HOW MULTINATIONAL ENTERPRISES MAKE DECISIONS ABOUT FOREIGN SUBSIDIARY STRATEGIC CHANGE: AN EXPLORATORY STUDY

Jason Wayne McGovern
BBus; BA (Hons); MCom (Hons)

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Statement of Originality:

The thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

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Abstract:

While multinational enterprises (MNEs) do engage in various types of strategic change, we have a poor understanding of the processes underpinning their decision-making. Using case studies of 14 China subsidiaries of MNEs, this thesis explores how MNEs make decisions about subsidiary strategic change.

Headquarters and subsidiaries relied on decision-making routines to identify problems and opportunities and to develop, review and sign-off on subsidiary strategic changes. These routines included processes to extract information from the internal and external environment such as scanning, along with processes to share knowledge within and between headquarters and subsidiaries such as regular strategic and operational meetings.

For headquarter initiated strategic change ideas, headquarters executives usually drew on formal overseas information, such as consulting firm and industry reports. Neglecting informal China information, they proposed strategic changes ill-suited to their Chinese subsidiary. Further, headquarters struggled to absorb subsidiary input during idea development and review processes. These headquarter failures were explained by their executives’ lack of in-country China work experience. They were, however, more willing to incorporate this subsidiary knowledge when the subsidiary was a larger contributor for the MNE.

For subsidiary initiated strategic changes, subsidiary executives relied on informal China information when scanning and their previous China experiences to develop strategic change ideas. Longer-serving subsidiary CEOs who had more diverse functional knowledge, generated better change proposals during routine group subsidiary idea development and review processes. These subsidiary organizational routines were, however, avoided when the subsidiary CEO believed that the change idea would have negative implications for some MNE executives. For these cases, the subsidiary CEO developed a strategic change idea by him/herself.

HQ accepted subsidiary input into headquarter initiated change ideas and endorsed subsidiary change proposals when relevant subsidiary executives had credibility with headquarters and had invested in learning how their parents made strategy. Credibility depended on their individual track record with the parent at the subsidiary.
Rather than obstacles to change, local government officials played an important role as a knowledge contributor to the decision-making process.
CHAPTER 1

INTRODUCTION

1.1 Aim of Study

Using case studies of China-based subsidiaries, this thesis explores how multinational enterprises (MNEs) make decisions about subsidiary-level strategic changes. Particular emphasis is given to how knowledge is acquired and integrated within MNEs during the strategic change decision-making process. Two important concepts require explanation at the outset, specifically, strategic change and strategic change decision-making. Strategic change decision-making incorporates the processes by which top management makes its decisions about strategy change (Das & Teng 1999).

Strategic change is conceptualized as changes in the content of a firm’s strategy as defined by the nature, configuration and deployment of its resources (Hofer 1978; Rajagopalan & Spreitzer 1997; Van de Ven & Scott-Pool 1995). These resources are those that a firm owns, controls or has access to on a preferential basis (Barney 1991; Eisenhardt & Martin 2000; Helfat et al. 2007). They can be both tangible and intangible, and comprise overlapping categories such as physical and human assets, capabilities, processes and routines. Some resources are specific to the firm, while other resources are generic and can be bought and sold in the market. The literature has identified a wide range of different strategic change types. Some studies have focused on major changes to product portfolio or organizational structure (Bowman & Singh 1993). Research has also explored strategic change related to specific functional areas such as, for example, marketing and distribution strategy (Anderson 1992; Anderson & Schmittlein 1984). Significant process and technology changes have also been explored (Halevi 1998; Lee & Tang 1997; Themistocleous, Irani & O’Keefe 2001).

Understanding how and why firms make decisions about strategic change stands at the centre of the strategic management literature’s concern with the need for firms to make changes to the nature, configuration and deployment of their resources to sustain or improve their competitive position (Helfat et al. 2007; Teece, Pisano & Shuen 1997). While the international business (IB) literature has also devoted significant attention to understanding why MNEs engage in strategic change, surprisingly, there is little research on how they make these decisions. To address this gap in the MNE strategic
literature, this thesis analyses the processes through which top managers (in HQ and subsidiaries) make decisions about strategic changes for their China-based subsidiaries. To position this gap in the IB field, the remainder of this section provides a brief overview of the IB literature, comparing it with the broader strategic management literature related to this topic.

The early IB literature was explicitly strategic in its research questions. Most IB studies prior to 1960 were an extension of neoclassical trade theory, based on the theory of comparative advantage where multinationals from (financial) capital rich industrial countries invested in land and labour rich developing countries and engaged in local production. Stephen Hymer (1960) questioned this approach, identifying that most trade and investment took place between industrial countries, not between industrialized and developing countries. According to Hymer, trade and investment patterns reflected the extension of oligopolistic strategic rivalry from domestic markets to international markets, where large domestic firms from different countries competed against each other across borders. Further, monopolistic multinational enterprises (MNEs) from advanced countries engaged in foreign direct investment (FDI) to monopolize markets and to out-compete host country firms (Caves 1972; Hymer 1960).

Building on Hymer, but drawing on a transaction cost approach (Coase 1937), Buckley and Casson (1976) theorised that MNEs internalize economic activities on efficiency grounds, rather than to monopolize markets. Specifically, in place of arm’s length supply agreements (in the case of resource seeking firms) or license agreements (in the case of market seeking firms) (Rugman & Verbeke 2003), MNEs undertake production in host markets. Besides providing a theoretical explanation for MNEs, the internalization literature was also strategic, since the internalization decision focused on how foreign firms improve their competitive position globally while overcoming the liability of foreignness in host countries.

Dunning’s ‘eclectic paradigm’ (Dunning 1988) brought together aspects of both industrial organization and internalization economies as FDI drivers in one conceptual framework. The ‘eclectic paradigm’ has been the most widely cited framework for explaining the existence of the multinational enterprise (MNE), and has, therefore, become a relatively accepted ‘Theory of the MNE’ (Cheng et al. 2009; Eden & Dai
Dunning describes three strategic factors for international expansion. First, firms need to possess ownership advantages, which are unique resources, skills or capabilities that provide it with a potential competitive advantage in overseas markets. Firms leverage these ownership advantages, underpinned by firm-specific resources, to gain competitive advantage through internationalisation. Second, there must be internalization advantages, related to the efficiency of internal firm administration costs relative to market transaction costs. Third, Dunning argued that there must be location advantages from investing in the foreign country. One group of studies focusing specifically on location choice has assumed that firms are homogeneous in location strategies, explaining location choice by attributes such as market size, labour cost, infrastructure quality, cultural distance and political risk (Buckley et al. 2007). Another group of studies has taken a more strategic view of location, recognizing firm heterogeneity in location choices (Alcacer & Chung 2007).

In this strategically oriented FDI decision literature, there has, however, been little research on how executives and executive teams make the decision to invest abroad. In other words, the processes underpinning FDI decision-making remain opaque.

After the strategic rationale for why firms went abroad was established, research shifted to form and entry mode choices. The decision on form related to the choice between non-equity market entry alternatives such as licensing, franchising and exporting, or equity arrangements. Entry mode studies analysed equity alternatives such as wholly owned and joint venture subsidiaries, whether acquisitions or greenfield investments. Form and entry mode decisions are inherently strategic. To gain a competitive advantage through the mode of entry, managers weigh such factors as the nature of resources the firm possesses, the resources required to enter the foreign market, the costs associated with acquiring resources that the firm does not possess, and how to understand host-country institutional conditions (Agarwal & Ramaswami 1992; Brouthers & Nakos 2004; Chen 2007; Chen & Mujtaba 2007; Chiao, Lo & Yu 2010; Erramilli & Rao 1993; Gleason, Lee & Mathur 2002; Hennart 1991; Hill, Hwang & Kim 1990; Kim & Hwang 1992; Kim, Kim & Lee 2002; Leon-Darder, Villar-Gargia & Pla-Barbar 2011; Phatak, Muralidharan & Chandran 1996; Pinho 2007; Rajan &
Once an entry mode decision is made, managers then implement control and management structures over their subsidiaries. MNE organizational structure research has focused on the strategic choices, including international divisions, area divisions, world product divisions or more complex matrix studies (Daniels, Pitts & Tretter 1984; Stopford & Wells 1972). Within these broad structures, HQ designs various control mechanisms, ranging from formal bureaucratic mechanisms to informal cultural control, such as the deployment of expatriates to subsidiaries (Baliga & Jaeger 1984).

Early evidence on HQ-subsidiary relations suggested that HQ needs to balance its control over subsidiaries, weighing the pressures to be nationally responsive against the pressures to integrate global value adding activities (Doz & Pralahad 1984). This ‘integration-responsiveness’ framework was, therefore, used as a ‘way of capturing the pressures on a given business’ (Prahalad & Doz 1987, p.18) and mapping the strategic implications of those pressures (Roth & Morrison 1990, p.543). The integration-responsiveness framework proposes that integration is driven by pressures to be cost efficient and stresses integration and standardisation, while responsiveness is driven by market differences and stresses domestic market responsiveness and the customisation of product and service offerings (Prahalad & Doz 1987). There was also early evidence that strategic control was impacted by cultural traits where MNEs from different nationalities took different approaches to the control they exerted over their subsidiaries (Gates & Egelhoff 1986).

A key limitation of these early studies on HQ-subsidiary relationships was a lack of emphasis on the different strategic roles subsidiaries could perform within the MNE’s network and the implications this may have for HQ-subsidiary control relationships. To address this lacunae, various subsidiary strategy typologies were developed, which have focused on identifying subsidiary roles and strategies within its MNE network (Bartlett & Ghoshal 1986; Birkinshaw & Morrison 1995; Gupta & Govindarajan 1991; Jarillo & Martinez 1990; Rugman, Verbeke & Yuan 2011). Subsidiary role and strategy typologies were determined by a range of key variables including the subsidiary’s...
resources and competencies, its reliance on HQ for resources, the importance of the local market, subsidiary information inflows and outflows, along with pressures for localization and integration.

These early studies on subsidiary role were, however, inherently static, with little attention given to how subsidiaries change over time. To address this gap, a subsidiary initiative literature emerged, which has provided insights into subsidiary level entrepreneurial behaviour, suggesting that such behaviour can lead to increased responsibilities within the MNE and better performance outcomes (Birkinshaw 1995; Birkinshaw 1997; Delaney 2000; Rugman & Verbeke 2001; Verbeke Chrisman & Yuan 2007). This research stream began with the doctoral work of Julian Birkinshaw and represented an important development in the literature by emphasizing, for the first time, MNE strategic change.

Birkinshaw’s (1995, 1997) empirical research identified four main subsidiary strategic initiative types. Local market initiatives are those that are initially developed to address a need or opportunity in the subsidiary’s local market, but are subsequently adopted by the MNE in its other operations. Global market initiatives are those developed by the subsidiary to meet unmet product or market needs among non-local suppliers and customers. Internal market initiatives arise through market opportunities identified within the MNE’s corporate system. Birkinshaw also suggested a fourth hybrid initiative type, which took the form of subsidiary management bidding for an embryonic new corporate project that the parent has earmarked for investment (Birkinshaw 1997; Birkinshaw & Fry 1998; Verbeke, Chrisman & Yuan 2007). This literature also identified a range of facilitating factors for subsidiary level initiative including HQ, subsidiary and host country contextual circumstances. This research on subsidiary initiative, has not, however, provided a comprehensive examination of the organizational decision processes associated with these strategies.

Drawing on a recognition in the broader strategic management literature that the knowledge and capabilities of decision-makers matter in strategic decision-making, an emerging body of IB literature has explored the relationship between MNE HQ top management team (TMT) demographic characteristics and MNE strategy (Hermann &
Datta 2005; Jaw & Lin 2009; Nielsen 2010; Sambharya 1996). While this represents an important acknowledgement that the cognition of decision-makers matters, this literature has been largely limited to strategic decisions about going abroad. It has not been applied to other decision types, and it has not explored the decision-making processes that draw on the knowledge of these key decision makers.

In spite of its strategic orientation, only one stream of the IB literature has focused on MNE strategic decision-making processes. A series of papers by Kim & Mauborgne (1991, 1993, 1995, 1998) found that procedural justice positively impacted on subsidiary top managers’ commitment to support HQ strategic decisions, even in situations where those decisions are viewed as unfavourable to their subsidiary unit or are at odds with their perceptions of the strategically appropriate decision for their unit. Procedural justice is conceptualized as the extent to which the dynamics of a decision-making process are judged to be fair (Kim & Mauborgne 1998). It can be achieved by involving individuals in decisions that effect them, explaining clearly why decisions are made and ensuring that managers have a firm understanding of what is expected of them and the nature of the new rules of the game (Kim & Mauborgne 1998).

A recent research stream on the complex institutional issues facing MNEs (Kostova et al 2008; Puck, Holtbridge & Mohr 2009; Xu & Shenkar 2002) promises to provide an important new lens for analysing the processes of strategic decision-making. Institutional theorists suggest that strategic decision-making may be impacted by pressures to conform to accepted norms within the firm’s institutional environment (Puck, Holtbridge & Mohr 2009). The institutional context embodies ‘rules of the game’, which constrain, control and enable economic activity (Newman 2000; North 1990). There are, for example, a large number of studies that have explored the impact of institutional factors on MNE strategy in China, ranging across cultural issues, government interference, poor legal infrastructure and transparency and the challenge of rapid institutional change facing MNEs operating in this environment (Ambler, Styles & Wang 1999; Bjorkman & Osland 1998; Buckley, Clegg & Tan 2006; Fryxell, Butler & Choi 2004; Hartman, Fiesel & Schober 2010; Kostova, Roth & Dacin 2008; Liu & Park 1999; Luo 2010; Selmer 2002; Si & Hitt 2004; Su et al. 2009). The research on institutions has also explored the complexities of dual institutional pressures facing foreign subsidiaries, which are shaped by both home and host country institutional...
contexts (Xu & Shankar 2002). The recognition that MNE strategy is constrained by these institutional influences means that research on decision-making processes needs to investigate how institutional factors influence top management teams making strategic decisions.

In summary, the IB literature has provided significant insights into why MNEs make various types of strategic decisions, including why and where they initially go abroad, the forms by which they enter foreign markets, the various types of strategic change implemented in subsidiaries, along with the various roles subsidiaries perform for their parent. The literature has also explored ways in which HQ controls its subsidiaries and when it may choose to exercise control or delegate autonomy. There is substantial evidence that MNEs do engage in significant strategic change, particularly subsidiary-driven change. The complexities associated with MNE strategic decision-making that result from multiple institutional contexts are also well established. Some limited evidence has also emerged revealing that top management team characteristics impact on MNE strategic choices. The only significant literature stream that has explored MNE decision processes has found that procedural justice positively impacted on subsidiary top managers’ commitment to support strategic decisions.

However, despite all these insights and this recognition in the IB literature that MNEs do engage in substantial strategic change, particularly in their subsidiaries, we still have a poor understanding of how HQ and subsidiary executives make these decisions. Relying on qualitative data from 14 China-based subsidiaries on 19 subsidiary strategic changes, this study provides the first comprehensive study of MNE strategic decision-making processes for foreign subsidiary strategic change.

In a recent paper describing the advantages of qualitative research in international business research, Doz (2011, p.583-584) suggested that:

‘rich, thick process descriptions provide a guarantee against the temptation to rely on a single theoretical lens because they make obvious to the researcher that any single lens will shed only partial light on the phenomenon being researched…Only rich thick descriptions can provide the basis for use and possible synthesis of multiple theories into new conceptual development…’
Following Doz’s prescription, this study synthesizes across a range of relevant strategic management literatures that offer insights on how firms make strategic decisions, combining these with important IB literature about the MNE context, to explore how MNEs make strategic change decisions for their foreign subsidiaries.

The strategic management literature provides several key insights into strategic decision-making processes. First, we know that the development of routine strategic change decision-making processes is crucial for firms to sustaining or improving a competitive position (Helfat et al. 2007). Second, strategic change decision-making usually incorporates three important phases: recognition of a problem/opportunity; development of potential strategic solutions and strategy selection (Burgelman 1991; Eisenhardt & Zbaracki 1992). Third, the strategic management literature has identified that decision-making often incorporates internal and external environmental scanning processes to identify a need/opportunity for strategic change (Daft, Sommerson & Parks 1988). Fourth, decision-making incorporates cognitive sensemaking processes that enable firms to interpret information relevant to a strategic change decision (Gupta & Govindarajan 2000; Narayanan, Zane & Kemmerer 2011). We know that this knowledge is derived from previous experiences and learning (Narayanan, Zane & Kemmerer 2011).

These important insights from the broader strategic management literature are applied in this study on MNE strategic change decision-making processes. However, because the MNE context involves additional complexities related to the multiple institutional environments and geographical distance MNEs face when making strategic decisions (Xu & Shenkar 2002), relevant IB literature is also incorporated.

First, MNEs face substantial institutional complexities when determining how they apply relevant experiential knowledge to a strategic decision. Can, for example, an MNE’s strategic change experiences in its home country be applied to directly to its China subsidiary? Or does it need to be adapted as part of the strategic decision-making process?

Second, because HQ and subsidiary top management team members often come from very different cultural and institutional backgrounds, they have very different knowledge to share and integrate during a decision-making process (Becker-Ritterspach
2006). The literature on MNE knowledge management has provided extensive evidence that HQ-subsidiary knowledge sharing is complex and difficult (Gupta & Govindarajan 2000). These complexities are explored in this study.

Third, the strategic management literature has emphasized the importance and nature of environmental scanning mechanisms used by firms to identify a need/opportunity for strategic change (Daft & Weick 1984; Fleisher & Wright 2009). However, despite a few early studies on MNE scanning (Kobrin et al. 1980), we have a particularly poor understanding of how MNEs scan their internal and external environment, particularly in relation to their operations in emerging economies.

1.2 Thesis Overview

This section provides an overview of each chapter of the thesis. Chapter 2 presents a critical review of the literature on strategic change followed by a summary of the literature on strategic decision-making processes. This review covers the strategic management, corporate finance and industrial organization literature exploring strategic change decisions. It does not review the literature on strategic change in MNEs which is presented in Chapter 3. Chapter 2 sets out a comprehensive understanding of what we already know about strategic change decisions and identifies potential theories, particularly related to decision-making processes, that can be used to guide this study’s exploration of MNE strategic change decision-making processes.

Chapter 2 first analyses the dynamic capabilities literature. This perspective has its roots in the resource based view (RBV) of the firm which was initially developed as an explanation of why and how a firm’s resource base enables it to persistently outperform other firms (Penrose 1959; Wernerfelt 1984). The dynamic capabilities literature extended the RBV, identifying a special set of capabilities to facilitate strategic change. It has argued that firms need routines such as strategic change decision-making processes that allow managers to make changes to the nature, configuration or deployment of resources to sustain or improve their competitive position (Easterby-Smith & Prieto 2008; Helfat et al. 2007; Teece 2007; Zheng et al. 2011).

This recognition in the strategic management literature that strategic change is an integral component of competitive positioning has resulted in an extensive literature exploring the more specific motivations for different types of strategic change decisions
that firms make. Despite the fragmented nature of this strategic change literature, two important motivations that are common to most strategic change types are synthesized in Chapter 2. First, research has linked strategic change decisions to poor performance or to the addressing of specific performance problems (Erkama & Vaara 2010; Faes & MatthysSENS 2009; Farrell & Mavondo 2005; Gandolfi 2008; Hahn & Reyes 2004; Levitt, Wilson & Gilligan 2008; Mehri 2012; Ofek 1993). Second, strategic change can be triggered by a change in a firm’s external environment. The core argument in these studies has been that a strategic change is required to meet new external environmental circumstances (Gandolfi & Littler 2012; Lin et al. 2006; Magan-Diaz & Cespedes-Lorente 2012; Palmon, Sun & Tang 1997; Park & Kim 2008).

Most of the literature on firm motivations for strategic change has focused on why firms expand or reduce their product scope. Chapter 2, therefore, provides a review of this literature. Theoretical arguments for expanding product scope have emerged from several business disciplines. The industrial organization (IO) literature has primarily focused on the entry barriers that make it difficult for firms to enter new product markets (Gruca & Sudharshan 1995; Han, Kim & Kim 2001; Karakaya & Stahl 1989; Seamans 2012; Yaprak 2012). The strategic management literature has centred on firm level theories, such as transaction cost economics and the resource base view, suggesting that vertical and horizontal expansion choices are a function of the firm’s resources and the transaction costs associated with exchanging these resources (Coase 1937; Klaes 2000; Oddagiri 2003; Williamson 1975). The finance literature has explored the agency problems associated with opportunistic managers who strive to increase firm size to maximize their own private wealth at the expense of shareholders (Doaei, Anuar & Hamid 2012; Doukas & Kan 2004; Jensen 1988).

The literature on why firms reduce product scope has identified various motivations for these decisions. The finance literature has suggested that firms reduce their product scope to rectify previous ‘over diversification’ (Fukui & Ushijima 2007). The IO literature has identified industry characteristics that encourage or discourage firms from exiting product markets (Ilmakunaas & Topi 1999). A number of studies have also explored the motivations for engaging in different types of portfolio restructuring such as sell-offs, spin-offs and equity carve-outs (Ito 1995; Nanda 1991).
While this literature has provided considerable insight into why firms make different types of strategic change decisions, it has not focused on how these strategic decisions are made. The second main stream of literature analysed in Chapter 2, therefore, focuses on the nature of strategic decision-making processes in organizations.

First, the early literature on strategic decision-making processes is synthesized. This literature identified decision-making process stages including problem identification, solution development and strategy selection (Eisenhardt & Zbaracki 1992). Second, a series of studies by Burgelman (Burgelman 1983a, 1983, 1991; Burgelman & Grove 2007) is reviewed. Burgelman confirmed these three phases, but extended them to a strategic change decision context. Burgelman’s research is important because it represents one of a very few attempts to explore major strategic change decision-making processes. Burgelman (1983, 1991) argued that strategic decision-making can be classified into two broad categories: ‘induced’ strategy processes focus on exploiting opportunities within the existing strategic scope of the firm while ‘autonomous’ strategy making processes focus on exploiting opportunities outside current top management beliefs about what constitutes the firm’s strategy (Burgelman & Grove 2007). These autonomous processes, which were the focus of Burgelman’s research, require initiative ‘champions’ who need to engage in extensive lobbying during group decision processes to convince top managers that the prevailing strategic scope needs to be changed.

Third, to understand the role of top managers in strategic decision-making processes, the managerial cognition literature is reviewed. The cognition literature has extended the insights from the early literature on decision-making phases and from Burgelman by emphasizing the importance of cognitive processes that occur during decision-making (Thomas, Clark & Gioia 1993). Its core argument is that individual and group level knowledge in firms enable sensemaking processes during strategic decision-making, which incorporate ‘noticing’ and ‘interpreting’ information relevant to a decision problem (Allard-Poesi 2005; Cornellisen 2012; Kaplan 2008; Thomas, Clark & Gioia 1993; Weick 1995). This knowledge is derived from previous experiences and learning (Narayanan, Zane & Kemmerer 2011).

One important cognitive process associated with ‘noticing’ new information and identifying a need/opportunity for strategic change is environmental scanning (Thomas,
Clark & Gioia 1993). A substantial literature on competitive intelligence has emphasised the importance of obtaining and interpreting environmental information to make appropriate strategic decisions when required (Fleisher & Wright 2009). A summary of this literature, therefore, follows the review of the literature on cognition.

Fifth, the literature on political behaviour and strategic decision-making is reviewed. This literature has provided further insight into strategic decision-making processes by identifying that decisions can be politically driven. There are three key elements of the political decision-making perspective. First, it is assumed that individuals in organizations have divergent interests and perspectives (Dean & Sharfman 1996; Wilson et al. 2010). Second, decisions follow the interests of the most powerful people (Baldridge 1971; Eisenhardt & Zbaracki 1992). Third, decision makers often attempt to change the power structure by engaging in political tactics to enhance their power to influence a decision (Dean & Sharfman 1996; Eisenhardt & Zbaracki 1992).

Finally, Chapter 2 presents a short overview of the literature on the ‘garbage can’ perspective of strategic decision-making processes. This literature has provided an alternative view on how strategic decisions are made, suggesting that sometimes decisions represent ‘organized anarchies’, a result of chance interactions among changing problems, choice opportunities, solutions, and people. Most empirical evidence for this perspective, however, has been obtained from government settings with only limited support for the model in corporate settings (Cohen, March & Olsen 1972).

Chapter 3 provides a survey of the MNE strategy literature, which identifies the research gap identified at the outset of this chapter, that is, we have a poor understanding of how MNEs make strategic change decisions. The general thrust of Chapter 3 was outlined in Section 1.1 above. However, the chapter will not incorporate an analysis of all the IB literature outlined in Section 1.1. Given the focus of the study is on how established MNEs make decisions about subsidiary strategic change, it will not critically analyse the foreign direct investment (FDI) decision (Dunning 1988) or the entry mode literature (Broutthers & Nakos 2004) which focus on why firms become MNEs and how they first enter foreign markets. Instead, it will synthesize IB theory more closely related to the topic of this thesis, specifically literature on MNE strategy and strategic change and HQ-subsidiary relationships (Birkinshaw & Morrison 1995;
Chapter 4 presents a conceptual framework that guided this study. This framework draws on theory presented in the literature review (Chapters 2 and 3) and also incorporates other relevant theoretical perspectives, including the knowledge based view (KBV) of the firm (Kogut & Zander 1992), the literature on MNE knowledge management (Gupta & Govindarajan 2000) and institutional theory (Di Maggio & Powell 1983).

First, the MNE decision-making process is conceptualized as incorporating three phases:

1. An idea generation process that incorporates processes associated with identifying a problem or opportunity for a strategic change and the development of an initial strategic change idea (solution).
2. A review and development process that incorporates all the activities associated with championing, assessing, reviewing, critiquing, and developing alternatives for or making changes to an initial strategic change idea.
3. A formal Sign-Off which incorporates processes associated with making formal decision or sign-off to proceed/not proceed with a strategic change initiative.

Second, Chapter 4 develops a series of secondary research questions to explore specific characteristics and drivers of these decision-making processes, including:

- How do individuals and groups, whether at headquarters (HQ) or the China-based subsidiary, scan their external and internal environment to identify a need or opportunity for strategic change?
- What types of individual and collective experiences influence the interpretation of scanned information and shape strategic change ideas?
- What routines and/or ad hoc processes are implemented to share and integrate individual and group level subsidiary and HQ knowledge?
- What factors impede HQ-subsidiary knowledge sharing and integration?
- What China specific institutional factors are relevant to the decision-making process?
Chapter 5 presents the methodology for the study. A qualitative, multiple case study design was selected. Qualitative case studies are the preferred strategy when ‘how’ or ‘why’ type questions are posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real-life context, as is the case with this study (Ghauri & Gronhaug 2005; Punch 2005; Yin 2003). This study adopted a multiple case study design, as opposed to a single case study, design, to enhance the external validity of the research through theoretical and literal replication. Semi-structured interviews were the primary data collection tool. In order to gain a better understanding of the decision process and its antecedents and to facilitate data triangulation, attempts were made to interview at least two senior subsidiary executives closely involved in a strategic change case. Other documentary evidence was also obtained where available. Data analysis involved the process of indexing and categorizing raw data into themes, followed by the synthesising and then interpreting of this data into higher level concepts. Inductive data analysis and pattern matching procedures were used to draw and verify conclusions (Yin 2003).

Chapter 6 provides a descriptive overview of each of the sample case study subsidiaries. There were four subsidiaries with United States foreign parents, three with Japanese parents and two with parents headquartered in Germany. Other subsidiary parents originated from the United Kingdom, Hong Kong, Singapore, Canada and Sweden. The sample included nine wholly owned subsidiaries and five joint ventures, with the foreign parent holding at least a 50% stake in each of them. The sample covered a broad range of manufacturing sectors, including electronic components, automobile and auto components, communications, food production, heavy equipment manufacture, medical instruments, and industrial adhesives. There was one service firm in the IT sector. Subsidiary size ranged from 150-4,500 employees. Each of the subsidiaries and their parent had been operating for at least two years.

There were also a range of strategic change types, including two implementations of a new ERP system which resulted in significant changes to the role and activities of multiple subsidiary divisions, three lay-off initiatives, three cases of subsidiary division restructure, four subsidiary entries into new markets, three cases of substantial sales and distribution strategy overhauls and four cases of significant product and process technology changes. The chapter sets out a detailed summary of parent and subsidiary
products and services, and a brief history both globally and in China, along with key historical financials of each firm.

The findings from the study are presented in Chapters 7 and 8. Two decision process typologies emerged from the data. ‘HQ-driven cases’ refer to cases where the subsidiary strategic change idea originated from and was promoted by HQ; ‘subsidiary-driven cases’ refer to cases where the strategic change idea was identified and driven by the subsidiary. The findings reveal that both HQ and subsidiaries usually had routine processes in place to identify problems/opportunities and develop their strategic change ideas. HQ also had routine joint HQ-subsidiary forums to review strategic change ideas with subsidiaries and formally sign-off to proceed/not proceed with a change initiative. The findings for HQ-driven cases are presented in Chapter 7 while the findings related to subsidiary-driven cases are presented in Chapter 8.

For most HQ-driven cases, HQ executives did not have in-country China work experience which meant they relied heavily on information scanned from overseas sources, limited internal subsidiary data and overseas experiences that was usually used incorrectly to identify problems and opportunities for subsidiary change. They also struggled to incorporate the knowledge input of subsidiary executives during the decision-making process. HQ was, however, more willing to incorporate subsidiary input when subsidiary executives had a strong track record with the parent at the subsidiary which gave them credibility with HQ, and, when the subsidiary was more important to the parent.

For subsidiary-driven cases, the findings revealed that HQ was more willing to accept a subsidiary level strategic change idea when individual subsidiary executives had a strong track record with the parent, confirming the importance of subsidiary executive credibility for both HQ and subsidiary-driven cases. Subsidiary executives were also able to more effectively sell their ideas to HQ when they understood parent strategic priorities. At the subsidiary level, the study identified that the CEO was better able to manage the diverse knowledge input of his/her subsidiary executive team from different functional backgrounds during a decision-making process, when the CEO had held a CEO (or equivalent) position for a longer period of time. Finally, the findings identified an important role of local government officials as a contributor of knowledge to the decision-making process.
Chapter 9 presents the conclusions and contributions of the study. By providing in depth insight into the nature and drivers of MNE strategic change decision-making processes, the study makes a significant contribution to the literature on MNE strategic change. While this literature has provided extensive insight into the types and antecedents of subsidiary strategic change (Verbeke, Chrisman & Yuan 2007), it also provided insufficient insight into how these strategic change ideas were developed and reviewed within the MNEs. This study has filled this gap.

The findings from this study also make a contribution to the literature on MNE knowledge management (Gupta & Govindarajan 2000; Martins & Antonio 2011). While this literature has emphasized the importance of knowledge sharing mechanisms between HQ and subsidiaries, and acknowledges that a decision-making process is one such mechanism, it has not explored how knowledge is shared during the decision-making process and the factors impeding these processes, a gap which this study has also filled.

A broader contribution has also been made to the literature that explores institutional complexities associated with MNE decision-making (Xu & Shenkar 2002; Luo 2010) by identifying a number of unique China institutional issues impacting on the decision-making process which have not been identified in previous studies.

The findings also provide useful insights for MNE executives by identifying processes they can use to better manage knowledge sharing and integration during a strategic change decision-making process, along with knowledge sharing barriers that HQ executives may need to address.
CHAPTER 2

STRATEGIC CHANGE AND STRATEGIC DECISION-MAKING PROCESSES

2.1 Introduction

This thesis explores how multinational enterprises (MNEs) make strategic change decisions for their foreign subsidiaries. The three most relevant literatures related to this topic include the literature on strategic change, the literature on strategic decision-making processes and the literature on MNE strategy. This chapter analyses the literature related to strategic change and the literature on strategic decision-making processes. The purpose of this analysis is to gain an understanding of what we already know about strategic change and identify literature streams that can be used in the development of a conceptual framework for the study. Chapter 3 then synthesizes the relevant literature on MNE strategy, identifying the gap in the international business (IB) literature that this study addresses.

This chapter is structured as follows. Section 2.2 explores the theoretical work on dynamic capabilities and strategic change. Sections 2.3 and 2.4 synthesize the literature on why firms make strategic change decisions with Section 2.3 identifying the motivations that are common to most strategic change types while Section 2.4 provides an interpretation of the literature on why firms expand and reduce their product scope. Section 2.5 identifies key literature streams focused on strategic decision-making processes which can contribute to the development of a conceptual framework for this study. These literatures include the (boundedly) rational decision-making process model, Burgelman’s strategy process framework, the literature on manager cognition, the literature on environmental scanning and competitive intelligence and the political and garbage can views of strategic decision-making. Section 2.6 provides a chapter summary.

2.2 Strategic Change and the Dynamic Capabilities Literature

The dynamic capabilities literature has its roots in the resource based view (RBV) of the firm. The RBV was initially developed as an explanation of why and how a firm’s resource base enables it to persistently outperform other firms. Edith Penrose’s Theory of the Firm (1959) and an early paper by Wernerfelt (1984) were among the first
attempts to develop a resource based theory of competitive advantage. Wernerfelt recognized that firms were heterogeneous in terms of their resources and that it was these resource differences among firms that could form the basis for competitive advantage. The RBV literature has suggested that resources can be tangible and intangible. Various and sometimes overlapping categories of resources have been identified, including physical and human assets, capabilities, processes and routines which the organization owns, controls or has access to on a preferential basis (Barney 1991; Eisenhardt & Martin 2000; Helfat et al. 2007). RBV proponents have argued that resources which can potentially form the basis of competitive advantage are those firm specific assets that are unique, rare, valuable and difficult, if not impossible to imitate (Teece, Pisano & Shuen 1997).

The dynamic capabilities literature emerged as an extension to the RBV to provide a context for understanding strategic decisions about resource change, arguing that firms need to make changes to their resource base to maintain or improve a firm’s competitive position (Easterby-Smith & Prieto 2008; Helfat et al. 2007; Teece 2007; Zheng et al. 2011). The dynamic capabilities perspective has suggested that changes to the firm’s resource base may refer to their nature, composition and/or configuration (Ambrosini, Bowman & Collier 2009). Existing resources may be discarded or new resources can be acquired. Resources can be transformed or recombined to create new capabilities or be deployed into a new domain (Ambrosini, Bowman & Collier 2009). While some dynamic capability proponents emphasize resource changes that adapt to dynamic external environments (Pavlou, Sawy & Omar 2011; Teece 2007; Teece, Pisano & Shuen 1997), not all reconfigurations are in response to external environment changes (Easterby-Smith & Prieto 2008). Whether a response to changes in the firm’s external environment or not, the dynamic capabilities literature generally acknowledges that strategic decisions about resource changes must pay attention to matching the firm’s internal resources to its external environment (Helfat et al. 2007).

The dynamic capabilities literature also recognizes that the processes associated with resource change can be either ad hoc problem solving or routine-based (Teece 2007; Winter 2003). The dynamic capabilities literature focuses on routine processes. Helfat et al. (2007, p.2) defined dynamic capabilities as ‘the capacity of an organization to purposefully create, extend, or modify its resource base’. Importantly, they are
routinized, standing in contrast to *ad hoc* processes (Eisenhardt & Martin 2000; Newey, Verreyne & Griffiths 2012; Teece 2007; Winter 2003; Zollo & Winter 2002). Organizational routines, in turn, can be defined as ‘... an executable capability for repeated performance in some context that has been learned by an organization in response to selective pressures (Cohen *et al.* 1996, p. 683). Dynamic capabilities are, therefore, organizational routines at the collective group (organization) level that embody prior learning and are somehow selected to make changes to a firm’s resource base. The literature has also identified that dynamic capabilities incorporate knowledge, resources and other routines as inputs (Zollo & Winter 2002). Importantly, they need not necessarily be effective: they may, in fact, be disruptive (Ambrosini, Bowman & Collier 2009). Examples of dynamic capabilities include routine environmental scanning, routine strategic planning and decision-making processes, the focus of this thesis (Helfat *et al.* 2007).

Aside from organizational dynamic capabilities, Helfat *et al.* (2007) also recognize dynamic ‘managerial’ capabilities, which refer to the routine processes used by individual managers within an organization to develop and implement resource changing strategies. These dynamic managerial capabilities often include individual routines where individual executives extract, assess and make sense of information they collect or receive on the basis of their own experiences and learning as part of individual decision-making processes. In this sense, the function of dynamic managerial capabilities is essentially the same as (organizational) dynamic capabilities, but at the individual manager rather than group/organizational level.

While there have been many studies that have explored various processes associated with strategy formulation and implementation processes, including those associated with strategic change initiatives, very few have been grounded in the dynamic capabilities literature. For the most part, they have been discussed in the context of ‘strategic change’, ‘restructuring’ or ‘strategic diagnosis’ processes. While other sections of this chapter summarize these literature streams, it is interesting in itself that they have not examined these processes from a dynamic capabilities perspective. As such, there has been limited empirical work exploring how and when firms develop dynamic capabilities as opposed to relying on *ad hoc* processes.
2.3 Two Common Motivations for Strategic Change

Aside from the dynamic capabilities literature and Burgelman’s research (described in Section 2.5.3 below), most of the literature on strategic change has focused on the motivations for various types of strategic change decisions without exploring how these decisions are made. Sections 2.3 and 2.4 summarize this literature. Given the large number of different strategic change types, it is impossible to cover all studies related to the motivations for each type of strategic change. Most individual strategic change types have their own dedicated group of studies. For example, several studies have focused specifically on why firms engage in lay-offs, sometimes exploring the performance implications of these decisions (Crimmann, Webner & Bellman 2012; Farrell & Mavondo 2005; Freeman 1999; Hahn & Reyes 2004; Hirsch & Schnabel 2012; Kilkarni & Fiet 2007). Likewise, there is a stream of literature exploring the motivations for and implementation of Enterprise Resources Planning (ERP) systems (Sanchez-Rodrigues & Spraakman 2012; Shang & Seddon 2000). The circumstances are similar for other strategic change initiatives. Despite the fragmented nature of this strategic change literature, two important reasons for strategic change have emerged that are common to various strategic change types.

The first motivation for strategic change is poor performance. Research has linked various strategic change initiatives to specific performance problems. This literature has implied that a strategic change initiative is implemented that aims to address the performance problem (Erkama & Vaara 2010; Faes & Matthyssens 2009; Farrell & Mavondo 2005; Hahn & Reyes 2004; Levitt, Wilson & Gilligan 2008; Mehri 2012; Ofek 1993).

The second motivation is related to strategic change that occurs in response to a change in a firm’s external environment. The core argument in these studies has been that a strategic change is required to meet new external environmental circumstances (Gandolfi & Littler 2012; Lin et al. 2006; Magan-Diaz & Cespedes-Lorente 2012; Palmon, Sun & Tang 1997; Park & Kim 2008). These circumstances could, for example, relate to a change in the regulatory environment that requires firms to restructure to conform to new laws. It could also be in response to a change in the competitive landscape, such as the addition of a new competitor. New technologies introduced into an industry could also prompt a strategic change initiative to
accommodate this change (Lin et al. 2006; Palmon, Sun & Tang 1997; Park & Kim 2008).

2.4 Literature on Business (Product) Portfolio Change

2.4.1 Expanding Firm Product Scope

Section 2.3 has argued that the literature on why firms engage in strategic change is fragmented. Among this literature, there has, however, been a substantial emphasis on understanding the motivations for business product portfolio change, specifically, why firms expand or reduce product scope. This literature is summarized in this section. Most of this literature has focused on expansionary portfolio changes. The literature on why firms expand their product portfolio has identified various modes to achieve this, including acquisition, joint venture or the internal development of new businesses and product lines (Bowman & Singh 1993). This expansion could include either up or down stream (vertical) integration or expansion into new horizontal product markets. Theoretical arguments and empirical evidence related to expansionary portfolio restructuring have emerged from several business disciplines. Of these, the industrial organization (IO), strategic management and the corporate finance literature have devoted the most attention to the topic.

The IO literature has focused on industry characteristics that encourage or impede a firm from entering or exiting an industry. Most of the work related to expanding product scope in the IO literature has focused on market entry barriers. The key argument implied in these studies has been that firms will find it difficult to successfully expand into product markets with high entry barriers (Tallman 2001). Market entry barriers have been categorized as endogenous and exogenous. Endogenous barriers are created by incumbent firms in an industry through their competitive behaviour (Pehrsson 2009). Examples of endogenous barriers articulated in this literature have included increased advertising or promotional activity (Gable et al. 1995), pre-emptive pricing resulting in intense price competition (Guiltinan & Gundlach 1996; Pehhrson 2009; Simon 2005) or attacking entrants’ other markets (Gimeno & Woo 1999). Exogenous barriers, also referred to as structural entry barriers, have included those that are embedded in the underlying market conditions and, in general, cannot be manipulated by individual firms
A range of exogenous barriers has been identified in the literature, including minimum requirements for economies of scale (Robinson & McDougall 2001), capital requirements to be firmly established in a market (Bain 1959; Dean & Myer 1996; Harrigan, 1981; Robinson & McDougall 2001), loyalties and relations among buyers and established sellers that creates obstacles for new entrants trying to establish a customer base (Johansson & Elg 2002; Pehrsson 2004), and government policy and impediments to accessing proprietary technology (held by incumbent firms) (Gruca & Sudharshan 1995; Han, Kim & Kim 2001; Karakaya & Stahl 1989; Seamans 2012; Yaprak 2012). Aside from market entry barriers, strong industry growth potential and profitability have also encouraged new entrants while industries in decline have been identified in empirical studies as motivating exit decisions (Ilmakunnas & Topi 1999).

While the industrial organization literature related to expansionary portfolio restructuring has primarily centred on industry level factors that encourage or impede firms from entering new product markets, strategic management theorists have focused on firm-level factors that impact on product portfolio scope and boundary choices. The two most widely cited theories in this literature have been transaction cost theory (TCT) (Coase 1937; Klaes 2000; Williamson 1975) and the resource based view (RBV) (Penrose 1959; Wernerfelt 1984). TCT is premised on a recognition that exchanges between parties are not costless, representing a departure from traditional neoclassical economic theory. Transaction costs reduce the potential value that could be realized by a transaction, where a transaction is the exchange of property rights in goods, services, assets, resources or knowledge (Jones 2001). Transaction costs typically include the ex-ante costs of searching and negotiating (drafting and bargaining costs), along with the ex-post costs of monitoring, enforcing, and adaptation associated with exchanges between parties. TCT has focused on how firms choose governance structures that minimize both production and transaction costs, and has argued that the most optimal governance structure is one that minimizes both production and transaction costs (Williamson 1975, 1998).

TCT has had widespread appeal in the context of expanding firm product scope, particularly the decision to expand through vertical integration (the ‘make or buy’ decision). Williamson predicted vertical integration when asset specificity is high,
uncertainty is at the least of an intermediate degree and transactions are recurrent, or, alternatively, when there is an intermediate level of asset specificity, uncertainty becomes sufficiently high and transactions are recurrent (Williamson 1975). Asset specificity refers to the degree to which assets lose value when employed in alternative uses (Jones 2001; Williamson 1975). In the presence of transaction specific investments, the central problem is the possibility that parties may subsequently act opportunistically, ‘holding-up’ or capturing the rent from assets with high specificity in an attempt to force or renegotiate better terms. This was said to be a particular problem when transaction specific investments result in a small numbers trading position, where one party becomes dependent on the other, resulting in a “bilateral monopoly”. Transactional complexity, frequency and uncertainty coupled with individual limitations in cognitive capacity to process information (‘bounded rationality’) exacerbate the contractual difficulties and costs associated with formulating contracts that take into consideration all relevant contingencies along with monitoring and enforcing the performance of the other party (Jones 2001; Williamson 1975). Under these circumstances, TCT proponents have argued that vertical integration through hierarchical governance would align the interests of exchange parties and enable the reconciliation of differences via extensive administrative rules and procedures (Leiblein & Miller 2003). Substantial empirical work has explored the validity of TCT arguments relating to the vertical integration decision, with most studies finding support for at least some of the transaction cost variables suggested by Williamson (Anderson & Schmittlein 1984; Balakrishnan & Wernerfelt 1986; Bridge & Tisdell 2004; Diez-Vial 2007; Ennew, Wong & Wright 1992; Fetz & Filippini 2010; Gil 2007; John & Weitz 1988; Laijili & Mahoney 2006; Langlois & Robertson 1989; Lieberman 1991; Ohanian 1994; Safizadeh, Field & Ritzman 2008; Steencamp & Geyskens 2012).

TCT proponents have also developed an argument for horizontal integration, which is related to the difficulties associated with contracting for intangible assets, particularly ‘knowledge’. The argument is that firms possessing intangible assets engage in horizontal integration to minimize transaction costs associated with realizing economies of scope derived from these assets (Bakay 2011; Jones & Hill 1988; Qian 1997). This argument implies that, while one option to realize such economies of scope could be an arm’s length transaction such as to license the use of these assets to other parties in return for a license fee, there would be substantial transaction costs involved in
negotiating such an arrangement. Specifically, the potential recipient of the intangible asset may have no way of knowing its real value and, thus, would not agree to a license fee reflecting its real value until it is fully described by the owner of the asset. However, if this information was divulged, the recipient could then use this knowledge without paying for it (opportunism). Firms in these circumstances are likely, therefore, to realize economies of scope by hierarchical arrangements rather than at arm’s length.

The resource based view (RBV) has been positioned as both an alternative and compliment to TCT. Like TCT, RBV explanations for why firms engage in vertical integration also identify transaction specific investments as an important factor. However, unlike TCT, RBV supporters argue that the importance of transaction specific investments does not lie in the potential for opportunism and ‘hold up’, and recognize, instead, that assets with high degrees of specificity are more likely to be the most productive firm resources and an integral component of the firm’s competitive advantage. To realize the benefits of transaction specific investments, RBV proponents thus argue that close coordination and integration of activities related to these assets may be required that may be best achieved through developing the entire up or downstream production capability in house, or alternatively, by acquiring an established facility. The empirical support for the RBV rationale for vertical integration is however, less than impressive, with only a small number of studies claiming some limited support for it (Oddagiri 2003; Poppo & Zenger 1998).

In the case of horizontal integration (expansion) into new product markets, RBV proponents have recognized that firms have ‘unused’ resources that provide an opportunity to realize economies of scope. Along similar lines to TCT, the RBV has also implied that asset specificity may impact on a firm’s decision to internalize horizontal market activities. In this case, however, asset specificity implies that certain resources cannot be efficiently separated from the firm and used in other firms. Put in another way, firms could not license or sell their competencies to other firms (even when there are no transaction costs to know-how exchange), because potential buyers lack the additional capabilities required to realize benefits from them in their own operations. The RBV approach has also suggested that, because economies of scope are derived from the firm’s existing resource base, horizontal diversification will most likely be into related product areas (Anand 2004; Bakay 2011; Benito-Osorio, Guerras-

The finance literature has also explored the motivations for why firms expand their product scope, usually referred to in the finance literature as ‘diversification’. This literature has focused on Jensen’s free cash flow theory (Jensen 1988) along with the agency problems associated with poor corporate governance that lead to excessive diversification. Free cash flow is conceptualized as the cash flow in excess of that required to fund all of a firm’s projects that have a positive net present value (NPV) when discounted at the relevant cost of capital (Jensen 1988). The free cash flow should be paid out to shareholders if the firm is to maximize value for shareholders (Jensen 1986, 1988).

Jensen, however, argued that managers have incentives to expand their firms beyond the size that maximizes shareholder wealth. Growth in firm size, he suggested, can augment senior managers’ power by increasing the resources under their control. In addition, top management compensation is usually positively correlated with firm size (Jensen 1988). A number of follow-up studies have focused on corporate governance weaknesses related to the efficiency by which managers are monitored by boards and shareholders that exacerbate agency problems and lead to the suboptimal reinvestment of the firm’s free cash flow by managers (Bethel & Liebeskind 1993; Denis, Denis & Sarim 1997, 1999; Doaei, Anuar & Hamid 2012; Doukas & Kan 2004; Hoskisson & Turk 1990; Morck, Shleifer & Vishny 1990; Servaes 1996).

Finally, the relationship between expanding product scope and firm performance has also been a popular topic for empirical research in both the strategic management and finance literature. The majority of these studies have focused on whether diversification into related product markets, usually defined as expanding into product markets that belong to the same two digit Standard Industry Classification (SIC) code as the firm’s ‘core’ products, outperform unrelated diversification, with most studies finding in favour of related diversification (Hou 2012; Lubatkin & Rogers 1989; Palich, Cardinal & Miller 2000; Rumelt 1974; Varadarajan & Ramanujam 1987). This empirical support has provided credence to the RBV approach to diversification, that is, firms should diversify to realize economies of scope from their valuable, unique and inimitable resources. Despite the majority of studies supporting related diversification as a
superior approach, some research has still, however, failed to support the relationship (Christensen & Montgomery 1981; Gary 2005; Kaplan & Weisbach 1992; Sharma & Kesner 1996).

In summary, the literature on the motivations for expanding firm scope has drawn primarily from the industrial organization, strategic management and finance disciplines. The industrial organization literature has focused mostly on the difficulties associated with entering new product markets that result from industry level entry barriers. The strategic management literature has centred on firm level theories such as transaction cost theory and the resource base view, suggesting that vertical and horizontal expansion choices are a function of the nature of firm resources and the transaction costs associated with exchanging these resources. The finance literature has focused primarily on the agency problems associated with opportunistic managers who strive to increase firm size to maximize their own private wealth at the expense of shareholders. Most studies exploring the relationship between expanding their product portfolio and performance have found that expansion into related product markets will have a more favourable impact on performance than expansion into unrelated product markets.

2.4.2 Reducing Firm Product Scope

A smaller body of literature related to why and how firms reduce product scope focuses primarily on the closure and divesture of subsidiaries or business units. Three standard divesture modes explored in this literature comprise spin-offs, sell-offs and equity carve-outs. A spin-off involves a firm distributing all of the stock it owns in a wholly owned subsidiary to existing shareholders (Woo, Willard & Daellenbach 1992). A sell-off occurs when the divested assets are purchased by another firm (Woo, Willard & Daellenbach 1992). An equity carve-out involves the sale of equity in a wholly owned subsidiary of a corporation to the public (Nanda 1991).

Some studies that have focused on reducing firm product scope have seen this form of restructuring as a direct response to poor performance, either by the divested subsidiary or the firm as a whole (Duhaime & Grant 1984). Research has also identified a desire on the part of firms to ‘refocus’ on core activities as a reason for divesture, often as a correction of ‘over diversification’ that has resulted in poor pre-restructuring performance (Benito-Osario, Guerras-Martin & Zuniga-Vicente 2012; Chang 1996;
These studies have used a range of proxies for ‘divesture’ including spin-offs, sell-offs, or the sale of firm assets.

The relationship between reducing product scope and performance has also received some attention in the finance literature. Most of the early studies focused on a direct relationship between divesture decisions and stock value performance. Several studies, for example, found that spin-off announcements have a positive influence on stock prices (Cusatis, Miles & Woodridge 1993; Miles & Rosenfeld 1983; Rosenfeld 1984; Seward & Walsh 1996). Other studies indicated positive stock price returns for sell-offs (Hite, Owers & Rogers 1987; Jain 1985; Klein 1986). Most studies, particularly more recent empirical works, have found that the relationship between divesture and performance is not simple and direct. Specifically, the ‘relatedness’ of a divested unit (usually defined in terms of belonging to same 2 or 4 digit SIC code as the firm’s core product(s)) is identified as a moderating variable. Most of these studies have found that divestures aimed at correcting previous ‘over-diversification’ driven by managerial self-interest (i.e. previous expansion into ‘unrelated’ product markets) resulted in operational and stock market value improvements (Bergh 1995; Comment & Jarrell 1995; Daley, Mehotra & Sivakumar 1997; Denis & Kruse 2000; Desai & Jain 1999; John & Ofek 1995; Liebeskind, Wiersema & Gary 1992; Lin, Lee & Gibbs 2009).

There have also been a number of studies exploring why firms choose one particular mode to reduce product scope. Several studies, for example, have focused on why firms elect to spin-off business units (Aron 1991; Chatterjee & Rossi-Hanberg 2012; Ito 1995; Klepper 2009; Seward & Walsh 1996; Siddiqi & Warganegara 2003; Wheatley, Brown & Johnson 2005). A few of these studies have suggested that the possibility of a spin-off can improve current incentives for managers to perform as there may be a potential opportunity to be promoted to a more senior position of the newly created subsidiary (Aron 1991; Seward & Walsh 1996). Spin-offs have also been identified as an intermediate contracting structure, avoiding the control and coordination costs that would be required in a hierarchical structure, while also avoiding the contractual hazards associated with the market if the firm was sold off to new owners (Ito 1995).
Khan and Metra (1996) found that firms opted for spin-offs rather than sell-off when business units were operating in markets with high potential for growth and profit. In these cases, a divestiture through spin-off may allow the surviving firm to eliminate operating inefficiencies and organizational costs associated with the current organizational set up and also allow shareholders to reap the benefits of subsequent growth. Spin-offs have also been identified as a divestment mode that can reduce information asymmetries between investors and the firm’s management associated with a particular division by spinning it off to create a separate publicly traded firm that provides capital market investors with more and better quality information about the subsidiary (Krishnaswami & Subramaniam 1999; Siddiqi & Wargenegara 2003; Wheatley, Brown & Johnson 2005).

A number of studies have also explored the motivations to sell off a business unit or engage in an equity carve-out with a need for proceeds being identified as a key motivator for these types of divesture (Frank & Harden 2001; Nixon, Roenfeld & Sucherman 2000; Steiner 1997). Some studies have argued that equity carve-outs would also be more likely to be chosen as a divesture mode when managers perceive outside investors will value the company higher than the current shareholders’ perceived value (Frank & Harden 2001; Slovin, Sushlea & Ferraro 1995).

The industrial organization literature has also explored the motivations for reducing firm product scope. This literature has focused primarily on market exit barriers that prevent firms from discarding a product market activity along with industry characteristics that encourage them to divest (Harrigan 1982; Harrigan & Porter 1983; Ilmakunaas & Topi 1999). An earlier landmark study by Harrigan (1982) found that the difficulties associated with disposing productive assets along with the firm’s tactics and attitudes can all intensify the firm’s reluctance to abandon a particular line of business (Harrigan 1982). In relation to attitudes, Harrigan suggested by way of example that, if a firm has attained successful returns by being a superb marketer or R&D firm, its managers will encounter difficulty in divesting businesses that are close to the heart of their perceived corporate image. The author also suggested that some industry structure characteristics could encourage exit. Such characteristics may include excess capacity and the impact of cost reducing innovations by large industry players that make it difficult for smaller followers to compete. Expectations concerning future demand and...
profitability along with industry attractiveness in general (measured by sales growth) have also been found to impact on exit decisions (Harrigan 1982). A stream of follow-up studies has explored the impact of these exit barriers on a firm’s desire/capability to exit product markets (Ilmakunaas & Topi 1999; Karakaya 2000; Liu 2006)

In summary, various motivations to reduce product scope have been identified. The finance literature has suggested that firms engage in contractionary portfolio restructuring to rectify previous ‘over diversification’. The IO literature has identified several industry related characteristics that encourage or discourage firms from exiting product markets. A number of studies grounded in the finance literature have also explored the motivations for engaging in different types of restructuring, such as sell-offs, spin-offs and equity carve-outs.

While the literature described so far on strategic change has provided considerable insight into the motivations for and performance implications of strategic change initiatives, it has not focused on how these decisions are made. Given the focus of this thesis is on how MNEs make strategic change decisions, the second main stream of literature analyzed in the following section (2.5) focuses on studies that have explored strategic decision-making processes in organizations.

### 2.5 Strategic Decision-making Processes

#### 2.5.1 Overview

This section analyses the literature on strategic decision-making processes, identifying important theory about how firms make strategic decisions which can be applied to this study. This analysis revealed six main streams. First, there is the boundedly rational strategic decision-making process model (Eisenhardt & Zbaracki 1992). Second, building on this early literature, Burgelman (1991) developed a strategy formulation framework for major strategic change initiatives. Third, an emerging stream of literature has focused on managerial cognition and strategic decision-making processes (Narayanan, Zane & Kemmerer 2011). A fourth group of studies has focused on the nature of environmental scanning efforts as an important component of strategic decision-making (Fleisher & Wright 2009). A fifth stream has explored organizational
politics associated with strategic decision-making processes. Finally, a group of studies has explored a ‘Garbage can’ model of strategic decision-making processes.

2.5.2 The Boundedly Rational Strategic Decision-Making Model

An early stream of literature developed a (boundedly) rational model of strategic decision-making. It has provided a broad understanding of key phases in the decision-making process (Anderson 1983; Mintzberg, Raisingharin & Theoret 1976; Nutt 1984; Simon 1965). While there has been inconsistency in terms of the labels given to these stages, this literature has implied that decisions incorporate the basic phases of problem identification, solution development and strategy selection (Eisenhardt & Zbaracki 1992). The problem identification stage incorporates any range of processes that culminate in identifying a need/opportunity for strategic change. The ‘solution development’ element of this model incorporates a process where a potential strategy is developed and reviewed and where alternatives may emerge. The ‘Selection’ component of the (boundedly) rational decision-making model has suggested a process where a strategic alternative is selected and a decision is formally made to proceed (Eisenhardt & Zbaracki 1992). There is, however, variance among these studies in terms of their consideration of human cognitive limitations (Eisenhardt & Zbaracki 1992).

The early ‘rational model’ of choice suggested that the three stages occur in a context where actors enter decision situations with known objectives. These objectives determine the value of the possible consequences of an action. The actors gather all appropriate information and develop a set of alternative actions. They then select the optimal alternative (Eisenhardt & Zbaracki 1992; Hart 1992). Importantly, in the classic rational model, decision makers were not subject to cognitive limitations (Eisenhardt & Zbaracki 1992).

In a review of this early literature, Eisenhardt & Zbaracki (1992) suggested that most studies exploring the nature of these three stages have been built on insight from early works such as Simon (1957) and others who challenged the validity of the classic economic actor by rejecting the notion of consistent, value-maximizing calculation in human behaviour. In other words, individuals are subject to cognitive limitations in terms of their capacity to process information (Anderson 1983; Carter 1971; Cyert &
March 1963; Pinfield 1986; Simon 1957). These limitations impacted on how firms identify problems and develop and select among strategic alternatives.

Cyert & March (1963), for example, presented case study evidence demonstrating that goals can be inconsistent across people and time. And, rather than conducting an extensive search and considering all alternatives, search behaviour was often local and standard operating procedures guided organizational behaviour. Anderson (1983) observed in their case study firm that few alternative courses of action were considered simultaneously. Instead, participants raised objections to the current alternative. In addition, instead of the rational process of goal definition, followed by alternative generation and choice, Anderson observed the nearly simultaneous discovery of goals and choices through social processes.

A number of early studies recognizing the cognitive limitations of decision makers explored circumstances where strategic decision-making was rational and when it was ‘boundedly’ rational (Cosier & Schwenk 1990; Dean & Sharfman 1993; Fredrickson 1984; Fredrickson & Iaquinto 1989; Fredrickson & Mitchell 1984; Harrison & Phillips 1991; Minzberg & Waters 1982; Nutt 1989; Schweiger, Sandberg & Ragan 1986; Schweiger, Sandberg & Rechner 1989). Some of these studies have argued that more dynamic or turbulent environments evoke less rational decision processes, sometimes implying a need for greater decision speed to keep up with a faster, less certain environment (Baum & Walley 2003; Dean & Sharfman 1993; Eisenhardt 1989; Fredrickson 1984; Goll & Rasheed 1997; Hough & White 2003; Judge & Miller 1991; Miller & Friesen 1983; Priem, Rasheed & Kotulic 1995). Not all studies, however, have found support for a relationship between environmental dynamism and the degree of rationality associated with the decision-making process (Forbes 2001).

Several other studies have suggested that decision-makers are rational for some elements of the decision-making process, but not others (Eisenhardt 1989; Eisenhardt & Zbaracki 1992; Fredrickson 1985; Isenberg 1986). Isenberg (1986), for example, found that managers made contingency plans, a rational strategy. However, they also acted quickly on incomplete information, which is a reflection of bounded rationality. In a study of strategic choice in eight microcomputer firms, Eisenhardt (1989) showed that effective decision makers developed many alternatives, but only thinly analysed them. They also sought information from many sources, but focused on only a few.
In summary, the empirical research on boundedly rational decision-making has identified that many decisions follow the basic phases of problem identification, solution development and selection. Most early empirical research clearly supports the premise that decision makers have cognitive limitations that impede their ability to engage in a purely rational decision-making process.

2.5.3 Burgelman’s Strategic Change Process Framework.

Burgelman’s (1983, 1991, 1996) (and Burgelman and Grove 2007) case study research represents one of the few attempts to explore intra-organizational strategy making processes associated with major strategic changes. Burgelman’s focus was on product portfolio changes, specifically entry and exit from key product markets (Burgelman 1983, 1991, 1996). Burgelman (1983, 1991) argued that strategic decision-making can be classified into two broad categories. ‘Induced’ strategy processes focus on exploiting opportunities within the existing strategic scope of the firm while ‘autonomous’ strategy making processes focus on exploiting opportunities outside current top management beliefs about what constitutes the firm’s strategy (Burgelman & Grove 2007).

Burgelman suggested that induced strategy processes are determined by the firm’s ‘structural context’. ‘Structural context’ processes incorporate the firm’s routinized strategic planning processes where new strategies are identified, developed and final decisions are made regarding resource allocations. They reflect and constrain strategy making within existing corporate objectives and strategy, thus manipulating the context in which the decisions and actions of lower-level managers are made (Burgelman 1991).

Strategy making associated with autonomous initiatives was seen by Burgelman to evolve through a different set of processes. In the context of Burgelman’s empirical work, the strategy making processes associated with product market entry and exit fell into the ‘autonomous’ strategy making category. According to Burgelman’s resource allocation, decisions associated with these initiatives mostly occur outside the routine strategic planning process defined by the structural context. Burgelman conceptualized the autonomous strategy-making process as incorporating four sub-processes of ‘definition’, ‘impetus’, ‘strategic context determination’, and, to a lesser extent, ‘structural context determination’. ‘Definition’ refers to a process in which a (new)
need or opportunity for strategic change is identified and defined. This process primarily involves front-line managers who usually have specific knowledge (such as technical knowledge) related to the initiative and are closer to the environments (referred to by Burgelman (1991) as ‘markets’) involved. ‘Impetus’ is referred to as a socio-political process by which these strategic initiatives are championed by front-line managers and adopted and developed by middle managers. The role of top managers is perceived as limited in the ‘definition’ and ‘impetus’ processes as it is argued that they usually do not possess the appropriate knowledge or information to evaluate technical and economic aspects of the strategic initiatives (Burgelman 1991).

The ‘strategic context determination’ component of Burgelman’s autonomous model refers to the processes by which middle managers attempt to convince top managers that the current concept of corporate strategy needs to be changed to accommodate a new strategic initiative. The firm’s structural context is still seen as relevant to autonomous strategy making processes by exerting some influence during the strategic context determination process. Burgelman refers to this influence as ‘structural context determination’. This occurs because top level managers will still be influenced by existing understandings of firm level strategy when attempting to understand and recognize the merits of changing its views on strategy (Burgelman 1983a).

