GORDON INSTITUTE OF BUSINESS SCIENCE

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The departure from the strategy of the parent company from a developed economy by the business unit of a subsidiary in an emerging market in the professional services industry due to a change in the competitive environment caused by a downturn in the global economy.

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Abstract

"Sustainable development cannot happen without innovation. The challenge before every organization is to develop innovation strategies that not only respond to changes in the environment and societal pressures but also consider the needs and expectations of various stakeholders. The increasing turbulence in the external business environment has focused attention on the resources and organizational capabilities as the principal source of competitive advantage," (Dasgupta &. Gupta 2009, p.204). The intention of this research project is to determine how a business unit of a subsidiary in the professional services industry in an emerging market economy changed strategy from being an implementer (Gupta & Govindarajan, 1991, p.774), of head office strategy to "developing innovation strategies" (Dasgupta & Gupta 2009, p.204); to adapt to a change in the external environment that was caused by a crisis in the global economy.

This study will also investigate the impact of having to change strategy, on the capability and development of the business unit of the subsidiary.

A project on holding company subsidiary relationships cannot be complete without investigating how a change in strategy of a business unit of the subsidiary affected the relationship between the holding company and the subsidiary.

The study looks specifically at a period that was marked by economic turmoil that is the time of the global financial crisis during the years 2008, 2009 and the years after.

Keywords – strategy, holding company, subsidiary, professional services, global economy

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name of student Fatima Darsot

Signature

Date

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Contents

Chapter 1

1.1 Introduction

"A multinational corporation (MNC) consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries," (Bartlett & Ghoshal, 1990, p.603). "The role of the subsidiary company in the multinational corporation (MNC) continues to be an issue of great interest to international business researchers, and a matter of great importance to MNC executives," (Birkinshaw, Hood & Young, 2005, p.227). "Management of multinational corporations (MNCs) - especially of large ones - have attracted the interest of scholars for many decades. However, less attention was paid, for a long time, to one actor of such organizations: the subsidiary. As correctly noted by Birkinshaw and Hood (1998), researches on MNC subsidiary management started only at the end of the seventies," (Pisoni, Onetti & Fratocchi, 2010, p.91).

"MNE national subsidiaries, conventionally viewed as mere operational instruments of their parent companies, have thus emerged as a relevant unit of analysis in their own right in international strategic management studies, (e.g. Birkinshaw, 2000; Davis and Meyer, 2004). Strangely, little explicit attention has been given to the question of how a particular subsidiary's role might shift over time." (Birkinshaw & Hood, 1998, p.774).

A role shift could be a change from an implementer of Head Office strategy to a local innovator, however, "despite the substantial interest in innovation and initiative in the MNC subsidiary, the topic of subsidiary entrepreneurship has received rather little direct attention (Birkinshaw, 1997, 2000); and recent review papers call for further study (Paterson & Brock, 2002; Young & Tavares, 2004). Entrepreneurship in MNCs is associated with subsidiary initiatives," (Birkinshaw, Hood & Young, 2005, p.228). To cite Birkinshaw (1997: p. 207): "An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity," (Birkinshaw, Hood & Young, 2005, p.228).

Opportunities for a change of role for a subsidiary can come from adverse trading conditions. For example, one of the biggest multinational auditing, tax and accounting consulting firms in the world was achieving high levels of growth before the global economy was plunged into a financial crisis in 2009; this crisis saw many companies lose business and growth in almost all industry sectors stopped.

The strategy of the Head Office of this consulting firm was to have group companies as clients; therefore if the head office or holding company was a client of the consulting firm then all the subsidiaries of that holding company in various parts of the world would also be the clients of this consulting firm in the respective country, that is the subsidiaries relied on referred work from mainly Europe. The South African subsidiary therefore received a large client base of clients that were subsidiaries of European MNCs.

Between 2008 and 2009 when the global economy went into recession, many of these head offices decided to use different auditing firms; this meant that the subsidiaries of these large corporations in other parts of the world also chose to use different auditing and accounting firms. This resulted in a loss of clients for this particular globally renowned professional services firm.

1.2 Research objectives

1.2.1 Global crisis

This study looks at how a firm in the professional services industry adapted to a change in the environment caused by the global financial downturn. “The sub-prime crisis that erupted in the US and Western Europe impacted the global financial system, resulting in a significant cut-back in investment flows and availability of funds,” (Barman, Singh & Konwar, 2009, p.1) “Global trade contracted quickly and severely during the global crisis,” (Bricongne, Fontagné, Gaulier , Taglioni & Vicard, 2012, p.134).The global financial crisis affected both the developed and the developing economies of the world. It resulted in a great disruption to the business environment and a demand rather than a request, to all companies to rethink their strategies.

1.2.2 Strategy

“Significant research has been devoted to the increasingly important role played by subsidiaries in contributing to the development of a multinational corporation’s (MNC’s) competitive advantage (Birkinshaw & Hood, 1997, 1998; Enright & Subramanian, 2007; Gupta & Govindarajan, 1994). Where previous studies focused on subsidiaries simply as providers of access to location advantages or as passive recipients of the parent company’s ownership advantages (Dunning, 1980; Vernon, 1966), recent research has begun to identify subsidiaries as key sources of innovations and research and development, and also as contributors towards the formulation and implementation of strategy,” (Cavanagh & Freeman, 2011, p.2).

Understanding the dynamics around the change in strategy of this professional service firm would assist professional service firms to be better prepared to deal with changes in the external environment.

1.2.3 Capability

"An organization is answerable to its many stakeholders who are outside the organization. Knowledge gained by communicating with various stakeholders and an integration of that knowledge with the existing knowledge of the organization leads to sustainable innovation and thereby, increased competitiveness and growth. It also helps an organization develop its dynamic capabilities which reflect its capacity to develop new and innovative forms of competitive advantage and synergistic innovative capability," (Dasgupta & Gupta 2009, p.211).

"Resources, capabilities and core competencies are the foundations of competitive advantage. Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70).

We will be investigating how the organisation built capabilities to adapt to the changes in its local environment.

1.2.4 Professional services

This study deals with a firm in the professional services industry. "Syson and Perks (2004) argue that much research has focused on the development of tangible goods rather than intangible services and although this area is now receiving increasing attention it is still a comparatively under researched area," (Freeman & Sandwell, 2008, p.198).

"Syson and Perks (2004) further argue that this type of research is imperative because of the phenomenal growth of the service sector," (Freeman & Sandwell, 2008, p. 198,). Javalgi et al (2004) state that services are a special case requiring particular attention in future research.

1.2.5 Emerging markets

"Successful companies develop strategies for doing business in emerging markets that are different from those they use at home and often find novel ways of implementing

them, too." (Khanna, Palepu & Sinha, 2009, p.64). The firm on which the data will be sourced is based in Sub-Saharan Africa in an emerging market economy

First we will evaluate the literature to get an idea of the current academic arguments around these issues.

Chapter 2: Literature review

2.1 The external environment

2.1.1 The global financial crisis – impact on external competitive environment

Gupta & Govindarajan, (1991), stated that competitive advantage is not just a function of how well a company plays by the existing rules of the game. It also depends on the firm's ability to radically change those rules, one of the reasons is that the external environment is always changing, sometime incrementally sometimes in a quantum and discontinuous fashion, (Gupta & Govindarajan, 1991), as was seen with the global financial crisis.

"The evidence on the performance of many African countries indicates that Africa has received a significant dose of the negative impacts of the economic meltdown in various forms," (Aryeetey & Ackah, 2011, p.408). Due to the global financial crisis certain Sub-Saharan economies were expected to fall by more than 4 percentage points," (Aryeetey & Ackah, 2011, p.408). "The IMF also reported that some Sub-Saharan stock market indices registered large declines," (Aryeetey & Ackah, 201, p.411). The global financial crisis changed the local trading environment increasing the level of competition, requiring any firm to have a different strategy in order to have a competitive advantage.

2.1.3 The emerging market environment

"Emerging markets are a key factor in the future growth of the world economy," Yu, Xie and Boggs (2006, p. 350). Yu, Xie and Boggs (2006, p. 348) also state that "MNCs should give their subsidiaries the autonomy to adapt the strategy of the subsidiary to market conditions."

Emerging markets are characterised by institutional voids in their external environments that is a situation where institutions are non-existent or function poorly, (Thompson, 2011). Narayanen and Fahey, (2005) argue that emerging markets have underdeveloped justice systems and corruption in business. These factors make investment in these markets risky.

"We suggest that to curtail emerging market threats, external dependence needs to be reduced, which in turn requires parent resource support and efficient information flow within the MNE; and that to acquire emerging market opportunities, strategic adaptation

needs to be increased, which in turn requires responses at a local level and flexibility of control,"(Luo, 2003, p.292).

"One of the distinguishing features of global organizations is to effectively manage global operations in a consistent manner but at the same time allow flexibility at the country level to effectively compete," (Harvey, Speier and Novicevic, 1999, p.167)

2.1.4 Professional services industry – external environment

This study looks at a subsidiary in the accounting profession, specifically a business unit that performs audit services. This professional services firm does pursue "referral work ," (Koza and Lewin, 1999, p.639) as a head office directive.

"The worldwide accounting industry has been undergoing radical changes reflecting macroeconomic forces of change in the world economy, competitive dynamics of the industry, and the individual strategic adaptations of firms in the industry. Between 1990 and 1993, a squeeze on margins had crystallized for accounting firms. Competition for clients became fierce, and the industry entered a phase of restructurings, consolidation, and diversification," (Koza and Lewin, 1999, p. 642).

"Firms diversified into other business areas such as consulting and corporate finance. The audit, in this view, would serve as the point of entry to a company and could be leveraged into sales of new higher margin services. At times, the audit was pitched as loss leader in order to gain access to the clients. The "Big 20," medium-sized accounting firms called the Mid Tiers, responded with cut-rate introductory fees to attract new clients mostly in the medium-sized market, forcing smaller accounting firms to target ever smaller and smaller clients. The cumulative outcome of the competition for attracting and retaining audit engagements was a commoditization of audit services associated with unattractive profit potential," (Koza and Lewin, 1999, p. 643).

"Several firms organized themselves along service lines such as audit, tax, and consulting, and in some instances included divisions along industry groups," (Koza and Lewin, 1999, p. 643).

"Accounting partners were responsible for the work of a team and liable for the work of their partners' team. During 1994, the Big Six firms in the U.S. responded by incorporating under a limited liability partnership (LLP) structure," (Koza and Lewin, 1999, p. 644). In South Africa the accounting partners protect themselves from liability by having indemnity insurance.

2.2 External and internal competitive environments (Birkinshaw, Hood and Young, 2005)

"According to Porter, for a subsidiary company, we can identify a competitive environment with both external and internal components. The external elements are customers, competitors, and suppliers in the local environment; the internal elements are other corporate units that buy from or sell to the focal subsidiary and sister subsidiaries that are competing for new and existing charters," (Birkinshaw & Hood, 1998, p.783).

"Using Porter's (1990) diamond framework, we define the dynamism of the local business environment in terms of demand conditions, the existence of related and supporting industries, strong factor endowments, and competition. Our argument is that a dynamic local business environment provides the stimuli for upgrading the subsidiary's capabilities in much the same way that internal competition does, for the subsidiary reacts to competitive moves by other companies and sharpens its capabilities in line with the expectations of local customers and suppliers," (Birkinshaw & Hood, 1998, p.790).

Birkinshaw, Hood and Young (2005), describe four types of environments that define the subsidiary:

1. Benign environment - In this situation both the internal and external competitive arenas are weak. In a benign environment with few competitors and undiscerning customers, a company can be lazy and still very profitable, but it will never improve, in a volatile environment with many competitors, demanding customers, and top-quality suppliers, a company must become extremely competitive and entrepreneurial just to survive, (Birkinshaw, Hood and Young, 2005, p.231).

2. Externally focused competitive environment - A weak internal competitive arena coupled with a strong external competitive arena creates an 'externally focused' competitive environment, (Birkinshaw, Hood and Young, 2005, p.231).

3. Internally focused competitive environment - A weak external competitive arena coupled with a strong internal competitive arena creates an 'internally focused' competitive environment, (Birkinshaw, Hood and Young, 2005, p.232).

4. Dual-focused competitive environment - The final scenario is one in which there are strong internal and external competitive environments. At first glance, this situation offers the 'best of both worlds' in that the subsidiary has to learn to be competitive on both an internal and external basis. At the same time, however, this dual-focus can also potentially lead to internal tensions as executives struggle to reconcile conflicting or competing demands from their environment, (Birkinshaw, Hood and Young, 2005, p.232).

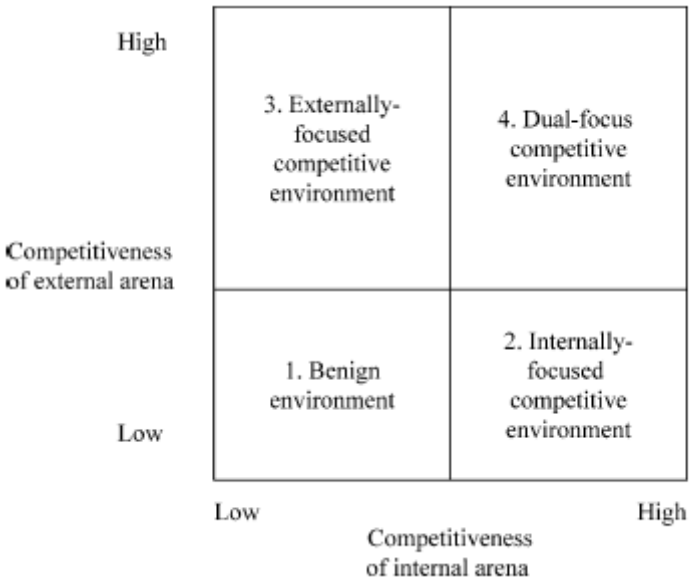

Fig. 1. Internal and external competitive arenas
(Birkinshaw, Hood and Young 2005, p.231)

2.3 The internal environment

2.3.1 Subsidiary strategy and structure

According to Birkinshaw and Morrison, (1995, p.730), "it is accepted that the interdependence between strategy and structure is one of the cornerstones of strategic management."

