



Does being based in an emerging market influence the positive attention multinational corporation subsidiaries obtain from headquarters

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Abstract

This study assessed multinational corporations (MNCs) from developed markets with subsidiaries based in the emerging markets, to determine whether being based in a dynamic market influences the positive attention in terms of support and autonomy that these subsidiaries receive from headquarters. The purpose of the research was to expand on previous research conducted by Bouquet and Birkinshaw (2008) by surveying subsidiaries from emerging markets, and determining whether MNCs amend their attention strategy to subsidiaries based in emerging markets as a result of their limited understanding of the dynamics of the local business environment, or whether they maintain a standardised strategy for engaging all subsidiaries.

39 MNC subsidiaries from the emerging markets of Southern Africa, Latin America and the Middle East were surveyed via a web-based questionnaire, assessing various aspects of their business activities and local business environment to determine the type of positive attention which subsidiaries in these markets received from headquarters. The results indicated that the business environment within emerging markets is complex and requires alternative forms of assessment and involvement by headquarters, however overall subsidiaries based in emerging markets do not receive the support and autonomy from headquarters which is required to exploit local opportunities effectively.



Declaration

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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CONTENTS

ABSTRACT	i
DECLARATION	ii
ACKNOWLEDGMENTS	iii
CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM	1
1.1 INTRODUCTION	1
1.2 RESEARCH QUESTION	4
CHAPTER 2: LITERATURE REVIEW	5
2.1 POSITIVE ATTENTION	5
2.2 FRAMEWORK FOR BUSINESS IN EMERGING MARKETS	7
2.2.2 INSTITUTIONAL VOIDS	9
2.2.3 COST OF DOING BUSINESS.....	11
2.2.4 ALTERNATE GLOBAL STRATEGIES FOR EMERGING MARKETS	12
2.3 SUBSIDIARY WEIGHT AND VOICE	13
2.4 CONTROL VARIABLES RELEVANT FOR EMERGING MARKET SUBSIDIARIES.....	15
2.4.1 SUBSIDIARY LEVEL	16
2.4.1.1 PERFORMANCE.....	17
2.4.1.2 AUTONOMY	20
2.4.2 MNC CHARACTERISTICS.....	21
2.4.2.1 CULTURAL DISTANCE.....	22
CHAPTER 3: RESEARCH PROPOSITION	25
CHAPTER 4: RESEARCH METHODOLOGY AND DESIGN	28
4.1 METHODOLOGY	28
4.1.1 RESEARCH DESIGN AND TYPE	28
4.1.2 RESEARCH METHOD	29
4.2 POPULATION	31
4.3 UNIT OF ANALYSIS	31
4.4 SAMPLING METHOD	31
4.5 DATA ANALYSIS.....	33
4.6 RESEARCH LIMITATIONS.....	35



CHAPTER 5: RESULTS	37
5.1 SAMPLE DESCRIPTION	37
5.2 HYPOTHESIS 1:.....	40
5.3 HYPOTHESIS 2.....	47
5.4 HYPOTHESIS 3.....	53
5.5 HYPOTHESIS 4.....	56
CHAPTER 6: DISCUSSION OF RESULTS	61
6.1 INTRODUCTION	61
6.2 HYPOTHESIS 1.....	61
6.3 HYPOTHESIS 2.....	66
6.4 HYPOTHESIS 3.....	68
6.5 HYPOTHESIS 4.....	70
CHAPTER 7: CONCLUSION	74
7.1 FINDINGS	74
7.2 RECOMMENDATIONS.....	76
7.3 FUTURE RESEARCH.....	78
7.4 CONCLUSION.....	79
REFERENCES.....	80
APPENDICES.....	I

Chapter 1: Introduction to Research Problem

1.1 Introduction

Emerging economies will, over the next decade, contribute more economic growth than developed economies (Bisson, Stephenson & Viguerie, 2010) and are increasingly becoming the growth drivers of the global economy (Pillania, 2009). The shift in global economic activity from developed to emerging economies, as well as the growth in number of young consumers based in these markets, are global trends that companies will need to take into account when positioning themselves for future profitability (McKinsey & Company, 2010). Multinational Corporations (MNCs) will compete to capture the growth opportunities from emerging markets however, they should carefully determine the global strategies and structures that they will use to effectively penetrate these diverse markets, so as to ensure profitability while maintaining structure and control.

MNCs consist of headquarters, often situated in a developed market, with dispersed subsidiaries which operate in other countries. Global strategies are set by the headquarters which then require these strategies to be implemented by the individual subsidiaries based in the respective markets (Grewal, Chandrashekar & Dwyer, 2008). The challenge however remains that the “ideal strategy for the headquarters may not necessarily be the most opportune for some of its subsidiaries” (Grewal *et al*, 2008, p. 887), as a strategy may be pursued without aligning to the specific market context (Thompson, 2011).

Various literature regarding MNCs global strategies for emerging markets (Grewal *et al*, 2008; Hokisson, Eden, Lau & Wright, 2000; Wright *et al*, (2005) set out the complexities and guidelines for entering these markets successfully, however whether these guidelines are acknowledged in the structure and control of MNC subsidiaries engaging in these markets, was the underlying motivation for this research.

Bouquet and Birkinshaw (2008) conducted a study which aimed to determine how foreign subsidiaries of MNCs gained positive attention from headquarters, in the form of required resources and local flexibility, with a focus on subsidiaries based in the developed markets of Australia, Canada and the United Kingdom (UK). The study failed to include subsidiaries based in emerging market economies, and excluded factors such as the measure of strategic performance of the subsidiaries, the level of autonomy and flexibility required, and the cultural distance between MNC's headquarters and the subsidiary, which were controlled for in the original study.

The current study focused specifically on subsidiaries based in emerging markets and aimed to assess the attention that these MNCs subsidiaries gained from headquarters, to determine whether being based in a dynamic market influenced the attention awarded to subsidiaries.

Emerging markets are economically fast-growing however they are prone to structural volatility (Lou, 2001). There are institutional differences between developed and emerging economies, and transactional costs of doing business are higher in emerging economies than those in developed economies (Wright, Filatotchev, Hoskisson & Peng, 2005). To develop strategies to operate successfully in these emerging markets, MNCs need to understand and respond to the dynamic aspects of the markets through their ability to adapt to uncertain and rapidly changing environments (Thomas, 2011). Companies that are successful at exploiting emerging opportunities and dealing with their accompanying challenges are those who that are able to intelligently observe and interpret the dynamic environment in which they operate, and thereby engage in a global mindset (Gupta & Govindarajan, 2002), understanding the varying requirements from different regions and countries.

A key challenge confronting MNCs from developed economies is whether their traditional global strategy can be implemented, with limited adaptation, into emerging economies (Wright *et al*, 2005). Based on literature regarding the dynamic environment of emerging markets, it would be expected that MNCs would adapt their strategies to account for the flexibility required in these markets. Headquarters are required to balance global standards and practices with local realities and in so doing, they are required to assess the extent of resource allocation and local

decision making of subsidiaries, and clearly define the roles of headquarters versus that of the local subsidiary (Olsen, Pinto & Virji, 2005). Most companies however, continue with the standardised strategies they have traditionally deployed, and as such are seen to be struggling to develop successful strategies in emerging markets (Khanna, Palepu & Sinha, 2005).

Additionally, the subsidiaries of MNCs in these emerging markets are required to attract attention from headquarters, as they compete with their developed market counterparts to receive required resources, while still maintaining autonomy and strategic flexibility to be able to exploit the dynamic aspects of the market effectively. The success of subsidiaries in attracting the attention of headquarters may be determined, in part, by the strategic importance of the market, the local environment impacting how business is conducting in the particular market, as well as characteristics and culture of the MNC.

This research contributes to a deeper understanding of the business environment of emerging markets, the attention allocated to subsidiaries by MNCs, and the influencers of such attention.

1.2 Research Question

Does being based in an emerging market influence the positive attention obtained from headquarters?

Chapter 2: Literature Review

MNCs with subsidiaries based in emerging markets require the ability to develop and use new business models to profit from these complex markets, and offer the subsidiaries based in these markets strategic attention (Wright *et al*, 2005). The geographical dispersion and cultural diversity of foreign subsidiaries of MNCs, along with their complex set of businesses, functions and markets, mean that subsidiaries are not always able to gain the full attention of their headquarters in terms of resources and credit for their contribution to the greater MNC network (Bouquet & Birkinshaw, 2008). Subsidiaries that operate in emerging markets offer great opportunities, as well as many challenges, that need to be recognised by the MNC headquarters and accordingly result in their adjustment of the attention that they offer to these subsidiaries.

2.1 Positive Attention

Due to the multifaceted nature of attention in a MNC (Bouquet & Birkinshaw, 2008), it is important to clearly define what is meant by positive attention in the context of that which MNC's give to their subsidiaries, as this will set the context from which the research will be approached.

Attention of headquarter executives refers to the collective investment of time and effort in terms of the activities, communication and discussions to understand the

global marketplace in which the MNC operates (Bouquet, Morris & Birkinshaw, 2008). Headquarters apportion attention in the form of support and resources to subsidiaries based on external stimuli, such as industry reports and competitor analysis, and internal factors including the visibility and pro-activeness of individuals within the subsidiary (Birkinshaw, Bouquet & Ambos, 2006). Attention from the MNC headquarters is an important commodity for all subsidiaries as it is needed to capitalise on the market opportunities within their respective locations, and represents an ability to access the limited supply of best practices, technologies, people and career opportunities within the MNC (Bouquet & Birkinshaw, 2008).

Businesses in emerging markets often gain much media attention and international business focus due to the dynamic market in which they are located. These economies are characterised by a large number of young consumers, rich reserves of natural resources that attract foreign investment, and a large labour force that support manufacturing and production in these markets. Subsidiaries based in these markets may be seen to be what Birkinshaw, Bouquet and Ambos (2006) refer to as “Honeypots” (p. 6) with much business focus and activity around them however, these subsidiaries hope to achieve the same focus and activity in the form of resources and support from their headquarters.

Bouquet and Birkinshaw study (2008) focused on a positive form of headquarter attention which is value enhancing and incorporates three important elements, namely: facilitating a subsidiaries future development; placing the granting of attention in the hands of the headquarters as a unit, rather than in a particular individual; and attention being achieved through the subsidiaries contribution to the MNC as a whole, rather than only looking at its contribution to the local market. Positive headquarter attention is therefore defined by Bouquet and Birkinshaw (2008) "... as the extent to which a parent company recognizes and gives credit to a subsidiary for its contribution to the MNE as a whole" (p. 579).

The form of attention required by subsidiaries in emerging markets include the provision of resources such as capital, technology and equipment, and the ability to gain credit for their contribution to the MNC, in the form of local responsiveness and autonomy to take advantage of the dynamic and ever changing environment.

2.2 Framework for Business in Emerging Markets

Emerging markets can be defined as countries in Asia, Latin America, Africa and the Middle East which are experiencing a rapid pace of economic development, with policies favouring the adoption of a free-market system (Hokisson, Eden, Lau & Wright, 2000). These markets are forecast to achieve a real GDP growth three times faster than in the leading developed nations (Olsen *et al*, 2005) and thus

have unprecedented opportunities for growth and development which makes them highly attractive for investment by MNCs. Lou (2001) details the typical environmental characteristics of emerging markets as market opportunity with regulatory interference and structural uncertainty. Along with the growth potential of emerging markets, there are challenges to businesses operating in these environments which include political uncertainty and limited institutional features such as skilled labour, capital markets, infrastructure and legal frameworks (Hokisson *et al*, 2000).

These uncertain environments offer MNCs opportunities to provide alternatives to the local market, as well as challenges in setting up of subsidiaries and accessing resources. Taking the dynamic characteristics of emerging markets into account, it would be suggested that strategic management models which originate from developed markets do not necessarily align with conditions within emerging economies (Narayanan & Fahey, 2005), and hence MNCs are required to alter their method of interaction with subsidiaries based in these types of markets. The leadership of MNCs cannot assume that they can conduct business in emerging markets in the same way that they do in developed markets (Khanna *et al*, 2005).

2.2.1 Heterogeneous Markets

There is considerable variation amongst emerging economies in terms of progress in economic and institutional development. Emerging economies are not homogeneous (Narayanan & Fahey, 2005), “even within the same geographic region” (Hoskisson *et al*, 2000, p. 259), which creates problems when MNC wish to compare the business contexts of developed and emerging markets. As such, subsidiaries based in emerging markets need to guide the headquarters in terms of the business environment and require flexibility to remain competitive, as the practices and strategies used in developed markets may not be aligned with or relevant in their markets.

