



From Rocking the Boat to Wagging the Dog: A Literature Review of Subsidiary Initiative Research and Integrative Framework



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ABSTRACT

This literature review on the topic of subsidiary initiatives discloses a certain lack of conceptual clarity concerning the phenomenon. After providing an overview of the research field, the paper applies a conception of entrepreneurship inspired by Schumpeter (1912) as a basis for refining our understanding of just what a subsidiary initiative is and of the different kinds of subsidiary initiative. A framework is developed with a view to the current and anticipated growing importance of highly populated countries like China and India which are bound to raise the MNC-internal profile and weight of subsidiaries serving these national mega-markets. The framework distinguishes between organizational disequilibrium and market disequilibrium as a way to classify different types and different degrees of subsidiary initiative. It is argued that prior conceptions of subsidiary initiative in practice reveal a bias towards organizational disequilibrium and tend to overlook important MNC subsidiary initiatives involving market disequilibrium, generally neglecting the entrepreneurial dimension that Birkinshaw (1997) associated with the term when he initiated this research stream. Metaphorically speaking, although Birkinshaw was always clearly interested in MNC subsidiary initiatives that “wag the dog,” most follow-up research examines initiatives that merely “rock the boat.” Our framework helps capture the distinction and anticipates more dog-wagging by MNC subsidiaries in the future.

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1. Introduction

Subsidiary initiatives are proactive, autonomous and risk-taking activities that originate outside the home country in a foreign subsidiary of a Multinational Corporation (MNC) and are initiated by actors in the subsidiary. The study of subsidiary initiatives constitutes a growing literature in the International Business (IB) field (Verbeke et al., 2011). Subsidiaries pursue entrepreneurial opportunities for local and global application, often even independently of the parent organization (Birkinshaw, 1997; Ghoshal and Bartlett, 1988; Scott and Gibbons, 2009; Williams, 2009). Although the potential benefits of subsidiaries taking their own initiatives are increasingly acknowledged, the concept of subsidiary initiatives was even recently labeled a “troublesome and little-understood concept” (Ambos et al., 2010: 1100).

To date, no detailed literature review on the topic of subsidiary initiatives exists. The objective of this paper is to review the research stream on subsidiary initiatives, and to highlight unexploited potential of the field. The unexploited potential is to be seen in both theory and practice. Prior theorizing within the stream has increasingly viewed MNC subsidiary initiative in relation to the subsidiary's role within the MNC (Birkinshaw and Hood, 1998a; Delany, 2000; Paterson and Brock, 2002; Wang and Suh, 2009). There is scope to extend the subsidiary initiative concept to a larger set of entrepreneurial activities in foreign markets. In MNC

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practices highlighted by the research stream, the emphasis has been on relatively small MNC subsidiaries. Yet looking forward, the emergence of mega-markets like China and India (Kothari et al., 2013) all but guarantees that the defining impact of large subsidiaries will no longer be felt just by MNCs from small countries like Switzerland, Belgium and the Netherlands, but equally from MNCs with a comparatively large home country market like the US, UK, and Germany. Our recommended conceptual refinements amount to paving the way for study of a world of multiple national mega-markets where MNC subsidiary initiatives do not merely “rock the boat” but actually “wag the dog.”

Our paper is structured as follows. Section 2 discusses definitions of subsidiary initiatives and describes our approach for identifying the relevant literature. Section 3 begins the literature review with a descriptive summary of the research field. Section 4 presents more detailed findings from the review of the 52 contributions we covered. In Section 5, we offer a conceptual critique of the field, i.e. a critique of the subsidiary initiative concept, with some suggestions for conceptual clarification. The concept of disequilibrium, as inspired by Schumpeter (1912), is argued to provide a useful basis for defining and classifying subsidiary initiatives. In Section 6, we develop a framework that is intended to represent different types and different degrees of subsidiary initiative. The framework incorporates our general conclusion that in a world of multiple mega-markets, the conceptual apparatus of research on subsidiary initiatives will need to capture a wider range of activities involving subsidiary entrepreneurship. In our concluding outlook (Section 7), we suggest avenues for further research.

