

International Management, Political Arena and Dispersed Entrepreneurship in the MNC

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Abstract

This paper presents a model of dispersed entrepreneurship in an MNC based on the concept of political arena. The model explains how employees who work within an MNC may become stimulated to act in an entrepreneurial way by the international management context in which they work. This context contains factors that continuously provide impetus into an internal political arena, and this in turn acts to arouse entrepreneurial traits in certain individuals. We identify three variables as antecedents to political arena in the MNC, at corporate, subsidiary, and individual levels. These are the corporate immune system, inappropriate control with subsidiary isolation, and cognitive barriers to knowledge sharing. We discuss theoretical and managerial implications of the resultant multi-level model.

Introduction

Multinational Corporations (MNCs) build value chains that are distributed across many countries (Porter, 1986). Managing an MNC not only involves configuring this global value chain (Porter, 1986), but also requires coordinating the resultant network of operations such that global efficiencies and innovative capabilities can be harnessed. Recent research has indicated that these capabilities can be developed and exploited by managing the internal MNC network in a way that allows internal relationships and control mechanisms to be consistent with local environments and the specific roles and capabilities of subsidiaries (Nohria and Ghoshal, 1997; Bartlett and Ghoshal, 1989). This may include, for example, allowing key subsidiaries to become centres of excellence and developing certain subsidiaries with a global mandate for a particular part of the value chain (Holm and Pedersen, 2000; Moore, 2001). Research has also shown how subsidiaries can be considered to have their own strategies (White and Poynter, 1984; Jarillo and Martinez, 1990; Taggart, 1998) and can be mandated as competence-creating units (Cantwell and Mudambi, 2005).

In addition to the configuring and managing of subsidiaries for global efficiency and local responsiveness, recent research has also shown how the phenomenon of ‘dispersed entrepreneurship’ may occur in an unpredictable and decentralized way. Dispersed entrepreneurship refers to the process whereby individuals (employees) in remote locations of the MNC are stimulated to act as entrepreneurs and attempt to start local initiatives that can lead to commercial benefit and development for subsidiaries (Birkinshaw, 1997, 2000). The entrepreneurial process of identifying, evaluating and exploiting opportunities (Shane and Venkataraman, 2000) is thus not restricted to initiatives emanating from a regional or global headquarters, or from subsidiaries that are mandated to innovate. It also encompasses the vast amount of idea generation and innovate behaviours that take place in far-flung subsidiaries of any type (Birkinshaw, 2000). Importantly, subsidiary initiative has been shown to add value not only to the local subsidiary; ideas originating in subsidiaries can also be harnessed and exploited by the wider MNC.

One major implication of dispersed entrepreneurship is the possibility that resistance will be encountered. A headquarters may resist an emerging initiative because of the attitudes and pre-dispositions of corporate managers who have their own established views (e.g., regarding subsidiary roles and value chain configuration). Regional and subsidiary managers may resist initiatives emerging in other subsidiaries because they see them as a threat to their own charter and capability enhancement. Thus differences in individuals’ attitudes (Leibenstein, 1978), group level inertia (Van de Ven, 1986), and group-think and mind-sets (Janis, 1982) may all arise internally within the MNC as a consequence of entrepreneurship. Whilst it is possible to identify those resisting entrepreneurship and to attempt to win them over (Schumpeter, 1934), to do so in an MNC with an established heritage and complex network of existing operations requires the development of a power base around the new idea or opportunity.

Previous models of MNC entrepreneurship have shown how environmental, organizational and strategic factors combine to impact performance and competitive advantage (e.g., Guth and Ginsberg, 1990; Zahra and George, 2002). Other models argue the merits of controlling on a differentiated fit basis in order to achieve optimum levels of innovation (Nohria and Ghoshal, 1997) and developing certain subsidiaries into a strategic leader role (Bartlett and Ghoshal, 1989). But do these views adequately explain why remote employees of an MNC become inspired to act in an entrepreneurial way? In our view they tend to be quite high level and static. What they lack is an appreciation of political aspects in the international management context of the MNC; i.e., the micro-dynamics of resistance and counter-resistance implied in the power games that are part and parcel of entrepreneurial action in large organizations. This paper extends previous research by arguing that, in addition to strategic factors at MNC or subsidiary levels, the phenomenon of MNC dispersed entrepreneurship can also be a direct consequence of unstable power dynamics that arise because of the internal context of international management. This context provides impetus into what Mintzberg (1985) described as a political arena, the resolution of which, we argue, can trigger employees into entrepreneurial action.