2.2.2 Institutional Voids

Institutions may be defined as the “rules of the game” (Jackson & Deeg, 2006, p.541) or regulatory parameters that may impact organisations. Emerging economies are characterised by volatility and uncertainty as Thompson (2011) points out, “emerging markets differ from those of developed markets” (p. 23), characterised by amongst other challenges institutional voids where institutions and intermediaries are either completely absent or poorly functioning. MNCs that enter these markets are faced with regulatory frameworks that are ambiguous, justice systems that are underdeveloped, and corruption within various spheres of business (Narayanan & Fahey, 2005). Companies from developed markets usually take for granted the role that specialised intermediaries, regulatory systems, and

contract-enforcing mechanisms play in the execution of their traditional business models (Khanna *et al*, 2005) and underestimate the impact this has on the success of their strategies in emerging markets.

Wright *et al* (2005) highlighted that a hallmark of emerging economies is the prevalence of what can be defined as “fundamental and comprehensive” (p. 6) changes to the formal and informal rules of the game, or institutional voids. A key difference between developed and emerging economies is the lack of “market supporting formal institutions” (Narayanan & Fahey, 2005, p. 209) within emerging markets which increases the capital risks of investors. Additionally, McKinsey & Company (2010) set out that some of the risks faced by companies operating in emerging markets include breach of intellectual property, and lower safety and quality standards.

Therefore, institutional frameworks within emerging markets may create uncertainty for MNC headquarters due to the distance or variation between home and host country institutions (Jackson & Deeg, 2008). Businesses operating in emerging markets can be faced with unclear regulatory frameworks, inexperienced bureaucracies, underdeveloped court systems and incidents of corruption, and therefore MNC headquarters are required to adapt their strategy and structure to accommodate the institutional environments in the diverse and dynamic host countries in which they operate (Jackson & Deeg, 2008). It is suggested that subsidiaries based in emerging markets are thus faced with great institutional

challenges and require an amended form of attention from headquarters in terms of capital resources and strategies in dealing with local governments and institutions.

2.2.3 Cost of Doing Business

When MNCs set up subsidiaries outside of their home country there are additional costs known as the cost of doing business abroad (CDBA) which stem from the lack of knowledge or unfamiliarity with the local environments, differential treatment by host countries, and difficulties caused by home governments of the MNC (Chen, 2008). MNCs entering emerging markets face many difficulties in setting up their businesses and infiltrating the market, and as such suffer higher CDBA in these markets (Chen, 2008) as local institutions that would usually take a role in reducing both transactional and information costs are limited or poorly functioning (Hoskisson *et al*, 2000). Sunk costs for resources needed to enter the market, and the associated costs to exit emerging markets, are particularly high as a result of the weakly enforced laws and rules within these environments (Lou, 2003).

Where the transactional costs of doing business are high for a particular market, Hoskisson *et al* (2000) suggested that hierarchical models of governance will enhance efficiency however a trade-off is required between transaction costs associated with the market, the company's need for control, and the governance cost of hierarchy. To overcome the CDBA in emerging markets it is imperative for

MNCs to acquire host country business knowledge, build local social and governmental connections and increase their legitimacy in the foreign market (Chen, 2008), which is achieved through their subsidiaries and the management within them, as well as through headquarters interaction with local government and business.

2.2.4 Alternate Global Strategies for Emerging Markets

MNCs headquarters are able to pursue various global strategies in order to penetrate markets, one of which is a multinational flexibility strategy that assesses the specific needs of the local markets in which their subsidiaries operate, and adapt processes accordingly (Grewal *et al*, 2008). Therefore, to take advantage of the opportunities of emerging economies, and limit threats associated with doing business in these markets, strategic adaptation is required (Lou, 2003).

When determining a global strategy, the institution-based view suggests that organisations' strategies are enabled and constrained by the formal and informal rules governing the countries that they wish to penetrate, as well as the cultural and political aspects of those countries (Peng & Pleggenkuhle – Miles, 2009). Olsen *et al* (2005) argued that "...in order to achieve sustainable profitable growth in emerging markets, multinationals need to rely less on pre-existing corporate management models and more on principle-based set of practices" (p. 37) that are flexible and allow for efficiency within the emerging markets in which they find

themselves. Subsidiaries based in emerging markets require amended forms of attention from headquarters to allow them to engage effectively within these markets.

Hypothesis 1

The local business environment in emerging markets is complex and therefore requires additional positive attention from headquarters

2.3 Subsidiary Weight and Voice

Wishing to ensure their success in their dynamic and uncertain markets, MNCs subsidiaries will compete with their respective colleagues for attention from headquarters. Bouquet and Birkinshaw (2008) set out that to gain attention, subsidiaries voice their achievements through local management profile building with headquarters, and local initiative taking. It is additionally proposed in the study by Bouquet and Birkinshaw (2008) that subsidiaries gain attention through their “weight” (p. 578) or structure within the business, which impacts their ability to influence the flow of resources and the global strategy as it relates to their country or region.

According to Bouquet and Birkinshaw (2008), subsidiary weight deals with the structural positioning of the subsidiary in terms of the strategic significance of the local market, and the strength of the subsidiary within the MNC network.

Consequently, subsidiaries which are seen as key to the overall performance of the business in allowing the MNC to infiltrate a desired market will possess a greater degree of weight within the overall business, and may exercise more influence in terms of the strategic direction of their particular subsidiary within the overall global strategy as well as maintain the required autonomy in implementation of such strategy. It is proposed that due to the large growth potential of emerging markets, subsidiaries based within these markets are able to gain attention from headquarters through their weight, or the significance of the local market in terms of growth for the MNC as a whole. This is therefore aligned with the study of Bouquet and Birkinshaw (2008), in terms of how subsidiaries based in emerging markets would gain attention from headquarters.

Additionally, local management represent the “voice” (p. 578) of the subsidiary insofar as they take initiative within the operation to align with, and achieve, the strategic goals of the MNC. Subsidiary initiative refers to the discrete, proactive actions that managers and individuals within the subsidiary take to further the business and expand their resources (Birkinshaw, 2000) however, initiative taking by local management is embedded within the local market context and therefore the outcomes of such efforts are ambiguous (Bouquet & Birkinshaw, 2008). Initiative will be influenced and promoted by the “dynamism” (Birkinshaw, 2000, p.18) of the local environment in which the subsidiary operates. Therefore, it would be proposed that due to the dynamic and complex markets of emerging

economies, local management would be required to use initiative and guide headquarters in the requirements of the market, and as such would have considerable voice with which to gain attention.

Bouquet and Birkinshaw's study (2008) listed contributors to subsidiary strategic isolation as geographic distance and downstream competence, stating that distant subsidiaries are at "a greater risk of capturing lower levels of attention than those closer to home" (p. 584), and that subsidiaries with a downstream competence (i.e. product sales, after-sales service, marketing and logistics / distribution) are more likely to fall outside of the immediate attention of headquarters. Managers within subsidiaries need to ensure that they are able to draw the attention of headquarters to their business, and manage their position within the structure of the overall business to allow them to gain the required attention (Birkinshaw *et al*, 2006).

2.4 Control Variables relevant for Emerging Market Subsidiaries

The study by Bouquet and Birkinshaw (2008) controlled for several factors that the researchers felt may have confounded the original study's hypotheses. The variables at the subsidiary level included: the subsidiary size; subsidiary age and performance; subsidiary functional and market scope, as well as the subsidiary strategic autonomy. Characteristics of the MNC were also controlled for in the

original study, including: the formal structure of the MNC in terms of reporting structures and geographic area structure; geographic scope; and cultural distance and parentage of the MNC headquarters from the subsidiary.

When assessing the attention offered by headquarters to subsidiaries based in emerging markets, it is important to highlight that due to the complex nature of the business environment of emerging markets, subsidiaries based in these markets may find that they require, and may obtain, amended forms of attention than that of their developed market colleagues. As such, a number of the control variables from Bouquet and Birkinshaw's study of 2008 were extracted in the current study as key variables when assessing the attention of headquarters to subsidiaries based in emerging markets.

2.4.1 Subsidiary Level

The subsidiary level variables which were controlled for in the original study, but which may be relevant for subsidiaries based in emerging markets in terms of the positive attention that they require from headquarters include: subsidiary performance and subsidiary autonomy.

2.4.1.1 Performance

Bouquet and Birkinshaw (2008) mentioned that subsidiaries are able to attract positive headquarter attention in the form of resources or management focus, when higher or lower levels of performance are experienced within the subsidiary. For subsidiaries based in emerging markets the size of the market has the potential to allow for greater performance however, the challenges in the business environment may have a varying impact on their performance which in turn may influence attention received from headquarters.

Lou (2003) quoted Scherer and Ross (1990) in stating that opportunities and threats within the particular environment exert direct influences on a business's performance, as they represent the structural parameters within the business functions. Host country environments can significantly and directly impact on subsidiaries performance and success (Lou, 2003) as the institutional contexts impact on the transactional costs of doing business, and contribute to the level of uncertainty from headquarters. Narayanan and Fahey (2005) also pointed out that the unstable institutional environment present within emerging markets has a direct influence on the performance and growth of subsidiaries based in these markets. Unlike developed markets, changes in emerging markets are often unforeseeable and outside of management's control and it is these specific changes which often have a greater impact on the performance of the subsidiary than those variables within the local control (Olsen *et al*, 2005).

Olsen *et al* (2005) suggested that for subsidiaries based in emerging markets, headquarters should view performance not only in terms of absolute revenue and profit growth, but alternatively taking the context of the local economic and financial market conditions into account, and assessing subsidiaries based in these dynamic markets relative to the performance of competitors within their markets. Long-run strategies need to be adopted by MNCs in emerging markets, to counteract the flux in the institutional contexts (Narayanan & Fahey, 2005).

A further aspect of emerging market subsidiary performance links to the importance of local political networking. There appears to be a positive correlation between political embeddedness and organisational performance in both developed and emerging markets, however in emerging economies the value of political networking is greater (Sun, Mellahi & Thun, 2010). The reason for this increased requirement for governmental involvement is as a result of the fact that generally governments still control a wide range of financial and regulatory resources in these markets, and non-market forces shape competition. The lack of market supporting institutions or 'institutional voids' in these markets result in managers having to take on many activities which in developed markets they would not have to involve themselves in, including cultivating strategic interpersonal ties with governments and institutions which eventually have an impact on the performance of the company in that market (Peng & Luo, 2000). The

importance of these networks and relationships is highlighted by Luo and Chen (1997) when they stated that managerial relationships have a “systematic and positive effect” (p. 14) on company performance, as in order to capture non-market resources to sustain company competitive advantage, proactive political networking is required (Sun *et al*, 2010).

As a result of the impact of the challenges of the local environment on subsidiary performance as well as the greater requirement for personal networking and government relations within these markets, it was proposed that performance measurement for subsidiaries based in an emerging markets should differ from that of their developed market colleagues, and there is a greater requirement for proactive involvement of headquarters in the local governmental environment.

Hypothesis 2

Positive attention, in the form of an alternative assessment of performance, is awarded to MNC subsidiaries based in emerging markets

Hypothesis 3

Positive attention, in the form of increased headquarter involvement in local government and institutions, is awarded to MNC subsidiaries based in emerging markets

2.4.1.2 Autonomy

The local environment in which subsidiaries operate provide certain ‘cues’ from customers, suppliers, competitors and institutions (Birkinshaw, 2000) with which subsidiaries interact, with conditions varying widely in different locations (Jensen & Szulanski, 2004). Volkmar (2003) referenced Ghoshal and Nohria (1989; 1994) in pointing out that the structure and management systems of subsidiaries should be aligned to the local context in which they operate. This is due to the diversity of the market conditions which drive the requirement for responsiveness at a local level (Doz & Prahalad, 1984).

To be able to explore and strategically exploit opportunities that are present within emerging markets, local action and responsiveness is required by subsidiaries as they interact directly with local stakeholders (Lou, 2003). As alluded to earlier in the study, subsidiaries based in complex and dynamic markets are often required to rely on informal rules and personal relationships or networks (Narayanan & Fahey, 2005) to ensure success, and as such are able to perform better where there is less rigid control by headquarters and when localised strategies are supported (Lou, 2003).

The localised strategies can provide value to MNC headquarters through providing local management with the ability to navigate uncertainty and challenges in the environment, and to customise and adapt products and services to better service

the market, so as to gain the maximum advantage of the host market (Johri & Petison, 2008). Subsidiaries are able to use and integrate local resources and competencies more effectively, and learn and innovate more extensively, when headquarters reduces the control extended (Mudambi & Navarra, 2004), and allows them to adapt with the changes in the market. The provision of localised strategies and local autonomy to subsidiaries is impacted by the culture of the company based on where the headquarters is situated, or the characteristics of the MNC.

