Subsidiary Entrepreneurship and the Advantage of Multinationality

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I. INTRODUCTION

This paper proposes a view of the advantage of multinationality based on the premise that in a complex, multiunit organisation, autonomous action at 'subsidiary' levels has strategic consequences beneficial to the organisation as a whole. From this perspective, the advantage of multinationality is that it is an organisational structure in which the possibilities for autonomous action in subsidiaries are enhanced. More specifically, we argue that, compared to sub-units of a national firm, foreign subsidiaries in an MNE are 'organisationally isolated' from the centre. Organisational isolation is likely to be greater in multinational compared to multi-unit national firms because two key mechanisms that help to provide cross-unit organisational integration, namely, replication of routines and (formal and informal) control instruments-work less effectively *across national boundaries than within the same country*. We argue that organisational isolation is beneficial to the MNE as a whole. Thus, because organisational isolation enhances the potential for entrepreneurial action by subsidiaries, it increases the likelihood of a *differentiated* set of competencies within the MNE the existence of which can counteract strategic inertia at the HQ and improve adaptive capabilities in the MNE.

In developing the argument of the paper we assume that MNE subsidiaries are established through Greenfield entry. MNE expansion through mergers and acquisition does not totally invalidate the advantage of multinationality as envisaged in this paper though it may weaken it. This is clearly a limitation of the argument proposed in the paper. We return to this issue in the concluding section of the paper. A more crucial assumption is that MNE subsidiaries and sub-units of national firms have equal support in terms of the provision of key assets by the organisation of which they are a part. It is also important to stress that the comparison is specifically with multi-unit or multi business national firms rather than with national firms in general. This comparative context is appropriate as we wish to stress the role of multinationality in counteracting the strategic inertia that may characterise large and multi-unit organisations

The remainder of the paper is organised as follows. Section II explains the conceptual basis of the argument presented in this paper. This relates to the organisational consequences of autonomous action within complex (by which we mean large, multi-unit and multi-layered) organisations. Section III provides an explanation of the basic proposition advanced in this paper, namely that, *ceteris paribus*, MNEs are subject to a greater degree of organisational isolation compared to multi-unit national firms. Sections IV and V draw out the implications of organisational isolation for subsidiaries and for the MNE as a whole. Section VI concludes the paper by pointing out the limitations and some implications of the arguments advanced in the paper

II. CONCEPTUAL BACKGROUND: ORGANISATIONAL CONSEQUENCES OF AUTONOMOUS ACTION

A number of management scholars have highlighted the relevance of exploration in the strategic activities of firms (e.g. Hedlund and Rolander 1990, March 1991, March and Levinthal, 1993). Thus whereas exploitation is the utilisation, refinement and extension of existing capabilities, exploration is the search for alternative capabilities that may underpin future exploitative potential. The value of exploratory activities is therefore that they help to create *adaptive* capabilities for the organisation. Of course, it is true that organisations cannot focus exclusively on either exploitation or exploration and that maintaining an appropriate balance between exploration and exploitation 'is a primary factor in system survival and prosperity' (March, 1991,p.71). However it is generally agreed that 'exploitation drives out exploration' (March, 1991; Levinthal and March 1993; Birkinshaw and Ridderstrale, 1999). Whilst in most organisations exploratory/adaptive capabilities could be beneficially enhanced, the question of interest to this paper is what factors may determine the exploratory potential of companies.

We suggest that the ability of 'subsidiary' units within an organisation to undertake initiatives independently of the centre is an indication of that organisation's exploratory capabilities. In this sense, exploratory capability is at least partly a consequence of the 'weakness' of the centre to control the behaviour of sub-units. In tightly controlled multi-unit organisations, the ability of sub-units to detect new ideas, develop initiatives around these ideas and hence generate new 'local' competencies is severely curtailed. In such corporations exploratory capability is likely to be low.

