Unfolding Evolutionary Growth Within a Subsidiary: The Case of a Sales Subsidiary in the Middle East

Johan Jakobsson

UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Avhandling för ekonomie doktorsexamen i företagsekonomi,
Företagsekonomiska institutionen, Handelshögskolan vid Göteborgs universitet med
disputation den 18 mars 2015.

ISBN: 978-91-628-9340-8

Printed in Sweden
by Ale Tryckteam, Bohus, 2015

Distribution: Företagsekonomiska institutionen, Handelshögskolan vid Göteborgs universitet,
Box 610, 405 30 Göteborg

Acknowledgements

Every Ph.D. journey represents a unique, individual path of decision-making, consequence management, reflection, and progress. Progress is not only professional, but also personal. Thus, the Ph.D. journey is daunting and rewarding in many ways.

I don't know how to thank my supervisors sufficiently for their efforts, their criticisms, their continued belief in me, and their persistent 'carrot approach' in pursuit of academic excellence. To Associate Professors Katarina Hamberg-Lagerström and Roger Schweizer: We all experienced different degrees of frustration. Nevertheless, we always maintained a constructive tone in taking that extra step to overcome barriers to understanding. I once told you that you have taught me to listen; that includes the skill of interpreting communication. I am forever grateful for your guidance concerning the difficulties and the necessity of structuring that which to a large extent is unknown. Structuring clears the mist, outlines patterns, and never rules out the possibility of fine-tuning that which is already structured. During this Ph.D. journey, I also received valuable input from Professor Bent Petersen at the Copenhagen Business School, and I am very grateful for our discussions and for his involvement during this process.

A strong contributing factor and catalyst for the progress of this study was Dr. Tomas Hult, a Professor at Michigan State University (MSU) who invited me to conduct research and attend a Ph.D. course through the Eli Broad College of Business at MSU. My time at MSU provided me with invaluable perspectives and insight, for which I am very appreciative. I am truly thankful for the encouragement, friendship, and support I received from Dr. Irem and Dr. Tunga Kiyak, and Jamie R. Rytlewski at MSU. While there, I also met several astonishing current and future researchers. Among those, I would like to take this opportunity to specifically thank Seth Cockrell, Blake Runnals, and Wyatt Schrock for the discussions, inspiration, and hospitality they so graciously extended me.

I am extremely grateful to the company that served as the case study, and especially to Brian Mason, who opened many doors and allowed me to conduct this study over the years. I am also thankful to all those employees who spent their valuable time describing their activities.

I would especially like to thank Professor Ola Bergström and Associate Professor Maria Adenfelt for the honest and just ideas and criticisms they provided during the final internal seminar concerning improvements to the study.

Among my colleagues, I would also like to thank the staff at the Centre for International Business Studies for their input and support. Specifically, I would like to acknowledge Professor Claes-Göran Alvstam for his continuous peer reviews and encouragement. I would also like to thank Professor Inge Ivarsson, Professor Jan-Erik Vahlne, Associate Professor Anna Jonsson, Associate Professor Patrik Ström, Assistant Professor Richard Nakamura, Assistant Professor Ramsin Yakob, Marissa Ekdahl, and Oxana Todri for their recommendations and advice to improve the study.

I am expressly thankful for the support and guidance received from colleagues in the School of Business, Economics, and Law at the University of Gothenburg. I would especially like to express my gratitude to Assistant Professor Rebecka Arman, Assistant Professor Per Thilander, Elin Larsson, Kajsa Lundh, Zoi Nikopoulou, and Anna Wallerman.

I also received much inspiration from the Nord-IB course modules. I am extremely thankful for the discussions with Professors Ulf Holm, Ram Mudambi, Rebecca Piekkari, and Udo Zander. During that course, I made many friends who supported and inspired me, and I would specifically like to thank Assistant Professor Marcus Møller Larsen, Matthias Holmstedt, and Olof Lindahl.

Naturally, I would like to thank my family for the concern and support they shared with me during these Ph.D. years. Most importantly, I want to thank Riitta, Berndt, Oscar, Raija, Roger, Linda, Rebecka, Jonas, Monica, Roger, and Martin. Among all of my friends who made me laugh during bright times and who have shared their worries and support during dark times, I would like to thank John, Karolin and Roy, Robin, Keith, Mikael, Kristbjörg and Gunnar, Lea and Boban, Aida, and Assistant Professor Kristin Brandl.

Many others have offered their support and help during this process, and none are forgotten.

Finally, I would like to recognize and thank the Torsten Söderberg Foundation and the Barbro Osher Pro Suecia Foundation for providing funds to conduct part of the research for this study.

Abstract

Subsidiaries are important entities in multinational corporations and are typically established with predetermined business responsibilities. A subsidiary responds to actors in the internal network (e.g., HQs and other subsidiaries) as well as actors in the external network (e.g., customers) within the local environment. Over time, subsidiaries take on new business responsibilities as a result of their own agendas.

Activities conducted to fulfill business responsibilities are part of a subsidiary's internal processes. These internal processes are dependent on resources that are bundled into capabilities, which are thereafter leveraged toward actors. How these internal processes develop as a subsidiary evolutionarily grows through the creation and development of capabilities over time has received limited research attention. Therefore, the purpose of the study is to increase our understanding of how the internal processes of an evolutionarily growing subsidiary unfold. The evolutionary growth of a subsidiary requires continuous resource management to enable the creation and development of capabilities. Capabilities refer to a set of complex patterned activities that, through the act of carrying out these activities, allow for enhanced value to be developed. Thus, the study investigates how resources are managed and how capabilities are created and developed as a subsidiary evolutionarily grows.

In order to pursue a study that unfolds the internal processes of an evolutionarily growing subsidiary, a punctuated longitudinal case study was conducted at a sales subsidiary in the Middle East. Interviews were conducted at HQs, at the subsidiary, and with distributors and customers, which constituted various elements of the subsidiary's external and internal network.

The findings from this study reveal how an evolutionarily growing subsidiary develops managerial and operational capabilities that, when combined, establish a proactive approach to the subsidiary's business responsibilities. The proactive approach functions as a countermeasure to the influence of external and internal actors on the subsidiary's business responsibilities. Furthermore, the development of a proactive approach determines how activities undertaken in the subsidiary result in the means to address uncertainty rather than merely being aware of uncertainty.

The contributions to the subsidiary evolutionary literature include how and what capabilities are formed (managerial and operational). The creation and development of capabilities also contribute to how a subsidiary's influence in and interdependence on the internal and external networks increases. Finally, this study contributes to the subsidiary evolutionary literature and the resource management literature through the creation of a model that portrays how a subsidiary as a business unit evolutionarily grows by emphasizing its internal processes, which are constituted by the interdependent structuring, bundling, and leveraging of managerial and operational capabilities.

