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**Organisational Relationships, Autonomy and the  
Employment of Skilled Labour by Subsidiaries**

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# **Organisational Relationships, Autonomy and the Employment of Skilled Labour by Subsidiaries**

## **Abstract**

The paper develops a conceptual model on relationship between the strategic development of subsidiaries, in developed economies, and the development of higher valued operations that leads to increased employment of skilled labour. A concept of effective autonomy is developed in the paper. Effective autonomy is conceived as the ability of the subsidiary to implement and finance its desired increase in skilled labour. The interrelated effects between effective autonomy and intra and inter organisational relationships and employment of skilled labour are found to be uncertain because effective autonomy can be supportive of the development of intra and inter organisational relationships that requires a higher proportion of skilled labour, but effective autonomy can lead to deterioration in intra-organisational relationships thereby leading to a more peripheral role played by the subsidiary thus lowering the need for skilled employment. The conceptual model is based on changes in effective autonomy and intra and inter organisational relationships and is therefore set in the context of the evolution of the development of subsidiaries. The paper concludes with an examination of the usefulness of the model to help MNC managers to assess the implications and obstacles to the strategic development of subsidiaries. This section of the paper also considers the value of the model to public policy makers to assess the implications of the strategic development of subsidiaries and the subsequent impact on local development.

## **1.0 Introduction**

The growth of international trade and investment flows and the subsequent changes in the employment of labour has called into question whether the globalisation process leads to beneficial outcomes for labour (Gray, 1998; Bakan, 2004; Stiglitz, 2006

). In developed countries there is a fear of a loss of jobs as multinational corporations (MNCs) engage in foreign direct investment (FDI) that is thought to lead to a transfer of employment from developed to developing countries (Giddens, 2001; Dobbs, 2004). There has arisen a strong popular opinion that MNCs are creating major problems for employment in developed economies. Managers of parent companies and also in the subsidiaries of MNCs face considerable pressures to justify and defend their trade and investment policies in the face of the criticism that they are exporting jobs to developing countries. Regional development policy makers are also caught up in the controversy that surrounds the globalisation debate as they seek to increase and defend employment levels in their regions.

There is an extensive literature on the employment effects of FDI (Barrell and Pain, 1997; Driffield, 2006; Drifiled, 2000), but most of the studies focus on the spillover employment effects of investments rather than the direct employment effects of the strategic development of MNCs. However, it is in the area of the strategic decisions of MNCs that managers of parent companies and subsidiaries are subject to the most strident criticism about the export of jobs. Moreover, the direct employment of labour by MNCs is a critical concern for regional development policy makers. The strategic development of MNCs in the areas of autonomy and the organisational relationships in their

subsidiaries should lead to the creation of jobs in areas that are connected to the competitive advantages that exist and are being developed in the host locations of the various parts of MNCs. In developed countries, given the relatively high cost of labour, this will tend to increase the demand for skilled labour in order to obtain high productivity to compensate for high wage and non-wage costs. The ability of subsidiaries to increase employment of skilled labour is likely to be associated with the development of autonomy and organisational relationships because subsidiaries need to be able to develop competencies that permit them to increase their use of skilled labour. There are few studies on the links between the strategy development of subsidiaries and their employment of skilled labour (McDonald et al, 2005). There is also a lack of developed conceptual models that link the strategic development of subsidiaries to their direct employment of skilled labour. This paper develops a conceptual model that considers the links between the demand for skilled labour by subsidiaries and the development of autonomy and organisational relationships

The paper is structured in the following way. First, the debate on globalisation and employment is outlined to illustrate the concern about loss of jobs that are deemed to arise from the strategic decisions of MNCs. This is followed by a section outlining the major existing literature on the strategic development of subsidiaries. The next sections develop the conceptual model and derive propositions on the relationships between direct employment by subsidiaries and the interaction between effective autonomy and intra and inter organisational relationships. The paper concludes with consideration of some of the

implications of the model for the managers of parent companies, subsidiary managers and regional development policy makers.

## **2.0 Subsidiary Development and Employment**

The international business literature suggests that the strategic objectives of MNCs are likely to have significant implications for subsidiary development and by extension to employment in host locations (Birkinshaw and Hood, 1998a; Young and Tavares, 2004). Resource-based theories of MNCs indicate that they seek to strategically develop some of their subsidiaries by granting them autonomy to embed into their host locations by establishing links with other firms and agencies to acquire desirable assets and knowledge that help to promote the objectives of companies (Birkinshaw *et al.*, 1998; Moore, 2001; Andersson and Forsgren, 2000; Andersson *et al.*, 2002).