2.4.2 MNC Characteristics

Various characteristics relating to the MNC were controlled for during the original study by Bouquet and Birkinshaw (2008), such as the formal structure of the MNC in terms of reporting structures and geographic area structure, and the cultural distance and parentage of the headquarters from the subsidiary, to account for differences in attention due to broad variations in mind-sets.

It was proposed that the MNC characteristic which is most pertinent to subsidiaries based in emerging markets is the cultural distance of the headquarters from the subsidiary, which influences the amount of attention and autonomy a subsidiary receives.

2.4.2.1 Cultural Distance

Culture can be broadly defined as a cumulative of societal values, beliefs, norms and behavioural patterns (Hofstede, 1980) that underlie the social identity of individuals, communities and nations, and impact macroeconomic policies which in turn affect business. Cultural distance involves the principle differences in national cultures between the home country of the MNC and the host countries of their subsidiaries (Peng and Pleggenkuhle-Miles, 2009), or the institutional differences comprising of regulative, normative and cognitive distance between two countries which require the MNC headquarters to weigh up internal consistency or control with external adaption to the market (Xu, Pan & Beamish, 2004). The culture of a country influences the business environment in terms of how business is conducted, and what is acceptable and required business behaviour and etiquette.

Additionally, the culture of the subsidiary host country influences the application of MNCs policies and practices on the ground (Geppert & Williams, 2006) and differing cultures, manners and perspectives can significantly affect the effectiveness of management in a particular country or region (Noverita, 2007). Large cultural differences between home and host countries increase the level of integration risk and have been found to increase management costs and lower performance of subsidiaries (Malhotra, Sivarkumar & Zhu, 2006). Peng *et al* (2009) set out that increased cultural distance of headquarters from subsidiaries “may

lead to higher levels of complexity and uncertainty for managerial decision-making” (p. 54).

Subsidiaries operating in differing national environments, and the consequent cultural distance between how business is conducted at the MNC headquarters as compared with the subsidiary local environment, may create obstacles for MNC headquarters (Jensen & Szulanski, 2004). Therefore, subsidiaries that are culturally distant from headquarters are at a greater risk of capturing lower levels of attention than those closer to the home country (Bouquet & Birkinshaw, 2008). Peng *et al* (2009) went so far as to say that as the cultural differences between the home country of the MNC and the host country of the subsidiary increase, the underlying ability of the MNC to operate effectively in the host market decreases.

Building on this theory, one would propose that subsidiaries based in emerging markets such as Africa, the Middle East and Latin America are culturally distant from the MNC headquarters based in developed markets such as the USA, the UK or Europe, in terms of their societal values, norms, macroeconomic policies and extendedly how business is conducted in the country. It was therefore proposed that the way in which subsidiaries based in emerging markets attract attention from headquarters is through the requirement by headquarters to rely on the local inputs and decision making of the management of their subsidiaries, so as to reduce the managerial risk of headquarters due to cultural distance.

Hypothesis 4

MNC subsidiaries based in emerging markets gain positive attention from headquarters in the form of local strategic autonomy, so as to reduce managerial risk

Chapter 3: Research Question

Does being based in an emerging market influence the positive attention obtained from headquarters?

As defined by Birkinshaw and Hood (1998), subsidiaries are value-adding entities based in a host country. The literature specifically relating to Bouquet and Birkinshaw's study of 2008 implied that positive attention from MNCs headquarters was assigned to subsidiaries based on their weight and voice in terms of significance of the local market, strength of the subsidiary within the MNC network, and the initiative taking and profile building by the local management.

In examining MNC subsidiaries based in an emerging market, Lou (2003) set out that for subsidiaries based in these markets to become successful, and effectively infiltrate the market, they are reliant on headquarters for resource commitment, information flows, the ability for local responsiveness, as well as flexible control to leverage changes and opportunities in the volatile market. The strategic importance of growth opportunities in emerging markets coupled with the complexity of the host country environment, may require MNC's to pursue an amended strategy in terms of attention given to subsidiaries based in these markets to allow the subsidiaries to successfully pursue opportunities there.

It was thus proposed that the amount and form of positive attention that MNCs subsidiaries based in an emerging market receive from headquarters may vary from that defined by Bouquet and Birkinshaw (2008), as subsidiaries based in emerging markets were not surveyed in the previous study and as such various factors relevant for subsidiaries based in emerging markets were controlled for during the original study.

The following hypotheses were tested in the current study, assessing the impact of the dynamic environment in which emerging market subsidiaries find themselves:

- **Hypothesis 1**

The local business environment in emerging markets is complex and requires additional positive attention from headquarters

- **Hypothesis 2**

Positive attention, in the form of an alternate assessment of performance, is awarded to MNC subsidiaries based in emerging markets

- **Hypothesis 3**

Positive attention, in the form of increased involvement by headquarters in local government and institutions, is awarded to MNC subsidiaries based in emerging markets

- **Hypothesis 4**

MNC subsidiaries based in emerging markets gain positive attention from headquarters in the form of local strategic autonomy, so as to reduce managerial risk

Hypotheses are declarative statements in which we assign variables to cases (Blumberg, Cooper & Schindler, 2008). Descriptive hypotheses are propositions which typically state “the existence, size, form or distribution of some variable” (Blumberg, Cooper & Schindler, 2008, p. 41) and as the current research aimed to determine whether being a MNC subsidiary based in an emerging market impacts on the form of positive attention received by the headquarters, descriptive hypotheses were relevant to this study.

Chapter 4: Research Methodology and Design

The purpose of the research was to test an existing model of Bouquet and Birkinshaw (2008) in an alternative context; that of being based in an emerging market; as well as to expand on certain variables which were controlled for during the original study, to test the central question of whether subsidiaries based in emerging markets require a different type of attention to those in developed markets.

4.1 Methodology

4.1.1 Research Design and Type

A quantitative, descriptive study was undertaken, as there is depth of knowledge available on this subject and previous studies have been conducted in this area. The objective of descriptive studies is to answer the ‘who, what, when, where and how of a topic’ (Blumberg, Cooper & Schindler, 2008) and thus the research sought to expand on a previous study conducted on this topic in terms of the ‘where’ (i.e. emerging markets) and to determine ‘how’ the factors relating to being based in these markets influence the MNC headquarters interaction with their subsidiaries located there.

4.1.2 Research Method

The study by Bouquet and Birkinshaw (2008) was conducted using a four page survey which was split into three sections, and developed using varying scale formats. The survey included same-construct questions scattered throughout, and asked respondents to answer survey questions in an indirect way (Bouquet & Birkinshaw, 2008). A review of the original survey was conducted prior to the study by three academics, to ensure clarity of questions and to identify possible biases. Approval was obtained from Julian Birkinshaw (personal communication, June 6, 2011) to utilize the survey from the original study as the basis for the current study, and to alter the survey as required for the purposes of expansion of the model.

The format of the survey used in the research was consistent with that used by Bouquet and Birkinshaw (2008), consisting of three sections dealing with general demographic details of respondents, attention obtained from headquarters, and the business environment of the subsidiary respectively. Amendments were made to the Bouquet and Birkinshaw (2008) survey in a number of the rating scales. The original survey used a Likert scale with a scaling range of 1 to 7 for the majority of the questions where, based on the relevant question, a score of 1 represented either 'Never', 'Much Lower', 'Not at all' or 'Strongly disagree', and where 7 represented either 'Plentifully', 'Much higher', 'To a great extent' or 'Strongly agree'. The survey for the current research implemented a variation on the original scale, with a 1 to 5, 1 to 6, or a 1 to 7 rating scale, based on the question. The

reason for the amendment to the scaling was due to a few of the rating items from the original survey being ambiguous to the current researcher and pilot participants, and additionally the researcher wanted to ensure that on various items, the participant was forced into choosing a position instead of selecting a neutral position. The act of choosing a neutral position or 'mid-point rating' is referred to as a central tendency error, where raters are reluctant to give extreme judgements and thus rate on or near the central point (Blumberg *et al*, 2008).

The survey was distributed to an academic and a business leader as a pilot study to determine ease of understanding of the questions and relevance to the research topic. Suggestions were made regarding the rewording of some of the questions, and the amendment of options under the performance judgement questions to include items relevant for businesses in emerging markets. These suggestions were incorporated in the final survey for distribution.

The research method consisted of a self administered survey using a web-based survey tool, set up by IFeedback Consulting cc, to allow the survey to be administered to MNC subsidiaries based in the emerging markets of Africa, Latin America and the Middle East. The database of businesses and potential participants additionally included addresses in India and China, however the IFeedback server experienced difficulty in administering the survey to these addresses, and thus no data were received from India or China. Participants of the

survey were offered access to a summary of the research findings. An electronic version of responses has been saved by the researcher for future reference as required.

4.2 Population

The population of relevance to this study consisted of MNCs subsidiaries based in the emerging markets of Africa, Latin America and the Middle East, which are headquartered in developed markets of the USA, the UK or Europe.

4.3 Unit of Analysis

The unit of analysis was the positive attention that emerging market MNC subsidiaries gain from headquarters, specifically relating to performance and level of autonomy of the subsidiaries, and the cultural distance between the MNC headquarters and the subsidiaries.

4.4 Sampling Method

From a database offered by IFeedback Consulting, of businesses based in various emerging market countries, a non-probability, judgemental sampling method was used. An internet sample is a non-probability sample as only those companies that are listed in the database, and who have access to e-mail, are eligible for selection. Furthermore, only those companies that are based in an emerging market were

eligible for selection. Blumberg *et al* (2008) state that non-probability sampling can be used to test whether there is an effect, which in this case would be positive attention from headquarters towards subsidiaries in emerging markets, without determining the accurate size of the effect. Non-probability sampling was practical and sufficient for this particular study as the sample demonstrates whether there is a positive or negative effect however did not specify the exact size of the effect for all MNC subsidiaries based in emerging markets.

To mitigate the challenge of incorrect participants completing the web-based survey, two filtering questions were included at the beginning of the survey asking (1) whether the respondent was a MNC subsidiary and (2) whether the participant or his/her team was responsible for communication with headquarters. If the participant responded 'No' to any of these questions, they were directed to the end of the survey and thanked for their participation.

Surveys were distributed by e-mail to businesses in the following countries for participation:

- Africa – 5,000
- Brazil - 3,700
- Argentina – 214
- Middle East – 10

From the 8,924 distributed survey links, 107 persons participated, which achieved a response rate of 1.2% however 22 respondents were filtered out due to not being part of a MNC, with an additional 10 respondents being filtered out due to not being instrumental in relations with headquarters. 46 respondents opted out during the process of the survey, having only partially completed the questionnaire, and thus these responses were deleted. After filtering of the data for incomplete or irrelevant responses, 39 valid responses to the survey were received for analysis.

4.5 Data Analysis

The first stage of data analysis was a descriptive analysis to determine the frequency of subsidiaries responses to each question, and the transformation of the data into a format which is easily interpreted and understood. Once this basic analysis was completed, inferential statistics were run to interpret the findings and to test the significance of the various propositions.

Measurement scales are crucial to the choice of statistical procedures. The different types of scales include: nominal, ordinal, interval and ratio scales. These scales are distinguished on the basis of the relationship assumed to exist between items having different scale values (Howell, 1992).



The captured data was analysed by making use of the IBM SPSS Statistical analysis package. Based on the fact that most of the data was on a nominal and ordinal level the following statistical techniques were used to analyse the data:

Descriptive statistics

Frequency analysis was used to describe the sample in terms of the demographics asked in the survey. It was also used to determine their agreement on the various issues measured in the survey.

This analysis was done in order to be able to compare the results of this survey with the results obtained in the literature.

Inferential statistics

As a result of the small sample and the fact that the data was not normally distributed the following non-parametric techniques were used to analyse the data:

Chi-square analysis was used to determine whether statistically significant relationships existed between the questions of different sections of the questionnaire as they were recorded on a nominal level and ordinal level. Chi-square tests are used when we have two nominal variables and want to determine whether these variables are independent of one another. The data are cast in what is commonly referred to as a contingency table (Howell, 1992). This

technique thus gives an indication of whether there is a statistically significant relationship between two variables. The coefficient does however, not give an indication of the strength or direction of the relationship. Further analysis of the distribution of responses in the contingency table is needed to determine the nature of the relationship.

In order to determine the strength and the direction of the association between variables, Spearman rank-order correlations were used. Spearman's rho is a non-parametric version of the Pearson Product-moment correlation coefficient, based on the ranks of the data rather than the actual values. This coefficient is appropriate for ordinal data, or for interval data that do not satisfy the normality assumption. Values of the coefficient range from -1 to +1. The sign of the coefficient indicates the direction of the relationship, and its absolute value indicates the strength, with larger absolute values indicating stronger relationships.