2.5.4 Manager Cognition and Strategic Decision-making

The managerial cognition literature built on the recognition in the earlier strategic management literature that decision makers were constrained by their bounded rationality (Cyert & March 1963). The cognitive perspective began to receive significant attention from academics in the 1980s (Thomas, Clark & Gioia 1993). Strategic cognition has focused on how cognitive (or knowledge) structures impact on strategic decision processes (Narayanan, Zane & Kemmerer 2011). Its core argument is that knowledge residing within firms enables sensemaking processes during strategic decision-making (Narayanan, Zane & Kemmerer 2011). These sensemaking processes incorporate noticing and interpreting information relevant to a decision problem (Allard-Poesi 2005; Cornellisen 2002; Kaplan 2008; Thomas, Clark & Gioia 1993).

Cognitive structures can be conceptualized as a mental template consisting of organized knowledge about an information environment that enables interpretation and action in
that environment (Walsh 1995). In an organizational context, they incorporate knowledge and beliefs about the environment, strategy and circumstances of the organization (Narayanan, Zane & Kemmerer 2011; Pandza & Thorpe 2009). They are developed over time, through experience and learning (Narayanan, Zane & Kemmerer 2011; Tripsas & Gavetti 2000; Walsh 1995). Individual cognitive structures reside in the minds of individual organizational members. However, at the group level such as a top management team, or even across the firm as a whole, cognition common to each member of the group, often referred to as ‘shared’ cognitive frames, can also be developed (Daft & Weick 1984; Moussavi & Evans 1993; Narayanan, Zane & Kemmerer 2011; Weick 1995).

The cognition literature has recognized that a strategic decision can be triggered by ‘noticing’ something in the firm’s internal or external environment that is unusual, unexpected or important (Dutton 1993; Weick 1995). ‘Noticing’ may occur accidentally or as a result of deliberate efforts to scan the internal and external environment (Daft & Weick 1984). At the individual level, the information that is noticed will be a function of their individual cognitive structure that determines which new information may be relevant or useful (Thomas, Clark & Gioia 1993). At the group level, ‘noticing’ involves a consensus among its members based on shared cognitive frames that new information is relevant to a strategic decision (Daft & Weick 1984; Garg, Walters & Priem 2003; Thomas, Clark & Gioia 1993).

‘Interpreting’ is also an important component of strategic diagnosis and choice and involves ‘making sense’ of information relevant to a strategic decision (Thomas, Clarke & Gioia 1993). Proponents of the cognition perspective argue that individuals and groups draw on their cognitive structures to interpret this information (Narayanan, Zane & Kemmerer 2011). These interpretation processes may involve identifying a need opportunity for a strategic solution. For example, information from environmental scanning efforts may be interpreted to reveal a problem that needs to be addressed. It may also involve developing a strategic solution for a particular problem (Narayanan, Zane & Kemmerer 2011). There is, for example, evidence in the literature that firms apply past experiences with a particular type of strategy or strategic change to a new decision problem (Bergh & Lim 2008).
Often, ‘interpretation’ incorporates categorization of data (Daft & Weick 1984; Dutton & Jackson 1987). These categories are part of a cognitive structure and group objects, events and the like with similar perceived attributes (Dutton & Jackson 1987; Sharma 2000). A study by Dutton and Jackson (1987) was one of the earliest to elaborate on the categorization component of sensemaking, suggesting that new environmental information is often categorized as either a ‘threat’ or ‘opportunity’. These cognitive categories may also incorporate strategic solutions to different types of threats, opportunities or problems that are derived from previous experiences and learning (Narayanan, Zane & Kemmerer 2011). Various other studies have reported evidence of opportunity and threat categorization associated with strategic decision-making (Barr & Glynn 2004; George, Sitkin & Barden 2006; Sharma 2000; Thomas, Clark & Gioia 1993).

According to the literature on manager cognition, the sensemaking process is often made simpler by the use of heuristics. Within cognitive structures, heuristics (or ‘rules of thumb’) function as first-step decision rules (Maitland & Sammartino 2011). They enable individuals, groups or firms to cope with a complex and uncertain business world by making a number of simplifying assumptions which reduce the burden of information processing and enable decisions to be made more quickly (Maitland & Sammartino 2011). Importantly, these heuristics may introduce a cognitive bias that can distort their view of reality (Hodgkinson 1997; Hodgkinson et al. 1999). The deployment of heuristics is a pre-conscious automated process to thinking about decision problems (Hodgkinson & Clarke 2007). One example of a heuristic could be ‘downsizing impacts positively on long-term firm performance’. This heuristic would be based on previous experience an individual, group or firm has had with downsizing that enables a fast decision to be made each time a decision to downsize is proposed.

In a decision-making process context, the Upper Echelon’s Literature (UET) has built on insights from the cognition perspective, recognizing that individual managers with different cognitive structures will bring different knowledge to a decision. The UET has argued explicitly that firms with top management team (TMT) members from diverse demographic backgrounds and knowledge bases can develop more effective strategies because they are able to draw on more knowledge when making decisions (Hambrick 2007).
In summary, the literature on managerial cognition has suggested that cognitive structures provide the basis for how individuals, groups and firms notice and interpret environmental information that informs strategic decision-making. The knowledge frames residing in cognitive structures incorporate knowledge based on previous experience and learning. They may incorporate specific cognitive categories and may also include heuristics that enable the efficient (but often biased) processing of information relevant to a strategic decision.

2.5.5 *Environmental Scanning and Strategic Decision-Making Processes*

While the literature on cognition has recognized the importance of environmental scanning in making decisions, suggesting that the nature and focus of environmental scanning efforts will be, to some extent, a function of prevailing manager cognition (Daft & Weick 1984), a series of studies has also emerged that has focused more specifically on the nature of scanning and competitive intelligence practice. References to environmental scanning first appeared in the strategy literature in the 1960s (Kelly 1965) and received significant attention through the 1980s and 1990s (Culnan 1983; Grabowski 1987; Slater & Narver 1994) with a large number of significant studies also emerging in the 2000s (Adidam, Banerjee & Shukla 2012; Beal 2000; Brouard 2006; Calof & Wright 2008; Decker, Wagner & Scholz 2005; Kourteli 2000; Kumar, Subramanian & Strandholm 2001; Rajaniemi 2005; Saxby *et al.* 2002; Vojak & Suarez-Nunez 2005; Voros 2001).

This literature has focused on both defining and describing the nature of environmental scanning, often linking scanning activities to performance outcomes (Antia & Hesford 2007; Calof & Wright 2008; Fahey & King 1977; Gibbons & Prescott 1996; Greenley, Hooley & Saunders 2004; Lichtenthaler 2004; Maltz & Kohli 1996; Nitse, Parker & Dishman 2003; Sawka, Francis & Herring 1996; Solomon 1996; Wright, Pickton & Callow 2002). An early study by Fahey and King (1977, p.61) made inroads into developing the environmental scanning concept, defining it as a process that seeks ‘information about events and relationships in a company's outside environment, the knowledge of which would assist top management in its task of charting the company's future course of action’. The literature has also identified that environmental scanning can be *ad hoc*, such as a response to crisis, or routine, and can be formal or informal.
(Adadam, Gajre & Kejriwal 2009). It is effectively a form of knowledge management where environmental knowledge is transferred to the organization (Marin & Poulter 2004; Rouch & Santi 2001). Importantly, the competitive intelligence literature has recognized that scanning needs to provide managers with important, targeted strategic information rather than just aggregate reports (Babbar & Rai 1993). Various studies have also stressed the importance of environmental scanning and competitive intelligence to develop or sustain a competitive advantage (Adidam, Garje & Kerjiwal 2009; Babbar & Rai 1993; Dishman & Calof 2008; Marin & Poulter 2004; Rouch & Santi 2001).

The different focuses of environmental scanning efforts have also been explored. Most studies have suggested that scanning involves sourcing information related to the operating environment such as suppliers, competitors and other interest groups with which the firm deals, along with information on the general environment such as social, political, regulatory, economic and technological conditions (Calof & Wright 2008; Rouch & Santi 2001). The literature has also provided some insight into who (within a firm) manages the scanning process, suggesting that dedicated departments are often established for this purpose. Marketing and planning departments are also identified as common sources of competitive intelligence planning (Marin & Poulter 2004).

This thesis explores MNE strategic decisions in a China subsidiary context. While the literature on environmental scanning has explored scanning activities across various geographical regions, there is still insufficient ongoing research exploring competitive intelligence practice in Asia (Fleisher & Wright 2009). A few exceptions have provided evidence that environmental scanning in China as a competitive practice is still well behind that of Western countries. Zhang (2008), for example, conducted an investigation of 415 firms, and 28 competitive intelligence experts. He found that only 31% were aware of competitive intelligence practices such as environmental scanning. A key obstacle to competitive intelligence was, according to Zhang, a lack of competitive intelligence experts. A study by Zha and Chen (2009) also identified an absence of competitive intelligence among Chinese SMEs.

A few other studies have attempted to compare western style scanning with Asia and China (Adidam, Gajre & Kejriwal 2009; Fleisher & Wright 2009; Herring 1992). They
note that Westerners tended to prefer and respect word and technical collections systems, while Asians preferred human sources and informal networks in order to remain informed. Several other studies exploring environmental scanning in China have also emphasized the importance of personal informal and verbal contacts over formal written information sources (Adidam et al. 2009; Fleisher & Wright; Lassare 1993; Zhang 2008).

Fleisher & Wright (2009) identified institutional characteristics in Asian markets that explain this emphasis on informal, verbal information sources. First, they suggested that regulations present in Western countries that would facilitate the flow or disclosure of necessary formal economic information did not exist. As such, this information is often inaccurate and dubious in comparison with the west, especially at regional and local levels. Fleisher & Wright (2009) also argued that government departments responsible for gathering data and economic information are often under-resourced, resulting in sub-standard formal written data. Major media outlets in Asia tend also to be composed of undertrained or non-independent staff meaning reports prepared by official media could be unreliable.

In summary, the literature on competitive intelligence and environmental scanning has emphasised the importance of obtaining and interpreting environmental information to make strategic decisions. Environmental scanning can cover a wide range of issues related to competitors, suppliers, markets, and institutional environments. Environmental scanning practices in Asia are seen as being less developed than in the West and primarily focused on personal informal contacts.

2.5.6 Politics and Strategic Decision-Making

Political behaviour has also been identified as an important component of some strategic decision processes. The roots of the political perspective on strategic decision-making can be traced back to the political science literature of the 1950s. A view of decision-making in government emerged, suggesting that decisions involved processes in which decision makers have different goals, they come together through coalitions, and the preferences of the most powerful are observed (Eisenhart & Zbaracki 1992). In the political model, people are individually rational, but not collectively so (Eisenhardt & Zbaracki 1992; Wilson et al. 2012).
There are three key elements of the political decision-making perspective. First, it is assumed that individuals in organizations have divergent interests and perspectives resulting from functional, hierarchical, professional and personal factors (Dean & Sharfman 1996; Wilson et al. 2010). For example, some people in a business may favour sales growth while others are focused on financial risk management. These conflicting preferences arise from different estimates of the future and clashes in personal ambitions and interests (Eisenhardt & Zbaracki 1992). There has been substantial empirical support for the view that organizations consist of people with at least partially conflicting goals (Allison 1971; Baldrige 1971; Eisenhardt & Bourgeois 1988; Gotsis & Kortezi 2011; Pettigrew 1973, 1985; Quinn 1980; Wilson et al. 2012; Yang 2003). Second, decisions follow the interests of the most powerful people (Baldrige 1971; Eisenhardt & Zbaracki 1992). Third, decision makers often attempt to change the power structure by engaging in political tactics to enhance their power to influence a decision (Dean & Sharfman 1996; Eisenhardt & Zbaracki 1992). Examples of political behaviour include coalition formation, lobbying, co-optation, withholding information and the control of agendas (Dean & Sharfman 1996; Eisenhardt & Bourgeois 1988; Eisenhardt & Zbaracki 1992; Pettigrew 1973; Yang 2003).

The political decision-making literature has also distinguished between self-interest seeking political behaviour versus political behaviour that is driven by individual beliefs about what is in the firm’s best interests. Political behaviour that reflects an attempt to impose individual or group preferences in relation to what is in the overall best interests of the organization can lead to positive outcomes when individuals or groups exerting political influence are those that possess the knowledge required to make appropriate decisions (Dean & Sharfman 1996; Gotsis & Kortezi 2011; Vigoda 2003; Yang 2003).

Self-interest seeking political behaviour, however, which are intentional acts to influence or protect the self-interest of individuals or groups, are generally perceived as having a negative impact on strategic decision-making (Eisenhardt & Zbaracki 1992). This is because such behaviour is driven by personal gain rather than rational arguments about what is in the best interests of the firm. To try and justify self-interest motives as being in the best interest of the firm, individuals may distort or withhold pertinent information (Dean & Sharfman 1996; Gotsis & Kortezi 2011; Vigoda 2003.).
The management of self-interest seeking political behaviour has been identified as an important capability of a management team. Most suggestions for managing political behaviour can be encapsulated in the concept of ‘procedural rationality’, which is conceptualized as the extent to which the decision process involves the collection of information relevant to the decision and the reliance on analysis of this information in making the choice (Dean & Sharfman 1996). Procedural rationality is argued to alleviate the problems associated with self-interest seeking political behaviour because it requires a process of mounting a rational, extensive data collection and analysis, therefore making it difficult to incorporate self-interest seeking goals with little legitimacy (Dean & Sharfman 1996).

In summary, the political perspective has suggested that organizations are comprised of people with partially conflicting preferences, and strategic decision-making is ultimately political in the sense that powerful people get what they want. In addition, people engage in political tactics. This literature has also acknowledged that reducing the degree of self-interest seeking political behaviour by adopting a procedurally rational approach leads to better decision outcomes.

2.5.7 The ‘Garbage Can’ Model of Strategic Decision-Making

A somewhat different perspective of the decision-making process is encapsulated in the ‘garbage can’ model of decision-making processes. First articulated by Cohen, March and Olsen (1972), this model has described decision-making in highly ambiguous settings called organized anarchies. The model was largely a reaction to rational and political models of choice which Cohen March and Olsen believed lacked sufficient sensitivity to decision-making in a complex, unstable and ambiguous environment (Cohen, March & Olsen1972; Eisenhardt & Zbaracki 1992).

Cohen, March and Olsen (1972) suggested that ambiguity emerges in three ways. One is problematic preferences which refer to the inconsistent and often poorly defined preferences that decision makers possess. The authors suggested that decision makers often discovered their goals through action rather than identifying them prior to choice. Second, they argued that, in organized anarchies, people tended to have only a loose understanding of means and ends. Organizational participants often acquired
knowledge by trial-and-error learning, but did not necessarily understand the underlying causes. Third, in organized anarchies, decision-making participants came and went from the decision process. Their involvement at a particular stage of the decision process will depended upon their energy, interest and other demands at that time (Cohen, March & Olsen 1972). Therefore, anticipating who will actually be involved in a decision is difficult (Eisenhardt & Zbaracki 1992).

The garbage can model has gone on to describe the random interaction of four factors. Firstly, Cohen and colleagues identify ‘choice opportunities’, which are occasions that call for a decision. Second, they identify ‘solutions’, which are answers looking for problems. Third, the authors identify ‘participants’ who are people with busy schedules who might or might not pay attention. Fourth, they identify ‘problems’, which are concerns of people within and outside the organization. Decision-making according to this perspective, therefore, occurs in an environment of choices looking for problems, problems looking for choices, solutions looking for problems to answer, and decision-makers looking for something to decide (Eisenhardt & Zbaracki 1992). In comparison to political and rational models, the garbage can model has implied that what gets decided depends very strongly on timing and luck. Decisions lack the clear beginning and end points of rational and political models (Anderson & Fischer 1986; Eisenhardt & Zbaracki 1992; Padgett 1980).

There was early empirical evidence that some organizations can be accurately characterized as organized anarchies (Kreiner 1976; Levitt & Nass 1989; Olsen 1976). There have, however, been a large number of studies questioning the random nature of the garbage can model with limited evidence that such anarchies existed in corporate contexts (Butler et al. 1991; Eisenhardt & Zbaracki 1992; Levitt & Nass 1989; Pinfeld 1986).

To summarize, the empirical research modestly confirms that some decisions occur as a result of chance interactions among changing problems, choice opportunities, solutions, and people. Most empirical work has been obtained from government settings with only limited support for the model in corporate settings.
2.6 Summary

The aim of this chapter is to critically assess the key elements in the strategic change decision making literature, which will provide the scaffolding to construct the conceptual framework in Chapter 4. This analysis has revealed that most studies have focused on why firms make strategic change decisions rather than how they make them. However, this investigation also revealed that the dynamic capabilities literature, along with the literature on strategic decision-making processes provides important insights into how strategic decisions are made that can be applied to this study.

The analysis presented in this chapter has identified that poor performance and a change in the firm’s external environment were key motivators for strategic change initiatives. In addition, most of the literature on why firms make strategic change decisions has been focused on product portfolio choices, drawing on several theoretical approaches including the industrial organization perspective, firm level strategic management theories, such as transaction cost theory and the resource based view, and the corporate finance literature on agency theory and Jensen’s free cash flow perspective.

While most of the literature on strategic change has focused on why firms make these decisions, this critical review of the literature, did, however, identify a number of important theoretical perspectives on how firms make strategic decisions that can be applied to this study.

First, the literature on dynamic capabilities argued that to maintain or improve their competitive position, firms need to make changes to their resource base. This literature emphasized the importance of organizational routines, such as strategic decision-making processes that enable firms to do this. This literature has also identified that knowledge and resources are important inputs into dynamic capabilities.

Second, the early literature on boundedly rational decision-making identified three key stages of the decision-making process, comprising identification of a problem, strategy development and strategy selection, with most of this literature recognizing the cognitive limitations of decision makers during these phases.

Third, the work of Burgelman suggested that strategy formation processes can be categorized as ‘induced’ or ‘autonomous’, with the latter incorporating initiatives that
fall outside the prevailing cognitive or strategic scope of the firm. Aside from Burgelman’s research, few studies have taken a process approach to strategic change strategy formation. Burgelman suggested that autonomous strategy making involves the four stages of ‘definition’, ‘impetus’, ‘strategic context determination’ and ‘structural context determination’, and tends to be a bottom-up process where ideas are first identified by front line managers.

Fourth, the literature on manager cognition focused specifically on the impact of cognition on strategic decision processes suggesting that individual, group and firm level knowledge provide a lens by which information related to a strategic decision is interpreted to identify a need/opportunity for strategic change and develop strategic change solutions.

Fifth, a literature on environmental scanning has identified various ways in which firms scan their internal and external environment, pointing out differences between scanning practices of Asian versus Western firms along with the importance of these routines as an early component of strategic diagnosis.

Sixth, the political perspective of strategic decision-making was also investigated. This approach suggested that strategic decision processes can be driven by political processes associated with individuals attempting to exert their influence over decisions with particular emphasis on the self-interest of organizational members.

Finally, the garbage can model suggested that some firms represent organizational anarchies, where decisions occur as a result of chance interactions among changing problems, choice opportunities, solutions, and people. Empirical evidence for the garbage can model in a corporate context is, however, sketchy at best.

This chapter has focused on the strategic change and decision-making process literature that has not considered the more complex scenarios relevant to multinational enterprises (MNEs). The focus of this thesis is on MNE decision-making processes associated with foreign subsidiary strategic change. Chapter 3 reviews the literature on MNE strategy making.
CHAPTER 3
MULTINATIONAL ENTERPRISE STRATEGY

3.1 Overview

Chapter 2 identified key elements in the broader strategic management, corporate finance and industrial organization literature. It also provided a review of the literature on strategic change and strategic decision-making processes. This chapter develops key elements in the international business (IB) literature exploring MNE strategy, identifying important theory informing Chapter 4, the conceptual framework. While this review reveals that the MNE literature has provided significant insight into important contextual and management issues facing MNEs when making strategic decisions, it also confirms an important gap in the literature that this study aims to address. That is, our limited understanding of how MNEs make strategic decisions, particularly decisions about strategic change.

The chapter is structured as follows. Section 3.2 analyzes the pre-1990 literature on HQ subsidiary control relationships. Section 3.3 synthesizes a body of literature focusing on subsidiary strategy and role typologies while Section 3.4 presents an analysis of an important series of studies focused on subsidiary strategic change resulting from subsidiary-level entrepreneurial behaviour and innovation. Section 3.5 briefly identifies several other relevant literature streams related to MNE strategy including the literature on upper echelon theory (UET) and a promising literature exploring procedural justice in an MNE context. Section 3.6 provides a summary while section 3.7 draws on the literatures presented in this chapter and Chapter 2 to describe the gap in the IB literature that this study addresses.

3.2 The Early Literature on HQ-Subsidiary Relationships

Strategic decision-making in MNEs involves a complex relationship between parent HQ and subsidiary managers. Beginning in the 1970s, academics first began to devote significant attention to MNE strategic decision-making. Most of this early literature focused on exploring how MNE headquarters (HQ) could control and coordinate its overseas subsidiaries. Some early studies focused on the organizational structure of
MNEs. Stopford and Wells (1972), for example, observed that MNEs typically managed their international operations through an international division at the early stage of foreign expansion, and then adopted more complex structures such as area divisions, worldwide product divisions or matrix structures as foreign sales and the diversity of products sold abroad increased. Subsequent papers, however, have provided empirical evidence that this staged internationalization process does not always apply as initially stipulated by Stopford and Wells (Daniels, Pitts & Tretter 1984; Egelhoff 1982; Picard 1980).

Several early studies went beyond MNE organizational structure to explore other control and integration tools utilized by MNEs. Brandt and Hulbert (1976), Picard (1980) and Egelhoff (1984), for example, found that market, sales, financial and production reports were routinely prepared by subsidiaries and submitted to HQ as a form of communication and performance monitoring. A series of early studies grounded in the international human resource management (IHRM) literature explored why and when MNEs transferred HQ or expatriate staff to senior subsidiary management positions (Edstrom & Gailbraith 1977; Edstrom & Lorange 1984; Egelhoff 1984; Tung 1984). These studies have stressed the importance of transferring expatriate staff as a strategy to develop a process of control based on socialization (Edstrom & Galbraith 1977; Edstrom & Lorange 1984). It is worth noting that the deployment of expatriate staff as a form of socialization has remained a topic of interest and has been the subject of more recent studies (Chung, Gibbons & Schoch 2006; Ferner et al. 2011; Gong 2003; Paik & Sohn 2004).

A comprehensive study of control mechanisms by Baliga and Jaega (1984) categorized a broad range of control tools used by MNE headquarters (HQ) into ‘bureaucratic’ and ‘cultural’ mechanisms. Bureaucratic control was conceptualized as ‘a set of codified rules and regulations, which delineate desired performance in terms of output and/or behavior’ (Baliga & Jaeger 1984, p.26). Cultural control was more informal, focusing on the creation and use of an organizational culture to generate desired behavior (Baliga & Jaeger 1984). Cultural control often involved transferring HQ staff indoctrinated in the MNEs corporate culture to the subsidiary, a topic explored in the early IHRM literature (see above). Baliga and Jaeger (1984) also recognized that, within these
categories, some of these mechanisms aimed to exert control by manipulating behavior while others focused on measuring output. Delegation was also introduced as a parallel mechanism to control, defined as the extent to which decision-making authority was granted to subsidiary managers versus being centralized at HQ (Baliga & Jaeger 1984).

Baliga & Jaeger suggested that the choice of control mechanisms used by HQ should be a function of the type of interdependencies that exist within the MNE. They identified three types of interdependence. Pooled interdependence occurred when HQ and subsidiaries shared common resources, but were otherwise autonomous (Baliga & Jaeger 1984). Baliga and Jaeger suggested that this type of interdependence offered the maximum freedom in choosing control mechanisms. Sequential interdependence referred to circumstances where the output of one subsidiary is fed into another part of the MNE network. According to Baliga and Jaeger, sequential interdependence requires greater centralization to coordinate this process. Reciprocal interdependence required HQ and subsidiaries to feed their work back and forth among themselves (Baliga & Jaeger 1984). In these cases, they suggested that cultural control would be the preferred mode as the complexity of this type of interdependence may generate too many exceptions to prevailing rules within bureaucratic control systems. Baliga and Jaeger (1984) also suggested that in cases where environmental uncertainty is high, some degree of delegation would be required so that the MNE can be more responsive to its local environment. In addition, when HQ-subsidiary cultural distance is high, they suggested that the use of cultural systems would probably not be effective (Baliga & Jaeger 1984). The key argument implied here is that cultural (organizational) control is closely related to the ethnic culture of home country MNE executives. As such, it is more difficult to transfer a home-country organizational culture to subsidiaries in host countries with a substantially different ethnic culture.

A series of studies by Prahalad and Doz (1981, 1984, 1981) also explored the nature of MNE control over its subsidiaries. Prahalad and Doz categorized control as either ‘resource-based’ or ‘organizational based’. Resource-based control refers to HQ’s power over subsidiaries derived from its possession of the critical resources that the subsidiary requires to perform, while organizational based control referred to management systems and controls instituted by HQ to exert control over subsidiaries.
They also suggested that HQ needed to balance its control over subsidiaries according to pressures to be nationally responsive, and to integrate global value adding activities in order to achieve cost economies, arguing that the pressures for local responsiveness require less control while integration pressures require more HQ control (Doz & Prahalad 1984).

A large scale study by Gates and Egelhoff (1986) focused specifically on decision-making centralization (at HQ). One finding was that MNE size was negatively correlated with centralization; the authors argued that this could be the situation because, as size increases, the MNE finds it more difficult to control each of its numerous overseas units. Gates and Egelhoff also found some evidence that MNEs producing more product lines in foreign markets or modifying products to fit differing local environments opted for less centralization. This finding makes intuitive sense given that, in these circumstances, local managers would be more likely to possess the knowledge required to make effective adaptation strategies. The authors also identified that MNEs growing through the acquisition of foreign firms were also likely to decentralize decision-making, arguing that this could be because of the difficulty HQ has in controlling acquired subsidiaries with their own independent history. The study also found that European and UK MNEs tended to decentralize decision-making as the relative size of their foreign operations increased, but this tendency was not apparent in US MNEs. US MNEs also tended toward more centralization of marketing and financial decisions than European MNEs. They attribute differences across MNEs that range from different nationalities to cultural traits. A study by Egelhoff (1984) had also found a similar relationship between nationality and control exerted by HQ over its subsidiaries.

Aside from studies focusing on the nature of headquarters’ subsidiary control relationships, the topics of MNE strategic planning and environmental scanning also received some attention (Dymsza 1984; Keegan 1973; Kennedy 1984; Kobrin et al. 1980). One of the more comprehensive studies was conducted by Kobrin et al. (1980). They explored how MNEs assess foreign political and social environments, identifying various sources of environmental data including subsidiary managers, regional managers, HQ personnel, banks, consultants, business periodicals, other firms, agents
and outside counsels, embassies, domestic government agencies, professional journals, trade associations, international organizations, newspapers, radio TV, academics, journalists and chambers of commerce. Kobrin and colleagues also provided some insight into the firm level processes associated with environmental scanning, finding that in most cases, MNEs have a group or groups of organizational members that have been assigned formal environmental assessment responsibility. These groups ranged from one relatively junior staff analyst with part-time responsibilities to a group with five or more professionals charged with developing and implementing a formal assessment methodology on a continuous basis. They also suggested that larger and more international MNEs operating in industrial sectors which are more vulnerable to environmental impacts were more likely to institutionalize scanning. A study by Kennedy (1984) suggested that firms who consciously divide businesses strategically in terms of separate and identifiable products, competitors and markets were naturally propelled toward geographic based environmental scanning analysis.

In summary, a range of studies emerging in the 1970s began to explore different aspects of how a MNE HQ exerted control over its subsidiaries. Some studies focused on organizational structure such as the choice to utilize international division, area division, world product divisions, or more complex matrix studies. Various other control mechanisms were identified, ranging from formal bureaucratic mechanisms to informal cultural control, with the deployment of expatriates to subsidiaries. Some early evidence was obtained suggesting that HQ needed to balance its control over subsidiaries according to pressures for integration and local responsiveness. Differences in approaches to control were identified across MNEs from different nationalities. A few studies also explored MNE environmental scanning processes, suggesting various information sources and types and ways in which these processes were likely to be institutionalized in the MNE. A limitation of these early studies was a lack of emphasis on the different roles subsidiaries could perform within the MNE’s network and the implications this may have for HQ-subsidiary control relationships. The following section describes a body of literature emerging in the mid-1980s that focused on addressing this deficiency.
3.3 Subsidiary Role

A series of studies emerged in the mid-1980s that built on recognition that subsidiaries may have varying strategic contexts and might fulfill different roles for their parent. This recognition has culminated in various typologies. Some of these typologies took the MNE as the unit of analysis (Bartlett & Ghoshal 1988; Ghoshal & Nohria 1989; Harzing 2000; Leong & Tan 1993; Porter 1986; Prahalad & Doz 1987; White & Poynter 1990) and explored the varying strategic relationships it has with its subsidiaries. Other typologies have focused on the individual subsidiary, identifying different subsidiary roles and strategies (Bartlett & Ghoshal 1986; Benito, Grogaard & Narula 2003; Birkinshaw & Morrison 1995; D’Cruz 1986; Gupta & Govindarajan 1991; Hogenbirk & Kranenburg 2006; Jarillo & Martinez 1990; Lin & Hsieh 2010; Manolopolous 2010; Poynter & Rugman 1982; Roth & Morrison 1992; Taggart 1997a; White & Poynter 1984).

Given this thesis focuses on subsidiary level strategic change, this section focuses on subsidiary level typologies, and, specifically, subsidiary typologies where implications for subsidiary strategic decision-making are made explicit. While some of the typologies have referred to subsidiary ‘roles’, with the implication that these are determined by HQ (Bartlett & Ghoshal 1986, Gupta & Govindarajan 1991), others have referred to subsidiary ‘strategy’ (Birkinshaw & Morrison 1995), believing that, to some extent, subsidiaries influence their own destiny rather than simply being allocated a ‘role’ by HQ.

Drawing on an analysis of 21 firms, Bartlett and Ghoshal (1986) identified four subsidiary roles based on the subsidiary’s competencies and the strategic importance of the local market in which it operates. A competent national subsidiary located in a strategically important market could play the role of a strategic leader. This subsidiary is a ‘partner’ to headquarters in terms of developing and implementing strategy. A contributor subsidiary has strong competencies, but operates in a small or strategically unimportant market. According to Bartlett and Ghoshal, HQ can draw on its expertise for projects of corporate significance outside the subsidiary’s markets. Implementers operate in strategically less important markets and have just enough competence to maintain their local operation. The final role, the black hole, is a poor strategic position.
where a subsidiary lacks competencies, but operates in a strategically important market. A recent paper by Rugman, Verbeke and Yuan (2011) extended the Bartlett and Ghoshal typology, arguing that subsidiary roles can vary across different functional areas making specific reference to innovation, production, sales and administrative support activities. They implied that a subsidiary could, for example, be an implementer for one functional activity and a strategic leader for another.

Bartlett and Ghoshal (1986) also made suggestions as to the appropriate level of control and coordination HQ should exert over subsidiary strategy for different subsidiary types/roles. For strategic leaders, they suggested that headquarters utilize fewer formal controls. HQ’s chief function should instead be to support those subsidiaries with strategy leadership by giving them the resources and the freedom needed for the innovative role they play. For contributors, the head-office task should be to redirect local resources to programs outside the unit’s control. Bartlett and Ghoshal suggested that head office should maintain tighter control over a subsidiary in an implementer role, communicating strategies developed elsewhere and controlling routine tasks through various control mechanisms. As for the black hole unit, they suggested that HQ should focus on developing its capabilities to make the subsidiary more responsive to an important local market.

Drawing on a sample of 50 MNE subsidiaries in Spain, Jarillo and Martinez (1990) also developed a typology of subsidiary roles. Their framework drew on an integration-responsiveness concept initially introduced by Doz and Prahalad (1981) and Prahalad and Doz (1987). As outlined in Section 3.2 above, Doz and Prahalad suggested that MNEs face pressures to be responsive to local host country environments and pressures to integrate and coordinate global value adding activities. According to Jarillo and Martinez, an autonomous subsidiary carries out most of the functions of the value chain in a manner that is relatively independent of its parent organization or other subsidiaries. This role emerges in circumstances where pressures for responsiveness are high while pressures for integration are lower. Receptive subsidiaries carry out only a few of these functions in the country (typically only marketing and sales, but possibly a purely manufacturing or extracting operation) and are highly integrated with the rest of the firm. This strategy occurs in circumstances where pressures for integration are high and
responsiveness is low. An *active* subsidiary carries out many activities in the country, but they are carried out in close coordination with the rest of the firm where both pressures for integration and responsiveness are high. Aside from Martinez and Jarillo’s own empirical work, several additional studies have found some empirical support for their typology (Hannon, Huang & Jaw 1995; Taggart 1997b; Yu 2005). A subsequent paper by Martinez and Jarillo (1991) demonstrated an empirical connection between subsidiary roles and the use of different mechanisms of coordination by HQ. Specifically, HQ utilized more extensive formal and cultural coordination mechanisms over subsidiaries performing highly integrated roles, such as active and receptive subsidiaries, in comparison with autonomous subsidiaries.

A further typology developed by Gupta and Govindarajan (1991) conceptualized subsidiary contexts along two dimensions, which were firstly the extent to which the subsidiary is a user of knowledge from the rest of the corporation (‘knowledge inflows’) and, secondly, the extent to which the subsidiary is a provider of knowledge to the rest of the corporation (‘knowledge outflows’). In the *global innovator* role (high outflow-low inflow), the subsidiary serves as the fountainhead of knowledge for other units. The *integrated player* (high outflow-high inflow) role is similar to the global innovator role because it also implies a responsibility for creating knowledge that can be utilized by other subsidiaries. However, unlike the global innovator, an integrated player subsidiary is not self-sufficient in the fulfillment of its own knowledge needs. In the *implementer* role (low outflow-high inflow), the subsidiary engages in little knowledge creation of its own and relies heavily on knowledge inflows from either the parent or peer subsidiaries. Finally, the *local innovator* role (low inflow-low outflow) implies that the subsidiary has almost complete local responsibility for the creation of relevant know-how in all key functional areas. However, this knowledge is seen as too idiosyncratic to be of much competitive use outside of the country in which the local innovator is located. Aside from Gupta and Govindarajan’s own empirical work, their typology has received some additional empirical support in the literature (Harzing & Noorderhaven 2006).

Gupta and Govindarajan (1991) went on to argue that communication with peer subsidiaries, along with the use of various integrative mechanisms, such as subsidiary
expatriate appointments and other socialization tools and budget evaluation mechanisms, will be positively related to the volume of information flows. Their use will, therefore, be highest for integrated players (high outflow-high inflow), intermediate for global innovators (high outflow-low inflow) and implementers (low outflow-high inflow), and lowest for local innovators (low outflow and low inflow). They also suggested that the parent corporation’s reliance on behavioral controls will be higher and reliance on outcome controls will be lower for global innovators and integrated players than for implementers and local innovators. Their argument for this was that outcome measurement would be more difficult for global innovators and integrated players where the subsidiary has more responsibility and control over its own operations and is involved in transferring more knowledge to the MNE and other subsidiaries. They also suggested that the degree of subsidiary decision-making autonomy would be higher for global innovators, medium for integrated players and local innovators, and low for implementers, arguing that too much centralized control for high contributors of knowledge may stifle innovation.

Drawing on the insights of other typologies outlined above, Birkinshaw and Morrison (1995) developed and empirically tested a three-fold typology of subsidiary roles. Their local implementer has limited geographic scope, typically a single country and severely constrained product or value added scope. Its role is to adapt global products to the needs of the local market. The specialized contributor has considerable expertise in certain specific functions or activities, but its activities are tightly coordinated with the activities of other subsidiaries. It is thus characterized by a narrow set of value activities and high levels of interdependence with affiliated subsidiaries. The world mandate works with headquarters to develop and implement strategy. The subsidiary has worldwide or regional responsibility for a product line or entire business, and typically has unconstrained product scope and broad value-added scope.

Birkinshaw and Morrison (1995) also explored the formal and informal management systems associated with different subsidiary strategy types. They found that subsidiaries with world mandates had more strategic autonomy than local implementers. This finding can easily be understood in terms of the resources and knowledge possessed by subsidiaries vis-a-vis headquarters. For world mandates, more knowledge
associated with the production function rests with the subsidiary. As such, it requires sufficient strategic autonomy to make appropriate decisions. While this argument in relation to decision-making authority residing with those who possess appropriate knowledge was not made explicit by Birkinshaw and Morrison (1995), it was, in fact, made explicit in a later study by Edwards, Ahmad and Moss (2002). Roth and Morrison (1992), however, pointed out that, while a subsidiary with a world product mandate is responsible for key strategic decisions associated with this product, this does not imply total subsidiary autonomy. The subsidiary, they argue, remains interdependent with other subsidiaries, as well as with the parent corporation, as it acts within the parameters of the overall corporate strategy. Birkinshaw and Morrison (1995) argued that local implementers primarily rely on knowledge from HQ and, as such, HQ appropriately exerts more control over subsidiary strategic decision-making. Cultural controls were found to be much the same across all subsidiary types, while Birkinshaw and Morrison found that operational control was always given to the subsidiary.

Taggart (1997a, 1999) took a unique approach to subsidiary types, developing and empirically testing an ‘autonomy-procedural justice’ subsidiary framework. This model of subsidiary strategy was developed on the basis of two key dimensions, autonomy and procedural justice. Procedural justice was conceptualized as the extent to which the dynamics of the decision process are judged to be fair (Taggart 1997a). Their vassal subsidiary is in the low autonomy, low procedural justice location. This is referred to as a poor situation for subsidiary managers who have little local control and significant friction with corporate executives. The collaborator subsidiary (low autonomy-high procedural justice) reflects a more cooperative relationship with HQ, despite a low degree of decision-making autonomy. This subsidiary type, Taggart suggested, is more dependent on the corporate network for inflows of technology to develop and sustain a competitive edge. The militant subsidiary (high autonomy-low procedural justice) tends to be locally responsive. Its role is often highly specific, with little need to develop strong linkages with sister subsidiaries. The partner affiliate (high autonomy high procedural justice) is proactive and enjoys an excellent relationship with headquarters. Taggart proposed that partner subsidiaries will perform best, and vassals the worst.
In summary, there has been various subsidiary strategy typologies focused on identifying subsidiary roles and strategies within its MNE network. Subsidiary role and strategy typologies were determined by a range of key variables, including the subsidiary’s resources and competencies, its reliance on HQ for resources, the importance of the local market, information inflows and outflows, pressures for localization and integration, autonomy and procedural justice. For most of these typologies, HQ-subsidiary control relationships and mechanisms were considered.

3.4 Subsidiary Initiative, Innovation and Subsidiary Strategy/Role Change

3.4.1 Introduction

A key limitation of the earlier studies on subsidiary role and strategy discussed in Section 3.3 was their static view, with no attention given to how subsidiaries change over time. A subsequent body of literature emerged in the mid 1990s focused on the nature of subsidiary driven entrepreneurial behaviour and linking it to an upgrading of subsidiary capability and increased responsibilities within the MNE network (Verbeke, Chrisman & Yuan 2007). This literature stream has added dynamism to the literature on subsidiary role typologies outlined in Section 3.3 above by identifying factors that drive subsidiary role development and evolution. Importantly, this group of studies represent the most substantial attempt to understand MNE strategic change in the literature to date, and is described in Sections 3.4.2 and 3.4.3 below.

Another stream of literature on subsidiary strategic change has focused on the relationship between subsidiary level innovation and embeddedness in its internal and external environment. While the literature on innovation would, by definition, include entrepreneurial initiative, it is also linked to other innovative efforts such as new product or R&D innovations that fall within the scope of the subsidiary’s existing mandate. Brief mention is made of these studies in Section 3.4.4.
The literature on subsidiary entrepreneurial behavior and its link with subsidiary strategy and role gained momentum with the work of Julian Birkinshaw (1995) that tracked a series of autonomous subsidiary actions, conceptualized as subsidiary initiatives. Birkinshaw built on the earlier work of Ghoshal and Bartlett (1988) on subsidiary innovative behavior. Ghoshal and Bartlett focused on the organizational attributes that facilitate the creation, adoption, and intra-MNE diffusion of MNE subsidiary innovations. They found unambiguous support for the positive impact of socialization and interunit communication on the subsidiary’s ability to contribute to different innovation tasks in the MNE.

Building on the work of Bartlett and Ghoshal (1988), Birkinshaw (1997, p.207) defined subsidiary initiative as ‘a discrete, proactive undertaking that advances a new way for the MNE to use or expand its resources’. It is conceptualized as an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity. An important aspect of Birkinshaw’s research involved linking subsidiary initiative to subsidiary evolution and an ‘upgrading’ of the subsidiary’s role and responsibilities to its MNE parent (Birkinshaw 1997). These role extensions ranged from new manufacturing responsibilities to broader mandates that also incorporated product development, marketing and strategic accountability, the so-called ‘world mandate’ (Ambos, Andersson & Birkinshaw 2010; Birkinshaw 1995; Birkinshaw & Hood 1997; Birkinshaw & Fry 1998). Birkinshaw also made an important distinction between his focus on ‘entrepreneurial’ initiative and circumstances where the generation of new business activities or ‘new resource combinations’ are a result of a pre-defined mandate to innovate (such as R&D subsidiaries). He argued that entrepreneurial driven initiative, the focus of his research would require a predisposition towards proactive and risk taking behaviour, whereas the latter involves a subsidiary simply fulfilling a pre-defined existing role (Birkinshaw 1997).

Birkinshaw’s empirical research identified four main initiative types. *Local market* initiatives are those that are initially developed to address a need or opportunity in the
subsidiary’s local market, but are subsequently adopted by the MNE in its other operations. *Global market* initiatives are those developed by the subsidiary to meet unmet product or market needs among non-local suppliers and customers. *Internal market* initiatives arise through market opportunities identified within the MNEs corporate system. An example of an internal market initiative would be to develop the capability to produce an intermediate product for the parent more efficiently than that of another subsidiary currently supplying this product. Birkinshaw also suggested a fourth *hybrid initiative* type which took the form of subsidiary management bidding for an embryonic new corporate project that the parent has earmarked for investment (Birkinshaw 1997; Birkinshaw & Fry 1998).

Birkinshaw identified a series of generic factors that may facilitate or impede each type of subsidiary level initiative. One factor was parent attitude towards subsidiary level entrepreneurial activity, where, for example, a parent could encourage initiative or, alternatively, may adopt an ethnocentric attitude that discourages subsidiary entrepreneurial behaviour (Birkinshaw & Fry 1998). Birkinshaw also suggested that the set of administrative and cultural mechanisms through which HQ exerts control over subsidiaries can lead to confrontation that stifles subsidiary level initiative, referred to as the corporate immune system (Birkinshaw & Ridderstrale 1999). Subsidiary ‘specialized resources’ were also identified as a key characteristic of subsidiary initiative. These refer to resources that are superior to other resource in the MNE (Birkinshaw, Hood & Jonsson 1998). Subsidiary entrepreneurial culture, subsidiary leadership capability, international credibility, size, local competition in subsidiary market, and the level of industrial globalization have also been identified as facilitators of subsidiary initiative (Birkinshaw & Hood 1997; Birkinshaw, Hood & Jonsson 1998; Birkinshaw, Hood & Young 2005; Birkinshaw & Ridderstrale 1999).

Aside from identifying the abovementioned generic drivers and impediments of subsidiary initiative, Birkinshaw’s work also identified key facilitators of individual types of subsidiary initiative. For local market initiatives, subsidiary decision-making autonomy and a lower level of HQ-subsidiary communication were seen as important facilitators in their early stage of development (Birkinshaw 1997; Birkinshaw & Fry 1998). This enabled subsidiary resources to be applied to early development and piloting of an opportunity without head office interference (Birkinshaw 1997;
Birkinshaw & Fry 1998). During the development and commitment phase of local market initiatives, a higher level of communication and a lower level of autonomy were more appropriate for local market initiatives as subsidiary management usually needed to achieve sponsorship for the business in question from a HQ operating division (Birkinshaw 1997; Birkinshaw & Fry 1998). There was often HQ resistance along with competition from other subsidiaries if the project was perceived as desirable (Birkinshaw & Fry 1998). For global market initiatives, high autonomy was seen as critical to ensure fewer delays in the initiative process. Birkinshaw & Fry (1998) argued that, while the appropriate parent company division should be kept informed of all such investments for global market initiatives, they should not intervene in the process (Birkinshaw & Fry 1998).

For internal market and hybrid initiatives, the most important facilitating factor was the credibility of the subsidiary in the eyes of the parent company, which was obtained through a higher degree of specialized, proven resources, and a higher degree of HQ subsidiarity communication with headquarters (Birkinshaw 1997). This is because subsidiary senior management would need to sell the initiative to HQ, and alternatives would often emerge and be considered by HQ who would ultimately need to give approval for resources to be made available (Birkinshaw 1997; Birkinshaw & Fry 1998).

While most of Birkinshaw’s work has focused on subsidiary driven initiative, a study by Birkinshaw and Hood (1998) considered parent driven strategic change in subsidiaries. Specifically, they suggested that parents can either make investments into subsidiaries that result in a charter upgrade or, alternatively, divest subsidiary resources which reduce their role and responsibilities. According to Birkinshaw and Hood, strong subsidiary track record with HQ facilitated parent driven investment, while reducing the likelihood of parent-driven divestment. Both parent driven investment and divestment often involved lengthy negotiation periods, with divestment often triggered by a decision to exit certain businesses or cut costs. Birkinshaw also suggested that the dynamism of the local business environment and host government incentives would increase the likelihood of parent driven investment and reduce the likelihood of parent driven divestment.
A paper by Birkinshaw and Hood (2001) provided some practical suggestions for MNE headquarters to encourage subsidiary initiative along with identifying factors that stifle it. Suggestions to facilitate initiative included giving seed money to subsidiaries, using formal requests for proposals, encouraging subsidiaries to be incubators and building international innovation networks. Birkinshaw and Hood also suggested that subsidiary initiative can be impeded in a number of ways, such as the rejection, delay or request for further information from parent executives, the emergence of rival initiatives by competing divisions, or a lack of recognition of initiatives by other subsidiaries. It is argued that these resistance actions are a function of underlying dispositions of corporate managers such as ethnocentrism, suspicion of the unknown and general resistance to change.

3.4.3 Other Studies on Subsidiary Initiative

A number of other academics have found empirical support for the existence of subsidiary initiative and its relationship with subsidiary role changes (Balogun, Jarzabkowski & Varra 2011; Ciabuschi & Oscar 2012; Delaney 2000; Dimitratos et al. 2009; Dorrenbacher & Geppert 2010; Sargeant & Mathews 2006; Sohail & Ayadurai 2004). Some of these studies have also focused on extending the theoretical work of Birkinshaw and colleagues on subsidiary level initiative. The remainder of this section summarizes their work.

A study by Delaney (2000) identified eight stages of subsidiary evolution beginning with the basic fulfillment of its original mandate to extend this mandate through subsidiary initiative. Delaney (2008) described the ‘highest’ level of evolution as being where the subsidiary becomes a strategic apex and effectively quasi head office of the organization.

An interesting theoretical paper by Rugman and Verbeke (2001) coined the term ‘subsidiary specific advantage’, which they conceptualized as a competency developed at subsidiary level that can be exploited globally by the subsidiary, but where the bundle of knowledge associated with the competency could not be effectively transferred internally and adopted by other subsidiaries. This concept shares some similarities to
Birkinshaw’s subsidiary initiative concept. The global relevance of the new competency may, therefore, result in an expansion in the role and international responsibilities of the subsidiary. The authors argue that the development of subsidiary specific advantage requires a number of facilitating circumstances. First, the relevant subsidiary competencies and capabilities must incorporate knowledge that is tacit, locally embedded and path dependent on the subsidiary’s earlier technological and organizational trajectories. They must also be dispersed across several individuals within the subsidiary, thus making it more difficult to diffuse internally due to mobility barriers. Second, sustainable subsidiary specific advantages must reflect the existence of a capability gap with the other MNE affiliates, analogous to Birkinshaw’s ‘specialized’ resources. Third, subsidiary specific advantage can only be sustained in the long run, and will only be supported by the parent company, when there are no perceived negative externalities on other MNE operations.

Another paper by Verbeke and Yuan (2005) suggested that HQ and subsidiaries may select and interpret information differently, resulting in different perceptions (positive versus negative) associated with a potential subsidiary initiative. Aspects identified in the procedural justice literature (Kim & Mauborgne 1998), such as the quality of bilateral communication, subsidiary management ability to challenge corporate level decisions, the familiarity of corporate level management with local conditions, the transparency of corporate level decision-making and decision-making consistency were important strategies to overcome these problems. The use of socialization could also be used by HQ to create common goals between HQ and subsidiaries, such that HQ could assume that corporate level management would have developed a similar initiative in the subsidiary in the same situation and with the same experiential knowledge.

A more recent article by Verbeke, Chrisman and Yuan (2007) categorized subsidiary initiatives into two types: corporate venture initiatives and strategic renewal initiatives. Strategic renewal initiatives focus on replacing or refurbishing existing product lines, markets, structural relationships and resource configurations, while corporate venturing is about creating new product lines, structures and resources, usually in response to opportunities that fall outside the purview of a company’s base businesses (Verbeke, Chrisman & Yuan 2007). Recognizing that these initiatives are fundamentally different
concepts and are influenced by different internal and external stimuli, Verbeke and colleagues explored how each of the subsidiary initiative antecedents identified by Birkinshaw impacted on strategic renewal and corporate venture initiatives (Verbeke, Chrisman & Yuan 2007).

First, they implied that HQ will perceive it has a high degree of expertise and decision-making entitlement for strategic renewal initiatives that are linked to the subsidiary’s core business and will, therefore, grant a lower level of decision-making autonomy to subsidiaries over these decisions. In contrast, more decision-making autonomy is likely to be granted for a corporate venturing initiative as these decisions usually fall within the psychological responsibility of subsidiary management. Second, Verbeke, Chrisman and Yuan (2007) also suggested that another two of Birkinshaw’s variables, subsidiary credibility with HQ and the extent to which HQ had an ethnocentric attitude towards strategic decisions, will have a greater impact on strategic renewal initiatives as these decisions are related to the MNE’s core business and more likely to be subject to HQ scrutiny. Third, Verbeke and colleagues suggested that communication with the parent company in the form of early advocacy may be most critical to subsidiary renewal efforts because of the previously mentioned sense of entitlement and concern at HQ related to renewal issues. In contrast, they suggested that intensive communication may have a neutral or even a negative impact on subsidiary corporate venturing because the latter type of initiative is more likely to fall entirely outside the scope of the current corporate strategic context and benefit from being insulated from the corporate immune system.

Fourth, Verbeke, Chrisman and Yuan (2007) went on to argue that some subsidiary level and environmental factors identified by Birkinshaw will have different implications for subsidiary renewal initiatives compared with corporate venturing initiatives. Strong subsidiary leadership, they suggested, should be critical to the pursuit of strategic renewal efforts because of the greater magnitude of internal change involved in those initiatives in comparison with corporate venturing initiatives. In addition, an entrepreneurial culture diffused throughout the subsidiary’s employee base may be more important for new corporate venturing initiatives. This, they argued, is because corporate venturing initiatives were more likely to emerge from lower level subsidiary
employees in comparison with strategic renewal issues which are more likely to be championed by senior subsidiary executives. Verbeke, Chrisman and Yuan also argued that increased host country dynamism increases the likelihood that a subsidiary’s existing competitive advantages will become obsolete, thereby also increasing the likelihood that subsidiary strategic renewal initiatives will be needed. Likewise, a higher degree of industry globalization implies the presence of strong international rivals, possibly with specialized and globally integrated affiliates, thereby providing incentives at the subsidiary level for rationalization through subsidiary renewal initiatives (Verbeke, Chrisman & Yuan 2007).

A study by Mahnke, Venzin and Zahra (2007) identified sources of uncertainty associated with recognizing an opportunity for a subsidiary entrepreneurial action. Firstly, they suggested that there may be communicative uncertainty relating to which HQ and/or subsidiary executives are the most appropriate audience to consider and evaluate a potential initiative, how to approach the appropriate audience, and what types of information should be shared with the appropriate audience. Secondly, there may be behavioral uncertainty, which arises when the actions of entrepreneurs do not fully reveal their true intent. And, thirdly, value uncertainty may arise from ambiguities associated with the review and assessment process for an initiative, a lack of clarity about its value and fears of misappropriation of the rents associated with the initiative. The authors went on to suggest some strategies that may help alleviate these issues including the delegation of authority associated with subsidiary entrepreneurial initiatives to local experts that possess the appropriate knowledge, along with offering financial and other incentives that encourage subsidiary managers to develop and identify appropriate entrepreneurial initiatives.

A paper by Dorrenbacher and Geppert (2010) found case study evidence to support their proposition that the type of subsidiary initiative-taking is strongly driven by the socio-political positioning of subsidiary CEOs. They found that initiatives undertaken by some subsidiary CEOs to develop subsidiary scope and responsibility were motivated by career aspirations focused within the subsidiary, while others were focused on furthering a CEOs career outside the subsidiary. Another aspect of socio-political positioning identified by Dorrenbacher and Geppert was professional orientation, citing
an example where a CEO from an engineering background focused on the implementation of a state of the art manufacturing capability, an initiative that related directly to his professional capability and background.

Finally, a study by Dorrenbacher and Gammelgaard (2010) provided an interesting insight into the dynamics of a charter removal. This is effectively the reverse scenario to the literature on subsidiary initiative which focuses on an upgrade in subsidiary charter. Drawing on a single case study of a Hungarian subsidiary of a Siemens telecommunication switching division, they found that a subsidiary can lose its charter if it lacks ‘specialized resources’, which tended to occur when the subsidiary operated in a host country that was less developed in terms of technology and market sophistication and when the subsidiary held a position on the periphery of the MNEs network.

In summary, the literature on subsidiary initiative has provided insights into subsidiary level entrepreneurial behavior, suggesting that such behavior can lead to increased responsibilities within the MNE. Several types of initiative have been identified including local, global, internal and hybrid market initiatives. Some initiatives are focused on strategic renewal while others are attempts to venture into new markets. This literature has also identified a range of facilitating factors for subsidiary level initiative including HQ, subsidiary and host country contextual circumstances.

3.4.4 Embeddedness and Subsidiary Innovation

A related stream of literature on subsidiary change has focused on subsidiary level innovation. While there is cross-over between the literature on subsidiary innovation and initiative, the literature on innovation has often explored changes that do not necessarily require an entrepreneurial intent. Some studies, for example, refer to innovations from R&D subsidiaries with the specific charter to ‘innovate’ (Poon & Macpherson 2005).

A key theme in subsidiary innovation has been exploring the extent to which an MNE subsidiary’s degree of embeddedness in its internal and external environment increases its innovation. The subsidiary’s external environment includes its relationships with customers and suppliers and direct competitive behavior with other firms. These may be located in the host country, but may also be domiciled overseas (Anderson &
Becoming embedded in the host country environment has been identified as an important facilitator of innovation because it provides an opportunity to acquire new knowledge from customers, suppliers, or other contacts the firm may have in this environment. The literature has, however, also argued that the ‘quality’ of the host country environment in which the subsidiary becomes embedded is also important. (Asmussen, Pederson & Dhanarag 2009; Birkinshaw & Hood 2000; Cantwell & Mudambi 2005; Frost 2001). By way of example, a firm located in a dynamic environment that demands state of the art production processes would be exposed to better opportunities to engage in more productive innovations when embedded in that environment in comparison with developing countries where customers/suppliers may be using older technology.

3.5 Important Emerging Literature on MNE Strategy

3.5.1 Upper Echelons Theory (UET) and MNE Strategic Decision-Making

An emerging body of literature has extended the upper echelons theory (UET) to an MNE context (Hambrick & Mason 1984). The UET has suggested that demographic heterogeneity among the top management team (TMT) can be a proxy for cognitive variety within the team. Demographic variables commonly cited include functional background, age, tenure, and education level (Bantel & Jackson 1989). This literature has argued that a demographically heterogeneous top management team (TMT) possesses diverse and complimentary skill sets, and this cognitive variety will result in more and better strategic change initiatives (Priem, Rasheed & Kotulic 1999). Substantial support for the upper echelons perspective has been found in the broader

A small group of IB studies have focused on the relationship between MNE HQ top management team (TMT) demographic characteristics and the MNE’s degree and type of international involvement (Hermann & Datta 2005; Jaw & Lin 2009; Nielsen 2010; Sambharya 1996). Most of this literature has implied that the international experience among TMT executives is positively related to the degree of international involvement. The UET has not, however, been sufficiently explored in a subsidiary strategy context, particularly in relation to MNE decision-making associated with foreign subsidiary strategic change.

3.5.2 Subsidiary Strategic Decision-Making and Procedural Justice

The historical antecedents of the procedural justice perspective can be traced to the work of Thibaut and Walker (1975). In a seminal work on dispute resolution processes in a legal setting, Thibaut and Walker recognized that the dynamics of the process by which decisions are reached, exert a powerful influence on human cognition and behaviour. The central contention of their work was that people care a great deal about the procedures by which decisions are arrived at and will react strongly to the presence or absence of fairness in these processes (Kim & Mauborgne 1998; Thibaut & Walker 1975).

Procedural justice has since been conceptualized as the extent to which the dynamics of the decision process are judged to be fair (Kim & Mauborgne 1998). Following Thibaut and Walker’s work, follow-up studies provided unambiguous evidence of the importance individuals attach to issues of procedural justice in legal settings (Kim & Mauborgne 1998). The scope of procedural justice was extended to an intra-organizational setting in the 1980s (Folger & Konovsky 1989; Greenberg 1987; Sheppard & Lewicki 1987). Both Greenberg (1987) and Folger and Konovsky (1989), for example, applied the concept of procedural justice to the procedures used in performance evaluations for promotions and pay raise decisions. Sheppard and Lewicki (1987) assessed executives’ perceptions of procedural fairness in seven distinct role
aspects of managerial activity. Procedural justice has also been extended to personnel procedures (Folger & Greenberg 1985), organizational grievance systems (Fryxell & Gordon 1989), lay-off processes (Brockner et al. 1987), and drug testing in the workplace (Konovsky & Copanzano 1991).

While the specific criteria leading to judgments of procedural justice have been found to vary across different contexts, three general criteria have been found to apply to business settings, comprising engagement, explanation and clarity of expectations (Kim & Mauborgne 1998). Engagement means involving individuals in decisions that affect them by inviting their input and allowing them to refute the merits of the input of others. Explanation refers to everyone involved and affected understanding of why final decisions are made as they are and why some individual’s input may have been overridden in final decisions. Lastly, clarity of expectations requires that before during and after decisions are made, managers have a firm understanding of what is expected of them and what the new rules of the game are (Kim & Mauborgne 1998).

One of the most significant findings of procedural justice research is the positive effect perceptions of procedural justice exert on individuals’ higher order attitudes of trust and commitment to strategic decisions (Kim & Mauborgne 1998; Korsgaard, Schweiger & Sapienza 1995). In fact, it is suggested that perceptions of procedural justice enhance outcome satisfaction, even when individuals received unfavourable decisions (Kim & Mauborgne 1998). Procedural justice perceptions are also argued to exert a positive effect on idea and knowledge sharing among team members of strategic decision-making units (Kim & Mauborgne 1998). The ability to express one’s ideas or bilateral communication, a key element of procedural justice, implies the opportunity to voice one’s perceptions, knowledge and ideas, and the need to hear opposite parties out. This increases the likelihood that a high rate of knowledge and expertise will be diffused and shared (Kim & Mauborgne 1998; Misuko 2012; Potter 2006).

A series of papers by Kim and Mauborgne (1991, 1993, 1995, 1998) applied the procedural justice perspective to an MNE setting, finding that procedural justice positively impacted on subsidiary top managers’ commitment to support strategic decisions made by HQ even in situations where those decisions are viewed as not favourable to their subsidiary unit or are at odds with their perceptions of the strategically appropriate decision for their unit. A study by Lin and Hsieh (2010) also
provided additional support for the tenets of procedural justice in a HQ-subsidiary decision-making context. Despite the promise this perspective offers to understanding decision-making processes in MNEs and their subsidiaries, there has been insufficient additional attention devoted the topic in recent research, particularly in relation to subsidiary change decisions.

3.6 Summary of the IB Literature

This chapter has assessed the international business (IB) literature related to MNE strategy, identifying the significant insights into why MNEs make various types of strategic decisions, how HQ manages its relationship with subsidiaries and the various roles subsidiaries perform for their parent. Importantly, there is substantial evidence that MNEs do engage in significant strategic change, particularly subsidiary driven change. Some limited evidence reveals that TMT characteristics impact on MNE strategic choices and the only significant IB literature stream exploring MNE decision processes has found that procedural justice positively impacted on subsidiary top managers’ commitment to support strategic decisions.

3.7 Gap in the Literature

Drawing on the critical analysis of the literatures presented in Chapters 2 and 3, this section describes the gap in the international business literature that this study addresses. That gap can best be described as follows: Despite the strategic focus and overwhelming evidence that MNEs do embark on various different types of strategic change, particularly within their subsidiaries, we still have very little understanding of how MNEs make these decisions.

This gap is particularly surprising given the topic of strategic decision-making processes (i.e. how firms make decisions) in the broader strategic management literature is not a new one. In fact, as outlined in Chapter 2, we have a conceptual understanding of various aspects of strategic decision-making processes. First, we know that the development of routine strategic change decision-making processes is crucial to sustaining or improving a competitive position (Helfat et al. 2007). Second, strategic change decision-making usually incorporates three important phases: recognition of a
problem/opportunity; development of potential strategic solutions; and strategy selection (Burgelman & Grove 2007; Eisenhardt & Zbaracki 1992). Third, the strategic management literature has identified that decision-making often incorporates environmental scanning processes to acquire information relevant to identifying a need/opportunity for strategic change (Fleisher & Wright 2009; Thomas, Clark & Gioia 1993). Fourth, decision-making incorporates cognitive sensemaking processes that enable firms to share and integrate individual, group and firm level knowledge to interpret information relevant to a strategic change decision (Narayanan, Zane & Kemmerer 2011; Weick 1995). Fifth, we know that this knowledge is derived from previous experiences and learning (Narayanan, Zane & Kemmerer 2011).

These are all important insights from the strategic management literature that this study will apply to an MNE strategic change decision-making process. MNE strategic change decision-making involves additional complexities that have not been considered in the strategic management decision process literature. Most of these complexities relate to the multiple institutional contexts that MNEs face, along with rapid institutional change, particularly in emerging countries such as China (Kostovo et al. 2008; Luo 2010).

MNEs face substantial institutional complexities when determining how they apply relevant experiential knowledge to a strategic decision. Can, for example, an MNE’s strategic change experiences in its home country be applied directly to a China subsidiary? Or, does it need to be adapted as part of the strategic decision-making process? If so, how is this done?

