The relevance of Subsidiary initiative for late-movers: an analysis of the Brazilian Multinationals

Autoria: Felipe Mendes Borini, Maria Tereza Leme Fleury, Afonso Fleury, Moacir de Miranda Oliveira Junior

Abstract

The purpose of this paper is to analyze the role of subsidiaries of Brazilian MNEs - BrMNEs, investigating the conditions under which they develop initiatives vis-à-vis their headquarters. For this, a survey was carried out in a sample of 65 subsidiaries of 29 BrMNEs. The main outcome is that Initiative at the subsidiaries of BrMNEs is still limited. Even though the subsidiaries are characterized by high Integration with their headquarters and high Entrepreneurial Orientation, those are not determinants of subsidiaries' Initiatives. Actually, the main determinants of subsidiaries' initiatives are Local Context and Business Networking in the host country. This apparent paradox may be explained by what we are calling as 'rebellious subsidiaries', those which take initiatives based on their business environment connections (Local Context and Business Network), regardless of their headquarters' consent or delegation of Autonomy (ranked low in the survey). This is supported by the data analysis, which shows that the subsidiaries have high entrepreneurial capacity, combined with low Autonomy granted by their headquarters. These results, based on a survey, are expected to contribute to the literature in the area of subsidiary strategy.

1. Introduction

Research into subsidiaries of multinational enterprises (MNEs) has been multiplying over the last few years, which reveals the phenomenon's complexity and these firms' diversity of fields of operation. The studies show the unique relations between headquarters and subsidiaries, as well as a broad range of control styles, from very strict to highly autonomous. On the high autonomy extreme, subsidiaries may hold global mandates for certain businesses or product lines, with a high level of responsibility and autonomy (Birkinshaw and Morrison, 1995). Among the many dimensions studied, the variable that is emerging as the most relevant one in terms of conveying this idea is that of a "subsidiary initiative". This concept allows one to understand (1) the headquarters- subsidiaries relations; (2) the business environment's influence upon the subsidiaries' actions; and (3) how subsidiaries' initiatives affect MNEs.

Studies about subsidiaries' roles and their evolution have identified many issues yet to be explored. This article aims at making a contribution to this debate, by focusing on the role of the subsidiaries of MNEs from emerging countries, generally referred to as late-movers. Most studies on the role of subsidiaries and their evolution focus on MNEs from developed countries. This made sense until recently, as there were few MNEs from emerging nations, such as the countries in East Asia and, more recently, the BRIC nations (Brazil, Russia, India and China). Many subsidiaries of northern hemisphere MNEs, i.e., European and American firms, have operations in emerging countries and have had their role and management style studied. However, research into single or multiple cases of emerging country MNEs only appeared recently. Additionally, quantitative studies on emerging country MNE subsidiaries are rare.

Thus, this paper aims at adding to this debate; its objective is to analyze the role of the subsidiaries of Brazilian MNEs, investigating the conditions under which these subsidiaries develop initiatives vis-à-vis their headquarters. Its original aspects are its focus, in an emerging country, on issues already explored in connection with developed countries and its quantitative methodology.

This article's governing premise is that the factors driving the initiatives of subsidiaries of emerging country MNEs are different. The fact that these firms are late entrants into the international arena has strategic positioning implications. Employing the same theoretical assumptions already used to study developed countries' MNEs (early movers), this study analyzes the case of Brazilian late mover MNEs.

2. Theoretical framework

2. 1) The initiative dimension in the Theory of Subsidiaries

The literature on international business has a large number of articles centered on discussing the role MNEs' subsidiaries (Birkinshaw, 2001, and Paterson and Broke, 2002). In the early conceptual approaches, subsidiaries were seen as merely operational executors of outdated technologies under headquarters' orders (Vernon, 1966). This evolved into studies underscored by a discussion of the diversity of roles, based on a network view of MNEs (Bartlett and Ghoshal, 1998; Nohria and Ghoshal, 1997); then came the period of studies on MNE typologies (examples: D´Cruz, 1986; Bartlett, 1986; Jarillo and Marinez, 1990; Roth and Morrison, 1992; Bartlett and Ghoshal, 1998, among others). In the late 90s, studies headed by Birkinshaw (Birkinshaw and Morrison, 1995; Birkinshaw, 1997; Birkinshaw and Hood, 1997) started to discuss subsidiaries from a less static, headquarters-defined point of view, focusing more on the emerging concept of the role of subsidiaries (Birkinshaw, Hood and Jonsson, 1998). They found that subsidiaries could take on different roles, depending on the function performed (Frost, Birkinshaw and Ensign, 2002; Holm and Perderesen, 2000) and for certain period of time (Birkinshaw, 1996; Birkinshaw and Hood, 1998). These studies gained notoriety because they raised the possibility of the subsidiary itself deciding on its strategic importance within the MNEs corporate network. These firms' capacity to develop initiatives in their host countries can characterize a springboard for more major activities within the corporate network, whether integrated with the MNEs operations or whether geared toward internationally specific activities (Birkinshaw, 1997; Birkinshaw and Hood, 1997; Birkinshaw and Hood, 1998).

2. 2) What subsidiary initiative consists of and types of subsidiary initiative

Studies on subsidiaries' initiatives are rooted in the Canadian school of research into the role of foreign subsidiaries. The studies of White and Poynter (1984) and D'Cruz (1986) deductively pointed out the importance of initiatives. This acquired greater relevance in the literature thanks to the studies of Birkinshaw (1997).

