Autonomy or isolation? A subsidiary perspective

Abstract

In this paper we discuss the issue of subsidiary autonomy in contrast with subsidiary isolation. The purpose is to shed light on the darker side of autonomy and unfold the effects of isolation at subsidiary level. In particular by exploring the case of an acquired unit we tackle the problems of lack of vertical communication and overall lateral integration. With reference to research streams on subsidiary roles and subsidiary development we argue that these two aspects have direct impact on the subsidiary decision making and activities. When vertical communication and lateral integration are missing often due to the lack of internal acceptance and legitimacy, subsidiary autonomy might turn into subsidiary isolation, which causes higher subsidiary risk-taking behavior and at the same time dissatisfaction of subsidiary management. On the basis of the case insights some final propositions are offered for future research.

Keywords: Subsidiary isolation, autonomy, centralization, vertical communication, subsidiary initiative.

AUTONOMY OR ISOLATION? A SUBSIDIARY PERSPECTIVE

INTRODUCTION

In recent years different streams of research within IB have been focusing on the issue of subsidiary autonomy, considered as a central component to modern MNC strategy.

The MNC through its network of specialized subsidiaries, dispersed in many different countries around the globe, achieves and sustain its competitive advantage by enhancing resources, competence and capabilities that reside at subsidiary level (e.g. Cantwell 1989, Kogut and Zander 1992, Doz et al 2001, Forsgren et al 2005). Therefore we can easily argue that decision making and strategizing do not belong anymore only to HQs but reside also at subsidiary level. One key ingredient that the subsidiary needs to be able to carry out this new and highly important (not to say complex) role is freedom in decision making (i.e. autonomy).

Researchers focusing on the HQ-subsidiary relationship as well as those concerned with the centralization-decentralization (e.g. Otterbeck, 1981; Leksell, 1984; Gates & Egelhoff, 1986) and local responsiveness-global efficiency questions (e.g. Bartlett & Ghoshal, 1989; Doz & Prahalad, 1991) are often mentioning autonomy as a fruitful factor that subsidiaries necessitate to fulfill their increasingly challenging tasks.

Other adjacent streams of research dealing specifically with the autonomy issue are those focusing on subsidiary roles, initiates and evolution (e.g., .g. Pearce, 1992; Forsgren, 1995; Birkinshaw & Hood, 1998; Birkinshaw 1999; Taggart, 1999). Although having some differences these works all agree in presenting subsidiary autonomy as a means for subsidiary growth and prosperity on one side or as a desired result of subsidiary entrepreneurial activities on the other (e.g. Birkinshaw & Morrison, 1995; Forsgren, et al., 1992; Hood &Taggart, 1999).

However, it seems that scholars have mostly tried to find positive implications of subsidiary autonomy and left out the discussion of the potential negative effects that autonomy may generate, exception made for the reference to subsidiary opportunistic behavior.

In this paper we aim at unpacking the issue of subsidiary autonomy and from a subsidiary perspective to shed light on the circumstances that may transform subsidiary autonomy into "subsidiary isolation".

With support from our empirical analysis we argue that the overall positive assumption related to subsidiary autonomy is not always valid. Particularly we find that autonomy alone is not enough to generate fruitful outcomes. In fact if the subsidiary lacks of vertical communication and lateral cooperation it will find itself isolated in its venture. Our conclusions (and propositions) point to the subsidiary legitimacy and subsidiary management motivation as the two critical factors for sustaining strategic activity at subsidiary level as well as necessary to activate the potential benefits of subsidiary autonomy.

The explorative case study presented here was carried out in one of the leading MNC in the forestry industry and one specific subsidiary, located in the USA and operating within the packaging industry, is set in focus. The case provides a valuable example of a very resourceful, entrepreneurial and autonomous subsidiary that tries to expand internationally. But, because of lack of vertical communication, legitimacy and links with the corporate network is constantly forced to question itself and to face high organizational and market risks.

In the next section we present the paper's theoretical fundaments. The description of the case study will follow with some methodological notes. Before concluding and providing some leads for future research a series of propositions is presented on the based of the case discussion.

