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Subsidiary Entrepreneurship: An Exploratory Study

Enda Carolan

MPhil

2006

Subsidiary Entrepreneurship: An Exploratory Study

By

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Thesis submitted for the award of

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(Master of Philosophy)

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ABSTRACT

This is a study of subsidiary entrepreneurship. In recent years entrepreneurship has been promoted by academics, practitioners and governmental agencies as a panacea for subsidiary managers as they attempt to sustain and grow their subsidiaries. The research question that underpins this work relates to the transposition of the concept of entrepreneurship into large mature business units of multinational corporations (MNC). Drawing on four case studies of subsidiary managers who invoke the discourse of entrepreneurship to make sense of their managerial behaviour, this study examines the difference between entrepreneurship and subsidiary entrepreneurship.

There are two key findings. Firstly subsidiary entrepreneurship is markedly different from entrepreneurship, as it is classically understood. It is broader, more complex and encompasses activities such as outsourcing, intra-organisational competition and power politics. Furthermore it draws on the discourse of innovation and change management in large organisations. The second key finding is that subsidiary entrepreneurship is a meaningful concept for subsidiary managers, the academics that research them and the governmental agencies that support them. It pithily identifies and describes the practice of a proactive form of management in subsidiaries. In doing so it has become a compelling tool for managers and governmental agencies as they seek to sustain and develop subsidiaries.

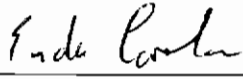
DECLARATION PAGE

I hereby certify that this thesis which I now submit for examination for the award of M.Phil (Research) is entirely my own work and has not been taken from the work of others, save to the extent that such work has been cited and acknowledged within the text of my work.

This thesis was prepared according to the regulations for Postgraduate Studies by Research of the Dublin Institute of Technology and has not been submitted in whole or in part for an award in any other Institute or University.

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Date 1/11/06

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CHAPTER 1

INTRODUCTION AND OVERVIEW OF STUDY

1. 0 Introduction and Overview of Study

With increased attention given in recent years to the discourse of entrepreneurship, and with just about every other management research issue discussed, it was only a matter of time before subsidiaries came to the fore. This thesis responds to the various calls (Young, 2004; Birkinshaw, 1999; Dana, Etemad, and Wright, 1999) to address entrepreneurship in subsidiaries of MNCs. Over the last twenty years the concept of a subsidiary has changed profoundly and it would seem that the Weberian traditional hierarchical conception of a subsidiary dominated by its parent is no longer the only understanding available to the researcher. Within the broad school of International Business (I.B.), and Hedlund's (1980) seminal contribution, attention is drawn to the contribution that a subsidiary can make to its entire MNC (most notably Birkinshaw, 1997 and Bartlett and Ghoshal, 1989, 1987).

This introductory chapter provides a brief overview of the subject area, the phenomenon under investigation, the research question, and the departure from existing literature. A brief account of the chapters that comprise this thesis is also outlined.

1.1 The Phenomenon and Research Question

Past academics have called for research to marry the MNC literature with that of entrepreneurship literature (Young, 2004; Birkinshaw, 2000, 1997; Young et al., 1998). Birkinshaw (2000) called for a study to trace subsidiary initiative back to its root causes, while Young (2004) stresses the need to develop more holistic conceptualisation and measurement of MNC subsidiary entrepreneurship.

Richard Cantillon's (as cited in Garavan et al, 1997) definition of entrepreneurship has taken a dramatic metamorphosis since its inception in 1730. Originally conceived as a cellular entity, the focus now is presented with a number of varying perspectives (classical view, psychological view, sociological view and intrapreneurship). The latter is a notable step away from Cantillon's founding standpoint which stressed that entrepreneurship could not be conducted within the confines of an established business (Garavan et al, 1997).

The creator of the term intrapreneur, Pinchot, applied the term to ‘people who are entrepreneurs employed by and working within the constraints and support of large organisations’ (Garavan et al, 1997). Pinchot and Pellman (1999) painted the picture of intrapreneurs as team-builders that were able to turn innovative ideas into profitable realities. The difficulty arises in transferring this overarching definition to established businesses and that of a MNC setting. Is intrapreneurship something new or is it akin to basic management theory?

Subsidiary strategists have adopted the label of entrepreneurship and the implications of this recycling of the term have yet to be fully considered. This study attempts to reconcile the use of the term subsidiary entrepreneurship in the subsidiary strategy literature (Birkinshaw, 2000, 1999; Zahra et al., 2000) with the classic discourse on entrepreneurship. Previous works have culminated in a positivist outlook creating law like generalisations honing in on a recipe for subsidiary success. This revolves around entrepreneurship; expanding subsidiary mandates towards complete value chains (Delany, 1998; Taggart, 1995, 1996; Birkinshaw and Morrison, 1995; Birkinshaw, 1994; White and Poynter, 1984), bootlegging subsidiary resources (Birkinshaw et al., 1998) and operating within quasi clandestine framework (Birkinshaw, 2000; Delany and Molloy, 1998). With a notable emphasis on the dichotomy of definition that exists between entrepreneurship and basic management it is the aim of the literature review to pose the question, ‘What does subsidiary entrepreneurship mean?’

1.2 Points of Departure from Existing Literature

This study addresses a perceived gap in the literature on subsidiary strategy by introducing four exemplars of subsidiary entrepreneurship. The literature review leads us to conclude that the concept of entrepreneurship has relevance to the management of subsidiaries. That said, subsidiary entrepreneurship may well be more complex than traditional understandings of entrepreneurship. Past literature has stressed that initiative and entrepreneurship should be advanced through subversive means (as advocated by Delany and Molloy, 1998 and less enthusiastically by Birkinshaw, 1998). Cooperation and support sought from headquarters (HQ) varied in each of the subsidiaries studied. Some plants

indulged in forms of 'bootlegged resources' (Birkinshaw, 2001) while others did not. Perhaps instead of unhelpfully maintaining a typology that can be mapped onto all cases, it would be more useful to explore the nature of boundaries between what is acceptable and unacceptable behaviour within the context of HQ/subsidiary relationships. This points to the possibility that the real skill of subsidiary managers is in determining what activities they can and cannot get away with and this comes from their astute reading of their HQs disposition with regard to the subsidiary. The cases emphasise the need to build trust and a track record of performance and credibility between the HQ and its subsidiary. It clearly points to the role of subsidiary entrepreneurship as negotiation between a HQ and a subsidiary.

Within an Irish context, the Enterprise Strategic Group (2004) narrates on the need for transition within the mobile investment sector in Ireland. Most notably they draw attention to the necessity for subsidiary managers to develop expertise in international markets and to build technology and applied research and development (R&D) capabilities. The overarching recommendation is to group networks of subsidiaries throughout Ireland with common interests in an attempt to facilitate knowledge transfer, disseminate market knowledge, foster innovation, inform the research agenda and identify infrastructure needs specific to sectoral development (Forfas, 2004).

While this forum may prove useful on a number of levels, it does provide a normative outlook to subsidiary management which can be damaging if implemented without caution. Subsidiaries differ in a number of key areas. Organisational size and structure, strategic posture and environmental factors (hostile environment versus benign environments) are a number of variables that factor in the entrepreneurial potential that a subsidiary can exert (Covin and Slevin, 1989). Further to this, Rugman and Verbeke (2001) illustrate that 'ultimately firms differ in their ability to accumulate competencies and capabilities which are rare, valuable, nonsubstitutable and difficult to imitate'. It is difficult, if not impossible, to create a typology that can uniformly be mapped on to all subsidiary cases.

The normative model constructed in an Irish context by the Delany and Molloy (1998) in conjunction with the Industrial Development Agency (IDA) neglect many areas of importance stressed by Covin and Slevin (1989), but nevertheless their work is promoted as the definitive article. Implementing the IDA typology alone within a subsidiary setting could have serious consequences if other factors (mentioned by Covin and Slevin, 1989) are neglected. This hypothesis is supported directly by the case study evidence which focuses on subsidiary managers adjusting individually to various organisational concerns, rather than simply implementing IDA stylised best practices.

1.3 Outline of Chapters

1.3.1 Chapter 2: Examining the Literature on Entrepreneurship

This study firstly presents a historical perspective on the discourse of entrepreneurship, drawing on the complexity with regard to definition formation. Confusion in definition lies in the fact that entrepreneurship has been employed in numerous heterogeneous studies, and a question worth pondering is ‘does subsidiary entrepreneurship follow this trend?’ This chapter sets the scene for an introduction to subsidiary entrepreneurship by drawing on the tradition behind the topic.

1.3.2 Chapter 3: Literature Review of Subsidiary Entrepreneurship

Following a review of the entrepreneurship literature the emerging theory on subsidiary strategy is addressed. This section firmly establishes the concept of subsidiary management instrumentality in strategy making and in developing and implementing strategies to expand and sustain their subsidiary. The chapter then examines what entrepreneurship means in a subsidiary setting and the complications with the transposition of entrepreneurship to this setting. The essence of the chapter is to promote a better understanding of subsidiary level entrepreneurship.

1.3.3 Chapter 4: Research Methods

This chapter details the inductive approach employed throughout the course of the study. The research question is outlined along with the data collection method. The focus of this study was to generate rich data to promote a better understanding of what was happening

within a collection of subsidiaries that were termed entrepreneurial in nature. Therefore a concerted effort was made to get out into the field early to obtain data that would drive the theory building process. The chapter addresses this aspect of the study and introduces both the individuals and the subsidiaries researched.

1.3.4 Chapter 5: Subsidiary Level Findings

Chapter five introduces data from a series of interviews with IDA executives. This then sets the scene for the presentation of four case studies. These cases speak directly to the issues introduced in the literature review in previous chapters.

1.3.5 Chapter 6: Discussion and Analysis of Data

Chapter six underlines the context with which Irish subsidiaries operate and draws on a comparison of the case study data and interviews with subsidiary managers. The first section of this chapter examines whether each case represents an example of entrepreneurship. The second section of this chapter examines the issues surfaced in the discussion of incompatibilities in the literature review, before finally examining the views articulated by the subsidiary managers on what 'entrepreneurial' activities work. The chapter draws to a close in assessing the role of the IDA and broader issues for the MNC.

1.3.6 Chapter 7: Conclusions and Recommendations

This final chapter offers conclusions and recommendations from the study with distinct implications for the IDA and subsidiary managers and some broader points of relevance to the discourse of subsidiary strategy. The limitations of the current study are also discussed.

CHAPTER 2
ENTREPRENEURSHIP

2.0 Entrepreneurship

2.1 Introduction

This dissertation is about the use of the term subsidiary entrepreneurship. Before subsidiary entrepreneurship can meaningfully be explored it is necessary to situate it in the broader discourse of entrepreneurship.

Definitions relating to the term entrepreneurship have changed dramatically throughout the centuries. Numerous studies use the term entrepreneurship but few attempt to define it, and even fewer have succeeded at employing a definition that can be mapped onto all cases. Too much work in the past has been speculative or built up on limited conceptions and anecdotal evidence (Schein, 1994). This chapter will detail the founding principles of entrepreneurship, which will set the scene for an in-depth discussion of subsidiary strategy in the next chapter.

The question driving this chapter is ‘what does subsidiary entrepreneurship mean in a subsidiary setting?’ Naturally there is a need to consider the long evolving and debated definition regarding entrepreneurship before endeavouring to answer this question. While the arbitrariness of definition in entrepreneurship has prevailed, the main purpose of this chapter is not to promote a reconciliation of definition. Instead it serves to highlight the contention that surrounds the topic. The concept of entrepreneurship needs to be segregated into component parts in order to promote a better understanding of the topic. With this in mind, the chapter will be structured in such a manner. First, a definition of entrepreneurship is examined with some fundamental dimensions emerging. Second, entrepreneurship will be examined through a categorical breakdown and lastly the response by management to entrepreneurial employees and organisational characteristics that foster entrepreneurship will be outlined.

2.2 Defining Entrepreneurship

Over the past three decades, entrepreneurship has become one of the fastest growing areas for research and teaching within the broader study of management (Kanter, 1983). This is

attested to by the dramatic provision of new programmes with an estimated six hundred business schools offering courses in innovation and entrepreneurship (Katz, 2000; Mangan, 1997). To accommodate this mainstreaming of the discourse of entrepreneurship a broadening of the concept has occurred.

Shefsky (1994) and Halloran (1994) preferred to address a definition relating to a breakdown of the word entrepreneur. Shefsky traced the origin of the word back to its Latin roots to constitute 'someone who enters a business – any business - in time to form or change substantially that business's nerve centre' (Shefsky, 1994: 5). Halloran contended that the word entrepreneur is French in origin and directly translated means 'to undertake' (as cited Garavan et al, 1997: 29). Adopting a broad definition Halloran emphasised the risk aspect of the term and noted that the majority of definitions addressed the term within commercial transactions. Within this broad definition anyone can be an entrepreneur from a casino gambler to a corner drug dealer (Halloran, 1994).

The definition of entrepreneurship has been diluted substantially since it was originally used in an economic sense by Richard Cantillon, in and around 1730 (Binks and Vale, 1990). An all encompassing definition across all disciplines has proved elusive. Mitton (1989) posited that entrepreneurship was like obscenity, difficult to define but easily recognisable. Filion (1997: 1) terms the confusion surrounding the topic of entrepreneurship as a 'difference of opinion' and relates the lack of conceptual clarity to the fact that researchers tend to perceive and define entrepreneurs using the premises of their own discipline. This view is also supported by Brockhaus (1987) who stated that the varying definitions of entrepreneurship are a direct result of the number of studies which have been conducted on the subject and the number of varying methodologies that have been employed.

Detailing a conclusive definition of entrepreneurship presents academics with an immediate problem, the problem being that there are too many definitions available that span numerous disciplines. As a result there is little agreement on the essential features that

make up entrepreneurship. Any one definition, therefore, is likely to result in a mismatch with our expectations (Wickham, 1998).

However there is broad consensus, from a range of disciplines, on the kind of behaviours and outcomes that are entrepreneurial. Economists and strategists tend to assert that entrepreneurs are associated with innovation, and are seen as the driving forces of business development. Behaviorists ascribe the characteristics of creativity, persistence, locus of control and leadership to entrepreneurs. Finance specialists define entrepreneurs as individuals with an acute sense of risk. Management researchers talk about organising and using resources, while marketing specialists define entrepreneurs as people who identify opportunities, differentiate themselves and adopt customer-oriented thinking (Filion, 1997; Covin and Slevin 1988).

Rather usefully Long (1983) in examining the multiplicity of definitions, found a consensus. Long (1983) found common ground with most, if not all of the disciplines that employ the term. This present study into subsidiary entrepreneurship will use his definition, as it enduringly found broad appeal.

Long's definition of entrepreneurship suggests that the following three elements must be present;

- 1) innovation, uncertainty and risk.
- 2) complementary managerial competence.
- 3) creative opportunism by proactive individuals.

Furthering this view Long (1983: 47) argues that 'modern definitions of entrepreneurship that exclude any of these three fundamental dimensions are basically incomplete'.

The following subsections will address the individual dimensions of Long's definition before introducing the more long standing debate on the difference between management and entrepreneurship, an issue that came to the fore as Long's 1983 study provided some clarity on the definition of entrepreneurship.

2.2.1 Long's Definition # 1: Innovation, Uncertainty and Risk

Innovation refers to the creation, development and introduction of new products, systems, processes and organisational forms (Guth and Ginsberg, 1990; Schumpeter, 1950). Creativity and innovation gained prominence through the works of Joseph Schumpeter (1950) and this theme prevailed in the writings of Say's work. This notion of innovation has reigned and transferred to an organisational setting. Leibenstein (1968) adapted this Schumpeterian view of entrepreneurship to the managerial problems of sustaining and enhancing organisational efficiency (Long, 1983). Kuratko and Hornsby (2001: 556) detail corporate innovation as,

‘the generation, development and implementation of new ideas or behaviours. An innovation can be a new product or service, an administrative system, or a new plan or program pertaining to organisational members’.

Entrepreneurs operate in a market where expenditure is certain but reward is uncertain (Morris, 1998; Miller, 1983). As a bearer of uncertainty, the entrepreneur is involved in both cost containing and market sheltering activities- two sets of activities which are difficult to determine as belonging to either the entrepreneur or the manager (Long, 1983).

Risk taking indicates the willingness to pursue goals and undertake action even when the results are uncertain (Morris, 1998; Miller, 1983). A number of authors expand on this idea and mention calculated risk taking (Zahra, Dharwadkar and George, 2000; Baden-Fuller and Stopford, 1994; Stevenson and Jarrillo, 1990). Risk taking was among the earliest attributes associated with the term entrepreneurship and its use can be traced back to the earliest definitions put forward by Cantillon (circa 1730) and Say (1845). Mills contended that risk-bearing was the main distinguishing feature between a manager and an entrepreneur (Brockhaus, 1994). This theme is evident throughout the literature (Stewart, Carland and Carland, 1998; Penrose, 1963; Schumpeter, 1950) and after decades of debate there is still varying degrees of agreement on whether entrepreneurs have a higher risk propensity than managers. Stewart and Roth (1991: 3) contend that the confusion in the past has been purely due to ‘major methodological limitations stemming from methodological complications in the literature and human information processing

restrictions in dealing with the methodological issues'. Adding to further confusion, researcher's findings relating to risk taking propensity vary according to the entrepreneur's sex, cultural background, stage of business development and type of business owned (Brockhaus, 1994).

Risk taking may be conceived as an individual's predisposition towards taking chances in a decision making situation. Risk is viewed as a function of the variation in the distribution of outcomes, the associated outcome likelihood and their subjective values (Stewart and Roth, 2001). Masters and Meier (1988: 33) prefer to draw on Brockhaus's 1980 definition relating to risk.

'as the perceived probability of receiving the rewards associated with success of a proposed situation, which is required by an individual before he will subject himself to the consequences associated with failure, the alternative situation providing less reward as well as less severe consequences than the proposed situation.'

2.2.2 Longs Definition #2: Complementary Managerial Competence

Brockhaus (1987), through his own study, could find no correlation between entrepreneurship and risk taking. In general, risk preference patterns between groups of entrepreneurs and groups of managers were not found to be significantly different. Brockhaus's work built on Kogan and Wallach's (1964) study in which they created a Choice Dilemma Questionnaire in order to assess individual levels of risk preference across a wide population (Brockhaus, 1980). In the Choice Dilemma Questionnaire individuals were asked about hypothetical life decision situations. These were used to develop a scale that measured one's willingness to assume risk. Typical questions address an individual's personal approach to risk such as, health and career decisions (Patrick and Musser, 2002). While Kogan and Wallach's findings mirrored that of Brockhaus (1980) many other academics have adopted the Choice Dilemma Questionnaire model in an attempt to bring clarity to the topic (e.g. Peacock, 1986; Ray 1986; Schwer and Yuclet, 1984 as cited in Brockhaus, 1980). The results were varied. Risk taking propensity varies according to the situation, and depending on what perspective you hold towards the topic (i.e. whether an entrepreneur and manager occupy different roles):

‘To entrepreneurs, risk is merely one factor in the equation; risk is a flashing yellow traffic light that you glance at as you whiz by on the highway of business. To managers, however, risk is a barrier; risk is a flashing red light that you keep your eyes on and that makes you stop. Risk is real, but perceptions of it vary, as do the ways people relate to and deal with risk, somewhat because of the passion with which entrepreneurs view the equation’s other factors’

(Shefsky, 1994: 83).

2.2.3 Long’ Definition #3: Creative Opportunism by Proactive Individuals

Proactiveness, the last component of Long’s definition, denotes an individual’s commitment to initiate changes in the industry, rather than respond to the competition (Lumpkin and Dess, 1996; Miller, 1983). It points to the need for individuals to proactively change the context in which they operate (voluntarism) as opposed to being determined by their environmental context (determinism). Shepherd and Kreuger (2002) commented on the need to proactively and creatively seek out opportunities that, in turn, will bring into existence future goods and services.

2.2.4 Long’s Definition and Subsidiary Entrepreneurship

Long’s definition is as definitive as definitions of entrepreneurship get. Since its introduction, it has become the standard test for the presence of entrepreneurship (Okudan, and Rzasa 2004; Jithendran and Baum, 2001; Gibb 1998; Delany and Powell, 1988). If subsidiary entrepreneurship is a form of entrepreneurship then it follows that Long’s test of entrepreneurship could usefully be employed in a subsidiary setting. Thus, in the case studies introduced this test enables a conclusive determination as to whether entrepreneurship is present. Because of the reliance made on this test, it is important to address the implicit assumptions made in its construction about the relationship between the concept of management and the concept of entrepreneurship (Stevenson and Gumpert, 1985; Carland, Hoy and Carland, 1984; Penrose, 1963). Indeed this was an issue considered by Long himself.

2.2.5. The Difference between Long's Definition and Classic Management

There is a long association between the terms entrepreneurship, enterprise formation and small business ownership and management (Carland, Hoy and Carland, 1984). Since Long's seminal study provided some clarity to the study of entrepreneurship, it has become easier to articulate the long association between these related terms. This reignited the long standing debate within the discourse of entrepreneurship on whether it was appropriate to describe management activity in large mature firms as 'entrepreneurship'. Mill (1848) discriminated managers from entrepreneurs on the basis of the willingness to bear risk, an argument recycled later on in this thesis within the discourse on agency theory (Antoncic, 2003). Schumpeter (1934) discriminated on a different basis, suggesting that the process of settling down to running a business was a transition from entrepreneurship to bureaucratic management. Later contributors to the discourse suggested that this was not the case (Wickham, 1998; Carland, Hoy and Carland, 1984; Brockhaus, 1984; Long, 1983; Liebenstein 1968; Penrose, 1963). Long's comprehensive definition of entrepreneurship, which has gained broad currency, does not specifically preclude entrepreneurship within an established firm. The adoption of the term subsidiary entrepreneurship by academics and practitioners implicitly supports Long's view that entrepreneurship is not exclusive to immature businesses. As a result it is not necessary to trace this debate here, instead a summary of it can be found in Appendix A.

2.3 Conclusion

The purpose of this chapter was to briefly frame the discussion of subsidiary entrepreneurship (which is presented in the next chapter) in the broader context of entrepreneurship. The inability of academics to agree on a concise definition of entrepreneurship is problematic for all researchers employing the term. To overcome this problem this study adopts the compelling definition produced by Long (1983), whilst noting that it is not fully accepted by everyone in every circumstance. Usefully, Long's definition provides a simple test of entrepreneurship, one that does not preclude the concept from large mature enterprises. Certainly it is expected that the arbitrariness of definition will carry over to the term 'subsidiary entrepreneurship'.

CHAPTER 3

REVIEW OF SUBSIDIARY ENTREPRENEURSHIP LITERATURE

3.0 Review of Subsidiary Entrepreneurship Literature

3.1 Introduction

The previous chapter briefly introduced the concept of entrepreneurship, more particularly Long's definitive definition and a short introduction to the debate on the difference between a manager and an entrepreneur. It sets the scene for this chapter, which examines the emergence of the concept of subsidiary entrepreneurship.

The research question posed here implicitly questions the nature and structure of a modern MNC framework and addresses the step away from the traditional Weberian concept of bureaucracy (Yu, 2005). Such a shift to a more heterarchical structure (Hedlund, 1986) has led to the condoning and encouragement of bottom up decision making within MNCs. This has led to a distinctive change in the management of subsidiaries from one focused on command and control to one that supports innovation and entrepreneurship. This chapter will firstly traces the move from traditional management to this new approach. This new approach has been variously described as subsidiary strategy with numerous authors referring to subsidiary entrepreneurship (Young, 2004; Birkinshaw, 2000, Zahra et al., 2000).

Since the late 1980s, a number of researchers have noted that subsidiary managers are entrepreneurial. These researchers have tended to emerge from two distinct but related perspectives, one taking the subsidiary as the unit of analysis (Griffin, 2003, 1999; Delany and Molloy, 1998; Birkinshaw, 1997; Roth and Morrison, 1992) and the other taking the overall MNC as the unit (Bartlett and Ghoshal, 1987, 1986), with a particular focus on HQ strategy. The growing appreciation, and indeed promotion, of the entrepreneurial nature of subsidiary management has had a significant impact on the theoretical and empirical research on MNC. Much of this research has noted the need to draw on theories and concepts from the field of entrepreneurship, but little research has actually been undertaken to unpack the micro processes of entrepreneurship at the subsidiary level.

3.2 Research on the MNC

Vernon (1966) made one of the first contributions to MNC literature when he addressed Multinational Enterprise (MNE) behaviour with regard to Foreign Direct Investment (FDI) (Hedlund and Kverneland, 1983). His work culminated in a 'product life cycle theory' which mainly addressed U.S direct investment abroad (through a staged process) and the patterns of trade associated with FDI (Dunning, 1980). Once firms had invested substantially in FDI 'more ambitious possibilities for their use may be suggested...accordingly, it may prove wise for the international firm to begin servicing third-country markets from the new location' (Vernon, 1966: 18). Some managerial focused studies emerged in the 1970s which honed in on strategy, structure and delegation issues within a MNC (Egelhoff, 1982; Franko, 1976; Stopford and Wells, 1972). These studies addressed issues such as control and coordination within MNCs and compared global strategies with country centered strategies (Prahalad and Doz, 1987; Porter, 1986; Doz and Prahalad, 1984).

MNCs have been researched extensively, and a number of theories have been developed to explain their managerial processes. Traditionally, the MNC literature focuses on aspects of HQ and subsidiary relations from the HQ perspective. Birkinshaw and Morrison (1995) categorise this literature into three different streams; the strategy-structure stream (Franko, 1976; Stopford and Wells, 1972), HQ-subsidary relationship stream (Vancil, 1979; Lorsch and Allen, 1973) and the MNC process stream (Doz and Prahalad, 1984). These three streams combined provide commentary from a perspective where HQ dominates all decision making within the MNC. The subsidiary-strategy stream (Birkinshaw and Morrison, 1995) on the other hand, comes from a different tradition and assumes that subsidiaries can become embroiled in power struggles and have the ability to influence within the MNC. This stream has gain prominence mainly in the last two decades (Rugman and Verbeke, 2001; Griffin and Fairhead, 1999; Bartlett, 1986; Hedlund, 1980) and will be addressed later in this chapter after the HQ centric literature. Indeed subsidiary development has been explained by maintaining a dichotomy between HQ control (HQ perspective) and subsidiary autonomy (subsidiary strategy literature). That said, Jindra (2005: 1) suggests that subsidiary development cannot be explained by maintaining this

dichotomy, 'it depends rather from the current adopted subsidiary strategy, market orientation, the particular business function or area of initiative in question'. With this limitation in mind we will look at the following streams: the Strategy-Structure Stream; the HQ-Subsidiary Stream and the Process Stream

3.2.1 The Strategy-Structure Stream

The strategy-structure stream examines the relationship between MNC strategy and its structure (e.g. Franko, 1976; Stopford and Wells, 1972) with a particular focus on flexible structures as a substitute for the traditional hierarchy (Patterson and Brook, 2002). While the founding concept had significant contributions from Chandler (1962), Cyert and March (1963) and Bower (1970), it was Stopford and Wells (1972) and Franko (1976) that translated the concept into a MNC setting. They focused on 'developing a classification of MNC structures, and on the problem of control of HQ over national subsidiaries' (as cited in Alarik, 2000: 3). This approach, sometimes termed the classical approach, assumes that MNC structure will inevitably reflect firm strategy, while subject to a stable environment (as cited in Madureira, 2004). Chandler (1962) points at how varying organisational strategies lead to specific administration problems. Operating on the basis of a historical study of seventy of the largest companies in the USA, Chandler (as cited in Alarik, 2000) noted that:

- Structure follows strategy;
- Strategies and structures develop in certain sequential stages; and
- Organisations do not change their structures until provoked by inefficiencies.

