

# **Subsidiary response to adverse local conditions: a classification for the Venezuelan case**

## **ABSTRACT**

The aim of this work is the proposal of a typology for foreign subsidiaries established in Venezuelan based on the impact of local environment on their activities. Through a qualitative approach based on 41 study cases two dimensions are proposed for classifying foreign subsidiaries: environmental determinism and subsidiary pro-activity. The resulting subsidiary types are described as: *protected*, *affected*, *adapting* and *outstanding*. Local environment is considered adverse even though each subsidiary type face adversity in a different way. Headquarters response to local conditions, subsidiary initiative and particular conditions for each industry or given subsidiary influence the subsidiary position in the classification grid.

**Key words:** foreign subsidiary, strategic role, local environment, adverse environment, Latin America.

## **1. INTRODUCTION**

Advances on multinational corporation management studies have focused in recent times on the roles played by foreign subsidiaries related to the strategic model and the competitive approach adopted by their parent companies. Thus, from this new perspective, subsidiaries are analyzed as units with unique characteristics, differentiated from other sister units belonging to the same multinational corporation (MNC). Each subsidiary assumes a specific strategic role, sets up its own pattern of relationships with the headquarters, operates under unique local conditions and makes its particular contribution to the whole corporation.

Since researchers began to identify different subsidiary roles inside a sole MNC (White and Poynter, 1984; Bartlett and Ghoshal, 1986), the process of classifying them started. Typologies have helped to study the influence of subsidiary roles on the strategic positioning of the multinational corporation they belong to.

The aim of this work is the introduction of a subsidiary typology according to their condition faced with the local environment. The first dimension refers to the extent the environmental conditions influence on subsidiary activities (facilitating or restricting them), second dimension is related to capacity of response and the active anticipation shown by local subsidiary when facing adverse environmental conditions.

In the literature can be found a great number of subsidiary typologies including the local environment / market as one of their dimensions (see Table 1), but these works have been developed assuming that their local environments were stable, and then favourable for the subsidiary activities and development.

**Table 1.** Typologies of subsidiary roles related to host market / environment

<b>AUTHORS</b>	<b>DIMENSIONS</b>
White and Poynter (1984)	Market scope / Added value scope.
Bartlett and Ghoshal (1986, 1989)	Strategic importance of local market / subsidiary competence.
Ghoshal and Nohria (1989)	Environment complexity / local resources.
Jarillo and Martínez (1990)	Integration / localization degree.
Taggart (1998c, 1998a)	Coordination / configuration of activities (Porter, 1986a).
Forsgren and Pedersen (1998)	Exports level / Intensity of R&D activities.
Surlemont (1998)	Influence level / geographic scope of subsidiary influence.
Randoy and Li (1998)	Resource inflows / resource outflows.
Lozano (2000)	Commercial subsidiary strategy / Type of products manufactured.
Benito et al. (2003)	Competences level / Activity scope.

The study of subsidiary – environment relationships presented in this paper is based in the local environment of Venezuela. Venezuela is considered appropriate for the analysis of subsidiary circumstances given the low favourable conditions for several business activities. Venezuela shows a high dependence on oil exports, the country has suffered from political instability and established multinational companies have faced severe fluctuations of GNP and demand, exchange controls, currency depreciation and the highest inflation in the area.

The contents of this paper are structured in four sections. First, the theoretical framework on subsidiary differentiation and the existing typologies of subsidiary roles on the literature are presented. The second section describes the qualitative research methodology and the protocol used in the data collection. In the third section a new subsidiary typology is proposed according to the condition faced with the environment. A

final section concludes, indicates the study's limitations and provides recommendations for future research.

## **2. FOREIGN SUBSIDIARY TYPOLOGIES**

Foreign subsidiaries have long-time been considered as mere instruments in the implementation of strategies conceived by their respective headquarters. It was assumed that their strategic roles or mandates were homogeneous, symmetrical and always subordinated to the headquarters (Bartlett and Ghoshal, 1986, 1987, 1989).