A subsidiary's initiative is characterized by some innovative activity conducted with the resources and under the responsibility of the foreign subsidiary itself (Birkinshaw, 1997). This concept emerges to the extent that one considers that MNEs are organized as networks (Bartlett and Ghoshal, 1998; Nohria and Ghoshal, 1997). However, even when there is no network organization, the initiative may result from enterprising behavior that is not actively encouraged by senior management at headquarters, but, rather, performed by subordinates because of the senior management's inability to lead, direct and evaluate all the actions of its executive board (Bower's, 1970). There are cases in which an initiative may fail to be recognized by headquarters; yet it did occur, often with positive results that added to the MNEs competitive advantage (Birkinshaw, 1996; Birkinshaw, 1997; Birkinshaw and Hood, 1997; Birkinshaw and Hood, 1998).

There are different types of initiatives: local initiatives, internal initiatives and global market initiatives (Birkinshaw, 1997). Burgelman (1983) proposes that initiatives can be coordinated by the corporation or generated within the subsidiary itself. There are also those initiatives that arise out of opportunities that emerge in the subsidiary's host country. The different types of initiatives result from the different markets in which each subsidiary operates, from the viewpoint of the differentiated network. The subsidiary operates in a local external market comprised of consumers, suppliers, competitors and regulating institutions. The initiatives that result from opportunities born out of the relation with these agents are called local market initiatives. The second market of the subsidiary is the internal market, which consists of those elements that headquarters and subsidiaries from other countries demand. These may range from importing a product through participation in a link of the global chain of production to coordinating the activities of other foreign subsidiaries. Internal market initiatives result from opportunities created within the MNEs internationalization-organizational network. The third market for subsidiaries is the global market, comprised of competitors, consumers sand suppliers that do not belong to the two other markets; in other words, those that are located in other countries and that are not part of the MNE. The global market grows to the extent that the subsidiary starts to perform international activities or serve its headquarters' global clients. Global market initiatives result from opportunities that arise out of the relations with these foreign institutions (Birkinshaw, 1997).

Local market initiatives can be characterized by the development of new products or new markets, or new processes in the subsidiary's host country (Birkinshaw, 1997). The development of these initiatives is strongly linked to the subsidiary's innovative capacity, as well as to the existence of favorable circumstances in terms of context and strategic business partnerships (Nohria and Ghoshal, 1997; Bartlett and Ghoshal, 1998; Andersoon, Forgreen and Holm, 2002). Two other factors are important for the initiatives: autonomy and integration between headquarters and the subsidiary. Initially, it was assumed that the development of these initiatives might be associated with a high degree of local decision-making autonomy and strong integration in terms of shared values and of headquarters–subsidiary communication (Nohria and Ghoshal, 1997; Bartlett and Ghoshal, 1986). Subsequent studies showed that these initiatives, when they first start being developed, are associated with high autonomy and high integration, but that after a certain time has passed after the development of the initiatives, the most appropriate behavior for their recognition by headquarters would be a reduction of autonomy coupled with higher integration.

Internal market initiatives are characterized by the redistribution of activities to those subsidiaries that enjoy the requisite competence to carry out these activities, and involve transferring processes from headquarters to the subsidiaries, allocating a greater amount of investment to subsidiaries as a reward for successful results, or still, new R&D or production process investments (Birkinshaw, 1997). Internal market initiatives are linked to high subsidiary credibility vis-à-vis headquarters, which is a function of the high degree of integration (Birkinshaw, 1997). Completing this line of thought, one should expect a lower degree of autonomy. On the other hand, the competitive context and business network are not necessarily unattractive, because the capacity of being more competent than the other internal network subsidiaries depends on favorable competitive environment conditions, in order for superior management technologies to be developed (Birkinshaw, 1997; Andersson, Forsgreen and Holm, 2002).

The global market initiatives are characterized by expansion of existing international responsibility, reconfiguration of domestic operations into international ones or even creation of international activities (Birkinshaw, 1997). These initiatives are associated with high autonomy and low integration. Low integration does not mean a total lack of association between the subsidiary and the MNE, but, rather, a more formal relation *post factum* information exchange, explained, in part, by the striking presence of international responsibility as an essential global initiative factor (Birkinshaw, 1997). The competitive context and the business networks perform special roles. The network is very important because it can enable inclusion in a global production chain through its relationship with clients abroad. On the other hand, the domestic context may seem to have been put on a backburner because of international relationships. However, it is important for expanding subsidiaries' innovation capacity through the support of political and economic institutions, the availability of skilled labor and national competitiveness factors. Figure 1 summarizes the types of initiatives and the factors typically associated with each one of them

Figure 1. Types of initiatives and the factors typically associated with each one of them

Initiative	SEO	autonomy	integration	context	network
local	strong	strong (start) weak (end)	weak (start) strong (end)	strong	strong
internal	strong	weak	strong	moderate	moderate
global	strong	strong	weak	moderate	high

Source: the authors

2.3) Initiative dimension at subsidiaries of late mover MNEs

Assuming, therefore, that the initiatives are important for the subsidiaries of multinationals and that they are fundamental elements for the understanding of the functions of the said subsidiaries and for the construction of competitive advantages, the following question must be posed: **are subsidiaries' initiatives also important in the case of late-mover MNEs?** One must stress that their competitive model may be different from that of early movers, as a result of their position as followers (Lieberman and Montgomery 1988; Lieberman and Montgomery, 1998) and, in our specific case, due to the liabilities of origin that are typical of emerging economies.