Linking an organisation's exploratory potential with its sub-units' ability to undertake initiative reflects the premise that exploratory initiatives are unlikely to stem from the centre.
The reason for this is that top decision-makers are likely to have a strong commitment to the firm's current concept of strategy and thus a preference for activities that are 'consistent' with it. Typically, top executives display a high degree of attachment to the *status quo* (Hambrick, et al 1993). And, as Burgelmen (1983, p. 67) suggests, because top managers have an inflexible stance in relation to current strategy, their 'capacity to deal with substantial issues pertaining to new technological and market developments can be expected to be low'. Thus even in apparently dynamic and progressively managed companies, there is a remarkable degree of inertia in official corporate strategy. Top level commitment to current strategy remains strong even when

environmental changes have eroded the value of the competencies that underlined the strategy (Burgelman 1994).

By comparison, operational and middle-level managers are naturally sensitised or exposed to exploratory stimuli because, to a large extent, the operational locus *is* where the opportunities and pressures for change are most keenly felt (Brown and Duguid 1991;Dutton , et al, 1997). Top managers are deprived from this important source of exploratory stimuli, because by the very nature of their position in the organisation, they are too distant or removed both spatially and cognitively, from the operational locus.

Furthermore, top management's inflexible adherence to the current concept of corporate strategy inevitably implies that it overlooks or even suppresses non-canonical knowledge at the 'periphery' or at the operational domain. In Burgelman's words, top managers rely 'on the structural context to bring autonomous behaviour under control' (1983.p.67). As Birkinshaw and Ridderstrale (1999) convincingly argue, corporations develop a strong 'immune system' the function of which is to repel or resist initiatives even though they may promise an improvement in performance.

Consequently, exploratory activities are often manifested as 'autonomous behaviour'- that is, strategic activities by operational and middle–level managers that are not authorised or even encouraged by top level decision–makers in the firm (Burgelman, 1983; Birkinshaw and Hood, 1998). And, given the multi-layered structure of large organisations, some leeway or opportunity is likely to exist for these managers to undertake autonomous activities unnoticed by top decision-makers. Thus some autonomous behaviour is inevitable in complex organisations.

The importance of autonomous behaviour is that new strategic directions are often charted through initiatives by the operational and middle level mangers. In fact, as Burgelman (1991;

1994) suggests, in companies where autonomous activities are strong, strategy making should not be considered purely as a prerogative of the top decision-makers. Rather, strategy making should be viewed in terms of an 'intra-organisational ecology' or internal selection environment in which autonomous initiatives *offer strategic choices to top management.* An immediate advantage of this is that considering simultaneous alternatives may reduce excessive commitment to any one strategic option. The danger that core competencies become core rigidities may be somewhat reduced (Dutton, et. al 1997, p. 408; Leonard -Barton, 1992). Furthermore, given that environmental changes will inevitably undermine the value of competencies that underpin any current strategy, the existence of alternative capabilities within the firm enhances adaptive capabilities

III. THE ADVANTAGE OF MULTINATIONALITY: THE RELEVANCE OF ORGANISATIONAL ISOLATION

A stream of recent literature has focused on the development of MNE subsidiary capabilities for strategic actions. Different authors have focussed on different manifestations of this such as competence for product development (e.g. Andersson and Forsgren, 1996; Andersson and Pahlberg 1997; Fratocchi, and Holm 1998; Forsgren et al 1999a); subsidiary mandate development (Birkinshaw, 1996; Birkinshaw and Hood, 1998); subsidiary initiatives and entrepreneurship (Birkinshaw, 1997; Birkinshaw and Ridderstrale, 1999) and subsidiary contribution to the development of firm-specific assets in MNEs (Birkinshaw et al 1998). The question of interest to this paper is whether the propensity for initiative and autonomous competence development is greater for MNE subsidiaries compared to sub-units of national firms? We believe that the answer to this question is affirmative.

