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## Strategy Development Processes and Subsidiary Contribution

Pamela Sharkey Scott

*Technological University Dublin*, [pamela.sharkeyscott@tudublin.ie](mailto:pamela.sharkeyscott@tudublin.ie)

P. T. Gibbons

*University College Dublin*, [pat.gibbons@ucd.ie](mailto:pat.gibbons@ucd.ie)

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## **Abstract**

A recent resurgence in both academic and practitioner interest on strategy development processes and their influence on organisational performance highlights the absence of empirical studies in this area, particularly from an MNC perspective. This study attempts to fill this important gap by applying a multifaceted conceptualisation of the strategy development process to the subsidiary level of analysis. A broad perspective on the effectiveness of strategy making is adopted and measures of contribution examined include financial and market performance, international responsibility, initiative generation and strategy creativity.

Using survey and interview data obtained from Irish subsidiaries of foreign organisations, it was empirically confirmed that formal planning?????

Interesting insights into subsidiary behaviour and specifically into the strategy development styles of subsidiaries are also obtained.

## INTRODUCTION

A recent resurgence in both academic and practitioner interest on strategy development processes and their influence on organisational performance highlights the absence of empirical studies in this area, particularly from an MNC perspective. This study attempts to fill this important gap by applying a multifaceted conceptualisation of the strategy development process to the subsidiary level of analysis. A broad perspective on the effectiveness of strategy making is adopted and measures of contribution examined include financial and market performance, international responsibility, initiative generation and strategy creativity.

Strategy development, as described by Dess, Lumpkin and Covin (1997, pp. 678), 'is an organisation- level process that encompasses the range of activities firms engage in to formulate and enact their strategic mission and goals'. The outcomes from the process constitute strategic decisions which are of critical importance to the organisation, as they 'involve a commitment of large amounts of organisational resources for the fulfilment of organisational goals and purposes through appropriate means...[and].....have an impact on many aspects and functions of the organisation, and influence its direction, administration and structure in fundamental ways' (Shrivastva and Grant, 1985, pp. 98).

Whereas subsidiaries were once regarded as merely a means for headquarters to implement its strategy, there is a growing acceptance of the significance of subsidiary behaviour and activities (Birkinshaw, 1997; Birkinshaw and Hood, 1998a; Crookell and Morrisson, 1990; De Meyer, 1993; Delany, 2000; Erickson, 1990; Hewett, Roth and Roth, 2003; Rugman and Verbeke, 2003; Taggart, 1998). The expanding role of subsidiaries indicates that their procedures and routines are developing, indicating a potential for subsidiaries, albeit within the confines of the MNC structure, to evolve strategy development processes. The importance of this area in terms of subsidiary management is highlighted by Dean and Sharfman

(1996, pp. 368) assertion that ‘the assumption that strategic outcomes stem from managerial actions is the very *raison d’être* of the field of strategic management’. Examination of strategy development process styles and the application of the Bailey, Johnson and Daniels (2000) multi-dimensional framework to the subsidiary unit of analysis provides a significant opportunity to contribute given the gaps in current knowledge, particularly in relation to the merits of strategic planning (Grant, 2003). Multiple performance measures are utilised reflecting the need to ‘measure performance multi-dimensionally’ (Menon et al, 1999, pp. 19). Its contribution includes providing managers with a framework for identifying how particular elements of the strategy development process influence a broad range of performance outcomes. It also suggests that specific subsidiaries can individually monitor the effect of their process, and refinements to it, on subsidiary contribution.

It is implicit in the theory of strategic management that the discipline exists primarily to guide and direct organisations in developing strategy (Dean and Sharfman, 1996). Strategy development is widely recognised as a critical aspect of the organisation (Andrews, 1971; Chandler, 1962) and ‘among the main means through which management choice is actually effected’ (Papadakis et al, 1998, pp. 116). There are two broad perspectives on how organisations engage in strategic planning. The design or planning school contends that strategy formulation is a ‘posture and a plan’ (Farjoun, 2002, pp. 561) and advocates a process of strategic planning in advance of a ‘rational, analytical, purposeful strategy formulation’ (Cohen, 2001, pp. 18). The process is initiated by the formulation of a business problem and definition of objectives, followed by the generation and analysis of alternative solutions, and finally the selection of a feasible alternative (Cyert and March, 1963; Mintzberg, Raisinhani and Theoret, 1976; Shrivastava and Grant, 1985). It includes an evaluation of the organisation’s weaknesses and strengths, its environmental threats and opportunities, and the deliberation and evaluation of alternative actions under the auspices of the CEO’s vision (Kerin, Mahajan and Varadarajan, 1990).

The prescriptive approach contrasts with the process or incremental approach to strategy which argues that strategy formulation is not rational or formal (Bower,

1970; Burgelman, 1983; Mintzberg and Waters, 1982) but emerges from the 'complex interactions between different individuals with different interests and different perceptions' (Grant, 2003, pp. 492). This approach emphasises achieving organisational wide support and commitment to the strategy adopted (Barney, 1997; Grant, 1995). It differs from the formal school which also recognises the inter-relationship between strategy formulation and implementation (Andrews, 1971), but considers development processes as separate practices and routines without direct consequences on the decision itself (Simon, 1986). As described by Farjoun (2002, pp. 565), 'strategy making mechanisms are assumed to be in place, and strategy formulation and implementation choices are seen in isolation from previous choices and organisational history and learning'.