THEORETICAL BACKGROUND

The MNC being present in a large number of countries and business contexts faces a highly complex and challenging task of strategic management as the number and types of competitors, customers, suppliers and institutional environments multiply. At the same time efforts are spent to draw consistent strategies among the different contexts to reach and maintain sufficient levels of economic efficiency. Thus, MNC management has to balance the classic trade off of local responsiveness at the subsidiary level and global integration at corporate level. This balancing can manifest itself in many different forms and through the employment of disparate (formal and informal) mechanisms (e.g. Bartlett & Ghoshal, 1989; Martinez & Jarillo, 1989). One of the key aspects is the strategic structuring of the organization as a network of specialized unit. Under the pressure of many different internal and external drivers each of the unit will have its specific profile and characteristics. This has opened the doors to research dealing specifically with subsidiary roles, subsidiary evolution and subsidiary initiatives.

The conceptualization of the MNC as an interorganizational network well captures the changing roles of subsidiary (see for instance Ghoshal and Bartlett 1990, Hedlund 1986). This view, in contrast with the traditional hierarchical perspective, assumes that the MNC, in response to the changes occurred in the international competitive environment during the last couple of decades, has developed its organization into multiple centres of expertise spread around the world (see for instance Hedlund, 1989; Bartlett & Ghoshal 1989 and 1990; Ghoshal & Nohria, 1997; Holm &Pedersen, 2000). In this way subsidiary increased their strategic importance and received many labels by researchers and practitioners such as specialized contributor, strategic leader, centre of excellence (CoE), subsidiary with world (WP) and world product mandate (WPM). Overall, subsidiaries with strategic importance for the whole corporation are expected not only o be autonomous and drivers of innovation but also to be source of valuable competence for the rest of the organization (e.g. Taggart, 1997; Ghoshal 1986). This means that autonomy and freedom in decision making, known to foster innovation and competence creation, shouldn't lead to organizational isolation. Nevertheless this is not easy to accomplish when holding valuable competence and specific responsibilities that might not be recognized or accepted by the peers. This calls for the relevance of the role played by the HQs and the organizational structure. However, HQs are often pushing for more centralization, while subsidiaries seem to be autonomy-seeking (Paterson and Brock, 2002), and this situation is not problem-free.

Subsidiary Autonomy

Two of the most accepted definitions of subsidiary autonomy are one by Taggart (1997): "Autonomy may be regarded as decision-based process that evolves through bargain between the center and the periphery within an organization", and the other by O'Donnell (2000): "Autonomy is defined as the degree to which the foreign subsidiary of the MNC has strategic and operational decision-making authority". Although describing the same phenomenon they are quite different in the sense that they represent the distinction between formal and informal autonomy. Formal autonomy has been granted by the authority, i.e. the HQs, while the informal one is obtainable from a power position provided for instance from the possession of unique valuable resources (e.g. Birkinshaw, 1997, 2000). Thus one key question to be addressed concerns the difference between assigned as compared to assumed autonomy in the development of particular subsidiary role and strategy

An important point to be made about autonomy is the distinction between the different perspectives as viewed by HQs as opposed to the subsidiary. Therefore, the subsequent acknowledgement that autonomy is always a relative concept, it is perceived from a specific perspective and with reference to a specific counterpart.

Some studies on control and centralization have been highlighting how autonomy varies also across functional areas (Goehle, 1980, Hedlund 1981), and because of different company and industry characteristics (Hubert and Brandt, 1980, Hedlund 1981).

The level of subsidiary decision making autonomy is affected also by the overall MNC structure as it determines the potential flows of information and the extent and easiness of control. To operate effectively, the subsidiary manager needs relevant information about the products the subsidiary handles and about the environment it operates in. Structures that enhance the availability of such information ought to allow headquarters to give subsidiary managers greater autonomy (Baliga & Jaeger, 1984). However, HQs is likely to cede decision-making autonomy to subsidiaries only if it is convinced that the structure provides adequate opportunities for supervision of subsidiaries' operations.

Previous research has studied also how autonomy varies among MNCs with different levels of global diversification, but does not focus on variation among subsidiaries within a MNC. Thus the necessity to focus on differences in autonomy granted to subsidiaries within a MNC stemming from differences such as ownership, location, and strategic role assigned to the subsidiary.

An important stream of literature dealing with autonomy is "subsidiary mandates". A subsidiary mandate is a business in which the subsidiary participates and for which it has responsibilities beyond its national market (Birkinshaw, 1996). One of the main drivers behind the growing scope of subsidiary responsibilities is the increasing globalization of markets and liberalization of trade within regions. A specific kind of subsidiary mandate is the world product mandate (WPM). In IB literature WPMs have been receiving attention as a valuable organizational response to the need of subsidiary specialization (see also Pearce 1992, Roth & Morrison 1992). Normally a WPM gives the subsidiary global responsibility and autonomy for a single product line, including development, manufacturing and marketing. Generally, literature describes mandates as given by HQs implying a sort of agreement and understanding behind it. Although as described by Birkinshaw (1996) sometimes the subsidiary might consider the approval from HQs as risky, and therefore leave it for later on when the subsidiary business is further developed and consolidated. This shows how fuzzy still is perceived the role of HQs to be, although it seems that at the end subsidiaries need approval from authority.

