order to replace one employee at the parent company. Initially, the aim was therefore not to evaluate the possibility of a new office in Asia. Looking at the quick decision by the owners of Company B, the rent-seeking process must be viewed as relatively informal and straightforward. No business case calculations or any other number-based argumentation were needed. The decision was rather the result of a positive gut-feeling than of a thorough weighing of the advantages and disadvantages of both approaches.

Company B set up its first overseas sales subsidiary at the turn of the millennium. Very quickly headquarters management identified the suitability of local personnel in order to reach out into attractive neighboring markets. Local management therefore received official mandate for developing markets outside its original host market shortly after its inauguration. When company B's second foreign subsidiary was opened around the mid-2000s it was immediately granted an extended geographical responsibility. At the time of the opening of the focal subsidiary in Singapore in 2010 HQ management was therefore already familiar with extended geographical subsidiary mandates and had experienced predominately good results with the approach. A certain level of organizational maturity with regards to delegating market responsibility to foreign sub-units had therefore already been established at Company B when the opening of the focal subsidiary was decided.

After years of strong growth, equipment markets in North America and Europe significantly declined from 2008 onwards and for most areas did not recover until 2010. As a result, Company B was forced to slow down production and actually introduce short-term work at corporate headquarters in mid-2009. Markets in East Asia constituted an exception at that time, experiencing ongoing market growth and being relatively immune from the global financial crisis. Many European and North American OEMs thus intensified their activities in the Asian region in order to compensate for reduced demand in their home markets. The management of Company B also viewed this approach as beneficial in order to get off lightly through the crisis and to reduce excessive dependency on traditional markets.

While a geographical sales focus was set for the future it was not clear to HQ management how to maximize participation in emerging Asian markets. The existing approach with an HQ-based area sales manager had proved both its strengths and limitations. Even though the geographical distance limited the company from fully participating in most Asian markets it was able to obtain a decent market understanding and first customer contacts through the centralized approach. In markets with similar cultural backgrounds like Australia the company actually managed to turn into the dominant market participant. In order to fully participate in the growth momentum in other Asian markets, however, HQ management was aware of the necessity to get closer to its customers. In addition to geographical proximity the aspect of cultural proximity, including language, also played a significant role. Strong growth rates in Asia, simultaneously declining traditional markets and limitations with the existing market approach resulted in a high level of openness when confronted with the proposition to open a new subsidiary in Singapore. In addition, the sub-critical size of Singapore and past experience and existing contacts of today's CEO beyond the host market further facilitated the HQ approval.

4.5.1.2. Mandate evolution

Mandate development

Due to the relatively recent mandate gain the geographical and functional scope of subsidiary responsibilities beyond host markets has not been altered yet.

Mandate outlook

Looking ahead and assuming stable market conditions, the possibility to install local sales teams in neighboring Asian markets where demand justifies added resources is considered at HQ and subsidiary level. Whether a newly developed sales team would report to the focal subsidiary or directly to the HQ strongly depends on customer priorities and process efficiencies. If a new foreign subsidiary was to be set up in the region it would most likely report to the parent company, resulting in at least a partial loss of market responsibility for the focal subsidiary. The main rationale for a potential loss of geographical responsibility is an excessive size of neighboring markets that would suggest the opening of a new sub-unit in the region. At present, all foreign subsidiaries directly report to the parent company so that it is not expected that in this case corporate management would deviate from this norm. The mandate of the focal subsidiary is therefore seen as a temporary construct with the aim of obtaining initial market experience and getting a foothold in attractive markets. Transforming the focal subsidiary into a regional headquarters and thus providing it with management responsibility for other foreign sub-units in the region is not envisioned by HQ management. The main reason for the reluctance towards sub-subsidiary constructs is excessive risk. Corporate management including company owners prefer to have a direct link to its affiliated foreign subsidiaries.

4.5.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Case #3 will be illustrated: (1) critical incident chart as shown in Figure 4-5; (2) event-state network as shown in Figure 4-6; (3) case dynamics matrix as shown in Table 4-11.

Figure 4-5: Critical incident chart for Case #3

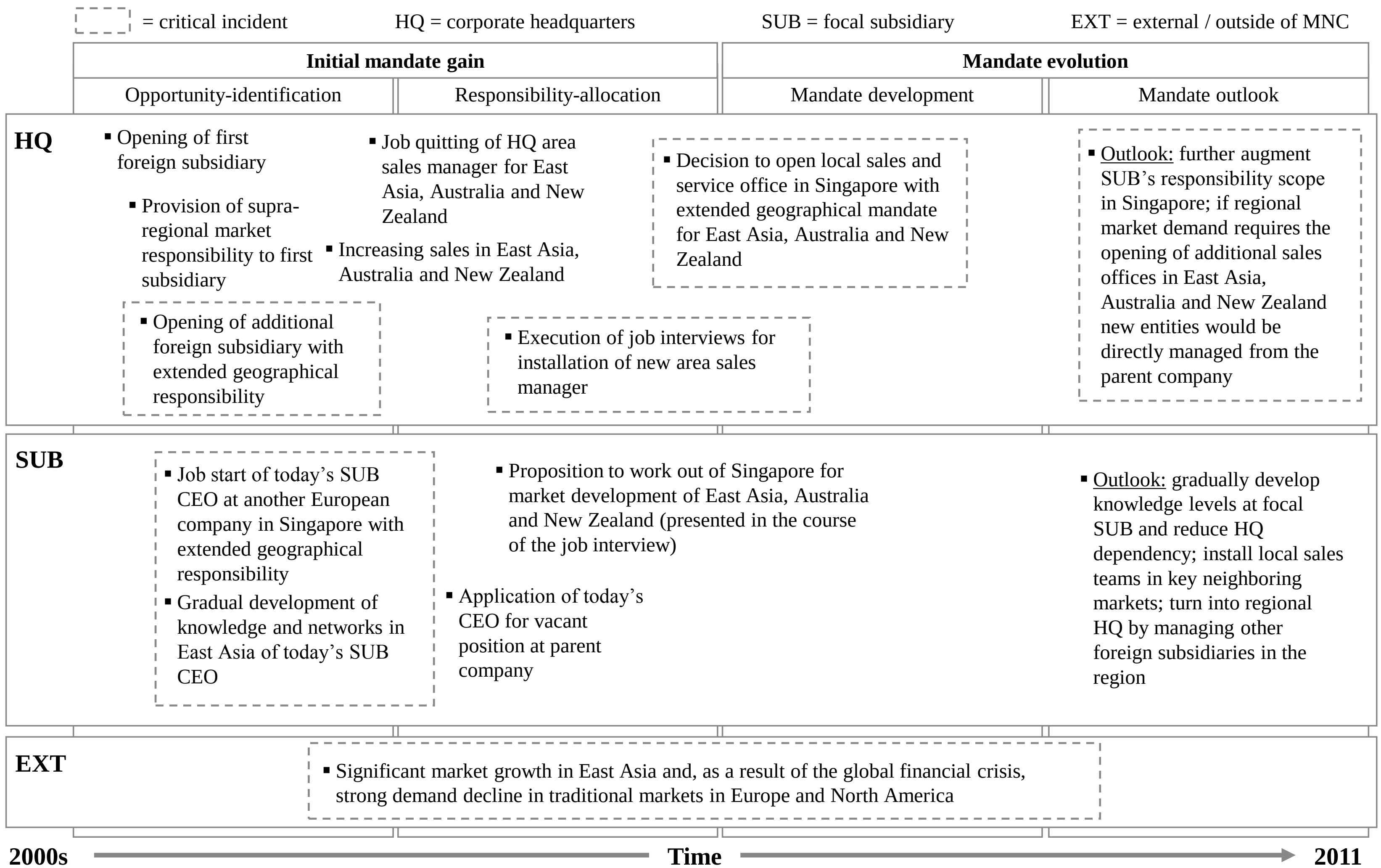


Figure 4-6: Event-state network for Case #3

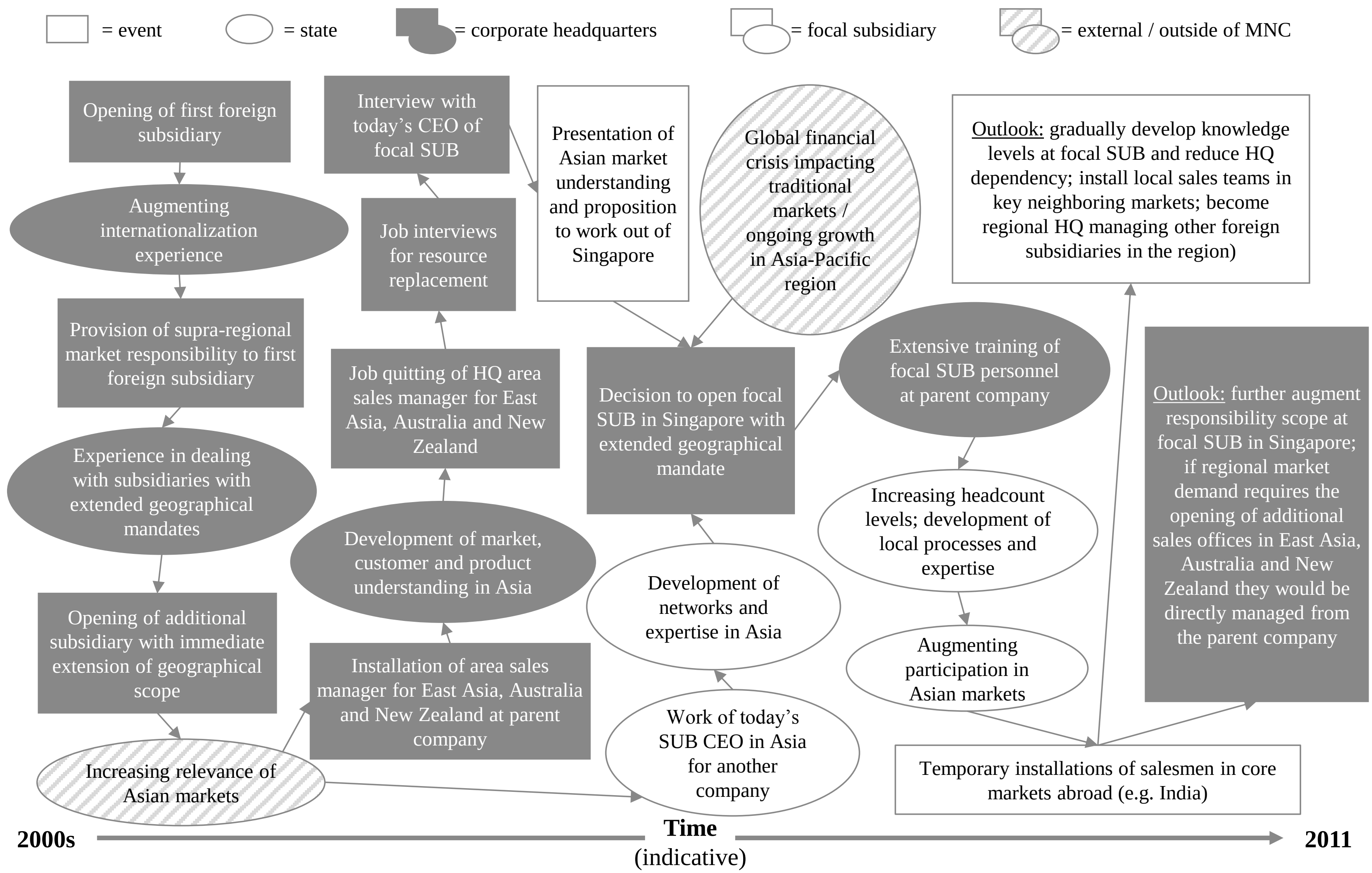


Table 4-11: Case dynamics matrix for Case #3

Critical incidents (locus / period)		**Initial mandate gain**					**Mandate evolution**
		Opportunity-identification			Responsibility-allocation		Mandate outlook
		Opening of foreign subsidiaries with extended GEO scope (HQ / 2000s)	Work of future SUB CEO in Asia (SUB / 2000s)	Market growth in Asia and decline in USA and Europe (EXT / 2000s)	Application / interview with future SUB CEO → proposition to open local sales office (HQ / 2010s)	Set-up local sales office in Singapore with ext. GEO scope (HQ / 2010s)	Plan to set up office(s) in Asian directly reporting to the HQ (HQ / 2010s)
HQ	**Incident Trigger**	▪ Unknown	▪ n/a	▪ n/a	▪ Job application of future SUB CEO	▪ Applicant's proposition ▪ Regional growth	▪ n/a
	Incident Cause / Rationale	▪ Unknown	▪ n/a	▪ n/a	▪ HR replacement needs at corporate HQ	▪ Existing knowledge / networks of applicant ▪ Regional growth and geographical distance ▪ Cost advantages	▪ Relevance / excessive market size of neighboring markets ▪ Further shift of global demand
	Incident Effect	▪ Increasing organizational maturity (internationalization and subsidiary management)	▪ n/a	▪ Awareness of Asia potential ▪ Need to search for new revenues sources	▪ Need to assess possibility to set up local sales office versus managing it centrally from HQ	▪ Increased internationalization ▪ Reduced HQ control	▪ Regained direct market access ▪ Reduced uncertainty and risk level
SUB	**Incident Trigger**	▪ n/a	▪ Unknown	▪ n/a	▪ HR replacement at corporate HQ ▪ Application for vacant position	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ Unknown	▪ n/a	▪ Leverage existing knowledge / networks ▪ Remain stationed in Singapore	▪ n/a	▪ n/a
	Incident Effect	▪ n/a	▪ Development of Asian market knowledge and networks as well as willingness to work locally in Asia of future focal SUB CEO	▪ Increasing market knowledge and networks of future focal SUB CEO in Asia	▪ n/a	▪ Opportunity to develop white spots with strong market potential ▪ Turn into important SUB at Company B	▪ Need to demonstrate capabilities for regional HQ role; otherwise (partial) loss of market responsibility in Asia

4.6. Case #4: The internationalization process of an Austrian subsidiary into Eastern Europe

4.6.1. Case description

Case #4 refers to the internationalization process of the Austrian subsidiary of a Central European manufacturing company (Case Company C) into Eastern Europe. The functional scope of the requested and eventually received foreign market mandate was thereby initially limited to cross-border key account management for a single Austrian client. Since the initial mandate gain the scope of foreign market responsibilities of the focal subsidiary has already been extended twice, both functionally and geographically into Eastern Europe. If Company C decides to established local presence in any of the three Eastern European markets currently covered by the subsidiary mandate, local management is likely to experience a reduction of the geographical scope. Key characteristics for Case #4 are summarized in Table 4-12 below.

Table 4-12: Key characteristics of Case #4

Parent company location	**Initial mandate gain (year)**
Central Europe	International key account management for single Austrian client (2000)
Focal subsidiary location	**Mandate development (year)**
Austria	▪ International key account management for all Austrian clients (2001) ▪ Sales and service responsibility for three Eastern European markets (2008)
Mandate coverage	**Mandate outlook (year)**
Eastern Europe	Reduction of geographical scope (2011)

Case Company C is a Central European original equipment manufacturer (OEM) in the manufacturing industry delivering its end-products to customers worldwide. It is organizationally split into two different business divisions units with significantly varying prices per unit. Company C has always been family-owned, a characteristic that has significantly influenced its corporate philosophy in the past. As a result of its ownership status the company possesses a relatively ethnocentric management style where major decisions are predominately taken in the corporate HQ. Nonetheless the company has realized the need to participate in growth outside its home market and identified the benefits of using local resources in its foreign subsidiaries for this goal. The main internationalization process of the firm started in the 1980s with the expansion into nearby markets in Europe. Towards the end of the 20th century the company also started to tap into markets outside of Europe. The focus here was set on Asia. Sales are carried out directly or via specialized dealers and sales partners, based on market requirements and local company presence. An overview of Case Company C is provided by Table 4-13 below.

Table 4-13: Firm profile of Case Company C (cases #4 and #5)

Firm profile (as of 2010)	
Type	Original equipment manufacturer (OEM)
Ownership status	Publicly-listed
Sales	€0.5–2.0 bn
N° of foreign subsidiaries	15–30
Existence of regional headquarters	Yes
Expansion / internationalization start	1980s

With regards to managing foreign subsidiaries the company initially allocated exclusive host market responsibility to local management. In certain cases customer contact and thus sales responsibility for a specific market was actually maintained by the parent company despite the availability of local sales managers. With increasing internationalization and complexity of its operations, corporate management realized the need to allow management of foreign subsidiaries to take responsibility beyond their original host markets.

The focal subsidiary in Austria represents one of the oldest foreign sub-units of Company C and was founded in the early 1990s. It is a sales and service subsidiary without any production or assembly facilities. In the course of its existence however, the focal subsidiary has developed a certain level of sales engineering that differentiates itself from other pure sales and service subsidiaries. Initially, the focal subsidiary focused on increasing the overall machine park and improving sales and after-sales services. The geographical scope was limited to Austria. By the beginning of the 21st century sufficient machine population was developed to allow the focal subsidiary to be profitable and to act relatively autonomously from corporate management. With the internationalization of Austrian companies the geographical scope of the focal subsidiary was also extended. Today, the focal subsidiary is one of the major revenue and profit contributors of Company C, conducting global key account management (KAM) for all Austrian customers. In addition, it obtained full geographical sales and after-sales responsibility for three Eastern European markets. A closer look at the subsidiary characteristics can be obtained from Table 4-14 below.

Table 4-14: Subsidiary profile of Case #4

Subsidiary profile (as of 2010)	
Date of inauguration	Early 1990s
Company belonging:	Early 1990s (through greenfield approach)
Location / host market	Austria
Value-add	Sales engineering, sales and after-sales
Responsibility for other markets	Yes (several Eastern European markets)
Responsibility for foreign sub-units	No (only for a small servicing location)

Looking ahead, the focal subsidiary is expected to maintain its mandate for managing Austrian clients on a global scale. With regards to being responsible for a set of Eastern European markets, however, HQ management might experience a mandate decline in the future. This is largely due to lacking local production facilities. The long-term vision of local management to become the group's regional HQ for Eastern Europe is not shared by personnel in the parent company.

4.6.1.1. Initial mandate gain

<u>Opportunity-identification and initiative-taking</u>

The opportunity to manage one particular customer outside the home market was identified by the focal subsidiary in Austria. As the initiative-taking of the focal subsidiary was mainly triggered by a customer complaint, the presence of external conditions needs to be taken into consideration in this context. The locus of opportunity-identification and initiative-taking was at the focal subsidiary and thus at the business frontline. With the opening of Eastern European economies at the beginning of the 1990s Austrian companies increasingly participated in regions outside their home market. Despite extending the geographical scope into Eastern Europe, major decisions of these companies continued to be taken in their corporate headquarters in Austria. In addition, mostly Austrian expatriates were installed as country managers for these new markets. Market development in Eastern European was therefore large influenced by Austrian personnel that favored exchanging business matters with people of a similar background.

By the time of the customer complaint around 2000, the focal subsidiary had built up well-functioning customer service in Austria providing local management with an excellent standing among top management of its customers. As a result of these externally proven resources most customers actually aimed to involve the focal subsidiary in their internationalization process from the start. Confronted with the customer complaint and knowing the customer preferences, the CEO of the focal subsidiary proposed corporate management to manage the single client on a global scale. While apparent process inefficiencies need to be stated at the core initiative trigger, regional market growth as well as subsidiary networks reaching beyond the original host market can be viewed as facilitating conditions. Due to its ability to satisfy customers in its home market, local management had already built up a reputation that served beyond Austrian borders.

Rent-seeking and responsibility-allocation

The rent-seeking process in 2000 turned out to be relatively informal. Once the customer had approached the management of the focal subsidiary the idea of managing Austrian customers beyond the host market was exchanged with the corporate management. Afterwards an additional conversation between the particular customer and HQ management took place. Both exchanges did not involve any trials or large business case calculations and the subsidiary proposition was quickly approved. The main reasons for providing the focal subsidiary with extended market responsibility were a combination of external preferences and externally as well as internally proven resources of local management. As the customer explicitly requested to be managed globally by the focal subsidiary and as local management had a history of delivering what it had promised, the outcome of the subsidiary request was predictable. Moreover, country-specific advantages in terms of geographical proximity and cultural understanding can be viewed as facilitating conditions that helped to obtain HQ buy-in. When assessing the subsidiary request HQ management had to realize that its network position for this particular client was less distinct than of its Austrian subsidiary and that the latter was in a better position to satisfy the expressed customer needs. In addition, the parent company was keen on participating in the growth momentum in Eastern Europe that was strongly driven by Austrian clients.

4.6.1.2. Mandate evolution

Mandate development

In 2001, shortly after receiving global responsibility for one particular Austrian customer, the mandate scope was extended to all Austrian clients. From this point onwards the focal subsidiary was responsible for the global key account management of all Austrian clients. More recently, in 2008, the subsidiary mandate was further extended in that local management obtained sales and service responsibility for three markets in Eastern Europe. Independent of customer origin the focal subsidiary is exclusively assigned to grow company presence in these new markets. Other than the initial mandate gain the following responsibility extensions were exclusively initiated by corporate management and thus did not involve any initiative-taking or rent-seeking behavior by the focal subsidiary. While the first mandate extension was triggered by apparent process inefficiencies of dealing with Austrian clients from the parent company, no particular trigger is known for extending the subsidiary mandate into three Eastern European markets. In both cases, however, cross-border knowledge and networks of local management as well as proven resources are viewed as major facilitating conditions throughout the initiative-taking process. Providing the focal subsidiary with global sales and service mandate for all Austrian customers was the result of a well-functioning pilot case with the initial client as well as increasing HQ perception that a decentralized approach was better suited to satisfying the rather particular needs of Austrian customers. Existing process inefficiencies in combination with proven subsidiary resources in Austria can be viewed as the reason for the extended subsidiary mandate.

In contrast to the relatively straightforward first case of mandate alteration, corporate management had at least three options for intensified market development in Eastern Europe independent of customer origin. Other than relying on the focal subsidiary it could have taken the traditional centralized approach through sales personnel from the parent company or could have used other subsidiaries in the region. Distinct knowledge and network position of the focal subsidiary determined HQ management to rely on local resources in Austria. As a result of its legitimized border-crossing into Eastern European markets with the presence of Austrian customers, the focal subsidiary had built up specific market knowledge and contacts in the region that differentiated it from other units in the group including the parent company. Proven resources expressed by pronounced customer satisfaction levels further supported HQ management in the desired approach.

Mandate outlook

Looking ahead and independent of regional market development the focal subsidiary is expected to maintain its global mandate for Austrian clients. This is due to distinct capabilities of the focal subsidiary that will not be substituted by any personnel in the parent company or other sister companies in the near future. In addition, results are up to this point highly satisfying, so a deviation from the defined approach is not expected. With regard to managing other subsidiaries and thus turning into a regional HQ for Eastern Europe, the focal subsidiary is facing a rather unpromising outlook. Despite the opening of new subsidiaries in Eastern Europe over recent years the focal subsidiary has not yet obtained responsibility for managing other sub-units in the region. This phenomenon is not expected to change in the future as the focal subsidiary does not possess local production facilities. Due to the project nature of Company C’s business with relatively high unit prices, customers prefer to have a direct link to the involved production entity. Customers do not differ between the parent company and producing sub-units in the home market or abroad. Any introduction of sub-structures would lead to inefficient process flows and would potentially alienate customers.

In general, corporate management believes that responsibility for managing other sub-units of Company C can only be obtained if the focal subsidiary possesses local production or assembly facilities. Sufficient value-add can therefore be seen as a precondition for reaching a next level of global responsibility. As management at the parent company does not envision the establishment of local production or assembly facilities in Austria, the chances of turning into a regional HQ are therefore drifting towards zero. In addition, the focal subsidiary would lose geographical responsibility if one of its supervised Eastern European markets reaches a critical market size that initiates HQ management to open a new subsidiary.

4.6.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Case #4 will be illustrated: (1) critical incident chart as shown in Figure 4-7; (2) event-state network as shown in Figure 4-8; (3) case dynamics matrix as shown in Table 4-15.

Figure 4-7: Critical incident chart for Case #4

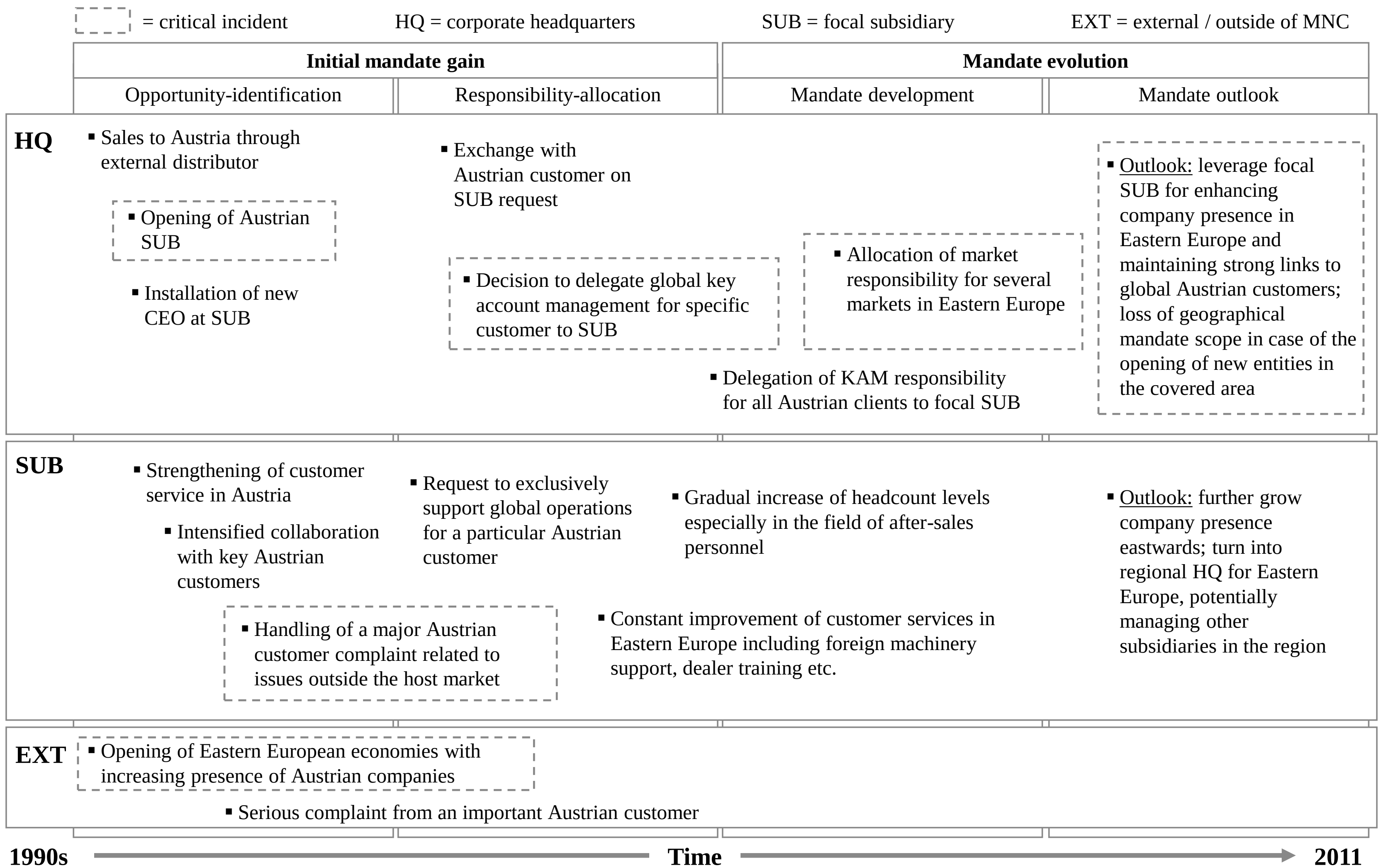


Figure 4-8: Event-state network for Case #4

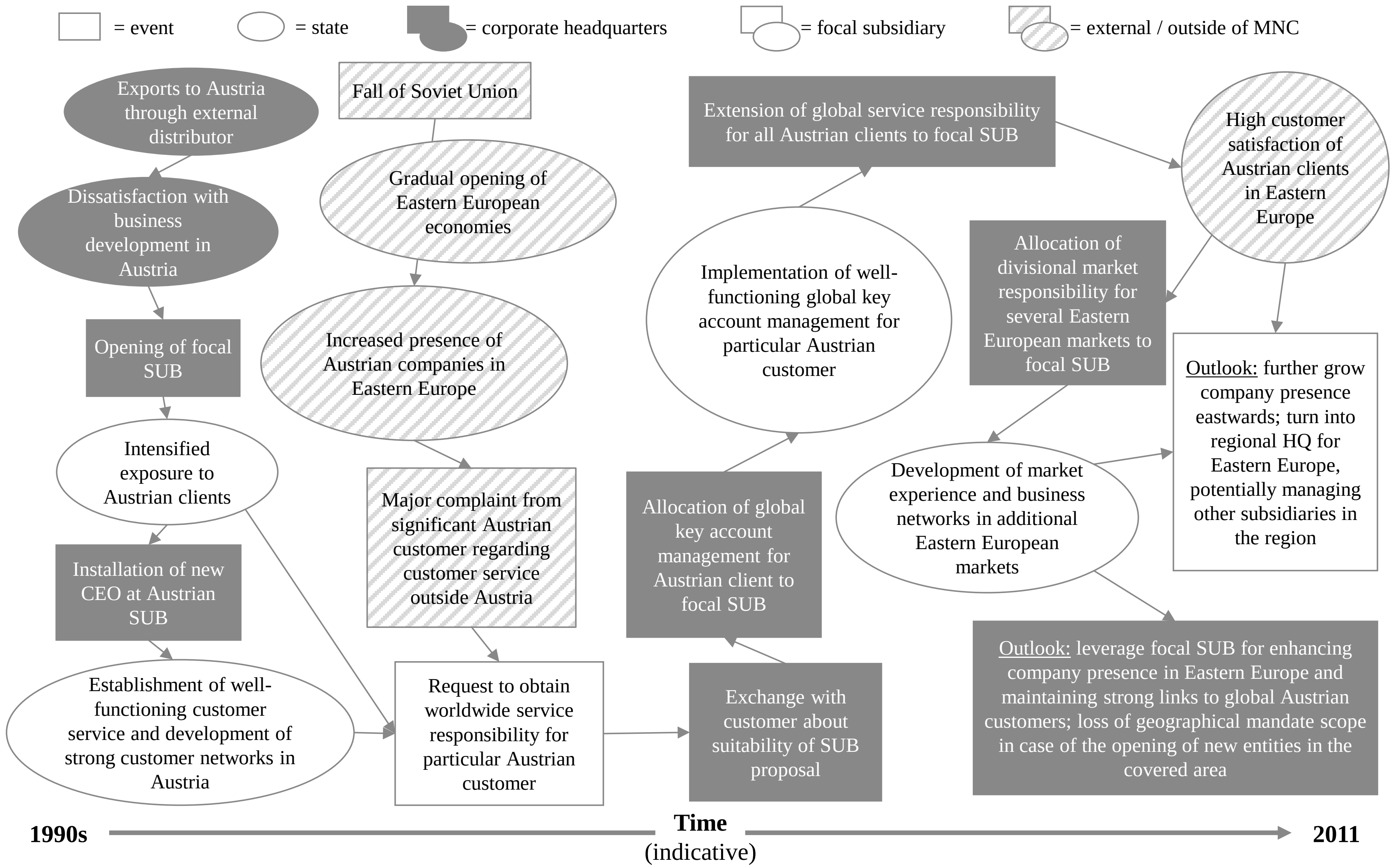


Table 4-15: Case dynamics matrix for Case #4

		Initial mandate gain				Mandate evolution		
Critical incidents (locus / period)		Opportunity-identification			Responsibility-allocation	Mandate development		Mandate outlook
		Opening of Eastern European economies (EXT / 1990s)	Focal subsidiary founded (HQ / 1990s)	Service complaint of major Austrian customer (EXT / 2000s)	Global key account management for Austrian client for focal SUB (HQ / 2000s)	Global KAM for all Austrian clients to focal SUB (HQ / 2000s)	Geographical responsibility for three Eastern European markets to focal SUB (HQ / 2000)	Unaltered or potentially reduced subsidiary mandate (HQ / Plan)
HQ	**Incident Trigger**	▪ n/a	▪ Unknown	▪ n/a	▪ SUB request	▪ n/a	▪ Unknown	▪ Set-up of additional subsidiaries in Eastern Europe
	Incident Cause / Rationale	▪ n/a	▪ Increase local market exploitation ▪ Improve customer service	▪ n/a	▪ Explicit customer wish ▪ Geographical and cultural proximity ▪ Trust in SUB capability ▪ Eastern European market growth	▪ Successful case example with initial Austrian client ▪ Proven SUB resources	▪ Existing presence and proven resources of focal SUB in the region ▪ Geographical proximity of focal SUB	▪ Maintain direct link to clients → avoid process inefficiencies ▪ Maintain HQ control
	Incident Effect	▪ Aim to exploit new market potential ▪ Need for service offerings in Eastern Europe	▪ Increased geographical and cultural proximity to Austrian customers	▪ Need to change existing approach → questioning of traditional customer management approaches	▪ Deviation from traditional subsidiary management approach ▪ Increased relevance of SUB ▪ Reduced HQ control	▪ Less HQ control and augmented risk ▪ Increased SUB recognition	▪ Reduced direct market access and increased SUB dependency ▪ Augmented risk level	▪ Preservation of status quo or increased control
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ Customer request	▪ n/a	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ Enlarge SUB mandate to increase customer satisfaction	▪ n/a	▪ n/a	▪ n/a
	Incident Effect	▪ n/a	▪ Development of market knowledge and customer networks that gradually stretched beyond Austria	▪ Opportunity to demonstrate local capabilities ▪ Proposition to manage customer on a global scale	▪ Increased visibility at HQ management ▪ Further and official development of knowledge and networks outside host market	▪ Further reach beyond host market ▪ Enhanced positioning within MNC	▪ Enhanced SUB mandate ▪ Opportunity to demonstrate market development capabilities outside Austria	▪ Limited future perspectives and potential loss of responsibility

4.7. Case #5: The internationalization process of a Chinese subsidiary into Asia-Pacific

4.7.1. Case description

Case #5 refers to the internationalization process of the Chinese subsidiary of a Central European manufacturing company (Case Company C) into the Asia-Pacific region. The functional scope of the foreign market mandate was thereby initially limited to cross-border sales and service responsibilities. Since then, the focal subsidiary has also received responsibility for managing other MNC units in the region and has thus turned into a regional HQ of Company C. Moreover, the mandate is expected to further expand in the future. Key characteristics for Case #5 are summarized in Table 4-16 below.

Table 4-16: Key characteristics of Case #5

Parent company location	**Initial mandate gain (year)**
Central Europe	Sales and service responsibility (2005)
Focal subsidiary location	**Mandate development (year)**
China	Regional HQ for Asia-Pacific (2010)
Mandate coverage	**Mandate outlook (year)**
Asia-Pacific	Extended functional scope (2011)

The Chinese subsidiary represents an affiliated unit of Case Company C that was described in detail for Case #4 (Table 4-13). The subsidiary was established as a small-scale representative office at the turn of the millennium. The main driver for the opening of a local sales office was the extraordinary Chinese market growth that most Western OEMs tried to participate in. In addition, government regulations at that time facilitated sales of Western high-tech equipment, resulting in a highly attractive business environment for Company C. Favorable regulative conditions, however, changed in the following years and corporate management realized the necessity to produce locally in order to further exploit the vast market potential in China. Local production facilities were set up where final assembly for the Asia-Pacific region is carried out to this day. At the same time the mandate of the Chinese subsidiary was extended to the Asia-Pacific region. Since its inauguration, subsidiary headcount has increased more than twenty-fold, turning the sub-unit into one of the largest of Company C. Key subsidiary facts are outlined in Table 4-17 below.

Table 4-17: Subsidiary profile of case #5

Subsidiary profile (as of 2010)	
Date of inauguration	Early 2000s
Company belonging	Early 2000s (through greenfield approach)
Location / host market	China
Value-add	R&D, sourcing, production sales and after-sales
Responsibility for other markets	Yes (Asia-Pacific region)
Responsibility for foreign sub-units	Yes

Since 2010 it is also responsible for another sub-unit in the Asia-Pacific region, thus truly turning into a regional headquarters of Company C. HQ influence remained high through the entire process and has not been significantly reduced to this day. Looking ahead, the focal subsidiary is expected to obtain responsibility for another sub-unit in the Asia-Pacific region and to develop into a major purchasing platform of Company C.

4.7.1.1. Initial mandate gain

Opportunity-identification and initiative-taking

The opportunity for expanding the territorial scope of the focal subsidiary in China into markets in the Asia-Pacific region was exclusively identified by personnel in the corporate HQ. The locus of opportunity-identification and initiative-taking was at the parent company and thus not at the business frontline in Asia. The initiative trigger for extending the geographical scope of the focal subsidiary was the opening of local production facilities in China in 2005. At that time the host market China was not perceived to possess sufficient demand due to its political instability so that an extended geographical mandate was aimed to mitigate sub-critical market sizes.

Rent-seeking and responsibility-allocation

As mentioned above, the mandate allocation followed HQ considerations only. The main reason for extending the geographical responsibility from China into all of Asia-Pacific was the significant increase in value-add through local production facilities. The huge investment in a far-distant region confronted HQ management as well as company owners with risk levels that strongly exceeded internationalization steps of the past. As a result, decision-makers urged for decisions and actions that would reduce uncertainty levels to an acceptable level. Increasing the subsidiary scope into other markets was thereby seen as an appropriate means to secure utilization levels of the production plant. The overall relevance of risk and uncertainty elements was further highlighted by the installation of an HQ manager as chairman of the focal subsidiary.

At the same time, corporate management was aware of the strong market growth in the Asia-Pacific region and the similar regional customer requirements with regards to product quality and purchasing price. If the focal subsidiary was therefore to deliver products into neighboring markets it should also be responsible for managing the entire customer relationship throughout the product lifecycle, including after-sales services as well as spare parts delivery. In summary, the main HQ rationales for an extended subsidiary mandate were sub-critical host market size as well as strong market growth and similar product requirements in the overall region.

4.7.1.2. Mandate evolution

Mandate development

Following the initial mandate gain in 2005, activities of the focal subsidiary did not alter much. Local management continued to focus on the Chinese market and did not proactively seek opportunities in neighboring regions. Tapping into new regions in Asia-Pacific was further carried out by an employee from the parent company who simultaneously served as a chairman of the focal subsidiary. Despite limited local efforts to grow company presence outside of China the subsidiary mandate was further extended in 2010, when local management was granted responsibility for another sales subsidiary in the Asia-Pacific region. Precondition for a positive mandate evolution was the HQ decision at the end of the 2000s to open another foreign sub-unit in Southeast Asia. The initiative was triggered by the request of an external distributor, who suggested the opening and managing of another small regional office. Personnel from the focal subsidiary in China, however, were excluded from the entire initiative-taking and decision-making process at the parent company.

HQ personnel also managed the opening of the new Asian subsidiary together with the external distributor. At this stage it was widely believed that the focal subsidiary's task to get production in China running was challenging enough for local management. In addition, HQ management was not certain about the suitability of local personnel in China for establishing and later managing the new Asian sub-unit. This perception radically changed with the installation of an experienced expatriate as a new CEO of the Chinese subsidiary. This new CEO possessed a very good reputation within HQ management, providing them with sufficient certainty levels in order to decentralize the entire management of a foreign sub-unit. The initiative trigger was therefore the human resources change at the focal subsidiary.

The HQ's reasoning for turning the focal subsidiary into the regional HQ for Asia-Pacific in 2010 and thus providing it with responsibility for another sub-unit was manifold. In addition to the presence of an expatriate, local production facilities and regional product requirements need to be viewed as reasons for an extended subsidiary mandate. As the newly formed subsidiary would – due to regional product similarities – be exclusively supplied with products from the focal subsidiary it should also report to the relevant producing entity. The presence of cross-disciplinary HQ functions at the focal subsidiary (financing, accounting, supply chain etc.) further supported the HQ's opinion.

Mandate outlook

Looking ahead and assuming strong and relatively stable growth rates for Asian markets the mandate of the focal subsidiary is expected to be further extended in the future. In addition to receiving responsibility for one or potentially several additional subsidiaries in the region, the focal subsidiary is also expected to turn into one of the core purchasing platforms of Company C. HQ involvement is however not expected to decline in the future. This holds especially true when looking at the future plans for the subsidiary. While it is expected to receive responsibility for another sub-unit in the region, initial subsidiary management will again be executed by an HQ representative. Only when external uncertainty levels with regards to market dynamics are overcome is responsibility delegation to the Chinese subsidiary likely to take place. In addition, unsatisfying results in the Chinese home market might actually prevent local management from obtaining enhanced responsibility scopes.

In addition to outwards internationalization, corporate management also aims to utilize the Chinese subsidiary for obtaining improved sourcing conditions. With the allocation of global sourcing responsibility to Chinese management the role of the focal subsidiary will further increase. From its current role as a regional headquarters it is thus expected to turn into one of the most important stakeholders with regards to internal material flows. The main reason for further geographical mandate extension is continued market growth in neighboring countries while the HQ motivation for turning the focal subsidiary into the group's sourcing platform are local cost advantages. Preconditions for mandate extension are in both dimensions the presence of HQ functions and sufficient levels of local value-add.

4.7.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Case #5 will be illustrated: (1) critical incident chart as shown in Figure 4-9; (2) event-state network as shown in Figure 4-10; (3) case dynamics matrix as shown in Table 4-18.

Figure 4-9: Critical incident chart for Case #5

= critical incident | HQ = corporate headquarters | SUB = focal subsidiary | EXT = external / outside of MNC

	Initial mandate gain		**Mandate evolution**	
	Opportunity-identification	Responsibility-allocation	Mandate development	Mandate outlook
HQ	▪ Periodic exports to China and East and Southeast Asia (Asia–Pacific) ▪ Opening of SUB as small-scale representative office in China	▪ Allocation of market responsibility for Asia-Pacific region to SUB ▪ Shift of SUB location and establishment of local production facilities in China ▪ Continued development of Asian markets outside China through HQ personnel	▪ Installation of expatriate as CEO of SUB ▪ Granting responsibility for additional subsidiary to focal SUB ▪ Opening of additional subsidiary in Asia-Pacific region	▪ Outlook: Grant responsibility for additional subsidiary to Chinese SUB and turn it into global purchasing platform ▪ Opening of additional subsidiary in the Asia-Pacific region initially managed from corporate headquarters
SUB	▪ Strong sales with relatively attractive margins in host market China	▪ Continued sales focus on host market in China	▪ Achieving significant production throughput in China	▪ Outlook: Extend current product portfolio to increase market exploitation in China
EXT	▪ Strong market growth in Asia-Pacific region, particularly China ▪ New Chinese regulations favoring Western high-tech imports	▪ New Chinese regulations harming Western high-tech imports ▪ Market exit or local production set-up by Western OEMs	▪ Request by regional dealer to open and manage a new subsidiary in the Asia-Pacific region ▪ Global financial crisis particularly impacting traditional triad markets / ongoing growth in Asia	▪ Increasing local and global presence and market relevance of low-cost OEMs from China

1990s → **Time** → **2011**

Figure 4-10: Event-state network for Case #5

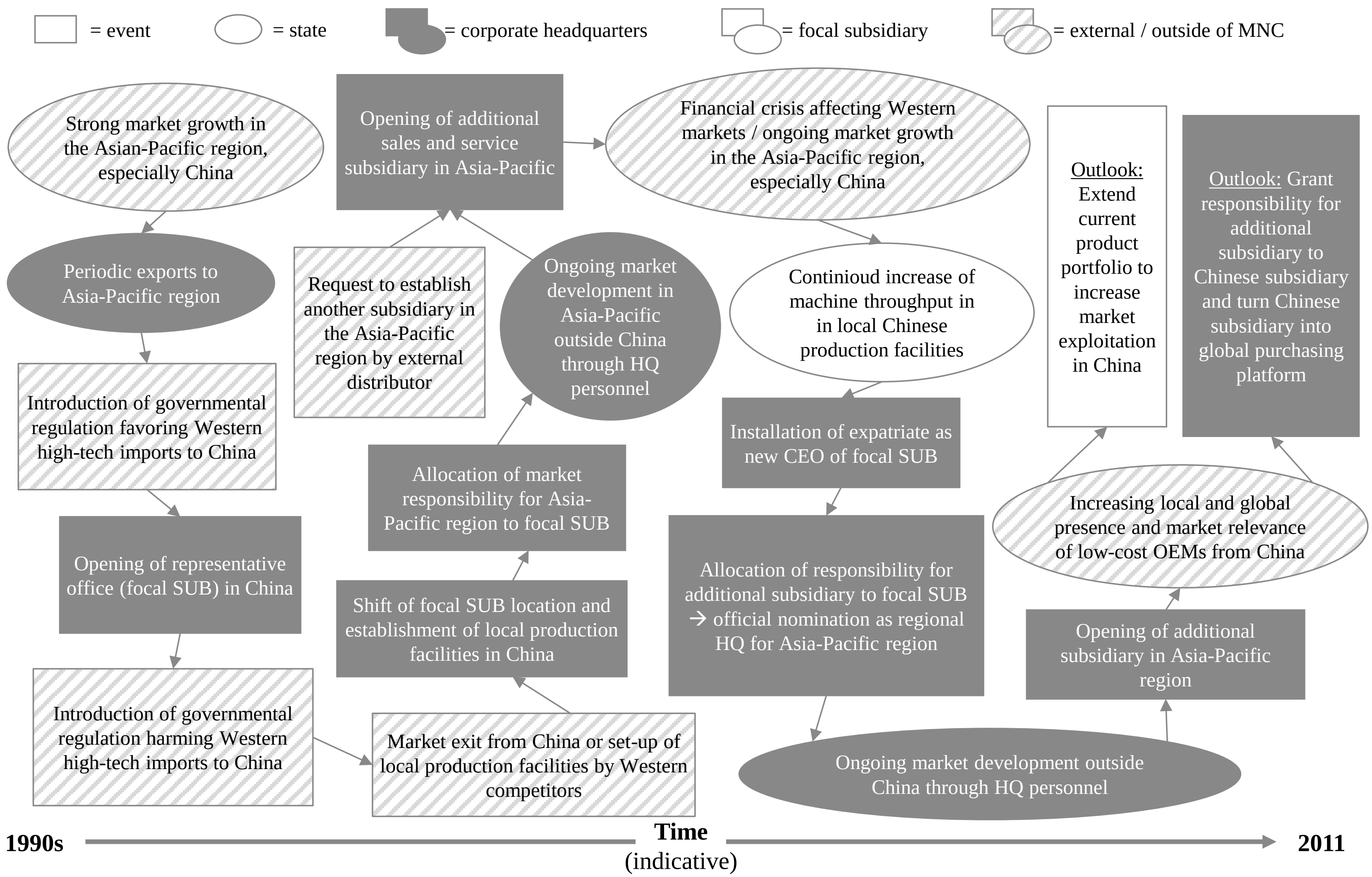


Table 4-18: Case dynamics matrix for Case #5

Critical incidents (locus / period)		**Initial mandate gain**			**Mandate evolution**		
		Opportunity-identification		Responsibility-allocation	Mandate development		Mandate outlook
		Opening of small-scale focal SUB office in China (HQ / 2000s)	Establishment of local production facilities at focal SUB (HQ / 2000s)	Allocation of extended geographical responsibility to focal SUB (HQ / 2000s)	Opening of additional SUB in East Asia managed by HQ personnel (HQ / 2000s)	Allocation of subsidiary responsibility to focal SUB (HQ / 2010s)	Further grow focal SUB mandate with regard to regional HQ and group purchasing platform (HQ / Plan)
HQ	**Incident Trigger**	▪ Strong Chinese market growth ▪ Attractive incentives for Western high-tech imports	▪ Altering regulations harming Western imports ▪ Moves of peer competitors	▪ Opening of local production facilities	▪ Request from external dealer	▪ Installation of experienced expatriate as CEO of focal SUB	▪ n/a
	Incident Cause / Rationale	▪ Benefit from attractive local conditions ▪ Extend revenue sources beyond traditional markets in Europe and North America	▪ Reduce production costs, avoid import taxes and achieve local competitiveness ▪ Participate in expected future market growth	▪ Secure plant utilization ▪ Leverage local production for similar regional product requirements and significant growth in the region ▪ Obtain buy-in of company owners for huge investment	▪ Strong regional growth ▪ Lacking trust in SUB capabilities ▪ Sufficient task for focal SUB to develop China	▪ Reduced internal uncertainty through reliance on proven and culturally similar resources	▪ Ongoing potential in Asia-Pacific region with similar product requirements ▪ Increasing global cost pressure due to predominately Chinese low-cost market entrants
	Incident Effect	▪ Exposure to a relatively high risk due to dependency on local government decisions	▪ Huge investment and thus strongly increased risk level ▪ New dimension of internationalization	▪ Intensification of HQ involvement at focal SUB ▪ Intensified efforts in Asia-Pacific region	▪ Continued limitation of focal SUB on Chinese market	▪ Set-up of regional HQ without excessive risk increase	▪ Increased (at least temporary) HQ involvement at focal SUB
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a
	Incident Effect	▪ Exposure to Chinese market → local network and knowledge development	▪ Augmented local value-add ▪ Increased relevance within MNC	▪ None immediately (ongoing focus on Chinese host market)	▪ Ongoing focus on host market and amelioration of production quality	▪ Increased relevance within MNC	▪ Development of additional HQ-like functions ▪ Further gain of relevance within the MNC

4.8. Case #6: The internationalization process of a Singaporean subsidiary into Southeast Asia

4.8.1. Case description

Case #6 refers to the internationalization process of the Singaporean subsidiary of a Central European manufacturing company (Case Company D) into Southeast Asia. The functional scope of cross-border activities that were ceded to the focal subsidiary from its inauguration was limited to cross-border sales and service responsibilities. While the functional scope of the mandate has remained unaltered to this day the geographical scope has been extended into Vietnam. Looking ahead, the mandate is expected to decline in the event of the establishment of additional subsidiaries in the region. Key characteristics for Case #6 are summarized in Table 4-19 below.

Table 4-19: Key characteristics of Case #6

Parent company location	**Initial mandate gain (year)**
Central Europe	Sales and service responsibility (1995)
Focal subsidiary location	**Mandate development (year)**
Singapore	Extension of geographical scope into Vietnam (2002)
Mandate coverage	**Mandate outlook (year)**
Southeast Asia	Reduction of geographical scope (2011)

Case Company D is a Central European original equipment manufacturer (OEM) delivering end-products into various industry segments on a global scale. It is organizationally split into different business divisions and the case in focus refers to one business division in the manufacturing industry. Company D has been a family-owned business since its foundation, a characteristic that has strongly impacted the company philosophy and management style to this day. The internationalization of Company D started in the 1950s with the setting up of sales and production facilities in various markets across Europe. In the 1970s Company D entered a new stage of internationalization by opening its first overseas offices. Since then a global network of home market and foreign subsidiaries with or without production facilities has been established. Sales are carried out directly or via specialized dealers and sales partners based on market requirements and local company presence. Further information about Company D is presented in Table 4-20 below.

Table 4-20: Firm profile of Case Company D

Firm profile (as of 2010)	
Type	Original equipment manufacturer (OEM)
Ownership status	Family-owned
Sales	> €2.0 bn
N° of foreign subsidiaries	> 30
Existence of regional headquarters	No
Expansion / internationalization start	1950s

With regards to the management of subsidiaries, Company D generally aims for a decentralized approach. While this certainly holds true for day-to-day operations, all major decisions are still taken in the corporate or divisional headquarters. In addition, the use of expatriates in foreign sub-units continues to serve as a valid instrument for overcoming uncertainty about external markets and/or internal competencies. The business division of this particular case slightly deviates from this norm. Divisional management has gradually shifted over time to a truly decentralized management style. This phenomenon is underlined by the advancement of local managers into leading positions abroad and declining relevance of temporary expatriates at the same time.

The sales subsidiary in Singapore was established in the 1990s with the initial aim of improving after-sales offerings for local and regional customers. Singapore was seen as an appropriate hub for reaching out to many Southeast Asian markets. Overall, the subsidiary in Singapore does not represent one of the most important sub-units when looking at pure sales volumes. Nonetheless, HQ management views its host market and neighboring markets as having a high strategic importance. Key subsidiary facts are outlined in Table 4-21 below.

Table 4-21: Subsidiary profile of Case #6

Subsidiary profile (as of 2010)	
Date of inauguration	1990s
Company belonging	1990s (through greenfield approach)
Location / host market	Singapore
Value-add	Sales and after-sales
Responsibility for other markets	Yes (Southeast Asia)
Responsibility for foreign sub-units	No

To this day, the mandate of the focal subsidiary is limited to sales and service functions for markets around Singapore and local management does not oversee other sub-units beyond its host market. While the subsidiary's initial geographical scope was limited to Thailand, Indonesia and Malaysia, the local management developed networks in Vietnam at a later stage. As the subsidiary is not expected to turn into a regional HQ or manage other subsidiaries in Southeast Asia at any point in the future, however, it might actually lose sales and service responsibility for some of its market. If ongoing regional growth suggests the opening of another subsidiary, local management would be exempted from the mandate for this particular market.

4.8.1.1. Initial mandate gain

Opportunity-identification and initiative-taking

The focal subsidiary received an extended geographical mandate for markets in Southeast Asia from the start, i.e. with its inauguration in 1995. The locus of opportunity-identification and initiative-taking was therefore set at the corporate headquarters of Company D. The initiative for opening a sales and service subsidiary in Singapore and providing it with extended geographical responsibility was predominantly triggered by external factors. While no explicit trigger other than the opening of the subsidiary was mentioned by either HQ or subsidiary management, strong regional growth can be viewed as the main facilitator in the process. Increased servicing need of numerous small customers in the region made corporate management aware of the necessity to be locally present and to develop adequate servicing solutions for the entire region.