Further studies (Hall, 1980; Khandwalla, 1977; Lawrence and Lorsch, 1967, as cited in Covin and Slevin, 1989) within the strategy structure paradigm mirror Chandler's (1962) hypothesis. Hall (1980) conducted an in-depth study into 64 large manufacturing firms and noted that high performing firms reacted to increased hostility by creating internal administrative structures that allowed them effectively manage any necessary strategic repositioning (as cited in Covin and Slevin, 1989). Structure and strategy are therefore fundamentally linked.

3.2.2 The HQ-Subsidiary Stream

The formation of effective relationships between HQ and subsidiaries is examined within this stream, focusing on three key concepts; centralisation, formalisation, and integration (Vancil, 1979; Lorsch and Allen, 1973). This is viewed by Johnston (2005) as an important topic within MNC literature 'because the HQ-subsidiary connection is the primary conduit through which HQ is able to manage the corporation'. The HQ-subsidiary stream expands to a comparative study between American, European, and Japanese MNCs and views the transferability of ideas across different organisational cultures. These theorists tend to describe the processes and structures by which HQs integrate subsidiaries into the decision-making processes within the MNC. HQs and subsidiaries may adopt a traditional hierarchical firm structure or may decide on a heterarchical form (Hedlund, 1986), whereby decision making in the MNC is shared between HQs and subsidiaries. Hierarchical models are generally employed when the 'HQ has a greater knowledge of the subsidiary production function and the subsidiary's performance is difficult to measure' (Johnston, 2005: 11). Decision making within the heterarchical framework, on the other hand, is conceived as being more fluid than the hierarchical form involving inputs from a number of subunits within the organisation. This stream, therefore, accepts that subsidiaries have considerable autonomy and influence to exert in the decision making process (Patterson and Brook, 2002). Birkinshaw and Hood (1998) suggested that this stream reached maturity in the mid 1980s but warn against 'throwing the baby out with the bathwater as the subsidiary's most critical relationship was, and still is, with its corporate headquarters' (as cited in Johnston, 2005: 5).

3.2.3 The Process Stream

The final grouping, the MNC process strategy is case-study based. Bartlett and Ghoshal (1989; 1988; 1987, 1986) and Prahalad and Doz (1984) contributed significantly to the emergence of this new organisational model, which specifically addressed the managerial theory of the multinational firm. The 'process school' addressed the constant dilemma between integration and responsiveness needs, while distancing itself from a causal relationship between environment, strategy and structure, as seen in the strategy-structure paradigm (Madureira, 2004). Common characteristics within the process school are the

‘mistrust of unidimensional structures, the search for flexible solutions, a preference for cultural control and the recommendation of more subtle coordination mechanisms’ (Schütte, 1998 as cited in Alarik, 2000: 3). As a result, the process school suggest that the management of subsidiaries involves the use of: management transfers, cross-business teams, measurement systems, and socialisation programmes. In essence they concluded that HQ should set the norms and standards within the MNC, which in turn creates the desired strategic direction of the firm (Prahalad and Doz, 1984).

The traditional literature has recognised that MNCs face considerable pressure to quickly and effectively respond to local market needs while achieving global efficiency (Prahalad, 1999). A number of academics (Birkinshaw, 2000; Delany and Molloy, 1998; Bartlett and Ghoshal, 1986) would appear to recognise the contribution that subsidiaries can bring to the overall MNC. This new approach has led many HQs to go against the message of the first two streams (HQ centric literature) and contract out certain aspects of their value chain in order to tap into the knowledge base and skill within their subsidiaries. Indeed, a number of studies have drawn attention to the positive effect that entrepreneurial activities within subsidiaries can play in determining the success of their parent company (Zahra et al., 2000). That said, minimal research exists which attempts to uncover the nature of entrepreneurial activities within subsidiaries.

3.2.4 Subsidiary-Strategy Stream

In the last two decades, a number of researchers (termed the subsidiary strategy stream by Birkinshaw and Morrison 1995) studied the MNC from the perspective of the subsidiary (Griffin, 2003; Zahra et al., 2000; Delany and Molloy, 1998; Birkinshaw and Morrison, 1995; White and Poynter, 1984).

The subsidiary strategy literature attributes a significant amount of power and influence to the subsidiary (Griffin, 1999). Within this collection of work, subsidiary managers are perceived as strategic entities capable of shaping their own destiny through a variety of measures. These measures can culminate in subsidiary initiatives (Delany and Molloy, 1998; Taggart, 1996, 1995; Birkinshaw, 1994) with the focus of creating complete value

chains within a subsidiary (White and Poynter, 1984). The importance of this work is emphasised by the continual threat of divestment that subsidiaries find themselves in. Subsidiary initiatives and indeed subsidiary entrepreneurship (Birkinshaw and Morrison 1995; Molloy, 1992) can act as a defence barrier to this ever present threat. A collection of academics have written from this tradition (e.g. Griffin, 2003a, 2003b, 2002; Birkinshaw, 1997, 1996, 1995; Taggart, 1996, 1995; Lyons, 1995; Molloy, 1992; Roth and Morrison, 1992, 1990). Patterson and Brook (2002) conducted their own research to highlight the increasing emphasis placed on certain concepts within the subsidiary-management field. Their conclusion was that the usage and importance of words such as ‘entrepreneur’ and ‘initiative’ has increased in the writings of many academics.

Some academics have suggested that subsidiary development is an evolutionary process (Birkinshaw, Hood and Jonsson, 1998; Birkinshaw and Hood, 1997b; Jarillo and Martinez, 1990; Young et al, 1988). In particular the influential work of Birkinshaw and Hood (1998, 1997) highlighted three variables to better understand the evolution of a subsidiary, i.e. *parent*, *subsidiary* and *host country driver*. The interaction between these variables would ‘determine the strategic role performed by the subsidiary and its evolutionary prospects, in an ongoing process of benchmarking and capability upgrading’ (Tavares, 2001: 142). Ingrained in this evolutionary perspective is the idea that as subsidiaries mature they can better control their destiny.

Within this body of work, subsidiary power and influence are seen to develop over time, allowing for more heterarchical conceptions of their relationships within their MNC network (c.f. Birkinshaw, 1997). Subsidiaries are accredited with the capacity to act entrepreneurial, by pursuing innovative ventures and engaging in radical innovation (Dunning, 1994; Roth and Morrison, 1992; Poynter and White, 1989). Despite acknowledging this potential, little research (with the exception of Birkinshaw, 2000 and Delany and Molloy 1998) has examined the nature of this entrepreneurial activity from the international management perspective.

3.2.5 Towards Subsidiary Entrepreneurship

Interestingly both of the newer streams in the literature, the process school and the subsidiary-strategy stream arrive at the same point. They concur that subsidiary entrepreneurship is to be encouraged and supported. Indeed, Patterson and Brook (2002, 6) allude to this point by stressing,

‘authors were particularly interested in how government agencies can take an active role in encouraging subsidiary intrapreneurship. This is important, both from the point of view of helping existing subsidiaries to develop but also in facilitating the setting up of new subsidiaries with appropriate qualities as part of their development programs’.

Both the subsidiary-strategy and the process streams have set about transposing the concept of entrepreneurship onto the management of subsidiaries, which is conceived primarily as through the idea of the subsidiary initiative. With a shift from the traditional HQ dominated language, the new idiom supports the notion that change can occur in a bottom-up manner. Internal agents, namely, subsidiary managers, are influential in this practice. The physical distance that separates subsidiary managers from HQ is often a key factor in letting initiatives and other entrepreneurial activities manifest themselves. Subsidiary initiatives have been widely researched within the MNC literature (Young, 2004; Birkinshaw, 2000; Zahra, Dharwadkar and George, 2000; Delany and Molloy, 1998).

3.3 Subsidiary entrepreneurship

The previous section traced the outline of the considerable research activity on the MNC over the past fifty years. It identified the expanding conception of what a subsidiary could be, and the corollary introduction of the term subsidiary entrepreneurship by both those researching subsidiaries and those researching HQs. Whilst the attraction to entrepreneurship for subsidiaries is obvious, as they seek to sustain and develop, the less obvious rationale for HQ acceptance and encouragement has also been made. Birkinshaw and Hood (2001) concretise the meaning of subsidiary entrepreneurship into a set of practices, such as giving seed money to subsidiaries to test ideas, using formal requests for proposals, encouraging subsidiaries to be incubators of ideas, and building international networks between subsidiaries as they vie to be incubators for the creation of international networks (Birkinshaw and Hood, 2001). Through the use of these tools HQ can expect a

greater contribution from subsidiaries to the performance of the overall MNC network (Birkinshaw et al., 2001). These authors, among many others, call for subsidiaries and their managers to play a greater role in the innovation that sustains growth in MNCs.

Contributions to the issue of subsidiary entrepreneurship and subsidiary development have mainly come from peripheral economies (e.g. Ireland, Scotland, Canada and Sweden) which are dependent on MNC subsidiaries (Paterson and Brook, 2002). Together they broadly construct a set of activities with the aim of expanding the subsidiary role to make it more central and important to the MNC network, usually conceived as owning a complete value chain (often termed world product mandate by White and Poynter, 1984) and as a result make the MNC more committed to its investment. The literature is at odds over the issue of trust, with some authors suggesting that subsidiaries should bootleg resources (Birkinshaw and Fry, 1998) and manage using subversive techniques (Birkinshaw and Fry, 1998; Delany and Molloy, 1998), and others suggesting that trust is important to maintain (Young, Hood, and Dunlop, 1998). In the search for normative techniques of subsidiary management, it is important to note that all subsidiaries are not the same. Among other variable, subsidiary strategy is differentiated by resource allocation, host country variables, customers and competitors (Liang and Nicholas, 2003).

HQ may oppose and resist initiatives that subsidiary managers put forth to develop their subsidiaries. HQ resistance can range from tightly controlled funding to bureaucratic disinterest, to subtle political maneuvering. Birkinshaw colourfully suggests that subsidiary managers need to fight such a 'corporate immune system' (Birkinshaw, 2000: 33). This is a set of activities that eliminate any alien bodies that find their way into the corporate framework (Birkinshaw, 2000) and is 'quite appropriate in depicting the risk aversion and conservation by the parent firm' (Tavares, 2001: 5). While traditional HQ rhetoric would view all entrepreneurial endeavours at a subsidiary level as alien in form, the subsidiary focused literature has taken a more positive approach (Delany and Molloy, 1998; Taggart, 1996, 1995; Birkinshaw, 1995, 1994; White and Poynter, 1984).

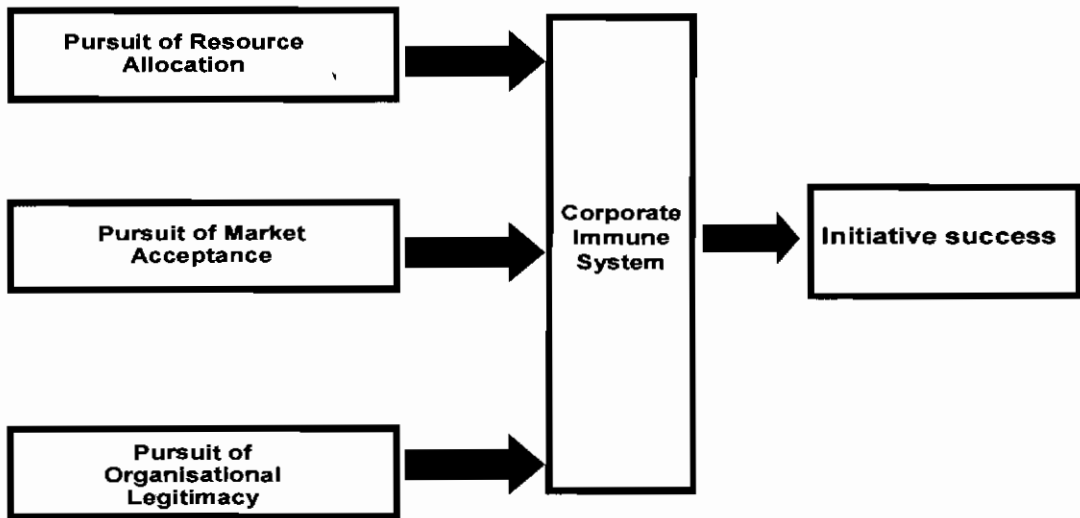


Figure 3.1: The Corporate Immune System (Source: Birkinshaw, 2000).

3.4 Subsidiary Manager’s Orientation towards Entrepreneurship

If the subsidiary is entrepreneurial in orientation, then it logically follows that the subsidiary manager is the entrepreneur. The idea that subsidiary managers should have an entrepreneurial mindset was pioneered by two Irish researchers, Delany and Molloy (2000, 1998). Their work revolved around various subsidiary issues, but, most noteworthy, they stylised two specific types of mindsets that subsidiary managers adhere to: ‘boyscout’ and ‘subversive’. The boyscout manager focuses solely on performing superbly within his given mandate, hoping that virtue will be his own reward, continually adhering to HQ protocol and believing that mandate expansion comes from being a good corporate citizen. On the other hand, instead of waiting for the future to unfold, the subversive manager actively seeks out opportunities to strengthen his or her position within the MNC. The premise behind this mindset is that the subsidiary’s future lies solely in the hands of the individual manager and not at the corporate table (Delany and Molloy, 1998). Although Delany and Molloy offer contribution in an Irish context their work has received global acclaim. Subsidiary management on this basis mirrors Birkinshaw’s (1998) Machiavellian references in which he highlights the advantages of bootlegging subsidiary resources, i.e.,

working on projects within the subsidiary's resources, without consent and guidance from HQ. While a number of authors have touched base on various aspects of subsidiary entrepreneurship (Young, 2004; Zahra, Dharwadkar, George, 2000; Birkinshaw, 1997), the underlying theme condones the subversive mindset over and above a boyscout one.

The use of subversive terminology would appear to act as a catchall term embodying all aspects of subsidiary management expertise. Where the corporate immune system is lax, subsidiary initiatives are no longer perceived by HQ as subsidiary meddling in matters that do not concern them. HQ now appear to be interested in subsidiary intelligence and in certain cases provisions have been put in place to cultivate these initiatives (c.f. Barlett and Ghoshal, 1986). But the underlying theme from subsidiary strategy literature stresses that if HQs do not provide these provisions then they should actively be taken by the individual manager (Birkinshaw, 1998; Delany and Molloy, 1998). Subsidiary empowerment in this context is often taken and not bestowed by HQ (c.f. Griffin, 2003).

Delany and Molloy (1998: 26) recommend subsidiary managers adopt subversive techniques over and above being a boyscout, wherein a subsidiary manager 'moves down corridors of indifference' with regard to the subsidiary's mandate expansion. They promote the subversive mindset by saying 'that it is easier to gain forgiveness than permission' (Delany and Molloy, 1998). While not altogether supporting what he termed 'empire building', Birkinshaw (1998) has in the past promoted 'bootstrapping' behaviour of entrepreneurial minded subsidiary managers. This is somewhat contradictory to the need for subsidiary managers to build credibility with their HQ.

This relatively contemporary view examined by Delany and Molloy (1998) and Birkinshaw (1998) heralds a call to understand the challenges and opportunities that sub-units within the MNC framework continually face. The dichotomy between subsidiary management and HQ management still remains strong. Research on issues concerning subsidiary fight for survival, subsidiary entrepreneurship and the extent to which HQ condones their involvement in day-to-day organisational transactions remain scant. A number of international studies carried out highlight the common occurrence of subsidiary divestment (Barkema, Bell and Penning, 1996; Padmanabhan, 1993; Boddewyn, 1979). Divestment

scenarios appear widespread, with almost all subsidiaries subject to divestment struggles from time to time. While this trend is worrying, what is potentially more exciting, and currently under explored, is the subsidiary response when faced with the divestment issue. A number of authors have earmarked subsidiary entrepreneurship as the step forward (Young, 2004; Sohail and Ayadurai, 2004; Birkinshaw, 2000), while others, such as Jindra (2005), highlight that subsidiary autonomy and initiatives (arguably by way of entrepreneurship) are necessary to achieve foreign investment enterprise development.

3.5 Defining Subsidiary Entrepreneurship

As noted in the previous chapter, implicit in the early definitions of entrepreneurship is that the entrepreneur exists outside of an established business (Hisrich and Peters, 1986). Schumpeter (1950) asserted that the role of the entrepreneur is a radical market innovation and discussed the important societal role of the entrepreneur as being the instigator of creative destruction through innovation, arguing that industries within societies are replaced by other industries over time. The process of replacement of one industry (destruction) by another more modern industry (creation) is referred to as creative destruction. The logical conclusion from this Schumpeterian model of entrepreneurship is that in order to survive and prosper, established (and bureaucratic) businesses need to become entrepreneurial (McClelland, 1971) and indeed this has been amongst the most important themes of business research (Kanter, 1983). Such a recycling of mandate is especially important in the subsidiary.

A number of empirical studies have been undertaken within the area of subsidiary entrepreneurship (e.g. Sohail and Ayadurai, 2005; Zahra et al., 2000; Birkinshaw, 1999, 1997, 1996), taking the entrepreneurship label as given while providing little if any theoretical foundations of subsidiary entrepreneurship research.

Birkinshaw (1997) draws on three aspects of subsidiary entrepreneurship. These culminate as 'a predisposition to proactive or risk-taking behaviour, use of resources beyond the individual's direct control and departure from existing practices' (Yamin, 2002). In a

further study, Birkinshaw (1998: 53) while addressing subsidiary initiatives (internal and external), hints at another definition for subsidiary entrepreneurship.

‘The common theme we saw in both external and internal initiatives was the entrepreneurial component. First, we saw the need for proactive, pushy, and sometimes Machiavellian tactics on the part of subsidiary managers, as they sought to gain currency for their projects in headquarters.’

Birkinshaw (1998: 54) commentates on ‘initiative champions’ overcoming ‘outright opposition, internal competition and passive indifference’, while at the same time ‘work[ing] hard for a reputation as a trustworthy and reliable operation’.

Perhaps the most contentious attachment to the discourse of entrepreneurship by Birkinshaw is the following account, ‘subsidiary managers were like entrepreneurs, looking for inefficient practices within the multinational system and proposing solutions to better them’ (Birkinshaw, 1998: 56). Ironically, Birkinshaw (1997) stressed the importance to arrive a water tight definition with regard to subsidiary entrepreneurship.

‘Indeed, Birkinshaw (1997) argues that further research should be undertaken on what exactly constitutes entrepreneurial culture and behaviour for the multinational firm and its subsidiaries’.

(Dimitratos et al, 2004 : 5).

Dimitratos et al. (2004: 17) posit,

‘As far as entrepreneurial learning is concerned, it is mainly the subsidiaries in host markets that contribute to organisational memory of the firm. Managers and employees in foreign subsidiaries acquire knowledge on entrepreneurial opportunities and ways to act upon them through interaction with especially customers but also suppliers and direct competitors’.

This insight into subsidiary entrepreneurship is vague in structure. Innovation, uncertainty and risk, complementary managerial competence and creative opportunism by proactive individuals are once again ignored.

Zahra et al. (2000: 3) bridge the divide significantly.

‘Some subsidiaries have seized the opportunity...by pursuing innovative ventures and engaging in radical innovation...these subsidiaries have also become proactive in their operations...[and have a] willingness to take risks’.

The term ‘radical innovation’ used above by Zahra et al. (2000) is an attempt to draw on the divide from subsidiary management to subsidiary entrepreneurship. Zahra et al. (2000: 3) cement this by showing how,

‘Philips’ subsidiary in Canada created the company’s first colour TV; Phillips of Australia created the first stereo TV; and Phillips of the UK created the company’s first TV with teletext capabilities’.

McDougall and Oviatt (2000) provide a collection of definitions relating to entrepreneurship within an established business. Among the definitions, Tiessen, (1998) (as cited in McDougall and Oviatt, 2000: 903) termed the phenomenon as someone who ‘stretches and leverages firm resources’. McDougall and Oviatt (2000: 903) draw on Covin and Slevin (1989) define subsidiary entrepreneurship as ‘a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations’. McDougall and Oviatt (2000: 903) contend that ‘an advantage of using these three constructs [innovation, risk taking and proactiveness] is that they seem to identify the key dimensions of what nearly everyone agrees is a multidimensional concept’. This is further expanded by Birkinshaw (2000: 17) who comments on issues regarding ‘the use of resources beyond the control of the subsidiary...acquisition and use of power and influence’.

A central issue for the subsidiary and HQ is the extent to which this entrepreneurial activity is allowed, condoned or supported by its HQ (Zahra et al., 2000; Nobel and Birkinshaw, 1998; Birkinshaw, 1997; Bartlett and Ghoshal, 1988, 1987). Mounting evidence suggests that the entrepreneurial activities of subsidiaries play a key role in determining the success of their parent company (Zahra et al., 2000). Many researchers have pointed to the rate of changes in MNC’s environments that have led MNCs to seek innovation, market positions and competitive advantage where they can (Bartlett and Ghoshal, 1998; Dunning, 1994).

Birkinshaw (2000) draws on the works of Schumpeter (1934) and Kirzner (1973), and focuses on the entrepreneur as an agent of market change. He applies this concept to the internal market of the MNC. Schumpeter, who focused on market upheaval through the process of creative destruction, and Kirzner, who viewed the entrepreneur as a driver of an ever more efficient economy, both eschew a trait based conception of entrepreneurship. Birkinshaw allies internal initiatives within subsidiaries to a Kirznerian view of entrepreneurship, wherein the focus is on subsidiary managers developing initiatives that in effect make for more efficient allocation of resources within an MNC. This process typically involves MNCs rationalising activities, usually with an agenda driven from the HQ perspective.

In the past thirty years numerous studies have looked at subsidiary divestment as a HQ's decision-making process (c.f. Jarillo and Martinez, 1990) and more recently research has started to examine subsidiaries' responses when subject to strategic threats (Griffin, 2003a, 2003b, 2002; Benito, 1997; Anagnostaki and Louri, 1995).

Prahalad and Doz (1981) comment the bind that leads HQ managers to tightly control their foreign assets - 'top managers in MNCs which have a significant part of their assets, sales, and profits attributable to overseas operations, would like to be assured that the strategic direction of the subsidiaries is controlled from the head office'. HQs show a propensity to locate the majority of key decisions and to control global resources from the home country (Bartlett and Ghoshal, 1988; 1987). A number of researchers suggest that as subsidiaries mature, they become, or are allowed to become, more autonomous (e.g. Birkinshaw, Hood and Jonsson, 1998). This permits them to proactively engage in innovation and risk taking. However, in the absence of trust and a track record of performance, subsidiary initiative is often viewed by HQ as being seditious and self serving. It is clear that subsidiaries face a number of constraints imposed by HQ. These may vary from financial resources to other areas such as autonomy. This is an external factor over which subsidiaries have little if any influence.

Penrose during the early 1960s provided a very useful resource-based theory in the hope of bringing some clarity to the entrepreneur/manager debate. She terms the entrepreneur as someone who adds value and creativity to existing resources and begins to exploit the market place to grow the business. A manager on the other hand, is viewed solely as being able to take care of the resources (Long, 1983). If we accept this basic difference between the risk-taking entrepreneur and resource-controlling manager, then it could be argued that not all 'subsidiary entrepreneurship' is as clear cut as originally thought.

Arriving at a conclusive definition for subsidiary entrepreneurship will, to a certain extent, have to assimilate some of the components highlighted in Long's (1983) definition. But, while bridging this divide within a subsidiary setting, a number of caveats arise. These will be presented in the following section.

3.6 Complications with the Transposition of Entrepreneurship to the Subsidiary

Many of the problems within the discourse on entrepreneurship also emerge when transposed to the subsidiary. Chapter two, which reviewed the literature on entrepreneurship examined the most important of these, namely, can entrepreneurship be applied to mature large businesses? Three further compatibility issues are considered here, firstly the issue of managerial agency, secondly the issue of market orientation and finally the issue of whether entrepreneurship requires innovation. These issues will be reintroduced in chapter six with the discussion and analysis of data where they will be termed as 'incompatibilities'.

3.6.1 Risk and Reward Scenarios within a Subsidiary

Economists have long been interested in incentive problems that arise in a firm when decision making is the province of the manager who is not one of the firm's security holders (Fama, 1980). This commentary takes the form of Agency Theory and addresses the risk-sharing problems that arise when cooperating parties have different attitudes towards risk (Eisenhardt, 1989), or as Pearce (1999) puts it 'in which the MNE must be aware that the subsidiary may not always act according to genuine corporate interests' (as cited in Tavares, 2001: 6).

Agency Theory dictates that ‘the readiness to take risks is different for managers than it is for owners’ (Amihud and Lev, 1981 as cited in Nicolai and Thomas, 2006: 58). Managers don’t possess the same degree of risk taking, and to a large extent have a different reward structure to that of the traditional entrepreneur (Jensen, 1986).

Jensen and Meckling (1976) suggest that firms were highly unlikely to behave in a value maximising manner that was ‘common to so much of the modelling and analysis in economics and finance’ (Jensen, 1994: 11). Within this model, the owners of a business are termed ‘principals’ and the managers are ‘agents’ and agency loss is therefore predictable. Agency loss is ‘the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercise direct control of the corporation’ (Jensen and Mecklin, 1976 as cited in Donaldson and Davis, 1991: 50). Self interest on behalf of the manager will inevitably create a conflict of interest over some issues any time they attempt to engage in cooperative endeavours (Jensen, 1994).