Ph.D. dissertation at the University of Gothenburg, Sweden, 2015
Title: **Unfolding Evolutionary Growth Within a Subsidiary: The Case of a Sales Subsidiary in the Middle East**
Author: Johan Jakobsson
Language: English
Department: Department of Business Administration, the School of Business, Economics and Law at University of Gothenburg, PO Box 610, SE-405 30 Göteborg
ISBN 978-91-628-9340-8

Table of Contents

Table of Figures

Tables

Table of Abbreviations

APAC	Asia Pacific
AWT	Advanced Water Treatment
BDD	Business Development Director
BDM	Business Development Manager
BUM	Business Unit Manager
CoE	Center of Excellence
CRM	Customer Relationship Management
EMEA	Euro-Asia, Middle East and Africa
ERP	Enterprise Resource Planning
FZCO	Free Zone Company
HQ	Headquarters
HR	Human Resources
HRM	Human Resource Management
IB	International Business
IT	Information Technology
ITT	International Telephone and Telegraph Corporation
JAFZA	Jebel Ali Free Zone Area
KPI	Key Performance Indicators
LDM	Leopold Development Manager
LSE	Leopold Sales Engineer
ME	Middle East
MNC	Multinational Corporation
PLC	Product Life Cycle
PLCS	Punctuated Longitudinal Case Study
PRO	Public Relations Officer
R&D	Research and Development
RMF	Resource Management Framework
SSM	Sales Support Manager
UAE	United Arab Emirates
UK	United Kingdom
UV	Ultra Violet
VBCE	Value Based Commercial Excellence
WSM	Wedeco Sales Manager
WWW	Water and Wastewater

1 Introduction

Globalization has resulted in an increasingly competitive environment in which Multinational Corporations (MNCs) must coordinate and influence operations on a global as well as a local scale (Dicken, 2011). Contemporary subsidiaries are shown to have business responsibilities on a local, regional and global scale as an extension of intricate networks of subsidiaries and HQs that comprise MNCs (Rugman et al., 2011). The importance of subsidiaries has also recently surged, as subsidiaries are a common result of Foreign Direct Investment (FDI) flows (inward and outward) that have increased dramatically, from below $500 billion during the early and mid-1990s to fluctuations between $1200 billion and $2000 billion during the mid-2000s through 2013 (UNCTAD, 2013; UNCTAD, 2014). Understanding how subsidiaries evolve in a volatile global environment and how they manage their resources in order to correspond with local and global demands and opportunities, both within and outside of an MNC, is important. Therefore, this study emphasizes the significance of studying and developing research on subsidiary evolution and, more specifically, the evolutionary growth of a subsidiary, stressing the creation and development of capabilities and the management of resources affecting business responsibilities.

This introductory chapter begins with a description of the MNC as a network with internal and external actors, where a subsidiary is an important business unit that must interact with actors within the MNC and with actors in the local environment. Thereafter, the traditional subsidiary evolutionary framework developed during the late 1990s is described (Birkinshaw, 1996; Birkinshaw, 1997; Birkinshaw et al., 1998; Birkinshaw & Hood, 1998). This description accentuates the importance of Headquarters (HQs), the local environment, and the decision making that takes place within a subsidiary in order to develop capabilities. Since then, the traditional subsidiary evolutionary framework has to some extent stagnated with regard to research concerning the evolution of a subsidiary as a whole (Filippov & Duysters, 2014)[1]. However, isolated research developments in subsidiary effects on and from the

[1] For this study, and in order to try to understand how research has evolved with regard to subsidiary evolution since a review by Paterson and Brock (2002), a query of the most prominent articles within management and business (using the ISI classification scheme) in the ISI Web of Knowledge framework was performed. The term "subsidiary" was searched in titles of or topics for the articles. From the time period between 2003-01-01 until 2012-12-31, a total of 91 articles in academic journals (see Appendix 1) were found that were published within journals with a five-year or two-year impact score of 1.5 or higher, and with at least nine citations or more. Within the examined abstracts of these 91 articles, the word 'development' had 20 counts, whereas the word evolution was only found twice (for a complete list of the 150 most common words, see Appendix 1). In those two articles that contain the word evolution in the abstract, Collings et al., (2008) describe temporal evolution with regard to staffing policies, and Uhlenbruck (2004) emphasizes how the growth and development of recently acquired subsidiaries are affected by the MNC's previous experiences.

environment, effects on HQ – subsidiary collaboration, and subsidiary effects on and from networks, as well as the importance of the creation and transfer of knowledge that permeates activities involving subsidiaries, have spurred interest, and these are presented. The research developments focuses on aspects that affect subsidiaries' activities but does not emphasize how activities develop within subsidiaries and therefore indicates the need to understand what occurs in a subsidiary as it evolutionarily grows. The emphasis of this study is the internal processes of the evolutionary growth of a subsidiary, which include how capabilities are created and developed where resources need to be managed, as such resources form the building blocks for capabilities. Hence, a resource management framework is presented that can help to increase understanding of how the management of resources can allow for capabilities to develop in order to create a better understanding of how subsidiaries evolutionarily grow. The introduction ends with the purpose of the study, which also includes a brief description of the method used and the study's contributions.

1.1 The Subsidiary in the MNC

The subsidiary as a part of the MNC has not always been given exquisite attention, as the pioneers of research on MNCs usually viewed the firm from a top-down perspective (Vernon, 1966; Perlmutter, 1969; Hymer, 1976; Buckley & Casson, 2002). Eventually, subsidiaries were given more attention (Prahalad & Doz, 1981) and were increasingly portrayed as taking autonomous actions (White & Poynter, 1984), and driving agendas in order to fulfill their roles in the MNC (Paterson & Brock, 2002). Over time, an increased emphasis on the interdependence and coordination between HQs and a number of subsidiaries resulted in an 'internal network' portrayal of the MNC (Hedlund, 1986; Ghoshal & Nohria, 1989; Ghoshal & Bartlett, 1990; Gupta & Govindarajan, 1991). Drawing on research emphasizing the importance of inter-organizational relationships with external network actors for the survival of business units (Johanson & Mattsson, 1987; Håkansson & Snehota, 1989; Håkansson & Snehota, 1995), subsidiaries also began to be seen as entities that have network relationships with actors in local environments (Andersson & Forsgren, 1996; Forsgren et al., 2005) following research emphasizing these relationships. A subsidiary's interaction with actors means that subsidiaries are value-adding entities in foreign markets (Birkinshaw & Hood, 1998), and therefore how subsidiaries evolve is essential for an MNC (Paterson & Brock, 2002). This is also true because strategic development within subsidiaries can be crucial for an MNCs' overall strategy creation and development (Regnér, 2003).

1.2 Subsidiary Evolution

The traditional subsidiary evolutionary framework underscores the role of HQs, the local environment, and subsidiary decision-making, which combined affect a subsidiary's charter, i.e., the business activities for which a subsidiary takes responsibility (Birkinshaw & Hood, 1998). The purpose of creating an understanding of subsidiary evolution is based on answering, *"…how subsidiaries change roles"* (Birkinshaw & Hood, 1998, p. 773) and thus, how a subsidiary's charter is changed. The following subchapter describes what is known in the literature concerning HQs and networks, as well as environmental effects that impact a subsidiary's evolution. The description also highlights the lack of research concerning subsidiary evolution, and therefore why it is important to study the internal processes of a subsidiary's evolutionary growth.

