

# **PERCEPTION GAPS CONCERNING SUBSIDIARY ROLES – A REVIEW OF THE LITERATURE AND DIRECTIONS FOR FUTURE RESEARCH**

## **Abstract**

Roles of subsidiaries within network MNCs have been addressed by many empirical and conceptual contributions. Headquarters and subsidiary managers may have differing perceptions of a subsidiary's role. However, this issue has been largely neglected in IB literature. This contribution aims at highlighting the relevance of more systematic research on perception gaps concerning subsidiary roles within network MNCs. Literature on perception gaps is reviewed and integrated in a comprehensive framework which refers to potential future research questions. Finally, suggestions for further research are described in terms of content, theoretical development and methodology.

## **Key Words**

Subsidiary Roles, Perception Gaps, Network MNC, Headquarters-Subsidiary-Relationship

# **1 Introduction**

Many approaches in IB literature view multinational corporations (MNCs) as intra-organizational networks. MNCs are no longer regarded as hierarchically structured with headquarters as the single centre of resources and power. Terms such as “heterarchy” (Hedlund, 1986, p. 9), multifocal “diversified multinational corporation” (Prahalad & Doz, 1987, p. 1) and “transnational company” (Bartlett & Ghoshal, 1991) were coined in order to describe network MNCs which rather resemble a “coalition of interests” (Forsgren, 1989, p. 6).

In heterarchically organized network MNCs, some subsidiaries assume more prominent positions than in traditional models of MNCs (Paterson & Brock, 2002). Horizontal relationships gain importance compared to vertical relationships (White & Poynter, 1989). Since competencies and capabilities are assumed to be widely dispersed within the MNC, different organizational units are highly interdependent. Relationships between headquarters and subsidiaries as well as between individual subsidiaries are characterized by significant reciprocal flows (Authors, 2003). Such flows may consist of material resources such as products, capital and people as well as of immaterial resources, including information, trust, values, power and knowledge (Authors, 2002; Randøy & Li, 1998).

In line with Bartlett and Ghoshal who criticise MNCs for treating all their subsidiaries in the same way, network approaches do not consider subsidiaries to be equal (Bartlett & Ghoshal, 1986). Subsidiaries in network MNCs can take on highly differentiated roles and fulfil different functions for the entire MNC or for important parts of the MNC (Authors, 2004). They may carry out different activities and focus on diverse steps of the value chain (Bartlett & Ghoshal, 1986; Ghoshal & Nohria, 1989). Due to their internal resources, their relationships with other units of the MNC or conditions in the local business context in which they are em-

bedded, subsidiaries can even acquire the status of centres of excellence (Ambos & Reitsperger, 2004; Andersson & Forsgren, 2000; Authors, 2003; Frost et al., 2002). As a result, subsidiaries can exert considerable influence on decisions and actions of the entire MNC (Authors, 2003).

The notion of differentiated subsidiary roles has inspired a considerable amount of conceptual work as well as empirical research. However, one aspect that most authors have neglected is the question whether headquarters and subsidiary managers perceive a certain subsidiary's role in the same way. While a number of factors can be expected to lead to different perceptions of the role on the two sides (Birkinshaw et al., 2000, p. 328; Chini et al., 2005, p. 146), the possibility that perception gaps between headquarters and subsidiary managers concerning the subsidiary's role may exist, has received only limited attention in the literature (for some exceptions, see Arvidsson, 1999; Asakawa, 2001; Birkinshaw et al., 2000; Chini et al., 2005; Denrell et al., 2004).

The question whether headquarters and subsidiaries perceive subsidiary roles identically bears relevance for researchers as well as for practitioners. For pragmatic reasons, researchers studying subsidiary roles often rely only on headquarters' or only on the subsidiary's point of view (Arvidsson, 1999, pp. 32-41). If headquarters and subsidiary managers tend to perceive certain aspects of the subsidiary's role differently, this should be considered in the research process. Researchers should acknowledge that information provided by one unit may not reflect another unit's view on the same topic. From a practitioner's point of view, potential consequences of perception gaps are relevant: the smooth and effective functioning of organizational activity in network MNCs requires that all units have the same perception of their role within the network.

This contribution will focus on the issue of subsidiary role perception within network MNCs. We will first give a short overview of research regarding subsidiary roles (section 2), before we will focus on perception gaps (section 3). A number of general arguments why perception gaps concerning subsidiary roles could be expected will be presented and research on perception gaps between headquarters and subsidiary managers will be reviewed. The existing studies will be integrated in a comprehensive framework. Finally, in section 4 we will present important suggestions for future research.

## **2 Subsidiary Roles**

Research on subsidiary roles signifies a turn in the literature on headquarters-subsidiary relationships (Birkinshaw & Hood, 1998a, pp. 6-7). The emphasis shifted from headquarters and the control relationship between headquarters and subsidiary towards the subsidiary as a unit of analysis (Paterson & Brock, 2002, p. 142). The subsidiary now is considered as an important node within the intra-organizational network of multilateral relationships between headquarters and subsidiaries.

A subsidiary's role within this network constitutes a complex and multi-faceted concept that can be viewed from different perspectives. Subsidiary roles are often regarded as determined by three interacting mechanisms: headquarters assignment of roles, the subsidiary's own role definition and constraints and opportunities in the local market (Birkinshaw & Hood, 1998b, p. 775; Hood & Taggart, 1999, p. 515). The resulting role can be seen as a "negotiated position that is to some degree understood jointly between HQ [headquarters] and subsidiary managers" (Birkinshaw et al., 2000, p. 324). Usually, the two sides do not formally decide on a specific role, but the agreement is rather implicit.