Bartlett and Ghoshal (2000) described and exemplified the main characteristics to be developed by late movers in order to become a global player. The authors discuss the strategic positioning of competitors from emerging countries in the value curve. The authors propose that the higher the technology and/or marketing complexity, the higher the margin, meaning that late-mover MNEs from emerging markets must invest in products and services that are either more complex technologically or in market terms, thereby circumventing the pressure of the low margins that commodity-type products and services tend to yield.

Bartlett and Ghoshal (2000) describe three steps to be taken by a successful late mover in global competition: changing the mindset, finding strategies in which being a late mover can bring competitive advantages and developing a culture of continuous learning in both parent and subsidiary.

As for differentiation strategies, the authors identify two ways of obtaining them: benchmarking and differentiation in the future, or fighting. In the first, the late mover begins by copying global leaders and, later on, explores new niches. The second and more radical way is to introduce new business models that may be effective in established oligopolies.

Shankar, Carpenter and Krishnamurthi (1998), who have also analyzed the pharmaceutical industry, identified competitive advantages in late movers compared to first movers. Late movers that focused on innovation achieved sustainable competitive advantage due to a greater market potential. Better than investing resources in marketing activities, late movers can focus their efforts on redesigning the game to benefit themselves and use innovation to support them on that.

Sull and Escobari (2004) have studied Latin American enterprises and their difficulties in facing globalization. In the last 15 years, the commercial deregulation of those countries, the lack of cash, high capital costs, and saturated local markets have forced local companies to focus abroad. The authors, however, identified the "Latin cost" as an obstacle for internationalization. It includes high taxes and tariffs, high cost and scarce capital, corruption, difficulties to invest in R&D, negative technological leverage, unstable exchange rates, high interests and inflation. The authors have indicated that despite those difficulties, a few Latin American enterprises have attained leadership in their industries and they indicated three steps for successful internationalization: commitment to a global mindset, involvement in daring decisions in order to make this commitment irreversible and realignment of the entire company to compete on a global scale.

In sum, late-movers, in order to be able to compete vis-à-vis the global market's major players, need to climb up the value curve be competing with products born out of new technologies and that offer greater added value; alternatively, they must break the rules of the game, i.e., they must innovate within market niches on an incremental basis, or innovate radically in mature markets; or, additionally, maintain high flexibility, aligning themselves with daring (innovative) undertakings in order to survive in turbulent and highly competitive markets. In other words, late movers need their subsidiaries' market initiatives, whether global or internal, to canvass global competitive advantages. This is their only means of escaping the trap of low cost products' global market competition or of commodities (Bartlett and Ghoshal, 2000)

One caveat is applicable to this, however: initiatives are important for maintaining the competitive advantage of the MNE, although they may not be essential, all the time, for the survival of the late mover MNEs subsidiary. The notion of a multinational MNE network explains why some subsidiaries do not undertake initiatives for a while, in the same way as the presence of non-local competencies (Rugman and Verbeke, 2001) may explain the transfer of headquarters' business models to other subsidiaries.

However, the initiative is a latent element, because the evolutive idea of the activities performed by the subsidiary, as well as an autonomous entrepreneurial behavior that is not recognized by its headquarters, may emerge at any time. Therefore, the subsidiary's initiative, even if it is not a preponderant factor for a certain period of time, may become very important at some other time. Thus, an understanding of the factors that govern the initiatives of late movers' subsidiaries is essential to an understanding of the evolutive and managerial dynamics of these companies.

3. Assumptions

3.1 Subsidiary Entrepreneurial Orientation (SEO)

The focus of analysis is corporate entrepreneurship, not of a new venture division type, but of the kind that permeates the corporation, enabled by the entrepreneurial action of the staff, in response to encouragement, and the support of the visionary within each person in the company (Fillion, 2006). This visionary character can be determined with a set of visions about new businesses, products and processes, developed over the course of years, until the emerging visions join and form a core vision of the business, product or process to be undertaken. Certain elements of this process are important: time and the existence of a corporate culture that allows this to come true. A culture with room for corporate entrepreneurial visions to emerge is needed because an entrepreneurial spirit demands more from the employee than merely normal dedication; thus, the company must maintain a relation of reciprocity vis-à-vis entrepreneurial actions (Fillion, 2006).

Thus, Subsidiary Entrepreneurial Orientation (SEO) refers to a general positive attitude at the subsidiary regarding new business opportunities that may be led and implemented locally; this means, in particular, a certain level of trust and freedom not only of human but also of social capital, which will allow a degree of autonomy to the subsidiary making decisions and running risks and the headquarters´ support (Birkinshaw, 1997). Entrepreneurial activities consist not only in creating new businesses, or a new mix of products and processes, but of maintaining a general proactive attitude in risky decision-making environments, using direct access to people or departments (Birkinshaw, 1997). Thus, SEO can be characterized by the firm's predisposition to run risks, or, at least, to provide support for the running of certain types of risk.

SEO is, in certain way, essential for subsidiaries to achieve development of initiatives. It is clear that, without the required degrees of freedom and support to start initiatives, sooner or later the subsidiary will lose the initiatives and SEO may disappear (Birkinshaw, 1995; Birkinshaw e Hood, 1998). Even if the firm's founder is an entrepreneur, his(her) views are bound to fail if they lack the support of intrapreneurs with responsibility for the execution of the overall vision and for the creation of complementary visions that support the enterprise over the course of time (Fillion, 2006). That is why it is important to have not only the incentive of the firm's upper management, but also to benefit from the subsidiary's upper management experience and commitment to an entrepreneurial orientation. One example of this is the Brazilian MNE Odebrecht.