According to Tallman, (1991) new firm specific resources may develop in the host market which was not among the original set of parent resources. Tallman also states that new resources may develop by the subsidiaries that were not part of the resources brought by the parent. Resource allocation, governance structure and interaction with the environment are guided by the choice of strategy, (Tallman, 1991).

Birkinshaw and Morrison, (1995) in their article entitled 'Configurations of Strategy and Structure in Subsidiaries of Multinational Corporations' explore how the strategy or role of the subsidiary is related to its structural context i.e. the set of formal and informal management systems that determine the relationship of the subsidiary to its parent and affiliates.

"There has been much debate in the strategy literature regarding the causal relationship between strategy and structure," (Birkinshaw and Morrison, 1995, p.730).

Birkinshaw and Morrison, (1995), stated that the effect of the environment should also be considered.

Below is a diagram by Birkinshaw and Morrison, (1995, p. 731), showing how the different elements discussed above relate to each other

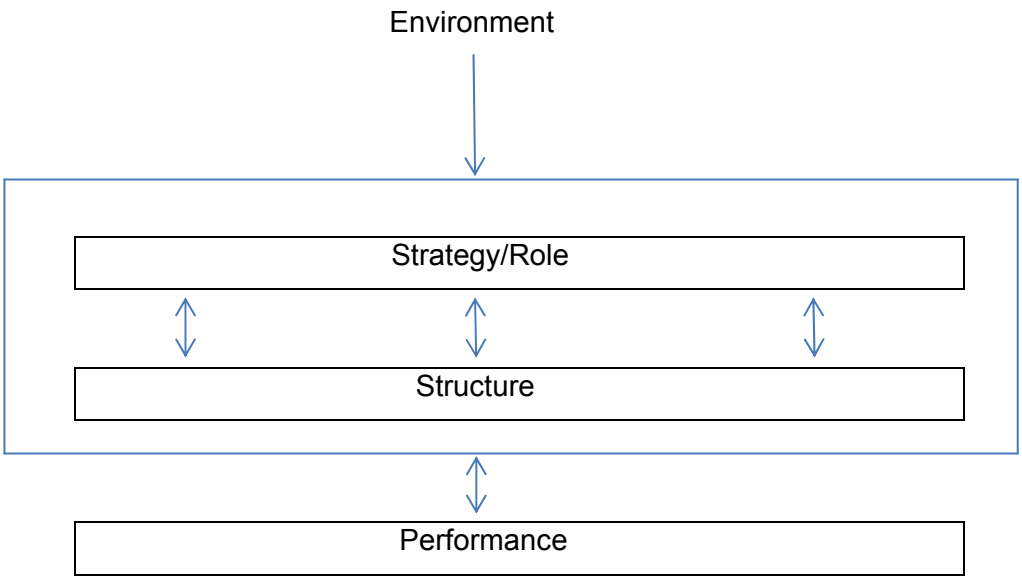

Fig. 2. Birkinshaw and Morrison, (1995 p. 731)

With regards subsidiaries in the professional services industry one can relate this model to an analysis of the performance of that subsidiary. For example the impact of the environment is reflected in the loss of revenue due to the financial crisis.

2.3.2 Types of group structures

"We believe that an entity such as any of these large multinational corporations can be more appropriately conceptualized as an inter-organizational grouping rather than as a unitary organization," (Bartlett & Goshal, 1990, p.604). Below are types of subsidiary groupings.

2.3.2.1 Resource based theory

"RBT describes a firm as a bundle of resources (tangible and intangible assets) that are used to generate products or services that provide value for customers in competition with the offers of other firms. RBT offers two important theoretical dimensions by which to classify resources and, therefore, better understand difficulties in internationalization," (Cuervo-Cazurra, Maloney & Manrakhan, 2007, p. 710).

(1) "A resource can be advantageous, disadvantageous, or complementary (Montgomery, 1995). First, a resource is considered advantageous or strategic (Amit and Schoemaker, 1993) when it provides the firm with an advantage in comparison to a determined set of competitors, thus supporting the generation of rents (Peteraf, 1993). To sustain advantage, a resource has to be valuable, rare, difficult to imitate, and difficult to substitute (VRIS) (Barney, 1991). Second, a resource is considered disadvantageous when it detracts from the firm's advantage and reduces value creation. Third, a resource is considered complementary when it provides neither advantage nor disadvantage to the firm. Nevertheless, complementary resources are still important since they are necessary for the firm to operate even if they are not the basis of an advantage on their own, (Teece, 1986; Montgomery, 1995)," (Cuervo-Cazurra, Maloney & Manrakhan, 2007, p.711).

(2) "The specificity of a resource to the firm. Resources are firm-specific when only the focal firm has access to them. Resources are common to a set of firms when several companies have access to them," (Cuervo-Cazurra, Maloney & Manrakhan, 2007, p.711).

"Whether a resource is advantageous or firm-specific depends on the competitors against which the firm is compared (Tallman, 1992; Amit and Schoemaker, 1993; Brush and Artz, 1999). Since competitors vary across locations, these two dimensions help identify the type of difficulties the firm faces when it internationalizes," (Cuervo-Cazurra, Maloney & Manrakhan, 2007, 711).

2.3.2.2 The network model

"It should also be noted that many of the principles of the network model of the MNC are consistent with those of the resource-based view (RBV) of the firm (Barney, 1991; Wernerfelt, 1984) once it is acknowledged that resource development can occur at the subsidiary, as opposed to solely at the corporation-wide, level (Birkinshaw et al., 1998; Enright & Subramanian, 2007). For example, the network model of the MNC views a

subsidiary's key relationships within its network as resources that may be used to influence the role it plays within the MNC (Andersson & Forsgren, 1996; Andersson, Forsgren, & Holm, 2001, 2002)," (Cavanagh & Freeman, 2011, p.2).

"According to many network model advocates (Andersson, Forsgren, & Holm, 2007; Handy, 1992), the MNC may be viewed as a 'federation' that is less hierarchical and more loosely organised than previously thought, with a reciprocal relationship between the different units, including the headquarters. Importantly, the network model of the MNC recognises that as a result of the various networks formed through relationships with customers, suppliers and other counterparts (including fellow subsidiaries), a subsidiary may develop a role in a particular network that is quite separate from its headquarters-determined 'strategic role' (Andersson & Forsgren, 1996)," (Cavanagh & Freeman, 2011, p.2).

2.3.2.3 Hierarchical theory

Pisoni, Onetti & Fratocchi, (2010) state that a hierarchical point of view considers local subsidiaries as controlled by the headquarters.

2.3.2.4 Institutional theory

"Dawar and Chattopadhyay (2002) contend that multinational firms from developed countries should adapt to the market conditions in emerging markets in order to successfully tap into these markets," Yu Xie and Boggs (2006, pg. 348) or they should give their subsidiaries the autonomy to adapt the strategy of the subsidiary to market conditions. "With established markets becoming saturated, multinational corporations (MNCs) have turned increasingly to emerging markets (EMs) in the developing world", London and Hart, (2004 p.350). However as Thompson (2011) states, emerging markets are characterised by poorly functioning and non-existent institutions.

"Scott (2008) maintains that institutions possess three pillars: regulatory, normative, and cultural-cognitive. The regulatory pillar pertains to a nation's laws and regulations and delineates what organizations *can* or *cannot* do. It uses legal sanctioning as the basis of legitimacy (Scott 2008). The normative pillar consists of beliefs, values, and norms that define desirable goals and expected behaviours to achieve them in a society. The legitimacy of normative institutions relies on societal beliefs and norms that specify what people *should* or *should not* do," (Yang, Su, & Fam, 2012, p.41).

Rooted in cognitive psychology, the cultural-cognitive institution emphasizes two important aspects of the shared knowledge, taken-for-granted conventions, and

customs in a specific industry: (1) managers' internal interpretive business practices, which is shaped by external cultural frameworks, and (2) their business knowledge, which is developed over time through repeated social interactions (DiMaggio and Powell 1991; Kostova and Roth 2002). The legitimacy of this pillar is anchored in cultural orthodoxies that specify what people will *typically* do, (Yang, Su, & Fam, 2012, p.41).

According to Xu and Shenkar (2002), the MNE will choose low control when the host environment presents a regulative system very different from the one in its home environment, but it will opt for full ownership when the host system is more similar. This explains, for instance, the gradual shift in U.S. investments in China from cooperative ventures to wholly owned subsidiaries, as China's legal system incrementally adds U.S.-like provisions.

2.3.2.5 Organisational theory

"Over the past 20 years, the multinational corporation (MNC) has come to be recognized as an important and intriguing phenomenon for organization theory by being conceived as a semiautonomous actor with its own distinctive environment and resources, capable of making its own strategic choices within certain constraints. Subsidiary units are, by definition, dependent in a hierarchical sense on their corporate parents, but they have sources of influence and power themselves, and increasingly, there is evidence that they are willing and able to use this power to stimulate change, innovation, and growth," (Bouquet & Birkinshaw, 2008, p.478).

2.4 Types of subsidiaries based on their strategic context

Below is a summary by Cavanagh & Freeman, (2011, p.3) of different types of subsidiaries. Birkinshaw and Morrison's typology and Gupta and Govindarajan's (1991) typology are discussed in more detail below.

Source	Dimensions	Subsidiary types
White and Poynter (1984)	Product scope Market scope	Miniature Replica (Adopter) Miniature Replica (Innovator) Product Specialist Strategic Independent
Bartlett and Ghoshal (1986)	Capabilities Strategic importance	Black Holes Local Implementers Contributors Strategic Leaders
Jarillo and Martinez (1990)	Integration Responsiveness	Receptive Autonomous Active
Gupta and Govindarajan (1991)	Knowledge outflows Knowledge inflows	Local Innovator Implementers Global Innovator Integrated Player
Birkinshaw and Morrison (1995)	Derived from literature	Local Implementer Specialised Contributor World Mandate
Taggart (1997)	Autonomy Decision-making	Partner Collaborator Militant Vassal
Randoy and Li (1998)	Resource inflows Resource outflows	Resource User Resource Independent

Fig. 3. Summary of subsidiary role typologies Cavanagh & Freeman, (2011, p.3)

2.4.1 Birkinshaw and Morrison, 1995

Birkinshaw and Morrison, (1995), describe 3 types of subsidiaries differentiated by strategy:

“The local implementer”: Birkinshaw and Morrison, (1995), “this subsidiary has limited geographic scope, typically a single country, and severely constrained product or value-added, in this context, the subsidiary's role is to adapt global products to the needs of the local market,” (Birkinshaw and Morrison, 1995, p.733).

“The Specialized Contributor: This subsidiary has considerable expertise in certain specific functions or activities, but its activities are tightly coordinated with the activities of other subsidiaries. Thus, it is characterized by a narrow set of value activities and high levels of interdependence with affiliated subsidiaries,” (Birkinshaw and Morrison, 1995, p.733).

“The World Mandate: Roth and Morrison (1992) stated that this subsidiary type "works with headquarters to develop and implement strategy" (1992). The subsidiary has worldwide or regional responsibility for a product line or entire business, and typically has unconstrained product scope and broad value-added scope (White & Poynter 1984). In this way it achieves 'decentralized centralization': activities are integrated worldwide, but managed from the subsidiary, not head office,” (Birkinshaw and Morrison, 1995 p. 734).

2.4.2 Gupta & Govindarajan, 1991

"To use Williamson's (1985) terminology, corporate control over a specific subsidiary can be thought of as a governance mechanism instituted by the corporation to regulate transactions between it and the focal subsidiary. It is posited that such transactions occur along three key dimensions: capital flows, product flows, and knowledge flows. In other words, the MNC can be thought of as a network of capital, product, and knowledge transactions among units located in different countries," (Gupta & Govindarajan, 1991, p.770). Gupta and Govindarajan 1991, in the development of this model portray the MNC as a network transacting in knowledge. "Knowledge has emerged as the most strategically significant resource for the firm," (Dasgupta &. Gupta 2009, p.204)

"Subsidiaries can be arrayed along the following two-dimensional space: (a) the extent to which the subsidiary engages in knowledge inflows from the rest of the corporation and (b) the extent to which the subsidiary engages in knowledge outflows to the rest of the corporation. Thus, as depicted in Figure 1, in terms of knowledge flow patterns, four generic subsidiary roles can be defined: *Global Innovator* (high outflow, low inflow), *Integrated Player* (high outflow, high inflow), *Implementer* (low outflow, high inflow), and *Local Innovator* (low outflow, low inflow)," (Gupta & Govindarajan, 1991, p.773).

"In the Global Innovator role, the subsidiary serves as the fountainhead of knowledge for other units. Historically, and especially in the case of U.S. and Japanese MNCs, this role has been played only by the domestic units," (Gupta & Govindarajan, 1991, 773).

"The Integrated Player role is similar to the Global Innovator role because it also implies a responsibility for creating knowledge flows that can be utilized by other subsidiaries," (Gupta & Govindarajan, 1991, 774).

"In the Implementer role, the subsidiary engages in little knowledge creation of its own and relies heavily on knowledge inflows from either the parent or peer subsidiaries. This role is the theoretical obverse of the Global Innovator," (Gupta & Govindarajan, 1991, p.774).

"The Local Innovator role implies that the subsidiary has almost complete local responsibility for the creation of relevant know-how in all key functional areas; however, this knowledge is seen as too idiosyncratic to be of much competitive use outside of the country in which the Local Innovator is located," (Gupta & Govindarajan, 1991,

p.775). "This subsidiary has gone beyond 'competence-exploiting' and is now beginning to assume 'competence-creating' mandates (Cantwell & Mudambi, 2005)," (Cavanagh & Freeman, 2011, p.4).

