Entrepreneurial Foreign Owned Subsidiaries and their Initiatives: The Moderating Roles of Autonomy and Structural Organicity

Subsidiary firms may often be entrepreneurially oriented to pursue initiatives important for building unique capabilities and tapping into new ideas and opportunities (e.g., Birkinshaw, Hood, and Young, 2005; Reilly and Scott, 2014). However, the boundaries of a subsidiary's entrepreneurial orientation (EO) is likely dependent upon the relational context between the subsidiary and the parent firm that either enables or disables subsidiaries to make new entries in international markets. New entry can take various different forms in terms of new products, services, market areas or investments, "new entry is evidenced through new market development activity, new product development activity, or new product-market development activity" (Covin and Miller, 2014 p. 15). In the context of this study, subsidiary initiative is a form of new entry that begins with opportunity recognition at the subsidiary and ends with acceptance and assignment of resources to seize that opportunity from the multinational parent corporation of which the subsidiary is part of (Birkinshaw, 1999).

This article focuses on two structural intra-MNC factors – autonomy and structural organicity – that we posit to affect the subsidiary's EO – initiative relationship. We propose that the relational context between the subsidiary and the parent firm is important while suggesting that the influence of subsidiary's entrepreneurial orientation on their initiative for new entry is facilitated by high autonomy, but organic structures negatively moderate this relationship. We develop our arguments further, and report a test of these claims in a sample of 325 subsidiaries.

In the subsidiary context, a corporate level inertia and resistance for new initiatives are well known to suppress initiatives from subsidiaries to spread across other subsidiaries, yet a

strong EO may act as a driving force turning ideas into initiatives (Scott, Gibbons, and Coughlan, 2010). Hence, we propose that:

H1: Subsidiary's EO is positively related to their initiative.

Autonomy from the parent is essential for the birth of new initiatives (Ghoshal and Bartlett, 1988) and in tightly controlled environments, the chances for creating new initiatives would be low. High level of decision making autonomy is widely accepted as conducive of initiative (Reilly and Scott, 2014). Thus, we propose the following hypothesis:

H2: Subsidiary autonomy moderates the relationship between subsidiary's EO and their initiative.

Organic structure in the subsidiary may magnify spontaneous subsidiary responses to environmental changes. Spontaneous responses and rapid adaptation may be helpful for success in the local market (Scott et al., 2010), but unlikely to support the coordinated development with the larger multinational organization, and focus on alternatives that have little larger relevance for the parent company. New business activities, corporate investments and new products marketed to new international markets all require that a subsidiary follows the formal rules, procedures and communications set by the headquarters. Hence, even though an entrepreneurial subsidiary would actually be very active in developing innovations, enhancements, or entirely new products, these outcomes of the entrepreneurial process remain only of local importance, unless they are effectively institutionalized to the corporate level. We accordingly propose:

H3: Subsidiary structural organicity moderates the relationship between subsidiary's EO and their initiative.