The encouragement of internal entrepreneurship, or intra-entrepreneurship, which is evident in the organization, intensely aids the consolidation of this belief. Thus, the Odebrecht management model delegates decision-making power to the so-called partner entrepreneurs, functional staff with entrepreneurial characteristics, responsible for prospecting and consolidating global business, disseminating information and knowledge to the network and anticipating the requirements of the competitive environment. Therefore;

Proposition 1: The greater the entrepreneurial orientation of the subsidiaries of late movers, the greater their presence.

3.2 Autonomy

First of all, it is necessary differentiate between entrepreneurship and autonomy. The two concepts are not equal. Entrepreneurship is associated with Schumpeter's definition (1934): a predisposition to create new things and take risks with one's own resources. On the other hand, autonomy concerns the headquarters and subsidiary relationships and refers to the degree of freedom that the subsidiary has in order to make decisions recognized by the headquarters.

Autonomy can become manifest in different ways. One of them is related with the issue of products and markets and is characterized by granting the subsidiary authorization to alter the design of the products or services offered, introduce new products or services and enter new markets as a result of its own decisions. This factor is very important for late movers, as one of the main alternatives for circumventing the low-cost and commoditization trap is to exploit market niches or create new markets, these being typical local market initiatives. A greater degree of autonomy would facilitate the realization of these opportunities within a competitive time frame (Sull and Esobari, 2005)

Another facet of autonomy is connected with the organization's configuration and is characterized by the capacity to deliberately decide upon outsourcing, or changes in the production processes or other managerial practices, all of which call for greater subsidiary freedom to hire its senior executives and to define a suitable allocation of its resources. Freedom to make these operating decisions provides the company with the advantage of implementing consecutive operational improvements (Sull and Escobari, 2005) and of adjusting itself to the environment faster than external competitors, in the pursuit of local market initiatives, or of enhancing its efficiency vis-à-vis the internal competition amongst subsidiaries, thereby canvassing advantages in the pursuit of international market initiatives.

Therefore, high autonomy appears to be an essential requirement for late movers, given their subsidiaries' limited exposure in the global market (especially of those from MNBR). Of course, in order to obtain recognition for their initiative, late movers' subsidiaries should gradually reconcile a lower degree of autonomy with a higher degree of integration; however, it seems premature to require this limited autonomy from the late movers.

However, what the Brazilian late movers' cases show is that a high degree of autonomy is a major challenge they must face in going forward. The Brazilian MNEs are beginners in the global market. It was only in the late 90s that the internationalization of Brazilian enterprises acquired pace and consistency. Given this recent internationalization, control over foreign operations is still very strong, which is explained by the fact that subsidiaries function as a unit of the corporation, in line with the assumption of extending products and businesses to subsidiaries (Vernon, 1966, Dunning, 1993) and with a strong cognitive limitation in relation to the foreign country (Johansson and Vahlne, 1977).

Thus, a major dilemma hovers over late movers' subsidiaries. On one hand, their autonomy tends to be low, as they are only in the early stages of internationalization; on the other hand, a competitive position in the global market can only be built through initiatives of the subsidiaries themselves, which calls for more autonomy. This being the case, one expects the following:

Proposition 2: The greater the degree of subsidiaries' autonomy, the more present their initiatives will be.

3.3 Integration

Headquarters – subsidiaries integration is correlated with communication amongst them and with the credibility of the subsidiary's executive board vis-à-vis its headquarters.

A better understanding of headquarters-subsidiary integration can be obtained through a counterpoint with autonomy. As mentioned earlier, a duality is at play between integration and autonomy. The initiatives oscillates between: (1) more integration and less autonomy for internal market initiatives; (2) less integration and more autonomy for global market initiatives; and (3) a continuum of more autonomy and less integration, until less integration and more autonomy are reached in the case of local market initiatives.

However, the integration vs. autonomy duality need not exist; in other words, alternating a high and a low degree of integration does not necessarily lead to a low/high degree of autonomy.

On of the points that integration consists of is the work relation between headquarters and the subsidiaries and the exchange of information. The greater the work relation and information exchange, the greater the integration, which does not necessarily mean less autonomy, because this form of communication between headquarters and subsidiaries allows organizational values to be more easily shared, thus reducing the distance between the headquarters' executives and the subsidiaries and vice-versa. Thus, strong integration ensures that headquarters has greater trust in its subsidiaries, also enabling values, such as the entrepreneurial culture, to be disseminated across the corporate network. At the same time, this integration guarantees that the initiatives, regardless of their type, are more easily accepted or supported by headquarters. Therefore, it is to be expected that the greater the integration, the better the environment at the subsidiaries in terms of initiative development, in particular among the subsidiaries of late movers, only recently internationalized.

Yet another facet of integration is the trust delegated by headquarters and the credibility of the subsidiaries' executives. Once again, the autonomy vs. integration duality may not exist; to the contrary, one would expect that in an environment of greater trust and credibility, greater autonomy should be granted, or, at the very least, greater headquarters' support for subsidiaries' activities and initiatives. Given that late movers' subsidiaries should be governed by innovative activities the greater the trust and credibility, it follows that the probability of initiatives being present should also be greater. Therefore

Proposition 3. The initiatives of late movers' subsidiaries are associated with high headquarters – subsidiary integration.