"Intra-corporate knowledge flow is defined as the transfer of either expertise (e.g. skills and capabilities) or external market data of strategic value. The type of expertise transferred could refer to input processes (e.g. purchasing skills), throughput processes (e.g. product designs, process designs, and packaging designs), or output processes (e.g. marketing know-how, distribution expertise). Similarly, the transfer of external market data could refer to the transfer of globally relevant information about key customers, competitors, or suppliers. Note that knowledge flow refers to the transfer of either expertise or external market information of global relevance, but not to the transfer of internal administrative information (such as the exchange of monthly financial data)," (Gupta & Govindarajan, 1991, 773).

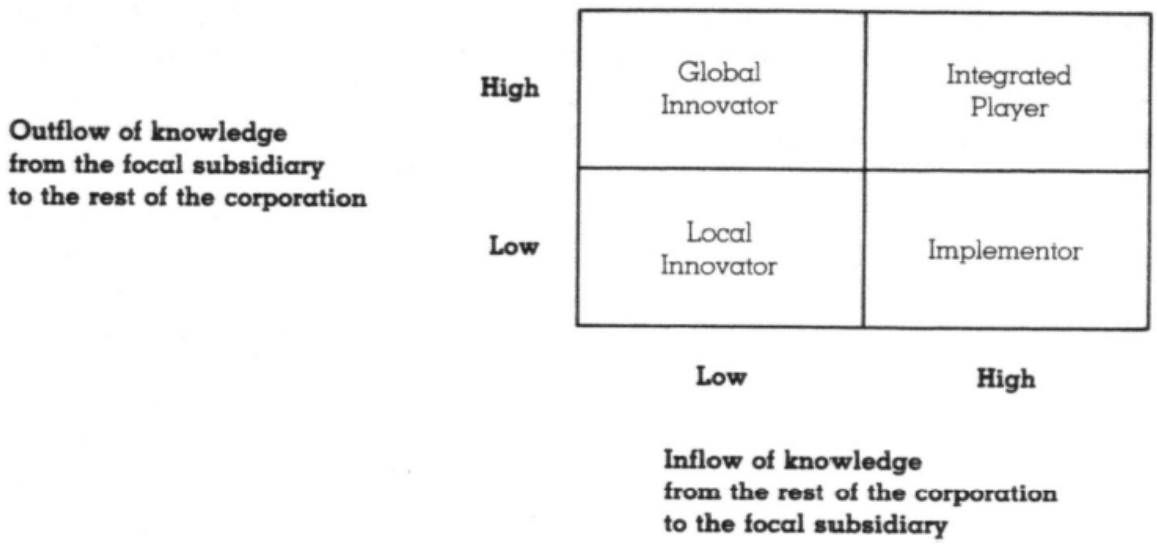

Fig. 4. Variations in Subsidiary Strategic Contexts: A Knowledge Flows-Based Framework: Gupta & Govindarajan, 1991, p.774

"The theoretical analysis regarding linkages between subsidiary strategic contexts and corporate control mechanisms is based on the following key arguments. First, different subsidiary strategic contexts imply different task environments for subsidiary managers in terms of degrees of lateral interdependence, levels of global responsibility and authority, and need for local initiative. Second, different task environments require different behaviours on the part of subsidiary managers. Third, different control mechanisms induce and support different kinds of managerial behaviours. Therefore,

fourth, assuming norms of administrative rationality (Thompson, 1967) as well as the selective survivability of experiments in organization design (Aldrich, McKelvey, & Ulrich, 1984), it is expected that there will be systematic associations between subsidiary strategic contexts and the emergence of specific corporate control mechanisms," (Gupta & Govindarajan, 1991, p.775).

2.4.2.1 Corporate control mechanisms that differ between Implementers and Innovators

"Control mechanisms are interpreted here broadly and used to represent not only the formal control system but also other powerful formal and informal organizational mechanisms that generally are available to corporate headquarters for shaping the decisions and actions of subsidiaries," (Gupta & Govindarajan, 1991, p.775).

Dimensions	Local Innovators	Implementers
Use of formal integrative mechanisms. Galbraith (1973) & Nadler& Tushman (1987)	Low	Medium
Intensity of communication	Low	Medium
National background of subsidiary managers	Low	Medium
Corporate socialization of subsidiary managers	Low	Medium
Subsidiary manager's locus of control	Low	Medium
Corporate-Subsidiary decentralization	Medium	Low
Salter (1973) identified the size of bonus relative to base salary	Medium	Low
Autonomous initiative	Medium	Low

Fig. 5. Corporate Control Mechanisms

2.4.2.2 Use of formal integrative mechanisms

"Galbraith (1973), Nadler and Tushman (1987) identified liaison positions, cross-unit committees, integrator roles, and matrix structure as the key formal structural mechanisms for coordination between subunits in an organization. That is to say, effective management of high interdependence requires more complex integrative mechanisms, whereas effective management of low interdependence requires less complex integrative mechanisms," (Gupta & Govindarajan, 1991, p.777).

2.4.2.3 Intensity of communication

"Some of the key findings in this area can be summarized as follows: First, the more uncertain a research project, the more desirable it is to have higher frequency and informality in communication patterns (Tushman, 1979). Second, effectiveness at adapting to environmental uncertainty requires unstructured decision-making processes involving highly open communication patterns (Duncan, 1973). Third, openness in the corporate-SBU relationship is more beneficial in the case of SBUs that pursue build or differentiation strategies rather than harvest or cost-leadership strategies (Gupta, 1987). Fourth, high frequency of inter-unit communication helps to facilitate the adoption and diffusion of innovation across multinational subsidiaries (Ghoshal & Bartlett 1988). The overall conclusion to be drawn from this research is that more intense communication patterns create higher information-processing capacity, and these patterns become especially desirable in contexts where such capacities are needed," (Gupta & Govindarajan, 1991,p. 777).

2.4.2.4 National background of subsidiary managers

"The composition of the top-management team will vary across subsidiary strategic contexts; specifically, the ratio of expatriates as a percentage of the top-management team will be different in the different strategic contexts," (Gupta & Govindarajan, 1991, p.778).

2.4.2.5 Corporate socialization of subsidiary managers

"Van Maanen and Schein (1979: 21) defined organizational socialization as the process by which "an individual is taught what behaviours and perspectives are customary and desirable within the work setting." As Buchanan (1974), Edstrom and Galbraith (1977), and Ouchi (1979) argued, socialization of managers can be a powerful mechanism for building identification with and commitment to the organization as a whole, as distinct from the immediate subunit in which the manager is operating," (Gupta & Govindarajan, 1991, p.779).

2.4.2.6 Subsidiary manager's locus of control

"For any particular outcome, how much causality does a person assign to external forces relative to that person's own actions? In addressing this question Rotter (1966) argued that, as part of their personality makeup, individuals in general tend to be consistent in breaking up such causality between external forces and themselves. Further, he postulated that "internally controlled" individuals are those who "believe that reinforcements are contingent upon their own behaviour, capacities, or attributes"; in contrast, "externally controlled" individuals "believe that reinforcements are not under

their personal control but rather are under the control of powerful others, luck, chance, fate, etc," (Gupta & Govindarajan, 1991, p. 784).

2.4.2.7 Corporate-Subsidiary decentralization

"Decentralization can be defined as the extent of decision-making authority that is delegated to the general manager of a subsidiary by corporate superiors. The overall conclusion to be drawn from this body of research is that greater decentralization permits the unit manager to exercise greater discretion in dealing with the demands of his or her relevant task environment," (Gupta & Govindarajan, 1991, p. 785).

2.4.2.8 Size of bonus relative to salary

"Salter (1973) identified the size of bonus relative to base salary also as one of the key dimensions in the design of incentive systems for division general managers. This variable can be defined as the maximum potential bonus that a subsidiary general manager can earn as a percentage of his or her salary," (Gupta & Govindarajan, 1991, p. 786).

2.4.2.9 Autonomous initiative

"The greater the magnitude and scope of knowledge creation expected from a subsidiary, the greater should be the need for the exercise of autonomous initiative by the subsidiary," (Gupta & Govindarajan, 1991, p. 783).

2.5 Autonomy versus centralization

Gupta & Govindarajan as well as Birkinshaw, Hood and Young look at autonomy as an important premise in the subsidiary's ability to engage in innovation.

"Headquarters' control of subunit behaviour and performance is a necessary integrating function in all complex organizations. Some organizational theorists, such as Williamson (1975), have even viewed the loss of control from one level of the organization to another as the limiting factor reflected in an organization's design and structure (that is, the ability to retain control as an organization grows is the factor which determines how large or complex an organization can become and still function). The importance of control as an integrating mechanism within organizations stems from the fact that it reduces uncertainty, increases predictability, and ensures that behaviours originating in separate parts of the organization are compatible and support common organizational goals," (Egelhoff, 1984, p.73).

Autonomy refers to the freedom or independence of a subsidiary which enables it to take certain decisions on its own behalf, (Young & Tavares, 2004). Young and Tavares (2004) look at the literature available on autonomy versus centralization of the subsidiary/holding company relationship and arrive at various conclusions the most pertinent of which are:

1. Parent company factors including corporate culture and management style, mission and objectives, planning and control mechanisms, attitudes to centralization/ decentralization, and relationships with subsidiaries will influence subsidiary autonomy, (Young and Tavares, 2004).

2. Autonomy is a factor in subsidiary initiative, aimed at expanding the subsidiary's role. In particular, high autonomy is associated with local and global market initiatives, low autonomy with internal market and hybrid initiatives, (Young and Tavares, 2004).

3. Autonomy has a positive effect on a subsidiary's innovative potential, (Young and Tavares, 2004).

Michael Brookes states that autonomy refers to an organization, in which units and sub-units possess the ability to take decisions for themselves on issues which are reserved to a higher level in comparable organizations, (Brooke,1984).

Young and Tavares look at the "dimensions of autonomy" (Young and Tavares, 2004, p.229) from a "strategic" and "operational perspective" (Young and Tavares, 2004, p.229). The point that they make here is that when discussing autonomy and looking at its impact one needs to look at it from the most important activities within an organization which are the strategic and operational activities.

Other aspects that can influence autonomy include:

- "Autonomy and motivation - For autonomy to result in subsidiary initiatives or improved performance, it must be allied to positive motivation," (Young and Tavares, 2004, 229).
- Autonomy and power – power comes from "people's behavior, and the effective use of resources," (Young and Tavares, 2004, 230).

- Autonomy and trust - Justice in the way in which the head office deals with the subsidiary is seen as engendering trust, therefore trust is built over time through the behavior of both companies, (Young and Tavares, 2004, 230).
- Autonomy and time – "A distinction should be made between static and dynamic autonomy. There is a temporal dimension to take into account, since the allocation or acquisition of autonomy clearly requires time," (Young and Tavares, 2004, 230).
- Autonomy as a relative concept – "Autonomy is a relative concept, that is, relative to other subsidiaries and to the parent corporation," (Young and Tavares, 2004, 230).

"Therefore autonomy can be seen to be both a cause and an effect of subsidiary development" (Young and Tavares, 2004, p.225).

In his article "The Role of Foreign Subsidiaries in Strategic Decision-Making in Swedish Multinational" Gunnar Hedlund (1980, p.34) concludes that "there is a large and growing need to integrate strategies among units in an MNC. The evolution of the environment of multinational companies, and the dynamic of their own evolution, make this integration more necessary because unless subsidiaries are genuinely involved in determining the basic thrust of the whole enterprise, formal mechanisms will not help improve and coordinate strategies." This integration will have to be driven and co-ordinated by the holding company. Therefore Hedlund argues for integration as opposed to autonomy.

Autonomy is an element of the structure of an organization .It is related to the division of the decision-making authority between a local unit and an outside organization that controls it. However, neither the structure nor the autonomy is an end in itself. They are simply instruments that allow the organization to mobilize its resources to solve its various problems in the best possible way and thus to reach the objectives it has set for itself. These objectives are many but, at a high level of generalization, they all can be grouped in two basic elements: the maximization of profits (global profits in an MNC) and the minimization of risk," (Garnier, 1982, p. 894).

2.6 Subsidiary entrepreneurship

"The MNC subsidiary is unique in facing both external and internal (intra-MNC) competitive arenas simultaneously. The competitive environment creates the arena in which the subsidiary competes, but it is up to the subsidiary's managers to engage with

this environment; by acting entrepreneurially, and sometimes unilaterally (i.e. without formal agreement from MNC headquarters), to shape it in a way that allows the subsidiary to be a success," (Birkinshaw, Hood & Young, 2005, p.228).

Birkinshaw, Hood & Young, (2005, p.227) argue that there is "a growing recognition that subsidiary units are not merely subordinate elements of their parent MNCs. Rather, some at least have the potential for independent and entrepreneurial behaviour."

"Because the subsidiary only represents part of the MNC it is meaningless to talk about competitive advantage per se. However, it is still possible to think of the subsidiary as a semi-autonomous entity that achieves competitiveness to a greater or lesser degree as a function of the environment in which it is located," (Birkinshaw, Hood & Young, 2005, p.229).

"Despite the substantial interest in innovation and initiative in the MNC subsidiary, the topic of subsidiary entrepreneurship has received rather little direct attention; and recent review papers call for further study Entrepreneurship in MNCs is associated with subsidiary initiatives," (Bikinshaw, Hood & Young, 2005, p.233).

The received wisdom today is that subsidiaries start out with market-seeking responsibilities (i.e. with the objective of selling the MNC's products in the local market) but as the parent company grows, and as subsidiaries develop resources and capabilities of their own, they take on additional responsibilities—tapping into new ideas and opportunities in the local market, interacting with other actors in the local environment, and building unique capabilities on which the rest of the MNC can draw, (Bartlett &Ghoshal, 1989).