In order to structure the field of subsidiary roles and to provide a certain orientation, several authors have developed subsidiary role typologies which reduce the number of possible subsidiary roles to few types (e.g. Gupta & Govindarajan, 1991; White & Poynter, 1984; for an overview Authors, 2004). Authors typically select two or three dimensions along which subsidiaries can vary and which they consider central with regard to the subsidiary's role. Different authors regard diverse influencing factors relevant and therefore focus on distinct dimensions. The role types result as a combination of the extreme values of the individual dimensions. Empirical research confirms the assumption that subsidiaries can be differentiated according to their role (e.g., Birkinshaw & Morrison, 1995; Harzing & Noorderhaven, 2006; Jarillo & Martinez, 1990; Young et al., 1988). Table 1 summarizes subsidiary role typologies which have become prominent in IB literature.

	<b>Dimensions</b>	<b>Roles</b>	<b>Empirical Base</b>	<b>Geographic Scope of the Empirical Study</b>
<b>White &amp; Poynter, 1984</b>	<ul style="list-style-type: none"> <li>- Market Scope</li> <li>- Product Scope</li> <li>- Value Added Scope</li> </ul>	<ul style="list-style-type: none"> <li>- Miniature Replica</li> <li>- Marketing Satellite</li> <li>- Rationalized Manufacturer</li> <li>- Product Specialist</li> <li>- Strategic Independent</li> </ul>	<ul style="list-style-type: none"> <li>- More qualitative empirical base</li> <li>- About 35 subsidiaries, about 7 in depth</li> </ul>	Subsidiaries from Canada (HQ probably in the U.S.)
<b>D'Cruz, 1986 I</b>	<ul style="list-style-type: none"> <li>- (Annual Business Plans)</li> <li>- (Strategic Plans)</li> </ul>	<ul style="list-style-type: none"> <li>- Truncated Business</li> <li>- Miniature Replica</li> <li>- Mature Non-Strategic Subsidiary</li> <li>- Strategically Managed Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Personal interviews</li> <li>- 47 subsidiaries</li> </ul>	Subsidiaries from Canada (HQ probably in the U.S.)
<b>D'Cruz, 1986 II</b>	<ul style="list-style-type: none"> <li>- Decision-Making Autonomy</li> <li>- Extent of Market Involvement</li> </ul>	<ul style="list-style-type: none"> <li>- Importer</li> <li>- Satellite Business</li> <li>- Local Service Business</li> <li>- Branch Plant</li> <li>- World Product Mandate</li> <li>- Globally Rationalized Business</li> </ul>	<ul style="list-style-type: none"> <li>- Case study</li> <li>- 1 subsidiary</li> </ul>	Subsidiary from Canada (HQ in the U.S.)
<b>Bartlett &amp; Ghoshal, 1986, 1991</b>	<ul style="list-style-type: none"> <li>- Strategic Importance of Local Environment</li> <li>- Competence of the Local Organization</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic Leader</li> <li>- Contributor</li> <li>- Implementer</li> <li>- Black Hole</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 618 subsidiaries of 66 parent companies</li> </ul>	Localization of the subsidiaries not indicated (HQ in North America and Europe)

<b>Marcati, 1989</b>	<ul style="list-style-type: none"> <li>- (Level of coordination)</li> <li>- (Dependence from HQs)</li> </ul>	<ul style="list-style-type: none"> <li>- Bridgehead Subsidiary</li> <li>- Fragmented Subsidiary</li> <li>- Connected Subsidiary</li> <li>- Loose Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 14 subsidiaries</li> </ul>	Subsidiaries from the U.S. (HQ in Italy)
<b>Ferdows, 1989, 1997</b>	<ul style="list-style-type: none"> <li>- Primary Strategic Reason for the Site</li> <li>- Extent of Technical Activities at the Site/Site Competence</li> </ul>	<ul style="list-style-type: none"> <li>- Off-Shore</li> <li>- Source</li> <li>- Server</li> <li>- Contributor</li> <li>- Outpost</li> <li>- Lead</li> </ul>	<ul style="list-style-type: none"> <li>- Case studies</li> <li>- First 8, then 10 international firms in the electronic industry with their subsidiaries</li> </ul>	Subsidiaries mainly from Europe (HQ in North America, Europe and Japan)
<b>Jarillo &amp; Martinez, 1990</b>	<ul style="list-style-type: none"> <li>- Degree of Localization</li> <li>- Degree of Integration</li> </ul>	<ul style="list-style-type: none"> <li>- Autonomous Subsidiary</li> <li>- Receptive Subsidiary</li> <li>- Active Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Structured personal interviews</li> <li>- 50 subsidiaries</li> </ul>	Subsidiaries from Spain (HQ in North America, Japan and Europe)
<b>Hoffman, 1994</b>	<ul style="list-style-type: none"> <li>- MNC Strategy</li> <li>- Subsidiary Capabilities</li> <li>- Local Environment of the Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Partner</li> <li>- Contributor</li> <li>- Specialist</li> <li>- Satellite</li> <li>- Independent</li> <li>- Interdependent</li> <li>- Implementer</li> <li>- Isolate</li> </ul>	<ul style="list-style-type: none"> <li>- Empirical (secondary) cases only for illustrative purpose</li> <li>- 8 subsidiaries</li> </ul>	Subsidiaries from countries all over the world (HQ in the U.S., Europe and Japan)
<b>Taggart, 1997a I</b>	<ul style="list-style-type: none"> <li>- Degree of Local Responsiveness</li> <li>- Degree of Integration</li> </ul>	<ul style="list-style-type: none"> <li>- Autonomous Subsidiary</li> <li>- Receptive Subsidiary</li> <li>- Constrained Independent</li> <li>- Quiescent Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 171 subsidiaries</li> </ul>	Subsidiaries from the UK (localization of HQ not indicated)
<b>Taggart, 1997b II</b>	<ul style="list-style-type: none"> <li>- Autonomy</li> <li>- Procedural Justice</li> </ul>	<ul style="list-style-type: none"> <li>- Vassal Subsidiary</li> <li>- Militant Subsidiary</li> <li>- Collaborator Subsidiary</li> <li>- Partner Subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 171 subsidiaries</li> </ul>	Subsidiaries from the UK (localization of HQ not indicated)
<b>Taggart, 1998 III</b>	<ul style="list-style-type: none"> <li>- Coordination of Activities</li> <li>- Configuration of Activities</li> </ul>	<ul style="list-style-type: none"> <li>- Autarchic Subsidiary</li> <li>- Detached Subsidiary</li> <li>- Confederate Subsidiary</li> <li>- Strategic Auxiliary</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 171 subsidiaries</li> </ul>	Subsidiaries from the UK (localization of HQ not indicated)
<b>Gupta &amp; Govindarajan, 1991, 1994</b>	<ul style="list-style-type: none"> <li>- Outflow of Knowledge</li> <li>- Inflow of Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>- Local Innovator</li> <li>- Global Innovator</li> <li>- Implementer</li> <li>- Integrated Player</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 359 subsidiaries of 79 parent companies</li> </ul>	Localization of subsidiaries not indicated (HQ in the U.S., Japan and Europe)
<b>Birkinshaw &amp; Morrison, 1995</b>	<ul style="list-style-type: none"> <li>- (Market Scope)</li> <li>- (Product Scope)</li> <li>- (Value Added Scope)</li> </ul>	<ul style="list-style-type: none"> <li>- Local Implementer</li> <li>- Specialised Contributor</li> <li>- World Mandate</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 115 subsidiaries</li> </ul>	Subsidiaries from the U.S., Canada, UK, Germany, France and Japan (localization of HQ not indicated)
<b>Forsgren &amp; Pederesen, 1996, 1997</b>	<ul style="list-style-type: none"> <li>- Corporate Embeddedness</li> <li>- External Embeddedness</li> </ul>	<ul style="list-style-type: none"> <li>- Independent Centre</li> <li>- External Centre</li> <li>- Internal/Corporate Centre</li> <li>- Strategic Centre</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 60 subsidiaries</li> </ul>	Subsidiaries from Denmark (HQ worldwide)