3.4 The Competitive Context

The roles of foreign-owned subsidiary companies (i.e. the activities that they have responsibility for in the multinational corporation) vary according to such contingencies as the local environment. By considering productivity aspects, classical theory explains the success of countries based on land and labor; in other words, countries obtain competitive advantage in areas of intensive use of resources that they have in large supply. On the other hand the theory of Competitive Advantage of Nations (Porter, 1990) tries to explain why a given country has local conditions that guarantees competitiveness not so much based on costs, but in quality, innovation, and uniqueness, innovation being the element that allows the development of competitive advantage.

According to Porter (1990), countries have four conditions that when integrated allow building national sustainable competitive advantage. These conditions are rivalry of competition, intensity of demand, correlated and support industries, and conditions related to production factors. These conditions define the vertexes of the national advantage diamond (Porter, 1990) that represents the essential environmental conditions for innovative countries.

Therefore, whenever trying to analyze the relationship between multinational corporations (MNC's) subsidiaries and national development conditions, one must look for the fact that once they become part of the national context, subsidiaries of MNEs may have access to innovations, and specific talents and knowledge (Bartlett and Ghoshal, 1998; Porter, 1990). In addition, 'sharing' the conditions offered by the national diamonds may help to transfer activities of higher value (e.g. R&D; regional leadership) from headquarters to the country of the subsidiaries (Frost, 2001; Frost, Birkinshaw and Ensign, 2002). This means that countries with a strong competitive context are favorable for local or global initiatives due to market opportunity, especially the exploitation of market niches.

At the same time, the possibility of exploiting resources or new technologies in host countries, this being one of the drivers of multinationals from emerging economies, increases the possibilities of subsidiaries winning the internal competition for an internal initiative. Hence we may expect that:

Proposition 4: The subsidiary's presence in dynamic competitive contexts is positively connected with the presence of initiatives within the subsidiaries.

3.5 Business Network

The Nordic school of international business is the main reference when the subject is business networks in the area of international business. The relationship networks in foreign markets play a major role with regard to the development of subsidiaries' initiatives (Johanson & Mattsson, 1988). Moreover, when one talks about relationship networks, the reference concerns both external network and internal ones. An external network is the fruit of the subsidiary's relationship with business partners such as suppliers, research institutions and advertising agencies, among others (Andersson, Forsgren & Holm, 2002). An internal network results from the subsidiary's relationship with other subsidiaries (Bjorkman & Forsgren, 2000).

According to these scholars, the greater the embeddedness of a subsidiariy in the foreign country's networks (Andersson, Forsgren & Holm, 2002), the greater its possibility of gaining access to knowledge capable of assuring the development of local or global initiatives. However, as the company becomes increasingly embedded in the local market, the weaker its integration with the intra-organizational network, which implies in a lower possibility of alignment and recognition of the initiative (Anderson and Forsgreen, 2006). The fact that the subsidiary is strongly embedded in the foreign country's network, on one hand, allows access to tacit and complex knowledge that would not be acquired otherwise; but, on the other hand, it makes it more difficult for this knowledge to be transferred internally to the headquarters or other subsidiaries.

From the point of view of the corporation, if the objective is to use the subsidiary as a source of competitive advantage, the most appropriate conduct would be to maintain a subsidiary with strong intra-organizational integration, but without a strong embeddedness in its location. However, for the subsidiary, it would be preferable to have strong integration with the local network, which implies in paying the corporation less attention, while maintaining a higher chance of developing initiatives and pursuing strategic importance. Thus, the situation is paradoxical.

In other words, if the subsidiary is not integrated into the local business networks, but is integrated into the corporate network, it might acquire more knowledge, but this knowledge would probably be less innovative than it would be if the subsidiary were more integrated locally.

However, if the subsidiary is integrated into the foreign country's business network, there is a greater possibility of developing innovative knowledge with great potential for scarcity, difficult to imitate and value-generating; hence, there is also a greater competitive advantage for the subsidiary with regard to the local and the global markets (for the MNEs progress along the value scale). Still, this does not translate, necessarily, into greater subsidiary international and strategic responsibility, because its initiatives may not be recognized by the corporation due to low integration.

It is clear, therefore, that the more integrated with the corporate network the subsidiary is, the greater the possibility of its making the most of internal initiatives; in turn, the more embedded into the external business network of the host country, the greater the possibility of developing a global or local initiative. Herein lies the core question: whether subsidiaries should or should not seek out business networks for the development of initiatives.

Anderson and Forsgren (2006) give us some clues for finding a solution to this issue. According to them, a subsidiary can vary its degree of integration into the corporate network and the external network. One infers from this that a subsidiary totally embedded in the external network and with only weak links to the corporate network would have major possibilities of developing, for example, local initiatives born out of the relationship with the network; this knowledge, however, would not constitute a competitive advantage because of its lack of alignment with the global corporate strategy. At this point in time, it would be appropriate for the firm to modify its relationship and to acquire a stronger integration with the internal network than with the external one. This requires a high capacity for maintaining the flexibility of operations and sense of opportunity (Sull and Escobari, 2005) that are typical of the key requirements for late mover's competitiveness. However, the lack of this flexibility might cause the subsidiary to waste initiatives and competitive advantage creation vis-à-vis the competition.

Assumption 5: *The presence of the subsidiary in foreign countries' business networks is positively correlated with the presence of initiatives in the subsidiaries.*

4. Methodology

Most of research available regarding international business is concerned with subsidiaries from firms located in developed countries, so it is important to have information about evolving functioning conditions of subsidiaries from firms from emerging markets. In our survey, the research universe consisted of Brazilian multinationals (BrMNEs) with manufacturing activities or that supplied technological services, with operations abroad. In December 2006, 42 Brazilian enterprises were identified as having operations abroad, thus qualifying as multinationals. That number comprised a diversity of firms ranging from the natural-resources based firms to firms operating in the services sector, such as Engineering and IT.