Second, the strategic management literature has identified the important role top management teams have in driving strategic decision-making (Hambrick 2007). Of course, in an MNE context, there are often at least two top management teams, one at HQ and one in the subsidiary, each of which may originate and develop strategic change ideas. These HQ and subsidiary executives often come from different institutional backgrounds and, therefore, have very different knowledge to share and integrate during a decision-making process (Becker-Ritterspach 2006). The literature on MNE knowledge management has provided extensive evidence that HQ-subsidiary knowledge sharing is complex and difficult (Gupta & Govindarajan 2000). However, we still have a poor understanding of the decision-making sub-processes that facilitate
knowledge sharing and integration among and between HQ and subsidiary executives, and the factors that impede these processes.

From the international business literature presented, we do know, however, that various factors may contribute to when a HQ executive team may impose more or less control over a strategic decision (Bartlett & Ghoshal 1986; Birkinshaw & Morrison 1995; Doz & Pralahad 1984; Gates & Egelhoff 1986). We do not know when (i.e. at what stage of the decision-making process) and how HQ and subsidiaries share control for strategic changes originating from different parts of the MNE.

Third, the strategic management literature has emphasized the importance and nature of environmental scanning mechanisms used by firms to identify a need/opportunity for strategic change (Daft & Weick 1984; Fleisher & Wright 2009). However, despite a few early studies on MNE scanning described above, the international business literature has paid limited attention to how MNEs scan their global environment. We have a particularly poor understanding of how they engage in scanning to identify a need for strategic change in a subsidiary located in an emerging economy such as China. Who scans, headquarters and/or subsidiaries, and how do they scan? As noted in Chapter 2, there is some evidence that Chinese domestic firms utilize different information sources and scanning strategies to firms in Western countries. A question is, then, when (if at all) do HQ and subsidiary executives adapt to the China environment by utilizing the same information sources as domestic firms or when do they continue to adopt home country practices? We also have a poor understanding of the organizational forums used by MNEs to interpret the information gleaned from these scanning efforts.

Fourth, despite recognition in the strategic management literature that firms need to develop dynamic capabilities, such as strategic change decision-making routines, to maintain or improve their competitive position (Helfat et al. 2007), we have a very poor understanding of whether and if so how subsidiaries, particularly subsidiaries in a developing country context, do this.

Finally, given the recognition in the international business literature that host governments can play a substantial role in MNE strategy (Brouthers et al. 1998; Luo
2010), there is a need to explore the role host country governments play in subsidiary strategic change decision-making processes.

The following chapter presents a conceptual framework that will guide the study.
CHAPTER 4

CONCEPTUAL FRAMEWORK FOR ANALYZING MNE STRATEGIC CHANGE DECISION-MAKING PROCESSES

4.1 Introduction

This chapter makes a theoretical contribution by drawing on and integrating various strategic management and international business (IB) theories in a unique and novel way to develop a conceptual framework that frames and guides this study’s exploration of how MNEs make decisions about foreign subsidiary strategic change. The conceptual framework responds to a call in the international business literature to apply various relevant theoretical lenses to unexplored phenomenon in international business contexts (Doz 2011). The context of how strategic change decisions are made in MNEs (ie. decision-making processes) is one such poorly understood phenomenon. The conceptual framework incorporates a primary research question along with a series of secondary research questions that address this gap in the literature.

The primary research question of this study can therefore be expressed as follows:

‘How do MNEs make decisions about strategic change for their China subsidiaries?’

Integrating across a range of theories used in multinational enterprise strategy, Chapter 3 (Section 3.7) identified a number of research questions related to this overall gap, including:

- How do individual executives and groups, whether at headquarters (HQ) or the China-based subsidiary, scan their external and internal environments to identify a need or opportunity for strategic change?
- What types of individual and collective firm experiences influence the interpretation of scanned information and shape strategic change ideas?
- What routines and/or ad hoc processes are implemented to share and integrate subsidiary and HQ knowledge during the decision-making process?
- What factors impede HQ-subsidiary knowledge sharing and integration?
- What China specific institutional factors are relevant to the decision-making process?
These questions spark the need to understand both of the characteristics and drivers of the decision-making processes associated with making foreign subsidiary strategic change initiatives. These decision processes may occur within HQ and/or subsidiaries. Subsidiary executives’ perceptions of the effectiveness of these strategic change decision processes relate to their ‘fairness’, ‘efficiency’ and/or outcomes.

This thesis makes a theoretical contribution by integrating the inter-connected literature on boundedly rational decision-making processes, the dynamic capabilities literature and the knowledge based view (KBV) of the firm to conceptualize the key phases, underlying processes and function of strategic decision-making processes that can be applied to an MNE subsidiary strategic change context. This section also draws on institutional theory, acknowledging that the decision-making process will be shaped by the MNE’s institutional context.

The development of a new theoretical framework also relies in Section 4.3 draws on the cognition, organizational learning, MNE knowledge management, HQ-subsidiary relationship literature, and institutional theory to develop a series of secondary research questions that explore what knowledge is contributed to the decision-making process, along with how knowledge is extracted, created, shared and integrated during the decision-making process. It also identifies China institutional factors that may impact on how these decisions are made. As part of a unique conceptual framework, this section also employs upper echelons theory (UET), procedural justice and organizational politics to develop a research question that links these strategic change decision-making processes to subsidiary executive perceptions of their effectiveness. Section 4.4 presents a summary of the framework, making explicit its theoretical contribution of integrating diverse and unconnected strategic management and international business theories to develop a new lens for analysing subsidiary-HQ decision-making.

4.2 The Phases, Underlying Processes and Function of Strategic Change Decision-making

4.2.1 Introduction

Strategic decisions are conceptualized as incorporating three phases comprising the idea generation process, review and development process, and formal sign-off process.
Within these phases are a series of *ad hoc* and/or routine individual and group processes that selectively acquire, utilize, integrate and create knowledge to make decisions about subsidiary resource changes to improve the subsidiary and/or its parent’s competitive position. Then, drawing on institutional theory, it is acknowledged that, in an MNE context, these decision-making processes are also shaped by the institutional environments in which the MNE parent and its subsidiaries operate.

4.2.2 Decision-Making Process Phases

As outlined in Chapter 2, empirical research on boundedly rational decision-making has suggested that many decisions follow the basic phases of problem identification, solution development and problem-solving strategy selection (Eisenhardt & Zbaracki 1992). Burgelman’s strategic change model described a process where a potential opportunity is identified and a strategy is subsequently developed, championed and reviewed, culminating in a final decision to proceed/not proceed (Burgelman 1991).

For this study, the decision-making process for subsidiary strategic change decisions is conceptualized as incorporating three phases that are derived from these literatures. The processes associated with identifying a problem or opportunity for a strategic change initiative and the development of an initial strategic change idea (potential solution) are summarized as the ‘Idea Generation Process’. This component would incorporate individual and group level processes within the MNE and its subsidiaries that culminate in recognizing a need or opportunity exists to make a subsidiary strategic change. Environmental scanning activities will be of particular interest.

The second component is ‘The Review and Development Process’, which incorporates all the activities associated with championing, assessing, reviewing, critiquing, and developing alternatives for or making changes to an initial strategic change idea. Finally, there is a ‘Formal Sign-Off’ process associated with making a formal decision or sign-off to proceed/not proceed with a strategic change initiative.

4.2.3 Strategic Change Decision-Making: A Process About Resource Change

The dynamic capabilities literature provides a context for understanding why firms make strategic change decisions. The definition of strategic change presented in Chapter 1 implied that these decisions culminate in *changes* to the nature, configuration
and/or deployment of firm resources. The focus of the dynamic capabilities literature is on how firms make changes to their resource base to maintain or improve their competitive position (Easterby-Smith & Prieto 2008; Helfat et al. 2007; Teece 2007; Zheng et al. 2011). A foreign subsidiary strategic change initiative can be understood in the context of this literature as a strategic decision about resource changes to improve or sustain a subsidiary or its parent’s competitive position.

The dynamic capabilities literature suggests that changes to the firm’s resource base may refer to their nature, composition and configuration (Ambrosini, Bowman & Collier 2009). Existing resources may be discarded or new resources acquired. Resources can be transformed or recombined to create new capabilities, or be deployed into new domains (Ambrosini, Bowman & Collier 2009). While some dynamic capability proponents emphasize changes that match internal resources with changes in the firm’s changing external environment (Pavlou, Savy & Omar 2011; Teece 2007; Teece, Pisano & Shuen 1997), not all reconfigurations are in response to external environment changes (Easterby-Smith & Prieto 2008). Whether they are a response to changes in the firm’s external environment or not, strategic decisions about resource changes must pay attention to matching the firm’s internal resources to its external environment (Helfat et al. 2007).

The dynamic capabilities literature also provides some insight into the types of underlying sub-processes associated with resource change decisions, the nature of which can be explored in this study in an MNE context. The dynamic capabilities literature acknowledges that resource change processes can incorporate either ad hoc problem solving and/or routine-based (Teece 2007; Winter 2003). They can be individual or group (organizational) level activities. The dynamic capabilities literature focuses primarily on routine processes associated with strategy formulation and implementation that culminate in a change to the firm’s resource base. At the group (organizational) level, Helfat et al. (2007, p.2) defined dynamic capabilities as ‘the capacity of an organization to purposefully create, extend, or modify its resource base’. Importantly, they are routinized group processes, standing in contrast to ad hoc processes (Eisenhardt & Martin 2000; Newey, Verreynne & Griffiths 2012; Teece 2007; Winter 2003; Zollo & Winter 2002). Routines, in turn, can be conceptualized as an executable capability for repeated performance in some context that has been learned in
response to selective pressures (Cohen et al. 1996, p.683). Dynamic capabilities are, therefore, organizational routines at the collective group level that somehow embody prior learning and are somehow selected to make changes to a firm’s resource base. These dynamic capabilities incorporate learning, experiences, resources and other routines as inputs (Zollo & Winter 2002). Importantly, they need not necessarily be effective: they may in fact be disruptive (Ambrosini, Bowman & Collier 2009).

Aside from dynamic capabilities which are group level processes, there is a recognition within the dynamic capabilities literature that individual executives engage in their own individual level processes to develop and implement resource changing decisions (Helfat et al. 2007). In the framework presented in this study, these processes could be used in tandem with, or in place of, group level processes. When these individual processes are routine, they are referred to as ‘Dynamic Managerial Capabilities’ (Helfat et al. 2007). In an MNE decision-making context related to subsidiary strategic change, these individual or group processes may reside at MNE HQ or within the subsidiary. In short, insight from the dynamic capabilities literature indicates that foreign subsidiary strategic change decisions can incorporate ad hoc or routine-based individual and group (organizational) processes (at subsidiary and/or HQ) that focus on making changes to the nature and/or configuration of subsidiary resources to improve or sustain the subsidiary and/or its parent’s competitive position. These processes, particularly routine ones, incorporate learning, experiences and resources as inputs.

4.2.4 Strategic Change Decision-Making: A Process to Acquire and Integrate Knowledge

Supplementing the dynamic capabilities literature, the KBV provides further insights into the knowledge bases of the strategic change decision-making process. Specifically, the KBV provides a basis for conceptualising the function of the decision-making process as a mechanism for acquiring, sharing and combining individual and collective knowledge residing in MNE HQ and subsidiaries to make subsidiary strategic change decisions.

In developing the KBV, Kogut and Zander (1992) argued that what firms do better than markets is the integration of knowledge. Knowledge consists of information (who knows what) and know-how (e.g. how to implement a restructuring initiative) (Kogut &
Zander 1992). Proponents of the KBV argue that firms exist because they are a more efficient mechanism to integrate tacit knowledge than the market (Conner & Prahalad 1996). Within a firm, different knowledge can reside at individual and group levels. Individual executives have their own knowledge base. Group level (collective) knowledge can also be developed. Intra-firm groups such as a top management team, for example, can develop team specific knowledge based on shared cognitive frames (Narayanan, Zane & Kemmerer 2011). At its highest level, group level knowledge can incorporate firm knowledge that spans across an entire firm. The literature on firm-level cognition suggests that firms accumulate knowledge from past and present organizational members, along with firm-level experiences that are subsequently stored in the firm’s organizational memory (Crossan, Lane & White 1999; Johnston & Paladino 2007; Narayanan, Zane & Kemmerer 2011; Sabharwal & Becarra-Fernandez 2003). In an MNE context, individual and collective knowledge can exist within and between HQ and subsidiaries.

According to the KBV, firms, including MNEs, achieve more effective knowledge integration than the market by utilizing various organizational processes/routines such as operating rules, standard operating procedures, and strategic decision-making processes (Donate, Canales & Ignacio 2012; Kogut & Zander 1992, Kogut & Zander 1993).

Based on this KBV perspective, along with the recognition developed in Section 4.2.3 that strategic change is about resource change, the function of MNE decision-making processes for foreign subsidiary strategic change can therefore be conceptualized as:

‘A mechanism to share, create and integrate individual and group (and firm) level knowledge residing in subsidiaries and at MNE HQ to make appropriate choices about subsidiary resource changes’.

While various types of knowledge can potentially contribute to strategic decision-making, this study focuses on knowledge that is ‘overtly’ articulated during the decision-making process. In other words, knowledge that is sub-consciously drawn on or knowledge that is not formally tabled during the decision-making process is beyond
the scope of this study. As outlined in Section 3.8, two broad knowledge types will be
given particular emphasis in this study. Firstly, information extracted from the MNE
and subsidiary’s external and internal environment that is drawn on to identify a need or
opportunity for a strategic change initiative will be explored in depth. Second, a
particular emphasis is given to understanding how previous experiences are
incorporated in the decision-making process. These experiences could have been
incurred by individual executives or may have been previous MNE or subsidiary
experiences that reside in the firm’s organizational memory. The interest in
‘experiences’ was derived from the cognition literature that emphasizes previous
experiences as a major determinant of how individuals and firms make strategic
decisions (Bergh & Lim 2008; Walsh 1995; Weick 1995).

4.2.5 MNE Decision-Making and Institutional Factors

Institutional theorists suggest that strategic decision-making may be constrained by
pressures to conform to accepted norms within the firm’s institutional environment
(Puck, Holtbridge & Mohr 2009). The institutional context embodies ‘rules of the
game’, which constrains, controls and enables economic activity (Newman 2000; North
1990). Institutional theory has predicted that organizations comply with norms, rules
and procedures in their environment to overcome uncertainty, gain legitimacy and
access resources (Di Maggio & Powell 1983). Scott (1995) identified three institutional
pillars: regulative, normative and cognitive. The regulative aspects are normally in the
form of rules and legal sanctions that guide the behaviour of individuals and/or
organizations. The normative aspects of institutions are related to the taken-for-granted
occupational standards, educational curricula and professional procedures that set moral,
professional and ethical obligations. The cognitive aspects of institutions are related to
values, norms, cultural rules, symbols and cognitive frameworks that shape the reality
and nature of meaning systems.

In the context of foreign subsidiary strategic change in China, institutional factors may
shape the decision-making process in various ways, raging from cultural factors to
regulatory/government constraints. Indeed, there are a large number of studies that have
explored the impact of institutional factors impacting on MNE strategy in China,
although the focus of these studies has not been on the decision-making process (Ambler, Styles & Wang 1999; Bjorkman & Osland 1998; Buckley, Clegg & Tan 2006; Fryxell, Butler & Choi 2004; Hartman, Fiesel & Schober 2010; Liu & Park 1999; Selmer 2002; Si & Hitt 2004; Su et al. 2009).

4.2.6 Summary

In summary, this section has conceptualized the MNE strategic change decision-making process as comprising three key components:

(1) Idea generation process
(2) Review and development process
(3) Formal sign-off

Second, these decision-making processes are about making changes to the subsidiary’s resource base to sustain or improve its or the MNE’s overall competitive position. Third, the decision-making process may incorporate ad hoc or routine individual and group processes. Fourth, this thesis argues that the function of the decision-making process is to integrate and create individual and collective knowledge residing at subsidiaries and MNE HQ. Finally, the decision-making process may be shaped by the institutional context in which the subsidiary operates.

The remaining sections of this chapter build on the recognition that the function of the decision-making process is to create and integrate individual and group level knowledge within the constraints of institutional contexts, generating a series of secondary research questions that explore how knowledge is acquired, integrated and utilized during the decision-making process.

4.3 Secondary Research Questions

4.3.1 Introduction

This section further integrates the literature on manager cognition, MNE knowledge management, HQ-subsidiary relationships, institutional theory, the UET perspective,
and the procedural justice literature to develop a series of secondary research questions. Drawing on the individual manager cognition literature, Section 4.3.2 generates two secondary research questions associated with the nature of knowledge extracted by and derived from individual MNE and subsidiary executives own information search, and previous personal experiences during the decision-making process. Section 4.3.3 also draws on the literature on group cognition and organizational knowledge to generate two research questions exploring the nature of firm level cognition residing in subsidiaries and HQ that is utilized in the MNE decision-making process for subsidiary strategic change. Section 4.3.4 draws on the HQ-subsidiary relationships and the organizational learning literature to frame research questions around how MNE HQ and their subsidiaries utilize and integrate intra-firm individual and group knowledge during the decision-making process along with the factors that impede these knowledge flows. Section 4.3.5 generates a research question that explores the impact of China institutional factors on these decision-making processes.

### 4.3.2 Individual Executives and Subsidiary Strategic Change Decisions

The literature on manager cognition has argued that an individual’s input into a strategic decision will be a function of their cognitive structure, which consists of organized knowledge developed over time by experience and learning (Narayanan, Zane & Kemmerer 2011; Taylor & Brice 2012; Tripsas & Gavetti 2000; Walsh 1995). It was also acknowledged that these interactions and experiences are context-specific and, not surprisingly, show a strong influence of a mixture of factors such as an individual’s national culture, institutions and the business environment (Budhwar & Sparrow 2002).

In terms of the relationship between cognition and strategic decision-making, cognition impacts on how decision makers notice and interpret environmental information used to identify a need/opportunity for strategic change and develop a strategic change idea, the process known as ‘sensemaking’ (Weick 1995).

‘Noticing’ may occur as a result of deliberate efforts made to scan the internal and external environment (Daft & Weick 1984). Researchers have conceptualized scanning as purposely searching the firm’s external and internal environment to collect data and
identify important events or issues that might impact the organization (Daft & Weick 1984; Garg, Walters & Priem 2003; Thomas, Clark & Gioia 1993). The cognition literature has suggested that while some scanning processes are knowledge frame–driven, others lead to new knowledge frames, implying learning (Narayanan, Zane & Kemmerer 2011; Thomas, Clark & Gioia 1993; Tripsas & Gavetti 2000). Research on scanning mechanisms has pointed out that senior executives use different information sources (Daft, Sormunen & Parks 1988). There is also evidence in the literature that institutional factors impact on which information sources individuals draw when engaging in scanning (Elenkov 1997). Existing studies exploring environmental scanning in Asia and China have recognized a preference for informal rather than formal information sources due to cultural and institutional factors, while Western executives prefer formal, written information sources (Adidam, Gajre & Kejriwal 2009; Fleisher & Wright 2009; Lassare 1993; Zhang 2008).

Given the diverse backgrounds and experiences of subsidiary and HQ executives, along with host and home country institutional differences, an important question is how do HQ and subsidiary executives engage in individual efforts (not directed by group/organizational routines/processes) to extract information for their environment that is used to identify a need/opportunity for strategic change in their China subsidiary.

The following secondary research question is proposed:

**Secondary Research Question 1(a):** How do individual MNE and subsidiary executives engage in individual efforts (not directed by group/organizational level processes) to extract information from their internal and external environments to identify a need for subsidiary strategic change?

Of course, information search processes may be firm-driven, rather than individual initiatives, which are described in Section 4.3.3 below.

Individual executives also engage in processes to interpret information relevant to a strategic decision (Narayanan, Zane & Kemmerer 2011). Proponents of the cognition perspective argue that individuals draw on their cognitive structures to interpret this information. In a strategic change decision context, individual executives, therefore, identify a need/opportunity for strategic change (e.g. by interpreting information
gleaned from their own scanning), develop strategic change solutions or provide a perspective on a solution that has been proposed by another individual or group within the organization by drawing on their existing knowledge derived from their own experiences and learning (Dutton & Jackson 1987; Weick 1995). There is certainly evidence in the literature that executives draw on past strategic change experiences when making a strategic choice related to a new problem (Bergh & Lim 2008).

This interpretation process often involves categorization. Mental categories are used to organize knowledge schemas (Daft & Weick 1984, Dutton & Jackson 1987). In the context of strategy, three categories are consistently referred to in the literature: problems, threats and opportunities (Dutton & Jackson 1987; Sharma 2000). After categorizing new information, a solution can be generated based on prevailing knowledge associated with the category (Dutton & Jackson 1987). For example, based on his/her experience, one manager at HQ may categorize the global financial crisis as a ‘cost’ problem that requires a downsizing initiative, while another manager in a subsidiary could categorize it as an opportunity to acquire competitors.

Sometimes, the schemas of individuals may include a variety of heuristics (‘rules of thumb’) (Hodgkinson et al. 1999; Maitland & Sammartino 2011). Importantly, these heuristics may introduce a cognitive bias that can distort their view of reality (Hodgkinson et al. 1999; Sutcliffe 1994). One example of a restructuring heuristic could be ‘downsizing impacts positively on long-term firm performance’. This heuristic, based on an individual’s previous experience, enables a fast decision to be made each time a decision to downsize is proposed. Importantly, the above discussion implies that individual managers from different functional and institutional backgrounds are likely to have different knowledge bases and views about strategic change based on divergent experiences (Budhwar & Sparrow 2002; Hambrick & Mason 1984).

As noted in Section 4.2 above, this thesis explores the knowledge, and, in particular, the different experiences overtly tabled by individual MNE and subsidiary executives during the decision-making process. As a result, the following secondary research question is proposed:

**Secondary Research Question 1(b):** What different types of individual manager knowledge, particularly knowledge related to previous strategy or strategic change
experiences, are contributed to MNE decision-making processes about foreign subsidiary strategic change?

4.3.3 Group (and Firm) Level Knowledge and Subsidiary Strategic Change Decisions

This section of the conceptual framework frames research questions around how collective knowledge residing within subsidiaries and/or MNE HQ impacts on subsidiary strategic change.

As noted in Section 4.2.4 above, in the context of an MNE, different individual and group knowledge can reside in individual subsidiaries and at parent HQ. This knowledge could, for example, relate to strategic change experiences or previous successful strategies at one subsidiary where the knowledge developed from that experience was not shared with HQ. Alternatively, HQ may have accrued knowledge from a restructuring experience that it has not shared with subsidiaries. Another possible scenario is where a particular experience occurring in one part of the MNE has been shared, and now resides, with both subsidiaries and MNE HQ. Along similar lines to individual level cognition described in Section 4.3.2, prevailing firm level knowledge may incorporate biases that constrain the range of strategic choices (Ocasio 1997). Also along similar lines to individual level cognition, MNE HQ and subsidiaries from different institutional environments are likely to have accrued different strategy and/or strategic change experiences and, therefore, have different elements to their knowledge base. Therefore, the following research question is proposed:

Secondary Research Question 2(a): What group (and firm) level knowledge, particularly knowledge related to previous strategy or strategic change experience within subsidiaries and the MNE parent, are drawn on in MNE decision-making processes about foreign subsidiary strategic change?

In terms of ‘noticing’ new information to identify a need/opportunity for a foreign subsidiary strategic change initiative, subsidiaries and their parents frequently have group/firm level scanning routines. These scanning routines reflect the collective knowledge of a firm or sub-group within the firm about which new information should be targeted and deemed relevant when identifying a need or opportunity for strategic change. Since organizational level scanning efforts are driven by collective knowledge,
they must be considered specifically from individual level scanning efforts. The following research question is proposed:

**Secondary Research Question 2(b):** What group (and firm) level routine scanning processes are used by MNE HQ and their subsidiaries to identify a need or opportunity for a strategic change initiative?

### 4.3.4 Knowledge Sharing and Strategic Change Decision-Making Processes

While various types of individual and (group) firm level knowledge may be potentially available to a strategic change decision-making process, the extent to which they are incorporated into the process is likely to be a function of the MNE’s control structure, its mechanisms for sharing individual and firm level knowledge to create new knowledge along with the presence of various different knowledge barriers. In terms of MNE control structures, the literature on HQ-subsidiary control relationships (summarized in Chapter 3) has identified several factors which have been linked to subsidiary decision-making autonomy, including subsidiary role (Bartlett & Ghoshal 1986; Birkinshaw & Morrison 1995), pressures for responsiveness versus integration (Martinez & Jarillo 1991), MNE parent nationality (Gates & Egelhoff 1986), subsidiary age (Gates & Egelhoff 1986) and whether the subsidiary was a greenfield operation or acquired by the MNE parent (Harzing 2000).

HQ can also exert its influence (and constrain the influence of a subsidiary) over subsidiary decision-making by granting it less decision-making autonomy. In other words, when subsidiaries have limited direct decision-making autonomy, subsidiary managers’ capacity to provide input in the form of their knowledge into the strategic change decision-making process may be severely constrained. Indeed, there is substantial evidence in the HQ-subsidiary literature that subsidiary managers often struggle to deal with the so called ‘corporate immune system’ when trying to implement new subsidiary strategy (Birkinshaw & Ridderstrale 1999).

However, we still have a poor understanding of how this control is exerted over different stages of the decision-making process. The following research question, therefore, explores the factors impacting on the extent of formal HQ control imposed on subsidiaries for each stage of the strategic change decision-making process:
Secondary Question 3(a): What factors impact on the extent to which MNE HQ exerts formal influence over different stages of MNE decision-making processes about foreign subsidiary strategic change?

While formal controls imposed by HQ on subsidiaries can act as a constraint to subsidiary level knowledge input, the literature on organizational learning, MNE knowledge management and manager cognition all imply that MNEs and their subsidiaries can institute mechanisms that facilitate the sharing and combining of different knowledge, to create new knowledge that improves strategic outcomes (Daft & Weick 1984; Evans & Baker 2012; Kim, Mousavvi & Evans 1993; Kim, Newby-Bennett & Song 2012; Narayanan, Zane & Kemmerer 2011). Knowledge management is conceptualized as the systematic and routine process undertaken by organizations to generate and disseminate information, along with selecting and deploying this knowledge to create unique value that can be used to achieve a competitive advantage (Hult 2003). In this context, knowledge management refers to doing what is needed to get the most out of knowledge resources and organizing and making available important knowledge, wherever and whenever it is needed (Gupta & Govindarajan 2000; Sabherwal & Becerra-Fernandez 2003).

These studies have explored the importance of team collaboration mechanisms, such as regular think-tank sessions and forums, liaison committees and task forces to share and develop ideas (Boone & Hendricks 2009; Buckley & Carter 2004; Camelo-Ordaz, Fernandez-Alles & Hernandez 2005; Cannella, Pettigrew & Hambrick 2001; Gupta & Govindarajan 2000; Hambrick 2007; Huber & Lewis 2010; Knight et al. 1999; Simons, Pelled & Smith 1999). Efficient knowledge sharing is typically characterized by tight coupling between people from different units to stimulate the spread of information and knowledge (Gupta & Govindarajan 2000).

While the focus of the managerial cognition, learning and knowledge management literature, as described above, is not specifically on sharing knowledge during decision-making processes, this research has nevertheless recognized that knowledge sharing requires high quality social interaction and tight integration between individuals, which
can also be applied to a decision-making process. Indeed some of the mechanisms described in the knowledge management literature, such as think tank sessions and forums may be incorporated in a decision-making process.

The following question is proposed to explore how MNEs manage knowledge during decision-making processes associated with subsidiary strategic change decisions:

**Secondary Research Question 3(b):** What forums are utilized by MNEs to share knowledge between HQ and subsidiaries and within subsidiaries and HQ during MNE decision-making processes about foreign subsidiary strategic change?

The literature on knowledge management and organizational learning also argues that the capacity for knowledge to be effectively shared is a function of a range of potential knowledge barriers. First, Szulanski (1996) suggests that tacit knowledge, such as that embodied in experience, is inherently difficult to share and combine. In the context of subsidiary strategic change decisions, some knowledge, such as an experience with a previous strategic change strategy, could indeed be tacit and more difficult to incorporate in a decision. Second, knowledge without a proven record of past usefulness is also deemed more difficult to transfer (Szulanski 1996). This is an interesting concept in terms of a subsidiary strategic change decision. A particular strategy may, for example, have been useful when used at HQ. However, whether this past usefulness applies to a particular subsidiary in a different context invariably needs to be considered.

Two other commonly cited knowledge barriers are a lack of absorptive capacity and a lack of motivation to learn (Cohen & Levinthal 1990; Gupta & Govindarajan 2000; Lyles & Salk 2007; Martins & Antonio 2010, Sathrapriya et al. 2012; Szulanski 1996; Tseng, Pai and Hung 2011; Zahra & George 2002). Cohen and Levinthal (1990, p.128) defined absorptive capacity as the ‘ability to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends’. Early investigations on absorptive capacity have identified that organizations find it easier to process new information when it relates to knowledge they already possess (Cohen & Levinthal 1990). In a HQ-subsidiary context, various studies have pointed out the importance of a learning intent and a lack of absorptive capacity on the part of subsidiaries to absorb
knowledge from HQ (Gupta & Govindarajan 2000; Mahnke, Pedersen & Venzin 2005; Minbeava, Bjorkman & Park 2003; Wang-Cowan 2008). Importantly, however, HQ learning intent and its absorptive capacity, which would reflect its capacity to absorb subsidiary level knowledge, could also impact on knowledge sharing involving HQ and subsidiaries. Learning intent and absorptive capacity have been given limited attention in the decision-making process literature.

On a related absorptive capacity issue, studies have found that informal control (socialization) mechanisms imposed by HQ over subsidiaries can make knowledge combining and sharing easier. As outlined in Chapter 3, informal MNE controls usually refer to those organizational mechanisms utilized by HQ to build inter-personal familiarity, personal affinity and align HQ-subsidiary knowledge (Nohria & Ghoshal 1994). Knowledge sharing is argued to be easier when HQ and subsidiaries share similar sets of values, beliefs and cognition, implying that they can better absorb new information and knowledge from each other (Bjorkman, Barner-Rasmussen & Li 2004).

The impact of these knowledge sharing barriers on MNE decision-making processes associated with subsidiary strategic change will be explored with the following research question:

**Secondary Research Question 3(c):** What HQ and subsidiary level characteristics and mechanisms impede knowledge sharing efforts incorporated in MNE decision-making processes about foreign subsidiary strategic change?

### 4.3.5 Institutional Factors and Subsidiary Strategic Change Decisions

Section 4.2 noted that the decision-making process may be influenced by institutional environments, listing a number of studies that have explored the impact of institutional factors on foreign subsidiary strategy (Ambler, Styles & Wang 1999; Bjorkman & Osland 1998; Buckley, Clegg & Tan 2006; Fryxell, Butler & Choi 2004; Hartman, Fiesel & Schober 2010; Kostova, Roth & Dacin 2008; Liu & Park 1999; Luo 2010; Selmer 2002; Si & Hitt 2004; Su *et al.* 2009).

Here, ‘China specific’ institutional factors impacting on subsidiary strategic change decisions are identified. Particular emphasis will be given to two key aspects. First, the
study will consider the question of how institutional differences between China and the other countries in which the MNE operates impact on which types of knowledge should and are incorporated into the decision-making process and how this knowledge is applied and integrated to make appropriate strategic choices. Second, given the recognition in the MNE literature that host governments can have a substantial influence over MNE strategy, the study will explore what role and influence the China government has during these subsidiary strategic change decision-making processes.

**Secondary Research Question 4:** What ‘China specific’ institutional factors impact on how MNEs make decisions about strategic change for their China subsidiaries?

### 4.3.6 Effectiveness of the Decision-Making Process

This study focuses on gaining a subsidiary level perspective of MNE decision-making processes about strategic change for their China subsidiaries. Exploring subsidiary executive’s perceptions of the effectiveness of these decision-making processes is therefore part of this research agenda. As noted above, ‘effectiveness’ of a decision-making process could be perceived in various ways by subsidiary executives including performance implications of a change for the subsidiary and/or the efficiency of the process in terms of speed or the extent to which appropriate knowledge was incorporated into the decision. The literature on upper echelons theory (UET), procedural justice and organizational politics provide some insight into this issue.

The procedural justice literature implies that the opportunity to voice one’s ideas and viewpoints increases the likelihood that a high rate of knowledge and expertise will be diffused and shared during a decision-making process (Kim & Mauborgne 1998). The politics literature suggests that decision makers may engage in intentional acts of influence to enhance or protect their own self interest (Eisenhardt & Zbaracki 1992). This may involve distorting or withholding pertinent information (Dean & Sharfman 1996, Gotsis & Kortezi 2011; Vigoda 2003), which may impact negatively on the efficiency of decision-making processes. The literature on upper echelons theory has implied that greater cognitive diversity, particularly among top management teams, can lead to more effective strategic change decision processes (Hambrick 2007; Hambrick...
& Mason 1984; Lin & Liu 2012; Rivas 2012). The core of the argument is that this diversity brings a wider range of knowledge to bear on strategic decisions.

Despite coming from different theoretical perspectives, each of these theories implies that an effective decision-making process needs to ensure that appropriate knowledge and information is effectively incorporated into the decision-making process.

The following research question is proposed:

**Secondary Research Question (5):** According to the perceptions of subsidiary managers, what types of knowledge and decision process characteristics associated with sharing and integrating this knowledge are critical for effective subsidiary strategic change decision-making?

4.4 Summary

This chapter has presented the conceptual framework that guides this study’s qualitative exploration of the decision-making processes associated with foreign subsidiary strategic change decisions. It represents an important theoretical contribution to the literature. Rather than relying on a single theoretical lens to discuss a complex decision-making phenomena, it has integrated a range of theories in a unique way to develop key questions for a qualitative investigation of how decisions about foreign subsidiary strategic change are made. The theoretical contribution can be assessed against Doz’s (2011), 583-584) prescription that:

‘rich, thick process descriptions provide a guarantee against the temptation to rely on a single theoretical lens because they make obvious to the researcher that any single lens will shed only partial light on the phenomenon being researched…Only rich, thick process descriptions can provide the basis for use and possible synthesis of multiple theories into new conceptual development…’

Specifically, MNE decision-making processes associated with foreign subsidiary strategic change have been conceptualized in this framework as a series of ad hoc or routine processes that focus on changes to the nature, composition and configuration of subsidiary resources. These processes may occur at the subsidiary and MNE HQ and subsidiary levels of the MNE and are shaped by host and home country institutional

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factors. The ‘function’ of subsidiary strategic change decision-making processes is to share individual and collective knowledge residing in subsidiaries and at HQ to make appropriate subsidiary strategic change choices.

A series of research questions were then developed to explore how MNEs, subsidiaries and their executives acquire information and share and combine different types of knowledge during the decision-making process. These research questions also explore the impact of China institutional factors on the decision-making process. These research questions are summarized in Table 4.4.1 below.

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CHAPTER 5
METHODOLOGY

5.1 Introduction

This chapter discusses the research methodology of this study. First, the choice of methodology and a rationale for this choice are outlined. Second, an overview of the ontological and epistemological stance taken in this study is presented. Third, a description of the sample selection criteria and strategy is provided. The data collection process and instrument are then described. The final part of the chapter presents an overview of data analysis procedures.

5.2 Research Methodology

As presented in chapter 4, the primary research question of this study is:

*How do MNEs make decisions about strategic change for their China subsidiaries?*

A multiple qualitative case study approach was selected as the most appropriate methodology to explore the decision-making processes associated with subsidiary strategic change decisions. The remainder of this section is structured as follows. First, a rationale for choosing the case study methodology over other methodologies is provided. Second, a justification for collecting qualitative data over quantitative data is given. Third, the reasoning behind choosing a multiple case study design over a single case study design is outlined.

5.2.1 Choosing a Case Study Approach

A case study can be defined as ‘an empirical inquiry that investigates a contemporary phenomenon within its real life context’ (Yin 2003). A key distinguishing feature of a case study analysis is its use of multiple data sources from each case to obtain required data (Yin 2003).

Case study methodology is deemed appropriate when key conditions are met, relating to the type of research question, the control an investigator has over actual behavioral events and whether a study focuses on contemporary as opposed to historical
phenomena (Yin 2003). Specifically, they are the preferred strategy when three criteria are met, specifically: ‘how’ or ‘why’ type questions are posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real-life context (Ghauri & Gronhaug 2005; Punch 2005; Yin 2003).

The present study meets each of these three criteria. First, the primary research question and follow up secondary research questions centre on ‘how’ MNEs make decisions related to foreign subsidiary strategic change. Yin explains that ‘How’ questions often deal with explaining operational links that need to be traced over time (Yin 2003). This is the case for research focused on processes (Schramm & Roberts 1971; Vissak 2010). Schramm & Roberts (1971), for example, suggested that the central tendency among all types of case study analysis is for them to attempt to illuminate a decision or set of decisions, why they were taken, how they were implemented, and with what result (Schramm & Roberts 1971). Identifying and explaining these links may often incorporate a large number of potential contextual variables (Yin 2003). This renders extensive surveying or other approaches that rely on a single data source within a case or sample unit ineffective as such questionnaires necessarily involve identifying and limiting the number of contextual variables and issues explored in order to obtain acceptable response rates. By using multiple sources of data from each case, case studies enable the researcher to explore in more detail the relevant contextual variables that could not be obtained from a single survey or data source (Yin 2003).

This study also meets the second and third criteria required by Yin to justify a case study methodology. In relation to the second criteria, there is little control over the event being investigated in this study which would render an ‘experiment’ methodology ineffective. By way of explanation, Yin (2003) has suggested that some ‘how’ or ‘why’ research questions can utilize an experimental design in a controlled setting either in a laboratory or a field experiment, but only when an investigator can manipulate behavior directly, precisely and systematically. This is not the case in the context of this research. It would be inappropriate to replicate the various contextual elements of a foreign subsidiary strategic change event in a controlled setting, particularly when the investigator cannot be sure which contextual factors may be relevant. In the context of international business, researchers have indeed argued that case study methodology is seen as particularly useful because the phenomenon under investigation often involves
different national contexts and a broad range of macro and micro environmental and institutional factors, and complex decision-making processes (Marschan-Piekkari & Welch 2004; Vissak 2010). Such complexities could not be reproduced in a field experiment.

In relation to the third criteria, the event explored in this study is a contemporary phenomenon. Yin has stressed that contemporary events offer the capacity to administer interviews with individuals that can provide relevant information and insight into the phenomenon being investigated. This is a technique commonly associated with case study methodology. In contrast, Yin and other social scientists have noted that, if an event has occurred long enough ago such that those involved are not available to be interviewed, only historical information sources can be utilized (Punch 2005; Yin 2003).

5.2.2 Justification for Choosing Qualitative Data over Quantitative Data

While case studies are often linked to qualitative analysis, the two terms are not interchangeable (Yin 2003). Case studies may involve the collection of either quantitative and/or qualitative data. Often, the basic distinction made between quantitative and qualitative research is that quantitative researchers employ measurement and qualitative researchers collect data in the form of ‘words’ (Ghauri & Gronhaug 2005; Yin 2003). However, further distinctions can be made.

Quantitative analysis is often associated with ‘deductive’ and ‘extensive’ research whereby the researcher determines a set of variables based on existing theory. These variables are pre-determined, operationalized by the researcher and are measured numerically; they are usually expressed in terms of frequency and tested using statistical analysis (Ghauri & Gronhaug 2005). Quantitative research requires the researcher to pre-define and operationalize variables based on existing theory (Ghauri & Gronhaug 2005).

Qualitative methods are commonly associated with ‘inductive’ and ‘intensive’ analysis where researchers use data often expressed as ‘words’ to build, develop, and expand on prevailing theory and/or apply existing theories to a new phenomenon. Importantly, for qualitative research, the boundaries between context (factors related to a phenomenon)
and the phenomenon itself are not clearly evident prior to conducting the research (Ghauri & Gronhaug 2005; Yin 2003). In qualitative research, a key role of the researcher is often to obtain and understand the ‘insider’ point of view of respondents in order to identify important characteristics associated with a phenomenon (Ghauri & Gronhaug 2005). As such, qualitative researchers usually employ a much smaller number of observations than extensive quantitative research and try to explain a wider variety of different aspects of a problem area (Boyle 2009; Stoecker 1991).

As implied in the previous paragraph, qualitative case studies can be used both to build and test theory. At one end of the continuum, qualitative studies can provide preliminary, but in-depth insight into an unexplored phenomenon where no or little theory exists. This type of analysis aims at building new theory (Burgelman 2011; Roche 1997). Academics supporting this view have suggested a grounded theory approach (Glaser & Strauss 2009) where theoretical concepts and propositions emerge as the researcher gathers data and investigates phenomenon through in-depth case study analysis (Boyle 2009; Burgelman 2011). This is not the case with the present study.

At the other end of the continuum, qualitative case study methodology can be used to test theory, specifying theoretical propositions derived from an existing theory and comparing data with the expected outcomes. A theory is either validated or else found to be inadequate in some way (Roche 1997; Yin 2003). Intermediate approaches can also be taken where case study research combines existing theoretical knowledge with new empirical insights to expand and generalize theories (Yin 2003). It also allows one to bring a variety of theoretical approaches to bear on the subject being investigated and to compare the insights provided by each approach (Doz 2011).

Indeed, in the context of international business, Doz (2011) and other leading international business academics suggest that qualitative research is uniquely suited to ‘opening the black box’ of organizational processes in an international business context, that is, the ‘how’, ‘who’ and ‘why’ of individual and collective organized action as it unfolds over time in varying institutional contexts (Birkinshaw et al. 2011; Doz 2011). In a recent paper describing the advantages of qualitative research in international business research, Doz (2011, p.583-584) suggested that:
'rich, thick process descriptions provide a guarantee against the temptation to rely on a single theoretical lens because they make obvious to the researcher that any single lens will shed only partial light on the phenomenon being researched… Only rich thick descriptions can provide the basis for use and possible synthesis of multiple theories into new conceptual development…'

International business researchers have argued that qualitative research also allows for deeper cross cultural understanding and is less likely to suffer from cultural bias and ethnocentric assumptions on the part of the researcher in comparison with using a quantitative survey instrument. In other words, qualitative research enables questions to be asked on a respondent’s own terms. (Marschan-Piekkari & Welch 2004).

In the context of this thesis, the conceptual framework and associated research questions presented in Chapter 4 require a qualitative approach to draw on, apply and extend existing strategic management and international business theories to the topic of MNE strategic decision-making processes associated with subsidiary strategic change decisions.

5.2.3 Justification for Choosing Multiple Case Study Design Over Single Case Study Approach

The above two sections have explained why a qualitative case study methodology is appropriate for this study. This section argues that a multiple qualitative case study design was chosen over a single qualitative case study design in order to enhance the external validity of the research (Yin 2003). External validity can be conceptualized as: ‘establishing the domain to which a study’s findings can be generalized’ (Yin 2003, p.34). Two broad approaches to generalization are identified in the literature. The first is statistical generalization where an inference is made about a population on the basis of empirical data collected about a random sample (Boyle 2009). Investigators utilize quantitative formulas for determining the confidence with which generalizations can be made, depending mostly on the size and internal variation within the universe and sample (Boyle 2009). This is the most common way of generalizing when doing quantitative surveys (Yin 2003).
This approach, however, is incorrect when dealing with case studies. Individual cases should be selected on the basis of achieving ‘non-statistical generalization’ (Boyle 2009; Roche 1997). For non-statistical generalization, multiple cases should be considered in a similar way to multiple experiments whereby each additional case enhances the generalizability of the research by confirming the validity of theories to a population of cases (Boyle 2009; Yin 2003).

Two key types of non-statistical sampling have been identified in the literature on qualitative research: firstly, analytical generalization and, secondly, theoretical generalization. In analytical generalization, the investigator is striving to generalize a particular set of results to some broader theory. A theory must be tested by replicating the findings in a second or even a third neighborhood where the theory has specified that the same results should occur (Boyle 2009; Yin 2003). This replication is referred to as ‘literal replication’. Once such direct replications have been made, the results might be accepted as providing strong support for the theory (Hillebrand, Kok & Biemans 2001). Put another way, analytic conclusions independently arising from two cases, as with two experiments, will be more powerful than those coming from a single case or single experiment. And, if the contexts of the two cases differ to some extent and common conclusions arise from both cases, the external validity of the findings will be further enhanced. The empirical results may be considered more potent if two or more cases support the same theory, but do not support an equally plausible, rival theory (Yin 2003).

The other type of non-statistical generalization is referred to as theoretical generalization. This involves the selection of multiple case studies where a theoretical framework predicts variability until a theoretically robust saturation point is reached (Boyle 2009; Gummesson 1991). The approach to case study selection associated with theoretical generalization is referred to as ‘theoretical replication’ (Yin 2003). Unlike literal replication, theoretical replication involves selecting cases that are expected to vary, but for predictable reasons (Boyle 2009). If the subsequent findings from a theoretical replication support the hypothesized variability, the generalizability of case study findings is greater than findings based on a single case alone (Hillebrand, Kok & Biemans 2001, Silverman 2010, Yin 2003). Importantly, literal replications can be combined with theoretical replications (Boyle 2009).
The number of case studies that are needed depends on the level of certainty that the researcher wishes to achieve (Yin 2003). The higher the number of cases, then the greater the degree of external validity. However, it is well understood that the costs in terms of time and resources for conducting case studies are substantial. As such, attempts to include too many case studies can mean sacrificing depth for breadth (Pauwells & Matthysens 2004; Yin 2003), thus resulting in sub-optimal research outcomes. Yin (2003) suggests using six to eight cases. Replications can occur until it becomes evident, however, that the marginal contribution of additional interviews to developing theory is too small to continue (Boyle 2009; Gummesson, 1991).

In summary, this study adopted a multiple case study design as opposed to single case study design where the number of case studies was determined by the saturation principle.

5.3 Epistemological Position, Validity and Reliability

The way in which a qualitative case study research agenda is subsequently designed, implemented and analyzed, is a function of the ontological and epistemological position adopted by the researcher (Remenyi et al. 1998). Making this position clear is seen as an important step in setting the research agenda for social science research (Anderson & Skaates 2004).

While qualitative researchers within the social science discipline have described various categories and sub-categories related to different ontological and epistemological positions, two widely used categories are ‘positivism’ and ‘interpretivism’ (Meyers 2009; Ritchie & Lewis 2006). These two perspectives attempt to conceptualize the basic elements of reality (‘ontology’) and the nature and status of knowledge (‘epistemology’) (Ritchie & Lewis 2006).

The positivist perspective is founded on an ontology in which an objective physical and social world exists independently of humans’ knowledge of it (Meyers 2009). There are pre-existing regularities that can be discovered, investigated and characterized using constructs devised by the researcher. Positivist research is concerned with the empirical testability of theories in order to discover the general principles or laws which govern
the natural and social world (Meyers 2009). Inquiry is assumed to be value free, so that the researcher remains detached, neutral and objective (Ritchie & Lewis 2006). Participants are seen as potential sources of objective ‘facts’ rather than as providers of insight and ‘interpreters’ of reality.

Positivist research places a high emphasis on achieving different measures of validity and reliability. Yin (2003) describes how positivist approaches to validity and reliability associated with positivist research can be applied to a case study methodology. First, construct validity which refers to establishing correct operational ‘objective’ measures for the concepts being studied, can be achieved through triangulation whereby multiple sources of data are used to confirm an accurate reading of a particular phenomenon. Second, internal validity which refers to the accuracy associated with identifying causal relationships can be achieved by deductively linking common associations or explanatory relationships provided by data across cases with existing theory. Third, external validity, which refers to establishing the domain to which a study’s findings may be generalized, can be achieved through analytical and theoretical replication (See Section 5.2). Finally, reliability, which refers to the capacity to demonstrate that the operations of a study can be repeated with the same results by different researcher(s), can be achieved by ensuring that the processes by which data are collected and interpretations made are carefully documented by the researcher(s).

The interpretivist approach is based on reality being subjective, a social product constructed and interpreted by humans as social actors according to their beliefs and value systems (Lamb, Sandberg & Liesch 2011; Ritchie & Lewis 2006). How people act is determined by how they understand different aspects of their reality (Lamb, Sandberg & Liesch 2011). This is diametrically opposed to a positivist view whereby an objective world exists independently of the knowledge of those who may be interpreting this world. Interpretivist research in the social science discipline attempts to understand phenomena through the meanings that participants give them, and focuses on their cultural and historical context (Meyers 2009). This subjectivist stance towards ontology implies a more inductive (as opposed to deductive approach) that focuses on getting an ‘emic’ or ‘insiders’ understanding of a subjective reality (Anderson & Skaates 2004).
Even though measures of reliability and validity are often perceived differently by interpretivists in comparison with positive researchers, many interpretivists still acknowledge the importance of accuracy and transparency in terms of how explanations and conclusions are drawn from data, even though they have been subjectively interpreted by the researcher (Remenyi et al. 1998). In this sense, interpretivists also recognize a type of ‘reliability’, albeit the focus is on transparency rather than replicability (Remenyi et al. 1998).

While positivist and interpretivist approaches are often described as polar opposites, it is deemed quite acceptable to take a ‘middle ground’ approach as long as this approach is made clear by the researcher (Anderson & Skaates 2004; Pauwells & Matthyssen 2004; Richie & Lewis 2006; Remenyi et al. 1998; Roche 1997; Sinkovics, Penz & Ghauril 2008). Remenyi et al. (1998) see positivism and interpretive approaches as related concepts rather than as two extremes. Seeing these two approaches as a combined set of tools enables the researcher to draw on each approach as and when appropriate (Remenyi et al. 1998). Sinkovics, Penz and Ghauri (2008) also suggest that a middle ground approach is particularly appropriate, particularly for international business (IB) research. They argue that IB researchers should take more emic (i.e., subjectivist/qualitative/insider) perspective, which then could be translated into etic (i.e., objectivist/quantitative/outsider) terms and used as valuable input for further studies.

Several international business studies have adopted this middle ground approach (Lamb, Sandberg & Liesch 2011; Pauwells & Matthyssen 2004). Pauwells and Matthyssen (2004), for example, explored how executives ‘perceived’ international market withdrawal, finding that this perception impacted on international market withdrawal decisions (Pauwels & Matthysssens 2004). Lamb, Sandberg and Liesch (2011) attempted to understand collective and shared understandings of MNE managers associated with internationalization decisions. Despite an interpretivist approach focused on managerial sensemaking, both these studies focused on the formulation, testing and refinement of research propositions that could be applied to other cases within their defined populations, a positivist perspective focused on the generalizability of findings.
This study appropriately adopts a similar middle ground approach. A positivist overall perspective is taken whereby ‘objective’ comparable factors are expected to emerge that describe the nature of the decision-making process and its antecedents across cases. Positivist measures of validity and reliability are therefore deemed relevant to this study. However, an interpretivist approach will be incorporated by obtaining an ‘insider’ subsidiary perspective of the decision-making process and its antecedents.

5.4 Unit of Analysis: Defining a ‘Case’

Yin (2003) has provided insight into the first steps of case study design that are geared towards research where there is existing theory that can be used to direct the analysis as is the case in this study. Yin’s approach to case study design has been widely cited and used in qualitative analysis in the strategic management and international business literature (Birkinshaw 1997; Birkinshaw & Riddenvale 1999; Boyle 2009; Burgelman 1996; Coltman et al. 2009; Dorrenbacher & Gammelgard 2010; Dorrenbacher & Geppert 2010; Figuerido 2011; Garcia-Pont, Canales & Noboa 2009; Geppert, Williams & Matten 2003; Johnson, Leach & Liu 1999; Lin et al. 2006; Maitland & Sammartino 2011; Tripsas & Gavetti 2000). According to Yin (2003), the first step is to develop research propositions that draw on existing theory and literature to provide focus in exploring a primary research question. These propositions can be structured as research questions (Boyle 2009) (Refer Table 4.5.1 in Chapter 4).

The next step in case study research design proposed by Yin is to identify the unit of analysis or to define what a ‘case’ is in the context of the research agenda. Yin (2003) argues that while a case can be an entity, it can also be an event, such as a decision-making process (Yin 2003). A case in this study is appropriately conceptualized as the MNE decision-making process associated with making a ‘significant’ (as perceived by subsidiary executives) foreign subsidiary strategic change decision. The conceptual framework is expected to apply to all significant subsidiary strategic change types. This, therefore, implies that the decision-making process associated with subsidiary strategic change types in a variety of subsidiary contexts are comparable and, thus, qualify as cases in this study.
5.5 Sampling Methodology and Case Selection Criteria

Once the research propositions and unit of analysis had been defined, a sampling methodology was chosen to guide the selection of appropriate cases to make up the empirical sample. The discussion presented in Section 5.2 has implied that the selection of cases in a multiple case study design is based on a non-probability approach. In a probability sample, elements in the population are chosen at random and have a known probability of selection (Boyle 2009; Ritchie & Lewis 2006). Non-probability samples, however, include units of analysis purposefully selected to reflect certain features of the sample population (Boyle 2009; Ritchie & Lewis 2006). Selecting case studies is, therefore, similar to decisions made by a researcher conducting multiple experiments. Each experiment should complement the other(s) by replicating the findings under various conditions, or by addressing different aspects of the overall theory (Yin 2003). In other words, cases should be selected on the basis of their relevance to research questions and theoretical positions (Yin 2003).

While non-probability sampling has been given various labels and categories, purposive sampling is a commonly used terminology (Ritchie & Lewis 2006). It is precisely what the name suggests. Members of a sample are chosen with a purpose to represent a specific ‘type’ in relation to key criterion (Hillebrand, Kok & Biemans 2001; Johnston, Leach & Liu 1999). Ritchie and Lewis (2006) provide a step by step approach to purposive sampling that is adopted in this study.

This approach, firstly, involves defining the population of cases to which the conceptual framework is expected to apply, determining inclusions and exclusions. Defining the population also clarifies which case types the findings of the study can be generalized (Ritchie & Lewis 2006). In this study, the following criteria are applied to define the population of sample MNEs and strategic change cases:

(1) Subsidiaries should be incorporated legal entities in which the foreign MNE parent holds at least a 50% stake. A key focus of the research is exploring how MNE HQ and subsidiary level knowledge is utilized and integrated during the decision-making process. A minimum 50% foreign HQ stake holding will help ensure MNE HQ treats the subsidiary as a direct affiliate rather than any form of portfolio investment. As a direct affiliate it makes intuitive sense that it will be involved in subsidiary strategy.
(2) Subsidiaries must be incorporated and domiciled in the People’s Republic of China and be selling and/or producing products. This definition excludes representative offices which, under Chinese law, cannot earn income (Potter 1995). Intuitively, subsidiaries or representative offices that are not engaged in either production and/or sale of product and service are less likely to engage in substantial strategic change initiatives.

(3) Subsidiaries and their MNE parents should have at least 100 employees. Again, it makes intuitive sense that very small firms would be less likely to engage in substantial strategic change initiatives, particularly those related to organizational structure. Indeed, there is some support in the literature that organization size is positively related to the prevalence of strategic change (Hitt et al. 1996).

(4) Subsidiaries and their MNE parents should be at least two years old. The conceptual framework establishes an agenda to explore the impact of firm level experience on strategic change decision-making processes. This implies that subsidiaries and their parents need to have been operating for long enough to have accumulated some experience.

The second step in sample selection required identifying and prioritizing relevant sampling criteria in terms of exploring each of the study’s research questions. A primary goal of this prioritization is to identify the criterion that are most important, conceding that including all relevant criteria may make the project unmanageable in terms of time and resources (Ritchie & Lewis 2006).

Ritchie and Lewis (2006) provide a number of suggestions that can guide the process of identifying sampling criteria. First, a review of the relevant literature identifies characteristics that are known to have an impact on the subject being investigated. Second, there will be variables which need to be covered simply to achieve a balanced sample. Third, there may be specific agendas that the research is exploring that require coverage of particular sub groups (Ritchie & Lewis 2006).
In terms of prioritizing sampling criteria, Ritchie and Lewis (2006) suggest categorizing them as primary, secondary and tertiary. In this study, no tertiary criteria were identified as the number of primary and secondary criteria were deemed small enough to manage. Primary criteria are considered critical:

(1) The experience and background of subsidiary and parent managers - A key element of the conceptual framework is to explore how individual level knowledge residing in MNE and subsidiary executives impacts on strategic change decision-making processes. To increase the potential diversity of individual level knowledge and experience, the sample should include subsidiary and parent executives from different backgrounds. An attempt will be made to include subsidiary executives with overseas experience such as expatriate managers or host country nationals with overseas work experience along with local subsidiary appointments with no overseas experience. Diversity in terms of functional background should also be included. Attempts were also made to include diversity across parent company executives, particularly in terms of their nationality and personal China experience.

(2) Nationality of Foreign Parent. Previous studies summarized in Chapter 3 have found subsidiary strategy and decision-making to vary based on the nationality of the foreign parent (Gates & Egelhoff 1986; Young & Tavares 2004). The conceptual framework presented in Chapter 4, therefore, acknowledged that the balance of HQ-subsidiary control associated with the decision-making process could therefore be impacted by foreign parent nationality. To explore this issue, the sample will ideally include subsidiaries and MNEs from different countries.

(3) Subsidiary role - As discussed in the development of the conceptual framework, various studies have found that the balance of HQ-subsidiary control over subsidiary strategic change may vary based on subsidiary role (Birkinshaw & Morrison 1995). To explore the potential impact of subsidiary role on strategic change decision-making processes, the sample should include subsidiaries with different roles.
(4) Strategic change outcomes- A component of the conceptual framework is to link specific decision-making process elements to subsidiary executive perceptions of decision-making process effectiveness, and strategic change outcomes. The sample should include cases where outcomes are both positive and negative.

Secondary criteria include those that are not specifically identified as critical in the framework. However, inclusion of them will enhance the generalizability of the findings:

(1) Strategic change type - The conceptual framework presented in Chapter 4 is expected to apply to different types of significant strategic change. As such, the sample can incorporate various combinations of strategic change types. However, by making a deliberate effort to incorporate a wide range of strategic change types, the capacity to generalize the framework to different strategic change initiative contexts can be confirmed.

(2) Size - A minimum size of 100 employees was identified as a sampling criteria above. Subsidiary and parent size is often included as a control variable in quantitative analyses in the international business literature and has been linked to various aspects of strategic decision-making (Brouthers, Anderson & Nicolaes 1998; Young & Tavares 2004). Including subsidiaries and parents of varying sizes in the sample, but still meeting the minimum size requirement of 100 subsidiary staff, will identify any variance associated with the strategic decision-making process across MNEs and subsidiaries of different sizes.

(3) Industry - Including a broad cross section of industries will enhance the generalizability of the analysis to different industry sectors and identify any potential institutional differences emerging across different types of industries.

5.6 Recruiting Study Participants

The sampling process occurred in conjunction with data collection. It continued until a representative purposive sample was obtained that met the criteria set out in Section 4.5 and it became evident that the marginal contribution of additional interviews to
developing theory was too small to continue – the so-called saturation principle (Boyle 2009; Gummesson, 1991, pp. 84–5).

An initial list of potential sample subsidiaries was obtained from the Department of Foreign Trade and Economic Cooperation of Guangdong Province. This list included basic company details such as (1) company name, (2) date of registration (in China), (3) nationality of foreign parent, (4) enterprise type (i.e. wholly foreign owned enterprise or joint venture) and (5) industry sector.

Subsidiaries from this list were initially contacted by phone. Attempts were made to speak to either the Chief Executive Officer (CEO) (or equivalent) of the subsidiary or his/her personal assistant. A brief verbal overview of the project was provided over the phone and potential respondents were asked whether they would be interested in receiving a cover letter along with a short overview of the project (‘Information Statement’) to enable them to assess whether or not they would be interested in participating. All criteria required by the University of Newcastle Ethics Committee for the information statement and cover letter were included. These documents are included in Chapter Appendix [5A]. The information statement and cover letter were either faxed or e-mailed to potential participants along with an accompanying consent form.

Various researchers have explored the issue of how to persuade potential informants to participate in research studies, highlighting that managers are more likely to participate when the topic is of interest to them, anonymity is assured and there is some benefit from participation (Boyle 2009; Daniels & Cannice 2004; Darke, Shanks & Broadbent 1998). Attempts were made to address each of these criteria when making the initial phone call along with the preparation of the information statement and cover letter.

The information statement and initial phone call included an overview of the project including objectives, expected outcomes, along with the requirements and benefits for participants. In terms of benefits, respondents were promised a report on the research findings. Anonymity was also assured within the boundaries of guidelines set out by the University of Newcastle’s ethics committee. The strategic change topic was expected to be of interest to most foreign subsidiaries in China, particularly in the context of rapid institutional change and the global financial crisis. The focus on
collecting qualitative data was also attractive to potential participants because they perceived a higher likelihood of learning new practical insights.

The initial phone call and information statement also made clear the requirement that preferably the Chief Executive Officer (or equivalent) of the subsidiary and at least one other functional manager would need to participate in a face-to-face interview that may last between one to one and a half hours. It was made clear that both interviewees needed to be closely involved in the decision-making process for one or more subsidiary strategic change decisions. In cases where the CEO was not involved in a strategic change case or was unavailable, another senior manager closely involved with the decision-making process was invited to participate. Respondents were given a contact phone number and e-mail address to respond to if they were willing to participate after receiving the cover letter, information statement and consent form. If no response was received within a two week period, a follow-up phone call was made to the potential respondent to see if they had reached a decision in regards to participation.

5.7 Data Collection

5.7.1 Choice of Data Collection Instrument

The primary instrument used to collect data was a semi structured qualitative interview. Interviews and surveys can be quantitative, qualitative or a combination of the two. In qualitative interviewing the interviewee’s point of view is critical, whereas in quantitative interviewing the interview focuses on the researcher’s concerns (Boyle 2009; Bryman & Burgess 1994). The degree of structure is the key differentiator. Generally, interviews and surveys are categorized as (1) structured, (2) unstructured or (3) semi-structured. Quantitative surveys are often referred to as structured surveys/interviews. Questions are designed to allow a limited number of categorized finite responses such that the data can be measured numerically. Data are usually subject to statistical testing to make inferences about a defined population (Boyle 2009).

Qualitative interviews can be unstructured or semi-structured. Unstructured qualitative interviews usually involve only a broad topical area to guide interviews with no list of set questions (Punch 2005). Unstructured interviews are deemed appropriate for
research where there is little pre-conceived theory where the aim is to provide new theoretical insights and eventually a new theory (Punch 2005).

A semi-structured interview is deemed the most appropriate approach if the qualitative research involves a clear focus and theoretical propositions (Boyle 2009; Bryman 1992). This is the case for this study. In semi-structured interviews, the researcher covers a specific list of topics, but interviewees have substantial leeway in how to respond (Boyle 2009; Bryman 1992). Questions in a semi-structured interview do not need to be asked exactly in the same order outlined in the schedule. However, all relevant questions need to be covered with a similar wording from interviewee to interviewee (Boyle 2009; Bryman 1992). This will ensure the comparison of multiple cases, essential to enhancing generalizability of the research. Despite the requirement for more structured questions in semi-structured interviews in comparison with unstructured interviews, a deliberate effort was made in this study not to be too directive in questioning as this may have injected bias into the study and prevented the ability of the researcher to obtain new insights not previously conceived (Boyle 2009; Bryman 1992).