With a similar take on autonomy we have also studies about "Center of Excellence" (CoE). A CoE is instead conceived more broadly as a unit with expertise in primary or support activity that other parts of the corporation draw on (e.g. Forsgren, 1995). Here however the stress on the corporate network is much stronger and meaningful as compare to WPM, and the role (and authority) of HQs is left in the background.

Another relevant stream of thoughts also dealing with autonomy is "subsidiary initiatives". Subsidiary initiatives are defined as an entrepreneurial process, defined as one or a series of autonomous actions that seek to develop the value-added scope of the subsidiary (Birkinshaw et al., 1998). Thus, subsidiary initiatives need autonomy and strong power basis as they often have to face the corporate immune system (as in Birkinshaw & Ridderstråle, 1999), in other words to get established they face resistance from existing power bases within the corporation.

Overall successful use of autonomy requires power and influence with the HQs. Sources of power include subsidiary competencies/resources (and the requirement that these are needed by other units in the MNE); external relationships; internal contacts and relationships; reputation; shared values between HQ and subsidiary management (Andersson & Forsgren, 1996; Andersson & Pahlberg, 1997; Prahalad & Doz, 1987). Birkinshaw and Ridderstråle (1999) regard these as the sources of resource-based power, in comparison with structural power which relates to power allocated through corporate administrative systems.

Summing up, in IB literature there seems to be an overall positive attitude towards autonomy. This positive stance seems destined to even increase as corporate strategy becomes more complex and challenging for the top management team's capacities (Paterson and Brock, 2002).

There have been a number of studies considering the influences upon and effects of subsidiary autonomy. For example, Ghoshal and Bartlett (1988) found that autonomy facilitates the creation and diffusion of locally developed innovations. Other work has suggested a positive influence of subsidiary autonomy on local responsiveness, the formation of global mandates for subsidiaries and on performance. Subsidiary development literature looked into how autonomy and active development allow subsidiaries to increase their influence within a MNC (Forsgren, Holm, & Johanson, 1992) and facilitated the formation of global mandates (Birkinshaw & Morrison, 1995).

However, autonomy is not enough for the healthy growth of subsidiaries and overall corporate strategy. In fact there is a risk as we will further develop throughout the paper that autonomy might turn into isolation. From the subsidiary perspective there is a clear need of vertical communication with HQs and lateral integration with sister units in order to be able to capitalize on gained or assigned autonomy.

Autonomy and vertical communication

Subsidiary autonomy is directly influenced by HQs related factors including corporate culture and management style, mission and objectives, planning and control mechanisms, attitudes to centralization/decentralization, and the specific relationships with subsidiaries.

Birkinshaw and Morrison (1995) emphasize the necessary and proactive role of HQs in directing global strategies. Early research assumed that the subsidiary role was assigned by the parent company (see for instance Jarillo & Martinez, 1990). Today it is known that also the subsidiary itself may have a significant influence upon its own development. More specifically Birkinshaw and Hood (1998) identified three main drivers of subsidiary development, namely, head office assignment, subsidiary choice and local environment determinism. However, whatever is the driver it seems also clear that somehow the HQs have to supportive or at least receptive to subsidiary proposals (see for instance the discussion in Birkinshaw and Hood, 1997).

In a related vein, Holm and Pedersen (2000) distinguish the autonomous way from the integrative way to subsidiary development. The former comprises deepening relationships with external context-specific counterparts at the expense of further MNE integration; and the latter takes the form of expanding internal relationships and becoming involved in corporate learning and decision-making. A somewhat similar approach is developed by Pearce (1999) in his discussion of 'creative' subsidiaries, which may derive either from a subsidiary product idea or from global innovation.

So it is clear that if the autonomy is given by HQs the relationship between the two will further exist and available as fertile ground for communication. What is to us more important is however the case of the subsidiary acting autonomously on the market on the basis of own choice or environmental pull. This is the case when vertical communication might lack and problems could arise for the subsidiary.