The primary theoretical insight of this paper lies in conceptualizing the antecedents and consequences of political arena (Mintzberg, 1985) in explaining entrepreneurial dynamics of the MNC. Mintzberg's view has an important application in this context because of its emphasis on continual impetus to – and resolution from – political arenas. This argument contributes to recent work on organizational politics and learning (Coopey and Burgoyne, 2000; Lawrence et al., 2005) as well as analysis of micro-politics in MNCs (Dörrenbächer and Geppert, 2006; Dörrenbächer and Gammelgaard, 2006) by highlighting the potential role of different types of entrepreneurs in developing a subsidiary within the MNC. There are three sections to this paper. Firstly, central issues relating to the internal organizational

context of MNC and dispersed entrepreneurship are highlighted. Secondly, an analytical model is developed linking international management issues at corporate, subsidiary, and individual levels to political arena and entrepreneurship. Thirdly, implications for theory, research and management practice are given.

International Management and Dispersed Entrepreneurship

The international management of an MNC involves making decisions about the purpose and roles for subsidiaries, the way subsidiaries develop over time and the relationships that subsidiaries have with their headquarters and other subsidiaries in the international network (Birkinshaw and Hood, 1998; Paterson and Brock, 2002). MNC leaders have to analyze, choose and implement strategy with international management in mind. A global value chain, comprising a network of subsidiaries, is set up and managed in a way of the MNC's choosing (Porter, 1986).

Indeed, international management is a way for an MNC to establish and then continuously improve its competitive position vis-à-vis its rivals around the world. In order to compete, the MNC must align international strategy with industry (patterns of competition), firm (organization of the value system) and subsidiary / country (identification of global platforms) factors (Porter, 1986). This may require understanding competitor behaviour at the firm (Porter, 1986) and subsidiary / country (Jarillo and Martinez, 1990) levels, as well as the strategic importance of local environments (Bartlett and Ghoshal, 1989). The latter is important for the decision to pursue a transnational strategy to compete, a strategy with potentially significant costs attached (Bartlett, 1986).

Any decision to set up a new subsidiary must be made on the basis of the seeking out of competitive advantage. This setting up activity involves having to make choices for: (1) co-ordination and configuration parameters for the subsidiary while maintaining a view of the

global value chain and industry fit (Porter, 1986); (2) the subsidiary's purpose, initial charter and capability level (Birkinshaw, 2000); (3) the role of the subsidiary in terms of the strategic importance of the country and the level of resources required (Bartlett and Ghoshal, 1989); and, (4) the subsidiary type in terms of the extent to which it is integrated within the MNC *and* responsive to local needs in its host country (Jarillo and Martinez, 1990; Taggart, 1998).

Once a subsidiary is established, it follows a development path over time (Birkinshaw and Hood, 1998; Delany, 1998). However, as the MNC consists of multiple subsidiaries - each with different capabilities and roles - there will be multiple evolution paths all running at the same time. These concurrent streams of development may be indicated by changes in organizational variables at subsidiary level. Examples include: (1) changes in creative output, such as subsidiary initiatives (Birkinshaw, 2000) and pro-active innovation (Crant, 2000); (2) changes in control mechanisms, for instance, through differentiated fit and shared values (Nohria and Ghoshal, 1994); (3) changes brought about through headquarter initiative (Prahalad and Doz, 1981); (4) the emergence of conflicts arising through the resistance to initiative (Birkinshaw, 1997, 2000) and subsidiary strategy (Jarillo and Martinez, 1990).

Consequently, some subsidiaries may enjoy aspects of international management supportive of the entrepreneurial process of identifying, evaluating and exploiting opportunities (Shane and Venkataraman, 2000). For instance, a subsidiary with a global mandate or an endowment as a centre of excellence will be expected to contribute innovate new ideas and create competences in search of competitive advantage for the wider MNC (Cantwell and Mudambi, 2005). However, others may not. They may, for instance, be part of a dynamic and growing market but have become neglected, or isolated, and unable to tap the market adequately because of lack of support from a headquarters. Some subsidiaries may belong to regions or geographic sub-systems (Porter, 1986) where the entrepreneurial process is encouraged, while others may not.

Any process of identifying, evaluating and exploiting opportunities is then subject to moderation by the international management context, and foremost by aspects of the internal organization of the MNC with the potential to hinder or help the progression of new ideas into a wider diffusion and implementation. Individuals generate ideas but wider bodies of people revise and annotate them into more complex forms. Each person involved sees the problem through their own interpretive schema and many transactions occur between people as the idea progresses. The idea is renegotiated through iterations and a “web of complex and interdependent transactions” (Van de Ven, 1986: 598) emerges. It may be any headquarters, regional or subsidiary employee that moderates the progression of an idea and this extends to being the source of an idea to being an annotator or implementer.

Important to this ‘progression of ideas’ notion is the view that dispersed entrepreneurship does not lie in formal or hierarchical structures, but rather in heterarchical social groups that support idea generation, consensus building and action (Hedlund, 1986; Lee and Williams, 2007). In these social groups, knowledge relating to the specific opportunity may flow, and this may be bound by both strategic context and trust between managers of the MNC (Gupta and Becerra, 2003). In this view, a subsidiary may decide to pursue knowledge-creating modes of behaviour, and in so doing emphasize “social interaction and practical experience, both of which are vital processes for tacit knowledge creation” (Lam, 2000). Middle-managers have an important role in this process because of their position in combining “strategic macro (context-free) information and hands-on micro (context-specific) information” (Nonaka, 1988:15).

