

**THE IMPACT OF AUTONOMY AND ORGANISATIONAL RELATIONSHIPS ON SUBSIDIARY
EMPLOYMENT OF SKILLED LABOUR**

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Abstract

The paper develops a conceptual model on relationship between the strategic development of subsidiaries, in developed economies, and the development of higher valued operations that leads to increased employment of skilled labour. A concept of effective autonomy is developed in the paper. Effective autonomy is conceived as the ability of the subsidiary to implement and finance its desired increase in skilled labour. The interrelated effects between effective autonomy and intra and inter organisational relationships and employment of skilled labour are found to be uncertain because effective autonomy can be supportive of the development of intra and inter organisational relationships that requires a higher proportion of skilled labour, but effective autonomy can lead to deterioration in intra-organisational relationships thereby leading to a more peripheral role played by the subsidiary thus lowering the need for skilled employment. The conceptual model is based on changes in effective autonomy and intra and inter organisational relationships and is therefore set in the context of the evolution of the development of subsidiaries.

Introduction

Subsidiary evolution has been the point of departure for several analyses regarding the strategic objectives of the multinational corporation (MNC). Discussions have been associated to themes such as role categorizations (White/Poynter 1984, Birkinshaw/Morrison 1995) and how autonomy and local market network embeddedness (Papanastassiou/Pearce 1997, Holm/Holmström/Sharma 2005, Luo 2006, Mu/Gnyawali/Hatfield 2007) have led to the creation of competences or subsidiary specific advantages (Moore 2001, Mudambi/Cantwell 2005). These studies offer important insights into the development of subsidiaries but subsidiary evolution has not been directly investigated with regard to the composition of skilled labour employed in subsidiaries. More research is, therefore, required to increase our understanding of how subsidiary evolution leads to changes in organisational relationships, and autonomy that impact on subsidiary's resource gaps and on the subsequent changes in the demand for skilled labour.

Teng (2007) argued that firm developments such as entrepreneurial activities, strategic renewal, and corporate venturing lead to resource gaps. This paper uses the concept of resource gaps arising from subsidiary evolution to construct a conceptual model that postulates that subsidiary evolution leads to demands for a higher proportion of skilled jobs by subsidiaries. These demands stem from the need to fully utilize the potentials of entrepreneurial activities, or closer organisational relationships and the associated development of higher value added activities (or alternatively subsidiary upgrading?). The paper, thereby, contributes to our understanding by presenting a framework that integrates the interrelations between subsidiary autonomy and organizational relationships on one prior neglected factor in literature, namely the composition of skilled jobs in subsidiaries. The paper combines resource-based view and transaction cost economics approaches by following the research framework suggested by

Rugman and Verbeke (2003), who argue for encompassing transaction cost theory with international management theory, and Peng (2004) who proposes the use of a wide range of theoretical work from inside and outside international business theory. Using this approach four propositions are developed that postulate cases where subsidiary evolution lead to either increased or decreased proportion of skilled jobs by subsidiaries. In this paper the key drivers of subsidiary evolution arise from entrepreneurship by subsidiary managers, specialisation within MNC's supply chains, development of absorptive capacity within subsidiaries, and problems with institutional duality between parent companies and subsidiaries.

The paper distinguishes between inter-organisational and intra-organisational relationships of the subsidiary by relating them to external and internal partners respectively. Further, we broaden the concept of autonomy, by referring to effective autonomy; that is, the ability of subsidiaries to implement their decisions, including the financial ability to determine budgets that permit expenditures to achieve strategic and operational objectives. Budget constraints determine the ability of the subsidiary to implement plans on staffing, retaining, and training of its employees and thereby to further its capacity to initiate or develop entrepreneurial activities or establish new and/or develop existing organizational relationships. Thus, we will make the important distinction between *necessity* and *sufficiency*. Furthermore, because the emphasis is on subsidiary evolution we differentiate from the established literature, by concentrating on *changes* in effective autonomy and organizational relationships, instead of investigating the impact of high or low levels of effective autonomy and organisational relationships.