The subsidiary roles and the development of these roles are influenced by autonomy and organisational relationships, which in turn impacts on employment decisions (Poynter and White, 1985; Jarillo and Martinez, 1990; Birkinshaw and Morrison, 1995; Birkinshaw and Hood, 1997; Pearce 1999; Taggart, 1999; Dörrenbächer and Gammelgaard, 2006). Subsidiaries can range from a miniature replica, a duplicated microcosm of the headquarters that produces and markets some of the parent's products, to a strategic independent unit with the freedom and resources to develop products for global markets (Poynter and White, 1985). Birkinshaw and Morrison (1995) highlight subsidiary mandates and emphasize whether the unit has gained local, regional or global responsibilities. At the organisational structural level, Nohria and Ghoshal (1997) view

the MNC as a differentiated network, with subtle differences in subsidiary descriptions, and a huge variation of headquarters – subsidiary relationships within the same organization. The effects of these factors on host locations depends on whether the subsidiaries remain stable, or whether strategic development leads to an extension or demotion of subsidiary business activities. A survey by Jarillo and Martínez (1990) revealed that some subsidiaries become more enmeshed into intra-organisational activities over time. A follow up study by Taggart (1998b and 1998c) confirms the result and another study, building on Poynter and White (1985) terminology, found that 40 % of subsidiaries with lower level strategic autonomy experience an upgrade in responsibilities within a 5 year period (Taggart, 1999).

### **The evolution of strategic development**

Subsidiaries are involved in an evolutionary process of strategic development that can be associated with increase in higher valued activities that are in turn related to increases in their hiring of skilled labour. The ability of subsidiaries to acquire autonomy and to develop organisational relationships depends on their bargaining power (Taggart, 1999, Dörrenbächer and Gammelgaard, 2006), and a multitude of industry and market factors, the characteristics of HQ-subsidiary relationships and control systems and the entrepreneurial activities of subsidiary managers (Burgelman, 1983; Brockhoff, 1998; Birkinshaw and Hood, 1998 a and b; Harzing and Sorge, 2003; Young and Tavares, 2004). Strategic developments of subsidiaries are likely to induce economies of scale and scope, learning effects and new and/or improved access to valuable assets. These

developments are likely to lead to lower production and transaction costs, enhanced revenues and/or innovations. These changes should in turn lead to the development of higher valued operations, which require more skilled labour. This process is illustrated in figure 1.

Figure 1 about here

In favourable situations the strategic development of subsidiaries should evolve along the lines illustrated in figure 1. Some subsidiaries may however reach a stage where strategic development changes stop because the ability to reap the benefits of strategic development ends. Deterioration in the relationships between HQ and subsidiaries may also lead to the stop to strategic developments. In these circumstances the subsidiary would enter steady state equilibrium. In situations where subsidiary performance or relationships with HQ significantly deteriorate there may be decline in strategic development or even the termination of the subsidiary. There may also be cases where changes in industry and market conditions, in HQ views, and entrepreneurial activities by subsidiary managers lead to a revival from steady state or decline situations. In these cases strategic development could take off after a period of stagnation or decline. Consequently, the evolutionary path outlined in figure 1 may not arise if a subsidiary is in steady state or the decline phases of development. Nevertheless, on average, assuming that most subsidiaries are experiencing changes involving strategic developments, there should be a positive relationship between changes in strategic development and the employment of skilled labour by subsidiaries in developed economies. For such a positive relationship not to be observed over a large number of subsidiaries would require that a large majority of subsidiaries were either at steady state or in the decline stage. This

would imply a host economy that was either facing very static conditions, or was experiencing fundamental decline over a large range of industries. An alternative explanation is that there is widespread conflict between the various components involved in the strategic development of subsidiaries, which results in the continuation of the steady state or decline phases, even in the face of changes to some or all of the drivers involved in strategic development. The latter possibility is examined in the section 4.0 of this paper.

### **Skilled employment versus competencies of labour**

Engaging in more high valued operations is likely to increase the demand for skilled employment (for example, Managers, Professional, Technicians and Associate Professionals, such as designers, marketing experts and supply chain management experts), in proportion to semi-skilled (for example, Clerks, Craft & Related Trade Workers, Service Workers, Plant and Machine Operators and Assemblers) and to unskilled staff (for example, elementary occupations such as Cleaners, Porters, and General Labourers)<sup>1</sup>. In developed countries demand for skilled labour is likely to grow faster than for semi-skilled and unskilled workers because of the need to obtain high productivity from the workforce to compensate for high employment costs.

The use of this categorization of skilled labour distinguish this paper from the common association of skills, such as the Nelson and Winter (1982) definition which regards skills as a “capability” and exemplifies this as “the ability to serve a tennis ball well (p.73).

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<sup>1</sup> These classifications come from the *International Standard Classification of Occupations (ISCO-88)* – see International Labour Office (1990) for further details.



Skills would, using this line of argumentation, relate to the ability or cleverness of an employee executing a specific task, or the skill of the organization, often represented by best practices or routines. We, therefore, do not point to the fact that changes in autonomy or organisational relations either increases or decreases the individual staff members capabilities, rather we emphasize that these changes impact the share of managers, professionals, and technicians in proportion to semi-skilled and unskilled workers such as clerks, assembly workers and general labourers.

### **3.0 Autonomy and intra and inter organisational relationships**

The three key factors connected to the strategic development of subsidiaries are autonomy, intra and inter organisational relationships. The relationships between each of these factors and the employment of skilled labour by subsidiaries are investigated before the paper examines the interactions between these factors and the consequent impact on the employment of skilled labour.