Dispersed entrepreneurship is thus a phenomenon that emerges in an unpredictable way. In many respects corporate leaders become spectators to this process. In the MNC, the judgement of individuals likely to provide impetus to entrepreneurship (Shook et al., 2003) is dispersed, and thus the type and location of employees involved in the perception of new

opportunities cannot be designed in advance with any certainty. The point in time, and the geographic location, at which the creation of a new idea and its localized communication happens cannot be foreseen.

The result of this is an inevitable power struggle between groups loyal to their own initiatives, projects and vested interests. Because of differences in individuals' attitudes (Leibenstein, 1978), group level inertia (Van de Ven, 1986), and group-think and mind-sets (Janis, 1982), groups proposing new ideas have to build a power base around their idea during the annotation process. Lawrence et al. (2005) viewed politics as an intrinsic part of the new idea development process. Birkinshaw (2000) highlighted the consequences of subsidiaries having to confront headquarters' managers. Dörrenbächer and Gammelgaard (2006) found that headquarters' intended strategies are decisive to explaining subsidiary role changes, though micro-political headquarter–subsidiary negotiations are an integral part of subsidiary role development. Micro-political negotiations are no longer perceived as a dysfunctional or neutral addition to corporate control and organizational integration, but rather as the dialectical processes in newly emerging transnational organizational forms (Dörrenbächer and Geppert, 2006).

The Role of Political Arena in Dispersed Entrepreneurship

Any subsidiary employee(s) that generate(s) a new idea to address an unfulfilled opportunity may experience one or more of the following: (1) *A Corporate Immune System*: a resistor to the pursuit of resource allocation, market acceptance and organizational legitimacy for subsidiary initiatives - strongly influenced by parent company managers' attitudes and pre-dispositions (Birkinshaw, 1997, 2000); (2) *Inappropriate control with subsidiary isolation*: where the headquarter has not changed the control mechanism from substantive (the subsidiary being dependent on the foreign headquarters for access to critical resources) to

administrative (e.g., budgeting and performance-based control) or from centralized, through formalized to socialized - the headquarter has not applied the concept of differentiated fit (Nohria and Ghoshal, 1994, 1997) – this may lead to the subsidiary becoming isolated – not well connected within the internal MNC network or within its local host country network; (3) *Cognitive barriers to knowledge flows*: where intrinsic motivation, psychic distance and liability of foreignness affect the ability of individuals to participate in the knowledge network of the MNC (Hymer, 1960; Kogut and Singh, 1988; Szulanski, 1996). We look at these three international management issues in turn and develop an argument that they may actually stimulate employees to act as entrepreneurs by providing impetus into a political arena.

Corporate-Level Issue: The Corporate Immune System

In an MNC environment with R&D, sales and operations dispersed globally, the source of inspiration for new ideas will not be located solely in a headquarters. The home country of an MNC is not necessarily the prime location for its innovation (Cantwell, 1995; Kuemmerle, 1997). Subsidiaries are often geographically remote business units themselves deeply embedded in a local host country business network (Andersson and Forsgren 1996), and able to start initiatives that may benefit the MNC (Birkinshaw, 2000). However, entrepreneurial subsidiary initiatives can face significant resistance from the ‘corporate immune system’ - a set of forces in the MNC that attempt to preserve the status quo and “suppress the advancement of creation-oriented activities” (Birkinshaw, 2000: 39). These forces act against the pursuit of resources, market acceptance and organizational legitimacy by employees backing the initiative. The corporate immune system comes about because of ‘interpreted predispositions’ of headquarters managers. These corporate managers act in a

way to counter any unplanned opportunism – they are suspicious and highly sceptical of any new initiative put forward by subsidiary managers. Headquarters managers act in an ethnocentric way (Perlmutter, 1969) because they have developed:

“strongly embedded world views that reflect the historic success of the corporation, not the current business reality” (Birkinshaw, 2000: 36)

Headquarters managers may also resist change through parochial self-interest (they perceive a threat to their own status) or lack of trust (the initiative is seen as an “intrusion into their jurisdiction” (Birkinshaw, 2000: 42)). This results in delay, rejection or requests for greater justification for the initiative, managing a lobbying process between competing or rival initiatives, and/or an on-going misalignment and lack of legitimacy (incompatibility with the corporate norms) across units. Overcoming headquarter manager attitudes is dependent on a “complex, multistage process of interaction” (Birkinshaw, 2000: 37) involving both headquarter and subsidiary managers. This can impact the headquarters – subsidiary relationship and contribute to its inherent complexity.