As noted above, best endeavors were made to administer the interview to the subsidiary CEO (or equivalent) and one other executive in each subsidiary that was most closely involved with the strategic change decision-making process. When the CEO was not available or was not closely involved in the strategic change decision, another senior manager closely involved in the strategic change decision participated. Conducting multiple interviews with different senior managers for each case can enable data triangulation and obtain more comprehensive data on different elements of the decision-making process (Yin 2003). Documentary evidence, another commonly used data collection technique in case study analysis was also used wherever possible to achieve further data triangulation (Yin 2003). For example, audited financial reports and other formal corporate documentation were requested. However, accessing such documentary evidence was sometimes difficult due to the sensitive nature of the information.
5.7.2 Semi-Structured Interview Design

Construction of the interview schedule is a critical part of research design (Daniels & Cannice 2004). The interview schedule is included in Appendix [5B]. It was prepared in both English and Chinese and all respondents spoke at least one of these languages at native level. The survey was initially developed in English and then translated by the researcher into Chinese. To ensure the accuracy and integrity of the English-Chinese translation, the Chinese version was then given to a native Chinese executive who reads and writes fluent English and holds a senior management position for a US private equity fund in China. The back translation revealed that no substantial changes were required.

A pilot of the interview instrument was also conducted as a final preparation for data collection. The pilot enabled refinement of the data collection process with respect to both the interview schedule and the procedures to be followed (Ghauri & Gronhaug 2005; Yin 2003). The Chinese and English surveys were administered to a pilot sample of five English and five Chinese speaking executives working in middle management positions in China. The pilot confirmed that respondents clearly understood the questions asked and interpreted the meanings of the questions in the same way.

In developing the interview schedule, a number of strategies recommended for qualitative interviewing were adopted in the question design. First, attempts were made to use simple and understandable language that would be used by the interviewee and avoid ‘academic’ language and theorized questions (Daniels & Cannice 2004). This was made easier by the fact that the researcher has over ten years senior management experience in foreign subsidiaries located in China. Leading questions were also avoided with attempts made to keep questions as short as possible (Meyers 2009). A general approach of using open questions was also adopted to encourage more detailed narratives and rich thick descriptions (Meyers 2009).

In line with the conceptual framework and sampling criteria, secondary research questions outlined in Chapter 4, the CEO interview schedule, set out in Appendix [5B], included the following sections and core content:
(1) **MNE Parent Background**

The questions in Section 1 and 2 help establish whether a sample subsidiary conforms to the population criteria specified in Section 5.5, and where they sit in terms of sampling criteria also outlined in Section 5.5. This section asks background questions about the parent’s nationality, age, product/service scope and size (measured in terms of total sales and employees). The section also asked respondents to indicate their parent’s net income over recent years along with a subjective perception of performance (a ranking from 1 (Very Poor) to 5 (Excellent)).

(2) **Subsidiary Background**

This section asks background questions about the subsidiary’s size, age, product/service scope, location and performance. It also asks respondents to outline the origin of the subsidiary’s know-how in its operations, whether the subsidiary has created its own know-how, and, if it has, where the know-how was used (i.e., in own subsidiary, at the MNE parent, in MNE’s other subsidiaries). A more general question on subsidiary role is also asked.

(3) **Interviewee Background**

This section of the interview schedule asks subsidiary interviewees to describe their education, functional background and experience, particularly experience associated with previous strategic change decisions. This section also asks interviewees to indicate their understanding of the role given to them personally by their direct report at HQ.

The conceptual framework in Chapter 4 suggested that strategic change decision-making processes will be a function of the experience and background of individual managers. This line of questioning will enable in-depth exploration of the experience and background of key top management team members most closely involved in the decision-making process.

(4) **Subsidiary Strategic Change History**

This section asks interviewees to identify the subsidiary’s most significant strategic change initiatives. It also asked them to identify strategic change initiatives that were rejected and explain why they were rejected. The strategic change initiatives identified in this section can then be explored as individual cases in subsequent sections of the
survey. A key advantage of the in-depth case study approach is that the investigator can explore phenomenon in greater depth. Identifying initiatives that were both adopted and rejected could provide equally important insight into strategic change decision-making processes that would be difficult to capture using extensive research methodologies, such as large scale survey questionnaires.

(5) Strategic change decision-making process-

This section of the survey asks respondents to answer a series of questions related to the decision-making process associated with each significant case of strategic change. While every attempt has been made to be as flexible as possible and reduce questioning bias that would limit potential new theoretical insights related to strategic change decision-making processes, some basic theoretical assumptions have been incorporated into the interview schedule that reflect the existing theory available in the literature and described in Chapter 4. This approach falls in line with Yin’s (2003) case study design principle that data collection should follow the theoretical propositions guiding the research.

The questions are broadly structured according to each of the three sub-processes associated with strategic decision-making processes presented in Chapter 4, including the idea generation process, the review and development process and the formal sign-off. To ensure that this theoretical bias in the interview schedule structure did not impact on the validity and objectivity of the research, the researcher remained open to new insights that did not adhere to these sub-processes and followed any new lines of questioning related to them. Some of the broader questions incorporate various sub-questions, which were each asked separately to keep questions short when conducting interviews.

Interviewees were asked a series of questions in relation how their subsidiary identified a need/opportunity for the strategic change. Firstly, they were asked who proposed the initial strategic change idea along with the initial justification (strategic and/or political) for the idea (Appendix [5C] Q5.1). As part of the same question, they were also asked to identify which elements of the initial idea initiator’s background and experience were most important in recognizing the need for change. This line of questioning was important to identify what knowledge drove the initial idea and its strategic justification. Also, as part of the same question, respondents were asked whether the strategic change
idea was related to China specific factors to explore any institutional factors relevant to the idea.

Appendix [5C] Q5.2 asked interviewees to describe the management activities, resources and processes used by the initial project initiator(s) that led to identifying a need or opportunity for a strategic change initiative, along with their perceptions of the effectiveness of these processes. A key focus of the conceptual framework is to understand processes associated with identifying a strategic change idea. These processes may incorporate routine or *ad hoc* scanning processes, or other individual and firm level processes and forums associated with identifying an initial strategic change idea.

Appendix [5C] Q5.3 asked CEOs to explain how they first heard about the strategic change idea (if they were not the initial project initiator). This question also helps to clarify the process associated with communicating an initial strategic change idea to relevant MNE executives.

Appendix [5C] Q5.4 asked interviewees to describe the strategy review, development and formal approval (sign-off) process for the strategic change after the initial idea was tabled. As part of this question, interviewees were probed for insight into the types of knowledge (different or alternative perspectives, additional insights) that was incorporated in this review and development along with factors that impeded knowledge sharing (e.g. political behaviour, absorptive capacity issues). This question also asked respondents to describe their views about the effectiveness of these processes.

Appendix [5C] Q5.5 asked respondents to describe the involvement of their parent, regional HQ (if applicable), other subsidiaries and external stakeholders in the decision-making process associated with the strategic change, along with their opinion on the appropriateness and effectiveness of this involvement. The conceptual framework has implied that the extent to which HQ and subsidiary level knowledge are utilized in the strategic change decision-making process will be a function of the HQ-subsidiary control relationship. This question explores the nature of this relationship in terms of how and when it exerts control along with its knowledge and experience during the strategic change decision-making process. It will also confirm factors that facilitate and impede knowledge flows between HQ and subsidiaries. Some of these issues may have
been identified when asking Q5.4. It will also identify the role of external stakeholders, such as the China government, in the decision-making process.

Appendix [5C] Q5.6-5.8 asked respondents to describe the types of individual and collective experiences that were utilized in the strategic change decision-making process. It is expected that, in some interviews, these experiences will have been described when responding to earlier questions. However, given the conceptual framework centers on how experience is utilized in strategic change decision-making processes, these questions ensure that a response on this issue is given. Interview respondents were also asked to describe their perceptions on whether they believe the most appropriate experiences were utilized and why.

(6) Performance and Learning Implications of Strategic Change Initiatives

An objective of this study is also to link strategic change decision-making processes to subsidiary executive’s perceptions of their effectiveness, which may be linked to strategic change outcomes and performance implications for the subsidiary. As such, Section 6 of the interview schedule (see Appendix [5B]) asked interviewees to indicate the extent to which strategic change initiatives were successful and how they measured this success. Respondents were also asked to indicate why they believed the initiative was successful/unsuccessful.

This section also asked respondents to explain the extent (if at all) to which they have learned from this strategic change experience and how this learning has been incorporated into the subsidiaries decision-making process for future strategic change decisions.

5.7.3 Administration of Semi Structured Interviews

Prior to the interview, background information about the case study was sought. The names and positions of all potential case participants were obtained prior to the interviews. In most cases, some of the questions in Sections 1 and 2 of the interview schedule were completed by the researcher prior to the interview using publicly available documentary and media information. This approach ensured that interviews focused on those questions that could only be answered by interview respondents, thus maximizing the efficiency of the interview time.
Interviews were conducted face-to-face on-site at each subsidiary. At the beginning of the interview, an overview of the research project was provided orally by the researcher. Confidentiality was repeatedly assured to create a more relaxed atmosphere. While an initial rapport was established through initial contact prior to the interview, formality was observed during the interview to avoid over rapport (Boyle 2009). Where possible, interviews progressed in the sequence outlined in the interview guide in order to increase the efficiency by which responses could be transcribed and compared during data analysis.

The interviewer has had extensive experience in senior subsidiary level management in China. While this experience was not used to guide or bias the interview, it ensured that the interviewer was able to quickly grasp key concepts raised by subsidiary respondents during the interview process.

Follow-up questioning and probing were also used when it became evident that the informant had unique insights. This technique ensured that new insights could be captured (Boyle 2009; Wilkinson & Young 2004). To facilitate this process, the researcher’s familiarity with the interview guide meant that he did not need to constantly refer to it during the interview (Boyle 2009; Daniels & Cannice 2004).

Interviews were always administered in the native language of the respondent to ensure more complete and accurate responses to questions. Tape recording of interviews is often suggested as a means of providing a complete description of the interviewees’ responses and comments (Maschaan-Piekarri & Welch 2004). As such, interviews were recorded when permission was granted by respondents. For interviews that were not recorded, extensive notes were taken. In addition, the researcher occasionally asked respondents to pause while important quotes were transcribed. To enhance research validity associated with objective, factual data and responses from different managers associated with each strategic change case were triangulated to confirm their accuracy (Yin 2003).
5.8 Data Analysis

5.8.1 Overview

The broad range of ontological and epistomological positions adopted by qualitative researchers (Refer to Section 5.3) have resulted in a corresponding diversity in terms of methodologies and techniques used in qualitative data analysis (Punch 2005). Despite this variety, some writers have sought to identify the common features of qualitative data analysis (Coffey & Atkinson 1996; Miles & Huberman 1994; Punch 2005). In *Making Sense of Qualitative Data*, Coffey and Atkinson (1996) argued that each approach has a central concern with transforming and interpreting qualitative data in a rigorous and scholarly way, and with capturing the complexities of the social words they aim to explain. Methods for the analysis of qualitative data need to be systematic, disciplined and transparent, enabling those scrutinizing the research to understand how the researcher reached the conclusions they did based on their data (Punch 2005).

In line with established practice for qualitative research (Ghauri & Gronhaug 2005; Meyers 2009; Miles & Huberman 1994; Punch 2005; Richie & Lewis 2006) and the epistemological position taken by the researcher, the data analysis process for this study incorporated a data management procedure, which, in turn, involved indexing and categorizing raw data into themes, followed by the synthesis and then interpretation of this data into higher level concepts. An analytical induction and pattern analysis methodology was used to draw and verify conclusions related to the study’s research questions (Miles & Huberman 1994; Punch 2005; Yin 2003). Importantly, each of these components were administered in tandem (as opposed to sequentially) and commenced during the data collection process (Ghauri & Gronhaug 2005; Miles & Huberman 1994; Punch 2005; Yin 2003).

5.8.2 Data Management

Data management usually incorporates indexing and categorizing raw data into themes, followed by the synthesis and then interpretation of this data into higher level concepts. The objective of indexing and categorizing data is to reduce the data without significant loss of information and to prepare the data for latter stages of analysis focused on drawing conclusions (Richie & Lewis 2006). However, Miles and Huberman (1994)
have suggested that drawing conclusions and data management more or less occur concurrently rather than sequentially, although final conclusions require an analysis of all data while conclusions noted early in the analysis may be vague and ill-formed (Miles & Huberman 1994).

Raw data were first categorized according to key sub-themes based on the conceptual framework and research questions presented in Chapter 4. This ensured that valid data was included and enabled irrelevant data to be excluded (Ritchie & Lewis 2006). Sub-themes were then grouped under broader, higher order, ‘main themes’. Each chunk of data was assigned into a sub-theme within the index. Some qualitative researchers refer to this type of process as ‘coding’ (Ghauri & Gronhaug 2005; Meyers 2009; Miles & Huberman 1994; Punch 2005). Ritchie and Lewis (2006) argue that ‘indexing’ is a more appropriate term because this more accurately portrays the concept of categorizing data within an index.

These themes and sub-themes are presented in Table 5.7.1. Background Information (Theme 1) comprises a series of sub-themes that relate to the sampling criteria outlined in Section 5.5, along with some factors of interest identified in the conceptual framework such as subsidiary role, the background of interviewees as well as the parent’s FDI experience both globally and in China. Strategic Change Idea Generation (Theme 2), Strategic Change Review and Development (Theme 3) and Strategic Change Sign-off (Theme 4) were derived from the interview data and categorised around the three strategic change decision components outlined in the conceptual framework presented in Chapter 4. Performance Outcomes (Theme 5) focuses on the outcomes of strategic change initiatives, as identified by the interviewees.

<table>
<thead>
<tr>
<th>5.8.1 Categorization of Data into Themes and Sub-Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme 1: Background Information</strong></td>
</tr>
<tr>
<td>1.1 Parent and subsidiary products and services</td>
</tr>
<tr>
<td>1.2 Parent and subsidiary size (revenues, number of employees)</td>
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<tr>
<td>1.3 Parent and subsidiary performance (subjective measure given by respondents)</td>
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<td>1.4 Parent and subsidiary age (year of establishment)</td>
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<td>1.5 Subsidiary type (greenfield, JV, acquisition etc.)</td>
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<tr>
<td>1.6 Subsidiary role</td>
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<tr>
<td>1.7 Subsidiary executive team background (functional area, education, strategic change related experience, perceived job role and KPIs)</td>
</tr>
<tr>
<td>1.8 Number of years parent has operated subsidiaries overseas and in China</td>
</tr>
</tbody>
</table>

| **Theme 2: Idea Generation Process**                   |

113
2.1 Who proposed the strategic change idea within HQ or subsidiary (and their position)
2.2 Description, initial motivation for strategic change idea
2.3 Management activities, resources and processes used by the initial project initiator(s) that led to identifying a need/opportunity for strategic change and developing a strategic change idea (e.g., regular scanning of subsidiary’s external environment)
2.4 China and overseas (external) environmental information incorporated in the idea generation process
2.5 Internal MNE and subsidiary data incorporated in idea generation processes
2.6 Experiences of individual HQ and subsidiary executives articulated in idea generation process
2.7 Group/Firm level HQ and subsidiary experiences articulated in idea generation process
2.8 Subsidiary executives’ (interviewees) views about the effectiveness of the idea generation process and appropriateness of strategic change idea (where idea was raised by HQ).
2.9 How the strategic change idea was initially communicated to other MNE members
2.10 Knowledge sharing barriers associated with the idea generation process

Theme 3: Review and Development Process

3.1 Additional China and overseas and external environmental information incorporated in review and development process
3.2 Additional MNE and subsidiary internal data incorporated in review and development process
3.3 Experiences of individual HQ and subsidiary managers incorporated in review and development including different viewpoints and alternatives that were raised and subsidiary executives’ opinion on the appropriateness of these viewpoints.
3.4 Group/Firm level HQ and subsidiary experience incorporated in review and development process and subsidiary executives’ opinion of the appropriateness of these experiences.
3.5 Other insight provided by external stakeholders utilized in review and development process
3.6 Management activities, resources and processes utilized during the review and development process to share and integrate different types of information and experience related to the strategic change initiative and interviewees’ opinion of the effectiveness of these processes.
3.7 HQ and subsidiary characteristics facilitating and impeding knowledge sharing during review and development process.
3.8 Involvement of parent, regional headquarters (if applicable), other subsidiaries, and external stakeholders in the decision-making process associated with the strategic change along with subsidiary interviewees’ opinion of the appropriateness and effectiveness of this involvement.

Theme 4: Formal Sign-off

4.1 How the final decision was made
3.2 Who was involved

**Theme 5: Strategic Change Effectiveness**

5.1 Measures used to assess the effectiveness of strategic change decision-making processes

5.2 Subsidiary executive perceptions of the effectiveness of the process.

During this categorization process, the researcher looked for subjects or chunks of data that applied to more than one index label, as this could potentially indicate some interconnection between sub-themes or issues that may be relevant for subsequent analysis (Ritchie & Lewis 2006). Memoing was used by the researcher to note these types of issues and used throughout the analysis to provide a commentary on what was done, how it was analyzed along with notes and hunches about what the data mean. Meyers (2009) stressed that this form of note taking can be critical later in the analysis when arguments and conclusions are explored and developed.

As the indexing and categorizing of raw data was undertaken, a preliminary synthesizing of data was also done. Ritchie and Lewis (2006) note that this process serves to reduce the amount of data to a more manageable level and begins the process of identifying evidence to be used in subsequent analysis. At this point, a number of ‘quality control’ issues were observed as recommended by leading qualitative researchers (Ghauri & Gronhaug 2005; Mason 2006; Meyers 2009; Miles & Huberman 1994; Ritchie & Lewis 2006). First, important terms, phrases, or expressions from the participant’s own language were maintained as much as possible. Second, interpretation was kept to a minimum such that the original ‘expression’ could easily be seen and referred back to. And, third, no material was dismissed as irrelevant just because its inclusion did not appear to be relevant (Ritchie & Lewis 2006).

As the data from each case were collected and synthesized, an initial interpretation of descriptive accounts of the strategic change decision-making process was undertaken. This interpretation followed an approach recommended by Richie and Lewis (2006) which incorporated three key steps. First, substantive content and dimensions within each sub-theme were identified. Second, this content was interpreted into further ‘descriptive categories’ by ‘rewriting’ synthesized data into descriptive categories. This involved rewriting the data in terms of key concepts and content that emerged across
cases, but in such a way that the context and meaning was not altered (Ritchie & Lewis 2006). Third, where appropriate, groups of descriptive categories were assigned to higher level ‘classes’.

For example, one sub-theme was the management activities, resources and processes used by the initial project initiator(s) that led to identifying a need/opportunity for strategic change (Sub-theme 2.3 in Table 5.7.1). Various dimensions of this sub-theme emerged from the data including the use of different types of environmental scanning mechanisms. The first step of the interpretation of this data across the cases was to identify the nature of these different types of environmental scanning. The second step was to create descriptive categories as first step interpretations of raw data, such as ‘the parent used overseas consulting reports that suggested the impact of the global financial crisis would persist for the medium term’ and ‘the parent used informal discussions with local government officials suggesting that the impact of the global financial crisis on China would be lower’. Several cases from the raw data, while using slightly different language to the two descriptive categories described above, implied the same meaning. These two categories were then classified within higher level groups. For example, the category ‘the parent used overseas consulting reports suggesting the impact of the global financial crisis would persist for the medium term’ was classified into a broader group, ‘Used overseas information sources for environmental scanning to identify a need for strategic change’. This included other descriptive categories such as ‘Used overseas media sources to identify a need for strategic change’.

To assist the reader in understanding how data were interpreted, the reporting of findings presented in Chapters 7 and 8 includes much raw data (‘quotes’) to provide transparency in terms of how data is being interpreted (Boyle 2009; Bryman & Burgess 1994). A final point to note here is that interview data in Chinese was translated by the researcher into English. The researcher is a native English speaker who speaks and writes fluent Chinese and has lived and worked in China for over 15 years.

5.8.3 Drawing and Verifying Conclusions

An important element of the data analysis process that occurred in conjunction with the data management component described in Section 5.7.2 above was the process of identifying and explaining the different phenomenon, and the findings and relationships
occurring within and between themes and sub-themes based on the theory and research questions guiding the study. The theories and conceptual framework developed and presented in Chapter 4, along with the explanations provided by interviewees themselves, were used to explain these phenomenon and findings. This approach is commonly used in qualitative analysis (Richie & Lewis 2006; Yin 2003). In addition, when novel concepts that arose from data that could not be explained in terms of the initial framework, appropriate additional literature was integrated during the analysis (Bryman & Burgess 1994).

During the process of utilizing theory to explain findings emerging from the data, concepts from the analytical induction methodology were utilized (Meyers 2009; Punch 2005; Yin 2003). Specifically, beginning with the first case, explanations for findings were developed by applying and extending the theory in the conceptual framework, or by identifying other literature that may be appropriate. These explanations were subsequently compared against other cases and became more refined as more data was collected. This comparison essentially involved a pattern-matching logic which required the researcher to compare an empirical based pattern of events with a predicted one (or with several alternative predictions) (Yin 2003). During this pattern matching process, and in line with qualitative research best practice, the researcher played the role of devil’s advocate, looking for any possible source of invalidity (Yin 2003).

5.9 Conclusion

This chapter has presented the research methodology adopted for this study. A justification was provided for adopting a multiple qualitative case study methodology. The epistemological stand point was also provided, which lies between pure interpretivist and positivist perspectives. The unit of analysis or ‘case’ was defined as the MNE decision-making process associated with making a significant subsidiary strategic change decision. Section 5.5 summarized and prioritized key sampling criteria that need to be fulfilled to meet the study’s objectives. The strategy to recruit study participants and data collection instruments were then outlined and reconciled with the research questions developed in Chapter 4. Section 5.8 provided an overview of the data analysis strategy, which incorporated the broadly defined components of categorizing data into themes and a process where conclusions were drawn and verified.
by analysing explanations provided by interviewees and linking empirical findings to the theory and literature presented in the conceptual framework.
CHAPTER 5 APPENDICES
Appendix 5A: Information Statement and Cover Letter

Cover Letter:

[insert company name]
[insert date]

Attention: [insert name and position of Head of Organization]

Re: Invitation to Participate in the Research Project: ‘Strategic Change in China: A Study of Foreign Subsidiaries’

Dear [insert name of Head of Organization]

The purpose of this letter is to invite you and your firm to participate in the abovementioned research project. This project is part of Mr Jason McGovern’s studies at the University of Newcastle, Australia. Other members of the research team include Mr McGovern’s supervisors:

- Prof. Stephen Nicholas, Faculty of Business and Law, University of Newcastle; and
- Dr Brendan Boyle, Faculty of Business and Law, University of Newcastle.

The purpose of the research is to analyse how multinational enterprises make strategic change decisions for the China subsidiaries. We are seeking people that hold a management position in a foreign subsidiary operating in China that has undergone at least one significant strategic change since 2000 and has more than 100 full time employees. Your firm and its management team have been identified as meeting these criteria.

If you agree to participate, you and at least one other member of your management team will be asked to participate in one face-to-face interview that will be administered by Mr Jason McGovern. The interview will take the form of an in-depth, semi-structured interview with open-ended questions and will take place (again subject to your consent) in your offices during the period Jan-March 2012. This interview asks some general information about your foreign parent as well as your subsidiary. You are also asked about the changes in the activities and organization in your subsidiary since 2000, along with the causes of these changes. The interview should take between one and one and a half hour to complete.

Please note that participation by your firm and its management team is subject to your written consent. Written consent will also be required by individual members of your management team for their participation. If you do decide to participate, you may withdraw from the project at any time without giving a reason.
All participating firms will be presented with a complimentary report on the research which will potentially provide you with insight into how restructuring outcomes can be maximized in a China subsidiary context.

Included with this cover letter are the following documents:

- An ‘Information Statement’ that outlines the project’s objectives, participant requirements, research team obligations, risks and benefits of participating and your rights in relation to your participation.
- A Consent Form that you will need to complete if you are willing to participate and/or grant permission for members of your management team to participate.
- A copy of the ‘Interview Schedule’ that will be administered to you and members of your management team who wish to participate in the study.

If you are willing to participate, please complete, sign and scan the attached consent form and e-mail to Mr Jason McGovern at jason.mcgovern@uon.edu.au. Mr McGovern will then contact you by phone or e-mail and arrange a convenient time for interview. If you have any questions or require any further information, please contact Mr McGovern either by e-mail or on 1326 8380 755.

Thank you for considering this invitation and we look forward to hearing from you.

[Signature]

Professor Stephen Nicholas  Dr Brendan Boyle  Mr Jason McGovern
Professor of International Business  Senior Lecturer  PhD Candidate
Faculty of Business and Law  Faculty of Business and Law  Faculty of Business and Law
The University of Newcastle  The University of Newcastle  The University of Newcastle
Information Statement

Information Statement for the Research Project:
Strategic Change in China: A Study of Foreign Subsidiaries
Document Version 3; dated 18 January 2012

The Research Team

- Professor Stephen Nicholas, Pro Vice Chancellor, Faculty of Business and Law at the University of Newcastle;

- Dr Brendan Boyle, Newcastle Business School, University of Newcastle;

- Mr Jason McGovern, PhD Candidate, Faculty of Business and Law, University of Newcastle.

You are invited to participate in the research project identified above which is being conducted by the ‘Research Team’. The research is part of Mr Jason McGovern’s studies at the University of Newcastle, supervised by Professor Stephen Nicholas and Dr Brendan Boyle from the Faculty of Business and Law.

Why is the research being done?

The purpose of the research is to analyse the decision-making processes associated with foreign subsidiary strategic change in the People’s Republic of China. Specifically, the decision-making processes associated with these strategic changes will be examined.

Who can participate in the research?
We are seeking people that hold a management position in a foreign subsidiary operating in China that has undergone at least one strategic change activity since 2000 and has more than 100 full time employees. Invitations to participate in the research have been sent to a sample of firms in the Guangdong region.

**What choice do you have?**

Participation in this research is entirely your choice. Only those people who give their informed consent will be included in the project. Whether or not you decide to participate, your decision will not disadvantage you.

If you do decide to participate, you may withdraw from the project at any time without giving a reason and have the option of withdrawing any data, which identifies you.

**What would you be asked to do?**

If you agree to participate, you will be asked to participate in one face-to-face interview that will be administered by Mr Jason McGovern, a member of the Research Team. A copy of the interview schedule (which includes the questions that will be asked) will be sent to you at least one week prior to the scheduled interview.

The interview will take the form of an in-depth, semi-structured interview with open-ended questions and will take place in your offices during the period Feb-March 2012.

This interview asks some general information about your foreign parent as well as this subsidiary. You are also asked about the changes in the activities and organizations in your subsidiary since 2000, along with the causes of these changes.

Interviews will be tape-recorded and transcribed by Mr McGovern.

**How much time will it take?**

The interview should take between one to one and a half hours to complete.

**What are the risks and benefits of participating?**

Confidentiality is assured and there is no specific risk associated with participating.

You will be provided (at no cost to you) with a report on the research findings from this research project. You will not be required to formally request a copy of the report. One will be sent to you according to the contact details you provide us. The data will be of benefit by potentially facilitating the effective management of restructuring in organisations and will enable better decisions restructuring processes.

Your their decision to participate or not will not disadvantage you and your participation and responses will be confidential.

**How will your privacy be protected?**

Any information collected by the researchers which might identify you will be stored securely and only accessed by the researchers unless you consent otherwise, except as required by law.
The interview scripts and audio will be returned to Australia to University of Newcastle to be kept in Dr Brendan Boyle’s office. Other people apart from the researcher and supervisors will have no access to the data. Data will be kept for 5 years as per university’s policy and will be destroyed after 5 years.

To ensure companies and participants cannot be identified, pseudo names will be used. All data will be de-identified during the data aggregation process. No information that can be used to identify organisations will be included in the reporting of this research.

**How will the information collected be used?**

Data from the interview will be used in a thesis to be submitted for Mr Jason McGovern’s PhD degree at the University of Newcastle and may also be presented in academic publications.

A pseudonym will be used in reporting of the data in text reflecting the interview and role by number (For example, CEO1, Finance Manager 2 etc). No participants will be identified by name. A summary report of the findings from this study can be obtained from the researchers at the University of Newcastle: Contact details are provided below.

You will also be able to review transcripts of the interview to edit your contribution on request.

A report on the research findings will be presented to all research participants. You will not be required to formally request a copy of the report. One will be sent to you according to the contact details you provide us.

**What do you need to do to participate?**

Please read this Information Statement and be sure you understand its contents before you consent to participate. If there is anything you do not understand, or you have questions, contact the researcher.

If you are willing to participate, please sign and scan the attached consent form and e-mail to Mr Jason McGovern at jason.mcgovern@uon.edu.au. A member of the research team will then contact you to arrange a time convenient to you for the interview.

**Further information**

If you would like further information please contact:

Mr Jason McGovern
The University of Newcastle
Faculty of Business and Law
Callaghan NSW 2308
jason.mcgovern@uon.edu.au

OR

Dr Brendan Boyle
Faculty of Business and Law
The University of Newcastle
Callaghan NSW 2308
Brendan.boyle@newcastle.edu.au
Thank you for considering this invitation.

[Signature]

Prof Stephen Nicholas  Dr Brendan Boyle  Mr Jason McGovern
Professor of International Business  Senior Lecturer  PhD Candidate
Faculty of Business and Law  Faculty of Business and Law  Faculty of Business and Law
The University of Newcastle  The University of Newcastle  The University of Newcastle

**Complaints about this research**

This project has been approved by the University’s Human Research Ethics Committee, Approval No. **H-2011-0345**.

Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, it may be given to either:

Liang Jie (Jane)
Deputy Director of Office of International Cooperation and Exchange
Guangdong University of Foreign Studies
E-mail: Liangjie@mail.gdufs.edu.cn
Tel: +86 20 36209509
Fax: +86 20 36209250

Or,

The Human Research Ethics Officer,
Research Office, The Chancellery,
The University of Newcastle, University Drive,
Callaghan NSW 2308,
Australia.
Tel: +61 2 49216333
E-Mail: Human-Ethics@newcastle.edu.au.

Both of these contacts are independent of the research project described in this Information Statement.
Consent Form

Consent Form for the Research Project:
Strategic Change in China: A Study of Foreign Subsidiaries
Document Version 2; Dated 25/11/2011

I agree to participate in the above research project and give my consent freely.

And if applicable,

I agree to allow members of my management team to participate (subject to their individual consent). The participant information sheet and consent form will be distributed by the Human Resources Department where interested participants can contact the researcher directly.

I understand that the project will be conducted as described in the Information Statement, a copy of which I have retained.

I understand I can withdraw from the project at any time and do not have to give any reason for withdrawing

I consent to myself and the above mentioned members of their management team (subject to their individual approval) participating in an interview and having it recorded;

I understand that my personal information will remain confidential to the researchers.
I have had the opportunity to have questions related to participating in this research project answered to my satisfaction.

Print Name: ____________________________
Position: ________________________________
Company Name and Address: ________________________________
Signature: ________________________________
Date: ________________________________
Appendix 5B: Interview Schedule

STRATEGIC CHANGE DECISION PROCESSES IN CHINA: A STUDY OF FOREIGN SUBSIDIARIES

INTERVIEW SCHEDULE
<table>
<thead>
<tr>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Your subsidiary</strong></td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>Province</td>
</tr>
<tr>
<td><strong>Parent</strong></td>
</tr>
<tr>
<td>Country</td>
</tr>
<tr>
<td><strong>Asian headquarters (If applicable)</strong></td>
</tr>
<tr>
<td>City</td>
</tr>
<tr>
<td>Province/Country</td>
</tr>
</tbody>
</table>

**INTERVIEWEES**

Thank you for your participation in this interview on strategic change of multinational firms’ subsidiaries in China. This interview applies to Chinese subsidiaries staffed by more than 100 employees. It should be completed by the Chief Executive Officer or equivalent (such as Board Chair or Chief Operating Officer).

The interview will take the form of an in-depth, semi-structured interview with open ended questions and should take between 1.5 and 2 hours to complete.

This interview asks some general information about your foreign parent as well as this subsidiary. You are also asked about the changes in your subsidiary since 2005, along with the causes of these changes.
Part 1: Foreign Parent Company Background

1.1 Please estimate the following for your parent company in relation to its activities outside of China:

<table>
<thead>
<tr>
<th></th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Year and country in which your parent company was established.</td>
</tr>
<tr>
<td>(b)</td>
<td>Number of wholly owned subsidiaries outside of China.</td>
</tr>
<tr>
<td>(c)</td>
<td>Year and country in which first wholly owned subsidiary outside of China was established.</td>
</tr>
<tr>
<td>(d)</td>
<td>Number of joint ventures outside of China.</td>
</tr>
<tr>
<td>(e)</td>
<td>Year and country in which first joint venture outside of China was established.</td>
</tr>
<tr>
<td>(f)</td>
<td>Number of full acquisitions undertaken by your parent company outside of China.</td>
</tr>
<tr>
<td>(g)</td>
<td>Year and country in which first full acquisition undertaken by your parent company outside of China took place.</td>
</tr>
</tbody>
</table>

1.2 Please estimate the following for your parent company in relation to its activities inside China:

<table>
<thead>
<tr>
<th></th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Number of wholly owned subsidiaries in China.</td>
</tr>
<tr>
<td>(b)</td>
<td>Year and province in which first wholly owned subsidiary was established in China.</td>
</tr>
<tr>
<td>(c)</td>
<td>Number of joint ventures in China.</td>
</tr>
<tr>
<td>(d)</td>
<td>Year and province in which first joint venture in China was established.</td>
</tr>
<tr>
<td>(e)</td>
<td>Number of acquisitions undertaken by your parent company in China.</td>
</tr>
<tr>
<td>(f)</td>
<td>Year and province in which first acquisition undertaken by your parent company in China took place.</td>
</tr>
</tbody>
</table>

1.3 Please list the products and services of your foreign parent, your subsidiary and other subsidiaries owned by your parent, also making mention of:

(a) The producer (ie. your parent, your subsidiary or other subsidiary);

(b) The location in which each product or service is produced (City, Province, Country); and
(c) The approximate percentage of revenues that the product or service contributes to your foreign parent’s total revenues.

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Producer</th>
<th>Location Produced</th>
<th>% of total parent revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.4 Please provide a summary of your foreign parent company’s annual (consolidated) turnover, net income and number of employees.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual turnover</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RMB _____ million/ $US _____ million</td>
<td>RMB _____ million/ $US _____ million</td>
<td>RMB _____ million/ $US _____ million</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>RMB _____ million/ $US _____ million</td>
<td>RMB _____ million/ $US _____ million</td>
<td>RMB _____ million/ $US _____ million</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>_____ End 2006</td>
<td>_____ End 2009</td>
<td>_____ End 2011</td>
</tr>
</tbody>
</table>

1.5 In your opinion, how has your foreign parent performed against global industry benchmarks?

<table>
<thead>
<tr>
<th></th>
<th>Very Poor</th>
<th>Below Average</th>
<th>Average</th>
<th>Above Average</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-2009 (Global Financial Crisis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Part 2: Subsidiary Background**

2.1 What year was your subsidiary established?

2.2 Was your subsidiary established as a greenfield venture or by acquisition?

2.3 Was your subsidiary established as a wholly owned subsidiary or joint venture?

If your subsidiary is a JV, please indicate:

(a) Your foreign parent’s ownership share (along with any changes in ownership share since establishment), and

(b) Details of other shareholders, including enterprise type (Eg. State-owned Chinese enterprise, private Chinese company, other foreign enterprise etc.) and their respective shareholdings.

2.4 Please provide a summary of your subsidiary’s initial registered capital, annual turnover, number of employees and net income for each of the 2006, 2009 and 2011 financial years.

<table>
<thead>
<tr>
<th>Registered Capital</th>
<th>RMB _______ million/$US _______ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual turnover</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>RMB _______ million/</td>
</tr>
<tr>
<td></td>
<td>$US _______ million</td>
</tr>
<tr>
<td>Net Income</td>
<td>RMB _______ million/</td>
</tr>
<tr>
<td></td>
<td>$US _______ million</td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>End 2006</td>
</tr>
</tbody>
</table>

2.5 Describe your subsidiary’s role relative to your parent and other subsidiaries, providing an explanation for any changes in this role that have occurred over the last five years?
2.6 Please estimate the extent (expressed as a percentage (%)) to which the products sold and/or produced by your subsidiary depend on know-how from your foreign parent, your subsidiary, other subsidiaries and third parties (E.g. consultancy firm).

<table>
<thead>
<tr>
<th></th>
<th>Foreign Parent Know-how</th>
<th>Know-How of Other Subsidiary</th>
<th>Your Own Know-how</th>
<th>Third Party Know-How</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre 2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-2009 (Global Financial Crisis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.7 If your subsidiary has created new know-how in the last five years, please describe this know-how and where it was used (i.e. Your subsidiary, your parent, other subsidiaries).

2.8 In your opinion, how has your subsidiary performed against global industry benchmarks?

<table>
<thead>
<tr>
<th></th>
<th>Very Poor</th>
<th>Below Average</th>
<th>Average</th>
<th>Above Average</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2006-2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-2009 (Global Financial Crisis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Part 3: CEO Background

3.1 What year were you appointed to your current role in the subsidiary?

3.2 Please describe your professional background and experience before commencing your current role in the subsidiary making specific reference to:

(a) Restructuring related experience,

(b) Education (Degree type and where it was completed),

(c) Previous role/job description (with parent, or other firm),

(d) Previous China experience (Expatriates only), and

(e) Previous experience abroad (Local Chinese nationals only)

3.3 How has your parent formally expressed your current role in the subsidiary and your KPIs?
Part 4: Subsidiary Strategic Change History

4.1 What significant strategic change initiatives have occurred in your subsidiary during the last five years? Please rank these from most to least significant with an explanation for your ranking?

4.2 Please describe any ‘significant’ strategic change ideas that were rejected or your own strategic change ideas that have not yet been formally raised for consideration.
Part 5: Strategic Change Decision-making Process

Questions 5.1-5.8 will be repeated for at least one of the significant strategic changes identified in Q4.1.

5.1 Who proposed the strategic change idea? What was the initial strategic justification for the idea? Was the motivation for the strategic change idea related to China specific factors? Which elements of the initial project initiator(s) background or experience were most important in recognizing the need/opportunity for strategic change?

5.2 Please describe the management activities, resources and processes used by the initial project initiator(s) that led to identifying a need/opportunity for this strategic change and your opinion of the effectiveness of these processes.

5.3 How was the initial strategic change idea communicated to you (if you were not the originator)?

5.4 Please describe the strategy review, development and formal approval (Sign-off) process for this strategic change after the initial idea was tabled. What forums were used to share knowledge and ideas? Who participated and why? What were the different viewpoints, knowledge and ideas that they contributed? Were there difficulties associated with sharing ideas and knowledge during the review process? If so, what caused these difficulties and how were they dealt with? What is your perception of the effectiveness of these processes?

5.5 Please describe the involvement of your parent, regional headquarters (if applicable), other subsidiaries, and external stakeholders (such as the government) in the decision-making process associated with this strategic change along with your opinion of the appropriateness and effectiveness of this involvement.

5.6 Did, and if so how did previous subsidiary and parent level experiences inform the decision-making process associated with this strategic change? Please elaborate on whether or not you believe these experiences were important and why.

5.7 Did, and if so how did experiences of other firms (Eg. competitors, customers) inform the need/opportunity associated with this strategic change along with the decision-making process? Please elaborate on whether or not you believe these experiences were important and why.

5.8 In what ways, if any, were previous experiences of individual members of the subsidiary or parent incorporated into the decision-making process? Please elaborate on whether or not you believe these experiences were important and why.
Part 6: Performance and Learning Implications of Strategic Changes

Questions 6.1-6.5 will be repeated at least one of the significant strategic changes identified in Q4.1.

6.1 What measures did you use to assess the performance outcomes for the strategic change?

6.2 Describe how the strategic change met or did not meet these performance goals?

6.3 What did you learn from this strategic change that you, your parent or other subsidiaries can apply (or have already applied) to subsequent initiatives? Please elaborate in terms of:

(a) Recognizing a need/opportunity for a strategic change,

(b) The decision-making process, and

(c) The way in which the initiative has been implemented

6.4 Are the things you learned applicable to a wide range of strategic change initiatives or relevant to a particular type of change?

6.5 Describe any changes in your subsidiary’s relationship with your parent and other subsidiaries that have resulted from the strategic change?
CHAPTER 6

OVERVIEW OF CASES

6.1 Overview

This chapter provides a descriptive overview of the foreign subsidiaries and strategic change cases. Section 6.2 sets out the sample characteristics, reconciling the sample to the sampling criteria outlined in Chapter 5. Section 6.3 describes each subsidiary, outlining the background of the sample foreign subsidiaries where data on strategic change case(s) were collected along with their parent company. These overviews include a summary of parent and subsidiary products/services, a brief history both globally and in China, along with key historical financials and employee data. Note that pseudo names are used for all sample subsidiaries to meet University of Newcastle ethics requirements.

6.2 Sample Overview

This section presents a descriptive overview of strategic change cases and sample subsidiaries, reconciling the sample to the sampling criteria outlined in Chapter 5. The sampling criteria placed a priority on heterogeneity in terms of parent nationality. As shown in Table 5.2.1 below, the sample meets this criterion. There were three subsidiaries with United States (US) foreign parents, three with Japanese parents and two with parents headquartered in Germany. Other subsidiary parents originated from Hong Kong, Singapore, Canada, Sweden, the United Kingdom (UK) and Italy. The sample included nine wholly owned subsidiaries, four majority foreign owned JVs (including two with 85% foreign parent ownership and one each with 62% and 70% foreign ownership) and one 50/50 joint venture meeting the criteria that each subsidiary had to be at least 50% owned by the foreign parent. Table 6.2.1 also displays a broad range of industry sectors, including electronic components manufacturing, automobile and auto components manufacturing, telecommunications, food production, information technology (IT) services, heavy industry equipment manufacture, medical instruments manufacture and adhesives manufacturing.
Table 6.2.1 Sample Subsidiary Ownership Type, Home Country Nationality and Industry Sector

<table>
<thead>
<tr>
<th>Subsidiary Name</th>
<th>Subsidiary Type</th>
<th>Nationality</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou Adhesives</td>
<td>WOS</td>
<td>Sweden</td>
<td>Manufacturing: Industrial Adhesives</td>
</tr>
<tr>
<td>Guangzhou Converters</td>
<td>WOS</td>
<td>Japan</td>
<td>Manufacturing: Electric Components</td>
</tr>
<tr>
<td>German Hearing Instruments</td>
<td>WOS</td>
<td>Germany</td>
<td>Manufacturing: Medical Equipment</td>
</tr>
<tr>
<td>Foshan Magnetics</td>
<td>WOS</td>
<td>United Kingdom</td>
<td>Manufacturing: Electronic Components</td>
</tr>
<tr>
<td>Shun De Plastics</td>
<td>WOS</td>
<td>Hong Kong</td>
<td>Manufacturing: Heavy Industry Equipment</td>
</tr>
<tr>
<td>Guangzhou Lighting</td>
<td>WOS</td>
<td>Germany</td>
<td>Manufacturing: Electronic Components</td>
</tr>
<tr>
<td>US-Sino Circuit Boards</td>
<td>JV</td>
<td>United States</td>
<td>Manufacturing: Electronic Components</td>
</tr>
<tr>
<td>Singapore Tech China</td>
<td>WOS</td>
<td>Singapore</td>
<td>Service: IT Distribution and Network Design</td>
</tr>
<tr>
<td>Guangzhou Infant Formula</td>
<td>JV</td>
<td>United States</td>
<td>Manufacturing: Health Food Products</td>
</tr>
<tr>
<td>Sino-Japan Motorcycles</td>
<td>JV</td>
<td>Japan</td>
<td>Manufacturing: Motorcycles</td>
</tr>
<tr>
<td>Guangzhou Connectivity</td>
<td>WOS</td>
<td>United States</td>
<td>Manufacturing: Electronic Components</td>
</tr>
<tr>
<td>Guangdong Communications</td>
<td>JV</td>
<td>Canada</td>
<td>Manufacturing and Services: Telco network equipment</td>
</tr>
<tr>
<td>Guangzhou Garden Products</td>
<td>WOS</td>
<td>Italy</td>
<td>Manufacture: Motorized Garden Products</td>
</tr>
<tr>
<td>Guangzhou Pipeline</td>
<td>JV</td>
<td>Japan</td>
<td>Manufacturing: Auto Components</td>
</tr>
</tbody>
</table>

Note: WOS=Wholly owned subsidiary  
JV=Joint venture

As required by the sampling criteria, Table 6.2.2 shows that all subsidiaries employed at least 100 staff, but also displayed significant size heterogeneity ranging from 150 to 4,500 employees. In addition, each subsidiary and their parent had been in operation in excess of two years as stipulated in the criteria.

Sample subsidiary performance (also presented in Table 6.2.2) was measured by a subjective performance rating provided by interviewees from 1 (poor) to 5 (excellent). Two respondents were interviewed in all but one subsidiary. With the exception of two
cases, where interviewees had a one point performance discrepancy, interviewees gave the same performance rating. In the two cases where there was a one point discrepancy, the subjective performance rating was calculated by averaging the two responses. It was originally envisaged that a net income measure could be developed to provide an objective measure of performance. During the data collection process, however, it became evident that subsidiary financials were usually distorted due to complex transfer pricing arrangements. As such, the net income margin was a poor measure of performance. Based on the subjective measure, high performing subsidiaries comprised German Hearing Instruments, Guangzhou Infant Formula, Guangzhou Converters and Shunde Plastics. Foshan Magnetics and Guangdong Communications were the poorest performers.

<table>
<thead>
<tr>
<th>Subsidiary Name</th>
<th>Subsidiary Employees (2011)</th>
<th>Parent Year of Establishment</th>
<th>Subsidiary Year of Establishment</th>
<th>Mean Subsidiary Performance Rating given by interviewees (2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou Adhesives</td>
<td>251</td>
<td>1920s</td>
<td>2006</td>
<td>2</td>
</tr>
<tr>
<td>Guangzhou Converters</td>
<td>300</td>
<td>1944</td>
<td>1994</td>
<td>4</td>
</tr>
<tr>
<td>German Hearing Instruments</td>
<td>900</td>
<td>1847</td>
<td>1996</td>
<td>5</td>
</tr>
<tr>
<td>Foshan Magnetics</td>
<td>700</td>
<td>1824</td>
<td>2003</td>
<td>1</td>
</tr>
<tr>
<td>Shun De Plastics</td>
<td>950</td>
<td>1950s</td>
<td>1986</td>
<td>4</td>
</tr>
<tr>
<td>Guangzhou Lighting</td>
<td>610</td>
<td>1967</td>
<td>1999</td>
<td>3</td>
</tr>
<tr>
<td>US-Sino Circuit Boards</td>
<td>1,000</td>
<td>1996</td>
<td>2003</td>
<td>3</td>
</tr>
<tr>
<td>Singapore Tech China</td>
<td>1,200</td>
<td>1985</td>
<td>2000</td>
<td>3.5</td>
</tr>
<tr>
<td>Guangzhou Infant Formula</td>
<td>1,000</td>
<td>1920s</td>
<td>1995</td>
<td>4.5</td>
</tr>
<tr>
<td>Sino-Japan Motorcycles</td>
<td>4,000</td>
<td>1920s</td>
<td>1992</td>
<td>4</td>
</tr>
<tr>
<td>Guangzhou Connectivity</td>
<td>4,500</td>
<td>1999</td>
<td>1995</td>
<td>3</td>
</tr>
<tr>
<td>Guangdong</td>
<td>1,100</td>
<td>1895</td>
<td>1995</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 6.2.3 shows that the sample comprised a total of 14 sample subsidiaries and 19 strategic change cases. As stipulated in the sampling criteria, there are a range of different strategic change types. Among these strategic change cases are two implementations of new enterprise resource planning (ERP) systems which resulted in significant changes to the role and activities of multiple subsidiary divisions. There were three substantial lay-off initiatives, three cases of subsidiary division restructure, three subsidiary entries into new product markets, three cases of a substantial sales and distribution strategy overhauls, four cases of significant product and process technology changes and one major expansion in production capacity where the original intention was to expand the subsidiary’s sales network from being only an exporter of product to selling product in China’s domestic market.

<p>| Subsidiary Name          | Strategic Change Cases                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Guangzhou Adhesives      | (1) Implementation of an ERP system that has effectively moved control over sales and customer account management from the sales division to the finance division of the subsidiary that reports directly to headquarters (HQ). (2) Replacement of several senior subsidiary executives                                                                                                                                                                                                                       |
| Guangzhou Converters     | (3) Removal and relocation of the sales function from the subsidiary to the Hong Kong regional head office. (4) Development and sale of a new product.                                                                                                                                                                                                                                                                                  |
| Guangzhou Hearing        | (5) Move from nationwide network of agents and on-sellers to development of direct sales and service offices nationwide.                                                                                                                                                                                                                                                                                                |
| Instruments              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Foshan Magnetics         | (6) Lay-off of 20% of the subsidiary workforce. (7) Removal and relocation of sales function from the subsidiary to Hong Kong regional head office.                                                                                                                                                                                                                                                                             |
| Shunde Plastics          | (8) Development and implementation of a lean production initiative which involved overhaul of existing production processes. (9) Lay-off of 10% of subsidiary workforce.                                                                                                                                                                                                                                                                 |
| Guangzhou Lighting       | (10) Relocation of the China R&amp;D division from the parent company’s Zhuhai subsidiary to Guangzhou Lighting. This restructuring also involved moving the reporting line of this R&amp;D division from reporting directly to head office to reporting to the CEO at Guangzhou Lighting.                                                                                           |</p>
<table>
<thead>
<tr>
<th>Company</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>US-Sino Circuit Boards</td>
<td>(11) Major infrastructure investment in a new production facility with original intention of expanding into domestic China market.</td>
</tr>
<tr>
<td>Singapore Tech China</td>
<td>(12) Overhaul in process management, involving dissolution of a subsidiary division that had a charter to give final approval for each stage of the ordering, inventory and sales process. Functional divisions such as sales and purchasing could not engage in most of their own activities without sign-off from this so called ‘business affairs management’ division prior to this overhaul. Post-restructuring, they were granted this authority.</td>
</tr>
<tr>
<td>Guangzhou Infant Formula</td>
<td>(13) Introduction of a new ERP system.</td>
</tr>
<tr>
<td>Sino-Japan Motorcycles</td>
<td>(14) Manufacture and sale of first locally (China subsidiary) designed and developed product. (15) Introduction of ‘customer experience centres’ in the subsidiary’s China sales outlets. These experience centres have been structured as motorcycle enthusiast clubs where the company’s customers can learn about new products, upcoming events (such as motorcycle races in China) and share their hobby with other enthusiasts. The initiative represented a significant shift in sales and distribution strategy.</td>
</tr>
<tr>
<td>Guangzhou Connectivity</td>
<td>(16) Implementation of an automation initiative focused on replacing a number of labour intensive production processes with automated equipment.</td>
</tr>
<tr>
<td>Guangdong Communications</td>
<td>(17) Attempt to introduce a new modem product developed in an overseas subsidiary into the China market.</td>
</tr>
<tr>
<td>Guangzhou Garden Products</td>
<td>(18) Outsource a series of components associated with the production process. Prior to the restructuring, the entire production process was done in-house. After the restructuring, the subsidiary has only maintained control over R&amp;D, components related to core technology and final assembly.</td>
</tr>
<tr>
<td>Guangzhou Pipeline</td>
<td>(19) Attempts to move from a ‘one customer’ sales strategy to sell to a broader China customer base.</td>
</tr>
</tbody>
</table>

An important methodology issue involved ensuring an interview was obtained with the subsidiary CEO and one other subsidiary manager who was closely involved in the strategic change decision, to enable data triangulation and to obtain a more complete picture of the decision-making process. When the CEO was not available or not involved with the initiative, another senior manager who was closely involved was chosen to participate. As shown in Table 4.2.4, these criteria were met for each case, with the exception of Guangzhou Lighting and Guangzhou Garden Products where only one subsidiary executive was interviewed. In the Guangzhou Lighting case, however, the interviewee respondent held the Chief Executive Officer position and was the key individual driving the strategic change process. For Guangzhou Garden Products, the
CEO was the sole subsidiary level driver of the initiative. To gain an important local government perspective, however, the opportunity arose in Guangzhou Garden products to interview a local government official involved in the subsidiary’s outsourcing initiative. As such, two interviewees were still interviewed for this case.

Interviews were carried out between January and May 2012. All firms were interviewed at least once. However, some subsidiaries were approached for a second interview to clarify or expand on specific issues that emerged as the data collection progressed. Interview dates and respondent positions within each sample subsidiary are summarized in Table 6.2.4 below.

<table>
<thead>
<tr>
<th>Subsidiary Name</th>
<th>Respondent Position</th>
<th>Date of First Interview</th>
<th>Date of Second Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou Adhesives</td>
<td>Chief Executive Officer</td>
<td>Feb 11</td>
<td>Mar 1</td>
</tr>
<tr>
<td></td>
<td>Sales Director</td>
<td>Feb 12</td>
<td>Mar 2</td>
</tr>
<tr>
<td>Guangzhou Converters</td>
<td>Chief Executive Officer</td>
<td>Feb 8</td>
<td>Mar 15</td>
</tr>
<tr>
<td></td>
<td>Human Resource Manager</td>
<td>Feb 8</td>
<td>Mar 15</td>
</tr>
<tr>
<td>German Hearing Instruments</td>
<td>Sales Director</td>
<td>Feb 7</td>
<td>Mar 15</td>
</tr>
<tr>
<td></td>
<td>Customer Service Director</td>
<td>Feb 16</td>
<td></td>
</tr>
<tr>
<td>Foshan Magnetics</td>
<td>Chief Executive Officer</td>
<td>Feb 13</td>
<td>Mar 15</td>
</tr>
<tr>
<td></td>
<td>Chief Financial Officer</td>
<td>Feb 13</td>
<td></td>
</tr>
<tr>
<td>Shunde Plastics</td>
<td>Quality Control Director</td>
<td>Feb 14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Factory Manager</td>
<td>Feb 14</td>
<td></td>
</tr>
<tr>
<td>Guangzhou Lighting</td>
<td>Chief Executive Officer</td>
<td>Feb 17</td>
<td></td>
</tr>
<tr>
<td>US-Sino Circuit Boards</td>
<td>Board Director</td>
<td>Feb 21</td>
<td>Mar 22</td>
</tr>
<tr>
<td></td>
<td>Consultant</td>
<td>Feb 21</td>
<td>Mar 23</td>
</tr>
<tr>
<td>Singapore Tech China</td>
<td>Chief Financial Officer</td>
<td>Feb 22</td>
<td>Mar 27</td>
</tr>
<tr>
<td></td>
<td>Product Manager</td>
<td>Feb 22</td>
<td>Mar 30</td>
</tr>
<tr>
<td>Guangzhou Infant Formula</td>
<td>Chief Financial Officer</td>
<td>Feb 23</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product Manager</td>
<td>Feb 23</td>
<td></td>
</tr>
<tr>
<td>Sino-Japan Motorcycles</td>
<td>Deputy General Manager</td>
<td>Feb 24</td>
<td>Apr 3</td>
</tr>
<tr>
<td></td>
<td>Public Relations Director</td>
<td>Feb 24</td>
<td></td>
</tr>
<tr>
<td>Guangzhou Connectivity</td>
<td>Chief Financial Officer</td>
<td>Feb 15</td>
<td>Apr 12</td>
</tr>
<tr>
<td></td>
<td>Public Relations Director</td>
<td>Feb 15</td>
<td>Apr 13</td>
</tr>
<tr>
<td>Guangdong Communications</td>
<td>Board Director/Chief Engineer</td>
<td>Feb 27</td>
<td>Apr 10</td>
</tr>
<tr>
<td></td>
<td>Marketing Manager</td>
<td>Feb 27</td>
<td>Apr 10</td>
</tr>
<tr>
<td>Guangzhou Garden Products</td>
<td>Chief Executive Officer</td>
<td>Feb 29</td>
<td>Apr 24</td>
</tr>
<tr>
<td></td>
<td>Director of the Nansha Economic Development Zone</td>
<td>Feb 29</td>
<td>Apr 24</td>
</tr>
<tr>
<td>Guangzhou Pipeline</td>
<td>Deputy General Manager</td>
<td>Feb 28</td>
<td>Apr 25</td>
</tr>
<tr>
<td></td>
<td>Marketing Manager</td>
<td>Feb 28</td>
<td>Apr 25</td>
</tr>
</tbody>
</table>
6.3 Overview Individual Subsidiaries

6.3.1 Guangzhou Adhesives

- Parent Background

Guangzhou Adhesives’ parent, Sweden Industrials, was established in the late 1920s as an amalgamation of three European floor manufacturers. A series of acquisitions and divestures across US, Europe and Asia since Sweden Industrials’ establishment culminated in a conglomerate that today incorporates three key businesses: flooring materials, and transmission, conveyor belts and industrial adhesives. It now has over 80 wholly owned subsidiaries globally throughout Asia, UK, North and South America and Europe

As at December 31, 2010, Sweden Industrials had 5,943 employees, with the ‘Asia/Australia and Africa’ region accounting for around 13% of total staff. Table 6.3.1 indicates that in the same year, it generated net sales of CHF$1.79b with a net income of CHF$163m. Sweden Industrials’ 2010 profit represented a recovery from the profit hit taken during the GFC in 2008-2009, which head office attributed to restructuring charges in the 2008 and 2009 financial years. In terms of sales by sector, flooring systems accounted for 48.8% of net sales in 2010, while the Adhesives Division accounted for 32.7% and conveyor belt products accounted for 18.5%

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (CHF Millions)</th>
<th>Net Income (CHF Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,879</td>
<td>61.2</td>
<td>5,800</td>
</tr>
<tr>
<td>2007</td>
<td>2,004</td>
<td>111</td>
<td>6,040</td>
</tr>
<tr>
<td>2008</td>
<td>1,919</td>
<td>16</td>
<td>6,563</td>
</tr>
<tr>
<td>2009</td>
<td>1,782</td>
<td>76</td>
<td>5,958</td>
</tr>
<tr>
<td>2010</td>
<td>1,790</td>
<td>163</td>
<td>5,943</td>
</tr>
</tbody>
</table>

Sweden Industrials has three wholly owned subsidiaries in China, located in Guangzhou, Shanghai and Shenyang. Established in 2009, its Shanghai office serves as a regional

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1 Information sourced from Sweden Industrials’ official web site.
3 Information obtained from Sweden Industrials’ Annual Report (2010).
5 Information in this table sourced from Sweden Industrials’ Annual Reports (2006-2010).
The company’s wholly owned Shenyang facility was established in 1997 and produces conveyer belts.

- Guangzhou Adhesives

Its Guangzhou subsidiary, Guangzhou Adhesives, is the sample subsidiary for this study. Guangzhou Adhesives was established by the acquisition of a local Chinese firm in 2006. The subsidiary is engaged in the production and sale of industrial adhesives and reports directly to Sweden Industrial’s Adhesives Division. It produces a broad range of adhesives for various market segments including flooring, automobile, packaging, textile and shoes, wood products and semi-finished polymer products.

The subsidiary operates as a self-contained unit, performing each part of the value chain from R&D to production and sales, with a focus on China’s domestic market. It does not rely on HQ or other subsidiaries for any production or sales capability, nor does it share any of its own knowledge and capabilities with HQ or other subsidiaries. The subsidiary currently employs 251 staff. While its revenues have remained relatively steady since 2006 at around RMB250m per annum, net income margins have dropped from around 5 percent to 1 percent over the same period. Interviewee perspectives in relation to this performance downturn are discussed in Chapters 7 and 8.

6.3.2 Guangzhou Converters

- Parent Background

Guangzhou Converters is a wholly owned subsidiary of Japan Electronic Components, a Tokyo listed electronic components manufacturer, established in 1944. Japan Electronic Component’s products have a wide range of applications across various industry sectors from core electronics for mobile phones, computers, and audio-visual equipment to new applications for automotive electronics, environment, energy and healthcare.

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6 Information in this paragraph sourced from Sweden Industrial’s official web site, official media releases and interview with Guangzhou Adhesives’ CEO.
7 Information in this paragraph obtained from interviews with Guangzhou Adhesives’ CEO and Sales Director along with Sweden Industrials’ web site.
8 Information obtained from interview with Guangzhou Adhesives’ CEO.
9 Information obtained from interviews with Guangzhou Adhesives’ CEO and Sales Director.
10 Information sourced from Japan Electronic Components’ official web site.
The Japanese conglomerate has 62 wholly owned subsidiaries globally. Most subsidiaries were established as greenfield ventures, with the rest established through acquisition. The company opened its first overseas facility in the former Soviet Union in 1962 and currently has 14 subsidiaries in Greater China, 13 in Europe, 7 in the US, 23 in Japan and 9 subsidiaries in other locations. Greater China accounted for the largest percentage of global sales volume in 2010 with 48.3%, followed by Japan (15%) and other Asian countries (17.3%)\textsuperscript{11}.

In 1994, Japan Electronic Components established its first production and marketing subsidiary in Beijing, China. Since then, it has established numerous trading and marketing subsidiaries in Jiangsu, Shanghai, Shenzhen and Tianjin. In 2007, it established a design and engineering center along with a regional marketing head office, located in Shanghai. Following the acquisition of UK Components in 2011 (Guangzhou Converters’ parent at that time), Japan Electronic Component’s China operations were further expanded to include Guangzhou Converters\textsuperscript{12}. UK Converters was and still is the world’s largest producer of DC-DC converters and direct report for Guangzhou Converters in relation to production and technology issues.

Table 6.3.2 shows that, prior to the GFC (up until 2007), Japan Electronic Components had been a strong performer. A substantial drop in revenues in 2008 coupled with additional capital investments and a substantial increase in employees saw profitability reduced to near break-even. 2010, however, saw the company almost return to pre-GFC levels.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (Yen Billions)</th>
<th>Net Income (Yen Billions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>580</td>
<td>71</td>
<td>26,956</td>
</tr>
<tr>
<td>2007</td>
<td>620</td>
<td>78</td>
<td>29,392</td>
</tr>
<tr>
<td>2008</td>
<td>510</td>
<td>2</td>
<td>34,067</td>
</tr>
<tr>
<td>2009</td>
<td>510</td>
<td>23</td>
<td>33,431</td>
</tr>
<tr>
<td>2010</td>
<td>620</td>
<td>52</td>
<td>Not Available</td>
</tr>
</tbody>
</table>

\textsuperscript{11} Information obtained from Japan Electronic Components’ Annual Report (2011).
\textsuperscript{12} Information obtained from Japan Electronic Components’ official web site.
\textsuperscript{13} Information in this table sourced from Japan Electronic Components’ Annual Reports (2006-2010).
Guangzhou Converters

As noted above, Guangzhou Converters became a subsidiary of Japan Electronic Components when it acquired the subsidiary’s parent, UK Converters, in 2011. Guangzhou Converters is located in Guangzhou City, Guangdong Province. Its core product is DC-DC converters. For Japan Electronic Components, this product category is a relatively minor one in terms of contribution to revenues, accounting for less than 10% of Japan Electronic Component’s total sales volume.