Rent-seeking and responsibility-allocation

The decision to grant extended geographical responsibility for Southeast Asia to the focal subsidiary was made prior to its inauguration and the decision-making process thus did not involve any exchange between the focal subsidiary and HQ management. Strong regional market growth, sub-critical size of individual markets as well as geographical distance are considered to be the main reasons for allocating an extended territorial mandate for Southeast Asia to the focal subsidiary. Regional markets had experienced a strong growth momentum before corporate management decided to increase its regional commitment with the opening of a sales and service subsidiary in Singapore. At the same time the individual size of markets in Southeast Asia was insufficient to justify the establishment of a local presence. Providing a new office with extended market responsibility therefore served the purpose of achieving minimum levels of market volume. In addition, geographical distance to the home market was so pronounced that long-term satisfaction of regional customers could only be achieved through enhanced customer proximity. Finally, it was acknowledged at the corporate headquarters that local personnel at the focal subsidiary would be in a better position to understand regional business practices.

4.8.1.2. Mandate evolution

Mandate development

Since its inauguration in 1995 the focal subsidiary has managed to further grow company presence in Singapore and neighboring markets. In addition, it achieved initial exposure and machinery sales to customers in Vietnam in 2002. The focal subsidiary thus served as a means for Company D to enter a completely new market. While the focal subsidiary was responsible for several markets in the region from the very start, the opportunity to enter Vietnam was identified at a later stage. The locus of opportunity-identification was thereby at the focal subsidiary and thus at the business frontline to Vietnam. Following the collapse of the former communist economy in Vietnam at the turn of the millennium, increasing demand from this particular market was noticeable. Initially, the focal subsidiary was contacted by Vietnamese sales agents that were looking for high-tech equipment for specific projects. The initiative to exploit market potential in Vietnam was therefore triggered by external customers.

The process of obtaining allowance for the Vietnamese market did not involve any formal procedures. As the focal subsidiary already possessed responsibility for Southeast Asia, HQ management was only informed about new customers in Vietnam and about the first machinery delivery to this market. No official request or rent-seeking behavior from local management was therefore needed. The HQ rationale for granting extended market responsibility to the focal subsidiary was twofold, involving subsidiary- and country-specific elements. First, local subsidiary had demonstrated that it was capable of gaining market knowledge and developing networks across borders. Second, geographical and cultural proximity of the focal subsidiary to Vietnam was seen as a key argument for allowing Singapore to develop this new market.

Mandate outlook

The focal subsidiary is expected to further develop the company's presence in Vietnam and other markets in Southeast Asia. If at some stage one of these markets reaches a certain sales volume that would suggest the opening of a new local sub-unit, HQ management believes that the focal subsidiary would lose its mandate for this specific market. It is thus not expected to turn into a regional HQ for Southeast Asia, which would allow local management to look after other subsidiaries in the region. Since the first internationalization steps of Company D, subsidiaries always report to their corresponding corporate or divisional headquarters so that there is no reason for assuming a deviation from this approach. While this form of standardization is largely the result of risk-reducing efforts of corporate management, cost aspects also play a significant role. The setting up of a sub-subsidiary would imply a strong increase in fixed costs (additional computer and data systems, personnel training, increased auditing needs etc.). The potential benefits (reduced distances, tax benefits etc.) are not believed to offset the involved costs of such a construct.

In addition, local value-add of subsidiary plays an important role in this context. While sales and service subsidiaries are generally expected to maintain a very lean organizational structure with limited support functions, a foreign subsidiary with production or assembly facilities might already be equipped with certain functions that are essential for managing other sub-units. In combination with similar product needs in a region, the construct of sub-subsidiaries is then more likely to obtain HQ buy-in. Despite the existence of foreign producing entities, the approach of affiliating sub-units to foreign producing entities is generally not seen at Company D. It is believed that, with regards to subsidiary evolution, the aspect of risk is of particular importance. While as a result of proven local subsidiary resources, external market uncertainty and internal uncertainty about subsidiaries' capabilities might decline over time, the setting up of a sub-subsidiary might easily surpass the maximum risk level for a specific market or a specific subsidiary. In addition, subsidiary development is strongly impacted by overall resource constraints of the company as a whole. While being situated in a not-prioritized region might benefit a subsidiary in obtaining increased market responsibility at the start, it may also limit this unit from moving its responsibility scope to a significantly higher level.

4.8.2. ***Within-case analyses***

On the next pages the outcome of the following three within-case analysis techniques for Case #6 will be illustrated: (1) critical incident chart as shown in Figure 4-11; (2) event-state network as shown in Figure 4-12; (3) case dynamics matrix as shown in Table 4-22.

Figure 4-11: Critical incident chart for Case #6

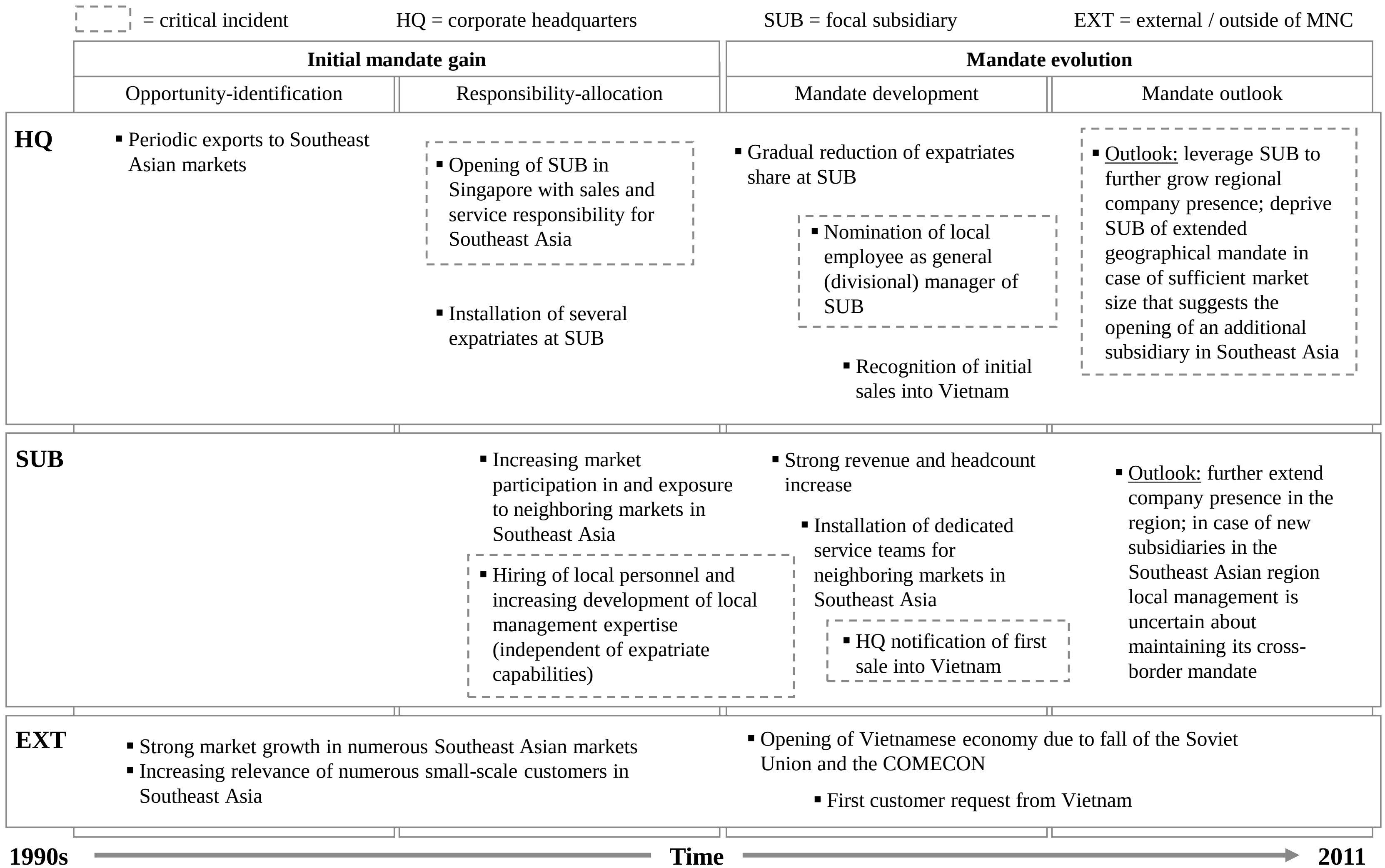


Figure 4-12: Event-state network for Case #6

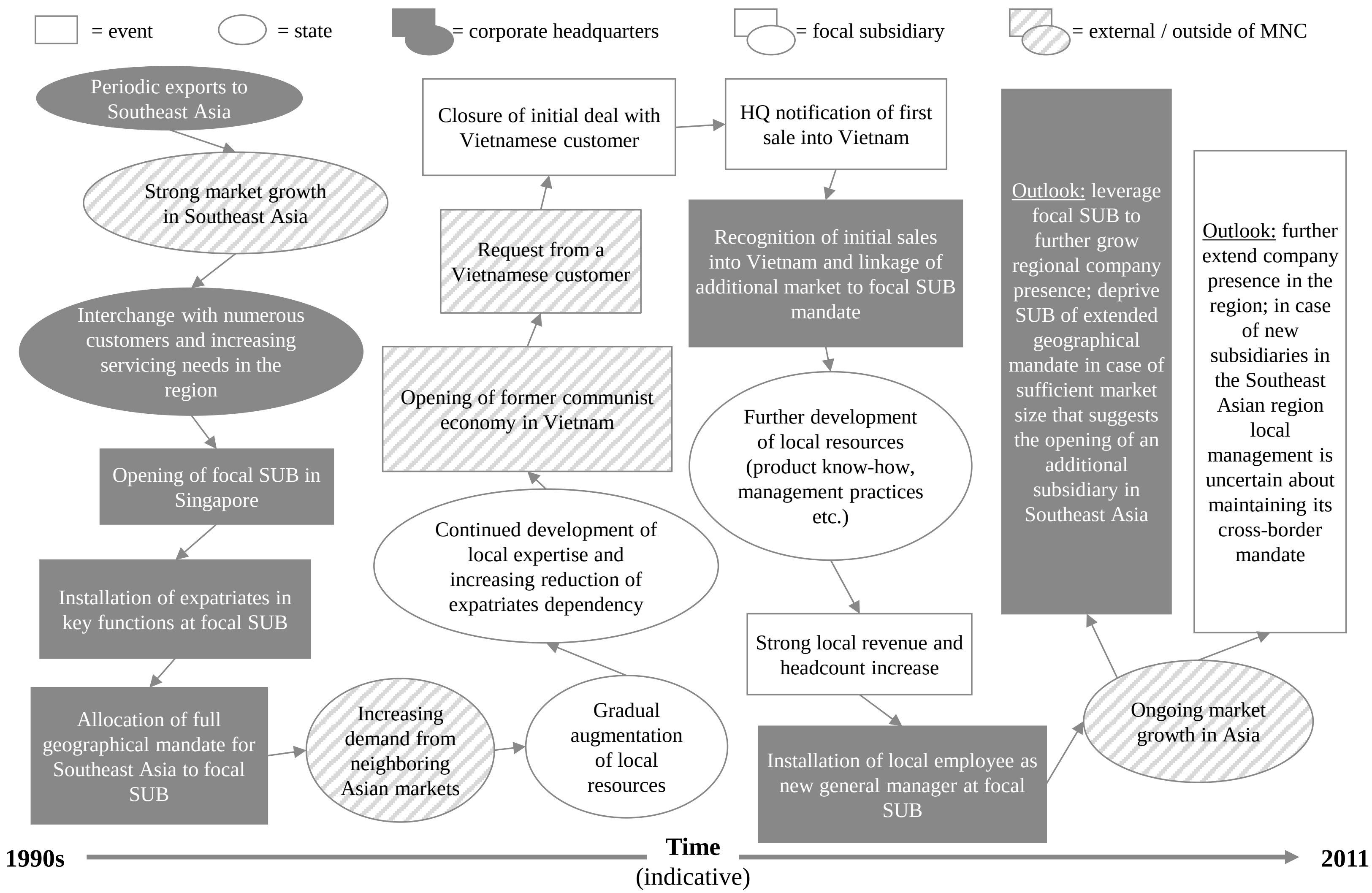


Table 4-22: Case dynamics matrix for Case #6

Critical incidents (locus / period)		**Initial mandate gain**	**Mandate evolution**			
		Opportunity-identification	Mandate development			Mandate outlook
		▪ Opening of focal SUB with extended geographical mandate for Southeast Asia (HQ / 1990s)	Augmentation of local personnel / expertise (SUB / 1990s)	Nomination of local employee as focal SUB manager (HQ / 2000s)	Initial sales into Vietnam (SUB / 2000s)	Mandate loss of focal SUB in event of the opening additional subsidiaries in Southeast Asia (SUB / plan)
HQ	**Incident Trigger**	▪ Regional market growth ▪ Geographical distance	▪ n/a	▪ Unknown	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ Enhance customer proximity and improve local customer service for numerous small-scale customers ▪ Achieve critical sales volume through combined markets ▪ Exploit regional market potential	▪ n/a	▪ Increasing existence of local know-how ▪ Proven SUB resources ▪ Allow a local strategy / management approach	▪ n/a	▪ Maintain control level and limit SUB independence ▪ Stick to common practices and have direct reporting link of subsidiaries to relevant headquarters ▪ Avoid inefficient processes and excessive costs
	Incident Effect	▪ Enhanced exposure to Southeast Asian markets ▪ Increased risk level due to extended geographical SUB mandate	▪ Increasing independence of focal SUB ▪ Declining expatriate relevance and control over focal SUB	▪ Reducing influence → increased uncertainty levels	▪ New market in portfolio ▪ Additional market responsibility for focal SUB	▪ No rent-seeking behavior of focal SUB for regional HQ mandate expected
SUB	**Incident Trigger**	▪ n/a	▪ Repeated expertise drain in event of expatriates departure	▪ n/a	▪ External customer request	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ Develop long-term strategy ▪ Enhance know-how level at focal SUB	▪ n/a	▪ Augment revenue sources	▪ n/a
	Incident Effect	▪ Exposure to Southeast Asian markets → development of regional market knowledge and networks	▪ Strengthening of SUB positioning ▪ Reduction of HQ-dependency	▪ Further decoupling from HQ influence → enhanced decision-making autarky	▪ Sales increase ▪ Geographical mandate extension	▪ Limited opportunities for future responsibility development (functional & geographical)

4.9. Case #7: The internationalization process of a Singaporean subsidiary into East Asia

4.9.1. Case description

Case # 7 refers to the internationalization process of the Singaporean subsidiary of a Central European manufacturing company (Case Company E) into East Asia. Since initially obtaining widened territorial responsibility for logistics in East Asia with the establishment of the focal subsidiary, the foreign market mandate has been extended and reduced several times, both functionally and geographically. Looking ahead, the mandate is expected to further decline. Key characteristics for Case #7 are summarized in Table 4-23 below.

Table 4-23: Key characteristics of Case #7

Parent company location	**Initial mandate gain (period)**
Central Europe	Logistics responsibility for East Asia excluding India (mid-1970s)
Focal subsidiary location	**Mandate development (period or year)**
Singapore	▪ Gaining of full market responsibility for East Asia excluding India (early 1990s) ▪ Gaining of full market responsibility for India (mid-1990s) ▪ Gaining of regional HQ status for East Asia (late 1990s) ▪ Partial loss of strategic regional HQ function to Chinese subsidiary (2007) ▪ Closure of two Southeast Asian subsidiaries under supervision (2009) ▪ Loss of responsibility for China and Northeast Asia (2011)
Mandate coverage	**Mandate outlook (year)**
East Asia	Reduction of geographical scope (2011)

Case Company E is an original equipment supplier (OES) in the manufacturing industry delivering components into various business segments worldwide. It is listed on the stock exchange with its corporate headquarters situated in Central Europe. The internationalization of Company E started in the 1970s with the aim of improving service times and quality levels for local end-customers. The initial rationale for internationalization was thus related to service rather than sales or production. Since then, a network of subsidiaries and distributors has been developed worldwide. Company E is today equipped with sales and service subsidiaries in all continents and possesses production sites in America, Asia and Europe. Customers are original equipment manufacturers (OEMs) or their end-customers for after-sales offerings. From an HQ perspective, subsidiaries are treated as distributors. Further information about Company E can be found in Table 4-24 below.

Table 4-24: Firm profile of Case Company E

Firm profile (as of 2010)	
Type	Original equipment supplier (OES)
Ownership status	Publicly-listed
Sales	> €2.0 bn
N° of foreign subsidiaries	> 30
Existence of regional headquarters	Yes
Expansion / internationalization start	1970s

Due to its long-lasting global presence, Company E shows a high degree of organizational maturity with regard to managing its global operations. This characteristic is expressed by a relatively pronounced level of subsidiary autonomy and the installation of local managers in leading positions abroad. Company E recently introduced a new sales organization in order to further enhance its ability to respond to local customer needs. Already today certain divisional headquarters of Company E are located outside the home market, further indicating the willingness of corporate management to fully achieve a decentralized management style.

The sales subsidiary in Singapore was one of the first overseas subsidiaries of Company E. Due to the growing number of customers in East Asia, Company E was confronted with logistics requirements that it was no longer able to satisfy from the HQ. The initial task for the focal subsidiary was therefore to ameliorate regional logistic processes with regards to product supply as well as spare parts delivery. Despite functional limitations the focal subsidiary held responsibility for the entire East Asian region from the very start. Key subsidiary facts are outlined in Table 4-25 below.

Table 4-25: Subsidiary profile of Case #7

Subsidiary profile (as of 2010)	
Date of inauguration	Mid-1970s
Company belonging:	Mid-1970s (through greenfield approach)
Location / host market	Singapore
Value-add	Sales engineering, sales, logistics and after-sales
Responsibility for other markets	Yes (India & Southeast Asia)
Responsibility for foreign sub-units	Yes

While initially representing a pure logistics hub with an extended geographical mandate, the subsidiary's scope of responsibilities, both externally and internally, has significantly increased over time. In addition to developing extensive sales and after-sales capabilities, local management has also built up upstream-related know-how for sales and application engineering in order to satisfy individual regional product demand. This is in particularly remarkable as the focal subsidiary is not equipped with local production facilities. In addition, local management took over responsibility for regional processes that terminated in the focal subsidiary. One of these functions, for example, was independent order and stock management. Ownership of original HQ functions facilitated the later nomination as regional HQ for East Asia. Having gradually broadened its geographical and functional scope, the focal subsidiary also experienced certain mandate reductions in the course of its evolution. While the mandate reduction was predominantly the result of HQ management decisions, they were also driven by local management. Today, the focal subsidiary is responsible for markets and subsidiaries in Southeast Asia and India. Looking ahead and assuming an augmented presence in India and enhanced local value-add, management in Singapore considers a mandate loss for India a likely evolution scenario.

4.9.1.1. Initial mandate gain

Opportunity-identification and initiative-taking

The decision to open the focal subsidiary in Singapore as a logistics hub for Company E's Asia operations in the mid-1970s was purely HQ-based. Local management was immediately equipped with an extended geographical responsibility so that the locus of opportunity-identification and initiative-taking was set at the parent company. Originally the functional scope was strictly limited to logistics support. At the time of the subsidiary opening Company E already possessed a small marketing office in Singapore. The initial company presence in Singapore and the initial mandate extension for markets in East Asia thus dates back longer than the actual opening of the focal subsidiary. The HQ decision to open a subsidiary in Singapore was predominantly triggered by a large Singaporean end-customer that requested enhanced logistics and servicing solutions. At this time Company E also possessed smaller clients in neighboring markets and thus delegated extended territorial responsibility to the focal subsidiary from the very start. Only accumulated market volumes in East Asia justified the establishment of company presence at that time.

Rent-seeking and responsibility-allocation

As the mandate extension into markets in East Asia was decided prior to the focal subsidiary opening, no exchange between HQ and local management took place throughout the entire decision-making process. Regional market growth in Southeast Asia, sub-critical host market sizes as well as geographical and cultural proximity are generally seen as main reasons for equipping the focal subsidiary with extended territorial reach.

4.9.1.2. Mandate evolution

Mandate development

Since obtaining responsibility for all logistics-related functions in East Asia, the focal subsidiary experienced extensions as well as reductions of its supra-national mandate. The following mandate alterations are highlighted:

- Gaining of full market responsibility for East Asia excluding India (early 1990s)
- Gaining of full market responsibility for India (mid-1990s)
- Gaining of regional HQ status for East Asia (late 1990s)
- Partial loss of strategic regional HQ function to Chinese subsidiary (2007)
- Closure of two Southeast Asian subsidiaries under supervision (2009)
- Loss of responsibility for China and Northeast Asia (2011)

As outlined above, Company E managed the East Asian region from two separate locations in Singapore throughout the 1970s and 1980s. While the marketing office with predominantly expatriate personnel continued to act as a proxy for the marketing department at the parent company, the focal subsidiary defined itself as a rather independent entity within the group. Over time subsidiary management developed know-how that significantly exceeded its initial job description as a regional logistics hub. It got involved in the overall sales process (offerings, contracting etc.) as well as following after-sales and spare part requests. In addition, local customer preferences and thus deviant product requirements forced the focal subsidiary to develop specialized expertise in the field of sales and application engineering in order to satisfy local demand. Throughout this process the focal subsidiary developed a unique selling proposition within Company E that strongly helped to obtain a broadened scope of functional responsibilities.

In the early 1990s corporate management decided to integrate the marketing office into the focal subsidiary, thus further strengthening its positioning. As a result of the integration, local management had obtained full responsibility for markets in East Asia, covering all downstream-related functions (sales, after-sales and spare parts) as well as certain upstream-related responsibilities like sales and application engineering. While inefficient local processes due to the presence of two offices in Singapore can be viewed as both initiative-trigger and decision-making rationales, other reasons for mandate extension were growing competence levels, increased regional networks as well as proven resources of local management.

The decision to include India in the territorial responsibility scope of the focal subsidiary in the mid-1990s and thus to further extend its foreign market mandate was purely HQ-driven. No explicit trigger for this shift of responsibilities other than lacking success with a HQ market development approach is known. The HQ's reasoning for granting market responsibility for India to the focal subsidiary in Singapore had three major components. First of all, local management in Singapore had proven that it was capable of developing new markets. Second, due to sub-critical size and low mechanization levels, India did not represent one of the focus areas at that time. While it was therefore neither a big risk nor a significant loss for corporate management to transfer responsibility to the focal subsidiary, it was clearly aimed at better serving the Indian market in order to be ready if strong market growth is finally accompanied by increased product sophistication. Finally, corporate management believed that local resources in Singapore were not only geographically closer to India but were also culturally better suited to dealing with Indian business practices. Sub-critical market size and geographical as well as cultural proximity therefore represented the main reasons for broadening the subsidiary mandate in the described dimension.

When in the late 1990s sales volumes and subsequently installed bases in neighboring Asian markets exceeded a certain level, corporate management considered the opening of additional sales and service subsidiaries in East Asia. In addition to HQ initiatives, local management in Singapore also requested the establishment of new sub-units in the region in order to comply with the global service standards of Company E. Finally, a large firm takeover resulted in the incorporation of two Asian subsidiaries. With the exception of the firm acquisition, past initiative triggers are no longer known. In all cases however, newly opened or recently acquired sub-units in East Asia were immediately put under the responsibility of local management in Singapore. The focal subsidiary thus turned into Company E's regional HQ for East Asia.

The headquarters' rationale for introducing sub-subsidiary structures was threefold. First, geographical and cultural proximity continued to constitute a significant advantage of a decentralized market development approach. Second, local management had gained considerable standing among corporate executives over the years. Finally and most important, however, the subsidiary had not only developed specialized expertise in the field of sales and applications engineering but had also taken over responsibility for regional processes like order and stock management that terminated at the focal subsidiary, i.e. did not require any HQ involvement at all. Ownership for such HQ-like functions strongly helped the focal subsidiary to obtain responsibility for managing other sub-units in the region. It should also be noted that at the same time corporate management appointed an East Asian HQ chairman responsible for looking after the far-distant operations. The aspect of increasing risk and uncertainty levels perceived at the parent company therefore clearly accompanied the mandate extension process.

After a continuous increase in geographical and functional responsibilities the focal subsidiary had to experience its first mandate reduction in 2007 when corporate management decided to shift the strategic regional headquarters function from Singapore to China. The initiative trigger for externally promoting the Chinese subsidiary and thereby devaluing its counterpart in Singapore was the increasing relevance of the Chinese market. The new market significance was underlined by the opening of local production facilities in China in the previous year. In addition, the responsibility shift coincided with the initial public offering (IPO) of Company E. It is therefore possible that turning the Chinese subsidiary into the strategic headquarters for Asia also served as a means to highlight the future company focus to external investors.

The main rationale for allocating additional responsibility to the Chinese subsidiary was continuous national market growth and increasing local value-add. Due to its significant year-over-year market growth, China turned into the key market in Asia, where Company E aimed for a strong positioning. The pressure was reflected by the opening of local production facilities in order to benefit from cost advantages and to enhance local product fit in the year before. At the time of the responsibility shift in 2007 the Chinese subsidiary was not only equipped with a significantly larger host market than its Singaporean counterpart but it also had its own production facilities, which the focal subsidiary could not offer. Growing independence of the Chinese subsidiary from its responsible regional headquarters in Singapore was therefore inevitable.

The mentioned severance process was not entirely driven by the Chinese subsidiary or the corporate headquarters but was also the result of recognition of local management in Singapore that the Chinese market was actually too big and the operations of the Chinese subsidiary too complex to be exclusively monitored from Singapore. Prior to this official shift of responsibilities, local subsidiary management had already established three sub-regions for its territory (China, Northeast Asia and Southeast Asia including India). In addition to introducing regional sub-structures the focal subsidiary had also ceded certain responsibilities to the Chinese subsidiary, providing it with a higher level of independence. From an operational perspective the HQ announcement therefore had little impact on the business of the focal subsidiary. Finally, Company E's initial public offering (IPO) most likely also influenced the decision of corporate management to officially nominate the Chinese subsidiary as the strategic regional headquarters for Asia. At that time, growing relevance of the emerging Chinese market dominated the agenda of economists and financial market participants so that the company announcement served as a means to satisfy expectations of potential external investors.

In 2009 local management in Singapore proposed the closure of two subsidiaries in the region. The request was approved by corporate management and these particular markets are now served by external distributors. The closure of two Asian subsidiaries was exclusively driven by local management in Singapore. This is worth mentioning as the initiative actually reduced the subsidiary mandate in the way that its number of reporting sub-subsidiaries declined. The main rationale for the closure was local management's desire to fulfill global compliance standards of Company E. While compliance standards represent the principal rationale for subsidiary closures, the overall market size in East Asia also needs to be taken into consideration. Due to ongoing regional growth, markets had reached such magnitude that local management was increasingly confronted with resource constraints that asked for a prioritization of efforts.

Only recently in 2011, HQ management announced the introduction of a new sales organization, whereby the number of worldwide regions was extended from three to ten. As a result the focal subsidiary not only entirely lost responsibility for China but it was also exempted from its mandate for Northeast Asia. The geographical scope was reduced to Southeast Asia and India. The main trigger for a new sales organization was ever-growing demand in East Asia that resulted in overall process inefficiencies with numerous sub-subsidiary structures. Corporate management was convinced that establishing smaller regions with direct reporting links to the relevant headquarters represents the adequate approach in order to achieve necessary degrees of customer proximity. Newly defined regions still encompass markets with other sub-units of Company E so that the construct of sub-subsidiaries and thus regional headquarters still exists. In this context the regional HQ mandate of the focal subsidiary was reduced to Southeast Asia and India.

Mandate outlook

Looking ahead, the focal subsidiary itself anticipates the loss of geographical responsibility for India. Its regional headquarters function for Southeast Asia is however expected to remain with the focal subsidiary. Similar to the recent mandate loss for China, the huge market size of India and gradually increasing local value-add of the Indian subsidiary are considered to represent the main rationale for establishing a new region. HQ management has identified India as a key future market and has underlined this belief through the opening of a global R&D center in India. It is expected that local production facilities will follow in order to better suit local market demand.

*4.9.2. **Within-case analyses***

On the next pages the outcome of the following three within-case analysis techniques for Case #7 will be illustrated: (1) critical incident chart as shown in Figure 4-13; (2) event-state network as shown in Figure 4-14; (3) case dynamics matrix as shown in Table 4-26.

Figure 4-13: Critical incident chart for Case #7

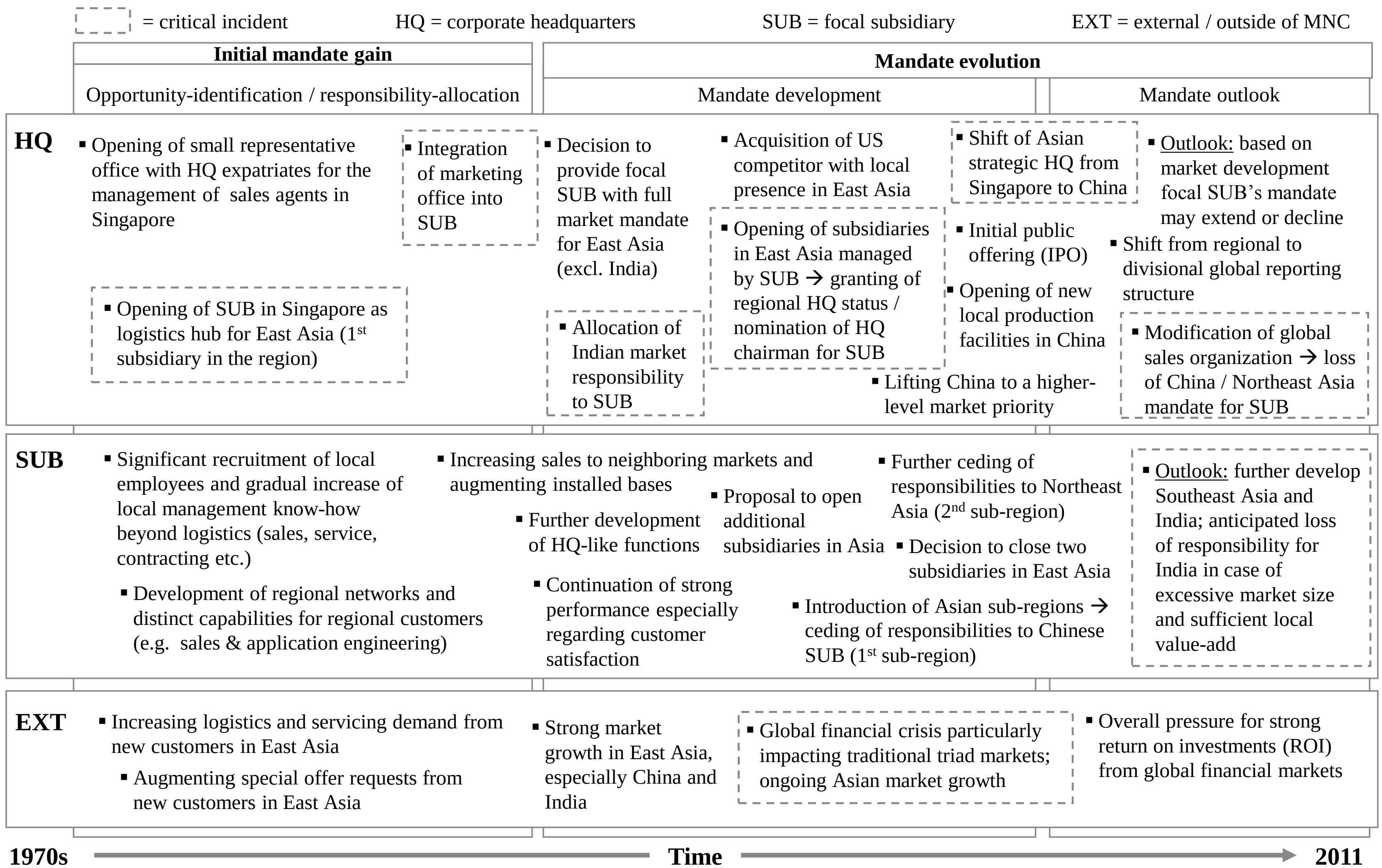


Figure 4-14: Event-state network for Case #7

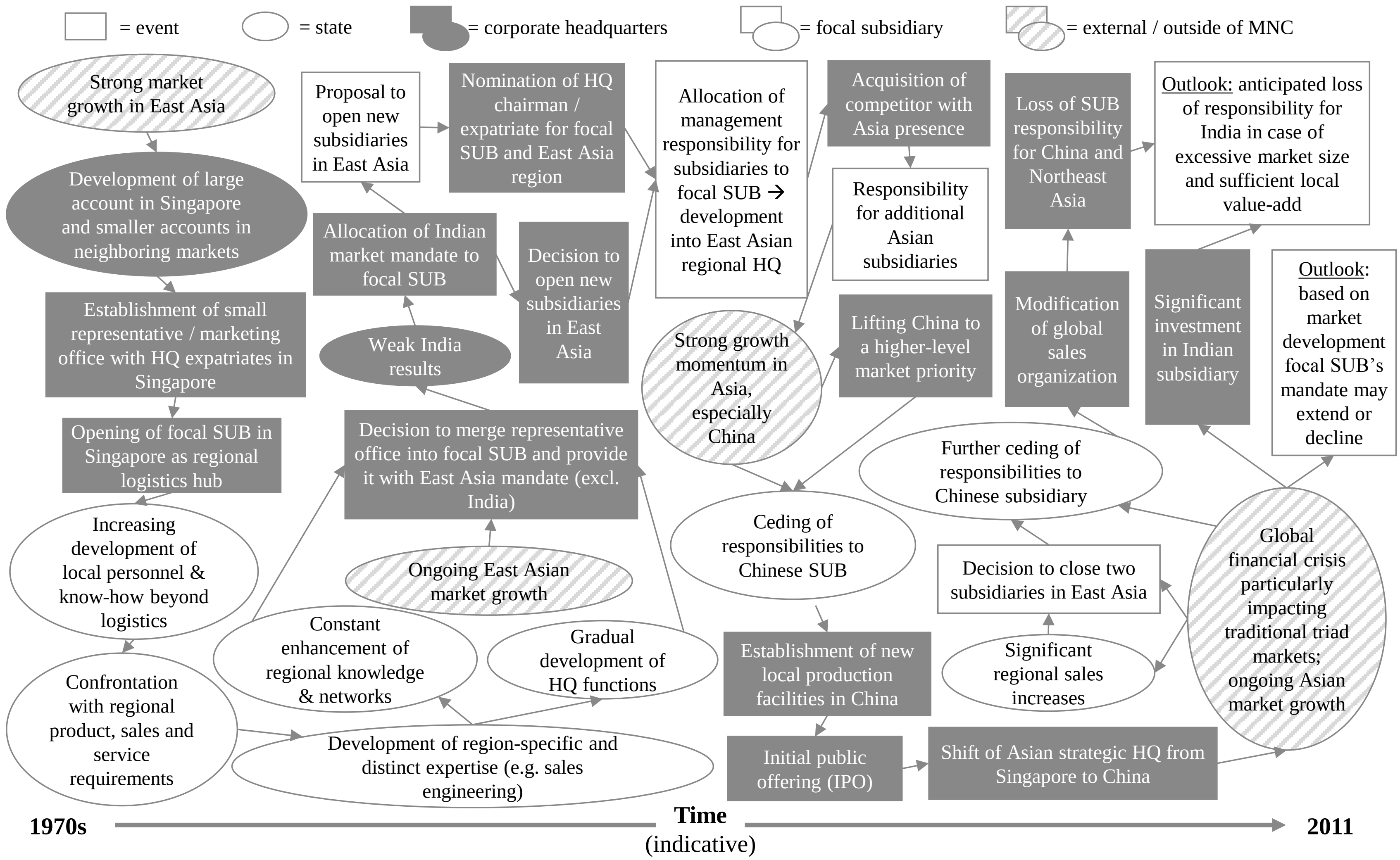


Table 4-26: Case dynamics matrix for Case #7

Critical incidents (locus / period)		**Initial mandate gain**		**Mandate evolution**				
		Opportunity-identification		Mandate development				Mandate outlook
		Opening of focal SUB in Singapore as East Asian logistics hub (HQ / 1970s)	Integration of representative / marketing office into focal SUB (HQ / 1990s)	Allocation of Indian market responsibility to focal SUB (HQ 1090s)	Nomination of focal SUB as regional HQ (HQ / 2000s)	Shift of Asian strategic HQ from Singapore to China (HQ / 2000s)	Modification of global sales organization (HQ 2010s)	Potential responsibility loss for India (SUB / Plan)
HQ	**Incident Trigger**	▪ Increasing sales volumes to East Asia and augmenting installed basis ▪ Large account in Singapore	▪ Increasing capabilities of focal SUB personnel ▪ Apparent process inefficiencies with two local offices	▪ Unknown	▪ Opening of sales offices in Asia ▪ Acquisition of companies with Asia presence	▪ Company IPO ▪ Prior establishment of three Asian sub-regions by focal SUB	▪ Excessive Chinese market ▪ Ceding of functions by focal SUB to HQ & Chinese SUB	▪ n/a
	Incident Cause / Rationale	▪ Participate in regional market growth ▪ Enhance customer proximity & ameliorate local processes	▪ Establish a single customer and internal touch point in the region ▪ Bundle resources and capabilities	▪ Strong Indian market growth ▪ Cultural fit of focal SUB ▪ Unsatisfying HQ results & proven SUB resources	▪ Regional networks and market knowledge of SUB personnel ▪ SUB value-add (HQ-like functions) ▪ Use of expatriate for focal SUB	▪ Value-add of Chinese SUB ▪ Strong Chinese market growth ▪ Investor pleasing	▪ Simplified processes and enhanced customer proximity ▪ Disguising of ROI figures	▪ Excessive market size in India ▪ Local Indian production facilities
	Incident Effect	▪ Increased commitment to Asian markets ▪ Reduced control	▪ Further strengthening of focal SUB ▪ Integration of add. HQ functions at focal SUB	▪ Further geographical decentralization	▪ New dimension of internationalization → high degree of responsibility delegation	▪ Shifting HQ focus for Asia (China vs. Singapore)	▪ Augmented direct access to subsidiaries	▪ n/a
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ Request for opening sub-units in the region	▪ n/a	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ Leverage regional networks	▪ n/a	▪ n/a	▪ n/a
	Incident Effect	▪ Build-up of regional networks & market knowledge → distinct capabilities	▪ End of responsibility clash with rep. office ▪ Full responsibility for East Asia	▪ Additional market in portfolio ▪ Augmented relevance in MNC	▪ Increased MNC relevance and augmented autarky level	▪ No operational impact at first	▪ Official loss of mandate for China & N.E. Asia	▪ Reduction of mandate to Southeast Asia

4.10. Case #8: The internationalization process of a US subsidiary into Latin America

4.10.1. *Case description*

Case #8 refers to the internationalization process of the US subsidiary of a Central European manufacturing company (Case Company F) into Latin America. Since initially obtaining widened territorial responsibility for sales and service in Mexico, the mandate has been modified several times so that today local management in the US not only looks after Latin American markets but also holds management responsibility for a Brazilian sub-unit of Company F. The local subsidiary had previously failed to obtain HQ approval for opening and managing a subsidiary in Mexico. Looking ahead, the mandate may be significantly reduced if local production facilities and cross-border reach of the subordinate Brazilian subsidiary are achieved. Key characteristics for Case #8 are summarized in Table 4-27 below.

Table 4-27: Key characteristics of Case #8

Parent company location	**Initial mandate gain (year)**
Central Europe	Sales and service responsibility of Mexico (1999)
Focal subsidiary location	**Mandate development (year)**
USA	▪ Lacking HQ approval for becoming regional HQ for North America (2005) ▪ Gain of sales and service responsibility for the Americas (2007) ▪ Gain of regional HQ responsibility for the Americas (2009)
Mandate coverage	**Mandate outlook (year)**
Latin America	Reduction of geographical and functional scope (2011)

Case Company F is a Central European original equipment manufacturer (OEM) in the manufacturing industry organized into different business units. The case in focus thereby refers to the largest business unit, accounting for more than 75% of total company revenues. Company F is global market leader in different niche segments, mainly competing with large European and Asian OEMs as well as smaller regional market participants. Since its foundation Company F has been privately-owned, a characteristic that has strongly impacted its management style and customer approach in the past. Despite constant business internationalization as well as professionalization, major decisions were predominantly taken in the parent company and were based as much on the personal gut-feeling of the company founder as on thorough business case calculations. Key company characteristics are highlighted in Table 4-28 below:

Table 4-28: Firm profile of Case Company F

Firm profile (as of 2010)	
Type	Original equipment manufacturer (OEM)
Ownership status	Family-owned
Sales	€0.5–2.0 bn
N° of foreign subsidiaries	15–30
Existence of regional headquarters	Yes
Expansion / internationalization start	1970s

Company F generates most of its revenues outside its home market. The internationalization process started in the 1970s with the opening of first subsidiaries in markets across Europe. The ability to assemble locally in order to meet regional demand characterized newly established sub-units at that time. In the following years further European as well as overseas subsidiaries with or without production facilities were established. Today, Company F is present in all major markets worldwide. Sales are done directly or via specialized dealers and sales partners based on market requirements and local company presence. While initially showing strong HQ influence on global operations, Company F gradually shifted to a more decentralized management style. This is not only due to new regions gaining relevance in combination with declining traditional markets but is also the result of increased organizational maturity with regards to delegating responsibilities to foreign sub-units. Company F was strongly hit by the financial and economic crisis from 2008 onwards. A global restructuring program was implemented that significantly reduced headcount levels, especially at the parent company. In addition, the top management of Company F was almost entirely replaced at that time. In an effort to improve global resource efficiency, Company F recently decided to restructure its sales structure, allocating further market and organizational responsibility to key subsidiaries abroad.

The US subsidiary was established in the 1980s through the acquisition of a local competitor. The main rationale for the takeover was to use the local company as a hub for distributing European-made equipment. The integration of existing products of the target company played only a subordinate role in the decision-making process. When the focal subsidiary did not manage to sufficiently participate in the strong US market growth, Company F was faced with the option of either abandoning the market or significantly modifying the local market approach. It was then decided to start over and to relocate the US subsidiary and to establish new local production facilities. Major components still came from the parent company but the overall degree of local content was significantly increased. In addition, a new local manager was installed as CEO of the subsidiary, further indicating the company's commitment to a truly decentralized and US market approach. A quick overview of the key subsidiary characteristics is provided by Table 4-29 below.

Table 4-29: Subsidiary profile of Case #8

Subsidiary profile (as of 2010)	
Date of inauguration	Early 1980s
Company belonging	Early 1980s (through acquisition of local competitor)
Location / host market	USA
Value-add	R&D, sourcing, production, sales and after-sales
Responsibility for other markets	Yes (Latin America)
Responsibility for foreign sub-units	Yes

The geographical scope of the focal subsidiary was initially strictly limited to the United States with only some exports to Canada. In 1999 the focal subsidiary obtained official HQ approval for looking after the Mexican market. A later request to open and manage a sub-unit in Mexico was however rejected by HQ management. At the same time, the focal subsidiary increasingly participated in markets in Latin America. While initially establishing a dual market responsibility for Latin America, the focal subsidiary obtained exclusive responsibility at a later stage. Only recently, it received official management responsibility for another producing sub-unit in Brazil. Looking ahead, the focal subsidiary may lose its RHQ status if sufficient levels of value-add and cross-border reach of the Brazilian subsidiary are realized.

4.10.1.1. Initial mandate gain

<u>Opportunity-identification and initiative-taking</u>

The opportunity to develop the bordering Mexican market from the USA was identified by subsidiary management at the end of the 1990s. Following a short trial phase the extended geographical mandate was officially requested from the corporate HQ in 1999. The locus of opportunity-identification and initiative-taking was therefore set at the focal subsidiary in the US. The subsidiary initiative to extend its geographical scope into Mexico was triggered and facilitated by external as well as internal factors. The main global competitor already supplied the Mexican market from its US production facility and was showing good market results. As a result, Company F's Mexican importer complained about European products failing to fit its market. While competitor moves and market growth in Mexico can be viewed as facilitating conditions in the initiative-taking process, external customer requests and complaints with regard to market fit of European-made equipment ultimately triggered local management's willingness to act.

Rent-seeking and responsibility-allocation

The request to obtain market responsibility for Mexico was officially submitted to HQ management. Further details on the exchange setting are no longer known by interviewed personnel from the parent company and the focal subsidiary. Key rationale for equipping the focal subsidiary with cross-border reach was HQ management's awareness of the increasing relevance of the Mexican market. Due to the rapid internationalization process of Company F however, it was not capable of giving a considerable amount of attention to Mexico so that it was open to a decentralized market development approach considering a reduced geographical distance. Furthermore, prior to involving HQ management in the objective of obtaining extended geographical responsibility for Mexico, local management tested the viability of its request. At the time of the petition in 1999 it could thus argue that it was actually better suited for supplying the Mexican market than the European-based parent company. In addition, the subsidiary had demonstrated strong results in the past when local management significantly increased sales and market share in the US. Finally, certain personnel changes in the HQ helped the proposed approach to proceed.

4.10.1.2. Mandate evolution

Mandate development

Since enlarging the subsidiary mandate southwards beyond the original host market, the mandate has been further modified as a result of focal subsidiary initiatives. In addition, one subsidiary petition was rejected by corporate management. The following initiatives of subsidiary management in the US for extended geographical responsibility will be highlighted:

- Opening and management of a subsidiary in Mexico (negative outcome)
- Market responsibility for the Americas (positive outcome)
- Opening and management of a producing subsidiary in Brazil (positive outcome)

The idea to open a sales subsidiary in Mexico that would report directly to the focal subsidiary in the USA was triggered by the upcoming retirement of the Mexican importer around 2005. Due to the lack of a succession plan, subsidiary management in the US evaluated the possibility of taking over the importer's business and turning it into another foreign subsidiary of Company F. Despite the subsidiary's ability to significantly grow market share in Mexico, the request to take over the Mexican importer and to manage the resulting foreign sub-unit was rejected by HQ management. The main reasons for a negative outcome were a lack of organizational maturity in the delegation of functions and responsibilities to foreign subsidiaries, the fear of corporate management of imbalanced power structures as well as personal and emotional elements within HQ management. Today, it is acknowledged by corporate as well as subsidiary management that at the time of the subsidiary request the parent company did not tolerate excessively strong subsidiaries and that markets were actually taken away from a foreign subsidiary if local sales figures were approaching parent company levels.

Despite the subsidiary’s failure to obtain HQ approval for the Mexican cross-border initiative it succeeded with its following petition in 2007. Company F had already achieved company presence in South America in the 1970s with the opening of a subsidiary with small-scale assembly facilities in Brazil. Due to serious production inefficiencies as well as a lack of economic viability, however, the Brazilian subsidiary was closed around 2000. As a result, corporate management not only lost focus for Brazil but increasingly also for the entire region. The shift of focus was further supported by strong market growth and satisfying company results in Asia. When Latin American dealers recognized the lack of focus for their particular market they started to order machines from the US subsidiary. Sporadic orders thus served as an initial trigger for the subsidiary’s request to obtain market responsibility for Latin America. Prior failing of local management to obtain corporate management approval for the opening of a subsidiary in Mexico in 2005 is further considered to be a facilitating condition in the initiative-taking process. Having accepted but never fully understood the HQ decision, US subsidiary management awaited the installation of a new CEO at the parent company to renew its foreign market ambitions.

HQ buy-in for a decentralized exploitation of markets in Latin America was partly obtained in the mid-2000s and fully received in 2007. Local management in the US actually gained HQ approval in a similar form as its initial permission for exports to Mexico. First, sales to target markets were carried out without official permission of the parent company. Such an approach was largely facilitated by a lack of HQ focus for the region at that time. In addition, strong market fit of US-made products facilitated new sales into the region. Once a certain sales level in the new region was crossed an agreement with dual reporting structures was elaborated with HQ management. As the sales manager for South America was a full-time employee of the US subsidiary however, new contacts were predominately linked to the focal subsidiary. When a new CEO was installed at Company F in 2007 the US subsidiary finally seized the opportunity to request and to obtain full responsibility for all markets in North and South America. Proven local resources resulting from strong historic sales, good relations with the new CEO as well as matching regional product requirements are seen as the main reasons for an extended geographical mandate.

As soon as an exclusive mandate for all American markets was obtained in 2007 the focal subsidiary identified the vast market sales potential in Brazil. The sum of all other markets did not even add up to the single market volume in the Brazilian territory. Due to huge tax burdens on imported equipment however, it was practically impossible to compete against national and international market participants with local production facilities. When a new firm CEO was installed in 2009, the US subsidiary proposed to establish company presence in Brazil. In the course of initial exchanges on this topic, HQ management only agreed to the necessity of opening a sales and service subsidiary in Brazil. Nonetheless, throughout the search for an adequate location the focal subsidiary continued to evaluate the possibility for local production in order to avoid high tax burdens. While the CEO replacement can be viewed as the initiative trigger, cross-border market knowledge and networks of the US subsidiary constituted additional facilitators. In addition, the need for additional revenue sources of the focal subsidiary in order to offset reduced turnover in the home market are seen as an initiative driver in the process. This need was caused by the global financial crisis from 2008 onwards that strongly impacted the US market. Looking after other sub-units therefore represented a means to justify maintaining headcount levels.

The crisis from 2008 onwards forced Company F to significantly reduce headcount levels, especially in the parent company. As a response to sudden resource constraints, HQ management decided to grant additional responsibility to key foreign subsidiaries. The sales structure was simplified and reduced to three regions, each managed by the most influential sub-unit in the region. In the course of this reorganization the focal subsidiary's Americas mandate was confirmed. The HQ structure was supposed to remain as lean as possible, allowing subsidiaries to outperform their parent company in terms of sales volume and production output. The decision to link the new subsidiary in Brazil to the US subsidiary was thus only logical and the introduction of sub-subsidiary structures accepted in this context.

In addition, the focal subsidiary in the US was still awaiting recovery of its home market and therefore showed sub-critical levels of resource utilization at the time of the decision. The decision-making process therefore involved practical aspects of resource availability and efficiency. Furthermore, Company F had already failed to establish local production facilities in Brazil using a centralized approach in the 1980s. It was therefore not surprising that for a second attempt an alternative approach was chosen. Finally, due to the availability of production facilities at the US subsidiary, HQ management was convinced of the local management's capability of setting up assembly facilities in Brazil. Sufficient value-add was therefore a precondition for opening and managing the new foreign sub-unit. Other aspects like subsidiary-related advantages such as market knowledge or Spanish-speaking personnel played only a minor role in the process. From a cultural perspective it is believed that the mentality in the US is not excessively compatible with Brazilian business practices.

Mandate outlook

Looking ahead, the focal subsidiary is expected to preserve or lose its current geographical and functional responsibility in Central and South America. The mandate evolution will strongly be influenced by the future market growth in Brazil and bordering countries as well as the development of local production facilities at the Brazilian subsidiary. If regional sales in Brazil and in neighboring countries exceed a certain level at some stage in the future it is possible that the local subsidiary in Brazil itself would turn into a regional headquarters for South America and potentially Central America. In this case, the US subsidiary would not only lose its extended territorial responsibility for Latin America but it would also experience the removal of its RHQ mandate.

*4.10.2. **Within-case analyses***

On the next pages the outcome of the following three within-case analysis techniques for Case #8 will be illustrated: (1) critical incident chart as shown in Figure 4-15; (2) event-state network as shown in Figure 4-16; (3) case dynamics matrix as shown in Table 4-30.