## **2.1 General Criticisms of Strategic Planning.**

The traditional dichotomy in the literature between advocates of the planning (or rational school) and those of the incremental school has resulted in often contradictory perspectives and recommendations, particularly from a practitioner perspective. The value of the development process is also undermined by arguments that real strategy is not made during formal planning meetings but through conversations on corridors and more casual working groups (Mintzberg and Lampel, 1999). As asserted by Grant (2003, pp. 512) 'the critical strategic decision that fundamentally affected the business portfolios...were, for the most part, taken outside formal systems of strategic planning'. The effectiveness of the process in terms of its deliverables is also debated. For example, Dean and Sharfman (1996, pp. 368) maintain that 'there is limited evidence that strategy development processes influence decisions' effectiveness, that is the extent to which they result in desired outcomes'. It is, in any event, difficult to judge process effectiveness in that environmental change may invalidate a previously appropriate decision. The difficulties inherent in predicting the future accurately and gathering comprehensive information to support rational analysis encourage managers to rely on instinct and intuition (Kaplan and Beinhocker, 2003). The process and its outcomes, reflect individual failings, including heuristics and biases and human inability to handle complexity (McGrath et al, 1995). It is management's attempt at directing organisations in an environment which demands 'simultaneous mastery of seemingly contradictory or paradoxical

organisational skills - decisiveness and reflectiveness, broad vision and attention to detail, and bold moves and incremental adjustment' (Hart and Banbury, 1994, pg. 255).

## **2.2. Planning as a Learning Tool**

The weaknesses inherent in the strategy development process render the value of its outcomes completely dependent on the commitment, ability and energy of the users (Hopkins and Hopkins, 1997). But it is generally agreed that the methods and practices employed are, at the minimum, valuable as a learning tool, preparing management for coping with uncertainty, encouraging consideration of alternatives and enforcing a planning discipline (Kaplan and Beinhocker, 2003). The examination of current business practices and conventions may provide insights into why some routines can generate competitive advantage while others fail to do so. Encouraging management to benchmark their practices relative to others for example, may stimulate innovations or improvements to better exploit existing resources and capabilities (Ray, Barney and Muhanna, 2003). The process of examining routines and practices may constitute a more valuable contribution than the direct outcomes from the process itself, as empirical studies directly linking routines with organisational performance are contradictory (Boyd, 1991). However, more recent studies indicate a more positive relationship between the adoption of formal strategy development processes and performance (Brews and Hunt, 1999; Miller and Cardinal, 1994; Schwenk and Schrader, 1993), providing additional support for Hart and Banbury's (1994, pp. 251) assertion that organisational objectives can 'only be achieved through effective strategic processes'.

## **2.3 Need for an Integrated Approach**

Arguments over the value of the alternative perspectives have led to calls for a more integrated approach to strategy development (Brews and Hunt, 1999; Hart and Banbury, 1994; Menon et al, 1999) and for efforts to be directed to understanding the actual processes adopted by organisations when developing strategy (Hart and Banbury, 1994; Menon et al, 1999; Mintzberg, 1994). As the whole discipline of strategic management exists to guide and direct organisations in developing strategy (Dean and Sharfman, 1996), strategy development

processes is a fundamentally important representation of management practices within an organisation (Papadakis et al, 1998; Simon, 1977). However, both academics and practitioners have a limited understanding of the processes adopted by organisations when developing strategy (Menon et al, 1999; Mintzberg, 1994) and this study contributes by addressing the contribution of different practices or styles of strategy development at the subsidiary level.

### **3.0 CONTEXTUAL INFLUENCES**

The influence of contextual antecedent factors, particularly the role of environmental, organisational and decision specific factors on the strategy development process are evidenced in the literature (Rajagopalan et al, 1993). The role of the top management team (Floyd and Woodridge, 1992; Fredrickson and Iaquinto, 1989; Hitt and Tyler, 1991; Miller, Droge, and Toulouse, 1988) and particularly the chief executive in the development of strategy (Christensen et al, 1987; Drucker, 1970) is a recurrent theme. Organisational factors associated with strategy development include previous performance and strategies (Fredrickson, 1985; Segev, 1989), structure and size (Fredrickson and Iaquinto, 1989; Judge and Miller, 1991; Langlely, 1990), and the influence of social, political and cultural aspects (Eisenhardt and Bourgeois, 1988; Jemison, 1981; Mintzberg et al, 1976; Pettigrew, 1973, 85). Environmental aspects considered include responsiveness to the environment or environmental 'fit' rather than managerial environmental discretion (DiMaggio and Powell, 1983; Hannan and Freeman, 1984;1989). Regardless of the specific explanatory theory of the models individually, it is broadly accepted that the organisation's general environment, its context specific conditions, top management characteristics and decision specific factors combine to constitute the antecedent factors which significantly influence the strategy development process (Rajagopalan et al, 1993; Schneider and DeMeyer, 1991).