Early studies of subsidiary evolution emphasize how subsidiaries over time through the accumulation of resources decrease their dependence on HQs due to the increasing maturity of subsidiaries (Prahalad & Doz, 1981). Since the development of the subsidiary evolutionary framework that describes subsidiaries as semi-autonomous entities (Birkinshaw & Hood, 1998), research has continued to investigate the dichotomy between subsidiary autonomy versus HQ control (Kaufmann & Roessing, 2005; Chung et al., 2006; Chang et al., 2009). Importantly, research regarding centralization vs. decentralization has begun to investigate functional practices in subsidiaries with regard to human resource management (HRM) practices (Jaw & Liu, 2004; Harzing & Noorderhaven, 2006; Myloni et al., 2007; Bjorkman et al., 2008), marketing practices (Samiee et al., 2003; Taylor & Okazaki, 2006), as well as research and development (R&D) practices (Feinberg & Gupta, 2004; Cantwell & Mudambi, 2005; Johnson & Medcof, 2007; Mudambi et al., 2007). The research on the subsidiary versus HQ dichotomy is also becoming nuanced, with HQs described as an important collaborative actor for subsidiaries in the internal network (Gong, 2003; Andersson et al., 2005; Li et al., 2006; Hobday & Rush, 2007). A mutual understanding between HQs and subsidiaries is important for subsidiary performance (Luo, 2003); however, it is still essential for a subsidiary to try to influence HQs, as a subsidiary is one business unit among many in the internal network. The potential to influence HQs is related to the actual dependence of a subsidiary on other actors in the internal network, which establishes the 'weight' of the subsidiary (Bouquet & Birkinshaw, 2008). The potential to influence HQs can also be achieved through the attention that a subsidiary can gain through 'voice' as a form of subsidiary-initiated stimulus (Bouquet & Birkinshaw, 2008), which is related to 'issue-selling' (Ling et al., 2005).

Environmental effects are also argued to be important for subsidiary evolution (Birkinshaw & Hood, 1998), and recent research has nuanced and fine-tuned environmental effects on subsidiaries. For instance, subsidiaries' differentiated local environments are shown to affect the choice of training practices (Bjorkman et al., 2007), staffing composition (Tarique et al., 2006), managerial practices (Geppert et al., 2003) and HRM practices (Pudelko & Harzing, 2007). The intensification of the local density (crowdedness of subsidiaries) is also revealed to decrease the effects of the liability of foreignness (cf. Zaheer, 1995) on subsidiary performance (Miller & Eden, 2006). Furthermore, different local environments are shown to have varying effects on the extent to which HRM practices are localized or centralized (Farley et al., 2004) and how environments can affect the oscillation between centralization and localization of those practices (Ferner et al., 2004). The local environment also affects the internal and external legitimacy of subsidiary ownership structures (Chan & Makino, 2007; Li et al., 2007) and on subsidiaries' use of political strategies in the MNC (Hillman & Wan, 2005).

The external network and the local environment, as well as the internal network, are shown to affect behavior in subsidiaries but provide limited insights on how subsidiaries evolutionarily grow in terms of the creation and development capabilities that can be described as patterned behavior (Winter, 2003). The life cycle of a subsidiary's charter in terms of business responsibility or a partial section of a business that initially is given to the subsidiary from HQs is important with regard to decision-making within the subsidiary, where decision-making affects the development and significance of a subsidiary's capabilities (Birkinshaw, 1996). Capabilities are formed through a business unit's or a subsidiary's ability to *"…synthesize and apply current and acquired knowledge"* (Kogut & Zander, 1992, p. 384).

Overall, subsidiaries are semi-autonomous decision-making entities that need to correspond to and interact with HQs and other actors in the internal network, as well as with actors in the external network and the surrounding local environment, when developing capabilities (Birkinshaw & Hood, 1998). Subsidiary evolution, as the increase or decrease of capabilities over time combined with the establishment/loss of charter, is differentiated from 'subsidiary development,' where the latter can concern any contingency that affects growth, decline, or any other aspect of the subsidiary (Birkinshaw & Hood, 1998). A subsidiary can, for example, increase its resource base and therefore grow, but that does not imply that the capabilities develop or are changed as a consequence of appropriating and synthesizing new resources with existing resources. The successful growth of a subsidiary is dependent on the capabilities that develop within the subsidiary, where charter arguably must be tightly interlinked with a subsidiary's capabilities in order to ensure operational effectiveness (Birkinshaw, 1996). Charter is also linked to initiatives that are proactively undertaken by a subsidiary in order to better make use of or expand its resource base (Birkinshaw & Ridderstråle, 1999). Subsidiaries can take differentiated initiatives that are based on internal and external entrepreneurial opportunities, which consequently can drive the strategic direction of the MNC (Birkinshaw, 1997) and therefore drive the development of the MNC's competitive advantages (Birkinshaw et al., 1998). Since the release of traditional subsidiary evolutionary literature, a few studies have tried to uncover change that has been spurred concerning subsidiary decision-making over time, which is linked to the creation and development of capabilities. For instance, path dependency is shown to occur with regard to HRM decision-making in subsidiaries, where as a response to either HQs or host country pressures, the initial action in either direction affects the next decision regarding how and to what extent institutional duality affects a subsidiary (Tempel et al., 2006). Subsidiaries are also shown to correspond to the internal network during their start-up phase and to then evolve to become externally or dually focused. It is not merely a reactive approach, but, to a large extent, a proactive approach that changes a subsidiary's perceived landscape of potential actors to interact with, both internally and externally, and therefore also reveals learning and development opportunities affecting decision-making (Birkinshaw et al., 2005). A more recent study of subsidiary evolution describes how the development of capabilities in subsidiaries are finely sliced in order to portray the differentiation between the creation of functional (marketing, manufacturing, R&D, etc.) capabilities and local capabilities, the latter of which are created in order to work effectively in the host environment (Chang & Rosenzweig, 2009).

The importance of capability development for subsidiary evolution that affects a subsidiary's charter is described above; however, the processes determining how capabilities are formed in a subsidiary are not explicitly understood. Recent research on subsidiaries has emphasized the creation and transfer of knowledge, which is tightly linked with capability development (Teece et al., 1997; Zander & Kogut, 1995). For evolutionary growth to occur, the creation and development of capabilities is required. This does not occur in isolation from a subsidiary's existing knowledge and is therefore an indication of that subsidiary's creative processes or 'combinative capabilities' (Kogut & Zander, 1992). The following paragraphs present some studies that regard the creation and transfer of knowledge in order to demonstrate to what extent these studies can help to explain how capabilities are formed within a subsidiary.

1.2.1 Knowledge and the Subsidiary

The studies that concern the creation and transfer of knowledge are presented below with regard to the environment, the internal and external network, as well as internal developments within subsidiaries. The local environment is an important determining influential force in terms of a subsidiary's possibility to learn from external actors through governmental influence, economic freedom, the level of local and global competition, the degree to which resources are available (Venaik et al., 2005), and the turbulence of the market environment (Ozsomer & Gencturk, 2003). The local environment, through established socio-cultural structures, also affects how knowledge is transferred in the internal network (Zaidman & Brock, 2009). Similarly, environmental effects are shown to influence the learning and utilization of information from external actors for product and service improvements (Cui et al., 2005), and to affect the extent to which subsidiaries initiate knowledge transfer from the internal network (Cui et al., 2006).

From an HQ perspective, important requirements for successful knowledge transfer from HQs to subsidiaries are conceptually developed by Wang et al. (2004). Knowledge transfer between HQs and subsidiaries is shown to positively affect the development of new products, which in turn is affected by environmental conditions (Lee et al., 2008). The transfer of different characteristics of knowledge (e.g. technological knowledge) from HQs to subsidiaries, which is combined with subsidiaries' accumulated knowledge (e.g. market knowledge), can uniquely affect subsidiaries' competitive advantages over the short- or the long-term (Fang et al., 2007). Additionally, the importance of reverse knowledge transfer from subsidiaries to HQs has been highlighted. Ambos et al. (2006), among others, describe how HQs need absorptive capacity in order to utilize knowledge from subsidiaries. Similarly, the importance of the internal network and the possibility to learn from differentiated inter-subsidiary relationships in order to improve practices within a subsidiary are emphasized (Roth et al., 2009). The extent and depth of subsidiaries' external and internal actors, together with subsidiaries' absorptive capacity, are also shown to be crucial for knowledge to growth in those subsidiaries (Tregaskis, 2003; Almeida & Phene, 2004; Li, 2005; Phene & Almeida, 2008). Further, there are positive implications of relational mechanisms (including trust and shared vision) on knowledge accumulation from external actors (Li, 2005; Li et al., 2010). Differences in upstream and downstream technological diffusion of knowledge (Jindra et al., 2009) and in how innovation-seeking subsidiaries are established in a trade-off between different upstream and downstream interdependent relationships are also described (Boehe, 2007).