Figure 4-15: Critical incident chart for Case #8

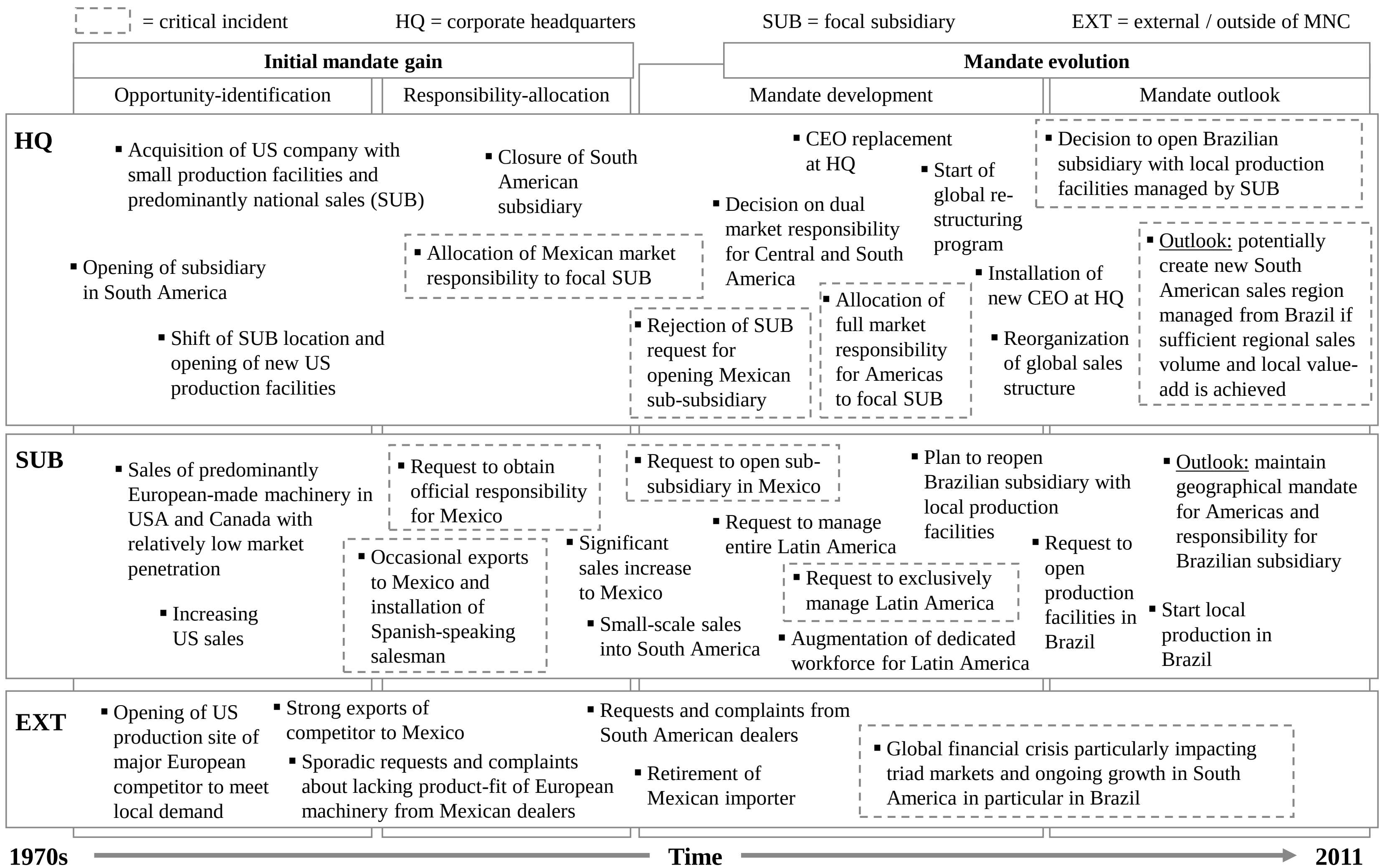


Figure 4-16: Event-state network for Case #8

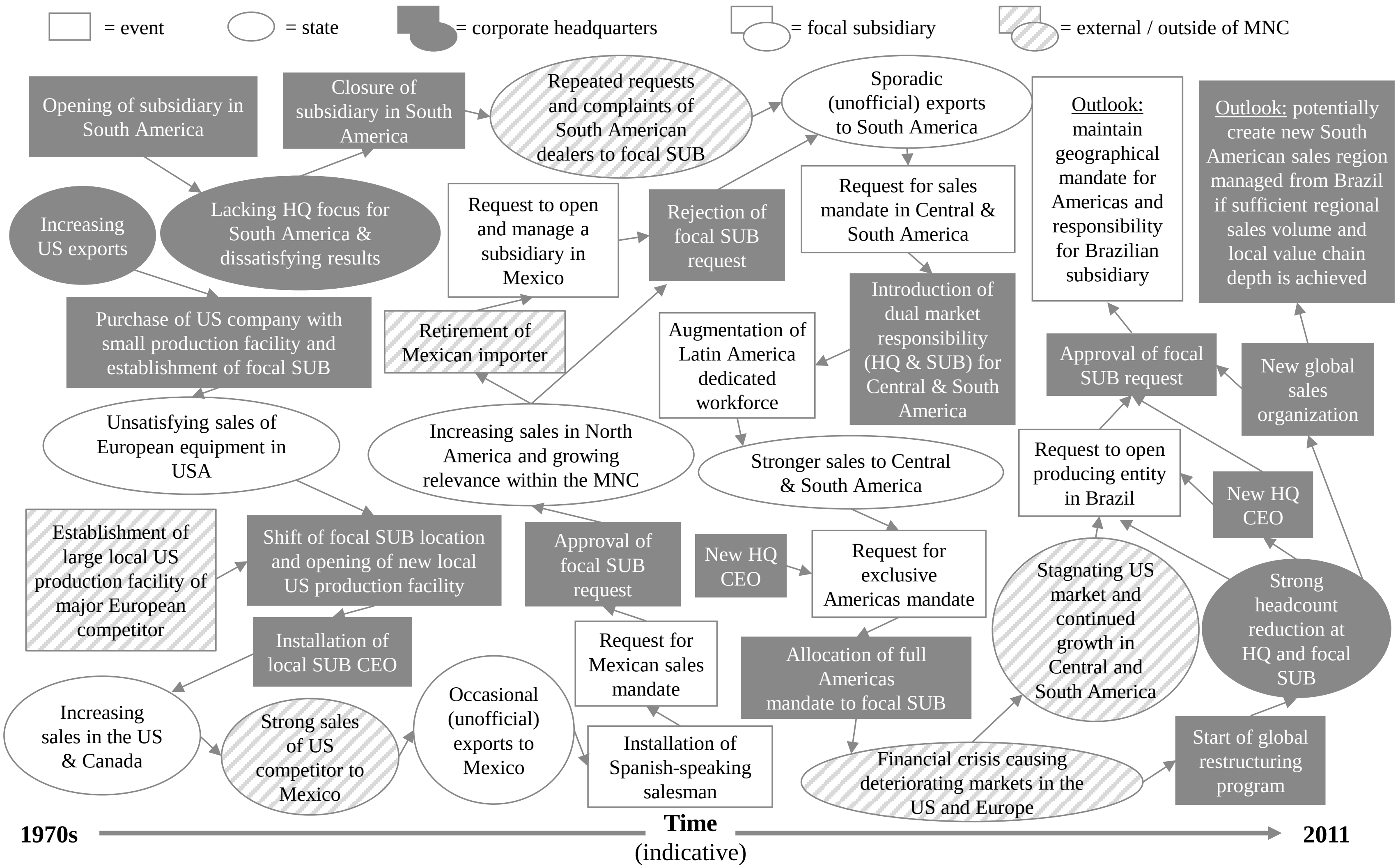


Table 4-30: Case dynamics matrix for Case #8

Critical incidents (locus / period)		**Initial mandate gain**		**Mandate evolution**				
		Opportunity-identification	Responsibility-allocation	Mandate development				Mandate outlook
		Sporadic exports to Mexico and installation of Spanish-speaking salesman (SUB / 1990s)	Request & allocation of market responsibility for Mexico to focal SUB (SUB & HQ / 2000s)	Request & rejection for opening Mexican subsidiary managed by focal SUB (SUB & HQ / 2000s)	Request & allocation of full Americas responsibility to focal SUB (SUB & HQ 2000s)	Financial crisis in triad markets / ongoing growth in Latin America (EXT / 2000s)	Opening of producing sub-unit in Brazil managed by focal SUB (HQ / 2010s)	Decoupling of South American market from focal SUB (HQ / Plan)
HQ	**Incident Trigger**	▪ n/a	▪ Focal SUB request	▪ Focal SUB request	▪ Focal SUB request	▪ n/a	▪ SUB request to new HQ CEO	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ Proven resources ▪ Superior machinery fit ▪ Geographical distance	▪ Imbalanced MNC power structures ▪ Personal management issues ▪ Lacking organizational maturity	▪ Change of HQ CEO ▪ Proven SUB resources throughout dual-reporting period	▪ n/a	▪ New sales organization ▪ Unsatisfying HQ approach and available SUB resources	▪ Value-add of Brazilian SUB ▪ Excessive regional market size
	Incident Effect	▪ Gradual shift of Mexican dealer focus towards focal SUB	▪ Reduced control ▪ Increased focal SUB power	▪ No change of status quo	▪ Limited control over Americas region	▪ Declining home market relevance ▪ Initiation of turnaround	▪ Deteriorating influence of parent company	▪ Direct SUB access ▪ Facilitated processes
SUB	**Incident Trigger**	▪ Sporadic requests of Mexican dealers ▪ Competitor's success in Mexico	▪ Satisfying small-scale trial prior to official request	▪ Upcoming retirement of local importer and lack of a succession plan	▪ Requests from and unofficial sales to unsatisfied dealers in South America	▪ n/a	▪ Home market crisis and a lack of competitiveness in Brazil	▪ n/a
	Incident Cause / Rationale	▪ Evaluate possibility of mandate extension → make trial and build proof	▪ Develop business beyond the US ▪ Increase MNC relevance	▪ Further grow business of focal SUB ▪ Gain additional MNC relevance	▪ Increase reach of focal SUB ▪ Limit US dependency	▪ n/a	▪ Secure resource utilization ▪ Extend overall influence	▪ n/a
	Incident Effect	▪ Network extension into Mexico ▪ Possibility to prove resources and organizational fit for Mexico	▪ Increased sales and market exposure to Spanish-speaking Latin American markets	▪ Need to look for additional revenue sources → South America	▪ Responsibility for markets with strong growth and limited company presence	▪ Major headcount reductions ▪ Search for new markets	▪ Development into regional HQ for the Americas region	▪ Geographical and functional responsibility loss

4.11. Case #9: The internationalization process of a Brazilian subsidiary into South America

4.11.1. Case description

Case #9 refers to the internationalization process of the Brazilian subsidiary of a Central European manufacturing company (Case Company G) into South America. Since initially obtaining widened territorial responsibility for technical dealer and importer support in South America, the mandate has not yet been modified. While the focal subsidiary might benefit from a minor mandate extension with regard to sales and service responsibilities, it is actually expected to experience a loss of foreign market responsibility in the event of unsatisfying management performance or the opening of new subsidiaries in South America. Key characteristics for Case #9 are summarized in Table 4-31 below.

Table 4-31: Key characteristics of Case #9

Parent company location	**Initial mandate gain (year)**
Central Europe	Technical dealer and importer support (2010)
Focal subsidiary location	**Mandate development (year)**
Brazil	Initial mandate has not been altered yet (n/a)
Mandate coverage	**Mandate outlook (year)**
South America	Reduction of geographical scope (2011)

Company G is a Central European original equipment manufacturer (OEM) participating in different manufacturing segments. Since its foundation in the early 20^{th} century Company G has maintained its family-owned status, a characteristic that impacts the management style to this day. While most revenues are still generated in Europe, Company G increasingly participates in strong market growth in Asia and South America. Company G is equipped with a dominating positioning in different niche segments with technology leadership as its major selling proposition. The internationalization process of Company G started in the 1970s and is characterized by a mix of greenfield approaches as well as selected company takeovers. Company G today possesses production entities in most continents and is present with numerous sales and service offices around the world. Sales are initially carried out through affiliated companies and importers with end-customer contacts managed by local dealers. Production entities generally hold responsibility for manufacturing a specific product or product range, which is later sold to affiliated companies and importers on a global scale. Key company characteristics are highlighted in Table 4-32 below:

Table 4-32: Firm profile of Case Company G (cases #9, #10a and #10b)

Firm profile	
Type	Original equipment manufacturer (OEM)
Ownership status	Family-owned
Sales	> €2.0 bn
N° of foreign subsidiaries	> 30
Existence of regional headquarters	No
Expansion / internationalization start	1960s

Company G possesses a rather ethnocentric management style where major decisions are taken in the parent company. With regards to managing foreign sub-units, Company G thus follows a risk-averse approach, which is reflected in several company characteristics. First, HQ management provides foreign sub-units with only limited geographical and functional responsibility. With the exception of one particular setting, no affiliated company including producing entities has ever had responsibility for managing other sub-units of the group. In addition, few subsidiaries are equipped with a sales mandate that reaches beyond the original host market. Second, R&D is almost exclusively carried out in the parent company. Third, Company G has implemented strict reporting structures in order to monitor its foreign subsidiaries. Finally, despite ongoing internationalization and increasing relevance of markets outside of Europe, the corporate language remains the language of the home market. As the overall business is flourishing on a global scale it is not expected that Company G will change its management style in the near future.

The focal subsidiary in Brazil was set up a long time ago with the aim of developing new markets as well as extending the international production footprint of Company G. It possesses large production facilities and delivers its end-products to markets worldwide. The main recipients of end-products, however, are importers in markets in South America. In addition to importers and dealers, the Brazilian subsidiary also supplies products to another sales subsidiary of the group in a neighboring market. A brief overview of the key subsidiary characteristics is provided by Table 4-33 below.

Table 4-33: Subsidiary profile of Case #9

Subsidiary profile (as of 2010)	
Date of inauguration	1970s
Company belonging	1970s (through greenfield approach)
Location / host market	Brazil
Value-add	Sourcing, production, sales and after-sales
Responsibility for other markets	Partly (South America)
Responsibility for foreign sub-units	No

Until recently the subsidiary's mandate was limited to marketing products in the home market and supplying other subsidiaries or importers without additional responsibility. Today, local management also looks after importers and dealers in South America for technical support and training. The extended geographical mandate does not cover another South American market, where a sister subsidiary has been present for many years. Looking ahead, the focal subsidiary might gain or lose functional responsibility for neighboring markets based on its performance.

4.11.1.1. Initial mandate gain

<u>Opportunity-identification and initiative-taking</u>

The idea to equip the subsidiary in Brazil with responsibility beyond the host market in South America was identified in the corporate HQ in 2010. The locus of opportunity-identification and initiative-taking was thus set at the parent company. Altering human resources need to be stated as a core initiative trigger. The responsible HQ employee for the development of South American markets was about to leave the company and no adequate replacement had been found.

<u>Rent-seeking and responsibility-allocation</u>

The decision to delegate technical dealer and importer support for selected South American markets was purely HQ-based and did not involve any exchange between personnel from the parent company or the focal subsidiary. In general Company G does not equip its foreign subsidiaries with extended geographical mandates. The deviant thinking in this particular case was predominantly the result of temporary human resource constraints in the parent company. In addition, geographical proximity and sufficient local value-add in combination with similar product requirements in South America further supported HQ management in selecting a decentralized market development approach. Due to the presence of local production facilities in Brazil it was expected that personnel at the focal subsidiary would possess sufficient product know-how in order to satisfy the technical support needs of dealers and importers in neighboring markets.

4.11.1.2. Mandate evolution

Mandate development

Due to the relatively recent initial mandate gain the geographical and functional scope of the focal subsidiary regarding foreign territories has not been altered yet.

Mandate outlook

Looking ahead and assuming stable market growth for South America, the focal subsidiary will most likely experience a reduction in its current geographical responsibility. The current decentralized approach is still considered an interim solution that may either be abandoned or introduced as a standard procedure at Company F. If the focal subsidiary in Brazil is capable of offering strong technical support beyond national borders it is expected to maintain its current mandate and may even augment its functional scope into sales and service responsibilities in the region. As HQ management does not consider results up to this point as satisfying, however, the chances of losing the mandate are relatively high. In addition, if regional market growth justifies the opening of another subsidiary in South America, the focal subsidiary would immediately lose all responsibility for this particular market. As foreign sub-units are expected to directly report to the HQ there is no reason for anticipating a deviant approach in the case of the focal subsidiary. Turning into a regional HQ therefore does not represent an evolutionary path for the focal subsidiary regardless of its performance. Poor performance and critical market sizes in combination with relatively low organizational maturity with regard to delegating responsibilities to foreign sub-units can be classified as drivers for future mandate reductions of the focal subsidiary.

4.11.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Case #9 will be illustrated: (1) critical incident chart as shown in Figure 4-17; (2) event-state network as shown in Figure 4-18; (3) case dynamics matrix as shown in Table 4-34: Case dynamics matrix for Case #9.

Figure 4-17: Critical incident chart for Case #9

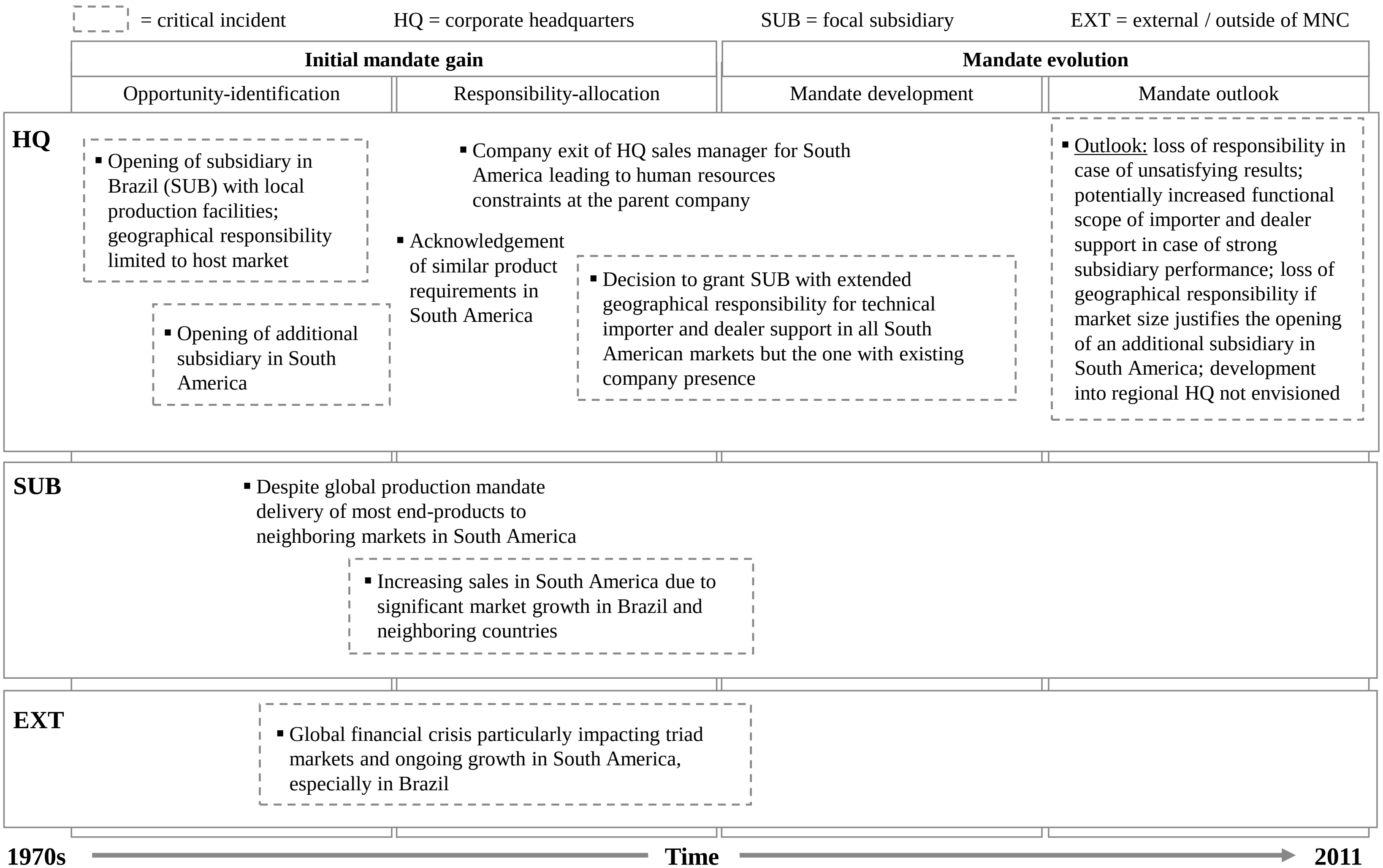


Figure 4-18: Event-state network for Case #9

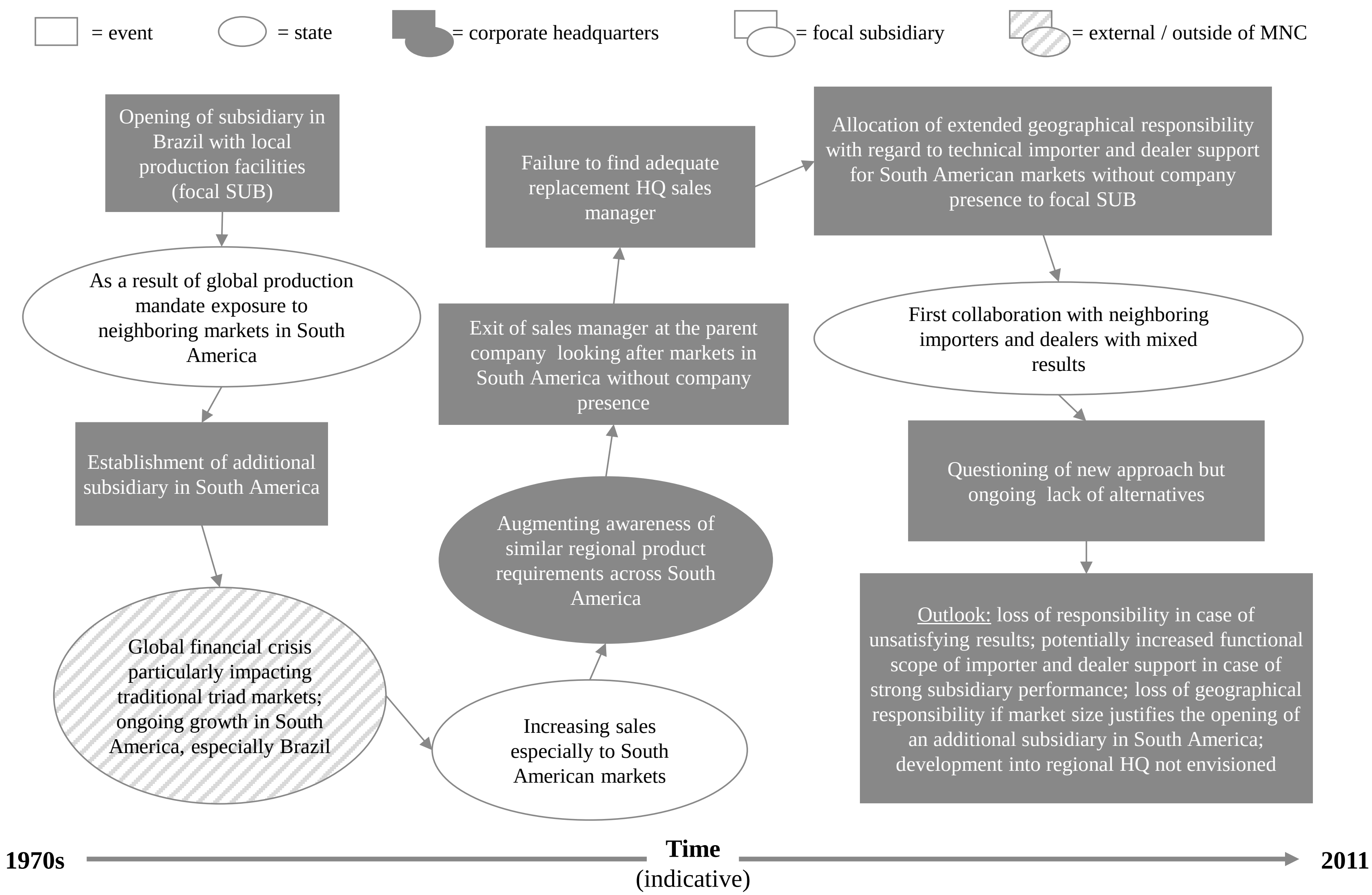


Table 4-34: Case dynamics matrix for Case #9

Critical incidents (locus / period)		**Initial mandate gain**					**Mandate evolution**
		Opportunity-identification				Responsibility-allocation	Mandate outlook
		Opening of focal SUB in Brazil with local production facilities (HQ / 1970s)	Opening of additional subsidiary in South America (SUB / 1990s)	Global financial crisis impacting triad markets and ongoing growth in South America in particular in Brazil (EXT / 2000s)	Increasing sales in South America due to significant regional market growth (SUB / 2000s)	Decision to manage importers and dealers in South America from Brazil (HQ / 2010s)	Mandate evolution depending on subsidiary performance; SUB development into RHQ not envisioned (HQ / Plan)
HQ	**Incident Trigger**	▪ Unknown	▪ Unknown	▪ n/a	▪ n/a	▪ Human resource constraints at parent company	▪ n/a
	Incident Cause / Rationale	▪ Extend international production footprint ▪ Suit local product requirements and participate in local and regional market growth	▪ Unknown	▪ n/a	▪ n/a	▪ Lacking alternatives ▪ Regional product similarities	▪ Maintain direct access and reporting structures between subunits and parent company
	Incident Effect	▪ Enhanced exposure to Latin American markets ▪ Further diversification of production sites and product portfolio	▪ Unknown	▪ Declining home market size and significance ▪ Increasing focus on emerging markets like South America	▪ Increasing awareness of similarities in regional product requirements	▪ Decreased control	▪ n/a
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ n/a	▪ External product demand	▪ n/a	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a	▪ n/a
	Incident Effect	▪ Exposure to neighboring markets in South America	▪ Interference with neighboring subsidiary ▪ Opportunity to turn into regional HQ in South America	▪ Enhanced positioning within the MNC ▪ Increased regional sales	▪ Increased HQ recognition due to attractive home and neighboring markets	▪ Extended geographical responsibility	▪ Limited development options

4.12. Cases #10a and #10b: The failed requests of a French subsidiary to develop markets in Northern Africa

4.12.1. Case description

Cases #10a and #10b both refer to the internationalization efforts of a French subsidiary of a Central European manufacturing company (Case Company G) into Northern Africa. In both instances subsidiary management did not succeed in obtaining HQ approval for their foreign market initiative, so they constitute the negative examples in the case sample. Having already failed twice, the focal subsidiary is not expected to obtain extended geographical responsibility for markets in Northern Africa in the future. Key characteristics for cases #10a and #10b are summarized in Table 4-35 below.

Table 4-35: Key characteristics of Cases #10a and #10b

Parent company location	**Initiatives for extended geographical responsibility (year)**
Central Europe	▪ Sales and service responsibility for Northern Africa – rejected (2007) ▪ Sales and service responsibility for Northern Africa – rejected (2008)
Focal subsidiary location	**Mandate development (year)**
Brazil	n/a
Mandate coverage	**Outlook (year)**
South America	Extended geographical responsibility for focal subsidiary not expected (2011)

The French subsidiary represents an affiliated unit of Case Company G that was described in detail for previous Case #9 (Table 4-32). The subsidiary was established in the 1980s when HQ management was giving consideration to the increasing relevance of the French market to the overall group. Prior to the opening it was managed by a strong importer that possessed a wide dealer network. At one point Company G decided to build up its own local office. The focal subsidiary represents a pure sales and service entity and does not possess any production or assembly facilities. From a pure sales perspective the focal subsidiary represents one of the strongest subunits of the group. Since its foundation local management has shown very satisfying sales results with dominating market positioning in France. Today's subsidiary CEO is French and has a high level of experience in the African region. The sales mandate of the focal subsidiary is limited to France and does not cover further neighboring or other French-speaking countries. Key subsidiary characteristics are summarized in Table 4-36 below.

Table 4-36: Subsidiary profile of Cases #10a and #10b

Subsidiary profile (as of 2010)	
Date of inauguration	1980s
Company belonging	1980s (through acquisition of French importer)
Location / host market	France
Value-add	Sales and after-sales
Responsibility for other markets	No
Responsibility for foreign sub-units	No

4.12.1.1. Initial mandate gain

Opportunity-identification and initiative-taking

The opportunity for managing markets in Northern Africa from the subsidiary in France was in both cases identified by local management. The locus of opportunity-identification and initiative-taking was therefore at the focal subsidiary. Both initiatives of the focal subsidiary were triggered by changing local human resources. While in the first case the subsidiary CEO was about to leave the company, the second case was characterized by the installation of a new CEO. In the context of these organizational changes, subsidiary management aimed to enlarge its territorial responsibility southwards into Northern Africa.

Rent-seeking and responsibility-allocation

The request was both times submitted in the course of a regular country visit and therefore did not involve any particular setting. As the petitions were immediately rejected they did not involve a significant amount of rent-seeking efforts by the focal subsidiary. The opportunity to enter markets in Northern Africa was identified a long time ago by corporate management of Company G. Since then Northern African markets have been developed by a dedicated sales manager in the parent company. As Northern Africa does not possess extraordinary sales potential it does not represent one of the core markets or regions from the perspective of the parent company. In addition, it is doubtful that increased efforts would lead to a significant sales boost in the region. The main argumentation of local management was that due to cultural proximity as well as existing networks and contacts in the region it was actually better suited to exploit the Northern African market potential from France. It was further noted that one needs to understand the mentality of Company G's home market and of France likewise in order to strongly promote sales in these markets. A key success factor for doing business in Maghreb countries is the ability to develop a sustainable local network that allows interesting projects or tenders to be identified.

To this day, HQ management has always rejected the subsidiary request and it is not expected that this opinion will change in the future. The reasoning of corporate management behind the decision is manifold. First of all it is expected that an extended geographical mandate would only distract local management from its core business in France. It is believed to be easier to grow subsidiary sales by winning market share in France than by developing outside markets with sub-critical potential. Second, the focal subsidiary is not equipped with adequate process expertise and warehouse facilities in order to carry out exports as efficiently as is currently done by the parent company. Third, corporate management already possesses a French sales manager who looks after Northern Africa and is equally capable of understanding local mentalities and developing networks in the region. Finally, HQ management believes that due to past hegemonial ambitions of the French, market participants in Northern Africa would actually prefer to be served from a market other than France. The fact that the subsidiary requests might have also followed personal motives of local CEOs, in one case to achieve a milestone upon exiting the company and in the other case to extend responsibility scopes at the start of a new business experience, might have further influenced the HQ decision.

4.12.1.2. Mandate evolution

Looking ahead, the focal subsidiary is expected to maintain its geographical mandate that is limited to its French host market. As all reasons for rejecting past subsidiary requests still exist, it is not expected that the subsidiary mandate will alter in the future.

4.12.2. Within-case analyses

On the next pages the outcome of the following three within-case analysis techniques for Cases #10a and #10b will be illustrated: (1) critical incident chart as shown in Figure 4-19; (2) event-state network as shown in Figure 4-20; (3) case dynamics matrix as shown in Table 4-37: Case dynamics matrix for Cases #10a and #10b.

Figure 4-19: Critical incident chart for Cases #10a and #10b

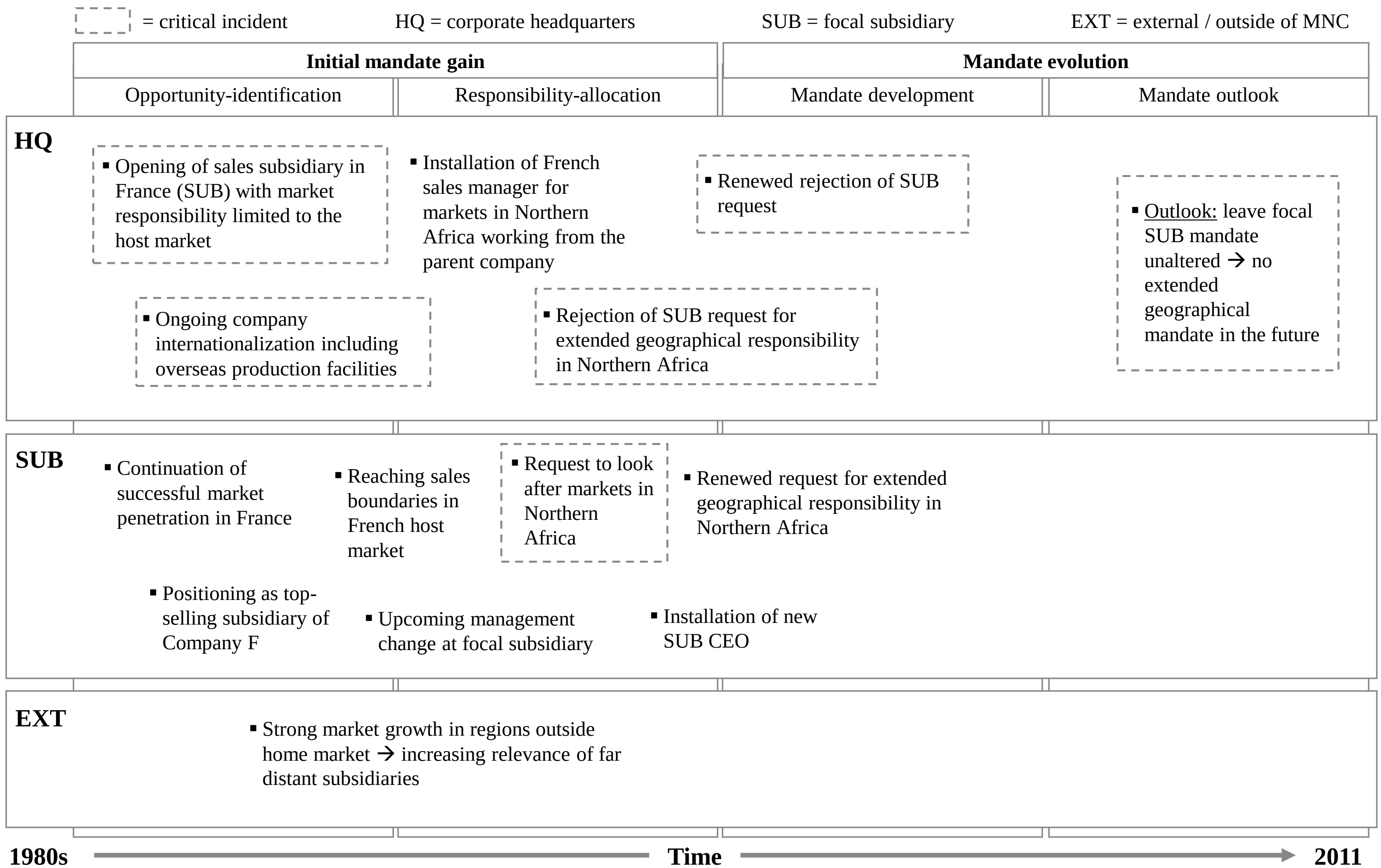


Figure 4-20: Event-state network for Cases #10a and #10b

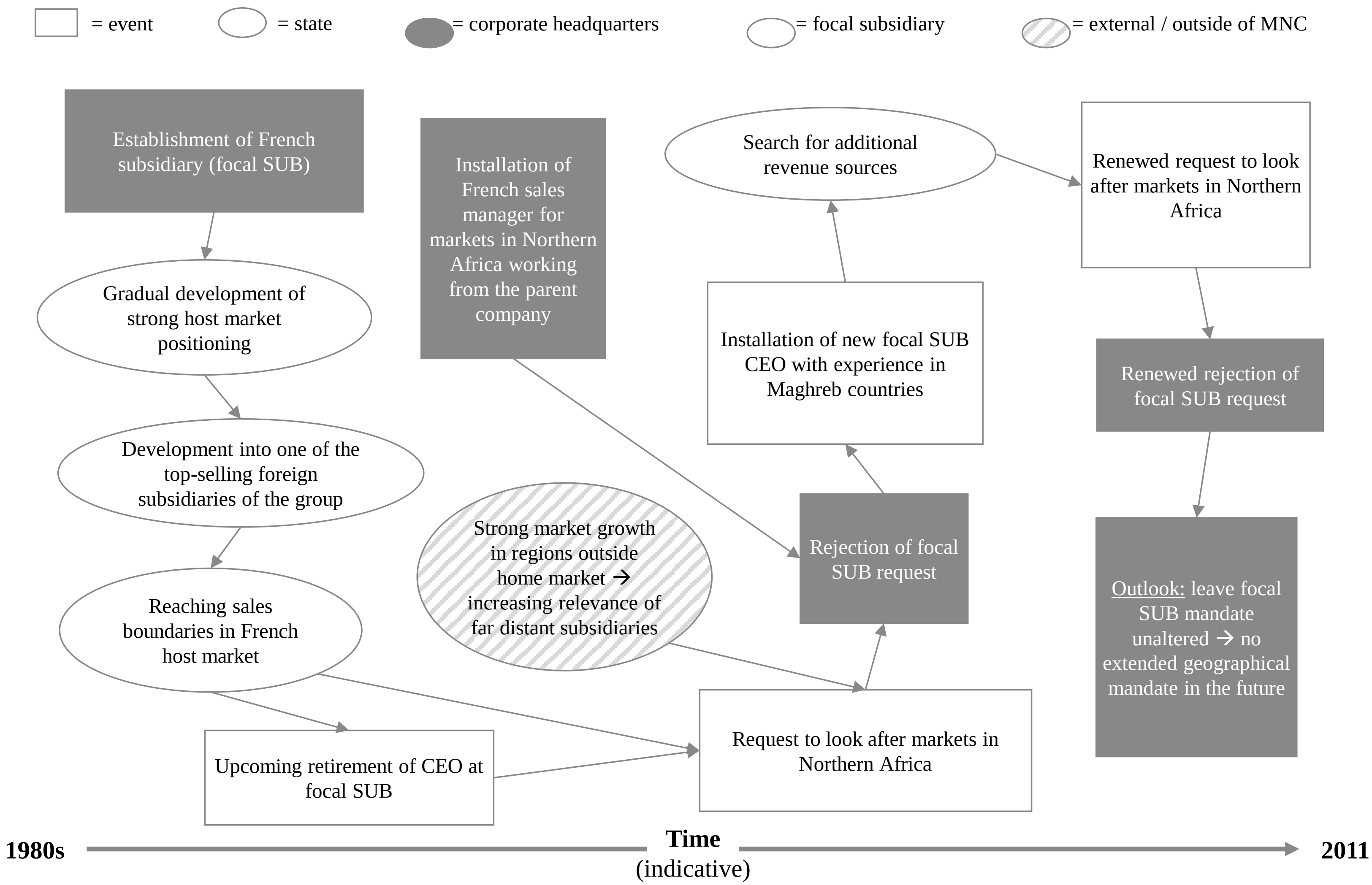


Table 4-37: Case dynamics matrix for Cases #10a and #10b

Critical incidents (locus / period)		**Initial mandate gain**				**Mandate evolution**
		Opportunity-identification		Responsibility-allocation (Rejected)		Mandate outlook
		Opening of focal SUB with market responsibility limited to French host market (HQ / 1980s)	Ongoing internationalization including setting up of overseas production facilities (SUB / 1990s)	Focal SUB request & HQ rejection for extended geographical responsibility (HQ & SUB / 2000s)	Renewed focal SUB request & HQ rejection for extended geographical responsibility (HQ & SUB / 2000s)	No alteration of focal SUB mandate → no extended geographical mandate in the future (HQ / plan)
HQ	**Incident Trigger**	▪ Upcoming retirement of local importer	▪ Unknown	▪ Focal SUB request	▪ Focal SUB request	▪ Unknown
	Incident Cause / Rationale	▪ Maintain and develop positioning in French market	▪ Participate in market growth outside home region ▪ Expand international production footprint	▪ Potential distraction from important home market ▪ Existence of French-speaking salesman at parent company ▪ Inadequate processes at focal SUB ▪ French hegemonial history ▪ Personal ambitions of local management	▪ Lacking sales potential in target market and potential distraction from important home market ▪ Existence of French-speaking salesman at parent company ▪ Inadequate processes at focal SUB ▪ French hegemonial history ▪ Personal ambitions of local management	▪ No advantage in providing French subsidiary with extended geographical responsibility
	Incident Effect	▪ Direct access to important French market	▪ Extended global market exposure	▪ Ongoing management of Northern Africa from the parent company	▪ Ongoing management of Northern Africa from the parent company	▪ Unknown
SUB	**Incident Trigger**	▪ n/a	▪ n/a	▪ Management change at focal subsidiary	▪ Installation of new SUB management	▪ n/a
	Incident Cause / Rationale	▪ n/a	▪ n/a	▪ Obtain new revenue sources → enlarge responsibility scope	▪ Find new revenue sources ▪ Leverage experience and networks in Africa	▪ n/a
	Incident Effect	▪ Increasing development of networks in France and sporadic exposure to other French-speaking countries	▪ Declining relevance of focal SUB in the overall group	▪ Continuation of limited development options	▪ Continuation of limited development options	▪ Continuation of limited development options

5. Cross-case analyses and discussion

5.1. Introduction

Following the detailed case descriptions and within-case analyses in the previous part of the study the initial section of this chapter is designed to compare individual case patterns across all eleven cases of subsidiary internationalization processes. The aim of such cross-case analysis (Miles & Huberman, 1994) is to come up with robust patterns of cross-border subsidiary responsibilities and associated mandate development paths. The main challenge is thereby not only to come up with case similarities and differences but to also shed light on the question on why some incidents replicate each other whilst others unfold in a particular and deviant form. In doing so, the investigator strongly relied on the advice of Eisenhardt (1989b: 540) “to select categories and dimensions, and then to look for within-group similarities coupled with intergroup differences”.

In the subsequent discussion part, findings of cross-cases analyses will then be thoroughly compared to confirming as well as conflicting literature in order to develop mid-range theories for internationalization processes of foreign subsidiaries. As suggested by Pauwels and Matthyssens (2004) the task is accompanied by a constant iteration between preliminary findings and literature that is expected to strengthen the degree of analytical generalization of findings from qualitative cases studies. While the last chapter was largely characterized by descriptive elements this chapter clearly represents the core of this PhD study from an analytical standpoint. It should be noted at this stage that the reader may not find some of the content outlined earlier in the literature review or the case descriptions directly in the following pages. Nonetheless, only the thorough understanding of individual case patterns and related prior research findings enabled the investigator to develop robust cross-case patterns, to put them into the context of earlier findings and eventually to make substantial contribution to IB research.

Cross-case analyses and subsequent discussions will be both split into the initial mandate gain and the subsequent mandate evolution. In addition they will both contain a sub-chapter on mandate lifecycles in which findings from the two elements, initial mandate gain and the subsequent mandate evolution, are merged in order to come with a comprehensive perspective on internationalization processes of foreign subsidiaries.

5.2. Comparative analysis of case data

5.2.1. Overview

Eleven cases of internationalization processes of foreign subsidiaries that were analyzed in the course of this PhD study revealed a total of 36 initiatives related to cross-border subsidiary responsibilities. Of these, eleven HQ- or subsidiary-driven initiatives are associated with initial foreign market responsibilities of foreign MNC units. Another fifteen initiatives refer to subsequent modifications of previously obtained cross-border subsidiary mandates that can again be driven by corporate or subsidiary management. The final group relates to ten initiatives, which corporate management are expected to carry out at some stage in the future. While the examination of initial mandate gains and subsequent mandate alterations is therefore based on historic incidents, mandate outlooks are solely based on current expectations of future developments. Due to internal and external factors that may impact current prospects, mandate outlooks inevitably embody a certain degree of uncertainty and vagueness.

Table 5-1 below provides an overview of the main initiative characteristics and is chronologically split into initial mandate gains, subsequent mandate developments and future mandate outlooks. Due to varying initiative outcomes and lengths of mandate existence, only seven cases also allow a better understanding of mandate modifications following the initial gain. The level of contribution to the study therefore differs from one case to another and is strongly linked to the date of the initial mandate gain. In addition to exhibiting varying mandate types regarding geographical and functional responsibility scopes, the case sample reveals different loci of initiative-taking, varying initiative outcomes and resulting mandate impacts, as well as multiple directions of responsibility transfer across the MNC. The latter aspect indicates that cross-border subsidiary responsibilities may represent the introduction of new MNC activities or the transfer of responsibilities of existing operations from one MNC unit to another. In turn, mandate decline can relate to the termination of existing activities or to their transfer from the focal subsidiary to another MNC entity. In order to allow for direct references, initiatives for decentralized market development are listed by their case number followed by their initiative number in chronological order as outlined in Table 5-1 below. Mandate outlooks are characterized by the end letter ‘x’ in order to illustrate their tentative character.

Table 5-1: Overview of initiatives for subsidiary internationalization

	Initiative #	Sub location	Initiative (scope, locus, outcome, mandate impact and responsibility transfer direction)				
			Responsibility scope	Locus	Outcome	Impact	From/to
Initial mandate gain	1.0	Poland	Sales mandate for former CIS markets	SUB	Positive	Gain	HQ
	2.0	Spain	Sales mandate for Latin America (w/o Chile)	SUB	Positive	Gain	HQ
	3.0	Singapore	Sales mandate for East Asia / Oceania	SUB	Positive	Gain	HQ
	4.0	Austria	Global KAM mandate for Austrian client	SUB	Positive	Gain	HQ/SUB
	5.0	China	Sales mandate for Asia-Pacific	HQ	Positive	Gain	HQ
	6.0	Singapore	Sales mandate for Southeast Asia	HQ	Positive	Gain	HQ
	7.0	Singapore	Logistics mandate for East Asia	HQ	Positive	Gain	HQ
	8.0	USA	Sales mandate for Mexico	SUB	Positive	Gain	HQ
	9.0	Brazil	Dealer support mandate in South America	HQ	Positive	Gain	HQ
	10a.0	France	Sales mandate for Northern Africa	SUB	Negative	Rejected	HQ
	10b.0	France	Sales mandate for Northern Africa	SUB	Negative	Rejected	HQ
Mandate alteration	1.1	Poland	Sales mandate for former CIS markets	HQ	Positive	Reduction	HQ
	2.1	Spain	Sales mandate for Chile	HQ	Positive	Extension	HQ
	4.1	Austria	Global KAM mandate for all Austrian clients	HQ	Positive	Extension	HQ/SUB
	4.2	Austria	Sales mandate for Eastern Europe	HQ	Positive	Extension	HQ
	5.1	China	Regional HQ mandate for Asia-Pacific	HQ	Positive	Extension	HQ
	6.1	Singapore	Sales mandate for Vietnam	SUB	Positive	Extension	New
	7.1	Singapore	Sales mandate for East Asia (excl. India)	HQ	Positive	Extension	SUB
	7.2	Singapore	Sales mandate for India	HQ	Positive	Extension	HQ
	7.3	Singapore	Regional HQ mandate for East Asia	SUB	Positive	Extension	HQ
	7.4	Singapore	Strategic regional HQ mandate for East Asia	HQ	Positive	Reduction	SUB
	7.5	Singapore	Regional HQ mandate over two sub-units	SUB	Positive	Reduction	Exit
	7.6	Singapore	Regional HQ mandate for China/Northeast Asia	HQ	Positive	Reduction	SUB
	8.1	USA	Regional HQ mandate for North America	SUB	Negative	Rejected	n/a
	8.2	USA	Sales mandate for Central/South America	SUB	Positive	Extension	HQ
	8.3	USA	Regional HQ mandate for the Americas	SUB	Positive	Extension	HQ
Mandate outlook	1.x	Poland	Sales mandate for former CIS markets	HQ	Expected	Loss	SUB
	2.x	Spain	Sales mandate for Latin America	HQ	Expected	Loss	SUB
	3.x	Singapore	Sales mandate for Southeast Asia	HQ	Expected	Reduction	SUB
	4.x	Austria	Sales mandate for Eastern Europe	HQ	Expected	Reduction	SUB
	5.x	China	Regional HQ mandate for Asia/Pacific	HQ	Expected	Extension	HQ
	6.x	Singapore	Sales mandate for Southeast Asia	HQ	Expected	Reduction	SUB
	7.x	Singapore	Regional HQ mandate for India	HQ	Expected	Loss	HQ
	8.x	USA	Regional HQ mandate for South America	HQ	Expected	Reduction	HQ/SUB
	9.x	Brazil	Additional subsidiary in South America	HQ	Expected	Reduction	HQ
	10.x	France	Dealer support mandate in South America	SUB	Expected	Rejected	HQ

Key for those that are not self-explanatory: Locus: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Impact: Gain = Initial mandate gain, Rejection = HQ rejection of subsidiary request, Extension = geographical and/or functional mandate extension, Reduction = geographical and/or functional mandate reduction, Loss = mandate loss. From/to: HQ = parent company and/or corporate headquarters, SUB = sister subsidiary.

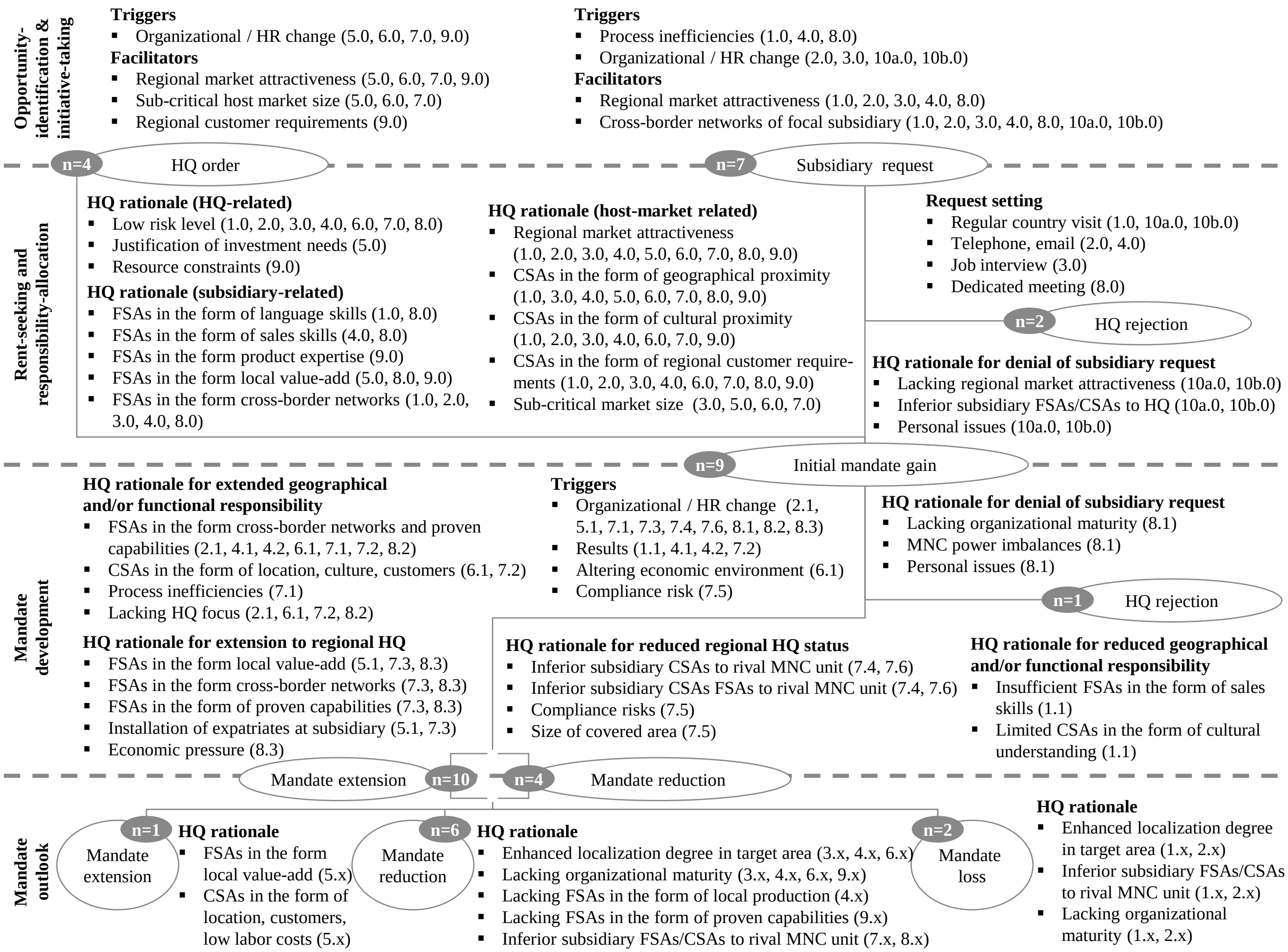
When looking at Table 5-1 the heterogeneity of cases becomes apparent. The case sample embodies Asian, American and European subsidiaries. As the related parent companies are based in Europe, highly varying geographical and cultural distances characterize the following cross-case analysis. In addition, while the majority of subsidiary mandates covers neighboring markets or regions, others are linked to far-distant territories with relatively little cultural overlap. Further adding to the heterogeneity of cases, the functional scope of cross-border mandates differs from one case to another and from one evolutionary stage to another. While observed primary initiatives often refer to particular value chain aspects like sales and service functions or to the global KAM of a single customer, cross-border subsidiary mandates are later often linked to significant functional scopes like regional HQ responsibilities. The evolution of functional scopes over time therefore appears to be highly relevant to the study at hand.

The majority of examined initiatives took a positive outcome either as they were identified by HQ management or as a result of successful rent-seeking efforts by local subsidiary management. The case sample, however, also features three unsuccessful subsidiary petitions for extended geographical reach. Two HQ rejections (#10a.0 and #10b.0) refer to the aim of a French subsidiary to obtain market responsibility for Northern Africa. In the remaining incident (#8.1), local US subsidiary management was not allowed to open and manage a Mexican subsidiary and thereby to functionally extend its existing cross-border mandate to a regional HQ status. In addition to failed subsidiary requests, the case sample also illustrates initiatives for declining or dissolving subsidiary responsibility. The majority of these incidents were obviously driven by corporate management. Nonetheless, in one incident (#7.5) the subsidiary itself actually suggested the closure of two Asian subsidiaries and thus the reduction of its regional HQ mandate.

Another interesting aspect of subsidiary internationalization is marked by the transfer of foreign market responsibilities across modern MNCs. Thirty-four out of 36 initiatives are linked to a shift of cross-border mandates to or from the focal subsidiary to other MNC units. Other MNC units can be the parent company or sister subsidiaries situated in a different host market. This alone shows that subsidiary internationalization is not necessarily associated with the development of new markets but very often relates to the transfer of existing market responsibilities across the MNC. This phenomenon strongly differentiates subsidiary internationalization from internationalization of the first degree. In fact, in only one incident (#6.1) did a foreign subsidiary obtain cross-border responsibility for a market which had not previously been served by the company. The other occurrence (#7.5) without intra-MNC responsibility transfer relates to the aforementioned closure of two Asian subsidiaries, which was not absorbed by any other MNC entity.

The following pages are designed to elaborate cross-case patterns for process stimuli and outcome rationales for initiatives related to cross-border subsidiary responsibilities. The selected approach relies on three steps. First, processes for the initial gaining of multinational subsidiary mandates will be highlighted, encompassing opportunity-identification and initiative-taking as well as rent-seeking and responsibility-allocation processes. Second, processes for subsequent mandate evolution will be examined across cases, embracing the observation of historic mandate developments and the examination of future mandate prospects. A broad overview of the outcome of this cross-case analysis is provided by Figure 5-1 below. Based on the initial two steps, a simple framework for evolutionary paths of foreign market subsidiary mandates (Figure 5-3) is drawn that displays the internationalization processes of the foreign subsidiaries across eleven cases.