Data and Measures

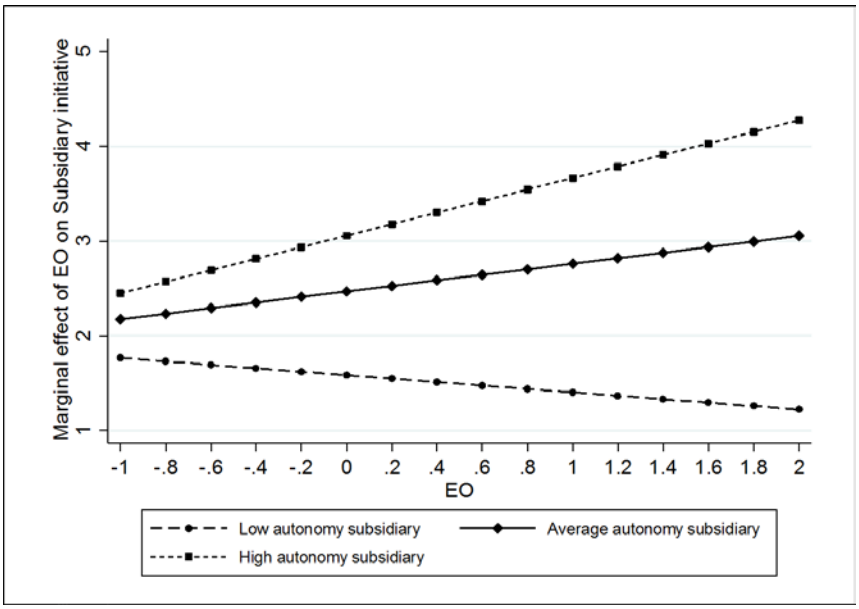
The foreign owned subsidiaries operating in Finland were chosen as the context for this investigation. A total of 325 subsidiary CEOs responded to the survey, resulting in a response rate of 56.7%. A typical Finnish subsidiary (average value) had been in business for 23 years, had an annual turnover of 40.3 million and profit of 24.7 million euros, and had an equity ratio of 26.6 percent and balance sheet value of 45.1 million euros. Various data analysis suggests that the data is sufficiently free from non-response and common method bias. In measuring the constructs we relied upon scales widely utilized and validated in previous studies. EO measure is based on Covin and Slevin (1989), and the scale for subsidiary initiative was adopted from Birkinshaw (1999). Subsidiary autonomy originates to Roth and Morrison (1992) and Edwards et al. (2002) and subsidiary structural organicity was adopted from Green, Covin, and Slevin (2008). We control the size of the subsidiary through assets (in euro), the cultural distance between the subsidiary and its parent (Kogut and Sing, 1988) and environmental dynamism (Green et al., 2008). The reliability and validity measurements of all the scales were acceptable and above the typical thresholds.

The hypotheses were tested by hierarchical regression analysis. The results showed that EO was statistically significantly related to subsidiary initiative (β =.36, $p < .001$), and its inclusion improve the model ($\Delta R^2 = .15$, $F = 51.55$, $d.f. = 1, 237$, $p < .001$). Thus, this result supported Hypotheses 1. In Model 3, we included subsidiary autonomy and structural organicity to examine their potential direct effect on subsidiary initiative. The results show that the main effect of subsidiary autonomy on subsidiary initiative is significant and positive ($\beta = .27$, $p < .001$), whereas the main effect of subsidiary structural organicity is marginally significant and positive ($\beta = .10$, $p < .10$). Comparing the variation explained by Models 2 and 3 suggests that R^2

significantly increases (ΔR^2 = .10, F = 18.97, $d.f.$ = 2, 235, p < .001), justifying the inclusion of subsidiary autonomy and structural organicity in the model. In Model 4, we tested our prediction that subsidiary autonomy and structural organicity moderate the relationship between subsidiary EO and subsidiary initiative. The results show that subsidiary autonomy moderates positively (β = .16, p < .01) and structural organicity moderates negatively (β = −.08, p < .05) the relationship between EO and subsidiary initiative. Model 4 differs statistically significantly from Model 3 (ΔR^2 = .04, F = 7.29, $d.f.$ = 2, 233, p < .001), explaining 44% of the variation in subsidiary initiative. These results support Hypotheses 2 and 3.