Thus, the relationship between the degree of autonomy held by a subsidiary and its cooperation with the HQs is in focus. As suggested by Taggart (1999) there is a positive association between the level of autonomy and the level of communication between the subsidiary and the HQs and the level of innovation within the subsidiary. In fact, for instance according to Roth and Morrison (1992) "word mandate" subsidiary work together with HQs to develop and implement strategy. IN this way the subsidiary gains decentralized centralization as activities are integrated worldwide but they are managed by the subsidiary and not the HQs. This somewhat in line with the Bartlett and Ghoshal (1986) subsidiary type "strategic leader", a subsidiary with high levels of resources and operating in a very important market, and with Jarillo and Martinez (1990) "active subsidiary", that reaches both local responsiveness and global integration.

Summing up subsidiary initiatives are promoted by a high level of autonomy and distinct subsidiary capabilities, but are suppressed by a high level of centralization, low level of subsidiary credibility, and low level of corporate- subsidiary communication.

Autonomy and lateral integration

Parent–subsidiary and inter-unit communications and knowledge flow patterns are deemed to influence subsidiary roles and behaviour. Although it is believed that autonomy and intra-group communications are somewhat related, evidence is still limited.

Subsidiary initiatives, even if they are autonomous acts they need support and coordination from its peers. A point made by Birkinshaw and Ridderstråle (1999) is that the corporate resistance to subsidiary initiatives is not only coming from above, but it is also from sister units (and divisions).

From WPM research it is known that such a role does not imply that the subsidiary is totally self-sufficient. It is often the case that it establishes links with sister units and source necessary resources, nevertheless with proper responsibility and on own terms. This means that increased autonomy for the subsidiary doesn't correspond to autarky (Pearce, 1992) and that autonomy alone is not sufficient. Thus, in line also with the network MNC perspective, subsidiaries with successful word mandate are expected to have high later linkages with sister units (Birkinshaw & Morrison, 1995).

Also from global account management literature, dealing explicitly with the co-ordination of activities involved in serving a single customer in multiple countries, it is clearly shown the importance of information processing capacity (Birkinshaw et al 2001) as a way of facing increased information processing demands generated by market globalization. Internal support systems are important for enabling global account managers to do their jobs effectively (Shapiro & Moriarty. 1982), i.e. the global account manager need to share ideas and connections with peers.

In this way also the HQs role has to be adapted and shift from direct control to management and support of dispersed (i.e. located in different locations and countries) strategic processes. A dispersed configuration favours global based sources of competitive advantage and provides an opportunity for subsidiaries to develop expertise in managing international operations (Roth & Morrison, 1992). However, to be successful, MNC strategy needs to be adopted corporate wide, i.e. there cannot exist a mix-strategy where only very few subsidiaries have for instance a mandate.

Additionally internal competition between subsidiaries should be avoided. Although it is a sometimes a planned strategy (see for instance Birkinshaw California MR, 2001) meant to stimulate flexibility and motivation and change, it needs to be closely controlled by top management as it easily degenerate into conflicts.

In view of the above discussion of subsidiary autonomy we argue that is not well managed subsidiary autonomy may change into subsidiary isolation. Subsidiary isolation will generate negative effects at subsidiary level as will be further developed through the analysis of the following case study. Furthermore, on the basis of our findings we propose that the two aforementioned factors, vertical communication and lateral integration, are essential for autonomy to be avoid turning into isolation. Specifically we mean that autonomy when turning into isolation lowers subsidiary management motivation and increase risk taking behavior on the market.

METHOD

This research study was conducted within a large multinational (SCA) by examining one specific subsidiary (TSB) of the firm American concern.

Access to the companies was gained through the headquarters of the buyer (SCA) in the beginning of 2005. Interviews €were conducted with top executives at HQs and subsidiary managers at TSB and several other American sister units. A semi-structured interview guide was used and modified as new insights were gathered. A total of 20 interviews were conducted in the United States and Sweden. Interviews spanned from one to several hours in length. Respondents were informed of the purpose of the research prior to the interview. A “courtroom” procedure was used, in which questions concentrated on facts and events rather than on respondents’ interpretations, especially of others’ actions (Eisenhardt, 1989).

All interviews were tape-recorded and transcribed. Follow-up questions were asked via phone and e-mail, especially when clarification was needed. Frequently at interviews, several respondents would be present at the same time, each having been responsible for different aspects of a particular innovation development and transfer. The interviews also encompassed demonstration of production facilities, product innovations, technologies and applications. Interviews ended when the researcher considered a satisfactory level of understanding had been reached for the purpose of the research.

Upon completion of the interview series, all the collected information was synthesized into a case history that included the description of the decision-making process, actions that key managers took throughout the process, and outcomes that followed.