Figure 5-1: Overview of cross-case analyses



5.2.2. *Initial mandate gain*

The initial extension of subsidiary responsibilities beyond host market borders usually involves two core process stages. The process offset is marked by opportunity-identification in and initiative-taking for a foreign market, which is then followed by a separate rent-seeking and decision-making phase. Rent-seeking efforts by subsidiary management generally only exist if the opportunity for decentralized foreign market development is identified and pursued by local management. In this case the focal subsidiary seeks to obtain HQ approval for allocating existing or new resources to a foreign territory. As outlined above, subsidiary internationalization is not restricted to the development of previously unserved markets and regions. A precondition is that, from the focal subsidiary's perspective, requested foreign market responsibility symbolizes the initial border crossing of local business operations.

In accordance with the aforementioned stages associated with initial subsidiary internationalization, the following comparative analysis of case data and individual case patterns will be split into an opportunity-identification and initiative-taking as well as a rent-seeking and responsibility-allocation process. Throughout the first part the aim is to understand what mechanisms trigger initiative-taking for cross-border subsidiary responsibility at any MNC level. In the following part the investigator seeks to shed light on the underlying HQ rationale for selecting a decentralized as opposed to a traditional and thus HQ-managed market development approach. Relatively heterogeneous case characteristics facilitate the development of solid cross-case patterns and allow a better understanding of drivers and restrictions at the offset of subsidiary internationalization processes.

5.2.2.1. *Opportunity-identification and initiative-taking*

A total of eleven initiatives for extended geographical responsibility of foreign MNC units were analyzed in the course of the PhD study. This section describes how opportunities for subsidiary internationalization were originally identified and subsequently pursued, i.e. how they were stimulated and what made MNC stakeholders eventually act upon them. In addition, initiatives across all cases will be contrasted with regard to their locus and timing in order to gain a better understanding about where in the MNC and at what stage of subsidiary evolution opportunities are identified and pursued.

Table 5-2: Initiative triggers and facilitators for subsidiary internationalization

Initiative	Locus	Time	Primary trigger	Trigger type	Trigger locus	Primary facilitator	Additional facilitator
1.0	SUB	Past opening of subsidiary	Constant order forwarding to HQ for former CIS customers	Processes inefficiencies	Outside MNC	Regional market attractiveness	Cross-border subsidiary networks driven by location, culture & regional customer requirements
2.0	SUB	Past opening of subsidiary	Reorganization of sales team at subsidiary	Organizational / HR change	Within MNC	Regional market attractiveness	Cross-border subsidiary networks driven by culture & regional customer requirements
3.0	SUB	Prior to opening of subsidiary	Exit of HQ salesman for markets in Asia & Oceania	Organizational / HR change	Within MNC	Regional market attractiveness	Cross-border subsidiary networks driven by location, culture & regional customer requirements
4.0	SUB	Past opening of subsidiary	Serious complaint from important Austrian client to subsidiary	Processes inefficiencies	Outside MNC	Regional market attractiveness	Cross-border subsidiary networks driven by location, culture & regional customer requirements
5.0	HQ	Past opening of subsidiary	HQ decision to set up local production facilities at subsidiary	Organizational / HR change	Within MNC	Regional market attractiveness	Sub-critical host market size
6.0	HQ	Prior to opening of subsidiary	HQ decision to establish subsidiary in Singapore	Organizational / HR change	Within MNC	Regional market attractiveness	Sub-critical host market size
7.0	HQ	Prior to opening of subsidiary	HQ decision to establish subsidiary in Singapore	Organizational / HR change	Within MNC	Regional market attractiveness	Sub-critical host market size
8.0	SUB	Past opening of subsidiary	Continuous complaints from Mexican dealers to subsidiary	Processes inefficiencies	Outside MNC	Regional market attractiveness	Cross-border subsidiary networks driven by location & regional customer requirements
9.0	HQ	Past opening of subsidiary	Exit of HQ salesman responsible for South America	Organizational / HR change	Within MNC	Regional market attractiveness	Regional customer requirements
10a.0	SUB	Past opening of subsidiary	Upcoming retirement of subsidiary CEO	Organizational / HR change	Within MNC	Cross-border subsidiary networks driven by driven by culture	-
10b.0	SUB	Past opening of subsidiary	Installation of new subsidiary CEO	Organizational / HR change	Within MNC	Cross-border subsidiary networks driven by culture	-

Key for those that are not self-explanatory: Locus: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Primary trigger = specific incident that stimulated initiative-taking of HQ or subsidiary management. Primary and additional facilitator = events or states that facilitated initiative-taking at HQ or subsidiary level.

A thorough overview of initial processes of subsidiary internationalization is provided by Table 5-2 above. In addition to highlighting the locus and time, relative to the establishment of the focal subsidiary, of opportunity-identification and initiative-taking processes, Table 5-2 illustrates what specific events stimulated and what conditions facilitated subsidiary internationalization. Even though observed cases sometimes disclose more than one specific initiative trigger and often more than two facilitating conditions, the summary is deliberately focused in order to avoid distraction from the key process items.

Ignoring initiative triggers and facilitators for a moment, examined initiatives illustrate a high level of heterogeneity regarding the locus and timing of process initiation. While in the majority of initiatives (#1.0, #2.0, #3.0, #4.0, #8.0, #10a.0 and #10b.0) the opportunity to develop foreign markets from a foreign subsidiary was identified by local subsidiary management, the remaining ones (#5, #6, #7 and #9) are characterized by a locus of opportunity-identification at the parent company. One key message is therefore that internationalization processes of foreign subsidiaries can be initiated locally, i.e. at the business frontline to foreign markets, as well as centrally by HQ management often far away from the actual arena. Moreover, in three instances (#3.0, #6.0 and #7.0) the decision to provide foreign subsidiaries with responsibility beyond national borders was taken prior to the inauguration of the MNC unit itself. The mere presence of these cases already leads to the second key observation that reaching a certain stage in the evolutionary path of foreign subsidiaries does not represent a prerequisite for obtaining extended geographical reach. In fact, some foreign sub-units are equipped with this status from their very start.

Having outlined some fundamental differences of initiatives for subsidiary internationalization regarding their locus and timing relative to the subsidiary establishment, the following pages will take a closer look at initiate triggers and facilitators and thus at the core process drivers. Overall, the examined initiatives illustrate remarkable similarities for process triggers and facilitators despite their case particularities. While, as may be expected, the actual initiative trigger differs from one case to another, its categorization allows a clearer picture about case similarities and differences. Eight initiatives (#2.0, #3.0, #5.0, #6.0, #7.0, #9.0, #10a.0 and #10b.0) that were stimulated by altering organizational structures or human resource configurations are accompanied by three initiatives (#1.0, #4.0 and #8.0) that were triggered by apparent process inefficiencies. Changing organizational structures refer twice (#6.0 and #7.0) to the opening of the focal subsidiary, in one instance (#5.0) to the upgrade of the focal subsidiary with local production facilities and in one case (#2.0) to a reorganization of the focal subsidiary's sales team. Modified human resource configurations relate to the exit of the HQ sales manager responsible for the market in focus (#3.0, #4.0 and #9.0) or CEO replacement at the focal subsidiary (#10a.0 and #10b.0).

Highlighting the relevance of altering human resource configurations for subsidiary internationalization processes, the sales manager in case #9 notes:

> *"Our company is characterized by a rather prudent approach towards change. Any exit of human resources therefore marks a point where existing procedures may be questioned and new approaches potentially tested."*[11]

Overall, initiatives are characterized by abrupt changes and revolutionary aspects that made corporate or subsidiary management propose alternative market development approaches. Initiatives #1.0 and #8.0 slightly deviate from this norm as process inefficiencies had existed over a longer period of time and unlike initiative #4.0 no specific incident is recorded that made local subsidiary management propose decentralized market development approaches. When broadening the perspective on initiative facilitators that precede the actual initiative-taking process at HQ or subsidiary level, however, gradual and evolutionary process elements of subsidiary internationalization become apparent. For all examined cases subsidiary or corporate management was long aware of the size and growth of the market for which extended geographical responsibility was requested and/or granted. Growing awareness at either end of the MNC of the target market or region therefore not only appears to accompany most internationalization processes of foreign subsidiaries but also seems to augment the proclivity of MNC stakeholders for foreign market development by any means.

When further comparing facilitating conditions, a differentiation regarding the locus of opportunity-identification needs to be made. All initiatives that were taken by foreign subsidiaries (#1.0, #2.0, #3.0, #4.0, #8.0, #10a.0 and #10b.0) have cross-border knowledge and networks of local management in common. Subsidiary management had thus already developed business relationships with market participants in the focus market or region prior to launching its request. The development of cross-border networks therefore gradually occurred over time and did not necessarily follow the intentions of local subsidiary personnel. In case #4, for example, the internationalization process of Austrian companies into Eastern Europe resulted in cross-border extensions of existing contacts for the focal subsidiary. Cases #2 and #8 demonstrate that the process can be considerably influenced by the focal subsidiary. In both cases local management conducted unofficial small-scale sales beyond the US and Poland respectively prior to seeking official HQ approval. In this context the CEO of the US subsidiary in case #8 notes:

[11] Original quotation in German: „Die Organisation ist sehr vorsichtig und Veränderungen gehen wir immer sehr langsam an. Und dann führt das Ausscheiden des Mitarbeiters natürlich dazu, dass man sich hinterfragt und schaut, wie man gewisse Dinge in Zukunft anders machen kann."

"I think it was the way of our former CEO of entering a market without getting permission for doing so."

The observed similarities across eleven cases of subsidiary internationalization suggest two interesting findings. First, due to certain country-specific characteristics, foreign subsidiaries are able to extend their networks into foreign territories without officially holding a related mandate. Similar to Rugman and Verbeke (1992), such host-market-related CSAs are linked to a specific market or set of markets, accessible to all market participants and at the same time not or only to a very limited degree influenceable by involved stakeholders. Witnessed host-market-related CSAs in the case sample were geographical proximity, cultural similarities including language, and comparable customer preferences related to products and services. While only the Polish, Singaporean and Austrian subsidiaries in initiatives #1.0, #3.0 and #4.0 could count on all three CSA types, all other subsidiary-driven initiatives exhibit at least two different CSA kinds. Despite no geographical proximity to South American markets, the Spanish subsidiary in case #2, for example, could rely on cultural similarities, in particular language, as well as comparable product requirements in its host and target markets. Observed CSAs seem to enable foreign subsidiaries, without any form of initiative-taking to gradually extend their network embeddedness beyond host market borders. At the same time, local management can actively speed up the process of obtaining foreign market knowledge and insidership, as witnessed in cases #2 and #8. Independent of management intentions, the statement of the subsidiary CEO in case #1 summarizes the aforementioned aspects very well:

"Maybe we cannot treat them better but we understand them better. […] And it is also the same kind of people, Slavic people, who buy many things in Poland."

In all subsidiary-driven initiatives for foreign market responsibility, local management views its network position in and its knowledge about a foreign market or region as superior to other units of the organization. It is convinced it is best suited to grow business networks and thus company presence in a particular foreign market. Local subsidiary management therefore appears to be able to leverage host-market-related CSAs in order to develop subsidiary capabilities or FSAs over time. FSAs can refer to market development capabilities and market knowledge or insidership, which are exclusively linked to local subsidiary management and differentiate it from other MNC units including the parent company. Being aware of the presence and distinctiveness of FSAs at the focal subsidiary, local management therefore appears to be tempted to request permission to exploit these assets. As noted above, the development process of FSAs can but does not have to follow local management intentions and therefore shows highly varying process speeds. Regarding the development of FSAs through the local presence of CSAs, the subsidiary CEO of case #3 remarks:

"I have developed these capabilities, my Asia expertise, during my time in this area. […] This has only a little to do with the actual product but rather relates to cross-cultural understanding and diplomatic relationships that are needed in order to get in touch with people and to deal with them appropriately."[12]

Looking only at subsidiary-driven initiatives would leave the observer with the impression that knowledge and network development exclusively take place in the subsidiary's host market. This would be in line with Johansson and Vahlne's (1977) postulation that learning, as the key driver of internationalization processes, occurs at the business frontline. The remaining four initiatives (#5.0, #6.0, #7.0 and #9.0), however, clearly demonstrate that subsidiary internationalization can be driven by corporate management even prior to the actual opening of the focal subsidiary. Particularly striking about this fact is that all HQ-driven initiatives show different facilitating conditions than their subsidiary-driven counterparts.

While regional market volume and growth continue to facilitate the initiative-taking process, the aspect of sub-critical host market size appears to be of particular significance at corporate levels. In cases #6 and #7 limited host market size, referring to Singapore, meant that the opening of a local sales and service subsidiary could only be justified by stretching its geographical scope into neighboring markets. Even though in case #5 the sub-critical host market size relates to China, the principle remains unaltered. China may have already represented a huge market at that time but HQ management was afraid of facility underutilization due to any local political turmoil. In all three cases, economic aspects made corporate management consider alternative market development approaches. A host market limitation in combination with attractive regional markets may thus enhance HQ awareness of extending foreign subsidiary mandates. This phenomenon is highlighted by a simple line in the company magazine in case #3 about the reasoning for opening a sub-unit in Singapore and equipping it with an Asian sales mandate from the very start:

"Given the positive developments in the market and an increasing demand from the Asian region, Company B founded the subsidiary."

[12] Original quotation in German: "Ich habe mir diese Fähigkeiten, meine Asienexpertise, im Laufe der Zeit, die ich vorher in der Region verbracht habe, angeeignet. […] Das hat weniger mit Produkten zu tun, als mit interkulturellen und diplomatischen Beziehungen, welche Sie brauchen, um überhaupt an Leute ranzukommen und mit Leuten umzugehen."

The HQ-driven initiative #9.0 clearly stands out from the crowd as it highlights a facilitating condition that was up to this point only identified in subsidiary-driven initiatives. This points to another interesting aspect of subsidiary internationalization. When HQ management was faced with resource constraints due to the upcoming exit of the HQ sales manager for South America, it sought alternative options. Having noticed considerable product similarities across South American markets it decided to equip local management in Brazil with the responsibility for technical importer and dealer support in the entire region. Host-market CSAs in the form of similar customer requirements for products and services made HQ management aware of the subsidiary's suitability for serving the entire region. By providing technical support to dealers in the Brazilian host market, local subsidiary management also developed FSAs appropriate for managing cross-border territories. In this particular case, local management might not have been aware of their distinct positioning within the MNC, so it was corporate management that decided to leverage these assets. The relevance of CSAs and their impact on subsidiary resources therefore seem to also play an important role when subsidiary internationalization is initiated by corporate management.

Based on previous cross-case analyses, the following nine key observations of opportunity-identification and initiative-taking processes in subsidiary internationalization were made:

1) Subsidiary internationalization can be triggered from within and outside of the MNC

2) Subsidiary internationalization can be initiated at different MNC levels

3) Subsidiary internationalization can be initiated prior to the subsidiary's establishment

4) Subsidiary internationalization can involve evolutionary (facilitating conditions) and revolutionary (triggers) process elements

5) Sufficient market attractiveness is likely to accompany subsidiary internationalization

6) Host-market-related CSAs like geographical proximity may stimulate subsidiary internationalization

7) Host-market-related limitations like insufficient size may stimulate subsidiary internationalization

8) Host-market-related CSAs may allow foreign subsidiaries to develop FSAs in the form of network embeddedness into foreign markets

9) Resulting subsidiary-related FSAs that stretch beyond the host market may stimulate subsidiary internationalization

5.2.2.2. *Rent-seeking and responsibility-allocation*

Building on the previous section on the opportunity-identification and initiative-taking phase of subsidiary internationalization, the subsequent rent-seeking and responsibility-allocation processes will be thoroughly contrasted across cases in the following pages. While the overall case sample is dominated by successful initiative outcomes that allow the investigation of underlying process drivers, two failed subsidiary requests for foreign market responsibility (cases #10a and #10b) further provide insight into potential process restrictions. The following reflections will be carried out with the intention of defining robust cross-case patterns that are capable of providing answers to why some subsidiaries succeed while others fail in obtaining managerial influence beyond national borders. By doing so, special attention will be drawn to the aspect of perceived risk levels among corporate managers, which seems to significantly influence the overall decision-making process.

The rent-seeking and responsibility-allocation process for extended geographical responsibility generally encompasses two major elements: first, the exchange setting, i.e. how the subsidiary initiative is submitted to corporate management, and second, for what reasons a foreign subsidiary receives or fails to receive its initial foreign market mandate. While the former aspect only exists if the process is initiated by local subsidiary management, the latter accompanies all initiatives no matter where the locus of opportunity-identification or initiative-taking is set. An overview of eleven initiatives for cross-border subsidiary responsibility is provided by Table 5-3 below. In addition to the initiative locus and the exchange setting, the summary further encompasses the initiative outcome or subsidiary impact, the mandate origin, i.e. from where in the MNC the mandate is received, as well as three underlying HQ rationales. The mandate origin highlights whether the foreign market responsibility was previously carried out by the parent company or any other MNC unit or whether subsidiary internationalization refers to the development of a completely new market.

Finally Table 5-3 also provides information about the level of risk that corporate management attributes to the delegation of cross-border responsibility to the focal subsidiary and the relative MNC positioning of the focal subsidiary for the specific market development task. Relative subsidiary value-proposition is thereby based on host-market-related CSAs and subsidiary-related FSAs and is viewed against the parent company and other sister subsidiaries.

Table 5-3: Initiative outcomes and HQ decision-making rationales for initial mandate gains

Initiative	**Locus**	**Exchange setting**	**Subsidiary impact**	**Trans fer** (from)	**Primary HQ rationale**	**Further HQ rationale**	**Further HQ rationale**	**HQ risk**	**SUB value-proposition**
1.0	SUB	Country visit	Sales mandate for former CIS markets	HQ	Regional market attractiveness	CSAs (location, culture, customers)	FSAs (networks, language)	Low	> HQ / > other SUB
2.0	SUB	Phone, e-mail	Sales mandate for Latin America (w/o Chile)	HQ	Regional market attractiveness	CSAs (culture, customers)	FSAs (networks)	Low	> HQ / > other SUB
3.0	SUB	Job interview	Sales mandate for East Asia / Oceania	HQ	Regional market attractiveness	CSAs (location, culture, customers)	Sub-critical host market size	Low	> HQ / > other SUB
4.0	SUB	Phone, e-mail	Global KAM mandate for Austrian client	HQ & other SUB	FSAs (sales skills, networks)	CSAs (location, culture, customers)	Regional market attractiveness	Low	> HQ / > other SUB
5.0	HQ	No exchange	Sales mandate for Asia-Pacific	HQ	Justification of local production facilities	Sub-critical host market size	Regional market attractiveness	Medium	< HQ / > other SUB
6.0	HQ	No exchange	Sales mandate for Southeast Asia	HQ	Regional market attractiveness	CSAs (location, culture, customers)	Sub-critical host market size	Low	> HQ / > other SUB
7.0	HQ	No exchange	Logistics mandate for East Asia	HQ	Regional market attractiveness	CSAs (location, culture, customers)	Sub-critical host market size	Low	> HQ / > other SUB
8.0	SUB	Dedicated meeting	Sales mandate for Mexico	HQ	Regional market attractiveness	CSAs (location, customers)	FSAs (sales skills, networks, language, value-add)	Low	> HQ / > other SUB
9.0	HQ	No exchange	Dealer support mandate in South America	HQ	Regional market attractiveness	CSAs (location, culture, customers)	FSAs (product know-how)	Medium	> HQ / > other SUB
10a.0	SUB	Country visit	None (sales mandate for Northern Africa rejected by HQ)	HQ	Lacking regional market attractiveness	Insufficient CSAs (geography, customers)	Personal motivations	High	< HQ / > other SUB
10b.0	SUB	Country visit	None (sales mandate for Northern Africa rejected by HQ)	HQ	Lacking regional market attractiveness	Insufficient CSAs (geography, customers)	Personal motivations	High	< HQ / > other SUB

Key for those that are not self-explanatory: Locus: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Exchange setting = how the subsidiary initiative is submitted to HQ management. Transfer (from) = from where in the MNC the mandate is received. HQ rationales = HQ reasoning for selecting a decentralized market development approach. HQ risk = level of risk that HQ management attributes to the delegation of responsibilities. SUB value-proposition = relative MNC positioning of the subsidiary for the development of a particular foreign market.

When looking at Table 5-3 the column for ‘Transfer (from)’ is likely to attract the reader’s eyes. As the PhD topic deals with internationalization processes of foreign subsidiaries one would expect that they are linked to the development of markets or regions in which the MNC was not yet present. The case sample, however, reveals the complete opposite picture. Ten out of the eleven initiatives involve the transfer of existing market development activities from the parent company to the focal subsidiary. Moreover, the remaining initiative (#4.0) constitutes the shift of global customer management for a particular client from corporate headquarters and sister subsidiaries to the focal subsidiaries. However, the level of prior market development varied from one case to another. While in some instances (#1.0 and #5.0) it did not surpass the response to unsolicited orders, all other initiatives are characterized by significant market presence at the offset of subsidiary internationalization. It can thus be stated that from an MNC perspective subsidiary internationalization does not automatically result in broadened global reach.

In terms of subsidiary impact, eight out of the eleven initiatives involve geographically extended sales mandates of a foreign subsidiary. The remaining initiatives are either related to cross-border key account management (KAM) for a single Austrian client (#4.0), to technical importer and dealer support in South America (#9.0) or to logistics responsibility beyond the Singaporean host market (#7.0). It therefore appears that initial internationalization processes are often related to functionally limited responsibilities. Nine out of the eleven initiatives are further characterized by positive initiative outcomes that led to a geographical extension of existing subsidiary activities. The case sample only contains two failed subsidiary requests (#10a.0 and #10b.0), which are linked to the French subsidiary of Case Company G that repeatedly failed to obtain market responsibility in Northern Africa.

The nine-to-two ratio outlined above with regard to positive and negative initiative outcomes respectively would at first sight indicate that a significant proportion of foreign subsidiaries may benefit from foreign market responsibility. The fact that only seven out of around fifty corporate managers that were approached at the offset of the study were aware of cross-border subsidiary responsibilities in their MNC, however, illustrates instead that only a few subsidiaries actually obtain multinational reach. It is acknowledged that questioned corporate managers might have overseen extended subsidiary responsibilities or might have responded in this way in order to avoid study participation but the number nonetheless strongly backs this indication. It is therefore assumed but by no means examined in the course of the study that in addition to a lack of sufficient value-proposition, foreign subsidiaries may also stay within host market borders because they simply do not strive for additional responsibility or because they or their respective HQ do not take decentralized market development approaches into consideration at all.

While none of the HQ-driven initiatives (#5.0, #6.0, #7.0 and #9.0) involved any particular exchange with local subsidiary management and as a result of budget authority took a positive outcome, the remaining initiatives exhibited some form of rent-seeking efforts by local management and a particular setting in which the request was put forward to HQ management. For three initiatives (#1.0, #10a.0 and #10b.0) the proposition was made in the course of a regular country visit by corporate management, for another two (#2.0 and #4.0) the request was purely exchanged by e-mail and telephone and for the remaining one (#3.0) the petition was actually submitted spontaneously in the course of a job interview. Only in one case (#8.0) did the initiative actually involve a dedicated meeting in order to present and discuss the subsidiary request. In addition, no cases involved any form of business case calculation or similar feasibility studies. Looking at the communication of subsidiary requests, it therefore appears as if the exchange setting and form of cross-border responsibility requests play only a subordinate role in the decision-making process. The overall decision-making process actually seems to be relatively informal, so the exchange settings associated with subsidiary initiatives for extended geographical responsibility will not be further detailed for the purpose of this study.

Identifying cross-case patterns of HQ rationales for delegating market responsibility to affiliated foreign subsidiaries, however, is crucial for understanding drivers and restrictions of subsidiary internationalization. In line with previously examined opportunity-identification and initiative-taking processes, observed rationales for responsibility delegation strengthen the belief that sufficient attractiveness of target markets with regard to volume and growth[13] represents a prerequisite for obtaining cross-border reach. All initiatives that attained HQ approval fulfilled such preconditions. In addition, the two failed subsidiary petitions (#10a.0 and #10b.0) specifically lack market size and growth in Northern Africa, i.e. in the requested territory. The aspect of minimum target market size and growth is further highlighted by the involved corporate manager at Company G when commenting on the repeated rejection of the subsidiary request to reach beyond host market borders in France:

> *"Even if local management succeeds in tripling sales to this region it would not have made a large impact. With this energy it can achieve far more in its French host market."*[14]

In addition to highlighting the need for sufficient market attractiveness, the statement further reveals a continuous search by corporate management for optimized resource deployment across

[13] Study is limited to market-seeking rationales for subsidiary internationalization; other rationales could be resource-, efficiency- as well as strategic-asset-seeking (Dunning, 1993).

[14] Original quotation in German: "Selbst wenn er da den Umsatz verdreifacht, hätte ihm das nicht viel gebracht. Mit der Energie hätte er in Frankreich wesentlich mehr bewirken können."

the entire MNC. Resources should be utilized for markets and regions that are expected to offer the highest input–output ratio. While no comparisons to other foreign sub-units were made in any case interview, it can be expected that the parent company's desire for optimized resource allocation also applies to internationalization processes of foreign subsidiaries. While attractive markets therefore appear to represent the prerequisite for any form of internationalization, they alone do not explain subsidiary internationalization. Initiative outcomes further highlight that foreign subsidiaries need to offer a certain value-proposition that qualifies them for foreign market development and simultaneously differentiates them from other MNC units. Such value-proposition that makes corporate headquarters opt for a decentralized market development approach in the first place seems to be the sum of host-market-related CSAs like geographical proximity, cultural similarities or comparable product and service needs of customers in the region. This was mentioned by the HQ sales manager in case #2 when providing rationales for developing South American markets through the Spanish subsidiary:

"Another good reason is language. Even though most importers have one English-speaking person, it is always difficult if no-one on our side speaks Spanish or Portuguese. […] There is also the advantage of cultural proximity. It helps to find agreements."

Having outlined the relevance of regional market attractiveness and host-market CSAs in the course of subsidiary internationalization, the aspect of certain host-market 'limitations' also appears to be of significance. For initiatives #3.0, #5.0, #6.0 and #7.0, insufficient host market size and thus demand is not only viewed as a stimulus for subsidiary internationalization as outlined earlier in this chapter but is also referred to as the main HQ rationale for extending subsidiary mandates beyond host market borders. In attractive regions with relatively small countries like in Southeast Asia (initiatives #3.0, #6.0 and #7.0), the establishment of a focal subsidiary can only be justified with a covered area larger than Singapore. Initiative #5.0 appears to deviate from this logic as it exhibits China as the host market, which does not necessarily imply limited host market size. Nonetheless, in the eyes of the company owner, the setting up of local production facilities would only be reasonable if they serve an entire region.

Obtaining HQ buy-in appears to be further facilitated by subsidiary-related FSAs in the form of cross-border knowledge and networks, market development expertise or extended local value-add. In the course of initiative #4.0, for example, local subsidiary management could count on strong relationships with the Austrian customer in focus, which strongly facilitated the obtaining of HQ approval. Prior to initiative #8.0 the focal subsidiary had already demonstrated its foreign market development capabilities by unofficially exporting into Mexico on a small scale. In addition, it could rely on enhanced local value-add as products suitable for the Mexican market were produced locally. The study, however, also contains three cases (#3, #6 and #7) where extended geographical responsibility was granted to the focal subsidiary prior to its actual inauguration. Aforementioned subsidiary-related FSAs can thus be viewed as facilitating conditions but not as prerequisites at the early stage of subsidiary internationalization. In all three incidents, corporate management was not (#6.0 and #7.0) or only to a very limited degree[15] (#3.0) aware of the capabilities of future subsidiary personnel. This view is further supported by a rather negative view of corporate management on the capabilities and the overall business approach of local subsidiary management throughout initiative #1.0. Despite granting extended geographical responsibility to the focal subsidiary in Poland, the relevant HQ manager in case #1 notes in this context:

“They are very dependent on input from outside of their subsidiary because they can't take decisions themselves or develop products for outside their home market.”

While attractive markets in the region together with host-market-related CSAs may qualify foreign subsidiaries for developing new markets, obtaining extended geographical responsibility also appears to highly depend on involved risk levels perceived by corporate management. The risk can relate to adverse selection of a particular foreign market as well as adverse selection of a subsidiary to carry out foreign market development. At first sight only adverse selection of a subsidiary appears to be relevant to this study as it is directly linked to the question of using local resources and thus relying on alternative market development approaches. However, any opportunity, no matter by which MNC unit it is eventually pursued, is likely to be contrasted to other opportunities across the MNC before receiving necessary resources. The aspect will not be further detailed in the course of the study as the investigator was not able to contrast foreign market development opportunities to other opportunities that were existent at that time of decision but will be kept in mind when drawing conclusions from case study findings. A very good summary on the risk dimensions found in internationalization processes of foreign subsidiaries is provided by the HQ representative in case #6:

“Two uncertainty types characterize this process: uncertainty about what the subsidiary is actually doing and how well it is executing its task and uncertainty about how the market is developing. […] In addition, limited availability of resources always impacts the process.”[16]

[15] Based only on impressions from a single job interview.

[16] Original quotation in German: „Es gibt dabei immer zwei Arten von Unsicherheit. Die Unsicherheit darüber, was die Tochtergesellschaft macht und wie gut sie es macht und die Unsicherheit wie entwickelt sich der Markt. […] Die Begrenztheit der Ressourcen spielt dabei auch immer eine Rolle.“

While the topic of resource efficiency and internal competition for resources was already touched upon when investigating the two failed subsidiary initiatives (#10a.0 and #10b.0), the statement further highlights two interesting particularities of subsidiary internationalization. First, subsidiary internationalization is likely to extend the risk dimension by internal commitment and uncertainty parameters. Second, host-market-related CSAs and potentially linked subsidiary-related FSAs seem to influence uncertainty levels perceived by corporate management. Both aspects are exemplified by contrasting two HQ-driven and successful initiatives (#5.0 and #9.0) with two subsidiary-driven and failed requests (#10a.0 and #10b.0). In all four incidents corporate management felt relatively reluctant to delegate foreign market responsibility to local subsidiary managers. It even viewed its value-proposition for fulfilling the task superior to the focal subsidiary. So why did local management in two of these cases receive and in another two fail to obtain cross-border responsibility?

While in the course of the two failed subsidiary requests in cases #10a and #10b corporate management could still count on adequate resources at HQ level, it faced insuperable resource constraints in case #9. In case #5 the foreign market mandate for the Chinese subsidiary initially only existed on paper and was exclusively designed to calm down company owners when facing upcoming investment needs for local production facilities. It therefore appears that perceived or maximum tolerated risk levels may be impacted by parameters other than host-market-related CSAs and subsidiary-related FSAs.

With regard to the appearance of internal uncertainty parameters, three initiatives (#9.0, #10a.0 and #10b.0) linked to Company G provide further interesting insights. In the eyes of HQ management, for example, the risk of losing market share in France in incidents #10a.0 and #10b.0 clearly outweighed any potential advantages associated with allowing the French subsidiary to allocate resources to relatively unimportant markets in North Africa. The subsidiary's value-proposition, mainly driven by host-market CSAs in the form of language, was therefore considered to be insufficient. In case #9, corporate management is still unsure whether the benefits from providing technical dealer support in South America through its Brazilian subsidiary eventually offset the associated risks in the form of potential dealer dissatisfaction. It views the current construct as a temporary phenomenon suitable for overcoming current resource constraints but likely to dissolve in the near future.

Regarding additional influencing parameters for uncertainty levels, all positive initiatives for extended geographical responsibility of foreign subsidiaries (cases #1 to #9) have CSAs as one of the main HQ motives in common. It therefore seems that CSAs like geographical and cultural proximity or regional product similarities are capable of lowering external uncertainty levels perceived by corporate management. In addition, subsidiary-related FSAs like cross-border networks or market development expertise that are often the result of leveraged CSAs are further stated as rationales for decentralized market development approaches. Putting it differently, increased delegation of responsibilities or internal commitment appears to offer the parent company the possibility to lower the involved risk level of the undertaking. Foreign subsidiaries are thus likely to offer a value-proposition for the development of foreign markets that is superior to traditional internationalization approaches from corporate headquarters. With regard to delegating market development in Eastern Europe for a major customer to the Austrian subsidiary, HQ management in case #4 states:

> *"Our local management had developed a good service in Austria that the client could however not rely on abroad. […] And one has to keep in mind that the Austrian companies had sent Austrian employees into these markets. The aspect of language, Austrian style, also represented an advantage."*[17]

Combining the aspects of altering internal and external uncertainty levels, corporate management seems to opt for a decentralized market development approach if it is capable of lowering the involved risk level. If CSAs of a particular host market and FSAs of a specific foreign subsidiary are insufficient for causing an overall risk decrease, corporate management is likely to develop a market centrally from the HQ (cases #10a and #10b), to unofficially maintain traditional approaches (case #5) or to view the subsidiary mandate as only a temporary construct (case #9).

In all other cases the risk of delegating cross-border responsibility to a foreign subsidiary was perceived to be relatively low by corporate management as it was related to an attractive market or region and did not require additional resources. In fact, the decision only represented a minor reallocation of existing resources so that in the event of failure one could easily step back from it and restore the original approach. The aforementioned mechanism is exemplified in case #1, where market responsibility for the former CIS region was granted to the Polish subsidiary despite serious concerns about local management capabilities. Local CSAs in the form of geographical proximity and cultural understanding in combination with local FSAs in the form of Russian language skills appear to more than offset increasing risk levels as a result of responsibility delegation to an untrusted management team.

[17] Original quotation in German: „Wir hatten mit unserer Organisation in Österreich einen sehr guten Service und der Kunde hatte diesen Service in seinem Auslandgebiet nicht. […] Man muss natürlich auch wissen, dass die großen österreichischen Gesellschaften, die haben auch Österreicher in diese Länder entsandt. Somit ist die Sprache an und für sich dort, das Österreichische, wieder ein Vorteil."

Based on previous cross-case analyses, the following nine key observations of rent-seeking and responsibility-allocation processes in subsidiary internationalization were made:

1) Subsidiary internationalization does not necessarily relate to the development of new markets but can also represent a shift of responsibilities across the MNC

2) At the offset of subsidiary internationalization cross-border mandates are often characterized by limited functional scopes

3) Only a limited number of foreign subsidiaries seem to benefit from foreign market responsibilities

4) Cross-border or regional market attractiveness appears to represent a prerequisite for subsidiary internationalization

5) Host-market-related CSAs or limitations alone can facilitate cross-border responsibilities of foreign subsidiaries

6) The existence of subsidiary-related FSAs seems to further augment a subsidiary's chances of obtaining additional geographical reach

7) Delegating cross-border responsibility to foreign subsidiaries is likely to impact uncertainty levels perceived at HQ level

8) Host-market-related CSAs and subsidiary-related FSAs appear to constitute a subsidiary's value-proposition for foreign market development

9) Subsidiary internationalization seems to be facilitated by host-market-related CSAs and subsidiary-related FSAs capable of lowering the overall risk level of foreign market operations

5.2.3. Mandate evolution

Following the initial mandate gain for extended geographical responsibility, the observed cases also feature subsequent mandate extensions as well as reductions. Mandate modifications can relate to countries and regions as well as to functional responsibilities along the value chain of manufacturing companies, starting with research and development and finishing with after-sales services. As a result, local subsidiary management may benefit from additional geographical reach, from enhanced functional depth of its cross-border business operations or from a combination of both. In turn, foreign subsidiaries are also facing full or partial loss of their geographical coverage as well as reductions in the functional scope of their multinational operations. The loss can result in a transfer of responsibilities from the focal subsidiary to the parent company or to other affiliated subsidiaries or in an MNC-wide cancellation of operations for the covered region. Similarly, mandate extensions of a particular subsidiary can also result in declining responsibility scopes of other MNC units. For the study at hand, achieving regional HQ status represents the final stage of mandate evolution.[18] In this case a foreign subsidiary not only looks after foreign markets or regions but also possesses cross-border authority over other MNC units. At the same time it is still dependent on HQ decisions and budget approvals.

In addition to examining historic mandate alterations, the outlook of corporate and subsidiary management on likely future mandate development scenarios will also be reviewed in this section. While future expectations, due to their only tentative nature, are always to be treated with sufficient caution, they allowed a broader picture to be obtained on long-term strategies for multinational subsidiary mandates in modern MNCs. Moreover, they helped to apply a lifecycle view to the study topic, which would not be possible for examined cases with an exclusively retrospective approach. Adhering to the two different tasks, the following pages will be split into a mandate development part based on historic mandate alterations and a mandate outlook section based on future expectations of various MNC stakeholders about the development of cross-border subsidiary responsibilities. While the first part seeks to shed light on mechanisms of mandate evolution in either direction, the second part aims to add a lifecycle perspective to the topic of subsidiary internationalization.

5.2.3.1. Mandate development

The case sample exhibits a total of fifteen initiatives for mandate modification at seven foreign subsidiaries. While cases #1, #2, #5 and #6 have only ever encountered a single mandate varia-

[18] Divisional or corporate HQ functions that subsidiaries may also obtain were not identified in the case sample and were not subject to research for the study at hand.

tion, cases #4, #7 and #8 are characterized by multiple mandate alterations as well as failed subsidiary requests for further augmented foreign market responsibility. Due to their only recent mandate gain, the Singaporean subsidiary in case #3 and its Brazilian equivalent in case #9 have not yet experienced any form of responsibility modification. In addition, the French subsidiary in cases #10a and #10b never managed to obtain extended market responsibility for Northern Africa in the first place, making the examination of subsequent mandate alterations equally impossible.

The overall aim of this section is to develop robust cross-case patterns that allow a better understanding of the evolution of subsidiary mandates beyond host market borders. The focus in the following pages will therefore be set on understanding what mechanisms drive mandate development processes and why some foreign subsidiaries benefit from mandate extensions whilst others are facing mandate reductions and even losses. In line with the analysis approach of subsidiary internationalization processes taken at the offset, initiatives for mandate alterations will first be examined across cases regarding their overall process triggers and facilitators. The main objective here is to obtain a solid picture of how and where in the MNC mandate development opportunities are identified and pursued. In a next step, underlying HQ rationales for extending, reducing or not being willing to alter existing subsidiary mandates will be thoroughly examined in order to understand why corporate management allows some subsidiaries to advance in their evolutionary path and forces others to stagnate or decline. Throughout both exercises cross-case observations will constantly be compared to earlier findings about initial mandate gains in order to identify similarities and particularities of different evolution phases.

Table 5-4 below provides an overview of the initiation of fifteen mandate development processes including their triggers, facilitators and loci of initiative-taking. In line with previous sections, initiatives are labeled by their case number chronologically followed by the initiative number. Before commencing with detailed cross-case analyses, four overall aspects of mandate evolution are immediately eye-catching. First, the simple fact that all cross-border subsidiary mandates that were granted to local management before 2010 were exposed to subsequent mandate modifications already indicates a limited firmness of the overall construct. The temporary nature of this mandate type is further supported by case #7, which features a total of six changes in the subsidiary's foreign market responsibilities since the initial mandate gain in the 1970s. The equal presence of mandate extensions and reductions in the same case further gives the phenomenon of subsidiary internationalization a potentially transient character.

Table 5-4: Initiative triggers and facilitators for altering cross-border subsidiary mandates

Initiative	Locus	Primary trigger	Trigger Type	Trigger Locus	Primary facilitator	Additional facilitator
1.1	HQ	Unsatisfying salesman support in Ukraine	Results	Within MNC	-	-
2.1	HQ	Replacement of HQ sales manager for Chile	Organizational / HR change	Within MNC	Lack of success with HQ approach	Success with decentralized approach in South America
4.1	HQ	Advantages of KAM for single Austrian client	Results	Within MNC	-	-
4.2	HQ	Proven expertise of subsidiary in Eastern Europe	Results	Within MNC	-	-
5.1	HQ	Installation of expatriate as subsidiary CEO	Organizational / HR change	Within MNC	Setting up of additional Asian subsidiary	-
6.1	SUB	Request from new customers in Vietnam	Market demand	Outside MNC	Cross-border subsidiary networks	-
7.1	HQ	Integration of representative office into subsidiary	Organizational / HR change	Within MNC	Process inefficiencies	-
7.2	HQ	Unsatisfying sales growth for India	Results	Within MNC	-	-
7.3	HQ	Opening of additional subsidiaries in East Asia	Organizational / HR change	Within MNC	Cross-border subsidiary networks	-
7.4	HQ	Initial public offering (IPO) of parent company	Organizational / HR change	Within MNC	Pressure from financial markets	-
7.5	SUB	Increasing compliance risks in Southeast Asia	Risk	Outside MNC	Growing size and complexity of Asian market	-
7.6	HQ	Restructuring of global sales organization	Organizational / HR change	Within MNC	Increasing global footprint	-
8.1	SUB	Retirement of Mexican importer / dealer	Organizational / HR change	Outside MNC	Cross-border subsidiary networks	-
8.2	SUB	Installation of new CEO at the parent company	Organizational / HR change	Within MNC	Cross-border subsidiary networks	Prior initiative failure
8.3	SUB	Installation of new CEO at the parent company	Organizational / HR change	Within MNC	Cross-border subsidiary networks	Economic pressure

Key for those that are not self-explanatory: Locus: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Primary trigger = specific incident that stimulated initiative-taking of HQ or subsidiary management. Primary and additional facilitator = events or states that facilitated initiative-taking at HQ or subsidiary level.

Second and further adding to the transformation ability of multinational subsidiary mandates, opportunity-identification and initiative-taking processes for mandate evolution exhibit significantly fewer facilitating conditions than for initial mandate gains. It therefore appears that existing cross-border mandates of foreign subsidiaries are relatively susceptible to minor changes within and outside the MNC. The initial request for or delegation of cross-border subsidiary responsibility equally featured various revolutionary process elements. They were all, however, further accompanied by multiple facilitating conditions that only gradually and over time made MNC stakeholders aware of alternative market development approaches. Third, the evolution of cross-border subsidiary mandates is not necessarily related to new markets or regions but is often associated with the functional scope of the mandate. Foreign subsidiaries therefore gain or lose responsibility for different value chain elements for a market already covered by the existing mandate. In addition, they may obtain regional HQ status for this territory so that they fulfill traditional HQ functions in a distant region. Mandate evolution is thus more than just adding or taking markets to or from existing responsibility scopes. It is very much concerned with the depth of cross-border operations.

Finally and in contrast to initial opportunity-identification and initiative-taking processes, mandate evolution appears to be strongly HQ-driven. While only four out of the eleven initial subsidiary internationalization processes originated in the parent company, the ratio changes to ten out of the fifteen initiatives for subsequent mandate development processes. The case sample thus illustrates that mandate development, like initial mandate gain, can be initiated at either end of the MNC. More interestingly, however, case observations suggest that HQ management often proactively participates in the evolution of cross-border subsidiary mandates. This is in contrast to initial mandate gains, in which HQ management largely confined itself to assessing the viability of local initiatives.

When specifically looking at triggers and facilitators of fifteen initiatives for altering cross-border subsidiary mandates, other meaningful aspects of subsidiary internationalization unfold. First of all and similar to initial mandate gains, organizational change or altering human resource configurations play an important role in stimulating mandate evolution processes. A total of nine initiatives share this specific trigger type. Human resource aspects range from the replacement of corporate or subsidiary personnel (#2.1, #8.2 and #8.3) or the installation of expatriates (#5.1) to upcoming importer or dealer retirements (#8.1). Organizational change occurs in the form of merging sub-units (#7.1), the establishment or integration of new subsidiaries (#7.3), an initial public offering (#7.4) or the restructuring of global sales organizations (#7.5). Abrupt changes and revolutionary process elements therefore also seem to be found along evolutionary paths of cross-border subsidiary mandates.

Unlike the initial mandate request or delegation, however, business results suddenly also seem to impact mandate evolution, both as change trigger and facilitator. Results can refer to the performance of the focal subsidiary and its associated stakeholders or to other MNC units. Moreover, it can encompass satisfying as well as underperforming results. One initiative (#1.1) for mandate change, for example, was triggered by a lack of salesman support in former CIS markets by the Polish subsidiary. In case #4, both HQ initiatives (#4.1 and #4.2) were stimulated by very satisfying cross-border customer management that made personnel at the parent company reflect on extending the subsidiary's mandate scope. Another mandate modification (#7.2) was triggered by unsatisfying sales result of HQ management in the fast-growing Indian market. Finally the initiative to equip the Spanish subsidiary with a mandate for Chile (#2.1) was at least facilitated by a lack of success with the HQ approach. It therefore appears that proven as well as unproven resources and linked capabilities are more relevant for mandate evolution than for prior initial mandate gains.

Relatively fewer facilitating conditions for mandate changes than for initial mandate gains were already mentioned at the offset of this section. A closer look at the limited sample and a focus on subsidiary-driven initiatives, however, disclose another important element of mandate evolution. All subsidiary requests for extended or reduced geographical and functional responsibilities (#6.1, #7.5, #8.1, #8.2 and #8.3) were facilitated by cross-border networks and market knowledge of local subsidiary management. Comparable to initial subsidiary internationalization processes, multinational business relationships made local management gradually aware of its suitability for extended cross-border responsibilities. The aspect of foreign business relationships or network insidership therefore not only seems to play an important role at the offset of subsidiary internationalization processes but also in subsequent mandate modifications.

Having looked into process triggers and facilitators, the examination of HQ rationales for modifying cross-border subsidiary mandates is further needed to obtain a comprehensive picture of process mechanisms and evolutionary paths. While as outlined earlier the pure multitude of observed alterations already suggests a temporary and/or transient nature of this mandate type, the actual reasons for extensions and reduction are more complex. Table 5-5 below provides an overview of fifteen mandate development initiatives encompassing their initiative locus, their outcomes or subsidiary impacts and the underlying HQ rationale. In addition, it provides further information about the transfer direction of foreign market responsibilities across the MNC. Across the case sample, mandate evolution was predominantly associated with a shifting distribution of responsibilities among MNC units. Mandate alterations #6.1 and #7.5 constitute an exception from this norm as they relate to the development of a completely new market or to a full abandoning of existing foreign market activities respectively. Moreover, the table illustrates the risk level perceived by corporate management throughout the decision-making process. In the case of mandate extension, risk refers to the transfer of additional responsibilities to the focal subsidiary. In the case of mandate decline, risk relates to keeping subsidiary management with the existing foreign market responsibility. Finally, the overview also highlights the value positioning of the focal subsidiary for the specific function, which is viewed relative to other MNC units.

While Table 5-5 largely resembles Table 5-3 on outcomes and decision-making rationales for initial mandate gains, two apparent modifications were made. First, the column for exchange setting was removed. The omission is due to the irrelevance of this element for initial subsidiary internationalization processes as well as the lack of any mention of it by any MNC stakeholder in the context of subsequent mandate alterations. Given the lack of study focus on this aspect of subsidiary internationalization, however, it is not certain that the exchange setting only has a limited impact on subsidiary internationalization processes. A lack of data points simply restrained the study from further exploring the matter. The second modification relates to the columns for underlying HQ rationales for initiative outcomes that were reduced to a total of two. The reasoning was that the precondition for internationalization in the form of foreign market attractiveness was still valid across all examined cases.

Table 5-5: Initiative outcomes and HQ decision-making rationales for mandate alterations

Initi-ti-ative	**Lo-cus**	**Subsidiary impact**	**Transfer** (from /to)	**Primary HQ rationale**	**Further HQ rationale**	**HQ risk**	**SUB value-proposition**
1.1	HQ	(Unofficial) functional & geographical mandate loss for former CIS markets	HQ	Insufficient FSAs (sales skills)	Limited CSAs (culture)	High	< HQ / > other SUB
2.1	HQ	Geographical mandate extension into Chile	HQ	FSAs (networks, proven capabilities)	Lacking HQ results	Low	> HQ / > other SUB
4.1	HQ	Functional extension of global KAM to all Austrian clients	HQ & other SUB	FSAs (networks, proven capabilities)	Customer satisfaction	Low	> HQ / > other SUB
4.2	HQ	Functional & geographical mandate extension into Eastern Europe	HQ	FSAs (networks, proven capabilities)	Customer satisfaction	Low	> HQ / > other SUB
5.1	HQ	Functional extension to RHQ for Asia-Pacific	HQ	FSAs (value-add)	Use of expatriates	High	= HQ / > other SUB
6.1	SUB	Geographical mandate extension into Vietnam	New	FSAs (networks, proven capabilities)	CSA (location, culture)	Low	> HQ / > other SUB
7.1	HQ	Functional mandate extension in East Asia to sales & service	Other SUB	FSAs (networks, proven capabilities)	Process inefficiencies	Low	> HQ / > other SUB
7.2	HQ	Geographical mandate extension of into India	HQ	FSAs (networks, proven capabilities)	CSAs (location, culture, customers)	Low	> HQ / > other SUB
7.3	HQ	Functional mandate extension to East Asian RHQ	HQ	FSAs (networks, proven capabilities, value-add)	Use of expatriates	High	> HQ / > other SUB
7.4	HQ	Functional mandate reduction (strategic RHQ)	Other SUB	FSAs in China (value-add)	CSAs in China (market size)	High	> HQ / < other SUB
7.5	SUB	Functional mandate reduction (closure of two subsidiaries under supervision)	Exit	Compliance risks	Size of region under management	High	> HQ / > other SUB
7.6	HQ	Functional & geographical mandate reduction for China and Northeast Asia	Other SUB	FSAs in China (value-add)	CSAs in China (market size)	High	> HQ / < other SUB
8.1	SUB	n/a (initiative for North American RHQ mandate rejected)	n/a	Lacking organizational maturity	Personal issues	Low	> HQ / > other SUB
8.2	SUB	Geographical mandate extension into Latin America	HQ	FSAs (networks, proven capabilities, value-add)	Lacking HQ focus	Low	= HQ / > other SUB
8.3	SUB	Functional mandate extension to Americas RHQ	HQ	FSAs (networks, proven capabilities, value-add)	Economic pressure	High	= HQ / > other SUB

Key for those that are not self-explanatory: Locus: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Transfer (from/to) = transfer direction of foreign market responsibilities across the MNC. HQ rationales = HQ reasoning for mandate modification. HQ risk = level of risk that HQ management attributes to the delegation of responsibilities at the time of initiative-taking. SUB value-proposition = relative MNC positioning of the subsidiary for the development of a particular foreign market.

The case sample of this study contains a total of fifteen mandate development initiatives. Of these, eleven initiatives refer to mandate extension, only three to mandate reduction (#7.4, #7.5 and #7.6) and a single one to (unofficial) mandate loss (#1.1). The sample further relates to eight initiatives (#1.1, #4.1, #5.1, #7.1, #7.3, #7.4, #7.5 and #8.3) for modified functional scopes in a given foreign territory, four initiatives (#2.1, #6.1, #7.2 and #8.2) for altering geographical coverage within the same functional responsibilities and three initiatives (#4.2, #7.6 and #8.1) for a combination of geographical and functional mandate adjustments. While all ten HQ-driven initiatives (#1.1, #2.1, #4.1, #4.2, #5.1, #7.1, #7.2, #7.3, #7.4 and #7.6) due to the parent company's budget authority experienced a positive outcome, one out of five subsidiary-driven initiatives (#6.1, #7.5, #8.1, #8.2 and #8.3) did not succeed in obtaining HQ approval. In this incident (#8.1) the US subsidiary was not allowed to open and manage a Mexican sub-unit and thereby to turn into the North American regional HQ of Company F.

Having found no evidence for the relevance of the exchange setting in HQ decision-making processes, the timing of the subsidiary request seems to be able to impact the initiative outcome. While local subsidiary management in case #8 initially failed to obtain HQ approval to open and manage a Mexican subsidiary (#8.1), it later managed to receive full Americas sales and service responsibility (#8.2) and only recently to turn into the company's regional HQ for the Americas (#8.3). In fact, the subsidiary's value-proposition for market development in Mexico in the course of the primary mandate alteration request was probably most distinct. In this first incident, however, HQ management was still protecting its home base from rising affiliated units and aiming to maintain existing power balances so that additional market responsibility or even regional HQ status was not granted to US subsidiary management.

In the subsequent successful initiatives the subsidiary's value-proposition to manage the entire Americas region was not or only marginally superior to its HQ counterpart but timing might have made the difference. The first successful initiative (#8.2) was launched shortly after the installation of a new CEO at corporate headquarters who was personally convinced of the focal subsidiary's suitability to manage the entire region. In the other incident (#8.3), US subsidiary management again took advantage of a CEO replacement in combination with the company's overall restructuring efforts in order push their initiative through. In this context the CEO of the focal subsidiary in case #8 states:

"It came to the point where the new CEO took over. He had experience with South America as he had worked in Brazil for some time. […] He had firsthand knowledge of the South American market, and I think he had a better appreciation for the success that we were having."

When comparing HQ rationales for initially granting extended territorial liability to foreign subsidiaries and for later altering these mandates, differences are eye-catching. While in the initial process host-market-related CSAs take a superior and subsidiary-related FSAs a subordinate role, the picture is almost completely reverse in subsequent processes of mandate evolution. Eleven out of the fourteen mandate alterations were primarily the result of the focal subsidiary's FSAs. It therefore seems that in order to grow a foreign market mandate, foreign subsidiaries need to possess a certain level of subsidiary-related FSAs. In addition, the three mandate alterations (#7.4, #7.5 and #7.6) that do not exhibit subsidiary-related FSAs as the primary HQ rationale are all referring to declining responsibility scopes of the Singaporean subsidiary in case #7. In fact, while one incident (#7.5) is of a particular nature as the closure of two Southeast Asian subsidiaries was the result of increasing compliance risks, the two others (#7.4 and #7.6) also feature FSAs as the primary HQ rationale for altering existing mandate scopes. Rather than referring to FSAs of the focal subsidiary, however, FSAs in the form of local production facilities are linked to the Chinese sister subsidiary.