Guangzhou Converters produces and sells its DC-DC converter product to both China’s domestic market and to overseas markets, and relies almost entirely on UK Converters’ technology and know-how. The subsidiary is not encouraged to undertake new product development and both UK Converters and Japan Electronic Components specifically discourage it from making any changes to the core technology. 300 staff are currently employed by the subsidiary and this figure has remained steady over the last five years. Output, however, has tripled over the same period from around RMB100m to almost RMB300m.

DC-DC converters are key components in portable electronic devices such as cellular phones and laptop computers, which are supplied with power from batteries. These electronic devices often contain several sub-circuits, each with its own voltage level requirement different from that supplied by the battery or an external supply. The converter facilitates the correct distribution of voltage levels to different components.

6.3.3 Guangzhou Hearing Instruments

Parent Background

Guangzhou Hearing Instrument’s parent, German Global, is a diversified conglomerate spanning a range of technology sectors, including healthcare, energy, industry and infrastructure. The company has a footprint in over 190 countries, including 48 wholly

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14 Information in this paragraph obtained from Japan Electronic Components’ Annual Reports (2006-2010).
15 Information obtained from interview with Guangzhou Converters’ Chief Executive Officer (CEO).
16 Information sourced from interviews with Guangzhou Converters’ CEO and Human Resource Manager.
17 Information sourced from www.futureelectronics.com/en/power.../power-supplies.aspx and interview with Guangzhou Converters’ CEO.
owned subsidiaries and 27 joint ventures in China. As shown in Table 4.3.3, German Global’s financial performance has remained relatively stable, even throughout the GFC. In 2011, the company accrued around EUR$85.6 billion in revenues, with profit exceeding US$9b, and globally employs 360,000 people.

<table>
<thead>
<tr>
<th>Table 6.3.3 German Global: Key Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>2006</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
</tbody>
</table>

- Guangzhou Hearing Instruments

Guangzhou Hearing Instruments was established in 1996 as a greenfield wholly owned subsidiary of German Global, located in Guangzhou City, Guangdong Province. It belongs to its parent’s healthcare division, which is one of the world’s largest providers of imaging systems, laboratory diagnostics, healthcare IT and hearing instruments. Before 2006, the subsidiary was primarily a production plant supplying hearing aids to its parent’s global markets. The subsidiary utilizes technology and know-how derived from its parent. In 2006, the subsidiary began to sell into China’s domestic market. Currently, Guangzhou Hearing Instruments exports around half its product overseas although the percentage of output sold domestically is increasing each year. Output since 2006 has increased from around RMB230m in 2006 to RMB300m in 2011, while the number of employees has grown from around 600 to 900.

6.3.4 Foshan Magnetics

- Parent Background

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18 Information obtained from German Global’s published overview of its history in China.
19 Information for this table sourced from German Global’s Annual Reports (2006-2010).
20 Information obtained from published overview of German Global.
21 Information obtained from interviews with Guangzhou Hearing Instruments Customer Service Director and Sales Director.
Foshan Magnetics is a wholly owned subsidiary of UK Industrials Group, a London stock exchange listed company established in 1824. Today, UK Industrials designs and manufactures customized electronic components for wireless and other advanced electronics applications. The company is a global market leader in the design and supply of electromagnetic interference (EMI) shielding, thermal management products, specialty metal products, signal integrity components, and antenna solutions, as well as radio frequency (RF) modules and wireless remote controls and systems. It has plants in China, United States, Brazil, Canada, the Czech Republic, Germany, Hong Kong, India, Japan, Korea, Malaysia, Mexico, Singapore, South Africa, Sweden, Taiwan and the United Kingdom.

Table 6.3.4 UK Industrials Group: Key Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (GBP Millions)</th>
<th>Net Income (GBP Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>608.3</td>
<td>50.7</td>
<td>11,500</td>
</tr>
<tr>
<td>2007</td>
<td>637.2</td>
<td>127.7</td>
<td>14,500</td>
</tr>
<tr>
<td>2008</td>
<td>635.3</td>
<td>14.3</td>
<td>14,900</td>
</tr>
<tr>
<td>2009</td>
<td>528.8</td>
<td>(16)</td>
<td>11,765</td>
</tr>
<tr>
<td>2010</td>
<td>567.4</td>
<td>(1.6)</td>
<td>12,605</td>
</tr>
<tr>
<td>2011</td>
<td>586</td>
<td>(119)</td>
<td>9,912</td>
</tr>
</tbody>
</table>

UK Industrials Group has performed particularly poorly since the onset of the GFC, posting losses every year since 2009. As global economic conditions slowed to a crawl, the company restructured in early 2009, streamlining operations by closing some of its US and European plants and engaging in substantial lay-offs. In terms of product segments, UK Industrial Group’s EMI shielding products, the product category to which Foshan Magnetics belongs, accounted for 40% of sales volume in 2011.

UK Industrials Group presently has six subsidiaries and eight production facilities in China, all established within the last ten years. Two of these subsidiaries were acquired when the company acquired Foshan Magnetic’s US parent. Other Chinese subsidiaries

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22 Information sourced from UK Industrials’ published overview on official web site.
23 Information sourced from UK Industrials’ published overview on official web site.
24 Information in this table sourced from UK Industrials’ Annual Reports (2006-2010).
25 Information obtained from UK Industrials’ Annual Reports (2006-2010).
26 Information obtained from UK Industrials’ Annual Reports (2006-2010).
were established as greenfield, wholly owned subsidiaries. The subsidiaries produce most of the core products of UK Industrials Group, with plants located in Shanghai, Guangzhou, Shenzhen, Kunshan, Tianjin and Foshan.

- **Foshan Magnetics**

Foshan Magnetics was established in 2003 as a greenfield wholly owned subsidiary, located in the district of Foshan in Guangdong Province. It produces and sells its parent’s EMI shielding product to domestic clients, including auto producers, communication providers and IT hardware suppliers. Almost all Guangzhou Magnetics’ technology is provided by the parent, but some product localization is required by the subsidiary to be able to use local raw materials in the production process.

In terms of financial performance, the subsidiary’s net sales dropped significantly between 2006 and 2009, from RMB450m to RMB382m, which, according to interviewees, was in large part due to the GFC. In 2011, sales volume recovered slightly to reach RMB425m. However, profitability has been relatively poor, posting a small loss of RMB1m in 2011. Employee numbers dropped from 900 in 2006 to 700 in 2011, reflecting a global lay-off initiative undertaken by UK Industrials.

**6.3.5 Shunde Plastics**

- **Parent Background**

Shunde Plastics is a wholly owned subsidiary of HK Plastics, a publicly listed company in Hong Kong and producer of plastic molding equipment. HK Plastics was established by Dr. Wang, a mainland Chinese from Shandong who migrated to Hong Kong in the 1950s. HK Plastics currently produces around 15,000 machines annually with a customer base covering more than 65 countries worldwide including China, Taiwan, US, Canada, France, UK, Brazil, Argentina, Mexico and S.E. Asia. It has around 3,000 employees.

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27 Information in this paragraph obtained from UK Industrials’ Annual Reports (2006-2010) and Official Web Site.
28 Information sourced from interviews with Foshan Magnetics’ CEO and CFO.
29 Information sourced from interviews with Foshan Magnetics’ CEO and CFO.
30 Pseudo name.
31 Information sourced from HK Plastics’ official web site.
staff with a yearly turnover of around HK$2.4 billion. All its key manufacturing and R&D centers are located in Mainland China with manufacturing plants in Shunde, Ningbo and Shandong. The company’s main client base includes electrical appliance and toy manufacturers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (HKD Millions)</th>
<th>Net Income (GBP Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2,155</td>
<td>337</td>
<td>3,500</td>
</tr>
<tr>
<td>2008</td>
<td>2,316</td>
<td>339</td>
<td>3,700</td>
</tr>
<tr>
<td>2009</td>
<td>1,603</td>
<td>85</td>
<td>2,500</td>
</tr>
<tr>
<td>2010</td>
<td>1,806</td>
<td>153</td>
<td>2,800</td>
</tr>
<tr>
<td>2011</td>
<td>2,423</td>
<td>343</td>
<td>3,000</td>
</tr>
</tbody>
</table>

HK Plastics first production facilities were established in Hong Kong in the 1970s. The company expanded into the China Mainland in 1986 by establishing Shunde Plastics (the sample subsidiary for this study) in Shunde County, Guangdong Province. Originally, HK Plastics held an equity share of 51% in Shunde Plastics, but bought out the local Mainland partner in 2003. Other production facilities were established in 1991 and 2001 in Ning Bo, China.

- Shunde Plastics

Shunde Plastics develops and manufactures its own products, with the subsidiary sharing its R&D with HQ and other subsidiaries. This suggests a subsidiary role resembling a ‘world product mandate’ (Birkinshaw & Morrison 1995) or ‘strategic leader’ (Bartlett & Ghoshal 1986) for its production activities. While the subsidiary initially coordinated its own sales activities, most of the sales function has been relocated to the parent in HK. The subsidiary’s output increased from RMB750m in 2006 to RMB811m in 2011, while employee numbers have dropped from 1,000 to 950 over the same period. According to subsidiary respondents, this is a direct result of the

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34 Information sourced from interviews with Shunde Plastics’ Quality Control Director, Factory Manager and the company’s official web site.
35 Information obtained from interviews with Shunde Plastics’ Factory Manager and Quality Control Director.
two restructuring initiatives undertaken in the subsidiary described in Section 6.2 above\textsuperscript{36}.

6.3.6 Guangzhou Lighting

- Parent Background

Guangzhou Lighting is a wholly owned subsidiary of German Lighting Components, a producer of electronic components for lighting, originally established in Switzerland in 1967. German Lighting Components has joint product development and manufacturing sites in Germany, China and India, a manufacturing facility in Philippines and sales subsidiaries in London and Italy\textsuperscript{37}. Presently, it has five key product groups comprising control gear units for high pressure discharge lamps, indoor light management systems, control gear units for fluorescent lamps, LED components and inductive components\textsuperscript{38}.

German Lighting Component’s first foreign production facility was founded in 1998 in the Philippines, near Manila. In 1999, the company made its first investment in China, establishing a production and sales facility in Zhuhai. In 2010 it established an additional sales subsidiary in Beijing and spun-off the sales division of the Zhuhai subsidiary, relocating it in Guangzhou. It is this spun-off subsidiary (Guangzhou Lighting) that is the sample subsidiary for this study. Table 6.3.6 indicates that the company has suffered a major drop in revenues since the GFC and has made losses since 2009 with no obvious signs of recovery.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
Year & Net Sales (EUR Millions) & Net Income (EUR Millions) & Employees \\
\hline
2006 & 187 & 16 & 4,000 \\
2009 & 185 & (3) & 4,000 \\
2011 & 202 & (7) & 3,500 \\
\hline
\end{tabular}
\caption{German Lighting Components: Key Indicators\textsuperscript{39}}
\end{table}

\textsuperscript{36} Information sourced from interviews with Shunde Plastics’ Factory Manager and Quality Control Director.
\textsuperscript{37} Information sourced from German Lighting Components’ official web site.
\textsuperscript{38} Information sourced from German Lighting Components’ official web site.
\textsuperscript{39} Information for this table sourced from interview with Guangzhou Lighting CEO.
• Guangzhou Lighting

As noted above, Guangzhou Lighting Electronics is a spin-off of the parent’s Zhuhai subsidiary. According to the Chief Executive Officer of Guangzhou Lighting Electronics, the subsidiary drives its own domestic sales strategy with little interference from HQ. It acts as an on-seller for its Zhuhai subsidiary which produces the product sold by Guangzhou Lighting. Despite German Lighting Components’ problems in Europe, the company’s China operations have managed to remain profitable, albeit experiencing a significant drop in revenues during the GFC. Output in 2011 reached RMB411 million with 610 employees.\(^\text{40}\)

6.3.7 US-Sino Circuit Boards

• Parent Background

US-Sino Circuit Boards is JV majority owned by US Systems, a NASDAQ listed company that produces printed circuit boards (PCBs) used in various types of electronic equipment. US Systems’ products are sold to the automotive technology, telecommunications, computer storage systems, industrial, medical and aerospace industries. It was formed in 1996 through mergers and acquisitions of several PCB fabricators and back panel assemblers.\(^\text{42}\)

In late 1999, US Systems purchased its first business in China and expanded its capacity by acquisition between 2000-2010, because the company aimed to expand its low cost manufacturing base. Currently, the company has five wholly owned China subsidiaries established through direct acquisitions, located in Guangzhou, Zhongshan, Shenzhen, Qingdao and Shanghai. The company also has two joint venture subsidiaries. One joint venture is US-Sino Circuit Boards, the sample subsidiary for this study which is located in Huizhou and 85% owned by US Systems. The other joint venture is located in Huiyang, another district in Guangdong province, and is 95% owned by US Systems.

\(^{40}\) Information sourced from interview with Guangzhou Lighting CEO.

\(^{41}\) Information for this paragraph sourced from US Systems’ official web site.

\(^{42}\) Information for this paragraph sourced from US Systems’ official web site.
All subsidiaries produce and sell entirely to overseas customers (outside of Mainland China) and all produce printed circuit boards, the core product of US Systems\textsuperscript{43}.

As indicated in Table 6.3.7, US Systems financial performance has been inconsistent and relatively poor. In 2008-2009, during the GFC, substantial losses were posted. While the revenue levels have recovered since then, net income margin remains low. Currently, the company employs 14,099 staff worldwide with around 13,000 of these located in China.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (USD Millions)</th>
<th>Net Income (USD Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>734</td>
<td>(25)</td>
<td>Not Available</td>
</tr>
<tr>
<td>2007</td>
<td>714</td>
<td>8</td>
<td>Not Available</td>
</tr>
<tr>
<td>2008</td>
<td>713</td>
<td>(15)</td>
<td>Not Available</td>
</tr>
<tr>
<td>2009</td>
<td>496</td>
<td>(55)</td>
<td>Not Available</td>
</tr>
<tr>
<td>2010</td>
<td>929</td>
<td>16</td>
<td>14,842</td>
</tr>
<tr>
<td>2011</td>
<td>1,057</td>
<td>30</td>
<td>14,099 (13,000 in China)</td>
</tr>
</tbody>
</table>

US-Sino Circuit Boards’ local Chinese parent is Sino Industrials, a state owned Chinese enterprise with a diversified portfolio of Sino-foreign joint ventures in the industrials sector. Sino Industrials is headquartered in Huizhou, 150km from Guangzhou. It has a direct charter from the Guangdong Provincial Government to engage in minority joint ventures with foreign firms in the manufacturing sector. The government sees this charter as a way of acquiring foreign technology and management know-how from leading global firms. Sino Industrials does not itself possess any of its own production related capabilities. Its contribution to its joint ventures is its connections and relationships with local officials, an asset highly valued by each of its joint venture partners. Because of its charter, the Chinese parent is extremely diversified with various minority interests in Sino-Foreign JVs across a broad range of manufacturing sectors\textsuperscript{45}.

- US-Sino Circuit Boards

\textsuperscript{43} Information obtained from US Systems’ Annual Reports (various years).
\textsuperscript{44} Information for this table obtained from US Systems’ Annual Reports (various years).
\textsuperscript{45} Information sourced from interviews with US Sino Circuit Boards board member and consultant.
US-Sino Circuit Boards was established in 2003 as a greenfield joint venture. It is currently 85% owned by US Systems and 15% owned by the local Chinese parent. It relies on the foreign parent for technology and its role is to manufacture products for its parent’s overseas clients. Products need to be tailor-made to the specifications required by these customers, primarily automobile manufacturers in the US and Europe. Since each product is tailored to a specific customer, the joint venture (JV) has a concentrated customer base. This role as a low cost producer of a parent developed product has remained relatively stable since the JV’s establishment, although the foreign parent and the JV did explore expanding the role of the subsidiary to include selling product to China’s domestic market. For reasons outlined in subsequent chapters, this project did not proceed. Output in 2011 was estimated at RMB800m and the venture employs around 1,000 people.

6.3.8 Singapore Tech. China

- Parent Background

Singapore Tech. China is a wholly owned subsidiary of Singapore Technologies, a provider and on-seller of information and communications technology (ICT) products and services. Singapore Technologies was established in 1985 and listed on the SGX Mainboard in 2001. It has three main businesses, comprising enterprise systems, IT services and IT distribution. The enterprise systems business involves the design and installation of IT infrastructure, the services business provides IT professional, technical support and training services and the distribution business distributes fast-moving IT hardware products. Singapore Technologies has a network of more than 23,000 active channel partners across China, Thailand, Malaysia, Singapore, Indonesia and the Philippines. Leading global brand names like Hewlett-Packard, Apple, Microsoft, Dell, Lenovo, IBM, Oracle and EMC utilize the company’s extensive channel partner network to distribute their products across the region. As shown in Table 6.3.8 below, the company’s financial performance has been sound and one of significant steady,

\[\text{\footnotesize 46} \text{ Information sourced from interviews with US-Sino Circuit Boards board member and consultant.}\]

\[\text{\footnotesize 47} \text{ Information sourced from Singapore Technologies’ official web site.}\]
growth over the last five years. The spike in profits in 2010 is attributed to a one off extraordinary gain from the sales of shares\textsuperscript{48}.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{Year} & \textbf{Net Sales (SGD Millions)} & \textbf{Net Income (SGD Millions)} & \textbf{Employees} \\
\hline
2006 & 2,300 & 20.1 & 1,708 \\
2007 & 2,800 & 23.4 & 2,300 \\
2008 & 2,900 & 29.4 & 2,890 \\
2009 & 3,252 & 38 & 3,430 \\
2010 & 3,085 & 54 & 3,670 \\
2011 & 3,607 & 39 & 3,900 \\
\hline
\end{tabular}
\caption{Singapore Technologies: Key Indicators\textsuperscript{49}}
\end{table}

Singapore Technologies’ business is centered on Asia. It has 42 offices in 6 countries including China, Thailand, Malaysia, Singapore, Indonesia and the Philippines. It has 8 subsidiaries in Thailand, 7 subsidiaries in Malaysia, 9 in Indonesia and 3 in the Philippines. In China, the company has one ‘umbrella’ wholly owned subsidiary, Singapore Tech China, which is the sample subsidiary for this study.

- Singapore Tech. China

Singapore Tech. China is a wholly owned subsidiary of Singapore Technologies and has eight subsidiaries of its own located in the Chinese cities of Beijing, Chengdu, Guangzhou, Shanghai, Shenyang, Shenzhen, Wuhan and Xi’an\textsuperscript{50}. It was established in 2000 after the acquisition of a domestic Chinese company, which was founded in 1992. The subsidiary engages in each of the three core offerings by Singapore Technologies, but, according to subsidiary interviewees, its focus is primarily on the distribution business. The financial performance of Singapore Tech. China has basically followed the same trend as that of the parent, achieving steady growth in revenues and profits each year. In 2011 revenues reached RMB1 billion with a net income of RMB20m. The subsidiary currently employs 1,200 staff\textsuperscript{51}.

\textsuperscript{48} Information sourced from Singapore Technologies’ official web site and Annual Reports (Various years).
\textsuperscript{49} Information in this table sourced from Singapore Technologies’ Annual Reports (Various years).
\textsuperscript{50} Information sourced from Singapore Technologies’ Annual Report and interview with Singapore Tech China’s Product Manager.
\textsuperscript{51} Information sourced from interview with Singapore Tech China’s CFO and Product Manager.
6.3.9 Guangzhou Infant Formula

- Parent Background

Guangzhou Infant Formula is a majority owned JV of US Infant Formula, a global producer of infant formula established in the 1920s.\(^{52}\) US Infant Formula first expanded overseas in the 1950s, establishing an overseas subsidiary in Mexico. Now the company has overseas operations in Asia, Latin America, Europe and Africa. US Infant Formula’s financial performance has been strong, which is expected given its leading global market position. Table 6.3.9 shows that revenues and profit have grown each year. China is the company’s largest market, accounting for around USD$740m of global sales in 2011. Roughly 90% of sales in China can be attributed to the company’s premium brands, with the company targeting China’s rapidly growing middle class\(^ {53}\).

Table 6.3.9 US Infant Products: Key Indicators\(^ {54}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (USD Millions)</th>
<th>Net Income (USD Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2,576</td>
<td>423</td>
<td>5,050</td>
</tr>
<tr>
<td>2008</td>
<td>2,882</td>
<td>394</td>
<td>5,200</td>
</tr>
<tr>
<td>2009</td>
<td>2,826</td>
<td>399</td>
<td>5,300</td>
</tr>
<tr>
<td>2010</td>
<td>3,141</td>
<td>453</td>
<td>6,500</td>
</tr>
<tr>
<td>2011</td>
<td>3,677</td>
<td>509</td>
<td>6,000</td>
</tr>
</tbody>
</table>

- Guangzhou Infant Formula

Guangzhou Infant Formula was established in 1995. It is a joint venture between US Infant Products and a ‘silent’ local partner who has an 11% stake\(^ {55}\). The subsidiary produces and sells several brands in the region\(^ {56}\). Currently, the subsidiary employs around 1,000 staff, a number which has doubled since 2006. Sales have also doubled in the same period, reaching RMB5.8b in 2011. Net income margin is also high, over 15%.

\(^{52}\) Information sourced from US Infant Formula’s official web site.
\(^{53}\) Information sourced from US Infant Formula’s Annual Reports (Various years).
\(^{54}\) Information in this table sourced from US Infant Formula’s Annual Reports (Various Years).
\(^{55}\) Information sourced from interview with Guangzhou Infant Formula’s CFO.
\(^{56}\) Information sourced from interview with Guangzhou Infant Formula’s CFO.
Part of the reason for this exponential growth, has been a major expansion of subsidiary production capacity.\(^{57}\)

### 6.3.10 Sino-Japan Motorcycles

- **Parent Background**

Sino-Japan Motorcycles is a 50/50 joint venture between Japan Automobile Co. and Guangzhou Automobile Company. Japan Automobile Co. is a global automobile and motorcycle manufacturer. It was established in the late 1920s and was listed publicly in Tokyo in 1954. It established its first overseas production facility in the US in 1959, beginning its overseas expansion in the 1960s. It now has more than 120 manufacturing facilities in 30 countries worldwide and over 17 million customers annually.\(^{58}\)

<p>| Table 6.3.10 Japan Automobile Co.: Key Indicators(^{59}) |
|---------------------------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th><strong>Year</strong></th>
<th><strong>Net Sales (Yen Millions)</strong></th>
<th><strong>Net Income (Yen Millions)</strong></th>
<th><strong>Employees</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>9,907,976</td>
<td>597,033</td>
<td>144,785</td>
</tr>
<tr>
<td>2007</td>
<td>11,087,140</td>
<td>592,332</td>
<td>167,231</td>
</tr>
<tr>
<td>2008</td>
<td>12,002,834</td>
<td>600,039</td>
<td>178,960</td>
</tr>
<tr>
<td>2009</td>
<td>10,011,241</td>
<td>137,005</td>
<td>181,876</td>
</tr>
<tr>
<td>2010</td>
<td>8,579,174</td>
<td>268,400</td>
<td>176,815</td>
</tr>
<tr>
<td>2011</td>
<td>8,936,867</td>
<td>534,088</td>
<td>179,060</td>
</tr>
</tbody>
</table>

Table 6.3.10 shows that Japan Automobile Co.’s financials have been steady even through the GFC period. Automotive sales accounted for more than 75% of Japan Automobile Co.’s revenues. Motorcycle sales accounted for almost 15% of revenues in 2011.\(^{60}\)

Japan Automobile Co. has 12 joint ventures and subsidiaries in China, focusing primarily on the production of automobiles and motorcycles. The company’s motorcycle business in China began in 1992 with the start of motorcycle production under a technology alliance. Initially, three joint ventures located in Guangdong.

\(^{57}\) Information sourced from interview with Guangzhou Infant Formula’s CFO.

\(^{58}\) Information sourced from Japan Automobile Co.’s official web site.

\(^{59}\) Information in this table has been extracted from Japan Automobile Co.’s Annual Reports (Various Years).

\(^{60}\) Information sourced from Japan Automobile Co.’s official web site.
Chongqing and Tianjin were established to produce and sell motorcycles. The first JV, Sino-Japan Motorcycles (the sample subsidiary for this study), was established in Guangdong in 1992. In 2004, Japan Automobile Co. ceased manufacturing motorcycles in its Chongqing JV, consolidating its motorcycle production in Guangdong and Tianjin operations. Both the Tianjin and Guangdong joint ventures now produce over a million motorcycles per year.\(^{61}\)

In 2004, Japan Automobile Co. established a regional head office for China in Shanghai, which is responsible for the development of business and product strategies for its motorcycle business in China, as well as for providing support in areas such as marketing, service, quality and procurement. In 2005, the company established its first wholly owned R&D facility in China. These developments reflect the company’s policy of promoting the localization of its operations in regions worldwide.\(^ {62}\)

- **Sino-Japan Motorcycles**

Sino-Japan Motorcycles is a 50/50 joint venture between Japan Automobile Co. and Guangzhou Automobile Co. Sino-Japan Motorcycles produces 100cc-125cc motorcycles and scooters, which are primarily medium-high end products. Current production is around 800,000 units per year, representing an increase in output of 30% since 2006. Last year, Sino-Japan Motorcycles achieved a cumulative production of 8 million motorcycles since its establishment. It currently employs 4,000 staff. While the majority of product is sold to China’s domestic market, motorcycles have been exported throughout Asia, America, Africa and other countries.\(^ {63}\)

6.3.11 **Guangzhou Connectivity**

- **Parent Background**

Guangzhou Connectivity is a wholly owned subsidiary of US Connectivity, a New York listed company that was formed by the amalgamation of three leading US electronic component producers in 1999. US Connectivity designs and manufactures over

\(^{61}\) Information sourced from Japan Automobile Co.’s official web site and media releases.

\(^{62}\) Information sourced from Japan Automobile Co.’s official web site, media releases and interview with Sino-Japan Motorcycles’ Public Relations Director.

\(^{63}\) Information sourced from interviews with Sino-Japan Motorcycle’s Public Relations Director and Deputy General Manager and official media releases issued by the firm.
500,000 electronic products that connect and protect the flow of power and data for a wide range of consumer electronics, energy, healthcare, automotive, aerospace and communication network products\textsuperscript{64}.

US connectivity now operates in over 50 countries, with manufacturing facilities in approximately 20 countries strategically located close to customers’ facilities. While there has been a shift of manufacturing operations to emerging regions such as China and Eastern Europe, the company’s strategy globally maintains a well-balanced operating presence\textsuperscript{65}.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (US$ Millions)</th>
<th>Net Income (US$ Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12,574</td>
<td>(567)</td>
<td>94,000</td>
</tr>
<tr>
<td>2007</td>
<td>14,373</td>
<td>1,687</td>
<td>96,000</td>
</tr>
<tr>
<td>2008</td>
<td>10,256</td>
<td>(3,265)</td>
<td>78,000</td>
</tr>
<tr>
<td>2009</td>
<td>12,070</td>
<td>1,103</td>
<td>89,000</td>
</tr>
<tr>
<td>2010</td>
<td>14,312</td>
<td>1,245</td>
<td>95,000</td>
</tr>
</tbody>
</table>

Table 6.3.11 shows that US Connectivity employed 95,000 employees and had revenues in excess of US$14b in 2011. The company’s financial performance has been relatively poor, however, posting net losses in two of the last six years. Net income margins have been low in each of its profit making years. The GFC hit the company hard, posting a loss of over US$3b in 2009\textsuperscript{67}.

One of US Connectivity’s predecessors (i.e. the firms that were amalgamated to form US Connectivity) entered the China market in 1989. Its first two production facilities were established in Shanghai in 1989 and 1992. Guangzhou Connectivity, the sample subsidiary for this study was established in 1995. Another wholly owned subsidiary was established in 1996 in Qingdao. In 2006, the company undertook more expansion in China, establishing additional production facilities in Suzhou, Qingdao, Donghuang, Kunshan, Wuxi and Zhuhai. It also established its first China R&D center in Shanghai.

\textsuperscript{64} Information sourced from US Connectivity’s official web site.
\textsuperscript{65} Information sourced from US Connectivity’s official web site.
\textsuperscript{66} Information in this table obtained from US Connectivity’s Annual Reports (Various Years).
\textsuperscript{67} Information sourced from US Connectivity’s Annual Reports (Various Years).
and since then has added two additional R&D centers in Beijing and Shenzhen with over 1,000 engineers employed. US Connectivity also has a regional head office in Shanghai\(^\text{68}\). China sales in 2010 reached US$1.9b, 16% of US Connectivity’s global revenue with around 38,000 employees and 16 production plants.

- Guangzhou Connectivity

Guangzhou Connectivity was established in Huizhou, around 150km from Guangzhou in China’s Guangdong Province. The subsidiary is almost entirely reliant on its parent for technical know-how and product design. Its primary focus is on connector products for the automotive and computer sector. It does not engage in any sales related activities, with sales coordinated by regional headquarters in Shanghai.

The scale of the subsidiary is reasonably large, reaching a production output of RMB1.2b last year with almost all of its sales going to domestic customers. The subsidiary currently employs around 4,500 employees. Guangdong Connectivity’s output doubled between 2006 and 2009, but the GFC placed substantial pressure on the business, which resulted in a drop in output between 2009 and 2011.

6.3.12 Guangdong Communications

- Parent Background

Guangdong Communications was formerly a joint venture subsidiary of Canadian Telecommunications Company, Canadian Telco, with 62% owned by Canadian Telco and the remainder by several Chinese government owned telecommunication and postal entities. Canadian Telco is, however, in the final stages of bankruptcy and liquidation. Part of this liquidation involved the sale of the joint venture to a Swedish telecommunications conglomerate, Swedish Telco. A final transaction price of US$50m was agreed upon by all of the JV’s shareholders and the transaction was

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\(^\text{68}\) Information sourced from interviews with Guangzhou Connectivity’s CFO, Public Relations Director and US Connectivity Annual Reports (Various Years).
finalized in late 2011. The subsidiary is now a wholly owned subsidiary of Swedish Telco\(^69\).

Canadian Telco was once one of the largest telecommunications equipment providers in North America and produced core network switching, wireless and optical systems for network operators. Its wireline and enterprise network equipment included systems for digital voice and data switching, routing and call center communications. Wireless products included cellular base stations and controllers. The company also made such long-haul fiber-optic products.\(^70\)

In 2010, Canadian Telco had revenues of US$620 million with a net loss of US$4 billion and around 30,000 employees. Once having a market cap valuation of $250 billion during the dot-com boom, the Company fell on hard times as the telecom industry suffered through declining sales and eroding profit margins after the tech bubble burst in the early 2000's. Many of the company’s rivals managed to survive by merging with other industry players. Canadian Telco, however, did not find a suitable partner\(^71\)

Listed in Sweden, Swedish Telco’s core network products include antennas, transmitters, switching systems, and other products used to build wireless telecommunications networks. It primarily serves network operators, transportation companies, utilities providers, and broadcasters. Its growing services business offers consulting, network build-out, and network management and maintenance services. Swedish Telco also makes multimedia software and related products that enable such digital media services such as Internet television\(^72\). Amidst the GFC, Table 6.3.12 shows that Swedish Telecommunication’s financial performance has been strong, posting profits each year. Of its 104,525 employees, 12,500 are in China.

\(^{69}\) Information sourced from China Tech News and interview with Guangdong Communications board member.
\(^{70}\) Sources: China Tech News and interview with Guangdong Communications board member.
\(^{71}\) Sources: China Tech News and interview with Guangdong Communications board member.
\(^{72}\) Information for this paragraph sourced from Sweish Telco’s official web site.
Table 6.3.12 Swedish Telco: Key Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (SEK Millions)</th>
<th>Net Income (SEK$ Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>203,300,000</td>
<td>11,200</td>
<td>90,261</td>
</tr>
<tr>
<td>2011</td>
<td>226,900,000</td>
<td>12,600</td>
<td>104,525</td>
</tr>
</tbody>
</table>

- Guangdong Communications

Guangdong Communications was officially founded in March, 1995. Its charter was to develop and sell high-end communications technology with a China domestic market focus. The initial investment was US$180M, but substantial subsequent investments were made after this. The role of the subsidiary was to produce and develop sales in the domestic market.

Throughout its history, the subsidiary has won a high number of large contracts including Guangdong Telecom (to supply backbone cable network) and China Unicom (various contracts focused on the expansion of GSM and CDMA networks). Despite winning these tenders, prior to the subsidiary’s sale to Swedish Telco, the company’s revenues and profitability had been on a downward trend, from a net income of RMB81m in 2006 to a loss of RMB8m in 2010 as the subsidiary struggled with technical issues associated with fulfilling their domestic customer contracts. Revenues had more than halved during this period from RMB900m to RMB400m.

6.3.13 Guangzhou Garden Products

- Parent Background

Guangzhou Garden Products is a wholly owned subsidiary of Italian Garden Products, a privately owned manufacturer of lawn mowers and powered garden equipment. Italian Garden Products was established in 2000 with the merger of four major global producers of garden products, with the oldest of these firms having over 75 years of

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73 Information for this paragraph sourced from Swedish Telco’s Annual Reports (Various years).
74 Information sources from interview with Guangdong Communications Board Member and Marketing Manager.
75 Information sourced from interview with Guangdong Communications Board Member and Marketing Manager.
76 Information sourced from interview with Guangdong Communications board member.
history, dating back to the 1930s. It produces customized private labels and original equipment manufacture (OEM) products, as well as its own branded solutions which it sells to consumer markets in Europe and the US. Italian Garden Products produces and sells a wide range of gardening equipment, including manual and ride-on lawn mowers along with a range of other garden products including chain saws, brush cutters, trimmers and air blowers. Italian Garden Products currently has 12 wholly owned subsidiaries and 2 representative offices located in the Netherlands, China, France, UK, Germany, Denmark, Norway, Finland, Poland, Czech Republic, Italy, Sweden, Russia and Slovenia. It has five main production bases: two are located in Italy, one in Sweden, one in Slovakia and Guangzhou Garden Products, which was established in 2007. While most of these subsidiaries were greenfield ventures, a few were acquisitions of going concerns.

The European powered garden equipment market is estimated to be worth EUR 2.2 billion. Italian Garden Products is the market leader with an estimated 21% market share including a 40% market share in the specific segment of ride-on and front mowers. Last year, the company sold more than 1.6 million lawn movers, 130,000 ride on mowers and 500,000 handheld products such as brushcutters, trimmers and chainsaws. As shown in table 6.3.13, financial performance has been sketchy, however, barely breaking even since the onset of the financial crisis in 2008-09.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (EUR Millions)</th>
<th>Net Income (EUR Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>546</td>
<td>55</td>
<td>1,800</td>
</tr>
<tr>
<td>2008</td>
<td>600</td>
<td>45</td>
<td>1,900</td>
</tr>
<tr>
<td>2009</td>
<td>462</td>
<td>1</td>
<td>1,460</td>
</tr>
<tr>
<td>2010</td>
<td>400</td>
<td>2</td>
<td>1,350</td>
</tr>
<tr>
<td>2011</td>
<td>200 (US$260)</td>
<td>4 (US$5.3)</td>
<td>1,050</td>
</tr>
</tbody>
</table>

77 Information sourced from Italian Garden Products’ official web site.
78 Information sourced from interview with Guangzhou Garden Products’ CEO and Italian Garden Products’ official web site.
79 Estimate on Italian Garden Products’ official web site.
80 Information sourced from Italian Garden Products media release.
81 Information in this table sourced from interview with Guangzhou Garden Products’ CEO.
• Guangzhou Garden Products

Guangzhou Garden Products was established in 2006. The subsidiary is located a short distance outside of Guangzhou in a special economic and development zone. Guangzhou Garden Products’ role and strategy has changed somewhat since its establishment. In its first year of operations, the subsidiary was not engaged in production, but rather was given a procurement role, focused on sourcing cheaper raw materials for its European operations. At that time, the Euro was very strong against the Chinese currency. However, within a few months of establishment, this role expanded to incorporate production, and the subsidiary is now one of five key production locations for the subsidiary focused on the production of lawn mowers. Guangzhou Garden Products does not have any sales function and relies on its parent for technology and know-how related to production\textsuperscript{82}.

Despite the declining performance of Guangzhou Garden Products’ parent, the subsidiaries output has doubled each year, reaching RMB500m in 2011. No profit figures were provided. The CEO explained that net income figures provided in audited financial statements do not reflect those that would be achieved if the subsidiary controlled its own sales, but rather are generated by quite complex transfer pricing arrangements. He went on to explain that the large increase in revenues, despite global economic conditions, is primarily due to a recognition on the part of HQ that to remain competitive, more production has to source and produce from low cost locations such as China\textsuperscript{83}.

6.3.14 Guangzhou Pipeline

• Parent Background

Guangzhou Pipeline, established in 1984, is a joint venture between Japan Pipeline Components and a Chinese state-owned automobile producer. Japan Pipeline Components produces fuel, brake, engine, and transmission tubes for automobile producers. While its customer list is broad, most of its products are sold to Toyota as a tier 1 supplier. Other customers include Honda, Nissan, Mitsubishi Daihatsu and

\textsuperscript{82} Information sourced from interview with Guangzhou Garden Products’ CEO.

\textsuperscript{83} Information sourced from interview with Guangzhou Garden Products’ CEO.
Mazda along with a number of US auto component producers. Japan Pipeline Components was established in 1956 and did not make its first overseas expansion until 1984 when it acquired a US firm. Since then the company has expanded both by acquisition and greenfield investment into Thailand, Indonesia, France and China. Its initial expansion into China occurred in 2004, when it established two joint ventures, one in Tianjin and one in Guangzhou. Both China ventures have Toyota as their sole customer supplying Toyota’s joint ventures in Tianjin and Guangzhou.\(^8^4\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (Yen Millions)</th>
<th>Net Income (Yen Millions)</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>152,400</td>
<td>17,500</td>
<td>4,069</td>
</tr>
<tr>
<td>2008</td>
<td>170,300</td>
<td>17,700</td>
<td>4,547</td>
</tr>
<tr>
<td>2009</td>
<td>122,100</td>
<td>8,500</td>
<td>4,328</td>
</tr>
<tr>
<td>2010</td>
<td>126,000 (US 1.5b)</td>
<td>9,800</td>
<td>4,716</td>
</tr>
</tbody>
</table>

Japan Pipeline Component's performance has been impacted significantly by the difficult economic climate, particularly since the GFC. However, as shown in Table 6.3.14, the company has remained profitable during this time. Currently, it employs around 4,700 staff globally with revenues of around US$1.5b.

- Guangzhou Pipeline

Guangzhou Pipeline is 70% percent owned by the Japanese parent and 30% by its local Chinese partner, a local Chinese automobile producer. Established in 2004, the JV’s role is to produce parent designed and developed product, and sell exclusively to Toyota, as directed by HQ. Its main products mirror those of the parent, including fuel pipeline, shock components and brake pipeline components\(^8^6\).

The subsidiary’s financial performance is declining, barely breaking even in the last financial year. The company’s revenues have increased, reaching RMB100m in 2011.

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\(^8^4\) Information sourced from official Japan Pipeline Components web site, official Company media releases and interview with Guangzhou Pipeline Deputy General Manager.

\(^8^5\) Information in this table obtained from interview with Guangzhou Pipeline Deputy General Manager.

\(^8^6\) Information sourced from interviews with Guangzhou Pipeline Deputy General Manager and Marketing and Sales Manager.
Profitability, however, has been difficult due to a margin squeeze from its one and only customer. It employed 150 staff in 2011\textsuperscript{87}.

\textsuperscript{87} Information sourced from interviews with Guangzhou Pipelines’ Deputy General Manager and Marketing and Sales Manager.
CHAPTER 6 CONFIDENTIAL APPENDIX: SAMPLE MNES

(1) Guangzhou Adhesives
Parent Name: Omitted
Subsidiary Name: Omitted

(2) Guangzhou Converters
Parent Name: Omitted
Subsidiary Name: Omitted

(3) Guangzhou Hearing Instruments
Parent Name: Omitted
Subsidiary Name: Omitted

(4) Foshan Magnetics
Parent Name: Omitted
Subsidiary Name: Omitted

(5) Shunde Plastics
Parent Name: Omitted
Subsidiary Name: Omitted

(6) Guangzhou Lighting
Parent Name: Omitted
Subsidiary Name: Omitted

(7) US-Sino Circuit Boards
Parent Name: Omitted
Subsidiary Name: Omitted

(8) Singapore Tech. China
Parent Name: Omitted
Subsidiary Name: Omitted

(9) Guangzhou Infant Formula
Parent Name: Omitted
Subsidiary Name: Omitted

(10)  Sino-Japan Motorcycles
Parent name:  Omitted
Subsidiary Name:  Omitted

(11)  Guangzhou Connectivity
Parent Name:  Omitted
Subsidiary Name:  Omitted

(12)  Guangzhou Garden Products
Parent name:  Omitted
Subsidiary name:  Omitted

(13)  Guangdong Communications
Parent name:  Omitted
Subsidiary name:  Omitted

(14)  Guangzhou Pipeline Components
Parent name:  Omitted
Subsidiary name:  Omitted
CHAPTER 7

FINDINGS: HEADQUARTERS-DRIVEN CASES

7.1 Introduction

The main findings emerging from the interview data are presented in Chapter 7 and Chapter 8. Two MNE decision-making process typologies associated with subsidiary strategic change initiatives emerged from the data. ‘HQ driven cases’ refer to cases where the subsidiary strategic change idea originated from and was promoted by HQ; ‘subsidiary driven cases’ refer to cases where the strategic change idea was identified and driven by the subsidiary. This chapter presents findings related to HQ driven cases, while Chapter 8 presents findings related to subsidiary driven cases. Each case involved some change to the nature of, or how resources were deployed in the subsidiary. Table 7.1.1 categorizes both HQ driven and subsidiary driven subsidiary change cases.

<table>
<thead>
<tr>
<th>Strategic Change Case</th>
<th>Sample Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HQ Driven Cases:</strong></td>
<td></td>
</tr>
<tr>
<td>Replacement of key subsidiary executives</td>
<td>Guangzhou Adhesives</td>
</tr>
<tr>
<td>Lay-off initiative</td>
<td>Foshan Magnetics</td>
</tr>
<tr>
<td>Implementation of ERP system</td>
<td>Guangzhou Adhesives</td>
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<tr>
<td></td>
<td>Guangzhou Infant Formula</td>
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<tr>
<td>Removal and relocation of the sales function from subsidiary to a regional HQ.</td>
<td>Guangzhou Converters</td>
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<tr>
<td></td>
<td>Foshan Magnetics</td>
</tr>
<tr>
<td>Introduction of new modem product</td>
<td>Guangdong Communications</td>
</tr>
<tr>
<td>Automation project</td>
<td>Guangzhou Connectivity</td>
</tr>
<tr>
<td>Re-assessment of initiative to expand into China domestic market</td>
<td>US-Sino Circuit Boards</td>
</tr>
<tr>
<td>Lean production initiative</td>
<td>Shunde Plastics</td>
</tr>
<tr>
<td>Overhaul in process management</td>
<td>Singapore Tech. China</td>
</tr>
<tr>
<td><strong>Subsidiary Driven Cases:</strong></td>
<td></td>
</tr>
<tr>
<td>Development of new product to sell to existing customer base</td>
<td>Guangzhou Converters</td>
</tr>
<tr>
<td></td>
<td>Sino-Japan Motorcycles</td>
</tr>
<tr>
<td>Relocation of China R&amp;D division from parent’s China production subsidiary to sample subsidiary</td>
<td>Guangzhou Lighting</td>
</tr>
</tbody>
</table>
The remainder of this chapter is structured as follows. Section 7.2 presents the key empirical findings and a typology derived from these findings for HQ driven cases. Sections 7.3-7.6 then present a detailed description and analysis of the data that informs the typology utilizing the methodology outlined in Chapter 5. Specifically, interviewee data is drawn on to obtain and present a description of the decision-making process, identify characteristics that varied across cases and provide insight into the drivers of this variance. The analysis also incorporates the extant strategic change literature and the theory underlying strategic change decision-making set out in the conceptual framework. Where appropriate, the analysis incorporates other literature and theories relevant to empirical findings. A chapter summary is provided in Section 7.7.

### 7.2 Key Empirical Findings and HQ Driven Case Typology

Figure 7.2.1 presents a typology of the decision-making process for HQ driven cases emerging from the findings. As predicted in the conceptual framework, the decision-making process for each subsidiary strategic change case incorporated an idea generation process, a review and development process and a formal sign-off process.

Figure 7.2.1 shows that the idea generation process for each HQ driven subsidiary change case comprised three common components:

1. HQ identifying a problem/opportunity requiring a subsidiary-level strategic change
2. HQ developing an initial strategic change idea for the subsidiary
3. HQ pitching the strategic change idea to subsidiary executives

For almost all of the HQ driven cases, each of these components incorporated routine (as opposed to ad hoc) processes. For each case, the interview data revealed that subsidiary executives had limited involvement in the first two of the three components,
except for some cases, to provide specific subsidiary internal data to HQ. In other words, subsidiary executives were not involved in the decision-making process until the strategic change idea was pitched to them.

The typology in Figure 7.2.1 also shows that the review and development process for each HQ-driven strategic change cases included three common components:

1. HQ continuing to sell the strategic change idea to subsidiary executives
2. Joint HQ-subsidiary discussions about the ‘appropriateness’ of the strategic change idea for the subsidiary
3. Developing a strategic change idea into a strategy that could be implemented in the subsidiary, which involved developing different functional aspects relevant to a strategy, such as marketing, finance and/or human resource considerations, along with an implementation plan for the subsidiary

Again, each of these components incorporated routine (as opposed to ad hoc) processes. The third phase of the strategic change decision-making process in Figure 7.2.1 was the formal sign-off to proceed/not proceed with the initiative. This sign-off involved a signature from an executive(s) with authority to approve the strategy before it could be implemented. The process was effectively a ‘rubber stamp’ where subsidiary executives reported that no new knowledge was incorporated into the decision-process.

Given the focus in this thesis on understanding how knowledge is shared, integrated and utilized during the decision-making process, the formal sign-off process is, therefore, given lower emphasis in the discussion of findings presented in this chapter. In all the HQ-driven strategic change cases, final sign-off authority resided with HQ. Sometimes this resided with the CEO at HQ, while, for other cases, it resided with HQ executives directly responsible for the subsidiary. Importantly, though, it was HQ executives who were the final decision-makers. Surprisingly, subsidiary sign-off was not required for any HQ driven subsidiary strategic change cases.

While each HQ driven case incorporated the ‘common’ decision components described above and included in the box labelled ‘Common Components of Process Across Cases’ at the top of Figure 7.2.1, the boxes underneath describe the variances associated with the nature of these components across cases and the drivers of this variance. As shown in Figure 7.2.1, these variances across cases are labeled as Group 1(a) cases (‘China
Information/experience ‘Deficient’), Group 1(b) cases (‘Active Subsidiary Participation’) and Group 2 cases (‘China Information/Experience ‘Sufficient’).

The most important factor that distinguished between Group 1 cases (both Group 1(a) and Group 1(b)) and Group 2 cases was whether the idea generation process incorporated sufficient and appropriate China sourced information and experience; and this, in turn, was determined by the extent of in-country China work experience of individual HQ executives. This in-country China work experience refers to the personal work experience of individual HQ executives in senior management roles in China. China sourced information refers to information gleaned from sources located in China, while China sourced experience refers to experiences occurring in China. For Group 2 cases, HQ executives did utilize sufficient and appropriate China information and experience (designated in Figure 7.2.1 with red shading) during the idea generation process, because their individual HQ executives had extensive in-country China work experience. The reverse was true for Group 1(a) and (b) cases where HQ executives did not have personal in-country China work experience and, therefore, did not utilize sufficient or appropriate China sourced information and experience during the idea generation process.

Another difference between Group 2 and Group 1 cases was that, for Group 2 cases, subsidiary interviewees described the initial pitch of the strategic change idea by HQ to subsidiary executives as successful (again designated with red shading in Figure 7.2.1), whereas the reverse was true for both Group 1(a) and (b) cases. The interview data revealed that the success of this initial pitch was a direct result of HQ using sufficient and appropriate China information and experience during the idea generation process, as described above. For both Group 1(a) and (b) cases, the pitch was deemed by subsidiary executives to be unsuccessful, because insufficient and inappropriate China sourced information and experience were used when identifying a problem/opportunity requiring a strategic change for a subsidiary and developing a strategic change idea.
Figure 7.2.1: Typology for HQ Driven Strategic Change Decision-Making Processes

<table>
<thead>
<tr>
<th>Common Components of Process Across Cases:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Idea Generation Process:</strong></td>
</tr>
<tr>
<td>• HQ identifying a problem/opportunity requiring a subsidiary-level strategic change</td>
</tr>
<tr>
<td>• HQ developing an initial strategic change idea for subsidiary</td>
</tr>
<tr>
<td>• HQ communicating idea to subsidiary executives</td>
</tr>
<tr>
<td><strong>Review and Development Process:</strong></td>
</tr>
<tr>
<td>• HQ continue to attempt to sell idea to subsidiary executives</td>
</tr>
<tr>
<td>• Joint HQ-Subsidiary discussions about the appropriateness of strategic change idea for subsidiary</td>
</tr>
<tr>
<td>• Strategic change idea developed into strategy</td>
</tr>
<tr>
<td><strong>Formal Sign-Off:</strong> No subsidiary sign-off required. Sign-off at HQ</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Group 1(a) Cases: ‘China Information/Experience ‘Deficient’</th>
</tr>
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<tbody>
<tr>
<td><strong>Idea Generation Process:</strong></td>
</tr>
<tr>
<td>Did not utilize sufficient and appropriate China information and experiences</td>
</tr>
<tr>
<td><strong>Review and Development Process:</strong></td>
</tr>
<tr>
<td>Limited subsidiary input incorporated in decision</td>
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<tr>
<td>Unsuccessful attempt to convince subsidiary executives of the initiative’s merit</td>
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<tr>
<td><strong>Formal Sign-Off</strong></td>
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<tr>
<th>Group 1(b) Cases: Active Subsidiary Participation</th>
</tr>
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<tbody>
<tr>
<td><strong>Idea Generation Process:</strong></td>
</tr>
<tr>
<td>Did not utilize sufficient and appropriate China information and experiences</td>
</tr>
<tr>
<td><strong>Review and Development Process:</strong></td>
</tr>
<tr>
<td>Extensive subsidiary input incorporated in decision</td>
</tr>
<tr>
<td>Low emphasis on convincing subsidiary executives of the initiative’s merit</td>
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<td><strong>Formal Sign-Off</strong></td>
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<thead>
<tr>
<th>Group 2 Cases: China Information/Experience ‘Sufficient’</th>
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<tbody>
<tr>
<td><strong>Idea Generation Process:</strong></td>
</tr>
<tr>
<td>Did utilize sufficient and appropriate China information and experiences</td>
</tr>
<tr>
<td><strong>Review and Development Process:</strong></td>
</tr>
<tr>
<td>Successful attempt to convince subsidiary executives of the initiative’s merit</td>
</tr>
<tr>
<td>Limited subsidiary input incorporated in decision</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group 1(a) Strategic Change Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient and/or inappropriate China information and experience</td>
</tr>
<tr>
<td>Negative Outcomes</td>
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<table>
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<tr>
<th>Group 1(b) Strategic Change Outcomes</th>
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</thead>
<tbody>
<tr>
<td>Sufficient and appropriate China information and experience</td>
</tr>
<tr>
<td>Positive Outcomes</td>
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<table>
<thead>
<tr>
<th>Group 2 Strategic Change Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient and appropriate China information and experience</td>
</tr>
<tr>
<td>Positive Outcomes</td>
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</table>
Another important type of variance emerging from the interview data that distinguished between Group 1(a) and Group 1(b) cases was the extent to which HQ incorporated subsidiary input into the decision during the review and development phase. For Group 1(b) cases, subsidiary executives were given extensive opportunity to contribute their China information and experience to the review and development process and this knowledge was incorporated into the final strategy (designated with blue shading), while the reverse was true for Group 1(a) cases where subsidiary executives input, while given, was not encouraged and was not incorporated into the final decision. The extent to which subsidiary input was incorporated into the final decision was primarily determined by subsidiary credibility with HQ, and to a lesser extent, the importance of the subsidiary to the parent. Subsidiary executive credibility refers to the extent to which interviewees believed HQ executives had confidence in the capability and knowledge of subsidiary executives and trusted their judgment. Similar conceptualizations have been offered in other studies (Birkinshaw 1999). Subsidiary importance, according to interviewees, related to the degree to which a subsidiary contributed to the parent’s global production or revenues. Where credibility and the degree of subsidiary importance was high, as was the case for Group 1(b) initiatives, HQ was more willing to incorporate the input of subsidiary executives while the reverse was true for Group 1(a) cases where subsidiary credibility and subsidiary importance were usually low.

Another important type of variance distinguishing between Group 1(a) and (b) cases was HQ’s success in selling their idea to subsidiary executives during the review and development process. The sell was unsuccessful for Group 1(a) cases, because HQ did not incorporate sufficient or appropriate China information and experiences in the decision. In contrast, for Group 1(b) cases (designated in Figure 7.2.1 with blue shading), there was less emphasis placed on HQ selling the idea to subsidiary executives during the review and development process, because HQ focus was instead on obtaining extensive subsidiary input to incorporate into the decision.

Based on the interview data, Figure 7.2.1 indicates that positive strategic change outcomes emerged in cases where the decision-making process incorporated sufficient and appropriate China information and experience. This occurred in Group 2 cases where HQ executives had extensive in-country China work experience which gave them
the knowledge required to draw on appropriate China information and experience. This also occurred in Group 1(b) cases where China information and experience was contributed by subsidiary executives during the review and development process and was appropriately incorporated into the final decision. As the decision-making process for Group 1(a) cases did not incorporate sufficient or appropriate China sourced information and experience, either in the idea generation or review and development process, subsidiary interviewees for Group 1(a) cases reported poor subsidiary strategic change outcomes.

For each of these groups, Sections 7.3 and 7.4 present and compare the decision-making process for HQ driven cases, describing the impact of HQ in-country China work experience, subsidiary credibility and subsidiary importance on the decision-making process. This section (7.5) also applies theories presented in the conceptual framework, along with other literature and theory to explain the empirical findings. Section 7.6 discusses subsidiary strategic change outcomes. This is followed by a chapter summary.

7.3 Group 1(a) and Group 1(b) HQ Driven Cases.

7.3.1 Subsidiaries Comprising Group 1(a) and Group 1(b) Cases

Group 1(a) ‘China Information/Experience Deficient’ cases are listed in Table 7.3.1 below. They include the replacement of selected senior executives at Guangzhou Adhesives, the lay-off initiative at Foshan Magnetics, the implementation of enterprise resource planning system (ERP) initiatives at Guangzhou Adhesives and Guangzhou Infant Formula, the removal and relocation of the sales function from subsidiary to a regional HQ at Foshan Magnetics and Guangzhou Converters, and the introduction of a new modem product at Guangdong Communications.

<table>
<thead>
<tr>
<th>Strategic Change Case</th>
<th>Sample Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement of key senior executives</td>
<td>Guangzhou Adhesives</td>
</tr>
<tr>
<td>Lay-off initiative</td>
<td>Foshan Magnetics</td>
</tr>
<tr>
<td>Implementation of ERP system</td>
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<td></td>
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<tr>
<td></td>
<td>Foshan Magnetics</td>
</tr>
<tr>
<td>Introduction of new modem product</td>
<td>Guangdong Communications</td>
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</tbody>
</table>
Group 1(b) ‘Active Subsidiary Participation’ cases are listed in Table 7.3.2 below. These include the automation of production processes undertaken at Guangzhou Connectivity and the reassessment of an initiative to expand into China’s domestic market at US-Sino Circuit Boards.

<table>
<thead>
<tr>
<th>Table 7.3.2: Group 1(b) HQ Driven Cases ‘Active Subsidiary Participation’</th>
<th>Sample Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Change Case</td>
<td></td>
</tr>
<tr>
<td>Automation project</td>
<td>Guangzhou Connectivity</td>
</tr>
<tr>
<td>Re-assessment of initiative to expand into China domestic market</td>
<td>US-Sino Circuit Boards</td>
</tr>
</tbody>
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7.3.2 Idea Generation Process for Group 1(a) and (b) cases

For Group 1(a) and 1(b) cases, with the exception of a small number of cases where subsidiary executives were required to provide HQ with specific subsidiary data, subsidiary executives were not involved in the problem/opportunity identification process.

There is, therefore, an important caveat in assessing decision-making components that occurred at HQ. The subsidiary interviewee descriptions refer to processes described to them by HQ when HQ executives communicated the strategic change idea to the subsidiary. While HQ executives most likely did provide subsidiary executives with all important detail related to the processes, as well as information and experience they used to identify a need/opportunity for strategic change and develop an initial strategic change idea, it is acknowledged that HQ may not have divulged all the processes they used and discussions that took place.

A key defining characteristic of all Group 1(a) and (b) cases (in contrast with Group 2 cases) was that the processes used by HQ to identify an initial problem or opportunity triggering strategic change in the subsidiary did not incorporate sufficient or appropriate China sourced information and experience.

Among these Group 1(a) and (b) cases were instances where subsidiary interviewees claimed that HQ incorrectly interpreted subsidiary level internal information provided by subsidiary executives to identify a problem requiring strategic change. Importantly, HQ managers did not request subsidiary manager’s interpretation and opinion...
associated with this subsidiary data. Instead, subsidiary interviewees argued that HQ simply compared the subsidiary information with their own experiences at HQ and other non-China subsidiaries, and, as a result, HQ incorrectly interpreted the subsidiary information as a ‘problem’ that required strategic change. This scenario emerged for Guangzhou Adhesive’s ERP initiative and its replacement of senior subsidiary executives, along with the automation project at Guangzhou Connectivity.

Comments by Guangzhou Adhesive’s CEO in relation to the subsidiary’s ERP initiative best illustrate this scenario. For this case, HQ compared subsidiary level data obtained during a pre-acquisition due diligence process (the subsidiary was formerly a domestic Chinese firm that was acquired by Guangzhou Adhesive’s parent) with their experience outside of China to identify and interpret what they saw as a significant problem in the subsidiary: an excessively long accounts receivable cycle. Importantly, the interpretation of the subsidiary level accounts receivable data did not incorporate the views of subsidiary managers. As the CEO explained:

‘They identified this issue during the due diligence process prior to acquisition. All the senior managers had at least one interview with the team from [parent company] coordinating acquisition negotiations. As the major shareholder and CEO at the time, I had to provide them with extensive data and financial reports that they used to assess us during this due diligence…’

‘The reports were all numbers, financial numbers and ratios. There was no opportunity to put forward our own viewpoints…’

The CEO went on to explain (post-acquisition) that HQ told him the subsidiary needed to: ‘Shorten the accounts receivable cycle from 70 to 50 days… (since)... Their accounts receivable cycle elsewhere was 50 days…’

Another issue Guangzhou Adhesive’s HQ sought to address with its ERP system was a problem with subsidiary sales staff taking secret rebates from products they sold, a standard principal-agent problem. HQ found out about this in a routine verbal report given by the CEO to HQ. He explained to HQ:

‘I told them, if you do not manage sales staff properly, they can engage in some very bad behaviour. They can take secret commissions. They quote a price of RMB25 to
customers, but only report a price to us of RMB22, a 3RMB difference which they pocketed themselves. Or they will use a distributor company. This distribution company is actually owned by the sales staff...'

In his interview, the CEO explained that the reason for the sales staff’s secret rebate problem was poor management by a senior subsidiary executive appointed by HQ at the time and could easily be addressed by replacing this appointment. He went on to note, however, that HQ was not interested in hearing his explanation. Rather, HQ was only interested in the ‘objective’ fact that the ‘circumstance’ existed in the subsidiary and did not occur elsewhere in the MNE. 88 He noted:

‘This issue with sales staff was not normal for them (HQ). They hadn’t seen it before. So they saw it as a real problem. They saw the cause of the problem as being that the sales team had control over all key aspects of the customer relationship, approving new customers, account management, approving dispatch of goods. In fact, the cause of this problem was the new CEO they hired. He just sat in his office. He didn’t talk to customers. He didn’t know what was going on. I told HQ this guy was not the right person for the job, but they didn’t heed this advice...’

For the senior subsidiary executive replacement initiative at Guangzhou Adhesives, the CEO (Appendix 7A(1) p.222) explained that the parent obtained biographies on senior executives in the subsidiary again during this pre-acquisition due diligence process. This information was then compared with the types of credentials that, based on their experience outside of China, the senior parent executives believed were necessary to successfully perform their role. A key HQ criterion was that all executives, including sales executives, needed to have a university education and speak English fluently. Both the CEO (Appendix 7A(1) p.222) and Sales Director (Appendix 7A(2) p.222) at the subsidiary explained in their interviews that they disagreed with HQ criteria, arguing that, in China, sales track record is a far more important credential than a university degree. The Sales Director reported, however, that HQ were not interested in this advice.

88 At that time the interviewee was demoted from CEO to a Deputy General Manager position after the foreign parent replaced him with their own subsidiary CEO appointment. This decision was, however, reversed soon after and the interviewee resumed his position as CEO.
For Guangzhou Connectivity’s automation initiative, interview data from the subsidiary’s Public Relations (PR) Director (Appendix 7A(3), (5) p.222-223) and the Chief Financial Officer (CFO) (Appendix 7A(4) p.222) implied that HQ reflected on very limited subsidiary cost data obtained from routine subsidiary reports submitted to HQ. These data suggested a rise in subsidiary labour costs. The interviewees noted that HQ compared China subsidiary data with data from other subsidiaries outside of China where there were no substantial increases in labour costs. Based on this comparison, HQ identified ‘rising labour costs’ as a significant staff productivity management problem. Again, HQ expressed no interest in understanding subsidiary level interpretations of the subsidiary data submitted to HQ. At the time, the PR Director (Appendix 7A(5) p.223) admitted that the rise in labour costs in China was faster than what HQ were used to seeing overseas, but was not out of the ordinary in China.

For two other Group 1 cases, HQ identified a (perceived) problem from HQ driven external environmental scanning efforts. These cases included Foshan Magnetic’s lay-off initiative and US-Sino Circuit Board’s reassessment of a strategic idea to expand into China’s domestic market. For both cases, interviewees noted that routine scanning efforts did not utilize any China information sources. Instead, HQ environmental scanning efforts focused only on information sources outside of China. Again, subsidiary executives were critical of HQ assumption that a problem existed because they had not taken into consideration appropriate or sufficient China sourced information.