#### **Inter-organisational relationships**

Inter-organisational relations are the links that the subsidiary has with its customers, suppliers, competitors and supporting agencies such as governmental and quasi-governmental agencies. The importance of inter-organisational relationships is especially highlighted by the value attached to locating within local networks to develop international competitiveness. This has been investigated in terms of the role of geographical factors in the internationalisation process (Porter, 1990 and 1994 Dunning, 2000). This literature indicates that the use of local networks composed of other firms,

R&D agencies such as universities and government research bodies, local authority agencies, chambers of commerce and other organisations can help subsidiaries to attain their objectives. These local networks enhance the ability to attain collective learning and innovation benefits (Lundvall, 1999) and to acquire spillover benefits associated with proximity (Porter and Sölvell, 1999). These network benefits form the basis for agglomeration benefits. Local networks that provide such benefits are at the core of clusters or industrial districts that have been shown to deliver competitive advantages to foreign owned subsidiaries that locate in these geographical concentrations (Benito, 2000; Driffield and Munday, 2000; Enright, 2000; McNaughton and Green, 2002). The benefits of external relationships arise from external economies of scale, increased flexibility from proximity to suppliers, customers, and supporting agencies. Moreover, acquisition of desirable locally available assets should be enhanced because of the use of inter-organisational networks.

The concept of embeddedness involves the level of trust, and the willingness to adapt resources and procedures in cooperating organizations, and this has typically been related to inter-organisational relationships (Andersson *et al.*, 2002; Andersson *et al.*, 2005). These studies argue that subsidiaries, which are strongly embedded in inter-organisational relationships are more likely than lightly embedded subsidiaries to develop competitiveness (Schmid and Schurig, 2003; Davis and Meyer, 2004). Such embeddedness can enhance the effectiveness of both backward linkages and forward linkages, and further benefits can arise from increased abilities in gathering and processing information that leads to the acquisition of useful knowledge.

Inter-organisational relationships provide the potential to improve the scope, and quality, of subsidiary operations, thereby promoting the development of high value activities. This should, in turn, induce an increase in the direct employment of labour. Moreover, the integration into inter-organisational relationships should enhance the ability of subsidiaries to acquire knowledge on effective ways to obtain skilled labour, through an increased “knowing how” effect in the host labour market.

### **Intra-organisational relationships**

Intra-organisational relationships are the links that the subsidiary has established with the headquarters and other subsidiaries within the MNC (Birkinshaw *et al.*, 2005). Intra-relationships provide the means to access resources within the MNC that can increase organisational learning (Lundvall, 1999) and lower transactions costs by building up trust in intra-organisational activities (Birkinshaw and Hood, 1998a; Dunning, 2000; Hennart, 2001;) and increase access to valuable knowledge (Schmid and Schurig, 2003; Forsgren *et al.*, 2005). Accessing technological knowledge that can enhance capabilities to innovate is often regarded as being the major benefits that arises from intra-organisational relationships (Papanastassiou and Pearce 1997; Taggart, 1998a; Pearce, 1999; Ivarsson, 2002).

To obtain these benefits from intra-organisational relationships, the subsidiary needs to recruit more senior management, professional, technical, and other expertise, which

implies an increased proportion of skilled management in the labour force. Some of these heavily integrated subsidiaries will provide goods and/or services for all or large parts of the MNC and/or service specific parts of the global markets of the MNC (Holm and Pedersen, 2000). Such subsidiaries are likely to operate within more narrowly defined areas of specializations (Birkinshaw and Morrison, 1995) and this specialization within high value activities, such as R&D requires more skilled labour. In some cases, management of intra-organisational relationships will only requires a minor increase in the proportion of skilled employment, for example in order to coordinate activities with headquarters. In other cases, where the level of specialisation resulting from intra-organisational relationships is stronger, for example in knowledge creation and innovation processes, this is likely to lead to a higher proportion of skilled labour (technicians and associated professionals) compared to the share of semi-skilled and unskilled labour. The increased demand for skilled labour is likely to be strongest for those subsidiaries that become centres of excellence because they will need more skilled labour to meet the demands of supplying other parts of the MNC or the markets of the MNC.

### **Autonomy**

Autonomy has been identified as one of the most important areas of research in cases where the subsidiary is the unit of analysis (Paterson and Brock, 2002). Resource-based theorists have extensively studied the process of autonomy granted to subsidiaries in host locations (Jarillo and Martinez, 1990; Birkinshaw, *et al.*, 1998; Birkinshaw and Hood,

1998b; Holm and Pedersen, 2000; Andersson, *et al.*; 2002). The relationships between autonomy and knowledge creation processes have been emphasized (Brockhoff and Schmaul, 1996; Taggart 1997; Taggart and Hood 1999; Ensign *et al.*, 2000).