#### **3.1 Limitations of Previous Studies**

To date either antecedents to or consequences of the strategy development process at the firm level have been examined in isolation, and the few existing empirical studies which consider wider aspects limit their investigations to a narrow range of elements of the development process. Empirical tests have also been criticised for lacking validity (King, 1983) and for using uni-dimensional conceptualisations



of complex strategy development activity (Barringer and Bluedorn, 1999). Despite the accepted delegation of responsibility for strategic decisions to the business or divisional level (Grant, 2003), empirical studies of strategy development processes at this level or further down the corporate hierarchy are notably absent.

The adoption of the subsidiary as the unit of analysis addresses the absence of studies examining strategy development processes at the subsidiary level. Historically, the perspective of the parent / child headquarters / subsidiary relationship implied that subsidiaries were not involved in the process and did not engage in strategy development independently. Subsidiaries were perceived as passive receptors, operating and acting on the charter assigned to them by their MNC headquarters (Almeida and Phene, 2004). Headquarters developed group strategy and then devised a role for each subsidiary. While the theory of subsidiary role has evolved and subsidiaries are now perceived as contributors to MNC sustainable advantage (e.g. Bartlett and Ghoshal, 1989; Frost, 2001; Ozsomer and Gencturk, 2003), to date research on subsidiary strategy development has been limited to analysing their autonomy to respond to local conditions (Barlett and Ghoshal, 1989; Jarillo and Martinez, 1990; Prahalad and Doz, 1987; Roth and Morrison, 1990; Taggart, 1998). Studies on more complex strategy development within the subsidiary are notably absent, despite recent calls on MNC headquarters to recognise that it is necessary to execute some strategic decisions, for example on resource allocation, at the subsidiary level (Birkinshaw, 2000). Insights into how strategy is developed at an individual subsidiary level will provide a foundation for further studies on strategy development process, for example by formal / informal networks of subsidiaries as suggested by Rugman and Verbeke (2001).

#### **4.0 MODEL SELECTION**

Conscious of Nutt's (1986, pp. 36) warning that multiple acceptable causes and wide ranging effects exists as 'situation, context, decision-maker attributes, organisational features, process, and process tactics have been found to influence the choice that is made and its consequences', it was recognised that there is a need to balance parsimony with comprehensiveness when selecting a model if the

objective of the research is to be achieved. There is also a need for constant awareness of the influence of the researcher's assumptions when creating the framework, for, as cautioned by Menon et al (1999) the dichotomy between the rational and the incremental schools led to the rational schools excluding dimensions of organisational and individual dynamics, and the incremental school undermining the role of analysis.

#### **4.1 Bailey, Johnson and Daniels (2000) Strategy Development Model.**

Following an extensive review of the models provided by the literature (particularly those provided by Hart, 1992; Menon and Bharadwaj, 1999) it was decided to adopt the model proposed by Bailey et al, (2000). Developed with the intention of capturing the major themes of the available frameworks, it adopts a comprehensive multi-faceted approach, measuring strategy development styles across several dimensions. It reflects research evidence of an 'interdependence amongst different decisions and that relatively enduring characteristics, such as CEO risk propensity, corporate control and planning formality, influence decisions' (Bailey et al, 2000, pp. 152). This implies continuity in how strategies are developed, indicating that 'enduring patterns' may be perceived in organisational decision making. Based on the influences of strategy development identified in the literature, and particularly Hart's (1992) model, Bailey et al (2000) derived and tested six discrete underlying dimensions of organisational strategy development, as outlined in Appendix 1. As summarised by Bailey et al (2000, pp. 152) these comprise 'command (cf. Bourgeois and Brodwin, 1984), planning (cf. Ansoff, 1965), incrementalism (cf. Lindblom, 1959), political (cf. Pfeffer and Salancik, 1978), cultural (cf. Johnson, 1987) and enforced choice (cf. Hannan and Freeman, 1989)'.

The framework provided by Bailey et al (2000) meets Hart and Banbury's (1994, pp. 253) criteria that model dimensions should reflect 'a pattern of interaction between the roles performed by the top managers and organisational members and represents a resource or skill set available to the firm...and embody [ies] those patterns of action-routines which reflect the nature of the strategy making process'. The model elements were not originally specifically designed to apply to MNCs, but as they were intended to apply to a broad variety of organisations

(including services, manufacturing and the public sector) they were particularly suited to adaptation to a subsidiary context (adaptation details provided in Appendix 2). In contrast to other frameworks, the model allows for situations of strategic constraint, when managers are restricted from developing strategy, which may particularly apply to subsidiaries whose activities are tightly monitored and controlled by headquarters. Comparability across industries is also facilitated, and while the model is still at an exploratory stage and its dimensions may be adapted and refined, tests to date demonstrate acceptable reliability and validity and compare favourably to other models. The model is notable in that it incorporates elements of strategy formulation and implementation as well as incremental and formal planning modes.