The question is what would happen if the subsidiary did not "develop resources and capabilities of their own," (Bikinshaw, Hood & Young, 2005, p.228) and relied on the holding company and was forced to change strategy due to a disruption in the external environment

2.7 Shift from an implementer to an innovator - subsidiary evolution

"A key issue to consider further is the process of evolution that these subsidiaries have gone through. While the initial framing suggested that the competitive environment would affect the entrepreneurial behaviour and performance of the subsidiary, it is

certainly the case that the opposite line of causality is also in effect. In other words, if the subsidiary is able to develop some autonomy, presumably through its entrepreneurial initiatives, it is much better positioned to start developing local suppliers and customers of its own, which may subsequently lead to a broader value-added scope," (Birkinshaw, Hood & Young, 2005, p.245).

"Building on foundations provided by the resource-based view of the firm, we define subsidiary evolution in terms of capability and charter change and then put forward the following five generic subsidiary evolution processes," (Birkinshaw & Hood, 1998 p. 773).

Below is a framework designed by Birkinshaw and Hood (1998) to organise the different drivers of subsidiary evolution.

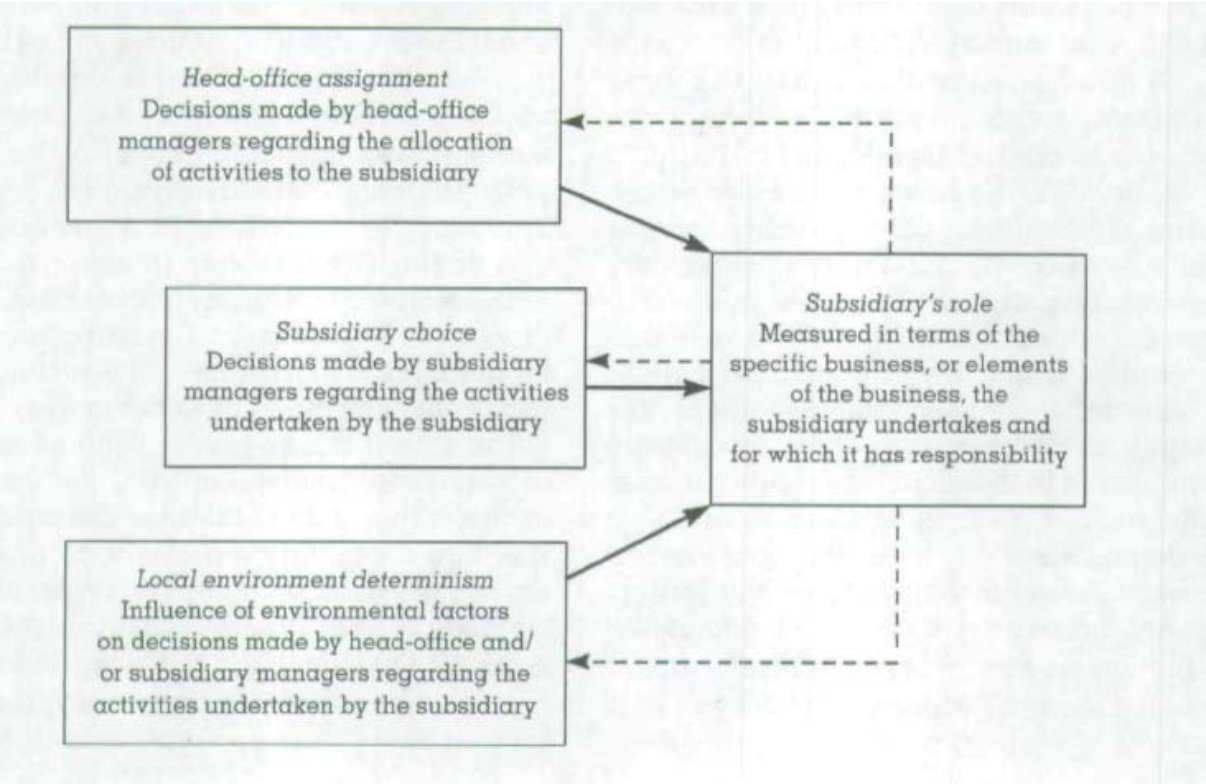

Fig. 6. Organising framework for subsidiary evolution (Birkinshaw & Hood 1998, p. p.775)

"*Head-office assignment* of roles is a critical determinant of subsidiary evolution, it is just one of three broad mechanisms that are responsible for driving the process that the subsidiary is an instrument of the MNC and, consequently, that it acts solely with regard to head-office-determined imperatives," (Birkinshaw & Hood, 1998, p.775).

"The second determinant of subsidiary evolution we refer to as *subsidiary* choice, which reflects the decisions taken by subsidiary management to define for themselves the role of their subsidiary one of equality, or even leadership. Here the MNC is modelled as an "inter-organisational network" (Ghoshal & Bartlett, 1991) of loosely coupled entities, rather than a hierarchical monolith," (Birkinshaw & Hood 1998, p.775).

"The third is Local Environment Determinism - MNC researchers have adapted this perspective by proposing that each subsidiary of the MNC operates in its own unique task environment, which constrains or determines the activities of that subsidiary (Ghoshal & Nohria, 1989; Rosenzweig & Singh, 1991; Westney, 1994). The argument, in essence, is that each subsidiary operates under a unique set of conditions to which it has to adapt in order to be effective. The nature of the local environment, as defined by customers, competitors, suppliers, and government bodies, thus has an important influence on the activities undertaken by the subsidiary, (e.g. Andersson & Johanson, 1996; Ghoshal & Nohria, 1989; Rosenzweig & Nohria, 1995)," (Birkinshaw & Hood 1998, p.775).

"Although the static relationship between the subsidiary and its local environment has been studied (e.g. Andersson & Johanson, 1996; Ghoshal & Nohria, 1989; Rosenzweig & Nohria, 1995), there has been less consideration of the dynamic question - that is, the relationship between local/regional development and subsidiary evolution (Young et al., 1994)," (Birkinshaw & Hood 1998, p.779).

One can add that there does not appear to be enough information on the disruptions in the local environment on subsidiary strategy.

2.8 Resources, capabilities and core competencies

Birkinshaw (1997, p.207), states that an "initiative is an entrepreneurial process, starting with the identification of an opportunity and culminating in the commitment of resources to that opportunity."

Birkinshaw and Hood define *resources* as the stock of available factors owned or controlled by the subsidiary and c*apabilities* as a subsidiary's capacity to deploy resources, usually in combination, using organizational processes to effect a desired end. The accumulation of capabilities is very different from the accumulation of resources. "A resource accumulating subsidiary may just be "fat," whereas a capability-accumulating subsidiary is putting together new combinations of resources and deploying them in creative ways," (Birkinshaw & Hood 1998, p.781).

"Resources alone do not yield a competitive advantage; a competitive advantage is generally based on the unique bundling of several resources" (Ireland, Hoskisson & Hitt, 2011, p.70). Ireland et al differentiate between tangible and intangible resources, tangible being assets that can be observed and quantified and intangible resources being among other things knowledge, trust between managers and employees, managerial capabilities, capacity for innovation, the firm's brand and the firm's reputation, (Ireland, Hoskisson & Hitt, 2011).

"Capabilities are built through developing carrying and exchanging information and knowledge through the firm's human capital," (Ireland, Hoskisson & Hitt, 2011, p.72). "Client-specific capabilities often develop from repeated interactions with clients," (Ireland, Hoskisson & Hitt, 2011, p.72).

"Core competencies emerge over time through an organisational process of accumulating and learning how to deploy the different resources and capabilities," (Ireland, Hoskisson & Hitt, 2011, p.73).

Prahalad and Hamel, (1990, p.82) state that "core competencies are the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies as well as the organisation of work and the delivery of value." Prahalad and Hamel (1990, p.89) believe "that companies should design a roadmap of the future that identifies which core competencies to build. This roadmap should look at among other things information systems, patterns of communications, career paths, managerial rewards and strategy development."

"What is missing, we believe, is an understanding of how subsidiaries change roles. Is there a predictable evolution process toward, for example, greater specialization in terms of product, market, or technology? What are the factors promoting and/or suppressing such a shift? What are the underlying managerial processes that make such a shift possible? Little explicit attention has been given to the question of how a particular subsidiary's role might shift over time," (Birkinshaw & Hood, 1998, p.774). Building core competencies could answer the question of how a subsidiary changes roles.

2.9 Charter

"The visible manifestation of the subsidiary's role in the MNC is its charter, defined as the business or elements of the business—in which the subsidiary participates and for which it is recognized to have responsibility within the MNC (Galunic & Eisenhardt, 1996). Thus, we can define charter in terms of markets served, products manufactured, technologies held, functional areas covered, or any combination thereof. The charter is typically a shared understanding between the subsidiary and the headquarters regarding the subsidiary's scope of responsibilities. In the case where the subsidiary's charter does not change for a long period of time, subsidiary managers are likely to steer resource deployment and capability accumulation efforts toward the fulfilment of that charter so that, eventually, the subsidiary's capability profile is a reflection of its charter. However, if there is a high level of change in the subsidiary's resource base (e.g., through merger and acquisition), in its charter, or in the markets that the charter is directed toward, then at any given point in time, there are likely to be mismatches between the subsidiary's capability profile and its official charter," (Birkinshaw & Hood, 1998, p.782).

2.10 Increased visibility in the Group

"The corporate entrepreneurship literature, for example, is mostly concerned with understanding the tactics individual entrepreneurs use to pursue their ideas and gain support from key stakeholders and to some extent with the aspects of the organization context that facilitate or hamper their efforts (Kanter, 1983; Pinchot, 1985). But it typically misses out on the bigger picture: the strategic implications of the initiative that the entrepreneur is pursuing or its political implications in terms of the shifting power bases in the company," (Bouquet & Birkinshaw, 2008, p.499).

According to Birkinshaw, Hood & Jonsson, (1998) there is a positive relationship between initiative and a contributory role (that would be of benefit to the MNC as a whole) played by the subsidiary in the group but there are reservations by parent managers, some parent managers view subsidiary initiative as subversive, that is subsidiary managers acting in their own or their country's interest rather than in the interest of the group.

2.11 Conclusion

This study looks at the movement of the business unit within a subsidiary from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming an innovator (Gupta & Govindarajan, 1991). The next level would be increased visibility in

the corporate system of the subsidiary through the initiatives of the business unit, (Birkinshaw, Hood & Jonsson, 1998).

In determining how easy or difficult it is for a subsidiary or a business unit within a subsidiary to change one needs to consider the type of group structure the subsidiary exists in, a hierarchical structure makes change almost impossible, whereas a network structure is more conducive to the growth of the subsidiary. The impetus for the change in this study is a disruption in the external environment; this forces the business unit to adopt a more entrepreneurial strategy.

The results of the literature review will be compared to a case study to determine whether a subsidiary was able to move from an implementer of head office strategy to an innovator then to having increased visibility in the corporate system.

Chapter 3: Research propositions

The global financial crisis caused a change in the trading environment that resulted in a change in strategy for the subsidiary. In order to investigate how a subsidiary of a multinational corporation (MNC) did survive, the following propositions will be investigated:

3.1 Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary in the professional services industry, with its parent company in a developed market, resulting in a loss of business for the subsidiary.

3.2 Proposition 2

The business unit of the subsidiary changed from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming a local innovator (Gupta & Govindarajan, 1991) and therefore exercising an entrepreneurial strategy. The business unit of the subsidiary required the autonomy to change. The subsidiary exists in a group structure such as the network structure that was conducive to change.

3.3 Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution of the business unit of the subsidiary.

3.4 Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

3.5 Proposition 5

"The initiative of the business unit of the subsidiary will increase visibility in the corporate system," (Birkinshaw, Hood & Jonsson, 1998).

Chapter 4 Methodology

4.1 Research design

4.1.1 Explanatory approach

An explanatory study of a qualitative nature was under taken. Explanatory "research focuses on studying a situation or a problem in order to explain the relationship between variables," (Saunders & Lewis, 2012, p.113). This study looks at the impact of the external environment on the strategy of a business unit within a subsidiary and how a change in strategy affected the capabilities and core competencies of the business unit.

The relationship between the holding company and the subsidiary was also examined to determine if the change in the strategy of the subsidiary's business unit affected the relationship between the holding company and the subsidiary.

4.1.2 "Unit of analysis" (Yin, 2009, p.27)

The business unit of a subsidiary of a Multi-national corporation was chosen as the unit of analysis. The subsidiary is split into different functions; audit, tax and advisory. Each function has business units that service different industries.

The chosen business unit performs audit services for the Industrial, Automotive and Pharmaceutical (IAP) industry. Discussions were also held with the head of the Energy and Natural Resources (ENR) audit services business unit to determine if the problems faced by the IAP business unit were industry specific, but an in depth study was not performed on the ENR business unit.

4.1.3 Propositions

"Propositions" (Yin, 2009, p.27) were formulated, these propositions set out the aspects that were analysed in the case study. The propositions are detailed in chapter three.

4.1.4 Internal validity

Internal validity "is mainly a concern for explanatory case studies and occurs when an investigator incorrectly concludes that there is a causal relationship between *x* and *y* without knowing that a third factor *z* may actually have caused *y,"* (Yin, 2009, p.42). Internal validity can also be a problem when inferences have to be made and the wrong inferences are made (Yin, 2009).The way to ensure internal validity is through "explanation building, addressing rival explanations and using logic models," (Yin, 2009, p.42)

4.1.5 External validity

External validity "refers to the extent to which conclusions are generalizable to other research settings, however, one can do research that is not meant to be generalizable to all populations but tries to explain only what is going on in one particular setting," (Saunders and Lewis, 2012, p.128).

4.1.6 Construct validity

This is to ensure that bias does not creep into the study from the investigator; this was prevented by checking that all information obtained could be supported with documentary or corroborating evidence, (Yin, 2009).