<b>Nobel &amp; Birkinshaw, 1998</b>	<ul style="list-style-type: none"> <li>- Nature of Activities</li> <li>- Geographic Scope</li> <li>- Linkages to other Entities</li> </ul>	<ul style="list-style-type: none"> <li>- Local Adaptor</li> <li>- International Adaptor</li> <li>- International Creator</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 110 subsidiaries of 15 parent companies</li> </ul>	Subsidiaries from Sweden and outside of Sweden (HQ in Sweden)
<b>Surlemont, 1998</b>	<ul style="list-style-type: none"> <li>- Domain of Influence</li> <li>- Scope of Influence</li> </ul>	<ul style="list-style-type: none"> <li>- Dormant Centre</li> <li>- Administrative Centre</li> <li>- Strategic Centre of Excellence</li> <li>- Global Headquarters</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- Number of subsidiaries not indicated</li> </ul>	Subsidiaries from Belgium (HQ worldwide)
<b>Randøy &amp; Li, 1998</b>	<ul style="list-style-type: none"> <li>- Outflow of Resources</li> <li>- Inflow of Resources</li> </ul>	<ul style="list-style-type: none"> <li>- Resource Independent</li> <li>- Resource Provider</li> <li>- Resource User</li> <li>- Resource Networker</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- Aggregated data from 25 industries</li> </ul>	Direct investments in the U.S. from all over the world
<b>Benito et al., 2003</b>	<ul style="list-style-type: none"> <li>- Scope of Activities</li> <li>- Level of Competence</li> </ul>	<ul style="list-style-type: none"> <li>- Miniature Replica</li> <li>- Single-Activity Unit</li> <li>- Highly Specialised Unit</li> <li>- Strategic Centre</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 728 subsidiaries</li> </ul>	Subsidiaries from Denmark, Finland, Norway (HQ worldwide)
<b>Papanastassiou &amp; Pearce, 2005</b>	<ul style="list-style-type: none"> <li>- (Scope of Activities)</li> <li>- (Integration)</li> </ul>	<ul style="list-style-type: none"> <li>- Support Laboratory 1</li> <li>- Support Laboratory 2</li> <li>- Locally Integrated Laboratory</li> <li>- Internationally Interdependent Laboratory</li> </ul>	<ul style="list-style-type: none"> <li>- Questionnaire</li> <li>- 48 subsidiaries</li> </ul>	Subsidiaries from UK (HQ in the U.S., Japan and Europe)

Table 1: A Comparison of Role Typologies (extension of Authors, 2004).

In IB literature, subsidiary role typologies have contributed to the change in perspective towards the subsidiary. They highlight the fact that there is not only one type of subsidiaries, but many different types depending on the focus chosen (Authors, 1998). The role typologies, however, are not an end in themselves. They can indicate appropriate designs for the relationships of individual subsidiaries with other network partners. For instance, some authors formulate a relationship between subsidiaries' roles and ways how they can be controlled and coordinated accordingly (Gupta & Govindarajan, 1991). Several caveats, however, are associated with the role typologies. One caveat concerns the selection of the typologies' dimensions. Since authors, in general, do not ground their typologies of subsidiary roles in (organizational) theory, the selection of dimensions seems rather arbitrary. While each typology has

a certain focus and takes a certain perspective, there is always a large range of other possible subsidiary role dimensions (Authors, 1998).