The research process about the subsidiaries of Brazilian late-movers was structured in two parts. Initially, a survey was prepared focusing on "Strategies and Competences of Brazilian Multinationals" to be answered by the CEO or the person responsible for the area of International Operations. The questionnaire was prepared based on formerly existing research instruments, especially in Birkinshaw, Hood and Jonsson (1998), and pre-tested in two BrMNEs.

29 out of the 42 firms responded to the questionnaire. From the 13 missing firms, just two were of major importance; they were not allowed to respond because they were on the brink of important acquisitions and thus unable to open information for the general public. Four other firms refused to answer because their international incursions were only small and experimental. Finally, the remaining six simply did not respond.

The second stage consisted of having the firms' headquarters send a custom-designed questionnaire to their subsidiaries. The 29 BrMNEs sent this questionnaire to a total of 93 subsidiaries abroad. In other worlds, each headquarters involved an average of three subsidiaries, though some involved as many as eight subsidiaries whereas others involved only one. 65 out of the 93 subsidiaries involved provided a response by letter or through the electronic questionnaire found in the project's website. The rate of response was therefore 70%.

4.1 Constructing the Variables

As mentioned above, six variables were used to study BrMNEs' subsidiaries: initiative, autonomy, communication, entrepreneurial orientation, competitive context and business networks. All the responses about the variables were constructed on the basis of a 5-point Likert scale.

The dependent variable is Initiative (Birkinshaw, 1995), formed by the following indicators: a) New products developed and sold internationally; b) Expansion of existing international responsibility; c) Successful investment results in that country; d) Transfer of processes by the subsidiary to foreign countries; e) Acquisition of domestic companies conducted by the subsidiary; f) New international business activities created in the country; g) Increase of the product lines adopted internationally; h) New investments in R&D or production processes; and i) Reconfiguration of the Brazilian operations from domestic to international. These indicators produced a Cronbach's Alpha of 0.808.

The independent variable Autonomy was constructed through the following indicators, as per Birkinshaw, Hood and Jonsson (1998): a) Change in the design of the products / services offered; b) Outsourcing to third parties of the main production/service; c) Entry into new markets within the country; d) Introduction of new products/services; e) Changes in the production process; g) Hiring of subsidiaries' senior executives; g) Annual budget approval; and h) Organizational changes at the subsidiary. The Cronbach's Alpha is 0,780.

The independent variable Entrepreneurial Orientation was constructed through the following indicators (Birkinshaw, Hood and Jonsson, 1998): a) Senior management's support for entrepreneurial activities; b) Experience with innovation activities; c) Individual risk decisions; d) Incentive for taking calculated risks; and e) Risk taking being seen as positive. The Cronbach's Alpha is 0.879.

The independent variable Integration was constructed through the following indicators (Birkinshaw, Hood and Jonsson, 1998): a) A strong work relation; b) Trust delegated to the subsidiary; c) Information exchange; d) Headquarters understanding the subsidiary's competencies; and e) Credibility of the subsidiary's executives. The Cronbach's Alpha is 0.871.

The independent variable Local Context was constructed by the following indicators (Birkinshaw, Hood and Jonsson, 1998): a) Proactivity of the national government; b) Degree of competition in the country; c) Suppliers' capacities and qualities; d) Relationship between buyers and suppliers; e) Stability of the political / legal environment; f) Existence of major research centers; g) Speed of product innovation; h) Local consumption patterns; i) Business support institutions; j) Change gradient of market demand; and k) Manpower qualifications. The Cronbach's Alpha is 0.859.

The independent variable Business Network was constructed through the following indicators: a) Other subsidiaries abroad of the firm; b) Other firms' R&D units; c) Other firms' engineering companies; d) Specific research institutes or universities; d) Corporate R&D unit (abroad); f) Preferred corporate suppliers within the country; and h) Suppliers to specific markets. The Cronbach's Alpha is 0.811.

5. Results

In order to test the propositions, we conducted a linear regression for the dependent variable Initiative. All the variables in question posted normality at the 0.05 significance level. The distribution of means and standard deviation are shown on table 1.

Table 1. Descriptive Statistics and Correlation

	N	Mean	Std. Deviation	1	2	3	4	5
network	65	1,96	1,08					
context	65	3,37	,728	,321*				
autonomy	65	2,31	,944	,286*	,022			
integration	65	3,91	,952	,225	,102	,136		
entrepreneurial	65	3,82	1,00	,237	,124	,031	,504**	
Initiatives	65	2,40	1,22	,454**	,403**	,197	,110	,155

* $p < 0{,}05$; * $p < 0{,}01$

Source: the authors

As for Initiatives, the results show that in general they are few. Only 7% of the subsidiaries reflected strong agreement regarding the presence of initiatives and more than 15% reflected only moderate agreement. Therefore, initiatives are still limited among BrMNEs. The table shows that the subsidiaries consider Local Context as a factor with a stronger influence. Entrepreneurial Orientation and Integration between headquarters and the subsidiaries are characteristics found among most of the subsidiaries, indicating that the relationship's trust and credibility foster the dissemination of an entrepreneurial culture. In turn, the influence of Business Networks is still under-exploited by subsidiaries, which, by and large, enjoy only little autonomy.