## **5.0 SUBSIDIARY STRATEGY DEVELOPMENT PROCESSES**

While research to date on subsidiary behaviour is at a preliminary stage, combining the initial theoretical indications (Birkinshaw, Hood and Jonsson, 1998; Delany, 2000; McGrath et al, 1995; Reid, 1989; Shrivastava and Grant, 1985) and the general research on strategy development processes suggests that subsidiary strategy development processes can be defined as the practices and planning activities undertaken by subsidiary management to determine the optimum utilisation of subsidiary resources in the interest of the subsidiary, within the constraints imposed by headquarters, the internal MNC environment, the external environment, and the subsidiary's behavioural, social and power context. This definition recognises the role of headquarters in setting subsidiary boundaries and in directing the subsidiary to act in the best interests of the group as determined by headquarter's management, and even to formulate subsidiary strategy according to MNC wide procedures. However, it also recognises the flexibility of subsidiary management to 'operate under the radar' and to formulate strategy in the best interests of the subsidiary, within the constraints of MNC ownership but without necessarily the sanction or knowledge of headquarters. For example, a subsidiary may develop a product proto-type utilising slack resources following 'covert' market research, seek any necessary government, legislative or planning approval required to manufacture the product. When all of the required systems and personnel are in place, the subsidiary's champion then presents a business proposal to headquarters. This suggests that a more favourable response to an initiative can be expected when the external obstacles have been eliminated and a strong business case is presented.

### **5.1 Contribution of Subsidiary Strategy Development Processes**

There is a consensus that management practices form part of an organisation's dynamic capabilities which are a potential source of competitive advantage. Strategy development processes are complex, social and multi-phased activities which are context dependent and 'concerned with decisions by general managers' (Ireland, 2001; Ireland et al, 2001). A greater understanding of their influence on performance may be critical for the survival of growth of subsidiaries competing with both internal and external competitors. Strong strategy development processes may offer a wide range of benefits to the organisation, but much of the

research to date has focused on a connection between the strategy development process and economic outcomes. Alternative outcomes to performance should be considered because there may, for example, be a closer link between strategy development and initiative generation or strategy creativity than indicated by the mainstream literature.

## **5.2 Strategy Development Processes and Creativity**

The influence of the strategy development process on strategy creativity was suggested by Menon et al, (1999), as it had been relatively overlooked by previous research and yet its importance is evidenced by the need to continually renew firm specific advantage (Buckley and Casson, 1976; 1998). For example, Hamel (1995) advises that managers need to think non-linearly in an increasingly volatile and unpredictable competitive landscape. Creativity involves developing novel and radical solutions (Amabile, 1988) which when applied to strategy development indicates that creative strategy should differ from previous strategy, reflect experimentation, break old rules. According to Andrews and Smith (1996, pp. 175), it 'is facilitated by using a non-routine, or heuristic, process--one that departs from cookbook procedures. Conversely, a programmed, or algorithmic, process (i.e., following a specified set of steps) yields output that is likely to differ little from the past'. In any attempts to gain a greater understanding of creativity, Pettigrew, Woodman and Cameron (2001) recommend focusing on the situation within which creative processes occur, which is the approach adopted here through an examination of the association between the elements of the strategy development process and strategy creativity.

While often organisations are urged to be creative in their strategies, there is limited guidance on how this is to be achieved, for as described by Ford and Gioia (2000, pp. 705), 'despite enduring interest in creativity from practitioners and its apparent relevance to many areas of organisational study, the topic remains relatively underdeveloped in management research'. One of the primary inhibitors of strategy creativity originates from strategic embeddedness whereby organisations tend to approach new problems by using their existing routines (March, 1991; Nelson and Winter, 1982) and the same 'mental frameworks' are used to analyse the information gathered. As a result, Milliken and Lant (1991)

suggest that a causal link, whether justified or not, between a strategy, routines and success becomes established. This limits the range of activities examined and the incentive to consider alternative responses (Miller, 1990; 1994; Miller and Chen, 1996). According to Miller (1993, pp. 124) ‘only conventional courses of action’ and ‘traditional solutions’ will be adopted by organisational members. Grant (2003, pp. 494) contends that lack of strategic creativity or strategic inertia may reflect management homogeneity and ‘heavy investments of emotional equity in the past’.

The embeddedness of behaviour implies that subsidiaries will formulate strategy consistent with their normal behaviours even if management recognise the need to change and are willing to change (Karagozoglu and Brown, 1988) as managers act consistently with their psychological set (Smart and Vertinsky, 1984). There are no guidelines or formula for increasing creativity for as bemoaned by Mintzberg (1994, pp. 109) ‘search all those strategic planning diagrams... and nowhere will you find a single one that explains the creative act of synthesising experiences into a novel strategy’. However, if management have a greater propensity to take risks, to be pro-active and innovative, or simply put to be entrepreneurial it can be argued that they are less entrenched in their modes of behaviour and may be less constrained in generating ‘strategic options’ (Miller, 1993) and exhibit greater strategy creativity. Some support for this proposition is provided by Andrew and Smith’s (1996) empirical study which found a positive relationship between entrepreneurial orientation and strategy creativity at the individual level. In addition, Ireland et al (2001) suggest that the ability to be creative to maximise the benefit of resources is a core entrepreneurial function, implying a link between strategic posture and the organisation’s ability to be creative.