Cross-case observations further suggest that in the course of mandate evolution the exclusive presence of host-market-related CSAs is not sufficient to grow geographical and functional responsibility scopes beyond host market borders. In fact, insufficient development of subsidiary-related FSAs in the form of cross-border network insidership or sales expertise on the basis of CSAs and potentially unsatisfying results is likely to cause a mandate decline. While the mere existence of host-market-related CSAs might allow a foreign subsidiary to gain the initial exposure to foreign markets, it does not seem to be sufficient for maintaining the mandate. Insufficient FSA development by subsidiary management and potential earlier overestimation of CSAs by HQ management is very clearly seen in case #1. When explaining the unofficial mandate loss of the Polish subsidiary for former CIS markets[19], the manager concerned made the following statement three years after the initial mandate gain:

"So we have not succeeded yet but we have learned a lot of things in terms of how we now believe what is the right thing to move on over there. That is driven from here and the reason why it is not driven from Poland is because the person down there has good market knowledge but he is not someone who drives a new project. That person is too much of the old school. He gets scared if the customer pushes him a bit. What we did back in 2008 is not viewed as sustainable any more. One person with a Polish background working into CIS markets is not sufficient."

[19] Reduced responsibility scopes for former CIS markets have not yet been officially communicated to the focal subsidiary in Poland and any personnel working in these markets has remained on the subsidiary's payroll. The influence of local management in Poland, however, has already been reduced to a minimum as market development for former CIS market is predominately planned and monitored at corporate headquarters.

As outlined in the introductory part of this section, all ten successful initiatives for mandate extension show significantly varying contents or magnitudes. In some cases the mandate is extended to another country without altering the responsibility scope. Others involve a further delegation of value chain functions to the foreign sub-units for the same territory. In three incidents (#5.1, #7.3 and #8.1) the mandate change actually turned the focal subsidiary into a regional HQ and thus made local management in charge of other MNC units. In case #5 a Chinese subsidiary turned into the company's regional HQ for East Asia and Oceania, in case #7 a Singaporean sub-unit received the same status for East Asia and in case #8 a US subsidiary obtained sub-unit authority for the Americas. While all cases exhibit significantly varying host market characteristics, in particular regarding size, they have one particular subsidiary-related FSA and one particular host-market-related CSA in common: enhanced local value-add (FSA) and region-specific product requirements (CSA). Enhanced local value-add does not necessarily mean local assembly or production facilities but the fulfillment of functions that clearly surpass the scope of pure sales and service subsidiaries as indicated by case #7. With regard to enhanced capabilities of his Singaporean subsidiary, the respective HQ manager remarks:

"Until the establishment of regional subsidiaries, which can be viewed as 'sub-subsidiaries' from an HQ perspective, numerous processes had evolved at subsidiary level in Singapore that eventually terminated there. […] for example stock management. […] This represents a major step as such HQ-like functions are needed for the setting up of sub-subsidiaries. Otherwise we could have established direct reporting links from the subsidiary in Indonesia to the parent company."[20]

The reason for turning a foreign subsidiary with local production facilities into a regional HQ in an area that shares similar customer and product requirements appears rather self-explanatory at first sight. Nonetheless, case #1 shows that despite possessing its own manufacturing facilities and being located in a region with similar product requirements, local management may not even be capable of maintaining its sales mandate if its lacks other FSAs. Nonetheless, assuming sufficient levels of FSAs like cross-border network insidership, the presence of local production sites appears to augment corporate management's proclivity to grant foreign subsidiaries a regional HQ status. Supporting this observation, the relevant subsidiary manager in case #5 comments on its sudden responsibility extension:

[20] Original quotation in German: „Bis zur Gründung von regionalen Töchtern, welche aus HQ-Sicht Enkel darstellen, sind sukzessive relativ viele Prozesse entstanden die bei der Tochtergesellschaft in Singapur dann auch enden […] z.B. Stock-Management. […] Das ist auch noch einmal ein wichtiger Schritt, weil für eine Gründung von Enkeln in der Tochter schon Funktionen erforderlich waren, die originär HQ sind. Sonst hätten wir auch einfach sagen können, dass Indonesien eine Tochter der Zentrale ist."

"I think it is pretty simple. If we manufacture a product and deliver it into a certain region then we should also be entirely responsible for this territory."

Having already mentioned a lack of local management skills in case #1, the single failed subsidiary request (#8.1) for mandate extension in the case sample further spoils the somewhat simplistic statement above that local production facilities in combination with regional product requirements inevitably allows regional HQ constructs. In fact, despite local production facilities and similar regional product requirements, US subsidiary management did not obtain HQ buy-in for the proposed opening and management of a Mexican subsidiary at that time. Several years later however, it turned into the regional HQ for the entire Americas region (#8.3). So what changed in between the two incidents?

In between the two subsidiary requests for mandate extension, Company F experienced its internationalization peak. At the same time it was also faced with a comprehensive restructuring program that was caused by the global financial crisis and that led to significant headcount reductions, especially at the parent company. During this period the organization was therefore not only confronted with increasing internationalization of its business but also with declining relevance of its parent company. In addition, certain top-management personnel at the parent company that were keen on limiting subsidiary power in principal left the company in the mentioned period. In summary, the internationalization experience as well as the organizational maturity with regard to delegating responsibilities to and exploiting local resources of foreign sub-units had augmented. With regard to the negative outcome of the subsidiary request (#8.1), the HQ sales manager believes that at that time a philosophy predominated at Company F that sub-units should not look after other sub-unit. This is supported by his following statement:

"In terms of pure sales volume America was for a long time the number two following its German headquarters, but eventually surpassed its counterpart. […] As a consequence, markets were simply taken away from the US entity. […] At that time such prestige thinking was noticeable in the sense that the German entity needs to claim the first place. Now, however, this is no longer relevant."[21]

It is therefore very likely that lacking organizational maturity regarding MNC power balances actually impeded local US management from succeeding with its first initiative for mandate extension. A severe crisis particularly impacting home markets in Europe several years later made

[21] Original quotation in German: „Amerika war umsatzseitig ja lange Zeit die Nummer 2 hinter Deutschland, hat es aber in einem Jahr sogar geschafft Deutschland zu überholen. […] Da hat man ganz einfach eins gemacht, man hat Amerika Märkte weggenommen. […] Es gab damals halt ein gewisses Prestige-Denken, also der deutsche Standort muss die Nummer 1 sein. Mittlerweile ist es nicht mehr relevant."

corporate management accept regional headquarters and therefore also foreign centers of power and gravity. These case observations allow two different considerations that are equally important to the study. First, as a result of increasing organizational maturity and/or human resource alterations, perceived risk levels at corporate level had been reduced to such an extent that regional HQ mandates were suddenly acceptable at Company F. Or second, the global crisis and linked resource constraints had forced corporate management to accept MNC constructs that previously surpassed its maximum tolerable risk level. Most likely, a combination of both aspects best explains the situation.

The crucial relevance of risk in the course of initial mandate gains for cross-border subsidiary responsibilities was highlighted earlier in this chapter. Its decisive role for obtaining regional HQ statuses and thus for multinational mandates with significant functional depth, which was identified in case #8, is further supported by cases #5 and #7. In both incidents the presence of enhanced local value-add and regional product requirements may have qualified foreign subsidiaries in China and Singapore to turn into a regional HQ. There were both, however, characterized by a particular facilitating condition that made HQ management bear the risk of delegating subunit management to a foreign subsidiary: the use of expatriates. While local subsidiary management never mentioned this aspect and was therefore probably not aware of it, the parent company explicitly installed expatriates in order to look after far-distant developments. In both cases the mandate extension represented the first establishment of a regional HQ in the firm. Any uncertainty and thereby risk-reducing element like the presence of known personnel therefore seems to augment the proclivity of corporate management to grant significant scopes of responsibility to foreign subsidiaries. In this context the responsible HQ manager of case #5 states:

"I could not delegate this task to our local CEO as market knowledge and assessment of the Chinese are simply too different. This would have not worked. Some personal constellations did not allow for it so we sent the CEO of our Czech entity to China for three years."[22]

Interesting insights into evolutionary paths of cross-border subsidiary mandates are offered by case #7. The focal subsidiary advanced from a small Asian logistics hub to Company E's regional HQ for East Asian operations. The development is of particular interest as the focal subsidiary lacks its own assembly or production facilities. At the peak of its cross-border mandate, local subsidiary management was in charge of the entire East Asian region, looking after numerous

[22] Original quotation in German: „An den chinesischen Geschäftsführer konnte ich das nicht anhängen, weil die Einschätzungen und Marktkenntnisse eines Chinesen einfach zu unterschiedlich sind. Das hätte nicht funktioniert. Das waren insbesondere persönliche Konstellationen die das nicht möglich gemacht haben und dann haben wir den Geschäftsführer von unserer tschechischen Gesellschaft für 3 Jahre nach China geschickt."

affiliated subsidiaries with or without production facilities. Over recent years however, the subsidiary in Singapore has experienced a gradual reduction of its foreign market responsibilities. While the mandate reduction was partly the result of decisions taken in the parent company it was also driven by local management itself. Throughout this process, responsibilities were predominately shifted to the sister subsidiary in China. The question is therefore what factors allowed subsidiary management to reach the final stage of cross-border responsibility, the regional HQ status? And even more interestingly, what made HQ management take functional and geographical responsibilities from the focal subsidiary and transfer them across the MNC at a later stage?

The answer to the first question is relatively easy and has been partly provided earlier in this section. Obtaining sales and service responsibility for East Asia (#7.1) and additional geographical responsibility for India (#7.2) was largely the result of the focal subsidiary's FSAs in the form of cross-border knowledge and networks as well as proven logistics and later sales expertise. In order to become East Asia's regional HQ (#7.3), local management was further required to demonstrate enhanced local value-add in the form of HQ functions and corporate management felt impelled to make use of an expatriate. Having quickly sketched the upward evolutionary path of the Singaporean subsidiary, providing a thorough explanation for its downturn requires a look beyond aspects of the parent company and the focal subsidiary. In fact, rival MNC units suddenly appear to play a very important role in this process.

The first mandate reduction (#7.4) was related to the shift of the strategic regional HQ function for East Asia from the focal subsidiary in Singapore to its sister subsidiary in China. The transfer of responsibility was officially announced at the time of Company E's initial public offering (IPO). From an operational perspective the functional loss had very little impact on the focal subsidiary's business as local management was still looking after the entire region including the Chinese subsidiary. Nonetheless, the shift already demonstrated the increasing relevance of the Chinese market to Company E that HQ management also wanted to highlight to the financial markets. Moreover, prior to the IPO, huge production facilities were set up in China in order to suit local and potentially regional customer needs. With regards to CSAs in the form of host market size and growth as well as FSAs in the form of local value-add, the Chinese subsidiary had already overtaken its Singaporean counterpart by that time.

Due to its declining relative value-proposition for managing Company E's East Asian operations, additional responsibility loss was inevitable. Local management only recently experienced this second blow to its foreign market mandate when it had to cede further responsibilities for Northeast Asian markets to the Chinese subsidiary and its remaining China responsibility to corporate headquarters (#7.6). The responsibility shift was largely the result of increasing Asian market size in general and China in particular that led to the restructuring of the global sales organization. For the managing of increasingly relevant markets in Asia the Singaporean subsidiary was simply too small and lacked sufficient local value-add in the form of its own production facilities. The substantial mandate reduction did not even surprise local management in Singapore. Prior to this official announcement, subsidiary management had steadily backed down from its China responsibility as a result of increasing process complexity. The subsidiary in Singapore had neither the resources nor the capabilities to manage the immense undertaking that company E was conducting in the covered area. However, the loss of responsibilities was by no means the result of underperforming subsidiary results but exclusively linked to growing market sizes in the covered region as well as augmenting local value-add of rival MNC units. With regard to lost responsibilities of China and Northeast Asia the subsidiary manager in Singapore states:

"This is a natural process. You have more and more business and you have more and more responsibility so that you simply have to divide the work further."

In between the two major mandate reductions, the local subsidiary in Singapore also experienced the loss of management responsibility for two Southeast Asian subsidiaries (#7.5). However, in this case the focal subsidiary itself proposed closing the sub-units in light of potential compliance risks. Reduced responsibility levels were therefore not related to increasing value-propositions of rival MNC units or declining value-add of the focal subsidiary but were the mere result of the local precautionary measures. Nonetheless, the incident underlines very well that at a certain stage of mandate evolution a focal subsidiary no longer exclusively thrives for mandate extension but comes up to its regional HQ responsibility and decides what is best for the region and therefore for the MNC as a whole.

Following the cross-case analyses the following eleven key observations of the evolution of multinational subsidiary mandates were made:

1) Multinational subsidiary mandates are likely alter over to time

2) Cross-border subsidiary responsibilities appear to shift across MNC units

3) Mandate evolution can relate to geographical and/or functional responsibility changes

4) Corporate management appears to proactively participate in mandate evolution

5) Subsidiary management appears to have limited influence on mandate evolution

6) Business results at either MNC level seem to stimulate mandate evolution

7) Host-market-related CSAs do not appear to be sufficient for developing existing mandates

8) FSA development on the basis of CSAs seems to add to mandate sustainability

9) Risk and uncertainty levels at HQ appear to increase with mandate magnitude

10) Mandate evolution exhibits risk-influencing parameters other than CSAs or FSAs

11) Subsidiaries with cross-border responsibilities are exposed to intra-MNC competition

5.2.3.2. Mandate outlook

The previous evaluation of fourteen mandate alterations as well as one unapproved modification request has clearly indicated that cross-border subsidiary mandates are subject to change. While the magnitude and multitude of these changes are very well illustrated by cases #1 and #7, in which cross-border mandates are either already (unofficially) terminated or exist for more than 30 years, none of the other cases allow a lifecycle perspective to the topic of subsidiary internationalization to be applied. This is due to negative outcomes of subsidiary requests in the first place (cases #10a and #10b), relatively recent initial mandate gains (cases #2, #3, #5 and #9) with little or no modification up to this point and exclusively positive mandate developments (cases #4 and #8) that raise the question whether the trend will last. At the end of each semi-structured interview, MNC stakeholders were therefore asked to provide an outlook on likely future developments of cross-border subsidiary mandates. While in this point corporate and subsidiary perspectives naturally often diverged, numerous overlapping opinions were nonetheless observed. For the study at hand, however, the HQ outlook is valued relatively higher than the parent company's as its budget authority will eventually decide in which direction the focal subsidiary is moving. Before entering cross-case analyses for provided mandate outlooks it should once again be noted that all standpoints are to be treated as tentative as they may change in the future due to external or internal factors. It should be further stated that all outlooks are based on the assumption of increasing market attractiveness of and growing company sales in markets and regions covered by the cross-border mandate of the focal subsidiary. Growing market size in covered regions is therefore also seen as the likely initiative trigger or the facilitating condition for future mandate change.

In total, the case sample features eight multinational subsidiary mandates with negative outlooks and only one with a positive future projection. In addition, for cases #10a and #10b HQ management believes that any subsidiary request for extended reach into North Africa will fail again in the future. With regard to the dominating negative outlooks, three are referring to complete mandate losses (cases #1, #2 and #9), another three to reduced geographical responsibilities (cases #3, #4 and #6) and the remaining two to a partial (#7) and full (#8) loss of regional HQ status that encompasses both geographical and functional responsibilities. The sole exception from this trend is marked by case #5 in which local management is expected to obtain responsibility for another subsidiary in the region of Asia and Oceania and to turn into one of the company's main sourcing platforms. An overview of all mandate outlooks is provided by Table 5-6 below.

Table 5-6: HQ outlook on future evolution of subsidiary mandates

Initiative	**View**	**Likely trigger/ facilitator**	**Mandate outlook/ subsidiary impact**	**Transfer** (from/to)	**Primary HQ rationale**	**Additional HQ rationale**	**Additional HQ rationale**
1.x	HQ / SUB		Full mandate loss for former CIS markets	SUB	Market size covered by mandate → opening of additional subsidiary	CSAs of additional SUB (location, culture, customers)	Lacking organizational maturity
2.x	HQ / SUB		Full mandate loss for Latin America	SUB	Market size covered by mandate → opening of additional subsidiary	CSAs of additional SUB (location, culture, customers)	Lacking organizational maturity
3.x	HQ		Geographical mandate reduction in Southeast Asia	HQ / other SUB	Market size covered by mandate → opening of additional subsidiary	Lacking organizational maturity	n/a
4.x	HQ		Geographical mandate reduction in Eastern Europe	HQ / other SUB	Market size covered by mandate → opening of additional subsidiary	Lacking FSAs (value-add)	n/a
5.x	HQ	↑ Increasing market attractiveness of and growing company sales in markets and regions covered by the cross-border mandate of the focal subsidiary ↓	Functional mandate extension in Asia-Pacific	HQ	FSAs (value-add)	CSAs (location, customers)	n/a
6.x	HQ / SUB		Geographical mandate reduction in Southeast Asia	HQ	Market size covered by mandate → opening of additional subsidiary	Ethnocentric management style	n/a
7.x	SUB		Loss of regional HQ mandate for India	HQ	FSAs of sub-subsidiary (value-add)	CSAs of sub-subsidiary (market size)	n/a
8.x	HQ		Loss of regional HQ mandate for South America	Other SUB	FSAs of sub-subsidiary (value-add)	CSAs of sub-subsidiary (location, culture, customers)	n/a
9.x	HQ		Full mandate loss for South America	HQ	Lacking FSAs (proven capabilities)	Ethnocentric management style	n/a
10.x	HQ		Host-market limited responsibility	n/a	Lacking regional market attractiveness	Insufficient CSAs (location, customers)	n/a

Key for those that are not self-explanatory: View: HQ = parent company and/or corporate headquarters, SUB = focal subsidiary. Transfer (from/to) = transfer direction of foreign market responsibilities across the MNC. HQ rationales = HQ reasoning for mandate modification.

Table 5-6 represents a shortened and combined summary of initiative triggers and facilitators as well as initiative outcomes and HQ decision-making rationales compared to the separate overviews for previous initial mandate gains and subsequent mandate developments. In addition to highlighting only a single and common mandate development trigger or facilitator it also illustrates the outlook perspective, the subsidiary impact as well as the transfer direction of responsibilities across the MNC. Finally, the overview lists up to three HQ rationales for modifying subsidiary mandates in either direction and with either magnitude. Outlooks are ordered by the case number and the letter 'x' in order to indicate that the expected mandate modification may represent one of potentially several responsibility alterations.

As noted above, all outlooks have in common increasing market attractiveness of and growing company sales in markets and regions covered by the cross-border mandate as initiative stimulus. One question that quickly arises from such case similarity is whether local management actually has a significant amount of influence on the evolutionary process of its foreign market mandate. The fact that foreign subsidiaries are responsible for growing the company presence in these areas would lead the observer to affirm the question at first. A closer look across all cases, however, suggests that the possibility for foreign subsidiaries to impact mentioned processes is fairly limited. While local management can grow company sales to a specific region overall, macroeconomic factors like market maturity or political stability tend to have a significantly stronger impact on the overall market attractiveness. In fact, only in case #1 can the expected (official) mandate loss be directly linked to poor subsidiary performance. In all other cases of expected mandate decline, local management does not appear to be capable of averting its fate. Limited local management influence in the course of mandate evolution is highlighted by the following statement of the HQ representative in case #3:

"It is likely that we will set up a new subsidiary in India if market size justifies this approach. […] This entity will then report to the parent company. […] Local management therefore currently fulfills a pioneering task in markets, which are still under development."[23]

[23] Original quotation in German: „Es ist wahrscheinlich, dass tatsächlich mal eine Tochtergesellschaft in Indien gegründet wird wenn der Markt ausreichend groß ist. […] Diese wird dann an die Zentrale berichten. […] Deshalb ist das im Moment auch sicherlich dort eine Pionierarbeit, die geleistet wird für solche Märkte, die sich noch im Aufbau befinden."

The statement further indicates that the evolution of certain subsidiary mandates may be predefined and that cross-border subsidiary responsibilities are limited in their life span. In cases #1[24], #2, #3 and #6 the parent company appears to leverage its foreign subsidiary in order to get a first glance into distant markets and to build the basis for future local market development. Any new MNC unit in the covered area would directly report to the respective HQ, resulting in a loss of geographical responsibility for the focal subsidiary. While for both Singaporean subsidiaries in cases #3 and #6 the geographical mandate reduction may be limited to the market in which a new sub-unit is established, the impact for the Polish and Spanish subsidiaries in cases #1 and #2 would be more severe. Any opening of sister subsidiaries in their covered area is likely to result in a full mandate loss. This is due to the superiority of CSAs in the form of geographical proximity, cultural similarities including language as well as comparable customer requirements in the host market of new sub-units. Any new entity in former CIS markets would therefore also receive responsibility for the entire region, just as any South American subsidiary would directly benefit from extended geographical reach.

What all four cases have in common, however, is that corporate management would always establish direct ties to any new foreign sub-unit and would thus not allow indirect reporting links through the existing subsidiary in the region. This further holds true for case #9, where sub-units in principal remain under direct responsibility of their parent company. The setting up of a regional HQ did not represent an option for any of the interviewed managers from the parent company and excessive risk was frequently named as the underlying reasoning. In addition, some HQ representatives simply stated that they have never thought of regional headquarters as an option for foreign market development but that they are also not convinced that it actually suits their company needs. The standpoint is very well summarized by the HQ manager in Case #2 when being asked whether a new entity in South America would be managed by the Spanish subsidiary or the parent company:

"Most likely from the headquarters. […] That would be my expectation because nothing else has been tried yet."

Looking at the relative size and limited number of foreign subsidiaries one might easily assume that the parent company in cases #1 and #2 is simply missing sufficient global presence that would justify the introduction of sub-subsidiaries. One could further argue that due to its relative-

[24] Even though the Polish subsidiary is expected to officially lose its sales and service mandate for former CIS markets due to poor performance, the relevant HQ management stated that it would, independent of its performance, experience a responsibility loss if another sub-unit of Company A was to be established in any of the former CIS markets.

ly low internationalization experience the corporation lacks organizational maturity with regard to delegating crucial responsibilities to foreign sub-units. The establishment of a regional HQ would then greatly exceed tolerable risk levels among corporate management. While case #3 with an equally limited global footprint of the overall organization further backs this viewpoint, cases #6 and cases #9 actually pinpoint that there are more barriers to mandate development than internationalization experience and organizational maturity. In fact, parent companies in cases #6 and cases #9 initiated their internationalization processes in the 1970s already, are now equipped with numerous subsidiaries across all continents but nonetheless lack the presence of full-scale[25] regional headquarters. So what factors hinder foreign subsidiaries in these companies to reach advanced evolutionary stages and obtain responsibility for other sub-units in their region?

MNCs in cases #6 and cases #9 are both typical small and medium-sized corporations in the manufacturing sector that are positioned as global market leaders for many of their 'niche' products. While by now strongly relying on external demand and internal output from numerous producing sub-units from outside their home region, decision-making powers have largely been kept with the parent company. Such an ethnocentric management style is well highlighted by three MNC characteristics of case #9. First, research and development is almost exclusively carried out in the parent company, which impedes foreign sub-units in increasing their influence by contributing to this essential value chain element. Second, corporate management has implemented strict reporting structures in order to closely monitor its foreign subsidiaries, which further limits their room to maneuver. Finally, despite the global presence, corporate management refuses to introduce English as the corporate language, so the opportunities for local management to obtain a contributory role are further dependent on individual language skills. Cases #6 and #9 therefore show that independent of CSAs, FSAs, global company presence or organizational maturity, certain management styles alone can restrain foreign subsidiaries from functionally growing their multinational mandates.

Having identified evolutionary boundaries, predefined development paths as well as limited life spans of multinational subsidiary mandates across a total of five cases (#1, #2, #3, #6 and #9), the question arises whether the remaining cases largely share observed characteristics or whether they feature fundamentally different evolution processes. Case #4 may fundamentally differ from aforementioned situations with regard to subsidiary performance (versus case #1), corporate internationalization experience and organizational maturity (versus cases #1, #2 and #3) or management styles (versus cases #6 and #9) but focal subsidiary management appears to be equally

[25] Both companies have one regional HQ-like structure in Africa and Northern Europe respectively; HQ management would not qualify them as such, however, as they are predominately the result of particular market conditions rather than of strategic decisions.

limited in growing its foreign market responsibility beyond a certain stage. Despite continuously proving its capabilities for global KAM of important Austrian customers and foreign market development in Eastern Europe, the Austrian subsidiary is not expected to earn the status of a regional HQ anytime in the future. In fact, it will actually lose foreign market responsibility if Company C sets up new subsidiaries in the covered area.

Gloomy prospects for the cross-border mandate of the Austrian subsidiary in case #4 are in particular astonishing as its parent company is equipped with significant internationalization experience and organizational maturity with regard to delegating responsibilities to foreign subsidiaries. Only recently, corporate management turned the Chinese subsidiary into the regional HQ for Asia and Oceania (case #5). So what is the Austrian subsidiary lacking? Despite showing strong subsidiary-related FSAs for cross-border knowledge and networks as well as sales and service expertise, which led to positive mandate evolution up to this point, the Austrian subsidiary does not exhibit sufficient value-add in the form of local assembly or production facilities. The ability to strongly contribute to the MNC's overall product output therefore appears to represent a subsidiary-related FSA decisive for reaching higher levels of foreign market responsibility. Again, possibilities for local subsidiary management to influence corporate decisions on global production sites are fairly limited. A subsidiary's need for sufficient local value-add in order to obtain regional HQ status is highlighted by corporate management in case #4 when commenting about likely process inefficiencies in cases of its absence:

> *"The contractual relationship with the customer is not managed by the Austrian subsidiary but by one of our larger entities that is equipped with its own production facilities. […] If the Austrian subsidiary takes it over, we would end up with a sort of tri-party agreement, which only complicates matters."*[26]

The impact of local production facilities on evolutionary paths of cross-border subsidiary mandates is further illustrated by case #5, which exclusively displays a positive mandate outlook across the entire case sample. Having obtained market responsibility for Asia and Oceania and regional HQ status by managing a Southeast Asian subsidiary, the mandate is now expected to be functionally enlarged by the supervision of another small regional sub-unit as well as the responsibility for sourcing a significant part of company C's production inputs. While China or host-market-related CSAs in the form of market size and growth, labor costs or geographical location

[26] Original quotation in German: "Also das Vertragsverhältnis des Kunden besteht nicht mit der Tochtergesellschaft, sondern mit einer der größeren Einheiten, die selber produzieren. […] Wenn man dieses gänzlich der österreichischen Gesellschaft übergibt, würde schlussendlich ein Dreiecksverhältnis entstehen, welches das Geschäft kompliziert."

therefore allowed local subsidiary management to receive necessary resources for their own producing entities, the subsidiary-related FSA of local value-add now constitutes the reason for its prosperous future outlook. Once again, subsidiary influence appears to be relatively low as corporate management is still not fully convinced by local management skills in China and therefore seeks to limit risks through the extensive use of expatriates.

The relevance of sufficient local value-add is finally underlined by the future mandate outlook of the two remaining cases #7 and #8. In both incidents, however, the perspective needs to be extended from the focal subsidiary to sister subsidiaries and thus to the MNC as a whole. In case #8, for example, local production facilities have strongly facilitated the focal subsidiary's desire in the US to manage a Brazilian sub-unit and thereby to turn into the company's regional HQ for the Americas. At present, the focal subsidiary is managing the establishment of a Brazilian assembly site, which is aimed at better serving the local as well as other South American markets. The setting up of such an assembly line and the penetration of regional markets are expected to take time and require significant support from the US subsidiary. Nonetheless, already today corporate management is considering transferring market responsibility for South America from its US to its Brazilian sub-unit and establishing direct reporting links with the latter. Such a decision would reduce the current subsidiary mandate both geographically and functionally to pure sales and service responsibility for North and Central America.

Compared to its Chinese counterpart in case #5, the US subsidiary is equipped with similar CSAs like host market size and geographical as well as cultural proximity even though it may lack attractive labor costs and strong market growth. In addition, it exhibits comparable if not superior subsidiary-related FSAs in the form of local production facilities and proven management capabilities. Finally, internationalization experience and management styles of the parent company do not reveal fundamental differences. This raises the question of why the regional HQ status of the US subsidiary in endangered while the one of the Chinese subsidiary is expected to flourish in the future. The main difference between the cases is that the US subsidiary is overseeing a sub-unit that is currently strongly augmenting its local value-add while the Chinese subsidiary looks after a relatively small and less influential MNC unit. The aspect of corporate marketplaces (Galunic & Eisenhardt, 1996) in which MNC units compete for responsibilities and resources even beyond national borders therefore appears to differentiate one case from another. While CSA and FSA superiority of the Chinese subsidiary in Asia and Oceania is unquestionable, local US management is facing increasing pressure from the Brazilian subsidiary with regard to CSAs (location, culture and customers) as well as FSAs (value-add). This observation does not imply that increasing value-add of the sub-unit under supervision necessarily leads to regional HQ loss but it appears to put the mandate under increased pressure and HQ surveillance.

The aspect of intra-MNC competition and its impact on the evolution of multinational subsidiary mandates is exemplified by case #7. Having already lost its regional HQ status for China and Northeast Asia due to CSA and FSA inferiority versus its rival MNC unit in China, the focal subsidiary in Singapore now faces further mandate decline for India. Again, growing market size and enhanced local value-add in the focus area of India are expected to constitute the main HQ rationales. Local management in Singapore can count on neither a particularly strong host market nor on local production facilities, so it admits to its lack of MNC competitiveness and therefore limited suitability to manage relatively influential sub-units at Company E. In this sense the respective subsidiary manager in case #8 agrees with the following question without any restrictions:

"Do market size and local value-add in an area that a regional HQ is looking after impact a mandate in the sense that you would lose it if it gets too big or if the local value-add becomes too distinct?"

Following the cross-case analyses the following nine key observations of the outlook for multinational subsidiary mandates were made:

1) Evolutionary paths for cross-border subsidiary mandates seem to differ from one case to another

2) Evolutionary paths for cross-border subsidiary mandates are equally characterized by elements of gradualism and discontinuity

3) Some subsidiaries appear to face development boundaries or truncated evolutionary paths, which do not allow them to achieve certain functional responsibility scopes

4) Evolution boundaries tend to originate from a combination of HQ-related, subsidiary-related as well as externally-related factors

5) Evolution of subsidiary responsibilities beyond host markets can largely be predefined by corporate management

6) Life spans of multinational subsidiary mandates may be limited from their very start

7) Local subsidiary management's influence on evolutionary paths appears fairly limited

8) Enhanced local value-add appears to facilitate the receiving and maintaining of regional HQ status

9) Host-market-related CSA and subsidiary-related FSA superiority versus sister subsidiaries and the parent company appears to strengthen overall mandate sustainability

5.2.4. Mandate lifecycle

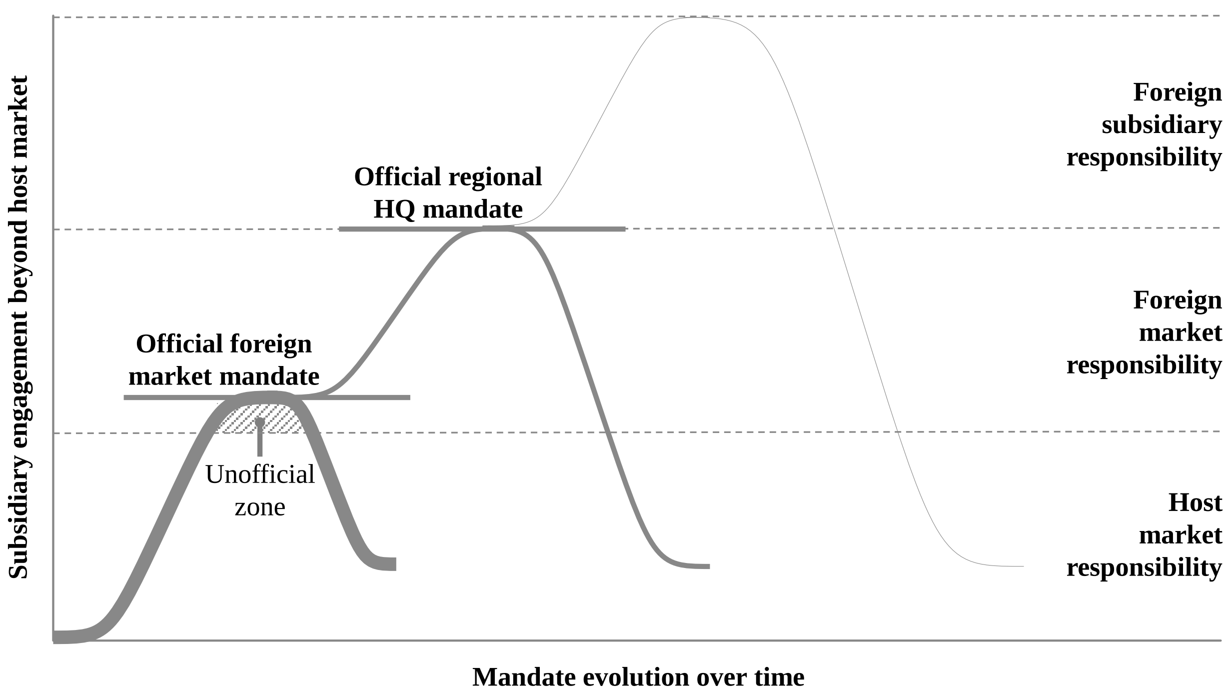
The previous examination of process mechanisms for initial mandate gains, subsequent mandate alterations as well as expected future mandate developments allowed the sketching of a simple lifecycle framework for subsidiary responsibilities beyond host market borders. Despite analyzing highly heterogeneous cases of subsidiary internationalization with regard to geographies, functional scopes, evolutionary paths and future prospects, relatively robust patterns of mandate evolution emerged from the case sample at hand. The aim of the following section is therefore to put the puzzle pieces of cross-case patterns observed along the different phases of subsidiary internationalization together in order to come up with a solid framework capable of embracing all eleven evolutionary paths.

In the course of the case study analysis five characteristics of subsidiary mandates that reach beyond the original host market appear to be of particular relevance when applying a lifecycle perspective. First, not all subsidiaries are eligible for cross-border responsibilities. Second, those that obtain international market exposure are often functionally limited. Third, subsidiaries that obtain regional HQ status exhibit distinct value-propositions for foreign market development. Fourth, all subsidiaries are pressured by rival MNC units, which puts their mandate sustainability at constant risk. Finally, evolutionary paths are characterized by critical points where mandates are extended, reduced or eventually dissolved.

The case study observations illustrated above suggested the use of a very simple design when elaborating a lifecycle framework for subsidiary responsibilities beyond host market borders as depicted in Figure 5-2 below. Development paths of foreign market mandates of foreign subsidiaries are differentiated here into three evolutionary stages: (1) host market responsibility, (2) foreign market responsibility and (3) foreign subsidiary responsibility. The length of time that a foreign subsidiary spends in one of these phases is expected to differ from one case to another as no other indication could be obtained from the case sample. In addition, two critical points or quality gates characterize the framework. The first refers to the crossing from stage one to stage two, i.e. when a foreign subsidiary officially receives responsibilities of any kind for a market or region outside its host market. The second critical point relates to the changeover from stage two to stage three, in which a foreign subsidiary is officially granted regional HQ status and is thus responsible for looking after one or several other MNC units outside its home territory. The evolutionary framework is further characterized by an unofficial zone, which is highlighted in Figure

5-2 by the patterned area just above the parting lines between the first and the second stage. At this point local subsidiary management fulfills cross-border responsibilities for which it does not possess official HQ approval yet. Varying weights of the development paths were taken in order to highlight that the majority of foreign subsidiaries actually never benefit from official cross-border responsibility and very few of them from regional HQ mandates.

Figure 5-2: Evolution stages of cross-border subsidiary mandates



When foreign subsidiaries are established, their geographical responsibility scope is generally limited to the host market, so that they find themselves at the initial stage of cross-border responsibilities. Nonetheless, the sample exhibited three cases (#3, #6 and #7) in which a foreign subsidiary was equipped with cross-border reach from its very start, so evolutionary paths for international subsidiary responsibility do not necessarily commence at the first level. Similar to modern internationalization processes of the first degree, it is therefore acknowledged that the individual path of a mandate may commence at a phase other than the initial one and may actually leapfrog certain quality gates.

Following its inauguration, local subsidiary management appears to gradually develop market knowledge and business networks that eventually cross host-market borders. This is predominately driven by host-market-related CSAs like geographical proximity, cultural similarities or comparable customer preferences. While local management appears to be capable of influencing and speeding up this process, case observations suggest that cross-border reaching is inevitable even if local management focuses on host market business operations. As a result of knowledge and network development, foreign subsidiaries are gradually approaching the first quality gate of cross-border mandate development. Some of them, as observed in cases #2 and #8, actually cross this line by actively pursuing foreign market opportunities without seeking prior HQ approval. This can happen in the form of sporadic and unofficial exports, which enables local management to test its suitability for extended geographical reach. Independent of whether local management enters such an unofficial zone, increasing foreign market involvement can make personnel at corporate or subsidiary level aware of decentralized market development options. This moment marks the first critical point in the evolution of cross-border subsidiary mandates.

Only if the subsidiary's value-proposition for the development of a particular foreign market or region expressed by the sum of host-market-related CSAs and subsidiary-related FSAs is relatively superior to market development approaches through the parent company or any other MNC unit may local management be allowed to reach the next evolutionary stage. The parent company's evaluation therefore appears to be strongly impacted by its individual risk proclivity that is in turn influenced by company characteristics like internationalization experience, organizational maturity or management styles. As a result of significant difficulties in identifying cross-border subsidiary mandates at around fifty MNCs at the offset of the study, it is believed that subsidiary internationalization actually constitutes a rare MNC phenomenon. This may not only be due to a lack of CSA and FSA superiority of foreign sub-units but may also be the result of missing initiative-taking for decentralized market development opportunities at either end of the MNC. If local subsidiary management, however, seeks and fails to obtain extended geographical responsibility, its overall cross-border involvement is expected to decline as corporate management has officially rejected the extension beyond host market borders. This is highlighted by the falling evolutionary path in the bottom-left corner of Figure 5-2 above.

If a foreign subsidiary officially obtains its initial mandate for foreign market development, the second phase of the evolutionary path begins. Throughout this stage local management may gain enhanced geographical responsibility through the integration of additional markets under the existing mandate, as the Spanish subsidiary in case #3 experienced with added responsibility for Chile in South America. It may also experience mandate extensions with regards to functional responsibilities along the value chain. In case #7, for example, the Singaporean subsidiary was suddenly also in charge of managing cross-border sales and service activities while its initial mandate was strictly limited to multinational logistics tasks. At the same time foreign subsidiaries may lose responsibility scope throughout this phase. Significant HQ interference in case #1, which can be interpreted as an unofficial mandate loss, exemplifies potential negative mandate developments.

The second evolution phase of subsidiary internationalization is at its top limited by management responsibilities for a particular foreign market or region. It therefore does not include responsibilities for other sub-units in that area. This limitation appears to be of importance as it, in addition to those MNC units that never obtain foreign market reach, clearly separates another two types of foreign subsidiaries. Based on current HQ prospects for existing mandates in cases #1, #2, #3, #4, #6 and #9, the foreign subsidiaries in focus are not expected to cross the second quality gate necessary for obtaining regional HQ status at any time in the future. The limitation can thereby be due to subsidiary characteristics like insufficient local value-add or HQ particularities like risk averseness and individual management styles among corporate decision-makers. In addition, the limitation can simply be the fact that the company never considers the opening of another subsidiary in the covered area so that the construct of a regional HQ is not even discussed.

If a company decides to open another sub-unit in the region, however, upper boundaries of the second stage of cross-border subsidiary responsibility are likely to have a negative impact on existing mandates. As shown by all six cases, the opening of new MNC units would inevitably result in a mandate decline with different magnitudes. While foreign subsidiaries in cases #3, #4, #6 and #9 could get off relatively smoothly with the loss of geographical responsibility for the market in which the new subsidiary is established, their counterparts in cases #1 and #2 are actually facing the worst case scenario of full mandate loss. In both latter cases, CSAs of a new sub-unit in any former CIS and any South American market are expected to clearly outweigh the focal subsidiaries' current value-propositions so that extended regional responsibility would be transferred to the new entity. For the Austrian subsidiary in case #4 the situation is similar as any new subsidiary is also likely to exhibit superior CSAs for Eastern Europe. In this particular case, however, local subsidiary management would at least be left with global KAM for Austrian clients.

Cases #5, #7 and #8 show that some foreign sub-units are able to reach the third stage of cross-border responsibility by obtaining regional HQ status for their covered area. The question thus arises what differentiates these subsidiaries from previous cases or what conditions need to prevail in order to allow such a construct. Regarding the second part of the question, the region covered by the subsidiary mandate needs to exhibit sufficient attractiveness regarding size and growth or other aspects like labor costs that makes a parent company consider the opening of another entity in the region. Second, corporate management must view regional HQ constructs despite additional uncertainty elements as a valid form of market development and subsidiary supervision.

Finally, focal subsidiaries need to be capable of efficiently managing other sub-units. For the three observed cases such qualification criterion refers to enhanced local value-add in the form of HQ-like capabilities and functions. As illustrated by case #7, value-add does not necessarily relate to production facilities but can also encompass capabilities like stock management or typical HQ-like functions such as controlling or accounting. Local value-add as a means for foreign subsidiaries to qualify for a regional HQ is exemplified by cases #4 and #5, which relate to the same parent company. While the Chinese subsidiary in case #5 has become regional HQ for Asia and Oceania, its Austrian counterpart in case #4 is not expected to benefit from this status despite significant Eastern European market attractiveness and sufficient organizational maturity with regard to subsidiary empowerment.

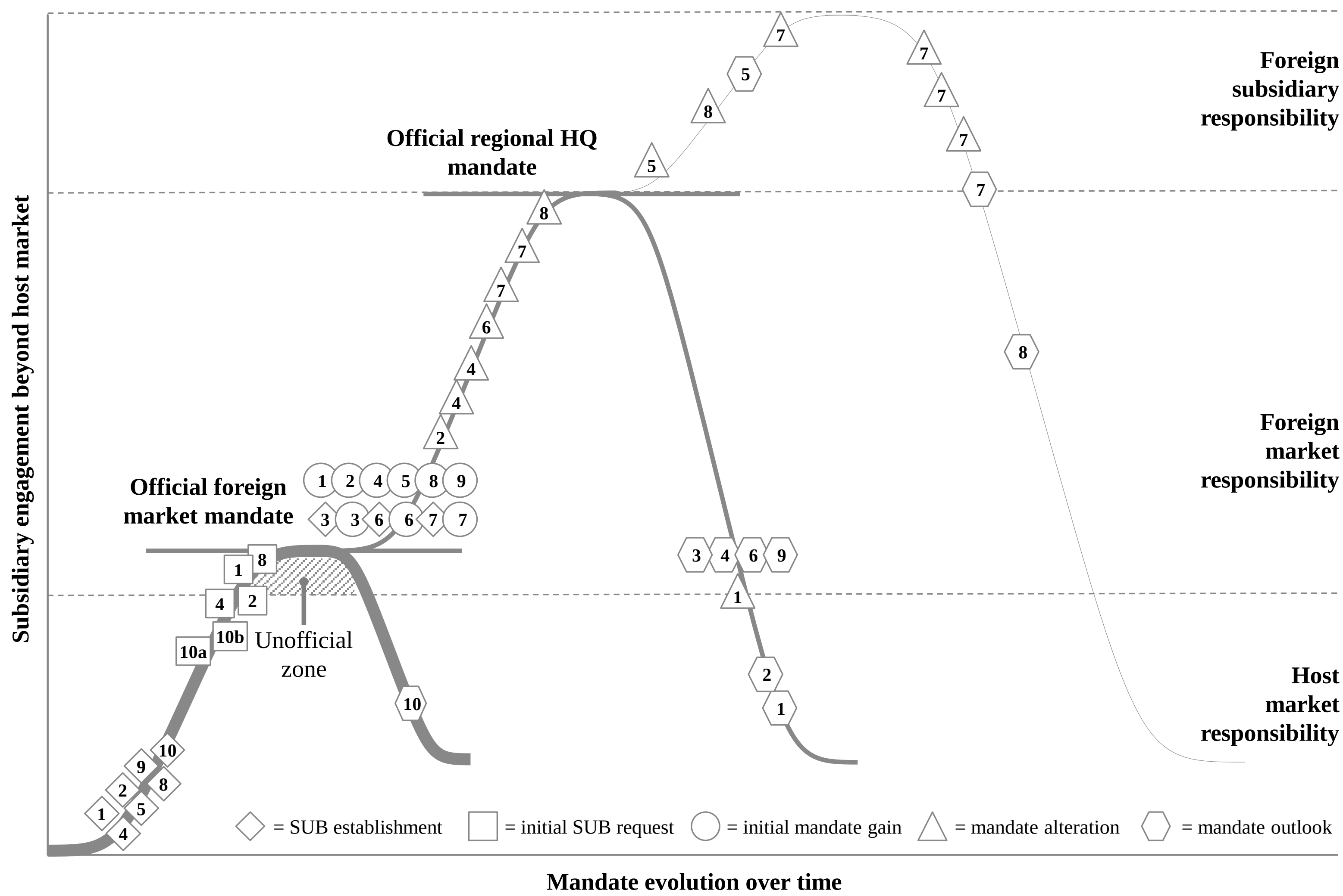
Once a foreign subsidiary reaches the third stage of mandate evolution and holds regional HQ responsibility, it is automatically faced with increased intra-MNC competition in the covered area. The sum of host-market-related CSAs and subsidiary-related FSAs appears to be decisive for the sustainability of this advanced mandate type. If a foreign subsidiary maintains CSA and FSA superiority versus its parent company and the sub-unit under supervision it is likely to maintain its regional HQ mandate. This situation is exemplified by case #5 in which the focal subsidiary can rely on strong CSAs like market size, growth or labor costs and robust FSAs in the form of local production facilities. The mandate is therefore likely to increase rather than to decline in the future. Case #7 exhibits exactly the opposite scenario. The focal subsidiary has already lost part of its regional HQ mandate to the rival subsidiary in China and is expected to further cede responsibility for India. While the Chinese subsidiary has surpassed the focal subsidiary in terms of CSAs and FSAs the Indian subsidiary is expected to do so in the near future as local production facilities are currently in development. The US subsidiary in case #8 is currently situated somewhere in between the two other cases though it is likely to take the negative scenario of case #7 rather than preserving the status quo or benefiting from further mandate extensions.

Mandate evolution across all eleven cases is highlighted by Figure 5-3 below. For each case the figure outlines the mandate scope at the following five stages: (1) at the establishment of the subsidiary; (2) at the subsidiary request for cross-border responsibility[27]; (3) after the initial mandate gain; (4) after any mandate alteration; (5) as expected at some stage in the future. It should be noted that the figure is illustrative and thus does not provide meaningful information about time gaps between the various points in mandate evolution or about relative depths of responsibility scopes. It should be exclusively used as an instrument to better understand different paths of mandate evolution. In addition, it aims to provide a broad overview of how mandate evolution

[27] Only relevant for cases with subsidiary-driven initiatives for initial cross-border reaching.

differs across subsidiary types: first, subsidiaries that are not allowed to reach beyond host market borders at all. Second, foreign sub-units that benefit from cross-border mandates but that are limited in their functional scope. Finally, subsidiaries that turn into regional headquarters but that are faced with enhanced intra-MNC competition at this level.

Figure 5-3: Evolutionary paths for cross-border responsibilities of ten foreign subsidiaries



5.3. Discussion

The paper at hand has investigated the internationalization process of ten foreign subsidiaries at seven MNCs covering the initial mandate gain, subsequent mandate alterations as well as likely future mandate developments. In the course of the analysis a total of 36 initiatives for subsidiary internationalization with varying outcomes and impacts on subsidiary mandates revealed meaningful insights into process drivers and restrictions as well as the evolutionary paths of subsidiary mandates for foreign market development. In line with the previous analysis part, the following discussion is split into the initial mandate gain encompassing opportunity-identification and responsibility-allocation processes and the subsequent mandate evolution composed of responsibility modifications and future outlooks. Regarding comparative case study analysis approaches as chosen for the study at hand, Eisenhardt (1989b: 544) stressed that “an essential feature of theory building is comparison of the emergent concepts, theory, or hypothesis with literature”. In the following, findings will therefore be thoroughly contrasted with confirming as well as conflicting literature in order to better understand how and where in the modern MNC opportunities for subsidiary internationalization are identified and pursued and in what form resulting mandates develop over time.

5.3.1. Overview

While the following exercise was impacted by literature with a static and dynamic view on MNCs in general and foreign subsidiaries in particular as outlined in chapter 2 of this study, certain prior research proved to be of pronounced relevance to the topic of subsidiary internationalization and cross-border subsidiary mandates. First of all, the original and revised IP model of Johanson and Vahlne (1977; 2009) helped the investigator to contrast observations for internationalization processes of the second degree with mechanisms of traditional market development approaches from the parent company. The network approach towards firm internationalization of Johanson and Mattsson (1988) and Forsgren et al. (2005) further allowed the author to put case-study findings from outside the MNC into the overall context of subsidiary internationalization. When further seeking to understand witnessed corporate reluctance to the delegation of cross-border responsibilities, the risk visualization of the IP model by Figueira-de-Lemos et al. (2011) and the principal-agent display of Jensen and Meckling (1976) helped to combine the separate aspects of foreign market development and HQ–subsidiary relationships including associated uncertainty dimensions (e.g. moral hazard).

The work of Rugman and Verbeke (1992, 2001) on the existence of host-market-related CSAs and its ability to contribute to FSA development outside national borders allowed the investigator to obtain a clearer picture of why a foreign subsidiary may possess a competitive advantage across the MNC for the development of a particular foreign market and why decentralized market development approaches may therefore be capable of lowering the total risk level of the undertaking. In addition, later studies of Rugman and Verbeke (2004, 2005 and 2007) around 'region-bound' FSAs helped to better differentiate between 'location-bound' and 'non-location-bound' FSAs and the role of CSAs in their development. In the following, the work of Birkinshaw (1996) on the development of subsidiary mandates allowed the investigator to better understand the sudden impact of subsidiary capabilities in the course of mandate development. In addition, the sketching of a corporate immune system that may cause resistance to subsidiary initiatives by Birkinshaw and Ridderstråle (1999) facilitated the understanding of widely monitored functional mandate limitations as well as predefined and truncated evolutionary paths related to subsidiary internationalization.

In order to understand limited subsidiary influence on mandate evolution that contradicts several findings by leading IB scholars (Birkinshaw, 1996, 1997; Birkinshaw et al., 1998) at first sight, the suggestion of Araujo and Rezende (2003) to combine literature of overall MNC strategy with internationalization processes proved to be of great help. Finally, the work of Galunic and Eisenhardt (1996) on charter evolution across business units and intra-MNC competitions allowed the author to better understand shifting cross-border responsibilities from one subsidiary to another. In this context, the work of Mudambi and Navarra (2004), Andersson et al. (2007) and Bouquet and Birkinshaw (2008) on subsidiary importance in the federative MNC set the breeding ground for elucidating why some subsidiaries are likely to face stagnating, declining or dissolving cross-border mandates whilst others are expected to maintain or even further develop their responsibility scopes beyond host market borders.

When finally faced with clarifying evolutionary paths of subsidiary mandates for foreign markets which did not only reveal gradual elements as suggested by the original IP model (Johanson & Vahlne, 1977) but were also often characterized by discontinuities, truncations or reversals, again the work of Araujo and Rezende (2003) caught the attention of the investigator. Combining MNC strategies regarding externalization and localization degrees in foreign markets and underlying levels of integration across MNC units with network approaches to firm internationalization, Araujo and Rezende (2003: 731) suggested that that "internationalisation processes are affected by different types of relationships, internal and external to the MNC network, articulated in different temporal and spatial contexts. The paths in space and time framework advises against equating path dependence with incrementalist trajectories confined to specific territories, even if self-reinforcing processes continue to play an important role in explaining internationalisation processes." When contrasting case findings for cross-border mandate evolution to the reasoning of Araujo and Rezende (2003), process similarities soon became apparent and eye-catching and will be detailed in the following pages.

Overall, IB literature that explicitly looked into cross-border subsidiary roles and/or mandate evolution proved to be particularly relevant when challenging case study findings. Nonetheless earlier groundbreaking IB research like the monopolistic advantage theory (Hymer, 1960, 1976), transaction-cost-based and internalization theories (e.g. Williamson, 1975; Buckley & Casson, 1976), the eclectic paradigm (Dunning, 1977) or the product lifecycle theory (Vernon, 1966) that was not leveraged for analytical generalization (Pauwels & Matthyssens, 2004) find their expression in later studies that were extensively used for the purpose of this study. All work of Rugman and Verbeke (1992, 2001, 2004, 2005 and 2007), for example, which strongly added to the robustness of case study findings, finds its origin in earlier theories of the MNC (e.g. Hymer, 1960, 1976; Williamson, 1975; Buckley & Casson, 1976). Similarly, earlier work around HQ–subsidiary relationships (e.g. Ghoshal & Nohria, 1989; Nohria & Goshal, 1994) or general subsidiary roles (e.g. Bartlett & Ghoshal, 1986; Gupta & Govindarajan, 1991) was not directly used for analytical generalization but strongly influenced relevant work for this study concerning subsidiary evolution (e.g. Birkinshaw, 1996) or subsidiary power (e.g. Bouquet & Birkinshaw, 2008).