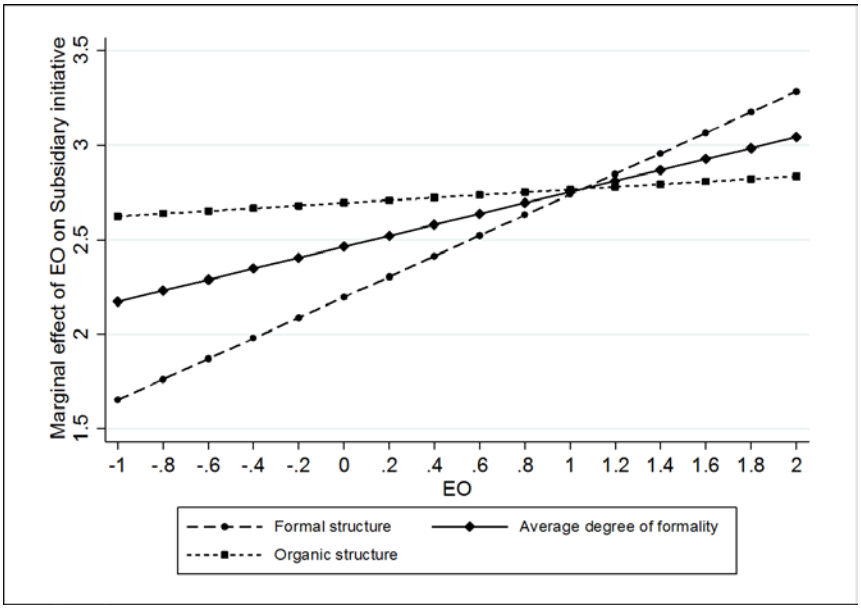
We also plotted the marginal effects of the interaction at different levels of moderator as recommended by Aiken and West (1991). Plotting (see figure 1) confirms that the effect of EO on subsidiary initiative is contingent on the level of subsidiary autonomy. For subsidiaries with high autonomy, the relationship between EO and initiative is positive but for subsidiaries with low autonomy the relationship is negative. In contrast, Figure2 illustrates that when a subsidiary has a formal structure and EO is increasing, the effect of EO on subsidiary initiative is positive and significant. Interestingly, when a subsidiary has an organic structure, increasing EO does not lead to increased level of initiative.

Figure 1 Moderation Effects of Subsidiary Autonomy



Note: When subsidiary autonomy is high or average, the marginal effect of EO on subsidiary initiative is positive and significant at least at the 5% level (two-tailed). Instead, the marginal effects of EO on subsidiary initiative are significant but negative when the subsidiary autonomy is low.

Figure 2 Moderation Effects of Subsidiary Structural Organicity



Note: The marginal effects are significant and positive for all the three levels of subsidiary structural organicity

Discussion and Conclusions

The study responds to the recent call for effective practices of subsidiaries (Covin and Miller, 2014) that could nurture entrepreneurial new entry through subsidiary initiative. We contribute to this discussion with three interesting findings that can direct further research in the area. First, as expected we found that EO is strongly linked with subsidiary initiative. Prior research (e.g. Birkinshaw et al., 2005; Lee and Williams, 2007; Scott et al., 2010) has discussed the potential of entrepreneurial subsidiaries to the broader context of the MNC. While nurturing EO within a MNC is by no means a simple, we set out to investigate two different layers of structure that potentially enable or disable the link between EO and initiative. Second, we found that subsidiary autonomy is a one of the key enablers of EO to transform innovations and ideas to initiatives. This is also fairly intuitive, if there is no freedom to act entrepreneurially in strategic issues, it is unlikely that initiatives will surface.

Third, we found that the structural organicity of the subsidiary moderates the EO – subsidiary initiative relationship. The marginal effects of organicity on iniative are positive and significant in for all levels of EO suggesting that organic structures are supportive of EO – initiative relationship. However, the plotted marginal effect also reveals that in subsidiaries that have high level of EO the effect of EO is higher in more formal organizations than in organically structured ones. This suggests that in formal structures, subsidiary initiatives are driven by EO to larger extent than in organic ones. The result appears to suggest that a subsidiary of an MNC represents a boundary condition for the EO where only "predictable entrepreneurship is palatable" (Miller, 1983, p. 774). The formal structure is unlikely to support the formation of entrepreneurship and innovation as such, but when EO persists, it is effectively channeled into new initiatives that are palatable to the headquarters. Other studies have also found that EO does

not require organic structure, but is equally effective in mechanistic, formal structures (Robertson and Chetty, 2000), and it appears that organic structure is not necessary for EO, but better positioned as Ireland, Covin, and Kuratko (2009) propose, positively related to the presence of entrepreneurial strategic visions.

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