THE TSB

SCA is a Swedish-based MNC operating worldwide within the forest industry. With annual sales of €11 billion and 51.000 employees (2006), SCA is formally structured into six divisions: SCA Packaging Europe, SCA Tissue Europe, SCA Personal Care, SCA Forest Products, SCA Asia Pacific and SCA Americas. The latter division, with almost 10.000 employees and over 70 manufacturing locations, is further structured in 4 subdivisions: Packaging North America, Personal Care North America, Tissue AFH North America, and Latin America.

Within SCA Packaging North America there is a subsidiary specialized in temperature assurance solutions, the "ThermoSafe Brands" (TSB). TSB with its customizable products and services is leader in new packaging technologies including gels, insulation, containers and monitors, and it is specialized in foam moulding, rigid PUR manufacturing, gel-pack manufacturing and rotational moulding. TSB's business and technical competence is unique within the SCA group as well as it is rather new in absolute terms as the niche itself is still emerging within the packaging industry.

The TSB Business and organization

TSB was formed in 2003 by the acquisition and merge of 4 local independent ventures: ISC, an Arizona-based supplier of high performance insulated shipping containers, Polyfoam Packers, producer of protective packaging for the shipment of temperaturesensitive products based in Illinois, Mid-Lands Chemical, manufacturers of artificial ice and other refrigerants within the 'cold-chain' segment, and H&R Industries, supplier of insulated fibreglass and polyethylene returnable containers for food based on the East cost. Today, TSB is formally a subsidiary of SCA Packaging North America and reports to the SCA Americas Division HQ located in Philadelphia.

TSB supplies its clients from many facilities across the US and its total sales amount to more than 100 millions USD (2006). TSB, driven by customer demand for an increasing variety of solutions, made of its product range a key competitive tool. Broadening its catalogues without internalizing development and manufacturing activities is considered by TSB as a fast and efficient way to compete and gain market shares. Thus, beside customers' drive, key external suppliers of partial or complete solutions (such as current providers of cryogenic containers, UPS soft packaging and 'Red Cross' blood packaging-case) are increasingly important to TSB growth. However, from an organizational perspective TSB acts independently from the rest of the SCA, i.e. no internal cooperation aiming at new product/technology development nor exchange of goods.

In fact, within SCA, TSB is fully responsible for running its business, although with limitation to the US. TSB decides freely when comes to its suppliers, production capacity, internal investments (technology and people), marketing mix, new product development and introduction. TSB cooperation with sister units overseas and HQs is almost none. Between TSB and the SCA corporate HQs in Stockholm there is no formal or direct connection. Some sporadic contacts are though hold with SCA Packaging HQs in Brussels. Meaningful is the comment of a TSB manager on the unit positioning within SCA: *"We tried to connect with the rest of SCA, but it did not work. We were helped only in terms of financial resources, especially at the time of TSB formation. We are not integrated within the group and we are acting autonomously. We could say that we are working our way* *through the market in order to get legitimate within the company. Once we win the market we have to get credit from the rest of the organization."*

The TSB plans for international development

TSB is currently aiming at further expanding its operations in Europe. Such plans have been within TSB since its formation in 2003, but several organizational problems have been hindering them. For instance, according to TSB President, lack of communication and corporate recognition is has been a major drawback on TSB. Moreover cultural problems between TSB mangers and SCA managers, particularly the European ones, have been strong and TSB is perceived as a non-similar unit because of its particular market strategy and business vision. As TSB' Marketing Director commented: "*The expansion into Europe is critical for our survival and success, but all our efforts have always crashed on the rocks of SCA European politics"*.

This situation did get better when a new head of SCA Packaging EU stepped in (mid-2005). He recognized the need of TSB to expand into Europe and the opportunity that this represents for SCA. He also admitted that the only way to bring TSB business into Europe was through an acquisition of a local already established player and to avoid contact with existing SCA European organization. TSB identified Cool Logistics as the most suitable target. Cool Logistics is a UK-based company with 1 production plant in UK and one logistic hub in France. It operates all over Europe, although the majority of their sales (about 9 ML USD) are in UK and France.

Unfortunately, the TSB decision to buy Cool Logistics coincided with SCA HQs (Stockholm) decision to temporarily stop all acquisition planned within the group. TSB, to still implement its plan and avoid the obstacle posed by HQs, invested in a minority share of Cool Logistic, so to be ready and finalize the deal when acquisitions would be again permitted. The shadow of the stop to acquisitions threatened TSB for more than a year. During this time TSB management has been afraid to loose not only the financial and time investment made, but also a good potential partner, or even worse to create a new strong competitor able to exploit the competence and technology that TSB had shared meanwhile.