We acknowledge that factors other than the above mentioned influence the composition of skilled jobs in subsidiaries. By focusing on micro economic and firm level factors we

downplay the importance of macro economic factors such as globalization effects (Stiglitz 2006) and the effects of foreign direct investments on productivity, wages and employment (Driffield/Munday 2000, Driffield 2006). An examination of these factors is outside the scope of this paper. Instead, we explore the evolutionary process of strategic development within MNCs that can be associated with increase in higher valued activities that are in turn related to increases in their demand for skilled labour. Moreover, the paper does not investigate the concept of skilled labour in terms of employee capabilities but proposes that the strategic evolution of subsidiaries, that creates resource gaps, leads to more skilled jobs relative to semi-skilled and unskilled jobs. By using the term “skilled jobs” the focus is on the composition of jobs by categories that are regarded as being more skilled rather than using concepts of skilled labour/employment that is associated with the capabilities and competencies of labour. This approach permits examination of changes in employment by reference to job categories without the problems of defining skilled labour by reference to the qualities of workers.

The paper is structured in the following way. First, we discuss the chosen determinants of subsidiary evolution: inter and intra-organisational relationships, and effective autonomy. Next, we broaden the conceptual model and derive propositions on the interrelated effects of effective autonomy and intra and inter-organisational relationships. The paper concludes with consideration of some of the implications in relation to theory, for managers of parent companies, subsidiary managers, regional development policy makers, and possible future research directions.

Inter and Intra-Organisational Relationships, and Autonomy

The three key factors connected to the strategic development of subsidiaries in this paper are autonomy, intra and inter organisational relationships. These constructs are defined and discussed in the following Section.

Inter-organisational relationships

Inter-organisational relationships are the links that the subsidiary has with its customers, suppliers, competitors, and supporting agencies such as governmental and quasi-governmental agencies. The importance of inter-organisational relationships is highlighted by the value attached to locating within local networks to develop international competitiveness. This has been investigated in terms of the role of geographical factors in the internationalisation process (Porter 1994, Dunning 2000). This literature indicates that the use of local networks composed of other firms, R&D agencies such as universities and government research bodies, local authority agencies, chambers of commerce and other organisations can help subsidiaries to attain their objectives. These local networks enhance the ability to attain collective learning and innovation benefits (Lundvall 1999) and to acquire spillover benefits associated with proximity (Porter/Sölvell 1999). These network advantages form the basis for agglomeration benefits. Local networks that provide such benefits are at the core of clusters or industrial districts that have been shown to deliver competitive advantages to foreign owned subsidiaries that locate in these geographical concentrations (Driffield/Munday, 2000). The benefits of external relationships arise from external economies of scale, increased flexibility from proximity to suppliers, customers, and supporting agencies. Moreover, acquisition of desirable locally available assets should be enhanced because of the use of inter-organisational networks (Ivarsson 2002).

In addition, the concept of embeddedness involves the level of trust, and the willingness to adapt resources and procedures in cooperating organizations, and this has been related to inter-organisational relationships (Andersson/Forsgren/Holm 2002, Andersson/Björkman/Forsgren 2005). These studies argue that subsidiaries, which are strongly embedded in inter-organisational relationships, are more likely than lightly embedded subsidiaries to develop competitiveness (Schmid/Schurig 2003). Such embeddedness can enhance the effectiveness of both backward linkages and forward linkages, and further benefits can arise from increased abilities in gathering and processing information that leads to the acquisition of useful knowledge that enhances the ability to learn and innovate.