According to the analysis shown on table 1, the results indicate that the Local Competitive Context is correlated with the Business Networks (which would also be local or articulated from that location), as expected. However, the inclusion in Business Networks has a relation with the subsidiaries' Autonomy. The greater the Autonomy, the greater the subsidiaries' predisposition to join Business Networks abroad and obtain initiatives from this relation. However, this Networks membership is only modest, due to BrMNEs' low level of Autonomy.

Another striking point is the positive and moderate relation between Integration - headquarters and subsidiaries - aligned with an Entrepreneurial Orientation. The strong Integration found in most subsidiaries indicates that their executives' credibility is high, but that this does not lead to Autonomy to make decisions. Although credibility is high, headquarters' executives prefer a strong work relationship, permeated by a strong exchange of information, instead of granting subsidiaries autonomy. This suggests a strong inclination toward the dissemination of the entrepreneurial culture of the multinational corporation across the network, as reflected in the subsidiaries' high Entrepreneurial Orientation, coupled with a restriction of Initiatives, as the realization of Entrepreneurial Orientation is limited by low Autonomy.

The proposed model was tested by means of the linear regression presented on table 2. The model's colinearity was measured using tests of Tolerance and VIF smaller than one, ensuring the absence of multicolinearity among the variables.

Table 2. Linear Regression Models

	initiative
(Constant)	**-0,360**
network	**0,368****
context	**0,491****
autonomy	**0,131**
integration	**-0,046**
Entrepreneurial orientation	**0,069**
R Square	**0,293**
Adjusted R Square	**0,238**
****p < 0.01**	
*** p < 0.05**	

Source: the authors

The factors that explain the development of the Initiatives are the Business Networks and the local competitive Context. In other words, for the BrMNEs' subsidiaries, the essential Initiative development factors result directly from the competitive context within which the subsidiary operates, as well as from its membership in the foreign country's Business Network. Though the Local Context is favorable for most subsidiaries and a factor that they strongly exploit, Integration into the foreign country's Business Network is still modest where most subsidiaries are concerned; this can be explained by the low degree of Autonomy. Only a few subsidiaries are able to use the Business Network to increase the Initiatives.

The propositions about the relation between Entrepreneurial Orientation, Integration and Autonomy and subsidiaries' Initiatives were not supported. It is important to stress that although Entrepreneurial Orientation and Integration have no direct relation with the formation of Initiatives, the two factors are relevant in most BrMNEs' subsidiaries. However, the results also show that Integration, besides having no direct influence upon the Initiatives, also has an inverse relation with the presence of Initiatives in the subsidiaries.

Thus, results only confirm propositions 4 and 5. In the section below, we will discuss these results' implications.

6 Discussion of Results

The results allow us to elaborate certain thoughts about the role of subsidiaries of late movers from emerging markets. These thoughts concern (1) the type of initiative of the late movers' subsidiaries; (2) the dynamics of the formation of the initiatives in these subsidiaries; and (3) the particular characteristics of the late movers' subsidiaries.

6.1) The type of initiative of the late movers' subsidiaries

The determinants of subsidiaries' initiatives are Local Context and Business Network. Within the rationale of the subsidiaries' different markets, the results show a strong tendency toward the development of Local Market Initiatives and, on a secondary level, the development of Global Market Initiatives.

This inclination toward local and global market initiatives rather than internal initiatives can be plausibly explained by the acceptance of the condition of their late mover parent companies' recent entry into the international market, this being the particular case of BrMNEs, and the need for these companies to avoid the trap of being low cost or commodity producers.

These firms, in order to find their own niche in the global market, must pursue market niches and opportunities to move up the value curve. The example of Haier, a Chinese white goods firm that entered the US market, which is strongly dominated by GE and Whirlpool, illustrates this point. Haier's major challenge consisted of overcoming the leading brands. Their solution was to exploit the opportunity of serving dissatisfied customers better. The initiative consisted of transferring R&D to the US, which allowed them to customize their offerings better due to local production, taking advantage of the favorable competitive environment to stop competing in the lower-priced market and moving up the value curve.

Insertion into the business network also makes it possible for late movers to climb up the value curve and engage in unique benchmarking. An example of this is Sabó, a Brazilian autoparts MNE. In 1993, it acquired Kaco, a German firm specializing in the sale of retainers. Kaco's acquisition, coupled with a manufacturing strategy of outsourcing components, allowed Sabó to come close to the major production centers and to important customers on the cutting edge of technology. This in turn enabled Sabó, through Kaco, to take part in the development of new automotive technologies, thereby increasing its technological competencies and its production chain relationship competencies.

6.2) The dynamics of initiative formation

The subsidiaries are characterized by high Integration with their headquarters as well as by their Entrepreneurial Orientation. However, this is not a determinant of subsidiaries' Initiatives. The results show that Integration is associated with Entrepreneurial Orientation but inversely correlated with Initiatives.

Given that the preponderant Initiatives are not external market (local and global) ones, one would expect an absence of a direct relation between Initiatives and Integration, given that with regard to Local Market Initiatives, Integration is only preponderant in a secondary stage, while in Global Market Initiatives, Integration plays a less important role.

However, it is worth highlighting the relation between Integration and Entrepreneurial Orientation. The enhanced reliability, credibility and understanding of the operations of late movers' subsidiaries guarantees that headquarters provide greater support for entrepreneurial activities. Therefore, Integration is important for the Initiatives, though indirectly rather than directly related, as support for the establishment of an entrepreneurial culture in the subsidiaries.