The reason for this is rooted in the fact that subsidiaries are a part of an organisation that is dispersed internationally. Note that, by assumption, the advantage envisaged does not derive from *access* to the resources (such as R&D output from the centre or other units) of the MNE organisation. On the contrary, the emphasis is on the fact that, compared to a sub-unit of a national firm, the subsidiary operates in an organisational context characterised by international dispersal and, consequently, by a greater degree of organisational separation between different units. Units of the MNE are not only separated by geographical distance (which may be equally the case for national firms) but also by the fact they operate within distinct legal, political, cultural and economic domains. Any organisation whose sub-units operate in fragmented environments may be characterised by some degree of organisational 'isolation'. We define organisational 'isolation' as a condition, in which *the constraints* forcing sub-unit fidelity to organisational norms and strategies are weak. Note that the emphasis is on weak constraints. The sub-unit may choose to conform to organisational norms or strategies but the constraints are relatively ineffective. Our basic proposition is that MNEs are subject to a greater degree of 'organisational isolation' than multi-unit national firms are. The logic underlying this proposition is that, compared to national firms, MNEs are characterised to a greater extent by the following interdependent phenomena:

(i)-Incomplete control and co-ordination from the centre

(ii)- Imperfect organisational replication

III. (i) Incomplete control and co-ordination from the centre.

There is a large literature addressing control and co-ordination issues in MNEs (e.g. Eggehoff, 1988; Ghoshal and Nohira, 1989; Hennart, 1993; Nohira and Ghoshal 1994; Ghoshal, et. al. 1994; Birkinshaw and Morrison 1995; Roth and O'Donnell, 1996). The starting point of this literature is the recognition that in MNEs ‘the control problem is particularly acute’ (Hennart, 1993, p. 157). However, no study explicitly compares MNEs and national firms from the control perspective. Nevertheless, it is self-evident that the control environment facing MNEs is significantly more demanding. As will be pointed out more fully in the next sub-section, each subsidiary will operate in an environment that is increasingly ‘enacted’ by itself in terms of more extensive and intensive linkages in the host market. Holm et al (1995) have suggested that a subsidiary’s ‘network context’ is not necessarily transparent and hence the headquarters’ ability to effectively control the subsidiary is progressively compromised.

Furthermore, the MNE’s control environment is significantly more variegated than that faced by national firms. Each subsidiary presents the MNE with a somewhat differentiated control task depending on the characteristics of the environment in which it is operating and the organisational capabilities that the subsidiary possesses (Ghoshal and Nohira, 1989, Nohira and Ghoshal, 1994). Sub-units within a national firm, by comparison, operate in a relatively more homogenous environment. For MNEs greater differentiation at the subsidiary level, clearly translates to significant control-task complexity at the headquarter level.

The complexity is intensified as control is often multi-dimensional, involving not only elements of centralisation and formalisation but also ‘more subtle’ informal methods including normative integration (Martinez and Jarillio, 1989). Recent empirical analysis by Birkinshaw and Morrison (1995) indicates a high reliance on normative integration for all categories of subsidiaries. This is an interesting finding. Traditional control mechanisms–centralisation and formalisation- may be relatively ineffective and Birkinshaw and Morrison’s finding may indicate the gradual recognition of this by the MNE. As Sundram and Black (1992) note, an MNE is affected by multiple sources of external (legal and political) authority while all sub-units of a national firm reside within a single external authority domain. Consequently, the parent in a multi-unit national firm would be less constrained in imposing conformity to organisational goals by sub-units, as long as the rules external authority allows such imposition. On the other hand, the ability of the MNE parent to demand or impose conformity to organisational goals is constrained by the fact that the sub-units reside in different legal and political domains. This has an important implication for control mechanisms in MNEs. In particular, it may be *impossible* for the parent to force all subsidiaries to implement centrally made decisions that run counter to pressures in the host country. Thus, within an MNE, the prevalence of socialisation as a co-ordination mechanism 'may substitute for the void in the superstructure to mediate conflicts' (Sundram and Black, 1992,p..).