Motivational and organisational issues that cause ‘agency problems’ can account for the reduced level of internal corporate entrepreneurial behaviour. Agency theory is an appropriate conceptual tool to analyse entrepreneurship within an organisation, because it deals with translation of organisational goals from the principal to lower level actors. The principal (an individual or organisation), offers related financial incentive (a wage) to motivate the agent to act on the principal’s behalf (Antoncic, 2003: 6). Subsidiary managers acting as an agent on behalf of the MNC have no incentive to behave entrepreneurial as their reward amounts to nothing more than their salary, while the reward to the principal is the entrepreneurial profit for undertaking uncertainty (Jones and Butler, 1992). Fama (1980: 290) puts the role of the subsidiary manager and the entrepreneur into context,

‘Management is a type of labour but with a special role-coordinating the activities of inputs and carrying out the contracts agreed among inputs, all of which can be characterised as ‘decision making’...To explain the role of risk bearers...[they] contract to accept the uncertain and possible negative difference between total revenues and costs at the end of each production period’.

Therefore, personal risk and reward for any action undertaken by a subsidiary manager would not mirror the high degree of risk illustrated by the traditional definition of entrepreneurship. Cooperative parties have different attitudes to risk and risk-sharing problems (Eisenhardt, 1989).

3.6.2 Market Orientation

Kirzner's (1973) definition of entrepreneurship, which stresses awareness of market opportunity, was subsequently applied to a subsidiary setting by Birkinshaw as 'alertness to (respectively) internal, local and global market opportunities' (Birkinshaw, 2000: 20). From this it becomes apparent that subsidiaries have a larger environment to address than that of the traditional entrepreneur. Generally, subsidiaries operate within a local and internal market comprising sister subsidiaries and HQ. Interaction with external markets can be difficult due to the corporate immune system (Birkinshaw, 2000), which can continually dictate the role and limit the advances of the subsidiary. Operating on this premise, Birkinshaw equates external market interfacing to subsidiary entrepreneurship, while labelling internal organisational processes as merely ongoing managerial responsibilities. Subsidiaries within an MNC framework may continuously work within an internal market structure and neglect the external market as a result of HQ direction. A logical conclusion therefore is that subsidiaries adopting this tact will never get the opportunity to be entrepreneurial in nature as they will not have contact with external market dynamics. This is an area that many academics have overlooked or neglect to mention. Delany and Molloy (1998) have formed the opinion that subsidiary entrepreneurship is attainable by managerial mindset alone. This is an area that warrants further investigation.

3.6.3 Innovation

Schumpeter viewed the role of the entrepreneur as a radical market innovator. He discussed the important societal role of the entrepreneur as being the instigator of creative destruction through innovation, arguing that industries within societies are replaced by other industries over time (McClelland, 1971). Innovation within this context is concise, addressing external market interfacing as a unit of the entrepreneurial mould. Corporate innovation within this ambit is relatively arbitrary in nature. Internal market awareness, political

astuteness and managerial competency can all be misread as innovative ventures. They are, in essence, proficient managerial functions that have been promoted as innovative ventures in order to satisfy one of the essential requirements for the entrepreneurship label. Subsidiary entrepreneurship once again presents a fallacy.

Machiavellian style manoeuvres and commentary at a subsidiary level can be observed through a catalogue of events within a selection of Irish subsidiaries. These cases, however, do not provide a blanket template for all subsidiary instances; they merely serve to draw attention to the power that can be amassed at a subsidiary level and how the relationships formed can afford the subsidiary some security from HQ divestment. Analysis of these cases and linkage with the literature will inevitably afford subsidiary entrepreneurship a forum in which to help concretise a definition. At the very least, entrepreneurship and basic managerial duties will be distinguished, something that previous academics have failed to elaborate on.

3.7 Conclusion

This chapter introduced the extant research that both contextualises and demonstrates the need for this study. It commenced by briefly introducing the long legacy of research on MNCs before richly detailing the emergence of the concept of subsidiary entrepreneurship. Finally, it considered the complexities that arise in the transposition of the concept of entrepreneurship to the subsidiary. This chapter, together with chapter two, sets the scene for the introduction of case data which speaks directly to the issue of subsidiary strategy. Before the cases are introduced, it is first necessary to discuss the methodological choices made in this study and detail the method by which data was collected and analysed.

CHAPTER 4
RESEARCH METHODOLOGY

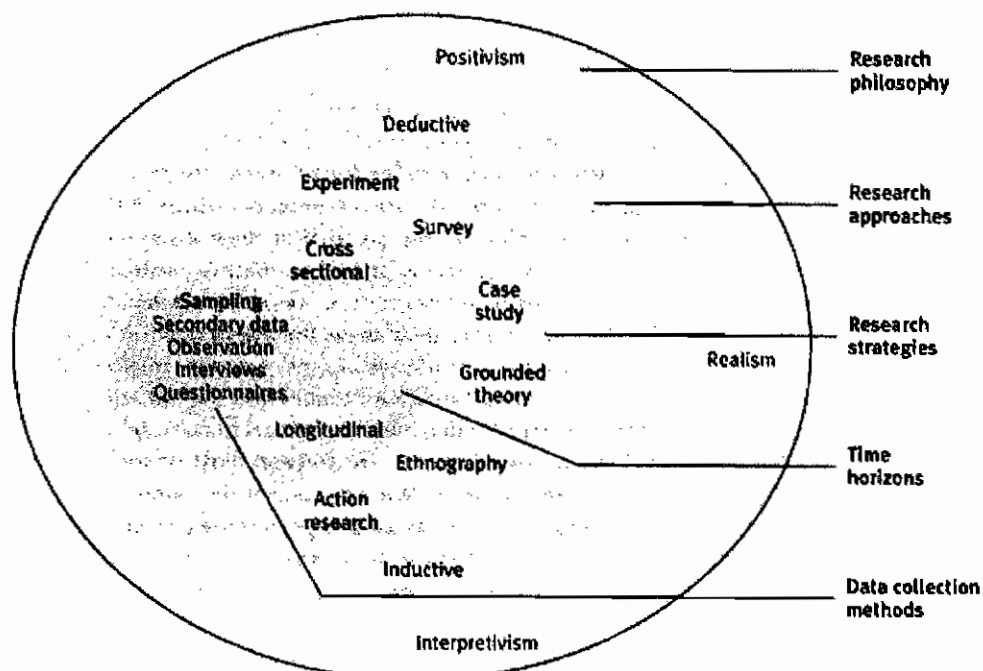
4.0 Research Methodology

4.1 Introduction

The objective of this chapter is to outline the research approach undertaken and to address the phenomenon of entrepreneurship within a subsidiary. The research that comprised this thesis was preceded by a number of exploratory interviews. These interviews were conducted in order to identify relevant themes in subsidiary management, and served to complement the second phase of the research. The main body of research involved visiting a number of subsidiaries to question key personalities about strategy and past experience. Each stage in turn will be detailed in the course of this chapter.

Saunders et al. (2003) 'research onion' will act as a guide to ensure that all critical areas of the research process are addressed, namely: choice of research philosophy, research approach, research strategy and data collection methods. The chapter details the type of research undertaken and draws to an end by highlighting the limitations of the work and the various steps taken to alleviate these limitations.

Figure 4.1 Saunders, et al's, 'Research Process Onion' (2003: 83)



4.2 Overview of Relevant Terms

Burrell and Morgan (2000, 1979) discussed issues on the nature of social research – including methodology, ontology and epistemology (as cited in Fraser, 2005). In an effort to frame these terms in line with the current study perhaps now it is appropriate to restate the research question, ‘What does subsidiary entrepreneurship mean in a subsidiary setting?’

This question acted as a guide to the research that was undertaken throughout the course of this study. Before this question can be addressed it is first necessary to examine the practice of research and the various terms that have been used universally. A research methodology would not be complete without some reference to ontology, epistemology and method considerations.

The exploration of philosophy at an early stage is critical as it will shape the research methodology selection. Easterby-Smith et al (1997) (as cited in Crossen, 2003: 47) identify the three principal reasons why philosophy choice is paramount:

- (1) It will help the researcher to clarify the research strategy he/she wishes to use, i.e. the type of evidence gathering, the interpretation and analysis, and how it helps to answer the questions posed.
- (2) The knowledge gained from various research philosophies will aid the researcher in evaluating different methodologies and methods. Identifying limitations of particular approaches at an early stage serves to limit the amount of unnecessary work undertaken.
- (3) It may help the researcher to be creative and innovative by adapting methods that were previously unknown.

Hitchcock and Hughes (1995) (as cited in Cohen, Manion and Morrison, 2000: 3) focused on the importance of these issues.

‘[and suggested that] ontological assumptions give rise to epistemological assumptions; these in turn give rise to methodological considerations; and these in turn, give rise to issues of instrumentation and data collection’

Ontology is the study of being, and someone's ontological perspective details the view they have of the social world and the nature of reality. It is a matter of belief and is concerned about whether a world exists, and if so, in what form (Potter, 1996). Positivists will assume that only one reality exists. Reality viewed within this paradigm is objective, tangible, convergent and divisible (Hudson and Ozanne, 1988). On the other hand interpretivists assume that multiple realities exist and they are socially constructed and voluntaristic in nature (Guba and Lincoln, 1994). Oliver (2000: 70) applies the term to 'a particular world view, perspective or theory'. Crotty (1998: 11) on the other hand likes to draw a distinction. He argues that "it would seem preferable to retain the usage of 'theoretical perspective' and reserve the term 'ontology' for those occasions when we do need to talk about 'being'".

Following ontological deliberation are epistemological issues. Epistemology centres on the very basis of knowledge and how it can be acquired and related to others (Cohen, Manion and Morrison, 2000). Epistemology has to be consistent with someone's ontological perspective. A major epistemological concern is whether or not the social world can be studied in the same manner as the natural sciences (Bryman, 2001; Mason, 1996) namely is knowledge hard, real and generalisable or is knowledge softer and open to interpretation and personal experience (Tashakkori and Teddlie, 1998)? If a researcher's view of knowledge is hard and objective then they will adopt an observer role and deconstruct a particular situation through methods adopted in the natural sciences. If knowledge is viewed as unique and subject to personal experience the researcher will involve themselves with their subjects and reject the ways of the natural sciences (Cohen, Manion and Morrison, 2000).

How information is collected and compiled (methods and methodology) is a consideration which will ultimately be linked to one's research question and view of how knowledge is created (Gill and Johnson 1991). Which research approach is better depends on the research question(s) one is seeking to answer. Of course, the practical reality is that research rarely falls neatly into only one philosophical domain or world view as suggested by the 'research onion' (Saunders et al, 2003). Methodology and methods may appear to be more of a maze

than a pathway to orderly research. Their philosophical underpinnings are continually talked about but still remain unclear (Crotty, 1998; Fraser, 2005).

In the context of the above terms, it is necessary to get to grips with the environment that is being studied and also the nature of the phenomena which has presented itself. Cohen, Manion and Morrison (2000: 7), touch on this aspect of the research approach.

‘Investigators adopting an objective approach (or positivist) to the social world...will choose from a range of traditional options –surveys, experiments and the like. Others favouring a more subjective (or anti-positivist) approach...will select from a range of recent and emerging techniques’.

With these considerations in mind, the first layer of the research onion will now be dissected, beginning with the choice of research philosophy.

4.3 Research philosophy

A research philosophy is an ontological concern from inception. The reality that one holds to exist will undoubtedly have some bearing on the philosophical stance that is adopted. When a philosophy is chosen, it too will affect the way we go about collecting data and the medium we use throughout the research process. The principle views govern the research process are positivism and interpretivism (Saunders et al, 2003).

The two predominant approaches to gaining knowledge within the social science spectrum hail from a positivist and interpretive approach (Hudson and Ozanne, 1988). To date there has been an increasing amount of positivist research on subsidiary development in peripheral economies (Delany and Molloy (1998) in an Irish context, Young (2004) and Taggart (1995) in Scotland and White and Poynter (1998) and Birkinshaw (2000, 1997, 1996, 1995) in Canada). Their work has sought to create law like generalisations to govern every aspect of subsidiary management. The subsidiary entrepreneurship literature has to a large extent evolved from a positivist outlook.

4.3.1 Positivism

Positivists respond to the belief that it is only permissible for social scientists to use the proven methods of the physical sciences to uncover what is 'out there' and get it right (Potter, 1996).

Academics of the positivist persuasion adopt a philosophical stance of the natural sciences working with observable social reality; the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists (Amaratunga, et al, 2002; Remenyi et al, 1998 as cited in Saunders, 2003). A highly structured methodology is adhered to in order facilitate typology construction (Willig, 2004). Characteristically there are attempts to generalise, so that results can be applied in different contexts. The positivists maintain that the key to their research encompasses objectivity, distance, and control (Denzin and Lincoln, 1994). The underlying epistemological contention is that the researcher is devoid of the subject matter and neither affects nor is affected by the subject of the research (Saunders et al, 2003).

The underpinnings of the positivist discipline span many academic backgrounds, most notably working scientists, theoretical scientists and philosophers. While Comte is widely credited as being the founder of positivism, the establishment of the laws can date back to the work of Bacon (Crotty, 1998).

The positivist approach to research has met considerable criticism since its inception in the 19th Century. Dissatisfaction with the philosophy gave rise to a new paradigm termed 'post positivism'. The post positivist views lay in opposition to the founding positivist construct. While this was the case, many tried to marry the two beliefs so they could co-exist. Some traditional positivists welcomed the new approach to research and shared common beliefs with certain aspects of the post positivism paradigm. A seminal paper by Lincoln and Guba (1985) contrasted the two paradigms and found them to be incompatible. This divide was widely known as the positivist/interpretivist split (Tashakkori and Teddlie, 1998).

While a positivist stance has been adopted in past MNC research projects to provide a description of social events, it cannot account for the underlying mechanisms of social behaviour. The research question outlined at the start of this chapter does not lend itself to a positivist investigation. Ontologically speaking it would be extremely difficult to gain real insight into the minds of subsidiary managers from a positivist background. A positivist approach to this MPhil thesis would provide a very limited and superficial picture of the social world. The most efficient way to uncover the 'micro processes' within a subsidiary was through interpretivism. This approach provided a better understanding of the social phenomenon (Oliver, 2000). It was never the intention of the research to generalise aspects of the research across a large collection of subsidiaries. The primary purpose was to uncover exciting exemplars that could lead to a better understanding of the research phenomenon, subsidiary entrepreneurship.

4.3.2 Interpretivism

Unlike the positivist philosophy, interpretivists view the social world as being too complex to be defined by fixed laws. This philosophy atones to the concept that positivism's 'laws' reduces the amount of rich insight that can be achieved in the research process.

Also referred to as the interpretivist, subjectivist or social constructionist view, this philosophy defines consumer research as a way of interpreting the intersubjective meanings through which consumers view the world (Marsden and Littler, 1996).

Interpretivists wanted to bring any given phenomena to expression, that is, it avoided unwarranted construction and questioned the dominant philosophical theories at the time. Positivism was thought to be a prejudiced construction, as its intention was to derive all the phenomena of social life from a single principle. In direct opposition to such theories, interpretivism asserted that such phenomena bear their meaning within themselves and are not to be comprehended in terms of law like generalisations. Above all, it aimed to attack the dominant positivist epistemology which permeated research at the time (Gadamer, 1976).

Interpretivism seeks value in each individual research study, making no attempt to generalise aspects of the research. Embedded within this doctrine is the belief that reality is constructed by individuals who are spurred on by varying motives, actions and intentions. The interpretivist researcher seeks to uncover reality through engaging the research matter. Interaction is essential in uncovering the ‘hidden truths’ and micro processes that make up an individual’s perception of the social world. As law-like generalisations are ignored within this view of the social world, the notion that more than one world exists is paramount when engaging the subject matter, an idea that the positivists refute (Saunders et al, 2003).

Interpretivism holds the qualitative belief that the realities of the research setting and the people in it are mysterious and can only be superficially touched by research, which then tries to make sense of the situation. It assumes that research can only capture glimpses of a social setting, and the overall aim is to try and interpret these glimpses into reality. The outcomes are not intended to be normative in nature. They are interpretations and exciting exemplars of our own impressions of reality, which are credited by collecting a number of similar instances within that social setting (Holliday, 2002). This MPhil study is designed from an interpretivist mindset and centres on researchable instances in a number of ‘self-styled entrepreneurial’ subsidiaries – leading to exciting glimpses within a MNC setting. Clarity to the phenomena was reached through the emergence of patterns and themes (Cantrell, 1993).

Researchers can only understand the social world by becoming embroiled with the subject matter under investigation. The interpretivists believe that the researcher is a member of the social reality. As a result emphasis has been placed on interaction with the subjects and the collecting of subjective accounts in an effort to comprehend the reality that individuals have constructed for themselves (Burrell and Morgan, 2000; Lincoln and Guba, 1985).

This qualitative stance engages the entrepreneurship literature and is in direct agreement with Hindle (2004: 577), who calls for the urgent need for a greater use of qualitative methods:

‘In entrepreneurship research, we simply have to try to motivate scholars who are more comfortable close to the positivist pole of the paradigm spectrum to contemplate and involve themselves in qualitative research...unless entrepreneurship generally and entrepreneurial cognition particularly begin to embrace higher volumes of higher calibre qualitative research, the relevance and potency of the entrepreneurial canon will be severely compromised by a lack of the methodological variety that is so strongly displayed in other social sciences’.

Qualitative research has gradually integrated into the academic and professional arenas. It was developed from aspects of anthropology and sociology leading to the belief that it is ineffective to rely on statistical and quantitative methods to understand and comprehend a social setting. Instead the qualitative discipline delves deep into the subjective qualities that govern behavior. Walford (1991) (as cited in Holliday, 2002) stated that the qualitative researcher should accompany their work with accounts of how it was really done. Walford’s collection of papers showcase the celebration of the way in which qualitative research works through ongoing dialogue with different social worlds. Qualitative researchers in the past have received sufficient criticism by creating the illusion of objectivity in making their procedures appear more straightforward than they really are. As a consequence, researchers are increasingly expected to come out and tell it as it really happened (Holliday, 2002). Therefore this is the primary objective of this study.

4.4 The Research Approach: Inductive vs. Deductive

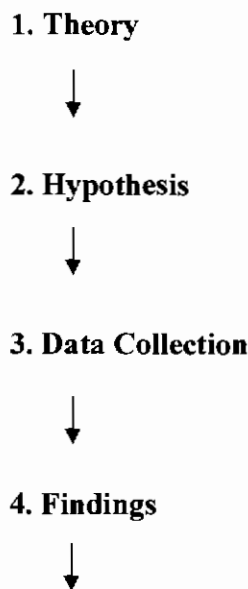
There is ongoing debate within research circles on whether preconceived theories should be validated through research (deduction) or whether new ideas and theories should flow from the data collected through the research process (induction).

The foundations of deductive reasoning set out with the notion that through a set of formal steps of logic a valid conclusion can be deduced from a valid premise. There was a monopoly of thought within this field up until the 1600’s when Francis Bacon compiled a critique of the deductive train of thought. Driving Bacon’s logic was the idea that preconceived notions biased the conclusions. Bacon favoured a method of studying a number of individual cases, leading to hypothesis formulation and eventually to generalisation. Bacon reasoned that this method ensured objectivity. He termed this new approach inductive (Cohen, Manion and Morrison, 2000).

Deduction is a mode of reasoning where the conclusion follows from the original idea. The basis of the deductive logic does not make any claims about the veracity of the premises and conclusion, only about the validity of the argument (Oliver, 2000).

Through a sequence of formal steps of logic, the deductive approach surveys the relevant literature in order to identify theories and hypotheses, which will then be tested through further research. Embedded within a deductive method is the concept that everything needs to be translated into researchable entities. Hence it is important that the researcher skilfully deduce a hypothesis in order to translate it into meaningful operational terms. Deductive theory represents the commonest view of the nature of the relationship between theory and social research (Bryman, 2001). Deductive approaches to research involve the development of a theory in the form of hypothesis that is subject to rigorous testing. This approach to research conforms largely to what we would label as scientific research. Robson (1993) as cited in Saunders et al (2003) lists the five principle stages to the deductive research process, Bryman (2001) too has found common accord with the basis of Robson's stage approach. Combining both staged approaches to deductive reasoning leads to the following list.

Figure 4.2: The Process of Deduction



5. Hypothesis confirmed or rejected



6. Revision of theory

(Bryman, 2001)

There are several important characteristics of the deductive approach; explaining the relationship between variables, expressing the hypothesis in operational terms, testing the hypothesis, examining the outcomes of the inquiry and modifying the theory if necessary. In order to maintain the scientific rigor of the deductive approach it is essential that the researcher should be independent of the subject matter (Saunders et al, 2003). The main criticism of deduction is that as the conclusion is contained in the premises and as a result no new knowledge appears to be generated (Oliver, 2000).

Induction, on the other hand, is a process of logical reasoning whereby we derive a general rule from a number of observations of a phenomenon. Induction lies at opposite poles to that of the deductive approach whereby theory is gradually built up from observations in the social world rather than the process of hypothesis testing (May, 2001). The problem with induction is that we can't assume that the same observable patterns will emerge in the future. That said, it is important in the interests of analytic rigour that one should continually examine the generalisations resulting from induction (Oliver, 2000).

An inductive approach has proved beneficial in that it does not limit the scope of one's research. As in the deductive approach, the scope of the research may be constrained by adopting restrictive theoretical prepositions that do not reflect the participants' views or perspectives (Saunders et al., 2003). On the same note, induction 'is the process whereby a general law is established by accumulating particular instances' (Crotty, 1998: 32), without firstly adopting a restrictive preposition.

Grounded theory is one extreme of the inductive versus deductive argument which emphasises idea generation from data alone (Glaser and Strauss, 1967). Perry (1998: 788) outlines the substantial contribution that grounded theory has brought to the induction versus deduction continuum:

“On the premise that ‘the adequacy of a theory’ cannot be dissociated from the process by which it was generated, some researchers (Glaser and Strauss, 1967) claim that inductively developed grounded theory is superior in terms of its usefulness to ‘logico-deductive’ theory, which is generated by logical deduction from prior assumptions.”

While it has been suggested that it is unlikely that any researcher could genuinely separate the two processes of induction and deduction (Perry, 1998), Brannen (1992; 48) displays a different view.

‘What is true is that one can distinguish between studies that are primarily exploratory, being concerned with generating theoretical ideas, and those which are more concerned with testing hypotheses’

4.5 Research Strategy –Grounded Theory

As the previous section highlighted, grounded theory is one extreme of the inductive process to research. For the purpose of this study, a grounded theory approach was chosen to explain the phenomenon of entrepreneurship and its role in a subsidiary. The emphasis within the research was to ensure that a clear picture of a subsidiary setting was obtained. A conscious decision was made to collect data before accessing the relevant literature. The grounded theory approach therefore ensured objectivity. Taking a grounded theory path allowed respondents to direct the interviews to a certain extent and comment on areas which they felt were of interest. A broad spectrum of subsidiary issues were covered initially and later honed on specific areas. This method facilitated a well rounded view of subsidiary management.

Grounded theory is built on the idea that theory emerges around the core or central theme of the data collected. Explanation and theory are fashioned from the emerging analysis of

data, something that Glaser and Strauss (1967) famously termed 'constant comparison' (Mason, 1996).

Stemming from the seminal work of Glaser and Strauss (1967), grounded theory evolved directly from theory grounded in experience. Glaser and Strauss came from a different philosophical and research tradition but shared a number of features that permitted them to work closely together.

1. The need to get out into the field early to discover what is really going on.
2. The relevance of theory, grounded in data, to the development of a discipline and as a basis for social action.
3. The complexity and variability of phenomena and human action.
4. The belief that persons are actors who take an active role in responding to problematic situations.
5. The realisation that persons act on the basis of meaning.
6. The understanding that meaning is defined and redefined through interaction.
7. Sensitivity to the evolving and unfolding nature of events.
8. An awareness of the interrelationships among conditions, action and consequence.

(Strauss and Corbin, 1998: 9).

The founding concept provided space for many different personal and professional perceptions and strategies of different social science researchers. Ingrained within this research approach was the notion that a rigid set of rules for approaching social science research would hamper and constrain the focus of the research. Glaser and Strauss (1967 as cited in Wisker 2001: 188) state that 'a standardisation of methods (swallowed whole, taken seriously) would only constrain and stifle social science researchers' best efforts'. Theories are formed from the data and subjected to rigorous testing against that data in the hope to construct some meaningful conclusion (Wisker, 2001). Glaser and Strauss (1967) suggest that the best way to generate theory is through the systematic discovery of the theory from the data of social research. By doing this, one can be sure that the theory will fit and work (Glaser and Strauss, 1967).

When collecting the data from the social setting it represents the participants responses and interpretation of events, (which when retold by participants become reconstructions of actual events). The data is once more filtered through the eyes of the researcher who then constructs a theoretical framework (Somekh and Lewin, 2005).

In practical terms, grounded theorists want to understand people's experiences. As the data collection process evolves, richer concepts and models about a particular phenomenon are created as the researcher becomes more grounded within the research area. The grounded theorists collect verbatim transcripts of interviews, which they analyse line by line. Themes gradually emerge through 'constant comparison' and constant questioning on the researcher's behalf (Denzin and Lincoln, 2003).

Glaser and Strauss (1967) stipulated four interrelated properties for the practical application of grounded theory. They are as follows:

1. The theory must closely *fit* the substantive area in which it will be used.

It must correspond to the data if it is to be used in daily situations. The researchers own views and preconception (occupation, social class, as well as popular ideas and myths) must not cloud his judgement. These witting and unwitting strategies can result in a theory that is divorce from the everyday realities of the substantive areas that they are meant to represent.

2. It must be readily *understandable* by laymen concerned in the area.

A grounded substantive theory must correspond closely with the realities of the area, must make sense, and be understandable to the people working in the area.

3. It must be sufficiently *general* to be applicable to a multitude of diverse situations within the area.

The theory must be general enough to make a wide variety of changing situation understandable. That said, the substantive theory should not be so abstract as to lose its sensitising aspect.

4. It must allow the user partial *control* over the structure and process of daily situations as they change through time.

The emergent theory must enable the person who uses it to have enough control in everyday situations to make its application worth applying. The person applying the theory should have an ongoing understanding of the situational realities, which should aid in the prediction of change. As change occurs, his theory must allow him to be flexible in revising tactics of application, and in revising the theory itself if necessary. To give this kind of control the theory must be comprised of a sufficient number of general concepts and their plausible interrelations.