Subsidiary-Level Issue: Inappropriate Control with Subsidiary Isolation

The control mechanisms employed by a headquarters for a particular subsidiary may, over time, become inappropriate, especially as the subsidiary develops its own capabilities. The headquarters may not have managed to implement a differentiated fit approach where appropriate (Nohria and Ghoshal, 1997) or it may have attempted differentiated fit but failed to recognize the importance of local resources or environmental complexity of the subsidiary (Bartlett and Ghoshal, 1989). As a result, too much reliance on centralization may have been made, where formalization or normative integration are more appropriate. Alternatively, too much normative integration may have been attempted as part of a decentralized strategy

(Hedlund and Rolander, 1990), when in fact a more centralized control approach would have been more beneficial.

Inappropriate control may lead to confusion and resentment by the subsidiary and a change in its levels of receptivity towards the headquarters: the subsidiary would no longer be on the same wavelength as the headquarters. As far as the subsidiary is concerned, it understands the complexity in its local environment better than any other node within the MNC network. The problem is an inappropriate form of control for the subsidiary and a possible isolation of the subsidiary.

Inappropriate control may be indicated by subsidiary control mechanisms not being compatible with subsidiary role. Aspects of international management important to this include the strategic importance of the subsidiary to the MNC and the corresponding level of relevant resources (Bartlett and Ghoshal, 1989). The headquarters control mode will be inappropriate if environment complexity and local resources are not understood properly (Ghoshal and Nohria, 1989). A headquarters may insist on control of subsidiaries through dependence on access to resources where influence mechanisms like compensation, budgeting and career development are more appropriate (Prahalad and Doz, 1981).

Subsidiary isolation may then follow, indicated by a lack of (or weakening) internal integration within the MNC network. Subsidiary employees would become reluctant to integrate with headquarters staff on key initiatives, and may insist on spending time searching and filtering information for new ideas and process innovations themselves (Meyer and Heppard, 2000) as part of their own attempts at local responsiveness. They may end up paying lip service to headquarter initiatives. The result could be that such subsidiaries would be adopting a local innovator role for themselves (Gupta and Govindarajan, 1991).

Individual-Level Issue: Cognitive Barriers to Knowledge Flows

Knowledge transfer is required to underpin the entrepreneurial process in an MNC but is problematic because of its socially complex and often tacit nature (Polanyi, 1966). Explicit knowledge can be coded in writing or symbols, but much is tacit (Polanyi, 1966). This distinction between the two types of knowledge is important because explicit knowledge is more easily transferable - and can be more easily appropriated (Foss, 1996). Tacit knowledge is acquired by and stored within individuals and cannot be easily transferred or traded as a separate entity. Therefore, tacit knowledge requires strong social ties between parties before it can be transferred (Nobel and Birkinshaw, 1998; Lane and Lubatkin, 1998).

Knowledge transfer within an MNC is intimately connected to a number of individual level cognitive factors, including intrinsic motivation, psychic distance and liability of foreignness. In terms of intrinsic motivation, prior research has shown how a lack of motivation by the source or the recipient of knowledge (Szulanski, 1996) and motivational disposition of the source and target units (Gupta and Govindarajan, 2000) can affect transfer. Osterloh and Frey (2000) emphasized the need to distinguish between extrinsic motivation (employees satisfying their needs indirectly, e.g., through monetary compensation) and intrinsic motivation (employees are satisfied through direct engagement in an activity – not because of an external factor). Osterloh and Frey (2000) suggested that transfer of tacit knowledge is more strongly related to intrinsic motivation. Thus where intrinsic motivation is lacking, the transfer of tacit knowledge that encapsulates the identification and evaluation of new entrepreneurial opportunities will be hindered.

A second cognitive factor that affects knowledge transfer in an MNC is psychic distance. This has previously been examined in the context of a gradual, learning-through-experience process of international expansion. Companies typically begin their internationalization process in countries that are psychically close to their own (Johanson and

Vahlne, 1977; Kogut and Singh, 1988) reducing the level of uncertainty in the new market (Johanson and Vahlne 1992) and making it easier for firms to learn about new markets (Kogut and Singh, 1988). Psychic distance can affect the degree of knowledge transfer that takes place during internationalization. For example, cultural distance has been found to adversely affect international joint ventures by eroding the applicability of the parent's competencies (Johanson and Vahlne, 1977; Barkema and Vermeulen, 1997). This suggests that large psychic distance acts as a cognitive barrier to the transmission or reception of tacit entrepreneurial knowledge between individual employees operating in the nodes of an MNC.

A third cognitive factor - related to psychic distance - is the issue of the liability of foreignness (Hymer 1960). This refers to the costs of operating in unfamiliar environments in which administrative and / or cultural differences hinder business operations. Coordinating international managers over vast geographic distances incurs costs of liability of foreignness. In relation to MNCs, this can lead to an over-reliance on expatriate managers relative to local managers at subsidiary level (Zaheer, 1995). Local entrepreneurially-minded subsidiary employees may have difficulties overcoming prevailing mindsets that reflect the MNC's historic success rather than its future opportunities, as encapsulated in the cognitive world-views of expatriate managers placed in subsidiaries.