The definition of autonomy used in this paper is the one provided by Brooke (1984, p. 9) where autonomy refers to an organization “in which units and sub-units possess the ability to take decisions for themselves on issues which are reserved to a higher level in comparable organizations”. This definition indicates that the subsidiary possesses some strategic decision making authority (O’Donnell, 2000), though in most cases autonomy will mainly relate to its daily operations, as shown by Edwards *et al.*, (2002). The reason for the focus on daily operations is the superiority of information possessed by the subsidiary concerning operational issues (Edwards *et al.*, 2002). The extent of autonomy granted to subsidiaries is also connected to the activity of the subsidiary (Roth and Morrison, 1992; Ghoshal *et al.*, 1994; Birkinshaw and Hood, 1998a and b; Taggart, 1999; Birkinshaw, 1999; Holm and Pedersen, 2000; Birkinshaw *et al.*, 2005). For example, Vachani (1999) found that subsidiary autonomy was greater for marketing and personnel decisions than for R&D and finance. In their description of subsidiary roles Poynter and White (1985) defined one concept of autonomy – the strategic independent unit – as an entity with the freedom to develop and manufacture new products, and to set up new markets. Birkinshaw and Morrison (1995) have developed a subsidiary-role taxonomy, with low autonomy defined as a local implementer of the strategy of parent companies; medium autonomy in the case of specialized contributor that has autonomy in specialised areas; and high autonomy in the case of subsidiaries with world mandates in supply

and/or other activities. The level of autonomy granted to subsidiaries is linked to the strategic orientation of MNCs. In multidomestic MNCs subsidiaries typically have high levels of autonomy and a move away from a multidomestic towards a transnational strategy would reduce subsidiary autonomy (Bartlett and Ghoshal, 1989). The process of autonomy changes connected to the strategic orientation of MNCs is however not always simple. Cantwell and Mudambi (2005) argue that enhanced autonomy can lead to competence creating mandates to exploit locally available assets that increase R&D intensity and thereby induce an increased demand for skilled labour. Clearly, the issue of the strategic orientation of MNCs is important for the development of autonomy in subsidiaries but this is a complex issue that is beyond the main focus of this paper.

Autonomy has also been related to the negotiation processes between headquarters and its subsidiary, showing that decisions are not necessarily exclusively made by either the headquarters or the subsidiary, but rather as a bargaining process leading to either joint decisions, or decision made by one of the partner after consulting the other (Taggart, 1999; Dörrenbächer and Gammelgaard, 2006). Clearly, there are a multitude of factors that underpin the decision by MNCs to grant autonomy or to retain centralised control (for an overview of these issues see Young and Tavares, 2004).

### **Effective autonomy**

The extent of control and monitoring of subsidiaries, is related to the concept of autonomy, but is not necessarily synonymous. A subsidiary might, in principle, possess a

high degree of freedom in the decisions it makes but these may have to be implemented within strong budget constraints determined by headquarters. In the case of employment, a budget determined by headquarters can limit the number, and skill level of subsidiary employees thereby undermining the ability of subsidiaries to implement strategic and operational changes. Clearly, the autonomy that a subsidiary has needs to be effective if it is to be able to implement its decisions. Effective autonomy is defined as the ability by subsidiaries to implement their decisions, including the financial ability to determine budgets that permit expenditures to achieve strategic and operational objectives. Effective autonomy maybe deliberately granted by HQ or can be exercised by subsidiaries within the constraints of the control policies of the HQ. In the latter case subsidiary managers will have exercised entrepreneurial flair to find and use the effective autonomy they possess. Effective autonomy implies the ability of the subsidiary to make employment decisions about the proportion of skilled, semi-skilled and non-skilled employees and under these circumstances the financial control policy allows the subsidiary to make these kinds of employment decisions. Effective autonomy implies that headquarters apply budget constraints that allow subsidiaries to implement the decisions they make within their autonomy mandates.

Effective autonomy that leads to the development of inter and intra-organisational relationships can lead to a changed composition of the labour force by increasing the value of operations by reducing the transaction costs, learning effects and improving access to desirable assets. This would result from entrepreneurial behaviour by subsidiary managers that have effective autonomy to develop links with other parts of the MNC, and

with other firms and agencies in host locations. These entrepreneurial activities are likely to occur, where the subsidiary for example start up independent R&D projects or product development and new product development projects. Brockhoff (1998) has described such activities as a “competence centre” where R&D activities were experimental and specialised. These types of entrepreneurial behaviour have been found in R&D ventures (Davis and Meyer, 2004; Papanastassiou and Pearce, 2005) and in areas such as product and market development (Birkinshaw, 2000; Birkinshaw *et al.*, 2005). These types of entrepreneurial developments can stem from initiatives by subsidiary managers in response to unsatisfactory outcomes (Burgelman, 1983) and can lead to a virtuous spiral of enhanced autonomy arising from entrepreneurial actions by subsidiary managers leading to improved performance that result in further increases in autonomy (Birkinshaw, *et al.*, 1998). These types of entrepreneurial activities are likely to lead to an increased need for skilled labour to manage and utilise knowledge flows within inter and intra-organisational relationships.

According to Edwards *et al.*, (2002) subsidiaries that have been granted autonomy have superior information that can smoothen the subsidiary’s market based transactions. Freedom from close control by headquarters can permit expansion of market-based transactions by subsidiaries because of increased awareness of desirable transactions and lower transaction costs associated of managing such transactions due to the shorter chain of command. Expanding market-based transactions permits increase in the scope and quality of the operations of subsidiaries that will normally involve both quantitative and qualitative extensions of activities, which will create a need for more skilled labour.



The analysis on effective autonomy, intra and inter organisational relationship outlined above leads to the first general proposition. This proposition assumes that most subsidiaries are not in the steady state or decline phase. If for any particular subsidiary, or sub-set of subsidiaries, support could not be found for proposition 1, this would imply that such subsidiaries were either at the steady state or decline phase, or there was conflict between the various factors associated with strategic development. The latter possibility is examined in section 4.0 of this paper.