Intra-organisational relationships

Intra-organisational relationships are the links that the subsidiary has established with the parent company and other subsidiaries within the MNC (Birkinshaw/Hood/Young 2005). Intra organisational relationships provide the means to access resources within the MNC that can increase organisational learning (Kogut/Zander 1992, Lundvall 1999) and lower transactions costs by building up trust in intra-organisational activities (Birkinshaw/Hood 1998a, Dunning 2000, Hennart 2001) and increase access to valuable knowledge (Schmid/Schurig 2003, Forsgren/Holm/Johanson 2005). Accessing technological knowledge that can enhance capabilities to innovate is often regarded as being the major benefits that arises from developing intra-organisational relationships (Papanastassiou/Pearce 1997, Taggart 1998, Ivarsson 2002).

Autonomy

Autonomy has been identified as one of the most important areas of research in cases where the subsidiary is the unit of analysis (Paterson/Brock 2002). Resource-based theorists have extensively studied the process of autonomy granted to subsidiaries in host locations (Birkinshaw/Hood/Jonsson 1998, Birkinshaw/Hood 1998b, Holm/Pedersen 2000, Andersson/Forsgren/Holm 2002). The relationships between autonomy and knowledge creation processes have further been emphasized (Taggart/Hood 1999), together with its effects on a company's international expansion (Rhee 2005).

The definition of autonomy used in this paper is the one provided by Brooke (1984, p. 9) where autonomy refers to an organization "in which units and sub-units possess the ability to take decisions for themselves on issues which are reserved to a higher level in comparable organizations". This definition indicates that the subsidiary possesses some strategic decision making authority (O'Donnell, 2000), though in most cases autonomy will mainly relate to its daily operations, as shown by Edwards/Ahmad/Moss (2002). The extent of autonomy granted to subsidiaries is also connected to the activity of the subsidiary (Roth/Morrison 1992, Birkinshaw/Hood 1998a and b, Taggart 1999, Holm/Pedersen 2000, Birkinshaw/Hood/Young 2005). For example, Vachani (1999) found that subsidiary autonomy was greater for marketing and personnel decisions than for R&D and finance.

According to Edwards/Ahmad/Moss (2002) subsidiaries that have been granted autonomy have superior information that can lubricate the subsidiary's market based transactions. Freedom from close control by the parent company can permit expansion of market-based transactions by subsidiaries because of increased awareness of desirable transactions and lower transaction costs associated with managing such transactions due to the shorter chain of command. Expanding

market-based transactions permits increase in the scope and quality of the operations of subsidiaries that will normally involve both quantitative and qualitative extensions of activities.

Effective autonomy

The extent of control and monitoring of subsidiaries is related to the concept of autonomy, but is not necessarily synonymous. A subsidiary might, in principle, possess a high degree of freedom in the decisions it makes but these may have to be implemented within strong budget constraints determined by the parent company. In the case of skilled jobs composition, a budget determined by the parent company can limit the number of skilled employees thereby undermining the ability of subsidiaries to implement strategic and operational changes. Clearly, the autonomy that a subsidiary has needs to be effective if it is to be able to implement its decisions. In other words, the granting of decision making autonomy for certain functions activities and/or operations may be *necessary* but not *sufficient* condition to translate into an increase in the proportion of skilled jobs, with the *sufficiency* condition being that HQ budget constraints do not limit the subsidiaries' decisions within their autonomy mandates. Effective autonomy is therefore defined as *the ability by subsidiaries to implement their decisions, including the financial ability to determine budgets that permit expenditures to achieve strategic and operational objectives*. Effective autonomy may be deliberately granted by the parent company or can be exercised by subsidiaries within the constraints of the control policies of the parent company. In the latter case subsidiary managers will have exercised entrepreneurial flair to find and use the effective autonomy they possess. Effective autonomy implies the ability of the subsidiary to make employment decisions about the proportion of skilled jobs and under these circumstances the financial control policy allows the subsidiary to make these kinds of employment decisions.