5.3.2. Initial mandate gain

Despite its existence for more than 30 years and its limitation to internationalization processes of the first degree, the original IP model of Johanson and Vahlne (1977) serves as a meaningful instrument for explaining subsidiary internationalization. Moreover, the recently revised IP model (Johanson & Vahlne, 2009) that explicitly acknowledges the relevance of cross-border networks for internationalization processes while simultaneously leaving the core pillars of the Uppsala model unaltered can be leveraged as a theoretical framework for foreign market development through foreign subsidiaries. Even though certain process drivers for subsidiary internationalization show remarkable overlaps with findings for initial foreign market developments from a parent company, it became soon apparent that the study topic exhibits numerous particularities that need to be illuminated from different perspectives by applying different streams of literature.

5.3.2.1. Subdivision of the revised IP model

One of the distinguishing features of subsidiary internationalization that accompanied the study throughout all within- and cross-cases analyses is a minimum involvement of two MNC levels, i.e. the focal subsidiary and its parent company. Acknowledging the subsidiary’s resource dependency from its parent company appears to be crucial when aiming to understand peripheral internationalization processes. In addition to its relevant corporate headquarters, the focal subsidiary's decisions and actions are further influenced by other MNC units like sister subsidiaries and by stakeholders outside the MNC. It therefore came as no surprise that valuable theoretical frameworks of internationalization of the first degree needed to be adjusted in order to suit the topic of subsidiary internationalization. In fact, significant extensions to the revised IP model were inevitable in order to account for today's multiple embeddedness of foreign subsidiaries (Meyer, Mudambi & Narula, 2011). As a consequence of multiple embeddedness, foreign subsidiaries are faced with "internal competition for charter" (Birkinshaw & Hood, 1998: 782) and dependent on headquarter resources, further adding complexity to explaining peripheral internationalization processes.

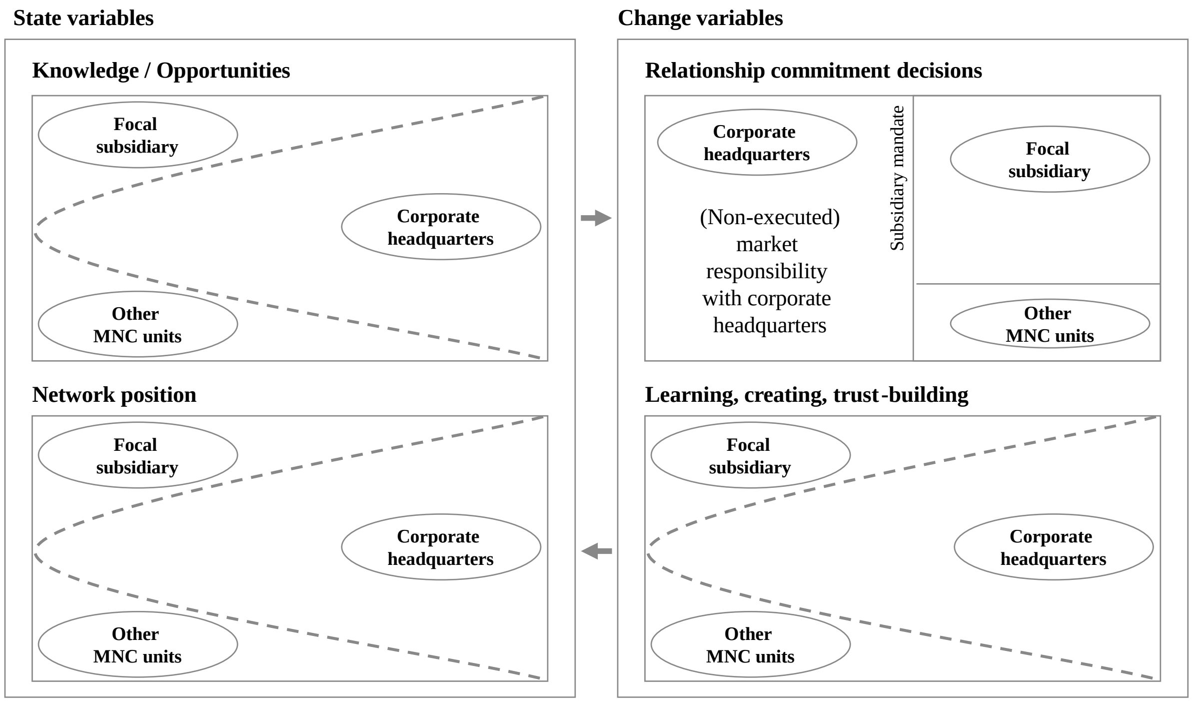
Adapting the revised IP model for subsidiary internationalization, state and change variables need to be viewed from different MNC perspectives while simultaneously putting their extent in relation to each other. The MNC is thereby treated as a 'corporate marketplace' (Galunic & Eisenhardt, 1996: 262) in which the attention of corporate executives is unequally spread across foreign sub-units (Prahalad & Doz, 1987). The multiple embeddedness of modern MNCs therefore marks the first substantial particularity of subsidiary internationalization when comparing it with internationalization processes of the first degree. State and change variables can no longer be viewed as total MNC parameters but need to be broken down to individual MNC units.

Looking at the state variables of the revised IP model for subsidiary internationalization, the sum of knowledge, in particular about foreign market opportunities found across all MNC units, constitutes the total firm value for a particular foreign market or region. Due to a set of restraints for intra-MNC knowledge transfer (Forsgren et al., 2005), foreign market knowledge is likely to be unequally distributed across the organization. Similarly, the network position of the MNC in a particular foreign market, representing the second state variable, is the sum of expressions at every single sub-unit including the parent company. This variable may also differ from one firm entity to another as varying networking capabilities of MNCs (Cantwill & Santangelo, 1999) are also expected to apply for different MNC units. Total knowledge and cumulated network positions of the MNC may differ from one market to another and are dependent on the firm's overall cross-border exposure. Foreign market knowledge and cross-border networks can thus be manifested in the company's resources in the form of HQ or subsidiary employees as well as contractual relationships with local market participants.

Adhering to the revised IP model and accounting for the multiple embeddedness of MNC units, both state variables are influenced by the learning, creating and trust-building that can take place anywhere in the organization (Tallman & Chacar, 2011) and that represent one of the model's change variables. As a result, not only the total knowledge and network position regarding a foreign market change but also their internal distribution is likely to alter over time. In addition to such gradual development, both state variables may also be driven by altering resource combinations in the firm (Galunic & Rodan, 1998) of varying magnitudes. While resource recombination may be the result of internal MNC transfers of tacit knowledge (Kogut & Zander, 1993), companies also appear to impact overall knowledge levels and network positions including their internal distribution ratios by external transfers. This process is exemplified by case #3, in which the installation of a new subsidiary CEO in Singapore immediately reduced the firm's liability of outsidership (Johanson & Vahlne, 2009) in Southeast Asia. In addition, external resource inflow allowed the focal subsidiary to obtain a distinct positioning for the entire region in the MNC.

Adhering to the existence of subsidiary initiatives for foreign market development that failed to obtain HQ buy-in (cases #10a.0 and #10b.0), the second extension to the revised IP model unfolds. While the relative magnitude for all previously described variables can more or less freely diffuse across the MNC, the change variable relationship commitment decisions regarding a new foreign market is initially fixed by the subsidiary assignment, mandate or charter. While foreign subsidiaries may very well be able to erode HQ control by several means (Mudambi & Navarra, 2004), their mandate beyond the host market represents a 'head-office assignment' that may or may not be accompanied by other elements like 'subsidiary choice' or 'environmental determinism' (Birkinshaw et al., 1998: 235). Initial foreign market responsibility for foreign subsidiaries is thus dependent on corporate headquarters as they "control corporate resources and fulfill an important role as orchestrator of assets, knowledge, and attention" (Ambos & Birkinshaw, 2010: 451). If a foreign subsidiary therefore seeks to increase its commitment to a particular foreign market, it is required to obtain official HQ approval for doing so. An overview of the revised IP model for subsidiary internationalization is provided by Figure 5-4 below.

Figure 5-4: State and change variables for foreign market development across the MNC (prior to initiative-taking at either MNC level)



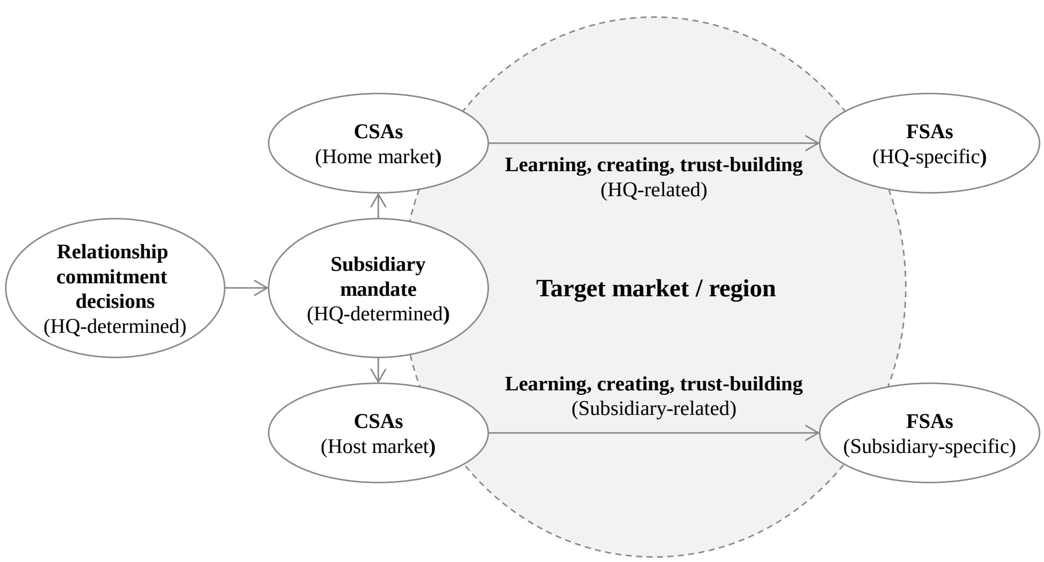
Source: Own illustration, adapted from the revised IP model from Johanson & Vahlne (2009)

The above illustration may represent the MNC distribution of values for a particular foreign market or region at the time of the subsidiary inauguration or at any later stage of its evolution. Moreover, the total MNC value of state and change variables may only be marginal if the company as a whole lacks any form of business involvement in the market in focus. In addition, learning, creating and trust-building and resulting network positions and knowledge levels may be limited to a single MNC, which would then account for the total MNC value. Finally, foreign subsidiaries may officially disclose the highest degree of relationship commitment decision to a foreign market from their inauguration as observed in cases #3, #6 and #7, where all three Singaporean subsidiaries benefited from cross-border reach from the very start of their existence. Similar to firms that are international from their very establishment, so-called 'born globals' (e.g. Madsen & Servais, 1997), foreign subsidiaries may also be 'born regionals'.

When a foreign subsidiary is established, state variable knowledge about and network position in a foreign market are generally more distinct at the parent company than at its local counterpart. The focal subsidiary's mandate is initially orientated towards its host market with little responsibility for additional markets (Bartlett & Ghoshal, 1989). In the course of time and independent of its initial mandate, the focal subsidiary is likely to develop knowledge and external network relationships beyond its original host market (Forsgren et al., 2005). This process is facilitated by host-market-related CSAs (Rugman & Verbeke, 1992) like geographical proximity, cultural understanding or regional product and customer requirements that a foreign subsidiary possesses for a specific foreign market. Host-market-related CSAs are generally applicable to countries or areas with low geographic and/or cultural distance and may therefore allow local subsidiary management to benefit from a higher degree of cross-border learning, creating and trust-building (Johanson & Vahlne, 2009) than any rival MNC unit including the parent company. This process can be speeded up by local subsidiary management if it unofficially decides to augment the cross-border commitment.

The development process of knowledge and business networks that constitute FSAs for a particular foreign market and that can be equally attributed to any MNC unit is highlighted in Figure 5-5 below. For simplicity purposes the illustration is reduced to the corporate HQ and the focal subsidiary but may also apply for sister subsidiaries, especially if they are located in geographical proximity to the target market. The process originates with the parent company's relationship commitment decision for the target market. The overall commitment is further divided among MNC units based the individual subsidiary mandates. In the following, learning, creating and trust-building at either MNC level is impacted by the presence of CSAs, so that the FSA output in the form of knowledge about and networks in the target market is likely to vary across MNC units. Case observations further show that the FSA development process at foreign subsidiaries is likely to outperform its counterpart at the HQ both in terms of speed and magnitude. The superiority of host-market-related CSAs versus home market-related CSAs therefore appears to be sufficient to more than offset any subsidiary disadvantage caused by limited responsibility scopes.

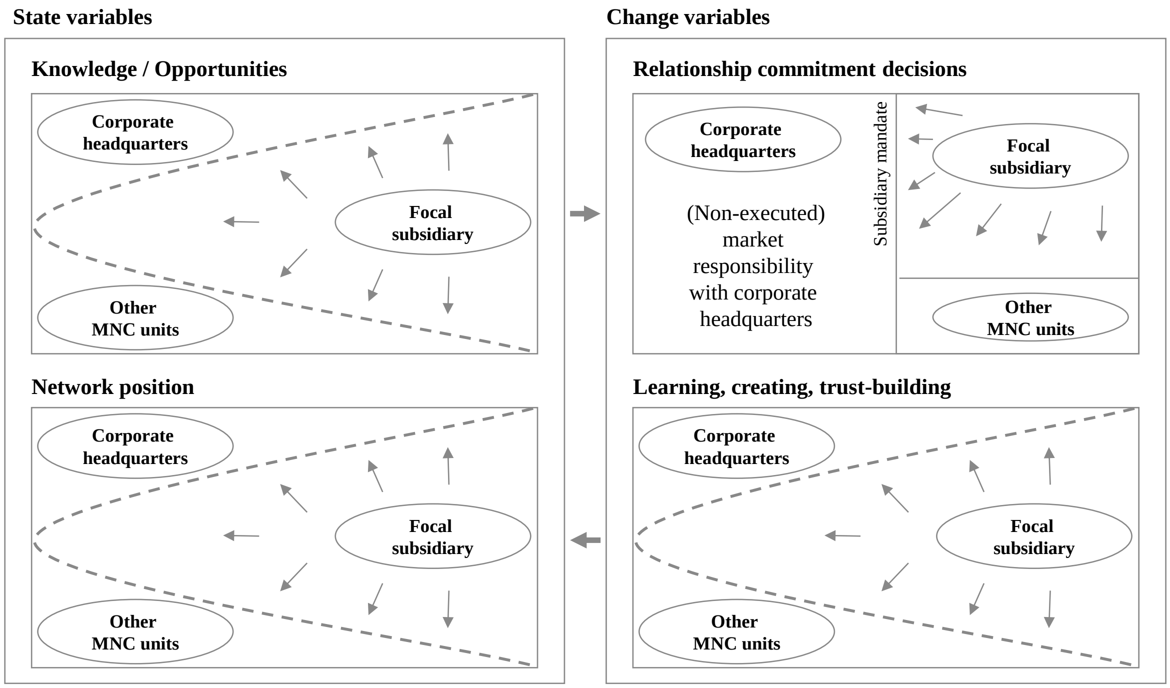
Figure 5-5: Target market-related FSA development at HQ and subsidiary level



While as a consequence all variables change, relationship commitment decisions remain fixed by the subsidiary mandate. The result is an imbalance between corporate headquarters, focal subsidiary and other MNC units for the responsibility scope in a particular market. Based on its knowledge, in particular about market opportunities, and its network position, the focal subsidiary would most likely decide to extend its relationship commitment beyond the original host market but the decision is held back by the subsidiary mandate. Such imbalance is highlighted by case #4, in which process inefficiencies eventually culminated in the proposal of alternative market development or customer management approaches. The subsidiary mandate thereby manifests the subsidiary's dependency on HQ approval as the latter possesses authority for local budget allocation beyond host market borders. As noted earlier, the interplay between different MNC levels marks a particularity of subsidiary internationalization and strongly impacts overall processes mechanisms.

Observed cases reveal that the aforementioned imbalance across the MNC does not automatically initiate subsidiary internationalization processes. It augments or enhances, however, the proclivity of stakeholders at both ends of the MNC for change, in this particular case for alternative market development approaches. Case study analyses further illustrate that quantum leap changes are then initiated by critical incidents (Macharzina & Engelhard, 1991) within and outside the MNC. With regard to subsidiary internationalization, the imbalance of state and change variables across MNC units therefore refers to the firm's inability to adjust the mandate of a subsidiary to its level of market knowledge and network position outside the host market. In turn, quantum leap changes mark the initial gain of subsidiary responsibility for foreign markets. All observed cases of subsidiary internationalization reveal critical incidents that eventually caused subsidiary-driven mandate requests or HQ-driven responsibility delegations. Subsidiary internationalization therefore seems to equally involve evolutionary (Johanson & Vahlne, 1977) and revolutionary elements (Macharzina & Engelhard, 1991).

Figure 5-6: State and change variables for foreign market development across the MNC (at the time of initiative-taking at either MNC level)



Source: Own illustration, adapted from the revised IP model from Johanson & Vahlne (2009)

The frequency of altering organizational structures or human resource configurations that made HQ or subsidiary management act on the imbalance of relationship commitment decisions is eye-catching. While Johanson and Vahlne (1977) attributed the 'psychic distance' between two countries a crucial role in the order of foreign market development from the home market, the aspect may also be relevant to the initiation of subsidiary internationalization. Sousa and Bradley (2008: 470) specified the term by stating that "the distance exists in the mind of the individual and depends on how he or she perceives the world. Hence, it is the individual's perception of the differences between the home country and the foreign country that shapes the psychic distance concept." The exit of a foreign market sales manager at the parent company (cases #3 and #9) or the installation of a new CEO at the focal subsidiary (case #10b) are therefore likely to result in varying psychic distances for a particular market or region between the two MNC units. As organizational change generally involves altering responsibility distributions it should have a similar impact across the MNC. The relevance of varying psychic distances for making MNC stakeholders aware of decentralized market development approaches and for initiating subsidiary internationalization is therefore worth mentioning.

The study also highlights different loci of opportunity-identification and initiative-taking for subsidiary internationalization across the MNC. While in the majority of cases both process elements originated at the focal subsidiary, the case sample also features HQ initiatives for extended geographical responsibilities of foreign subsidiaries. Case findings therefore challenge the original assumption of the Uppsala model that the "locus of learning is at the business frontline" (Blankenburg Holm et al., 2009: 15). The study rather supports modern views on dispersed knowledge accumulation and dissemination (Tallman & Chacar, 2011). Overall, however, case study observations support the findings of Birkinshaw (1996) that initial mandate gains are largely subsidiary-driven.

Finally, case study observations have demonstrated that subsidiary internationalization, unlike internationalization of the first degree, does not necessarily relate to the development of new foreign markets when taking an MNC perspective. In fact, all eleven initiatives for cross-border subsidiary responsibility were related to markets or regions in which the MNC was already present. Even though company presence was often limited at the time of initiative-taking at either MNC level, corporate management had already gotten a foot in the door of the respective area. Any definition of internationalization as "the process of increasing involvement in international operations" (Welch & Luostarinen, 1988: 36) therefore does not seem to apply for cross-border subsidiary mandates. At first, local subsidiary management seeks or corporate management wishes to delegate existing foreign-market responsibility, which may result in altering responsibility distributions across the MNC but not necessarily in increased foreign market exposure of the firm.

Nonetheless, Johanson and Wiedersheim-Paul (1975: 304) already noted that "the term international usually refers to either an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad", so that the objective of increasing foreign market penetration through shifting MNC responsibilities should already satisfy the definition of internationalization processes as set by Welch and Luostarinen (1988). In addition, internationalization is often seen as gradually increasing foreign market commitments (Johanson & Vahlne, 1977) so that the involvement of entirely new markets is not a prerequisite for internationalization processes. Finally, from a pure subsidiary perspective the opportunity-identification and initiative-taking relates to initial cross-border operations, so that even the definition of Welch and Luostarinen (1988) outlined above would be fulfilled. Having stated this, the particularity of shifting MNC responsibilities rather than increasing MNC cross-border exposure that characterized the process offset of subsidiary internationalization is remarkable as it clearly separates internationalization processes of the first degree from their equivalents of the second degree.

5.3.2.2. Host-market-related CSAs and the liability of inter-regional foreignness

Having thoroughly contrasted emergent concepts regarding the initiation of subsidiary internationalization with literature in order to develop mid-range theory, the same exercise will be carried out for the underlying reasoning of corporate management for selecting or avoiding decentralized market development approaches. The HQ rationale for using local subsidiary resources in order to obtain further global reach may differ from one subsidiary to another, one country to another or from one point in time to another. In addition, some subsidiary requests for extended geographical responsibility may fail to obtain HQ approval as a result of lacking corporate attention or insufficient value-proposition beyond national borders. Therefore, understanding why and under what circumstances MNCs opt for decentralized market development approaches represents a crucial aim of this study.

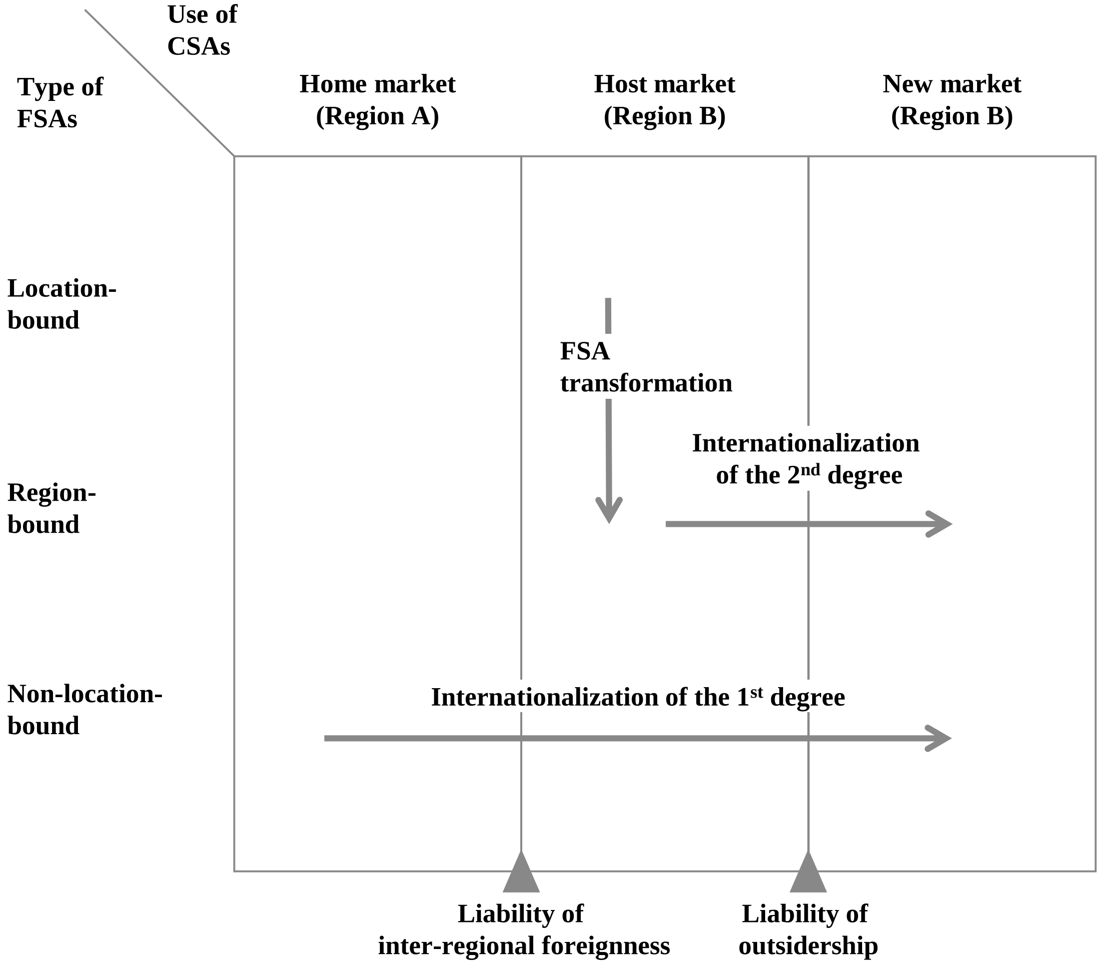
Study findings shows that a precondition for internationalization at any level of the organization is the presence of and knowledge about opportunities in a foreign market that are "assumed to initiate decisions" (Johanson & Vahlne, 1977: 27). All cases in which an MNC unit eventually obtained foreign market responsibilities exhibit a high level of market attractiveness in terms of size and growth that strongly facilitated positive decision-making at HQ level. In addition, the only two failed subsidiary requests (#10a.0 and #10b.0) for extended geographical reach lacked the presence of and knowledge about opportunities in the respective area. In the course of their internationalization efforts, firms employ existing or new resources in order to overcome liability of outsidership (Johanson & Vahlne, 2009), in particular by developing external networks and building its position in the target market. Adding to this, the MNC is faced with a higher level of coordination efforts, both internally as well as externally, in the new network. They are defined as 'dynamic adjustment cost' (Hutzschenreuter, Voll & Verbeke, 2011) and augment with increasing cultural distance (Newman & Nollen, 1996). Multiple cases of subsidiary internationalization have shown that corporate headquarters seem to select from all MNC units including themselves the one which is best suited to exploit foreign market opportunities while minimizing involved risk levels.

According to Rugman and Verbeke (1992), an MNC is equipped with home-market-related CSAs at corporate headquarters and host-market-related CSAs at affiliated foreign subsidiaries. In the same article they further stated that both types of CSAs can be location-bound or non-location-bound and that the latter form can be exploited transnationally in both markets. Rugman and Verbeke (1992: 763) thereby assigned host-market-related CSA applicability across the entire MNC as they "may create dynamic benefits to the corporation as a whole". However, their perspective appears to be restricted to MNC networks encompassing the parent company and its affiliated foreign sub-units. In addition, their examples are limited to leveraging host-market-related CSAs for selected FSAs along the value chain (e.g. low labor costs for MNC-wide production). Study findings of subsidiary internationalization, however, disclose that host-market-related CSAs in the form of locational advantages like geographical proximity or cultural understanding may also be leveraged for the development of markets without existing company presence. Their applicability therefore appears to exceed existing MNC borders and to comprise additional value chain elements like sales and service functions.

In a later study Rugman and Verbeke (2005: 14) once again stressed the relevance of FSAs and CSAs combination in a particular host market for successful internationalization of the MNC and added that "these FSAs can easily be made 'region-bound' to the extent that linking investments with high institutional and economy-related specificity can be avoided". Though not explicitly addressing the topic of subsidiary internationalization, Rugman and Verbeke (2007) further granted foreign subsidiaries the capability of avoiding so-called 'liability of inter-regional foreignness' that a parent company would face outside its home region. According to Rugman and Verbeke (2007), liability of inter-regional foreignness is caused by varying FSA requirements between two distant regions. Combining the work of Rugman and Verbeke (2007) and Johanson and Vahlne (2009), a firm that seeks to develop markets outside its home region is simultaneously confronted with liability of inter-regional foreignness towards a new region and liability of outsidership toward business networks of a new market.

When linking the transformation of location-bound into region-bound FSAs and the dual liability associated with foreign market development outside the parent company's home region to case-study findings, three important implications for subsidiary internationalization unfold. First, host-market-related CSAs like geographical proximity, cultural understanding or similar regional product requirements allow the transformation of subsidiary-related location-bound FSAs like market knowledge or business networks into subsidiary-related region-bound FSAs. Second, corporate management credits resulting subsidiary-related location-bound FSAs the ability of significantly lowering or even eliminating the liability of inter-regional foreignness if the new market belongs to the same region as the subsidiary's host market. Finally, the reduction or avoidance of this liability of inter-regional foreignness seems to constitute the primary rationale for switching from traditional, centralized market development approaches to decentralized internationalization methods. This principle is summarized by Figure 5-7 below.

Figure 5-7: Leverage of host-market-related CSAs for new market development



Source: Own illustration, adapted from Rugman & Verbeke (1992, 2005)

Having outlined the suitability of host-market-related CSAs for developing region-bound subsidiary-related FSAs and the impact of resulting FSAs on the liability of inter-regional foreignness, it needs to be stated that not all observed cases of subsidiary internationalization exhibited region-bound subsidiary-related FSAs at the process offset. In fact, in three cases (#3, #6 and #7) the corporate decision for multinational subsidiary responsibility was taken prior to the opening of the focal subsidiary. It therefore appears that the mere existence of host-market-related CSAs may qualify a foreign subsidiary for obtaining extended geographical reach. HQ management thereby anticipates the transformation of these CSAs into region-bound FSAs. Putting it into the context of the corporate marketplace within the MNC (Galunic & Eisenhardt, 1996), host-market-related CSAs of mandate-receiving subsidiaries need to be distinct and superior to elsewhere in the organization (Birkinshaw et al., 1998). Vice versa, foreign subsidiaries that lack mentioned host-market-related CSAs are likely to be excluded from any foreign market development.

The presence of subsidiary capabilities and proven resources are largely viewed as a catalyst for subsidiary evolution (e.g. Bouquet & Birkinshaw, 2008). While they are likely to also facilitate the process of subsidiary internationalization, they represent by no means a necessary condition. This is highlighted by cases of subsidiary internationalization where corporate management was at the time of the decision not or only to a limited degree convinced of the overall subsidiary capability but still granted additional global reach (cases #1 and #2). Furthermore, the actual rent-seeking process at subsidiary level and decision-making process at headquarter level required relatively little persuasion efforts from local subsidiary management, challenging Birkinshaw and Fry's (1998: 52) note on global initiatives that subsidiary managers "need a lot of tactical savvy, persistence, and luck if they are to pursue initiatives effectively". Observed particularities might be the result of the relatively small scope of commitment decisions at the initial stage of subsidiary internationalization or might indicate the particular relevance of risk alterations in the process.

Adhering to the observation of initial mandate gains for which local subsidiary management was neither requested to hold subsidiary-related FSAs for the target market, nor to possess a significant amount of confidence among corporate management nor to strongly fight for HQ approval, only two preconditions for subsidiary internationalization remain that were found among all initiatives with positive outcomes and that were simultaneously missing in the only two failed subsidiary requests: (1) sufficient attractiveness of the market for which extended responsibility is requested and/or granted and (2) HQ awareness of the presence and superiority of host-market-related CSAs in relation to other affiliated MNC units as well as to home-market-related CSAs found at the parent company. Both elements seem to be relatively easily measurable. Market attractiveness, for example, can be judged by the comparison of market sizes and growth rates. The CSA-based value-proposition for the development of a particular market can be assessed for each MNC unit by using simple data about geographical distances or cultural overlaps. Nonetheless, case study observations have shown that the HQ decision to grant cross-border responsibility to foreign subsidiaries is not as straightforward as one might expect. In fact, numerous MNC stakeholders commented on additional risk parameters that impacted the decision-making process. So which other elements play a crucial role in the subsidiary's initial mandate gain for foreign market responsibility?

5.3.2.3. Principal-agent relationships and altering risk parameters

Several IB scholars (e.g. Nohria & Ghoshal, 1994) have demonstrated that the delegation of responsibilities across the MNC may lead to increased information asymmetry and goal incongruence between the parent company and the focal subsidiary. In internationalization processes such problems further increase as a result of cultural and geographic distance (Benito, Lunnan & Tomassen, 2010). In order to offset increased risk levels linked to activities in foreign sub-units, a parent company can employ headquarters supervision, e.g. through the use of expatriates, or bureaucratic monitoring mechanisms such as monthly reports or other information collection tools (O'Donnell, 2000). The process of subsidiary internationalization is therefore characterized by a principal–agent relationship (Jensen & Meckling, 1976). The parent company as the principal delegates the task of foreign market development to its subsidiary that acts as an agent in the overall process. Additional risk levels perceived by corporate management can have various origins in this interplay. It can arise from insufficient HQ trust in subsidiary capabilities. It may also relate to goal incongruence between the two process stakeholders. It can equally be caused by lacking knowledge about subsidiary actions or networks. Acknowledging missing completeness of this listing, Vahlne et al. (2012: 229) summarized the aforementioned aspects as "liability of outsidership of a HQ" that forces corporate stakeholders "to manage under a cloud of uncertainty and thus in an atmosphere of goal ambiguity".

Even though Vahlne et al. (2012) built their work around the revised IP model of Johanson and Vahlne (2009), they did not touch upon the impact of liability of outsidership of an HQ on internationalization in general and subsidiary internationalization in particular. As varying risk perceptions among HQ management for centralized (internationalization of the first degree) and decentralized (internationalization of the second degree) foreign market development characterized the entire case sample, a closer look into the matter seems appropriate. The importance of risk in the internationalization process of a firm has already been acknowledged in the original IP model. According to it, a firm gradually increases its commitment to a specific market until "its tolerable risk frontier is met" (Johanson & Vahlne, 1977: 30). Figueira-de-Lemos et al. (2011) recently seized the aspect of risk in the internationalization process when analytically and graphically examining its market commitment and market uncertainty variables. Despite exclusively looking at internationalization processes of the first degree, they acknowledge that "the formula variables can contain various sub-variables" (Figueira-de-Lemos et al., 2011: 146). The development of sub-variables seems appropriate for subsidiary internationalization as the focal subsidiary cannot increase or is at least restricted in increasing its commitment to regions outside its host market without obtaining prior HQ approval.

Expanding upon the original risk formula, a set of equations for the peripheral internationalization process is elaborated. The extended IP model includes MNC units other than corporate headquarters (HQ) and the focal subsidiary (SUB) as it always views the latter positioning relative to other subsidiaries. All variables of the extended risk model are expressed from a headquarter perspective in order to account for its decision-making authority. It further assumes that any firm is profit- and/or opportunity-seeking and that it only augments its risks within acceptable boundaries (Shrader, Oviatt & McDougall, 2000). This assumption implies that HQ management not only evaluates involved risk levels of a decentralized market development, but also takes potential opportunity costs linked to the decision into consideration.

Extending the IP model as described by Figueira-de-Lemos et al. (2011), the variables market commitment and uncertainty are subdivided into an external (traditional approach) and an internal perspective. The variable commitment (C_t) thus still refers to existing commitment to a specific foreign market (external), while additionally accounting for the existing commitment to delegating responsibilities to the focal subsidiary (internal). The sum of external commitment (C_{t-EXT}) and internal commitment (C_{t-INT}) makes up the total HQ commitment. Correspondingly, the variable uncertainty (U_t) is further broken down into existing uncertainty about a specific foreign market (external) and existing uncertainty about the focal subsidiary's capability to adequately fulfill the market development task (internal). Again, the sum of external uncertainty (U_{t-EXT}) and internal uncertainty (U_{t-INT}) makes up the total HQ uncertainty. The selected approach is very much in line with the recent postulation of Vahlne et al. (2012: 230) that an HQ's liability of outsidership not only relates to foreign markets (external) but also to its affiliated subsidiaries (internal) as uncertainty arises "from the fact that the HQ is not fully knowledgeable about the networks and actions of its important subsidiaries." Variables of the extended IP model are listed in Table 5-7 below.

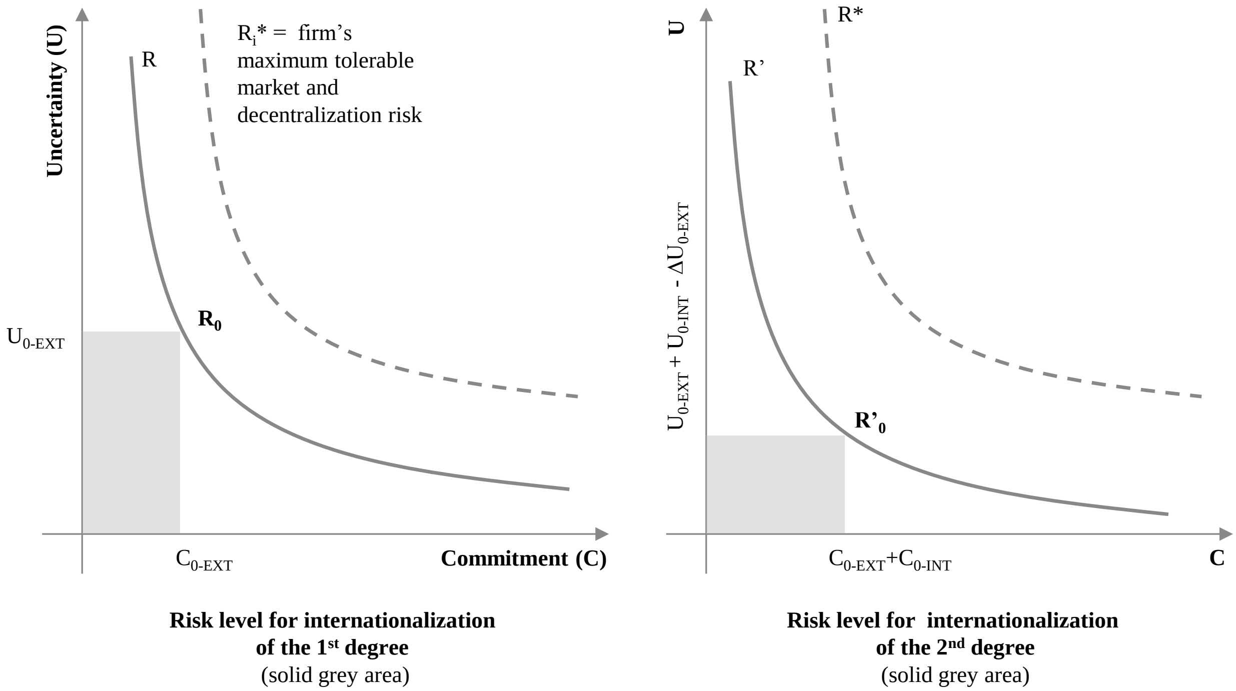
Table 5-7: Variables of the peripheral internationalization process model

Variable	Description
R*	Maximum tolerable market and delegation risk for a foreign market and foreign subsidiary
R_t	Existing market and delegation risk for a foreign market and foreign subsidiary
C_t	Existing commitment for a foreign market and responsibility delegation to a foreign subsidiary
$C_{t\text{-}EXT}$	Existing market commitment for a foreign market
$C_{t\text{-}INT}$	Existing delegation commitment to a foreign subsidiary
U_t	Existing uncertainty about a foreign market and a foreign subsidiary
$U_{t\text{-}EXT}$	Existing external uncertainty about a foreign market
$U_{t\text{-}INT}$	Existing internal uncertainty about a foreign subsidiary
$V_{t\text{-}SUB}$	Existing value-proposition for foreign market development of a foreign subsidiary
$V_{t\text{-}MNC}$	Existing value-proposition for foreign market development of rival MNC unit(s)

Source: Own illustration, based on Figueira-de-Lemos et al. (2011)

In addition to subdividing the core variables market commitment and market uncertainty, the extended IP model is further enriched by the value-proposition for the development of a foreign market of the focal foreign subsidiary ($V_{t\text{-}SUB}$) and its rival MNC units ($V_{t\text{-}MNC}$). Finally, a risk frontier (R*) characterizes the model, indicating the maximum risk associated with foreign market development and responsibility delegation that a parent company can bear. The extended risk formula of the IP model and the risk alterations associated with subsidiary internationalization are visualized in Figure 5-8 below.

Figure 5-8: Risk alterations associated with subsidiary internationalization



Source: Own illustration, adapted from Figueira-de-Lemos et al. (2011)

Once a company decides to develop a foreign market, it has to opt for the adequate market development approach. On the left-hand side of Figure 5-8, the risk level for the initial internationalization step (R_0) perceived by corporate management for internationalization of the first degree, i.e. market development through the HQ, is highlighted by the solid grey area. It is the product of the HQ's external commitment to ($C_{0\text{-EXT}}$) and external uncertainty about ($U_{0\text{-EXT}}$) a specific foreign market. For subsidiary internationalization the aforementioned risk level (R_0) is impacted in three dimensions resulting in a modified risk level (R'_0), as depicted on the right-hand side of Figure 5-8. First, commitment relatively increases due to the delegation of market development responsibility from a parent company to a foreign subsidiary ($+C_{0\text{-INT}}$). Second, uncertainty relatively amplifies as a result of HQ uncertainty about its subsidiary ($+U_{0\text{-INT}}$). Finally, external uncertainty relatively decreases driven by host-market-related CSAs and subsidiary-related FSAs that lower the external market uncertainty, e.g. by reducing or eliminating liability of interregional foreignness ($-\Delta U_{0\text{-EXT}}$). Total risk alteration ($\Delta R_0 = R_0 - R'_0$) represents the subsidiary's total value-proposition ($V_{t\text{-SUB}}$).

Preconditions for subsidiary internationalization

Case study findings reveal that at least three conditions need to be met in order to allow subsidiary internationalization:

1) The resulting risk level (R'_0) is equal to or less than the maximum tolerable risk (R^*) for a specific foreign market and for the delegation of market development responsibilities to a foreign subsidiary;

2) the subsidiary is capable of lowering external uncertainty ($\Delta U_{0\text{-EXT}}$) sufficiently to offset the uncertainty increase resulting from the delegation of market development responsibilities to a foreign subsidiary; only in this case, the subsidiary's value-proposition ($V_{t\text{-SUB}}$) is positive;

3) the subsidiary's value-proposition ($V_{t\text{-SUB}}$) is equal to or greater than the value-proposition of any other MNC unit ($V_{t\text{-MNC}}$) for the development of a particular market.

If one of these conditions is not met, corporate management is likely to prefer a traditional and centralized market development approach (cases #10a and #10b). It should be noted that corporate management's risk perception is by no means fixed and may alter over time, e.g. as a result of subsidiary profile-building (Bouquet & Birkinshaw, 2008) or changing organizational risk approaches (Johanson & Vahlne, 1977). Local subsidiary management that initially fails to obtain extended geographical responsibility may therefore experience a positive initiative outcome at a later stage.

5.3.3. *Mandate evolution*

When looking at decentralized exploitation of internationalization opportunities the aspect of internationalization trajectories is of particular interest. To what extent does subsidiary internationalization resemble internationalization of the first degree? Do cross-border subsidiary mandates exhibit fundamental differences to their host market equivalents? Do internationalization trajectories involve critical evolution steps where subsidiary mandates are further extended, reduced or potentially lost? What parameters are driving the evolution of subsidiary mandates beyond host market borders and to what extent and by what means can local management influence this process?

Looking at the above questions it soon becomes apparent that analytical generalization for the following two sections on mandate evolution, mandate development and mandate outlook needs to be carried out simultaneously. Dividing the iteration between case findings and literature into two parts would be misleading as the overall case sample is characterized by highly varying existences of cross-border subsidiary mandates. In addition, it seemed necessary to include findings for initial mandate gains into the following exchange with prior IB research findings as particularities of the process offset may impact subsequent mandate evolution just as fundamental differences between both phases may allow an additional perspective on subsidiary internationalization. When contrasting study findings about the evolution of subsidiary mandates beyond host market borders to literature, the IP model of Johanson and Vahlne (1977) again offered a solid basis. Their original establishment chain stressed "that companies start to internationalize in neighboring markets and subsequently move further away in terms of psychic distance, and also that in each market companies begin by using low-commitment modes, such as a middleman, and subsequently switch to modes that suggest a stronger commitment, such as wholly owned subsidiaries" (Johanson & Vahlne, 2009: 1420). Later research (e.g. Hedlund & Kverneland, 1985; Madsen & Servais, 1997; Weerawardena et al., 2007), however, indicated a declining relevance of the establishment chain for internationalization of the first degree.

Eleven cases of subsidiary internationalization demonstrate that the establishment chain may serve as a very helpful approach for getting a first understanding of trajectories for subsidiary internationalization. Nonetheless, it equally proves its weaknesses that will be outlined in the following. Regarding the psychic distance chain, all eleven initiatives for initial foreign market responsibility exhibited cultural similarities between the subsidiary's host market and the target market or region. For eight out of the eleven initiatives, the host markets were also bordering target countries or regions. From a subsidiary perspective the aspect of psychic distance therefore appears to be of significance at first sight. However, three aspects significantly question the relevance of the psychic distance chain for the evolution of cross-border subsidiary mandates.

First, observed initial mandates usually encompassed numerous countries, for which no priority in terms of market development order was given to or suggested by the focal subsidiary. Second, for mandate development and outlook only cases #6 (from Southeast Asia into Vietnam) and #8 (from Mexico into Central and South America) showed subsidiary-driven gradual extension of mandate scopes into markets with higher psychic distances. Finally, as the regional HQ marks the final evolutionary stage throughout the study, limited variances of psychic distances are inevitable. A regional headquarters is defined as an MNC unit that is fully responsible for activities of one or several subsidiaries within a limited geographical area (Schütte, 1996). While psychic distances and inter-regional liability of foreignness may thus have an important role for initiating or altering cross-border subsidiary mandates, they do not seem to impact the order of decentralized foreign market development.

5.3.3.1. Evolutionary elements of gradualism and discontinuity

Regarding overall commitment scopes a certain degree of gradualism was noticeable across all nine subsidiary mandates. The initial responsibility scope, for example, was highly limited and did not surpass sales and service functions. In case #4 it was actually limited to a single customer and in case #7 the focal subsidiary was not allowed to cross host market borders for purposes other than logistics support. With increasing cross-border market exposure, foreign subsidiaries appear to pursue functionally and geographically extended responsibility levels. In case #4 the mandate was extended to global KAM for all Austrian clients and in case #7 the functional scope was broadened into sales and service responsibilities. Early steps of mandate evolution therefore appear to be the result of relatively small incremental commitment decisions. However, numerous initial mandate gains and mandate alterations show that evolutionary paths of cross-border subsidiary mandates are not exclusively characterized by elements of gradualism but often exhibit discontinuous trajectories.

Observed cases of mandate evolution feature the omission and the skipping of certain development stages. Discontinuities in internationalization processes of the first degree in the form of born globals (Weerawardena et al., 2007) and leapfrogging (Hedlund & Kverneland, 1985) are therefore also noticeable for subsidiary internationalization. In cases #3, #6 and #7, focal subsidiaries were equipped with the foreign market mandate from their inauguration so that in terms of responsibility scopes they can be classified as ‘born regionals’. The Chinese subsidiary in case #5 became regional HQ without demonstrating any foreign market development skills so that it clearly leapfrogged certain evolutionary steps that other subsidiaries had to pass through (e.g. cases #7 and #8). Moreover, losing and declining subsidiary mandates in cases #1 and #7 respectively in combination with predominately negative mandate outlooks convey an image of reversals and truncations rather than incremental developments. While subsidiary internationalization may therefore embody elements of gradualism, the explanation of evolutionary paths of cross-border subsidiary mandates needs to incorporate the aspect of discontinuity.

When looking at observed mandate alterations and outlooks, the observer is faced with a relatively heterogeneous picture. As shown in Table 5-1, mandates appear to expand, stagnate, decline or even dissolve. Moreover, related initiatives may be triggered from incidents within and outside the MNC and predominately but not exclusively originate at the parent company. Finally, the HQ rationale for mandate modification is by no means similar across cases and the level of subsidiary influence on the overall process often appears to be highly limited or even non-existent. Especially the aspects of corporate management as initiative driver and restrained process influence of local management are surprising as they contradict findings of Birkinshaw (1996) that mandate development is largely subsidiary-driven and impacted by subsidiary capabilities. Even though the mandate types investigated by Birkinshaw (1996) are not fully comparable as they, in addition to cross-border mandates, also relate to internal and local mandates, the lack of subsidiary choice in internationalization processes of the second degree is eye-catching. The question that immediately arises is whether the evolution of cross-border subsidiary mandates is impacted by MNC parameters for which local management's access is largely restrained.

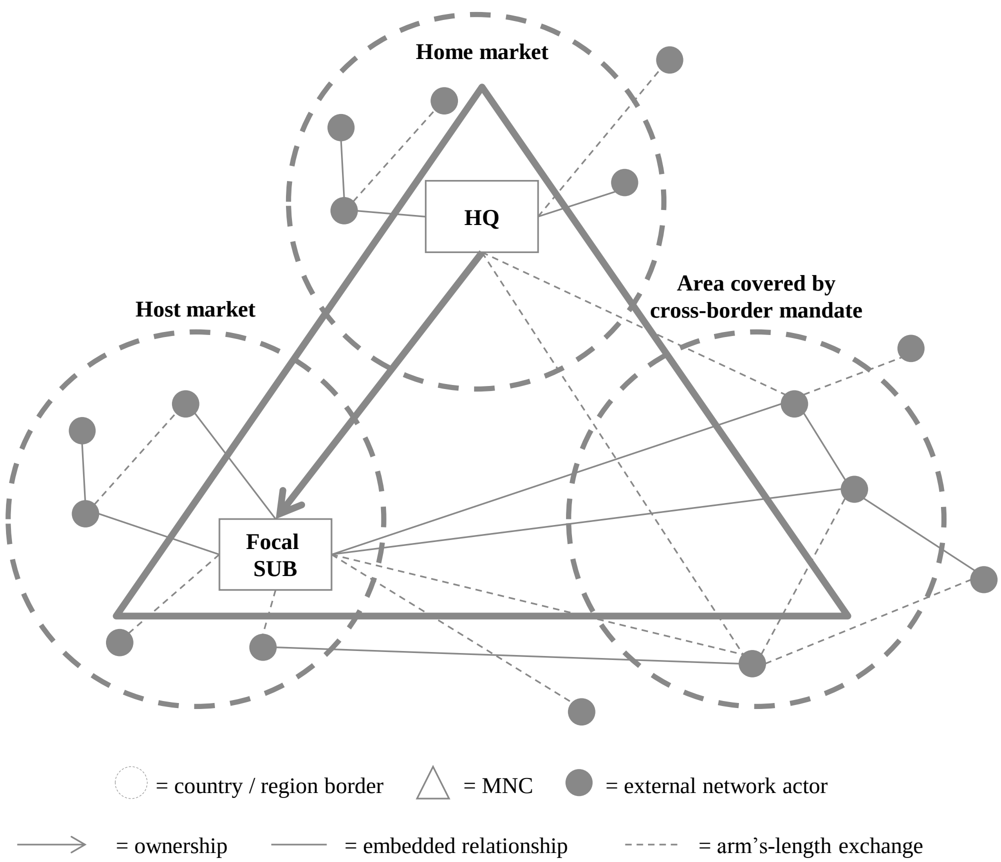
In seeking to provide an answer to this question, Araujo and Rezende's (2003) dual use of literature for internationalization processes and MNC strategy in order to explain internationalization trajectories of MNCs units proved to be highly beneficial. In fact, the outcome of their work that explicitly encompassed the aspect of subsidiary internationalization largely corresponds to observations made for the evolution of cross-border subsidiary mandates, so it will be described in more detail here. Araujo and Rezende (2003: 719) rejected the notion that subsidiary evolution had a purely gradual character and postulated "that the internationalisation trajectory of units within a multinational corporation's network comprises a trajectory in time and space involving multiple, overlapping networks". The citation already reveals their network approach for internationalization processes that was first applied by Johanson and Mattsson (1988) and only recently integrated in the revised IP model by Johanson and Vahlne (2009). According to Araujo and Rezende (2003), internationalization trajectories of subsidiaries are the result of relationships with external network actors, with corporate headquarters and with affiliated MNC units within and outside their host market. Given the relevance of all three types of relationship for mandate evolution of cross-border subsidiary responsibilities across the cases sample, a closer look at the network aspect will be applied before integrating findings from MNC strategy literature.

5.3.3.2. Impact of business networks and MNC localization degrees

The business network of a foreign subsidiary with foreign market responsibility inevitably stretches beyond national borders. Based on the company's global presence it has at least an intra-MNC relationship with its parent company. If the firm possesses more than one sub-unit, local subsidiary management is likely to also be impacted by relationships with sister subsidiaries, e.g. through bilateral knowledge transfers (Mudambi & Navarra, 2004). For simplicity purposes, however, the internal business network of a foreign subsidiary with cross-border responsibility will be initially reduced to HQ relationships. This approach is in line with Forsgren et al. (2005: 93), who noted with regard to intra-MNC networks that "one of the most important actors in this context is the MNC HQ itself, which strives to shape the subsidiary's activities in accordance with the overall strategy".

In their book about the embedded MNC, Forsgren et al. (2005) further differentiated between embedded relationships and arm's-length exchange with external network actors in order to outline the profoundness of bilateral commitment. Varying levels of relationships with external actors were also found across the MNC at the time of the initial mandate gain. While in the majority of cases the focal subsidiary had already developed a dominant network position in the target market or region, HQ involvement was still noticeable. Varying network positions of MNC units at the time of the initial mandate gain are highlighted in Figure 5-9 below.

Figure 5-9: Network position of focal subsidiary and HQ at initial mandate gain



Source: Own illustration, adapted from Forsgren et al. (2005: 82, 97)

As a result of its cross-border mandate the focal subsidiary is likely to gradually strengthen its network position in the covered area by turning arm's-length exchanges into embedded relationships as well as by building new relationships. The required time and involved costs for such position-building (Axelsson & Johanson, 1992) in a foreign market can vary from one market to another and one MNC or MNC unit to another (Eriksson, Johanson, Majkgård & Sharma, 1997). The important aspect of subsidiary internationalization is, however, that corporate management expects local management to more efficiently develop the firm's network position. This view is based on the existence of host-market-related CSAs that should reduce or eliminate the firm's liability of inter-regional foreignness (Rugman & Verbeke, 2007) and thereby facilitate the development of subsidiary-related region-bound FSAs (Rugman & Verbeke, 1992) in the form of network insidership (Johanson & Vahlne, 2009). If foreign subsidiaries succeed in doing so as observed in cases #2, #4, #6, #7 and #8 they are likely to maintain their mandate or even benefit from further geographical and/or functional responsibility extensions. Mandate extension as a result of increasing network position is demonstrated in case #6, in which the Singaporean subsidiary developed business relationships into Vietnam and could as a consequence extend the geographical scope of its mandate into this market. In reverse, if subsidiaries do not fulfill HQ expectations as shown in case #1, local subsidiary management may face declining or even dissolving cross-border mandates.