*Proposition 1:*

*Increases in effective autonomy, and intra and inter organisational relationships will increase the proportion of skilled labour employed by the subsidiary.*

#### **4.0 Interrelated effects between autonomy, organisational relationships and employment**

Thus far it has been argued, that in certain conditions, there will be positive associations between subsidiary development (that is, increase in effective autonomy, inter and intra-organisational relationships) and increases in the employment of skilled labour. However, it is likely that these factors interrelate with each other and thereby exercise a combined effect on the demand for skilled labour variables.

## **Effective autonomy and inter-organisational relationships**

Increased autonomy helps subsidiary management to more effectively establish and deal with beneficial inter-organisational relationships because of a decreased need to obtain approval from headquarters (Almeida and Phene, 2004; Birkinshaw *et al.*, 2005;). Inter-organisational relationships also facilitate the subsidiary's ability to utilize local advantages and to develop entrepreneurial capabilities, both subsequently leading to good performance that leads to subsidiaries being granted autonomy (Birkinshaw *et al.*, 1998; Birkinshaw, 2000; O'Donnell, 2000; Holm, *et al.*, 2003). This type of behaviour has been especially evident in technological developments and in developing innovative procedures and processes (Taggart, 1998a; Davis and Meyer, 2004; Manolopoulos *et al.*, 2005; Papanastassiou and Pearce, 2005). A recent survey by Luo (2005) demonstrated that autonomy in foreign owned R&D units in China lead to beneficial outcomes when these establishments were focusing on development processes in order to adapt products to local market requirements. Furthermore, inter-organisational relationships will in some cases lead to ownership of specific resources upon which other units depend (Pfeffer and Salancik, 1978) and will lead to the granting of higher level autonomy to the subsidiary. Astley and Zajac (1991) emphasized the systemic power of the subsidiary, which is a function of the unit's location and task performance, arising from functional interdependencies due to the division of labour in the MNC. The interrelationships between inter-organisational and autonomy is then predicted to extent the quality and scope of subsidiary operations, due to improved entrepreneurial capabilities and utilization of host country localization advantages, which will lead to the employment of

more skilled labour. A sort of 'synergy' effect is predicted, since subsidiary granted with autonomy will be able to extend the scope and quality of its operation, which further create an incentive to employ even more skilled labour. This reasoning leads the following proposition.

*Proposition 2:*

*Subsidiaries with effective autonomy leading to the development of inter-organisational relationship will expand the scope and quality of its operations that will induce the employment of a higher proportion of skilled labour.*

**Effective autonomy and intra-organisational relationships**

Some subsidiaries, such as rationalized manufacturers as described by White & Poynter (1984), may develop intra-organisational relationships by becoming more integrated into a MNC supply chain. This involves product, information and capital flows to and from headquarters and other subsidiaries. In case where such intra-organisational relationships develop increases in effective autonomy will be required to ensure that the subsidiary makes an efficient contribution to the MNC supply chain (Astley and Zajac, 1991). In these circumstances effective autonomy is not geared to the outputs, marketing or R&D objectives of the subsidiary but to the control of operational aspects connected to the working of their part of the MNC supply chain. This does require a type of effective autonomy because the subsidiary needs to have mandates to make changes and to introduce and develop procedures to ensure the smooth operation of their part of the

MNC supply chain. This is likely to lead to an increase in skilled jobs to integrate the operations of the subsidiary with the complexities of the MNC supply chain. Additional reports, enquires and feedback to HQ and other subsidiaries are often required for the efficient operation of MNC supply chains. For example, Gammelgaard (2007) found in a case study of foreign-owned subsidiaries in the coating industry that the operation of MNC supply chains required an increase in formal reporting back to divisional and central headquarters. This effect will, and especially in minor subsidiaries, increase the proportion of skilled employees providing the subsidiary the needed resources to produce and fulfil control demands. In the case for example of an acquired firm that needs to be integrated into the corporation, but simultaneously will be granted high degrees of autonomy to avoid “value walking out of the door” situations, and to keep highly skilled personnel (Haspeslagh & Jemison, 1991), will cause the expatriation of highly skilled home country employees, which again will increase the proportion of skilled labour in the subsidiary. Based on this line of argumentation, the following proposition is formulated

*Proposition 3*

*Subsidiaries with a higher degree of effective autonomy with increased intra-organisational relationships to develop MNC supply chains will have a higher proportion of skilled employees in order to efficiently operate such chains.*

**Intra and inter organisational relationships**

Institutional theorists have analysed the interdependencies between inter and intra-organisational relationships (DiMaggio and Powell, 1983; Rosenzweig and Singh, 1991), and the subsidiary has been seen as occupying an institutional duality, which involves trying to meet the requirements from the sometimes contradicting forces from the corporation and at the same time the host country (Kostova and Roth, 2002). However, the two forces might not always be contradicting, for example, a subsidiary building up more frequent and intensive relationships with its corporate counterpart partners might obtain leverage from the internalisation effects of collaboration (Buckley and Casson, 1976) providing them with a greater advantage than operating directly in foreign markets (Hymer, 1976). Another example of complementary effects from inter and intra-organisational relationships is the concept of absorptive capacity. In this case a subsidiary builds up knowledge reservoirs from using external sourcing, which can be helpful when the subsidiary sources from other subsidiaries or from the headquarters (Cohen and Levinthal, 1990). Network theorists have argued that absorptive capacity depends on the embeddedness that subsidiaries have in their external relationships (Andersson *et al.*, 2002). Therefore, it is important to establish cross-functional interfaces among inter and intra-organisational relationships in order to be competitive (Kogut and Zander, 1992; Trent and Monozka, 2002). To manage this duality of relationships, more skilled labour in terms of management skills, is needed. Further, increased absorptive capacity makes it easier for the subsidiary to develop higher-value added activities, such as R&D, which in turn induces demand for the employment of skilled labour. This line of reasoning leads to proposition 4.