The transfer and creation of knowledge is also shown to affect a subsidiary's bargaining power, where, for example, a subsidiary with high degrees of knowledge flows within the internal network have greater bargaining power than those with high degrees of knowledge flows with external actors (Mudambi & Navarra, 2004). Nevertheless, a subsidiary can employ the extent and depth of its external network actors to provide the internal network with new technology that enhances the subsidiary's bargaining power (Andersson et al., 2007). However, if subsidiaries do not gain attention by the HQs when engaging in knowledge-creating initiatives for the MNC, the subsidiaries' influential power is not increased (Ambos et al., 2010).

When considering the studies presented above concerning the local environment and interaction with external and internal actors that affect subsidiary behavior, the studies convey limited insights on how knowledge creation and transfer affect evolutionary growth, which includes capability creation and development. Some of the internal characteristics within subsidiaries concerning the transfer and creation of knowledge are beginning to unfold. For instance, the perceived need for knowledge through self-determination and teamwork motivators sparks knowledge creation in subsidiaries (Mudambi et al., 2007). Furthermore, subsidiaries' motivation to learn, their capacity to absorb knowledge, and their perception of other units' knowledge initiate knowledge transfer within internal networks (Monteiro et al., 2008). Similarly, the capacity to absorb knowledge as a driver of knowledge transfer is shown to increase through investments in HRM activities (training practices and performance appraisals) (Minbaeva et al., 2003).

As with the studies on the role of the environment and external and internal networks, those studies concerning knowledge creation and knowledge transfer within subsidiaries portray factors that affect subsidiaries and their behaviors. Although they add to the limited insights on the effects of knowledge creation and transfer, the understanding of how knowledge is processed in relation to how subsidiaries manage knowledge in order to evolutionarily grow, which involves the creation and development of capabilities, is less understood. Thus, it is important to understand the role of knowledge and resources in the development of capabilities described below.

1.2.2 The Role of Individuals and Resources for Capability Development in Subsidiaries

Individuals are the primary holders of knowledge (Grant, 1996; Simon, 1991) and can drive evolutionary processes within business units such as subsidiaries (Jones et al., 2003; Chang & Rosenzweig, 2009). Therefore, individuals are critically important for capability development. Linked to capability development, the heterogeneity of subsidiary staff composition enhances innovativeness, learning, and performance, but also necessitates continuous managerial adjustments (Gong, 2003). Heterogeneity can therefore lead to competitive advantages for subsidiaries (Engelhard & Nagele, 2003). Individuals are also highlighted as the key sources in the development of network ties that can lead to the creation, acquisition and dispersion of knowledge and that can also create power for a subsidiary in the internal network (Tregaskis, 2003).

Individuals constitute human resources in a subsidiary. In the traditional subsidiary evolutionary framework, resources are holistically described as *"…the stock of available factors owned or controlled by the subsidiary"* (Birkinshaw & Hood, 1998, p. 781). The human resources inherit human capital resources through the skills, experiences and competences that the individuals hold (Wright et al., 1994; Hatch & Dyer, 2004). Taking into account knowledge as a description of that which is known in a subsidiary, knowledge that has a purpose is also a resource (Grant, 1996). The processes by which resources (including human capital resources) are bundled and reconfigured in order to develop capabilities in subsidiaries are less understood in the subsidiary evolutionary literature. For instance, there is an argued need to investigate evolution through subsidiaries' own resources in relation to subsidiary initiative-taking and the role of subsidiary managers (Birkinshaw et al., 2005), and a recommendation for how to conduct such research is through longitudinal studies (Chang & Rosenzweig, 2009). Resources are necessary for capability development that affects a subsidiary's charter, and thus, the process for how charter change unfolds is described as an essential phenomenon to study (Ambos et al., 2010). Linked to charter change and the development of capabilities, decision-making is important when taking into account the interdependent nature of a subsidiary's network relationships and, therefore, how a multitude of relationships affect subsidiary decision-making is also argued to be a central aspect of study (Mudambi & Navarra, 2004). Similarly, there is also an emphasis on the lack of research on internal processes within subsidiaries, where there is a need to account for functional resources (e.g. human or marketing) that can be researched in terms of internal network influence and how the development of network relationships occurs (Ambos et al., 2006; Andersson et al., 2007). The above-mentioned factors highlight the importance of studying and unfolding the internal processes that constitute a subsidiary's evolutionary growth, which is linked to management, resources and the development and creation of capabilities.

1.2.3 Managing Resources as an Aspect of Subsidiary Evolution

Taking into account resources and the creation and development of capabilities as the determinant forces in the evolutionary growth of a subsidiary, Birkinshaw and Hood (1998, p. 781) argue that *"…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."* The 'putting together' into new combinations and the 'deployment' of those combinations in new manners are by themselves resource-demanding processes, as otherwise there would be no hindrance to changes of administrative routines and capabilities. Rather, the opposite is demonstrated, where changes to routines and capabilities are shown to meet resistance in business units such as subsidiaries (Nelson & Winter, 1982).

From the descriptions above, very limited research has investigated how resources are managed as a prerequisite for the creation and development of capabilities. Managing resources in a subsidiary is necessary in order to be able to engage in capability developing activities as a fundamental element of the evolution of subsidiaries. A theoretical framework that can be utilized in order to shed light on resource management in subsidiaries can be found in the resource management framework (Sirmon et al., 2007; Sirmon et al., 2008).

The resource management framework (RMF) builds on the resource-based view (cf. Wernerfelt, 1984) but relies primarily on how business units can create competitive advantages (Barney, 1991). Competitive advantages are developed through resource transformation, which creates value for customers. Resource transformation implies that resources need to be structured through, for instance, the accumulation of resources. Structuring allows for the 'bundling' of resources into capabilities, and finally into the leveraging of those capabilities. Thus, the process, from structuring to leveraging, strives to account for how the structuring of resources creates possibilities and enables the bundling and reconfiguration of resources that can refine existing capabilities or develop new ones in order to enhance value creation toward customers (Sirmon et al., 2007). A business unit in the RMF is also continuously affected by environmentally contingent factors (similar to the traditional subsidiary evolutionary framework) that establish differentiated levels of uncertainty, and a business unit needs to correspond to changing levels (Sirmon et al., 2007). The uncertainty, together with the availability of necessary resources, establishes a context where it is difficult to maintain a stable competitive advantage over time. Thus, business units arguably gain sequences of temporary competitive advantages over time (Sirmon et al., 2007; Sirmon et al., 2010). The resource management framework allows for research concerning the evolutionary growth of a subsidiary to progress and provide insight on the lack of research that fundamentally relates to the internal processes within a subsidiary that govern how capabilities are created and developed through the management of resources. Because internal and external networks are dynamic, a subsidiary's management of resources in order to correspond to or take initiatives toward actors displays the importance of continuous resource management.