In the case of Foshan Magnetics and its lay-off initiative, for example, global data gleaned from HQ environmental scanning efforts was combined with recent China subsidiary performance data to identify a financial problem. The CEO explained:

'The senior executives at HQ regularly look at their environment and meet regularly to review the business...HQ had looked at general global economic conditions, particularly historical and projected demand trends in our industry... They told us that they believed there was going to be difficult global economic conditions for our industry for the foreseeable future. They said that the media in the West and some consulting firms in the US were reporting this... They looked at our subsidiary’s recent historical data which had shown a downturn since the onset of the GFC... Based on the review of
our subsidiary data and their global data, they told us that they believed these global trends would apply to China…’

Although subsidiary executives at Foshan Magnetics undertook their own local China environmental scanning, HQ were not interested in any information gleaned from these environmental scanning efforts. The CEO explained:

‘Well, we talk to contacts in the industry, friends at competitors, our customers, the government...They (HQ) were not interested in this information…’

The CEO went on to make the point that HQ’s conclusion that there would be a medium to long term down turn in the Chinese economy was misguided and that his informal discussions with local government officials suggested that the down turn in China would only be short term. He recalled:

‘The outlook for the Chinese market was still strong. GDP was still expected to maintain at least 8%. The short term down turn in orders was essentially an initial panic…the Chinese government made it clear they were going to provide a substantial stimulus…’

For US-Sino circuit Boards, an interview with a JV board member (Appendix 7A(6) p.223) revealed that the re-assessment of a pre-GFC opportunity to expand into China’s domestic market was also based on foreign parent executives’ routine overseas scanning efforts. In this case, reports from overseas (outside of China) industry associations and international consulting firms undertaken prior to the GFC implied that the global market was strong, and the foreign parent assumed this trend would also apply to China. When the GFC hit, however, further foreign parent driven scanning which drew on the same sources, revealed a substantial drop in global demand. The foreign parent subsequently formed an assumption that this global level data would apply equally to China and that the expansion initiative should therefore be abandoned. The JV board member went on to suggest, however, that this HQ assumption was incorrect and that their local subsidiary level routine scanning efforts indicated there was still reasonably strong demand in China.

Both these cases also provide support for the literature on scanning. Specifically, our interview data support the hypothesis that in Western countries formal written
information sources are preferred, while China-based subsidiary executives in China domiciled subsidiaries prefer informal, verbal information sources (Fleisher & Wright 2009). Most of the existing literature on China scanning, however, has only considered Chinese domestic firms (Fleisher & Wright 2009; Zha & Chen 2009; Zhang 2008). This study extends the scanning literature to an MNE and foreign subsidiary context identifying that, for these two Group 1 cases, Chinese subsidiary managers followed the trend of Chinese executives in domestic firms by utilizing informal verbal information sources, while foreign executives at HQ did not choose to utilize China information sources when identifying problems/opportunities that may relate to their subsidiary.

And, in the case of Foshan Magnetics, HQ did not accept information gleaned from the scanning efforts of subsidiary executives even when they were offered. These findings are compared with Group 2 cases below (Section 7.4) with possible factors that may explain the discrepancy between HQ scanning efforts from Group 1 and 2 cases introduced in Section 7.5.

For two other Group 1 cases, a simple assumption was made that a problem existed in the subsidiary because it had occurred in other Chinese subsidiaries owned by the parent. Subsidiary interviewees argued, however, that these HQ assumptions related to other China experiences did not apply to their subsidiary. These two cases conform to the key defining characteristic of the problem/opportunity identification processes for Group 1 cases whereby the process did not incorporate sufficient or appropriate China subsidiary-specific information and experience. This scenario emerged for the sales division removal and relocation initiatives at Foshan Magnetics and Guangzhou Converters.

At Guangzhou Converters, the sales division restructure was driven by a HQ assumption that this initiative would enable more efficient monitoring of the MNE’s global sales network as it had apparently done for the MNE’s other subsidiaries in China. It was raised in routine HQ executive meetings. Specifically, subsidiary executives suggested HQ were worried about subsidiary sales staff taking secret sales commissions, which they claim had occurred in other China subsidiaries. The subsidiary CEO noted, however, that his subsidiary did not have these problems. According to the CEO of Guangzhou Converters:
'They (HQ in Japan) told me that they had had problems in other subsidiaries like sales staff trying to take extra commissions and they resolved this by consolidating the sales function in Hong Kong so they could monitor sales staff more easily. They admitted that they simply assumed the same thing may have been happening here... They came up with this issue without us at the subsidiary. Japan's senior executives at HQ meet regularly to discuss these problems and come up with solutions. This was the easy decision for them to make from their point of view. They did not even look at the specific circumstances of our subsidiary. We did not have this problem...'

The CEO at Foshan Magnetics (Appendix 7A(7) p.223) made the same point in relation to their sales division restructure, noting that HQ made the simple, but incorrect, assumption that a problem with rogue sales staff that had occurred in another China subsidiary must also apply at Foshan Magnetics.

For the other two Group 1 cases, again insufficient China sourced information and experience was utilized to identify a strategic change idea. In fact, for these two cases, no China information sources or experiences were articulated when identifying a problem/opportunity requiring strategic change. For the ERP initiative at Guangzhou Infant Formula, the CFO (Appendix 7A(8), p.223) explained that HQ believed that the ERP would bring the subsidiary in line with other subsidiaries that were using the system. The PR Director (Appendix 7A(9), p.223) also recalled that a simple assumption was made by HQ that a problem existed (or circumstances could be improved) in the subsidiary, because the subsidiary did not use the corporate ERP system that had been implemented with perceived efficiency improvements in other subsidiaries outside of China. The PR Director went on to argue that these efficiency improvements would apply to this subsidiary were incorrect. She also noted that subsidiary executives were not involved in coming up with the idea. It was raised in routine HQ meetings.

According to the Chief Engineer, who also held a subsidiary board seat at Guangdong Communications, the opportunity to introduce a new modem product into the China market also involved HQ executives making a very poor assumption about the China market without accessing China information sources to substantiate their claim. Specifically, the foreign parent incorrectly assumed that the Chinese domestic market was ‘less sophisticated’ than that of developed countries in terms of the level of
technology available. The board member said that HQ came up with the idea in routine HQ internal executive meetings, telling board members and subsidiary executives that a modem product developed by the company in its Israel subsidiary would be very competitive in China and represented a good market opportunity even though they (HQ) knew it was not state of the art. He explained:

‘The technology was not mature...it was old technology...They made an assumption that older technology would be competitive in China...They thought the China market was not sophisticated...In actual fact Chinese markets demanded state of the art product...[Foreign parent] had formed this view themselves during their internal meetings held each month. It didn’t involve us...I don’t know why they thought this, they certainly didn’t give us any evidence they had from China...’

In summary, the data from Group 1 cases shows that subsidiary executives believed that insufficient and/or inappropriate China sourced information and experience were used to identify the need for strategic change. For some Group 1 cases, limited subsidiary internal information was compared with overseas experiences. For other cases, experiences from other China subsidiaries were ‘inappropriately’ applied to the case study subsidiary. There were also Group 1 cases that utilized no China or subsidiary-specific information or experience at all. The two cases where HQ utilized global scanning efforts based on information sources outside of China were also criticized by interviewees who thought that the data from these scanning efforts were incorrectly applied to the subsidiary’s China context. Another important point emerging from this data was that the processes associated with identifying a problem/opportunity for strategic change did not involve subsidiary executives, but instead relied on processes and forums at HQ. For the most part, these HQ level processes were routine, thus representing HQ level dynamic capabilities.

The second component of the idea generation process outlined in the typology (Figure 7.2.1), is the development of a strategic change idea to resolve a perceived problem or realize an opportunity that had been identified. For Group 1 cases, the development of a strategic change idea was based on parent firm level experience, specifically, strategies or strategic changes that had been applied elsewhere in the MNE. Along similar lines to the problem/opportunity identification process, the interviewees suggest that parents insufficiently or inappropriately used China experience to formulate the strategic change
idea. Further, subsidiary interviewees argued that no processes were put in place to involve subsidiary executives when developing the strategic change idea. For most cases, subsidiary interviewees reported that the same routine HQ forums used to present or identify a need/opportunity were used to share and develop a strategic change idea; and, sometimes the problem/opportunity identification and idea development process were effectively the same process. In other words, the ‘opportunity’ was the strategic change idea.

For some Group 1 cases, no China experiences were utilized at all to develop a strategic change idea. Instead HQ made a simple assumption that overseas experience would apply to the China subsidiary. The idea to automate production processes at Guangzhou Connectivity, for example, was based on parent level experience with other overseas subsidiaries. Guangzhou Connectivity executives were not consulted while the idea was being developed, which resulted in an idea that subsidiary executives felt was not suited to the subsidiary’s circumstances. The PR Director explained:

‘Actually, this was an initiative promoted by headquarters. They raised it in their internal review meetings. We were not consulted before being told the idea...They had had experience with automation elsewhere in other subsidiaries....’

The PR Director went on to argue that the idea in its original form was not suited to a China context:

‘They (HQ) didn’t initially consider China circumstances, so their idea needed to be revised...’

Interviewees at Guangzhou Connectivity identified that one of the major concerns with the initial idea was that HQ wanted to implement the initiative quickly, which would involve immediate large scale lay-offs. The PR Director made the point that it was important to avoid such large scale lay-offs to keep the local government on-side:

...our efforts to avoid large-scale lay-offs is seen as positive by the government and we are therefore able to maintain our strong relationship with them...You know in China if you get the government off side you can create a lot of trouble for yourself...

The circumstances for Guangzhou Infant Formula’s ERP initiative were similar. According to the Public Relations (PR) Director at the subsidiary (Appendix 7A(10),
HQ made a simple assumption that, because the ERP initiative had enhanced global efficiency without negatively impacting on individual subsidiary performance when implemented in subsidiaries outside of China, the same would be the case for Guangzhou Infant Formula. The CFO (Appendix 7A(11), p.224) identified a number of problems with the ERP system when applied to the Chinese subsidiary. The idea was also developed in routine internal meetings at HQ.

For US Sino-Circuit Boards, a senior subsidiary executive and board member (Appendix 7A(12), p.224), noted that the original idea to expand into China’s domestic market was based on a foreign parent assumption that the company could take advantage of strong China demand conditions with minimal effort or changes to its current strategy and production processes. The board member noted that neither the Chinese parent nor subsidiary executives were involved in coming up with the idea which was raised and developed in routine HQ strategy meetings. He went on to explain the subsidiary’s skepticism that the same technology and production processes to sell into China’s domestic market would deliver a price competitive product.

For Guangzhou Adhesives’ ERP initiative, the CEO explained that HQ made a simple assumption that other subsidiaries did not have a problem with rogue sales staff or long accounts receivable cycle because they used the corporate ERP system. HQ went on to argue that they felt this implied an ERP system would therefore resolve both these issues in the subsidiary. The CEO explained:

‘Their view was that this had worked for them elsewhere and these problems did not exist in other subsidiaries that had an ERP system...’

For Guangzhou Adhesive’s replacement of key subsidiary executives, the CEO explained that HQ assumed replacing key senior subsidiary executives with staff that met HQ global recruitment criteria would improve outcomes, because this is a policy that had been applied elsewhere, presumably because it had worked. Subsidiary executives were not involved in coming up with the idea. The CEO went on to explain however, that this idea was ill conceived because in China, sales track record is more important than university education:
‘This is simply a recruitment policy they had adopted everywhere. They made a simple assumption that it also applied to our subsidiary...I mean, it is very easy to hire young people with university degrees, but the quality of these degrees is very poor...’

For Foshan Magnetic’s lay-off initiative, comments made in interviews with the CEO (Appendix 7A(13), p.225) and CFO (Appendix 7A(14), p.225) revealed that the downsizing idea was also raised in routine internal HQ meetings and was also derived from HQ’s previous overseas experience where lay-offs were the ‘go to’ strategy when there were economic down turns. Interviewees argued that this idea was not appropriate for China as such a downsizing had potentially negative implications for the subsidiary’s relationship with local government officials. In addition, the CEO argued that China’s economy would recover quickly, creating a problem where there could be a staff shortage requiring a hasty recruitment program that would be difficult to implement in China.

For two Group 1 cases, HQ drew on its own experience with other China subsidiaries to formulate a strategic change idea, again in routine meetings at HQ. Subsidiary respondents argued, however, that the circumstances at these other China subsidiaries were different to theirs and, as such, the strategic change idea was based on an incorrect HQ assumption about a previous China experience. The CEO at Foshan Magnetics noted in relation to their sales division restructure:

‘It was about them exerting their control because they didn’t really trust us....They raised the issue in their regular management meetings at HQ...HQ admitted that they were worried about our sales staff taking their own commissions as they had seen this happen in other China subsidiaries...’

‘They just assumed that our subsidiary circumstances were the same as everywhere else. They didn’t have on the ground knowledge to actually do due diligence on what was actually going on in our subsidiary...When, in fact, nothing was going on...’

The circumstances were virtually identical for Guangzhou Converters sales division relocation. The CEO (Appendix 7A(15), p.225) and the HR Director (Appendix 7A(16) p.225) both argued that HQ made an incorrect assumption that, because a similar restructuring had improved outcomes at another China subsidiary, the same would apply for Guangzhou Converters.
The other Group 1 case was Guangdong Communications’ introduction of its modem product. Both the Marketing Manager (Appendix 7A (18), p.226) and a JV board member who also held the position of subsidiary Chief Engineer (Appendix 7A(17), p.226) argued that the idea emerged from a claim on the part of the foreign parent that China was ‘less sophisticated’, such that a modem product, while not state of the art, could still be effectively marketed and sold in China. These subsidiary interviewees argued that the claim that the China market was ‘less sophisticated’ was incorrect. Subsidiary executives were not involved in HQ processes that lead to the development of this idea. Moreover, subsidiary executives did not know how HQ had formed this view, with HQ not citing any China sourced evidence to substantiate the validity of this idea.

In summary, for all Group 1 cases, the development of a strategic change idea to resolve a perceived problem did not incorporate sufficient or appropriate China experience. The processes associated with developing a strategic change idea occurred at HQ and there is evidence from most cases that the idea was raised and/or developed in routine HQ meetings, and for the most part, based on parent-level experiences such as strategies or similar strategic changes that had been applied elsewhere in the MNE. Importantly, these meetings did not involve subsidiary executives. Even when, in a couple of cases HQ drew on their experiences with other subsidiaries in China, subsidiary respondents argued that HQ made an incorrect assumption that ‘one size fits all’ or ‘China’ experience at another subsidiary would also apply to their subsidiary.

While the processes associated with identifying a problem/opportunity and developing an initial strategic change idea were similar for both Group 1(a) and Group 1(b) cases, the pitch of the strategic change idea by HQ to subsidiary executives, along with the subsequent review and development processes for these cases, saw a significant divergence in the nature of the decision-making process between the two groups. On this basis, Group 1 was divided into 1(a) ‘HQ Dominated-China Information/Experience ‘Deficient’’ and 1(b) ‘Active Subsidiary Participation’. For Group 1(a) cases, the communication of the strategic idea by HQ to subsidiary executives incorporated some type of ‘strategic proposal’ or ‘business case’ based on a standard HQ template presented by HQ verbally and/or a written report or presentation in routine joint HQ-subsidiary meetings. Subsidiary respondents felt that the strategic
proposal gave the impression that HQ was already convinced the initiative was a good idea. However, without appropriate or sufficient China sourced information and experience, the ‘strategic proposal’ was an unconvincing pitch to subsidiary executives.

At Guangzhou Converters, for example, the idea for their sales division restructure was pitched to the subsidiary as a strategic proposal. The CEO of Guangzhou Converters explained:

‘We have fortnightly meetings with HQ...One purpose of these meetings is to share new ideas. We met with regional HQ in Hong Kong and they presented a business case to us. It was detailed, basically showing us evidence that this strategy had worked for other subsidiaries by increasing sales, especially cross sales...It was obvious they were keen to go ahead with it...’

When the initiative was first pitched by the parent, subsidiary executives were not convinced. Guangzhou Converter’s CEO explained:

‘There were quite a few problems with this sales strategy. First, some of the sales staff would not move to Hong Kong which means we would lose that customer relationship. Second, the company had always been a high performer, there was no need to change a winning formula. Third, how were we supposed to meet changing client needs in terms of product development and modification if we no longer had a direct a relationship with the customer?...’

Interviewees from all other Group 1(a) cases, including Guangzhou Adhesive’s CEO (Appendix 7A(19), (20), p.226), Foshan Magnetics CEO (Appendix 7A(21), (22), p.227), Guangdong Infant Formula’s PR Director (Appendix 7A(23), p.227) and CFO (Appendix 7A(24), p.228) along with a board member (Appendix 7A(25), p.228) and the Marketing Manager (Appendix 7A(26), p.228) at Guangdong Communications had similar recollections in relation to their strategic change initiatives where, for each case, the initial idea was presented as a detailed strategic proposal that was not effective in terms of selling the idea to subsidiary executives as part of routine MNE procedures.

In contrast, for Group 1(b) cases, subsidiary respondents, although critical of the initial idea when pitched to subsidiary executives, felt that the idea was communicated by HQ as a ‘preliminary idea’ where subsidiary feedback was invited and welcomed. The PR
Manager at Guangzhou Connectivity, for example, explained in relation to their automation idea:

‘They gave us an impression that they really wanted our opinion on whether their idea was good for our subsidiary...They didn’t initially consider China circumstances, so their idea needed to be revised...’

The circumstances were similar for US Sino Circuit Boards, the other Group 1(b) case where a JV board member argued that the preliminary idea to expand into the Chinese domestic market was raised by the foreign parent at a JV Board meeting. Similar to the US-Sino Circuit Boards case, HQ’s initial pitch was unconvincing, but board members and senior subsidiary executives were encouraged to provide feedback on whether they felt the initiative was appropriate for the subsidiary:

‘This proposed domestic expansion was first raised as a preliminary idea in one of our bi-annual board meetings...Usually major initiatives such as this were left to board meetings. We have operational meetings each month with the foreign parent to review operations and develop ideas between board meetings...[Foreign parent] sought our input into this project in terms of making it work in China... We were sceptical about this because we suspected the product would be too expensive for China...’

In summary, for each case, the MNE had routine procedures for raising strategic change ideas for the subsidiary. Groups 1(a) and 1(b) saw a low level of success in terms of HQ’s attempts to pitch their idea to subsidiary executives due to a perception on the part of subsidiary executives that the idea generation process used generic MNE information or information gained by global scanning, but insufficient or inappropriate China based information and experience. However, the tone of the communication varied across these two groups. Group 1(a) cases pitched the idea as a strategic proposal where subsidiary executives felt HQ were already committed to the proposal. For Group 1(b) cases, subsidiary executives felt the idea was expressed as a preliminary idea where HQ invited and welcomed advice from subsidiary executives.

7.3.3 Review and Development Process Group 1(a) Initiatives

While subsidiary executives were mostly uninvolved in the idea generation process for all Group 1 initiatives until the idea was pitched to them, they were included in the
review and development process. MNEs for each case had routine processes in place to review new strategic change ideas. Sometimes, these processes involved dedicated meetings between HQ and subsidiary executives organized to review only the new strategic idea, while for other cases, new ideas were reviewed in regular meetings where other operational and strategic issues were also discussed. As set out in the typology in Figure 7.2.1, subsidiary interviewees for Group 1(a) cases believed the extent to which HQ incorporated their input into the final strategy was limited. Interviewees suggested that HQ used the review and development process primarily as an opportunity to continue to sell their strategic change idea to subsidiary managers and ensure the development of an implementation plan. Subsidiary respondents argued that HQ’s attempt to sell the idea to them during the review and development process was generally unsuccessful, because it had failed to incorporate the subsidiary’s China contextual circumstances. Subsidiary interviewees were critical of the lack of consideration given by HQ to subsidiary executives’ input into the decision, both in terms of whether or not the initiative was appropriate for the subsidiary and in seeking modifications to the proposal required to suit the subsidiary context. By failing to incorporate their expertise that mainly included specific subsidiary and China circumstances, subsidiary interviewees claimed that the strategic change has had a negative impact on the subsidiary.

The sales division removal and relocation restructure at Guangzhou Converters, for example, was depicted by subsidiary managers as a dictatorial HQ driven process. The extent to which subsidiary executive’s input incorporated into the decision was limited to how the parent level strategic objective could be implemented in the subsidiary. According to subsidiary interviewees, HQ made an unsuccessful attempt to sell the strategic initiative idea to subsidiary executives, making the point that the restructuring was impacting negatively on performance. The Guangzhou Converters’ CEO explained:

‘We had fortnightly meetings with HQ...One purpose of these meetings is to share new ideas...But in this case they were not interested in my ideas. It was more about them trying to sell me on why they were doing this and that their approach was the best option...’

‘They should have listened to us. We could have told them it was not necessary and we did not have problems with our sales team. We told them about all the problems it
would cause...First, some of the sales staff would not move to Hong Kong which means we would lose that customer relationship. Second, the company had always been a high performer. There was no need to change a winning formula. Third, how were we supposed to meet changing client needs in terms of product development and modification if we no longer had a direct a relationship with the customer?...

The HR Director at Guangzhou Converters went on to link the restructuring to negative subsidiary performance implications:

‘Production performed well because of the sales team. Now we did not have this control, achieving performance has become more difficult...’

The review and development process for both the ERP and the replacement of senior subsidiary senior executives at Guangzhou Adhesives were described in a similar fashion by interviewees where a problem and idea were initially identified during the pre-acquisition due diligence process for the subsidiary were reviewed with subsidiary executives post-acquisition as part of a routine HQ review process. For the ERP initiative, Guangzhou Adhesives CEO (Appendix 7A(27)-(32), p.228-229) noted that he offered feedback to HQ, arguing that, because the ERP would move control of the customer relationship from the sales team to the finance division, it would be more difficult for his sales team to manage their relationship with customers. In addition, he argued that the ERP system was too impersonal and inflexible for China and would impact negatively on subsidiary performance. However, this input was not incorporated into the decision. Instead, subsidiary executives’ role in the review and development process was to work with HQ on an implementation plan for the initiative.

In relation to the subsidiary senior executive team restructure, Guangzhou Adhesives’ CEO advised HQ that their emphasis on ‘university qualifications’ as prerequisite requirements for all sales executive members was misguided, suggesting that, on the ground, experience was far more important. According to the subsidiary CEO, HQ did not incorporate any of his views into its strategy. Again, subsidiary executives’ role was simply to work with HQ to develop an implementation plan.

‘I tried to tell them that this idea probably wasn’t that applicable or practical in China...I mean, it is very easy to hire young people with university degrees, but the quality of most marketing degrees is very poor...The question is, can they do their job,
do they know the technology and what is their track record like at the firm, can I trust them?..They were not interested in my view....'

Guangzhou Adhesives’ CEO reported negative implications from this strategic change:

‘Because we were a local company, salaries were quite low, and they never increased that much. But these new appointments all had high salaries, so the salary structure was uneven. This created issues. All the new staff were mainland Chinese and were recruited in senior factory and technical positions along with senior sales positions. Existing staff felt unappreciated, and there was gossip about how poor ‘local’ staff were. There were also rumours of being fired. It was really bad...

The ERP initiative at Guangzhou Infant Formula, another Group 1(a) case, also saw HQ take on little input from subsidiary executives. Comments from the CFO (Appendix 7A(34) p.230) and PR Director (Appendix 7A(33), p.230) suggested that, despite subsidiary attempts to suggest aspects of the ERP system that needed to be localized to suit China circumstances, HQ did not incorporate these suggestions into their strategy. One example was a request to include a larger allowance for ‘entertainment expenses’, which the subsidiary executive team argued was an important part of doing business in China. This request was not approved by HQ. Limited to helping HQ come up with an implementation plan for their initiative, subsidiary respondents argued that the strategic change had not been a positive change for the subsidiary. This review and development occurred in a series of meetings arranged specifically to discuss the initiative. This was the MNE’s standard approach to reviewing new initiatives with subsidiaries.

Both restructuring initiatives at Foshan Magnetics (lay-off initiative and sales division restructure) also limited the use of subsidiary executive team input to developing the implementation plan. For the lay off initiative, ad hoc meetings were arranged involving HQ and subsidiary executives to discuss the impact of the Global Financial Crisis (GFC) and review the lay off proposal. For the sales division restructure, the MNE used routine procedures that involved dedicated HQ-subsidiary meetings that provided a forum for knowledge sharing between HQ and subsidiaries. The CEO (Appendix 7A(35) p.230) and CFO (Appendix 7A(36) p.231) revealed that subsidiary executives told HQ that the lay-off initiative was not necessary in the China market as demand was expected to pick up relatively quickly after the GFC. HQ did not take this
advice. Instead HQ only gave the subsidiary the flexibility to choose which (but not how many) staff they laid off as part of the initiative. According to subsidiary interviewees, the initiative has impacted negatively on subsidiary performance. For their sales division restructure, meetings were arranged specifically to discuss the initiative. This was HQ routine approach to new strategic change ideas. The subsidiary CEO (Appendix 7A(37) p.231) suggested to HQ that some of the sales staff would not to move to HK, which would mean the subsidiary would risk losing their relationship with that customer. Again, both the CEO and CFO (Appendix 7A(38) p.232) explained in their interviews that HQ did not incorporate their advice into their decision. Subsidiary managers alleged that the initiative has had negative performance implications.

The introduction of a new modem product at Guangdong communications was described by interviewees in a similar fashion. For this case, both a JV board member (Appendix 7A(39), p.232) and the Marketing Manager (Appendix 7A(40), p.232) explained that the foreign parent put forward a strategic proposal at a JV board meeting that the subsidiary was expected to approve as a matter of routine without too much input or advice. According to both interviewees, the new product was unsuccessful because its’ input in relation to the appropriateness of the initiative or suggestions about changes that were required were not incorporated into the HQ driven strategy.

In summary, for Group 1(a) cases, HQ utilized routines to review subsidiary strategic change ideas. These involved regular meetings between HQ and subsidiary executives that focused specifically on the strategic change idea or routine meetings where strategic change issues formed a standing agenda. There was one exception where HQ arranged ad hoc meetings with the subsidiary to review the impact of the global financial crisis and develop a strategic response. HQ used the review and development process primarily as an opportunity to continue to sell the appropriateness of a strategic change idea to subsidiary managers. Subsidiary managers are unanimous that the HQ ‘sell’ was unsuccessful, because it was based exclusively on MNE or generic information and failed to incorporate China contextual information and experience into the decision. In all cases, the subsidiary executives’ role was limited to participating in the development of a subsidiary implementation plan, despite offering advice about the appropriateness of the initiative. Due to the failure to consider specific subsidiary and China
circumstances, subsidiary interviewees argued that the initiative has not been a positive change for the subsidiary.

7.3.4 Review and Development Process for Group 1(b) Cases

Along similar lines to Group 1(a) initiatives, the review and development process for both Group 1(b) cases gave HQ a chance to continue to sell their idea to the subsidiary managers and utilized routine MNE meetings between the foreign parent and subsidiary representatives. However, in contrast to Group 1(a) cases, the emphasis on selling the idea ranked much lower. Instead, the focus was on obtaining extensive input from subsidiary executives, about both the idea’s feasibility and the modifications required to the strategy to suit China and subsidiary circumstances. According to subsidiary executives for Guangzhou Connectivity, seeking subsidiary input resulted in a positive feeling about the performance outcomes of the strategic change proposals and the effectiveness of the decision-making process. At US-Sino Circuit Boards, incorporating subsidiary level input into the decision-making process also culminated in an effective decision-making process.

Subsidiary respondents at Guangzhou Connectivity explained that the initial idea to automate production processes from HQ needed to be revised and developed, and the subsidiary executive team had substantial input into these revisions. According to interviewees, the final restructuring strategy was effectively adapted to suit the subsidiary and China context, which has had a positive impact on performance. The PR Director at Guangzhou Connectivity noted:

‘We discuss new ideas for the subsidiary in regular monthly meetings. There are representatives from the subsidiary, our regional head office and head office in the US...They (HQ) didn’t initially consider China circumstances, so their idea needed to be revised...’

The CFO elaborated on the process:

‘After telling us that we needed to do something about rising labour costs, they suggested this idea and asked us whether we thought it was feasible in our subsidiary...they were really interested in developing this initiative in conjunction with us...There were reviews, rejections, meetings. It followed the principles of all good meetings,
listening to different views, asking questions, lots of questions and information sharing before coming to a decision...HQ was not dictatorial, they listened to us...’

The PR Director explained why revisions were required to the original restructure idea proposed by HQ:

‘We could never adopt the original approach suggested by HQ of immediate large scale implementation which would require sudden large scale sudden lay offs. Instead, we suggested to the parent that we take the approach of offering less over time rather than firing staff. That way staff numbers will gradually fall off of their own accord...So we proposed gradually automating as staff gradually fell off...And, by doing it this way, your staff even after leaving may be more willing to come back if they are required such as if demand increased significantly...’

The PR Director went on to note that this gradual approach also avoided difficulties with the local labour bureau:

‘There are positive advantages of this gradual approach with the local labour bureau...because we are not engaging in substantial sudden lay-offs, we do not need their approval....And our efforts to avoid lay offs is seen as positive by the government and we are therefore able to maintain our strong relationship with them. You know in China if you get the government off side you can create a lot of trouble for yourself...HQ accepted our suggestions and went with this gradual approach...’

The PR director also implied that the review and development process has resulted in an effective initiative that has had a positive impact on subsidiary performance:

‘The initiative is working well. We have met little resistance from the Government or staff and efficiency and costs are improving...’

The circumstances were similar for US Sino Circuit Boards’ idea to expand into China’s domestic market, the other Group 1(b) initiative. For this case, a JV board member explained that, after the GFC hit, the JV’s foreign parent was considering abandoning the project (Appendix 6A(41), p.232). However, the foreign parent sought input from the Chinese parent and subsidiary executives who recommended that the JV still continue to explore the possibility and feasibility of expanding into China’s domestic market. A routine review and development process ensued, involving joint parent-
subsidiary executive meetings. Throughout the review and development process, a senior subsidiary board member reported that information and advice was given by the Chinese parent and subsidiary executives on issues, such as local government impediments, difficulties in obtaining extra land for the expansion and other potential local barriers to the establishment of a new production facility. The interviewee went on to explain that their subsidiary had previously focused on the high end foreign market while the domestic market demanded lower end, cheaper products. In the end, a joint HQ subsidiary decision was made to abandon the idea based on the research and final advice of subsidiary executives that an expansion into the domestic market would require a substantial change in strategy and production processes, and not simply an expansion in the existing production facility. Fortunately, by the end of this process, the board member (Appendix 6A(41), p.2232) explained that the foreign parent obtained evidence that there would be sufficient demand from existing foreign clients to absorb the additional production capacity; therefore, the expansion based on foreign, not domestic, demand went ahead. The board member noted that abandoning the domestic market expansion avoided potentially negative performance implications for the subsidiary.

In summary, the emphasis on selling the idea by HQ executives for Group 1(b) cases was much lower than Group 1(a) cases. Instead, HQ used routine review and development processes to obtain extensive input from subsidiary executives in relation to the feasibility of the idea and/or modify it to suit China and subsidiary circumstances.

7.3.5 Formal Sign-Off for Group 1(a) and (b) Cases

The formal sign-off process was very similar for each Category 1(a) and (b) HQ driven strategic change case, with formal ‘sign-off’ residing at HQ. HQ for each case had established routines for this sign-off process. This formal sign-off only involved a signature from relevant executives which indicated that they had formally approved the strategy. No interviewees described any further knowledge sharing during this process, although, because this process occurred at HQ, this cannot be confirmed. Sometimes sign-off was required by only one HQ executive, while for other cases, more than one HQ executive needed to sign-off on each case. Importantly, subsidiary management sign-off was not required for any of the HQ driven strategic change cases. For the two JV subsidiaries, final sign-off was required by both the foreign parent and the JV board,
but local subsidiary sign-off and Chinese parent sign-off were not required. Table 7.3.4 details the sign-off process for each Group 1 case.

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7.4 Group 2 ‘China Information/Experience Sufficient’ Cases

7.4.1 Subsidiaries Comprising Group 2 Cases

Group 2 cases included the lay-off restructuring and lean production initiatives at Shunde Plastics along with the restructuring of process management at Singapore Tech. China. These are summarized in Table 7.4.1.

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<th>Table 7.4.1: Group 2 HQ Driven Cases</th>
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<td><strong>Strategic Change Case</strong></td>
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<tr>
<td>Overhaul in process management</td>
</tr>
</tbody>
</table>
7.4.2 Idea Generation Process for Group 2 Cases

As outlined in the Typology presented in Figure 7.2.1, Group 2 cases were similar to Group 1 HQ cases in that subsidiary managers were, for the most part, not involved in the idea generation process prior to the idea being pitched to them for the first time. However, unlike Group 1 initiatives, HQ did, according to subsidiary interviewees, utilize extensive, relevant and appropriate China sourced information, along with their own extensive global experience to identify a problem or opportunity for strategic change. For each Group 2 case, the problem identification and initial idea development process represented individual level processes undertaken by the CEO of the foreign parent. Also, in contrast to Group 1 cases, after identifying a problem or opportunity requiring a strategic change initiative, the initial strategic change idea developed for Group 2 cases utilized extensive and appropriate China derived experience. The pitch of the strategic change idea reflected an attempt by HQ project initiators to sell the initiative to subsidiary managers. While this was also the case for Group 1(a) and (b) initiatives, subsidiary managers associated with Group 2 cases were far more accepting of the idea, implying a more effective ‘sell’ by HQ. According to subsidiary respondents, acceptance of the HQ strategic change idea was due to the business case put forward by HQ that appropriately took local China circumstances into consideration.

For Shunde Plastic’s lay-off initiative, the parent CEO engaged in his own external environmental scanning efforts both outside and inside China to identify a need to engage in a small scale lay off initiative. The Factory Manager explained:

‘Our CEO was Chinese and he understood how to do business here and overseas…He told us that he had looked into global economic conditions by talking to consultants and contacts in America… I think he was a member of some type of industry association which also provided an overall global industry outlook…He said he had also spoken to local and even provincial government friends and contacts… This research was something he did on a regular basis… He learned from this that the Chinese government was going to take measures to stimulate the China economy and make sure the impact of the GFC on China was only short term…’

According to Shunde Plastics interviewees, the subsequent idea for the lay-off initiative was a direct result of the HQ CEO interpreting his own environmental scanning efforts
to identify the appropriate magnitude of a global lay off initiative. When first presenting the idea to subsidiary executives, the Factory Manager explained that the HQ CEO presented a very credible and effective case that took into consideration both global and China factors:

‘He arranged a meeting with all senior staff in the subsidiary to raise the issue...His argument to us was that the GFC would have a quite drastic effect on the global economy. This would include China, although he believed that the impact in China would be smaller and would not last as long. His view was that the Chinese government would use policy to protect the economy from too substantial a global down turn. However, he suggested that some reduction in staff was still necessary as there would be a down turn in business, perhaps around 15% for the coming two years...’

‘He suggested that the best way of going about these lay offs was to reduce the head count by around 10% and then keep some staff on minimum hours with no over time until things picked up again. He suggested that this would be better than a larger scale lay off, because once you fire someone, they are not likely to come back again if things pick up. But, if they are still working in the firm, you can just increase their overtime when things pick up again. This was smart. He had done his research. It made us feel that he was not taking the decision lightly and he cared about all the employees. He also took key employees out to dinner to make sure that they understood their job was safe and that things were OK. He really knew how to keep important people on side...’

It is also worth noting that Shunde Plastics CEO’s use of formal information sources when scanning overseas (in Western countries) and informal sources adopted by the CEO when scanning in China supports previous studies comparing scanning approaches in Asia and Western countries, which forms part of the conceptual framework (Fleisher & Wright 2009). In contrast to Group 1 cases, Group 2 cases utilized and understood the importance of gathering information from informal China information sources. Reasons for this are discussed in Section 7.5 below.

For Shunde Plastics’ lean production initiative, the HQ CEO formulated a restructuring idea that was primarily driven from experiences overseas, but with adaptations based on his experiences in China. Subsidiary executives acknowledged that, despite the initial concerns, the idea was well thought out. It was presented in routine weekly meetings
between the HQ CEO and senior subsidiary executives. The Quality Control Director noted:

‘He meets with us each week to discuss operations and his ideas...[HQ CEO] presented his ideas to all senior management staff. He was very detailed and he understood how to adapt the approach to our subsidiary...’

‘His idea for this initiative was based on his previous experience working for [Japanese Automobile Producer] in the US. He had learned the Japanese approach to lean production and believed it could be applied to this venture. He had also read a lot of books about Japanese production. This is where he said he had obtained the idea...He had also seen a similar approach adopted in automobile companies in China...so he knew how to adapt the idea to China and make it work...’

‘It was not at all a short discussion, but rather an extremely detailed complex presentation. He had also prepared a book for each of the staff on Japanese lean production and asked the production team to familiarize themselves with the initiative...’

For Singapore Tech China’s process overhaul initiative, the circumstances were similar. Both the Product Manager (Appendix 7A(43), p.233) and CFO (Appendix 7A(42), p.233) explained that the overhaul in process management was based, in large part, on the HQ CEO’s personal experiences with other enterprises in China and overseas, and effectively took into consideration the subsidiary’s China circumstances.

In summary, and in contrast to Group 1 cases, each Group 2 strategic change case utilized both global information and extensive China derived information, and experience to identify a need to or opportunity for change and the associated strategic change idea. This information and experience was extracted by and resided with HQ executives. Along similar lines to Group 1 cases, however, subsidiary executives were not involved in the idea generation process until HQ had identified an opportunity/problem and developed their own idea. For Group 2 cases, the HQ CEO was also able to communicate their idea to subsidiary executives in a convincing way due to their ability to incorporate extensive and relevant China related information and call on their personal experiences. Shunde Plastic’s lay-off initiative supports the importance of informal, verbal information sources when scanning in China, in
comparison with the use of formal information sources when scanning in western countries.

7.4.3 Review and Development Process for Group 2 Cases

While subsidiary managers were involved in the review and development process for Group 2 cases, their involvement was limited, similar to that for Group 1(a) subsidiaries. HQ mainly used the review and development process to ‘sell’ the initiative to the subsidiary. However, in contrast to Group 1(a) cases, Group 2 HQ executives put forward a strong strategic change case, convincing subsidiary managers of the merits of the initiative. This was due to the fact that Group 2 HQ executives incorporated both extensive and appropriate global and China sourced information and experience when developing their strategic change idea. Group 2 subsidiary managers also reported positive feelings about the outcomes of the strategic changes. For each case, HQ arranged meetings between HQ and subsidiary executives to discuss an idea. This was a process they adopted for all new strategic changes related to the subsidiary.

Subsidiary interviewees for Group 2 cases also explained that HQ went to great length to present evidence to subsidiary executives to gain their support for the strategic change idea. Subsidiary executives perceived this effort to be a sign of HQ respect for them. In short, HQ went to great lengths to demonstrate the validity of the initiative to subsidiary executives to give them ‘face’. The sell was also effective, because subsidiary managers saw themselves as less qualified than their parent executives, accepting HQ authority, but appreciative of HQ’s earnest efforts to sell the initiative to them.

The CEO at Singapore Tech. China for example, emphasized the importance of the ‘respect’ shown by HQ to subsidiary executives during the review and development process, the CFO recalled:

‘Usually [Parent CEO] arranges meetings to discuss his new ideas.’

‘There were several meetings subsequently arranged to discuss this issue specifically...’

‘He was very respectful of us even though he was CEO of the entire business. He presented us with his idea, described the advantages and let us explore it for ourselves. This was a very good way to sell his idea. It gave us face, because, in the end, we at the
subsidiary felt like we were involved, even though it was his strategy. We felt he listened to us, even though we knew that in reality we were not going to provide any real input or express any objections to the restructuring...

‘He (CEO) really did know what he was talking about. He had worked in China for many years at senior level...This meant his idea was well thought out...The initiative has worked well. We have reduced bureaucracy and costs and this is having a positive impact on profitability...’

For the lay-off initiative at Shunde Plastics, subsidiary interviewees respected the ability and knowledge of the HQ CEO as the key driver of the initiative. They also felt the restructuring initiative has had positive implications for subsidiary performance. As the Quality Control Director explained:

‘He asked us what we thought...he was very respectful...but after he had given us all the evidence and made the point that he had already considered every possible way to minimize the lay-offs, there was not much we could say...

‘He had a number of conversations with the local labour bureau...He went to great lengths to sell his idea to them...Strategies such as minimizing lay-off numbers and instead offering less overtime were seen by the local government as an act of good faith...you know, demonstrating [HQ CEO] was going to great lengths to minimize lay-offs...’

‘For such a sensitive initiative, things went smoothly. There was little resistance from the local government...and we have managed our costs...Because he only made a small number of people redundant, we have been able to keep up with demand as business has picked up again...’

The effort on the part of the HQ CEO for Shunde Plastics to sell his lean production initiative was also substantial. Subsidiary executives felt they were treated with respect by the CEO because of the efforts he made to sell them on his strategic change idea. Subsidiary interviewees also believed there were positive performance outcomes for the subsidiary. The Quality Control Director explained:
‘Over several meetings, he presented complex data and evidence to support the importance of implementing this initiative. He also explained there would be no lay-offs required for the initiative…’

‘We were allowed to give our views, but he was very convincing and he presented a lot of good evidence. It was obvious that this would give us a state of the art production process that could be adapted to China…’

‘His motivation was to increase profit and lower production costs… However, he was the key driver…’

‘He knew that implementing this in a China environment would be different from that in the US. He told us this noting that retraining would be required because local staff had not been exposed to these processes and noted that he had already prepared a strategy to make this happen…’

‘For science and engineering people like myself, I like this detail. While I didn’t really get the idea fully, I can see that he had a lot of evidence to support his conclusion. It was a well conceived plan…’

‘That being said, he still placed a lot of emphasis on selling his idea. He was certainly smart and knew how to put his case forward. But he was also respectful of us. He really didn’t need to go to this much effort to sell his idea, after all, he was the CEO. But in China, face is important. He wanted to show that we were important by going to such an effort to convince us that this idea was a good one…’

‘Our production efficiency and quality has improved a lot. I would say this project has been very successful…’

7.4.4 Formal Sign-Off for Group 2 Cases

Along similar lines to Group 1 cases, the formal sign-off for Case 2 strategic change initiatives resided with the CEO at HQ, which is shown in Table 7.4.2. No sign-off was required within the subsidiary.

<table>
<thead>
<tr>
<th>Strategic Change Case</th>
<th>Sample Subsidiary</th>
<th>Executives That Signed Off On Initiative (In Chronological Order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lay off initiative</td>
<td>Shunde Plastics</td>
<td>HQ CEO</td>
</tr>
</tbody>
</table>
### 7.5 Factors Driving Variance Across HQ Driven Cases

#### 7.5.1 Introduction

This section explores the factors emerging from the interview data that drove the variance associated with the decision-making process across each of the three groups. The analysis draws on insights from interviewees and also links and applies the theory and literature presented in the conceptual framework to explain this variance. As outlined in the Typology presented in Figure 7.2.1, an analysis of the data revealed three key factors driving the variance across decision-making process for HQ driven subsidiary strategic change initiatives: (1) HQ executives’ in-country China work experience; (2) the credibility of subsidiary executives with HQ; and (3) the importance of the subsidiary to the parent. Each of these factors is explored below.

#### 7.5.2 HQ Executives’ In-Country China Work Experience

A key factor and source of variance associated with the decision-making process across HQ driven case groups was the extent to which appropriate and sufficient China sourced information and experience were utilized. The interview data revealed that subsidiary executives partly attribute the use of appropriate and sufficient China information and experience to the in-country China work experience of HQ executives. For Group 1(a) and (b) cases, subsidiary executives felt that HQ executives did not have in-country work experience in China. This meant they lacked the knowledge required to utilize sufficient and appropriate China information and experience during the idea generation process. The interview data from Group 1(a) and (b) cases also indicate that subsidiary managers believed a lack of in-country China work experience of HQ executives made it difficult for HQ executives to absorb the input of subsidiary executives during the review and development process.
At Guangzhou Adhesives, for example, HQ in-country China work experience was identified as a key factor impacting on the decision-making process. The subsidiary CEO noted:

‘HQ executives had no China experience. I mean they really had no way of understanding the points we were trying to make in relation to their idea. They assumed that their ideas would apply equally to China as they had in other operations…They had another subsidiary in China but they rarely ever visited it. You can’t learn about a country unless you experience it…’

For the ERP system, specifically, the CEO also noted:

‘If they had lived and worked in China and dealt with customers directly, they would have understood, for example, that state owned customers need more time to pay. They certainly would have understood that an ERP system that takes away the personal relationship between customer and account manager would be disastrous…’

‘Because they didn’t understand this, they simply couldn’t understand the advice we were trying to give them…’

A similar point was made by a Board Member at US Sino Circuit Boards:

‘[Foreign Parent] hadn’t had exposure to Chinese customers. They were all foreigners…They didn’t understand the need for lower price product…’

For Group 1 firms, Table 7.5.1 references quotes by subsidiary interviewees discussing HQ’s lack of in-country work experience in constraining the ability of HQ to utilize China sourced information and experience during the decision-making process.

<table>
<thead>
<tr>
<th>Case</th>
<th>Sample Subsidiary</th>
<th>Group</th>
<th>HQ In-Country China work experience relevant (Yes/No)*</th>
<th>Interviewee and Reference to Relevant Quote in Appendix/Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERP Initiative</td>
<td>Guangzhou</td>
<td>1(a)</td>
<td>Yes</td>
<td>CEO Described</td>
</tr>
</tbody>
</table>

*89 Note for each claim made an interview in relation to HQ in-country experience (or lack of), further documentary evidence such as biographies on relevant HQ executives were obtained to confirm the claim.
<table>
<thead>
<tr>
<th>Event Description</th>
<th>Company</th>
<th>Interviewee</th>
<th>Result</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacement of senior subsidiary executives</td>
<td>Guangzhou Adhesives</td>
<td>I(a)</td>
<td>Yes</td>
<td>CEO Described above (p.206)</td>
</tr>
<tr>
<td>Lay-off of 20% of global workforce</td>
<td>Foshan Magnetics</td>
<td>I(a)</td>
<td>Yes</td>
<td>CEO (7A(45), p.234) CFO (7A(44), p.233)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Foshan Magnetics</td>
<td>I(a)</td>
<td>Yes</td>
<td>CEO (7A(45), p.234) CFO (7A(44), p.233)</td>
</tr>
<tr>
<td>Implementation of ERP System</td>
<td>Guangzhou Infant Formula</td>
<td>I(a)</td>
<td>Yes</td>
<td>PR Director (7A(46), p.234)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Guangzhou Converters</td>
<td>I(a)</td>
<td>Yes</td>
<td>CEO (7A(47), p.234)</td>
</tr>
<tr>
<td>Introduction of a new modem product</td>
<td>Guangdong Communications</td>
<td>I(a)</td>
<td>Yes</td>
<td>Marketing Manager (7A(48), p.235)</td>
</tr>
<tr>
<td>Expansion in production capacity</td>
<td>Guangzhou Connectivity</td>
<td>I(b)</td>
<td>Yes</td>
<td>PR Director (7A(49), p.235)</td>
</tr>
<tr>
<td>Lay-Off initiative</td>
<td>Shunde Plastics</td>
<td>2</td>
<td>Yes</td>
<td>Described below (p.208)</td>
</tr>
<tr>
<td>Lean Production Initiative</td>
<td>Shunde Plastics</td>
<td>2</td>
<td>Yes</td>
<td>Described below (p.208)</td>
</tr>
</tbody>
</table>

*Note*: Refers to whether or not (Yes/No) interviewees indicated ‘HQ executives’ in-country China work experience as a significant factor enhancing or constraining its capacity to draw on China knowledge during the decision-making process.

In contrast, Group 2 cases had HQ executives with extensive in-country China work experience who, according to subsidiary executives, knew how to glean information from the China environment and combine it with information extracted outside of China to identify a need for strategic change. They also understood the importance of China information and experience and could reflect this effectively when communicating the
idea to subsidiary respondents. According to Group 2 subsidiary executives, HQ executives’ extensive in-country China work experience also impacted on the review and development process. Specifically, it resulted in a scenario where subsidiary executives perceived their own role to be one of implementing strategy rather than formulating strategy, as they felt their own expertise and knowledge was substantially inferior to HQ. In contrast to Group 1(a) cases, where subsidiary expertise would have improved strategic decision-making, in Group 2 firms, subsidiary input was not required, because of the in-country experience of HQ CEOs.

For example, the Factory Manager at Shunde Plastics argued that the extensive in-country China work experience of the HQ CEO was identified as being critical in formulating an ‘appropriate’ restructuring idea. In-country China experience also resulted in HQ employing a subsidiary team that saw themselves as implementers rather than developers of strategy which meant subsidiary executives’ involvement in the review and development process was limited.

The Factory Manager explained:

‘Our CEO (at HQ) had a lot of experience in China and overseas. I don’t think we in the subsidiary could compare with him...’

‘Our CEO was very capable. He was Chinese and had worked successfully in China for a long time. He also had high level work experience overseas which meant he was very capable and smart. And his ideas were well thought out. They were appropriate for China...’

In relation to the lean production initiative he elaborated:

‘He knew that his lean production idea needed to be adapted to China because he had personally observed it working here...’

In relation to the lay-off initiative, he explained:

‘He had operated businesses in China for a long time...He knew the consequences of reacting quickly to global conditions, he knew the problems of trying to recruit staff back quickly in China when things got better...’

The Quality Control Director elaborated on the role as ‘implementers’ of strategy:
'We were not really encouraged to come up with strategy. Our focus was on implementation of the CEO’s strategy…'

'He (HQ CEO) truly did have a lot of expertise here and overseas. I am sure he also felt he was far superior to us in terms of these issues. And, this was probably true…'

'We were implementers of strategy. None of us had the education or experience that he had…'

The circumstances were similar for Singapore Tech. China, as shown in Table 7.5.1.

The importance of HQ executives’ in-country China work experience can be understood in terms of the role of managerial cognition and absorptive capacity in decision-making developed in the conceptual framework chapter. The literature on managerial cognition, or ‘sense making’, argues that knowledge derived from experience determines the information to which managers pay attention and how they make sense of the information when making strategic decisions (Narayanan, Zane & Kemmerer 2011; Tripsas & Gavetti 2000; Walsh 1995; Weick 1995). According to this literature, managers have cognitive limitations to their knowledge base that constrain their capacity to engage in rational strategic decision-making processes that incorporate all relevant information (Hodgkinson & Clarke 2007).

The literature on absorptive capacity focuses on how these cognitive limitations at an organizational level impede a firm’s capacity to absorb new information. The absorptive capacity perspective holds that organizations (and its members) find it easier to absorb new information when that information relates to knowledge already possessed by the organization (Cohen & Levinthal 1990; Sathrapriya et al. 2012; Tseng, Pai and Huang 2011; Zahra & George 2003). While acknowledging that the literature on absorptive capacity has organizational knowledge as its unit of analysis, the findings from this study apply a micro-lens (individual level) perspective on absorptive capacity, recognizing that organizational knowledge does incorporate the knowledge of its individuals and, ultimately, it is those individual knowledge resources that the firm leverages to build competencies (Clarke & Rollo 2001).

As suggested in this cognition perspective, previous experiences drove strategic decision-making. For Group 2 cases, it was HQ’s extensive in-country China work
experience that gave them the knowledge required to develop appropriate subsidiary strategic change decisions, such that they did not need input from subsidiary executives during the review and development process.

Supporting and applying both the cognition and absorptive capacity perspectives, the data on Group 1(a) and (b) initiatives involved HQ executives who lacked ‘on-the-ground’ China work experience, which meant they had not developed the experiential based knowledge required to absorb sufficient and appropriate China sourced information (such as that gleaned from environmental scanning efforts) and apply firm (HQ) level experiences to the China subsidiary. In other words, lacking China work experiences, these HQ executives faced limitations in selecting and interpreting China-specific knowledge.

These findings also contribute to the literature on scanning presented in Chapter 4. While this literature has argued that domestic Chinese firms prefer informal, verbal information sources, for foreign subsidiaries and HQ driven scanning efforts, the situation is somewhat more complicated. Specifically, HQ executives with in-country China work experience were able to adapt their scanning to the environment in which it was conducted, utilizing formal, written sources of information when scanning in Western institutional environments, but utilizing informal, verbal information sources when scanning in China. In contrast, when HQ executives did not have this in-country China work experience, they were not able to appreciate or did not have the capability to draw on informal, verbal China information sources, even when subsidiary executives offered insights from such sources, especially customers or local government officials.

7.5.3 Subsidiary Executive Credibility with HQ Executives

As noted in the Typology presented in Figure 7.2.1, another important driver of variance related to the extent to which subsidiary executives were able to contribute their local information and experience to the review and development process. Subsidiary interviewees identified the credibility of subsidiary executives with their parent as a key factor driving differentiation between Group 1(a) and Group 1(b) cases. For Group 1(a) cases, subsidiary managers argued that their lack of credibility with HQ impeded them from contributing more to the strategic change decision-making process.
Group 1(a) subsidiary executives complained that their lack of credibility meant HQ did not have confidence in their input and, therefore, were reluctant to incorporate it into its strategic change decision. The lack of credibility was mostly put down to subsidiary executives’ lack of a track record at the subsidiary. Another factor contributing to a lack of credibility with the parent, was subsidiary managers’ poor understanding of how the parent approached strategy.

Guangzhou Adhesives’ CEO stated that track record contributed to his lack of credibility with HQ for both strategic change initiatives:

‘I had no track record with them specifically. The fact that I had operated a successful adhesives business in China for over ten years didn’t matter to them. So they were not really willing to listen to my perspective…’

The subsidiary CEO from Guangzhou Converters made a similar point in relation to his track record:

‘One problem was that I had no real track record at their firm, despite operating a successful business in China for years. The Asia Pacific regional head actually said to me that headquarters really didn’t have the confidence in me because I hadn’t proved myself to them…’

He went on to explain that his lack of understanding about how the Japanese parent approached strategy also impacted on his credibility with HQ:

‘The problem I had was that I didn’t, at that time, really understand what the Japanese were looking for. I didn’t know how to sell my view to them. I didn’t understand the processes by which they made decisions…’

As shown in Table 7.5.2, other Group 1(a) cases shared a similar lack of subsidiary executive credibility with HQ, which meant all Group 1(a) subsidiaries faced a HQ unwilling to incorporate their input into HQ driven strategic changes for the subsidiary.
<table>
<thead>
<tr>
<th>Case</th>
<th>Sample Subsidiary</th>
<th>Group</th>
<th>Subsidiary Executive Credibility Relevant* (Yes/No)</th>
<th>Interviewee and Reference to Relevant Quote in Appendix/Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of ERP system</td>
<td>Guangzhou Adhesives</td>
<td>1(a)</td>
<td>Yes</td>
<td>Described above (p.211)</td>
</tr>
<tr>
<td>Replacement of senior subsidiary executives</td>
<td>Guangzhou Adhesives</td>
<td>1(a)</td>
<td>Yes</td>
<td>Described above (p.211)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Guangzhou Converters</td>
<td>1(a)</td>
<td>Yes</td>
<td>Described above (p.211)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Foshan Magnetics</td>
<td>1(a)</td>
<td>Yes</td>
<td>CFO (7A(51), p.236)</td>
</tr>
<tr>
<td>Lay-off of 20% of global workforce</td>
<td>Foshan Magnetics</td>
<td>1(a)</td>
<td>Yes</td>
<td>CEO (7A(51), p.236)</td>
</tr>
<tr>
<td>Implementation of ERP System</td>
<td>Guangzhou Infant Formula</td>
<td>1(a)</td>
<td>Yes</td>
<td>PR Director (7A(52), p.236)</td>
</tr>
<tr>
<td>Introduction of a new modem product</td>
<td>Guangdong Communications</td>
<td>1(a)</td>
<td>Yes</td>
<td>Marketing Manager (7A(53), p.236)</td>
</tr>
<tr>
<td>Automation project</td>
<td>Guangzhou connectivity</td>
<td>1(b)</td>
<td>Yes</td>
<td>Described below (p.213)</td>
</tr>
<tr>
<td>Expansion in production capacity</td>
<td>US-Sino Circuit Boards</td>
<td>1(b)</td>
<td>Yes</td>
<td>Described below (p.213)</td>
</tr>
</tbody>
</table>

*Note*: Refers to whether or not interviewees indicated ‘subsidiary executive credibility with HQ as a significant factor impacting on HQ’s willingness to incorporate subsidiary executive’s input into the strategic decision

The opposite was true for Group 1(b) cases where subsidiary executives claimed that they had significant credibility with HQ. This meant that, even though HQ did not necessarily fully understand their input, they trusted the judgment of subsidiary executives. Again, the subsidiary executives’ strong track record at the subsidiary was
the critical determinant of their credibility, along with an extensive understanding of how the parent approached strategy.

The PR Director at Guangzhou Connectivity recalled:

‘Our CEO and I have been at the company for a number of years. We can communicate with them in English and that helps. We also understand their processes. How they make decisions and what is most important to them. Talking to them in their language and based on their requirements makes it easier for them to listen to us. And, our subsidiary has been a good performer despite recent labour issues. We had helped them resolve a number of local issues they did not understand so they trusted us…’

A JV board member at Sino-US Circuit Boards also claimed that his and the subsidiary’ General Manager’s high level of credibility with the foreign parent was important for the review and development of the strategic change initiative, ensuring subsidiary input was incorporated into the decision-making process:

‘We had worked well together for a number of years. They trusted us on issues to do with China because we had shown that we understood local China conditions. We (Chinese partner) had other successful JVs in the local Chinese market. Our subsidiary GM had performed well and I think the parent had confidence in him…’

When making strategic change decisions, the lack of subsidiary manager credibility for Group 1(a) cases therefore impeded HQ capacity to realize the full knowledge potential residing in subsidiary managers, while the opposite was true for Group 1(b) cases.

These findings on subsidiary executive credibility can be understood by integrating three concepts in the management literature. One concept is ‘subsidiary learning intent’, developed in the conceptual framework chapter. Subsidiary managers with a stronger learning intent are more likely to acquire knowledge from HQ (Gupta & Govindarajan 2000; Mahnke, Venzin & Zahra 2005; Minbeava, Bjorkman & Park 2003; Wang-Cowan 2008). Another concept, not considered in the conceptual framework, is ‘subsidiary manager credibility’. Birkinshaw (1999, p.16) defined subsidiary manager credibility as ‘the extent to which managers in the head office are aware of and confident in the capabilities of the subsidiary unit’. Birkinshaw argued that this would be a function of effective subsidiary communication with HQ, along with the
socialization of subsidiary managers, such that individuals within the MNE and subsidiary share the same goals, beliefs and values. A third concept is subsidiary track record, which has been identified as an important factor impacting on subsidiaries’ ability to win approval from HQ to implement subsidiary initiatives and increase their role and responsibility within the MNE’s network (Birkinshaw & Hood 1998). It essentially refers to the subsidiary’s success in the past (Birkinshaw & Hood 1998).

The interview data revealed that subsidiary manager credibility and track record were important, thus supporting these key premises in the management literature. However, this study found that it was the track record of individual subsidiary executives, rather than the track record of the subsidiary itself, that mattered in the decision-making process. While this difference might appear subtle, it is nonetheless important. For example, when a new executive is appointed to a well performing subsidiary, the new executive would not enjoy immediate credibility with HQ. The implication is that both HQ and newly appointed subsidiary executives need to jointly develop protocols to build subsidiary executive credibility with HQ.

In addition, the literature on credibility described above posited that, when subsidiary executives understood the strategic priorities of the parent, they were better able to gain traction with their input in the decision process. The empirical findings from this study strongly supported this premise. However, my interview data shows that this shared understanding did not come from any deliberate policy by HQ to indoctrinate subsidiary staff into the parent’s culture, but rather came from an active attempt on their part of subsidiary executives to understand parent strategy. Subsidiary executive’s learning intent, therefore, better explains why some subsidiary executives developed an understanding of how HQ approached strategy making than the creation of shared values and belief hypothesis (Gupta & Govindarajan 2000). In other words, when subsidiary executives were motivated and had made an attempt to learn how the foreign parent approached strategy, they were able to develop this understanding which gave them greater credibility with HQ.

7.5.4 Subsidiary Importance to Parent

Aside from HQ executives’ in-country experience and subsidiary executives’ credibility with HQ, interviewees also identified the importance of the subsidiary to the parent as a
key factor explaining variance among Group 1(a) and Group 1(b) cases. For all Group 1(a) cases, with the exception of Guangzhou Infant Formula, problems associated with HQ lack of in-country experience and subsidiary managers’ lack of credibility were compounded by the fact that these subsidiaries were seen as only small contributors to their parents’ overall operations. Given the subsidiary’s small contribution to global parent revenues or production output, subsidiary managers complained that HQ seemed reluctant to expend resources and mental effort on incorporating the view of subsidiary managers or assessing China-specific information. As a result, HQ preferred to assume that what has worked for other subsidiaries would work for the Chinese subsidiary.

This viewpoint is encapsulated by Guangzhou Adhesives’ CEO:

‘HQ really didn’t want to spend too much time on coming up with a solution. This was partly because they didn’t really have a lot of resources or expertise at HQ to do more research and we were only a very small part of their overall portfolio of businesses…’

This view is supported by the CEO of Guangzhou Converters:

‘In comparison with when we were owned by the US parent, we are only a small component of a peripheral operation for the new Japanese shareholders. We are one of many subsidiary managers attending these meetings. The Japanese just assumed our circumstances were like other subsidiaries…We were probably not big enough for them to devote too much time to us…’

A lower degree of subsidiary importance was also reported by interviewees from Foshan Magnetics and Guangdong Communications as negatively impacting on HQ’s willingness to allocate time and effort to incorporate subsidiary executive input into the strategic change decision. Table 7.5.3 references specific quotes from Group 1(a) interviewees supporting the role of subsidiary importance in HQ decision-making.

Guangzhou Infant Formula was the exception for Group 1(a) cases where, despite the fact that China was the largest market for the parent, this level of importance was not mentioned by subsidiary respondents as a significant determinant.

For Group 1(b) strategic change initiatives, subsidiary executives believed that their subsidiary’s importance to its parent motivated HQ to listen to subsidiary executives’ input. However, they argued that their subsidiary importance was a less significant
factor impacting on HQ decision-making than HQ in-country work experience and subsidiary credibility. As a JV Board Director at US-Sino Circuit Boards explained:

‘They had a lot of subsidiaries in China, but we were certainly one of their main suppliers. Their board representatives included the Parent CEO and CFO, and they went to a lot of effort to consider all viewpoints, including ours, to make sure they made the right decision…’

‘I expect they would have listened to us anyway. The fact that we were important to them probably helped…’

The circumstances were similar for Guangzhou Connectivity (see Table 7.5.3).

Table 7.5.3 summarizes the relevance of subsidiary importance from other cases.

<table>
<thead>
<tr>
<th>Case</th>
<th>Sample Subsidiary</th>
<th>Group</th>
<th>Subsidiary Importance Relevant* (Yes/No)</th>
<th>Interviewee and Reference to Relevant Quote in Appendix/Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of ERP system</td>
<td>Guangzhou Adhesives</td>
<td>1(a)</td>
<td>Yes</td>
<td>Presented above (p.215)</td>
</tr>
<tr>
<td>Replacement of senior subsidiary executives</td>
<td>Guangzhou Adhesives</td>
<td>1(a)</td>
<td>Yes</td>
<td>Presented above (p.215)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Guangzhou Converters</td>
<td>1(a)</td>
<td>Yes</td>
<td>Presented above (p.215)</td>
</tr>
<tr>
<td>Lay-off of 20% of global work force</td>
<td>Foshan Magnetics</td>
<td>1(a)</td>
<td>Yes</td>
<td>CEO (7A(54), p.236)</td>
</tr>
<tr>
<td>Removal and relocation of sales function from subsidiary to HK regional head office</td>
<td>Foshan Magnetics</td>
<td>1(a)</td>
<td>Yes</td>
<td>CEO (7A(54), p.236)</td>
</tr>
<tr>
<td>Implementation of ERP System</td>
<td>Guangzhou Infant Formula</td>
<td>1(a)</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Introduction of a new modem</td>
<td>Guangdong Communications</td>
<td>1(a)</td>
<td>Yes</td>
<td>Marketing Manager (7A(55),</td>
</tr>
</tbody>
</table>
Automation project | Guangzhou connectivity | 1(b) | Yes | PR Director (7A(56),p.237) |
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion in production capacity</td>
<td>US-Sino Circuit Boards</td>
<td>1(b)</td>
<td>Yes</td>
<td>Presented above (p.216)</td>
</tr>
</tbody>
</table>

*Note*: Refers to whether or not interviewees indicate 'subsidiary importance' as a significant factor impacting on HQ’s willingness to incorporate subsidiary executive input into the strategic change.