*Proposition 4:*

*Subsidiaries that effectively deal with the dual forces between intra and inter-organisational relationships will require a higher proportion of skilled labour to facilitate the management and utilization of these relationships*

The postulate interaction between effective autonomy, intra and inter organisational relationships outlined in propositions 2, 3 and 4 are illustrated in figure 2.

(Figure 2 about here)

**Conflict between effective autonomy and intra and inter organisational relationships**

Increasing subsidiary effective autonomy and intra and inter-organisational relationships is often assumed to be a prerequisite for acquiring beneficial effects in host locations (Edwards, *et al.*, 2002). However, increasing autonomy and intra and inter-organisational relationships need not lead to benefits to the MNC because of rent-seeking behaviour by subsidiaries (Mudambi and Navarra, 2004) and failure to optimise the balance in managing the utilization of knowledge and assets in the internal and external environments (Kostova and Roth, 2002; Almeida and Phene, 2004). Evidence on possible conflicts between autonomy and organisational relationships was found in a study by Andersson and Forsgren (1996). They discovered that a low degree of headquarters control was associated with a high degree of external embeddedness, and high degree of

internal embeddedness was linked to a high degree of control by headquarters. Hedlund (1981) and Birkinshaw and Morrison (1995) found that there was low autonomy in cases of significant intra-organisational embeddedness. Further, the combination of effective autonomy and inter-organisational relationships may involve a high degree of conflict between headquarters and subsidiaries.

Subsidiaries fighting for autonomy not only struggle for decision rights concerning the acquisition and utilization of resources (Galunic and Eisenhardt, 1996), but also as their autonomy grows the subsidiary's influence on overall corporate development declines, and there exists a desire for subsidiaries to fight to defining its own identity (Fisher and Ury, 1981; Rothman and Friedman, 1997). Subsidiaries that over emphasize their independence, or place high emphasis on developing inter-organisational relationships, might be considered by the headquarters to be "peripheral" and parent company will downsize its investment in this unit (Phelps and Fuller, 2000). This may lead to the loss of mandates or charters (Birkinshaw, 1996; Galunic and Eisenhardt, 1996). Even though the combination of autonomy and intra and inter organisational relationships, and of inter and intra-organisational relationships is likely to increase demand for skilled labour, the combination of all three factors may offset the postulated positive skilled employment effects. In particular, the development of effective autonomy and inter-organisational relationships may lead to a degree of independence by subsidiaries that threat the major objectives of parent companies. Moreover, the development of effective autonomy that is focused on the objectives of subsidiary rather than for example the efficient operation of MNC supply chains may undermine intra-organisational relationships. These effects depend on whether the level of effective autonomy leads to such conflict. In effect

subsidiaries need to tread a fine line between developing effective autonomy and intra and inter organisational relationships that boost the ability to achieve subsidiary objectives while simultaneously fulfilling the objectives of their headquarters. In these circumstances the parent company may curtail the strategic development of subsidiaries with the consequent implications for higher valued added activities and therefore reduce or halt the expansion of skilled employment. The final proposition is based on these arguments.

*Proposition 5:*

*In cases where effective autonomy and intra and inter organisational relationships lead to a conflict with the objectives of the parent company this will reduce the proportion of skilled labour.*

The relationships postulated in proposition 5 are illustrated in Figure 3.

(Figure 3 about here)

## **Implications**

The conceptual framework developed in this paper provides a structure to construct research agendas that could be used to verify the postulated relationships that are derived from the framework, and also provide evidence on the strength of these relationships. Empirical evidence derived from the conceptual framework could provide useful information to illuminate the debate about the impact of the globalisation process on the



host locations of foreign owned subsidiaries. This would help to provide greater understanding on the impact of the globalisation process on national and local economies. Empirical evidence on the links between the strategic development of subsidiaries and their employment of skilled labour would provide a useful addition to the existing studies on the impact of globalisation on labour markets. Research using this type of an approach would also help us to have a better understanding of the complex interplay between effective autonomy and the intra and inter organisational relationships of foreign owned subsidiaries.

The model and extensions of the model together with appropriate empirical evidence would be helpful for managers in the headquarters of MNCs to assess the likely effect of developments in effective autonomy and intra and inter-organisational relationships in their subsidiaries. Even without empirical evidence from large-scale studies the model suggests ways that managers in parent companies could use the model to frame research on the effects on the direct employment by their subsidiaries of the strategic decisions of the parent company. This type of exercise could help to develop public relations policies to counter the views, harmful to the achieving of the strategic objectives of the MNC, that are often expressed by anti-globalisation activists. Furthermore, the implications of too much, or inappropriate, effective autonomy and organisational relationships can be analysed using this model. In principle, the model could be developed to embrace other outcomes, such as, financial and other measures of performance of subsidiaries. Developments of the model in these directions could provide managers in parent

companies with powerful tools to help them to develop their strategies on the development of subsidiaries.