4.6 Research Limitations

The following inherent limitations of the research have been identified:

The small sample may result in assumptions being made which are limited to the sample and cannot be extended to the greater population of MNC subsidiaries based in emerging markets.

The low participation rate from subsidiaries based in Latin America and the Middle East may result in the findings being biased in favour of African views, and specifically Southern African views.

The use of the internet for distribution of the surveys may have limited the amount and type of participants, as those subsidiaries which did not have access to internet, or whose details did not appear on the database, would not have been requested to participate.

The survey was exclusively distributed to subsidiaries based in emerging markets, resulting in MNC subsidiaries from developed markets being excluded from the current survey. As a result of the amendments in questions and scaling of the current study, from that of Bouquet and Birkinshaw (2008), a direct comparison to the results obtained in the previous study may not be possible.

Chapter 5: Results

5.1 Sample Description

Over two-thirds of the respondents were based in South Africa (79%), with subsidiaries based in Namibia as the second largest representative group at 8%. Businesses from Brazil, Malawi, the United Arab Emirates and Chile represented between 2% and 5% of the balance of the responses.

The responses set out in Table 5.1 indicate that over 40% of respondents were directors within their subsidiaries, with a third (35.9%) holding the title of country manager. Additionally the respondents indicated that 15% were expatriates with the balance of 85% being of local origin.

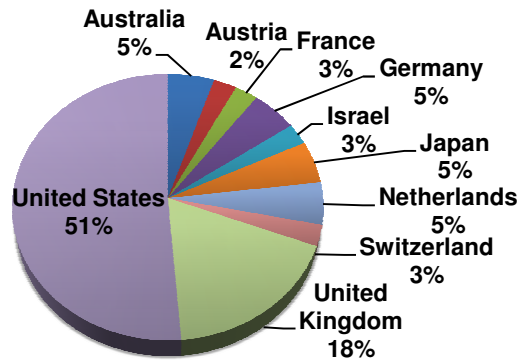
Table 5.1: Respondents position within the subsidiary

Position	Percent
Country Manager	35.9
Director	41.0
Branch/Subsidiary Manager	12.8
Other	10.3
Total	100.0

Subsidiaries were requested to detail the country in which their headquarters is based, to ensure that the sample consisted of MNC subsidiaries with headquarters based in developed markets. Figure 5.1 presents the country in which the headquarters of the sample of subsidiaries are based, with over half (51%)

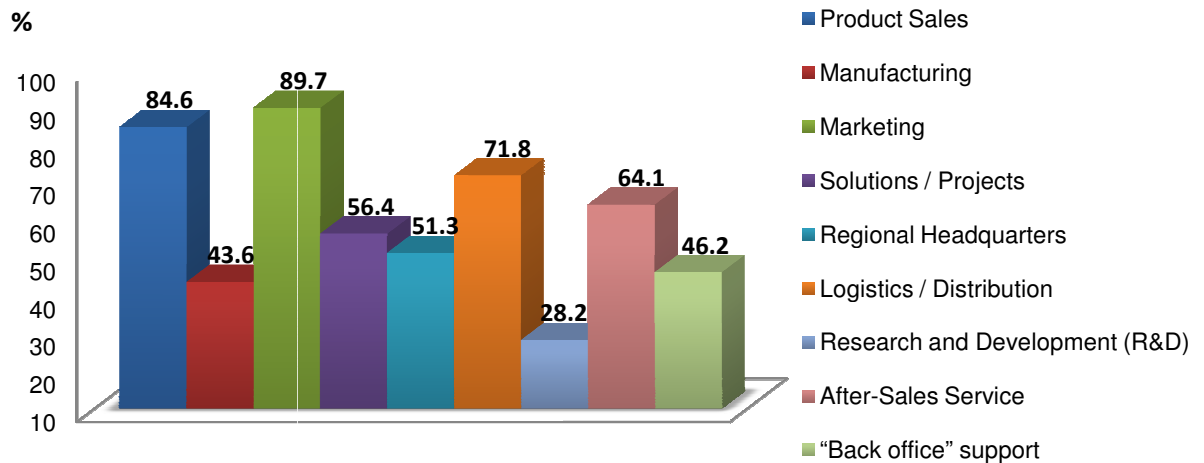
headquartered in the USA and nearly a fifth (18%) in the UK, with the rest managed out of either Europe, Australia (5%) or Japan (5%).

Figure 5.1: Country in which the subsidiary Headquarters is based



Additional descriptive information was requested from respondents regarding the business activities that were undertaken within the subsidiary, and the geographic scope of their activities. The results presented in Figure 5.2 indicate that of the most popular activities performed within the subsidiaries were marketing (89.7%), product sales (84.6%) and logistics/ distribution (71.8%), with the least performed activity being R&D which was listed by just over a quarter (28.2%) of respondents.

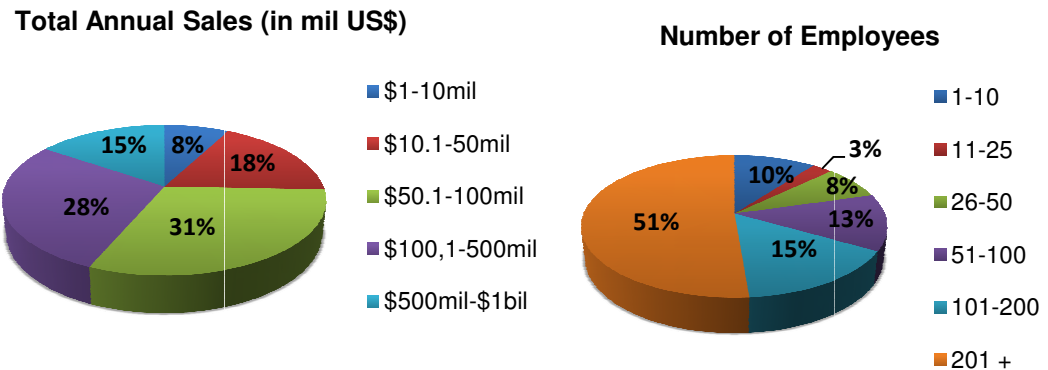
Figure 5.2: Activities undertaken by the Subsidiary



The scope of the activities within the subsidiaries indicate that three quarters (74.4%) of respondents operate in Sub-Saharan Africa, followed by 'other' regions at 23.7%, North Africa (15.4%) and the Middle East (12.8%). Europe and Latin America were listed as a scope of operation for just over ten percent (10.3%) of respondents, with China and South Asia Pacific with the lowest scope of activity at 5.1%. This indicates that the majority of respondents operate within Africa and the Middle East.

The subsidiaries that participated in the survey vary in size in terms of annual sales, with just under a third (31%) of respondents having achieved sales figures in the most recent financial year of between \$50.1 – \$100 million, and over half (51%) of respondents employing more than 200 employees, as displayed in Figure 5.3 below.

Figure 5.3: Details of subsidiaries from the research sample



5.2 Hypothesis 1:

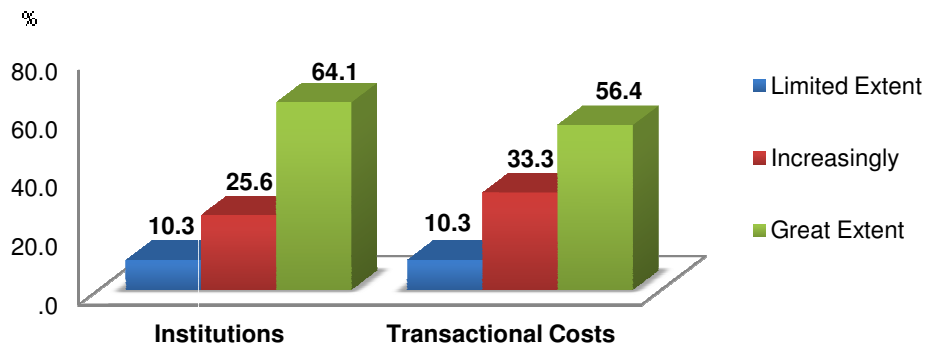
The local business environment in emerging markets is complex and requires additional positive attention from headquarters.

To test this proposition, frequency analyses were conducted on questions asked of respondents regarding the complexity of their business environment and the attention they obtained from headquarters. Once a frequency analysis was completed, cross tabulations and Spearman's correlations for selected areas were conducted to determine correlations regarding various items within the survey.

The frequency of responses regarding the local business environment of emerging market subsidiaries is presented in Figure 5.4 below. The results illustrated that 64.1% of respondents felt that the local institutions and infrastructure greatly influenced the performance of their subsidiary, with more than half (56.4%)

responding that the transactional costs of doing business greatly impacted on their ability to perform in the region.

Figure 5.4: Perception of impact of local institutions and transactional costs on the performance of subsidiaries



When asked to rate the complexity of the regulations in the local business environment of the subsidiary, a total of 56% of respondents agreed or strongly agreed that the regulations in the business environment of the subsidiary are complex while a quarter of respondents (25%) opted to remain neutral on the question.

The perceptions of the local business environment of the subsidiary were set out in the responses shown in Table 5.2. The majority of respondents agreed or strongly agreed with the statements regarding competition and uncertainty in the local business environment (48.7% and 38.5% respectively); with over 60% disagreeing that local government was actively looking to support investment and industrial growth. When asked to rate the speed of product innovation by competitors, over a

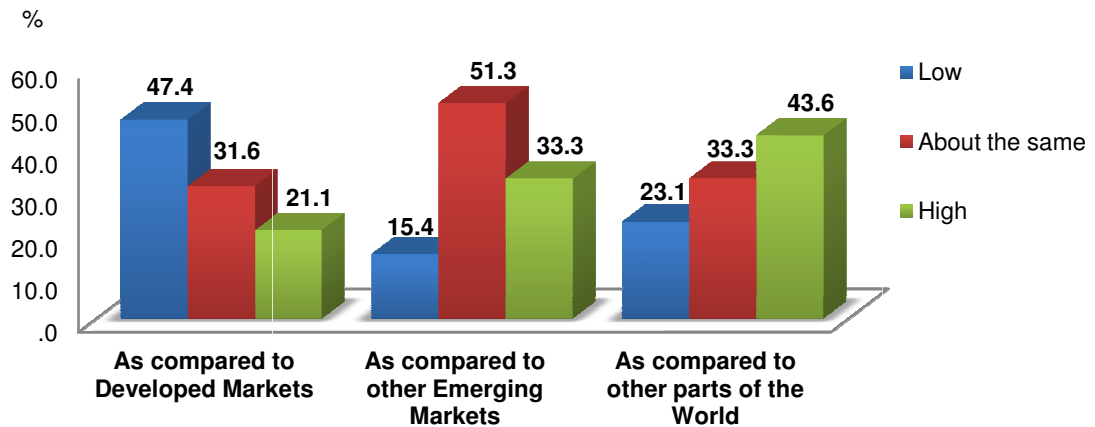
third (35.9%) responded neutrally therefore not indicating whether they agreed or disagreed with the statement. 43.6% of respondents were of the opinion that the legal and financial institutions in the local market were well established.

Table 5.2: Perceptions of the business environment of the subsidiary

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Competition (price, quality, speed, local content, etc) in this country is extremely intense		% 2.5	% 10.3	% 38.5	% 48.7
The local business environment creates uncertainty for this subsidiary	2.6	17.9	23.1	38.5	17.9
Institutions (legal & financial) are well established in the local market	.0	5.1	10.3	41.0	43.6
Speed of product innovation by competitors is high	2.6	7.7	35.9	33.3	20.5
The local government is actively looking to support investment and industrial growth	28.2	33.3	15.4	12.8	10.3

Relative attention from headquarters was measured through asking three questions in the survey. The results, as shown in Figure 5.5 below, indicate that almost half (47.4%) of respondents felt that they received a lower amount of attention from headquarters as compared with subsidiaries in developed markets, with just over half (51.3%) of the opinion that they received about the same amount of attention as other comparable sized emerging market subsidiaries. 43.6% of respondents stated that they received higher attention from headquarters relative to comparable sized markets in other parts of the world.

Figure 5.5: Perception of attention from headquarters as compared with other subsidiaries



A Spearman nonparametric correlation was conducted to assess the subsidiary's perception of their attention relative to others, and whether their market was perceived to be an important strategic market by headquarters. A strong correlation at the 1% level of significance ($r= 0.510$; $p= 0.001$) was found when comparing the amount of attention paid to the subsidiary relative to developed markets, and the perceived strategic importance of the subsidiary market. This result indicated that the more important the local market is perceived to be by headquarters, the more attention is paid to the subsidiary relative to subsidiaries in developed markets.