Furthermore, subsidiary roles are no static categories but can evolve over time (see for instance the contributions in Birkinshaw & Hood, 1998c). Subsidiaries can develop new capabilities, be granted more autonomy or receive responsibility for a larger market. Referring to foreign factories, Ferdows, for instance, emphasizes the potential benefits for MNCs from continuously developing these foreign factories. Depending on the initial role, there is a clear path for upward movement in the factories' strategic role (Ferdows, 1989, 1997). However, subsidiaries' capabilities can also deteriorate or fall behind market requirements so that responsibilities can consequently be lost (Birkinshaw, 1996; Galunic & Eisenhardt, 1996).

So far, we followed the general presumption that certain subsidiary roles do exist. However, subsidiary roles are often not explicitly defined, but rather represent a certain idea of a subsidiary's position within an MNC. Consequently, subsidiary roles are not objective and easy to grasp, but depend on the subjective perception of different parties. In the next section, we will therefore turn to the issue of subsidiary role perception and particularly focus on perception gaps between headquarters and subsidiary.

### **3 Perception Gaps**

#### **3.1 Perception Errors and Perception Gaps**

Perception can be defined as a "set of processes by which we recognize, organize, and make sense of the sensations we receive from environmental stimuli" (Sternberg, 2006, p. 111). While there are different approaches to perception, it is generally accepted that perception



does not objectively reflect reality.<sup>1</sup> Instead, it is always at least to some degree subject to interpretation. First of all, perception is influenced by subjective experiences and expectations. Second, systematic variations of human perception are due to the use of heuristics and the effect of biases (Tversky & Kahneman, 1982).

Two situations can be distinguished; we refer to them as “perception errors” and “perception gaps”. On the one hand, individual perceptions may differ from objective reality which can be considered a perception error. Starbuck and Mezias, for instance, examine the accuracy of perceptions that managers have about their organizations and the organizational environment (Mezias & Starbuck, 2003; Starbuck & Mezias, 1996). Their studies confirm the prevalence of perception errors concerning organizational as well as environmental properties (for instance, sales volumes of managers’ own units or developments in the industry). On the other hand, individuals may not identically perceive socially constructed variables for which no counterpart in the objective reality exists. Rather than to speak of “perception errors” due to their subjective character it is more apt to refer to “perception gaps” between the subjective representations of different individuals (Arvidsson, 1999). Such perception gaps were found in a variety of studies. Examples include managers’ and non-managers’ perceptions of an organization’s mission statement (Desmidt & Heene, 2007), employees’ and customers’ perceptions of functional and relational service quality (Peiró et al., 2005) and managers’ and accountants’ perceptions of managers’ information needs (Pierce & O’Dea, 2003). These examples constitute instances where both sides look upon the same issue from a different point of view and thereby construct a different picture of reality.

Headquarters and subsidiary managers’ diverse perspectives with regard to subsidiary roles provide a similar case. Various factors, such as different experiences of headquarters and sub-

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<sup>1</sup> Constructivists, of course, assume that objective reality does not exist but that all perceptions are subjective constructions of reality (e.g. Berger & Luckmann, 1966). This contribution will, however, not elaborate on

subsidiary managers, certain motives and ambitions, imperfect flow of information within the MNC and decreasing dependence of subsidiaries on headquarters could be expected to lead to different perceptions on the two sides (Birkinshaw et al., 2000, p. 328; Chini et al., 2005, p. 146). In the next paragraphs, studies will be presented which focus on perception gaps between headquarters and subsidiary managers with regard to subsidiary roles or individual aspects of such roles.

### **3.2 Perception Gaps in International Business Literature**

Perception gaps between headquarters and subsidiary managers can generally emerge with regard to diverse issues which depend on subjective judgement. Although the fact that headquarters and subsidiary managers may perceive certain issues differently has been widely acknowledged (Arvidsson, 1999, pp. 32-41), the phenomenon ‘perception gaps’ is addressed by very few studies within IB literature. These studies will be briefly summarized in chronological order. Particular attention will be given to the perceived issue, factors influencing perception gaps and their consequences.

#### *Arvidsson (1999)*

Niklas Arvidsson’s PhD thesis provides the first example of a contribution explicitly devoted to the study of headquarters-subsidiary perception gaps.<sup>2</sup> The issue emerged in a research project on knowledge management and knowledge transfer in MNCs in which it was found that headquarters managers and subsidiary managers do not perceive the capabilities subsidiaries

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this philosophical position.

<sup>2</sup> The contribution by Holm et al., 1995, is not included in this overview although the study compares headquarters and subsidiary perceptions. This decision was taken for two reasons. First, the study compares headquarters’ and the subsidiary’s assessment of the subsidiary’s business network context. The authors assume that this network context “is a matter of the judgment of the subsidiary managers who are directly engaged in it” (Holm et al., 1995, p. 109). This implies that rather than studying perception gaps, this contribution regards the subsidiary’s perspective as benchmark and analyzes the correctness of headquarters know-

possess in the same way. Arvidsson draws on theories of social perception (Cyert & March, 1963; Heider, 1958; Kelley, 1967) in order to derive possible factors influencing perception gaps. He examines the following factors: managers' "access to relevant information", "attention to information" and "interpretation of information" (Arvidsson, 1999, pp. 92-93). In Arvidsson's empirical study, selective attention to information is the only one of these variables that shows a significant effect on perception gaps (Arvidsson, 1999, p. 189). Arvidsson does not empirically investigate consequences of the perception gaps regarding subsidiary capabilities but (implicitly) assumes that they impede efficient knowledge management.

*Birkinshaw, Holm, Thilenius & Arvidsson (2000)*

Birkinshaw et al. analyze perception gaps concerning the subsidiary's role and confirm their existence (Birkinshaw et al., 2000). While no influencing factors on perception gaps are considered, the authors empirically examine the effects of perception gaps between headquarters and subsidiary managers. The authors show a relationship between perception gaps regarding a subsidiary's strategic role and the control headquarters exert over the subsidiary. The more a subsidiary overestimates its strategic role within an MNC the higher is the level of control headquarters apply; a higher level of control in turn negatively influences the cooperation of the subsidiary and headquarters. No direct link between the perception gap and cooperation is found (Birkinshaw et al., 2000, pp. 336-339).