However, the TSB management overall still believes that they are late in their international development and that they are still struggling to do it the right way mainly because of lack of directions from the HQs and due to the general hostility of SCA sister units. Central to TSB plan of international expansion is however a stable growth in its home market. According to TSB President, to sustain overseas development TSB has to be doing extremely well in US so to have resources enough to be independent from SCA in its activities: *"The only way for TSB to actually enter into Europe is by doing it independently, slowly and by growing first strong in US. We have to show to SCA HQs that we are very successful in what we are doing and that we can make it by ourselves."* - TSB President.

Besides the further development of the business into Europe, TSB plans include also the internationalization into Asia. The TSB management considers entering the Asian region, and in particular China, the last critical step to develop a global business. As further describes the TSB' Marketing Director: *"It has always been our vision to run the TSB business from Chicago at global level. SCA HQs never said anything in favour or against. So still today we believe in our ideas but we don't know if HQs will prefer us to run the business worldwide or if they would like us only to transfer competence to the other regional divisions. We are left alone and we have no information from the centre, so we are making our bets".*

The TSB Development Struggle

According to TSB President, the growth of the firm into Europe represents a big risk, not only in economic and business terms, but also because there is no guarantee that TSB will be able to run the European operations in the future. In fact SCA HQs are not involved in the project and TSB is doubtful about what stand the HQs will take concerning the thermo packaging business in Europe for the future. As he further commented: "*Probably the most risky thing that we as TSB have ever done is to move somewhat against SCA organization and take the first step into Europe through an acquisition and by aiming at making TSB a global venture*" – TSB President.

It seems that since the beginning, TSB unique approach to the market caused big acceptance problems of TSB within SCA organization. TSB is defending its own business model since it has been proven successful on the market, and because no opposing direction has been given by the HQs. However, the situation has degenerated to the point were some units are pointing at TSB as a threat to their businesses. This has been evident in the US and even more in Europe. A TSB manager further commented: "*the difference between the US situation and the European one is that the latter is 100 times worse than in the US as the SCA organizations in Europe is much larger, much more rooted into the company heritage and the market is much more segmented than it is in US*".

The problem overseas seems rooted at national subsidiary level. While Brussels HQs are finally trying to support TSB plan at the same time they don't want to alter the existing equilibrium in each of the countries and they are afraid to create problems into the existing organization. TSB trusted Brussels into channelling them into Europe but they never actually committed into that. As a TSB manager commented: *"People in Brussels have been promising support, but during the past years they never actually did anything concrete and I believe that they did not have any clear plan for TSB beyond agreeing to the idea that was good for TSB to come to Europe".*

As for the Stockholm HQs, after the initial involvement during the acquisition phase of the four companies that came together to form TSB, they never got again directly involved with any issue related to TSB. The believe of TSB management is that once the unit has grown bigger and it collected some more market successes it might have than the strength to became more visible within SCA without the risk of being stepped over by sister units.

Another issue related to TSB difficulties to go overseas seems connected to previous miss communication between the SCA North America top management and the European one. In particular more than once American values and attitudes have been negatively interpreted by European mangers, thus creating somewhat of a hostile ground between the parts. This situation led TSB to be careful with its overseas potential relationships. TSB is aware of the importance to be recognized and accepted by other SCA people, but also that takes time because TSB is acting autonomously, far away from the centre and without any official support from corporate HQs.

To gain more legitimacy TSB has been looking at SCA Hygiene way of operating as reputed to be more similar to TSB than the SCA Packaging one. In fact SCA Hygiene is running its business in a consumer oriented way, with a pan-European structure, with key accounts, brands etc. The packaging business is very much a local business. TSB aims at shaping the first Pan-European operation within packaging and that has never been attempted before within SCA Packaging division. In this sense TSB is not only pushing for its own business within SCA but also for their “business model” (e.g. how to structure their business and how to organize their resources accordingly).

Moreover, TSB got to know that some of the Packaging units in Europe are already serving potential TSB customers with some kind of basic solutions resembling those of TSB. Basically those units are offering some extra components to their ordinary packaging solutions. But this kind of activities is not yet recognized as a different type of business, but it is considered as part of standard packaging solutions. The SCA units that are already doing some sort of thermo protective packaging in some locations around Europe are few and so far they did not try to develop the business in the way TSB did. As commented by TSB Marketing Director: "*SCA does not see that they already have a sort of raw TSB business in Europe which could be easily pulled together, shaped up and rendered as an official business segment, not anymore driven by customer last minute needs by a competent sales and marketing organization which could favour customers by offering better products and services across the whole European region*".