The unofficial mandate loss of the Polish subsidiary in case #1 outlines an interesting aspect of subsidiary internationalization. CSAs in the form of geographical and cultural proximity and FSAs embodied in locally existent Russian language skills constituted the main HQ rationale for initially granting extended responsibility for former CIS markets to local Polish management. In the course of mandate execution, HQ management realized however that it had overestimated the subsidiary's value-proposition in the sense that cultural overlap between Poland and former CIS countries did not prove to be as pronounced as expected. The subsidiary thus failed in sufficiently reducing liability of inter-regional foreignness (Rugman & Verbeke, 2007) and thereby external levels of uncertainty (Figueira-de-Lemos et al., 2011). When local management further lacked management skills for cross-border salesman coaching, the mandate was retaken by HQ management as it was convinced it was in a better position to develop market presence in former CIS countries.

The emerging relevance of subsidiary-related capabilities or FSAs, embodied amongst others in market development results for the covered area, strongly differentiates mandate evolution from initial mandate gain related to subsidiary internationalization. While with regards to proven resources (e.g. Bouquet & Birkinshaw, 2008) or distinct subsidiary capabilities (e.g. Birkinshaw, 1996) only little weight was noticeable at the start of subsidiary internationalization they seem to be crucial for local subsidiary management to maintain and grow existing foreign market responsibilities. The note of Birkinshaw (1996: 467) that "the engine of subsidiary growth is its distinctive capabilities, and that for a mandate to be effective it must be built on those capabilities" therefore also seems to apply for cross-border subsidiary mandates. Adding to this Gebbert, Williams and Matten (2003: 637) postulated that strongly locally and regionally embedded subsidiaries "have more strategic choice in terms of retaining wide charter responsibilities, more control over their business activities and are less resource dependent". Is it therefore reasonable to assume that continuous development of a firm's network position in a foreign market is sufficient for local subsidiary management to maintain its cross-border mandate?

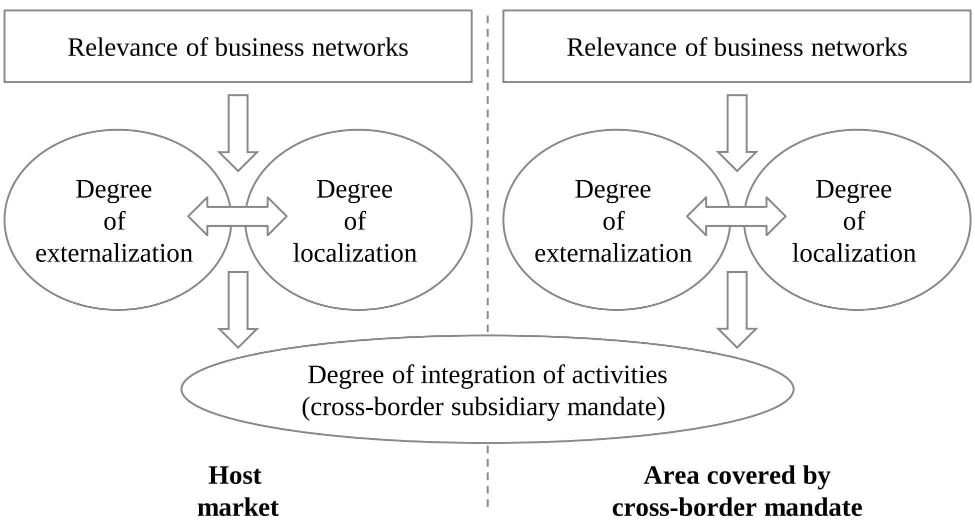
Based on case study observations the question clearly has to be answered with no. In cases #2, #3, #4, #6 and #8 foreign subsidiaries are expected to experience future mandate declines or losses despite showing satisfying market development results. Local subsidiary management in case #7 has already seen several mandate reductions in the past and is facing additional cross-border responsibility cuts despite exhibiting a satisfying standing among corporate management. All these cases equally show that required subsidiary capabilities augment with increasing functional scopes of foreign market mandates and that the access to these capabilities is restrained for many subsidiaries. For keeping and potentially developing relatively simple cross-border sales and service mandates, for example, local management is often only requested to adequately transform host-market-related CSAs into subsidiary-related region-bound FSAs in the form of foreign market knowledge and business networks. In order to obtain regional HQ status or to claim cross-border sovereignty versus other MNC units, however, foreign subsidiaries need to demonstrate additional capabilities. Key for sustaining one's place in the corporate marketplace (Galunic & Eisenhardt, 1996) appears to be sufficient levels of local value-add.

In order to explain this particularity of subsidiary internationalization, the network approach (Johanson & Mattsson, 1988) was no longer sufficient. The suggestion of Araujo and Rezende (2003) to integrate literature of MNC strategy, however, helped to add clarity to the topic at hand. In addition to the three aforementioned relationship types, Araujo and Rezende (2003) studied internationalization paths of foreign subsidiaries by looking at the development of their mode of operation and their host-market or cross-border mandate or charter in the MNC system. While the mode of operation is determined by MNC strategy regarding the degree of externalization of activities and the level of localization of activities in each country, the mandate is largely impacted by the degree of integration of activities across different countries. Regarding the relationship between the dimensions, Araujo and Rezende (2003: 726) noted that they "may also interact and overlap-e.g. as the firm progressively increases its degree of localisation of activities, it enhances the prospect of developing capabilities that may be of use to other parts of the MNC network". When looking at the evolution of and outlook for nine cross-border subsidiary mandates, such interplay is clearly noticeable and largely explains limited means of local subsidiary management to influence mandate development at more mature stages.

At the time of the initial mandate gain all nine cases were characterized by limited company presence in the covered market or region. The foreign subsidiary generally organized sales into this newly won territory through third parties like national importers or dealers and subsidiary personnel made only sporadic country visits. The degree of externalization was therefore relatively high, the degree of localization relatively low and the degree of integration of activities across the host and target market relatively stable. If overall attractiveness of the target market and the relevance of business networks alter, however, the equilibrium between the three dimensions is likely to falter. This phenomenon is exemplified by the outlook for cases #2, #3, #4, #6 and #9 that anticipates a mandate decline or loss in the event that the parent company decides to establish company presence in the covered region. A reduced level of externalization and increased level of localization is therefore expected to impact the degree of integration of activities across the host and target market.

The interplay of these three dimensions in the evolution of cross-border subsidiary mandates is highlighted in Figure 5-10. It outlines that changing MNC strategies for the subsidiary's host market may impact its cross-border mandate. The parent company in case #5, for example, decided to set up local production facilities at the Chinese subsidiary in order to participate in the significant market growth by satisfying local product demand. Increased levels of localization in China in turn allowed local subsidiary management to develop subsidiary capabilities or FSAs in the form of product and production know-how that enabled it to obtain regional HQ status and to look after another Asian subsidiary at a later stage. The Austrian sister subsidiary in case #4 on the other hand is not expected to obtain management responsibility for other sub-units as it only represents a sales subsidiary and therefore lacks sufficient degrees of host market localization.

Figure 5-10: Impact of international MNC strategies on cross-border subsidiary mandates



Source: Own illustration, based on Araujo & Rezende (2003)

The illustration further underlines the relevance of resource-based views of the firm in general and of the MNC in particular for mandate evolution of cross-border subsidiary mandates. According to the view, the firm's ability to adapt, integrate and reconfigure internal resources to environmental change determines its competitive positioning in the market place (Teece & Pisano, 1994; Teece et al., 1997). Putting it in the context of subsidiary internationalization, the parent company adapts its level of externalization and localization of activities in a particular foreign market to altering weight of business networks. As a consequence it also reevaluates the current level of integration of activities between the focal subsidiary host market and the area covered by its mandate. If it thereby turns out that the degree of subsidiary-related FSAs is no longer sufficient to adequately execute the mandate, in which case the subsidiary's value-proposition as outlined in the last section of the chapter is negative for this task, HQ management reconfigures internal resources in the sense that the market development is centralized or handed over to another subsidiary.

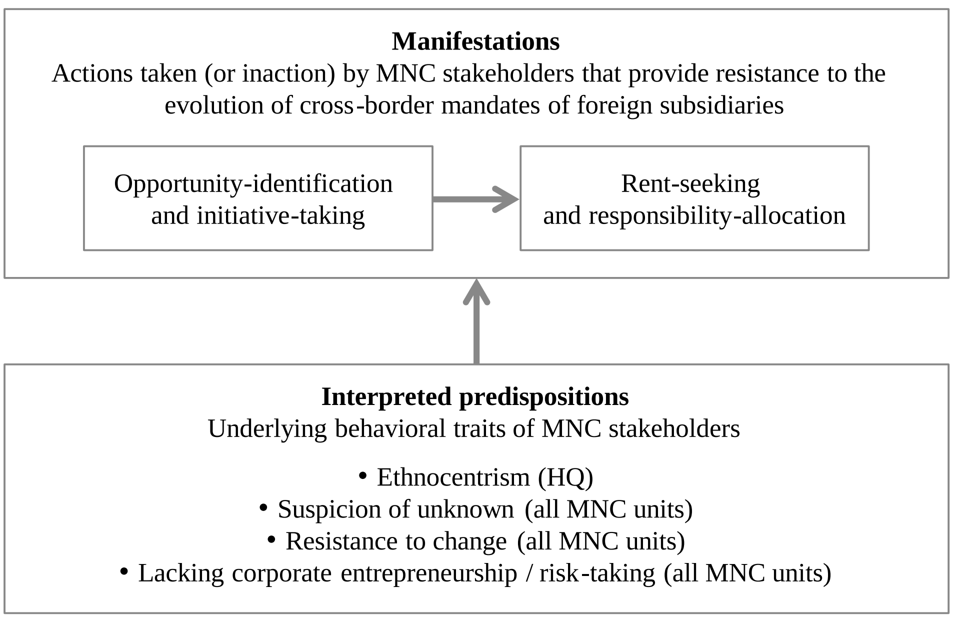
The differentiation between foreign subsidiaries that have obtained significant functional mandate extension in the form of regional HQ status (cases #5, #7 and #8) and those that are not expected to benefit from similar mandate developments (cases #1, #2, #3, #4, #6 and #9) characterizes the case sample in general. The question that arises is whether varying degrees of localization as discussed above are the single characteristic that separates one subsidiary type from another. The answer to this question is again no. While sufficient local value-add apparently enables foreign subsidiaries to reach more mature stages of mandate evolution, they alone are not sufficient. This is demonstrated by cases #1 and #9, where focal subsidiaries possess their own production facilities but exhibit cross-border mandates that are restrained to sales and service functions. As a reason for such mandate limitation, corporate management equally stated that sub-units always report to the parent company and that is has never thought of and actually sees no reason for changing the approach by granting regional HQ statuses.

5.3.3.3. Corporate immune systems and risk-reducing measures

The aforementioned statements very much resemble observations made by Birkinshaw and Ridderstråle (1999) when examining varying outcomes of subsidiary initiatives. Based on case study analysis of 26 initiatives, Birkinshaw and Ridderstråle (1999) found that the outcome of subsidiary initiatives is likely to be influenced by a 'corporate immune system'. The system is composed of manifestations, which refer to "actions taken (or inaction) by corporate managers that provide resistance to the initiative" and interpreted predispositions, which relate to "underlying behavioral traits of corporate managers" (1999: 158). Even though the work of Birkinshaw and Ridderstråle (1999) immediately appears to explain observations in the study at hand, a set of modifications needs to be made in order to provide better insight into evolutionary paths of cross-border subsidiary mandates.

For explaining evolutionary paths of cross-border subsidiary mandates it appeared necessary to expand the corporate immune system of Birkinshaw and Ridderstråle (1999) in order to account for initiatives at all MNC levels as well as missing initiative-taking anywhere in the firm. Both aspects can equally impact mandate evolution and were observed in the case sample of this study. In the modified corporate immune system, manifestation and interpreted predispositions can therefore relate to any MNC stakeholder adhering to the aforementioned network approach of subsidiary internationalization. In addition, manifestations are split into actions (or inactions) related to opportunity-identification and initiative-taking as well as rent-seeking and responsibility-allocation processes. Finally, interpreted predispositions are enlarged by a lack of entrepreneurship and risk-taking, which are viewed as behavioral traits that countervail any form of opportunity pursuit (Birkinshaw, 1997) and whose magnitudes are likely to differ from one MNC type to another (Miller, 1983). Incorporating the aspect of entrepreneurship in internationalization processes was also suggested by Schweizer et al. (2010), who extended the revised IP model (Johanson & Vahlne, 2009) by the aspect of 'entrepreneurial capabilities' (state variables) and 'exploiting contingencies' (change variables). The nature of the modified corporate immune system for subsidiary internationalization is illustrated in Figure 5-11 below.

Figure 5-11: Nature of the modified corporate immune system for subsidiary internationalization



Source: Own illustration, adapted from Birkinshaw & Ridderstråle (1999: 158)

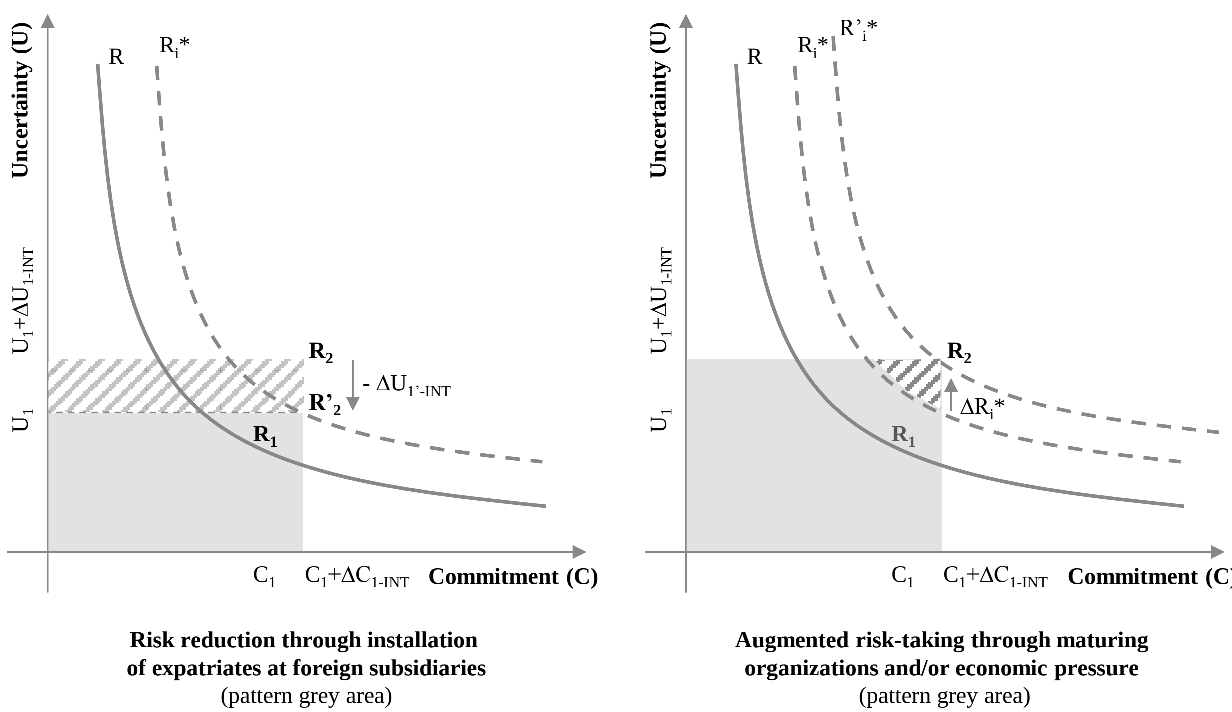
Looking at the aforementioned cases in which foreign subsidiaries are not expected to obtain regional HQ status at any future stage, the adapted corporate immune system and its impact on the evolution of cross-border subsidiary mandates becomes apparent. It is very likely that as a result of interpreted predisposition, in particular ethnocentrism and suspicion of the unknown, opportunity-identification and initiative-taking processes regarding potential benefits of regional HQs will not be stimulated in the first place. Cases #1 and #2, in which local management itself does not believe it is positioned to manage other foreign subsidiaries, show that organizational rigor is not only driven by HQ personnel but that local subsidiary management can also exhibit behavioral traits that impede mandate development. In addition to lacking initiative-taking at either MNC level, case #8 shows that subsidiaries may fail to advance with their cross-border mandate as a result of countervailing MNC forces like those observed by Birkinshaw and Ridderstråle (1999). As today acknowledged by the corporate management of case #8, the US subsidiary's request to obtain regional HQ status for Mexico was only rejected at that time as a result of ethnocentrism and HQ fear about power imbalances across the MNC. A decade later however local subsidiary management was granted regional HQ responsibility for the entire Americas region. Is it therefore appropriate to assume that corporate immune systems for subsidiary internationalization may change over time?

Birkinshaw and Ridderstråle (1999) already mentioned the likelihood of system evolution in their study as several interview partners at corporate headquarters remarked on the need for cross-border business experience in order get familiar with subsidiary initiatives. This phenomenon is exemplified by case #8, in which corporate management admitted to growing HQ acceptance for ceding power and responsibilities to MNC units located outside the home region. The case also shows that such evolutionary processes can be significantly accelerated through revolutionary incidents. Confronted with the financial crisis from 2008 onwards that led to significant HQ reductions, especially in the home market, corporate management was forced to shift higher responsibilities to foreign sub-units and to reach a different level of risk-taking. The relevance of risk for initial gains of cross-border subsidiary mandates has been extensively discussed in the previous section. It is therefore not surprising that the aspect reemerges when seeking to explain internationalization trajectories of foreign subsidiaries.

The establishment of a regional HQ is likely to modify risk perceptions among corporate managers as they cease direct access to their foreign sub-units. In addition, they grant proprietary HQ functions to local subsidiary management without being certain about its capability to fulfill such a task. In the majority of observed cases the transfer of HQ functions to a foreign sub-unit does not represent a valid option for HQ management, either because local subsidiary management lacks sufficient value-add (case #4) or because the corporate immune system simply impedes the foreign subsidiary from reaching this stage of mandate evolution (cases #1, #2, #3, #6 and #9). On the other hand, three subsidiaries (cases #5, #7 and #8) reached advanced stages of cross-border mandate evolution and thereby revealed highly interesting aspects of subsidiary internationalization. The focal subsidiaries commonly exhibited pronounced local value-add that, in addition to other FSAs like cross-border network positioning and host-market CSAs, strongly contributed to their overall value-proposition for regional subsidiary management. Despite a pronounced positioning, all three mandate extensions appeared to be influenced by parameters that impacted uncertainty levels at corporate level that need to be detailed in the following.

In the peripheral internationalization process model that was developed in the previous section to explain initial gains of cross-border subsidiary mandates, the risk perception among HQ managers played a crucial role. Building on the IP model of Johanson and Vahlne (1977) and the associated risk visualizations of Figueira-de-Lemos et al. (2011), the adapted model postulates that in order to allow subsidiary internationalization the perceived risk level for decentralized market development is likely to be equal to or lower than its equivalent for traditional internationalization efforts from the parent company. While the validity of the peripheral internationalization process model for mandate evolution is by no means questioned by case study observations, it needs to integrate other elements that impact HQ decisions. Precisely, the model needs to reflect on the impact of sending expatriates to foreign subsidiaries (cases #5 and #7) as well as on adjusted tolerable risk levels among corporate management (case #8). Both elements are highlighted on the left- and right-hand side of Figure 5-12 below.

Figure 5-12: Risk-influencing parameters in subsidiary internationalization



Source: Own illustration, adapted from Figueira-de-Lemos et al. (2011)

According to the initial mandate gain and potential subsequent mandate modifications, the perceived risk level (R_1) among corporate management is the product of external and internal uncertainty levels ($U_1 = U_{1\text{-}EXT} + U_{1\text{-}INT}$) and external and internal commitment levels ($C_1 = C_{1\text{-}EXT} + C_{1\text{-}INT}$) for a particular foreign market and foreign subsidiary. If corporate management considers transferring management responsibility for another MNC sub-unit to a foreign subsidiary the total risk level is likely to amplify for two reasons. First, the parent company augments its internal delegation commitment ($\Delta C_{1\text{-}INT}$) for a particular market. Second, internal uncertainty levels are likely to increase ($\Delta U_{1\text{-}INT}$) as corporate management is uncertain whether the focal subsidiary is capable of managing other MNC units. At the same time external commitment ($C_{1\text{-}EXT}$) and uncertainty ($U_{1\text{-}EXT}$) levels are not impacted by such a transfer. The degree of localization remains unchanged ($C_{1\text{-}EXT}$) and the foreign subsidiary, other than in the course of initial mandate gains, is initially not capable of further lowering external uncertainty levels ($U_{1\text{-}EXT}$). As a result of changing internal delegation commitments and uncertainty levels the total risk level (R_2) may, ceteris paribus, surpass the company’s maximum tolerable risk frontier (R_i*). If, as a result of the subsidiary’s long-term value-proposition for regional HQ mandate, corporate management urges with the continuation of the responsibility transfer it is left with two choices: first, the implementation of risk-reducing actions as seen on the left-hand side of Figure 5-12 or second, the augmentation of overall risk tolerances as highlighted on the right-hand side of Figure 5-12.

In both cases #5 and #7, HQ management decided to send expatriates to the focal subsidiary in order to guide newly acquainted HQ-like functions in the region. This reduced internal uncertainty levels ($\Delta U_{1'\text{-}INT}$) so that previously excessive risk exposure (R_2) was brought to acceptable levels (R'_2). Whether the use of expatriates is sufficient to entirely offset the uncertainty increase from responsibility delegation is likely to vary from one case to another. In any case, expatriates were used as a means to influence and monitor subsidiary behavior and thus to reduce the risk of moral hazard in the principal–agent relationship (Jensen & Meckling, 1976; Eisenhardt, 1989a). Other instruments like monetary incentives for subsidiary management (O’Donnell, 2000) might also have served the purpose of risk reduction but were not observed in the course of the study.

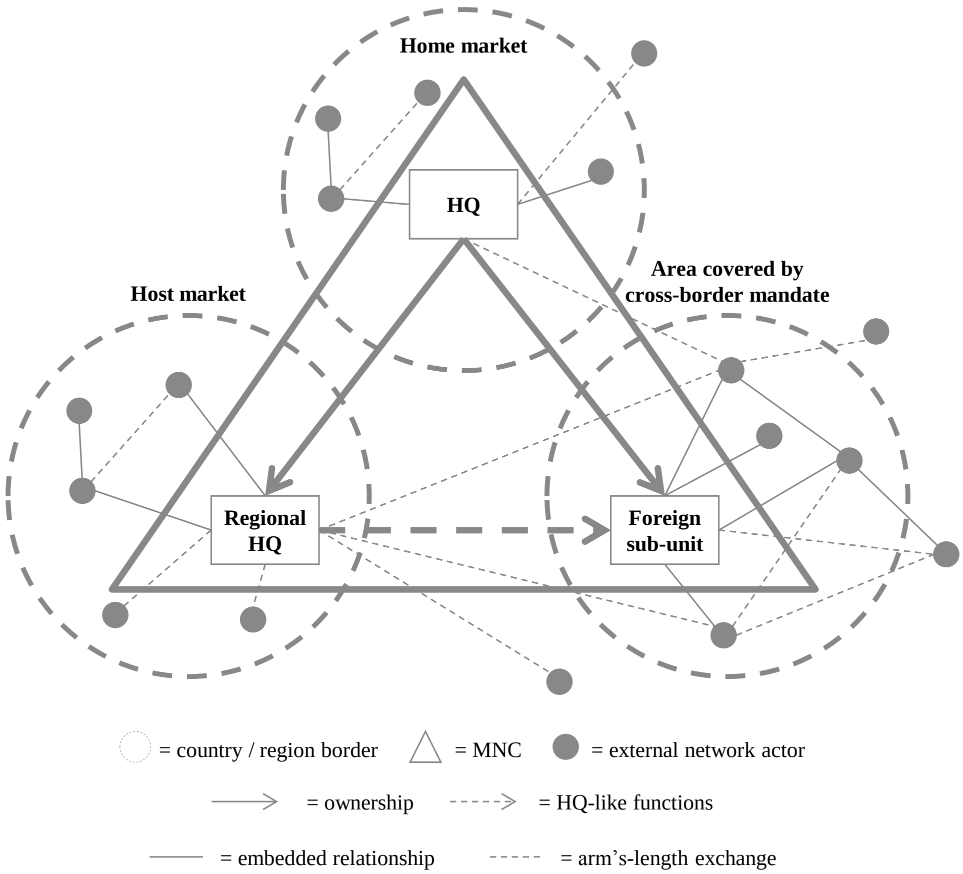
The delegation of regional HQ function for the entire Americas region to the US subsidiary in case #8 did not involve any use of expatriates. What therefore made corporate management allow a construct that it rejected several years previously for the significantly smaller geographical area of Mexico? HQ management assumed that it was a combination of increasing organizational maturity and economic pressure. The impact of both aspects on the evolution of cross-border subsidiary mandates is highlighted on the right-hand side of Figure 5-12. Similar to cases #5 and #7, the resulting risk (R_2) from delegating regional HQ status to the US subsidiary might have, ceteris paribus, crossed the firm’s maximum frontier (R_i*). As a result of increasing familiarization with foreign market operations and responsibility ceding to foreign sub-units, however, corporate management could accept risk levels that it was previously incapable of accepting. In addition, at the time of the decision the parent company had just undergone severe headcount reductions that forced it to accept management constructs that it was not willing to allow before. Both aspects led to a shift of the firm's risk frontiers from R_i* to R'_i*, which enhanced the proclivity of corporate management to grant the regional HQ mandate to its US subsidiary. Case study findings therefore appear to support suggestions of Birkinshaw and Ridderstråle (1999) that the likelihood of subsidiaries benefiting from additional responsibilities or extensions of existing mandates may increase with organizational maturity.

5.3.3.4. Comptetitive pressure on advanced cross-border subsidiary mandates

Up to this point the study has identified drivers and restrictions for initial mandate gains and subsequent mandate developments up to regional HQ statuses. With the exception of explaining the (unofficial) mandate loss in case #1 as well as limitations or truncations in the evolutionary path of several subsidiaries, the possibility of reversed mandate trajectories has not yet been extensively illuminated. Historical incidents in case #7 and mandate outlooks for cases #7 and #8 however suggest that it is just as difficult to obtain regional HQ status as to preserve such a privileged MNC positioning. In addition, the subsidiary's possibility to actively contribute to mandate preservation appears even more restrained. When seeking an explanation for this particularity of subsidiary internationalization the investigator was surprisingly brought back to earlier discussions about mandate evolution, as altering MNC relationships (Forsgren et al., 2005) and external network positions (Johanson & Mattsson, 1988) again appear to play an important role. In addition, the suggestion of Araujo and Rezende (2003) to make dual use of literature of internationalization processes and MNC strategy again proved to be of great help.

The construct of a regional HQ requires a minimum of three MNC units: (1) corporate headquarters; (2) regional headquarters; (3) foreign sub-unit managed by the regional HQ. Intra-MNC relationships are thus characterized by ownership between corporate HQ and regional HQ, by ownership between corporate HQ and the foreign sub-unit and by control over operations (Enright, 2005b) or the fulfillment of HQ-like functions (Lehrer & Asakawa, 1999) between the regional HQ and the foreign sub-unit. It is acknowledged that relationships between the three MNC units differ from one regional HQ type to another (Enright, 2005a) and may thus significantly vary from the form described above. As the study deals with the evolution of cross-border subsidiary mandates as opposed to regional HQ types, however, the topic will not be considered in further detail. The important aspect for the study at hand is that even though the foreign sub-unit is subordinate to its regional HQ it is likely to continue exchange with its corporate headquarters. In addition to intra-MNC relationships, each MNC unit holds external network relationships of varying magnitudes. The relationships in a regional HQ construct are depicted in Figure 5-13 below.

Figure 5-13: Network positions of corporate HQ, regional HQ and foreign sub-unit

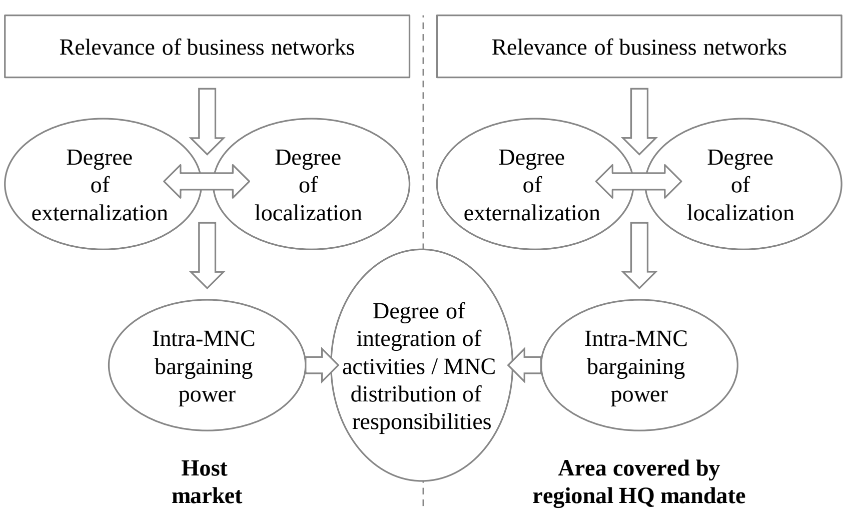


Source: Own illustration, adapted from Forsgren et al. (2005: 82, 97)

All three MNC units are likely to be equipped with external network relationships within and across national borders that can relate to highly embedded interplay or to rather loose arm’s-length exchange. In addition, for the area covered by the focal subsidiary’s regional HQ mandate the subordinate foreign sub-unit is likely to possess the most distinct network positioning as it constantly exchanges with customers on an operational basis. Nonetheless, one can assume that corporate like regional headquarters have arm’s-length exchange with local customers or have minimum levels of knowledge about the subsidiary’s business network as it constitutes one important intra-MNC power source (Andersson et al., 2007). As long as the business network and its underlying market attractiveness of the foreign sub-unit is of limited significance to corporate headquarters, the cross-border mandate of the regional HQ is presumably at relatively little risk. The main rationale for mandate sustainability is therefore the regional HQ’s distinct value-proposition driven by CSAs and in particular by FSAs in the form of local value-add for foreign market and subsidiary management.

According to Araujo and Rezende (2003), however, mandate sustainability is threatened if the overall MNC strategy for the area covered by the regional HQ mandate is changed. If corporate management as a result of the area's increasing attractiveness and network relevance decides to augment the degree of localization, the regional HQ's positioning in the corporate marketplace (Galunic & Eisenhardt, 1996) for that region is likely to be relatively weakened versus its subordinate foreign subsidiary. In other words, the regional HQ suffers from the comparative disadvantages of its host country versus the subsidiary's host market (Dörrenbächer & Gammelgaard, 2010). This phenomenon is exemplified by case #7 in which the parent company as a result of the growing relevance of the Chinese market and local business networks decided to increase the localization degree by setting up local production facilities. As a result, the regional HQ in Singapore exhibited a lower level of localization (sales subsidiary with selected HQ capabilities) than its subordinate Chinese subsidiary (producing MNC entity) and was therefore confronted with a weakened intra-MNC positioning. In the aftermath of the decision the regional HQ in Singapore gradually ceded responsibilities to the Chinese subsidiary. At the same time direct reporting links between the parent company and the Chinese sub-unit were reestablished. Even though the geographical cut of the regional HQ mandate was not officially declared, local subsidiary management had completely lost its influence on operations in the Chinese market. The impact of modified MNC strategies with regard to the localization degree in the area covered by a regional HQ mandate is shown in Figure 5-14 below.

Figure 5-14: Impact of international MNC strategies on regional HQ mandates



Source: Own illustration, based on Araujo & Rezende (2003)

Mechanisms observed in case #7 are strongly supported by various studies of leading IB scholars. Bouquet and Birkinshaw (2008), for example, tested a positive correlation between headquarter attention and the strategic significance of the local subsidiary environment as well as the strength of the subsidiary within the MNC network. Andersson et al. (2007) further found that a subsidiary's intra-MNC influence is positively impacted by the headquarters' knowledge about its business network and its MNC importance with regard to product and production development. Finally Mudambi and Navarra (2004) stated that intra-MNC knowledge flows are a key determinant of bargaining powers of MNC units. In case #7 the subordinate Chinese subsidiary first of all benefits from a significantly stronger local business network versus its regional HQ in Singapore, of which the parent company is aware. In addition, the Chinese subsidiary is likely to exhibit a pronounced relevance for other entities in the MNC network due to local production facilities. Diminishing regional influence of the Singaporean subsidiary therefore appeared to be inevitable. When developing on Vernon' (1966) product lifecycle view, Birkinshaw (1996: 489) noted in this context that "to the extent that sources of comparative advantage shift over time, one would thus expect the location of economic activity to shift correspondingly".

As the ceding of responsibilities was limited to the Chinese market, the focal subsidiary in Singapore initially maintained its regional HQ status for South and Northeast Asia as well as India. A few years later, however, it lost the strategic regional HQ status for the entire Asia region as well as all responsibilities for Northeast Asia to the Chinese subsidiary. It therefore appears that based on its distinct capabilities mainly in the form of production facilities and gradually increasing cross-border business networks local management in China itself turned into a regional HQ. In addition, the company is currently augmenting its degree of localization in India and expects the Singaporean subsidiary to lose its regional HQ mandate for that area once sufficient levels of value-add and business networks are established. The mechanisms of declining regional HQ statuses as observed in China are therefore likely to reoccur in India.

The subsidiary's fight for cross-border responsibilities versus the Chinese and Indian sister subsidiaries as well as its parent company has much in common with the work of Birkinshaw and Lingblad (2005) on intra-firm competition and charter evolution. According to Birkinshaw and Lingblad (2005), three elements fundamentally form the charter of an MNC unit: (1) product markets served; (2) capabilities; (3) stated charter. As a result of environmental change, Birkinshaw and Lingblad (2005: 676) noted that "the three elements are all prone to change, so they are likely to fall out of alignment to some degree at certain times, and this is where the social process of negotiation and competition between units becomes intense". Even though they looked into competition and overlapping charters between different business units their work also appears to be relevant to intra-firm competition for cross-border responsibilities between MNC entities of the same business unit. The regional HQ mandate for China and later also for Northeast Asia, for example, appeared to be at one point no longer in line with the capabilities of the focal subsidiary in Singapore. As a consequence, local subsidiary management gradually ceded responsibilities to its Chinese rival, which was only later followed by an official HQ declaration of mandate transfer. It is therefore likely even though not investigated in the course of the study that the balancing process of the three elements of mandate were accompanied by intra-firm competition of some kind. The aspect of 'dynamic capabilities' (Teece & Pisano, 1994) is exemplified by gradually reducing responsibilities of the focal subsidiary in Singapore.

Further supporting this view, the US subsidiary in case #8 that currently possesses regional HQ status for the Americas region may be reduced to an MNC unit with cross-border sales and service responsibilities for Central and North America. As a potential reason, corporate management stated the current establishment of production facilities in Brazil that are aimed towards developing network positions in the entire region of South America. Even though the US subsidiary is also equipped with its own production facilities and should therefore exhibit similar degrees of MNC network relevance, CSA superiority of the subordinate Brazilian subsidiary for South America may cause regional shifting of cross-border responsibilities. The observed unbundling processes for regional HQ mandates very much correspond to findings of Kähäri et al. (2010). In their longitudinal study about Finnish MNCs, Kähäri et al. (2010) not only documented numerous declining and dissolving regional HQ mandates but also identified host and target market growth as key drivers of mandate evolution. Based on their observations they found that regional HQ mandates have a rather temporary character, which coincides with case observations of the study at hand.

While cases #7 and #8 have shown that modified MNC strategy in the form of increasing degrees of localization in the covered area is likely to put regional HQ mandates at risk, case #5 shows that increased localization in the host market may strengthen the sustainability of cross-border subsidiary mandates. Following the establishment of local production facilities that only allowed the Chinese subsidiary to obtain its regional HQ status, the parent company is now planning to turn it into one of the firm's leading sourcing platforms. In addition, it expects to add additional subsidiaries under the umbrella of the regional HQ mandate, which would further extend the functional scope of the mandate. The outlook reveals two interesting aspects. First, it demonstrates that cross-border subsidiary mandates may refer to foreign market development or outward internationalization as well as foreign sourcing activities or inward internationalization (Welch & Luostarinen, 1993). Second, increasing degrees of host market localization are likely to add to the sustainability of cross-border subsidiary mandates.

Overall, the evolution of cross-border subsidiary mandates appears to equally exhibit elements of gradualism and discontinuity (Araujo & Rezende, 2003). It further seems that mandate evolution is largely driven by altering external and internal relationships of foreign subsidiaries (Johanson & Mattsson, 1988; Forsgren et al, 2005) as well as top-down MNC strategies with regard to the externalization, localization and integration of foreign market operations (Martinez & Jarillo, 1991). As a result, the level of subsidiary influence on mandate development is likely to be relatively limited. In fact, marginal localization degrees in the host market and pronounced localization degrees in the covered area may impede foreign subsidiaries from reaching higher levels of cross-border responsibilities or cause mandate decline or loss respectively. In addition, corporate immune systems (Birkinshaw & Ridderstråle, 1999) can lead to truncated or reversed evolutionary paths from the very start. Varying risk levels at the parent company are due to present principal-agent relationships (Jensen & Meckling, 1976) likely to accompany any form of mandate change (Johanson & Vahlne, 1977) and seem to be crucial in the internationalization process at any MNC level (Figueira-de-Lemos et al., 2011).

Nonetheless, local subsidiary managers may contribute to mandate sustainability by adequately transforming host-market-related CSAs into subsidiary-related FSAs (Rugman & Verbeke, 1992) in the form of enhanced network insidership (Johanson & Vahlne, 2009). A foreign subsidiary can thereby prove its ability to reduce or eliminate liability of inter-regional foreignness (Rugman & Verbke, 2007). Higher stages of mandate evolution further appear to entail increased levels of intra-firm competition (Galunic & Eisenhardt, 1996) for cross-border responsibilities. While external networks may strengthen the subsidiary’s position in the resulting bargaining process, its overall MNC relevance for product and production development appears to be decisive (Andersson et al., 2007). While distinct subsidiary capabilities can therefore be seen as the engine of mandate evolution (Birkinshaw, 1996), the impact of top-down MNC strategy in setting the breeding ground for capability development needs to be taken into consideration for the topic of subsidiary internationalization. This view is supported by a majority of mandate alterations, which are initiated from corporate managers rather than local subsidiary personnel. In sum, cross-border subsidiary mandates not only seem to be highly receptive to change but in contrast to their host market equivalents also appear to be of temporary nature and potentially limited in their lifespan from the very start.

5.3.4. *Mandate lifecycle*

When combining case study findings for initial mandate gains and subsequent developments, a relatively robust lifecycle framework for subsidiary internationalization emerges that will be detailed in this final part of the chapter. Throughout the process of contrasting observed mandate lifecycle patterns with confirming and conflicting literature, the work of Johanson and Vahlne (1977, 2009), Rugman and Verbeke (1992, 2007), Birkinshaw (1996), Galunic and Eisenhardt (1996), Birkinshaw and Ridderstråle (1999), Araujo and Rezende (2003), Forsgren et al. (2005), Andersson et al. (2007) and Figueira-de-Lemos et al. (2011) proved to be of particular relevance to the study at hand. In fact, only the selective combination of findings from these academic pieces allowed a lifecycle approach to be applied to the topic of cross-border subsidiary mandates.

One of the key outcomes of the last two sections is that only a few foreign subsidiaries appear to actually obtain cross-border responsibilities. In turn, only a limited number of these seem to be able to add substantial functional scopes to initially obtained foreign market mandates. Finally, foreign subsidiaries that eventually fulfill HQ-like functions in a region are likely to be exposed to severe intra-MNC competition that may erode the existing mandate over time. Any lifecycle framework therefore needs to be capable of accounting for the select and temporary nature of subsidiary mandates beyond host market borders while simultaneously providing answers to highly heterogeneous evolution paths. Precisely, a lifecycle framework needs to explain why the majority of subsidiaries are unlikely to obtain cross-border responsibilities (host market specialist or prisoner), why cross-border mandates generally remain functionally restrained and decline or dissolve over time (foreign market pioneer), why only a few MNC units hold significant regional influence (empowered regional headquarters) and why regional HQ statuses often fall apart in the course of time (falling regional star). The challenge is summarized in Figure 5-15 below.

Figure 5-15: Challenges for a lifecycle perspective of cross-border subsidiary mandates

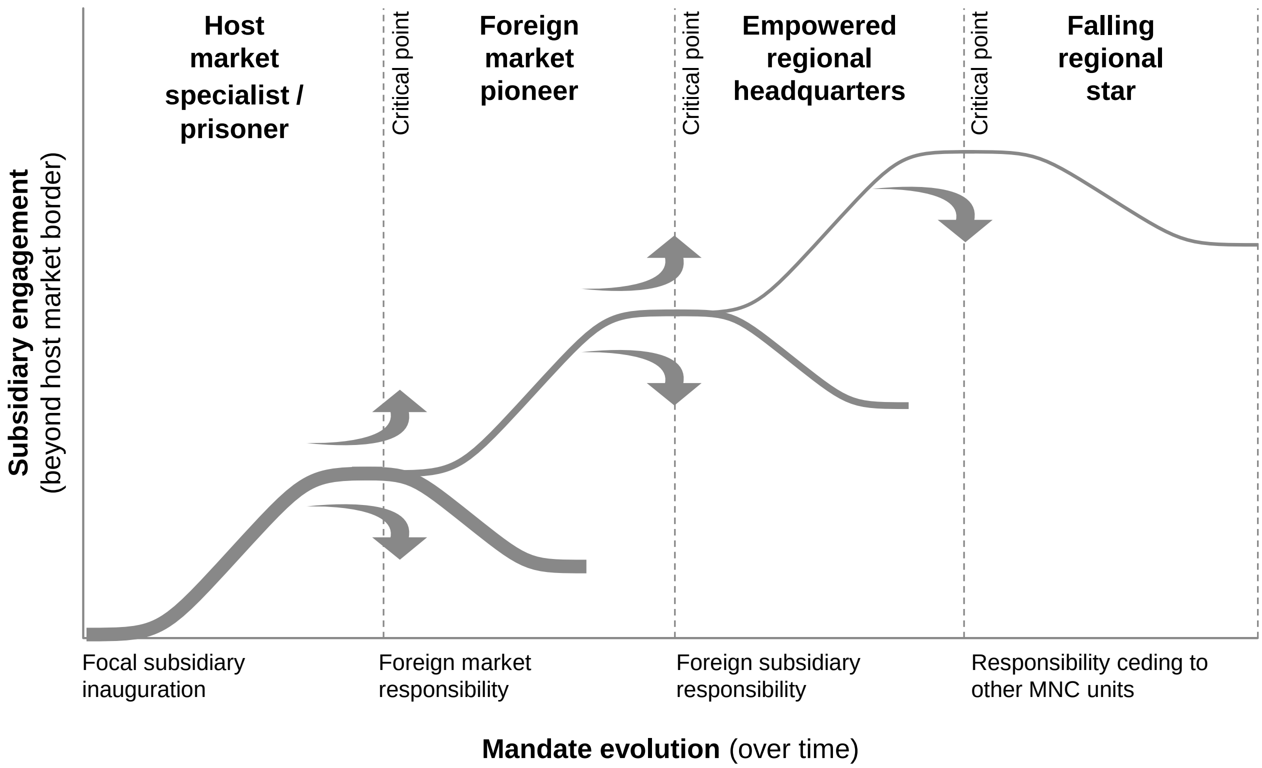


Figure 5-15 further reveals three critical points where (1) official cross-border responsibility is granted or denied, where (2) regional HQ status is obtained or rejected and where (3) regional HQ mandates start to decline or dissolve. The weight of evolutionary paths as outlined in the figure finally indicates that the majority of foreign subsidiaries are excluded from cross-border responsibilities and that local subsidiary management only rarely benefits from regional HQ mandates. It should be noted that the study at hand does not provide any information about how long a foreign subsidiary may rest in one of the evolutionary phases. In fact, case study observations indicate that time intervals differ from one case to another. In addition, it is acknowledged and observed in the case sample that a subsidiary may leapfrog certain evolutionary phases or start at stages other than the initial one. Both aspects were already observed for internationalization processes of the first degree (e.g. Hedlund & Kverneland, 1985; Weerawardena et al., 2007).

As previously elaborated, evolutionary paths of cross-border subsidiary mandates contain four core process drivers or restrictions:

- The level of market and business network attractiveness outside the subsidiary's host market borders that influences the overall MNC commitment to a particular foreign market or region and thus the degree of localization or chosen market entry form

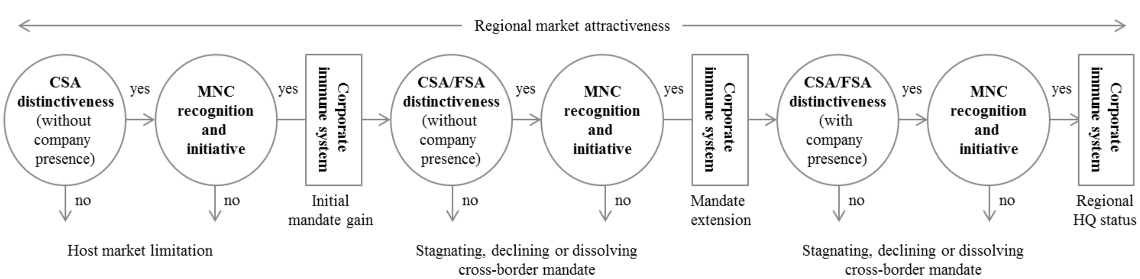
- The distinctiveness of host-market-related CSAs and subsidiary-related FSAs that fixes the positioning of foreign subsidiaries in the 'perpetual bargaining process' (Andersson et al., 2007) for foreign market responsibilities across the MNC

- The recognition and active exploitation of distinctive CSAs and FSAs that is necessary for any form of mandate evolution (Blankenburg Holm et al., 2009) and that is largely shaped by the MNC's 'corporate immune system' (Birkinshaw & Ridderstråle, 1999). Critical for passing through this system is whether the level of risk that corporate management attributes to cross-border subsidiary responsibilities is perceived to be lower than for traditional market development or subsidiary management approaches. The outcome is largely shaped by ethnocentrism, suspicion of the unknown and resistance to change among corporate managers, who generally "prefer to work within existing routines, throw their support behind low-risk projects, and resist ideas that challenge their own power base" (Birkinshaw & Ridderstråle, 1999: 154)

- The existence of competitive forces across the MNC (Galunic & Eisenhardt, 1996) that lead to a continuous surveillance of the subsidiary's suitability for the specific task.

Evolutionary drivers and restrictions are summarized in Figure 5-16 below.

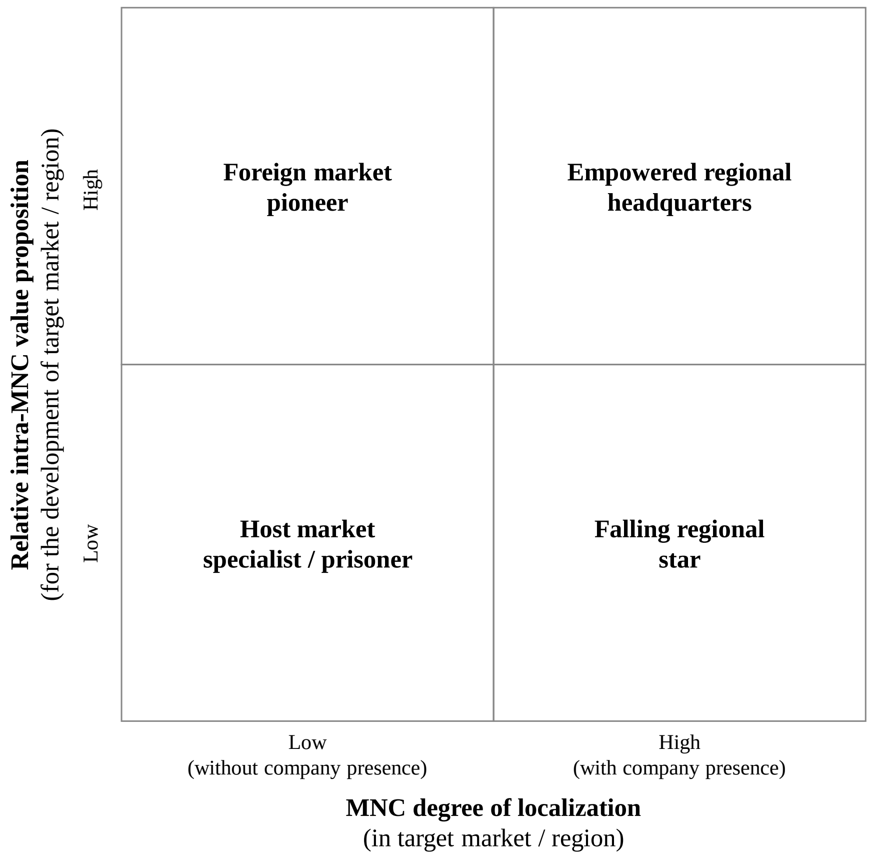
Figure 5-16: Drivers and restrictions in the evolutionary path of cross-border subsidiary mandates



According to the illustration, foreign subsidiaries only benefit from official cross-border responsibility if the top-down MNC strategy shows minimum levels of localization in the target area, if the subsidiary exhibits host-market-related CSAs that are distinct and thus superior to elsewhere in the organization and if the MNC's corporate immune system allows for opportunity-identification and pursuit as well as a decentralized opportunity exploitation. If only one of the requirements is not fulfilled, the subsidiary's business operations are likely to remain host-market-orientated. Following an initial mandate gain, local subsidiary management may benefit from further mandate extension if the degree of localization in the target market is maintained or augmented, if the subsidiary achieves a distinct value-proposition for foreign market development by leveraging host-market-related CSAs for the development of region-bound FSAs and if added responsibility scopes do not interfere with the MNC's corporate immune system. If only one of the requirements is not fulfilled the focal subsidiary is likely to experience stagnating, declining or dissolving cross-border mandates. Finally, preconditions for obtaining regional HQ status are significantly increased localization degrees in the form of company presence in the target area, distinct subsidiary capabilities for cross-border market and subsidiary management and an MNC-wide tolerance for the construct. Again, if only one of the requirements is not fulfilled the focal subsidiary is likely to experience stagnating, declining or dissolving foreign market responsibilities. If a foreign subsidiary reaches advanced stages of mandate evolution, its intra-MNC competitive positioning is decisive for responsibility extension, preservation or decline.

Evolutionary paths of cross-border subsidiary mandates as illustrated above allow a four-fold typology of foreign subsidiaries, which marks the end of this chapter. The dimensions of the 2x2 matrix encompass the relative intra-MNC value-proposition of a foreign subsidiary for the development of a particular foreign market or region and the MNC's overall degree of localization in the same area. The individual value-proposition of a foreign sub-unit may refer to its host-market-related CSAs like geographical proximity or cultural similarities alone or to a combination with its subsidiary-related FSAs in the form of network insidership or subsidiary management capabilities. The MNC's overall degree of localization in the target area may in turn relate to any market entry form from indirect exports up to affiliated units with their own production facilities. It should be noted that in addition to the two dimensions, mandate evolution is further influenced by the corporate immune system. As observed in the case sample and highlighted by the difficulty of identifying subsidiary internationalization in numerous MNCs, it strongly impacts whether foreign subsidiaries may obtain cross-border mandates in the first place and whether they can obtain regional HQ status. Based on the matrix the following four subsidiary types for foreign market development emerge that are outlined in Figure 5-17 below: (1) host market specialist / prisoner; (2) foreign market pioneer; (3) empowered regional HQ; (4) falling regional star.

Figure 5-17: Subsidiary typology for cross-border responsibilities



Foreign subsidiaries are therefore likely to be host-market-specialized or limited if they exhibit a relatively low MNC positioning on the basis of host-market-related CSAs and subsidiary-related FSAs and if the MNC commitment is relatively low for the territory in focus, i.e. without local company presence. The dual use of the terms host market prisoner and host market specialist was deliberately chosen as a significant number of MNC units are likely not to consider or strive for foreign market responsibility (host market specialist) and only selected subsidiaries as observed in cases #10a and #10b actually seek and fail to obtain cross-border reach (host market prisoner). If local subsidiary management can rely on a distinct value-proposition for market development outside its host market borders and if the degree of MNC localization in these markets is still relatively low, it may benefit from a 'pioneering' foreign market mandate. Even if parameters are set in this way, however, foreign market responsibility may still be impeded by the corporate immune system that can equally cause a lack of opportunity-identification and initiative-taking at either MNC level or resistance to change based on behavioral traits of corporate managers.

If the overall MNC strategy results in enhanced localization degrees in the form of company presence in the target market, the primary precondition for the setting up of regional headquarters is fulfilled. Nonetheless, in order to turn into an empowered regional HQ, local subsidiary management further needs to exhibit distinct capabilities for cross-border subsidiary management and the process must not be inhibited by the corporate immune system. Finally, once a regional HQ construct is established, a foreign subsidiary is automatically exposed to direct competition with the subordinate subsidiary in the target region. If, as a result of increasing localization degrees in the target area, the focal subsidiary loses the distinctiveness of capabilities it is prone to experiencing declining or dissolving regional HQ mandates. The Singaporean subsidiary in case #7 exemplifies the fall of a regional star as it was forced to cede its China mandate to the parent company and responsibility for Northeast Asia to its subordinate subsidiary in China. Moreover, it is likely to further lose responsibility for India once local production facilities and business networks are well established.