4.1.6 Reliability

According to Saunders and Lewis (2012) reliable research must employ data collection methods and analysis which produce consistent findings. This was ensured by ensuring that there are no inconsistencies in the information from the different participants and where ever possible to ensure that the information can be corroborated with documented company information.

4.2 Research method

The single in-depth case study was done on the business unit of a subsidiary of a globally renowned Multinational Corporation (MNC) in the professional services industry. This study adopted a single case study design so as to gain a more in-depth understanding of a particular case. "This design is supported by Piekkari, Welch, & Paavilainen (2008), who argue that the use of multiple cases, often with few data sources per case, violates Yin's (2009) arguments that the selection of cases should be theoretically rather than statistically grounded, and that the case study method should provide an in-depth and comprehensive understanding of each case," (Cavanagh, Freeman, 2011, p.6).

4.2.1 Data collection

A letter was received from the MD of the business unit allowing the business unit to be used for this particular research project. Semi-structured interviews were conducted with four members of the firm in key management positions. Participants reliability was confirmed by their designations and positions held in the firm. At the start of every interview, the participant was requested to sign a consent form which they all did sign.

The four participants that were interviewed were:

- Interviewee one – Deputy CEO of the South African subsidiary and head of risk for the African region. The African region excludes all French speaking

countries, Nigeria and Angola. This interview took place on the 14th of September 2012 and a follow up interview was held on the 2nd of October 2012 at the firms Johannesburg offices.

- Interviewee two – Managing Director (MD) of the Industrial Automotive and Pharmaceutical (IAP) business unit that performs audit services and also a member of the subsidiary's policy board. This interview was held on the 29th of October 2012 off site and a follow up interview was held on the 30th of October 2012.
- Interviewee three – A director of the firm and head of the Energy and Natural resources (ENR) business unit that performs audit services for the mining, oil and gas industry and also a member of the subsidiary's policy board. This interview was held on the 8th of October 2012 at the Johannesburg offices.
- Interviewee four – A director of the firm and head of markets for the IAP business unit. This interview was held on the 28th of September 2012 at the firms Johannesburg offices.

The firm's head of strategy could not agree to a time for an interview due to his busy schedule and therefore an interview was not held with him.

"The interview is a conversion that has a structure and a purpose determined by one person – the interviewer," (Kvale, 2009, p.7) Therefore for the purposes of this study questions were open ended and the interview was in the form of a conversation. The interview questions are in Appendix 1 and were used as a guide during the actual interview. The interview questions were derived from the propositions as recommended by Yin (2009). The propositions were used to develop a data collection plan.

All the participants agreed to follow up conversations via telephone if there were points that needed to be clarified. All interviews were transcribed after being conducted.

The access to the persons being interviewed was a problem as due to their busy schedules they kept changing the dates of their interview appointments. Many appointments were made and then cancelled and it was only in September 2012 that the interviews were finally confirmed and finally conducted. The MD of the IAP business unit could only be interviewed on the 29th of October 2012.

Company information such as the Income Statement for the business unit for the past four years as well as presentation slides detailing the change in strategy, the new global and South African strategy was also examined. These company documents were used to corroborate the information received from the interviewees and were

beneficial in understanding the path that the business unit and the firm had followed over the past four years.

4.2.2 Data analyses

The interviews were analysed to find different "themes, patterns, trends and relationships," (Mouton, 2009. p.108). The propositions were used to outline the important "themes", events and "relationships," (Mouton, 2009. p.108). The conversations were reviewed and items were grouped as per the order of the propositions.

Careful consideration had to be given to the sequence of events and getting the timeline correct so as to ensure when different events occurred or when different initiatives took place. Thereafter the data was used for the purpose of "explanation building. To 'explain' a phenomenon is to stipulate a presumed set of causal links about 'how' or 'why' something happened. The better case studies are the ones in which the explanations have reflected some theoretically significant propositions," (Yin, 2009, p.141). This study builds an explanation around the events that occurred over a period of time that could explain the performance of the business unit of a subsidiary. The propositions that were developed are based in theory and are used to explain the events as well as how the events and the theory are interrelated.

This case study compares the financial information based on the interventions that the MD took which are the actual results as well as the financial results had the MD not intervened and not developed initiatives to attract new clients, this method of analysis is considered to be "time-series analysis" (Yin, 2009, p.141) and assists in the explanation building technique.

4.3 Assumptions

Assumptions were made at the start; all assumptions were tested for validity through discussion and the review of business unit documentation. Assumptions that could not be proved through any form of evidence were abandoned.

4.4 Limitations

For many the fact that only one in-depth case study was done is seen as a limitation, but it was mentioned that this study was not meant to be "generalizable to all populations but tries to explain only what is going on in one particular setting," (Saunders and Lewis, 2012, p.128)

The bias of the interviewer is also a limitation; this risk was mitigated through corroborating ideas with the interviewees as well as following up on discrepancies and inconsistencies on information received from the different interviewees.

Time was also a huge limitation, due to the busy schedules of the participants the interviews were often rushed and follow up appointments had to be made; this involved an even greater investment in terms of time.

Chapter 5 Results

5.1 The global firm

"The MNC of the subsidiary that this case study is based on "is a global network of professional firms providing Audit, Tax and Advisory services. They have 145,000 professionals working in 152 countries worldwide. The company has 7 900 partners globally," (taken from company website).

5.2 The South African subsidiary

The South African subsidiary has 11 offices in South Africa, comprising of the national office in Johannesburg and regional offices in Bloemfontein, Cape Town, Durban, East London, Nelspruit, Pietermaritzburg, Polokwane, Port Elizabeth, Pretoria and Secunda. With over 3,000 staff and more than 250 partners, this firm is one of the largest Audit, Tax and Advisory firms in the country, (taken from company website).

The South African firm is owned by South Africans, headed up by a democratically elected Board. The Board elects the Chairman and the Chief Executive, who in turn appoints his/her Executive Committee, (taken from company website).

The South African member firm also plays an active role in the company's global network. Roughly 40 professionals from the South African firm have active roles on international bodies – across the European, Middle Eastern and African (EMA) region and at a global level. With direct representation on the International Board and International Council, as well as numerous international committees, working groups and networks, the South African firm is well positioned to think globally and act locally, (taken from company website).

Each subsidiary is divided into different service functions, for example audit services, taxation services and advisory services. The different services are then split into different industries, for example manufacturing, mining, consumer markets and pharmaceutical, (taken from company website).

The corporate strategy is designed by the holding company which is based in Switzerland, and this forms the basis for the local strategy, (taken from company website).

5.3 Interviews

Four interviews were conducted with key management personnel below are the details from the interviews. The interview questions are in Appendix 1.

5.3.1 Interview one

The first person interviewed was the deputy CEO of the South African subsidiary who is also the head of risk for the African region.

Interviews were held on the 14th of September 2012 at 10am and the 2nd of October 2012 at 8:30am. The interviews were held at the deputy CEO's offices in Johannesburg.

The interview responses will be detailed in terms of the propositions raised in chapter three.

Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary, in the professional services industry with its parent company in a developed market, resulting in a loss of business for the subsidiary.

Response to proposition 1

It was confirmed by the deputy CEO that the financial crisis had led to a drop in business; the years 2009 to 2010 were particularly difficult as growth declined. The South African subsidiary was showing some growth, but the European subsidiaries were showing a drop in business so called "negative growth." As the deputy CEO said "flat was considered the new up" meaning that that if the subsidiary was showing a flat growth curve then at least growth was not declining.

Proposition 2

The business unit of the subsidiary changed from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming a local innovator (Gupta & Govindarajan, 1991) and therefore exercising an entrepreneurial strategy. The business unit of the subsidiary required the autonomy to change. The subsidiary exists in a group structure such as the network structure that was conducive to change.

Response to proposition 2

According to the deputy CEO the Global Board meets to outline a two year strategy, the revised strategy is growth focused. The South African team will look at the global strategy and see how applicable it is to South Africa. Areas that will be targeted are areas for which growth is identified in the South African context. For example the area of Financial Services is a great focus for the Global strategy but this area is not a focus

for the South African subsidiary. The area of management consulting is something that has been driven by the global strategy and this is an area that the South African subsidiary is targeting as well.

The global strategy will be translated into a South African strategy then into a business unit level strategy. When looking at audit services the legal and regulatory framework of the country in which the subsidiary is based will be the first consideration, strategy would never override the legal and regulatory requirements of the country.

Innovation in the South African market is very important to increase turnover, this is something that has become more evident due to the financial crisis.

The deputy CEO stated that "the global priority will always overrule the local priority" and that the "global strategy dominates."

A key strategy initiative for the global strategy is to transform the audit clients to advisory clients.

"The national strategy would never override the global strategy," states the deputy CEO.

The group does operate as a network when it comes to knowledge as the deputy CEO further states, "there is a very active knowledge portal and knowledge sharing is done on a constant and consistent basis."

Head office monitors the gross profit as well as the net profit of the subsidiary very carefully, the subsidiary is required to make a profit contribution to head office as well as pay head office royalties for the use of the brand.

Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution (Birkinshaw & Hood, 1998, p. 773) of the business unit of the subsidiary.

Response to proposition 3

The deputy CEO is not involved with the development of capabilities at the business unit level that is why in this case study participants at the business unit level were chosen to discuss the capabilities that were developed and how they were developed.

As the global strategy is to try to transform audit clients to advisory clients, the resources which are mainly people have to be adaptable to different functions therefore to ensure this adaptability the staff are rotated to different functions to build capability,

Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

Response to proposition 4

The success of the South African subsidiary during the financial crisis, has led to greater responsibility as more resources have been given to the South African subsidiary to ensure that the desire for growth in Africa will be realised.

The deputy CEO did however; state that head office has allocated a large amount of funds to expand business in Africa as they have targeted Africa as a growth area. According to the deputy CEO $150 million was provided for the growth in Africa initiative.

Proposition 5

The initiative of the business unit of the subsidiary will increase visibility in the corporate system, (Birkinshaw, Hood & Jonsson, 1998).

Response to proposition 5

The deputy CEO does not believe that the visibility of the South African subsidiary increased, however due to the initiative of the IAP business unit the gross profit of the subsidiary was maintained and the subsidiary started showing incremental growth.

5.3.2 Interview two

This interview was with the Managing Director of the Industrial and Automotive Business Unit (IAP) that performs audit services. This Director was appointed in 2007 before there was any turbulence in the global economy. In 2007 the IAP business unit was very reliant upon referred client work from other subsidiaries in the group. The IAP business unit is the 5th largest business unit with a gross margin in 2011 of R94 million.

Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary, in the professional services industry with its parent company in a developed market, resulting in a loss of business for the subsidiary.

Response to proposition 1

The business was doing very well before 2008; according to the MD "all you had to do was be there to be successful." This business unit had relied mainly on clients referred to it by other business units in the group mainly from fellow subsidiaries in Europe. In the words of the MD of the business "the loss felt like a run on the company very similar to a run on a bank when a large number of depositors withdraw their funds from the bank."

This business unit had very few local clients and the referred work from other subsidiaries made up approximately 90% of the revenue of the business till 2007. In 2008 about 50% of the referred work was lost this amounted to R40 million worth of business because the European subsidiaries of this professional services firm lost their clients so the South African subsidiaries of these clients took their business to different auditing firms. The reason cited through the interview with the MD for the loss in business in Europe is the financial uncertainty created by the global financial crisis. Head office communicated the loss of clients via e-mail and there was no further discussion on the matter

The challenge of working in a professional services environment was that you had to deliver as a practitioner and manage the business. The other challenge is that there are no dedicated reporting lines as there is a layer of partners at the top and anybody may report to any of the partners, this makes changes difficult as staff are working with different directors at different times and this can be confusing for the managers and the clerks specifically if some directors have adopted the new strategy while others have not,

Proposition 2

The business unit of the subsidiary changed from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming a local innovator (Gupta & Govindarajan, 1991) and therefore exercising an entrepreneurial strategy. The business unit of the subsidiary required the autonomy to change. The subsidiary exists in a group structure such as the network structure that was conducive to change.

Response to proposition 2

The global board sits in Switzerland and the subsidiaries are actually franchises. There has to be strict adherence to the global values and the global brand. Head office dictates how the brand looks and what values are attached to the brand as well as how the brand is marketed.

Prior to 2008 the IAP business unit relied heavily on referral work, work referred by other subsidiaries in the group. It was not up to the subsidiary to decide to move away from a strategy of referred work as the global strategy required that the subsidiary take up the referred work, as the MD says "it was not in the hands of the business unit to turn down referred work."

This reliance prevented entrepreneurial initiatives from being undertaken. The head office of the professional services subsidiary supported a strategy of referred work as they felt that the South African manufacturing market had the following problems:

- The rand was too strong to encourage exports,
- It was cheaper to import items such as cars than build them in South Africa,
- The labour was too expensive.

This is why they believed that the referred work was a "low risk lucrative annuity," (quote by the managing director of the IAP business unit).

In the opinion of head office, South Africa was not "their emerging market of choice" (quote by the managing director of the IAP business unit) that is it was not seen as having the potential for growth like markets such as India and China.

The companies in this group operate as a network of firms with a large amount of knowledge sharing and a reliance on work referred by one subsidiary to another. However when it came to the choice of whether to accept referred work or not the subsidiary did not have a choice and it did not have the autonomy to turn down the referred work in favour of building a local client base. The new MD's plan, when he was appointed, was to build the local business alongside the current referred business. However, due to the financial crisis much of the referred work was lost.

The MD's plan was to implement a new strategy in 2007 as even though business was doing well due to the referred work there were leadership challenges that needed to be addressed.