### **5.3 Strategy Development Processes and Innovation**

*Whereas innovations in single business firms are likely to be reflected in firm growth / enhanced financial position, in the case of subsidiaries it also involves actions which improve the subsidiary’s standing or role within the MNC. The model proposes that the rate of initiative generation by the subsidiary will be associated with the subsidiary’s strategic posture, as given by the subsidiary’s position along the entrepreneurial / conservative orientation continuum.*

*It is anticipated that as The model anticipates that subsidiaries which enjoy an entrepreneurial orientation will demonstrate a greater level of strategic freedom and a more innovative culture. On the basis that an aggressive strategic posture is evidenced by an organisation's or in this scenario a subsidiary's ability to seek ways of being innovative (Naman and Slevin, 1993), then the consequences or output of the strategic development process of an entrepreneurially orientated subsidiary can be expected to stimulate greater level of innovations and initiatives than its conservative counterparts. As remarked by Wiklund and Shepherd (2003, pp. 1308), an entrepreneurial orientation may 'explain, in part, the managerial processes that allow some firms to be ahead of the competition because [it] facilitates firm action based upon early signals from its internal and external environments'.Need to make this relevant.*

### **5.3 Strategy Development Processes and International Responsibility**

International responsibility is a form of contribution by the subsidiary as it reflects its standing and credibility within the MNC. Operating in an open economy with a relatively small domestic market, it is assumed that the level of international responsibility is a particular relevant measure for the target subsidiary population. It is proposed that, similarly to initiative generation, international responsibility is positively influenced by the subsidiary's entrepreneurial orientation.

The patterns of strategy development identified in the Bailey et al, (2000) model represent aspects of the organisation which are particularly influential on the strategy development process. For example, the formal planning dimension is identified by standardised planning procedures and a structured and methodical approach which considers alternative courses of action. This contrasts with the command dimension which captures the influence of a strong individual or group in response to a strategic vision. While other descriptions or approaches to the strategy development process were considered (for example Hart, 1992; Menon and Bharadwaj, 1999), it was decided that the multi dimensional approach of the Bailey et al (2000) model and its structure were most suited for adaptation to the subsidiary as the unit of analysis. While Bailey et al (2000) similarly to others (for

example, Hart and Banbury, 1994) suggest that relatively enduring characteristics such as CEO risk propensity, corporate control and planning formality affect decisions directly, it is proposed that this influence must be set within the context of the impact of the subsidiary's strategic orientation.

#### **4.4.1 Headquarters Determination of Strategy**

The most significant aspect of the enforced choice dimensions is the level of headquarters determination of subsidiary strategy. If a subsidiary's strategic direction is imposed on it by headquarters and it has no or limited influence in determining its own strategic direction, this significantly constraints the potential influence of the subsidiary's strategic orientation. Consequently, it is expected that restrictions on the subsidiary's ability to develop its strategy independently of headquarters will mediate the level of contribution of entrepreneurially oriented subsidiaries. This proposition is supported by Golden's (1992b) assertion that while the performance of all strategic business units (SBU's) is enhanced by having control of their strategic planning process, this is particularly relevant for 'Prospector' SBUs as defined by the Miles and Snow (1978) typology which are similar to entrepreneurially oriented subsidiaries. Golden's (1992b) findings support his theoretical argument that the competence of 'Prospector' SBUs lies in their ability to respond quickly to change within dynamic environments, whereas control over strategic development is not as central to the success of other typologies.

In contrast to their entrepreneurial counterparts, conservative organisations are more likely to concentrate on intra-organisational activities including cost control and process refinements, where the ability to be pro-active in strategic decision making is less critical to subsidiary contribution. Dilution of managerial attention may in these instances be detrimental to performance as they are not essential to its strategy and divert resources from other areas critical to maintaining its strategic orientation (Hitt et al, 1982). As observed by Golden (1992b, pp. 155), 'there seems to be a performance cost to the SBU when its managers concentrate on those activities which are not theoretically essential to its strategy'. Similarly, it is argued here that the contribution of an entrepreneurially oriented subsidiary



will be mediated by its freedom to develop its strategy which ultimately dictates its ability to adapt and respond to exploit fast disappearing market opportunities.

*Hypothesis 3.1 The level of control exercised by headquarters in deciding subsidiary strategy negatively mediates the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.1 The level of control exercised by headquarters in deciding subsidiary strategy is negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.2 Internal Strategic Constraints**

In addition to a direct formulation and imposition of strategy direction, headquarters can indirectly influence the subsidiary's strategic direction and the influence of its strategic posture by imposing strategy or barriers in the internal MNC environment limiting its activities and its strategic choices. For example, restraints on the level of internal sales available to a subsidiary combined with restrictions on permissible external sales represent internal barriers to the subsidiary which may negatively impact the influence of an entrepreneurial posture on performance. This represents an extension of the internal constraints considered by the Bailey et al (2000) model at the individual firm level.

*Hypothesis 3.2 Subsidiary internal strategic constraints negatively mediate the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.2 Subsidiary internal constraints are negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.3 External Strategic Constraints**

Other strategic constraints on subsidiaries originate from the external environment and encompass regulative coercion, competitive, economic and normative pressures. External constraints on the subsidiary largely comprise aspects of regulation and barriers to growth which are similar to those barriers experienced

by individual firms (Bailey et al, 2000). In contrast to the other aspects of enforced choice, these restrictions are not expected to mediate the influence of the subsidiary's strategic posture on subsidiary contribution. It is expected that external constraints will influence the propensity of the subsidiary to adopt an entrepreneurial posture directly as discussed above in relation to the influence of the external environment on entrepreneurial intensity. However, this aspect of the strategy development process is not expected to mediate the influence of the posture adopted.