Broadly speaking, the control literature has been concerned with determining the 'right' or 'optimal' degree of control and the appropriate mix of instruments to achieve it. The relevant point, from the perspective of this paper, is that the MNE will inevitably experience a residual degree of control 'gap'. Whilst in any complex system the 'optimal' degree of control falls short of complete control (reflecting rising marginal control cots), it is likely that this residual is *greater in an MNE* than in a comparable (in terms of size, number of sub-units, business activity etc) national firm. Furthermore, it is reasonable to suggest that a subsidiary of an MNE has more opportunity for utilising a given level of 'control gap' than a sub-unit of a national company. The MNE subsidiary can, more easily than a sub-unit of a national firm, engage in an 'unauthorised' initiative that is oriented towards the local market and external networks. The process of developing such initiatives is more likely to remain 'hidden' from the centre until it is a *fait accompli* (Birkinshaw, 1996; Birkinshaw and Ridderstrale, 1999).

III. (ii)- Imperfect organisational replication and the development of subsidiary capabilities.

Kogut and Zander (1993) note that the ‘cornerstone’ of their evolutionary approach to the theory of the MNE is the ‘treatment of the firm as a social community whose productive knowledge defines a comparative advantage’ (p.625-626). However, precisely because a firm is a social community, its extension across *national boundaries* must be particularly problematic as national boundaries demarcate different societal arrangements. In fact this is reasoning behind the Uppsala model of internationalisation in which ‘psychic distance’ between countries is the main obstacle to the rapid expansion of foreign operations. More recent analyses articulate a similar logic. For example Kogut (1991) and Kostova (1999) argue that ‘organisational principles’ and ‘strategic organisational practices’ are deeply embedded both locationally and organisationally and hence are relatively immobile compared to well packaged or embodied technologies (see also Badaracco, 1991; Sölvell and Zander, 1998).

More generally, as Nelson and Winter (1982) have pointed out, the feasibility of close (let alone perfect) organisational replication is quite problematic. Replication is practically always partial. Organisational routines, it may be said, do not ‘travel’ well. Knowledge, and more generally routines that are transferred to the subsidiary by the parent lose some of their value and effectiveness simply because they are largely context dependent (Madhok, 1997). Significantly, Nelson and Winter (1982) note that routines ‘have their clearest relevance at the establishment level’ and that ‘the memory of an organisation that comprises many *widely separated establishments* exists mainly in the establishments’ (p, 97, emphasis added). If ‘widely separated establishments’ are located in different countries, then it is only reasonable to assume that the original, replicated routines only provide a rather weak ‘glue’ for coupling or binding the different establishments (see also Kilduff, 1992,1993). The work of Szulanski (1996) is also useful in this context. His empirical investigation indicated that internal transfers of best practices are mainly impeded by three factors: 'causal ambiguity' (of knowledge to be transferred), lack of 'absorptive capacity' by the recipient and 'arduous' relationship between the source and the recipient. The last factor may be particularly relevant in the present context; internal transfers, of routines (e.g. best practices) across national boundaries (within MNEs) may, other things being equal, encounter a more 'arduous context' than internal transfers within a national firm. Furthermore, it is important to consider the possibility that subsidiaries cannot be merely *passive* recipients of routines. In fact, precisely because initial organisational replication from the parent to the subsidiary is imperfect and incomplete, a process may be triggered that propels the long-term development of the subsidiary. Because subsidiaries inevitably inherit an incomplete 'template', they are *forced* to engage in a process of searching for markets and other knowledge about the local environment. This knowledge, due to its often tacit, localised and experiential nature, will not be transparent to the parent and could not thus have been given to the subsidiary 'at birth'. Incomplete replication makes it imperative that the subsidiary establishes external (to the MNE) avenues for attracting additional resources, particularly from its host environment and consequently it may well develop linkages with various information, finance, technology and production oriented networks in the host country. Thus 'embeddedness' in external networks may be viewed as a deliberate compensation strategy by the subsidiary to 'anchor' itself onto a significant resource base.