Therefore the MD of the IAP business unit embarked on a new strategy that started with firstly evaluating where they are as a business and where they would like to go, and what are the five most important goals that they would like to achieve. In 2007 the strategy of the business unit was outlined as the most important goals of the business, they were: process efficiency, consistency, quality, transformation and develop and retain. These goals remained important over the next five years; however, they took on a greater urgency from 2008 onwards. Process efficiency and consistency were important as they would ensure that costs are kept under control, quality would make the brand sought after and bring in more business through a good reputation in the market place, and transformation refers to the need to comply with the South African laws of Black Economic Empowerment. The focus of develop and retain deals with developing the right people for the job and retaining the talented employees.

However, in 2008 when the financial crisis caused the business unit to loose clients the strategy changed from a growth strategy to (in the words of the MD) “a defensive growth strategy.” As per the MD “the financial crisis exposed a lot of cracks that were hidden when the business was going well.”

One of the main concerns for the MD was stakeholder value, as per the MD “the company cannot dilute earnings per partner.” This resulted in a change to the strategy and a greater initiative to increase the client base, with the gross margin as a carefully monitored key performance indicator.

The following focus areas were constantly reinforced to IAP staff

- Focus on being number 1
- Focus on gaining market share
- Focus on being the best choice “for you”
- Focus on being the employer of choice
- Focus on profitability per partner
- Focus on a rolling three year horizon

In 2008 new management structures were developed to facilitate the growth strategy, the structures were: a leadership forum to develop and assist leadership development among the staff, sub committees to address matters in greater detail issues such as staff development and performance evaluations. The strategy also led to the development of a competency framework. In 2009 greater emphasis was placed on the development of the human capital and in 2010 once the strategy objectives of the

previous year became more entrenched attention was placed on going to a higher level of performance with the emphasis on process excellence, business forecasting, templates to standardise routine procedures and a high performance culture was created.

Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution (Birkinshaw & Hood, 1998, p. 773) of the business unit of the subsidiary.

Response to proposition 3

Prior to 2008 when the referred work made up a large portion of the client base, it also occupied a large amount of the resources. For many years reliance had been placed on the referred work and this created in the words of the MD of the business unit '' a false sense of security." This meant that these resources were not developed to take on entrepreneurial initiatives as the capabilities had not been developed. There was a mind-set that nothing further needed to be done as the referred work will always exist.

The main resources in a professional services firm are the people. Clerks have to have an honours degree in the theory of accountancy from a reputable university when they join the firm; a clerk may be allowed to complete their honours degree while working for the firm but this is rare and only allowed in exceptional circumstances. A clerk will spend 3 years serving their articles, during this time they also have to sit for two board exams. The board exams are set by the South African Institute of Chartered Accountants.

Performance is strictly monitored and all audit work is subject to stringent evaluation criteria and each employee whether it is a clerk, manager, senior manager or partner will receive a performance rating for all completed engagements. Every clerk and manager has partner to mentor them, this person will review their ratings and give them feedback, and this process was strongly enforced. Remuneration is performance based. Clerks that have passed their exams and have received above average ratings are encouraged to stay and become managers, if they perform well as managers they are encouraged to become senior managers and if they show the required aptitude then they are groomed to become partners.

It was imperative for the survival of the business unit to develop entrepreneurial capabilities in the people so as to grow the local client base. However, it was not only entrepreneurial capabilities that were developed, the process of developing the human resources started in 2007 and was aligned to the business unit strategy, the South African strategy as well as the global strategy. The strategy was updated in 2008 with a greater emphasis on entrepreneurial initiatives.

The staff development process started with the goals and from the goals the question was asked what is required of our people so that we can achieve our goals.

Below is the plan outlined by the IAP management to develop their people, from the table one can see that the tasks that need to be followed are aligned to the business unit's strategic goals.

Strategic goal	Objectives	Tasks
Attract, develop and empower people	**Attract the best**	■ **Continuous monitoring of quality IAP leads and Vac students** ■ **Create IAP brand awareness**
	Develop	■ **Identify key talent and develop (trainee level)** ■ **Career development and related guidance (all)**
	Retain the best	■ **Differentiate, recognise and reward high performers** ■ **Career sponsorship program (managers)** ■ **Career plans (managers)**
	Create high performance culture	■ **Define high performance expectations and implement** ■ **IAP MBA** ■ **Differentiate, recognise and reward high performers**
People care	**Create a sense of belonging**	■ **Face to face on the job training** ■ **Timely face to face feedback on performance and documentation thereof** ■ **Embracing the performance management process**

Fig. 7. The collective IAP roadmap

Strategic goal	Objectives	Tasks
Transform our business	**Monitor execution of People Care**	■ **Monitor execution of People Care tasks** ■ **Analyse transformation committee scorecard** ■ **Identify, monitor and develop key talent**
	Improve transformation scorecard rating	■ **React to specific areas for improvement (Employee survey and score card)**
	Effective communication	■ **Communicate transformation initiatives and successes within the BU (create positive awareness)**

Fig. 8. The collective IAP roadmap

The table above also shows how the tasks are aligned to the strategic goals set by the business unit

The MD of the business unit was instrumental in changing strategy from relying on referred work from the other subsidiaries to designing a strategy to establish a local client base. He believed in "motivating through inspiration and not fear." The words of inspiration that were used were "we will have to continue to transform our business recognising that the status quo is not an option.

A high performance culture was developed with a significant focus on developing the client base. In this regard soft skills workshops were held and all employees were taught how to build client relations. The workshops to train the staff were held on a regular basis and staff members would have to leave whatever they were doing to attend these workshops.

Below is the strategy designed by the management team of the business unit to achieve a high performance culture."

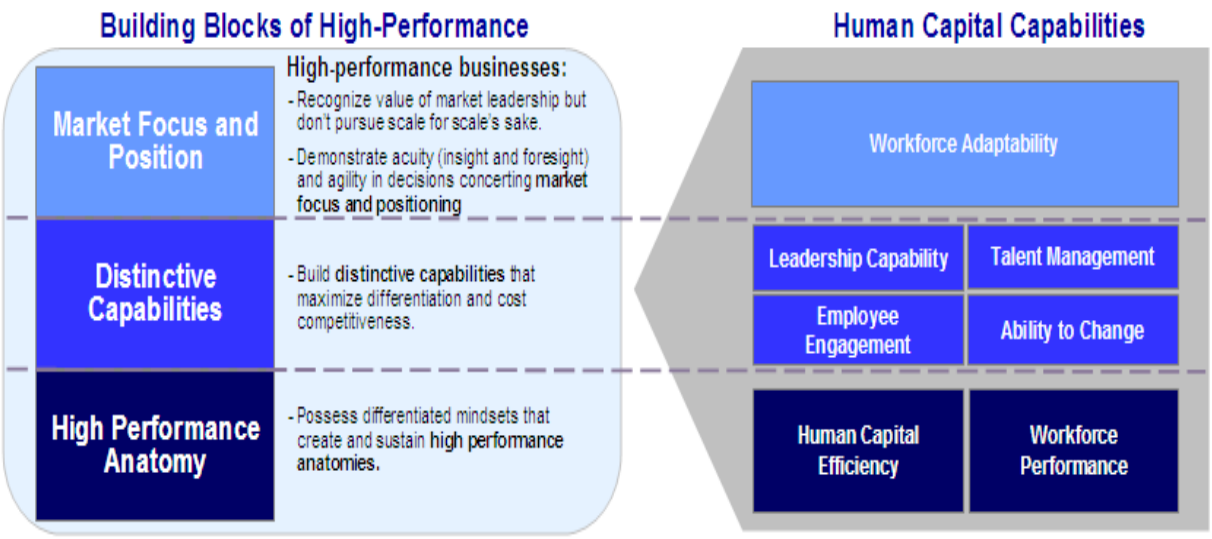

Fig. 9. High performance initiative

There was a lot of shock and concern among the staff because as the MD said "the cracks only show when there are problems in the external environment." The shock and concern was due to the loss in business that is why in 2009 the focus was on the company's main resources – its staff. The focus was on creating a business environment where people care about the way they treat their colleagues, this was enforced through a list of do's and don'ts to try to refine and guide behaviour.

Fig. 10. The IAP do's and don'ts

Growth in terms of people development was also a key focus area; the business unit needed the right people to grow in a way that would promote the strategy of the business unit. There was also a competency framework that was developed to show each level of staff what is expected of them in order to achieve the strategic goals listed

on the left. The staff are then rated on their performance and remunerated as per their rating.

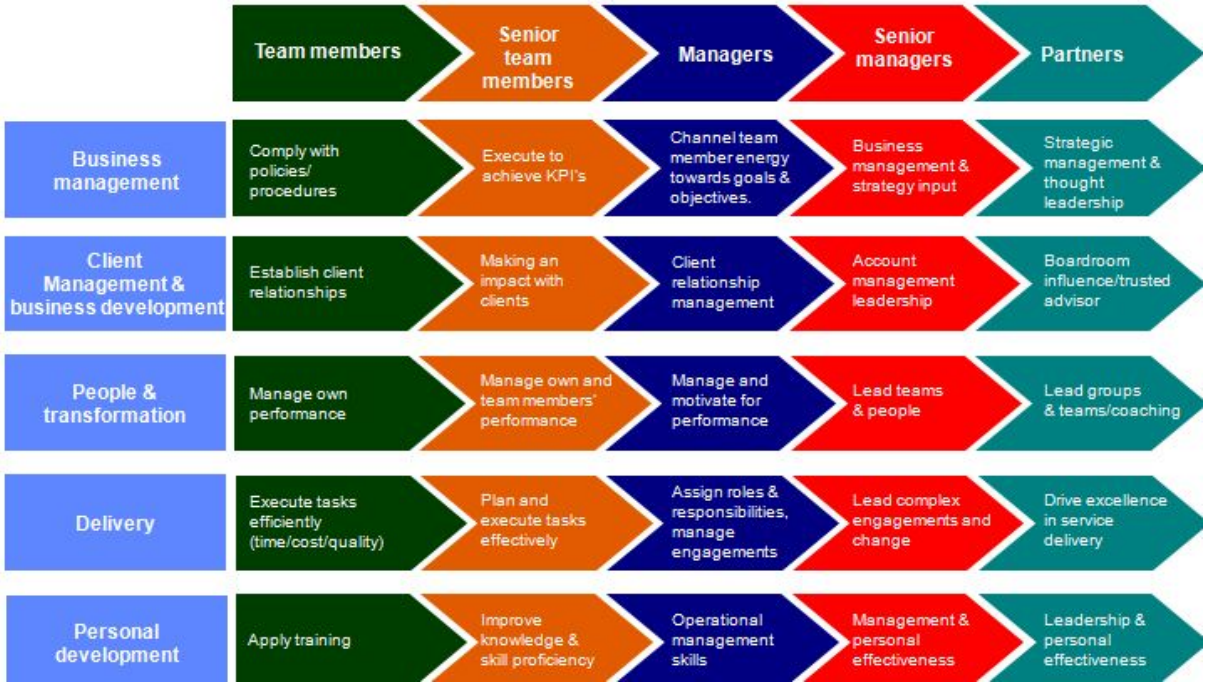

Fig. 11. The IAP competency framework

On the extreme left of the competency framework is something called the business navigator or business goals which show the strategic focus areas.

The competency framework shows the different levels of staff what their competencies should be and these competencies are tied to the strategic goals of the firm. The competencies then have key performance indicators in the performance review that have to be complied with in order for that competency to have been met.

Processes were streamlined to ensure that the time of managers and directors was not squandered on administration functions and more time could be spent building and strengthening relationships with the clients. There was a drive to go out and maintain visibility at the client's premises if an audit was in progress as well as to contact them to find what their needs are as well as have client lunches and 'golf days

Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

Response to proposition 4

During 2008 R40 million worth of revenue was lost this was this was due to the referral work no longer being available to the business unit. As discussed head office wanted the business unit to accept this referral work and the business unit subsequently became reliant on the referral work. This change from a reliance on referral to sourcing local clients through entrepreneurial initiatives is a change in the charter of the subsidiary.

Year	2008	2009	2010	2011
Gross profit	R87 million	R95 million	R98 million	R94 million

Fig. 12. Gross profit obtained from the Managing Director of the IAP business unit

From the table we can see that the gross profit is not fluctuating wildly and is not reflecting a loss of R40 million even though work to that value was lost by the business unit. What this meant for head office was that they will continue to receive the profit share that they received in the past. This sustained head offices trust in the South African subsidiary and resulted in a continuing good relationship with head office. Head office expressed their trust in the South African subsidiary by allocating R150 million to the South African subsidiary to realise head office's desire to grow in Africa.

Year	2008	2009	2010	2011
Gross profit	R47 million	R55 million	R58 million	R54 million

Fig. 13. Gross profit had new business not been sourced and an entrepreneurial initiative not been followed.

Proposition 5

The initiative of the business unit of the subsidiary will increase visibility in the corporate system, (Birkinshaw, Hood & Jonsson, 1998).

Response to proposition 5

What has happened has not increased visibility but head office head office still believes in the ability of the South African subsidiary to deliver. Because as the MD said, head office allows the subsidiary to use their brand and head office does determine what initiatives the subsidiary should engage in that requires an investment of capital such as the African initiative that requires an investment by head office and to which head office has pledged R150 million.

5.3.3 Interview three

The person interviewed was head of marketing from the Energy and Natural Resources business unit. The energy and natural resources business is in a different industry as

compared to the Industrial Automotive and Pharmaceutical division. This industry deals with audit work in the mining and energy industry. Most of the companies in this industry are local that is they are South African companies.

Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary, in the professional services industry with its parent company in a developed market, resulting in a loss of business for the subsidiary

Response to proposition 1

Yes the financial crisis did change the competitive trading environment of the energy and natural resources business as commodity prices fluctuated and demand for commodities such as platinum and diamonds dropped affecting the companies mining these commodities.

Proposition 2

The subsidiary changed from being an implementer of head office strategy to becoming a local innovator and therefore exercising an entrepreneurial strategy.

This subsidiary did not rely on referred work as most of the clients had head offices in South Africa. Therefore this business unit was already using an entrepreneurial strategy to obtain clients. The problem with this industry was the uncertainty with regards government policy as well as with regards labour and strike action from labour.

Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution (Birkinshaw & Hood, 1998, p. 773) of the business unit of the subsidiary.

Response to proposition 3

There was no reason to change the way in which the ENR business unit had been operating, as the business unit had been following an entrepreneurial strategy before 2008. However, the financial crisis did make the environment more competitive and there was a drive to work more efficiently and reduce costs.

Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

Response to proposition 4

The ENR business unit was not reliant on head office or its fellow subsidiaries for referral and therefore did not suffer in the same way in which the IAP business unit suffered; therefore a change in strategy was not required.

Proposition 5

"The subsidiaries initiative will increase visibility in the corporate system," (Birkinshaw, Hood & Jonsson, 1998).

This business unit did not need to change from an implementer to an innovator as the ENR business unit was not relying on referred work.

5.3.4 Interview four

The interview was with the head of marketing for the Industrial and Automotive Business Unit.

Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary, in the professional services industry with its parent company in a developed market, resulting in a loss of business for the subsidiary.

Response to proposition 1

The external environment has become more competitive as compared to a few years ago. The business unit received a lot of referral work from Europe, particularly Germany. The business unit actually grew by expanding through referred work, with a strong reliance on Europe. There was a large loss of clients due to the global crisis in Europe. The financial crisis also forced a change in focus from the dependence on Europe to having to sort clients locally. The dependence on referred work did lead to some complacency.

Proposition 2

The business unit of the subsidiary changed from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming a local innovator (Gupta & Govindarajan, 1991) and therefore exercising an entrepreneurial strategy. The business unit of the subsidiary required the autonomy to change. The subsidiary exists in a group structure such as the network structure that was conducive to change.

Response to proposition 2

An entrepreneurial strategy was adopted. We have become more aggressive and we do use the cold calling (calling companies and offering services) technique of approaching clients. After 2008 the local marketing strategy had to change, and mind-sets had to change, we, the directors as well as senior managers had to become "hunters" and search for new clients. The value proposition was put on paper; the question we asked ourselves was what we could offer our clients. The value proposition was derived from an analysis of what we could offer our clients. We had to learn how to sell our services, all our services whether audit or advisory. We did not have a problem receiving permission to change our strategy; therefore we did have the autonomy to do whatever we had to increase the local client base. We had to change our focus and fight harder for growth. The one thing that we have done throughout the design and implementation of our strategy is monitor our costs. Cost control is very important in the professional services environment.

The audit environment is very highly regulated and those firms performing audit functions are limited in the other services that they may perform. This is something that we have to consider when looking at the strategy, as we sell both audit and other services as head office would like to see an increase in management consulting services, but the type of service that we are engaged to do is dependent on the client.

The subsidiary does exist in a network structure when it comes to the exchange of knowledge; best practice is shared between subsidiaries on a constant basis.

The current strategy looks at processes rather than functions within the business unit this ensures that we do not operate in silo's and separately. Below is an IAP slide that was used in a presentation to assist staff to understand the new way in which the business unit will operate as well as to explain what a process view entails as compared to a functional view.

The diagram below shows that there are not dedicated staff members that manage functions for example development of people, across the operational functions the process of personal development and people will receive attention.

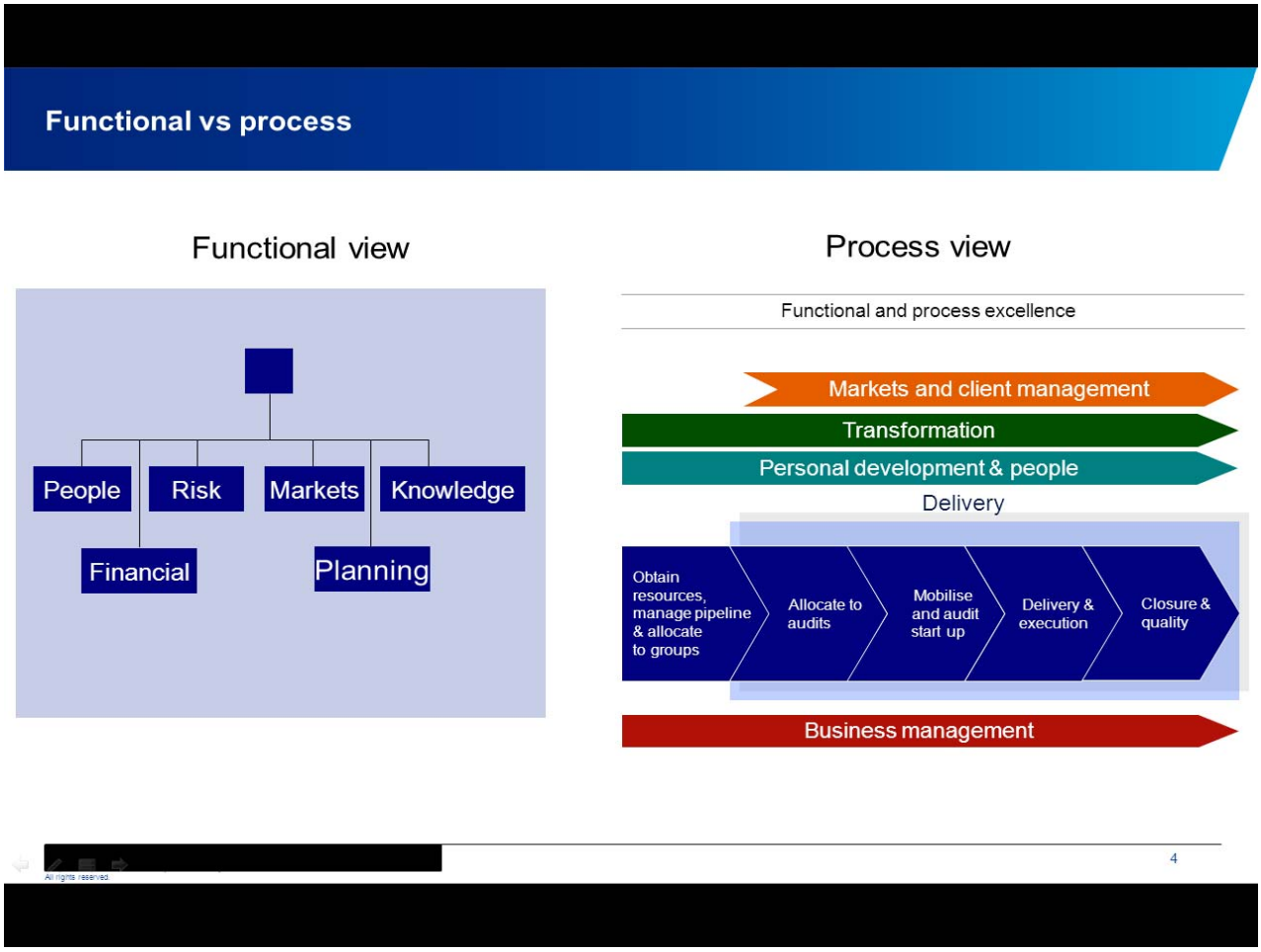

Fig. 15. IAP Company slide comparing functional view to process view

Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution (Birkinshaw & Hood, 1998, p. 773) of the business unit of the subsidiary.

Response to proposition 3

Staff had to become more efficient and there was a great drive to improve marketing skills and abilities, all partners were taught how to sell services. Workshops were held to train staff.

Leadership is very important and the current MD inspires us all. We have been asked to give feedback on the initiatives that he has implemented and there is an open door policy if there is something that we do not agree with.

We have also tried to ensure that one client does not make up a large portion of our revenue. We also sell both audit and other services to all our clients.

Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

Response to proposition 4

The relationship with holding company did change; we now communicate less with them as a large portion of the referred work has been lost. We now spend more time on building relationships with our local clients as well as building the capabilities of our staff, as compared to the past where the focus of our relationship building was the subsidiaries from which we gained referral work.

Proposition 5

The initiative of the business unit of the subsidiary will increase visibility in the corporate system, (Birkinshaw, Hood & Jonsson, 1998).

Response to proposition 5

The head of marketing for the IAP business unit does not believe that there will be a change in the visibility of the subsidiary in the corporate system due to the initiatives of the IAP business unit.

Chapter 6: Discussion of results

Proposition 1

The financial crisis changed the competitive trading environment of an emerging market subsidiary, in the professional services industry with its parent company in a developed market, resulting in a loss of business for the subsidiary.

Discussion results for proposition 1

As per Aryeetey & Ackah, 2011 the global financial crisis did affect African companies. Therefore the global financial crisis can be considered to be a major disruption to business. According to the directors of the professional services firm that were interviewed all of them were in agreement that the financial crisis did result in a drop in business. However, certain industry sectors were more affected than others. For example the Industrial Automotive and Pharmaceutical (IAP) sector showed a greater loss in business when compared to the mining sector. Furthermore the IAP business unit relied on referrals from the European subsidiary; therefore this business unit saw a substantial loss in business as the European economies were badly affected by the global financial crisis.

Prior to the financial crisis the IAP business unit operated in a "benign business environment" A benign environment as per Birkinshaw, Hood and Young (2004) "is one in which both the internal and external competitive arenas are weak. In a benign environment with few competitors and undiscerning customers, a company can be lazy and still very profitable, but it will never improve," (Birinshaw, Hood and Young, 2004, 231).

According to the head of the IAP business unit this is precisely the situation that the business unit was in as most of the revenue came from work referred from subsidiaries in Europe. There were very few local clients and the referred work from other subsidiaries made up approximately 90% of the revenue of the business till 2007. In 2008 about 50% of the referred work was lost this amounted to R40 million worth of business because the European subsidiaries of this professional services firm lost their clients. The reason cited through the interviews for the loss in business in Europe is the financial uncertainty created by the global financial crisis.

Proposition 2

The business unit of the subsidiary changed from being an implementer (Gupta & Govindarajan, 1991) of head office strategy to becoming a local innovator (Gupta & Govindarajan, 1991) and therefore exercising an entrepreneurial strategy. The

business unit of the subsidiary required the autonomy to change. The subsidiary exists in a group structure such as the network structure that was conducive to change.

Discussion of results for proposition 2

"The transfer of external market data could refer to the transfer of globally relevant information about key customers, competitors, or suppliers. Note that knowledge flow refers to the transfer of either expertise or external market information of global relevance, but not to the transfer of internal administrative information (such as the exchange of monthly financial data)," (Gupta & Govindarajan, 1991, 773).

"In the Implementer role, the subsidiary engages in little knowledge creation of its own and relies heavily on knowledge inflows from either the parent or peer subsidiaries. This role is the theoretical obverse of the Global Innovator," (Gupta & Govindarajan, 1991, p. 774).

The business unit that was studied for this research was in the role of implementer as it relied on referral work from other subsidiaries, therefore these other subsidiaries gave this business unit the relevant client information and a customer base was built by the business unit based on the referred client list.

The IAP business unit was reliant on this business and entrepreneurial initiatives were not undertaken before 2008. The head office of the professional services subsidiary supported a strategy of referred work as they felt that the South African manufacturing market had the following problems:

- The rand was too strong to encourage exports,
- It was cheaper to import items such as cars than build them in South Africa,
- The labour was too expensive.

This is why they believed that the referred work was a "low risk lucrative annuity," (quote by the managing director of the IAP business unit).

In the opinion of the head office, South Africa was not "their emerging market of choice" (quote by the managing director of the IAP business unit) that is it was not seen as having the potential for growth like markets such as India and China.

The strategy of this subsidiary was to adhere to a global strategy and wherever possible rely on work from fellow subsidiaries in developed economies. The deputy

CEO stated that "the global priority will always overrule the local priority" and that the "global strategy dominates."

Corporate control mechanisms

Dimensions	Local Innovators	Implementers
Use of formal integrative mechanisms. Galbraith (1973) & Nadler& Tushman (1987)	Low	Medium
Intensity of communication	Low	Medium
National background of subsidiary managers	Low	Medium
Corporate socialization of subsidiary managers	Low	Medium
Subsidiary manager's locus of control	Low	Medium
Corporate-Subsidiary decentralization	Medium	Low
Salter (1973) identified the size of bonus relative to base salary	Medium	Low
Autonomous initiative	Medium	Low

These Corporate control mechanisms were not used by the head office of this group to monitor the subsidiary. However in this business unit the managers are predominantly South African, therefore this could be one of the reasons that the entrepreneurial initiative was successful as the local directors and managers understand the local markets better than foreign directors and managers. The intensity of communications did change (that is communication lessened as head office was focusing on the impact of the financial crisis during this period. The corporate socialisation of managers is low and this helped when a more national approach was required.

As mentioned by the deputy CEO Head office monitors the gross profit as well as the net profit of the subsidiary very carefully, the subsidiary is required to make a profit contribution to head office as well as pay head office royalties for the use of the brand.

As the MD of the business said "We will have to continue to transform our business recognising that the status quo is not an option." This is the statement made by the head of the business unit when he was describing "the way forward" (quote from head of the IAP business unit). The subsidiary in this instance had to design a strategy to survive. A plan was outlined and shown to the CEO and deputy CEO for approval. Head office did not have a problem with the new plan.

Bikinshaw, Hood & Young, (2005, p.227) argue that there is "a growing recognition that subsidiary units are not merely subordinate elements of their parent MNCs. Rather, some at least have the potential for independent and entrepreneurial behaviour."

The business unit had no choice but to become innovative and to increase their local client base, this became a matter of survival for this business unit. .

Autonomy refers to the freedom or independence of a subsidiary which enables it to take certain decisions on its own behalf, (Young & Tavares, 2004).