*Asakawa (2001)*

Asakawa studies perception gaps between headquarters and subsidiary managers concerning the dimensions "subsidiary autonomy" and "information sharing between headquarters and subsidiaries". On the autonomy dimension, he does not identify perception gaps. With regard

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ledge about it. The second reason is that the study does not empirically test the propositions which are developed.

to information sharing, there is a significant perception gap concerning information being sent from headquarters to the subsidiary, but not in the other direction (Asakawa, 2001, pp. 742-743). He does not study any influencing factors or consequences, but compares the perceived reality (“as it is”) of the variables with both sides’ normative expectation (“as it ought to be”) (Asakawa, 2001, p. 739).

*Denrell, Arvidsson & Zander (2004)*

Like Arvidsson (Arvidsson, 1999), Denrell et al. study headquarters and subsidiary managers’ ratings of subsidiary capabilities. Denrell et al., however, take a broader range of influencing variables into account. First, they consider headquarters managers’ knowledge about subsidiaries as well as their experience with the capability in question (Denrell et al., 2004, p. 1500). Both of these factors significantly reduce the gap between headquarters managers’ perception of subsidiary capability and the subsidiary manager’s own rating. The clarity with which a certain capability can be defined, the ease of its evaluation and the question whether it is tacit or “articulable” were examined as attributes of capabilities. Within the empirical study, none of these factors, however, shows a significant influence on perception gaps (Denrell et al., 2004, p. 1501). Subsidiary age is the only subsidiary characteristic studied which is significantly related with perception gaps regarding subsidiary capabilities. The younger the subsidiary, the larger the perception gap (Denrell et al., 2004, p. 1500). Importance of the subsidiary’s market is significant at a level of 0.1 but not at a level of 0.05. Subsidiaries’ financial performance has no meaningful influence (Denrell et al., 2004, pp. 1500-1501). Two characteristics of the headquarters-subsidiary relationship are analyzed, but neither one exhibits a significant influence: first, the frequency of communication between headquarters and subsidiaries is taken into account; second, cultural distance between headquarters and subsidiary is studied (Denrell et al., 2004, pp. 1500-1501). Furthermore, the question whether a subsidi-

ary is part of a global (compared to a polycentric) firm strategy is considered but does not show a relationship with perception gaps. Possible implications of perception gaps regarding subsidiary capabilities are not empirically examined.

*Chini, Ambos & Wehle (2005)*

Similar to Asakawa (Asakawa, 2001), Chini et al. consider subsidiary autonomy and information flow between headquarters and subsidiary. The authors take industry and country environment into account as factors influencing the emergence of perception gaps. While the country environment has no influence on perception gaps, different industry environments (Ghoshal & Nohria, 1993) lead to differing results. Chini et al. detect significantly differing perceptions between headquarters and subsidiary managers concerning subsidiary autonomy in global and transnational, but not in multinational environments (Chini et al., 2005, p. 150). The information flowing from headquarters to subsidiary is perceived differently only in subsidiaries active in global industries. Conversely, in subsidiaries active in multinational and transnational industries perception gaps are found for information flowing from the subsidiary to headquarters (Chini et al., 2005, p. 150). Furthermore, perception gaps are shown to lead to dissatisfaction (Chini et al., 2005, p. 150). The authors do not report any differentiation regarding the individual dimensions.

Table 2 summarizes the studies reported in this section. In addition to the categories introduced before (perceived issues, influencing factors and consequences), an overview of the empirical basis of the relevant publications is provided.

Author (Year)	Perceived Issue	Influencing Factors	Consequences	Methodology and Geographical Scope
<b>Arvidsson, 1999</b>	- Subsidiary capabilities	- Access to information - Attention to information - Interpretation of information	n.a.	- Questionnaire: 154 HQ-S pairs - Interviews: 63 HQ and S managers - 8 MNCs: HQ from Sweden and USA; S worldwide (interviews and questionnaire)
<b>Birkinshaw et al., 2000</b>	- Subsidiary role	n.a.	- Level of HQ control of the subsidiary - Level of HQ-subsidiary cooperation	- Questionnaire: 89 divisional HQ-S pairs - 19 MNC divisions: HQ from Sweden, S from Europe and USA
<b>Asakawa, 2001</b>	- Subsidiary autonomy - Information sharing	n.a.	n.a.	- Questionnaire: 53 HQ-S pairs - Interviews: not specified - 10 MNCs: HQ from Japan; S in the UK
<b>Denrell et al., 2004</b>	- Subsidiary capabilities	- Clarity of definition - Ease of evaluation - Ease to articulate capability - Knowledge of corporate managers - Experience of corporate managers - Communication frequency - Market importance - Perceived profitability - Subsidiary age - Cultural distance - Global strategy	n.a.	- Questionnaire: 171 HQ-S pairs - Interviews: 41 HQ and S managers - 6 MNCs HQ from Sweden and USA; S worldwide
<b>Chini et al., 2005</b>	- Subsidiary autonomy - Information sharing	- Strategic environment - Country	- Dissatisfaction	- Questionnaire: 79 divisional HQ-S pairs - 1 European MNC
<b>Legend</b>	<i>n.a.</i> – not available (the study does not cover influencing factors or consequences) <i>S</i> – subsidiary/subsidiaries <i>HQ</i> – headquarters			

Table 2: Overview of Empirical Studies Focusing on Perception Gaps Between Headquarters and Subsidiary Managers