*Hypothesis 3.3*    *Subsidiary external strategic constraints do not mediate the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.3*    *Subsidiary external constraints are negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.4 Command Dimension.**

The command dimension of the process as referred to by Bailey et al (2000) relates to the degree of control exercised by the chief executive or similar figure. There are two arguments in relation to the role of executive management in entrepreneurial subsidiaries. One perspective posits that top management have responsibility 'for shaping the development of an entrepreneurial culture in which initiative taking and risk-taking behaviour can thrive' (Birkinshaw et al, 1998, pp. 227; Kanter, 1985; Pinchott, 1985). This perspective posits that top executives are personally responsible for the direction of strategy (Bailey et al, 2000; Drucker, 1970). As described by Dess et al, (1997), an entrepreneurial mode refers to 'opportunity seeking, risk taking and decisive action catalysed by a strong leader'. A strong leader can also make rapid unilateral decisions improving the speed of responsiveness (Eisenhardt, 1989), and are associated with the 'visionary' aspects of entrepreneurship.

Entrepreneurial subsidiaries must however, balance the need for strong visionary leadership (Collins and Porras, 1994) with participation in the process across all hierarchical levels as it can be argued that employee participation and consultation

is an essential tenet of the successful pursuit of entrepreneurship (Burgelman, 1983a; Sathé 1988). Empirical corroboration for the latter argument is provided by Barringer and Bluedorn (1999, pp. 436) whose findings are ‘supportive of the general notion that employee participation at all levels is an essential part of the entrepreneurial process’. This reflects Mintzberg, Ahlstrand and Lampel’s (1998) proposition that stronger performance will be achieved in organisations with multiple approaches rather than narrow perspectives to strategy development. This implies a potentially complex relationship between the influence of the CEO on the subsidiary’s strategy development process and subsidiary contribution. However, as an entrepreneurial orientation implies participation, it is proposed that a strategy development process determined by a single leader will negatively mediate the influence of strategic posture on subsidiary contribution.

*Hypothesis 3.4 Imposition of strategic direction by the subsidiary CEO negatively mediates the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.4 Imposition of strategic direction by the subsidiary CEO is negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.5 Formal Planning Process Dimension.**

*Need to define formal planning here.* The debate as to the value of formal strategic planning continues as empirical evidence is inconclusive ranging from ‘tenuous’ to ‘weak’ (Boyd, 1991, Capon, Farley and Hulbert, 1994; Miller and Cardinal, 1994; Pearce, Freeman and Robinson, 1987; Schwenk and Schrader, 1993). Brews and Hunt (1999) suggest that the inconsistencies relate to the impact of the environment on the type of planning adopted by organisations. They explain that theory provides conflicting advice, suggesting on the one hand that formal strategic planning is positively associated with performance in dynamic environments (Hart and Banbury, 1994; Miller and Cardinal, 1994, Miller and Friesen, 1983) and on the other that it is more suited to stable environments which implicitly assume predictability and that an incrementalist approach is more appropriate for dynamic and discontinuous environments (Fredrickson and Iaquinto, 1989; Mintzberg, 1973). As observed by Brews and Hunt (1999, pp.

892), 'the increased uncertainty of unstable environments requires less formalisation and more flexible organic structures'.

The dichotomy between the planning and incrementalist schools in the literature does not translate into a similar schism in terms of the expected contribution of each approach to subsidiary performance. For example, as observed by Menon et al (1999, pp. 19), the two approaches are increasingly 'intertwined' and 'a strategy planning processes that emphasises a single mode [either rational or incremental] is likely to be less successful than one that emphasises both modes'. A contingency approach to the influence of formal planning is suggested by the literature as formal planning is expected to negatively impact performance in dynamic stable markets (Karagozoglu and Brown, 1988; Quinn, 1985) which are the particular conditions expected to best suited to an entrepreneurial orientation (Naman and Slevin, 1993). In addition, the characteristics of formal planning assumes that strategy is developed by the top management team and implemented by those below (Bailey et al, 2000), which reduces flexibility and is contrary to the participative approach associated with for example, entrepreneurship (Burgelman, 1984; Dess et al, 1997) and to the concept of a strong leader. While the theoretical arguments for the relationship between formal planning and financial contribution are inconclusive, to date there has been an absence of empirical studies on the relationship between formal planning and both subsidiary initiative and creativity.

A subsidiary's ability to change its strategy is arguably constrained by the iteration of a formal strategy as once stated, management may become attached to a plan (Barringer and Bluedorn, 1999; Mintzberg, 1994). On the other hand, the formal planning process may act as a mechanism for strategic change and creativity, and examination of strategic alternatives may trigger initiative generation or a desire for international responsibility. In addition, Menon et al, (1999) highlights that the generation of alternatives which is associated with a formal planning style allows managers to better assess the value and viability of the available options. This promotes the selection of the optimal strategy (Gibbons and Nic Ghearailt, 2003). It may also provide management with the potential to apply the new knowledge acquired from formally examining the environment,

increasing strategic creativity as management strive to exploit identified threats and opportunities. Management's increased knowledge of other competitor's activities resulting from environmental scanning provides a database of information which may also increase strategy creativity (Amabile, 1995). While conscious of the uncertainties, it is hypothesised that formal planning is positively related to subsidiary contribution.