(Glaser and Strauss, 1990).

Grounded theory collection methods include: field observation, depth interviewing, focus groups, projective techniques and field note production. It also embraces data analysis techniques such as content analysis, the constant comparative method, perceptual mapping, and computer assisted codification, to name a few. The founding premise within grounded theory is the belief that theories should be built from the ground up, based on deep understanding of lived experience in particular settings, and then systematically explored in great detail to produce deep insights with explanatory power (Hindle, 2004).

While the initial concept of grounded theory appeared clear cut and definable, Glaser and Strauss differed in opinion when they sought to expand on their research strategy. Strauss teamed up with Corbin (1990) to produce a detailed description of a particular approach to research collection, with set procedures to follow at each stage of analysis. In the approach followed by Strauss and Corbin (1998, 1990) ‘the disaggregation of data into units is called opening coding, the process of recognising relationships between categories is referred to as axial coding, and the integration of categories to produce a theory is labelled selective coding’ (as cited Saunders et al, 2003: 399).

Glaser disagreed with the fundamentals of Strauss and Corbin. He subsequently published his rebuttal and an expression of his belief that Strauss and Corbin had grossly misinterpreted the essence of the grounded theory approach. Glaser argued that the heart of the difference is between allowing the theory to emerge from the data as opposed to forcing it into preconceived frameworks (Dick, 2005). Grounded theory from Glaser's perspective is approached as a strategy rather than as much as a definable set of procedures. Within this realm, analysis is conducted in a less formalised and proceduralised way while still maintaining a systematic approach to arrive at a grounded explanation (Saunders et al, 2003).

Glaser described the techniques of Strauss and Corbin (1990) as being 'fractured, detailed, cumbersome and over-self-conscious'. He disagreed with Strauss and Corbin's definition of the research question which they termed as 'a statement which identifies the phenomenon to be studied' (Strauss and Corbin, 1990 as cited in Willig, 2004: 49).

Instead Glaser proposed that the focus of the research should not be predetermined, and that the focus of the research should emerge in the early stages of the research itself. The coding paradigm put forward by Strauss and Corbin was also unpalatable to Glaser. Glaser felt that this coding approach introduced preconceptions into the analysis of data which are at odds with the spirit of grounded theory. As Glaser (as cited in Willig 2004: 49) put it

'if you torture the data enough it will give up! The data is not allowed to speak for itself, as in grounded theory, and to be heard from infrequently it has to scream. Forcing by preconception constantly derails it from relevance'.

4.6 The Focus of This Study

In November 2003, DIT funded me (as part of the Faculty of Business MPhil Programme) to undertake research on the 'Divestment of Irish Subsidiaries'. Subsidiaries are both hugely important to the Irish Economy (O'Driscoll, 2004) and hugely vulnerable to divestment (Barkema, Bell and Pennings, 1996; Padmanabhan, 1993; Boddewyn, 1979).

As this is an emergent area it requires an inductive approach, whereby theory is established through the rich insight that surfaces from the research process (Cohen, Manion and Morrison, 2000). To that end, the focus of this MPhil research was to get into the field early and let the data drive the literature and theory building, rather than asserting the literature on the environment. This work operated broadly within the precepts of grounded theory where the emphasis was on the richness and uniqueness of the data collected. In this context I use the phrase grounded theory in a purposively measured way evoking the original vision of grounded theory (i.e. Glaser and Strauss, 1967), rather than the later forms which have subsequently evolved into a narrower and more specialised field (i.e. Straus and Corbin, 1998, 1990).

Some point of reconciliation in the Glaser and Strauss divide is noted, whereby they both concede that

‘in practice it is difficult to ignore the theory accrued in one’s mind before commencing the research process. That is, common prior knowledge gained through the process of socialisation will inevitably influence the researcher’s formulation of the hypothesis ... the researcher should refrain from the uncritical appropriation of this reserve of ideas. Thus starting from scratch with an absolutely clean theoretical slate is neither practical nor preferred’.

(Perry, 1998: 788).

Therefore, the MPhil research design sought to accommodate this universal belief. As result, a limited amount of prior reading was undertaken before conducting research into subsidiaries. This approach to qualitative research was based on the individuals’ account of their experiences, and the social reality that they had constructed for themselves within a given subsidiary. As the chosen method was inductive in nature, it was quickly decided to conduct interviews in which participants could recount various narratives, or stories. Literature and data were subsequently accessed when interesting themes emerged throughout the interviews. This approach was born out of the influential founding view of Glaser and Strauss (1967: 2).

‘Previous books on methods of social research have focused mainly on how to verify theories. This suggests an overemphasis in current sociology on the verification of theory, and a resultant de-emphasis on the prior step of discovering

what concepts and hypothesis are relevant for the area that one wishes to research...we would all agree that in social research generating theory goes hand in hand with verifying it.'

In conjunction, a case study approach was viewed as a complementary aspect to grounded theory (Hindle, 2004; Srauss, 1987) and it proved ideal in presenting the findings.

4.7 The Research Interview

Having already made important decisions regarding ontology and epistemology, the next stage in the research process was data collection. While surveying the grounded theory literature it became apparent that the research interview was an apt method to employ.

The primary advantage of interviewing over observing is that not everything can be observed (Martella, Nelson and Marchand-Martella, 1999). The purpose of interviewing is to find out what is on someone else's mind, but the ability to obtain valuable information is largely dependent on the interviewer. The interviewer may not ask the right questions to evoke long descriptive narratives from the participants either through lack of communication skills, or lack of expertise in interviewing techniques. A large amount of personal interaction underlines the interviewing process, therefore cooperation is essential (Marshall and Rossman, 1999; Patton, 1990). An array of interview categories are presented by Patton (1990) - the informal conversational interview, the general interview guide approach, and the standardised open-ended interview. Mason (2002) creates some overlap in detailing of categories, while referring to in-depth interviews, semi structured interviews and loosely structured interviews. Cohen, Manion and Morrison (2000) stress that numerous labels exist to describe various interviewing categories- ethnographic interviews, elite interviews, life history interviews and focus groups, semi structured, and group interviews to name a few.

Mason (1996) contends that qualitative interviewing usually encompasses in-depth, semi-structured or loosely structured forms of interviewing. These interviews are generally categorised by:

- An informal conversational style to interviewing

- A thematic, topic-centred, biographical or narrative approach
- The assumption that data are generated via interaction

While many labels exist and many overlap with regard to approach, a notable apprehension is exercised by the majority when it comes to certain interviewing types, especially those that seek to understand a phenomenon. Martella, Nelson and Marchand-Martella (1999) stated that with regard to 'closed fixed response interviews [such as 'yes' and 'no' answers] such closed instruments force program participants to fit their knowledge, experience and feelings into evaluators categories (Patton, 1990).

The basic approaches to collecting qualitative data through interviews can be seen in the table below. All approaches involve different types of preparation, conceptualisation and implementation. All approaches have their strengths and weaknesses, and each serves a different purpose (Patton, 1990).

Table 4.1 Variation of Interviewing Instruments

<i>Types of interview</i>	<i>Characteristics</i>	<i>Strengths</i>	<i>Weaknesses</i>
Informal conversational interview	Questions emerge from the context and are asked in the natural course of things; no predetermined questions	Increases the salience and relevance of questions.	Different information collected from different people with different questions.
Interview Guide approach	Topics to be covered are specified in advance. Interviewer decides sequence of questions in the interview	Somewhat systematic data collection for each respondent. Interviews remain conversational and situational	Important and salient topics may be omitted
Standardized open-ended interview	The exact wording and sequence of the questions are predetermined. All respondents are asked the same questions	Increases comparability as questions are the same. Facilitates analysis of the data	Not flexible in relating the interview to a particular individual and circumstance. May constrain and limit the relevance of questions and answers
Closed, fixed response interview	Questions and response categories are predetermined. Respondents choose among the fixed responses	Data analysis is simple. Easy to compare, many questions can be asked in a short time	Respondents must fit their experiences into the researcher's categories. Can distort what responses actually mean

(Table adapted from Patton, 1990: 288).

4.8 Advantages and Disadvantages of Interviews

Clearly certain types of interviews suit particular situations, finding the right interview category can be problematic and in the past has led many researchers to using a multimethod approach to achieve broader understanding and often better results (Denzin and Lincoln, 2003). Interviews can help formulation of research objectives, allows for

probing explanations on a phenomenon and gain new insights and perceptions (Creswell, 2003; Saunders, et al, 2003; Cantrell, 1993).

Weaknesses also prevail within the interviewing technique. Data is time consuming to analyse. It is up to the interviewer to ask the right questions to evoke the right response. By the same token, if the researcher does not understand the participant's answers then the amount of insight that can be gained is limited. Finally, there is an issue about the quality of data in that data is highly reflective of interviewee's perception and biases and is largely dependent on the participant's ability to recall particular events (Marshall and Rossman, 1999; Cantrell, 1993). That said, the purpose of this MPhil study is to uncover the subjective views of subsidiary managers, and the interview approach is ideally positioned to commentate from this perspective.

The research question was initially broadly focused and respondents were interviewed and questioned generally on the topic of subsidiary divestment. Interviews were selected as the main data collection method as the data that was sought would have been difficult to collect and understand through any other technique. As the interviews progressed, the line of questioning was refined and specific themes were highlighted and addressed accordingly (Saunders et al, 2003).

4.9 The Types of Research Interviews Used in this Study

Over the last twenty years the concept of a subsidiary has changed profoundly and it would seem that the Weberian traditional hierarchical conception of a subsidiary being dominated by its parent is no longer the only understanding available. Within the broad school of I.B, and with Hedlund's (1980) seminal contribution, attention has increasingly been drawn to the contribution that a subsidiary can make to its entire MNC (most notably Birkinshaw, 1997 and Bartlett and Ghoshal, 1989, 1987).

The focus, therefore, was to establish and assess the concept of subsidiary's management instrumentality in strategy making – developing and implementing strategies to expand and sustain their subsidiary.

4.10 The General Interview Guide

Initial interviewing into the area of subsidiary management was conducted on a general interview guide basis. A generation of ideas were created through various meetings with Mr. Dermot Coffey, (formerly with the IDA and Czech Invest) and the themes that emerged were then later fed into the subsequent interviews. Contacts within the IDA were made through Mr. Coffey and these contributed to the grounded theory process.

With the general interview guide approach each respondent was made aware of the various set of issues that were to be explored. A brief introduction was made to each interviewee, commenting on the nature of the research and the potential areas that would be covered.

The interview guide merely served as a simple check list to make sure that all areas had been addressed. The guide assumes that there is common information that should be obtained from each interviewee, but this does not fall into the same category of preparing a fixed set of questions for respondents to answer (Patton, 1990).

Interviewees were encouraged to elaborate on personal experience that they had encountered within their subsidiary. The issues outlined in the guide, therefore, were not taken in any particular order. Instead they were addressed during the flow of the interaction. This 'enabled respondents to project their own ways of defining the world' in which they lived in (Cohen, Manion and Morrison 2000: 146).

4.11 Planning, Preparing and Conducting the Research Interview

As hinted at in the previous section, all participants were made aware of the nature of the research prior to participating. In line with the grounded theory approach to research, the interviews did not focus on proving or disproving a hypothesis. These interviews served to showcase the environment in which various subsidiary managers operated in, and to address concerns which they generated. In formulating an environmental analysis it was deemed necessary to interview a number of key figures within the IDA. Prior to arranging these interviews a broad information search was carried out.

Information was collected relating to a critical incident which happened within an Irish subsidiary, in this instance a case study from the IDA's promotional handbook, 'Knowledge is in our Nature'. This text, as with any public story, contained shared truths surrounding the happenings of the story. The focus of the research was to attempt to uncover the 'real' story that lay behind this cleaned up narrative.

Participant interviews with IDA employees included: Mr. Gus Jones, ICT Divisional Manager, IDA Ireland and Mr. Dermot Coffey, formerly with IDA Ireland (currently with the World Bank as an Investment Promotion advisor). Mr. Paddy Gallagher, Regional Director, IDA South Region acted as a research coordinator and provided introductions to subsidiaries which were potentially entrepreneurial in nature.

Respondents were broadly asked a wide variety of topics (FDI in Ireland, government policy and past subsidiary success and failure stories). Questions centred on:

1. The processes that happen at an IDA and at a subsidiary level.
2. IDA subsidiary publication material Strategic Initiatives for Multinational Subsidiaries (SIMS) programme.
3. Subsidiary manager's responses to such IDA initiatives.
4. How the IDA instigate a change in a subsidiary manager's mindset?
5. Examples/'war stories' of companies that have been hit with HQ pressure?

Respondents were encouraged to elaborate at length when interesting themes were unearthed throughout the course of the questioning.

Between November 2003 and February 2004 two IDA interviews were conducted. Interviews typically lasted for an hour each, and one respondent (Mr. Dermot Coffey) was

interviewed on multiple occasions. The breakdown of the interviews is listed in the following table.

4.12 Initial IDA Exploratory Study Interviews

Table 4.2 IDA Interviews

Individual	Interview
Dermot Coffey	Wynn's Hotel, O'Connell Street, Dublin. Initial interview 1.5hrs, followed by 3 telephone interviews.
Gus Jones	IDA office in Wilton House, 1hr.

Over the course of this research it has emerged that divestment was not the core issue of the study - almost all subsidiaries are subject to divestment struggles from time to time. What is worthy of study is the subsidiaries response when faced with divestment. The IDA interviews suggested that subsidiary entrepreneurship was the way forward for subsidiary survival.

Having identified the discourse of entrepreneurship as the key phenomenon, the second phase of the research involved subsidiary participation in order to assess the fit of the entrepreneurial discourse. The following research objectives were formulated as the basis for the remainder of the research.

1. What are the characteristics of an entrepreneurial subsidiary manager?
2. What are the key determinants of divestment from a subsidiary viewpoint?
3. Can a normative model pertaining to divestment outcomes be developed?
4. What organisational micro processes are happening at a subsidiary and HQ level?
5. How do subsidiaries deal with power struggles within the organisation?
6. What is the managerial mindset that works (subversives/boy scouts)?
7. How does a subsidiary manager effectively expand their mandate?

The IDA interviews proved fruitful in gaining additional contacts and introductions with various General Managers (GM) within the ICT sector. From February 2004 to June 2005 a

total of 4 interviews were conducted with the GMs in Apple Computers; Motorola; GN Resound and M/A-Com. The breakdown of the interviews can be seen in the following table.

Table 4.3 Subsidiary Management Interviews

Company	Interview Process
Apple Computers	1hr interview with GM Joe Gantly, Apple subsidiary, Cork
Motorola	2.5hrs interview with GM John Phillips, Motorola subsidiary, Cork
GN Resound	3hrs interview with GM Sean Gayer, GN Resound subsidiary, Cork 2hr follow up interview with Sean Gayer
M/A-Com	1hr interview with GM Brian McCoy, M/A-Com subsidiary Cork.

An ample amount of literature in the public domain commented on the proactive and innovative endeavours of the above GMs. In terms of process, prior to interviewing each GM, an information search was conducted through various media (press, IDA literature and company publications).

At the beginning of an interview the interviewees were questioned very generally on the organisations' history, which indirectly surfaced the issue of their relationship with their HQ. At such points, interviewees were invited to expand upon the HQ relationship theme, and were encouraged to recount the rich details of their experiences. Only towards the end of each interview were interviewees prompted to relay their version of events and to analyse their own role in the happenings. The aim, however, was not just to take account of the subjective experiences and interpretations of the interviewees (Brenner, 1985; Burrell and Morgan, 1979), but to develop higher order explanations of their interactions (Fairhead and O'Sullivan, 1997; Geertz, 1977). The corrections and re-interpretations of the data made at this stage were then fed into a case study method which inevitably contributed to the theory-building process.

During the interviews the following introduction was made:

Table 4.4 Interview Introduction

'I am doing a research masters entitled 'Divestment of Subsidiaries in Ireland'. I am in the process of meeting subsidiary managers in order to get their take on the topic. My research focuses on divestment from a subsidiary manager's point of view...and I am particularly interested in areas regarding...

- The various steps taken in ensuring subsidiary survival.
- How subsidiary managers can effectively 'dodge the bullet' when it comes to corporate divestment.

From talking to various personalities in the IDA and reading the IDA literature on <company name here> I realised that your story needed to be told.

Effectively what I am trying to do is to get 'cradle to grave' stories of what exactly happens at a corporate level, the micro processes involved and the communication within the corporation. So throughout the interview if you can think of examples, the key personalities involved and the environment in which decisions were made...then it will make my research a lot clearer'.

As the interviews were conducted from a grounded theory background the amount of prior knowledge in the subject area was minimal and realities within the industry were continually spelt out by respondents. This proved very useful as nothing was assumed by both interviewer and interviewee. Willig (2004: 23) draws on this aspect within the interview process.

'A good way to obtain detailed and comprehensive accounts from the interviewees is to express ignorance. A naïve interviewer encourages the interviewee to 'state the obvious' and thus to give voice to otherwise implicit assumptions and expectations'

All interviews were recorded with the interviewee's permission and confidentiality was assured when the respondents sought to have their details concealed. Note-taking during the interview was viewed as no substitute for a full recording. Accurate note-taking was considered an onerous task and the process itself would distract both the interviewee and interviewer through lack of eye contact and non-verbal communication. Each interviewee was made aware of the recording and how they were going to be used. A good rapport was established with each participant so that they would be relaxed and comfortable in revealing sensitive information. Each subsidiary manager had been referred to this study and introduced by Mr. Paddy Gallagher of the IDA, yet another aspect which facilitated relationship development. Recording was carried out as a means to control bias and to produce reliable data for analysis (Saunders et al, 2003; Willig, 2004).

4.13 Case Study

The primary aim of the research was to capture the essence of the organisational micro processes and therefore the research process had to reflect this accordingly. Once the initial interviews were carried out it emerged from the data that the case study was best suited as a way of analysis and presentation of the complex data. The cases to date have been developed from one-to-one interviews with senior management, government support agencies and independent consultants. Information from all sources was triangulated to create a robust feel to the findings and also to corroborate issues that arose during the interviews.

The case study method has been used previously in subsidiary research to great effect. Dimitratos et al (2004: 9) employed such a method for the following reasons.

1. It serves to capture the complexity and dynamism between learning modes since it provides related in-depth contextual information.
2. The case study approach allows a holistic and meaningful investigation of characteristics of organisational activities.
3. It promotes theory building concerning an under-investigated topic.

By its general nature case studies can be considered qualitative in nature, as the intent is to study a single participant or group of participants in depth. Qualitative researchers do not

commit to the belief that every subject can be operationally defined to permit observation. Therefore, it is imperative to get to know the context in which the individuals operate and to become acquainted with the individuals personally in order to study them adequately (Martella, Nelson and Marchand-Martella, 1999). The primary focus is to learn about the individuals in an in-depth manner. Yin (1994: 13) highlights the very essence of a case study in the following quotation.

‘A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between the phenomenon and context are not clearly evident and in which multiple sources of evidence are used’.

Exponents of qualitative investigation into a particular phenomenon often favour a case study format because these methods are particularly helpful in the construction of intensive and detailed examination of a case (Bryman, 2001). The case study is best associated with asking ‘why’ ‘what’ and ‘how’ questions and the data collection methods vary from questionnaires, interviews, observations, documentary analysis and questionnaires. While the case study approach has been criticised because of its ‘unscientific’ feel, it has, at the same time, been declared as an effective medium in which to challenge existing theory (Saunders et al, 2003).

Case studies have been a common research strategy in many disciplines: psychology, sociology, political science, social work, business and community planning. In all of these situations the distinctive need for case studies arises out of the desire to understand and to provide commentary on complex social phenomena. The case study allows the researcher to retain a holistic and meaningful insight into real-life events – such as individual life cycles, organisational and managerial processes, neighbourhood change, international relations, and maturation of industries (Yin, 2003).

Analysis by way of case study can be beneficial when carried out in the correct manner. The case study approach ‘produces a great deal of raw data, and a useful way of handling

and trying to make sense of the data is analysis which seeks to condense them into meaningful statements' (Basse, 1999: 70).

Willig (2004) addresses a number of defining features of case study research:

1. An idiographic perspective.

The researcher aims to understand an individual case in its particularity. This approach can also be contrasted with the nomothetic approach which aims to identify general laws of human behaviour.

2. Attention to contextual data.

The case study pays particular attention to the environment both internal and external. Thus while cases are the focus of the study, they cannot be considered in isolation.

3. Triangulation.

Triangulation is the integration of information from diverse sources to gain an in-depth understanding of the phenomenon. This method allows the researcher to approach the phenomenon from a number of diverse angles. In turn it facilitates reliability of data and creates a more robust understanding of a given situation.

4. A temporal element.

Case studies are concerned with investigation over a period of time, therefore, a focus on a change and development within a given research area is an important feature within the temporal element of the case study.

5. A concern with theory.

Case studies are ideally positioned for the generation of theory. The detailed examination of a particular case can generate hypotheses and contribute substantially to existing theory.

4.14 Case Study Analysis

One rationale for a single case study is when it attempts to confirm, test or extend a well founded theory. Single case studies are also suited to commentate on extreme or unique cases, highlighting a typical case, a phenomenon that was previously inaccessible to scientific investigation and studying a longitudinal case (studying a single case at two or more points in time) (Yin, 2003). Single case studies are either of an intrinsic interest to the researcher or they provide an opportunity to test the applicability of existing theory (Willig, 2004). The first case study produced served to delve into the area of subsidiary entrepreneurship and to address its fit within Apple Computers, Cork. This single case study did not attempt to generalise its findings. Instead, it served as an exemplar that tried to explain the role of entrepreneurship within a subsidiary setting. A concerted effort was made thereafter to compile a number of case studies on the same basis. This led to a collection of multiple case studies.

Multiple case studies have distinct advantages and disadvantages to the single case study. The findings from the multiple case study technique are regarded as more robust and compelling. At the same time, the rationale for the single case design usually cannot be satisfied by multiple cases (Yin, 2003). Comparative analysis of a series of cases facilitates theory building. Analysis of the first case allows the researcher to formulate tentative hypothesis which can be compared and validated across multiple cases. With each new case the emerging theory can be modified to produce a clearer picture of the phenomenon (Willig, 2004). The tentative conclusions from the Apple case study fed into the subsequent cases, themes emerged and they were compared across each subsidiary. This method of analysis followed Yin's (2003: 32) guideline to theory formation:

‘Multiple cases should be considered like multiple experiments. Under these circumstances, the mode of generalisation is ‘analytic generalisation’ whereby a previously held theory is used as a template with which to compare the empirical results of the case study’.

4.15 Conclusion

This chapter has attempted to outline the relevant terminology associated with research in the field of social science. Methodological decisions were made with the research

objectives in mind and the environment in which the data was collected. This chapter has revealed how an inductive approach to the research phenomenon was used. Interviews with both subsidiary managers and IDA personalities were conducted and fed into a case study format. The findings which are presented in the next chapter are by no means generalisable in nature. The purpose of the study was to compare a text book definition of subsidiary entrepreneurship with what was happening in Irish subsidiaries. The research philosophy and method used ensured that rich data was obtained in the under researched area of 'subsidiary entrepreneurship'.

CHAPTER 5
SUBSIDIARY LEVEL FINDINGS

5.0 Subsidiary Level Findings

5.1 Introduction

This chapter presents the data. It commences by detailing the exploratory interviews with key IDA personnel, which surfaced the issue of subsidiary entrepreneurship, and ultimately shaped this study. Along with the primary data, some secondary material was examined and this is also presented. This exploratory process led to the creation of a shortlist of subsidiaries that the IDA felt represented the best exemplars of subsidiary entrepreneurship. From this short list four case studies were developed that allow for an analysis of the phenomenon.

5.2 Exploratory data: IDA interviews

From the IDA focused interviews, it quickly transpired that the strategic demeanour of subsidiary managers was the first and foremost factor for the IDA. Delany and Molloy (1998) were commissioned by the IDA to undertake a strategic assessment of subsidiary management and their findings were compiled in the SIMS booklet. In the course of the interviews the work from the SIMS project was continually addressed and highlighted as the way forward for subsidiary management in Ireland. Instrumental in this body of work was the notion that subsidiary managers should be subversive over and above being a boyscout managers. Subversive managers operate on the premise that it is easier to gain forgiveness than permission when undertaking certain organisational projects. A boyscout manager, on the other hand, believes that destiny of the subsidiary lies solely in the hands of HQ and operates with the belief that virtue will be his just reward (Delany and Molloy, 1998).

Thus, the idea of subversive, proactive and entrepreneurial behaviour within a subsidiary emerged as the key factor, and the emphasis of the study focused on accommodating this evolving train of thought. This work, therefore, developed into an interesting and under explored topic, namely that of subsidiary entrepreneurship. The broad research question centred on, 'What does subsidiary entrepreneurship mean in a subsidiary setting?'

The SIMS literature (Delany and Molloy, 1998) was a significant focus in both IDA interviews and its recommendations formed an integral part in creating the IDA strategy for pushing ‘entrepreneurial behaviour’ within subsidiaries: ‘It’s really all about competitiveness. If I was a subsidiary manager here and I wanted to survive then I have got to figure out how to make myself less vulnerable or indeed more important in the parent company’s scheme of things’ (Dermot Coffey). The SIMS literature stresses a need to proactively engage your organisational context (subversive mindset), over and above letting the organisational context determine you (boyscout mindset). ‘Basically the whole idea was instead of guys being good guys...just doing what they were told [boyscout]...that they would go in and around the back and find out if there were other areas of opportunities [subversive]. So subversive was to suggest that it was done behind somebody’s back, but that was all’ (Gus Jones).

This proactive and entrepreneurial mantra was thrust upon subsidiary managers in the day to day running of a subsidiary. If subsidiary managers are not responsive to the initial advances by the IDA, then the message was forced: “Ahh but then I would kind of half frighten them by saying to them ‘well look I am going out to the states in two weeks time to see the parent company.’ They majority would gasp and say ‘well look what are you going to be telling them?’ And I’d say, well feck it like what are they going to be doing to their Irish operation? The majority would say ‘ahh don’t do that’” (Dermot Coffey).

Is this message adopted within subsidiaries and more importantly has it lead to mandate enhancement and plant expansion? While the adoption of the IDA message is viewed as unavoidable, a more pressing concern is what success (if any) can be attributed to this IDA directive: ‘I can think of this guy in Dundalk. This guy kept on reengineering what they did in order to be competitive. He started going talking to other executives in the company and saying ‘look we are doing this somewhere else, like you would be more efficient if you did it here’ a lesser person there in Dundalk would have the place at half the size it is now and they would have an uncertain future’ (Gus Jones).