A new research trend emerged when studies on the transnational approach followed by multinational companies (Bartlett and Ghoshal, 1989) focused on the differentiate relationship among the headquarters and each foreign subsidiary belonging to the same company. Different subsidiaries carry out or receive different responsibility levels depending on the industry structure, the competitive positioning of the firm, the nature of the activities performed, the local context or even the subsidiary initiative. The differentiation means that subsidiaries enjoy different levels of influence on corporate decisions and their actions are assessed and compensated in a different way (Hedlund, 1986; Bartlett and Ghoshal, 1986, 1987, 1989).

The transnational model of MNC combines its geographically dispersed assets as key instruments to implement its international competitive strategy. Foreign subsidiaries perform different roles, allowing the achievement of global competitive advantage derived from economies of scale, the capacity of seeking global opportunities and the capacity of achieving cross subsidies among different markets (Bartlett and Ghoshal, 1989; Prahalad, 1976).

The literature has provided different ways for the insertion of foreign subsidiaries in the corporate whole depending on their specific roles (Bartlett and Ghoshal, 1986, 1987, 1989; Hedlund, 1986). In this sense, the concept of foreign subsidiary strategic role refers to the set of businesses and activities in which the subsidiary participates actively and for which the parent company recognizes its responsibility (Galunic and Eisenhardt, 1996; Birkinshaw, 1996).

Thus, inside a transnational company can be found subsidiaries similar to those operating either in the Multidomestic or in the Global model<sup>1</sup>, or subsidiaries that are exclusive of the Transnational model (Jarillo and Martínez, 1990).

Among other responsibilities and tasks subsidiaries can broadly extend their creativity and innovation (Rugman and Bennet, 1982; Pearce, 1999), become headquarters for some corporate divisions (Forsgren et al., 1995), coordinate activities for other units beyond the host country borders, or participate next to the parent company in the development of high value activities affecting the strategy of the whole corporation (Andersson and Pahlberg, 1997).

Differentiation of subsidiary roles has been remarked in the study of parent – subsidiary relationships. Ghoshal and Nohria (1993) suggest that parent – subsidiary relationships can be managed with different combination of governance mechanisms, instead of assuming that those are identical for every subsidiary in the company.

In fact, when Ghoshal and Nohria (1989, 1993) and Nohria and Ghoshal (1994), proposed different patterns for headquarter- subsidiary relationships, they entitled

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<sup>1</sup> Harzing (2000) introduces an integrative vision on the different strategic approaches for multinational corporations first developed by Bartlett and Ghoshal. Those models, known as Multidomestic, Global and Transnational.

differentiated fit to the different ways of managing subsidiaries used by MNC in order to adapt them to their different local environments.

Assuming that in the context of a Transnational model subsidiary roles could be differentiated, authors such as White and Poynter (1984), Bartlett and Ghoshal (1986, 1987, 1989), Ghoshal and Nohria (1989), Jarillo and Martínez (1990), Gupta and Govindarajan (1991a, 1991b, 1994), Roth and Morrison (1992), Birkinshaw and Morrison (1995), among others, proposed typologies for subsidiary roles related to the strategic positioning of the parent company (Table 1).

Each subsidiary follows a primordial strategic orientation, nevertheless can exist multi-plant subsidiaries or subsidiaries operating in different business areas, as in the case of diversified subsidiaries. Those subsidiaries could play different roles for the different businesses where they participate (Prahalad and Doz, 1987; White and Poynter, 1984).

In the analysis of the existing literature a wide range of different dimensions and variables can be observed. Intents for unifying subsidiary roles have been made (Birkinshaw and Hood, 1995), but given the different dimensions used, a same subsidiary can match different profiles in different typologies.

### **3. RESEARCH METHODOLOGY**

The research study followed a qualitative methodology based on case studies (Yin, 1994; Rowley, 2002). Using non-probabilistic criteria information from a set of Venezuelan subsidiaries was raised. In the selection process were taken into account factors such as: the home country of the parent company, industry where the subsidiary operates and activities performed by the subsidiary. Data were collected between November 2003 and October 2004.