*Hypothesis 3.5*     *Subsidiary formal strategic planning procedures positively mediate the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.5*     *Subsidiary formal planning procedures are positively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.6 Incremental Dimension.**

The incrementalist approach to strategy development is more flexible than formal planning, focusing more on aspects of strategy implementation (Barney, 1997; Grant, 1995; Menon et al, 1999; Nutt, 1993) and recognising that strategic goals and objectives of the organisation are not likely to be precise but general in nature, (Bailey et al, 2000). This approach suggests increased planning flexibility, or freedom to change strategic plans which Barringer and Bluedorn (1999) found promotes entrepreneurial intensity. The incremental style of strategy development facilitates experimentation and the entrepreneurial oriented subsidiary is expected to evidence several features of this mode of strategy development. The literature indicates that incrementalism is more appropriate to dynamic environments (Brews and Hunt, 1999) requiring flexibility and entrepreneurial intensity. This supports the proposition that an incremental approach to strategic planning positively mediates the relationship between entrepreneurial orientation and subsidiary contribution.

*Hypothesis 3.6*     *An incremental approach to subsidiary strategy development positively mediates the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.6*     *An incremental approach to subsidiary development is positively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.7 Political Power Dimension.**

The political power dimension to the strategy development process relates to the level of negotiating between different powerful groups and the formation of coalitions to pursue their shared objectives. A strong political power dimension suggests that a resultant strategy reflects the interests of the dominant political group. As observed by Bailey et al, (2000, pp. 153), ‘the level of influence these stakeholders [the political groups] are able to exercise is conditional upon the organisation’s dependency upon such groups for resources’. For example, Reid (1989) purports that the existence of strong powerful coalitions fails to stimulate innovation, whereas power sharing, similarly to the participative, sharing approach of an entrepreneurial posture, promotes collaboration, information sharing and acceptance of new ideas (Kanter, 1983). In addition, strong coalitions are associated with an aversion to risk taking, as existing powerful groups are reluctant to risk any change in the existing power balance. This suggests that the existence of political power groups have a direct negative influence on the adoption of a strategic posture by a subsidiary and also negatively mediate the benefits of entrepreneurship on subsidiary contribution.

*Hypothesis 3.7 The influence of powerful political groups within the subsidiary on its strategy development process negatively mediates the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.7 The influence of powerful political groups within the subsidiary on its subsidiary development process is negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

#### **4.4.8 Cultural Commitment Dimension**

Organisational culture, as defined by Deshpande and Webster (1989, pp. 4) is ‘the pattern of shared values and beliefs that help individuals understand organisational functioning’. Covin and Slevin (1991, pp. 17) propose that culture and entrepreneurial orientation have a reciprocal, mutually reinforcing relationship, and that while ‘clearly, the culture of an organisation can strongly affect entrepreneurial posture...entrepreneurial posture will help to shape an

organisation's culture', although the relationship will be ultimately the influence of culture on posture. The relationship between culture and entrepreneurial organisations is also recognised by Cornwall and Perlman (1990, pp. 66) who observed that 'positive cultures support organisational entrepreneurship. In other organisations where entrepreneurship is lacking as a strategic goal, the culture does not support risk taking, searching for opportunities, and innovation'. In contrast to this broad definition of culture, the Bailey et al (2000) model considers culture in terms of the 'taken for granted frames of reference' shared by organisational members. Organisations are expected to attract like-minded staff (Smart and Vertinsky, 1984), and the skills which are promoted within the organisation tend to attract correspondingly skilled management (Tushman, Newman and Romanelli, 1986).

A strong cultural commitment may increase organisational members 'buy in' to strategies and should increase the level of consensus (Menon et al, 1999) and allow managers focus on the substance of their decision (Iaquinto and Fredrickson, 1997). However, Slater and Narver (1995) observe that different perspectives are required to avoid learning traps (check this article before including). Similarity of organisational members can lead to the loss of secondary skills (Milliken and Lant, 1991) and to the variety of strategic perspectives available within the organisation. As observed by Huber (1991), organisations which habitually employ particular tactics of operating may be less aware and / or may lack the knowledge to implement alternative methods. Success at a particular type of response tends to reduce the incentive to search for alternative perspectives to enlarge an organisation's competitive repertoire (Milliken and Lant, 1991; Walsh, 1995), and the 'same mental frameworks are used to understand' the information gathered (Miller, 1993). The level of resistance to change or the commitment to the status quo of both entrepreneurial and conservative subsidiaries will constrain the range of strategic actions and alternatives considered (Miller, 1993). Hart (1992) observes that management's style and practices prompt it to adopt a routine approach to operating and to focus narrowly on key elements of the subsidiary's strategy. Dess et al, (1997, pp. 686) warn that such instances may result in 'an entrenched approach to strategy making that focuses on traditional

solutions and routines'. This is supported by Karagozoglu and Brown's (1988) finding that even when management are willing to change, a conservative organisation's efforts to be innovative do not materially alter. This suggests that cultural commitment to 'frames of reference' occurs regardless of the strategic posture adopted, and does not mediate the relationship between subsidiary entrepreneurship and contribution.