Propositions

Based on the observations discussed in the previous Section, we apply the arguments of effective autonomy and organisational relationships to the context of proportion of skilled jobs. Therefore, we seek through a series of propositions to link the key determinants of subsidiary evolution to changes in skilled jobs composition in subsidiaries. The key determinants used in this paper are subsidiary entrepreneurship, specialisation, absorptive capacity, and institutional duality.

Interrelated Effects between Effective Autonomy and Inter-organisational Relationships

Increased effective autonomy helps subsidiary management to more successfully establish and deal with beneficial inter-organisational relationships because of a decreased need to obtain approval from the parent company (Birkinshaw/Hood/Young 2005). Inter-organisational relationships also facilitate the subsidiary's ability to utilize local advantages and to develop entrepreneurial capabilities, subsequently leading to improved performance that may result in subsidiaries being granted effective autonomy (Birkinshaw/Hood/Jonsson 1998, Birkinshaw 2000, O'Donnell 2000, Holm/Malmberg/Sölvell 2003). Furthermore, subsidiary innovation processes are in general influenced by local embeddedness (Holm/Holmström/Sharma 2005, Mu/Gnyawali/Hatfield 2007), and Papanastassiou and Pearce (1997) found that enhanced subsidiary role permit subsidiaries to extend their use of local technological expertise. Consequently, inter-organisational relationships will in some cases lead to ownership of specific resources upon which other units depend (Pfeffer/Salancik 1978) and are likely to lead to even higher level of effective autonomy to the subsidiary.

The interrelationships between inter-organisational and effective autonomy is then predicted to extend the quality and scope of subsidiary operations, due to improved entrepreneurial capabilities and utilisation of host country localization advantages. Effective autonomy that leads to the development of inter organisational relationships can lead to a changed composition of the labour force by increasing the value of operations by reducing transaction costs, improve learning effects and gaining access to desirable local assets. This would result from entrepreneurial behaviour by subsidiary managers that have effective autonomy to develop links with other firms and agencies in host locations. These entrepreneurial activities are likely to occur, where the subsidiary for example start up independent R&D projects or product development and new product development projects. These types of entrepreneurial behaviour have been found in R&D ventures (Papanastassiou/Pearce 2005) and in areas such as product and market development (Birkinshaw 2000, Birkinshaw/Hood/Young 2005). These types of entrepreneurial developments can stem from initiatives by subsidiary managers in response to unsatisfactory outcomes (Burgelman 1983) and can lead to a virtuous spiral of enhanced autonomy arising from entrepreneurial actions by subsidiary managers leading to improved performance that result in further increases in effective autonomy (Birkinshaw/Hood/Jonsson 1998). These types of entrepreneurial activities require an increased proportion of skilled jobs in subsidiaries, as entrepreneurship and derived innovations typically make existing market and technical capabilities of the subsidiary increasingly obsolete (Abernathy/Clark 1985). This effect often requires, for example, workers from other scientific, engineering, technical and/or knowledge based disciplines, to fill in the resource gap that the innovations produced (Teng 2007). This should induce an increase in the proportion of skilled jobs in the subsidiary. This line of reasoning leads to our first proposition.

Proposition 1

Subsidiary evolution in terms of increased effective autonomy and inter-organisational relationship lead to increased subsidiary entrepreneurship producing resource gaps regarding the management and utilization of resources that will lead to a higher proportion of skilled jobs in the subsidiary

Interrelated Effect of Effective Autonomy and Intra-organisational relationships

Subsidiaries often operate within a narrowed set of the value-chain (Roth/Morrison 1992) as the parent company typically allocates different mandates and set of activities to its various subsidiaries. Therefore, some subsidiaries will focus on activities related to the production of goods or services whereas other subsidiaries primarily are sales outlets. Porter's (1986) description of the dispersed versus the concentrated value chain configuration follows this logic, and in this light Nohria and Ghoshal (1997) have characterized the MNC as a differentiated network: a concept which encapsulates both a decentralized structure and a variation of subsidiary role. Some of these subsidiaries will provide goods and/or services for all or large parts of the MNC and/or service specific parts of the global markets of the MNC (Holm/Pedersen 2000) and such subsidiaries are likely to operate within more narrowly defined areas of specializations (Birkinshaw/Morrison 1995). One example is White and Poynter's (1984) description of a rationalized manufacturer that produces a designated set of component parts leaving sales activities to other corporate units.