Additionally, a moderate correlation at the 10% level of significance ($r= 0.315$; $p= 0.051$) was found where the more the subsidiary's market was perceived by headquarters to be strategic, the more attention was paid to the subsidiary relative to comparable sized markets in other parts of the world.

In assessing the supportive attention which subsidiaries gain from headquarters, respondents were asked as to whether, in their opinion, the MNC headquarters were making an effort to learn more about how business is conducted in the local market. A total of 61.5% of respondents agreed or strongly agreed that the headquarters of their companies were keen to learn more about the local business environment (Table 5.3).

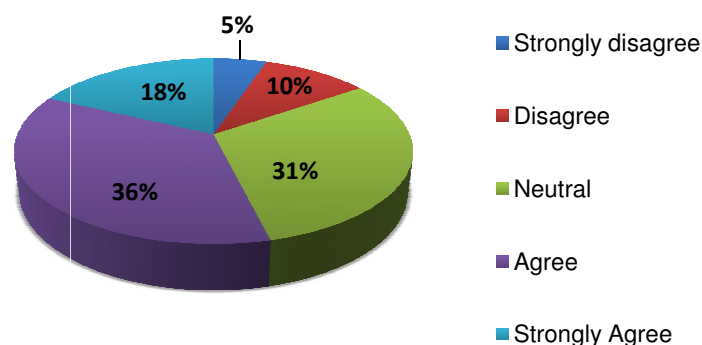
Table 5.3: Perception by subsidiaries of Headquarters willingness to learn more about how business is conducted in the local market

HQ wants to learn more about how business is conducted in our local market	Valid Percent	Cumulative Percent
Strongly Disagree	2.6	2.6
Disagree	10.3	12.8
Neutral	25.6	38.5
Agree	41.0	79.5
Strongly Agree	20.5	100.0
Total	100.0	

When assessing the frequency with which key headquarter staff visit the subsidiaries surveyed, over a third (38.5%) of respondents indicated that they were visited bi-annually, with a fifth or respondents visited annually. A third (33.3%) of respondents were visited quarterly, with only 7.7% visited more frequently.

An additional measure of supportive attention aimed to determine the extent to which headquarters provide opportunities and incentives to the subsidiary employees. Figure 5.6 sets out the respondents' agreement with the provision of such attention to them, with over half (total of 54%) agreeing that headquarters provides incentives and opportunities, while a third remained neutral on this question, and the balance disagreeing. This indicated that although over 50% agree that headquarters provides supportive attention, the balance of respondents did not agree.

Figure 5.6: Corporate headquarters provides incentives and career opportunities for us



The cross-tabulation in Table 5.4 below with Chi-Squared analysis indicates a statistically significant relationship between the frequency of telephonic conversations and the extent to which the subsidiary market was viewed as an important strategic market ($p= 0.011$). Those respondents which stated that telephone conversations were held with headquarters daily or monthly also tended

to indicate that the subsidiary market was perceived by headquarters as an important strategic market.

Table 5.4: Cross-tabulation of the perception of whether the subsidiary's market is viewed as an important strategic market by Headquarters, and the frequency of telephone conversations with Headquarters

This market is perceived to be an important strategic market by headquarters		Frequency of communication via: Telephone conversations	
		Daily / Monthly	Quarterly / Annually
Strongly disagree/ Disagree	Count	2	0
	% within This market is perceived to be an important strategic market by Headquarters	100.0%	.0%
Neutral	Count	3	1
	% within This market is perceived to be an important strategic market by Headquarters	75.0%	25.0%
Agree/ Strongly agree	Count	33	0
	% within This market is perceived to be an important strategic market by Headquarters	100.0%	.0%
		% within Frequency of communication via: Telephone conversations	.0%
		86.8%	.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.980 ^a	2	.011
Likelihood Ratio	4.803	2	.091
Linear-by-Linear Association	1.109	1	.292

In summary, the results indicated that the majority of respondents felt that local institutions and transactional costs of doing business greatly impacted their performance in the region, along with the complex local regulations and limited local government support which created uncertainty for the subsidiary. Although respondents indicated that the headquarter attention offered to developed market

subsidiaries was greater than that offered to them, there was an indication that headquarters were keen to learn more about the local market, and provided supportive attention in terms of quarterly or bi-annual visits by key headquarter staff to the market, and incentives to the subsidiaries.

5.3 Hypothesis 2

Positive attention, in the form of alternative assessment of performance, is awarded to MNC subsidiaries based in emerging markets.

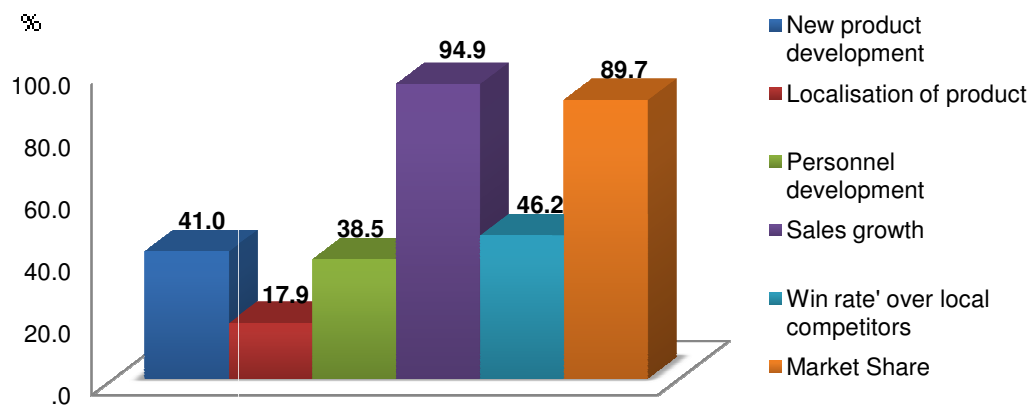
A large number (total of 89.2%) of subsidiaries surveyed indicated that they perceived emerging market subsidiaries to be measured by headquarters using the same means as other subsidiaries within the MNC (Table 5.5).

Table 5.5: Whether performance of the emerging market subsidiary is measured in the same way as other subsidiaries

Performance measured in the same way as other subsidiaries	Valid Percent	Cumulative Percent
To a small extent	5.1	5.1
Somewhat	2.6	7.7
Increasingly	2.6	10.3
Often	20.5	30.8
To a great extent	69.2	100.0
Total	100.0	

Additionally, Figure 5.7 sets out the factors against which subsidiaries are measured indicating that almost all the respondents were being measured on sales growth (94.9%) and market share (89.7%), with less than half being measured on 'win rate' over local competitors and less than a fifth being measured on localisation of product.

Figure 5.7: Performance of the subsidiary is judged on the following factors



The assessment by headquarters of subsidiaries included a monthly review of operating expenses for close to half of respondents and a monthly review of sales figures for 41%. Strategic business plans for the region were assessed annually for nearly 65% of respondents (Table 5.6).

Table 5.6: Frequency of review by headquarters of Operating Expenses, Sales Figures and Strategic Business Plans

Frequency of review/ assessment by Headquarters:	Daily	Weekly	Twice a month	Monthly	Quarterly	Bi- annually	Annually
	%	%	%	%	%	%	%
Operating Expenditures	2.6	7.7	15.4	48.7	15.4	2.6	7.7
Sales Figures	7.7	20.5	10.3	41.0	17.9		
Strategic Business Plans	0	2.6	5.1	5.1	7.7	15.4	64.1

A cross-tabulation was conducted of whether the respondents rated that the performance of the subsidiary is measured in the same way as other subsidiaries, and the methods of judging the subsidiary's performance. The results in Table 5.7 show, through the Chi-Squared analysis ($p = 0.021$), that there was some relationship at the 5% significance level between how respondents perceived whether their performance was rated in the same way as other subsidiaries and whether their performance was judged on sales growth. This indicated that the more the subsidiary's performance was judged by headquarters through sales growth, the subsidiary increasingly perceived their performance to be measured in the same way as other subsidiaries.

Table 5.7: Cross-tabulation of performance judgement on sales growth and the perception that the performance of the subsidiary is measured in the same way as other subsidiaries

			The performance of this subsidiary is measured in the same way as other subsidiaries in the company	
			Not at all / Somewhat	Increasingly / To a great extent
Judgement of Subsidiary based on : Sales growth	No	Count	1	1
		% within Judgement of Subsidiary based on : Sales growth	50.0%	50.0%
	Yes	Count	2	35
		% within Judgement of Subsidiary based on : Sales growth	5.4%	94.6%
		% within The performance of this subsidiary is measured in the same way as other subsidiaries in the company	33.3%	2.8%
		% within The performance of this subsidiary is measured in the same way as other subsidiaries in the company	66.7%	97.2%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.314 ^a	1	.021
Continuity Correction ^b	.889	1	.346
Likelihood Ratio	2.819	1	.093

The results of the responses to the question regarding whether subsidiary performance is assessed through comparison with local competitors showed that a quarter (23%) of respondents are only compared to a small extent with local competitors, with another quarter (26%) having their performance being compared somewhat with local competitors, and a fifth (20%) of respondents performance being judged to a great extent on comparison with local competitors. This indicated that there is a split response as to whether the performances of subsidiaries are compared with that of competitors in the local market.

Linked to the above assessment of whether the subsidiary's performance was assessed through comparison with local competitors, a cross-tabulation with Chi-square analysis was conducted to determine whether some relationship existed between this assessment of performance and the amount of autonomy which subsidiaries obtained from headquarters in terms of their ability to invest in capital goods locally. The results showed a significant relationship at the 5% significance level. Those whose opinion carries little weight when investing in capital goods locally were assessed more through comparison with local competition. Those who indicated that they made decisions themselves, tended to disagree that their performance was compared to the local competition (see Table 5.8 below).

Table 5.8: Cross-tabulation of the autonomy of the subsidiary in investing in capital good locally and whether the performance of the subsidiary is assessed through comparison with local competitors

			The performance of this subsidiary is assessed through comparison with local competitors	
			Not at all – Somewhat	Increasingly - To a great extent
Investing in capital goods locally	Subsidiary opinion not asked	Count % within Investing in capital goods locally % within The performance of this subsidiary is assessed through comparison with local competitors	2 66.7% 8.7%	1 33.3% 6.3%
	Subsidiary opinion carries little weight	Count % within Investing in capital goods locally % within The performance of this subsidiary is assessed through comparison with local competitors	1 14.3% 4.3%	6 85.7% 37.5%
	Subsidiary opinion carries much weight	Count % within Investing in capital goods locally % within The performance of this subsidiary is assessed through comparison with local competitors	8 80.0% 34.8%	2 20.0% 12.5%
	Decisions made jointly	Count % within Investing in capital goods locally % within The performance of this subsidiary is assessed through comparison with local competitors	6 50.0% 26.1%	6 50.0% 37.5%
	Decisions made by subsidiary	Count % within Investing in capital goods locally % within The performance of this subsidiary is assessed through comparison with local competitors	6 85.7% 26.1%	1 14.3% 6.3%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.147 ^a	4	.038
Likelihood Ratio	10.856	4	.028
Linear-by-Linear Association	2.095	1	.148

In summary, the results indicated that to a large extent, subsidiaries based in emerging markets had their performance assessed in the same way as other subsidiaries, focusing mainly on sales growth and market share. Performance assessment focused on the local environment and local competition was limited however in areas where there was more local focus, the subsidiaries were offered greater autonomy in terms of local capital expenditure

5.4 Hypothesis 3

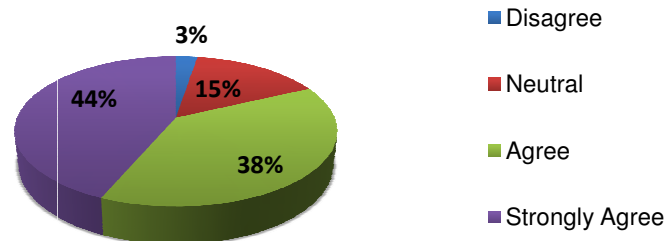
Positive attention, in the form of involvement by headquarters in the local government and institutions, is awarded to MNC subsidiaries based in emerging markets.

Respondents were questioned as to whether the headquarters of their MNC involved itself with their local government and government relations. The results indicate that 43.6% of respondents recorded that their headquarters were not involved at all in local government relations, with a total of 38.4% recording involvement by headquarters to a small extent or somewhat in local government relations. The balance of the 18% of subsidiaries surveyed indicated that their headquarters were involved with local government relations increasingly, often or to a great extent. These results indicate that, on the whole, there is limited involvement by headquarters in the local subsidiary government relations.