*Hypothesis 3.8*     *Subsidiary commitment to cultural 'frames of reference' does not mediate the relationship between entrepreneurial orientation and performance, initiative generation, strategy creativity and international responsibility.*

*Hypothesis 1.8*     *Subsidiary commitment to cultural 'frames of reference' is negatively related to subsidiary performance, initiative generation, strategy creativity and international responsibility.*

The entrepreneurial disposition of an organisation provides a behavioural context incorporating its culture and values, and is expected to influence the formulation and implementation of its strategic analysis, planning, and decision making (Hart, 1992).

While recognising that the process will be affected by many divergent factors and features (Nutt, 1986) the literature strongly suggests that the entrepreneurial context of the organisation exerts a significant influence (Barringer and Bluedorn, 1999; Covin and Slevin, 1991; Dess et al, 1997; Miller, 1983; Murray, 1984; Zahra, 1991).

As strategic planning is as described by Reid (1989, pp. 554) as 'a dynamic process by which companies identify future opportunities' it is likely to be influenced by the strategic posture of the subsidiary or what Dess et al (1997, pp. 667) refers to as its 'entrepreneurial strategy-making process'.

The other focuses on the organisation's management practices which are believed to determine its capacity for behaving in a more entrepreneurial manner (Barringer and Bluedorn, 1999; Murray, 1984). For example, Barringer and Bluedorn (1999) found support for a relationship between the intensity of a firm's strategic posture and five different dimensions of strategic planning. The perspective adopted here views strategic posture as an integral part of the 'organisational resources that provide sustainable competitive advantage' (Covin



and Miles, 1999; Lado and Wilson, 1994; Lee et al, 2001 as it is an intangible, embedded in organisational routines (Knight, 1997; Lumpkin and Dess, 1996). This suggests that an entrepreneurial orientation may not directly influence an organisation's or in this case a subsidiary's outcomes directly, but may be mediated by an organisation's primary management functions, including its strategy development processes.

Naman and Slevin (1993, pp. 137) suggest that the entrepreneurial organisation seeks 'ways to accentuate and perpetuate the strengths of innovation, flexibility, and responsiveness while providing more sophisticated and efficient management'. This indicates that an organisation's position on the entrepreneurial conservative continuum influences the patterns of strategy development within the subsidiary. For example, Dess et al, (1997) identify an independent entrepreneurial strategy making style incorporating concepts which are consistently linked with entrepreneurial behaviour in the literature (for example 'very dynamic', 'willingness to take risks'). The strengths of the entrepreneurially oriented subsidiary are expected to be evidenced in the outcomes of the process, particularly in terms of strategic creativity reflecting its responsiveness, and innovativeness. This links with the concept of the need to achieve a fit between the organisation and its environment, strategy, structure and processes (Chandler, 1962; Galbraith and Kazanjian, 1986; Lawrence and Lorsch, 1967; Miller, 1991; Nadler and Tushman, 1979).

*If subsidiary CEO vision not found to be significant it may be because it is more relevant to the overall corporate strategy than to the subsidiary level. Not sure if this dichotomy makes sense????*

## Summary of Expected and Actual Findings

### ***Headquarters Determination of Strategy***

- 1-1 Initiative Generation
- 1-2 International Responsibility
- 1-3 Strategy Creativity
- 1-4 Financial Performance
- 1-5 Market Performance

### ***Internal Constraints***

- 2-1 Initiative Generation
- 2-2 International Responsibility
- 2-3 Strategy Creativity
- 2-4 Financial Performance
- 2-5 Market Performance

### ***External Constraints***

- 3-1 Initiative Generation
- 3-2 International Responsibility
- 3-3 Strategy Creativity
- 3-4 Financial Performance
- 3-5 Market Performance

### ***CEO Imposition of Strategic Direction***

- 4-1 Initiative Generation
- 4-2 International Responsibility
- 4-3 Strategy Creativity
- 4-4 Financial Performance
- 4-5 Market Performance

### ***Formal Strategic Planning Procedures***

- 5-1 Initiative Generation
- 5-2 International Responsibility
- 5-3 Strategy Creativity
- 5-4 Financial Performance
- 5-5 Market Performance

### ***Incremental Approach to Planning***

- 6-1 Initiative Generation
- 6-2 International Responsibility
- 6-3 Strategy Creativity
- 6-4 Financial Performance
- 6-5 Market Performance

### ***Political Power Groups***

- 7-1 Initiative Generation
- 7-2 International Responsibility
- 7-3 Strategy Creativity
- 7-4 Financial Performance
- 7-5 Market Performance

### ***Cultural Commitment***

- 8-1 Initiative Generation
- 8-2 International Responsibility
- 8-3 Strategy Creativity
- 8-4 Financial Performance
- 8-5 Market Performance

## Contribution

Examines the formal or rational and the incremental planning modes of strategy making combined with the formulation and implementation measures in the one model. By adopting a broad perspective on performance a richer interpretation of the value of formal planning is achieved, and from a practitioner perspective the true contribution of formal planning is demonstrated. This is the first study that demonstrates empirically the direct and positive association between formal planning and strategy creativity at the subsidiary level. The study also contributes to /// theory . It also builds on //// and adds to /// substantiating the benefits of