### *Conclusions from the literature review*

The contributions summarized in this section represent empirical studies of headquarters-subsidiary perception gaps regarding subsidiary roles within the MNC. Those studies which

do not explicitly consider the subsidiary's role analyze variables which can as well be found among the dimensions of the subsidiary role typologies ("subsidiary capabilities": Bartlett & Ghoshal, 1986, 1991; Benito et al., 2003; Hoffman, 1994; "subsidiary autonomy": D'Cruz, 1986; Taggart, 1997b; "information sharing": Gupta & Govindarajan, 1991, 1994). Although there may be additional studies focusing on perception gaps between headquarters and subsidiary managers which were not included in this review, Birkinshaw et al.'s statement seems justified: "While it is widely understood that headquarters and subsidiary managers have different perceptions about the subsidiary's activities, there has been very little research that looks explicitly at this issue" (Birkinshaw et al., 2000, p. 322). We share this opinion and at the same time consider headquarters-subsidiary perception gaps concerning subsidiary roles a highly relevant issue. Thus, in the next section, we will present several suggestions for future research in this area.

## **4 Avenues for Further Research**

### **4.1 Research Content**

The studies presented in the previous section do not systematically analyze the phenomenon "perception gaps" but select individual variables without placing them in a larger context. In this subsection, the reviewed variables will be integrated into one framework. In general, we will differentiate between three categories of variables: the issues regarding which perception gaps exist, the perception gaps' antecedents and their consequences.

#### *Perceived issues*

The concept "subsidiary role" unites a large number of diverse aspects which are relevant for the headquarters-subsidiary relationship. The dimensions of the subsidiary role typologies

presented above (section 2) provide a tentative summary of the variety of issues which may be considered part of a subsidiary's role. Although the typologies cannot be integrated into one comprehensive framework of subsidiary roles (Authors, 1998), they can serve as a starting point for studies taking into account different dimensions of subsidiary roles. Since the individual dimensions refer to a variety of aspects, it could be expected that they differ in the probability with which perception gaps between headquarters and subsidiary exist. While some dimensions, such as decision-making autonomy, procedural justice and capabilities seem to be particularly prone to perception gaps due to their subjective nature, other dimensions may be more likely to be perceived identically. However, it would be interesting to examine whether dimensions being at first sight classified as rather objective, such as market scope, product scope and value added scope, are indeed perceived in exactly the same way by headquarters and subsidiary.

### *Influencing factors*

Perception gaps may have various causes. Particularly the study by Denrell et al. hints at a relatively broad range of influencing factors (Denrell et al., 2004). However, additional factors could be imagined complementing those mentioned so far in the subsidiary role research stream. We group the proposed influencing factors in several categories. With each category we open up a new area of potential influencing factors.

First, influencing factors on the level of the perceiving individuals should be considered: perception gaps may not only be influenced by information, knowledge and experience, but also, for instance, by motivation, goals or personal relationships (Birkinshaw et al., 2000, pp. 322, 327). Next, characteristics of the perceived issue can be taken into account. Regarding the issue "subsidiary capabilities", the attributes "clarity of definition", "ease of evaluation" and "ease to articulate the capability" are other potential influences on the consensus between



headquarters and subsidiary managers. In addition, questions as whether the capability is regularly used and whether it has been acquired by the subsidiary or transferred by headquarters could be relevant. While other subsidiary role dimensions may as well include a number of different aspects which could be considered in the category “attributes of the perceived issue”, subsidiary capabilities are probably a wider concept than most other subsidiary role dimensions. The range of subsidiary characteristics studied so far includes subsidiary age, market importance and perceived profitability. This spectrum could, for example, be broadened by other factors such as size, autonomy or percentage of expatriates. On the level of the headquarters-subsidiary relationship, communication frequency and cultural distance were examined. Here, for instance, the overall number of subsidiaries, the mode of headquarters control of the subsidiary or the question how communication takes place could be considered (Rodrigues, 1995). Finally, characteristics of the MNC headquarters might be relevant. In this category, the general MNC strategy is taken into account. Further potential factors include the country in which headquarters are located, the mindset of headquarters managers and the general internationalization philosophy (Perlmutter, 1969). These ideas still do not amount to a complete list of influencing factors that might have an effect on perception gaps. However, the identified categories of influencing factors refer to further possible variables and make clear that previous research can be extended and complemented.

### *Consequences*

Finally, implications of differing perceptions with regard to a subsidiary’s role should be analyzed. The studies by Birkinshaw et al. and Chini et al. are the only two of the reported contributions that empirically examine consequences of perception gaps in an explicit way (Birkinshaw et al., 2000; Chini et al., 2005). Nevertheless, the other studies reviewed in this paper assume as well that perception gaps may have important consequences for the entire

MNC. The most immediate consequences can be expected on the level of the headquarters-subsidary relationship. Here, a cognitive, affective and behavioural level should be distinguished. Consequences on the cognitive level include, for instance, certain opinions, the awareness that headquarters and subsidiary goals for the subsidiary differ or changes in the reputation of the entire subsidiary or individual managers. On an affective level, perception gaps may lead to dissatisfaction (Chini et al., 2005) or to a loss of motivation or may cause tension in the headquarters-subsidary relationship. Behavioural implications of perception gaps can be seen in the degree of cooperation and in the level of control exercised by headquarters (Birkinshaw et al., 2000). Further consequences may emerge in the form of suboptimal decisions, idle resources, inefficient transfer, retention or creation of knowledge as well as the departure of capable managers. While most authors focus on the negative consequences of perception gaps, Birkinshaw et al. note the possibility that under certain conditions perception gaps might also provide momentum for MNC development (Birkinshaw et al., 2000, p. 340).

Within this subsection, the variables which have been empirically studied so far in studies related to the context of headquarters-subsidary perception gaps concerning subsidiary roles are summarized and structured. A framework can help organize existing research, identify additional factors and position future studies. Figure 1 displays this integrated framework including perceived issues, influencing factors and consequences of perception gaps.