That is why recently TSB managers met with some local subsidiary managers of SCA Packaging in Europe and tried to promote the idea that a thermo business within SCA Europe should be formed and that TSB had the intention to be the promoter of such initiative. According to TSB mangers, local European SCA managers' reactions have been quite different. Some managers, although agreeing with the idea, they did not want to be involved, others, although interested, were convinced that there is not enough business in the region, and at last there were those not interested at all. One of TSB managers further commented: *"European subsidiaries seem havening their own issues and they don't tell us what these issues are, and that is the reason why we find a wall in front of our overseas plans"*.

However, from TSB perspective overall today there are no clear synergies that can take place between units in the current organization of SCA Packaging in Europe, and that is perceived to be a critical issue; even more important is also apparent that the lack of open communication between the parties is precluding much of TSB potential as part of the SCA group.

Summing up, accordingly to its president, TSB recognizes the entrepreneurial benefits from being part of SCA, but at the same time, as mentioned before, SCA is also considered the major hinder to TSB growth. *"SCA has enormously contributed to the initial development of TSB. SCA gave us the possibility to do a much better business, grow as a firm, develop a strong brand, be entrepreneurs and successful. But at the same time SCA has been blocking our ambitions and efforts to further expand and particularly into Europe. The only way for us to actually enter Europe is to do it independently, and by growing strong in US before. We have to risk and show to SCA HQs that we are very successful in what we are doing and that we can make it by ourselves"* – TSB President.

DISCUSSION AND PROPOSITIONS

The insights from the TSB study well depict the importance of subsidiary autonomy management. In the following discussion we particularly focus on the TSB problems related to missing vertical communication and lateral integration. We also deal with the two main effects on subsidiary risk taking behavior and subsidiary management motivation.

On the basis of the case insights we argue that legitimacy and organizational acceptance are necessary elements of subsidiary autonomy. Already Birkinshaw and Ridderstråle where leading the way by arguing that the final manifestation of the corporate immune system is the "lack of legitimacy" of the initiative in the other units. Sister units were dismissing TSB ideas even before hearing them, and the one time some met with TSB, there was a lack of overall acceptance and questioning of the intents. Sister units would be of critical help in TSB growth and through cooperation TSB initiatives could be employed more efficiently, and this would not damage but enhance TSB autonomy.

As with reference to authority we can draw the distinction between the cases when autonomy is given by authority or when is driven by the subsidiary itself. When subsidiary autonomy is top-down assigned, it is generally positively accepted by subsidiaries, but if it is the output of an emerging process, it has to be somehow legitimated within the corporation and particularly by HQs. But what if there is no real desire of autonomy and at the same time integration is difficult? Like in the case of TSB there is a status of subsidiary autonomy that could be quickly changing in isolation. Moreover, we know from previous studies that parent–subsidiary communication had a limited positive impact on contributory role of the subsidiary, while autonomy has important influence on both initiative and subsidiary role. Birkinshaw (1996, 1997) identifies different forms of subsidiary initiative, i.e. local market initiative, internal market initiative, global market initiative and hybrid initiatives. High autonomy appeared important for local and global market initiatives, but low autonomy was associated with internal market and hybrid initiatives. Furthermore he argues that high parent–subsidiary communication is associated with internal market while the reverse is true for external local and global market initiatives. But, he does not consider the effect of lack of communication on legitimacy and motivation as apparent from the TSB case. TSB complains for the fact of not being able to reach the HQs and cooperation with sister units. Recalling what TSB management commented: *"We tried to connect with the rest of SCA, but it did not work. We were helped only in terms of financial resources, especially at the time of TSB formation. We are not integrated within the group and we are acting autonomously… We are left alone and we have no information from the centre, so we are making our bets… European subsidiaries seem havening their own issues and they don't tell us what these issues are and that is the reason why we find a wall in front of our overseas plans".*

On the basis of our findings we argue that lateral integration and parent–subsidiary communication are very important as they enhance autonomy effects. This is translated in the following propositions:

Proposition 1a. Effects of subsidiary autonomy on subsidiary development are positively enhanced by lateral integration.

Proposition 1b. Effects of subsidiary autonomy on subsidiary development are positively enhanced by parent–subsidiary communication.