Political Arena

In each of the three scenarios described above, there is potential for internal conflict. Each can provide what Mintzberg (1985) referred to as a 'continual impetus' into a political arena. A political arena is an internal organizational situation characterized by conflict between individuals. In Mintzberg's (1985) view, conflict, confrontation and changing alliances are ongoing themes in organizations, and the political arenas that arise may vary

according to how strong they are (intensity), how long they last (duration) and how widespread they are (pervasiveness). There are four basic types of political arena: (1) the 'complete political arena' where conflict is intense, pervasive and brief; (2) the 'confrontation' where conflict is intense, confined and brief (3) the 'shaky alliance' where conflict is moderate, confined and enduring and (4) the 'politicised organisation' where conflict is moderate, pervasive and enduring.

This has an important application in the context of the MNC. The ability of a subsidiary to build a power base (i.e., to provide impetus to a political arena) may impact its ability to deal with the corporate immune system, overcome inappropriate control and isolation, and counteract cognitive barriers to knowledge flows. Politics creates 'psychic space' allowing people to speak out such that the difficulties of unlearning can be overcome (Coopey and Burgoyne, 2000). Politics is also a "natural feature of organizing and learning" (Vince, 2001: 1329) where "information and knowledge are expressed and mediated through power relations" (2001: 1329). The resulting confrontation is likely to manifest itself in political game playing where the subsidiary attempts to increase its power base in order to become more influential or otherwise affect organizational change.

Many scholars have argued that organizational politics can actually serve the organization as well as erode its effective operation (Pfeffer, 1981; Mintzberg, 1985; Parker et al., 1995). As a system of influence, political games can, for example, correct illegal or illegitimate behaviour of those in power and sponsorship can ensure that strong candidates are put forward for promotion and leadership roles over weak candidates. The highly political nature of organizational interactions is also reflected in innovation appropriation processes (Hislop et al., 2000). Thus, formal, hierarchical authority is not automatically translatable into actual power though it is an important contextual factor. Also, by allowing more than one voice to be heard, organizational needs are better served by politics than simply relying on

authority, ideology and expertise. When these existing systems of influence act as sources of resistance to change, politics can be used to promote illegitimate power bases and strive to bring about change.

In an MNC, the more developed the subsidiary, the more effective its bargaining position will be. The ability of the subsidiary to build a power base is a key indicator of the political arena, along with power games played to develop the subsidiary. These include sponsorship, alliances, empire building, budgeting, expertise or lording (Mintzberg, 1985). Additionally, a subsidiary facing one or more of these three scenarios may consider it necessary to monitor its headquarters for performance feedback (Gupta et al., 1999) in order to understand why a headquarters thought it necessary to control in a certain way, resist a subsidiary initiative or use managers with certain (out of date) pre-dispositions. The foregoing discussion leads to the following propositions, a summary of which is given in Table 1:

Proposition 1a: *The presence of a strong corporate immune system in an MNC will stimulate an internal political arena.*

Proposition 1b: *If an MNC controls its subsidiaries inappropriately such that they become isolated, an internal political arena will develop.*

Proposition 1c: *The presence of cognitive barriers to knowledge flows amongst the employees of an MNC will stimulate an internal political arena.*

*** Table 1 ***

Arousing Entrepreneurship as a Result of Resolving a Political Arena

So, if factors in the international management context of the MNC at corporate, subsidiary and individual levels can lead to a political arena inside the MNC, what are the consequences

of this? We turn here specifically to Mintzberg's (1985) model. The political arena has a life-cycle consisting of four stages. The first of these is *impetus*, where influencers seek to change the current balance of power. A fundamental change in the basis of the organization is made and / or "the established order of power breaks down" (Mintzberg, 1985: 143), leading to an erosion of ideology. The second stage is *development*, where a set of conflicting forces, normally involving two parties – those challenging existing power and those resisting the challenge - prevail. The third stage is *resolution*, where one of five states may emerge: an outright win by either party, the eventual death of the organization through energy lost in battles and influencers seeking to extract personal benefits (a free-for-all), a partial resolution and moderation of the conflict leading to a shaky alliance, a politicized organization or full resolution where influencers' demands are contained and a legitimate power base is reinforced. The fourth stage is *resurgence* where the potential for further power struggles can occur at any time:

"No distribution of organisational power, whether or not conflictive, is ever completely stable" (Mintzberg, 1985: 147)

Thus Mintzberg makes another important insight here that is very relevant to dispersed entrepreneurship in an MNC: that of political resolution that is only ever temporary. The development of unstable power distribution actually leads to one of two types of resolution states: disequilibrium and equilibrium (Mintzberg, 1985) (if we exclude what Mintzberg described as 'the death state'). We suggest that each of these states may arouse certain types of actors within the MNC to behave in an entrepreneurial way, such actors being most susceptible to the internal environment conditions that lead to entrepreneurial thinking and behaviour (Baron, 1998).