Does subversive and proactive behaviour necessarily constitute entrepreneurial behaviour in a subsidiary? The IDA would imply that it does. Since its inception the topic of entrepreneurship has lacked conceptual clarity. The literature review touched on this aspect. This lack of definition has resulted in numerous studies contracting the terminology in a number of unrelated disciplines. The IDA does not seem averse to following this trend while directing subsidiary managers toward the future. What follows is a new section that outlines extracts from the book 'Knowledge is in our Nature', this provides a brief overview of the mantra that is currently being preached.

5.3 Knowledge is in Our Nature

While subversive and proactive behaviour may not constitute entrepreneurship, the IDA has expressly used the entrepreneurship term as a driver of strategy in other literature. A further publication by the IDA, entitled 'Knowledge is in Our Nature', details Ireland's relationship with MNCs and the contribution that Irish people exert.

'[the publication] explores some of the many facets of the special Irish combination of surging vision, pragmatic problem-solving and can-do confidence. It tells the story of some remarkable Irish people who have contributed to Ireland and the world. It shows the Irish flair [in] business enterprise and above all building the modern economy by foreign partnerships with the leaders and pacesetters among global corporations'.

(IDA, 2003, iii).

Within an entrepreneurial forum the publication details a number of successful Irish subsidiaries that struggled with the divestment issue at one point in time. Proactive, entrepreneurial behaviour is the focus of discussion within each of these cases.

A connection with Delany and Molloy's work is seen in the opening quotation in 'Knowledge is in Our Nature' (2003: i).

“Other people see things and say:
‘Why?’ . . . But I dream things that
never were – and I say: ‘Why not?’”
George Bernard Shaw

The use of this quotation is apt in integrating the SIMS literature. A parallel could be made with Shaw's quotation and that of the scout and subversive mindset which was reviewed at the opening of this chapter. Shaw's quotation embodies proactive behaviour, a need to look at a given situation through voluntarist eyes rather than determinist eyes. This is precisely the message echoed in the SIMS literature. Delany and Molloy (1998) stressed the need for subsidiary managers to proactively change the context in which they operate (voluntarism) as oppose to being determined by the context (determinism). That said, 'Knowledge is in Our Nature' is exceptionally vocal on the entrepreneurial aspect. Particularly relevant in the context of this study is the objective which the IDA has created.

'The objective of the IDA is to place Ireland at the leading edge of the global economy by developing clusters of excellence, in which technology companies, education and research activities, venture capital providers, business service providers, and other networks create a climate of knowledge, innovation and entrepreneurship'

(IDA, 2003: 81).

The imagery portrayed in the extract is endemic of entrepreneurial development, 'an innovative, knowledge-led culture, inherent capability, [and] entrepreneurial drive' (IDA, 2003: 39) and suggests that the IDA is employing entrepreneurial buzzwords to get their point across. It is evident from the literature that the IDA take entrepreneurship within an organisation as a given. This can be seen in the following extracts:

'Inward investment did more than kick-start the Irish economy. It also provided the stimulus for Irish entrepreneurs to get moving' (IDA, 2003: 100).

'As a result, a highly experienced core of entrepreneurial managers emerged to set up spin-off 'do it better' companies' (IDA, 2003: 102).

'the emergence of an enterprise culture in Ireland demonstrates that one of the most significant spin-off benefits of overseas investment in a developing economy is its role in stimulating native entrepreneurial capabilities' (IDA, 2003: 102).

'Success helped bring about a positive attitude by Irish government and society and this, in turn, led to the creation of support structures that encouraged the current explosion of entrepreneurial activity' (IDA, 2003: 101).

This section has been directed towards the IDA and its response to Irish subsidiary managers. Entrepreneurial, proactive and subversive behaviour have emerged as the main aspects in their literature and the IDAs work has continued to focus on delivering this message to subsidiary managers. The remainder of this chapter will introduce four case studies which were judged (by the IDA) to be entrepreneurial in nature.

5.4 Case #1: Apple Computers

Amid intense competition from other countries, the IDA persuaded Apple to establish its European manufacturing plant in an economically deprived area of Cork City. The plant was given a clear-cut mandate to manufacture exclusively for the European market. While materials were initially sourced outside Ireland for assembly in Cork, over time the local content of the product grew. Between 1978 and 1985 demand for Apple's products exploded and this led to a doubling of capacity in 1983.

'So the focus at that time was to keep up with demand for product in a manufacturing sense...so it would be easy to categorise the first ten years as one of establishing the subsidiary model from a manufacturing point of view, extending the brief of that manufacturing model...beyond manufacturing into other areas like; localisation of software, into areas like package design, into areas like process design, and the manufacturing model in that sense was viewed as world class.'

(Joe Gantly, Apple).

In the second half of the 1980s demand for Apple products, under pressure from competitors, collapsed, which obviously led to pressure to rationalise production. The decade since 1988 saw Apple pare back its global manufacturing base, and much of the business was brought to its highly cost effective Cork plant. In 1987 alone one quarter of Apple's worldwide workforce was axed. Perversely Apple in Cork continued to grow its headcount during this period and extended its mandate to global manufacturing. Towards the end of the 1990's, as the slimmed down Apple started to recover market position, it appeared that the Cork plant had successfully manoeuvred through the era of cutbacks.

However, the explosive growth of the Irish economy had started to affect the competitiveness of the Cork plant and the Irish management realised that their sole competitive advantage was evaporating, and that it was going to be increasingly hard to justify their manufacturing mandate in an expensive location. Eastern European countries had started to attract a greater share of mobile investment by offering a lower cost base and the promise of entry into the European Union. The management team at Cork began to weigh up their options by conducting a strategic assessment of the business. They recognised three realities:

- There was a premium within Apple on higher value activities.
- The capabilities of vendors in the Far East and Eastern Europe had increased significantly, in scale and cost effectiveness.
- Technology had enabled the geographic independence of corporate activities, which could be managed as effectively in Ireland as anywhere else.

(IDA, 2003: 27).

The management team, headed by Joe Gantly took action immediately.

‘There is an ethic and a strategic thought process which has always been in existence here...and there has always been a recognition here that when something is uncompetitive here and in a global sense, and when something is not customer focused in a significant sense...it’s better that we eliminate those activities before they are eliminated for us...so we have generally been proactive in taking away activities that we felt were uncompetitive. Eastern Europe opened up in a kind of manufacturing sense about eight years ago...we started to take advantage of that about six years ago particularly in the Czech Republic.’

(Joe Gantly, Apple).

Joe Gantly and his team took the innovative step of outsourcing 30% of its manufacturing to contractors in the Czech Republic, and in doing so they retained control of their manufacturing remit.

‘The Czech Republic is very aggressive in its desire to acquire inward investment...and it has an organisation like the IDA...it’s called Czech Invest...the people that run that organisation are very commercial...they have a lot of world wide experience...’

(Joe Gantly, Apple).

As a result of this realisation by the Irish management, that the future of the Irish plant did not lie in manufacturing, they sought new activities to justify their existence.

‘...one option was that you let it happen...you just close up shop. The other option was to try to integrate forward into the customer base. The key to doing that is to own the customer and we wanted to own the customer for everything other than manufacturing. So if you look at it then from the perspective of customer support and technical support...our customer base is very sophisticated and we built up a very sophisticated base of engineers that could migrate from manufacturing into those types of activities.’

(Joe Gantly, Apple).

By controlling the Czech Republic operations, they have the potential to retain the mandate over manufacturing indefinitely. They formed a successful relationship with a subcontractor which they can leverage in other areas of the world.

‘We collaborated with a partner... a company called Fox Con who were building a product for us in the Far East and they wanted to locate in Europe. So the combination of Fox Con and Apple was that we established a manufacturing operation in the Czech Republic...which has proven to be very, very successful. However, the Czech Republic is starting to become uncompetitive, with inflation in the Czech Republic last year was about 20%, so their labour rates are increasing. Our probable goal is to move out of the Czech Republic and to move it either more East or to move it into China.’

(Joe Gantly, Apple).

The Cork plant set about acquiring more activities by remarketing themselves to headquarters as more than just a manufacturing location.

‘At the time all of Apple’s contact centres were outsourced...both here and in the US...we ran the customer satisfaction surveys with them. The decision was taken at the time to insource all of the contact centres...and we decided at this time that this was going to be the rock on which we would build the future...so we made a very determined bid to move that activity into Ireland.’

(Joe Gantly, Apple).

Further outsourcing of manufacturing continued into 1998. The Cork plant began to shed more of their manufacturing functions, relocating these functions to Indonesia and to Taiwan. Employment at the Cork plant was reduced from an all time high of 1,500 people to just 500 (IDA, 2003).

With the assistance of the IDA the Irish management team put together a proposal to establish a customer contact and service function in Cork.

‘We had to debunk the myth that you couldn’t get language in Cork...which is probably the biggest barrier that would have existed at the time...so there was a substantial base already developed at Cork through other contact centres from people that would have located here...that were multi lingual...the IDA put that whole package together...the cost was an easy thing to win...getting the people and convincing them that we could get the people...we put together a process by which we were going to do that, backed up by evidence that it had been done

elsewhere and then the question was whether we could get the infrastructure in place from a telecom point of view...to support a contact centre of that size...and basically the telecommunications infrastructure was improving...it still has a lot of improving to do but...it would have been viewed at one point in Ireland's history as very negative...so we put a big piece together on that...what was changing...the competition that was coming into effect...the broadband that was coming in...the optics links between here and the US...all of these things combined ...make a pretty compelling argument for putting it into Ireland.'

(Joe Gantly, Apple).

The Irish plant won out against other locations such as England, Holland and France. This transformational event gave the Irish management the confidence to more vigorously pursue the outsourcing of their manufacturing, and attempt to capture more value added activities. The establishment set the tone for the further mandate expansion.

'...so once the contact centre came in that debunked the myth about language...so that opened up the door then to basically centralise the financial functions in Europe...most of the back office accounting functions that require language...we put together a case for doing that which was pretty compelling and pretty easy and we were supported by the US because we had a success in setting up the contact centre...that came in then and it just started a snow balling effect... Telesales then was something that Apple didn't do historically...we put forward a case for doing a pilot here and it worked and now we run all of the European telesales out of here now, which is about 70 people...which is a \$400 million business.'

(Joe Gantly, Apple).

Cork now controls the entire customer experience. Joe Gantly has been instrumental in this change in direction and fortune within the Cork plant. While stressing the objective and rational decision making capacity of HQ, Gantly also alludes to the more political side of mandate expansion.

'I mean life in itself is political...you have to develop relationships with individuals and develop them at a personal level and at a business level...Steve Jobs [the founder and CEO of Apple] has an executive team of people who report to him...one of the soft goals that we set was that we wanted each one of those guys to have something located in Cork...and the only person that doesn't have something located here is the legal person...we don't have a lawyer in the building. Everyone has an interest here and that extends the mandate in a relationship sense as well as in a business sense.'

(Joe Gantly, Apple).

Drawing on the importance of mandate expansion, Gantly describes what works for him.

‘You can spend days and weeks talking about this stuff...the fundamental thing that extends mandates is credibility. You build that by performing consistently and meeting your commitments, it is that simple. And if you don’t perform consistently then you don’t have credibility and your mandate will never be extended...because the retort you will constantly have is that the mandate you have is not being fulfilled so how the hell would you extend your mandate...you would make it more difficult for yourself by taking on more functions...and as a result the model starts to break and the business starts to suffer...and that is in nobodies interest at the end of the day.’

(Joe Gantly, Apple).

Gantly further reflects on the literature that suggests a Machiavellian side to mandate expansion.

‘That [subversive management] is something that is advocated in Delany’s book. He talks about this ‘guerrilla activity’...I think that this sort of activity is possible within a very loosely managed multinational where funds are comparatively easily available and comparatively easily abused...that does not exist in our business. I don’t want the scope to do that and it shouldn’t exist in my opinion.’

(Joe Gantly, Apple).

Commenting further on the practicality of various models of subsidiary entrepreneurship, Gantly gives his own opinion as to their importance.

‘I think that the models that Ed Delany and Ed Molloy put together are useful foundational models...Ed Delany can’t put together a model for Apple...I am the only one that can put that together...but Ed Delany’s fundamental constructs are useful in building our arguments and building our understanding of what you need to do. So much of what you do in multinationals is to the point of ‘am I there yet?’...it is performance based and it is knowing how to get things done and figuring out how to get things done...that is how it happens.’

(Joe Gantly, Apple).

Capitalising on this point Gantly points to how subsidiary lives take different routes, and therefore a definitive map or typology may be near impossible to construct.

‘... The net of it is that you don’t want to be...I think he [Molloy and Delany] uses the word ‘boyscout’ in that regard. There are many multinationals in Ireland that are boyscout in their orientation, and are quite happy to be that and are successful as boyscouts...and may survive as boyscouts in industries that have

very long product lifecycles, where the industry is not as competitive as the one which we are in...where their mandate is fixed and will not change...and if you look at industries with long lifecycles...like the chemical pharmaceutical industry...once they establish a mandate they can generally survive longer than a mandate would survive in the PC industry...where the lifecycles are six months.'

(Joe Gantly, Apple).

The Cork plant is one of the great survivors, surviving and prospering under a succession of different threats of divestment. Continued attention to developments within the corporate environment appears to be a key success factor.

'There is a big group of companies in Ireland...they call them the living dead...they don't know it but they are dead...and the big knock will come some day and they will close...and you can see it happening all the time.'

(Joe Gantly, Apple).

Ultimately Gantly suggests there is no shortcut to mandate expansion, other than performance.

'I don't believe in romancing HQ. There is only one romance in Apple and that is perform...we are given targets and we have goals to achieve...and our aim is always to achieve them...we don't always do it...we fail sometimes...but if we are failing or likely to fail...then we give advanced notice...'we are having trouble with this one...we are going to miss it, it is going to take this to get it back'...so to use your term...in romancing it is not as facet as that...we have about 13 measurements that live within the business and we have to perform to those measurements and if we don't then we are dead. If I repeatedly fail then I would be fired...it is that simple.'

(Joe Gantly, Apple).

5.5 Case #2: GN Resound

While walking into GN Resound's reception area in Cork it becomes apparent, even to the untrained eye, that this is a battle hardened subsidiary. Mounted on the reception wall is a display board depicting the current mandate functions of the Cork plant. Its primary function seems to highlight to the visitor the current position of the Cork plant within the parent company and on a more subtle note, this mandate board would also appear to send a message along the lines of 'we will not take any more mandate casualties'.

In 1994 Resound Group set up a Cork manufacturing base to avail of the lucrative 10% European manufacturing tax rate and to get a foothold into the European market. Resound manufactured hearing instruments, from the standard 'Behind The Ear' (BTE) hearing aids to the more complex and less visible 'In The Ear' (ITE) hearing devices. Initially the Cork plant was given a clear cut mandate to manufacture for a European market. As the years progressed and the competencies within the Cork plant grew, they soon found themselves upgraded to a worldwide manufacturing mandate and also distributing to Resound sales subsidiaries.

Peter Nolan was the first general manager of Resound Cork and was very influential in the manufacturing process.

'In 1997 Peter revamped the manufacturing process in the Cork plant and incorporated a teamwork based cellular manufacturing product line, which improved both cost and time efficiency and showed huge benefits to Resound's worldwide operations. When HQ saw the output yield, efficiency and cost improvements that Peter had instigated they immediately asked Peter to conduct a similar exercise at HQ in California'.

(Sean Gayer, GN Resound).

Peter went over to the states on a temporary contract and quickly got promoted through the ranks and became C.O. Head of Operations of the Resound Group. With Peter's absence, the Cork plant turned to the financial controller Sean Gayer who took charge at the helm.

The hearing aid industry is fraught with competition and there had always been talk that there would be some sort of consolidation within the industry. Siemens were the clear market leaders and there were a number of smaller companies hovering around the fifth, sixth and seventh spot on the ladder. If anyone was to catch up on Siemens market share then it was inevitable that some sort of consolidation amid the lower ranks would occur. In 1999 this move was pioneered by a company named Great Nordic Danavox (GN).

‘In 1999 the fun started with us when GN came in and took over Resound... Great Nordic have a simple business philosophy that if they are not in the top 3 in the world in the areas in which they are competing then they will remove themselves...now Danavox and Resound had shared in the development of some digital sound technologies...so the merger between Danavox and Resound was to create a bigger company and to create cost efficiencies’.

(Sean Gayer, GN Resound).

The fusion of Resound and GN Danavox was viewed in a different light by both companies. Resound employees talked about ‘the merger’ while GN Danavox employees talked about ‘the takeover’.

Peter Nolan remained Head of Operations on a worldwide basis in this tricky period of transition. Sales subsidiaries that had two locations in the one market, were quickly merged down to one. From a manufacturing perspective the newly formed GN Resound now had four sites and there was a need to quickly downsize this number to two locations. Resound had manufacturing locations in Ireland and Austria while Danavox had manufacturing sites in China and Denmark. These four sites now competed against each other for survival.

‘We immediately went into what we call a ‘production strategy’...workshop and project that was going to boil down from two to four. And China being \$1.20 an hour...as they were then...were going to quite easily trot home...Austria were a mature company at the time and we always felt that their cost structure wasn’t going to be competitive...so it boiled down to ourselves and Denmark for the second position’.

(Sean Gayer, GN Resound).

Peter brought the Cork plant to the table to effectively pitch for their survival. When the merger went through the Cork plant was viewed in the same light as the Chinese manufacturing site. HQ perceived both plants as low value assembly facilities, there for

cost reasons and nothing more. Now with Peter's voice at HQ's table he was able to promote the agenda and market the Irish plant as something much more than just a manufacturing site. Peter in his position could not be seen to be blatantly showing favourites but he was able to say some favourable words to some favourable people in an effort to cement the survival of the Cork plant.

Meanwhile in the Cork plant, Sean Gayer surveyed the situation that lay before him. He always felt that the dollar would rule the decision in the end and therefore felt that the Cork plant would pull through as a result. Headquarters, which now resided in Denmark, hired Price Waterhouse Cooper Denmark (PWC) to make an informed decision on the location of the second manufacturing site. In 1999 the Cork plant had a direct labour rate per hour of \$12 compared to Denmark's \$18 per hour. All the statistics showed that Denmark was at least 50% more expensive than Ireland. It was debatable whether this 50% could be retained within the organisation, but nevertheless, the Cork plant was shown to be significantly more cost efficient. The internal audit conducted by PWC stressed the importance of this cost differential between the plants and as a result the Cork plant was chosen along with Chinese plant to cater for the manufacturing needs of the organisation as a whole.

With the unusual decision to move manufacturing away from GN's home country, the Danish plant now strove to ensure their survival by capturing other operational functions. It was seen somewhat unpalatable to leave the Danish plant completely redundant. The Danish site and HQ were very well integrated. Although they were not on the same campus, they were however within an hour's drive of each other. With the loss of the manufacturing remit, the Danish production site now went back up the supply chain and looked at the most critical component of hearing aid manufacturing, the amplifier. The production of the amplifier in the hearing aid industry is viewed as the most complicated and difficult piece in the manufacturing process. It involves formulating computer programs and testing silicone wafer chips, cutting these chips and putting them onto Printed Circuit Boards (PCB). Historically this production responsibility had been outsourced to a third party vendor and proved costly to GN. The Danish plant now focused on this critical

component part of the manufacturing. They still had job losses from the manufacturing mandate, but from a Danish plant perspective they now were in a pretty good state in that they now made critical components at the high end of technology that could not be replicated easily in a lower cost environment.

Sean Gayer quickly realised the Danish plant mentality and realised that if the Cork plant did not advance on the mandate given to them, then they would be quickly phased out and become nothing more than a sub contractor. Sean Gayer had a good rapport with Peter Nolan, and he put this relationship to use in getting his voice heard at the corporate table. Sean foresaw that the future of Cork lay elsewhere in areas other than manufacturing. Ireland would never be able to contend with China and other low cost locations when it came to labour costs. With this in mind, Sean reviewed the global operations as they lay and he noticed a void. There was a need for someone to fulfil a worldwide distribution mandate as there was confusion among sales subsidiaries when ordering products from manufacturing sites. Sales subsidiaries within GN Resound were unsure whether they should be ordering products from China or from Ireland. There was a need therefore for one of the manufacturing sites to take control over worldwide distribution and become the Global Distribution Centre (GDC).

‘We went forward with our proposal...there was a need for it... you have to see the need...you have to provide the value added service...if there isn’t a need then your proposal will probably be filed appropriately. There was a need...because the company was like...do I order off Cork or China...and you have lead times coming from China that were different from Cork and we were proposing that this would make the supply chain and the procurement for the sales subsidiaries simpler...that they would order everything from Cork and that we would deal with them’.

(Sean Gayer, GN Resound).

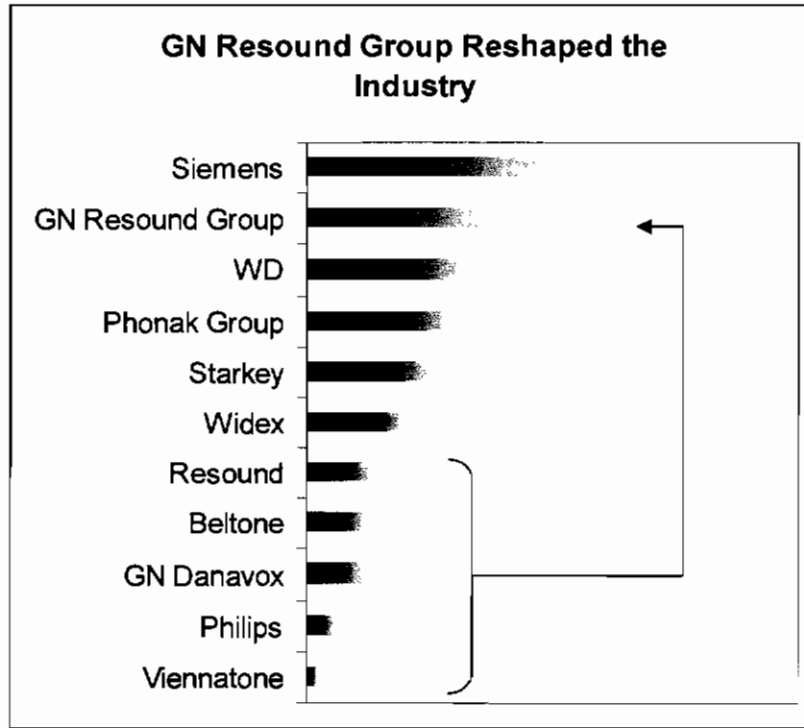
As the case was presented to headquarters, the Cork plant once again found that they were competing with sister subsidiaries for the impending mandate. Peter Nolan set up an impartial project team to gauge the competencies of each plant in fulfilling the distribution void within the organisation. Initially, the project team had three sites to consider – China, Denmark and Cork. Lead times, currency transfer and governmental restrictions from all three countries factored highly in the decision process. China’s lead time posed the major

disadvantage in the mandate going their way. They still had significant customs regulations and it took up to a week to get a component into China, a week or so to work on the product and also another week to get the product out of the country and into the sales subsidiary. China was therefore ruled out on the GDC mandate on these grounds.

The Danish plant proposed that they could distribute out of headquarters. They contended that China and Ireland could ship their finish products to Denmark and from here they could distribute to sales subsidiaries. The principle drawback to this option was that there would be a double handling of stock and an extra expense on the Cork – Denmark route. It was looking increasingly likely that the Cork plant was going to run away with the mandate, as their lead time to the market was commendable and once again they could beat off Denmark as regards cost.

However, in the year 2000, GN in their quest to be one of the top three contenders in the hearing aid industry bought Beltone, a company that resided at the bottom end of the market. Beltone was purchased because of its significant distribution channels in the US and their base in Eindhoven was a prime contender for the GDC. Beltone brought with it a number of assets as they had previously acquired Philips, another market competitor. GN Resound Group, at this point in time had consolidated the majority of small players within the industry. Now you ultimately had five companies coming together. Resound had previously purchased Viennatone, GN Danavox purchased Resound and now Beltone and Philips were added to the portfolio.

Fig 5.1 GN Resound Reshape the Industry



Available online: <http://www.gn.com/var/gn/storage/original/application/phpXsJmgM.pdf>

This fresh competition within the GN group stimulated further tension and uncertainty within the Cork plant.

Within this mix of plants in contention for the GDC mandate, Cork had strong competition from Beltone in Eindhoven who were also a supply centre. It was a very arduous process and PWC Denmark was once again employed to assess the likelihood of success within each plant. Intensive Machiavellian manoeuvring was rampant at a subsidiary level as each location lobbied headquarters in an effort to sway the final decision. Numerous forums were held whereby each subsidiary was encouraged to present the pros and cons of locating at their site. Heated debates ensued as sister subsidiaries compared financial figures and discussed the validity of opposition points.

In fact he [Peter] called us and told us that at one point in time that we were the only crowd that weren't lobbying as much as the others...and we said well we thought the process was going to be up front in the sense that we have all put our arguments and numbers forward...and now it is going...Everyone else [sister subsidiaries] was

doing a bit...but in fairness to Peter he made sure that we didn't lose out...but again it is one lesson learned for the future as we go forward.

(Sean Gayer, GN Resound).

The internal audit conducted by PWC revealed that the main contenders for the GDC mandate were Cork and Denmark. The lead consultant surmised that Cork's greatest strength was viewed as their ability to evolve effectively and efficiently since 1994 by setting up a manufacturing site. Management at Cork had continually looked at the best manufacturing principles and adopted a process orientation perspective to conducting business. Denmark, on the other hand, had been in business for years and had a great history and tradition behind them. The resounding conclusion, nevertheless, was that Cork's processes would lead to a more efficient and successful distribution centre. PWC's only reservation was that Cork lacked history and tradition in becoming the GDC. The probability of success lay with Cork but the probability of acceptance lay with Denmark. With the bulk of the product going to internal customers (sales subsidiaries), headquarters waived the tradition aspect which arose in the internal audit, viewing this as a secondary consideration to a GDC location.

'They were difficult discussions at the time...but if you didn't have them then you were compromising the position of your site going forward...you know you gotta wake up and smell the coffee very early in the morning...you would be asked to go in and make a presentation on why pick Cork in front of everyone...and every point you put up would stimulate a response and comments...the guy from Denmark says 'the distribution centre should be in Denmark because...' and you go 'no I don't think that that is right'...because when you are up there he will certainly be saying to you that your statements aren't correct...we had teams as well which were to look at things....I remember being on one team whereby what we finally agreed to present to the group...there were changes made to it...like in the five minutes before the presentation...and then you would have to be big enough and ugly enough to stand up and go 'excuse me but that is not what we agreed...there are two points at the bottom that have been added'.