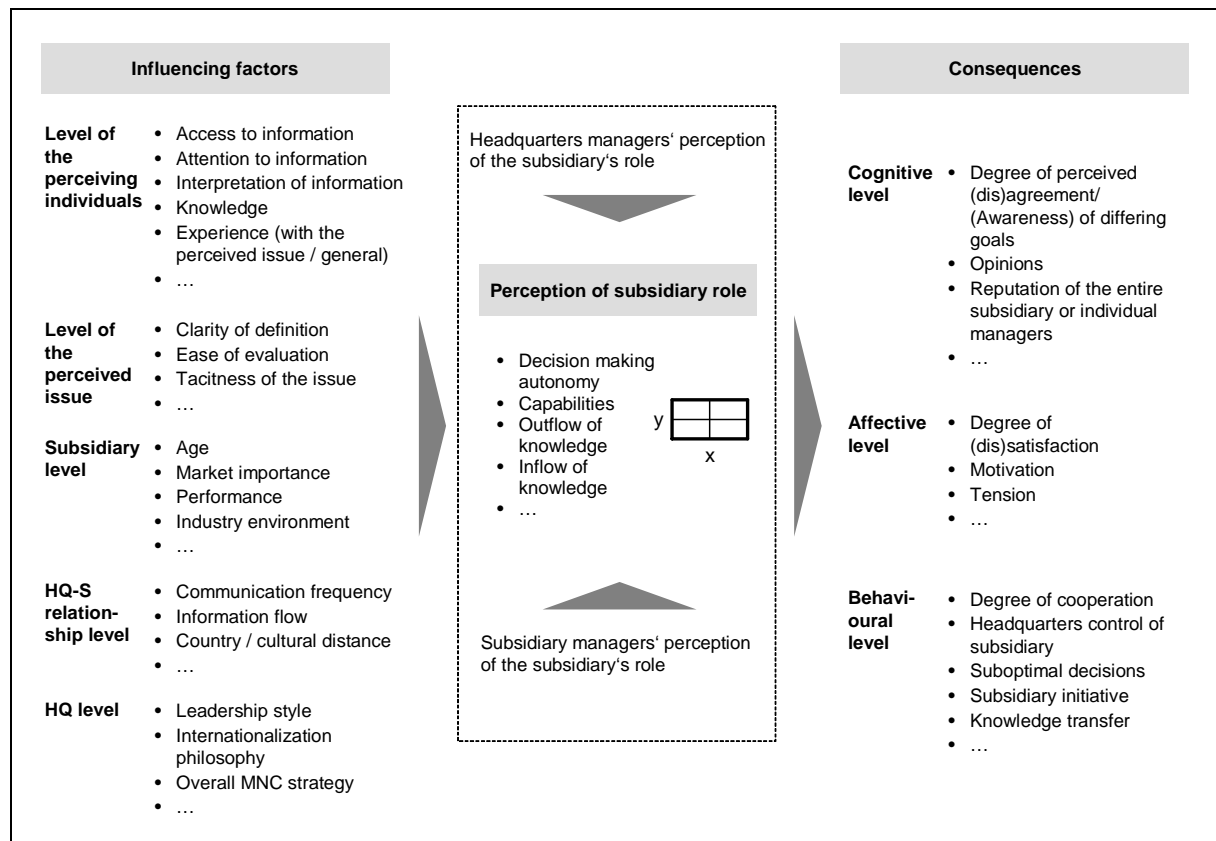


Figure 1: Overview of the Research Field.

## 4.2 Theoretical Development

So far, research on perception gaps concerning subsidiary roles has only been theoretically grounded to a limited extent. A theoretical framework which explains interrelations between the various aspects of perception gaps, their antecedents and consequences would be helpful in order to meaningfully structure research in the field. While other theoretical approaches could be applicable, we will briefly outline role theory as one possible conceptual foundation.

Although the role concept has been used for more than two decades to refer to the subsidiary's position, tasks and responsibilities within the MNC, hardly any reference has been made by researchers in the field to role theory which has long been a popular approach in sociology

and social psychology (e.g., Biddle, 1979, 1986; Heiss, 1981; Sarbin & Allen, 1968).<sup>3</sup> Role theory indicates why different perceptions of a subsidiary's role emerge as well as possible consequences of such differences. Furthermore, the framework is open enough to allow for diverse conceptualizations of the "role". Figure 2 shows an adaptation of the role theoretical framework formulated by Kahn and Quinn to the context of the network MNC (Kahn & Quinn, 1970).