The filing of the ten subsidiaries that were analyzed in the course of the study in the above 2x2 matrix further proves the robustness of the overall construct. The French subsidiary in cases #10a and #10b clearly represents a host-market prisoner as it strives for extended geographical reach but lacks distinct CSAs that would make corporate management consider a departure from traditional market development approaches. In addition, subsidiaries in those MNCs that were contacted at the offset of the study and that did not reveal any form of decentralized market development or failed local requests for cross-border responsibilities may represent host market specialists. Subsidiaries in cases #2, #3, #4, #6 and #9 are foreign market pioneers that are impeded from reaching regional HQ statuses as a result of lacking subsidiary capabilities and/or countervailing forces from the corporate immune system. The Chinese and the US subsidiary in cases #5 and #8 clearly represent empowered regional headquarters of which the former is likely to maintain this status on the basis of its distinct value-proposition while the latter may turn into a falling regional star if it loses the distinctiveness of capabilities to its subordinate subsidiary in Brazil. Finally, the Singaporean subsidiary in case #7 already embodies the falling regional star as it had lost regional mandate to its Chinese counterpart and is likely to suffer from further responsibility decline in India.

It is acknowledged that the elaboration of this subsidiary typology is based on a relatively small number of cases. In addition, none of these findings have been verified by quantitative empirical analyses. Finally, the significant impact of the corporate immune system pinpoints the restrained suitability of the dimensions relative value-proposition and the MNC’s overall commitment to the target market. Nonetheless, the easiness of placing ten subsidiaries in the framework and explaining their historic and current positioning indicates that the matrix may be of relevance for further studies of the topic.

6. Conclusion

6.1. Contribution to IB theory

This study contributes to the relatively unexplored research field (Blankenburg Holm et al., 2009) of internationalization processes of foreign subsidiaries in several ways. Overall, the findings allow a first dynamic view of drivers and restrictions in the process of subsidiary internationalization and in evolutionary paths of cross-border subsidiary mandates. By accounting for multiple embeddedness of foreign subsidiaries (Forsgren et al., 2005) and the competition for corporate marketplace (Galunic & Eisenhardt, 1996), both horizontally versus the parent company and vertically versus other MNC units, the study helps explain the effects of the increasing complexity of contemporary MNCs.

On the one hand, multiple cases of subsidiary internationalization show many similarities with internationalization processes of the first degree, in particular the mélange of evolutionary (Johanson & Vahlne, 1977) and revolutionary (Macharzina & Engelhard, 1991) process elements as well as the superordinate role of network positions (Johanson & Mattson, 1988). On the other hand, the study reveals a set of fundamental process differences and particularities. First of all, subsidiary internationalization may initially refer to a transfer of existing responsibilities or charters (Birkinshaw & Hood, 1998) from one MNC unit to another and does not necessarily relate to increasing foreign market presence of a firm (Welch & Luostarinen, 1988). In addition, cross-border reach of foreign subsidiaries appears to be a select MNC phenomenon, as factors within and outside the subsidiary's scope of operations determine its suitability for the specialized role. Moreover, subsidiary internationalization is likely to be accompanied by geographically and institutionally dispersed loci of knowledge gathering and exploitation (Tallman & Chacar, 2011). Finally, subsidiary internationalization is characterized by additional risk elements largely driven by the principal–agent relationship (Jensen & Meckling, 1976) between corporate and local subsidiary management.

In addition to identifying particular process elements of subsidiary internationalization, the study extends the home and host market applicability of CSAs (Rugman & Verbeke, 1992) into third markets without company presence. Developing the transnational solution (Bartlett & Ghoshal, 1989), it thereby grants host-market-related CSAs a critical role at the offset of subsidiary internationalization, as their expression, relative to other MNC units, qualifies foreign subsidiaries for or excludes them from cross-border participation. They are thus capable of equipping foreign subsidiaries with unique MNC positioning to overcome 'liability of outsidership and foreignness'

(Johanson & Vahlne, 2009) in general and ‘liability of inter-regional foreignness’ (Rugman & Verbeke, 2007) in particular.

In order to reflect on process particularities and additional risk parameters witnessed in the course of subsidiary internationalization, the study, taking a corporate HQ perspective, manages to subdivide the original risk formula for internationalization processes (Johanson & Vahlne, 1977) into internal and external uncertainty about the focal subsidiary’s capabilities and the market respectively. It further splits the MNC’s overall market commitment in the course of subsidiary internationalization into internal commitment, i.e. the degree of responsibility delegation to local subsidiary management, and external commitment, i.e. the degree of localization in a foreign market. Case findings further reveal that corporate management can influence internal uncertainty levels by implementing risk-reducing measures (O’Donnell, 2000), for example through the installing of expatriates at foreign subsidiaries, and that maximum tolerable risk levels may rise with increasing internationalization experience and subsidiary involvement across the organization (Birkinshaw & Ridderstråle, 1999).

Building on the concept of corporate marketplaces (Galunic & Eisenhardt, 1996), case study findings indicate that corporate management opts for a decentralized market development if a foreign subsidiary, based on its host-market-related CSAs and subsidiary-related FSAs, is best suited across the MNC to grow business networks in a third market. In order to illustrate this aspect of subsidiary internationalization the study extends the risk formula of the original IP model (Johanson & Vahlne, 1977). It is demonstrated that the total risk level associated with subsidiary internationalization as the product of internal and external market uncertainty and commitment is thereby equal or less to the equivalent for traditional market development from the parent company. At the offset of subsidiary internationalization, particular subsidiary characteristics in the form of host-market-related CSAs alone seem to allow local subsidiary management to reach beyond host market borders. On the basis of recent visualizations of risk parameters in the original IP model (Figueira-de-Lemos et al., 2011), varying risk levels in the course of subsidiary internationalization are also graphically illustrated in the study at hand.

In addition to providing a first explanation of ‘where’, ‘how’ and ‘why’ subsidiary internationalization commences in modern MNCs, the study further offers a glance into internationalization trajectories of foreign subsidiaries. One of the key study contributions here is that evolutionary paths of cross-border subsidiary mandates are not limited to elements of gradualism (Johanson & Vahlne, 1977) but equally unfold in discontinuous ways (Araujo & Rezende, 2003). While local subsidiary management may contribute to mandate sustainability or even extension by developing FSAs in the form of cross-border knowledge and business networks on the basis of host-market-related CSAs (Rugman & Verbeke, 2005), it may be faced with declining or dissolving cross-border responsibility despite proving local resources to corporate management. In addition, while some subsidiaries are able to grow foreign market responsibilities up to a regional HQ status, others experience truncations in their evolutionary paths as they are not able to reach similar responsibility scopes. In fact, some foreign market mandates appear to have a limited lifespan from their very start as they are expected to fulfill market pioneering groundwork that is to be continued by corporate headquarters or other MNC units at a later stage.

By combining literature for internationalization processes and MNC strategy as suggested by Araujo and Rezende (2003), the study further leverages resource-based views of the firm (Teece & Pisano, 1994) in order to explain the aforementioned elements of gradualism and discontinuity in internationalization trajectories of foreign subsidiaries. It shows that increasing relevance of external business networks in the area covered by the subsidiary mandate may stimulate increasing market commitment at corporate level (Johanson & Mattsson, 1998). Case findings further highlight that if local subsidiary management adequately uses its host-market-related CSAs in order to obtain cross-border network insidership (Rugman & Verbeke, 1992), it is likely to benefit from gradually increasing foreign market responsibility. Distinct subsidiary capabilities as a catalyst for mandate preservation or extension (Birkinshaw, 1996) are therefore also noticeable for foreign market mandates of foreign subsidiaries.

Case findings further show that if the MNC significantly increases the localization degree in the covered area, i.e. by establishing local company presence, the degree of integration of activities across borders is likely to be affected (Martinez & Jarillo, 1991). Distinct subsidiary capabilities appear to be decisive for the direction of mandate evolution but access to these capabilities is restrained by the localization degree in the subsidiary's host market. Only subsidiaries that are, based on local value-add, able to develop HQ-like capabilities (Lehrer & Asakawa, 1999) are eligible for regional HQ status. Others are likely to face mandate decline or loss. If at some stage localization degrees in the covered area surpass their equivalent in the subsidiary's host market, mandate sustainability is equally at risk. Mechanisms of the corporate marketplace (Galunic & Eisenhardt, 1996) are then likely to shift cross-border responsibilities from the focal subsidiary to its previously subordinate sister subsidiary. By highlighting the impact of MNC configuration strategies on the evolution of cross-border subsidiary mandates, the study explains limited influence of foreign subsidiaries on their internationalization trajectories, which largely contradicts the findings of other studies on mandate evolution (e.g. Birkinshaw, 1996; Birkinshaw & Hood, 1998).

Finally, the study contributes to IB research by drawing a robust evolutionary path for subsidiary mandates in foreign markets and by highlighting critical points where mandates may be extended, reduced or eventually lost. It thereby further comes up with a four-fold typology of foreign subsidiary roles for cross-border responsibilities based on the dimensions of relative value-proposition and degrees of localization in the covered area. The process impact of corporate immune systems (Birkinshaw & Ridderstråle, 1999) causing inaction for or rejection of cross-border reaching by foreign subsidiaries as a result of behavioral traits of MNC stakeholders is equally taken into consideration here.

Several IB scholars touched upon the aspect of altering cross-border subsidiary mandates and the potentially temporary nature of this construct. This study, however, stretches beyond earlier findings in four dimensions. First, by looking at HQ-driven as well as subsidiary-driven mandate change, it accounts for the multiple embeddedness of modern MNCs (Forsgren et al., 2005) and so contributes to earlier studies that were limited to subsidiary initiatives and thus subsidiary-driven mandate change (e.g. Birkinshaw, 1997). Second, by looking at positive and negative mandate evolution, the study adds a perspective to earlier scientific work in this field (e.g. Birkinshaw & Hood, 1998) that was limited to understanding how subsidiaries can advance in their evolutionary path. Third, the study deals with various types of cross-border subsidiary responsibilities and is therefore not limited to regional HQ functions as analyzed by Kähäri et al. (2010). Finally, in contrast to Birkinshaw (1996), the study at hand truly applies a lifecycle perspective to the topic of altering cross-border responsibilities as it looks at the initial mandate gain, subsequent mandate evolutions as well as current outlooks on future mandate development.

6.2. Managerial implications

The study of subsidiary internationalization processes and evolutionary paths of cross-border subsidiary mandates offers a set of interesting implications for corporate and subsidiary management alike. Among these, the mere possibility of systematically tapping foreign subsidiaries for the obtaining of increased or intensified global reach clearly stands out. None of the seven investigated MNCs have revealed a truly structured approach towards setting the geographical spheres of influence for their foreign sub-units and towards attributing functional scopes to cross-border subsidiary mandates. In fact, the decision of corporate management to select decentralized market development approaches or to modify existing subsidiary mandates often appears to be more the result of incidental occurrences than of thorough consideration. In addition, local subsidiary management does not seem to be fully aware of its intra-MNC competitive advantage for obtaining network insidership beyond host market borders.

The study clearly shows that there are situations in which a decentralized market development approach constitutes a viable option for the MNC. This can be due to significantly varying geographic and/or psychic distances between the target market and the parent company's home and the foreign subsidiary's host market respectively. In addition to favorable host-market-related CSAs, a foreign subsidiary may be equipped with distinct capabilities like language skills or foreign market knowledge embodied in its local personnel and not found elsewhere in the organization. Finally, temporary resource constraints in the corporate HQ and/or excessive staffing levels at foreign sub-units may suggest the leveraging of local resources beyond host market borders. Acknowledging the multitude of occasions in which corporate management may consider decentralized market development approaches, a more structured approach towards this form of firm internationalization seems appropriate.

In the course of mid- to long-term planning, for example, corporate management is well advised not only to prioritize target regions and to allocate resources accordingly but also to evaluate which MNC units are capable of contributing to the overall goal. Some markets may not suggest increasing localization degrees in the near future but still embody significant potential for the future. Assuming existing company presence with favorable host-market-related CSAs and/or subsidiary-related FSAs for any of these markets, the use of local resources for obtaining initial foreign market knowledge and business networks represents an attractive option without implying significant delegation risks. At the same time, corporate management could avoid local subsidiary management settling for routine host market operations within existing business networks, thus ensuring a constant sharpening of subsidiary capabilities. In order to minimize risks resulting from host market negligence, parent companies could set clear targets for traditional and new market development and could incentivize subsidiary managers accordingly.

While previous illustrations mainly relate to initial or small-scale forms of subsidiary internationalization, corporate management is also likely to benefit from an adequate anticipation of necessary regional HQ structures that are related to subsidiary internationalization. Certain regions may, due to their mere size and growth, undoubtedly require the setting up of more than one foreign sub-unit in the future. If regional characteristics like comparable customer needs or cultural similarities strongly suggest the management of smaller sub-units from a regional HQ rather than from the parent company, the gradual upgrading of subsidiary capabilities for HQ-like functions seems appropriate. In order to fully benefit from decentralized market development approaches, corporate management is therefore not only required to identify subsidiaries suitable for cross-border reach but also to steer and accompany internationalization trajectories of foreign subsidiaries in accordance with the firm's overall strategic goals.

Finally, local subsidiary managers are likely to greatly benefit from a more proactive approach towards subsidiary internationalization. In addition to obtaining increased visibility among corporate management and enhanced positioning in the MNC as a whole, cross-border market participation may also enable them to develop capabilities and obtain resources for which their access is restrained on the basis of host market operations. This specifically refers to the offset of cross-border responsibility, as subsequent mandate development is increasingly subject to the MNC's overall configuration strategy. Local managers could therefore make their parent company aware of the subsidiary's suitability for foreign market development by either highlighting the distinctiveness of host-market-related CSAs and/or subsidiary-related FSAs for this particular task or by demonstrating initial results on the basis of unofficial trials. In any case, cross-border reaching amplifies the opportunities of any foreign subsidiary to contribute to the success of the MNC and should therefore be actively pursued by local management.

6.3. Limitations and suggestions for further research

As with any study, there are certain limitations. The topic of subsidiary internationalization represents a relatively unexplored research field (Blankenburg Holm et al., 2009), so the author opted for an exploratory research approach in the form of multiple case studies. Despite the suitability of the selected research design for developing explanatory middle range theory in the field of subsidiary internationalization and the evolution of cross-border subsidiary mandates and the exploitation of all methodological anchors for the selected approach (e.g. Eisenhardt, 1989b; Pauwels & Matthyssens, 2004), the study is subject to all legitimate criticisms associated with qualitative research in general and case study analysis in particular. As limited degrees of generalizability (Yin, 2009) mark the most significant limitation of the study, it seems appropriate to elaborate on some of the aspects in more detail.

The case sample of subsidiary internationalization processes limits the possibility to generalize from study findings for two particular reasons. First, only MNCs with a parent company location in Western Europe were analyzed in the course of the study. Even though the investigator methodically approached also Asian and American MNCs at the offset of the research undertaking, firms were either reluctant to participate or did not reveal any forms of subsidiary internationalization. Second, the case companies are exclusively from the manufacturing industries sector. This form of homogeneity is primarily the result of existing contacts of the investigator from his prior consultancy work, which significantly facilitated the process of talking to relevant MNC stakeholders and identifying cases of subsidiary internationalization while simultaneously limiting risks of misinterpretations by the investigator due to a lack of industry knowledge (Yin, 2009).

Nonetheless, any future research in this field should also involve MNCs from outside Europe and outside manufacturing sectors in order to contribute to the generalizability of findings.

Having mentioned the lack of case sample heterogeneity with regard to parent company location and industry belonging, the study is further limited to wholly-owned subsidiaries as well as to subsidiaries with a predominately market-seeking objective. While this limitation was deliberately chosen in order to reduce complexity drivers for this unexplored research topic, it would be interesting to know to what extent other subsidiary types (e.g. cooperative forms like joint ventures) or subsidiary objectives (e.g. resource-seeking) lead to confirming or contrasting findings.

In addition to a lack of generalizability, the study is also characterized by three methodological shortfalls. First, out of 36 initiatives the case sample only reveals three initiatives with a negative outcome, for example with corporate management's rejection of a subsidiary request for extended geographical reach. Even though the investigator, in addition to cases #10a and #10b, explicitly sought negative examples for initial mandate gains or subsequent mandate developments throughout the case sampling process, MNC stakeholders were either unaware of or reluctant to speak about failed petitions. A failure or unwillingness to speak about rejected initiatives may explain the only limited success in identifying negative examples. Future studies of this phenomenon would be highly relevant to the topic as they could add clarity to countervailing forces or corporate immune systems (Birkinshaw & Ridderstråle, 1999) as well as altering risk levels associated with subsidiary internationalization. This limitation could clearly be mitigated by the use of real-time observations but they are likely to fail due to time and resource constraints among investigators as well as among stakeholders from participating companies.

The second methodological concern for this study relates to a lack of perspectives from MNC units other than the parent company and the focal subsidiary. It actually challenges the study's aim to provide a truly holistic MNC view on the topic of internationalization of the second degree. Even though the incorporation of two perspectives already marks a clear strength of this study, selected exchange with other subsidiaries involved in shifting cross-border responsibilities could provide meaningful insights into competitive forces in the corporate marketplace (Galunic & Eisenhardt, 1996) for the topic at hand. It is not necessary to involve all subsidiaries of an MNC in a study about the intra-MNC transfer of foreign market mandates, but a selected extension of the viewpoints would clearly contribute to the topic. Finally, limited identification of subsidiary internationalization processes at numerous MNCs was interpreted as an indication that cross-border reaching of foreign subsidiaries represents a select MNC phenomenon and that only a limited number of foreign subsidiaries actually benefit from this type of mandate. While highlighting this aspect undoubtedly contributed to the study, it is by no means empirically backed and needs to be examined through additional studies in the future.

Overall, the study findings offer many interesting departure points for future research. First of all, interesting aspects of subsidiary internationalization like the potentially select and temporary nature of cross-border subsidiary mandates should be further investigated. Special attention should thereby be drawn to MNCs that do not exhibit any form of subsidiary responsibilities beyond host market borders despite being highly internationalized. What hinders local management from enhanced territorial reach and to what extent do outlined corporate immune systems impede subsidiary internationalization? The study has further shown that foreign market responsibilities of foreign subsidiaries strongly vary in their functional scope, ranging from pioneering market surveillance to complex steering of other entities in the region. Future research should study in more detail the alignment of regional subsidiary mandates with overall MNC strategies. Recent work of Alfoldi, Clegg and McGaughey (2012) that differentiated between regional HQ functions and regional management mandates could serve as a solid starting point in this context.

The focus of future studies in the field of subsidiary internationalization should generally be set on testing the outlined middle range theory by quantitative analysis. The measurement of risk alterations associated with subsidiary internationalization offers a good starting point. In addition, a better understanding of efficiency variations for centralized and decentralized market development approaches, e.g. the benefits of host-market-related CSAs, would not only significantly contribute to IB research but could also have pronounced practical relevance. Finally, the impact of MNC strategies with regards to localization degrees in the subsidiary's host market and covered area on the evolution of cross-border subsidiary mandates could be analyzed on a quantitative basis.

7. References

Aharoni, Y. (1966). *The Foreign Investment Decision Process.* Boston: Harvard University Press.

Alfoldi, E. A., Clegg, L. G., & McGaughey, S. L. (2012). Coordination at the edge of the empire: The delegation of headquarters functions through regional management mandates. *Journal of International Management*, 18(3), 276-292.

Ambos, B., & Mahnke, V. (2010). How Do MNC Headquarters Add Value?. *Management International Review*, 50(4), 403-412.

Ambos, T., & Birkinshaw, J. M. (2010). Headquarters' attention and its effects on subsidiary performance. *Management International Review*, 50(4), 449-469.

Andersen, O. (1993). On the internationalization process of firms: a critical analysis. *Journal of International Business*, 24(2), 209-232.

Andersson, U., & Forsgren, M. (2000). In Search of Centre of Excellence - Network Embeddedness and Subsidiary Roles in MNCs. *Management International Review*, 40(4), 329-350.

Andersson, U., Forsgren, M., & Holm, U. (2001). Subsidiary embeddedness and competence development in MNCs: a multilevel analysis. *Organization Studies*, 22(6), 1013–1034.

Andersson, U., Forsgren, M., & Holm, U. (2007). Balancing subsidiary influence in the federative MNC: a business network view. *Journal of International Business Studies*, 38(5), 802-818.

Araujo, L., & Rezende, S. (2003). Path dependence, MNCs and the internationalisation process: a relational approach. *International Business Review*, 12(6), 719–737.

Aspelund, A., & Madsen, T. K. (2009). The role of innovative and entrepreneurial behavior in internationalization processes. In: Sinkovics, R. R., & Gauri, P. N. (Eds.), *New Challenges to International Marketing.* Bingley: Emerald, 155-175.

Axelsson, B., & Johanson, J. (1992). Foreign market entry: The textbook vs. the network view. In: Axelsson, B., & Easton, G. (Eds.), *Industrial networks: A new view of reality*. London: Routledge, 218–231.

Bain, J. S. (1956). *Barriers to new competition*. Cambridge, MA: Harvard University Press.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99-120.

Bartlett, C., & Ghoshal, S. (1986). Tap your subsidiaries for global reach. *Harvard Business Review*, 64(6), 87–94.

Bartlett, C., & Ghoshal, S. (1989). *Managing across borders: the transnational solution*. Boston: Harvard Business School Press.

Behrman, J. N. (1969). *Some Patterns in the Rise of the Multinational Enterprise*. Chapel Hill: University of North Carolina.

Benito, G., Lunnan, R., & Tomassen, S. (2011). Distant Encounters of the Third Kind: Multinational Companies Locating Divisional Headquarters Abroad. *Journal of Management Studies*, 48(2), 373-394.

Bilkey, W. J., & Tesar, G. (1977). Export behavior of smaller-sized Wisconsin manufacturing firms. *Journal of International Business Studies*, 8(1), 93-98.

Birkinshaw, J. M. (1996). How subsidiary mandates are gained and lost. *Journal of International Business Studies*, 27(3), 467-496.

Birkinshaw, J. M. (1997). Entrepreneurship in multinational corporations: the characteristics of subsidiary initiatives. *Strategic Management Journal*, 18(3), 207-229.

Birkinshaw, J. M., Brannen, M. Y., & Tung, R. L. (2011). From a distance and generalizable to up-close and grounded: reclaiming a place for qualitative methods in international business research. *Journal of International Business Studies*, 42(5), 573-581.

Birkinshaw, J. M., Braunerhjelm, P., Holm, U., & Terjesen, S. (2006). Why do some companies move their headquarters abroad?. *Strategic Management Journal*, 27(7), 681-700.

Birkinshaw, J. M., & Fry, N. (1998). Subsidiary initiatives to develop new markets. *Sloan Management Review*, 39(3), 51-61.

Birkinshaw, J. M., & Hood, N. (1998). Multinational subsidiary development: capability evolution and charter change in foreign-owned subsidiary companies. *Academy of Management Review*, 23(4), 773-795.

Birkinshaw, J. M., Hood, N., & Jonsson, S. (1998). Building firm-specific advantages in multinational corporations: the role of subsidiary initiative. *Strategic Management Journal*, 19(3), 221-241.

Birkinshaw, J. M., Hood, N., & Young, S. (2005). Subsidiary Entrepreneurship, Internal and External Competitive Forces, and Subsidiary Performance. *International Business Review*, 14(2), 227-248.

Birkinshaw, J. M., & Lingblad, M. (2005). Intrafirm competition and charter evolution in the multibusiness firm. *Organization Science*, 16(6), 674-686.

Birkinshaw, J. M., & Morrison, A. J. (1995). Configurations of strategy and structure in multinational subsidiaries. *Journal of International Business Studies*, 26(4), 729-753.

Birkinshaw, J. M., & Pedersen, T. (2009). Strategy and management in MNE subsidiaries. In: Rugman, A. M. (Ed.), *The Oxford handbook of international business*. Oxford: Oxford University Press, 367-388.

Birkinshaw, J. M., & Ridderstråle, J. (1999). Fighting the corporate immune system: a process study of subsidiary initiatives in multinational corporations. *International Business Review*, 8(2), 149-180.

Björkman, I., & Forsgren, M. (2000). Nordic International Business Research. A review of its development. *International Studies of Management and Organization*, 30(1), 6-25.

Blankenburg Holm, D., Drogendijk, R., Hohenthal, J., Holm, U., Johanson, M., & Zander, I. (2009). The internationalization processes of the firm: a new research agenda. In: Larimo, J., & Vissak, T. (Eds.), *Research on Knowledge, Innovation and Internationalization. The internationalisation processes of the multinational corporation*. Bingley: Emerald, 3-20.

Bonin, B, & Perron, B. (1986). World product mandates and firms operating in Quebec. In: Etemad, H., & Dulude, L. S. (Eds.), *Managing the multinational subsidiary*. London: Croom Helm, 161-176.

Bouquet, C. D. (1999). *Growing in a Foreign Soil: A Review of Subsidiary Evolution*. Paper presented at the annual meeting of the Academy of Management (AOM) in Chicago, USA.

Bouquet, C. D., & Birkinshaw, J. M. (2008). Weight versus voice: how foreign subsidiaries gain the attention of headquarters. *Academy of Management Journal*, 51(3), 577-601.

Bradley, J. (1993). Methodological Issues and Practices in Qualitative Research. *The Library Quarterly*, 63(4), 431-449.

Buckley, P. J. (1983). New Theories of International Business: Some Unresolved Issues. In: Casson, M. C. (Ed.), *The growth of international business*. London: George Allen & Unwin, 34-50.

Buckley, P. J. (2009). Business history and international business. *Business History*, 51(3), 307-333.

Buckley, P. J., & Casson, M. (1976). *The future of the multinational enterprise*. Basingstoke: Macmillan.

Buckley, P. J., & Hashai, N. (2009). Formalizing internationalization in the eclectic paradigm. *Journal of International Business Studies*, 40(1), 58-70

Calof, J., & Beamish, P. (1995). Adapting to foreign markets: explaining internationalisation. *International Business Review*, 4(2), 115-131.

Cantwell, J., & Mudambi, R. (2005). MNE competence-creating subsidiary mandates. *Strategic Management Journal*, 26(12), 1109-1128.

Cantwell, J., & Santangelo, G. D. (1999). The frontier of international technology networks: sourcing abroad the most highly tacit capabilities. *Information Economics and Policy,* 11(1), 101-123.

Cavusgil, S. T. (1980). On the internationalization process of firms. *European Research*, 8(6), 273-281.

Cavusgil, S. T. (1984). Differences among exporting firms based on their degree of internationalization. *Journal of Business Research*, 12(2), 195-208.

Cavusgil, S. T., & Czinkota, M. R. (1990). *International Perspectives on Trade Promotion and Assistance*. New York: Quorum Books.

Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16), 386-405.

Cyert, R. M., & James, G. M. (1963). *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice-Hall.

Czinkota, M. R. (1982). *Export development strategies: US promotion policies*. New York: Praeger Publishers.

Darrough, M. N., & Stoughton, N. M. (1986). Moral Hazard and Adverse Selection: The Question of Financial Structure. *Journal of Finance*, 41(2), 501-513.

Dörrenbächer, C., & Gammelgaard, J. (2010). Multinational Corporations, Inter-organizational Networks and Subsidiary Charter Removals. *Journal of World Business*, 45(2), 206-216.

Doz, Y. L. (2011) Qualitative research for international business. *Journal of International Business Studies*, 42(5), 582-590.

Doz, Y. L., Asakawa, K., Santos, J., & Williamson, P. (1997). *The Metanational Corporation*. INSEAD Working Paper (97/60/SM), Fontainebleau, France.

Doz, Y. L., & Prahalad, C. K. (1991). Managing DMNCs: A Search for a New Paradigm. *Strategic Management Journal*, 12(S1), 145-164.

Dubois, A., & Gadde, L.-E. (2002). The construction industry as a loosely coupled system: implications for productivity and innovation. *Construction Management and Economic*s, 20(7), 621-631.

Dunning, J. H. (1977). Trade, location of economic activity and the MNEs: A search for an eclectic paradigm. In: Wijikman, P. (Ed.), *The international allocation of economic activity*. London: Macmillan, 395-418.

Dunning, J. H. (1988). The eclectic paradigm of international production: A restatement and some possible extension. *Journal of International Business Studies*, 19(1), 1-31.

Dunning J. H. (1993). *Multinational Enterprises and the Global Economy*. New York, NY: Addison-Wesley.

Dunning, J. H. (1998). Location and the multinational enterprise: A neglected factor?. *Journal of International Business Studies*, 29(1), 45-66.

Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*, 9(2), 163-190.

Eden, L. (2005). Cave! Hic Dragones! Alan M. Rugman’s contribution to the field of international business. In: Verbeke, A. (Ed.), *Research in global strategic management*. Bingley: Emerald, 9-27.

Eisenhardt, K. M. (1989a). Agency Theory: An Assessment and Review. *Academy of Management Review*, (14)1, 57-74.

Eisenhardt, K. M. (1989b). Building theories from case study research. *Academy of Management Review*, 14(4), 532-550.

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, 50(1), 25-32.

Enright, M. J. (2005a). Regional Management Centres in the Asia-Pacific. *Management International Review*, 45(1), 59-82.

Enright, M. J. (2005b). The Role of Regional Management Centers. *Management International Review*, 45(1), 83-102.

Enright, M. J., & Subramanian, V. (2007). An organizing framework for multinational subsidiaries. *Management International Review*, 47(6), 895-924.

Eriksson, K., Johanson, J., Majkgård, A., & Sharma, D. D. (1997). Experiential knowledge and cost in the internationalization process. *Journal of International Business Studies*, 28(2), 337–360.

Figueira-de-Lemos, F., Johanson, J., & Vahlne, J. E. (2011). Risk management in the internationalization process of the firm: A note on the Uppsala model. *Journal of World Business*, 46(2), 143-153.

Forsgren, M. (2002). The concept of learning in the Uppsala internationalisation process model: A critical review. *International Business Review*, 11(3), 257-277.

Forsgren, M., Holm, U., & Johanson, J. (1992). Internationalisation of the second degree – the emergence of European-based centres in Swedish firms. In: Young, S., & Hamill, J. (Eds.), *Europe and the multinationals – Issues and responses for the 1990s*. Cheltenham, UK: Edward Elgar, 235-253.

Forsgren, M., Holm, U., & Johanson, J. (1995). Division headquarters go abroad – a step in the internationalization of the multinational corporation. *Journal of Management Studies*, 32(4), 475-491.

Forsgren, M., Holm, U., & Johanson, J. (2005). *Managing the embedded multinational: A business network view*. Cheltenham, UK: Edward Elgar.

Fratochii L., & Holm, U. (1998). Centres of excellence in the international firm. In: Birkinshaw, J. M., & Hood, N. (Eds.), *Multinational Corporate Evolution and Subsidiary Development*. Basingstoke Hampshire: Macmillan, 189-205.

Frost, T. S., Birkinshaw, J. M., & Ensign, P. C. (2002). Centers of excellence in multinational corporations. *Strategic Management Journal*, 23(11), 997-1018.

Galunic, D. C., & Eisenhardt, K. M. (1996). The evolution of intracorporate domains: divisional charter losses in high technology, multidivisional corporations. *Organization Science*, 7(3), 255-282.

Galunic, D. C., & Rodan, S. (1998). Resource recombination in the firm: knowledge structures and the potential for Schumpeterian innovation. *Strategic Management Journal*, 19(12), 1193-1201.

Gatignon, H., & Anderson, E. (1988). The Multinational Corporation's Degree of Control over Subsidiaries: An Empirical Test of a Transaction Cost Explanation. *Journal of Law, Economics & Organization*, 4(2), 305-366.

Geppert, M., Williams, K., & Matten, D. (2003). The social construction of contextual rationalities in MNCs: an Anglo-German comparison of subsidiary choice. *Journal of Management Studies*, 40(3), 617-641.

Ghoshal, S., & Nohria, N. (1989). Internal differentiation within multinational corporations. *Strategic Management Journal*, 10(4), 323-337.

Giddy, I. H. (1978). The demise of the product cycle model in international business theory. *Columbia Journal of World Business*, 13(1), 90-97.

Guba, E. G. (1981). Criteria for assessing the trustworthiness of naturalistic inquiries. *Educational Communication & Technology Journal*, 29(2), 75-91.

Gummesson, E. (2000). *Qualitative methods in management research*, Volume 2. Thousand Oaks, CA: Sage.

Gupta, A. K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, 16(4), 768-792.

Haldin-Herrgard, T. (2000). Difficulties in diffusion of tacit knowledge in organizations. *Journal of Intellectual Capital*, 1(4), 357-365.

Harzing, A. W., & Noorderhaven, N. (2006). Knowledge flows in MNCs: an empirical test and extension of Gupta and Govindarajan's typology of subsidiary roles. *International Business Review*, 15(3), 195-214.

Hedlund, G. (1986). The Hypermodern MNC - A Heterarchy?. *Human Resource Management*, 25(1), 9-36.

Hedlund, G., & Kverneland, A. (1985). Are strategies for foreign market entry changing? The case of Swedish investments in Japan. *International Studies of Management and Organization*, 15(2), 41-59.

Hennart, J.-F. (1977). *A Theory of Foreign Direct Investment.* PhD Dissertation, University of Maryland at College Park.

Hennart, J.-F. (1982). *A Theory of Multinational Enterprise*. Ann Arbor: University of Michigan Press.

Hennart, J.-F. (2001). Theories of Multinational Enterprise. In: Rugman, A. M., & Brewer, T. L. (Eds.), *The Oxford Handbook of International Business*. Oxford: Oxford University Press, 127-149.

Herriott, R. E., & Firestone, W. A. (1983). Multisite qualitative policy research: Optimizing description and generalizability. *Educational Research*, 12(2), 14-19.

Hutzschenreuter, T., Voll, J. C., & Verbeke, A. (2011). The impact of added cultural distance and cultural diversity on international expansion patterns: a Penrosean perspective. *Journal of Management Studies*, 48(2), 305-29.

Hymer, S. H. (1976). *The international operations of national firms: A study of direct foreign investment*. Cambridge, MA: MIT Press. (1960 doctoral thesis submitted posthumously for publication by Charles P. Kindleberger).

Itaki, M. (1991). A critical assessment of the eclectic theory of the multinational enterprise. *Journal of International Business Studies*, 22(3), 445-460.

Jensen, M. C, & Meckling, W. H. (1976). Theory of the firm - managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.

Johanson J., & Mattsson, L. G. (1986). International marketing and internationalization processes - a network approach. In: Turnbull, P. W., & Paliwada, S. J. (Eds.), *Research in international marketing*. London: Croom Helm, 234-265.

Johanson, J., & Vahlne, J. E. (1977). The internationalisation process of the firm: a model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1), 23-32.

Johanson J., & Vahlne J. E. (1990). The Mechanism of Internationalization. *International Marketing Review*, 7(4), 11-24.

Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: from liability of foreigness to liability of outsidership. *Journal of International Business Studies*, 40(9), 1411-1431.

Johanson, J., & Wiedersheim-Paul, F. (1975). The Internationalisation of the Firm-Four Swedish Cases. *Journal of Management Studies*, 12(3), 305-322.

Kähäri, P., Piekkari, R., Barner-Rasmussen, W., & Hilvo, I. (2010). *Rise and fall of regional headquarters: A longitudinal study*. Paper presented at the annual meeting of the European International Business Academy (EIBA) in Porto, Portugal.

Kapler, J. K. (2007). The Theory of the Firm, the Theory of Competition and the Transnational Corporation. *Competition & Change*, 11(4), 287-306.

Knight, G. A. (1997). Cross-cultural reliability and validity of a scale to measure firm entrepreneurial orientation. *Journal of Business Venturing*, 12(3), 213-225.

Knight, G. A., & Cavusgil, S. T. (1996). The born global firm: A challenge to traditional internationalization theory. *Advances in International Marketing*, 8(1), 11-26.

Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.

Kogut, B., & Zander, U. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies*, 24(4), 625-645.

Krefting, L. (1991). Rigor in Qualitative Research: The Assessment of Trustworthiness. *The American Journal of Occupational Therapy*, 45(3), 214-222.

Kumar, N., Stern, L. W., & Anderson, J. C. (1993). Conducting interorganizational research using key informants. *Academy of Management Journal*, 36(6), 1633-1651.

Kutschker, M., & Schmid, S. (2011) *Internationales Management*, Volume 7. Munich: Oldenbourg.

Lehrer. M., & Asakawa, K. (1994). *Regional management and regional headquarters: An empirical study of adaptation in American and Japanese MNCs.* Paper presented at the annual meeting of the Academy of Management (AOM) in Dallas, USA.

Lehrer, M., & Asakawa, K. (1999). Unbundling European operations: Regional management and corporate flexibility in American and Japanese MNCs. *Journal of World Business*, 34(3), 267-286.

Leonard-Barton, D. (1990). A dual methodology for case studies. *Organization Science*, 1(3), 248-266.

Lincoln, Y. S., & Guba, E. G. (1985). *Naturalistic inquiry*. Beverly Hills, CA: Sage.

Luostarinen, R. K. (1979). *Internationalization of the firm*. Helsinki: Acta Academic Oeconomica Helsingiensis.

Luostarinen, R. K., & Welch, L. (1990). *International Business Operations*. Helsinki: Kyriiri Oy.

Lyle, S. W., & Zawacki, R. A. (1997). Centers of excellence: empowering people to manage change. *Information Systems Management*, 14(1), 26-29.

Macharzina, K., & Engelhard, J. (1991). Paradigm shift in international business research: from partist and eclectic approaches to the GAINS paradigm. *Management International Review*, 31(4), 23-43.

Madsen, T. K., & Servais, P. (1997). The internationalization of born globals: An evolutionary perspective. *International Business Review*, 6(6), 561-583.

Malnight, T. W. (1995). Globalization of an ethnocentric firm: an evolutionary perspective. *Strategic Management Journal*, 16(2), 119-141.

Markusen, J. R. (2001). International Trade Theory and International Business. In: Rugman, A. (Ed.), *Oxford Handbook of International Business*. Oxford: Oxford University Press, 69-87.

Marshall, D., & Rossman, G. (1999). *Designing Qualitative Research*, Volume 3. Thousand Oaks, CA: Sage Publication.

Martinez, J. I., & Jarillo, J. C. (1991). Coordination demands of international strategies. *Journal of International Business Studies*, 22(3), 429-444.

Meyer, K. E., & Gelbuda, M. (2006). Process Perspectives in International Business Research, *Management International Review*, 46, 143-164.

Meyer, K. E., Mudambi, R., & Narula, R. (2011). Multinational enterprises and local contexts: the opportunities and challenges of multiple embeddedness. *Journal of Management Studies*, 48(2), 235-252.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook*. Thousand Oaks, CA: Sage.

Miller, D. (1983). The Correlates of Entrepreneurship in Three Types of Firms. *Management Science*, 29(7), 770-791.

Miller, D., & Friesen, P. H. (1980). Momentum and Revolution in Organizational Adaptation. *Academy of Management Journal*, 23(4), 591-614.

Mintzberg, H. (1979). An Emerging Strategy of “Direct” Research. *Administrative Science Quarterly*, 24(4), 582-589.

Morschett, D. (2007). *Institutionalisierung und Koordination von ausländischen Tochtergesellschaften*. Wiesbaden: Gabler.

Mudambi, R., & Navarra, P. (2004). Is knowledge power? Knowledge flows, subsidiary power and rent-seeking within MNCs. *Journal of International Business Studies*, 35(5), 385-406.

Newman, K. L., & Nollen, S. D. (1996). Culture and congruence: the fit between management practices and national culture. *Journal of International Business Studies*, 27(4), 753-779.

Nohria, N., & Ghoshal, S. (1994). Differentiated fit and shared values: Alternatives for managing headquarters-subsidiary relations. *Strategic Management Journal*, 15(6), 491-502.

O’Donnell, S. W. (2000). Managing foreign subsidiaries: agents of headquarters, or an independent network?. *Strategic Management Journal*, 21(5), 525-548.

Oesterle, M. J., & Richta, B. T. (2009). Erfolgswirkungen internationaler Unternehmenstätigkeit – Stand der empirischen Forschung und Notwendigkeit verbesserter Forschungsansätze. In: Schmid, S. (Ed.), *Management der Internationalisierung*. Wiesbaden: Gabler, 51-85.

Oh, C. H., & Rugman, A. M. (2012). Regional integration and the international strategies of large European firms. *International Business Review*, 21(3), 493-507.

Patton, M. Q. (2002). *Qualitative Research and Evaluation Methods.* Thousand Oaks, CA: Sage.

Pauwels, P., Lommelen, T., & Matthyssens, P. (2004). *The internationalization process of the firm: progression through institutionalization, exploitative and exploratory learning*. Paper presented at the annual meeting of the Academy of International Business (AIB) in Stockholm, Sweden.

Pauwels, P., & Matthyssens, P. (2004). The architecture of multiple case study research in international business. In: Marschan-Piekkari, R., & Welch, C. (Eds.), *Handbook of Qualitative Research Methods for International Business*. Cheltenham & Northampton, MA: Edward Elgar, 125-143.

Pearce, R. (1992). World product mandates and MNE specialization. *Scandinavian International Business Review*, 1(2), 38-57.

Perlmutter, H. V. (1969). The tortuous evolution of the multinational corporation. *Columbia Journal of World Business*, 4(1), 9-18.

Perry, C. (1998). Processes of a case study methodology for postgraduate research in marketing. *European Journal of Marketing*, 32(9/10), 784-802.

Pettigrew, A. M. (1997). What is a Processual Analysis?. *Scandinavian Journal of Management*, 13(4), 337-348.

Picard, J. (1980). Organizational Structures and Integrative Devices in European Multinational Corporations. *Columbia Journal of World Business*, 15(1), 30-35.

Posner, M. V. (1961). International trade and technical change. *Oxford Economic Papers*, 13(3), 323-341.

Prahalad, C. K.. & Doz. Y. L. (1987). *The multinational mission: Balancing local demands and global vision.* New York: The Free Press.

Reid, S. D. (1981). The decision-maker and export entry and expansion. *Journal of International Business Studies*, 12(2), 101-112.

Ricardo, D. (1817). *On the Principles of Political Economy and Taxation*. London.

Root, F. R. (1990). *International Trade and Investment*, Volume 6. Cincinnati, OH: South-Western Publishing Company.

Root, F. R. (1994). *Entry Strategies for International Markets*. San Francisco, CA: Lexington Books.

Roth, K., & Morrison A. J. (1992). Implementing global strategy: characteristics of global subsidiary mandates. *Journal of International Business Studies*, 23(4), 715-736.

Rugman, A. M. (1981). *Inside the multinationals: The economics of internal markets*. New York, NY: Columbia Press.

Rugman, A. M., & Bennett, J. (1982). Technology transfer and world product mandating in Canada. *Columbia Journal of World Business*, *17*(4), 58-62.

Rugman, A. M., & Douglas, S. (1986). The Strategic Management of Multinationals and World Product Mandating. *Canadian Public Policy*, 12(2), 320-328.

Rugman, A. M., & Oh, C. H. (2010). Does the regional nature of multinationals affect the multinationality and performance relationship?. *International Business Review*, 19(5), 479-488.

Rugman, A. M., & Verbeke, A. (1992). A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies*, 23(4), 761-772.

Rugman, A. M., & Verbeke, A. (2001). Subsidiary-specific advantages in multinational enterprises. *Strategic Management Journal,* 22(3), 237-250.

Rugman, A. M., & Verbeke, A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, *35*(1), 3-18.

Rugman, A. M., & Verbeke, A. (2005). Towards a theory of regional multinationals: a transaction cost economics approach. *Management International Review*, 45(1), 5-17.

Rugman, A. M., & Verbeke, A. (2007). Liabilities of regional foreignness and the use of firm-level versus country-level data: A response to Dunning et al. (2007). *Journal of International Business Studies*, 38(1), 200-205.

Rugman, A. M., Verbeke, A., & Nguyen, Q. (2011). Fifty Years of International Business Theory and Beyond. *Management International Review*, 51(6), 755-786.

Rugman, A. M., Verbeke, A., & Yuan, W. (2011). Re-conceptualizing Bartlett and Ghoshal's Classification of National Subsidiary Roles in the Multinational Enterprise. *Journal of Management Studies*, 48(2), 253-277.

Santangelo, G. D., & Meyer, K. E. (2011). Extending the Internationalization Process Model: Increases and Decreases of MNE Commitment in Emerging Economies. *Journal of International Business Studies*, 42(7), 894-909.

Sargeant, L. W. (1990). Strategic planning in a subsidiary. *Long Range Planning*, 23(2), 43-54.

Schütte, H. (1996). *RHQ of Multinational Corporations*. PhD dissertation, St. Gallen: Universität St. Gallen.

Schütte, H. (1997). Strategy and Organisation: Challenges for European MNCs in Asia. *European Management Journal*, 15(4), 436-445.

Schweizer, R., Vahlne, J. E., & Johanson, J. (2010). Internationalization as an entrepreneurial process. *Journal of International Entrepreneurship*, 8(4), 343-370.

Science Council of Canada (1980). *Multinationals and Industrial Strategy: The Role of World Product Mandates*. Ottawa: Sciences and Services Canada.

Shelby, A. (1986). The Theoretical Bases of Persuasion: A Critical Introduction. *The Journal of Business Communications*, 23(1), 5-29.

Shrader, R. C., Oviatt, B. M., & McDougall, P. P. (2000). How new ventures exploit trade-offs among international risk factors: lessons for the accelerated internationalisation of the 21st century. *Academy of Management Journal*, 43(6), 1227-1247.

Simon, M. C. (2007). *Der Internationalisierungsprozess von Unternehmen: ressourcenorientierter Theorierahmen als Alternative zu bestehenden Ansätzen*. Wiesbaden: Deutscher Universitäts-Verlag.

Sminia, H. (2009). Process research in strategy formation: Theory, methodology and relevance. *International Journal of Management Reviews*, 11(1), 97-125.

Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. London.

Sousa, C. M. P., & Bradley, F. (2008). Cultural Distance and Psychic Distance: Refinements in Conceptualization and Measurement. *Journal of Marketing Management,* 24(5/6), 467-488.

Taggart, J. H., & Berry, M. J. (1997). Second Stage Internationalization: Evidence from MNC Manufacturing Subsidiaries in the UK. *Journal of Marketing Management*, 13(1-3), 179-193.

Tallman, S. (2003). The Significance of Bruce Kogut's and Udo Zander's Article, 'Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation'. *Journal of International Business Studies*, 34(6), 495-497.

Tallman, S., & Chacar, A. S. (2011). Knowledge accumulation and dissemination in MNEs: a practice-based framework. *Journal of Management Studies*, 48(2), 278-304.

Teece, D. J. (1981). The Multinational Enterprise: Market Failure and Market Power Considerations. *Sloan Management Review*, 22(3), 3-17.

Teece, D. J., & Pisano, G. (1994). The Dynamic Capabilities of Firms: An Introduction. *Industrial and Corporate Change,* 3(3), 537-556.

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic Capabilities and Strategic Management. *Strategic Management Journal*, 18(7), 509-533.

Tversky, A., & Kahneman, D. (1986). Rational choice and the framing of decisions. *Journal of Business,* 59(4), 251-278.

Vahlne, J. E., Ivarsson, I., & Johanson, J. (2011). The tortuous road to globalization for Volvo's heavy truck business: Extending the scope of the Uppsala model. *International Business Review*, 20(1), 1-14.

Vahlne, J. E., Schweizer, R., & Johanson, J. (2012). Overcoming the Liability of Outsidership - The Challenge of HQ of the Global Firm. *Journal of International Management*, 18(3), 224-232.

Van Maanen, J. (1979). The Fact and Fiction in Organizational Ethnography. *Administrative Science Quarterly,* 24(4), 539-550.

Vernon, R. (1966). International investment and international trade in the product cycle. *Quarterly Journal of Economics*, 80(2), 190-207.

Vernon, R. (1971). *Sovereignty at Bay*. New York, NY: Basic Books.

Weerawardena, J., Mort, G. S., Liesch, P. W., & Knight, G. A. (2007). Conceptualizing accelerated internationalization in the born global firm: a dynamic capabilities perspective. *Journal of World Business*, 42(3), 294-306.

Welch, C., Piekkari, R., Plakoyiannaki, E., & Paavalainen-Mäntymäki, E. (2011). Theorising from case studies: Towards a pluralist future for international business research. *Journal of International Business Studies*, 42(5), 740-62.

Welch, L. S., & Luostarinen, R. K. (1988). Internationalization: evolution of a concept. *Journal of General Management*, 14(2), 36-64.

Welch, L. S., & Luostarinen, R. K. (1993). Inward-Outward Connections in Internationalization. *Journal of International Marketing*, 1(1), 44-56.

White, R. E., & Poynter, T. A. (1984). Strategies for foreign-owned subsidiaries in Canada. *Business Quarterly*, 48(4), 59-69.

Williamson, O. E. (1975). *Markets and hierarchies: Analysis and antitrust implications*. New York, NY: Free Press.

Yin, R. K. (2009). *Case Study Research: Design and Methods*, Volume 5. Thousand Oaks, CA: Sage.

Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2), 341-363.

8. Appendix

8.1. Interview guideline

The following guideline was sent to each interviewee prior to the exchange and was used throughout the conduction of the semi-structured interviews. While the guideline allowed the interviewee to prepare for the discussion and the interviewer to structure his questions it did not seek to limit interview findings by any means. At the end of each interview the interviewee was further asked to answer a set of questions using a Likert scale. However, as most interviewees were hesitant to provide answer in such form due to potential sanctions of any kind from other MNC stakeholders the outcome was not used for the study. It should be further noted that the interview focus shifted from one case to another as findings from earlier cases urged the investigator to better understand certain aspects of subsidiary internationalization in the following cases.

Interview guideline

A. Description of the MNC and focal subsidiary

Please provide a short overview about the MNC and subsidiary in focus (revenues, employees, geographical coverage, value-add, product range, organizational structure, inauguration date etc.). The aim of such introduction is to put the following case example into a larger context and to avoid potential misinterpretations.

B. Description of the international business opportunity in focus

Please provide a short overview about the selected case of subsidiary internationalization. The overview should encompass type of opportunity, relevant dates with regards to the opportunity (identification, enactment, and exploitation), involved stakeholders, level of investment and/or resource requirements as well as outcome and current status of the initiative.

C. Identification of international business opportunity

Chapter introduction

This chapter of the interview focuses on the initial part of the initiative, the identification of the international business opportunity. An international business opportunity is thereby defined as a foreign subsidiary's possibility to expand its operations encompassing all value chain elements (R&D, sourcing, production, sales, after sales etc.) beyond its original host market. For any type of market expansion operational responsibility needs to be taken by the focal subsidiary.

Chapter questions

1) Where was the international business opportunity identified (focal subsidiary, other MNC units, MNC headquarter, other)?
2) How was the business opportunity for subsidiary internationalization identified? Please name the main drivers and potential restrictions throughout the identification process.
3) To what extend did internal (other MNC units) and / or external stakeholders (customers, suppliers, regulators, competitors etc.) influence the identification process?

D. Enactment of international business opportunity

Chapter introduction

This chapter of the interview focuses on the activities that were initiated once the international business opportunity was identified. The question about how the opportunity was exchanged between involved MNC units is thereby of particular interest.

Chapter questions

4) Following the opportunity identification for subsidiary internationalization what next steps were initiated (business case calculation, trials etc.)? What role did the different stakeholders (focal subsidiary, other MNC units, MNC headquarter) take in this process?
5) Had the focal subsidiary launched previous initiatives for market expansion? If yes, please comment on the nature and outcome of these initiative(s). If not, please state the reason for lacking prior initiatives.
6) In general, do you believe that belonging to an MNC increases or decreases the proclivity of local management to act upon business opportunities outside the host market?

E. Allocation of resources towards the identified business opportunity

Chapter introduction

This chapter of the interview focuses on the HQ decision to grant responsibility to the focal subsidiary for exploitation of the identified business opportunity with or without additional resource demand. Understanding the headquarter reasoning for a decentralized market expansion strategy is thereby of particular interest.

Chapter questions

7) For what reason was the focal subsidiary mandated to exploit the opportunity as opposed to exploiting it centrally from the MNC headquarters?
8) To what extend was the decision a result of a new headquarter strategy to maximize local resource exploitation as opposed to following a rather opportunistic approach?
9) To what extend did the prevalence of country-specific advantages (culture, customer demand, regulation, financial / tax-related matters etc.) of the focal subsidiary influence the decision-making process at headquarter level?
10) Did the focal subsidiary depend on additional resources in order to exploit the identified international business opportunity? If yes, please state amount and type of resources that were requested and allocated.
11) When reflecting on the process of responsibility allocation, what are key facilitators for subsidiaries to obtain foreign market responsibility?

F. Exploitation of international business opportunities and outlook

Chapter introduction

This chapter of the interview focuses on the actual implementation and the outcome of the market expansion, including the level of headquarter involvement as well as the steps that were taken or are planned following the implementation

Chapter questions

12) How was the market expansion step prepared? To what extend was personnel from other MNC units (other MNC subsidiaries, MNC headquarters) involved in this process? To

what extend was experience from prior market expansions (1^{st} and / or 2^{nd} degree) leveraged?

13) How was the market expansion implemented? To what extend was personnel from other MNC units, including headquarters, involved? To what extend was experience from prior market expansions (1^{st} and / or 2^{nd} degree) leveraged?

14) Do you view the implementation as a success or a failure? Please state the reasons for the outcome and steps that you would take differently given your current knowledge.

15) Following the implementation what next steps were initiated by the focal subsidiary and / or responsible headquarter? What are current medium to long-term plans?