Subsidiary evolution is, in this paper, characterized by the development of intra-organisational relationships, by which the subsidiary becomes more integrated into an MNC supply chain. Therefore, this relationship is primarily related to the concept of the MNC as a differentiated network. Such integration into the supply chain of the MNC involves product, information and capital flows to and from the parent company and other subsidiaries (Forsgren/Holm/Johanson 2005). In case of increased intra-organisational embeddedness, increases in effective autonomy will be required to ensure that the subsidiary makes an efficient contribution to the MNC supply chain (Astley/Zajac 1991) and thereby fills the resource gap initiated by the increase in internal relationships. In these circumstances, effective autonomy is not geared to the outputs, marketing or R&D objectives of the subsidiary but to the control of operational aspects connected to the working of their part of the MNC supply chain. This does require a type of effective autonomy because the subsidiary needs to have mandates to make changes and to introduce and develop procedures to ensure the smooth operation of their part of the MNC supply chain. Furthermore, additional reports, enquires and feedback to the parent company and other subsidiaries are often required for the efficient operation of MNC supply chains. To obtain these benefits from intra-organisational relationships, the subsidiary needs to expand senior management, professional, technical, and other knowledge intensive expertise; this implies an increased proportion of higher skilled jobs. This effect will increase the proportion of skilled jobs relative to lower skilled jobs providing the subsidiary the needed resources to produce and fulfil the demands of satisfying the requirements for effective integrated MNC supply chains. Based on this line of argumentation, the following proposition is formulated.

Proposition 2

Subsidiary evolution in terms of increased effective autonomy and intra-organisational relationships leads to subsidiary specialisation producing resource gaps regarding the management, control, and reporting on operational aspects that will lead to a higher proportion of skilled jobs in the subsidiary

Interrelated effects of Intra- and Inter-organisational Relationships

As subsidiaries building up more frequent and intensive relationships with partners within the MNC they might obtain leverage from the internalisation effects of collaboration (Buckley/Casson 1976, Buckley/Clegg/Tan 2004) thereby providing the firm with a greater advantage than operating directly in foreign markets (Hymer 1976). Here, the MNC is viewed as an owner, controller and integrator of a number of complementary assets (subsidiaries) located in different nations that in effect lead to an internal market. This internal market produces lower transaction costs than a corresponding external market (Rugman 2006). Kogut and Zander (1992) sees competitive advantage arising from the MNC's ability to transfer the innovations developed in one subsidiary to the rest of the organization. Håkanson and Nobel (2001) showed how strong local embeddedness induced innovations of foreign R&D units, though strong integration efforts were needed to ensure the further dissemination of technologies back to the parent company. Therefore, in the case of intra and inter-organisational relationships firms can benefit from interrelationships not by developing MNC supply chains but by enhancing the usefulness of the internal market of the MNC. To remain competitive, the subsidiary has to act as

a bridgehead between the external and the internal market, which requires a higher proportion of skilled jobs.

Inter- and intra-organisational relationships that lead to effective internal markets can enhance the absorptive capacity of the subsidiary. Cohen and Levinthal's (1990) argue that the accumulation of prior knowledge increases the ability to memorize, recall, and utilize new knowledge therefore a subsidiary will, through internal sourcing be able to build up a knowledge reservoir that is helpful when sourcing from other local partners. Cohen and Levinthal argue that internal sourcing generates absorptive capacity, but the reverse chain of action should have similar effects. Thus absorptive capacity can be increased by acquiring knowledge from the external sourcing operations of subsidiaries. Absorptive capacity depends on similarity between actors (Lane/Lubatkin, 1998), network embeddedness (Andersson/Forsgren/Holm 2002), and the establishment of cross-functional interfaces among inter and intra-organisational relationships (Trent/Monozka, 2002).