The lack of official data is a common problem faced by researchers in developing countries, being Venezuela a typical example (Hoskisson et al., 2000). The most reliable approach about the number of foreign subsidiaries operating in the Venezuela is 526 for 2003 (UNCTAD, 2004)<sup>2</sup>, but no official data exist.

Given the limitations, 95 foreign subsidiaries were contacted, 41 of them accepted to participate in the research. In each subsidiary were carried out 1 to 3 interviews. The managers interviewed were selected according to the research protocol. Information from interviews was completed with internal data and external sources, in 80% of cases the researchers had access to the subsidiary's strategic plans.

The study adopted a qualitative methodology given that the literature (Yin, 1984; Eisenhardt, 1989) considers it more appropriate than the quantitative one in the exploration of implicit assumptions and for the identification of new relationships, abstract concepts and operative definitions (Bettis, 1991; Weick, 1996). In addition, explorative methodology has been recognized as especially helpful for research in emerging countries (Hoskisson et al., 2000) given that theories proposed for developed countries can be not useful in developing countries. Furthermore, problems in raising data, or the difficulties in the assessment of subsidiary performance make hard to use quantitative methods.

As described in Table 2, the studied subsidiaries carry out their activities in the areas of manufacturing, sales and marketing and services. The parent companies belong to 12 different home countries and the subsidiaries operate in a wide range of different industries.

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<sup>2</sup> The numbers have not significantly varied in recent years, the 2006 World Investment Report accounts 545 foreign subsidiaries in Venezuela in 2004 (UNCTAD, 2006).

**Table 2.** Venezuelan subsidiaries of foreign multinationals analyzed.

<b>Number of subsidiaries</b>	41
<b>Performed activities</b>	Manufacturing (21)
	Services (12)
	Sales and marketing (8)
<b>Home country</b>	Chile, Colombia, Denmark, France, Italy, Mexico, Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States of America,.
<b>Industries</b>	Electric, technology services, consulting, chemicals and pharmaceutical, automotive, agricultural, construction materials, home appliances, financial services, aluminium, food, drinks and tobacco, personal care products, packaging, cosmetics, construction services, medical products and telecommunications.

#### **4. CLASSIFICATION OF FOREIGN SUBSIDIARIES ACCORDING TO ITS CONDITION FACED WITH THE LOCAL ENVIRONMENT**

Our study found that in Venezuela exist a wide range of subsidiary types in very different circumstances: some of them are improving or reinforcing their roles, while some others are loosing them; some of them maintain a strong parent – subsidiary relationship while in other cases relationships are weaker; some of them perceive the local environment as favourable while some others consider the opposite, some of them remark the positive features of the market while others concentrate in the negative ones; some of them consider the environment an incentive for undertaking initiatives, developing new distinctive capabilities and strengthening their reputation inside the multinational while others consider that environmental effects have been negative in every sense; some subsidiaries are downsizing their structures and reducing their operations while others are attracting new investments and growing.

Consequently, assuming that establishing typologies is a valid instrument for identifying the condition of subsidiaries in a given period (Miller, 1978; Doty and Glick,



1994), in this section will be introduced a classification of subsidiaries according to their situation facing with the local environment.

In a preliminary phase of this study, the existing subsidiary typologies of White and Poynter (1984) and Jarillo and Martínez (1990) were used with the aim of explaining the different behaviours adopted by subsidiaries facing adverse conditions. The subsidiary responses were not homogeneous inside each category in the previous typologies. The analysis of the data collected in the country study and the revision of literature drove to the proposition of a new instrument for classifying subsidiaries adapted to the Venezuelan reality (Yin, 1984). As shown in Figure 1, the dimensions used in this typology are: the environmental determinism, this is, the extent the environmental conditions restrict or harm the realization of subsidiary activities or, in the opposite case, facilitate or benefit those activities. The second dimension, related to subsidiary pro-activity, measures the extent the subsidiary anticipates or actively reacts to environment conditions.

This new typology could be useful both for supporting headquarters and subsidiary decisions when analyzing the effects of environmental adversity on subsidiary, a question that has not been analyzed in the literature before. Furthermore, the typology can help to analyse in which way subsidiary response when facing adverse conditions influences subsidiary success. This is a question not analyzed in typologies such as Jarillo y Martínez (1990). There, subsidiaries in a same category (Active, Receptive and Autonomous) react in a different way when facing adverse conditions.