Expanding on the above finding, a Spearman nonparametric correlation was conducted to determine whether there is a correlation between the extent to which headquarters involved itself with local government relations, whether headquarters wanted to learn more about how business was conducted in the local market and whether networking and personal relationships are important in the subsidiary's region. A moderate positive correlation was found at the 5% level of significance ($r= 0.335$; $p= 0.037$) between two of the constructs, indicating that the more headquarters was willing to learn about how business is conducted in the local environment of the subsidiary, the more they involve themselves in local government relations.

When assessing the responses obtained with regard to the importance of personal relationships and networking in the subsidiary's region, the results show that 82% of respondents agreed or strongly agreed with the relevance of networking and relationships in their local market (Figure 5.8).

Figure 5.8: The extent to which networking and personal relationships are important in the Subsidiary region

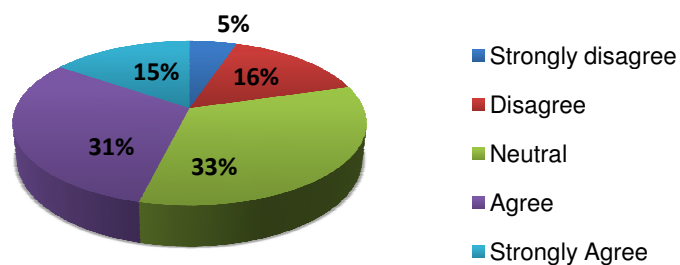


In summary, the responses indicate that networking and personal relationships are vital in the local environment of emerging market subsidiaries, however headquarter involvement at a local level with government and institutions is limited for most respondents. The results do however reflect that the greater the willingness of headquarters to learn more about the local market, the greater their involvement with local government in terms of building networks and relationships.

5.5 Hypothesis 4

MNC subsidiaries based in emerging markets gain positive attention from headquarters in the form of local strategic autonomy, so as to reduce managerial risk.

Figure 5.9: We receive the autonomy and recognition we need from headquarters



When questioned as to whether the subsidiary received the autonomy required by headquarters, a third agreed and 15% strongly agreed, with a third remaining neutral and the balance disagreeing (16%) or strongly disagreeing (5%). This indicates that while over 45% of respondents feel that they are receiving the autonomy they require, a third responded neutrally implying that they neither agree nor disagree (Figure 5.9).

The survey requested respondents to set out their level of autonomy in decision making in various activities within the business. The outcomes of these questions are reflected in Table 5.9 below and indicate that overall decisions are made jointly between headquarters and the subsidiary management, with only hiring and promotion decisions being made by the subsidiary unaided by over 40% of

respondents. Decisions regarding new systems are being made by headquarters, with little input from the subsidiary, according to a quarter of respondents.

Table 5.9: Level of autonomy which subsidiaries have in terms of making decisions

	Subsidiary opinion not asked	Subsidiary opinion carries little weight	Subsidiary opinion carries much weight	Decisions made jointly	Decisions made by subsidiary
	%	%	%	%	%
Discontinuing or launching an existing product or product line	7.7	23.1	23.1	33.3	12.8
Hiring and/or promoting within the subsidiary		7.7	10.3	38.5	43.6
Entering new markets	5.1	15.4	23.1	48.7	7.7
Investing in capital goods locally	7.7	17.9	25.6	30.8	17.9
Formulating and approving the subsidiary's annual budgets	2.6	18.4	31.6	47.4	
Changes in subsidiary structural organization		7.7	33.3	46.2	12.8
Switching to new systems (eg. IT, CRM, etc)	23.1	25.6	17.9	20.5	12.8
Increasing (beyond budget) expenditures for local training and development		12.8	20.5	43.6	23.1

Table 5.10 shows a cross tabulation looking at the extent of autonomy which the subsidiary has to formulate its own budgets and the impact of transactional costs of the local business environment on the performance of the subsidiary. The Chi-Squared analysis (0.079) indicates a correlation at the 10% level of significance which implies that the greater the impact of transactional cost on the subsidiary performance, the greater level of autonomy the subsidiary has in formulating and approving their annual budgets. However, the majority of those subsidiaries whose

opinion carries little weight in decisions made also agreed that the transactional cost of doing business in their region impacted on the performance of their subsidiary. The results of the Chi-square analysis should be interpreted with caution due to the small base size and the fact that the observed values were very small in some of the cells.

Table 5.10: Cross-tabulation regarding the autonomy which subsidiaries have to formulate their annual budget and the impact of transactional costs in the region on the subsidiary's performance

			The transactional costs of doing business in this region impact the performance of this subsidiary	
			Not at all - Somewhat	Increasingly - To a great extent
Formulating and approving the subsidiary's annual budgets	Subsidiary opinion not asked	Count	1	0
		% within Formulating and approving the subsidiary's annual budgets	100.0%	.0%
	Subsidiary opinion carries little weight	Count	1	6
		% within The transactional costs of doing business in this region impact the performance of this subsidiary	10.0%	21.4%
Subsidiary opinion carries much weight	Count	1	11	
	% within The transactional costs of doing business in this region impact the performance of this subsidiary	10.0%	39.3%	
Decisions made jointly	Count	7	11	
	% within The transactional costs of doing business in this region impact the performance of this subsidiary	70.0%	39.3%	

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.791 ^a	3	.079
Likelihood Ratio	7.119	3	.068
Linear-by-Linear Association	.498	1	.481

When questioned regarding the ease of obtaining funding support from headquarters, close to a quarter of respondents (23%) disagreed that it was easy for the subsidiary to obtain funding, with 44% remaining neutral and a third (total of 33%) agreeing that it was easy to obtain funding from headquarters. This result indicates that respondents were vastly split over the ease of obtaining funding from headquarters.

The data set out in Table 5.11 reflects the extent to which various activities have occurred in the subsidiary over the last four (4) years, to determine strategic autonomy of the subsidiary management and the extent to which they are able to gain this type of positive attention. The results indicated that the various activities have not, or infrequently, taken place in the subsidiary over the stated period which indicates either a lack of strategic autonomy or local initiative taking. Close to half of respondents had infrequently developed new products, extended their international responsibilities, successfully bid for investment and been involved in the acquisition of local companies over the last four years. Additionally, close to half had not attracted new corporate investments or transferred activities to their subsidiary during this period.

Table 5.11: Extent to which the listed activities have occurred in the subsidiary over the last four (4) years

	Never	Infrequently	Once every 2 years	Annually	Bi-annually	Frequently (more than 3 times per year)
	%	%	%	%	%	%
New products developed in your region and then sold internationally	30.8	41.0	10.3	7.7	2.6	7.7
Significant extensions to existing international responsibilities	25.6	56.4	15.4	0	2.6	.0
Successful bids for corporate investments in the region	28.2	46.2	7.7	7.7	2.6	7.7
Acquisitions of local companies led by subsidiary management	41.0	46.2	7.7	0	2.6	2.6
New corporate investments (e.g. in R&D or manufacturing) attracted by local subsidiary management	43.6	30.8	5.1	10.3	5.1	5.1
Proposals to transfer manufacturing or other activities to your subsidiary from elsewhere in the corporation	51.3	30.8	0	7.7	5.1	5.1

In summary, the results indicate that although close to half of respondents noted that the subsidiary receives the autonomy they require, a large portion of respondents make local decisions jointly with headquarters and are either neutral or disagree that it is easy for them to receive funding support from headquarters.

Additionally, it is reflected that over the last four years there have been a limited amount of activities driven by local management, which may indicate headquarter control on decision making in these areas. An interesting analysis indicates however that the greater the cost and complexity of the local environment on the subsidiary performance, the greater the level of budgeting autonomy headquarter allows to the subsidiary.

Chapter 6: Discussion of Results

6.1 Introduction

MNCs headquarters lead in terms of the strategic planning for a business; however subsidiaries implement the strategies within the local market (Grewal *et al*, 2008). Emerging markets are characterised by rapid growth, along with large amounts of complexity and as such companies are required to develop unique strategies to become successful in these markets (Hoskisson *et al*, 2000). MNC subsidiaries based in emerging markets compete with developed market subsidiaries for positive attention from headquarters in the form of resource support, autonomy and flexible control, to allow them to take advantage of the local opportunities. This study aimed to determine whether being based in a high growth, complex and dynamic market influenced the amount and form of positive attention emerging market subsidiaries received from headquarters.

6.2 Hypothesis 1

The local business environment in emerging markets is complex and requires additional positive attention from headquarters.

The findings of the research relating to hypothesis 1, as detailed in Chapter 5, demonstrated that the majority of subsidiaries felt that the environment in which they operate in terms of local institutions, transactional cost of doing business, the

regulatory environment, as well as the level of competition in the market, are complex and greatly impact their ability to perform in the region. Additionally, responses indicated that emerging market subsidiaries were of the opinion that the local government in the markets in which they operated were not actively involved in supporting investment and growth, which contributed to additional complexity and uncertainty for the subsidiary. These results supported the argument by Lou (2001) which stated that the characteristics of emerging markets include regulatory interference and structural uncertainty, and additionally support the hypothesis that the business environment in emerging markets is complex and requires alignment of strategy to the specific market context (Thompson, 2011).

Anomalously, a large amount of agreement existed with regards to the sense that the legal and financial institutions were well established in the local market, with over 80% of respondents agreeing with this statement. Narayanan and Fahey (2005) set out that the various emerging market economies are heterogeneous in nature and therefore vary considerably between themselves. Different sets of institutional constraints may exist in different countries (Jackson & Deeg, 2006) which may imply that the responses received would potentially vary in terms of the extent to which subsidiaries perceived their local institutions as established, due to the heterogeneity of these markets. The results showed a great amount of consistency in the sense that the emerging markets were complex and entail additional cost in doing business however, the presence and functioning of legal

and financial institutions which manage the “rules of the game” (Jackson & Deeg, 2006, p. 541), were largely assessed by respondents as being well established in their market. This finding did not support the proposition that there was a lack of “market supporting formal institutions” (Narayanan & Fahey, 2005, p. 210) in emerging markets. This result may be due to the fact that close to 80% of respondents were situated in South Africa, which was a country rated by the World Economic Forum in 2010 as 7th out of 139 countries in terms of availability of financial services, and 6th for soundness of banks and legal rights index. These ratings would imply that the legal and financial institutions in the South African market are well established and sound, which may be the reason for the conflict between the responses from the survey and the literature regarding emerging markets. An interesting finding from these results illustrated that although legal and financial institutions were rated as well established by the majority of respondents, they still rated the support from government as lacking, which implied a conflict within the local environment in terms of the ease of doing business.

The assessment indicated that it is perceived by subsidiaries based in emerging markets that they received less attention as compared with subsidiaries in developed markets, and about the same amount of attention as compared with other emerging market subsidiaries. Bouquet and Birkinshaw (2008) set out that the geographical diversity and complex portfolio of functions and markets make it impossible for headquarters to provide full attention to all subsidiaries dispersed all

around the world. Perhaps as a result of developed market subsidiaries being closer in distance and mind-set (Bouquet & Birkinshaw, 2008), differences in attention were observed between developed and emerging market subsidiaries. Although emerging markets are seen to be “Honeypots” (Birkinshaw, Bouquet & Ambos, 2006, p. 6) for media focus and activity, these markets may currently not be receiving the credit from headquarters for their contribution to the MNC as a whole (Bouquet & Birkinshaw, 2008) due perhaps to the complexity and novelty of the environment for headquarters .

A large proportion of the respondents engaged in downstream activities such as product sales, after-sales service, marketing and logistics / distribution which may also have impacted the attention received from headquarters. This is perhaps due to being viewed by headquarters as less important as compared with subsidiaries that engage in upstream activities such as manufacturing, R&D and solutions / projects, which are seen as value-adding activities (Bouquet & Birkinshaw, 2008). The reasons for emerging market subsidiaries engaging largely in downstream activities may be a result of the complex environment in which they are situated that limits the MNC investment in upstream activities due to regulatory issues, institutional voids or inflated set-up and exit costs within those markets.

In contrast to the aforementioned findings, the results obtained when questioning respondents regarding the supportive attention received from headquarters illustrated a willingness by headquarters to learn more about the business practices in the subsidiary market, supported by visits from key headquarter personnel, frequency of communication with local management, and the provision of incentives and career opportunities to the subsidiary. These factors, and more specifically the communication from headquarters, have been shown to improve as headquarters assesses the particular market as being a strategic market for the MNC. This outcome supported the literature by Birkinshaw, Bouquet and Ambos (2006) regarding the fact that some markets would receive attention from headquarters due to the strategic significance of the market.