Firstly, in a *disequilibrium* scenario, either Mintzberg's partial resolution (which may involve what Mintzberg called a 'shaky alliance') or his politicized organization will prevail. In this state, conflict is actually enduring and there is an erosion of any shared focus that existed amongst employees. Indeed, it is likely that significant differences in the perspectives and desires of employees in the MNC will prevail. This may be compounded by the divergence in norms and values of employees from different countries, and lead to difficulties in socialization and communication (Nohria and Ghoshal, 1994).

However, as a result of this disequilibrium, individuals will be aroused to act in an entrepreneurial way: pushing the balance of power in the MNC back towards an equilibrium state. These entrepreneurs will facilitate information flows and be able to reconcile differences of opinion such that a shared focus may be rekindled. The opportunity they will spot will be one of synergy and integration of opposing viewpoints, and their suggestions and designs for exploiting such opportunity in differences will be based on the best of both (or all) worlds. In this sense, such individuals are 'Austrian-like': they view the internal environment of the firm as an ever-changing world of disequilibrium where differences in supply and demand exist. In the Austrian view, such differences contain inefficiencies which entrepreneurs solve. MNC employees who attempt to resolve the disequilibrium of a politicized organization will be, in essence, attempting to create new value for the firm by reducing the inefficiencies of such a situation. According to Kirzner (1973):

“For Schumpeter the entrepreneur is the disruptive, disequilibrating force that dislodges the market from the somnolence of equilibrium; for us the entrepreneur is the equilibrating force whose activity responds to the existing tensions and provides those corrections for which the unexploited opportunities have been crying out.” (Kirzner, 1973: 127)

In other words, the disequilibrium resolution state will trigger the emergence of employees keen on identifying and exploiting opportunities arising out of constantly changing conditions (Kirzner, 1973). This leads to the following proposition:

Proposition 2a: *A political arena that results in disequilibrium within an MNC will engender Austrian-like entrepreneurs.*

The second possible resolution state from an unstable political arena is *equilibrium*. With this outcome, there is either an outright win for one party or another (i.e., for either the headquarters or subsidiary), or there is a full resolution with demands constrained in legitimate power bases (Mintzberg, 1985). The outcome is high shared values: the degree of divergence of preferences and interests among the members of the organisation will be limited (Nohria and Ghoshal, 1994). This resolution not only acts to prevent erosion of shared focus, it also acts to keep dispersed employees intrinsically motivated to contribute to information and knowledge sharing within the MNC (Osterloh and Frey, 2000).

However, as a result of this state, employees will eventually emerge who are dissatisfied with the status quo and who will produce, develop and sponsor new ideas for the MNC and its subsidiaries. Such ideas may challenge the status quo of full resolution and, in this sense, can be considered entrepreneurial. The employees concerned will effectively be responsible for identifying new opportunities that are either not known, or not fully evaluated and exploited by the MNC. This internal entrepreneurial behaviour is Schumpeterian-like, in that it will attempt to push the equilibrium back out of a steady-state and towards a more turbulent disequilibrium. According to Schumpeter, the entrepreneur is someone who challenges existing ways of doing things and who brings new possibilities to light. The entrepreneur thrives on possibilities:

“why should not the individual make just as much use of the new possibilities as of the old, and...keep pigs instead of cows” (Schumpeter, 1934: 61)

Schumpeter argued that the entrepreneurial function must confront past assumptions in order to change them: the entrepreneur “swims against the stream if he wishes to change its channel” (Schumpeter, 1934: 61). Entrepreneurs are part of a process encouraging spontaneous change. They challenge the tendency towards the equilibrium. In other words, this resolution state will incite Schumpeterian-like entrepreneurs, and this will be indicated by the emergence of employees wanting to drive innovation and creative destruction, looking for new ways to combine existing resources in pursuit of new products (Schumpeter, 1934). This leads to the following proposition:

Proposition 2b: *A political arena that results in equilibrium within an MNC will engender Schumpeterian-like entrepreneurs.*

The arguments presented above are portrayed here as an integrated analytical model of dispersed entrepreneurship within the MNC, along with propositions for the relationships between the components that make up this model. The model is shown in Figure 1.

*** Figure 1 Here ***

Implications for Theory, Research and Practice

We now turn our attention to the implications of this model. First, we explore theoretical implications relating to the co-stimulation of Austrian-like and Schumpeterian-like entrepreneurs, and we then discuss research and practitioner implications.