Increased inter and intra-organisational relationships produces resource gaps as these relationships require specialists to absorb, transform and further disseminate knowledge. Effective management of knowledge management systems is also required. Van den Bosch (1999) investigated the circumstances in which combinative capabilities were likely to occur and saw this as an outcome of systemic capabilities, where new standards of codification routines were implemented through, for example, training of employees and through socialization procedures. Furthermore, increased absorptive capacity makes it easier for the subsidiary to develop higher-value added activities, such as R&D, which in turn induces increases the proportion of skilled jobs. This line of reasoning leads to the next proposition.

Proposition 3

Subsidiary evolution in terms of increased inter and intra-organisational relationships leads to increased absorptive capacity producing resource gaps regarding the establishment of effective knowledge management processes which leads to a higher proportion of skilled job in the subsidiary

Interrelated Effects of Effective Autonomy and Intra- and Inter-organisational Relationships

Institutional theorists have analysed the interdependencies between inter and intra-organisational relationships (DiMaggio/Powell 1983, Rosenzweig/Singh 1991, Westney 2005). In this view, institutions, which can be described as the rules of the game, can place the subsidiary into a conflicting situation. Kostova and Roth (2002) have phrased this as “institutional duality”, where subsidiaries must follow the rules, norms, values, and the cognitive mindsets (Scott, 1995) as defined by the parent company, and simultaneously pay attention to host country institutions. However, in case of a high degree of effective autonomy, the subsidiary may over-emphasize external institutional arrangements. Luo (2006), for example, found a relation between autonomy of foreign R&D units and local market emphasis indicating that increased effective autonomy and inter organisational relationships might bring the subsidiary into a conflict with the parent company. Examples of this are rent-seeking behaviour by subsidiaries (Mudambi/Navarra 2004) and inappropriate utilisation of knowledge acquired by the subsidiary in its host location (Almeida/Phene 2004). Evidence on possible conflicts between autonomy and organisational

relationships was, further, found in a study by Andersson and Forsgren (1996). They discovered that a low degree of parent company control was associated with a high degree of external embeddedness, and high degree of internal embeddedness was linked to a high degree of control by the parent company. Hedlund (1981) and Birkinshaw and Morrison (1995) found that there was low autonomy in cases of significant intra-organisational embeddedness. Therefore, the combination of effective autonomy and inter-organisational relationships may involve a high degree of conflict between the parent company and subsidiaries.

Subsidiaries fighting for effective autonomy not only struggle for decision rights concerning the acquisition and utilization of resources (Galunic/Eisenhardt 1996), but also as their effective autonomy grows the subsidiary's influence on overall corporate development may decline, thereby creating a desire for subsidiaries to fight to defining its own identity (Fisher/Ury 1981). Subsidiaries that over-emphasize their independence, or place high emphasis on developing inter-organisational relationships, might be considered by the parent company to be "peripheral" and parent company will downsize its investment in this unit (Phelps/Fuller 2000). This may lead to the loss of mandates or charters (Galunic/Eisenhardt, 1996). Though an increase in effective autonomy, inter and intra-organisational relationships is likely to increase demand for skilled labour, the combination of all three factors may offset the postulated positive skilled employment effects. In particular, the development of effective autonomy and inter-organisational relationships may lead to a degree of independence by subsidiaries that threaten the major objectives of parent companies. Moreover, the development of effective autonomy that is focused on the objectives of subsidiary rather than for example the efficient operations of MNC supply chains may undermine intra-organisational relationships. Here, Woolcock (1998) and Uzzi (1999), showed how low density in exchange relationships between a parent company and