Subsidiary managers could also find the model useful, as it would provide guidance on some of the implications for direct employment of effective developing autonomy and organisational relationships. Development of the model to include other objectives such as financial performance would also help subsidiary managers to assess the likely implications of changes in autonomy and organisational relationships. This could be used to assess the possible impact of entrepreneurial activities to develop these factors and/or to help to put a case to parent companies for enhancement of effective autonomy and the development of organisational relationships. If evidence can be acquired on the effects of the interaction between autonomy and organisational relationships this would provide a powerful means of analysing the best way to strategically develop subsidiaries. This would be helpful for managers in parent companies and those in subsidiaries. Subsidiaries in the steady state and decline phases could use this framework for identifying where entrepreneurial action was needed to revive the status of the subsidiary and move it towards higher value activities.

The model and empirical evidence derived from it would provide useful material for regional development decision makers because it could indicate likely effects for the direct employment of skilled labour in host locations of the strategic development of foreign owned subsidiaries. The conceptual framework on interaction between effective autonomy and intra and inter organisational relationships with the subsequent link to

direct employment effects provides a route to engage in a comprehensive investigation of the direct employment effects in host locations of the development of foreign owned subsidiaries. To be useful for these purposes regional development policy makers would require empirical evidence from large-scale studies that identified the importance of the links between effective autonomy and intra and inter organisational relationships and the subsequent impact on employment. Evidence on whether host locations had key subsidiaries in the steady state and decline phases of strategic development would be useful to begin the process of seeking to discover if these subsidiaries were in these phases because of changes in industry and market conditions, or whether they were caused by strategic developments in the subsidiary that had led to conflict with the objectives of the parent company. Other possible causes could be lack of appropriate entrepreneurial activities by subsidiary managers. Identification of likely causes of moribund subsidiaries that are not engaged in strategic development, especially of key subsidiaries within regions, could at least help to focus attention on where action was needed to stimulate these subsidiaries and thereby promote growth on skilled employment in the region.

The conceptual framework requires development before it can be operationalised for empirical testing. In particular, the framework requires considerably work to operationalise the conceptual variables – effective autonomy and intra and inter organisational relationships. Definitions, that can be operationalised, are required for skilled, semi-skilled and unskilled jobs. This is likely to be difficult, especially as methods of classifying skills in different countries have not been adequately developed.

In principle, the framework could be developed to investigate other outcomes such as the financial and other types of performance of subsidiaries.

Empirical tests of the developed framework require cross section and longitudinal data. Cross section data will provide insights into conditions in different industries, ages, sizes, entry modes etc. Longitudinal data would provide the best evidence as the nature of the issues under investigation involves the evolution of the strategic development of subsidiaries. Quantitative testing using techniques such as structural equation modelling should be used to test a variety of interrelationships between the variables. Qualitative exploration, especially longitudinal case studies, would help to enrich our understanding of the interrelations between the variables, which would help to develop the conceptual model.