(Sean Gayer, GN Resound).

Strained relations with GN Resound continued to increase after the GDC forum concluded.

The Cork plant now found themselves an interesting target for sister subsidiaries.

'I would say that when we set up the GDC we had sales subsidiaries that were saying stuff to our face that was different to what they were saying to corporate...it was in relation to quality of shipments...and we got input from various subsidiaries

that gave us a reasonable bill of health...one of the subsidiaries gave feedback to corporate that they thought Ireland were having a 20% problem in their shipments and it was by no means...it was less than 5%. If a sales subsidiary is under performing and we are the only supply site...Ireland are the blamed for the reason for the under performing...‘they are not giving me the product I need’...so we are sitting here thinking that we are doing a great job and there is a meeting happening somewhere in the world where we are getting slated...so we rang him [sister subsidiary]...and said ‘we are a bit disappointed here you know’...generally what he would say is that...he didn’t make that big a deal of it ...he would apologise to us in some sort of fashion and that he would send us on the detail...and then you get no detail unless you keep on him and follow him up.’

(Sean Gayer, GN Resound).

Further consolidation occurred within GN Resound as operations at Eindhoven were no longer viewed as essential. Eindhoven had previously been a production and distribution base under the Beltone regime, but now headquarters at GN Resound saw this as an added expense as Ireland and China catered for both the distribution and manufacturing needs. Cork reigned over all distribution and the manufacturing in Eindhoven was carved up between Ireland and China.

In a continual effort to enhance their mandate, Sean Gayer reviewed other aspects of the business where Cork could contribute.

‘If you are doing nothing with manufacturing and there is nothing in the pipe line for you then you have to face the reality that you are not going to be there in years to come.’ The whole Cork base has been built on manufacturing and now the question is where you go from here...The IDA would favour strongly that you go back into R&D. Now that would create certain issues for us...or you can go forward...by getting to your end customers. So here is where we have positioned ourselves at this point in time...new product introductions’.

(Sean Gayer, GN Resound).

The area of new product introductions captured his imagination. Each year, GN launches more than a dozen new products and this wide range of products needs to be renewed every three years in order to stay abreast of the market. Unfortunately, with this vast amount of new product introductions, mass production at a plant level was often fraught with production issues. Profitability and man hours were continually lost as manufacturing bugs presented themselves. Sean Gayer once again stepped forward with the idea that all new

products should initially be introduced into Cork with no production issues. It was proposed that any manufacturing issues that arose would be dealt with and schedules would be looked at so that there would be no disruption to supply once they release the product into production. Again lead time in and out of China posed a significant enough factor in giving the mandate to Cork. The Danish plant did not compete for the mandate. The consensus of opinion at headquarters was that the Cork plant was better equipped to iron out production bugs and review production schedules as they were active in a manufacturing capacity, something that the Danish plant had ceased in 1999.

While reviewing the manufacturing processes and schedules it became apparent that there was a demand in the marketplace for customisation of certain products. Certain customers were requesting logos on products and China had been doing much of this work in the past. Within this customisation process, Cork successfully argued that China's relatively long lead time hampered customer utility.

'China were doing much of the work on those products...we went out and argued that China shouldn't be doing those...and the corporate agreed that we were absolutely right and that they should be made in Cork on a assemble to order basis...every time an order comes in for that product the subsidiary wants it in about three days...it is going to take us two weeks to get it from China...we are then going to go into backlog...we have to then get China to make it...hopefully they will have all the components...they will make it and ship it to us and then we will ship it on to the customer'.

(Sean Gayer, GN Resound).

Past instances had shown that some customers were receiving their customised products up to a week and a half late. It was argued that further customisation work should be conducted in Cork on assemble to order basis. Headquarters concurred and China saw another casualty of their long lead time position.

In the era of major plant downsizing at the end of 1999, the Cork plant through some innovative measures and through internal market awareness were able to ensure continued importance within the organisational framework, and hence cement survival. Some hard

lessons have been learned through the informative years of the GN merger and undoubtedly these experiences will strengthen Cork's strategic demeanour in the future.

Recent developments have seen the Cork plant lose some of its manufacturing responsibilities. In 2003 one of GN's products 'Resound Air' was met with unprecedented market demand. Cork's manufacturing capacity was unable to match this demand and as a result the Chinese plant captured the manufacturing responsibility for Resound Air. The mandate display board at the Cork plant does not tell this harrowing story. It merely highlights Cork's mandates as they stand at present:

- The production of low demand, high variable products.
- Customisation of ITE and BTE devices.
- GDC mandate.
- First product introductions.

Sean Gayer believes that the way forward for a plant is through acceptability. HQ holds all the cards tightly to their chest and any radical move pioneered by a subsidiary plant has to incorporate internal political acceptance.

By moving up the value chain the Cork plant highlighted themselves as a complicated entity in the eyes of HQ. By entangling their activities within the corporate framework the Cork objective was to embed themselves and make their operations almost unshakable should a corporate reshuffle resurrect itself.

However in April 2006 the plant in Cork was forced to close with the loss of 180 jobs. One of the 'low demand, high variable products' which the Cork plant manufactured met with significant success and the Cork plant was unable to keep up with sales demand due to plant capacity constraints. HQ re-examined the Cork operation and concluded that the plant's manufacturing flexibility had been eroded. Production now transferred to China, while other activities, such as distribution and customer service, have moved to HQ in Denmark.

5.6 Case #3: Motorola

Paul V. Galvin founded the Galvin Manufacturing Corporation, in Chicago, Illinois in 1928. In the early years the company focused on advancing consumer electronics. The first product was a 'battery eliminator', which allowed consumers to operate radios directly from a household current rather than using batteries as supplied with earlier models.

In the 1930s the company progressed steadily to car radios and relabeled themselves 'Motorola'. The decades that followed saw Motorola grow incrementally and move towards government work, opening a research laboratory to explore solid-state electronics. By the 1960s, Motorola was one of the main leaders in military, space and commercial communications, had built its first semiconductor facility and was a growing manufacturer of consumer electronics.

In the 1960s, under the leadership of Robert W. Galvin, Paul Galvin's son, Motorola began to shift its focus away from consumer electronics. The colour television receiver business was sold in the mid-1970s, allowing Motorola to concentrate its energies on high-technology markets in commercial, industrial and government fields. Motorola took pride in the innovative aspect of their firm. They were the first company to introduce the car radio, they were involved in controlling television sets in the US at one stage and it was also the Motorola chips that were used to land man on the moon. By the 1970s Motorola were one of the first companies to introduce the personal computer microprocessor.

The early 1980s saw a period of large acquisitions on the international front. With the purchase of a number of international units Motorola now had a presence in Co. Cork, Ireland. The Cork plant started from a relatively humble beginning, initially operating with only five or six people within the computer services division. The plant gradually advanced to the cellular infrastructure division and employment at the Cork plant increased steadily up to the late 1980s.

'Cork came in as I said in 1981, in 1984 it moved from becoming part of the computer services division to becoming part of the cellular infrastructure division and it kind of limped along and hired a couple of people up to about 1988/1989...that was around the time when GSM came on the scene. Now we were

very fortunate as we were software development anyway...that was the mandate given’.

(John Philips, Motorola).

By the time Motorola introduced the concept of GSM to the organisation, the Cork plant was firmly positioned into capturing this impending mandate, as they were fortunate enough to be involved in other aspects of software development within the firm. Early trends suggested that GSM would make up a relatively small piece of the corporate portfolio and as a result the mandate was awarded without much contention to the Cork plant. Sister subsidiaries both in the UK and Spain did not perceive how big this project was or how complex the process of compiling a network would be. The underlying feel within Motorola was that this was a relatively simple task to complete. Nobody appeared to be thinking about the potential growth patterns. As the project was viewed as a pan-European project it made sense for a European subsidiary to take on the responsibility and with no other contenders in the frame, the Cork plant, with ten years experience in dedicated software manufacturing, filled the void.

However, this ‘small pan-European system’ soon spread to the Far East and revolutionised the communications sector as a whole. The Cork plant rapidly expanded in sync to deal with the increasing demand in the marketplace. HQ quickly advanced the Cork brief to act as the worldwide operations and maintenance centre for the GSM technology during this boom time.

Within this frenzy of growth, the Cork plant’s attitude focused solely on delivering the physical product, operating on the premise that all they had to do was to keep their head down and more work would follow.

‘Now we were quite naïve in terms of our political positioning within the corporation. Well there was significant growth and we never had to position ourselves well. All we had to do was to deliver the product...and our attitude was that all we had to do was to keep our head down and then the work would come and being the true boy scout and deliver on what you have been asked for and you will achieve what you need to achieve and you will get more work and everything will be given to you. And that is fine in an expanding situation when there is enough

demand in the market, and no one is too worried about the kind of cost structures that you would have in an environment like ourselves’.

(John Philips, Motorola).

This strategy worked well for the subsidiary in the years when there was enough demand in the market, and while demand was expanding cost structures did not appear to be an issue for HQ. While GSM took off worldwide, the Cork plant expanded its workforce accordingly and the future looked promising. Growth continued for about ten more years and in 1994 the employment at the Cork plant had reached an all time high of 120 people. As inflation gripped the Irish economy there was a realisation within the Cork plant that this was a make or break time for themselves in terms of cost effectiveness within their current location. Eastern European countries and Asian countries could now roll out the finished product at a fraction of the costs. Management at Cork now focused on becoming more politically astute and began a campaign to position themselves better than they had done in the past.

During this period of unease, the Human Resource department in Cork was run by John Phillips who now had the awkward task of finding a new overall site manager to take the plant forward. John met with the European Head of Operations to discuss the matter of finding a suitable candidate. After a brief meeting it quickly transpired that there was a suitable contender who could step in at the helm.

I had a meeting with him [European Head of Operations] and I said what we needed was a very strong site manager to move this site forward...because at the time I was involved with human resources and human resources only. And he said ‘I know just the person’. He talked to the person and they came across, brought his wife and family over...and the relationship with that person that I built up was tremendous’.

(John Philips, Motorola).

The Cork plant was fortunate enough to hire a plant manager who wanted to kick start his career, setting out with the goal of turning the Cork plant from a small back yard operation into something that was going to be significant within the whole operation. John in conjunction with his new plant manager tried to ensure their future by creating some extra capacity within their plant. HQ had yet again earmarked the plant for a site expansion that

would house an additional 300 personnel. John recognised that the future of the Cork plant pivoted around this 300 mark. Intense discussion with HQ ensued, where John and his Cork team sought an expansion that would house 500/550. HQ attempted to compromise with a figure which hovered around the 400 mark. The Cork plant counteracted with the argument that the IDA would not provide any support, financial or otherwise, for a building that housed less than the 500/550 mark. This approach worked in favour of the Cork plant and they were given the plant extension to suit this IDA imperative.

‘That was done through our relationship and a vision that said that we could fill a 500 / 550 person operation if we got the opportunity...so we realised that there were also other parts of the infrastructure businesses that could be added to this operation and by feeding a new site manager thoughts, views and opinions and him working the American politics on our behalf...we got more work in’.

(John Philips, Motorola).

Justification for increasing their mandate revolved around the fact that their new plant extension that had not yet been fully utilised, they were still a relatively low cost location (emerging markets such as India and China were not totally tried and tested), and the plant had a proven track record with a highly educated workforce waiting to be tapped.

In a global context, Motorola had invested \$50 million in their Dublin subsidiary which was involved in the manufacturing of batteries for mobile phones. Investment of this scale was made available with the view that Motorola were going to make and sell millions of handsets. Unfortunately, the amount of sales predicted did not materialise and a number of subsidiaries under the Motorola umbrella were divested to counteract the loss in market demand. Competitors such as Ericsson, Sony and Nokia were all hit financially with this global downturn and Motorola too was beginning to feel the pressure.

As Motorola began to cull its workforce worldwide the Cork plant perversely retained a workforce of 550 engineers, losing none of their employees. They were regarded as being relatively low cost location when compared to other sites within the Motorola family and were also producing a quality product that was viewed as being unique within the organisation.

‘Again as I said the openness in Motorola...in terms of if you put something on the table then they will listen to you. But there is a couple of people that you need to get on your side...you have to get the finance people on your side and make sure that the figures that you say are the right figures...you have got to show that the product you are producing is the right product and that it is the right quality and that it is delivered on time...you have got to show that you are capable of taking in new technologies’.

(John Philips, Motorola).

John Phillips progressed to subsidiary plant manager during this period of unrest. As a result John Phillips didn't have to do a huge amount of plant promotion in the beginning. Within the Motorola infrastructure they had three different technologies operating in tandem: GSM, CDMA and a US product called IDEM. They were all working under separate management.

‘The American guy that came across to be the head of Cork had gone on to be the Head of Operations and Maintenance on a global basis and he was given the brief to merge these onto one common platform and he had a huge belief and confidence in Cork as he had worked here for years and he saw that the attitude was right and that the work ethic was good and we didn't have to do a huge amount of selling’.

(John Philips, Motorola).

Now that John had ‘a friend’ at the corporate table he attempted to capitalise on this relationship and to establish new ones. He realised that if you had the right relationship with the right people then mandate retention and expansion worries could be contained. John compiled a short list of HQ staff that needed to be brought on side, while at the same time tapping into the American psyche in an effort to impress.

This ‘American psyche’ was achieved by creating a community presence, by organising sponsorship deals with the local community, and by placing a number of Motorola engineers in UCC (University College Cork) occupying part time lecturing positions. Motorola in the US had historically run a ‘Junior Achievement’ scheme whereby employees would go into primary and secondary schools to teach. The ethic in the Cork plant was that American corporations love to be associated with community outreach programmes and by conducting a similar scenario in Cork then the cultural divide could be

narrowed. As regards the HQ staff that needed to be influenced, John conducted a brief information search to find out what their key interests were and he now set out with the soft goal of attracting as many of them as possible to the Cork plant (particularly while community outreach schemes were in operation). HQ meetings in Cork usually contained some element of informal outing on the golf course in which John attempted to advance the relationship aspect of his work. One particular anecdote recounted by John detailed an American HQ employee who was viewed notoriously by sister subsidiaries as hard to work with. John on the other hand had an exceptionally good working relationship with this man, all of which stemmed from a golf outing.

‘The only thing that I can put it down to is this...it is not that he was a bad guy...in fact he was exceptionally good at his job and he had a very simple view on life...but the simple thing was that we golfed together...when we golfed together...we got rained on so you get wet together...you get embarrassed together...because you do a bad shot...you lose maybe a dozen balls in a round of golf...you laugh together...because maybe someone had lost about 10 balls then he is on the green and chips a great ball into the hole. And then quite literally you shower together and then you have a meal together...and there isn't much more that you need to know about the individual. There is a huge amount of male bonding and it's just a question of what makes that person tick and that particular person during that meal at the golf club said... ‘you know I just regard myself as a project manager...if you give me three months notice that there is a problem coming then I can help you solve the problem...if you give me three hours notice that there is a problem then I can't solve it...and a lot of people don't understand that.’ As soon as I heard that I came in and I told all the people here ‘if we have a problem make sure he knows about it in advance...don't leave it till the last minute.’ And he never had a problem when we called and it is just understanding what turns him on, what they believe their role is and how they can help’.

(John Philips, Motorola).

In recent years the Cork plant has had to contend with competition from sister subsidiaries in India and China who perform a similar software development mandate to their Irish counterparts, but at a fraction of the cost. Euro exchange rates have fluctuated heavily with the introduction of the common currency and the strength of the US dollar has increasingly made life hard for John in justifying his software mandate. Addressing these issues John initially set out to convince HQ that the Euro conversion rate was only a temporary glitch and that they would expect it to go down and stabilise in the future. In an effort to reduce this currency conversion factor Cork were given permission to manage their finances

themselves, now controlling all aspects of their costs. In tandem, John set about making a case for keeping their functions at Cork, maintaining that they had 540 people quite strong in knowledge and intellect with over 20 years experience and that their cost base is still an awful lot cheaper than the US and the UK. While arguments following that tact have saved some functions in Cork, the reality is that certain aspects of Cork's mandate portfolio have relocated to the Far East. Cork was ordered to relinquish a small piece of software development (not considered high up the value chain) to their sister subsidiary in China. In the same move John converted his now redundant staff members into higher grade functions in the value chain. This evolution of mandate and movement up the value chain was achieved through John's interaction with HQ, all the time highlighting the wealth of experience (15-20 years per employee) that now lay untapped within the Cork plant.

While continually pushing for existing functions, John and the management team at Cork also indulged in some unpopular methods of capturing mandates. While stressing that credibility, a good history and reliability are paramount within the Motorola Corporation, John on a number of occasions carried out tasks on a subversive level in an effort to cement survival, operating on the premise that it is easier to gain forgiveness than permission from HQ.

The first unpopular incident occurred when John and his team started working on a common platform solution for one of the technologies that they hadn't been given the mandate for. When they had reached some understanding with the technology they then casually presented it back to HQ stating 'this is the project plan and we are only a couple of months off integrating the technology.'

'Well...they wanted to know why it wasn't appearing on the time sheets and all the rest of it...cos each engineer is meant to fill in a time sheet on what they have been actively working on. And we said that we just put it down under development time...to understand what it meant for us...it took a small number of engineers to work out and to make this happen...and so there it is'.

(John Philips, Motorola).

The HQ response was favourable and contained an element of light relief, broadly stating 'Very good...continue doing it... it was something that needed to be done...thank God someone is working on this' (John Phillips, Cork).

The Cork plant has continued to prosper in recent years, taking on more global functions becoming the European software centre and also capturing a number of R&D functions. Even though the culture at Motorola has been termed as 'friendly' by both John and his staff, the Cork plant has dodged its share of sister subsidiary unfriendliness. As the Cork plant escaped the corporate culling of the 1990s sister subsidiaries seem to have held a slight amount of resentment to the success that Cork exudes. This resentment culminates in the occasional outburst at collective sister subsidiary meetings, 'why couldn't we get that three months earlier...if we had that function then we could do that'. At present, the Cork plant's scheduling and figures would appear to have held up to scrutiny.

With the emphasis on advancing customer relationships, HQ, in 2003, conducted a customer forum whereby twenty of their large corporate clients were invited to visit the various Motorola subsidiaries both in Europe and Asia. The principal aim was that Motorola could address various customer concerns. The forum was also earmarked to rotate on a yearly basis among the various subsidiary locations. Motorola in Cork was third or fourth down the list as the most desirable location to house this meeting. However, in January 2003 when the customer forum convened in Cork, the corporate clients were so impressed with the operation in Cork, and the openness of the session, that they requested that the forum would reconvene at the same location next year. Yet another relationship managed effectively by John Phillips and his management team.

'They said that we were probably the best plant and they had the most open session with us and funnily enough the idea was to actually rotate the exercise among the locations and we were third or fourth down the list and we were expecting them to go somewhere else next time...but they said that they would actually like to come back to Cork next time. That's dealing well with the customer'.

(John Philips, Motorola).

What constitutes effective subsidiary management success and survival within the Motorola plant at Cork? John has his own unique opinion...

‘You have got to be able to make the connection. There is no point building the connections because you won't get to the table unless you are fulfilling your core mandate in terms of quality, delivery on time and controlling your finances...and if you deliver that then that gives you the credibility to get to the table and then to go looking for more. Then it is a question of making sure all of the people working with you in your site are connected to the outside world in terms of the corporate headquarters and other groups of people. So...I know at one stage that we were Air Lingus's fourth best customer out of Cork airport...because we would have people going to the US...we would have people going to China...going to Europe...to India...to forge the connections...to see what is going on...and it wasn't so much 'what can we keep from you?' It was a question of 'what can we do for you to make you more successful?' How can we work closer with the customer? And that gave us great credibility because we were seen, not to be holding stuff close to our chest...but we were viewed as very open...spreading it out and saying 'come and have a look at Cork and if there is anything that you can pick up then go and take it. A lot of managers fear that something is going to be taken from them. Information is power...the actual thing is that it can work the opposite...corporate headquarters may think that that person is not actually a team player. Whereas if you are more open and willing to share then the likelihood is that you will be given more'.

(John Philips, Motorola).

5.7 Case #4: M/A-Com Eurotec BV

M/A-COM Eurotec (Microwave Associate Communications) is a leading designer and manufacturer of RF signal processing components. It designs, assembles, tunes, tests and finishes a broad range of mixers, power dividers, couplers, circulators, transformers, switches and I/Q modulators. The company structure is complex with a number of varying subunits. M/A-Com are an independently structured subsidiary of AMP, who are a sub unit of Tyco International. AMP and M/A-Com merged in 1995.

M/A-Com Eurotec, with its headquarters (HQ) in Massachusetts, controlled an array of subsidiaries. When the Cork plant joined the company they found themselves within a wider family environment conducting business with six sister subsidiary sites. As a global recession hit the market, the threat of closure at the Cork plant in the early years was a credible concern.

The Cork plant was originally set up in 1985 as Adams Russell BV. Their initial mandate was to act as a subcontract manufacturer of Radio Frequency (RF) and microwave components for a worldwide market. With four years of trading, M/A-Com acquired the facility in 1989 from Adams Russell, appointing Brian McCoy as General Manager.

‘Well it goes back a long way...we started back in 1985 with Adams Russell BV and we started up to manufacture world with our low cost labour, on a global scale....it was defence related product...so what we would do is we would make the product up to a certain level... the guys back in the states would take that product and do the shake rattle and roll...put it through all its environmental...and then they would ship it on to a defence contractor...the non defence stuff would be sold out of a standard catalogue to anyone around the world’.

(Brian McCoy, M/A-Com).

Brian McCoy, an engineering graduate of D.I.T, began his career as a trainee with General Electric (GE) in 1975. While working with GE as an engineer, he studied at night for a Master's degree in Industrial Engineering. On receipt of his Masters he moved to Cork to work with Apple Computers, and later again he moved to M/A-COM Eurotec. He held various senior management positions with all three companies.

The low cost environment that enshrouded Ireland for many years slowly began to erode away and Brian McCoy realised that something had to be done to cement the plant's survival. By the late 1980s the facility at Cork was producing a \$6 million business. Brian McCoy had information from a reliable source within HQ that in order for the Cork plant to survive they would have to create a \$20million turnover within three to four years.

'But the defence business in 1987/8 went into a bit of a tailspin. So there was very little going on in defence and there was very little going on in commercial... So because we were on our way down and they were asking what we were going to be doing about this operation'.

(Brian McCoy, M/A-Com).

To give the Cork plant a fighting chance, HQ gave the plant the manufacturing mandate for a group of ferrite circulators which were introduced in 1992. This product line was however not accompanied with any R&D responsibilities, something that was at the forefront of Brian McCoy's mind.

M/A-Com Eurotec had been under increased pressure from a large competitor called 'Mini Circuits' for a number of years, and it was looking increasingly unlikely that they would catch them. As the Cork plant was struggling for functions beyond their manufacturing mandate, HQ gave the Cork plant the arduous task of eroding Mini Circuits advantage, by designing a competitive product range.

'We did have a huge competitor called 'mini circuits'...and we were never able to compete with them...so they [HQ] said 'can you guys see how you would develop products that would be able to compete with the main competitor'...because there was no way that we were going to be able to compete with him. I was an electrical engineer background and I was taken out and asked to design a competitive range of products to compete with this guy... well we really copied our competitors product...but he had copied our parent companies product in the first place...and it was extremely successful and we ended up getting 30% of the European market within 3 years. We didn't do as well in the U.S market because we didn't have a marketing campaign there or a representative...I actually did all the marketing throughout Europe. And after a while I became general manager of that business'.

(Brian McCoy, M/A-Com).

Brian McCoy accepted the challenge, and from his engineering background and extensive industry knowledge, he designed and produced a range of products which he felt could

compete with Mini Circuits. There was a continual focus within Cork to produce the product at minimal cost in line with a low cost strategy. Within three years of market exposure the product was widely viewed within HQ as a major success story for the Cork plant.

This success however also brought along with it some casualties. The low cost strategy that they had adopted at the time forced Brian McCoy to outsource manufacturing of the product offshore in India and the Philippines. While this move had been suggested by HQ, Brian McCoy ultimately took the decision and controlled the relationship with various third party vendors. Cork had designed the product range so it was viewed as fitting that they controlled the outsourcing relationship with component manufacturers.

‘I think that it was an unusual situation. But we grabbed a hold of it way back then and we did a good job of it. We were so successful in the low cost stuff and we used off shore and we were able to manage off shore way better than HQ were able to manage...cos we treated off shore with respect. They didn’t like been treated by the guys in the states’.

(Brian McCoy, M/A-Com).

With this European success behind them, the Cork plant now sought to break into the American market. HQ provided a sales force to push the product line, while Brian McCoy put in place a product manager to control the sales force and report back to Ireland. R&D and marketing of the product line and manufacturing at a low volume were also retained at Cork. The American market in turn responded favourably.

Cork quickly amassed a reputation within M/A-Com Eurotec as a subsidiary that was very competitive and that could effectively manage a relationship with third party vendors. Outsourcing to third parties was something that HQ and sister subsidiaries historically had been bad at managing. Resulting from this, Cork soon found themselves responsible for various outsourcing relationships on behalf of the HQ and sister subsidiaries. This at times was hard to swallow for some sister subsidiaries who now found that some of their functions were captured by the Cork plant. Brian McCoy recounts the reaction by one sister subsidiary plant in particular.

‘They had this product manager and he saw how successful we were with the first product and he didn’t like the idea of us being more competitive than himself...but in the end he was forced [to give up his mandate] by his boss... [It was] just the economic logic...we have done such a good job with the other product... [HQ said] ‘Why don’t you give them a chance on this?’ In the end we got better yields there, and so that created a bit of friction there [with the sister subsidiary]... We were running better yields and anytime we were slipping up the guy [GM of the sister subsidiary] would come down on us like a tonne of bricks because he really wanted to control everything including the manufacturing’.

(Brian McCoy, M/A-Com).

Brian McCoy credits the plant's R&D as one of the reasons the company remained viable after its problems in the late eighties. It has now reached the stage where students are going to M/A- COM in the US on work placements. One of driving forces within the Cork plant has been the ability to increase the skill set of each individual employee. Brian McCoy adopted the policy of continually hiring engineers to do the job of technicians. These engineers would advance their position within the Cork plant. From a starting point as a technician they would progress to manufacturing engineers and eventually end up as product designers. In the early years of the plants development Brian McCoy was the only designer on site. This situation soon changed as Brian McCoy’s skills advancement program took hold and soon through various product lines the number of design employees rose to twenty.