To sum up, resources serve as the building blocks in the creation of capabilities (Penrose, 1959; Kogut & Zander, 1992), and a network perspective of the MNC implies the necessity as well as the employment of resources among and across internal and external actors (Andersson & Forsgren, 1996; Forsgren et al., 2005). This becomes especially true when considering a subsidiary as a heterogeneous entity, with varying functional units that have differentiated capabilities (Chang & Rosenzweig, 2009), and where functional units create differentiated relationships across internal and external networks (Rugman et al., 2011). The research developments as described above give a clear indication of the lack of understanding of how subsidiaries evolutionarily grow, where it is important to increase our insights into the role of resources and how those resources are managed for capability creation and development.

In order to account for the internal processes of the evolutionary growth of a subsidiary where resources are continuously managed, enabling the creation and development of capabilities which combined constitute requirements for the evolutionary growth of the subsidiary, the focus of the study strives to answer the following main research question:

How do the internal processes unfold in an evolutionarily growing subsidiary?

In order to answer the main research question and also understand the role of resources in capability creation and development, the following two sub-research questions are posed:

How does the management of resources develop with the evolutionary growth of a subsidiary?

How are capabilities created and developed in an evolutionarily growing subsidiary?

The main research question and the sub-research questions above implicitly account for the potential of a variety of capabilities to be created and developed, including, for example, managerial capabilities. Taking into account the importance of the internal and external network for a subsidiary, the development of value-creating activities is essential in order to describe a subsidiary's contributions to the interdependent nature of network relationships as it pertains to the subsidiary's evolutionary growth. Thus, the third sub-research question for the study is as follows:

How do value-creating activities develop with the evolutionary growth of a subsidiary?

1.2.4 The Purpose of the Study

The purpose of the study is to increase the understanding of how the internal processes of an evolutionarily growing subsidiary unfold. The development of the management of resources is taken into account as a foundation for the creation and development of capabilities, which should affect value-creating activities. Thus, the management of resources within a subsidiary can drive the evolutionary growth of that subsidiary and potentially lead to the development of differentiated functional capabilities that create value. The study takes its foundation in the traditional subsidiary evolutionary process framework (Birkinshaw & Hood, 1998) but is extended in order to account for how resources are managed to allow for capabilities to be created and developed. Hence, the study requires the inclusion of a resource management perspective (Sirmon et al., 2007). The study will therefore uncover and shed light on the internal processes that are required for evolutionary growth, which have received limited research attention, allowing for theory development concerning subsidiary evolution within the research field of international business (IB).

1.2.5 Method

In order to study evolutionary growth, the development of the management of resources over time, and capability creation and development, the study adopts a qualitative research approach, where a subsidiary is followed over time and where insights are gathered from the processes that occur within that subsidiary. The empirical basis for the study is a wholly owned sales subsidiary that is located in the Middle East. Following a foreign sales subsidiary means that evolutionary growth is not influenced from an external owner of the subsidiary. Furthermore, empirical developments occur in a local environment different from that of HQs, which highlights a differentiated decision-making context where actor and legislative demands, as well as opportunities, can differ. Following a sales subsidiary over time implies that capability creation and development, as well as the relationships that the subsidiary may have with actors in the external and internal network, differ compared to other subsidiaries that are not sales-oriented, which therefore means that certain caution must be taken with regard to the possibility of transferring the findings from this study concerning evolutionary growth to other types of subsidiaries within an MNC. A more detailed discussion of the methods and limitations linked to this study is found in the methodology chapter.

1.2.6 Contributions

The theoretical contributions revolve around establishing a new understanding of the evolutionary growth of a subsidiary that can add insights to the internal processes of how capabilities are created and developed in a subsidiary and how the management of resources is related to capability development. The study therefore offers the possibility to contribute to traditional subsidiary evolutionary literature (cf. Birkinshaw & Hood, 1998), as one emphasis of the study is how resources can result in the creation and development of capabilities. Concerning the management of resources, through the inclusion of the RMF (cf. Sirmon et al., 2007), the study can create an understanding of how resources are managed within a subsidiary of an MNC and can add to the understanding of how ‘management’ can develop over time, as management is not a static activity in a subsidiary that is evolutionarily growing.

Managerial contributions consist of establishing a framework that future and present managers can take into account when they are in the process of establishing or developing subsidiaries and determining how capability development can be managed and influenced in a subsidiary. The study establishes linkages between the development of capabilities and the resources that a subsidiary entails and has access to. Thus, managers can benefit from an enhanced understanding of evolutionary growth and the importance of managing the resources within a subsidiary in order to both comply with the influence and demands from the external and internal network and realize the possibility of influencing actors according to the subsidiary’s decision-making structure and its strategic path.

2 A Refined Framework to Understand the Evolutionary Growth of a Subsidiary

The theoretical framework focuses on creating a better understanding of the evolutionary growth of a subsidiary. The development of the theoretical framework progressed as the study advanced, which meant that theories that could help to describe the internal processes of evolutionary growth within a subsidiary were used. In the theoretical chapter, a subsidiary is presented as an entity in the MNC network, which has relationships with, and is affected by, external actors as well as internal actors such as other subsidiaries or HQs on different levels. The evolutionary growth of a subsidiary refers to the creation and development of capabilities over time in combination with the business responsibilities for which a subsidiary is held accountable in the MNC. Capabilities are therefore defined in the chapter, together with an elaboration of how capabilities are constituted by combinations of resources in order to create value. The combination of resources requires the management of resources and is dependent on managerial ability to influence how capabilities are formed. Within the chapter, knowledge constitutes 'that which is known,' which includes both abilities and resources. Hence, knowledge has a direct effect on 'what' capabilities are formed and 'how' they are formed. The interconnectedness between capability development, managerial ability and knowledge are important aspects that need to be accounted for with regard to the evolutionary growth of a subsidiary. All of the above mentioned set a foundation for the evolutionary growth of a subsidiary and are utilized in the concluding conceptual model for the evolutionary growth of a subsidiary, which emphasizes the internal processes of how resources are managed and how capabilities are created and developed.

2.1 Defining a Subsidiary in the MNC Network

To be able to discuss subsidiary evolution, an explanation of what constitutes a subsidiary is necessary. A subsidiary is a value-adding entity in a host country (Birkinshaw & Hood, 1998). Subsidiaries are understood as dominantly owned or wholly owned entities of MNCs (Dunning, 1980; Gatignon & Anderson, 1988; Birkinshaw & Hood, 1998) that are initiated through foreign direct investments (Welch et al., 2007). The spectrum of subsidiaries can range from limitedly evolved subsidiaries, such as 'marketing satellites' or 'branch plants,' to highly evolved subsidiaries, such as CoEs (Centers of Excellence) (Bouquet & Birkinshaw, 2008). A highly evolved subsidiary has a high degree of specialized knowledge from which other subsidiaries as well as HQs in the MNC can benefit (Bouquet & Birkinshaw, 2008; Andersson & Holmström, 2000), and where the sharing of knowledge with other subsidiaries within the MNC is a central role of a CoE (Furu, 2001). Subsidiaries can consist of several different functional units, where a function is a specialized collection of human resources that engage in a set of defined activities for which the functions have established areas of responsibility within the MNC (Galbraith, 1974; Ohlsson & Rombach, 1998; Benito et al., 2009; Rugman et al., 2011). A subsidiary is not simply a final step in a firm's internationalization into a foreign market (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Johanson & Vahlne, 2009), but a continuously developing entity of the MNC that must manage its resources in order to comply with the demands of the local market and the requirements of the MNC (Bartlett & Ghoshal, 1986; Bartlett & Ghoshal, 1987). A subsidiary located in a foreign market can also manage operations in other foreign markets (Mahnke et al., 2012), and collaborate with other subsidiaries in order to combine strengths and appropriate these across several markets (Asmussen et al., 2009). Subsidiaries are also subject to differentiated complexity due to their diverging local environments, which create differentiated resource configurations in each subsidiary (Ghoshal & Nohria, 1989).