IV. IMPLICATIONS OF ORGANISATIONAL ISOLATION FOR SUBSIDIARIES

The discussion in section III suggests that, compared to subs-units of a national company, MNE subsidiaries are more likely to develop an 'entrepreneurial' orientation. One consequence of weak organisational ties is that sub-units have greater search opportunities and tend to be more adaptive than sub-units in tightly coupled organisations (Hansen, 1999). More specifically, Birkinshaw (1997) identifies three aspects of an entrepreneurial orientation: 'a predisposition to proactive or risk- taking behaviour', 'use of resources beyond the individual's direct control' and 'departure from existing practices' (1997, p. 208).

We argue that the subsidiary's isolation from the rest of the MNE forces it to behave in ways similar to the above descriptions. For example, seeking linkages with local networks is essentially proactive and risk-taking behavior for a foreign subsidiary, and it is in part motivated by gaining access to or benefiting from resources at present outside its control.). In this sense, embeddedness of a foreign subsidiary is qualitatively different when compared to that of 'native' companies. For a foreign subsidiary embeddedness is an *induced and proactive* process rather than a passive or 'natural' one. It signals a highly active stance with respect to the local environment in which the subsidiary finds itself. Finally, 'departure from existing practices' is, at least initially, what a subsidiary has to do to survive. This is simply the logical implication or consequence of imperfect organisational replication. It is also relevant that compared to sub-units of a national firm, a foreign subsidiary has (or, more accurately, gradually gains) greater independence to do what it has to.

Moreover, compared to its national competitors, a subsidiary's development is inevitably shaped by dual influences from the host environment and the MNE organisation (Rosenweig and Singh, 1991, Westney, 1993). A degree of diversity is 'built-in' in the perspective of the subsidiary. It is therefore less at risk of becoming too 'acculturated' or socialised into the host environment or to the MNE system and hence losing the entrepreneurial edge (March 1991, Levinthal and March, 1991, Levinthal and March 1993).

In summary, compared to a sub-unit of a national firm, an MNE subsidiary: (a) has a higher degree of organisational freedom to undertake initiatives, (b) by virtue of its *foreignness* it faces greater pressure to develop capabilities appropriate to its local market and the various networks in which it needs to operate effectively and (c) by virtue of its membership of an *internationally dispersed organisation* it has a more diverse perspective (in terms of markets, technologies and networks) that may enhance its ability to define and develop initiatives. Thus, tentatively we can put forward the following hypothesis:

Hypothesis 1: Compared to sub-units of a national firm MNE subsidiaries will display a greater degree of entrepreneurial orientation.

Will a foreign subsidiary also have an innovative advantage over its national competitors? To a certain degree, of course, entrepreneurial and innovative processes do overlap. To the extent that entrepreneurship is a precursor of innovation, the foreign subsidiary will perceive greater opportunities for innovation in a given environment compared to sub-units of national firms. Furthermore the subsidiary's linkages with exchange partners in production and technology networks tend to boost its innovative capabilities. (Andersson, and Forsgren, 1996, Andersson and Pahlberg, 1997, Forsgren, et al., 1999a). Clearly, membership in local networks also gives the subsidiary a degree of independence from the rest of the corporate system (Forsgren and Pahlberg, 1992; Andersson and Pahlberg, 1997) and such independence also reinforces the subsidiary's ability to devote resources to its innovative projects. There are clearly a number of other factors that will effect innovative success. For example, the importance attached to customer or user needs, and the effective co-ordination of R&D activities with marketing and production are widely recognised as important to innovative success. However there is no analytical reason to expect that multinationality as such will affect these factors very strongly one way or another. Thus, given the aforementioned advantages that may be enjoyed by foreign subsidiaries, we put forward the following hypothesis:

Hypothesis 2:Compared to sub-units of a national firm, MNE subsidiaries will have a greater ability to undertake innovation successfully.