Overall, the results provided support for the hypothesis that emerging markets are complex and require additional positive attention from headquarters, and that headquarters perceives these markets as strategically significant. Yet, the results also showed that although headquarters offer attention in terms of visibility and communication, subsidiaries based in emerging markets still perceived developed market subsidiaries to be receiving more attention from headquarters, potentially due to the activities that are performed within the subsidiary which headquarters feel are less value-adding to the MNC as a whole.

6.3 Hypothesis 2

Positive attention, in the form of an alternative assessment of performance, is awarded to MNC subsidiaries based in emerging markets.

When analysing the impact on subsidiary performance, the results indicated that the business environment of subsidiaries in terms of institutions, costs and complexity, had a direct impact on the performance of the subsidiary through creating the parameters within which the business functions (Lou, 2003). These parameters in emerging markets involve limited local government support and increased transactional costs of doing business within the market, and as such largely impacted the financial performance and growth opportunities of the subsidiary. It is suggested that long-run strategies should be applied to subsidiaries in emerging markets (Narayanan & Fahey, 2005) however the results indicated that reviews of expenditures and sales were largely conducted monthly, which depicted a short-term focus on performance, while strategic business plans were reviewed annually which indicated a lesser focus on strategic, long-term business activities.

The assessment of performance of subsidiaries based in emerging markets was perceived by respondents to be, to a great degree, consistent with those based in other markets and focused mainly on sales growth and market share, when Olsen *et al* (2005) highlight that subsidiaries based in emerging markets should be

assessed in terms of local market conditions and relative to local competitors. The research indicated that limited attention was given to subsidiary performance in terms of 'win rate' over local competitors or localisation of products or services for local customer requirements. The unique needs of emerging markets make it feasible and beneficial to adapt the product offering or strategies to meet the needs of the local market (Grewal *et al*, 2008), as local competitors may be adapting their offerings to suit the local market, and should headquarters not assess subsidiary performance against the local market they may not come to recognise their poorer performance in the specific market.

The potential reasoning behind headquarters assessing the performance of subsidiaries in terms of sales growth and market share is the ability to be able to compare the performance of the various subsidiaries within the MNC against each other. This form of assessment, however, fails to incorporate the dynamic environment of emerging economies. Bouquet and Birkinshaw (2008) described countries such as the UK, Australia, Canada [and potentially the USA] as representative of a relatively homogeneous cultural group, with similar business environments, which would allow valuable comparison between subsidiaries based in these countries. Subsidiaries based in emerging markets, however, are affected by volatility in the business environment and as such are impacted by factors such as erratic inflation, unstable exchange and interest rates (Olsen *et al*, 2005) which, if not being viewed in terms of the context of the local financial and economic

market and in terms of local competitors, may distort the assessment of the subsidiary's performance.

The results therefore did not support the hypothesis that headquarters offer attention to subsidiaries based in emerging markets through alternative forms of performance assessment, and showed a largely standardised approach by MNCs in assessing the performance of subsidiaries.

6.4 Hypothesis 3

Positive attention, in the form of increased involvement by headquarters in the local government and institutions, is awarded to MNC subsidiaries based in emerging markets.

The value of political networking is greater in emerging market economies due to the increased control and involvement by government in the functioning of these markets (Sun *et al*, 2010). As participants in the study were based in emerging markets, they were questioned as to their perception of the importance of networking and personal relationships in their market, as well as the extent to which their headquarters involved themselves in local government relations. The results indicated that over 80% of respondents agreed, with 44% of those strongly agreeing, that networking and personal relationships were key to success in their markets. Conversely, only a fifth of respondents indicated that their headquarters

involved themselves in local government relations, with 38.4% stating that headquarters did not get involved at all.

These results did not support the hypothesis that subsidiaries based in emerging markets would receive positive attention, in the form of headquarter involvement with local government and institutions. The results did however show a positive relationship between the extent to which the MNC headquarters are willing to learn more about how business is conducted in the local market, and the extent to which they involve themselves in local government relations. This outcome may indicate that the lack of headquarter involvement in local government relations of emerging market subsidiaries is a result of their level of understanding of how business is conducted in these markets.

As previously highlighted, the results indicated that more than half of respondents were of the opinion that their headquarters were interested to learn more about how business is conducted in the local market which, based on the relationship discussed above, should result in a higher involvement by MNC headquarters in subsidiary market government relations. The limited involvement however, may indicate that MNCs are slow to adapt their government relations policies in emerging markets, due to the difference in how business is conducted in the developed market of the MNC. This proposal links to the literature regarding the

cultural distance of MNC headquarters from their subsidiaries, and the obstacles for headquarters in terms of policies and practices (Jensen & Szulanski, 2004)

6.5 Hypothesis 4

MNC subsidiaries based in emerging markets gain positive attention from headquarters in the form of local strategic autonomy, so as to reduce managerial risk.

The diversity of the market conditions in the host countries of subsidiaries drives the requirement for responsiveness at a local level (Doz & Prahalad, 1984), however the survey results indicated that over half of respondents either disagreed or opted to remain neutral when questioned as to whether they were receiving the required autonomy from headquarters. The large amount of neutral ratings (33%) implies that a third of respondents were not comfortable stating their opinion on whether the level of autonomy they were receiving from headquarters was adequate, which may imply that they are not satisfied with the level of autonomy provided to them but do not wish to comment on it specifically.

The phenomenon regarding neutral ratings was once again reflected when respondents were questioned as to the ease of obtaining funding support from headquarters, which may be seen as a fundamental indicator of whether headquarters is providing local management with the ability to navigate challenges

and adapt to better service the market (Johri & Petison, 2008). Close to half of respondents (44%) rated neutrally on this question which once again highlighted the lack of willingness to comment on this particular issue, for whichever reason. With a fifth of respondents disagreeing that it was easy for them to obtain funding support, and a third agreeing that they were able to receive funding support, the results of this question are vastly split and thus do not provide definitive insights in terms of the autonomy of subsidiaries based in emerging markets.

When observing the outcome of decision making autonomy on various business activities, the trend was toward joint decision making between subsidiaries and headquarters with 30% – 50% of respondents making decisions in terms of structure of the subsidiary, investment decisions and budgets, jointly with headquarters. However, the results showed that greater amounts of autonomy seem to be offered to subsidiaries in terms of formulation and approval of budgets when transactional costs within the local environment have a greater impact on subsidiary performance. This result implies that headquarters generally wish to remain involved in local decision making activities but will reduce budgetary control on local management, and revert to their understanding and knowledge of the local market, when the subsidiary performance is impacted to a greater extent by local transactional costs. This effect may be the result of the cultural distance of headquarters from the subsidiaries, and their unfamiliarity with the local environment (Chen, 2008) and of the cost of doing business in these regions,

which may lead to greater levels of uncertainty in managerial decision making (Peng & Pleggenkuhle, 2009) at a headquarter level, and subsequently greater managerial risk.

As subsidiaries interact directly with local stakeholders, local responsiveness is required to exploit local opportunities (Lou, 2003) however the findings with regard to various activities that have occurred in the subsidiary in the recent past indicated limited local responsiveness of the subsidiaries surveyed. The results highlighted the fact that activities such as development of new products, extension of responsibilities, local acquisitions and bids for local investment had occurred infrequently in the emerging market subsidiaries. The reasons for these results may be twofold. Firstly, perhaps local management's initiative taking was lacking and this may hamper the responsiveness at a local level, though a second possibility may be that headquarters was retaining a great amount of control of and involvement in subsidiaries based in emerging markets and hampering local initiative taking, as was demonstrated in the trend of joint decision making.

In summary, the results did not provide sufficient support for the hypothesis that local strategic autonomy was provided by headquarters to subsidiaries in emerging markets. Bouquet & Birkinshaw (2008) stated that subsidiaries which are culturally distant from headquarters are at a greater risk of capturing lower levels of positive attention than those closer to the home country, and this may explain why



headquarters wish to retain control of subsidiaries based in emerging markets, and involve themselves in the day-to-day running of these businesses.

Chapter 7: Conclusion

7.1 Findings

The research aimed to determine whether being based in a complex and dynamic emerging market had any impact on the positive attention that subsidiaries in these markets obtained from MNC headquarters which are based in developed markets.

The findings indicate that emerging markets are complex and dynamic, at varying levels, and as such need to be assessed individually by headquarters to determine the challenges and opportunities of each region and country. Although it was found that MNCs saw emerging markets as strategically significant, there still seemed to be a greater focus on developed market subsidiaries, and the subsidiaries in emerging markets largely fulfilled downstream activities which were perceived as less strategic to the MNC as a whole.

With regard to the assessment performance of subsidiaries based in emerging markets, it was found that to a large extent local factors, such as local competition and the local economic environment, were not taken into account and performance of these subsidiaries was assessed in the same way as all other subsidiaries, with a short-term profitability focus. Based on the literature regarding the ideal methods of performance assessment in emerging markets, this finding may indicate that MNCs are creating a blind spot for themselves in terms of their success in a

particular market, and without the required strategic long-term focus they may eventually fail in these markets.

Local government relations and political networking are key to business success in emerging markets, due to the large amount of involvement of government in business, either through state owned enterprises (SOEs) or through the regulatory environment. The results of the research indicated that MNC headquarters overall had limited involvement in governmental relations in these markets, which may in part be due to their limited understanding of the need for such involvement as well as the restrictive policies of the MNC surrounding these issues, as the policies are based on developed market environments. The findings did indicate a moderate correlation though between the headquarter willingness to learn more about how business was conducted in the local market, and their involvement in government relations, which showed that as MNCs realised the requirement for this type of engagement in emerging markets, they increased their interaction at this level.

Positive attention from headquarters in the form of autonomy and flexible control seemed to be lacking with subsidiaries based in emerging markets. This was highlighted in the results showing joint decision making between headquarters and the subsidiary on most of the business activities listed, and the limited local initiative taking due to large amounts of headquarter control. The limited autonomy and control of local subsidiaries may be due to the lack of understanding of the

market which results in headquarters wishing to become involved in all aspects of the business, yet this lack of autonomy is limiting the ability for subsidiaries to adapt to the dynamic environment and may hamper the future success of the MNC in this region.

In summary, the findings implied that although emerging markets are seen to be strategic, these markets are complex but there is little adaption in terms of the attention which subsidiaries in these regions obtain from headquarters with regard to performance assessment, local government involvement and local autonomy. This is seen to be due to the cultural distance of headquarters from emerging markets, and the variation in mind-set on how business is conducted between the two. Therefore, being based in an emerging economy currently does not impact the form of positive attention which subsidiaries in these markets gain from their headquarters based in developed markets.

7.2 Recommendations

Since it has been determined that emerging markets are complex and dynamic and require alternate engagement strategies for future success, it is recommended that MNCs reassess the form of attention which they offer to subsidiaries based in these markets and adapt to allow for distinctive strategies in various regions instead of a standardised strategy for all subsidiaries.

Firstly, focus should be given to the local environment of the subsidiary and a long-term view should be incorporated into the performance assessment of these businesses. This will involve headquarters tracking the success of the subsidiary as compared with local competitors, encouraging adaptation of the product and service for the local region, and incorporating a view of the business in terms of future growth and sustainability of the MNC as a whole, instead of quarterly financial success of the particular subsidiary.

Additionally, headquarter leadership should submerge themselves in the local environment for an extended period of time to gain a greater understanding of how business is conducted in these regions, or alternatively engage individuals from the regions at the headquarter level to receive input into the challenges and opportunities of the various emerging markets, bearing in mind that these markets are heterogeneous in nature and therefore cannot be represented by one individual. This would allow for an understanding of the importance of political networking in these regions, as well as the requirement for local autonomy and flexibility.

7.3 Future Research

The current study assessed emerging market subsidiaries of MNCs without including feedback from developed market subsidiaries. A future study using the existing survey template but distributing to both developed market and emerging market subsidiaries, and making a direct comparison between results obtained, would be interesting in determining the perceptions from both regions. This may indicate the contextual nature of perceptions and show the general perception of the positive attention subsidiaries receive from headquarters.

Additionally, further research may be conducted obtaining the feedback from headquarters as well as subsidiaries, to determine the alignment of perceptions in terms of how resources and support are distributed and the reasoning for this.

Due to the small sample obtained in the current study, and the fact that the majority of respondents were from South Africa, the study could be run again to obtain a larger sample from the other emerging markets so as to determine variances between the regions, if any.

7.4 Conclusion

Emerging economies will, over the next decade, contribute more economic growth than developed economies (Bisson, Stephenson & Viguerie, 2010) and are increasingly becoming the growth drivers of the global economy (Pillania, 2009). MNCs will compete to capture the growth opportunities from emerging markets, however they should carefully determine the global strategies and structures that they will use to effectively penetrate these diverse markets, so as to ensure profitability as well as maintain structure and control.