In the case of BrMNEs' subsidiaries, Entrepreneurial Orientation did not appear to be directly related with Initiatives, though the subsidiaries largely showed a strong Entrepreneurial Orientation; in the model, this variable is positively associated with the creation of initiatives. All of which leads us back to the study of Birkinshaw, Hood and Jonson (1998), in which Entrepreneurial Orientation appeared as a determinant in the formation of the organizational resources for Initiatives. One can only deduct that among late movers' subsidiaries, Entrepreneurial Orientation, similarly to what happened among early movers' subsidiaries, is a key element for the formation and development of resources and capacities that may come to increase the formation of Initiatives. The lack of operationalization of the Resources variable thus appears to be one of the limitations of the results presented herein.

Another consideration to be made is that Integration and Entrepreneurial Orientation have not been leading to the Initiatives that could reasonably be expected from the subsidiaries, because most late movers' headquarters presumably are not yet prepared to properly manage subsidiaries' portfolios and the knowledge flows that would result from corporate network units' integration, originating from Internal Market Initiatives. Thus, as subsidiaries are pressured into producing results and lack suitable help from their headquarters, they help themselves to the business environment of their host country to take the initiatives necessary to achieve the results that will ensure the sustainability of their business in the host country.

On the other hand, Entrepreneurial Orientation is not fully carried out due to the low autonomy of BrMNEs' subsidiaries. The limited Autonomy of most subsidiaries ends up leading directly to limited insertion into Business Networks and to a low degree of Initiative. Only those subsidiaries that manage to overcome this barrier of lack of freedom and to work in a more integrated fashion with their local and global partners are able to generate major Initiatives for the MNEs competitiveness.

Therefore, the fact that the Initiative is not directly related with Autonomy can be explained by the fact that Autonomy has a strongly indirect, rather than direct, impact upon initiatives. In other worlds, Autonomy is important for inserting late movers' subsidiaries into the business networks abroad, which then determine the subsidiaries' Initiatives.

Nevertheless, the discussion is not limited to this finding only. The high Entrepreneurial Orientation found in subsidiaries and the lack of a direct relation between Autonomy and Initiatives, coupled with the dependence of the Initiatives on the Local Context and Business Network factors suggest a structural arrangement that is different from what was seen among the early movers' subsidiaries: rebellious subsidiaries, discussed below.

6.3) Particular Characteristics of Late Movers

Studies have analyzed the isolation of subsidiaries as a negative aspect of the relation between them and headquarters (Monteiro, Arvindsson Birkinshaw, 2007; Birkinshaw and Hood,

1998), which presumably would affect those subsidiaries that contributed little to the corporation's global results, even if in their host countries they produced satisfactory results.
Thus, in dealing with the subsidiaries of emerging countries' late movers, one possibility concerns what one can call rebellious subsidiaries that take initiatives based on their business environment connections (Local Context and Business Networks), regardless of their headquarters' consent or delegation of Autonomy (low in the results presented here). This possibility is underscored by the results, which show that the subsidiaries have high entrepreneurial capacity, combined with only low Autonomy granted by their headquarters.
The notion of rebellious subsidiaries is in a way aligned with the evolutionary role of subsidiaries that Birkinshaw and Hood (1998) called "Subsidiary-driven charter extension". In this process, headquarters are averse to granting credit for the subsidiary to carry out any activity with higher strategic responsibility. Thus, the acquisition of greater responsibility is solely under the subsidiaries' responsibility and they may, even going against their headquarters' wishes, engage in market initiatives largely connected with the local or global market. The interesting element here is that subsidiary initiative, in this process may materialize without any headquarters awareness of it. This would be the first type of rebelliousness, found in the study of Birkinshaw and Hood (1998).
Nevertheless, this process tends to occur among those subsidiaries that have more autonomy (Birkinshaw and Hood, 1998). In the case of the subsidiaries of Brazilian late movers, the results showed that there are very few with sufficient Autonomy to undertake such activities. To the contrary, the late movers' subsidiaries are characterized by a high entrepreneurial orientation but low autonomy. Thus, for most of them, the only means of taking advantage of market initiatives is to rebel against their low autonomy and run the risk of undertaking their initiatives solely under their own steam. This would be the second type of subsidiary rebelliousness, which appears to be especially characteristic of late movers' subsidiaries (Birkinshaw and Hood, 1998).
In sum, for most of the subsidiaries of late mover BrMNEs, the only way to create and develop initiatives would be through embracing rebelliousness relative to the multinationals' structural configuration.
To conclude this paper is also important to emphasize aspects that could constitute pathways for future research on the internationalization process of late movers from emerging markets. The presented results that subsidiary initiative are still limited are aligned with the literature in the field, as it is expected that firms in the initial stages of internationalization focus more on headquarters' initiatives and control over their subsidiaries. In this sense we can propose that these late movers are still far from being organized as differentiated network (Nohria and Ghoshal, 1997) under a transnational strategy (Bartlett and Ghoshal, 1998) and an important challenge for these firms is 'skipping stages' and moving faster to an approach in which they can have the best from the potential of each subsidiary in the global corporate network, and this can be done with and adequate management of subsidiaries' portfolio. The high degree of integration in this survey also calls the attention as it is combined with the previously cited lack of integration. We can suppose that the necessary corporate integration, when exaggerated, can suffocate the initiatives of the subsidiaries and a recommendation to these firms is also discover the ways to deal with the necessary trade-off control-autonomy in a way in which each subsidiary perform as it best to improve corporate results. Finally, the concept of rebellious subsidiaries, that take initiatives based on their business environment connections, regardless of their headquarters' consent or delegation of autonomy, demands more research in order to clarify its implications for theory and practice of international business.

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