V. IMPLICATIONS OF ORGANISATIONAL ISOLATION FOR THE DEVELOPMENT OF THE MNE AS A WHOLE.

The concept of organisation isolation suggests that the MNE is likely to develop into differentiated system, and that the degree of differentiation and sub-unit diversity within MNEs is, *ceteris paribus*, greater than in national firms. Initially, of course, subsidiary capabilities are limited and rely totally on technological and other skills transferred from the parent. In a 'young' MNE therefore there may be little differentiation. However, the evolution of each subsidiary reflects a unique combination of market, technological and institutional influences that give the subsidiary distinctive market and technological capabilities. By comparison sub-units of a national firm will have capabilities more closely *tied* to that of the parent unit and thus the national firm will display a lower degree of differentiation in terms of competencies.

Recent work by Zander (1998; 1999) provides interesting evidence on the pattern of technological differentiation within MNEs. He identifies four patterns for Swedish MNEs reflecting different combinations of technological duplication and diversification. Duplicated capabilities refer to subsidiary capabilities in the same broad field as the parent. It is important to note that 'duplication' of technological capabilities does not imply the absence of differentiation within the MNE. As Zander (1998) notes, subsidiaries with duplicated capabilities have evolved unique competencies in adapting, developing and upgrading it. Furthermore, Zander (1999, Figure 3) suggests that most MNEs included in his study have been evolving towards increasing technological diversification and dispersal whereby subsidiaries have developed technological competencies in different direction from those of the parent unit.

The existence of differentiated competencies within the MNE suggests that it should be viewed as a *federation* rather than as a unitary system (Ghoshal and Bartlett, 1993) in which the possibilities for inter-unit transfers are relatively limited. Limited intra-MNE transferability results from exactly the same considerations that make subsidiary competencies differentiated in the first place. Thus even though the subsidiary's capabilities may be based on technological and market skills inherited from the parent, subsequent development will be increasingly shaped by the subsidiary's attempt to meet the market and competitive challenges in the host country or in its regional /global mandate areas. From the point of view of the subsidiary, it becomes more important to nurture local/ regional relationships by tailoring innovation to customer needs than to produce less customised, or more 'standardised' products that may also be of interest to other units within the MNE as a whole.

Low network transferability could be interpreted as implying that subsidiary competencies have only a limited value for the MNE as a whole (Forsgren, 1997). This is a valid inference in the context of the MNE's *current or dominant* strategy and in relation to the set of competencies that underpin this strategy. From this perspective, subsidiary competencies will tend to be highly valued by the centre only if they can be utilised to support company-wide products and technologies. Subsidiary competencies that do not easily fit into the MNE's current strategy may impose extra control and co-ordination costs on the MNE.

However, from the point of view of the MNE's adaptive capabilities- its ability to replace current competencies- low transferability may be an advantage. For the MNE as a whole, low transferability does imply that, (some) subsidiary competencies are currently partially 'redundant' as they are utilised only locally, with limited intra-MNE transfers. However such redundancy can be a dynamic advantage in a rapidly changing environment. The deliberate creation of spare capacity has long been recognised as an important competitive instrument in oligopolistic markets (e.g. Steindl, 1976; Spence, 1977). In an MNE, 'spare capacity'; in form of differentiated but under-utilised competencies within subsidiaries is an unintended consequence of organisational isolation. Low network transferability is a necessary condition for the maintenance of differentiation and diversity within the MNE. If it were the case that knowledge transfers across national boundaries were totally smooth and 'un-sticky', the organisational differentiation that is characteristics of MNE would itself be gradually eroded. In this sense, organisational isolation helps both to generate and maintain differentiation within the MNE. In terms of Burgelman's (1991) analysis, this means that the MNE possesses a richer internal selection environment. The existence of differentiated competencies potentially provides the MNE with a wide range of strategic choices. If major technological or market changes undermine the value of the MNE's currently dominant technology, then alternative proven competencies, which can become the basis of a new strategic direction for the MNE may well exist within the network. In particular, subsidiaries that have successfully gained global mandates through their own initiatives will have broadly-based competencies that can underpin a new strategic direction for the MNE as a whole (Birkinshaw et al, 1998). Such transformation is by no means an easy process, a fact confirmed by recent case studies (Burgelman 1994; Macnamara and Baden Fuller, 1999). But the prior existence of a wider range of alternative competencies within an MNE compared to a national firm gives the former a potential advantage. A major obstacle facing organisational renewal is the risk associated with abandoning current competencies when new competencies are not fully operational (Macnamara and Baden Fuller; 1999; Kogut and Zander, 1992). This risk is clearly attenuated in an MNC to the extent that it may avoid the need to generate wholly new competencies. In this sense, it can be said that organisational isolation may enhance the survival prospects of an MNE.