Although these dimensions have not been combined before for creating a subsidiary typology, both have been analyzed independently in the literature on foreign subsidiaries.

- In developed countries research has shown that favourable environmental conditions can positively influence the subsidiary competences' profile

(Birkinshaw, 1999; Andersson, Forsgren and Holm, 2002). Studying the effect of environmental conditions in developing countries could help to explain whether the environment plays the same role that in the analysed countries or not.

- The subsidiary pro-activity is related to the concept of subsidiary initiative. Birkinshaw and Hood (1997) analyse the factors driving the foreign subsidiary development, underlining that apart from headquarter decisions that had previously been considered de unique development driver, decisions adopted by subsidiary management and environmental influence could also help to subsidiary development. Subsidiary initiative means that the relation between subsidiary management decisions and subsidiary assets level is reciprocal. In developed countries the initiative has proven to have a positive effect on subsidiary development (Delany, 2000), in adverse conditions the impact of initiative on role improvement has not been studied yet.

As a result of the combination of both dimensions four categories of subsidiaries can be identified: *protected*, *affected*, *adapting* and *outstanding*.

**Figure 1.** Classification of foreign subsidiaries in adverse environments.

		<b>Environmental determinism</b>	
		Non Restrictive	Restrictive
<b>Subsidiary pro-activity</b>	Low	<b>Protected</b>	<b>Affected</b>
	High	<b>Outstanding</b>	<b>Adapting</b>

In this section the characteristics of each group of subsidiaries are explained. In each group we begin by explaining the fundamental reason for naming in this way the corresponding category of subsidiaries and which are the arguments that allow us to place the subsidiaries there. The impact of environmental conditions on subsidiary roles is also analysed besides the management responses adopted both by subsidiaries and headquarters in order to remain in the same category or to change its profile.

#### **4.1. *Protected* subsidiaries**

Subsidiaries are classified *protected* when they benefit directly from local government actions, mainly in three different ways:

- Government acquisitions: some of the studied subsidiaries attained from 50% to 100% of sales to public administrations, while other direct competitors in the same industry

were not allowed to deal with public sector, usually following headquarters' instructions.

- Restrictive exchange policy: the exchange controls limit the free currency conversion. *Protected* subsidiaries use to enjoy priority access to foreign currencies, according to the discretionary preferences of administrators, while other subsidiaries face strong difficulties in exchanging currency.
- Discretionary industry policies: Those industries considered of strategic interest for local government become overregulated and intervened. Private investment is limited with the aim of protecting local firms, mainly state owned. Obtaining concessions or achieving access to public firms become an important advantage for those subsidiaries that achieve it.

The main consequence of the environmental benefits on this group of subsidiaries is the development and reinforcement of the previous subsidiary role. Role changes to superior ones have not been observed for these subsidiaries. This outcome has been achieved through profit increases or increased market share, boosted by the direct or indirect government support.

The main management response for this subsidiary group is that parent – subsidiary relationship strengthens as a consequence of the dependence of the subsidiary role on local government decisions. MNCs owning subsidiaries in this group are aware of the fact that their units benefit from external conditions. They don't exert control over these external forces and they cannot anticipate when they are going to change. Thus, headquarters try to reduce uncertainty by reinforcing relationships with their foreign subsidiaries, the only internal aspect over they have control. Intensification of relationships is implemented

through increased levels of coordination (centralization, formalization and socialization) and direct control.

The next table summarizes the main characteristics and identification data for *protected* subsidiaries.

**Table 3.** Summary of *protected* subsidiaries characteristics.

Characteristic	Description
Number of subsidiaries	4 (9,8%).
Home country	Europe: 3. USA: 1.
Joining mode	Greenfield: 3. Acquisition: 1.
Subsidiary age	Young: 1. Experienced: 3.
Operations type	Manufacturing: 2. Sales and marketing: 1. Services: 1.
Classification according to Jarillo and Martínez (1990) typology	Autonomous: 1. Receptive: 3.
Headquarters strategic approach	Multidomestic: 1. Global: 2. Transnational: 1.
Coordination mechanisms	C-F-S: 3. C-F: 1.
Control mechanisms	Direct and outcome: 3. Outcome: 1.