This left Brian McCoy in a position to offer more to HQ by way of mandate fulfillment. Brian recounts the unique position in which he was in.

‘So we kind of increased the skills of the production staff...so we had very good engineers and then we were saying to HQ ‘hey by the way I know you can’t design that stuff...but we can design that stuff for you here’... So we have twenty people working on that here and about thirty working on that [design] in the States and we have a collaboration between the two’.

(Brian McCoy, M/A-Com).

Sister subsidiaries continually lost out to the prowess of Brian McCoy and his team in the Cork plant. Cork took on the label as the plant that could turn an unprofitable situation around.

‘There was one product line that we got complete control of and that was actually from the UK...my boss at the time would have said ‘you can’t manufacture in the UK it is too expensive...the guys in Ireland have done this they know about the product and have moved some stuff off shore...we worked with the UK on that and they were very upset that we got their work...so that relationship was fraught with problems...and eventually what happened was the guys in the UK wanted to hold on to manufacturing and there was no way that they could be competitive with it over there so they moved it here and they got all upset and because of all this fighting backwards and forwards the product line wasn’t going anywhere. What we did was we basically decided to close the product line down...fire all the design engineers and we did that...this was ourselves and the UK...then some big potential came in and we decided to hire some engineers here to work on it and that has turned into a big business...\$12/13m business now...from only about 2 yrs ago.’

(Brian McCoy, M/A-Com).

The Cork plant has been battling since the early days. They conduct a strategic assessment on an annual basis to view their fit within their continually evolving environment. The strategic focus is on trying to perceive threats early enough in order to do something about them. Harsh lessons have been learned from the past, and Brian McCoy fully recognises the need to build on relationships and to source allies within HQ.

‘You travel over as much as you can to see what is being said. You know I have been travelling one week out of every four over to the States for the past 3 years. So you would have your buddies over there...if I ever need to know what is going on...on the ground then he [his ally in the U.S] will find out and say ‘someone is digging the dirt’...we have enemies over there. So my boss got fired about 2 or 3 years ago and a lot of the boys were saying...‘he was protecting you...his baby was Ireland’...so when he moved on and we got this new guy...he is not half as protective of us. So we have new guys coming in now and saying ‘oh these guys are not as good at this...they have quality problems...they have got this and they have got that’. So he would be listening to that...there is the dirty stuff that goes on you know.’

(Brian McCoy, M/A-Com).

CHAPTER 6
DISCUSSION AND ANALYSIS OF DATA

6.0 Discussion and Analysis of Data

The objective of this chapter is to compare the data developed in this study with the literature reviewed in earlier chapters. The literature was developed over two chapters. The first (chapter two) examined the definition of entrepreneurship, and argued for a reliance on Long's definition. Thus the first section of this chapter employs Long's definition to the cases, to examine whether each case represents an example of entrepreneurship. The second chapter (chapter three) drew in closer to the issue of subsidiary entrepreneurship, highlighting what it means in practice and also commenting on the incompatibilities that arise in the transposition. The second section of this chapter examines the issues surfaced in the discussion of incompatibilities, before finally investigating the views articulated by the subsidiary managers on what 'entrepreneurial' activities work.

6.1 Analysis of Case Data

It must be noted that all four cases examined in the course of this study were picked by the IDA as exciting sources of entrepreneurial behaviour. Paddy Gallagher acted as a research coordinator and selected individual subsidiaries that were noted within IDA circles as fitting the entrepreneurial mould.

As the literature review stressed there should be some sort of uniformed understanding relating to a definition of 'subsidiary entrepreneurship'. While a number of studies have undertaken to research the area (e.g. Sohail and Ayadurai, 2005; Zahra, Dharwadkar, and George, 2000; Birkinshaw, 1999, 1997, 1996) remarkably no one has outlined a conclusive theoretical boundary. A summary of the more memorable definitions are detailed below.

Birkinshaw (1997) (as cited in Yamin, 2002: 141) draws on three aspects of subsidiary entrepreneurship

'A predisposition to proactive or risk-taking behaviour, use of resources beyond the individual's direct control and departure from existing practices'

Birkinshaw (1998: 53) while addressing subsidiary initiatives (internal and external) hints at another definition for subsidiary entrepreneurship.

‘The common theme we saw in both external and internal initiatives was the entrepreneurial component. First, we saw the need for proactive, pushy, and sometimes Machiavellian tactics on the part of subsidiary managers, as they sought to gain currency for their projects in headquarters (Birkinshaw, 1998:53)...Subsidiary managers were like entrepreneurs, looking for inefficient practices within the multinational system and proposing solutions to better them’ (Birkinshaw, 1998: 56).

Birkinshaw (2000) also sees subsidiary entrepreneurship as ‘an agent of market change’ and allies internal initiatives within subsidiaries to a Kirznerian view of entrepreneurship, wherein the focus is on subsidiary managers developing initiatives that in effect make for more efficient allocation of resources within an MNC. This process typically involves MNCs rationalising activities, usually with an agenda driven from the HQ perspective.

Dimitratos et al. (2004: 17) posit,

‘As far as entrepreneurial learning is concerned, it is mainly the subsidiaries in host markets that contribute to organisational memory of the firm. Managers and employees in foreign subsidiaries acquire knowledge on entrepreneurial opportunities and ways to act upon them through interaction with especially customers but also suppliers and direct competitors’.

Zahra et al. (2000: 3),

‘Some subsidiaries have seized the opportunity...by pursuing innovative ventures and engaging in radical innovation...these subsidiaries have also become proactive in their operations...[and have a] willingness to take risks’.

McDougall and Oviatt (2000: 903),

‘a combination of innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organisations’.

Birkinshaw (2000: 17),

‘the use of resources beyond the control of the subsidiary...acquisition and use of power and influence’.

With these parameters in mind each case study was reviewed and further understanding sought.

6.2 Reflecting on the Apple Case Study

The IDA use the Apple case and the managerial experience of Joe Gantly as the definitive exemplar of subsidiary entrepreneurship. Joe heroically saved the subsidiary by closing the manufacturing lines, outsourcing them, and winning new mandates for the Irish subsidiary. Both Gus Jones and Dermot Coffey are effusive in their praise of Joe Gantly’s management of the Apple subsidiary. ‘Well they were purely manufacturing at first, they now have re-emphasised manufacturing and they now do a lot of customer support and text support. You would have had very good management in Cork that would have led the battle but they would have been helped by the IDA to get down that road...the people who didn’t do that are the people who have vanished’ (Dermot Coffey). Indeed, Joe Gantly’s pride at his story of subsidiary entrepreneurship clearly shines through: ‘we put together a case that was pretty compelling and pretty easy and we were supported in the US because of our success’. The Apple case meets Long’s (1983) test for entrepreneurship. Apple in Cork and Joe Gantly acted entrepreneurial as they innovated and took risks in uncertain times, had managerial competence and demonstrated that they were opportunistic and proactive. Apple’s Cork subsidiary put together a proposal to establish a customer contact centre (a multilingual call centre) to replace their manufacturing mandate. This was an example of proactive, opportunistic behaviour: ‘telesales then was something that Apple didn’t do historically...we put forward a case for doing a pilot here and it worked and now we run all of the European telesales out of here now, which is about 70 people...which is a \$400 million business’ (Joe Gantly). They also initiated the outsourcing of their manufacturing as their cost base became uncompetitive and again this shows a proactive, risk taking approach by the subsidiary management: ‘I mean at the point in time where it became clear that we couldn’t remain competitive in manufacturing...and that was very, very clear six or seven years ago...you had two options really...one was that you let it happen...you just

close the shop...the other option was to try to integrate forward into the customer base' (Joe Gantly).

Naturally, if a definition of entrepreneurship does not allow for mature large enterprises to be considered as entrepreneurial, Apple's Cork subsidiary activities could not be considered as entrepreneurship. Having said that, Apple Cork cannot be considered to have an agency problem, as the subsidiary manager perceived his survival within the organisation as dependent on performance: 'If I repeatedly fail I will be fired, it is that simple' (Joe Gantly). This contradicts what theorists on agency would have expected to find. The third incompatibility that arose in the literature review was that of market orientation. Although Apple Cork is acutely aware of external market dynamics, this is not their main market force. The subsidiary's market, is as Birkinshaw (2000) points out, both internal and external, facing competition within its network from sister subsidiaries and HQ, as well as outsource suppliers. Thus, under this Kirznerian definition of entrepreneurship, Apple Cork would not be considered entrepreneurial. The final incompatibility is that of innovation, and whilst there is organisational innovation by way of outsourcing and insourcing, there is not classic product innovation.

Even with the above considerations in mind, it clearly is a noted instance of subsidiary entrepreneurship. Under Birkinshaw's (1997) definition, Apple Cork and Joe Gantly showed a proactive predisposition to risk taking behaviour (examples are described above), use of resources beyond the individual's direct control (using the IDA to build a case for establishing a call centre) and departure from existing practices (establishing the pilot study). Furthermore, Apple Cork are striving to establish their mandate towards a complete value chain as recommended by White and Poynter (1984): 'The only person that doesn't have something located here is the legal person...we don't have a lawyer in the building. Everyone has an interest here and that extends the mandate in a relationship sense as well as in a business sense' (Joe Gantly). On the contested issue of building trust or acting subversively, it is very clear that Apple Cork have considered which strategy to pursue and the tradeoffs involved: 'The fundamental thing that extends a mandate is credibility' (Joe Gantly).

As a result, it is difficult to be conclusive whether the Apple case represents an example of entrepreneurship. It is a compelling and interesting case of subsidiary management, and has been described by both Apple and the IDA as being subsidiary entrepreneurship, but as a result of the unresolved entrepreneurial terminology some would see it as entrepreneurship, while others would see it as being something else.

6.3 Reflecting on the GN Resound Case Study

The GN Resound case is a more delicate case than the Apple case, in that the manager had successfully transitioned the subsidiary through a merger, which led to an integration and consequent rationalisation of production sites. In a contest for production sites where two survived and two closed, the Irish subsidiary successfully positioned themselves. The Irish management are acutely aware of the situation, and the opportunity that the tools of subsidiary entrepreneurship present, but ultimately they are stifled in their desire by a disinterested HQ. The subsidiary still feels the warm glow of success from winning the competition for survival between manufacturing plants, and winning the global distribution centre mandate.

The GN Resound case partially meets Long's (1983) test for entrepreneurship. GN Resound in Cork acted entrepreneurial as they undertook market innovation, had managerial competence and demonstrated that they were opportunistic and proactive. The Cork subsidiary introduced new product lines offering customisation (such as putting a logo on the product), sensing and responding to a market opportunity. This was an example of proactive, opportunistic behaviour as well as market innovation. In a series of long interviews, Sean Gayer shared both his subsidiary's case history, but also his reflections on the practice of subsidiary management. In doing so, he demonstrated a knowledge of the academic discourse on subsidiary management, reflecting particularly on the Apple Case (which is in common currency) and on the work of Delany and Molloy: 'Yeah Ed Delany...he was quite right in saying that manufactures are subcontractors and you got to take on other activities...and in some areas he would even suggest taking on some subversive activities' (Sean Gayer). Winning the GDC was undertaken by a different team

of managers who have since left the subsidiary, and ultimately the mandate was lost. Since that time, wins have been modest and defensive in nature, each attempt at proactiveness has been blocked by HQ: 'The next point obviously is that we need to take that business in and excel at it and then say 'look guys...do you want us to manage the order book...because you know it wouldn't be much more work and it makes more sense.' And I have already had those discussions with my boss...and they are saying that it makes more sense...but let's see how you go first' (Sean Gayer). Perhaps this reflects Ghoshal and Barlett (1989) who lamented that it was regrettable that subsidiary entrepreneurship is not promoted by HQ.

As in the Apple case, if one was to accept that this is entrepreneurship then one would have to accept that large mature enterprises can be entrepreneurial. The second incompatibility between entrepreneurship and subsidiary entrepreneurship is the agency problem. Within the case it is clear that management are eager to survive and prosper within the MNC network, and they interpret this as doing what they are told. Like the Apple case study, GN Resound appeared to dispel a number of elements in the traditional subsidiary strategy literature. Sean Gayer and his management team did not operate within a quasi clandestine framework. Management at GN Resound continually sought HQ approval for mandate expansion and did not 'bootleg resources' as a means of achieving the desired outcome (Birkinshaw, 1998; DeLany and Molloy, 1998). These elements of 'best practice' were viewed to shatter any trusting relationship that had been built up with HQ. As a result, agency problems did not distort management practice within the subsidiary. GN Resound in Cork undertook market innovation (particularly in the instance of customisation), but the focus of the case is clearly on the internal market for mandates. Thus, like Apple, under this Kirznerian definition of entrepreneurship, GN Resound Cork would not be considered entrepreneurial. The final incompatibility is that of innovation, and whilst there is modest evidence of product innovation, it is limited in scope.

Whilst the case does not represent an example of subsidiary entrepreneurship, it does represent an example of thwarted attempts at subsidiary entrepreneurship. Even though there was a proactive predisposition towards innovation, this did not gain support from the

HQ and was halted. The manager sided with Young, Hood, and Dunlop (1998) and focused on building trust at the expense of undertaking subversive techniques (Delany 2000; Delany and Molloy, 1998), such as bootlegging resources (Birkinshaw and Fry, 1998).

As a result, it is difficult to be conclusive whether the GN Resound case represents an example of entrepreneurship, or indeed a case of subsidiary entrepreneurship if one only measures activities and outcomes, as opposed to rhetoric, although both discourses are to the fore of the minds of the subsidiary management.

6.4 Reflecting on the Motorola Case Study

The Motorola subsidiary at Cork progressed from what Delany and Molloy would style as a boyscout operation to a subversive operation. John Phillips readily admits that the plant was politically naïve in the early years, but this situation changed with sister subsidiary unfriendliness. John Phillips has managed to effectively navigate his subsidiary through tough times when corporate divestment was widespread. Other subsidiaries in the Motorola family have lost mandates and staff while the Cork plant has emerged relatively unscathed: ‘There were other centres that had to reduce their engineering head count by over 50%...and we had to reduce ours by zero’ (John Phillips). The case study also touches on the necessity to forge relationships within the corporate family and to keep track of sister subsidiary operations and advances to HQ. Motorola differs from the two previous case studies with regard to subversive manoeuvring. Both Apple and GN Resound viewed trust and subversive meddling as mutually exclusive strategies within an MNC. The consensus of opinion was that any attempt to indulge in subversive behaviour would shatter trust. John Phillips has highlighted that this is not so and stresses a need for both aspects in carrying out his managerial duties. John Phillips continually promotes the openness within Motorola and has stressed the importance in creating the appearance of being a team player: ‘If you are more open and willing to share then the likelihood is that you will be given more’ (John Phillips). That said, John Phillips has also adopted some subversive techniques: ‘There are some things that we have done by ourselves and then we would ask for forgiveness after’ (John Phillips).

The Motorola case meets Long's (1983) test for entrepreneurship. Motorola in Cork and John Phillips acted entrepreneurial, as they innovated and took risks in uncertain times, had managerial competence and demonstrated that they were opportunistic and proactive. Motorola's Cork subsidiary grew their original mandate to include R&D functions, building an extension to house 550 additional employees so that surplus plant capacity would act as an incentive to bring more functions to the Cork plant. This was an example of proactive, opportunistic behaviour: 'No you haven't got the right answer, go back and build it for 500/550. The IDA won't be interested in anything less' (John Phillips).

They also initiated the management of their own finances in the Cork plant in order to control their cost base. This shows a proactive, risk taking approach by the subsidiary management: 'The Euro was getting very strong against the dollar. So in terms of ducking and diving we had to convince the Americans that the Euro conversion rate was only a temporary thing and that we would expect it to go down...and the one thing that we have done is that we have managed our finances here and controlled all of our costs well' (John Phillips).

With regards to the incompatibles, firstly if a definition of entrepreneurship does not allow for mature large enterprises to be considered as entrepreneurial, Motorola's Cork subsidiary activities could not be considered as entrepreneurship. Having said that, Motorola display a number of activities that could be classified as entrepreneurial. The second incompatibility refers to agency problems. Motorola do not appear to have an agency problem, as the subsidiary manager continually sought to have more functions brought to the Cork plant. This is at odds with what theorists on agency would have expected to find. John Phillips and his management team did, however, operate within a quasi clandestine framework (siding with Delany and Molloy's 1998 subversive work over and above Young, Hood and Dunlop's 1998 work stressing the need to build trust): 'The first unpopular thing that we did was that we started working on a common platform solution for one of the technologies that we hadn't been given the mandate for. And then we just presented it back and said 'look...this is the project plan and we are only a couple of months off integrating the technology' (John Phillips). Like many of the other subsidiaries in the study the focus for

the subsidiary was on the mandate retention within the internal market. Thus under Kirzner's (1973) definition of entrepreneurship it would follow that Motorola could not be considered entrepreneurial. The final incompatibility is that of innovation, and while there is organisational innovation by way of software development in the R&D section in the Cork plant, this is relatively modest in nature.

Having said this, it clearly is a case of subsidiary entrepreneurship. Under Birkinshaw's (1997) definition Motorola in Cork and John Phillips showed a proactive predisposition to risk taking behaviour (examples are described above), use of resources beyond the individual's direct control (working on a common platform solution for one of the technologies that they had not been given the mandate for) and departure from existing practices (controlling all aspects of their costs). On the issue of building trust or acting subversively Motorola Cork has considered both options. Firstly on the subversive side, 'well, there are some things that we have done by ourselves and then we would ask for forgiveness after' (John Phillips). And secondly on the need to build a trusting relationship, 'we were seen, not to be holding stuff close to our chest...but we were viewed as very open...spreading it out' (John Phillips).

It is difficult to be conclusive whether the Motorola case represents an example of entrepreneurship. It is a convincing story of effective subsidiary management, and has been described by both Motorola and the IDA as being a case of subsidiary entrepreneurship. But, yet again, as in the other cases, some would see it as entrepreneurship, while others would see it as being something else.

6.5 Reflecting on the M/A-Com Case Study

The last case study M/A-Com Eurotec BV was another subsidiary which had gone through substantial change. The IDA (as with all the other subsidiaries investigated) had earmarked the subsidiary as a plant that had struggled for survival at one point in time and was

beginning to find its feet. It was potentially another case where subsidiary entrepreneurship could be found.

M/A-Com is different from the other subsidiaries in that it has full control over a number of functions in the value chain (often called having a World Product Mandate), undertaking R&D, manufacturing and sales and marketing and customer support. Soon after being established, the subsidiary came under pressure after its HQ was taken over by a competitor. From then on the subsidiary became acutely aware of the need for subsidiary entrepreneurship.

The M/A-Com case meets Long's (1983) test for entrepreneurship, perhaps more than any of the other cases. The subsidiary and Brian McCoy acted entrepreneurial, taking risks in uncertain times. At one point the subsidiary took responsibility for competing with a troublesome competitor of the HQ. It designed, manufactured and marketed a product line having never done so before, and this product successfully pressurised the firm's competitor. Since that time, the firm has been proactive and opportunistic. Unhappy with the sales activity of a sister subsidiary of a product it was manufacturing, it lobbied customers to lobby HQ to take the mandate itself. These two examples show the managerial competency of the firm, but the financial performance of the subsidiary in growing from a turnover of US\$6m to a turnover of US\$100m is more compelling.

As with all the cases, if the definition of entrepreneurship does not allow for mature large enterprises to be considered as entrepreneurial, then M/A-Com Cork cannot be considered as entrepreneurship. As the subsidiary has the full value chain for each of its activities it is independently profitable within the group and has simple performance metrics. Thus the subsidiary has taken tough decisions that are in the interest of the MNC, but have negative implications for the Cork subsidiary, such as outsourcing. The aims of subsidiary management are substantially in confluence with the aims of the HQ and the greater MNC. Thus, it is not apparent that there is an agency problem. Having said that, the subsidiary does not side with Young, Hood, and Dunlop (1998) who emphasised the need to build trust with the HQ, and instead is willing to engage in subversive behaviour: 'Instead of hiring

two technicians we got two engineers ...who become manufacturing engineers, improving the yields on the product line and they would know the product so well that they would become product designers...so they would start off as a technician to become our senior product designer' (Brian McCoy). Unlike the other subsidiaries, studies of the main market for M/A-Com Cork is external, and internal politics are a more marginal affair. Having ownership of complete value chains embeds the subsidiary and makes internecine competition rarer. Thus under a Kirznerian definition of entrepreneurship, M/A-Com Cork could be considered to be entrepreneurial, because it is market orientated. The final incompatibility is that of innovation. Both organisational innovation (in drawing marketing into the Cork unit and outsourcing cost sensitive activities) and market innovation through new product development and cost competition are present.

The M/A-Com case is one of entrepreneurship under Long's definition and is largely one after picking through the incompatibilities identified in the literature review. Under Birkinshaw's (1997) definition M/A-Com Cork and Brian McCoy showed a proactive predisposition to risk taking behaviour (examples are described above), use of resources beyond the individual's direct control (such as hiring manufacturing engineers to develop new product, and using customers to lobby HQ) and departure from existing practices (undertaking sales from a manufacturing site). Furthermore, M/A-Com Cork have firmly established their mandate over the complete value chain as recommended by White and Poynter (1984).

In so far as any of the cases can conclusively be considered to be entrepreneurial, the M/A-Com Cork case is. It is a compelling and interesting case of subsidiary management, subsidiary entrepreneurship and entrepreneurship.

6.6 Entrepreneurship in the case studies

Each case was examined against Long's definition for evidence of each of the three components, being innovation/risk-taking, complimentary managerial competence and proactiveness. None was without problems and some were certainly less entrepreneurial

than others. That said, there is a clear ability for a subsidiary to be entrepreneurial under Long's conception.

Table 6.1 Subsidiary Summary Table

	Innovation/Risk taking	Managerial competence	Proactive
Apple	Introduced call centre/ Outsourced existing Manufacturing	Achieved goal of transitioning the subsidiary to manufacturing to service activities	Addressed deteriorating cost base by reducing headcount
GN Resound	Introduced customisation of hearing aids	Reduced cost base to keep the subsidiary competitive with China	Initiated competition for global distribution centre
Motorola	Grew mandate to include R&D functions/ Built extension for 550 staff	Reduced currency conversion factor by managing finances in Cork	Started working on a common platform solution before seeking permission
M/A-Com	Designed new product range to compete with competitor/ Outsourced existing manufacturing	Employing design engineers as testers	Competed to win activities from UK sister site

Firstly, each of these cases is primarily an exemplar of managerial competency, perhaps related to an attribution problem as the primary source of data is from the manager. Over and above this, the cases were selected by the IDA as being examples of managerial excellence. The other two variables are harder to establish compellingly. This difficulty arises from the imprecision of the category, and also the weakness of the evidence. So, for example, GN Resound's former General Manager initiated a competition internally for the Global Distribution Centre, which they won and subsequently lost. There is little other evidence of objective instances of proactiveness by the management of the subsidiary, even though the manager reiterates time and time again that he is proactive. Thus, the determination that these cases do in fact represent entrepreneurship is complicated by the long standing difficulty with the concept of entrepreneurship.

In some instances these problems specifically relate to the incompatibilities addressed in chapter three. The cases were also examined in light of the contradictions or incompatibilities with Long's definitions. These were:

- Can entrepreneurship exist in a large mature enterprise?
- Can a professional manager be entrepreneurial because of the problems identified by agency theory?
- Does entrepreneurship have to be market orientated?
- Does entrepreneurship imply innovation?

The first incompatibility is fatal to the concept of entrepreneurship in these subsidiaries, as they are all mature large organisations. This is a long contested debate, and the sheer quantity of research on large organisations being entrepreneurial suggests that the horse has bolted on this issue.

The agency problem was not found to substantially alter managerial behaviour, suggesting that the organisational form of a subsidiary and its resulting vulnerability to divestment is an enormous motivator towards good behaviour in the confluence with HQ wishes. As a result, the subsidiaries were only willing to engage in subversive behaviour if they were very sure of themselves.

In three out of the four cases subsidiaries did not have substantial market facing activities and all four were concerned to some extent with the internal market. Unless a subsidiary is a sales subsidiary and has the complete value chain for that activity it is unlikely to be otherwise. This arose for the M/A-Com subsidiary but not for the others.

Innovation is very hard to identify. All subsidiaries undertook some form of organisational innovation, adopting a new technique or process of management, but some were explicitly prevented from product or market innovation. That said, innovation within a subsidiary setting may not necessarily atone to the traditional understanding of the word in order to

fulfil a subsidiary entrepreneurship label. A number of aspects relating to this debate arose throughout the study. Does innovation encompass the following elements?

- A 'departure from existing practices' (Damanpour, 1991 as cited in Birkinshaw, 1997: 208).
- 'Seizing the opportunity' Zahra et al. (2000: 3).
- 'a new product or service, an administrative system, or a new plan or program pertaining to organisational members' (Kuratko and Hornsby, 2001: 556).
- 'Pushy, and sometimes Machiavellian tactics on the part of subsidiary managers' (Birkinshaw, 1998: 53).
- 'Alertness to hitherto unnoticed market opportunities' (Kirzner, 1973 as cited in Birkinshaw, 2000: 20).

Definition formation still remains unclear. Subsidiary entrepreneurship has many guises, many of which do not overlap. Birkinshaw (2000: 18) talked about 'a departure from existing practices' within an MNC. What exactly constitutes 'a departure from existing practices'? Is Birkinshaw referring to innovation or is he referring to managerial behaviour that is unfamiliar within the MNC? This aspect of the work still remains relatively unclear.

A number of empirical studies have been undertaken within the area of subsidiary entrepreneurship (e.g. Sohail and Ayadurai, 2005; Zahra, Dharwadkar, and George, 2000; Birkinshaw, 1999, 1997, 1996) taking the entrepreneurship label as given, while providing little if any theoretical foundations of subsidiary entrepreneurship research. As respected academics in the past have used the subsidiary entrepreneurship term with fluidity, this presents a necessity to look at some of the basic fundamentals of the definition. This study has attempted to bridge the divide in the literature that has failed to ask these basic questions. It still is debatable whether or not the term 'entrepreneur' (in a traditional sense)

is appropriate within this setting. This may point to the applicability of the term which many researchers have used in a superfluous manner.

All cases conducted in this study emphasised that building a trusting relationship with HQ should be carried out over and above subversive pursuits. Credibility is the only driver in extending mandate responsibility. That said, subversive techniques and building credibility are not mutually exclusive strategies in some organisations. This points to the ability of the subsidiary manager to gauge HQ reaction prior to undertaking a particular course of action.