MNC subsidiaries based in emerging markets are faced with various challenges and opportunities which vary from those faced by developed market subsidiaries, and therefore MNC headquarters need to ensure that they have an understanding of the markets that they are entering and adapt their strategies to allow them to take advantage of the large growth opportunities which exist for businesses in these markets.

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Appendices

Appendix 1: Survey – Positive attention given by corporate headquarters to subsidiaries based in emerging markets

This study aims to assess whether multinational headquarters offer positive attention in the form of *support* rather than negative attention in the form of *interference*, to subsidiaries based in emerging markets

Section 1:
This section asks general questions about your SUBSIDIARY

1. In which country is your SUBSIDIARY based? _____

2. In which country is your Parent Company / Main Headquarters based? _____

3. What is your position in the company?

<input type="checkbox"/> Country Manager	<input type="checkbox"/> Director
<input type="checkbox"/> Branch / Subsidiary Manager	<input type="checkbox"/> Other (please specify) _____
4. Are you an Expatriate or a Local in the country in which your SUBSIDIARY operates?

<input type="checkbox"/> Expatriate
<input type="checkbox"/> Local
5. Please indicate which of the following activities your subsidiary undertakes:
(Tick ALL applicable boxes)

<input type="checkbox"/> Product Sales	<input type="checkbox"/> Manufacturing	<input type="checkbox"/> Marketing
<input type="checkbox"/> Solutions / Projects	<input type="checkbox"/> Regional Headquarters	
<input type="checkbox"/> Logistics / Distribution	<input type="checkbox"/> Research and Development (R&D)	
<input type="checkbox"/> After-Sales Service		
<input type="checkbox"/> "Back office" support (e.g. call centre, shared services)		

**6. What is the geographic scope of your SUBSIDIARY (i.e. where are your customers located?)
(Tick ALL applicable boxes)**

- | | | |
|---|--|---------------------------------|
| <input type="checkbox"/> North Africa | <input type="checkbox"/> Southern Asia Pacific | <input type="checkbox"/> China |
| <input type="checkbox"/> Sub-Saharan Africa | <input type="checkbox"/> India | <input type="checkbox"/> Europe |
| <input type="checkbox"/> Middle East | <input type="checkbox"/> Latin America | <input type="checkbox"/> Other |

**7. Please indicate the following details for your SUBSIDIARY based on your latest financial year:
(Circle the appropriate answer)**

5.1 Total annual sales (in million US\$)

- \$1-10 mil \$10,1 – 50 mil \$50,1 – 100 mil \$100,1 – 500 mil \$500,1 mil - \$1 bn

5.2 Number of business units in your subsidiary

- 1 2 3 4 5 6+

5.3 Number of employees

- 1-10 11-25 26-50 51-100 101-200 201+

**8. Which geographic region does your SUBSIDIARY report into?
(Tick the appropriate answer)**

- | | |
|---|---|
| <input type="checkbox"/> North Africa | <input type="checkbox"/> Europe Middle East & Africa (EMEA) |
| <input type="checkbox"/> Asia Pacific (AP) | <input type="checkbox"/> Southern Africa <input type="checkbox"/> Americas |
| <input type="checkbox"/> Europe | <input type="checkbox"/> Middle East <input type="checkbox"/> South America |
| <input type="checkbox"/> Other _____ (please specify) | |

**9. To what extent have the following activities occurred in your SUBSIDIARY over the past 4 years?
(Circle the appropriate number)**

1. Never
2. Infrequently (Once or Twice in the 4 year period)
3. Once every 2 years
4. Annually
5. Bi Annually (Twice a year)
6. Frequently (more than three times a year)

- | | | | | | | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| ▪ New products developed in your region and then sold internationally | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 |
| ▪ Significant extensions to existing international responsibilities | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 |
| ▪ Successful bids for corporate investments in the region | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 |
| ▪ Acquisitions of local companies led by subsidiary management | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 |

- New corporate investments (e.g. in R&D or manufacturing) attracted by local subsidiary management 1 2 3 4 5 6
- Proposals to transfer manufacturing or other activities to your subsidiary from elsewhere in the corporation 1 2 3 4 5 6

Section 2:
This section asks questions regarding the attention that corporate headquarters provides to your subsidiary

10. Relative to other subsidiaries, how successful is your subsidiary in gaining positive attention (i.e. financial support, local flexibility and control) from headquarters?
(Circle the appropriate answer)

1. *Much lower*
2. *Slightly lower*
3. *About the same*
4. *Slightly higher*
5. *Much higher*

- The amount of attention paid to this subsidiary relative to **Developed Markets** such as the US, Canada and Europe is... 1 2 3 4 5
- The amount of attention paid to us relative to comparably-sized **Emerging Market** subsidiaries is... 1 2 3 4 5
- The amount of attention paid to us relative to comparably-sized markets in other parts of the world is... 1 2 3 4 5

11. Indicate the extent to which each of the following statements describes the SUBSIDIARY:
(Circle the appropriate answer)

1. *Not at all*
2. *To a small extent*
3. *Somewhat*
4. *Increasingly*
5. *Often*
6. *To a great extent*

- The performance of this subsidiary is measured in the same way as other subsidiaries in the company 1 2 3 4 5 6
- The institutions (financial, government, legal, etc) and infrastructure (roads, railways, etc) in the local market have an influence on the performance of this subsidiary 1 2 3 4 5 6
- The transactional costs of doing business in this region impact the performance of this subsidiary 1 2 3 4 5 6
- The performance of this subsidiary is assessed through comparison with local competitors 1 2 3 4 5 6

- The company headquarters involves itself with the local government and government relations of your subsidiary's country (s) 1 2 3 4 5 6

12. The SUBSIDIARY's performance is judged on the following factors:
(Circle ALL the relevant factors)

- Market share
- New product / service development
- Localisation of product / service
- Personnel development
- Sales Growth
- 'Win Rate' over local competitors

13. How much autonomy does the subsidiary have in terms of making the following decisions?

(Circle the most appropriate decision level based on the following rating)

1. *The subsidiary's opinion is NOT asked; decision is explained to subsidiary by corporate headquarters*
2. *Proposal by corporate headquarters, but the subsidiary's opinion carries little weight*
3. *Proposal by corporate headquarters, and the subsidiary's opinion carries much weight*
4. *Proposal by the subsidiary, decisions made jointly by subsidiary and corporate headquarters*
5. *Decisions are made by the subsidiary without much consultation with headquarters*

- | | | | | | |
|--|---|---|---|---|---|
| ▪ Discontinuing or launching an existing product or product line | 1 | 2 | 3 | 4 | 5 |
| ▪ Hiring and/or promoting within the subsidiary | 1 | 2 | 3 | 4 | 5 |
| ▪ Entering new markets | 1 | 2 | 3 | 4 | 5 |
| ▪ Investing in capital goods locally | 1 | 2 | 3 | 4 | 5 |
| ▪ Formulating and approving the subsidiary's annual budgets | 1 | 2 | 3 | 4 | 5 |
| ▪ Changes in subsidiary structural organization | 1 | 2 | 3 | 4 | 5 |
| ▪ Switching to new systems (eg. IT, CRM, etc) | 1 | 2 | 3 | 4 | 5 |
| ▪ Increasing (beyond budget) expenditures for local training and development | 1 | 2 | 3 | 4 | 5 |

14. How often are the following Subsidiary areas reviewed / assessed by corporate headquarters?

(Circle the most appropriate decision level based on the following rating)

1. Daily
2. Weekly
3. Twice a month
4. Monthly
5. Quarterly
6. Bi-Annually
7. Annually

▪ Operating expenditures.....	1	2	3	4	5	6	7
▪ Sales figures.....	1	2	3	4	5	6	7
▪ Budgeting process.....	1	2	3	4	5	6	7
▪ Resource allocation.....	1	2	3	4	5	6	7
▪ Capital equipment purchases.....	1	2	3	4	5	6	7
▪ Strategic business plans.....	1	2	3	4	5	6	7

15. How often does headquarters communicate with subsidiary management using each of the following?

(Circle the most appropriate decision level based on the following rating)

1. Daily
2. Weekly
3. Twice a month
4. Monthly
5. Quarterly
6. Bi-Annually
7. Annually

▪ E-mails.....	1	2	3	4	5	6	7
▪ Telephone conversations.....	1	2	3	4	5	6	7
▪ Video conference.....	1	2	3	4	5	6	7
▪ Face-to-Face business meetings.....	1	2	3	4	5	6	7
▪ Business review meetings.....	1	2	3	4	5	6	7
▪ Regional business meetings.....	1	2	3	4	5	6	7
▪ Key headquarter staff visits to your subsidiary's country.....	1	2	3	4	5	6	7

16. This question is concerned with various aspects of the relationship between your subsidiary and the corporate headquarters. Indicate the EXTENT to which you AGREE with the following statements about your company.

(Circle the appropriate answer for each)

1. *Strongly disagree*
2. *Disagree*
3. *Neutral*
4. *Agree*
5. *Strongly agree*

- | | | | | | |
|---|---|---|---|---|---|
| ▪ The parent company constantly asks how this subsidiary is performing | 1 | 2 | 3 | 4 | 5 |
| ▪ It is easy for this subsidiary to get funding support | 1 | 2 | 3 | 4 | 5 |
| ▪ Corporate headquarters provide incentives and career opportunities to our employee | 1 | 2 | 3 | 4 | 5 |
| ▪ The parent company creates complex bureaucratic procedures for us | 1 | 2 | 3 | 4 | 5 |
| ▪ We receive the autonomy and recognition we need from headquarters | 1 | 2 | 3 | 4 | 5 |
| ▪ The headquarters regularly seeks to ensure compliance with global corporate initiatives | 1 | 2 | 3 | 4 | 5 |
| ▪ This market is perceived to be an important strategic market by headquarters | 1 | 2 | 3 | 4 | 5 |
| ▪ Headquarters want to learn more about how business is conducted in our local market | 1 | 2 | 3 | 4 | 5 |

SECTION 3:

This section asks questions about the Business Environment in which your Subsidiary operates

17. Please describe, very briefly, the major INDUSTRY in which your subsidiary competes (e.g. pharmaceuticals, electronics, oil & gas, FMCG, etc)

18. The language (s) in which business is conducted in the SUBSIDIARY environment is:

(Tick ALL applicable boxes)

- | | | |
|------------------------------------|--------------------------------------|-------------------------------------|
| <input type="checkbox"/> English | <input type="checkbox"/> Spanish | <input type="checkbox"/> Mandarin |
| <input type="checkbox"/> Cantonese | <input type="checkbox"/> French | <input type="checkbox"/> Portuguese |
| <input type="checkbox"/> Turkish | <input type="checkbox"/> Hindi | <input type="checkbox"/> Arabic |
| <input type="checkbox"/> Russian | <input type="checkbox"/> Other _____ | (please specify) |

19. Indicate the extent to which you agree with the following statements about the business environment of the SUBSIDIARY.

(Circle the appropriate answer for each question)

1. *Strongly disagree*
2. *Disagree*
3. *Neutral*
4. *Agree*
5. *Strongly agree*

- Competition (price, quality, speed, local content, etc) in this country is extremely intense 1 2 3 4 5
- The business environment creates uncertainty for this subsidiary 1 2 3 4 5
- The regulations in the business environment of the subsidiary are complex 1 2 3 4 5
- Institutions (legal & financial) are well established in the local market 1 2 3 4 5
- Speed of product innovation by competitors is high 1 2 3 4 5
- Market demand is growing rapidly in our business 1 2 3 4 5
- The local government is actively looking to support investment and industrial growth 1 2 3 4 5
- Networking and personal relationships are important in the subsidiary's region 1 2 3 4 5

20. Indicate the extent to which you agree with the following statements about the business environment of HEADQUARTERS.

(Circle the appropriate answer for each question)

1. *Strongly disagree*
2. *Disagree*
3. *Neutral*
4. *Agree*
5. *Strongly agree*

- Business etiquette is similar between Headquarters and the local environment of your subsidiary 1 2 3 4 5
- The business environment of Headquarters is stable as compared with your subsidiary 1 2 3 4 5
- The business environment in which the headquarters is situated creates uncertainty 1 2 3 4 5
- The regulations in the business environment of Headquarters are easily understood 1 2 3 4 5
- Institutions are well established in the market of Headquarters 1 2 3 4 5
- The local government within the Headquarters market is actively looking to support investment and industrial growth 1 2 3 4 5
- Networking and personal relationships are important in this market 1 2 3 4 5

This is the end of the questionnaire.
Thank you for your time.
If you would like a copy of the findings, please provide your e-mail address below.