Note: Centralization (C), Formalization (F), Socialization (S).

#### 4.2. *Affected* subsidiaries

This group is composed of subsidiaries whose roles have declined and whose capacities have atrophied because a reduction of operations in the host country. Among the main problems faced by this subsidiaries can be mentioned:

- Demand contraction: economic difficulties, inflation, currency depreciation that have not been compensated with the corresponding adjust for maintaining the population's purchase power have caused a drop in the demand.

- Legal security problems: related to the lack law attendance, the lack of effective mechanisms for the protection of property rights.
- Unfavourable industry policies: related to overregulated industries or industries where incoherent or inconsistent policies have been implemented.

Problems originated in the local environment have drove to role decline. Even though the decline originated in the environment, it was also parent driven as headquarters lost interest in their investments as Venezuela became a less attractive destination.

Subsidiary and corporate responses have been varied and simultaneously adopted, usually oriented to maintaining or reducing operations in the country. In this group the majority of decisions have been made by headquarters, only those subsidiaries owning a greater set of resources have tried to fight against environmental conditions. Thus, can be remarked:

- Structural and / or functional cut: some subsidiaries have reduced their organizations both in terms of assets or workforce, others have suffered resizing by reducing or eliminating the subsidiary functional scope.
- Lost of report line: some *affected* subsidiaries lost their direct report line to the headquarters. Now they are subordinated to other higher level subsidiaries and they have to report through them.
- Weaken parent – subsidiary relationships: the use of coordination mechanisms is relatively low compared to other subsidiary groups. Direct headquarters' control over subsidiary activities dropped.
- Use of local managers: some headquarters have reacted replacing expatriate managers by local ones.

- Headquarters help: usually economic support for helping the subsidiary to maintain its operations or for facing the extra costs of withdrawing operations and reducing workforce. Only occasionally these funds were used for locating new activities in the subsidiary in order to help it to maintain the revenue necessary for continue operating in the country.

The next table summarizes the main characteristics of the subsidiaries considered as *affected*.

**Table 4.** Summary of *affected* subsidiaries characteristics.

Characteristic	Description
Number of subsidiaries	8 (19,6%).
Home country	Europe: 6. USA: 2.
Joining mode	Greenfield: 5. Acquisition: 2. Joint Venture: 1.
Subsidiary age	Young: 3. Experienced: 5.
Operations type	Manufacturing: 2. Sales and marketing: 3. Services: 3.
Classification according to Jarillo and Martínez (1990) typology	Autonomous: 3. Receptive: 3. Active: 2.
Headquarters strategic approach	Multidomestic: 2. Global: 2. Transnational: 4.
Coordination mechanisms	C-F-S: 1. C-F: 3. S: 2. F: 1.
Control mechanisms	Direct and outcome: 3. Outcome: 5.

Note: Centralization (C), Formalization (F), Socialization (S).

### **4.3. *Adapting* subsidiaries**

*Adapting* subsidiaries are local market oriented and perform in the host country most activities of the value chain. They constantly adapt to their environmental conditions through:

- Strategic and operational adaptation: which requires from subsidiary as many adjustments as are necessary to avoid losses in market share, earnings or returns because changes in environment conditions. These adjustments can be evidenced in the product portfolio, new ventures in the local market, performance improvement, new structures for functions of sales or logistics, outsourcing, product development, etc.
- Critical capabilities development: in areas that allow subsidiaries to environment conditions. Among these capabilities can be mentioned: anticipating and response skills, constant performance and efficiency improvement, superior sales and marketing, distribution and logistics skills, specific financial abilities for funds management.
- Activities in industries with low host government requirements or consistent public policies.