VI. CONCLUDING REMARKS

This paper has argued that a key advantage of multinationality is that its dispersed structure *inadvertently* creates conditions conducive to entrepreneurial and innovative activities by the subsidiaries. This is a valued characteristic of the MNE as a generic organisational form if one accepts (a) the view that, the hierarchical structure of large firms tends to frustrate entrepreneurial and innovative activities at the 'periphery' and (b) that this is an undesirable outcome. The notion that in most organisations, 'exploitation drives out exploration' holds that both these statements are true. From this perspective, the advantage of multinationality can be captured in the following statement*: multinationality evens out the odds between exploitative and exploratory aspects of firm activities*.

It is important to stress that the conclusion of this paper is based on a particular organisational attribute of MNEs. Thus we envisage 'isolation' as a structural attribute of a multi-unit organisation the impact of which *ceteris paribus*, is to weaken the constraints on sub units. A limitation of the analysis is that we have not considered managerial processes or policies. Clearly managerial authority can in principle be used to counter (or, of course, reinforce) the impact of isolation. It is always possible for the centre to create monitoring structures and control devices to enforce a high degree of conformity by sub-units. This can extend to limiting the degree and scope of subsidiary initiatives. However whilst it is clearly feasible for the centre to impose a tight control regime, the logic of organisation isolation suggest that this can only be achieved at great costs in terms of the amount of time and effort that headquarter managers would need to devote to the control function.

Another limitation of our analysis is the assumption that all subsidiaries are greenfields. This is clearly unrealistic as perhaps a majority of subsidiaries are formed through acquisition of local firms. Furthermore, it is less clear analytically whether acquired subsidiaries would be more entrepreneurial than national sub-units. On the one hand, acquired subsidiaries can be at least as autonomous as greenfield subsidiaries. Furthermore, the fact that acquired subsidiaries operate in an internationally dispersed organisation may widen subsidiary management outlook and thus sharpen their entrepreneurial edge. On the other hand, the pressure to acquire new local skills and relationships-a key driver for subsidiary entrepreneurship-would be lacking in the case of acquired subsidiaries. Overall it would seem that for MNE systems that have expanded through acquisition, the advantage we have envisaged is certainly weakened. This suggests that the proposition of this paper should be modified to state that organisational isolation creates an advantage for organically expanded MNEs.

One implication of the analysis deserves mention. Traditionally the multinational has been viewed as an institution for the international transfer of knowledge from the centre. Subsidiaries embody advantages generated by the parent and this more than compensate the disadvantage of foreignness. More recently the multinational is viewed as an institution not only for the international transfer of knowledge but also for international generation of knowledge.

The analysis of this paper suggests an additional function of multinatioality- to encourage sub units to innovate locally. To the extent that such innovations reflect the host economy’s resource structure and institutions, multinationality may be viewed as helping to stimulate the local economy's innovative potential. A related implication is that multinationality actually accentuates technological and innovative diversities across nations rather than generating homogeneity.

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