"We suggest that to curtail emerging market threats, external dependence needs to be reduced, which in turn requires parent resource support and efficient information flow within the MNE; and that to acquire emerging market opportunities, strategic adaptation needs to be increased, which in turn requires responses at a local level and flexibility of control,"(Luo, 2003, p.292). This statement favours autonomy over centralisation, however as discussed in chapter two autonomy requires trust and from the discussions with the MD of the business unit it appears that because of the fact that the subsidiary was based in an emerging market that in the view of head office this emerging market was facing considerable challenges in their manufacturing environment, this led to a lack of trust on the South African market and a reliance on referred work. The business unit did not adopt an entrepreneurial approach because of an increased amount of autonomy but rather because there was no choice, they had to adopt an entrepreneurial approach in order to maintain stakeholder value. Also head office was facing its own challenges with the global crisis and the South African business unit leader had to take action quickly.

When researching holding company and subsidiary relationships, the group structure is important as it describes the relationship between the companies in the group.

"According to many network model advocates (Andersson, Forsgren, & Holm, 2007; Handy, 1992), the MNC may be viewed as a 'federation' that is less hierarchical and more loosely organised than previously thought, with a reciprocal relationship between the different units, including the headquarters. Importantly, the network model of the MNC recognises that as a result of the various networks formed through relationships with customers, suppliers and other counterparts (including fellow subsidiaries), a subsidiary may develop a role in a particular network that is quite separate from its headquarters-determined 'strategic role' (Andersson & Forsgren, 1996)," (Cavanagh & Freeman, 2011, p.2).

"It should also be noted that many of the principles of the network model of the MNC are consistent with those of the resource-based view (RBV) of the firm (Barney, 1991; Wernerfelt, 1984) once it is acknowledged that resource development can occur at the subsidiary, as opposed to solely at the corporation-wide, level (Birkinshaw et al., 1998; Enright & Subramanian, 2007). For example, the network model of the MNC views a subsidiary's key relationships within its network as resources that may be used to

influence the role it plays within the MNC (Andersson & Forsgren, 1996; Andersson, Forsgren, & Holm, 2001, 2002)," (Cavanagh & Freeman, 2011, p.2).

Cavanagh & Freeman, 2011 criticise the Gupta & Govindarajan, 1991 framework for not showing how a subsidiary moves from the position of implementer to innovator in terms of resource allocation, this study uses the Gupta & Govindarajan, 1991 model but does discuss the improvement in resource capability so as to effect the change from implementer to innovator.

According to the interviews it was clear that a network structure is in operation when it comes to the sharing of knowledge and the sharing of global best practice. However, when it came to performance then the structure was more hierarchical with head office constantly monitoring the bottom line as well as insisting on the business unit receiving referred work from other subsidiaries due to head offices concern of the manufacturing environment in this emerging market.

Proposition 3

"Resources are bundled to create organisational capabilities. In turn capabilities are the source of a firm's core competencies which are the basis of competitive advantage," (Ireland, Hoskisson & Hitt, 2011, p.70). The move from implementer (Gupta & Govindarajan, 1991) of head office strategy to innovator (Gupta & Govindarajan, 1991) required new capabilities and core competencies (Ireland, Hoskisson & Hitt, 2011) to be developed, and led to the evolution (Birkinshaw & Hood, 1998, p. 773), of the business unit of the subsidiary.

Discussion results for proposition 3

"Resources alone do not yield a competitive advantage; a competitive advantage is generally based on the unique bundling of several resources" (Ireland, Hoskisson & Hitt, 2011, p.70). From the discussions with the MD it is clear that several resources were bundled together for example the human capital at different levels that is from manager to partner was taught marketing skills over and above the technical that they possessed as accountants.

"Capabilities are built through developing, carrying and exchanging information and knowledge through the firm's human capital," (Ireland, Hoskisson & Hitt, 2011, p.72). As per the interview with the MD it was clear that a determined effort was made to build capabilities, the incentive was an improved rating through better performance and better performers according to the MD get larger monetary rewards. Information was constantly conveyed through presentations and workshops as well as discussion with

staff. Problems with performance were also addressed by the partner that was a clerks or managers mentor.

"Client-specific capabilities often develop from repeated interactions with clients," (Ireland, Hoskisson & Hitt, 2011, p.72). The MD was adamant that the staff particularly the managers, senior managers and partners would make client time a priority that is why the amount of administrative tasks that the managers, senior managers and partners performed would be reduced so that they can build client relations. Administration tasks included chasing up clients for fees, loading client information on the database, drawing up invoices for clients, filling out time sheets among others. Therefore there was a drive to go out and maintain visibility at the client's premises if an audit was in progress as well as to contact them to find what their needs are as well as have client lunches and 'golf days.'

"Core competencies emerge over time through an organisational process of accumulating and learning how to deploy the different resources and capabilities," (Ireland, Hoskisson & Hitt, 2011, p.73). Prahalad and Hamel 1990, p.82, state that "core competencies are the collective learning in an organisation. From the table in chapter 5 that shows the financial results, it is clear that competencies have been developed as the financial results are consistent and stakeholder value was maintained because the new initiatives allowed the business unit to continue earning what it had been earning before the loss of referred work; with incremental improvements of gross profit this was achieved in a difficult macroeconomic business environment; made difficult by the global financial crisis. New capabilities and core competencies were developed (Ireland, Hoskisson & Hitt, 2011),

"Head-office assignment of roles is a critical determinant of subsidiary evolution, it is just one of three broad mechanisms that are responsible for driving the process that the subsidiary is an instrument of the MNC and, consequently, that it acts solely with regard to head-office-determined imperatives," (Birkinshaw & Hood 1998, p.775). The reliance on referred for the business unit of the subsidiary was driven by head office and in that regard the business unit and management of the subsidiary did enforce the head office directive because as the deputy CEO stated "the global priority will always overrule the local priority" and that the "global strategy dominates."

"The second determinant of subsidiary evolution we refer to as *subsidiary* choice, which reflects the decisions taken by subsidiary management to define for themselves the role of their subsidiary one of equality, or even leadership. Here the MNC is

modelled as an "inter-organisational network" (Ghoshal & Bartlett, 1991) of loosely coupled entities, rather than a hierarchical monolith," (Birkinshaw & Hood 1998, p.775). The head office directive did override subsidiary choice as referred work dominated over local initiatives as head office had no faith in the local manufacturing environment.

"The third is Local Environment Determinism - MNC researchers have adapted this perspective by proposing that each subsidiary of the MNC operates in its own unique task environment, which constrains or determines the activities of that subsidiary (Ghoshal & Nohria, 1989; Rosenzweig & Singh, 1991; Westney, 1994). The argument, in essence, is that each subsidiary operates under a unique set of conditions to which it has to adapt in order to be effective. The nature of the local environment, as defined by customers, competitors, suppliers, and government bodies, thus has an important influence on the activities undertaken by the subsidiary, (e.g., Andersson & Johanson, 1996; Ghoshal & Nohria, 1989; Rosenzweig & Nohria, 1995)," (Birkinshaw & Hood 1998, p.775). "Local environment determinism," (Birkinshaw & Hood 1998, p.775) was a major factor in the evolution of the business unit of the subsidiary as the business unit was forced to turn to its local environment for clients.

Proposition 4

The change in strategy of the business unit of the subsidiary established a new relationship with the holding company, a new charter (Birkinshaw & Hood, 1998) was developed.

Discussion results for proposition 4

"The charter is typically a shared understanding between the subsidiary and the headquarters regarding the subsidiary's scope of responsibilities," (Birkinshaw & Hood, 1998, 782). It was the shared understanding between the subsidiary and head office that the IAP business unit would rely on referred work.

Resources were deployed and capability accumulation efforts were directed toward the fulfilment of that charter so that, eventually, the business unit's capability profile was a reflection of its old charter, (Birkinshaw & Hood, 1998).

However, due to the loss in the referral business, there was a change in the original charter and therefore there had to be a change in the business unit's capability profile. The capabilities were changed through a change in strategy, this change in strategy led to initiatives to build the entrepreneurial capability of the department as well as to improve client relations and there was also a drive to improve work performance.

Proposition 5

"The business unit's initiative will increase visibility in the corporate system," (Birkinshaw, Hood & Jonsson, 1998).

Discussion results for proposition 5

According to the people interviewed they believe that the initiative did not increase the visibility of the subsidiary, however, the initiative did maintain shareholder value as can be seen from the financial results in chapter five. At a time when Europe had started going through a financial crisis, and the European subsidiaries were showing negative growth, the South African subsidiary had managed to maintain its gross profit and show incremental growth and this led to head office continued faith in the South African business and therefore head office has allocated R150 million to the South African subsidiary to grow the business in Africa.

One can say that the performance of the South African subsidiary did increase the level of trust with head office, as head office continued to earn its profit share and its royalties during a globally difficult financial period.

Chapter 7: Conclusion

7.1 Findings

As stated by Birkinshaw & Hood, (1998) when a subsidiary develops its own unique resources it becomes apparent that corporate headquarters is no longer the sole source of competitive advantage for the MNC.

Head office dependence can be detrimental to a subsidiary and weakens the fabric of the group. Specifically when it comes to building a client base, for other forms of dependence such as research and development it may be necessary to be dependent on the head office as the subsidiary may not have the capital to invest in research and development but allowing the subsidiary to develop entrepreneurially will be of benefit to the group as a whole.

However it appears that if the holding company allows the subsidiary to become too powerful then the holding company would be dependent on the subsidiary; therefore what has come to light is that power within the group is a very important factor of the holding company subsidiary relationship. As Birkinshaw & Bouquet (2008) state, the strategic implications of the initiative that the entrepreneur is pursuing or its political implications in terms of the shifting power bases in the company is something one has to consider when studying entrepreneurial initiatives by a subsidiary.

The fact that autonomy was not the driver behind the change but rather the driver was the external environment; is a result that was not expected when the study was started. Therefore external environment factors can play a huge part in the subsidiaries ability to grow and change. The holding company did not believe that the South African manufacturing environment was a robust trading environment and that despite its problems could yield a customer base that could rival the overseas customer base. This could be due to a lack of knowledge on the part of the holding company or it could also be due to a lack of initiative on the part of the subsidiary in educating the holding company rather the business unit management and the subsidiary management, in the words of the IAP MD, “became complacent and felt that the referred was enough”.

This brings to light a recurring theme in this study that of the ‘relationship’. The groupings that are discussed in chapter two all try to define this relationship and the strategic context of the subsidiary within this relationship. Yet it appears that for many subsidiaries no one group structure covers all the dimensions of the relationship and in order to define the relationship somewhat completely one has to take aspects from the different defined groupings.

The one dimension that was not fully discussed as an influencing factor in the relationship is leadership, whether it is holding company or subsidiary leadership. As Birkinshaw & Hood (2008, p. 500) state, "the academic literatures on legitimacy and social networks are often highly descriptive in nature and focus on the broad set of forces that shape social structures, with relatively little attention paid to the role of individual agency. Although there are signs that this is changing (e.g., DiMaggio, 1988), there is still a need for considerably more attention to be paid to the role of individual actors in shifting the power balance within complex networks."

"Our argument is that a dynamic local business environment provides the stimuli for upgrading the subsidiary's capabilities in much the same way that internal competition does, for the subsidiary reacts to competitive moves by other companies and sharpens its capabilities in line with the expectations of local customers and suppliers," (Birkinshaw & Hood, 1998, p.790). The competitive advantage requires improved capabilities, and since environments are changing constantly companies need to able to adapt to the external environment. However, the subsidiary in this instance did not react to the environment but was forced to change strategy.

The business unit managed to improve their capabilities and did not have to resort to asking head office for more funds, this went far in maintaining the trust between head office and subsidiary as well as giving head office the assurance that the subsidiary can be relied upon to deliver on their own. This did lead to the R150 million investment by the head office to the subsidiary to grow the business in Africa. This is quite an important point when considering the necessity of foreign direct investment to assist the emerging market economy to grow.

7.2 Managerial implications

The most important lesson for managers is that they need to ensure that their resources are adaptable so as to build capability and exploit opportunities the business environment so as to gain the competitive advantage and maintain shareholder value As the deputy CEO of the firm that is being studied said that they rotate their staff so that they can build different capabilities and puts the firm in a better position to exploit opportunities.

The other point that came out and can assist managers is to watch costs, even if one is in the throes of a new strategy and busy improving the capabilities of the staff members one must ensure that costs are carefully monitored.

Managers have to also realise and it is something that came out quite strongly in this study, a company may have to depart from the strategy of the holding company in order to survive, particularly when faced with difficult trading conditions. In this instance the company will then have to design their own strategy that allows the company to perform at its optimal in its local environment.

When is a company performing optimally, this is something that all companies need to review, sometime companies get complacent because they are performing well, but do they know if they are performing optimally, or as the MD of the IAP business unit said "do the cracks only show when there are problems in the external environment."

7.3 Ideas for future research

More time would have yielded a better understanding on the factors influencing the holding company as well as a better understanding of the initiatives that the subsidiary took.

The question of leadership in a group structure is something that requires further research. Results can only be achieved through strong leadership but leadership within a group has different dynamics to leadership in a standalone company and these dynamics need to be explored.

There is also very little work that has been done on the impact of a dynamic external environment on the strategic context of the subsidiary within a group structure.

The operation of the subsidiary in an emerging market with the holding company in a developed economy requires further research attention.

Considering the influences on a subsidiary within a group there does not seem to be enough research on designing the optimal strategy for the subsidiary taking into consideration its role in the group.

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Information off the company website was used company has requested to remain anonymous.

Appendix1

1. Please describe your position in the firm?
2. Please describe the type of group structure that exists for this firm?
3. How is the global strategy for this firm designed and implemented?
4. How is the global strategy co-ordinated across the business units?
5. Can you deviate from the global strategy?
6. How did the company/ business unit perform during the financial crisis?
7. How was poor performance addressed?
8. In addressing the poor performance during the financial crisis what was required?
9. What was the impact on resource allocation at the firm level and at the group level if any?
10. How did you build capability and core competencies,
11. How has the loss in referred work been addressed?
12. Did the changes required depart from what was expected at a group level?
13. What was Head Offices view of the changes that were required?