*Adapting* subsidiaries keep their market position and their efforts in efficiency improvement let them to enjoy good profit levels. Thus, they reinforce or develop their mandates and achieve notoriety within the corporation through new responsibilities like becoming a strategic centre for the multinational, or increasing their market scope or participating in company's worldwide projects.

For subsidiaries in this group, the best way for achieving an excellent fulfilling or their roles is to maintain and improve all capabilities that allow them adaptation to the



environment conditions. *Adapting* subsidiaries strategies are based on flexibility to internalize role's changes, develop new initiatives to reinforce their capabilities and profit location advantages of host country.

Table 5 shows a summary of the main features of *adapting* subsidiaries.

**Table 5.** Summary of *adapting* subsidiaries characteristics.

Characteristic	Description
Number of subsidiaries	23 (56%).
Home country	Europe: 11. USA: 10. Latin-America: 2.
Joining mode	Greenfield: 15. Acquisition: 8.
Subsidiary age	Young: 11. Experienced: 12.
Operations type	Manufacturing: 11. Sales and marketing: 5. Services: 7.
Classification according to Jarillo and Martínez (1990) typology	Autonomous: 12. Receptive: 7. Active: 4.
Headquarters strategic approach	Multidomestic: 9. Global: 4. Transnational: 10.
Coordination mechanisms	S: 3.            F-S: 4.        C-F: 3. F: 6.            C-S: 1.        C-F-S: 5. C: 1.
Control mechanisms	Direct and outcome: 3. Outcome: 20.

Note: Centralization (C), Formalization (F), Socialization (S).

#### 4.4. *Outstanding* subsidiaries

These subsidiaries achieve relevant positions, carry out activities closely integrated within their corporations, and export high levels or production from the host country. They usually are market leaders, but their operations barely depend on their host country which

means that hostile environment conditions have low influence on their activities, their main features are:

- Exclusive distinctive capabilities within their corporations: recognized by headquarters and differentiate from other sister subsidiaries.
- High integration with the multinational's activities, related with a strong interdependence and coordination of many functional areas.
- Localization advantages of host country are used both to obtain supplies and to easily get to other markets, especially the USA.

Because a wide range of distinctive capabilities, *outstanding* subsidiaries have reinforced or developed their mandates and increased notoriety through their contributions to the multinational, since they transfer knowledge and resources to the corporation by exporting to other units business ideas, talented people and best practices. Many of Venezuelan subsidiaries studied achieved this charter recently, although others got this position as a result of an evolution path that lasted many years.

Management response in *outstanding* subsidiaries promotes corporate initiative from the subsidiary. From headquarters perspective, instead of a resistance attitude, which is common for the others categories of subsidiaries, headquarters support and allow all initiatives seeking subsidiary development, especially those proposed in the areas where de subsidiary has proven capabilities and has made relevant contributions to the corporation.

Table 6 shows a summary of main features of *outstanding* subsidiaries.

**Table 6.** Summary of *outstanding* subsidiaries characteristics.

Characteristic	Description
Number of subsidiaries	6 (14,6%).
Home country	USA: 4. Latin-America: 2.

Joining mode	Greenfield: 2. Acquisition: 4.
Subsidiary age	Young: 4. Experienced: 2.
Operations type	Manufacturing: 5. Services: 1.
Classification according to Jarillo and Martínez (1990) typology	Active: 6.
Headquarters strategic approach	Transnational: 6.
Coordination mechanisms	S: 1.          C-F: 3. F: 1.          C-F-S: 1.
Control mechanisms	Outcome: 6.

Note: Centralization (C), Formalization (F), Socialization (S).

## 5. DIFFERENCES AMONG CATEGORIES

Beyond the main features that allow the creation of the typology proposed in this paper (see Table 7), among the subsidiary types were identified many additional differences related to the environmental effects on subsidiary roles and the management response they have brought.

**Table 7.** Summary of subsidiary characteristics according to their way of facing the local environment.

<i>Protected</i>	<i>Affected</i>	<i>Adapting</i>	<i>Outstanding</i>
Benefit from: - Government purchases. - Exchange and commercial policies. - Industry policies.	Adversely affected by: - Demand contraction. - Lack of law safety. - Industry problems.	- Strategic and operative adaptation to the environment. - Generation of distinctive capabilities. - Low regulation industries.	- Distinctive capabilities recognized by headquarters. - High interdependence with other corporate units. - Use of localization advantages.