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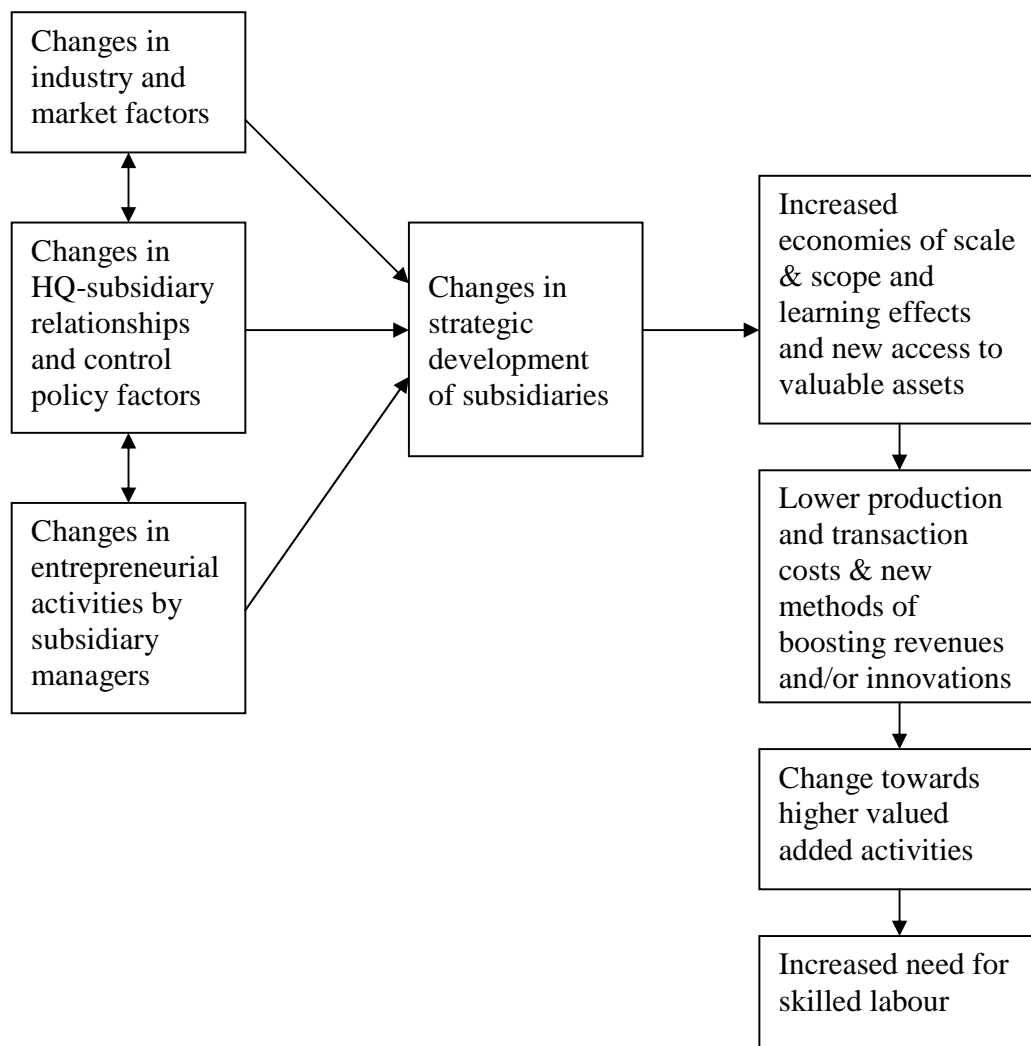
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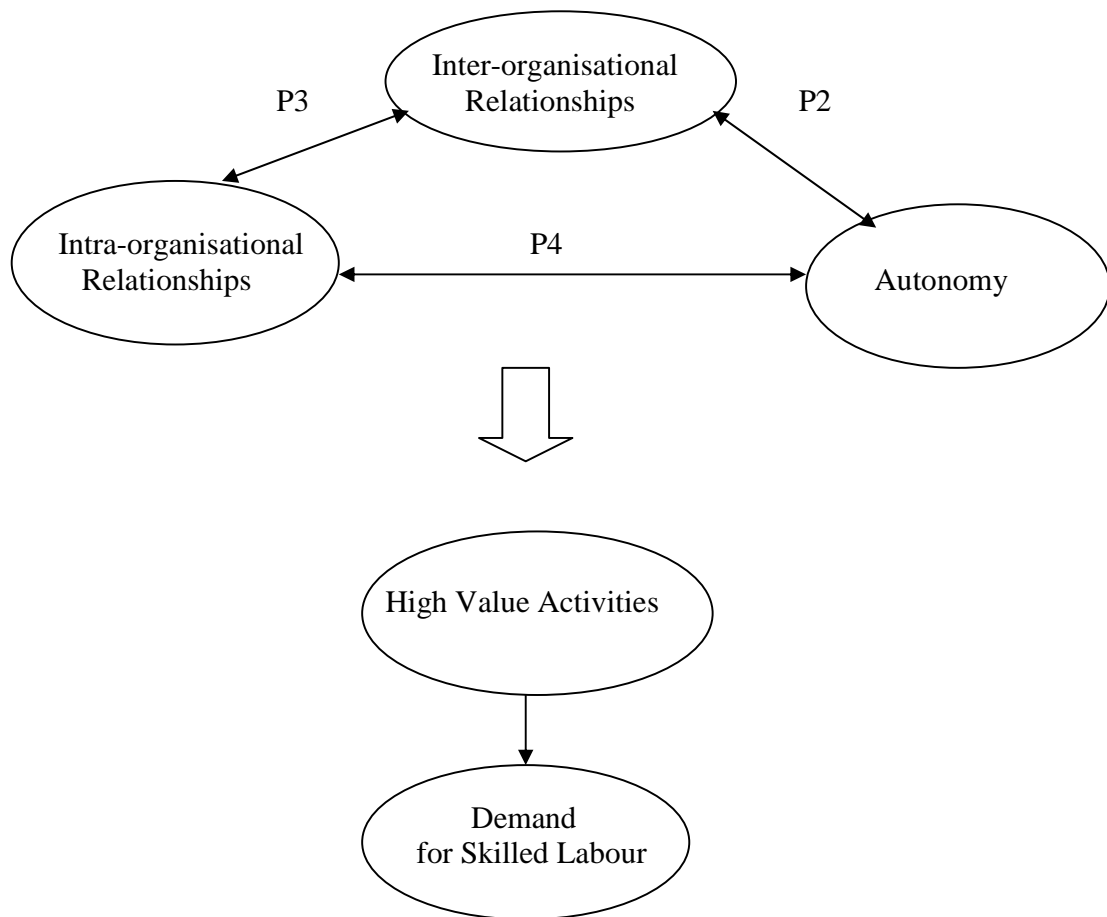
**Figure 1**

**The strategic development of subsidiaries and increases in employment of skilled labour**



**Figure 2**

**Beneficial interaction between effective autonomy and inter and intra-organisational relationships and skilled employment**



### **Conflict in interactions between effective autonomy and inter and intra-organisational relationships and skilled employment**