Austrian-like entrepreneurs aroused through political arena will act as a force for change in the knowledge network of the MNC. These types of entrepreneurs will react to the prevailing disequilibrium by enabling communication between dispersed employees such that knowledge about the existence of – and exploitation strategy for – new opportunities is more evenly spread. This would be seen as an impact on knowledge in- and out-flows to and from subsidiaries (Gupta and Govindarajan, 2000), by increasing absorptive capacity within and across subsidiaries (Cohen and Levinthal, 1990), coupled with a high motivation to share and accept new knowledge by employees in both headquarters and subsidiary (Osterloh and Frey, 2000). Headquarters-subsidiary knowledge flows will be influenced by a subsidiary's motivation to share knowledge with other units of the MNC, a headquarters motivation to share knowledge with its subsidiaries, the motivation of a given subsidiary to accept new knowledge without putting up barriers, the motivation of the headquarters to accept new knowledge without putting up barriers, the value of knowledge in the headquarters and a given subsidiary, the richness of transmission channels in the MNC, a given subsidiary's capacity to absorb knowledge, and a headquarters capacity to absorb knowledge (Gupta and Govindarajan, 2000).

Schumpeterian-like entrepreneurs, on the other hand, would attempt to go further than that of reconciling gaps in the knowledge network of the MNC. For employees dissatisfied with a prevailing status quo, a drive for new combinations is brought about because of personal dissatisfaction with an equilibrium that is perceived as no longer valid. Ideas would flow from these entrepreneurs and if the corresponding ideas are successfully renegotiated and annotated within wider groups, the result will be an increased use of intra-MNC communication to convey fresh ideas and win support in dispersed locations.

Important for subsidiary development is that both Austrian-like and Schumpeterian-like entrepreneurs within the MNC can help subsidiaries evolve. Austrian-like entrepreneurs

will facilitate subsidiary-specific knowledge flows into a wider domain and help make headquarters managers and managers in other subsidiaries aware of the issues facing – and the solutions provided by – the focal subsidiary. The subsidiary will be able to exploit the value of its own knowledge more easily, because it will be dealing with a more receptive headquarters, and it will be able to gain access to important headquarters knowledge more openly. The subsidiary can also develop as a result of attempts at fundamental changes in business logic (instigated by Schumpeterian-like entrepreneurs). It may provide leading-edge solutions and ‘thought leadership’ to the wider organization and win funding for new product development initiatives.

Thus the political arena, in theory, does have a functional role in developing the MNC. The way in which this happens is through the co-stimulation of different types of internal entrepreneurs. This suggests a new theory of MNC entrepreneurship is viable, one that uses the concept of political arena as an organizational predictor of the emergence of employees who become inspired to act to identify and exploit new opportunities. This clearly differs from the classical view of strategy in large firms that stresses rational analysis and planning by centralized strategy-makers who are somewhat detached from the day-to-day operations of the firm (Ansoff, 1965; Andrews, 1971; Porter, 1980). It also differs from established MNC typologies such as the configuration-co-ordination (Porter, 1986) and integration-responsiveness (Bartlett, 1986; Prahalad and Doz, 1987) models, and suggests these do not address the dynamics of change within the MNC in terms of power struggles and changes in the balance of power. Instead, it extends the recent subsidiary initiative literature (Birkinshaw, 1997, 2000) to include the notion that not only do internal entrepreneurs provide impetus into conflict within the MNC, but they are also stimulated by the resolution of political arena within the MNC. This is then an on-going evolving dynamic within the

organizational context of the MNC that provides vitality and energy into internally driven sources of renewal.

In terms of research implications, we suggest that, in order to empirically test our model, the operationalization of the social infrastructure of the MNC needs to be performed. Constructs to be operationalized include the characteristics of corporate, subsidiary and individual level inputs into political arena, the characteristics of political arena itself (i.e., power games) and the traits and behaviours of individuals responding to resolution. It would also be advantageous to capture subsequent entrepreneurial outcomes (learning, rents to the MNC, added value to external stakeholders) in order to demonstrate the importance of the components in this model to competitive advantage. The relational focus on social capital as highlighted by Kostova and Roth (2003) is therefore important in analyzing dispersed entrepreneurship of the MNC. In turn, this has implications for research: these constructs are multi-dimensional and unpredictable and therefore warrant special attention to validity and reliability. Triangulation by data, method and researcher would therefore be advantageous (Denzin, 1970). The perceptions of dispersed actors, the way cash and structural resources are allocated into initiatives and the behaviour of the MNC in response to the stimulus provided by its involvement in multiple entrepreneurial development paths can be taken from appropriate participants and cross-checked to validate findings.

Future empirical work to test our propositions could elicit survey responses from employees located in subsidiaries of MNCs paired with those in headquarters. Middle ranking subsidiary managers may be preferred to top management team (TMT) members or operating level production staff because of their central role in progressing entrepreneurship with the MNC (Burgelman, 1983). In-depth interviews should be chosen as a valid and practical way of gaining information about the social world of dispersed entrepreneurship within the MNC, whilst avoiding the problems of polarized objectivist and constructionist methodological

approaches (Miller and Glassner, 1997). Survey questionnaires need to be designed to capture subsidiary managers' perceptions of specific political games and entrepreneurial constructs to enable the testing of the propositions developed above.