its subsidiary typically led to the marginalization of the subsidiary, which again decreased mutual trust, produced amoral individualism leading to high transaction cost; a situation that encourages the parent company to remove charters from the subsidiary. However, these effects depend on whether the level and characteristics of effective autonomy leads to such conflict. In effect, subsidiaries need to tread a fine line between developing effective autonomy and intra and inter-organisational relationships that boost the ability to achieve subsidiary objectives while simultaneously fulfilling the objectives of their parent company. In cases where subsidiaries are unable to attain and maintain this balance the parent company may curtail the strategic development of subsidiaries with the consequent implications for higher valued added activities and, therefore, reduce or halt the expansion of skilled employment. The final proposition is based on these arguments.

Proposition 4:

Subsidiary evolution in terms of increased effective autonomy and inter-organisational relationships, which lead to deterioration in intra-organisational relationships producing a conflict with the objectives of the parent company, will lead to reduction in the proportion of skilled jobs in the subsidiary.

Figure 1 illustrates the propositions on the interrelations between effective autonomy, and intra and inter-organisational relationships and the postulate changes in the proportion of skilled jobs. The mediating factors in these relationships are also shown - entrepreneurship (P1), specialisation (P2), absorptive capacity (P3), and institutional duality (P4).

(Figure 1 about here)

Conclusions

This paper has sought to help to close the gap in the literature regarding the impact on the composition of skilled jobs in subsidiaries arising from the strategic evolution of subsidiaries. A conceptual model has been developed based on resource gaps created by developments in entrepreneurial activity, specialisation, and absorptive capacities, which indicates that the resource gaps will be filled in by a higher proportion of skilled labour in subsidiaries. This is the first paper that explicitly discusses these effects. The analysis is based on a combined approach of resource-based and transaction cost theory, and investigates in detail three parameters, that is, effective autonomy, inter and intra-organisational relationships. Four propositions were derived from the conceptual model that postulated the effects of increases in these parameters on the composition of skilled labour. The predictions of these propositions are that as long as subsidiary evolution supports higher value activities within the MNC that this would increase the proportion of skilled jobs in subsidiaries. However, in cases where subsidiary evolution conflicts with the parent company's objectives, increases in these parameters would decrease the proportion of skilled labour in subsidiaries. The conceptual framework that is developed in this paper has implications for theory, as well as managerial and public policy significance.

The theoretical implications arise because the conceptual model in this paper is focused on how resource gaps, arising from strategic subsidiary evolution, are filled by changes in the proportion of skilled jobs in subsidiaries. However, most previous studies of subsidiary evolution have investigated a broader concept, that is the change in mandates, a concept, which includes the businesses in which the subsidiary participated and the strategic implications of such change in

mandates (Birkinshaw 1996, Galunic/Eisenhardt 1996, Egelhoff/Gorman/McCormic 1998). Furthermore, researchers like Birkinshaw and Hood (1998b), have identified the preconditions for subsidiary evolution, as being parent company assignment, subsidiary management choice, and the influence of local environment factors. In this paper these factors are included as exogenous variables. Future work may investigate the effects of these preconditions as endogenous variables in the context of the three endogenous factors in this conceptual model (that is, effective autonomy, and intra and inter-organisational relationships).

Moreover, in this paper the performance effects of changes in effective autonomy, and organisational relationships, are an exogenous variable. However, feedback loops are likely, as improved performance over time is likely to lead to increases in organisational relationships and effective autonomy. Performance effects are partly included in our conceptual framework because as effective autonomy increases this can lead to increases in subsidiary budgets. Nevertheless, there is a need to further develop the model to fully encompass feedback loops from improved performance that lead to incentives to further enhance the strategic development in subsidiaries thereby generating resource gaps. Finally, viewing subsidiary evolution as a micro-political process is a recent concept that is not included in this study, but research in this area (Birkinshaw/Ridderstråle 1999, Dörrenbächer/Gammelgaard 2006, Wan/Hillman 2006) suggests that bargaining processes between parent company and the subsidiary influences subsidiary evolution, and therefore, via the emergence of resource gaps to the subsidiary's composition of skilled jobs.