Although in recent years there has been an overall research shift of focus to the subsidiary from the MNC as whole or the HQs, still negative effects of autonomy are mostly from the HQs perspective. For instance Prahalad and Doz (1987) already pointed out and warn for the risk that autonomous barons within the diversified MNC would damage the regular evolution of corporate strategy. In this paper we complement previous work and we set the focus not on opportunistic elements but we are pointing to legitimacy and motivational aspects that autonomy necessitates to generate positive effects.

We argue that when autonomy is perceived by the subsidiary not as a benefit but as a constraint on their initiatives, the subsidiary managers will increase their risk-taking behavior to compensate eventually with market success the lack of internal support. In the case it is clear how TSB enhances its entrepreneurial activities outside on the market due to the limited possibility of expansion within the corporation. TSB international expansion plans were not supported by sister units located overseas, and the HQs role in this situation was clearly missing. The MNC HQs have never got in any sort of direct communication with TSB while the divisional HQs where maybe better listeners but never actually actively helped TSB in its development. On the contrary, even the divisional HQs where avoiding to put TSB in direct contact with subsidiaries located in Europe, so to avoid potential tensions.

Thus, TSB shows that a possible reaction to isolation is increased risk taking behavior. TSB feels that it need to prove to be successful in order to get accepted within the group.

The words of the TSB president as reported in the case well represent this point: "…*We have to risk and show to SCA HQs that we are very successful in what we are doing and that we can make it by ourselves"*. Thus, we propose that:

Proposition 3. Subsidiary isolation decreases subsidiary management motivation and increases risk taking behavior.

As described in the theoretical background, subsidiary initiatives are expressions of autonomy, and they may take two different forms. On one side are internally focused initiatives, based on opportunities identified within the corporation and pursued through a traditional bottom-up process. On the other side there are externally focused initiatives, based on opportunities found outside the corporation within the market (Birkinshaw & Ridderstråle, 1999). The literature deals with these two as rather independent types of initiatives. What is known is that external initiatives that take shape typically through the interaction with external customers are different from internal ones as there is no loser, in the sense that there is no direct contrast. Moreover, most external initiatives seem to be hidden from corporate eyes and ears. Subsidiary mangers attempt to get market acceptance first and subsequently present the initiative to the corporate management as already accomplishes and with success. From TSB we can see how there can be the case of an internal initiative (to transfer its business through the existing network of units into other regions) is blocked by a series of factors, as previously discussed, and it turns to be instead a series of external initiatives with the aim that they generate internal advantage effects. Thus the following proposition:

Proposition 4. When internal initiatives find no acceptance efforts turn towards external initiatives.

At last a special aspect that we can find in the TSB study regards the implications related to the subsidiary formation. Specifically we refer to the fact of acquisitions as compared to other possible forms, i.e. Greenfield and JVs.

Regarding acquired subsidiaries, it seems that, since they have a history of their own and already possess distinctive capabilities, they are likely to have greater autonomy (Young et al., 1985). Also Andersson and Forsgren (1996) for instance corroborate this positive association between autonomy and subsidiaries established through acquisition. This would translate in higher risks of isolation as an acquired venture would be as we said more autonomous and certainly would not possess later integration yet and HQs might keep distance as the intention is not to interfere on their ongoing business. Therefore we can postulate the following proposition:

Proposition 5. Autonomy effects are more negative in the case of an acquired subsidiary than of a Greenfield investment.

CONCLUSION

In this paper we have dealt with the issue of subsidiary autonomy and in particular from a subsidiary perspective. By exploring a case of a specific MNC subsidiary we have questioned if autonomy is always good and we dealt with the risk of subsidiary isolation.

Summing up our case findings and theoretical discussion we argued that the conditions that might turn autonomy into isolation are: 1) lack of vertical communication, and 2) weak lateral integration. The implications that we found in these circumstances are: 1) low motivation of subsidiary management and, 2) increase in risk taking behavior on the market, and 3) high conflict potential with the peers.

We have dealt also with the issue of acquisition and its implications for autonomy effects. We argue that acquisitions are potentially more negatively affected by autonomy than the case of Greenfield and JV units.

This paper, beyond the typical relevant limitations for its kind, stresses the importance of conducting research on the negative effects of subsidiary autonomy and in particular by adopting a subsidiary perspective. However, much work remains to be done in exploring cause and effect of subsidiary autonomy and isolation. In that sense, the propositions we formulated on the basis of the case analysis could be a good starting point for future research.

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