Interviews with key IDA personalities, subsidiary managers and integration with relevant literature suggest that subsidiary entrepreneurship is a vehicle that carries an important message to subsidiary managers. The message concerns issues relating to plant vulnerability, a need for political astuteness, proactiveness, relationship formation and an appearance to be a team player among other things. A point worth stressing is that typology formation is near impossible to formulate.

While traditional entrepreneurship literature creates a substantial divide between management and entrepreneurship (Hisrich and Peters, 1986; Long, 1983), the same courtesy has not been afforded to subsidiary strategy literature. In-depth understanding of the phenomenon was sought through a single case study of Apple Computers, Cork. A case study exemplar was presented at the Irish Academy of Management Conference 2004. With further review and the additional work, the Apple exemplar was reprocessed and presented to the Academy of International Business (UK Chapter, 2005). A number of questions arose from a debate at the Academy of International Business (UK Chapter) 2005 conference namely, 'how did Joe Gantly innovate? Was his management prowess mistaken for innovation?' These caveats were fed back into the cases in order to promote a better understanding. The conclusion hinging on the concept that subsidiary entrepreneurship often is not allied with the traditional meaning and that many academics and government bodies (IDA) in the past have used the term without necessarily specifying innovation.

This view is further strengthened when Birkinshaw maintains that managers were 'like entrepreneurs'. He does not highlight or attach his definition to the renowned components of Long's (1983) study, which formed the basis for a traditional understanding of entrepreneurship throughout this MPhil.

The resounding conclusion was that the majority of definitions on subsidiary entrepreneurship neglect to focus attention on two primary considerations: risk taking and innovation, yet academics still retain the entrepreneurial label. Following from this one can infer that the four cases presented in this study represent good exemplars of subsidiary entrepreneurship.

6.7 IDA

IDA literature has featured throughout the course of this study so it is only fitting that they are readdressed and their role evaluated. The previous chapter showed how IDA were continually encouraged to introduce entrepreneurial and subversive material to subsidiary managers. Where a negative response to the literature was voiced by subsidiary managers the IDA forced the issue and used the relationship they had with HQ as leverage. While this method may seem heavy handed the message that they were trying to convey was of utmost importance to the Irish economy.

Subsidiary entrepreneurship has been used as a tool by academia and the State as a way to shake subsidiary managers awake so they will think about their vulnerability and survival. Academics writing in this area are being complacent with regard to a definition, and appear to be awkwardly fitting the discourse of entrepreneurship into subsidiary strategy literature. Zahra et al. (2000) provided the most conclusive definition to subsidiary entrepreneurship (shown in the previous chapter). Numerous studies that have followed in the area have failed to provide the same uniform definition. If there is only one form of subsidiary entrepreneurship (as suggested by Zahra et al.) then numerous academics in the past and the IDA in particular have been misled and are misleading with the message that they are transmitting to subsidiaries.

The normative model which the IDA commissioned Delany and Molloy (1998) to undertake could have detrimental effects in some MNCs. The present study highlighted the need for subsidiary managers to read the political landscape before adopting the IDA styled strategies of 'best practices'. Two subsidiary managers interviewed in the course of the study concluded that subversive behaviour could only damage credibility. Failure by the IDA to realise this limitation of their work could cause subsidiary managers to blindly implement strategies that could ultimately shatter trust.

It may also be logical to infer that certain subversive techniques are condoned within some MNCs and outlawed in others. Reading HQ acceptability to subversive behaviour may therefore be a talent of subsidiary managers and not the IDA. The IDA may therefore have misjudged the situation in the past by creating a normative model for subsidiary management, issuing it through way of SIMS and 'Knowledge is in our Nature' and forcing it upon subsidiary managers.

The continual focus of entrepreneurial language in the recently published book 'Knowledge is in Our Nature' would suggest that the IDA have yet to focus the limitations of their work. While the message that they are trying to convey to subsidiary managers is of importance, the way it is operationalised requires review. A better way of describing the behaviour needs to be uncovered.

The IDA interviews addressed the success of the entrepreneurial message. That said, their account does not highlight the incidences where the IDA message fell short of its goals. Insight into this aspect of the entrepreneurial message would be difficult to obtain as there is a tendency for respondents to shy away from discussing aspects relating to failure.

Within an Irish context, the Enterprise Strategic Group (2004) narrates on the need for transition within the mobile investment sector in Ireland. Most notably they draw attention to the necessity for subsidiary managers to develop expertise in international markets and to build technology and applied R&D capabilities. The over arching recommendation is to group networks of subsidiaries throughout Ireland with common interests in an attempt to

facilitate knowledge transfer, disseminate market knowledge, foster innovation, inform the research agenda and identify infrastructure needs specific to sectoral development (Forfas, 2004).

While this forum may prove useful on a number of levels, it does provide a normative outlook to subsidiary management which can be damaging if implemented without caution. Subsidiaries differ in a number of key areas. Organisational size and structure, strategic posture and environmental factors (hostile environment versus benign environments) are a number of ingredients that factor in the entrepreneurial potential that a subsidiary can exert (Covin and Slevin, 1989). It is difficult, if not impossible, to create a typology that can uniformly be mapped on to all subsidiary cases.

6.8 MNC

The line between building trust and adopting subversive behaviour remains a concern for HQ. If subversive behaviour is carried out by subsidiary management and rewarded, then the likelihood is that the behaviour will continue. This has implications to the organisation as a whole. In particular what message does this send to sister subsidiaries? With reward, HQ potentially run the risk of embedding this type of behaviour within the corporate framework. If this becomes the informal message spread throughout sister subsidiaries then communication, organisational openness, collaboration etc. may suffer along with profitability.

One hypothesis is that it would create a hyper competitive environment between sister subsidiaries which could be detrimental to the organisation as a whole if 'empire building' is the end result. Communication and relationships between sister subsidiaries in turn may suffer (evident from the case studies). Various Machiavellian style pursuits may result in a slowdown of growth and collaboration within the MNC. The intensity of subsidiary rivalry was highlighted by one subsidiary manager when referring to his sister sites as 'enemies' (Brian McCoy). Can organisational cohesiveness be met in this type of setting?

Putting sister subsidiary concerns aside, what effect does condoning subversive behaviour have on the relationship between subsidiary and HQ? The study has shown how outlandish subversive behaviour (story recounted by Sean Gayer whereby a subsidiary put in an application for a water tank then built a swimming pool) can lead to a breakdown in trust. Subsidiary managers act as ambassadors to their plant and any negative feedback can have ripple effects throughout the organisation, long after the subsidiary manager has departed. Subsidiary managers in the study realised this along with the IDA, even though some managers chose to gamble with subversive behaviour.

An important consideration with the SIMS work is the awareness and acceptability of subsidiaries' HQs in implementing various Delany and Molloy recommendations. HQ dissatisfaction with 'empire building' was addressed in the course of the literature review. It is logical to assume that HQ may show a certain level of distaste with the SIMS work.

6.9 Plant Vulnerability

Each subsidiary manager was proactive (with the possible exception of GN Resound) in addressing the changing realities of their context, perceiving threats early enough to undertake strategic changes to mollify their effect. Each case stresses the necessity to look at a given situation through voluntarist eyes rather than determinist eyes. The term stresses the need for subsidiary managers to proactively change the context in which they operate (voluntarism) as opposed to being determined by their organisational context (determinism). Ultimately, this comes down to the survival instincts of each subsidiary manager, and their ability to foresee potential threats. The degree of change in each subsidiary may have been substantially lower if plant vulnerability was not an issue.

The awareness campaign directed by the IDA (the commissioning of work by Delany and Molloy and Knowledge is in our Nature) ultimately acted as incubating factors in driving the message of plant vulnerability. Arguably this campaign contributed to a heightened urgency within subsidiaries to engage in some form of strategic activity rather than to sit idly by. Undoubtedly the IDA focus was to move subsidiaries up the corporate value chain to safeguard against divestment.

6.10 Political Astuteness

Each case demonstrates that performance with the initial mandate and performance in mandate expansion legitimises further mandate expansion. This can only happen from a case of outstanding performance. Perhaps instead of unhelpfully maintaining the dichotomy between boyncouts and subversives, it would be more useful to explore the nature of boundaries between what is acceptable and unacceptable behaviour within the context of a HQ-subsiary relationship. This points to the possibility that the real skill of subsidiary managers is in determining what activities they can and cannot get away with and this comes from their astute reading of their HQs disposition with regard to the subsidiary.

The final chapter offers conclusions and recommendations from the study with distinct implications for the IDA and subsidiary managers and some broader points of relevance to the discourse of subsidiary strategy. The limitations of the current study are also mentioned.

CHAPTER 7
CONCLUSIONS AND RECOMMENDATIONS

7.0 Conclusions and Recommendations

7.1 Introduction

This study set out to examine the phenomenon of subsidiary entrepreneurship. This important phenomenon has been described as the key to sustaining MNC growth (Nitsch, Beamish and Makino, 1996). The purpose of this chapter is to synthesise the previous chapter which analysed and discussed the case data in light of the extant research on subsidiary entrepreneurship. After a brief discussion on the theoretical implications of this study and the retelling of the findings, this chapter will detail the important limitations of this study, before suggesting areas for further study.

7.2 Theoretical implications of this study

A number of empirical studies have been undertaken within the area of subsidiary entrepreneurship (e.g. Birkinshaw, 1996, 1997, 1999; Sohail and Ayadurai, 2005; Zahra, Dharwadkar, and George, 2000) taking the entrepreneurship label as given while providing little if any theoretical foundations of subsidiary entrepreneurship research. As respected academics in the past have used the subsidiary entrepreneurship term with fluidity, this presents a necessity to look at some of the basic fundamentals of the definition. This study has attempted to bridge the divide in the literature that has failed to ask these basic questions.

It still is debatable whether or not the term 'entrepreneur' (in a traditional sense) is appropriate within this setting. This may point to the applicability of the term which many researchers have used in a superfluous manner. In-depth understanding of the phenomenon was sought through a single case study of Apple Computers, Cork. A case study exemplar was presented at the Irish Academy of Management Conference 2004. With further review and the additional work, the Apple exemplar was reprocessed and presented to the Academy of International Business (UK Chapter, 2005).

Presenting these findings to an academic audience stimulated rich discussion and debate into the age long question, ‘what is the difference between basic management and entrepreneurship?’ With some constructive redeployment back into the case and the entrepreneurship literature, a new stance was adopted, namely;

- Can subsidiaries be entrepreneurs?
- What is the nature of entrepreneurship in subsidiaries?
- Is there a difference between subsidiary entrepreneurship and subsidiary management?

This study sought to address a perceived gap in the literature on subsidiary strategy by introducing four exemplars of subsidiary that were felt to exert entrepreneurship. These case studies lead us to conclude that the concept of entrepreneurship has relevance to the management of subsidiaries. However, subsidiary entrepreneurship may well be more complex than traditional understandings of entrepreneurship. Most particularly, the four cases do not unanimously support the current predilection for examining subsidiary strategy as a quasi-clandestine activity that is not supported by HQ.

7.3 Conclusions

There are two key findings. Firstly subsidiary entrepreneurship is markedly different from entrepreneurship, as it is classically understood. This is complicated by the idea that subsidiaries can be both entrepreneurial in the classical sense (as described by Long) and can engage in an activity which is distinctly different, i.e. subsidiary entrepreneurship. Subsidiary entrepreneurship is broader and more complex than entrepreneurship and encompasses activities such as outsourcing, intra-organisational competition and power politics. Furthermore, it draws on the discourses of innovation and change management in large organisations. The second key finding is that subsidiary entrepreneurship is a meaningful concept for subsidiary managers, the academics that research them and the governmental agencies that support them. It pithily identifies and describes the practice of a proactive form of management in subsidiaries. In doing so, it has become a compelling tool for managers and governmental agencies as they seek to sustain and develop subsidiaries.

This study reflects on the set of activities commonly called subsidiary entrepreneurship and makes some modest findings.

Most particularly, the four cases, and indeed the presentation of the literature, highlight the contradiction between researchers on subsidiary entrepreneurship. Some advocate building trust (Young, Hood, and Dunlop, 1998), some suggest engaging in subversive activities which, if discovered, could lead to the loss of trust (Delany and Molloy, 1998), and some suggest both (Birkinshaw and Fry, 1998). Each subsidiary manager thought very carefully about these dual paths, and most elected for the safer territory of ensuring that trust was never at risk. In the two instances where managers engaged in such activity, they were very careful to ensure that if discovered (as both were) they could justify and defend their activity. John Phillip's of Motorola commenced a project without approval, but the project was very necessary for the organisation, and Brian McCoy hired product development engineers instead of technicians, but the engineers fulfilled both roles.

While all the case emphasises the need to build trust and a track record of performance and credibility between HQ and its subsidiary, it clearly pointed to the role of subsidiary entrepreneurship as a negotiation tool between a HQ and a subsidiary. In all instances HQ are generally supportive of risk taking and proactive activity within subsidiaries, and seek out managers that are willing to exert these characteristics.

Subsidiary entrepreneurship carries an important message to subsidiary managers. While this is recognised, there is a need for academics to detail a concise definition prior to undertaking research in the area. This definition has to address the researcher's stance relating to innovation.

7.4 Limitations and Suggestions for Further Research

As this was an inductive study there was a concerted effort to source theory that is gradually built up from observations in the social world rather than the process of hypothesis testing (May, 2001). The problem with this is that it cannot be assumed that the same observable patterns will emerge in the future (Oliver, 2000). The four cases studied in

the course of this MPhil are by no means normative in nature. The work emerged from rich data that focused on particular subsidiaries and MNC settings. Generalisation of results could not be achieved as each subsidiary setting and MNC framework was viewed as unique. The cases, therefore, serve individually as exciting exemplars.

Four subsidiaries were hand picked by the IDA as potentially interesting data sources. The most obvious limitation was the focus on these stories of success. The study found it hard to source instances where individuals were met with failure in adopting academic and IDA policies of 'best practice'. This may be attributed to management's desire to tip-toe around areas of failure in an effort to protect and safeguard their egos within their organisation. Arguably, it is also human nature to avoid discussing topics that may make many feel uncomfortable. That said, significant insight and trust was obtained within each subsidiary as Paddy Gallagher of the IDA created an introduction. Focusing solely on four subsidiaries afforded each respondent ample time to form a trusting relationship and rapport with the interviewer and the sensitivity of the information increased as a result. Single respondent bias, social desirability bias and level of recall on the subsidiary manager's behalf are also factors that need to be taken into consideration. Opportunities for further study could revolve around a larger sample size in an attempt to obtain normative data.

The study solely focused on an Irish subsidiary manager's experience. The logical limitation is whether these findings from a peripheral country are transferable to other countries. Further research in a foreign setting might draw an interesting comparison.

The focus of the study was on entrepreneurship from a subsidiary perspective. A HQ perspective towards subsidiary entrepreneurship was not sought. This study inferred that HQ condoned proactive, subversive subsidiary behaviour as both the IDA and subsidiary respondents recounted their personal experience with HQ. Within the area of subsidiary entrepreneurship HQ concerns appear to be an under explored and an exciting area that requires further investigation.

CHAPTER 8
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Appendix A

Entrepreneurship within an Organisation

The purpose of this section is to trace the debate on entrepreneurship within an established firm. The adoption of the term subsidiary entrepreneurship by academics and practitioners implicitly supports Long's view that entrepreneurship is not exclusive to immature businesses. From the entrepreneurship literature, the intrapreneurship concept is perhaps most relevant to a subsidiary setting as it closely relates to the idea that entrepreneurship can occur within an established firm. It therefore makes sense to analyse this theory and to integrate some of the concepts into the subsidiary entrepreneurship to form a better understanding.

Gifford Pinchot introduced the term 'intrapreneur' to people who undertake entrepreneurial work within large organisations. Many researchers now believe that it is possible for entrepreneurs to exist as employees within large organisations (Kanter, 1983; Drucker, 1985; Peters, 1987 and Binks and Vale, 1990, as cited in Garavan et al, 1997). Antoncic (2001) saw intrapreneurship as entrepreneurship within an existing organisation, viewing it as a process by which individuals inside the organisation pursue opportunities with regard for the resources that they control. Pinchot and Pellman (1999) termed the phenomenon as the ability to 'take new ideas and turn them into profitable new realities'. For a wider spanning definition Robinson (2001) focused on a definition of intrapreneurship that was about 'bringing entrepreneurial behaviour into an organisation and focusing on extending the firm's domain of competence and corresponding opportunity set through internally generated new resource combinations'. Individuals who pursue an intrapreneurial project are said to operate within shoestring budgets, and bootleg resources for fear of having projects prematurely unplugged (Birkinshaw and Fry, 1998; Robinson, 2001). The logical conclusion from this Schumpeterian model of entrepreneurship is that in order to survive and prosper, established (and bureaucratic) businesses need to become entrepreneurial (McClelland, 1971). This has been amongst the most important themes of business research (Kanter, 1983).

Intrapreneurship invariably challenges the status quo and eliminates organisational structure that obscure personal responsibility and homogenise individual actions (Robinson, 2001). Entangled within all intrapreneurial definitions is the basic assumption that innovation within an established organisation occurs on some scale.

‘The pursuit of creative or new solutions to challenges confronting the firm, include the development or enhancement of old and new products and services, markets, administrative techniques, and technologies for performing organisational functions, as well as changes in strategy, organising, and dealing with competitors may be seen as innovations in the broadest sense’

(Antoncic, 2003: 3).

Birkinshaw (1997) within a subsidiary context segregated intrapreneurship into focused and dispersed. Focused intrapreneurship works on the premise that management and entrepreneurship are fundamentally different processes. Intrapreneurship within this definition is typically the mandate handed down by management. Employees are awarded the mandate that supports risk taking and creativity while attempting to identify and nurture new business opportunities. Entrepreneurship on this scale can typically be found in the new venture division of an organisation.

Dispersed entrepreneurship rests on the premise that management and entrepreneurship behaviour occur more or less simultaneously. Entrepreneurship is not restricted to the new venture division of the organisation and each employee within the organisation has the capacity to be entrepreneurial in nature. The major challenge for dispersed intrapreneurship is for management to instil the personal involvement and the commitment in its employees to facilitate entrepreneurship. Managerial responsibilities however typically drive out entrepreneurial responsibilities (Birkinshaw, 1997; Chang, 2001).

Corporate Immune System

These managerial responsibilities often manifest themselves in what some (Birkinshaw and Ridderstrale, 1999) refer to as the ‘corporate immune system’. Pinchot and Pellman (1999) offer advice in combating disinterest from hierarchical superiors.

‘Don’t trigger the corporate immune system with grandiosity. Promote early-stage ideas modestly, least you scare people into opposing you. Inside the company, share your initial concept with friends first. They will give you the feedback you need to correct obvious flaws without broadcasting your idea to its natural enemies. Talk with potential customers as much as possible, but focus on learning, not on telling people how great your idea is’

(Pinchot and Pellman, 1999: 6).

Intrapreneurship subscribes to the behavioural guidelines that govern entrepreneurship, in that academics generally confer the ‘intrapreneurial title’ on individuals as a direct result of their labours and situational outcomes, rather than certain traits that a manager may exert. This behavioural stance to intrapreneurship examines the organisation as a contextual event, the outcome of many influences. The organisation is treated as the principle level of analysis and the individual is observed in terms of the activities undertaken. The personality, characteristics and traits are seen as ancillary to the intrapreneur’s behaviour (Gartner, 1988). That said, Hornsby and Naffziger (1992) adopt a trait approach to intrapreneurship with the goal of identifying individuals with intrapreneurial potential so that they can be targeted for training or other intrapreneurial opportunities. The intrapreneurial characteristics that they highlighted included; risk-taking propensity, desire for autonomy, need for achievement, goal orientation, and internal locus of control. Their findings interestingly related back to Gartner’s (1988) study which concluded that the process of entrepreneurship is more important than understanding the entrepreneur (Hornsby and Naffziger, 1992). Given this finding and in light of the current study into subsidiary entrepreneurship the behavioural approach is deemed to be more appropriate. McDougall and Oviatt (2000) illustrate the current trend to demonstrate rather than to define what is meant by the word entrepreneurship. This approach will be adopted in this MPhil.

There has been growing interest in the use of the intrapreneurship term as a means for corporations to enhance the innovative abilities of their employees (Levent, 2004; Southon and West, 2004; Drejer, Christensen and Ulhoi, 2004). Amid all this interest few theories or models exist that provide a framework for intrapreneurship research (Hornsby and Naffziger, 1992). Despite this, many academics converge around a number of

organisational variables that inhibit and foster intrapreneurial development. While these variables are by no means a prescriptive recipe for an intrapreneurial template, they do however provide a set of important guidelines for organisations to take note of and to work around.

The level of organisational intrapreneurship, on a broader scale, can be affected by three key variables; the individual, the organisation and the external environment (Hornsby and Naffziger, 1992; Robinson, 2001). These factors may transfer and maintain their relevance in a subsidiary setting therefore they are important to examine in turn.

The Individual

The individual impacts greatly on the amount of entrepreneurial activity within an organisation. Burgelman (1983) draws on the importance of the individual in the organisational entrepreneurial process. Ultimately he advocates a reward system to encourage the individual.

‘Control and motivation systems must be redesigned to support entrepreneurial goals...entrepreneurial talent must be recruited which, in turn, requires a revamping of selection procedures and criteria’.

Without the proactive individual innovative ideas will remain as nothing more than untapped potential. Fattal (2003) outlines an action list for an aspiring intrapreneur.

- Find a senior executive to be your internal champion so that you can do the things that need to be done without asking permission.
- Negotiate how your project will be measured and what ‘success’ means.
- Get your organisation to give you at least two years to make your project work.
- Do whatever needs to be done to make your project a success.
- Select the best people you can to help you – from inside or outside the organisation.

Robinson (2001) fosters this individual dimension to intrapreneurship by detailing what he refers to as the 'Ten Commandments for Intrapreneurs'.

1. Do any job to make your project work regardless of your job description.
2. Share credit (for success) wisely.
3. It is easier to ask forgiveness than permission.
4. Come to work each day willing to be fired.
5. Ask for advice before asking for resources.
6. Follow your intuition about people, build a team of the best.
7. Build a quiet coalition for your idea; early publicity triggers the corporate immune system.
8. Never bet on a race unless you are running in it.
9. Be true to your goals, but realistic about ways to achieve them.
10. Honour your sponsors.

Organisational Characteristics That Foster Intrapreneurship

Kuratko, Montagno, and Hornsby (1990) (as cited in Hornsby and Naffziger, 1992) developed a five scale multidimensional table to summarise the major organisational sub-dimensions of the concept of intrapreneurship. Their dimensions were; management support for intrapreneurship, autonomy/work discretion, rewards/reinforcement, time availability and organisational boundaries.

Management Support

This is the extent to which management condones intrapreneurial endeavours at an employee level. Management may support these entrepreneurial efforts by adopting employee ideas quickly, recognising people who bring ideas forward, supporting small experimental projects and providing them with discretionary pools of seed money to get ideas off the ground. Such factors as centralised decision-making, inflexible organisational structures, and discouragement of risk taking behaviours have all served to lessen the potential impact of intrapreneurship at a firm level (Marcus and Zimmerer, 2003). Burgelman (1983) also comments on the need for a suitable support structure to encourage

entrepreneurship, “entrepreneurial teams should be given the opportunity to engage in ‘skunk works’ outside of the formal procedural structure”.

Autonomy/Work Discretion

Employees have control over the performance of their own work and they carry it out in a manner that they believe is most effective (Delany and Molloy, 1998). Organisations should allow their employees work without fear of being criticised for mistakes that may occur through innovative ventures. Tseng, Fong and Su (2004) surmise that autonomy and work discretion is the ability to challenge the views of your superiors and to be considered in the decision-making process of the firm. If autonomy on this level is present entrepreneurship levels within a firm will increase.

Reward and Resource Availability

Rewards encourage the work force to engage in innovative behaviour. Organisations that provide rewards contingent on performance and make the ideas of innovative people known to others in the organisation will generally possess more intrapreneurial activity (Birkinshaw, 2001). The reward structure within a firm is somewhat hampered by agency theory. It has been argued that managers don’t possess the same degree of risk and reward as traditional entrepreneurs (Antonicic, 2003).

Time Availability

Organisations should allow employees time to incubate new ideas. This can be achieved by moderating the amount of work that each employee is given, by avoiding time constraints on all aspects of a person’s job and allowing people to work with others on long-term problem solving. Birkinshaw and Hood (2001) encourage this recommendation and highlight the need for managers to incubate ideas and projects and to form effective cross functional teams with their work colleagues. Recommendations from Birkinshaw and Hood’s seminal paper will be detailed extensively in the chapter three.

Organisational Boundaries

Narrow job descriptions and rigid standards of performance inhibit people from looking at problems outside their own jobs. Organisations therefore have to encourage people to look

outside the boundaries, looking at the organisation from a broad perspective. In terms of structure, bureaucracies adopting a hierarchical structure are characterised by excessive rules and procedures that restrict employee freedom and originality. Intrapreneurship will not flourish in such a setting. In stark contrast, self-managed teams with low levels of specialisation should enhance co-operation and allow freedom that will facilitate innovation. Overall this approach should increase the level of intrapreneurship (Goosen, de Coning and Smit, 2002).

The External Environment

Market dynamics will invariably affect the amount of intrapreneurial flare that an employee exerts. If an intrapreneur competes in a stable environment there is less motivation to pursue innovative ventures. Heterogeneous environments will therefore provide rich ground for intrapreneurship and informal intrapreneurship ventures (Robinson, 2001). A competitive external environment in an MNC should therefore stimulate innovation. Hornsby and Naffziger (1992) also address the environmental impact on the intrapreneurial process, 'some type of environmental change precipitates or ignites the interaction of organisational characteristics and individual characteristics to cause intrapreneurial events' (Hornsby and Naffziger, 1992).

Previous research on intrapreneurship has focused on a context of a single organisation. Researchers have generally neglected inter-organisational relationships. Therefore intrapreneurship needs to be extended by taking into consideration the firm's characteristics in relation to other firms, for instance networks. Networks can be characterised as involvement of two or more organisations in long-term relationships, generally positioned between markets and hierarchies (Antoncic, 2001). This is particularly relevant within a subsidiary context where a network structure is generally present.

The purpose of this section was to illustrate that the discourse of entrepreneurship is not a new phenomenon within an established firm. The responses by management along with organisational characteristics that foster entrepreneurship were addressed but more specifically this idea of entrepreneurship within a firm will readily transfer into a subsidiary setting.