The implications of the conceptual model supplied in this paper maybe useful for HQ company managers to help them to assess the likely effect of developments in effective autonomy and intra and inter-organisational relationships in their subsidiaries. Our framework suggests ways that managers in parent companies could frame research on the effects on the direct employment in their subsidiaries that are an outcome of the strategic decisions of the parent company. This type of exercise could help to develop public relations policies to counter the views, harmful to the achieving of the strategic objectives of the MNC, which are often expressed by anti-globalisation activists. Furthermore, the implications, for the parent company, of too much, or inappropriate, effective autonomy and organisational relationships can be analysed using this model. Developments of the model in these directions could provide managers in parent companies with powerful tools to help them to develop more effective strategies on the development of their subsidiaries.

Subsidiary managers may also find the model useful, as it would provide guidance on some of the implications for direct employment when facing changes in effective autonomy and organisational relationships. This could be used to assess the possible impact of developing entrepreneurial activities, specialization within the MNC supply chain, and enhancing absorptive capacity for resource gaps and the subsequent requirement for skilled jobs. Information from such exercises could be used to put a case to parent companies for enhancement of effective autonomy and the development of organisational relationships, and to plan HRM and other policies connected to filling the resource gaps. If empirical evidence can be acquired on the effects of the interaction between effective autonomy and organisational relationships this would provide a powerful means of analysing the best way to strategically develop subsidiaries. Given the current emphasis on the importance of knowledge being managed effectively, the conceptual

model could be used to frame research on roles that subsidiaries could undertake in the context of the overall knowledge management system of the MNC.

The conceptual model and empirical evidence derived from it would provide useful material for regional development policy makers because it would indicate likely effects of the strategic development of foreign owned subsidiaries for the direct employment of skilled labour by subsidiaries in their host locations. The conceptual framework on interactions between effective autonomy and intra and inter- organisational relationships with the subsequent link to direct employment effects provides a route to engage in a comprehensive investigation of the direct employment effects in host locations of the development of foreign owned subsidiaries. To be useful for these proposes regional development policy makers would require empirical evidence from large-scale studies that identified the importance of the links between effective autonomy, intra and inter-organisational relationships and the subsequent impact on employment. Evidence on whether host locations had key subsidiaries being either upgraded or downgraded in terms of subsidiary role would be useful to begin the process of seeking to discover if these subsidiaries were in these phases because of changes in industry and market conditions, or because they were caused by strategic developments in the subsidiary. Downgrading could arise because of conflict with the objectives of the parent company, lack of appropriate entrepreneurial activities by subsidiary managers, and inability to develop absorptive capacity. Identification of likely causes of moribund subsidiaries that are not engaged in strategic development, especially of key subsidiaries within regions, could at least help to focus attention on where action was needed to stimulate these subsidiaries and thereby promote growth on skilled employment in the

region. Similarly, the strategic development factors that underpin subsidiary upgrading with the subsequent creating of resource gaps could be assessed and thereby provide information on labour market requirements to create and sustain key subsidiaries within their host locations.

The conceptual framework developed in this paper provides a structure to construct research agendas that could be used to verify the postulated relationships that are derived from the framework, and also provide evidence on the strength of these relationships. Empirical evidence derived from the conceptual framework could provide useful information that would enhance our understanding about the impact of the globalisation process on the host locations of foreign owned subsidiaries. This would help to provide greater understanding on the impact of the globalisation process on national and especially local economies. Such empirical evidence could also increasing our understanding of the complex interplay between effective autonomy and the intra and inter organisational relationships and the subsequent evolution of the strategic development of foreign owned subsidiaries.

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Figure 1. Interrelationships between effective autonomy and organisational relationships