In local environments, subsidiaries create relationships with local actors with whom subsidiaries share and appropriate resources, which constitutes a subsidiary's external network (Andersson et al., 2007). When a subsidiary engages in an increasing amount of external relationships, then an enhanced possibility to integrate more knowledge from external actors is enabled and consequently advances the ability to perform better with actors in the local environment as well as actors in the MNC (Andersson et al., 2001). Therefore, subsidiaries also collaborate and develop relationships with internal actors (Ghoshal & Bartlett, 1990; Jarillo & Martínez, 1990; Gupta & Govindarajan, 1991), meaning that subsidiary evolution does not occur in isolation, a fact that emphasizes the importance of understanding a subsidiary's role in the internal network (Provan, 1983). Thus, the internal network is an arena comprised of HQs and subsidiaries that can influence strategic decision-making within subsidiaries and across several subsidiaries and potentially the entire MNC (Hedlund, 1986).

In summary, subsidiaries are part of the MNC network, which consists of business relationships in the internal and external network that are made up of actors such as external customers or internal subsidiaries (Andersson et al., 2002; Andersson et al., 2005; Forsgren et al., 2005; Phene & Almeida, 2008), which to a varying extent affect the subsidiaries and their performance (Birkinshaw et al., 2005). Subsidiaries create unique sets of relationships with actors in the internal network and the external network, which means that the resource levels and possibilities for resource appropriation among the subsidiaries in the MNC network differ

(Forsgren et al., 2005). Since subsidiaries have differentiated resource levels through internal and external actor relationships, which create diverging needs and strategies among subsidiaries, the MNC is also an arena for continuous bargaining among subsidiaries (Andersson et al., 2007).

Recent research emphasizes that subsidiaries also have differentiated internal and external relationships as a consequence of a subsidiary's differentiated compositions of functional units (Rugman et al., 2011). The functional units can, among others, be focused on administrative, sales, innovation and production activities that can operate throughout the MNC network. Depending on the amount of functional unit activities, subsidiaries will differ in terms of their scope of capabilities, which also affects the relationships that subsidiaries have with external and internal actors as well as perceived internal and external opportunities (Rugman et al., 2011). Following the above description of a subsidiary and its connectedness with actors in its external and internal network, the subsequent sections focus on subsidiary evolution.

2.2 Subsidiary Charter, Resources and Capabilities

The essence of the subsidiary evolutionary framework is to answer *"…how subsidiaries change roles"* (Birkinshaw & Hood, 1998, p. 773). The roles of subsidiaries are based in the established charter of a subsidiary, which is a determining aspect of subsidiary evolution and depends on the resources and capabilities within a subsidiary, as discussed below.

A charter stems from the business responsibilities that business units such as subsidiaries have, and how adaptive changes are made by business units in order to comply with highly dynamic environments (Galunic & Eisenhardt, 1996). Within the subsidiary evolutionary literature, the term charter is reformulated to *"…the business — or elements of the business — in which the subsidiary participates and for which it is recognized to have responsibility within the MNC"* (Birkinshaw & Hood, 1998, p. 782), which emphasizes the agreement between HQs and a subsidiary in terms of the subsidiary's responsibilities. Thus, a subsidiary's charter is based in the business activities that a subsidiary takes responsibility for and engages in (Birkinshaw & Hood, 1998).

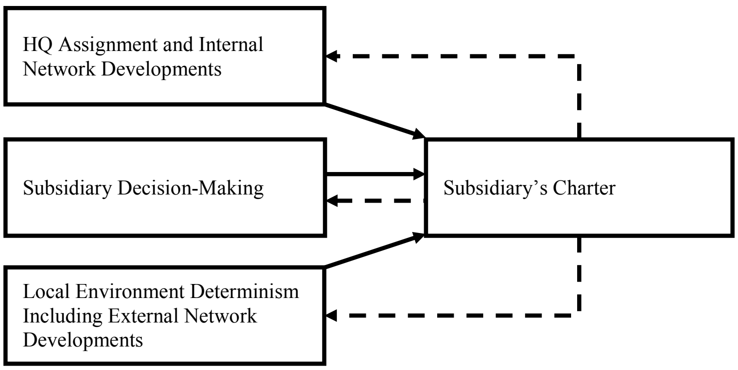
The business activities that a subsidiary is engaged in are based in the resources and capabilities that prevail in a subsidiary. Subsidiary resources are defined as *"…the stock of available factors owned or controlled by the subsidiary"* (Birkinshaw & Hood, 1998, p. 781). The definition of subsidiary resources above is broad and can be broken into physical capital resources, organizational capital resources, and human capital resources (Barney, 1991). Physical capital resources refer to the tangible materials and location that are available for a subsidiary (Barney, 1991). Organizational capital resources refer to a subsidiary's systems, which can be formal and informal, pertaining to reporting, planning and coordinating that span across relationships with actors in the external and internal networks (Barney, 1991). The third set of resources is a subsidiary's human capital resources, which consist of the individual's *"…training, experience, judgment, intelligence, relationships and insights"* (Barney, 1991, p. 101) within a subsidiary. All 'individuals' in a subsidiary constitute the subsidiary's human resources, as those individuals possess the subsidiary's human capital resources (Wright et al., 1994; Hatch & Dyer, 2004). Overall, 'things' must have a purpose (cf. Simon, 1955) in order to be considered resources within a subsidiary. Therefore, knowledge, which permeates physical capital resources, organizational capital resources and human capital resources, not only indicates what exists in the subsidiary, but also constitutes a resource of knowing 'what' and 'how' combinations of resources can be combined and created. Thus, knowledge that has a purpose is also a resource (Grant, 1996).

A subsidiary's resources are the building blocks for the subsidiary's capabilities (Birkinshaw & Hood, 1998). Taking into account the importance of knowledge as a resource that permeates all known resources, capabilities are a subsidiary's ability to combine resources and to *"…synthesize and apply current and acquired knowledge"* (Kogut & Zander, 1992, p. 384), where knowledge is that 'which is known' within the subsidiary (cf. Grant, 1996). The increase or loss of capabilities and a subsidiary's establishment/loss of its business responsibilities, i.e. a subsidiary's charter, are the foundations of subsidiary evolution (Birkinshaw & Hood, 1998). The terms 'evolution' and 'development' are used interchangeably in research concerning subsidiary evolution (Paterson & Brock, 2002). Subsidiary evolution is distinctive from 'subsidiary development,' as the latter can concern any contingency that can affect the growth or decline of resources that do not necessarily affect capabilities (for instance, expanding the size of a warehouse without changing any activities) (Birkinshaw & Hood, 1998). Furthermore, and with regard to subsidiary charter, there is occasionally a terminological interchange between the use of the word 'charter' and 'mandate,' where there is no clearly defined difference between the two words (Dörrenbächer & Gammelgaard, 2006). Subsidiary charter is sometimes described as the outcome of a subsidiary's evolution (Birkinshaw, 1996; Cantwell & Mudambi, 2005). However, as evolution within this study is a continuous process until the potential abolishment of all capabilities, a subsidiary's 'charter' is a continuously changing variable that coincides with the subsidiary's evolution. Within the MNC network, subsidiaries can also compete for charters with other subsidiaries, as they can have comparable capability profiles. An example can be drawn with manufacturing plants and how these plants continuously perform internal benchmarking and strive to upgrade their capabilities (Birkinshaw & Hood, 1998).