This finding can be reconciled with the literature on bounded rationality which suggests that executives face cognitive limitations in terms of their capacity to make rational decisions that incorporate all relevant information (Cyert & March 1963; Eisenhardt & Zbaracki 1992). The data from this study have suggested that, given the need to prioritize finite cognitive capacity, HQ are more willing to allocate cognitive resources to strategic decisions that have a more significant impact on their overall performance, which is the case for important subsidiaries. My finding on the role of subsidiary importance is, therefore, at odds with earlier studies that have found a positive relationship between the degree of control HQ exerts over subsidiaries and subsidiary importance (Boyacigiller 1990; Chang & Taylor 1999; Martinez & Ricks 1989). These studies suggest that parents maintain a higher degree of control over more important subsidiaries, because of the greater impact subsidiary strategic outcomes will, in fact, have on the MNE’s global operations. This study suggests that a higher degree of importance encourages HQ to adopt a more collaborative approach to decision-making, incorporating the input of subsidiary executives.

### 7.6 Link between Decision-making Process Characteristics and Effectiveness

Sections 7.3 and 7.4 have presented detailed interview data supporting the emergence of three groups of HQ driven strategic change cases, depicted in the Typology (Figure 7.2.1). For Group 1(a) cases, HQ had no in-country China work experience, subsidiary executives had low credibility with HQ and, usually, the subsidiary had a low degree of importance to the parent. Interviewees reported these changes to have negative implications for the subsidiary. For Group 1(b) cases, HQ had no in-country China work experience, but subsidiary executives had high credibility with HQ and, usually, the subsidiary had a high degree of importance to the parent. Interviewees for Group 1(b) cases were positive about the strategic change outcomes. The Typology presented
in 7.2.1 also identified that, for Group 2 cases where HQ had high in-country China work experience, interviewees reported a positive view of the strategic change.

In comparing the characteristics and strategic change outcomes across groups with the three factors driving variance, the findings from this study therefore imply that positive strategic change outcomes require either a high degree of in-country China work experience on the part of HQ, or that subsidiary executives have a high degree of credibility with HQ (which means HQ listens to subsidiary managers’ advice) and preferably a high degree of importance. HQ’s in-country China work experience enabled HQ to effectively utilize relevant China and global information and experience to identify a need for strategic change along with an associated strategic change idea. A high degree of subsidiary manager credibility with HQ was critical in cases where HQ did not have appropriate in-country China experience to enable subsidiary executives to provide substantial input into reviewing and revising a HQ driven strategic change idea to suit the subsidiary’s circumstances. Subsidiary importance also increased the motivation of parent executives to incorporate subsidiary executive’s input into the decision-making process.

The data for Group 1 cases, in particular, imply that, when subsidiary executives’ China knowledge was combined with the knowledge of HQ executives, strategic change decisions were well thought out and led to better outcomes than when only the knowledge of HQ executives was utilised. The importance of a broader range of global and China sourced knowledge and experience to positive subsidiary strategic change outcomes for these Group 1 cases can be understood in the context of the managerial cognition and upper echelons literature presented in the conceptual framework. This literature argues that the wider the range of cognition and knowledge incorporated into a strategic decision, the more effective the strategic outcomes (Abebe 2010; Bantel & Jackson 1989; Boecker 1997; Finkelstein and Hambrick 1990; Wiersema & Bantel 1992).

The literature on procedural rationality also included in the conceptual framework provides insights into the decision-making process-strategic change outcome (positive/negative) relationship. According to this literature, managers’ perceptions of a strategic decision will be related to the extent to which they had the capacity to question and provide input into a decision (Kim & Mauborgne 1991). Clearly, the case study
evidence from this study confirms that subsidiary managers for Group 1(a) cases strongly believed their views and knowledge were not given sufficient weighting, which gave them a negative perception of the process and its outcomes. The reverse was true for Group 1(b) cases where their input was given credence by HQ executives.

7.7 Chapter Summary

This chapter has presented the findings for HQ driven cases. The data have provided overwhelming evidence that HQ had routine decision-making processes in place. However, three important themes emerging from the data drove variance in the nature of these routines across HQ driven cases. For each HQ driven case study, HQ in-country China work experience was a key factor impacting on the decision-making process and strategic change outcomes. For cases where HQ did not have in-country China work experience, subsidiary interviewees argued that HQ did not have the knowledge to draw on sufficient or appropriate China sourced information and experience when identifying a problem/opportunity requiring a strategic change initiative, developing the strategic change idea and absorbing the input of subsidiary executives when reviewing and developing that idea.

Specifically, without in-country work experience, HQ executives engaging in environmental scanning did not understand the importance of informal information sources, such as conversations with local government officials. Instead, they assumed that global scanning efforts would apply to China. In addition, when developing a strategic change idea, HQ executives without in-country China work experience incorrectly utilized previous China experiences or made an erroneous assumption that an overseas experience would apply to a China subsidiary context when developing a strategic change idea. This failure to incorporate appropriate China sourced information and experience in the initial strategic change idea resulted in a low level of success in terms of HQ’s attempts to pitch their idea to subsidiary executives.

Subsidiary interviewees also explained that, during the review and development process, HQ lack of in-country China work experience made it more difficult for HQ to absorb the input of subsidiary executives who did possess local knowledge. This is because their knowledge accrued overseas was too different to the on-ground China experiences of subsidiary executives. The failure to incorporate appropriate and sufficient China
sourced information and knowledge during the decision-making process resulted in what subsidiary executives perceived to be strategic change outcomes that have been negative for the subsidiary.

In contrast, in cases where HQ executives did have in-country China experience, they were able to draw on their informal contacts in China to scan their environment. A key source of information was their relationship with local government officials. HQ executives with in-country China work experience also had the capability to apply their global experiences with similar strategic change initiatives to their China subsidiary, drawing on their China experience to adapt the overseas strategy to suit the subsidiary’s China context. Subsidiary interviewees for these cases also noted that, because of this in-country China work experience, they formulated a strategic change idea that they believed was suited to the China and subsidiary context. HQ in-country China experience also meant that subsidiary executives’ knowledge was not required during the review of a strategic change initiative, something that subsidiary interviewees acknowledged and accepted.

The degree of credibility that subsidiary executives had with HQ was a second key theme emerging from the findings, seen as critical in cases where HQ did not have in-country China work experience and, therefore, the knowledge to develop an appropriate strategic change strategy for the subsidiary. Subsidiary executive credibility was primarily a function of their track record with the parent at the subsidiary. Specifically, when subsidiary executives did have this credibility, interviewees noted that HQ were willing to incorporate extensive subsidiary input into the decision which they obtained during the review and development process, even though they did not necessarily understand it. In fact, for these cases, HQ deliberately expressed their strategic change idea as a ‘preliminary’ idea where subsidiary advice in relation to whether the initiative was even appropriate for the subsidiary was expected and welcomed. This subsidiary level input ensured that appropriate and sufficient China information and experiences were incorporated into the decision process which resulted in what subsidiary executives perceived to be strategic change outcomes that have been positive for the subsidiary.

In contrast, in cases where HQ did not have in-country China work experience, and where subsidiary executives did not have a high level of credibility with HQ, HQ were
not really interested in incorporating the advice of subsidiary executives into the strategic change decision. In these cases, subsidiary executives’ local China knowledge was not incorporated into the decision, which resulted in what they perceived to be negative strategic change outcomes for the subsidiary.

Aside from HQ executives’ in-country experience and subsidiary executives’ credibility with HQ, interviewees also identified the importance of the subsidiary to the parent as a key factor impacting on the decision-making process again among cases where HQ executives did not have in-country China experience. Specifically, problems associated with HQ lack of in-country experience and subsidiary managers’ lack of credibility were compounded in cases where these subsidiaries were seen as only small contributors to their parents overall operations. Given the subsidiary’s small contribution to global parent revenues or production output, subsidiary managers complained that HQ seemed reluctant to expend resources and mental effort on incorporating the view of subsidiary managers or assessing China-specific information. As a result, HQ preferred to assume that what has worked for other subsidiaries would work for the Chinese subsidiary. Again, this meant that in these cases, HQ did not incorporate subsidiary executives’ knowledge into the decision, which meant that the strategic change initiative had not incorporated sufficient and appropriate China knowledge. This, according to subsidiary executives, resulted in a strategic change that has had a negative impact on the subsidiary.
## Appendix 7A

### Table 7A(a): The Problem/Opportunity Identification Process for Group 1 Cases

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>Guangzhou Adhesives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>Replacement of Senior Subsidiary Executives</td>
</tr>
</tbody>
</table>

### CEO:

(1) ‘They obtained resumes from me for all our senior executives. They compared the qualifications of our staff and came to the conclusion that we did not meet their criteria in terms of speaking fluent English and having a university education...

‘The new appointments were all fluent in foreign language, with a university education. Originally, our sales staff were high school graduates, but were really good at sales. HQ looked down on them... I tried to tell them that this idea probably wasn’t that applicable or practical in China. I mean, it is very easy to hire young people with university degrees, but the quality of most degrees is very poor. The question is can they do their job, do they know the technology and what is their track record like at the firm, can I trust them?...’

### Sales Director:

(2) ‘This is what they had done everywhere else and they think it has been effective... They were not interested in our view. If they had spent time managing a sales team in China, they would know that university degrees mean very little for sales in China. The quality of many sales and marketing degrees in China is very poor. An actual track record and experience working with clients is more important...’

### Public Relations Director:

(3) ‘We report back every month to our Asia Pacific Head Office in Shanghai. We are a production firm so all our data is really about production efficiency and costs, we will usually offer to explain our reasons why things have changed but they are not interested in this explanation ...They noticed our labour costs had been increasing and saw it as a productivity problem...They raised it at their internal review meetings at HQ...’

### CFO:

(4) ‘HQ became increasingly aware of this issue...’
<table>
<thead>
<tr>
<th>Role</th>
<th>Sample Subsidiary</th>
<th>Strategic Change Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Relations Director</td>
<td>US Sino Circuit Boards</td>
<td>Expansion into domestic market</td>
</tr>
</tbody>
</table>

(5) ‘Wages don’t increase this fast in their developed country subsidiaries so they saw it as a real problem with how we were managing staff costs and productivity. In fact, these labour costs increases were not out of the ordinary in China...’

<table>
<thead>
<tr>
<th>Role</th>
<th>Sample Subsidiary</th>
<th>Strategic Change Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Member</td>
<td>Foshan Magnetics</td>
<td>Sales division restructure</td>
</tr>
</tbody>
</table>

(6) ‘In 2007, the overseas automobile market and market for electronic circuit boards was looking good. So they (HQ) were thinking about whether or not to expand into the local market. They subscribed to various industry and consulting reports that gave them information about global market trends...They also paid regular attention to what they saw as reliable overseas media sources and government reports about the economy and their industry...When the GFC hit [Foreign Parent] repeated the same market research to see what the impact would be. This lead them to think that maybe they should abandon the initiative. We had, however, spoken to our local government contacts who suggested the government would embark on a domestic stimulus policy to ensure demand remained strong...We did speak to government officials on a regular basis...’

<table>
<thead>
<tr>
<th>Role</th>
<th>Sample Subsidiary</th>
<th>Strategic Change Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Guangzhou Infant Formula</td>
<td>ERP initiative</td>
</tr>
</tbody>
</table>

(7) ‘They raised the idea in their senior management meetings at HQ...I think they met each week...It was about them exerting their control because they didn’t really trust us....HQ admitted that they were worried about our sales staff taking their own commissions as they had seen this happen in other China subsidiaries...They just assumed that our subsidiary circumstances were the same as everywhere else... In fact, nothing was going on...’

<table>
<thead>
<tr>
<th>Role</th>
<th>Sample Subsidiary</th>
<th>Strategic Change Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO</td>
<td></td>
<td>ERP initiative</td>
</tr>
</tbody>
</table>

(8) ‘Previously we were using different systems. This was supposed to enable everyone to use the same system...’

<table>
<thead>
<tr>
<th>Role</th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Relations Director</td>
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</tr>
</tbody>
</table>

(9) ‘They had implemented this system elsewhere and it had enhanced the efficiency of their global operations. These efficiency issues did not apply to us. We needed flexibility to deal with customers... Everything could be...’
controlled centrally from HQ and enabled HQ to maintain more effective overall control. They assumed the same would be the case for us in China…They also told us this ERP had not had any negative impacts on other subsidiaries…We were not involved in coming up with this idea. HQ discussed this in their regular internal meetings at HQ…They are held weekly, I think, or maybe fortnightly…’

Table 7A(b): The Idea Development Process for Group 1 Cases

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>Guangzhou Infant Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>ERP Initiative</td>
</tr>
</tbody>
</table>

Public Relations Director:

(10) ‘They had implemented this system elsewhere and it had enhanced the efficiency of their global operations. Everything could be controlled centrally from HQ and enabled HQ to maintain more effective overall control. They assumed the same would be the case for us in China…They also told us this ERP had not had any negative impacts on other subsidiaries… We were not involved in coming up with this idea. HQ discussed this in their internal meetings at HQ…They are held weekly, I think, or maybe fortnightly…’

CFO:

(11) ‘I suggested we need to have some flexibility and localization in certain areas. For example, globally (outside of China) we are only using one sole distributor globally, an internationally recognized distributor, but in China we cannot because we have to leverage on every province strongest distributor in that province. So another big problem was that relationship expenses like dinners and entertainment cannot be included in the new system. You know in China, a lot of deals, they are done over the dinner table, it doesn’t work for us. The ERP system when you spend such money for this type of event, the system will halt and it will not process anything. All the dinners would not be approved under this system…’

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>US-Sino Circuit Boards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>Expansion into China market</td>
</tr>
</tbody>
</table>

JV board member:

(12) ‘HQ believed they could basically use the same technology and production processes to sell into China’s domestic market…We were sceptical about this because we suspected the product would be too expensive for China…It was not our idea…Someone from HQ suggested it in
their usual strategy meetings…’

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Lay-off initiative

CEO:

(13) ‘HQ regularly look at their environment and meet regularly to review the business…They raised it in their regular meetings…They (HQ) had dealt with past economic down turns by laying-off staff. This seemed to be the strategy they always went with…The outlook for the Chinese market was still strong. GDP was still expected to maintain at least 8%. The short term down turn in orders was essentially an initial panic. Subsequent policy directives by the Chinese government made it clear they were going to provide a substantial stimulus. We did not believe there was any need to take such a heavy handed approach, particularly given 60% of what we sold was sold to the domestic market…We expressed our concern that orders would pick up and when they did, we would not have the sales staff or production capability to meet demand. This may result in a substantial loss in market share which did indeed end up happening…’

CFO:

(14) ‘Local government officials do not like large scale lay-offs due to the potential for social upheaval…’

Sample Subsidiary: Guangzhou Converters
Strategic Change Case: Sales division restructure

CEO:

(15) ‘They (HQ in Japan) told me that they had had problems in other subsidiaries like sales staff trying to take extra commissions and they resolved this by consolidating the sales function in Hong Kong so they could monitor sales staff more easily. They admitted that they simply assumed the same thing may have been happening here…They came up with this issue without us at the subsidiary. Japan’s senior executives meet regularly with the General Manager at our Hong Kong Regional HQ to discuss these problems and come up with solutions. This was the easy decision for them to make from their point of view. They did not even look at the specific circumstances of our subsidiary...We did not have this problem...’

HR Director:

(16) ‘The Japanese wanted to keep a closer eye on our sales staff. I think they were worried that they might try to take extra rebates from clients. This had happened in other subsidiaries they had in China...But it was not happening in our subsidiary...’

Sample Subsidiary: Guangdong Communications
Strategic Change Case: Introduction of modern product

JV Board Member:

(17) ‘The idea for the initiative came from [Foreign parent]...They had discussed it among themselves during their regular meetings...It was not our idea...The technology was not mature...it was old technology...They made an assumption that older technology would be competitive in China...They thought the China market was not sophisticated. In actual fact Chinese markets demanded state of the art product. I don’t know why they thought this, they certainly didn’t give us any evidence they had from China....’

Marketing Manager:

(18) ‘The product was second rate. It was not state of the art. At the time we thought HQ had underestimated the sophistication of the China market....’

Sample Subsidiary: Guangzhou Adhesives
Strategic Change Case: ERP Initiative

CEO:

(19) ‘The written business case and presentation they prepared was detailed. They have a standard format for these proposals. We had video conference meetings with HQ every week. We discuss operational issues and new ideas. The project was really a forgone conclusion. We were basically told this a good idea. It seemed like they had already made up their mind. I have dealt with Western firms before. Western firms don’t seem to mind this impersonal approach. They are used to ERP systems. Chinese companies do not think like this. How can the sales team manage customers when they cannot even quote their own prices, sign up new customers, and manage the distribution and dispatch of goods? The client sees this as a sign that the sales executive is too junior which makes them less keen to talk to them. In China, many clients are unwilling to complete complex compliance forms and declarations, and credit checks that had to be done with this new system, especially existing clients that had been dealing with us for years....’

Sample Subsidiary: Guangzhou Adhesives
Strategic Change Case: Replacement of senior subsidiary executives

CEO:

(20) ‘When they mentioned their intention, they didn’t make me feel as though it was an idea...it really was about telling me that they liked the idea in a nice way...This idea probably wasn’t that applicable or practical in China. I mean, it is very easy to hire young people with university degrees...The question is can they do their job, do they know the technology and what is their track record like at the firm, can I trust them?’
Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Lay-off initiative

CEO:

(21) We met each month with the regional head and headquarters representatives in the US, usually via video conference. It was mainly focused on day to day issues...That being said, Head Office often communicated new strategic ideas to us in these forums...The Lay-Off strategy was not presented as just an idea, but more like a policy proposal...It was pretty clear they were going to embark on a large scale lay off initiative right from the start. They spent a lot of money on this consultant to come up with a market research report that predicted how much business would drop and how to lower costs through global lay-offs...It (preparation of initial business case) was, to some extent, a waste of money because there was no part of the research that discussed China’s economy and policy which should have been important given 60% of sales of our product are in China’s domestic market...All they did was look at some recent subsidiary sales figures...’

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Sales division restructure

CEO:

(22) ‘They presented a detailed proposal and business case...but we didn’t have these problems and that this relocation would certainly result in a loss of key clients...’

Sample Subsidiary: Guangzhou infant Formula
Strategic Change Case: ERP initiative

The Public Relations Director described the initial pitch by HQ to subsidiary executives:

(23) ‘HQ presented this as a PowerPoint presentation in the form of a business case proposal...New potential strategies had to be communicated in terms of a ‘new project’ template...it was like a feasibility study...a cost/benefit analysis...It included detailed costings and clearly outlined the benefits both strategic and financial...’

She went on to note that the pitch by HQ had problems:

‘You know another one of the issues in China is that you have to have personal relationships with the customer. The ERP system involved central approval of accounts and prices outside of China. Chinese clients would not really respect us because they knew we would not have any authority...And, those managing the approval of the contract had no relationship with the customer...Western countries are perhaps more used to this...but it does not work in China...’
The CFO was also not sold on the idea:

(24) ‘…another big problem was that relationship expenses like dinners and entertainment cannot be included in the new system. You know in China, a lot of deals, they are done over the dinner table. It doesn’t work for us. The ERP system when you spend such money for this type of event, the system will halt and it will not process anything. All the dinners would not be approved under this system…’

Sample Subsidiary: Guangdong Communications
Strategic Change Case: Introduction of new modem

Board Member:

(25) ‘…they presented the board and senior subsidiary executives with a business case, what the product is, target market, cost to produce, expected selling price…basically a feasibility analysis. This was our standard procedure for new ideas…’

Marketing Manager:

(26) ‘The product was second rate. It was not state of the art. At the time we thought HQ had underestimated the sophistication of the China market…’

Table 7A(c): The Review and Development Process for Group 1 Cases

Sample Subsidiary: Guangzhou Adhesives
Strategic Change Case: ERP Initiative

CEO:

(27) ‘They continued to push the idea. There was a review, but it was really focused on analyzing the resources that would be required for implementation in our subsidiary. Special meetings were held to discuss the initiative…Yes, they did this for all major new projects. I could tell from the very first time they told me about this ERP that I was wasting my time trying to convince them. Because I was general manager at the time, they consulted me so I explained my views. They should have encouraged us to provide input and alternatives. There was all this knowledge about China we had but they didn’t want to use it…’

The CEO explained his view to HQ that an ERP system would not solve the accounts receivable or sales staff issues. In relation to the accounts receivable problem, he explained:
‘You know the reason why accounts receivable was at 70 days was not because we didn’t know how to fix it, but because we didn’t think it was that important. [Parent company] thought it was because we couldn’t fix it. I had a number of conference calls with both regional HQ and HQ. I told them that in the past we had been able to deal with credit issues through establishment of strong personal relationships with the clients. On occasions, I would personally meet with offending companies and we could always sort it out and maintain the relationship. And there was flexibility to be a little nicer to the larger companies. When I visited clients personally, they felt an obligation to give me face and pay on time. This worked very effectively. So while I agree that the accounts receivable cycle needed to be reduced, the approach was totally wrong…’

In relation to the sales problem, he argued:

‘I mean, instead of spending all this money and time on an ERP system, we could have simply made personal visits to the customers of sales executives we suspected and gradually take over these relationships before getting rid of the offenders. We knew exactly who they were. I would make sales trips with sales staff that I think are taking such commissions. I know all the tricks and could catch out offenders and fire them without penalizing all sales staff…’

The CEO tried explaining to HQ that the ERP proposal at Guangzhou Adhesives was problematic because it neither reflected the business culture in China nor the culture of the Chinese subsidiary:

‘The ERP punishes all sales because it takes away a lot of controls that are important to managing customer relationships. I made it clear that the ERP system was not in line with what was required in a China context…’

Guangzhou Adhesive’s CEO went on to make the point that despite putting forward his views, HQ found it difficult to relate to his argument:

‘I wouldn’t say HQ people were not willing to listen to us…it was just too different from what they understood…It went straight over their head…I don’t think that HQ was arrogant, they just didn’t understand China…’

And, linking the initiative to negative performance implications for the subsidiary:

‘In 2008 (because of the ERP), we lost a lot of clients, of course many were large clients…’

Sample Subsidiary: Guangzhou Infant Formula
Strategic Change Case: ERP Initiative
Public Relations Director:
‘HQ always arrange dedicated meetings with us to discuss new subsidiary strategy whether they are our ideas or they come from HQ… There were discussions going back and forward…they tried to convince us…but they weren’t interested in our opinion about whether the initiative was suited to China…we could only make small changes in the implementation strategy…But they should have listened to us…’

‘You know one of the issues in China is that you have to have personal relationships with the customer. The ERP system involved central approval of accounts and prices outside of China. Chinese clients would not really respect us because they knew we would not have any authority…And, those managing the approval of the contract had no relationship with the customer…Western countries are perhaps more used to this…but it does not work in China… The ERP might enhance some efficiencies at HQ…but what is the point if it means we can’t get and maintain customers in China…This system has not been good for our subsidiary. We have lost clients and are finding it difficult to manage existing clients…Even taking them out for dinner is a major problem with this ERP system!’

CFO:

‘I suggested we need to have some flexibility and localization in certain areas. For example, globally (outside of China) we are only using one sole distributor globally, an internationally recognized distributor, but in China we cannot, because we have to leverage on every province the strongest distributor in that province. So another big problem was that relationship expenses like dinners and entertainment cannot be included in the new system. You know in China, a lot of deals, they are done over the dinner table. It doesn’t work for us. The ERP system when you spend such money for this type of event, the system will halt and it will not process anything. All the dinners would not be approved under this system. They didn’t take my advice…’

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Lay-off Initiative

CEO:

‘Because the effect of the GFC was so large, particularly on HQ’s other operations, urgent meetings were arranged especially to discuss this issue…They tried to convince us this was a good idea…their so-called strategy was really just an objective, to reduce the head count by 20%. They did not say how or who. This part of the strategy was left up to the subsidiary. This is all they wanted us to do…I told them that I did not agree with this strategic directive nor did [the subsidiary CFO] who was also strongly against this initiative…. I basically said that a short term drop in the domestic market did not warrant such a major restructuring. The outlook for the Chinese market was still strong. GDP was still expected to maintain at least 8%. The short term down turn in orders was essentially an initial...’
panic. Subsequent policy directives by the Chinese government made it clear they were going to provide a substantial stimulus. We did not believe there was any need to take such a heavy handed approach, particularly given 60% of what we sold was sold to the domestic market...We told them that we should take a more wait and see attitude...things were not that bad....Local competitors were not engaging in such substantial lay offs, seeing that there were still strong market fundamentals domestically in China...We expressed our concern that orders would pick up and when they did, we would not have the sales staff or production capability to meet demand. This may result in a substantial loss in market share which did indeed end up happening...

CFO:

(36) 'Local government officials do not like large scale lay-offs due to the potential for social upheaval. We suggested other options such as sending a proportion of staff on leave, but maintaining their position perhaps on a minimum base wage would have been a more popular alternative, both with government officials and employees...Local government officials objected strongly to the initiative...Headquarters simply refused to listen and felt that the local government had no business being involved...We had to mediate, but HQ really didn't want us to get too involved...In the end HQ executives came over to meet with the local government and only then realized that they needed its support...This so called decision-making process was not particularly fair or efficient. The process was heavily biased towards headquarters views and neglected the input of our firm. The decision-making process should have been more open...You would think they would want to explore all other options and the viewpoints of those that understand China's business environment before making such a decision...the process went much longer than it needed to...And when the market picked up we did not have the staff required to meet the demand...And, we had got the government off side...' 

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Sales division restructure

CEO:

(37) 'As a matter of protocol HQ arrange conference calls to discuss all new subsidiary strategy...They continued to try and convince us this idea would improve our sales outcomes...They should have listened to us. If they did they would have learned that we didn’t have these problems and that this relocation would certainly result in a loss of key clients...I told them most of our sales staff would not want to move to Hong Kong. This means we would lose our relationship with that client. ...Another problem is out subsidiary would lose a lot of contact with our customers. Our sales staff provided us with a lot of insight based on feedback from our clients. If we only produce, and don’t have sales staff, we lose a lot of direct contact with clients...Our sales have dropped...I know we can blame some of this on the GFC. But we have lost some clients to competitors when our sales staff moved on...'
CFO:

(38) ‘They were not interested in what we had to say...But they should have listened to our advice...We were bound to lose clients which ended up happening....We were able to help with an implementation plan to make the relocation as smooth as possible...’

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<tr>
<th>Sample Subsidiary:</th>
<th>Guangdong Communications</th>
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<tr>
<td>Strategic Change Case:</td>
<td>Introduction of modem product</td>
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</table>

Board Member:

(39) ‘All new major strategies are reviewed at board meetings...They (Chinese partner) had limited capacity and confidence. Because their technical people, especially high level technical people were limited, the product was new to them, so when giving an opinion, well they didn’t, their authority was limited...When we started selling it in China, there were a number of problems because there were already many other brands in the market...We abandoned it, there were problems right from the start...’

Marketing Manager:

(40) ‘No feedback from subsidiary managers was obtained prior to making a decision except that they did ask us to develop a sales plan for the product. They kept telling us the product would be good enough for the China market. This product was not suited to China and sales were poor. We didn’t really understand the product until we tried to sell it...It was older technology...’

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<tr>
<th>Sample Subsidiary:</th>
<th>US-Sino Circuit Boards</th>
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<tr>
<td>Strategic Change Case:</td>
<td>Expansion into China market</td>
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Board Member:

(41) ‘When the GFC hit [Foreign Parent] repeated the same market research to see what the impact would be. This lead them to think that maybe they should abandon the initiative....We thought we still look into the opportunity in China. They agreed to continue with a feasibility assessment...’

‘[Foreign parent] sought our input into this project in terms of making it work. We have operational meetings each month with the foreign parent to review operations and develop ideas between board meetings. We knew that we would have to sell the initiative as an expansion to an existing facility. Our environmental system is good, we have made a large investment in establishing this system to get up to standards. The employment of local people to work in the expanded facility was also an important selling point for the government...’
‘We send out sales team out to research, and made contact with potential clients... We bought back a [potential client] component to see if we could produce the electronic circuit board for it. When we bought the sample back to them, they said it was too expensive...’

’In the end, the Americans had spoken with some of their major customers who had indicated that they would buy more product from them so it made sense to continue with the expansion but focus on the foreign market. The outcome was good. We all had input and made compromises. We all did research that meant we didn’t embark on an initiative that was not well thought out. If we had have rushed into the domestic market idea without doing the research, the results could have been very bad. If we abandoned the initiative, we would have lost the opportunity to sell more product to existing suppliers where demand still existed...’

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<tr>
<th>Table 7A(d): Decision-making Process for Group 2 Cases</th>
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<tr>
<td><strong>Sample Subsidiary:</strong> Singapore Tech.</td>
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<tr>
<td><strong>Strategic Change Case:</strong> Process management overhaul</td>
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CFO:

(42) ‘The original idea was suggested in regular monthly meetings we had with senior HQ executives and subsidiary managers...He (CEO) really did know what he was talking about. He had worked in China for many years at senior level...This meant his idea was well thought out...’

Product Manager:

(43) ‘The CEO HQ had seen this way of process management both overseas and China...’

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<th>Table 7A(e): Impact of HQ In-Country China Work Experience on Decision-making Process</th>
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<tr>
<td><strong>Sample Subsidiary:</strong> Foshan Magnetics</td>
</tr>
<tr>
<td><strong>Strategic Change Cases:</strong> Lay-off and Sales division restructure</td>
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</tbody>
</table>

CFO:

(44) ‘They didn’t know how to look for data in China. Anyone, Chinese or foreign that has worked here understands that there are certain people...’
who can give you reliable information...like some local officials. You cannot get this information from consultants or newspapers...’

In relation to the subsidiary sales division restructure, specifically, the CEO noted:

(45) ‘If they had lived in China and worked here, they would have understood that, in China, you can get a lot of information from your relationship with local government officials...They would have understood that it doesn’t really matter what official sources of information say, and what consulting company data says...local government officials know what types of policies the government will undertake and how this will impact on our business...They didn’t understand this and thought our information was unreliable because it was informal...If they had worked with a labour force in China, they would have known that there would be these problems with a lay-off initiative of this size...They would have understood our advice...It all comes back to their lack of experience managing sales here...’

‘We tried to tell them why we knew we didn’t have a problem with secret commissions...If they had managed sales here, they would have recognized the signs you look for that would reveal bad behaviour...For example, sales staff that are taking commissions usually try to avoid any direct relationship or contact between me and the customer while more honest sales staff do not...There were also more subtle personality characteristics that dishonest sales staff had... but I suspect they didn’t understand when we tried to explain...’

Sample Subsidiary: Guangzhou Infant Formula
Strategic Change Case: ERP Initiative

Public Relations Director:

(46) ‘The HQ executives involved in coming up with this strategy had not worked in China...They didn’t understand the points we were making...Anyone who has managed customers in China knows that this type of ERP system is too rigid and inflexible...’

Sample Subsidiary: Guangzhou Converters
Strategic Change Case: Sales division restructure

CEO:

(47) ‘The Japanese shareholders really didn’t understand China. You have to work here to really understand China. I know when my staff are doing the wrong thing. They (Japanese shareholders) really don’t know how to recognize the signs so even if they took the time to try and find out, they really would not know where to start. If they had worked in China themselves, they would have known how to go about finding out whether we had a problem with sales staff taking secret commissions. They would have recognized the signs. They could have gone through the books...looked into
who owned these distribution companies and spoke with sales staff and customers. They would have understood the point that we were making that there are no signs of this kind of thing in our subsidiary…’

Sample Subsidiary: Guangdong Communications
Strategic Change Case: Introduction of new modem product

Marketing Manager:

(48) ‘The foreign representatives on the board had no in-country China experience. If they had have worked here, I am sure they would understand that Chinese clients will always choose the most advanced product. We are very tech savy and the government encourages its enterprises to go for the most advanced solution. And when we did suggest to them that China was tech savy, well, none of them had any experience so they just chose not to believe…’

Sample Subsidiary: Guangzhou Connectivity
Strategic Change Case: Automation initiative

Public Relations Director:

(49) ‘Their initial idea, well I can understand would not work in China. The US executives had never worked here. Some of them hadn’t even been to China. They didn’t really understand that a large scale sudden lay off to implement this automation initiative was definitely be resisted from the labour bureau and damage our relationship with them. I think their lack of experience in China probably made it more difficult to understand us but they trusted us…’

Sample Subsidiary: Singapore Tech
Strategic Change Case: Overhaul in process management

CFO:

(50) ‘He has a lot of international and China experience…bringing international management standards and applying to a China context…’

Table 7A(f): Impact of Subsidiary Executive Credibility with HQ on Decision-making Process

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Lay-off initiative and Sales division restructure

CFO:
‘We had no track record with them (New shareholders). It didn’t matter what had happened before...we needed to prove ourselves to them. I think this was very important in terms of them involving us in decisions...this is why they didn’t listen to us...’

Sample Subsidiary: Guangzhou Infant Formula
Strategic Change Case: ERP initiative

PR Director:

‘The CEO hadn’t really proved himself to HQ...So it was hard to get HQ to accept his advice’...

Sample Subsidiary: Guangdong Communications
Strategic Change Case: Introduction of new modem product

Marketing Manager:

‘At that time, the subsidiary executive team had no real credibility with the foreign parent. They had no real track record with sales and their technical understanding was far less than the foreign parent...’

Table 7A(g): Impact of Subsidiary Importance on Decision-making Process

Sample Subsidiary: Foshan Magnetics
Strategic Change Case: Lay-off initiative and sales division restructure

CEO:

‘They (HQ) just didn’t understand how things worked in China. So they seemed to assume all subsidiaries were the same. We were one among many subsidiaries...They admitted as much, telling me that they didn’t know and didn’t have the time to try and understand whether we had issues with our sales team...’

Sample Subsidiary: Guangdong Communications
Strategic Change Case: Introduction of new modem product

Marketing Manager:

‘In the overall scheme of things, our JV was a very small part of [Parent Company’s] overall operations. They probably did not have a lot of time to spend deliberating with the Chinese partner and subsidiary executives about whether to move ahead...’
Strategic Change Case: Automation initiative

PR Director:

\[(56)\] ‘We are a key producer for [parent company]. They were probably more willing to devote attention to us. They made the time to listen to us because failure was not really an option…’
CHAPTER 8

FINDINGS: SUBSIDIARY DRIVEN CASES

8.1 Overview

This chapter analyses subsidiary driven cases, where the initial idea originated and was subsequently driven by subsidiary executives. There are seven cases studies of subsidiary driven strategic change initiatives listed in Table 8.1.1. These include two cases of a subsidiary producing and selling a new product, four sales strategy related initiatives and one outsourcing initiative.

<table>
<thead>
<tr>
<th>Table 8.1.1: Subsidiary Driven Cases</th>
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<tbody>
<tr>
<td><strong>Strategic Change Case</strong></td>
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<tr>
<td>Development and sale of new product</td>
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<tr>
<td>Relocation of R&amp;D division from production subsidiary to sales subsidiary</td>
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<tr>
<td>Development of ‘customer experience centres’</td>
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<tr>
<td>Outsource production of a series of components</td>
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<tr>
<td>Attempt to expand customer sales base from one customer to multiple customers</td>
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<tr>
<td>Overhaul of sales distributor network to focus on direct sales model</td>
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The chapter is structured as follows. Section 8.2 provides an overview of the typology and important empirical findings emerging from the interview data. Section 8.3 provides an in-depth description and analysis of the interview data relating to the idea generation process, while Section 8.4 describes the review and development process. Both these sections identify the characteristics that varied across cases along with explanations for this variance. These explanations incorporate insights from interviewees and also apply theories presented in the conceptual framework, along with other theory (where relevant). Section 8.5 presents a summary of the formal sign-off process. Section 8.6 provides a chapter summary.

8.2 Overview of Empirical Findings and Typology

Figure 8.2.1 sets out the Typology for subsidiary driven cases. The top box, labelled ‘Common Components Across Cases’, specifies the sub-processes common across all
subsidiary driven strategic change cases. The idea generation process for each case included the following components:

(1) Identification of a need/opportunity for strategic change by subsidiary executive(s)
(2) Development of a strategic change idea by subsidiary executive(s)

Common components of the review and development process including:

(1) Preparation and submission of strategic change proposal by subsidiary executives to HQ
(2) Joint HQ-subsidiary review and development of subsidiary strategic change proposal

The formal sign-off process was similar across all cases, involving signatures from appropriate executives approving a proposal to adopt the strategy. For wholly owned subsidiaries, the subsidiary CEO first signed off on an initiative. At least one HQ executive, either the CEO, or a HQ executive(s) directly responsible for the subsidiary also had to give formal sign-off on the initiative. Along similar lines to HQ driven cases, subsidiary interviewees reported that no new knowledge was contributed at this stage of the decision-making process. For joint ventures, the JV Board also had to approve the strategic change initiative in the form of a board resolution.

From the interview data, Figure 8.2.1 also identifies several types of variance associated with the idea generation and review and development components that emerged across cases.

For the idea generation process, one key factor differentiating cases was whether the problem/opportunity identification process utilized routinized or ad hoc processes. For all but one case (Guangzhou Pipeline), the problem identification process was routinized, involving deliberate and regular processes undertaken by subsidiaries to identify a need/opportunity for strategic change. As these routines (and associated sub-routines) culminated in changes to the nature of, or how subsidiary resources were deployed, they constitute subsidiary level dynamic capabilities (Helfat et al. 2007). Sometimes this routine problem identification process incorporated environmental
scanning processes and, for each case, involved routine subsidiary executive meetings that provided a forum to present information from scanning and/or share knowledge that culminated in identifying a need/opportunity for strategic change. Evidence emerged from the data explaining why Guangzhou Pipeline did not have such routines. Specifically, its management team lacked the intent to learn these strategic diagnosis skills from the foreign parent. As such, it identified a problem essentially by accident and developed a solution to resolve the problem in an *ad hoc* fashion. In contrast, subsidiary respondents adopting a routine approach to the problem identification process all made a deliberate attempt to learn these skills from the foreign parent.

Along similar lines and for the same reason, all but Guangzhou Pipeline had routine processes in place to develop strategic change ideas. These routine processes usually involved the same regular divisional and top management team meetings described above (to identify a problem/opportunity) sharing and developing strategic change ideas in the subsidiary. Again, these processes constitute subsidiary level dynamic capabilities. Among those subsidiaries that did have routine processes in place to develop and share ideas collectively, there were two cases, however, where the CEO did not share a strategic idea in these regular forums. This occurred in circumstances where the initiative had obvious potentially negative implications for some subsidiary employees or other MNE executives. For these cases, the subsidiary CEO drew only on his own personal experience to develop a strategic change idea and had kept his idea ‘secret’ from other executives. The subsidiary CEO for these two cases wanted to avoid creating unnecessary organizational politics and a negative corporate environment until key HQ executives approved or rejected the initiative.

Another source of idea generation variation was whether or not overseas experiences were incorporated in the idea generation process. All but one case relied on domestic China experiences when developing a strategic change idea. For the exception, the subsidiary CEO had extensive overseas experience, upon which he drew.

The case studies revealed several types of variance in the review and development process. First, some cases saw the strategic change idea subjected to an initial subsidiary level review process before submitting a proposal to HQ, while others did not. This initial subsidiary level review (when it took place) involved subsidiary level
meetings arranged for the specific purpose of reviewing an idea. Usually, these meetings were a routine subsidiary response to a new idea being generated. In other words, they were applied to all new ideas in those subsidiaries. For Guangzhou Pipeline, subsidiary review sessions were, however, arranged *ad hoc*, in response to their *ad hoc* development of a strategic change idea, again because they had not made any attempt to learn these strategic diagnosis skills from their parent. For two cases, the strategic change idea was not subject to any subsidiary level review before being sent to HQ, even though both these subsidiaries did have routine subsidiary internal review processes in place. Along similar lines to the development of an initial strategic change idea (described above), this occurred when the CEO believed the initiative would have a negative impact on some subsidiary or MNE executives and, therefore, preferred to keep the initiative secret until he had won support from key HQ executives. The importance of keeping the ideas secret also meant that the subsidiary CEO was the only subsidiary representative in the joint HQ-subsidiary review and development process.

Second, when there was a subsidiary level review and development process, the case studies varied in terms of the ability of the subsidiary CEO to manage the input of other subsidiary executives during this process. CEOs with more ‘CEO’ level experience generally had a better knowledge of each functional area of the subsidiary. As such, they were better able to balance divergent opinions and perspectives of different functional executives within the subsidiary in comparison with subsidiary CEOs who had only held a CEO role for a shorter period of time.

A third type of variance associated with the review and development process related to the joint HQ-subsidiary review. Specifically, the ability of the subsidiary CEO to ‘sell’ his/her strategic change idea to HQ executives during this review varied across the case studies. The ability to ‘sell’ and win HQ approval was greater when subsidiary executives had a strong track record at the subsidiary and an in-depth understanding of HQ strategy and decision-making. Credibility and an understanding of how HQ approached strategy helped ensure the joint HQ-subsidiary review and development process was successful from the perspective of the subsidiary (i.e. won approval from HQ) and was more efficient (took less time to reach a decision). Finally, the data also provided some evidence that HQ’s lack of in-country China experience for each subsidiary driven case made it more difficult for subsidiary executives to sell their
**Figure 8.2.1: Typology for Subsidiary Driven Strategic Change Decision Processes**

<table>
<thead>
<tr>
<th>Common Elements Across Cases</th>
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<tbody>
<tr>
<td><strong>Idea Generation Process:</strong></td>
</tr>
<tr>
<td>(1) Subsidiary executive(s) identifying need/opportunity for strategic change</td>
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<tr>
<td>(2) Subsidiary executive(s) developing a strategic change idea</td>
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<thead>
<tr>
<th>Review and Development Process:</th>
<th>Formal Sign-Off Process:</th>
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</thead>
<tbody>
<tr>
<td>(1) Preparation of submission to HQ</td>
<td>(1) Subsidiary sign-off</td>
</tr>
<tr>
<td>(2) Joint HQ subsidiary review and development of subsidiary strategic change proposal</td>
<td>(2) HQ Sign-off</td>
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<tr>
<th>Idea Generation Process: Variance Types and Drivers:</th>
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<tbody>
<tr>
<td><strong>Variance Driver:</strong></td>
</tr>
<tr>
<td>(1) Subsidiary CEO’s efforts to learn management skills from parent</td>
</tr>
<tr>
<td>-&gt; Yes Subsidiary did have routine idea generation processes</td>
</tr>
<tr>
<td>-&gt; No Subsidiary did not have routine idea generation processes</td>
</tr>
<tr>
<td>(2) Subsidiary executives overseas work experience</td>
</tr>
<tr>
<td>-&gt; Yes Used overseas experiences to develop idea</td>
</tr>
<tr>
<td>-&gt; No Did not use overseas experiences to develop idea</td>
</tr>
<tr>
<td>(3) Potential negative impact of initiative on subsidiary employees or other MNE executives</td>
</tr>
<tr>
<td>-&gt; Yes Idea developed by CEO in secret</td>
</tr>
<tr>
<td>-&gt; No Idea raised/developed in routine subsidiary exec meetings</td>
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<tr>
<th>Review and Development Process: Variance Types and Drivers:</th>
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<tr>
<td><strong>Variance Driver:</strong></td>
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<tr>
<td>(1) Subsidiary CEO’s efforts to learn management skills from parent</td>
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<tr>
<td>-&gt; Yes Subsidiary does have routine internal subsidiary review process</td>
</tr>
<tr>
<td>-&gt; No Subsidiary does not have routine internal subsidiary review process</td>
</tr>
<tr>
<td>(2) Potential negative impact of initiative on subsidiary employees or other MNE executives:</td>
</tr>
<tr>
<td>-&gt; Yes Subsidiary level internal review routines not utilized</td>
</tr>
<tr>
<td>-&gt; No Subsidiary level review routines were utilized</td>
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<tr>
<td>(3) Extent of subsidiary CEO’s ‘CEO’ Experience:</td>
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<tr>
<td>-&gt; High CEO has high capability managing input from subsidiary executives</td>
</tr>
<tr>
<td>-&gt; Low CEO has low capability managing input from subsidiary executives</td>
</tr>
<tr>
<td>(4) Subsidiary CEO’s efforts to learn how parent approaches strategy</td>
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<td>-&gt; High CEO pitch to HQ more effective</td>
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<tr>
<td>(5) Subsidiary CEO’s credibility with HQ</td>
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<td>-&gt; Low CEO pitch to HQ less effective</td>
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<td>(6) HQ in-country China work experience</td>
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<th>Formal Sign-Off</th>
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strategic change idea to HQ. However, HQ’s China work experience was a less influential factor for subsidiary im comparison with HQ driven initiatives, because of the more limited role HQ played driving the subsidiary decision-making process.

The remainder of this chapter presents the findings summarized in this section in detail, beginning with the idea generation process (8.3), followed by the review and development process (8.4) and the formal sign-off process (8.5). Within each section, empirical findings are explained in the context of the theory and literature presented in the conceptual framework, and where appropriate, other relevant theories are incorporated to explain findings.

8.3 Idea Generation Process For Subsidiary Driven Cases

8.3.1 Problem/Opportunity Identification Process

All but one case study adopted a routinized approach to the problem/opportunity identification process. Of these subsidiaries adopting a routine approach, some utilized regular environmental scanning processes. The findings from these routinized scanning efforts were presented and discussed in routine subsidiary division and/or subsidiary top management team (TMT) meetings where problems, threats and opportunities were identified.

A key source of environmental information from this scanning was informal discussions between sales executives and their domestic China customers. Other informal sources were also used, including discussions with friends working for competitors and local government officials. Interviewees reported no written or formal scanning information sources, such as industry or consulting reports, with some subsidiary executives dismissing these as useful sources of information in China. Subsidiary CEOs encouraged and facilitated environmental scanning by creating an expectation that responsible subsidiary executives, particularly sales executives, would routinely report back on their discussions with informal contacts at operational and strategy meetings. Due to the sensitive nature of the information, particularly informal discussions with local government officials, reports back from subsidiary executives in relation to their scanning efforts were verbal and rarely tabled in written reports.
For example, at Guangzhou Converters, the CEO explained that he required his sales team to engage regularly in informal discussions with subsidiary customers. Reported back through the subsidiary’s chain of command, these discussions were instrumental for identifying an opportunity to produce a new solenoid product to sell to the subsidiary’s existing customer base. He stated:

‘We regularly tried to get feedback from customers, sometimes suppliers or even personal friends who may be somehow involved in the industry. I expected my sales team to do this as part of their job...’

‘It was originally one of my sales staff that identified that his client was having a problem with their current solenoid producer. He told his boss, the Sales Director, who told me, so I went with the Sales Director to visit the customer to find out what was going on...’

‘The client told us that they would save money if they could deal with fewer suppliers. And, over the long term, the components they produced could be more integrated with each other to enhance efficiency. I mean, if one supplier actually produced a few required components for the customer, the integration is more likely to be effective because they are made by the same supplier...’

As part of the regularized and formal monthly subsidiary executive meetings, the CEO communicated the idea to other subsidiary executives:

‘We (Sales Director and CEO) both told other senior subsidiary executives in our monthly management meeting...’

According to comments from the PR Director at Sino-Japan Motorcycles (Appendix 8A(1), p.272) and the Deputy General Manager (Appendix 8A(2) p.272), routine environmental scanning was undertaken in the subsidiary. In this case, informal discussions with customers were also the key source of information culminating in identifying an opportunity for the JV’s new product initiative. According to the Deputy General Manager (DGM) of the JV (Appendix 8A(2), p.272), these scanning efforts were presented in routine monthly meetings held in the subsidiary. Likewise, identifying a problem leading to Guangzhou Lighting’s initiative to gain control of its parent’s China R&D division was also the product of routine subsidiary scanning efforts.
The CEO (Appendix 8A(3), p.272) explained that one of his informal discussions with customers revealed that the direction of the company’s product development conflicted with the requirements of these customers. These informal discussions were then tabled at Guangzhou Lighting’s sales team meetings.

Guangzhou Garden Products provides another example of routinized informal information gained through purposeful environmental scanning. Through informal discussions with friends associated with Guangzhou Garden Product’s competitors, the CEO found their competitors were managing their production process more efficiently by outsourcing a number of components. As the CEO at Guangzhou Garden Products explained:

‘I looked around at what other companies were doing here in China. I require all my staff, including me to do this and report back...I spoke to friends who worked for [Competitor] and realized that they limited themselves to being an assembly operation in China, and outsourced everything else...’

While these scanning efforts were part of firm-level routine scanning practices, the CEO of Guangzhou Garden Products did not report these scanning efforts back to his executive team because the issue of ‘outsourcing’ was sensitive and likely to be received negatively by subsidiary executives. This issue is elaborated on further in the discussion on the idea development process in Section 8.3.2 below.

As evident from the cases described above, these environmental scanning efforts were, for the most part, focused on information within China. The one exception was in the case of Sino-Japan’s ‘customer experience centre’ initiative which according to the DGM (Appendix 8A(5), p.273) and PR Director (Appendix 8A(4), p.272) involved an overseas trip for subsidiary sales executives where they identified an opportunity to adapt an overseas customer club concept to China. The overseas trip, however, still formed a part of routinized subsidiary scanning requirements incorporated in the job description of the subsidiary’s senior sales team.

Importantly, subsidiaries all used informal information sources when scanning their environment in China to identify a need and opportunity for strategic change. Formal, written sources of information were deemed to be ineffective in the China context. Sino-Japan Motorcycles’ PR Director best illustrates this point. When asked whether
formal, written sources of information such as official media, consulting firm reports and publicly available information on competitors were useful information sources when scanning their environment in China, she replied:

‘This type of information in China is useless...It is always out of date...’

These findings in relation to the focus on informal information sources by subsidiary executives support previous studies comparing environmental scanning in Asia and China that also recognize the preference for informal rather than formal information sources in China. Fleisher and Wright (2009), for example, found that Westerners tended to prefer and respect word and technical collections systems, while Asians preferred human sources and networks in order to remain informed. Several other studies exploring environmental scanning in China also emphasized the importance of personal contacts over formal written information sources (Adidam, Gajre & Kerjiwal 2009; Lassare 1993; Zhang 2008).

A second routine approach to identifying problems and opportunities for strategic change was to draw on the strategic change and strategy experience of subsidiary executives as a routine agenda item at regular TMT meetings. Guangzhou Hearing Instruments’ sales distribution network restructure strategic change idea provides an example. As a regular part of the subsidiary’s senior management meeting, the personal experience of the sales director with a successful direct sales model in another firm was drawn on to identify an opportunity. According to the Sales Director at Guangzhou Hearing Instruments:

‘Each month we have regular meetings with other senior subsidiary managers. We focus on reporting back on day-to-day issues but there is usually an opportunity to come up with new ideas to improve the business...’

‘I proposed that sales performance and profitability would be enhanced by moving from an on-sellers and distributors network to a direct sales approach where we would set up representative offices staffed by our own people. I had seen it work in my role at [Other Company]...At [Other Company] I came up with the idea jointly with another sales regional manager. It worked really well so I thought there was no reason why it could not work equally well at this company...’
For this case, the identification of an opportunity and idea development were one process where the opportunity was the idea.

Each of the six case studies described above were similar in that the subsidiaries each adopted a routinized approach to identifying needs and opportunities for a strategic change, reflecting a subsidiary level dynamic capability. Another approach to the problem identification process involved an ad hoc, accidental observation by subsidiary executives that a problem existed that required a strategic change. This was the case for Guangzhou Pipeline’s strategic change idea to expand its customer base. There were no deliberate efforts to identify strategic change opportunities or engage in regular environmental scanning. As explained by Guangzhou Pipeline’s Deputy General Manager:

‘We don’t really worry about that. I mean we don’t go out looking for information. Sometimes we hear things...’

‘We have operational meetings once a month. We report back on what is happening...they are not for discussing new ideas...that is really up to the board...’

For this case, it was an ‘ad hoc’ subsidiary review of interim financial reports that indicated that its profit margins were being squeezed by their only customer. The Deputy General Manager said:

‘We all had to prepare a report each month that went to HQ. The report focused on the performance of the division in the context of the subsidiary’s overall objectives. The focus of sales reports was on sales numbers, production people focused on production efficiency indicators...’

‘When our monthly financial summary report was prepared, we noticed that our customer had really squeezed down prices, which was becoming a major problem for our profitability...’

From the interview, it appeared that the Deputy General Manager’s state owned enterprise (SOE) background contributed to his lack of emphasis on innovation and strategic change:

‘I started my career at an SOE. The role of managers was not to be innovative...It was all about toeing the line and following the status quo...’
Further, compared to Guangzhou Pipeline, a number of other subsidiaries (that had adopted a routine approach to identifying a problem) had made efforts to learn strategic diagnosis skills from their foreign parent and draw on their experience at foreign invested enterprises in China. Some of these respondents acknowledge the fact that these skills are often not taught in domestic Chinese enterprises, particularly SOEs.

The CEO at Guangzhou Converters, for example, explained:

‘I worked hard to learn these skills from [foreign parent]. I knew I needed to understand my parent if I was going to be able to communicate with them and get things done. This was hard going at the start, but I learned more each time I communicated with them and talked to them about strategy. The Chinese do things differently, things are simple. Now I know their (foreign parent) processes really well. You know most of their management ideas are really good. For example, they place a high degree of importance on watching the environment and especially competitors…’

‘You know in China, especially in state owned enterprises, this is not something you learn...Customers are provided by the government and there is really no incentive for you to go out and find information about your competitors…’

The importance of having an intent to learn parent routines was also made by the CEO at Guangzhou Lighting (Appendix 8A(10), p.274), and the PR Director at Sino-Japan Motorcycles (Appendix 8A(11), p.274).

Subsidiaries’ use of, and interviewees’ views about routinized versus ad hoc approaches to strategic change idea generation can be understood in the context of the literatures on competitive intelligence in China, MNE knowledge management and organizational learning. There is evidence in relatively recent literature on competitive intelligence practices in China that environmental scanning still only occurs in the minority of domestic firms (Zhang 2008). It follows that executives from domestic firm backgrounds are, therefore, less likely to engage in routine environmental scanning, as was the case with Guangzhou Pipeline where subsidiary interviewees had only worked at the subsidiary for a few years and, prior to that, had worked for the Chinese parent, a state owned enterprise. However, the literature on MNE knowledge management and learning suggests that, when executives have a strong intent to learn from their foreign counterparts, and when the parent institutes mechanisms to impart this knowledge to
subsidiary executives, they are better able to acquire knowledge from their foreign parent (Gupta & Govindarajan 2000). Our interview data suggest that, when subsidiary executives had an intention to learn strategic diagnosis skills and where foreign parents did make an active attempt to impart this knowledge, such as environmental scanning from their parent, they were more likely to incorporate strategic diagnosis routines in their subsidiary.

8.3.2 Developing a Strategic Change Idea

After identifying a problem or opportunity requiring a strategic change, a strategic change idea was developed. Along similar lines to the problem/opportunity identification process, all but one firm (Guangzhou Pipeline) had subsidiary level routines for developing strategic change ideas.

Among those cases that adopted a routinized process, some firms utilized regular divisional (e.g., sales division) and/or subsidiary top management team strategy meetings to develop and share a strategic change idea. These forums were the same as those outlined above in Section 8.3.1 to identify or present a problem/opportunity for strategic change. The two strategic change cases at Sino-Japan Motorcycles saw the strategic change idea tabled as part the same routine meetings where they identified the new market opportunity. For these two cases, a strategic change idea effectively emerged as an obvious response to environmental scanning outcomes. The Deputy General Manager noted, in relation to its new product initiative, that senior subsidiary sales staff indicated in routine subsidiary senior management team meetings that there was a market niche for a product that was low cost and aimed at the female market.

‘We encourage our staff to talk to customers regularly and put forward new ideas... Our subsidiary Sales Director raised the idea of this new product in one of our subsidiary executive meetings based on feedback from his sales outlets that had direct contact with customers. We met each month. He said there was a demand for a product targeted specifically at females... The product was suited to females, it has low emission, uses less fuel and was attractive...’

The PR Director (Appendix 8A(8), p.273) and DGM (Appendix 8A(9), p.273) at Sino-Japan Motorcycles implied that identifying the opportunity and initial idea for their customer experience centre initiative was also an obvious solution to the findings from
the environmental scanning efforts of the JV’s sales executives. As noted in Section 8.3.1 above, for this initiative, the foreign parent arranged an overseas trip for the Chinese JV managers to Milan. During their trip, senior JV sales executives observed that European subsidiaries of the Japanese parent had created motorcycle clubs to expand their customer base to build a stronger relationship with their existing customers. The interviewees noted that, in their same routine senior subsidiary executive meetings that were used to present their scanning efforts, the Sales Director at the JV suggested that a similar concept could work in China.

These routine meetings provided an important forum for drawing on previous strategy or strategic change experiences of subsidiary executives to formulate and present an associated strategic change idea. Guangzhou Converters’ entry into a new product, along with the overhaul of the sales and distribution network at Guangzhou Hearing Instruments, both drew on the strategy experiences of subsidiary executives tabled in these forums to identify a strategic change idea.

The CEO at Guangzhou Converters described how he and his Sales Director presented, developed and workshopped the idea to produce a new solenoid product at their regular meeting:

‘We (Sales Director and CEO) both told other senior subsidiary executives in our monthly management meeting. We suggested that this would be a great opportunity to capitalize on our relationship with our customer base. You know, in China, customers are your greatest asset. I think it is easier in China to cheat people. So, if you have a trusting relationship with a supplier, which our customer had with us, that relationship is very valuable. They didn’t have this with their solenoid supplier at the time. You can’t rely on the law to protect you in China. You have to develop trust with your partners to reduce your risk. We wanted to take advantage of that relationship. Producing the solenoid product made sense. It was not a difficult product to produce - we had an established customer base. It was just a matter of making sure we could do it at a competitive price. We would also have the advantage of providing an integrated solenoid converter solution. Other solenoid producers could not make converters like us...’
This strategic change idea can be linked to the CEO and Sale Director’s experience in other firms in China. He noted:

‘We had both done this before in other companies, I mean diversified to better utilize our customer relationship. I think it is common in China...’

At Guangzhou Hearing Instruments, the Sales Director (Appendix 8A(7), p.273) noted that he raised the idea about improving their business during routine subsidiary TMT meetings that were held monthly. As noted earlier, for this case, the opportunity identification process and idea development process were effectively one routine. In other words, the opportunity was the idea. The Sales Director suggested the subsidiary move from an on-seller network to establishing direct sales outlets. The idea was based on the Sales Director’s experience with a similar initiative while working at another foreign subsidiary, but the subsidiary executive meeting provided a routinized opportunity for the idea to be presented.

For two cases, subsidiary interviewees noted that, while they did have routine subsidiary meetings in place to share and develop strategic change ideas in their subsidiary, they chose not to utilize these forums for their change ideas, instead drawing only on their own personal experiences to identify a strategic change idea without initially sharing this idea with other subsidiary executives. The main reason why some CEOs did not share an initial idea with subsidiary executives was due to the sensitivity of the initiative and high likelihood that subsidiary executives or executives in other subsidiaries, or at HQ, would react negatively to the idea. This individual idea development process was still routine, in the sense that both CEOs acknowledged that they regularly reflected on issues raised in meetings involving other subsidiary executives. These cases, therefore, involved avoiding subsidiary level dynamic capabilities in favour of exercising a dynamic managerial capability possessed by the CEO (Refer Chapter 4). These cases included Guangzhou Lighting’s R&D division restructure and Guangzhou Garden Product’s outsourcing initiative.

The CEO at Guangzhou Lighting explained that, while it was during one of his routine monthly meetings that his sales team identified a problem, he developed his initial idea (solution) privately after reflecting on the meeting, because he feared word would get back to the production subsidiary, which could result in a political struggle.
‘We met regularly as a sales team...I shared my thoughts with them... I encouraged feedback and ideas from all my sales staff...’

‘It was in one of these meetings that my sales staff told me that their customers also told them our product development was heading in the wrong direction. They wanted one thing, but modifications to our existing products were not doing what they needed them to do. In effect we were creating technical solutions for problems that did not exist and then not coming up with solutions for problems that did exist...’

‘After the meeting, as usual, I thought about what was said...’

‘Given the limited amount of funding to expand the network of sales executives, I felt that the best approach would be for our subsidiary to gain control over the R&D capability rather than have this division report to our production subsidiary. One of the biggest challenges we had had was that the localization was not sufficiently tailored to the needs of local clients. This was because the localization was still driven by HQ with very little knowledge about the local market...’

‘I felt that R&D strategy should be sales centric. Sales staff should provide feedback on customer needs and then work through the process of assessing production feasibility...I think my previous experience as General Manager for a smaller foreign enterprise was instrumental in this decision. I have, for a number of years, been in roles where expanding sales revenues and increasing market share has been an important objective. I have also seen other instances where localization has not been managed properly and has been controlled by technical people with too much power. I have also seen instances where R&D has worked really well when it reports to a sales oriented executive...’

‘I didn’t say anything in the meeting... I wanted to get HQ support before I mentioned anything. I didn’t want to give our production subsidiary a chance to play politics before I had a chance to prepare my case...’

The circumstances were similar at Guangzhou Garden Products. According to the CEO, he used routine subsidiary manager meetings to review problems and new strategy. However, the outsourcing initiative was not initially raised with subsidiary managers in
these meetings due to the likely negative reaction from staff concerned about losing their jobs. Instead, he developed his idea privately:

‘Usually, I share ideas with my management team here... We have a management meeting every month... Usually, the focus is on problems with production, but I encourage my staff to come up with new ideas and discuss them in these meetings. The meetings give me a chance to think about where things are at and bounce ideas off other staff. But, this idea was sensitive, it was going to involve laying off staff, so I didn’t say anything until after I had got the support of HQ...’

By identifying the issue of initiative ‘sensitivity’, the data sheds light on when and how subsidiary level dynamic capabilities are exercised to develop strategic change ideas in foreign subsidiaries. Specifically, when a subsidiary initiative was sensitive, firm level dynamic capabilities such as routine executive strategy meetings were not utilized. In these instances, the CEO’s own sensemaking processes were used to develop a strategic change idea.

As noted in Section 8.2.1 above, there was one case where the subsidiary management team’s strategic change idea represented an ad hoc response to a problem. The case that conformed to this approach was Guangzhou Pipeline’s idea to expand its customer base. As noted above, this subsidiary had also adopted an ad hoc approach to identifying a problem (See Section 8.3.1 above). The Deputy General Manager at Guangzhou Pipeline recalled:

‘We have operational meetings once a month. We report back on what is happening. They are not for discussing new ideas. That is really up to the board...’