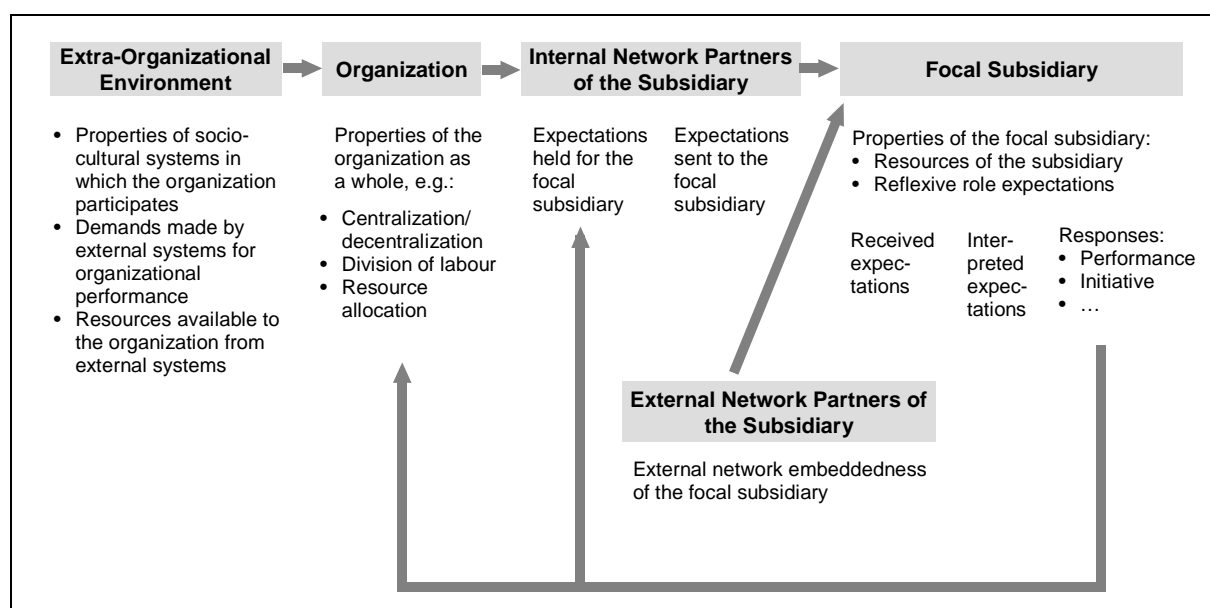


Figure 2: Adapted Role Theoretical Framework According to Kahn and Quinn (Kahn & Quinn, 1970, p. 55).

In Figure 2, the focal subsidiary is seen as the role occupant while headquarters are subsumed under the "Internal Network Partners of the Subsidiary". These network partners depend on the subsidiary and the correct enactment of its role and therefore have certain expectations regarding the behaviour of the subsidiary, so called "role expectations". These expectations can be communicated to the subsidiary more or less clearly. However, the subsidiary receives role expectations not only from its internal network partners, but also from external network partners and at the same time holds its own expectations concerning its role (see on various

<sup>3</sup> Role theory is briefly mentioned by Birkinshaw et al., 2000, p. 331 and Authors, 2005.

internal and external network partners, for instance, Andersson et al., 2002; Authors, 2002; Håkansson & Snehota, 1995). Consequently, the subsidiary develops its own perception of its role based on role expectations that are sent by internal and external network partners. These expectations are biased by certain motivations or prior expectations of the subsidiary regarding its role or other influencing factors. The subsidiary's resulting role perception may, of course, differ from headquarters' expectations.

The subsidiary finally acts according to its own perception of the role. This role enactment in turn influences the subsidiary's partners and may have effects for the entire MNC network. In case the role enactment meets headquarters' expectations, the system is effective and reinforced. Behaviour which fails to fulfil headquarters' role expectations can lead to conflict (Heiss, 1981).

### **4.3 Methodological Approaches**

In terms of geographical scope, headquarters-subsidiary perception gaps have been studied and confirmed in different areas of the world with a focus on MNCs headquartered in Sweden. The research designs applied in the studies so far were mostly quantitative. The main results were attained by questionnaires which were mailed to the participants. As an exception, Birkinshaw et al. administer the questionnaires in person which gives them more control over who actually answers the questions and at the same time validates the answers (Birkinshaw et al., 2000, pp. 333-334). The two studies by Arvidsson and Asakawa additionally conduct interviews with some of the questionnaire respondents. Arvidsson aims at confirming the questionnaire results and their interpretation as well as receiving a better idea of the appearance of the concepts in reality. Asakawa also intends to confirm the questionnaire results and at the same time tries to address the dynamic nature of the analyzed phenomena.

Respondents typically consist of high ranking managers from headquarters and subsidiaries. In headquarters, this may be the person responsible for international operations, the firm's managing director or a person in an equivalent position depending on the organizational structure of the MNC. Subsidiary participants similarly occupy the office of general manager, managing director or a corresponding position. The fact that respondents from headquarters and subsidiaries are directly contrasted is a central aspect of research in this area. Perception gaps can only be identified and analyzed if both sides' perceptions are actually taken into account.

In our opinion, the field could benefit from qualitative case study research which does not select a single aspect, but covers a broader range of variables included in the framework introduced above. In addition, a qualitative study could contribute to the field by providing a more comprehensive picture of the interrelations between perception gaps and the quality of the headquarters-subsidiary relationship. Furthermore, there are several other reasons why a qualitative research design seems appropriate for the study of perception gaps concerning subsidiary roles: a qualitative research approach is suggested for subjects which are highly dependent on context, very complex and show unclear causal relationships; consequently these subjects benefit from an in-depth study which takes into account the perspectives of the people involved (Lee, 1999, pp. 39-41; Miles & Huberman, 1994). The hope to generate new ideas and research questions as well speaks in favour of qualitative research. Ghauri and Grønhaug specifically recommend case studies in business research "when the phenomenon under investigation is difficult to study outside its natural setting and also when the concepts and variables under study are difficult to quantify. Often this is because there are too many variables to be considered, which makes experiment or survey methods inappropriate" (Ghauri & Grønhaug, 2005, p. 114). Qualitative research is particularly well suited for areas on which little empirical and theoretical knowledge exists – as is the case for perception of

subsidiary roles. Given the dominance of quantitative approaches in previous contributions, future studies on perception gaps could benefit from qualitative research. Qualitative approaches, however, should not substitute but rather complement quantitative research approaches in this field.

#### **4.4 Summary**

We argued that more systematic research on perception gaps between headquarters and subsidiary managers concerning the subsidiary's role within the network MNC is required. We summarized the existing research in this field and integrated it into a framework which specifies several categories of factors influencing perception gaps and three levels of the headquarters-subsidiary relationship on which consequences of perception gaps can be relevant. By structuring the research on perception gaps we intended to point at various aspects of the phenomenon which have not received attention so far. Additionally, we suggest a possible theoretical foundation for the research field and argue in favour of a complementary methodological perspective.

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