Future research could expand the model presented here to include the impact of dispersed entrepreneurship and political arena on the evolution of capabilities throughout the MNC. Dynamic capabilities (Teece and Pisano, 1994; Teece et al., 1997) may indeed be encouraged by the political arena, as different types of entrepreneurs are stimulated into action and new creative ideas for change are born. Without the political arena, capabilities to explore and exploit (March, 1991) might remain suppressed. The 'ambidextrous organization' may offer one way of developing this perspective. Described by Tushman and O'Reilly (1996) as an organizational form that permits incremental and radical change by allowing managers to "[operate] part of the time in a world characterized by periods of [relative] stability and incremental innovation, and part of the time in a world characterized by revolutionary change" (1996: 24), the ambidextrous organisation is more likely in an MNC when both Kirznerian and Schumpeterian entrepreneurs are tolerated. Birkinshaw (2000: 77-81) associated Kirznerian entrepreneurs with exploitation and Schumpeterian entrepreneurs with exploration. Hence the political arena may plausibly contribute to both evolutionary and revolutionary change. Future research could identify and explain how different combinations of MNC entrepreneurial types contribute to these different types of change.

In terms of normative implications, our view raises two important points. Firstly, MNC managers should be prepared to tolerate internal conflict on an on-going basis if they want to pursue an entrepreneurial strategy. The point is that conflict is not only a result of a change decision or of strategic allocation or reallocation of resources as part of an initiative to exploit new opportunities. It is not only a result of mandating specific subsidiaries to create

competences (e.g., Cantwell and Mudambi, 2005). Conflict is, moreover, a part of the embryonic, early stages of opportunity identification and evaluation that forms the entrepreneurial process as it may arise in any type of foreign subsidiary. Managers should recognize this explicitly if they are to optimize the competitive potential of the MNC, and should not necessarily act to quash conflict arising between remote subsidiaries or within remote subsidiaries. However, this may require very subtle skills in recognizing conflict situations in the first instance, and of linking such situations to firm, subsidiary or individual level international management issues.

Secondly, managers should develop skills in resolving situations within the political arena such that employees are appropriately stimulated to bring new ideas forward into a wider forum for the benefit of the organization as a whole. Given the ever-present nature of the political arena, the resolution of conflict situations needs to take place at different organizational levels and at different times. The point is that resolution has an entrepreneurial component, as the resultant resolution state (equilibrium vs. disequilibrium) will arouse entrepreneurs to contribute new ideas that are better aligned to organizational and environment contexts.

Summary

We have proposed a new model of dispersed entrepreneurship in the MNC that reveals a role for internal political arena in enabling the process of opportunity identification, evaluation and exploitation. The model suggests that dispersed entrepreneurship requires a specific focus on resolution of conflict amongst foreign units through integration within the internal network in order to manage the issues of the corporate immune system, inappropriate control and cognitive barriers to knowledge flows. Our view is that dispersed

entrepreneurship in the MNC as an international and politicized process of idea diffusion that unfolds as a direct consequence of internationalization. Where there are forces for change, there are likely to be forces against change, and the use of the political arena to affect change in the MNC is a way of reconciling these forces. The role of conflict and the search for resolution means that MNCs wanting to beat competitors and change the basis of competition in the industry have to tolerate and manage this international and politicized idea diffusion process.

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TABLES

Table 1 – International management and continual impetus to MNC political arena

International management issue	Level	Main implication for MNC dispersed entrepreneurship	Reason for providing impetus to political arena
Corporate Immune System	Corporate	<ul style="list-style-type: none"> • Acts to prevent proper evaluation of ideas as headquarter managers are pre-disposed to rejecting attempts by subsidiaries to increase their power base • Acts to prevent sanctioning and funding for new ideas originating in subsidiaries 	<ul style="list-style-type: none"> • Subsidiary managers need to develop power bases around their ideas and initiatives in order to circumvent or overcome the corporate immune system
Inappropriate Control with Subsidiary Isolation		<ul style="list-style-type: none"> • Only certain subsidiaries (e.g., strategic leaders, centres of excellence, and those with mandates) will be tapped by for ideas by headquarters, others may feel left out • Fast growing subsidiaries, and those operating in dynamic markets, may not be recognized as useful sources of ideas (of benefit to the wider MNC) soon enough 	<ul style="list-style-type: none"> • Isolated subsidiaries will be encouraged to pursue local opportunities with local initiatives based on local resources, potentially at odds with headquarters • Subsidiaries may disagree with – and reject - control mechanisms used by headquarters
Cognitive Barriers to Individual Knowledge Flows		<ul style="list-style-type: none"> • Tacit knowledge – essential to the entrepreneurial process – will remain stuck in nodes, or pockets of nodes, of the MNC 	<ul style="list-style-type: none"> • Lack of shared understanding of new opportunities will lead to lording and building silos of power based on opportunity specific expertise

FIGURES

Figure 1 – International management issues, political arena and the stimulation of entrepreneurs in an MNC