‘Once it had become clear that our margins were getting lower and lower, I thought though, we should explore the possibility of selling product to other customers. This would reduce our reliance on one customer and perhaps get better margins, so I raised it as a side issue at our operations meetings...’

Again, the ad hoc approach adopted in this subsidiary could be attributed to the fact that the subsidiary management team for this case had not made a deliberate attempt to learn management skills from the foreign parent related to routine strategic diagnosis. As noted in the quote from Guangzhou Pipeline’s DGM presented above (p.247), this lack
of a learning intent appears to be because they did not see strategy making as their role. In contrast, the importance of having an intent to learn routine strategic diagnosis routines from the foreign parent was made explicit by the CEO at Guangzhou Lighting (Appendix 8A(10), p.274), the PR Director at Sino-Japan Motorcycles (Appendix 8A(11), p.274) and the CEO at Guangzhou Converters (p.248) each of which adopted a routine approach to developing a strategic change idea.

Along similar lines to the problem identification process, these findings in relation to the use of ad hoc versus routine processes can be understood in the context of the literature on MNE knowledge management and organizational learning (Gupta & Govindarajan 2000). In this case, Guangzhou Pipeline made no real effort to learn strategic diagnostic skills from the foreign parent, while evidence from other cases adopting a routine approach suggested they did have this intent.

The data on the idea generation process for subsidiary driven strategic change also revealed that, in cases where subsidiary executives did draw on their previous experiences to develop a strategic change idea, these experiences were, for the most part, from China. There was only one case, Guangzhou Garden Products’ outsourcing initiative, where the subsidiary CEO noted that he had extensive overseas experience working for automobile companies in Italy and was therefore able to draw on both overseas experience along with knowledge and information he had gleaned locally (see p. 245) to identify that an outsourcing model could work in China. He recalled:

‘I am originally from the car industry (In Italy). If you have been to a car company, you will understand that they don’t produce anything, they are simply an assembly line…’

The emphasis on local information and experience during the idea generation process for subsidiary driven strategic change initiatives can, again, be understood in the context of the literature on manager cognition presented in the conceptual framework. This literature has implied that the information managers notice, and the way that managers make sense of this information, will be a function of their cognitive structure, which, in turn, incorporates previous experiences (Narayanan, Zane & Kemmerer 2011; Weick 1995). In the case of subsidiary driven strategic change initiatives, subsidiary executives’ experiences, for the most part, were accumulated in China, thus explaining their emphasis on local information and experiences when developing a strategic change
idea. One exception where overseas experiences of the CEO were utilized provided even more compelling evidence for this argument.

8.4 Review and Development Process for Subsidiary Driven Cases

8.4.1 Introduction

Once a need or opportunity for a strategic change and associated strategic change idea had been identified within the subsidiary, there was a review and development process. The remainder of this section (8.4) describes the nature of the review and development process, describing and explaining the variance across cases. Section 8.4.2 presents findings related to the cases that undertook an internal subsidiary review of a strategic change idea before going to HQ. Section 8.4.3 presents findings related to the subsidiary’s submission of a proposal to HQ and the joint HQ subsidiary review process.

8.4.2 Internal Subsidiary Level Review and Development Process

With the exception of two cases, an internal subsidiary level review of the initiative occurred prior to submitting the idea to HQ for approval. As outlined above, both Guangzhou Lighting and Guangzhou Garden Products’ strategic change proposals were deemed by their respective CEOs to be so sensitive that the CEO decided not to raise the proposal with subsidiary managers until after parent input, even though routine processes were in place to review an initiative at subsidiary level.

The CEO of Guangzhou Garden products explained:

‘Yes, normally I would get my senior executives to review each initiative, especially when there are implications for different divisions... This idea was sensitive, it was going to involve laying off staff, so I didn’t say anything until after I had got the support of HQ...’

The CEO at Guangzhou Lighting made a similar point:

‘Usually, I would discuss new ideas with my management team...I didn’t say anything in the meeting. I wanted to get HQ support before I mentioned anything...I didn’t want to give our production subsidiary a chance to play politics before I had a chance to prepare my case... I basically prepared the proposal in secret...’
The data from these two cases again shed light on how and when subsidiary level dynamic capabilities are used in the subsidiary strategic change decision-making process. Specifically, when an initiative was sensitive, the subsidiary CEO adopted an *ad hoc* approach of directly preparing a submission to HQ privately, without drawing on established subsidiary level routines to review new strategic change ideas.

For other cases, an internal subsidiary level review and development process occurred prior to preparing a submission to have the project approved by HQ. For all but one of these cases undertaking this initial review (Guangzhou Pipeline—discussed below), interviewees noted that this initial review was routinized and incorporated the development of an initial idea to a formal strategy, along with an internal subsidiary review of its feasibility. A description made by Guangzhou Converter’s CEO is representative of these cases:

‘*We always review new ideas in our management team meetings to make sure we have considered all issues and make sure we think the project is feasible before going to HQ…*’

As described in quotes earlier in this section, each of these subsidiaries had made deliberate efforts to learn strategic diagnostic skills from their foreign parent. This internal subsidiary review, therefore, reflects a subsidiary level dynamic capability learned from the parent.

In contrast to other cases undertaking an internal subsidiary review, Guangzhou Pipeline did not have any routine processes in place to review an initiative at subsidiary level. Instead they prepared a feasibility study, a process that they had learned when they previously worked for their Chinese parent. In other words, their feasibility study was an *ad hoc* approach for the subsidiary as it was being used for the first time. However, it was based on a routine they had seen used when they previously worked for the Chinese parent. The DGM noted:

‘*We prepared a feasibility study as our Chinese parent did for their projects…*’

Again, their lack of established subsidiary level review processes on which they could draw can be attributed to the fact that they simply did not have any intent to develop
these routines themselves. In essence, they had to go and find a way of engaging in a subsidiary level review process after an *ad hoc* idea generation process.

The data also revealed that, for cases where the initiative had potential labor or environmental pollution implications, local government officials played an important role in the internal subsidiary review process. Subsidiary interviewees argued that local government authorities provided valuable advice on how to structure a strategy in a way that the government could ultimately support the initiative.

The CEO at Guangzhou Converters explained that, because his solenoid initiative involved potential pollution implications, the local government environmental protection authorities were involved in the internal subsidiary review process:

‘*My sales, production, HR and finance directors are involved in reviewing all major new projects. Because there were potential pollution implications, the local government were also involved. We (also) worked with the local government to ensure we had taken steps to reduce the environmental impact as much as possible. They supported the initiative because we would employee more people, and pay more tax. But one of my contacts with the local government said we had to show that we had taken all steps possible to reduce environmental impact...’*

The local government was also involved in the subsidiary level review and development process for Sino-Japan Motorcycles’ new product initiative where the PR Director (Appendix 8A(13), p.274) explained that the government was involved because of the initiative’s potential pollution implications. Likewise, even though Guangzhou Garden Products did not have an internal subsidiary review due to the project’s sensitivity, at Guangzhou Garden Products, local government officials had private discussions with the CEO about the initiative. A local government official involved explained:

‘*We were worried about the lay offs...But at the same time, we would accept the lay offs if Guangzhou Garden Products were able to make the case that they needed to do this to survive and be competitive...we didn’t want the business to fail because they were a significant source of tax revenue...I explained that it was important that the subsidiary explain its reasons and demonstrate it was only laying off the staff it had to and that the company was treating all employees fairly...I also suggested that any gesture the*
subsidiary could make that demonstrated its commitment to our city and its development would help get our support for this initiative...'

The local government were not participants at Guangzhou Lighting, Guangzhou Hearing Instruments and Guangzhou Pipeline, all of which embarked on initiatives that did not have direct implications for the local labour force or pollution, and where government officials would not contribute expertise or knowledge.

These findings in relation to local government involvement in the subsidiary level project review can be understood in the context of the literature on institutions and strategic decision-making. This literature suggests that the local government can have a substantial impact on strategic decision-making (Brouthers, Andriessen & Nicolaes 1998). The premise is that firms are dependent on the external environment for various resources, legitimacy, and for selling their final product. This dependency creates a situation where strategic decisions may be altered or demanded by external groups (Brouthers et al. 1998). Also, there is evidence in the literature on FDI in China that local governments can be significant impediments to firm strategy and impact on corporate decision-making (Fleisher & Wright 2009; Li & Park 2006; Luo 2003; Luo & Tan 1997; Luo & Tung 2007; Sanyel & Guvenli 2000).

The findings in this study provide credence to institutional arguments suggesting that, in a subsidiary strategic change context, local government authorities did have an impact on strategic decision-making. However, subsidiary executives felt that local government authorities played a facilitating, advisory role alongside a regulatory one, providing advice to subsidiary executives on how to structure a strategy that would ultimately win their support and be mutually beneficial. This advisory role is not a role that has received attention in previous studies. The internal subsidiary review (or, in the case of Guangzhou Garden Products, private discussions between the CEO and local government officials), therefore, provides an important mechanism for knowledge sharing between the local government and subsidiary executives during the decision-making process.

Another source of variance was how input from different functional areas was managed during the subsidiary level review and development process. For some cases, interviewees suggested that the process involved constructive input from different
functional areas that resulted in the development of a well thought out strategy that could be presented to HQ. Importantly, interviewees noted that the subsidiary CEO had substantial ‘CEO’ experience which had enabled him/her to absorb and integrate the perspectives of managers from different functional areas.

The subsidiary level review process for Guangzhou Converters new product initiative provides a good example. The CEO absorbed the perspectives and concerns of each functional area, ensuring each participant focused on the subsidiary’s overall objectives. The CEO recalled:

‘I discussed the idea with my business unit managers (in the subsidiary). We had a good team. I rewarded everyone when our business improved. We were all working towards one goal. I liked the idea and I let my team know this. I asked each manager to look at ways of making the idea a reality. They could point out potential problems, but I asked them to come up with solutions. If there was something that would stop the project from going ahead, I wanted to hear about it. But I wanted each functional manager to focus on their functional area…’

The CEO attributed his capacity to manage such divergent views and input in the subsidiary level review and development to his experience as a CEO (close to 10 years) and a deliberate attempt to understand other functional areas.

‘I started off as CFO of the subsidiary so I really understand finance…After being promoted to CEO, I really focused on understanding other aspects of the business like sales and production. This wasn’t too difficult given my university studies were in engineering. This helped because my business unit managers respected me and felt I could understand their perspective…’

The circumstances for Sino-Japan Motorcycles and its new product initiative were similar. The PR Director (Appendix 8A(14), p.274) explained that the subsidiary level review process ran relatively smoothly where both the General Manager and Deputy General Manager drove the review process. The GM had extensive general manager experience (over ten years) that had enabled him to integrate all key functional areas of the business and to absorb diverse perspectives of each participant. The GM had also established a culture in the subsidiary that rewarded executives for innovation and making positive changes happen.
The opposite circumstances emerged during the subsidiary level review and development process for Guangzhou Hearing Instruments. In his efforts to convince fellow subsidiary executives of the merits of the initiative, the Sales Director complained that functional managers made criticisms unrelated to their functional areas, which made the subsidiary level review process quite difficult and inefficient.

‘I had to convince both the subsidiary management team and my sales executives...A number of issues were raised by subsidiary management that I needed to address...’

‘Our HR manager was worried about how we would manage a nationwide team of direct sales staff. They suggested that it would be difficult to monitor so many staff to ensure they were performing well. Training them would also be a major exercise. They also questioned where the money was coming from, an issue that really had nothing to do with them...’

‘I suggested that this direct sales approach would actually mean we would have more control over our relationship with the customer. It was far more difficult to control distributors. At the time, I felt that HR were not supportive, I think they saw it as a lot of extra work...’

‘Our CFO, as usual, focused on how much it was all going to cost and where the money was coming from. I think he wasn’t that supportive at the start either. You know these guys don’t like having to find money. I tried to sell the point that, in the long term, we would be more profitable because we would not be paying distributors a commission. But they focused on the short term issue of where we were going to get the money...’

‘One of the problems I had to deal with was the production team. They went on about how this could potentially damage our relationship with distributors and we could lose business. I was annoyed at the time. These guys never spoke to distributors or customers. They didn’t know what they were talking about. But because they kept expressing this concern, I had to do a pilot in one of our regional markets just to test the idea. The pilot was successful and proved my point, but really it was a waste of time, it took months...’
According to the Sales Director, the CEO’s lack of understanding of different functional areas made it difficult for him to manage the input of different subsidiary managers during the review and development process:

‘Our subsidiary CEO is also from a sales background. He isn’t from a CEO background (less than 2 years CEO experience). I get on well with him, but there is politics. Our production and finance people didn’t really respect him as much as I did. The production people felt he did not have enough technical knowledge. Our finance division believed he focused too much on increasing sales and not enough on costs…’

The importance of the CEO’s ‘CEO level’ experience to manage input from different functional areas when making strategic decisions can be understood in the context of some recent literature on upper echelons theory. Hambrick (1995) argued that the hallmark of effective CEO team leadership is his/her ability to draw out the input of managers with fresh perspectives, and manage the aftermath of intense exchanges among team members, avoiding group fragmentation and destructive rivalries. Buyl et al. (2011) also suggested that, to realize the benefits of functional diversity across a top management team, asymmetric information between managers needs to be exchanged and integrated. Both papers also noted that the behaviour and characteristics of the CEO, including understanding each functional area, is of utmost importance in making this happen. This understanding enables the CEO to absorb diverse perspectives and facilitate knowledge sharing and combining during decision-making. This study strongly supports these arguments, also extending them by identifying that, in a subsidiary strategic change context, subsidiary CEOs can gain this broad functional knowledge by actually holding a CEO position either at one or more firms over a longer period of time.

In a related argument, the management of conflict has become an important focus in the literature on group decision-making in organizations (Lovelace, Shapiro & Weingart 2001). The concept of ‘procedural rationality’, which can be defined as ‘the extent to which the decision process involves the collection of information relevant to the decision and the reliance on analysis of this information in making the choice’, suggests that mounting a rational, extensive data collection and analysis makes it difficult to incorporate views with little legitimacy (Dean & Sharfman 1996). While the procedural
rationality perspective has tended to focus on reducing negative political behaviour, the quotes from interviewees presented above can be understood in the context of the procedural rationality perspective. Specifically, some subsidiary interviewees stressed the importance of limiting individual executive’s input to their functional area (based on an assumption that the input is more likely to be rational when it falls within their scope of expertise) and framing any input in the context of broader subsidiary objectives and interests, which meant the information was more likely to be relevant to the decision.

In summary, all but one case had routine internal subsidiary review process in place. The development of these routine processes can be attributed to a deliberate attempt on the part of subsidiary executives to learn these skills from the foreign parent, and/or an attempt by the foreign parent to teach these skills to subsidiary executives. Among the cases where subsidiaries had routine internal review process in place, they were avoided in cases where an initiative was ‘sensitive’. The data also indicated that, when a potential strategic change had employment or pollution implications, the internal review process provided an opportunity to acquire knowledge from local government officials about how to develop the strategy in a way that the government would support. In addition, CEOs who had extensive ‘CEO level’ experience had the broader functional expertise required to effectively manage the input of different functional managers and contain the input of different functional managers to their individual areas of expertise, as well as ensure that managers framed their input in the context of overall subsidiary executives. This, in turn, reduced negative personal conflict that impacted adversely on the efficiency and effectiveness of the subsidiary level review.

8.4.3 Communication of Strategic Change Idea to HQ and the Joint HQ-Subsidiary Review and Development Process

After the development (and review) of a strategic change idea at the subsidiary, subsidiary CEOs prepared a submission to HQ and a joint HQ-subsidiary review and development process took place. For each case, HQ had established routines used to review subsidiary level initiative. The Sales Director at Guangzhou Hearing Instruments is representative of the comments made by other interviewees:
‘HQ had a template for new strategic proposals. We presented and discussed our proposal with HQ in our monthly meetings with them. HQ provided their opinion and suggestions…’

There was, however, variance across the case studies in relation to the nature and effectiveness of these routines. In terms of the communication of the initiative to HQ, there were cases where the idea was well received by HQ and cases where it was not well received, where the latter resulted in a longer and more drawn out review and development process prior to making a decision to proceed or not proceed with a strategic change.

One factor that resulted in a smoother communication of the strategic change idea to HQ by subsidiaries was the extent to which the subsidiary executive, who prepared the communication, understood how the parent approached strategy. This was a function of their efforts to learn the strategic priorities of the parent and how HQ made strategic decisions. At Guangzhou Hearing Instruments, for example, the Sales Director admitted that he did not understand how his parent approached this type of strategic issue, which resulted in HQ having substantial issues with the initial submission that culminated in a longer more drawn-out review and development process. According to the Sales Director:

‘The problem with my initial proposal was that I didn’t put enough emphasis on the customer service aspects. That was extremely important to the Germans. I should have made a bigger effort to find out where their focus was before submitting the proposal… So I had to revise the proposal and resubmit…’

The circumstances were similar for Guangzhou Lighting, where the Sales Director argued:

‘But because I wasn’t sure what [Parent Co.] were looking for and didn’t really know how to go about preparing a proposal, I think the original proposal was not exactly what they were looking for. Their main concern was intellectual property. I didn’t focus on this enough in my initial proposal. We had to meet several times to go over these issues. It took longer than it should have…’
Guangzhou Pipeline’s DGM made a similar point in relation to their idea to expand their customer base:

‘We prepared a feasibility study as we had always done for [Chinese parent]. But I don’t think it was what they were looking for. They wanted a detailed financial model and a business plan…but we had never done this type of thing before…’

The Marketing Manager elaborated:

‘The Japanese representatives said the report did not tell them what they needed to know. Basically we had to resubmit it. It was difficult, we didn’t really know what they wanted…’

In contrast, at Guangzhou Converters, the CEO had made a deliberate attempt to understand the strategic priorities of his direct report at HQ:

‘I knew I needed to understand my parent if I was going to be able to communicate with them and get things done. This was hard going at the start, but I learned more each time I communicated with them and talked to them about strategy…I met each month with HQ. I submitted the proposal in one of these meetings…They had some concerns but I had expected these. I knew what HQ were looking for, the process was quick, a couple of weeks…’

According to the PR Director at Sino-Japan Motorcycles, a similar situation applied:

‘It was a little easier to convince HQ to adopt the customer experience centre concept in China because it had worked successfully elsewhere. But we still developed a business case for them the same way as we did for the new product I just mentioned. Again, the most important thing is that we all knew what the Japanese were looking for. In this case, they liked the idea of building a brand around motorcycles as being fun because this is what they had done overseas. It wasn’t difficult to convince them…’

At Guangzhou Garden Products, the CEO also understood what his parent wanted:

‘I have put in a lot of effort to understand what is important to them (HQ). I made a phone call to HQ to explain the initiative. I knew what they were interested in. I knew they were worried about core technology so I knew this would have to remain in-house. I knew they were worried about intellectual property. At the same time, I knew that they
didn’t care that much about local issues like with the government so I just dealt with this myself. They liked the proposal. They approved it almost straight away…’

These findings can be understood in the context of the literature on knowledge management in MNEs. This literature has suggested that the disposition of subsidiary executives to acquire knowledge from their foreign parent will impact directly on the extent to which they acquire this knowledge (Gupta & Govindarajan 2000). This was indeed the case with subsidiary executives in terms of acquiring knowledge on how the parent approached strategic change decisions in this study. As suggested by Birkinshaw (1999), when subsidiaries were able to develop shared goals and beliefs with HQ, they were better able to sell their strategic change ideas to HQ.

Another important factor identified by interviewees impacting on the subsidiary executive’s ability to sell their idea to HQ during the review and development process, both in the preparation of the initial proposal and during the joint HQ-subsidiary review, was the credibility subsidiary executives had with HQ. Along similar lines to HQ driven strategic change initiatives, subsidiary managers were better able to sell their ideas and input to HQ when they had more credibility, which was primarily derived from their track record at the subsidiary with the parent.

While HQ in-country experience impacted heavily on the HQ driven review and development process, this was not the case for subsidiary driven cases. Subsidiary respondents suggested that HQ experience (or lack of) only made it marginally easier (more difficult) for them to explain their idea when communicating with HQ. The reason for the relatively lower degree of importance of HQ in-country China work experience for subsidiary driven initiatives can be attributed to the fact that there was less ownership of the initiative on the part of HQ and they, therefore, felt less need to get involved. In other words, HQ had not formulated the idea and were not driving it, and, importantly, the review and development process did not require subsidiary executives to change the mind of HQ executives, as was the case for HQ driven cases.

The CEO at Guangzhou Converters explained the importance of credibility and parent executives’ in-country China work experience for his new solenoid product initiative:

‘Our process was very formal. We had to prepare a business proposal that included a comprehensive risk analysis associated with the project. There were very specific
financial, technological, strategic and sales aspects that needed to be considered. I had to submit this final proposal to HQ for their approval before we could do it. We had to have head office approval for any significant Cap Ex....’

‘Even though we had this formal process, they (UK subsidiary) believed what I said because I have always achieved goals set for me...It was a comprehensive business plan...I had done them before...I knew what they were looking for...’

‘I had always exceeded my KPIs. So, while they (Parent) didn’t really understand themselves whether or not this was a good idea, they were willing to listen to me...’

‘The fact that they hadn’t ever run a business in China themselves made my job of selling the idea a little more difficult, but they trusted me...’

Credibility was also important for Sino-Japan Motorcycles new product and customer experience centre initiatives. The CFO noted:

‘Our General Manager was Japanese. HQ trusted him with good reason. He has a strong track record because the subsidiary had performed well. So they trust his judgment and approved our ideas straight away...’

When asked about the extent to which credibility and parent executive’s in-country China work experience impacted on the review and development process for its outsourcing initiative, the CEO at Guangzhou Garden Products stated:

‘I had always exceeded my KPIs. So, while they didn’t really understand themselves whether or not this was a good idea, they were willing to listen to me...’

‘They don’t understand China. Most of them haven’t even been to China... And those that had only stayed for a few days at a time so they don’t know how things work. I suppose if they had understood China, it would have been easier for me to explain the initiative. But they didn’t get too involved. As long as I met their criteria which related to protecting core technology and quality control and met my cost requirements, they didn’t have too much to say...’

For other case study subsidiaries, when the credibility of subsidiary executives was lower, the result was a longer, more complicated HQ-subsidiary review process. The sales director at Guangzhou Hearing Instruments, for example, noted that his lack of a
strong track record at the subsidiary made selling the idea to them time consuming because issues needed to be explained in detail. This was compounded by the fact that HQ did not have any in-country China work experience.

‘It really came down to whether they trusted the subsidiary executives. In this case, their trust of me was perhaps not 100% so it took some convincing...’

The CEO at Guangzhou Lighting also admitted that his credibility at HQ was limited because he had not established a strong track record at the subsidiary, which meant the ‘sell’ to HQ required a longer period of time:

‘I hadn’t really proved myself to them (HQ)…We had to meet several times to go over these issues...It took longer than it should have...’

When asked about HQ in-country China experience, the CEO at Guangzhou Lighting went on to suggest that their lack of in-country China experience possibly made it a little more difficult for him to get his perspective across, particularly when he lacked credibility:

‘They (HQ) didn’t really understand China...This made it a little more difficult to get my point across...’

These findings in relation to subsidiary executive credibility with HQ and HQ in-country China work experience can be understood in the context of the literature on subsidiary executive credibility and subsidiary track record. As described in Chapter 7, subsidiary manager credibility can be conceptualized as the extent to which managers in the head office have confidence in the capabilities of a subsidiary (Birkinshaw 1999). Birkinshaw and Hood (1998) also mention subsidiary track record as being important in gaining traction when selling ideas to HQ.

The interview data in this study revealed that, in a China subsidiary strategic change context, both subsidiary manager credibility and track record were important. Along similar lines to HQ driven strategic change initiatives outlined in Chapter 7, it was the track record of the subsidiary executive, rather than the subsidiary itself, that impacted on the decision-making process. In addition, it was his/her track record at the subsidiary that directly impacted on his/her credibility with HQ.
In summary, all MNEs had routine processes in place to take accept formal strategic proposals from subsidiary executives for strategic change and review and develop these proposals with subsidiary executives. However, interviewees noted that the efficiency of these processes were a function of key subsidiary CEO characteristics, including his/her understanding of how HQ approached strategy, which was primarily a function of his/her deliberate efforts to acquire this knowledge from HQ, and, secondly, subsidiary credibility with HQ executives. In contrast to HQ driven cases, the in-country China work experience of HQ executives was not overly important. At the very most, a lack of HQ in-country China work experience made it marginally more difficult for subsidiary executives to sell their idea to HQ for some cases.

8.5 Formal Sign-Off

The formal sign-off process for subsidiary driven strategic change initiatives involved both the subsidiary and parent HQ. Formal sign-off was first obtained at subsidiary level, then followed by sign-off from HQ. The HQ executives that formally signed-off on initiatives varied across cases. For some cases, the CEO at HQ signed-off on the initiative. This was the case at Guangzhou Lighting and Guangzhou Converters. In both these cases, the size of the parents was relatively small. For larger subsidiaries, sign-off was required from more than one HQ executive, usually including a CFO at HQ, along with a Vice President or equivalent directly responsible for the subsidiary.

Table 8.5.1 summarizes who formally signed off subsidiary driven initiatives for each case.

<table>
<thead>
<tr>
<th>Case</th>
<th>Sample Subsidiary</th>
<th>Executives That Signed Off On Initiative (In Chronological Order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and sales of new product</td>
<td>Guangzhou Converters</td>
<td>Subsidiary CEO sign-off; HQ CEO</td>
</tr>
<tr>
<td>Development and sales of new product</td>
<td>Sino-Japan Motorcycles</td>
<td>Subsidiary CEO; JV Board; Vice President of foreign parent motorcycle division</td>
</tr>
<tr>
<td>Development of ‘Customer Experience Centres’</td>
<td>Sino-Japan Motorcycles</td>
<td>Subsidiary CEO; JV Board; Vice President of foreign parent motorcycle division</td>
</tr>
<tr>
<td>Relocation of R&amp;D division from</td>
<td>Guangzhou Lighting</td>
<td>Subsidiary CEO; HQ CEO</td>
</tr>
<tr>
<td>Production to Sales Subsidiary</td>
<td>Guangzhou Garden Product</td>
<td>Subsidiary CEO; HQ CEO</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Outsourcing initiative</td>
<td>Guangzhou Pipeline</td>
<td>No sign-off, initiative did not proceed</td>
</tr>
<tr>
<td>Attempt to expand customer base</td>
<td>Guangzhou Hearing Instruments</td>
<td>Subsidiary CEO; Vice President International (for Medical Instruments division)</td>
</tr>
</tbody>
</table>

8.6 Summary

The data revealed that all but one subsidiary had a routine idea generation process, with a key reason for having these routines being a deliberate attempt to learn these skills from the foreign parent and/or efforts on the part of the foreign parent to teach these skills to subsidiaries. There was one exception where no routine idea generation processes were in place as the subsidiary executive team did not believe their role involved developing strategy and, as such, made no attempt to learn these skills from the foreign parent.

Firms utilizing a routine idea generation process sometimes incorporated environmental scanning routines and always involved routine subsidiary executive meetings that provided a forum to present information from scanning and share ideas and experiences. For subsidiary executives, informal information sources were drawn on when scanning such as discussions with customers, friends working at competitors and local government officials, which gave them insight into product problems, new product opportunities and ideas to improve production efficiency and the state of China’s economic circumstances and government policy directions. As evidenced in other studies on scanning in China, foreign subsidiary executives implied that formal information sources such as local media and consultants reports were out of date, lacking detail and unreliable.

The data also revealed, however, that, in cases where an initiative had potentially negative implications for some subsidiary or MNE executives, subsidiaries who had these routine strategic diagnosis processes chose to avoid them, instead drawing only on their own personal experience to identify a strategic change idea and keeping their idea ‘secret’ from other executives. Subsidiary CEOs for these cases acknowledged that
their ideas emerged as part of their own individual routine reflection on subsidiary circumstances, thus reflecting their own sensemaking processes.

While most cases relied on domestic China experiences when developing a strategic change idea, one subsidiary CEO had extensive overseas experience and was therefore able to draw on both overseas experience, along with experience and information he had gleaned locally to identify a problem and formulate a strategic change idea.

All but one subsidiary possessed internal subsidiary level review routines to share knowledge with the subsidiary before submitting a proposal to HQ and this usually involved regular strategy meetings both within subsidiary divisions and at senior subsidiary executive team level. Of the six cases that did have internal subsidiary review routine processes in place, four of these utilized these capabilities to review the initiative within the subsidiary. In the other two cases where there were routine processes to review a strategic idea at subsidiary level, these processes were avoided because the CEO believed subsidiary or other MNE executives would react negatively to the strategic change. Instead, the CEO went straight onto preparing a submission to get approval from HQ before telling subsidiary executives. The subsidiary that did not have internal subsidiary review routines in place engaged in an ad hoc internal subsidiary review where subsidiary executives utilized a review process they had seen when working for the Chinese parent. Again, a lack of a learning intent on the part of subsidiary executives to learn these skills from the foreign parent explained why an ad hoc approach was adopted.

The findings also revealed that CEOs with more ‘CEO’ level experience generally had a better knowledge of each functional area of the subsidiary and were therefore better able to manage the input of executives from different functional areas during the initial subsidiary level review. In addition, local government officials were involved in a subsidiary level review when the initiative had potential pollution or labour implications, playing a proactive role in providing subsidiary executives with advice on how to structure a strategy to gain government support. These internal reviews, therefore, provided an important mechanism for extracting knowledge from local government officials during the decision-making process.
The data also revealed that the submission of a proposal to HQ, along with the joint HQ-subsidiary review process, utilized well established routines developed by HQ. The ability of the subsidiary CEO to sell his idea to HQ executives and convince them to approve an initiative during the joint HQ-subsidiary review process was greater when subsidiary executives had a strong track record at the subsidiary which gave them credibility with HQ and had an in-depth understanding of HQ strategy making and priorities.

While HQ in-country experience impacted heavily on the HQ driven review and development process, this was not the case for subsidiary driven cases. Subsidiary respondents suggested that HQ experience (or lack of) only made it marginally easier (or more difficult) for them to explain their idea when communicating with HQ. The reason for the relatively lower degree of importance of HQ in-country China work experience for subsidiary driven initiatives can be attributed to the fact that there was less ownership of the initiative on the part of HQ and, therefore, they felt less need to get involved. In other words, HQ had not formulated the idea and were not driving it, and, importantly, the review and development process did not require subsidiary executives to change the mind of HQ executives, as was the case for HQ driven cases.
### Appendix 8A

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>Sino-Japan Motorcycles</th>
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</thead>
<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>New product initiative</td>
</tr>
</tbody>
</table>

#### PR Director:

1. ‘The Japanese created an environment where we were encouraged to learn new skills. Scanning our environment and systematically looking for ways to improve the business was something we learned from them...’

#### Deputy General Manager:

2. ‘We encourage our staff to talk to customers regularly and put forward new ideas... Our subsidiary Sales Director raised the idea of this new product in one of our subsidiary executive meetings based on feedback from his sales outlets which had direct contact with customers. We met each month. He said there was a demand for a product targeted specifically at females... The product was suited to females, it has low emission, uses less fuel and was attractive...’

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>Guangzhou Lighting</th>
</tr>
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<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>Acquisition of R&amp;D division</td>
</tr>
</tbody>
</table>

3. ‘We met regularly as a sales team. I encouraged feedback from all my sales staff...I expect them to provide feedback from their customers...It was in one of these meetings that my sales staff told me that their customers also told them our product development was heading in the wrong direction. They wanted one thing but modifications to our existing products were not doing what they needed them to do. In effect we were creating technical solutions for problems that did not exist and then not coming up with solutions for problems that did exist...’

<table>
<thead>
<tr>
<th>Sample Subsidiary:</th>
<th>Sino-Japan Motorcycles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Change Case:</td>
<td>Customer experience centre initiative</td>
</tr>
</tbody>
</table>

#### PR Director:

4. ‘Scanning our environment and systematically looking for ways to improve the business was something we learned from them [Japan Parent] ...Head office invited senior sales executives to visit Milan and their subsidiaries overseas. We visited a number of sales outlets. They had created a culture that fostered motorcycle enthusiasts. They established motorcycle clubs where members could share ideas and their hobby together. These clubs also provided a membership list that [foreign parent] could use to promote...’

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Table 8A: Idea Generation Process for Subsidiary Driven Strategic Change Cases
Deputy General Manager:

(5) ‘They took the sales team to Milan to visit local on-sellers, and when coming back people were moved by it. In Europe it is a developed market, mostly cars not motorcycles, motorcycles are a fun thing, that have been the culture for tens of years. They (the sales team) were inspired by this and prepared a proposal...’

Sample Subsidiary: Guangzhou Lighting

(6) ‘Local companies, especially state owned enterprises, don’t really place an emphasis on business intelligence and scanning your environment. State owned companies are becoming more focused on being competitive, but there is still a long way to go...From what I can see, they rarely have a systemized approach to what you have called environmental scanning...’

Sample Subsidiary: Guangzhou Hearing Instruments

Strategic Change Case: Sales distribution strategy restructure

(7) ‘Each month we have regular meetings with other senior subsidiary managers. We focus on reporting back on day-to-day issues, but there is usually an opportunity to come up with new ideas to improve the business...I proposed that sales performance and profitability would be enhanced by moving from an on-sellers and distributors network to a direct sales approach where we would set up representative offices staffed by our own people. I had seen it work in my role at [previous employer]...’

Sample Subsidiary: Sino-Japan Motorcycles

Strategic Change Case: Customer experience centre initiative

PR Director:

(8) ‘Head office invited senior sales executives to visit Milan and their subsidiaries overseas. We visited a number of sales outlets...They had created a culture that fostered motorcycle enthusiasts. They established motorcycle clubs where members could share ideas and their hobby together. These clubs also provided a membership list that [foreign parent] could use to promote and stimulate demand for new products...’

Deputy General Manager:

(9) ‘They took the sales team to visit local on-sellers, and when coming back people were moved by it... In Europe it is a developed market, mostly cars not motorcycles, motorcycles are a fun thing, that has been the culture for tens of years... They (the sales team) were inspired by this and prepared a
proposal for a customer experience concept...This was presented in our monthly strategy meetings...

Sample Subsidiary: Guangzhou Lighting

CEO:

(10) '[Foreign Parent] have regular meetings at HQ that focus on identifying new ideas. I have learned from them...'

Sample Subsidiary: Sino-Japan Motorcycles

PR Director:

(11) ‘The Japanese created an environment where we were encouraged to learn new skills. Scanning our environment and systematically looking for ways to improve the business was something we learned from them...'

Sample Subsidiary: Guangzhou Converters

CEO:

(12) ‘We had both done this before in other companies, I mean diversified to better utilize our customer base. I think it is common in China...'

Table 8B: Review and Development Process for Subsidiary Driven Strategic Change Cases

Sample Subsidiary: Sino-Japan Motorcycles

Strategic Change Case: New product initiative

PR Director:

(13) ‘We involved the local government...the project had implications for local employment and they were concerned about possible pollution...When we had tried to increase capacity in the past, we didn’t realize the importance of getting the government involved early. It was very difficult to get approval. We did not make the same mistake this time...They provided us with advice on how to develop the strategy so they would support it. They were actually very helpful...'

Sample Subsidiary: Sino-Japan Motorcycles

Strategic Change Case: New product initiative

PR Director:

(14) ‘We all gave our input...everyone was positive...There were challenges...Our production team were probably the most concerned. They
were not sure whether they could produce the product but even they wanted it to be successful... Our General Manager and I coordinated the discussion. He insisted that we focused on solutions but made sure he took on the viewpoints of each manager... He was an experienced General Manager and understood all aspects of the business. This meant he had the respect of each manager...
CHAPTER 9

CONCLUSION

9.1 Introduction

Analysing qualitative data from 14 China-based subsidiaries on 19 subsidiary strategic changes, this study explores MNE decision-making processes associated with subsidiary strategic change decisions. Section 9.2 sets out the conclusions and contributions from my study. Section 9.3 outlines the limitations of the research, while Section 9.4 discusses the practical implications and insights of the research for MNE managers.

9.2 Conclusions and Contributions

9.2.1 Understanding the Processes of Strategic Change Decision-Making in MNEs

The international business (IB) literature is strategic in its research questions: why MNEs make various types of strategic decisions, including why and where they go abroad (Dunning 1988); how they enter foreign markets (Agarwal & Ramaswami 1992; Brouthers & Nakos 2004; Chen 2007; Chen & Mujtaba 2007; Chiao, Lo & Yu 2010); why they structure different types of roles for subsidiaries (Bartlett & Ghoshal 1986; Birkinshaw & Morrison 1995; Birkinshaw 1997; Rugman et al. 2011; Verbeke, Chrisman & Yuan 2007); and ways HQ control, or delegate autonomy to, its subsidiaries (Doz & Prahalad 1987; Egelhoff 1986; Picard 1980; Stopford & Wells 1972). The IB literature has also revealed that MNE strategic decision-making is complicated by the impact of multiple institutional contexts (Puck, Holtbridge & Mohr 2009) and the complexity of diverse top management teams (Hermann & Datta 2005; Jaw & Lin 2009; Nielsen 2010; Sambharya 1996).

Despite these insights, we still have a poor understanding of how HQ and their subsidiaries make strategic decisions in relation to strategic change. Notwithstanding a recent emphasis on subsidiary level strategic change (Verbeke, Chrisman & Yuan 2007), this gap is surprising in light of the central position of strategic change decision-making in the broader strategic management literature (Rajagopalan & Spreitzer 1997; Teece, Pisano & Shuen 1997). This thesis addresses the gap, revealing the processes of strategic change decision-making in MNEs.
My methodology follows Doz’s (2011, p. 583-584) premise about the advantages of qualitative research in international business research:

‘rich, thick process descriptions provide a guarantee against the temptation to rely on a single theoretical lens because they make obvious to the researcher that any single lens will shed only partial light on the phenomenon being researched…Only rich thick descriptions can provide the basis for use and possible synthesis of multiple theories into new conceptual development…’…

Using Doz’s insight, a conceptual framework was developed that integrated important components of the broader strategic management and IB literature. Exploring the various aspects of strategic decision-making processes identified in the broader strategic management literature, I first called on the dynamic capabilities literature, which has identified routine decision-making processes as crucial to firm resource redeployment for sustaining or improving a firm’s competitive position (Helfat et al. 2007). Second, I incorporated the literature on rational decision-making processes identifying that strategic change decision-making usually incorporates three important phases: an idea generation process, a review and development process and a formal sign-off process (Burgelman 1983a; Eisenhardt & Zbaracki 1992). Third, I acknowledged that decision-making incorporates individual and group cognitive sensemaking processes that enable decision makers to notice and interpret information relevant to a strategic decision (Weick 1995). We also know that this knowledge is derived from previous experiences and learning (Narayanan, Zane & Kemmerer 2011). Fourth, I recognized that the processes associated with ‘noticing’ new information usually incorporate environmental scanning (Fleisher & Wright 2009; Narayanan, Zane & Kemmerer 2011; Thomas, Clarke & Gioia 2009).

Surprisingly, these strategic management literatures had not been applied to MNE-subsidiary strategic change decisions, an important theoretical gap. Drawing on the relevant IB literature, it was also acknowledged in the conceptual framework that in the ‘special case’ of the multinational form of organisation it could not be assumed that our understanding from the extant strategic management literature on strategic change decisions hold in light of the unique organisational and institutional complexities characteristic of this form of organisation (Kostova et al. 2008). For example, the
processes of MNE decision-making are complicated by geographical distance and diverse institutional (and cultural) contexts (Xu & Shenkar 2002) and these multiple institutional contexts mean that MNEs are characterized by the diverse knowledge and experiences of top management teams, by the complexities in extracting knowledge from its internal and external environment and by the challenges of sharing and integrating knowledge between HQ and the subsidiary (Gupta & Govindarajan 2000; Lyles & Salk 2007; Martins & Antonio 2011; Tseng, Pai & Huang 2011).

The conceptual framework developed a series of secondary research questions to explore specific characteristics and drivers of these strategic change decision-making processes in MNEs, including:

- How do individuals and groups, whether at headquarters (HQ) or the China-based subsidiary, scan their external and internal environment to identify a need or opportunity for strategic change?
- What types of individual and collective experiences influence the interpretation of scanned information and shape strategic change ideas?
- What routines and/or ad hoc processes are implemented to share and integrate individual and group level subsidiary and HQ knowledge?
- What factors impede HQ-subsidiary knowledge sharing and integration?
- What China specific institutional factors are relevant to the decision-making process?

The findings have addressed each of these questions, thus helping to fill this important gap in the literature on MNE strategic change (Birkinshaw 1995; 1997; Birkinshaw & Hood 1998; Verbeke, Chrisman & Yuan 2007). Section 9.2.2 describes the findings that make this contribution. In addition, it identifies instances where these findings also make a contribution to other important strategic management and international business literatures (in addition to the literature on MNE strategic change) including the literature on MNE knowledge management (Gupta & Govindarajan 2000; Lyles & Salk 2007; Martins & Antonio 2011; Tseng, Pai & Huang 2011), the dynamic capabilities literature (Teece, Pisano & Shuen 1997; Helfat et al. 2007), the literature on MNEs and institutions (Xu & Shenkar 2002; Luo 2010), the upper echelons literature (Hambrick 1995) and the literature on HQ subsidiary relationships (Birkinshaw & Morrison 1995).
9.2.2 Routines and Underlying Processes

The findings revealed that MNE HQ and their subsidiaries usually had established decision-making routines in place. In other words, their decision-making was not *ad hoc*, in line with our understanding of the key role of dynamic capabilities in making strategic changes (Helfat *et al.* 2007). This was the case for both HQ and subsidiary initiated strategic changes. These routines incorporated various group processes and forums within and between HQ and subsidiaries to extract information from the MNE and subsidiary’s external and internal environment, to identify problems/opportunities and to communicate, develop and review strategic change ideas.

The remainder of this section summarizes the processes incorporated in these routines.

- **Scanning**

Both HQ and subsidiaries engaged in routine environmental scanning to extract information from their internal and external environment. For HQ initiated strategic change decisions, HQ executives drew on formal, overseas (outside of China) information sources such as consultant firm, industry and media reports during external environmental scanning. These formal information sources were those commonly used in Western countries (Fleisher & Wright 2009). However, subsidiary executives argued that this focus represented a failure to consider China’s institutional context. One error occurred where HQ executives made an incorrect assumption that overseas data applied to China. Another error, argued subsidiary executives, was the failure of HQ to understand and recognize the importance of local, mainly informal, China information sources. This argument is supported by much of the literature on China scanning (Fleisher & Wright 2009; Zha & Chen 2009). There were two exceptions where HQ drew on both formal overseas information sources and informal China domestic information. Reasons for these exceptions are described in section 9.2.3 below.

There were also cases where HQ executives engaged in routine scanning of internal subsidiary data to identify a need or problem. Some of these data were also collected during the take-over of the subsidiary. These data were provided by subsidiary executives and ranged from financial information, technical data or other management information provided by subsidiary executives. The data were always ‘objective’ or
‘factual’ in the sense that HQ executives did not ask for subsidiary executives’ subjective interpretation the data.

For subsidiary initiated strategic change decisions, when subsidiaries used scanning to identify a problem or opportunity, they drew on informal China information sources, such as conversations with customers, friends working at competitors and local government officials which gave them insight into product problems, new product opportunities, ideas to improve production efficiency, the state of China’s economic circumstances and government policy directions.

These conclusions provide new insights into institutional complexities associated with MNE scanning. Aside from a few early studies (Dymsza 1984; Keegan 1973; Kobrin et al. 1980, Kennedy 1984), MNE scanning, particularly scanning related to operations in emerging economies such as China, has been given little attention. Importantly, the findings above provide evidence that for HQ initiated strategic change decisions, most HQ executives did not adapt their scanning strategies to a China institutional context. The reasons why are presented in section 9.2.3 below.

- Intra-MNE knowledge creation and flows during decision-making process

MNEs and subsidiaries have various internal processes in place to facilitate knowledge creation, sharing and integration during the strategic change decision-making process. First, routine internal review meetings involving key members of top management teams (TMTs) were held at HQ (for HQ-driven cases) and subsidiaries (for subsidiary-driven cases), providing a forum to draw on and combine individual and group knowledge to interpret information gleaned from environmental scanning, identify problems/opportunities and develop strategic change ideas.

Once an idea had been developed, all MNEs had routines in place for HQ to pitch their strategic change idea to subsidiary executives (for HQ initiated strategic change decisions) and for subsidiary executives (for subsidiary initiated strategic change decisions) to pitch their idea to HQ. These proposal routines were the key mechanism by which information/knowledge about a strategic change idea was first shared between HQ and subsidiaries for both HQ and subsidiary initiated strategic change decisions. For HQ initiated strategic change decisions, HQ usually had standard templates that were used such as a ‘business case’ or ‘business plan’ document that were completed by
idea initiators. There were two exceptions where HQ presented their idea as a ‘preliminary’ idea as opposed to a formal strategic proposal. The ‘preliminary’ approach was used when HQ genuinely sought input from the subsidiary executive team about the appropriateness of the strategic change and was open to making substantial adaptations required to suit the subsidiary’s China context.

For both HQ and subsidiary initiated strategic change decision-making processes, routine joint HQ-subsidiary strategy meetings provided an important mechanism for HQ and subsidiaries to present, share and develop their proposals jointly, therefore providing an important knowledge sharing and integration channel between HQ and subsidiaries. For most cases, the idea was initially presented or raised in routine HQ-subsidiary meetings arranged to review a range of operational and strategic issues. For joint venture subsidiaries, the initial presentation occurred in a JV board meetings. After the initial presentation, dedicated meetings were usually arranged specifically to discuss and review the strategic change idea. These follow-up meetings provided an opportunity for HQ and subsidiaries to further sell their idea, discuss its appropriateness or suitability, sometimes make modifications to the initial idea and develop the idea into a formal strategy that could be implemented in the subsidiary.

While the MNE knowledge management literature (Gupta & Govindarajan 2000; Lyles & Salk 2007; Martins & Antonio 2011; Tseng, Pai & Huang 2011) has focused on how MNEs and HQs share knowledge, the nature of these knowledge sharing mechanisms in the decision-making process context has remained a gap in the IB strategy literature. This study has addressed this gap by identifying the abovementioned decision-making forums for sharing knowledge within and between HQ and subsidiaries for both HQ and subsidiary initiated strategic change decision-making.

- Sign-off of the strategic change

Each subsidiary also had a formal sign-off process. The process was effectively a ‘rubber stamp’ where subsidiary executives reported that no new knowledge was incorporated into the decision-process. In all the HQ-driven strategic change cases, final sign-off authority resided with HQ and subsidiary sign-off was not required. For subsidiary-driven cases, the subsidiary CEO first signed off on an initiative, followed by
an appropriate HQ executive(s). For joint ventures, the JV Board also had to approve the strategic change initiative in the form of a board resolution.

9.2.3 How These Processes Worked

This section describes important themes emerging from the findings that impacted on the nature of the processes identified above, explaining why and how these processes varied across cases.

- Experience

The cognition literature has emphasized that decision-making involves cognitive processes where information relevant to a strategic decision is interpreted through the lens of individual and group level cognitive structures, which are based on previous experiences and learning (Narayanan, Zane & Kemmerer 2011). This study applied these insights to an MNE context.

Subsidiaries mostly drew on domestic China experiences of subsidiary executives usually strategic change experiences accrued while working at other China firms. Utilizing internal subsidiary group processes and meetings, these experiences were drawn on to collectively interpret information gleaned from environmental scanning and develop strategic change ideas.

In contrast, for most HQ-driven cases, subsidiary executives believed that MNE experiences either at home or in other subsidiaries globally, were incorrectly drawn on to identify problems and develop strategic change ideas for their China subsidiary. This failure reflected HQ’s inability to understand China institutional factors, which can be attributed to individual HQ executives’ lack of in-country China work experience. In other words, the individual level in-country China work experience of HQ executives did not give the HQ top management team the combined experiential knowledge required to select the type of China information to be scanned, interpret scanned data and develop strategic change ideas that were suited to China. The exception was cases where key HQ executives had extensive in-country China work experience. According to subsidiary managers, these HQ executives were able to draw on relevant China information and experiences when identifying problems/opportunities and developing their strategic change ideas.
The interviews also revealed that in cases where individual HQ executives did not have in-country China work experience, they lacked the knowledge to sell their strategic change ideas effectively to subsidiary managers and absorb subsidiary managers’ knowledge during the review and development of HQ proposals. In contrast, in cases where HQ executives had extensive in-country China work experience, they were able to sell their idea to subsidiary executives and did not need to absorb subsidiary level knowledge because they possessed this knowledge themselves.

These findings therefore identify HQ in-country China work experience as an important HQ absorptive capacity issue (Cohen & Levinthal 1990; Zahra & George 2003) and knowledge barrier associated with extracting and absorbing China information and knowledge. Importantly, this finding applies to subsidiaries that have been operating in China for a number of years.

Importantly, HQ’s lack of in-country China work experience was not a significant issue for subsidiary-driven cases. Three explanations for this emerged from the data. First, there was less ownership of subsidiary initiatives on the part of HQ. In other words, HQ had not formulated the idea and was not driving it. Second, the review and development process did not require subsidiary executives to change the mind of HQ executives as was the case for HQ-driven cases. Third, the lack of HQ knowledge strengthened the hand of subsidiary managers, since HQ was not able to provide a critical analysis of the subsidiary proposal.

These findings on experience make important contributions to the literatures on MNE knowledge management (Gupta & Govindarajan 2000; Lyles & Salk 2007; Martins & Antonio 2011; Tseng, Pai & Huang 2011), MNE and institutions (Luo 2010; Xu & Shenkar 2002), and MNE scanning (Kennedy 1984). First, the literature on MNE knowledge management has emphasized absorptive capacity as a problem that impedes HQ and subsidiary knowledge flows (Gupta & Govindarajan 2000). This study has identified an important parent absorptive capacity issue. Specifically, an effective way for HQ to develop absorptive capacity is to have a top management team whose executives have personal in-country work experience in the host country. Second, the literature on MNE and institutions emphasizes the institutional complexity facing MNEs (Xu & Shenkar 2002). This study has identified personal in-country China work experience as a TMT characteristic that enables HQ to overcome the knowledge gap
emerging from these institutional differences. Third, the findings confirm the argument in the prevailing literature on cognition and scanning that previous experiential knowledge drives the focus of environmental scanning efforts (Daft & Weick 1984; Narayanan, Zane & Kemmerer 2011). My study provides new evidence that unless individual HQ executives had extensive in-country China work experience, they did not adapt their scanning strategies to a China institutional context.

- Avoiding routine decision-making processes

The findings on subsidiary-driven cases also revealed that when an initiative had a potentially negative impact on other members of the subsidiary TMT and the potential arose for organizational politics, the subsidiary CEO avoided group routine decision-making processes to develop and share a strategic change idea. Instead, the subsidiary CEO developed the strategic change idea privately, drawing on his/her own individual experiences to analyse data and develop a strategic change idea.

This finding contributes to the literature on dynamic capabilities (Teece, Pisano & Shuen 1997; Helfat et al. 2007), identifying ‘issue sensitivity’ as a variable that potentially impacts on when firms may avoid exercising (organizational) dynamic capabilities in favour of individual sensemaking processes.

- Subsidiary learning

When subsidiaries made an attempt to understand how their parent approached strategy, knowledge sharing between HQ and subsidiaries during the decision-making process was more effective. Specifically, subsidiary executives knew how to frame their strategic change idea in a way that HQ could understand and accept. Subsidiaries that did not understand how their parent thought about strategy were subjected to a longer, more drawn out review process. This finding supports the literature on MNE knowledge management that has argued that knowledge sharing between HQ and subsidiaries is easier and more efficient when they both share common goals and cognitive frames (Gupta & Govindarajan 2000).

- CEO’s diverse functional knowledge

The findings revealed that CEOs with limited ‘CEO’ level work experience had not acquired the generalist knowledge required to manage diverse input from different
subsidiary functional executives during group processes associated with developing and reviewing a strategic change idea. A lack of general functional knowledge therefore constituted an important intra-subsidiary knowledge barrier.

This finding reconciles with recent literature on upper echelons theory that has stressed the importance of the general functional expertise of a CEO to manage diverse viewpoints during decision-making (Buyd et al. 2011; Hambrick 2007). It extends this literature by identifying that one way in which a CEO can acquire this general functional expertise is by accruing more experience in a CEO (or equivalent) position.

- The role of credibility

Subsidiary executives’ lack of credibility with HQ was an important barrier (or facilitator) to HQ-subsidiary knowledge sharing. Subsidiary executive credibility was important for both HQ and subsidiary-driven cases. My findings revealed that HQ was less willing to ‘accept’ subsidiary generated strategic change ideas when relevant subsidiary executives did not have a strong subsidiary track record with the parent. For HQ-driven cases, a lack of subsidiary executive credibility meant that HQ were not willing to incorporate the knowledge of these subsidiary executives during the joint HQ-subsidiary review process.

The existing literature on subsidiary track record and subsidiary executive credibility partially support these findings by identifying that subsidiary executive credibility and subsidiary track record enabled subsidiaries to more effectively sell their strategic change ideas to HQ (Birkinshaw 1999; Birkinshaw & Hood 1998). My data has shown that the credibility issue also applies to strategic change ideas proposed by HQ where a lack of credibility meant HQ were less willing to incorporate subsidiary knowledge input into these decisions.

My study has extended this credibility and track record literature further by identifying new, specific variants of credibility and track record. For my study, it was the track record of the subsidiary manager, rather than the track record of the subsidiary itself, that impacted on the decision-making process and drove credibility. Further, it was subsidiary executive’s track record at the China subsidiary with that parent that mattered. The subsidiary manager’s track record at other firms, or at the subsidiary when it was owned by another shareholder/parent were not important in my study. These findings
on credibility and track record also make a contribution to the literature on MNE knowledge management (Gupta & Govindarajan 2000) by identifying them as a potential HQ-subsidiary knowledge facilitator or barrier during MNE decision-making.

- Subsidiary importance

Subsidiary importance was also found to be an important factor in strategic change review and development processes for HQ-driven cases. When subsidiary managers felt HQ executives viewed their subsidiary as less important in terms of its contribution to global revenues or output, HQ were less likely or willing to take the time to absorb information and advice provided by the subsidiary. An explanation for this finding was developed by calling on the literature on bounded rationality (Cyert & March 1963; Eisenhardt & Zbaracki 1992; Naranyan, Zane & Kemmerer 2011). Where decision makers are subject to cognitive limitations, scarce HQ executive team attention is allocated according to subsidiary importance.

The issue of subsidiary importance and MNE strategic decisions has come up in numerous studies, sometimes with contradictory results (Boyacigiller 1990; Chang & Taylor 1999; Martinez & Ricks 1989). Most of these studies have examined why HQ wants to maintain more or less control over its subsidiaries. However, none of these studies have explored this issue in a decision-making process context. My study has revealed that sometimes the relative influence of HQ vis a vis subsidiaries over subsidiary strategic decisions is less about a desire to control the subsidiary than about HQ’s cognitive limitations to incorporate subsidiary input.

- Subsidiary role and foreign parent nationality

Despite the fact that the HQ-subsidiary control literature has identified subsidiary role and foreign parent nationality as key factors in HQ’s influence over subsidiary strategic decision-making (Birkinshaw & Morrison 1995; Gates & Egelhoff 1986), neither subsidiary role nor nationality emerged as major themes impacting on the relative influence of HQ vis a vis subsidiaries over subsidiary strategic change decision-making in this study. Instead, factors described above such as HQ in-country China work experience, credibility, and subsidiary importance were more important drivers of HQ-subsidiary relative influence over subsidiary strategic decisions. This is because these
factors impacted on the extent to which subsidiary executives were able to gain traction with HQ for their own strategic change ideas and have their knowledge incorporated into subsidiary strategic change ideas proposed by HQ.

This finding contributes to the HQ-subsidiary relationship literature (Birkinshaw & Morrison 1995; Rugman, Verbeke & Yuan 2011). By conceptualizing ‘influence’ over a subsidiary strategic decision as a function of the knowledge contributed by HQ and subsidiaries to a strategic decision, these important factors are identified. Their relative importance and interaction with other variables that previous literature has identified as impacting on HQ-subsidiary relationships, such as subsidiary role (Birkinshaw & Morrison 1995) and nationality (Gates & Egelhoff 1986), need to be explored in future studies.

- The role of local government

The data revealed that internal subsidiary review processes also provided a mechanism for obtaining local government knowledge input, especially when a potential strategic change had potential labour or pollution implications. This study shows how government officials participate in the decision-making process, especially revealing how local governments played a positive pro-active role.

This finding in relation to the proactive role of local government in the decision-making process makes an important contribution to the literature on how government influences MNE strategic decision-making in host countries, particularly emerging economies such as China. This literature has provided evidence that host governments interfere with MNE strategy, but has usually assumed that officials differentially or corruptly apply policy in opaque ways to the advantage or disadvantage of foreign subsidiaries (Xu & Shenkar 2002; Luo 2003; Luo 2010). My study identifies a positive proactive role for local government authorities as a provider of important knowledge relevant to the decision.

9.2.4 Decision-Making Process Effectiveness

Finally, the findings provided insights into subsidiary executive perceptions of the effectiveness of subsidiary change decision-making processes. Previous IB research on this issue has been limited to a small number of studies that have identified the
importance of procedural justice (Kim & Mauborgne 1998). The interview data supports important tenets from the procedural justice literature (Kim & Mauborgne 1998). Where HQ did not have in-country China work experience, subsidiary executives were more accepting of a decision-making process where they had the opportunity to question HQ executives and provide substantial input about China institutional factors into the decision-making process. These findings also support the upper echelons theory (UET), where strategic decision-making was more effective when diverse cognitive perspectives were incorporated (Hambrick & Mason 1984; Hambrick 2007).

The findings in relation to cases where HQ executives did have in-country China work experience provided a contrasting view about subsidiary input and decision-process effectiveness. In these cases, subsidiary executives also appreciated the fact that HQ gave them an opportunity to provide input, but were less concerned about questioning HQ or whether or not this input was actually incorporated into the final decision because they felt that appropriate experience and interpretive skill resided at HQ not at subsidiaries. While the procedural justice concept of ‘fairness’ was still clearly relevant, this fairness appeared to also be about subsidiary executives’ perceptions related to whether the most appropriate knowledge was incorporated in the decision-making process rather than their capacity to question HQ.

Effectiveness of decision-making processes in subsidiaries was higher when subsidiary CEOs had cross-functional experience, economising on the costs of functional expertise conflict and maximising the integration of cross-functional knowledge and experience. Finally, effectiveness was enhanced when the subsidiary CEO had a strong track record with the parent and understood how the parent approached strategy and strategic decision-making. These factors ensured the subsidiary CEO was given a fair chance to pitch their idea, thus further supporting the procedural justice perspective (Kim & Mauborgne 1998) and providing an important link between subsidiary executive credibility and procedural justice.

9.3 Limitations and Suggestions for Future Research

There are several limitations and suggestions for future research. Although there are 19 in-depth case studies, the sample size is small. For example, for HQ-driven cases, there
were only two Group 1(b) initiatives and three Group 2 cases. Further replications are therefore required to enhance the external validity of these findings. Also, the findings emerging from this study need to be operationalized for larger scale, quantitative studies that can achieve statistical generalization.

Second, the study focused on one geographical area, Guangdong Province. It is possible that these findings, particularly those related to the role of local government in the decision-making process, may not apply to other geographical regions in China or other countries.

Third, future studies should attempt to gain a HQ perspective on the decision-making process. This study only provided a subsidiary level perspective. For HQ-driven cases particularly, subsidiary executives were not involved in identifying an opportunity/problem requiring a strategic change and the initial development of a strategic change idea. Their insights about these processes were based on the information that HQ overtly communicated to them. It is likely that many HQ decision-making details, particularly in relation to HQ-driven cases, were not captured. For example, there could have been instances where a motivation for a strategic change as expressed by HQ to subsidiary executives did not include all the rationales for an initiative and did not reveal the full range of arguments and counter-arguments.

Fourth, this study was limited to knowledge that was tabled during the decision-making process. However, it is possible that other experiences and knowledge were subconsciously incorporated. Future studies should explore these cognitive processes using cognitive and causal mapping methodologies.

Fifth, the finding in relation to HQ in-country China experience, while important needs careful interpretation. Even though the data revealed unequivocal support for the importance of this factor as perceived by subsidiary managers, they represent only the opinion of subsidiary executives. Future studies need to explore this issue in more detail. The question of why and how in-country China work experience is important or whether or not other learning mechanisms can be used by HQ to obtain this knowledge needs to be explored.
Sixth, this study identified, but did not explore in detail, the politics associated with decision-making. Future studies could explore the politics of decision-making processes in more detail.

9.4 Implications for MNE Executives

These findings provide useful insights for MNE executives, particularly in relation to understanding how subsidiary executives perceive decision-making processes associated with strategic change, particularly HQ-driven changes. The findings in relation to HQ in-country China experience have particular practical relevance. First, HQ executives that have had previous China experiences appear to be better able to win the support of subsidiary executives and gain their respect. Secondly, HQ may want to consider high level HQ executive secondments to obtain this in-country China work experience even though these secondments may be difficult due to language and culture barriers. Given the evidence in this study that very senior HQ executives play a role in these decision processes, they need to develop this understanding so they can more effectively develop and absorb China specific knowledge.

Another finding that has practical implications for HQ executives is the importance of absorbing subsidiary level knowledge, particularly when they do not have in-country China experience. When HQ executives do not take on board the perspectives of subsidiary executives, they are effectively wasting a valuable knowledge resource available to them. This requires a number of actions. First, more routines need to be established that improve communication and the relationship between HQ and subsidiary executives. Second, it makes sense that joint problem/opportunity identification routines could be established so that preliminary ideas are more in tune with HQ and subsidiary circumstances.

Importantly, the findings also suggest that HQ need to communicate better how they approach strategic decision-making such that the input provided by subsidiary executives is easier to incorporate into the decision-making process. This did not occur for a number of cases in this study.

Clearly, the data emphasize the importance of drawing on valuable informal information sources in China to identify a need or opportunity for subsidiary strategic change. Simply making an assumption that an overseas experience will apply to China or that
because something has happened in one China subsidiary, that it is also relevant to another is not an effective approach to take.

The findings also confirm a need to involve local government officials in the decision-making process. For the subsidiaries that involved government officials, they were able to develop a strategy that was supported by the government, thus avoiding problematic issues associated with a hostile relationship between the MNE and regulatory authorities.

Finally, the study provides valuable insights for subsidiary executives, emphasizing the importance of establishing a track record with HQ and understanding how the parent approaches strategic decision-making. The importance of recruiting CEOs with more CEO experience is an important insight relevant to both MNE HQ and subsidiaries.

In summary, this study has responded to the scholarly call to synthesise multiple theories for the study of process in multinational enterprises and doing so has provided in-depth insights into the complex social processes that are subsidiary strategic change decisions. The scholarly and practical conclusions and implications articulated above represent an important contribution to the field on which future research can build.
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