2.3 Drivers of Subsidiary Evolution

The development of capabilities through resources that affect subsidiary charter is not an isolated activity within a subsidiary. The traditional subsidiary evolutionary framework proposes that evolution and the change of roles is driven by three forces (see Figure 1): the local environment surrounding a subsidiary, including its external network; the assignment given by HQs, as well as the development of relationships in the internal network; and a subsidiary's decision-making (Birkinshaw & Hood, 1998; Birkinshaw et al., 1998). The three drivers are described in detail below.

Figure 1 Drivers of Subsidiary Evolution



Source: Modified from Birkinshaw & Hood (1998, p. 775)

2.3.1 Local Environment Determinism

A subsidiary is affected by environmental factors (see Figure 1) that affect decision-making concerning a subsidiary's charter and consist of: the existing factor conditions, through, for example, the amount of skilled labor or the existing infrastructure in a country; the demand for products or services; the degree of related and supporting industries through, for example, the existence of potential suppliers in a country; the rivalry conditions in a country, and finally; the regulatory conditions in a country, where the regulatory framework of a country can affect subsidiary establishment (Porter, 1990).

A subsidiary’s perspective on the environment is distinctive, as the subsidiary has a unique set of internal and external relationships that affect its understanding of local conditions, opportunities and threats. The dynamics of a subsidiary’s perspective of possibilities in the local environment does not merely entail a reactive approach toward opportunities (Birkinshaw et al., 2005). The dynamics also entail a proactive approach, where business initiatives taken by subsidiaries change the perspective of opportunities in terms of customers and suppliers as well as competitors, which can allow for increased subsidiary performance (Birkinshaw et al., 2005). The change of a subsidiary’s perspective is therefore linked to the subsidiary’s business initiatives and is obviously related to collaboration with external actors.

A subsidiary’s external business network, as a part of the local environment, consists of actors that engage in continuous exchange relationships with the subsidiary (cf. Håkansson & Snehota, 1989). When establishing business relationships with external actors, resource dependence is the driving force, where resources are shared with actors in the local environment (Johanson & Mattsson, 1987; Håkansson & Snehota, 1989; Håkansson & Snehota, 1995). The external relationships create dyadic contexts between subsidiaries and external actors, where capabilities are created and knowledge is shared (Håkansson & Snehota, 1989; Bouquet & Birkinshaw, 2008), thereby influencing the evolution of a subsidiary. In order for a subsidiary to establish external business relationships, it must have the required resources for business relationships, which must in turn be perceived as valuable by potential business actors. Thus, the increase of external business relationships increases a subsidiary’s resources and capabilities. Therefore, a subsidiary’s perspective, as mentioned above (cf. Birkinshaw et al., 2005), is a consequence of learning what opportunities are available in the environment through collaboration with external actors (Johanson & Vahlne, 2009).

A young subsidiary with limited resources is in its initial stages of evolution and is highly dependent on HQs (Birkinshaw & Hood, 1998; Prahalad & Doz, 1981), especially since HQs can be holders of critical resources for a subsidiary (Bouquet & Birkinshaw, 2008). Thus, external business relationships are increasingly established by a subsidiary over time as it receives resources for capability development that can be used and further developed with external actors (Birkinshaw et al., 2005; Li, 2005).

2.3.2 HQ Assignment and Internal Network Developments

The second driver of subsidiary evolution concerns the internal network (See Figure 1). HQs are important actors for subsidiaries, and the relationship between HQs and subsidiaries has been subject to considerable research (see Gupta & Govindarajan, 2000; Jaw & Liu, 2004; Harzing & Noorderhaven, 2006; Kaufmann & Roessing, 2005). HQ assignment concerns decision-making by HQ managers that is directed toward a subsidiary and affects its charter. The traditional subsidiary evolutionary framework (Birkinshaw & Hood, 1998) primarily relies on two frameworks: the PLC (product life cycle) (Vernon, 1966) as a foundation for and the economical rationality of establishing a subsidiary; and the internationalization process model (Johanson & Vahlne, 1977). The two frameworks are fundamentally applicable in the early stages of a subsidiary's evolution with regard to the purpose of the subsidiary and how it is established. As mentioned above, HQs can be holders of critical resources, and as such, HQs can control the evolution of a subsidiary (Bouquet & Birkinshaw, 2008). However, as a subsidiary matures, HQs lose 'strategic control' over a subsidiary's resources and need to impose *"…alternative approaches to strategic control"* (Prahalad & Doz, 1981, p. 12). The alternative approaches to control are important when considering an HQs' continuous interaction with a subsidiary, which is not only one subsidiary among many in the internal network, but also a business unit that engages in network collaborations with external and internal actors. Thus, the role of HQs is considered more uncertain in later stages as a subsidiary evolves (Birkinshaw & Hood, 1998).

When a subsidiary creates relationships in the internal network over time, the importance of HQs' 'influence' rather than 'control' is highlighted, as subsidiary evolution is dependent on internal actors for capability development (O'Donnell, 2000; Hedlund, 1986; Andersson & Forsgren, 1996). HQs impose influence through coordinative and integrative activities across subsidiaries in order to enact changes in the MNC (Bartlett & Ghoshal, 1987; Andersson & Forsgren, 1996). Because subsidiaries have differentiated resources, in taking into account their differentiated functional units (Rugman et al., 2011), subsidiaries require differentiated influential treatment by HQs (Ghoshal & Nohria, 1989; Provan, 1983). HQs' influence can thus pass through different phases "…*in terms of centralization/decentralization or degree of formalization"* (Andersson & Forsgren, 1996, p. 506), as the simultaneous establishment of increased internal network relationships by subsidiaries to a varying extent influences their activities and capabilities, and also the degree of support the subsidiaries might need from HQs (Birkinshaw et al., 2005; Li, 2005; Rugman et al., 2011).

Importantly, subsidiary evolution is not only influenced by the local environment, including the external and internal network, as described above, but also by the decision-making that takes place within a subsidiary, and therefore it is important to understand internal decision-making, which is described below.

2.3.3 Subsidiary Decision-making

A subsidiary's decision-making (see Figure 1) is related to its relative power in the MNC as subsidiary growth is constrained not only by the accumulation of resources, but also by the actions of other subsidiaries within the MNC that affect resource distribution, which most notably stems from HQs (Birkinshaw & Hood, 1998). Decision-making draws on a subsidiary's need for a certain level of decision-making autonomy for entrepreneurial initiatives, as subsidiaries can drive an MNC's strategic behavior (Birkinshaw & Hood, 1998). Autonomy is necessary as the operationalization of a business unit's charter in a foreign market cannot be managed by HQs (cf. Cyert & March, 1963), and because subsidiaries' innovative capability rises with increased autonomy (Cantwell & Mudambi, 2005). The concepts of power and autonomy, however, have limited descriptive influence on how decisions are made concerning the development of capabilities within a subsidiary. A subsidiary's decision-making context accounts for the subsidiary's knowledge derived from the subsidiary, its external and internal network, as well as the local environment. Therefore, a subsidiary's decision-making corresponds to the influence from its context and offers the possibility to influence actors internally and externally.