2. Basic definitions and literature identification

In his seminal article, Julian Birkinshaw (1997) defined subsidiary initiative as a type of “dispersed entrepreneurship” in which initiative is undertaken by an MNC subsidiary outside the home country and not by the corporate center (which would be labeled as “focused entrepreneurship”). Following Kanter (1982), he defined “initiative” as “a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources” (Birkinshaw, 1997: 207). A successful subsidiary initiative, adds Birkinshaw, is an “entrepreneurial process” that begins with the identification of an opportunity and culminates in the commitment of resources to that opportunity.

Although Birkinshaw (1997: 208) notes that most subsidiary initiatives target a “new product opportunity in the local market,” his seminal paper is devoted to subsidiary initiatives that transcend the purely local market level and affect other units of the MNC. Implicitly and often explicitly, researchers reserve the term for subsidiary initiatives that seek to alter, enlarge or at least defend the subsidiary’s role or “domain” within the overall corporation (Delany, 2000). Since the initial definition of subsidiary initiatives laid heavy emphasis on entrepreneurial subsidiary behavior, we have sought to include all work on entrepreneurship by MNC subsidiaries within our literature review.

The first step was to conduct a systematic search in all relevant academic business journals using *EBSCOhost Business Source Complete*. In a second step, we applied a *Google Scholar* search to cover other types of publications, such as books, book chapters and PhD dissertations (Harzing and van der Wal, 2008). Both steps were carried out for the time span of 1995–2010. In addition to the term ‘subsidiary initiative’, expressions like ‘entrepreneurial process’ (Birkinshaw, 1997; Dimitratos et al., 2009a), ‘entrepreneurial activity’ (Birkinshaw and Ridderstråle, 1999; Boojihawon et al., 2007), ‘entrepreneurial behavior’ (Borini et al., 2009), ‘entrepreneurial undertaking’ (Ambos et al., 2010), ‘corporate entrepreneurship’ (Birkinshaw, 1998a, 1999), ‘dispersed entrepreneurship’ (Boojihawon et al., 2007; Williams and Lee, 2009) or intrapreneurship (Krishnan, 2006) are sometimes used and hence were added to our search terms. To be even more complete, a third step was to analyze citations in articles containing a partial overview on the topic (Ambos et al., 2010; Boojihawon et al., 2007; Dimitratos et al., 2009a; Grohmann, 2010; Liouka, 2007; Verbeke et al., 2007) and in articles citing, or cited by, the seminal contributions on subsidiary initiatives by Birkinshaw (1997; 2000).

In order to narrow down these contributions to those truly pertinent to the review, we applied specific inclusion criteria. These criteria stipulated inclusion only of publications exhibiting three characteristics, namely that a publication had to deal to a significant degree with (1) entrepreneurship, either explicitly or implicitly as some form of autonomous, risk-taking and pro-active behavior, (2) at the level of a subsidiary as opposed to headquarters which is (3) located outside of the MNC home country.

The initial application of the search terms in *EBSCOhost* returned 134 potentially relevant contributions after step one. Application of the inclusion criteria resulted in retention of 31 articles for the review. Application of the inclusion criteria after steps two and three (i.e. consultation of *Google Scholar* and overview articles mentioned above) resulted in 21 additional articles. Based on our search heuristics we thus ended up with 52 different publications (journal articles, book chapters, PhD dissertations) on the topic of subsidiary initiatives having appeared in the time span of 1995–2010.¹

3. An overview of the subsidiary initiative research field

3.1. Contours of publication activity

Although earlier publications address the topic of subsidiary initiatives to some extent (Ghoshal and Bartlett, 1988; Gupta and Govindarajan, 1994), two articles by Birkinshaw (1995, 1997), one appearing in *Business Horizons*, the other in *Strategic*

¹ A comprehensive summary of the 52 publications, though too voluminous to be included in this article, can be found in Schmid and Dzedek (2011: 58–70) and is available upon request from the authors. The paper also provides more details on the literature identification process we used. (Reference added after acceptance.)

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