In *protected* subsidiaries mandates were reinforced along with an increased intensity of headquarters – subsidiary relationships. Subsidiaries roles get stem: headquarters grant the subsidiary to exploit this particular advantage that local government confers, but

limiting their mandate to current activities and responsibilities. This allow short term returns but impede subsidiary development beyond the limits of its current role.

Instead, in *affected* subsidiaries mandates decline even though multiple actions are to avoid the situation, such as functional and organizational downsizing, penetration in new markets, economic support from headquarters and / or autonomy grants.

*Adapting* subsidiaries focus their efforts on developing new initiatives and capabilities for environment adaptation and then allowing them to reinforce and extend their mandate, even when in some cases these have lead to huge mandate changes. Finally, *outstanding* subsidiaries develop their roles towards international operations, avoiding *adapting* efforts to mitigate environment conditions.

Between *adapted* and *affected* subsidiaries arise interesting differences since both are fighting hostile environment conditions, but in the *affected* case, corporate resistance and low pro-activity prepare multinationals for divesting in host country, while in *adapting* subsidiaries, which are constantly developing new initiatives, obtain increased reputation within their corporations.

Differences between *adapting* and *outstanding* subsidiaries rely on the level of integration with multinational operations and host market sales dependence. While *outstanding* subsidiaries perform greater integration for their operations, and suffer lower dependence on the local market, *adapting* subsidiaries show lower levels of global integration and their income depend mainly on their locals sales.

Further differences between *adapting* and *outstanding* subsidiaries come from the pro-active attitude. Pro-activity in *adapting* subsidiaries originates in their need of overcoming hostile environment conditions. Instead, *outstanding* subsidiaries proactivity

depends in a higher degree on their capabilities and resources stock, bargaining power within the corporation and integrated operations.

## **6. CONCLUSIONS**

In this paper were identified many subsidiary responses to environmental conditions. This conditions change according with the industry in which the subsidiary operates, but can also vary from one to another subsidiary depending on their relationship with local administration. Facing similar conditions, subsidiary response may be different, so is possible to recognize which has had better results among them.

Country risk perception of the multinational reduces its commitment with the host market. Pros and cons of local environment conditions are considered by multinational strategy, so new opportunities are followed with caution, increasing control over subsidiary's activities and limiting business relations with local government. When conditions negatively affect local operations headquarters avoid new investments, so subsidiaries focused on local market can only improve their mandates developing initiatives by their own with limited resources. Reducing dependence on local market allow subsidiaries reputation and bargaining power increases within the corporation.

Management response is more active when local government intervention increases, but responses will come from headquarters or subsidiaries depending on how pro-active subsidiary is, in which case it is related with the subsidiary resources and capabilities levels.

Differences in subsidiary resources and capabilities levels may explain different headquarters attitudes when subsidiaries face restrictions in their local environment. If subsidiary has low resources and capabilities levels, headquarters avoid new initiatives

from subsidiaries or commitments to local market, just like in *affected* subsidiaries. Instead, for *adapting* subsidiaries, headquarters attitude is basic to create the context in which are developed the initiatives necessary to overcome hostile environment conditions.

Stable and favourable local conditions encourage subsidiary development, but Venezuelan hostile conditions can also drive subsidiary new capabilities and initiatives that can be transferred to the corporation. *Adapting* subsidiaries have developed marketing, distribution and capabilities, have increased their efficiency and have acquired expertise in change management and financial resources management. Those capabilities gave them a notorious position within the multinational and let them transferring their experience to other sister subsidiaries.

There are some restrictions in this research, such as the following: 1) Subsidiary that had suffered total withdrawal were not studied; 2) interviews and information gathered only from Venezuela subsidiaries, with no access to headquarters or sister subsidiaries opinions.

There are also some ideas for future research: the methodology developed in this paper could be statistically tested and applied to other market sharing similar environment conditions in order to validate the categories proposed here.

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