2.3.3.1 *Managing Subsidiary Evolution through Dynamic Capabilities*

A subsidiary's decision-making context is not static, as a subsidiary needs to correspond to and be proactive toward the internal and external networks and the local environment. Therefore, the charter of a subsidiary is dependent on a continuous development of capabilities and the ability to conduct capability development activities. A subsidiary's capabilities and the charter that is agreed upon with HQs do not necessarily go hand in hand (Birkinshaw & Hood, 1998). The development of capabilities is path dependent, and capabilities are formed in relation to the local environment in which a subsidiary is situated, which results in a unique capability profile for that subsidiary that does not absolutely correspond to the will of HQs (Birkinshaw & Hood, 1998).

Within the traditional subsidiary evolutionary framework, the development of capabilities in the subsidiary is discussed within the dynamic capabilities literature in terms of how a subsidiary can direct its evolution (Birkinshaw & Hood, 1998). Dynamic capabilities are defined as management's ability *"…to reconfigure a firm's resources and routines in a manner envisioned and deemed appropriate by its principal decision maker"* (Zahra et al., 2006, p. 918). As mentioned previously, the definition of capabilities is a subsidiary's ability to *"...synthesize and apply current and acquired knowledge"* (Kogut & Zander, 1992, p. 384). Capabilities can be divided between substantive capabilities and dynamic capabilities, where the latter focuses on the managerial ability in a subsidiary to plan reconfiguration activities (Rosenbloom, 2000; Lee et al., 2002; Salvato, 2003; Slater et al., 2006) in order to address changing environments (Teece et al., 1997; Barreto, 2010). Planning for change is different from ad-hoc, problem-solving behavior or achieving an output that is considered the purpose of substantive capabilities (Winter, 2003; Zahra et al., 2006).

The importance of planning within the dynamic capability literature has meant that the terminology 'managerial dynamic capabilities' has developed to highlight the importance of management for reformative change (Adner & Helfat, 2003; Helfat et al., 2007; Kor & Mesko, 2013). Managerial dynamic capabilities are defined as *"...the capabilities with which managers build, integrate, and reconfigure organizational resources and competences"* (Adner & Helfat, 2003, p. 1012). Managers are also described as the orchestrators of resources whose activities include the search for, selection of, and the configuration and coordination of resources (Helfat et al., 2007). The evolutionary growth of a business unit requires dynamic managerial capabilities, where those capabilities that have facilitated growth augment and create the basis for additional growth (Helfat et al., 2007). Nevertheless, whereas managers cope with opportunities, they can also constrain potential opportunities. As an example, managers can lack foresight and can base decisions on heuristics and cognitive biases in terms of subjective managerial experiences and preferences, which can result in mistakes (Helfat et al., 2007) and reflects managerially based bounded rationality (Simon, 1955). Managerial experiences and decision-making are based in the managerial abilities and the knowledge that resides in the subsidiary, as discussed below.

2.3.3.2 ***Managerial Abilities and Subsidiary Knowledge***

Managerial abilities are based in the *"knowledge, skills, and experience, which is often tacit and residing with and utilized by managers"* (Holcomb et al., 2009, p. 459). Thus, knowledge is highlighted as one of the attributes of a subsidiary manager. The MNC network is a social community in which knowledge is transformed and created in order to create value for the market (Kogut & Zander, 1993; Ambos et al., 2006). Knowledge transformation is achieved more efficiently within MNCs than on the market, as internal cooperation results in capabilities that are easier to transfer internally than across a multitude of firms. Evolutionary growth occurs as a consequence of MNCs' knowledge-creating ability and the possibility to replicate knowledge as a means of continued expansion through subsidiaries (Kogut & Zander, 1993). As mentioned above, knowledge is a resource when it has a purpose and is based in *"…that which is known"* (Grant, 1996, p. 110), where business unit employees are holders and utilizers of information and knowledge (Grant, 1996; Kogut & Zander, 1992).

Knowledge is differentiated between 'knowing how' and 'knowing about.' The former pertains to tacit knowledge, and the latter to explicit knowledge (codified knowledge) (Grant, 1996; Nonaka, 1994; Kogut & Zander, 1992). The difference between information and knowledge is that the former is a *"…flow of messages, while knowledge is created and organized by the very flow of information, anchored on the commitment and beliefs of its holder"* (Nonaka, 1994, p. 15). Thus, the way information is written and organized by individuals establishes the semantic quality of the information and gives the information a purposed meaning that transforms information into explicit knowledge (Nonaka, 1994). In particular, tacit knowledge creates some problematic issues in terms of how a manager can understand how to appropriately and optimally invest in new knowledge, as tacit knowledge resides within different individuals, and to increase understanding, knowledge sharing is required between a manager and employees (Grant, 1996). Tacit knowledge barriers are to a certain extent overcome through the commonality of knowledge, which is created across a business unit through language, other forms of symbolic knowledge (such as a similar understanding of computer software), shared meaning, and the recognition of individual knowledge domains (Grant, 1996).

To sum up, the evolutionary growth of a subsidiary is dependent on the development and creation of capabilities over time, which affects the business responsibilities undertaken by that subsidiary. Business responsibilities are dependent on the decision-making that occurs within the subsidiary and are influenced by the internal and the external network and the local environment. Nevertheless, the change processes in the subsidiary are dependent on managers to create dynamic capabilities as a reformative ability to change. In this regard, managers as orchestrators of resources are highlighted. However, the process of how resources are orchestrated, especially as tacit knowledge resides in the individuals in the subsidiary, is not yet described. Resources by themselves do not create capabilities. In order to understand the role of resources for the facilitation, development and deployment of capabilities in a subsidiary, the resource management framework (RMF) can be employed.

2.4 A Resource Management Perspective

The resource management framework (RMF) describes how managers engage in activities where resources are transformed to capabilities, such as dynamic or substantive capabilities, to create value (Sirmon et al., 2007). Value creation in the RMF is primarily directed toward external customers and is realized through attractive and dissimilar market offerings or through price (Sirmon et al., 2007). Value creation is the primary objective of business, where value is ultimately appraised by the customer (Conner, 1991; Felin & Hesterly, 2007).

2.4.1 Creating Value from Resources

The RMF has its origins in the resource-based view, where firms grow through resource accumulation and resource amalgamation (Penrose, 1959; Wernerfelt, 1984). The increase of resources enables the development of strategies that concern a balance between the exploitation of existing resources and the explorative creation of new resources (Wernerfelt, 1984). The balance between exploitive and explorative activities is the primary factor that allows business units such as subsidiaries to survive and grow (March, 1991).

A subsidiary's managerial decision-making plays an important role with regard to resources and the balancing of exploitive and explorative activities in the subsidiary, as *"Both exploration and exploitation are essential for organizations, but they compete for scarce resources"* (March, 1991, p. 71). Managerial decision-making is based in the social phenomenon of information processing (Barney, 1991), as managerial activities consist of selecting, developing and deploying resources (more fundamentally, human capital resources) that require an understanding of such resources, which consequently can *"…improve learning by doing and firm performance"* (Hatch & Dyer, 2004, p. 1173).

Value is created through structuring resources, bundling resources into capabilities and leveraging capabilities to customers, thereby ultimately creating wealth for owners (see Figure 2) (Sirmon et al., 2007; Sirmon et al., 2008; Ireland et al., 2003). The RMF model portrays a causal flow that is partially temporal in nature, as continuous feedback loops occur when managing resources, which are required for continuous adaptation to the surrounding environment (Sirmon et al., 2007). The potential to create value is dependent on the dynamics of the local environment, which creates opportunities and threats, and therefore establishes a degree of uncertainty within a business unit such as a subsidiary in terms of how to structure, bundle, and leverage capabilities.

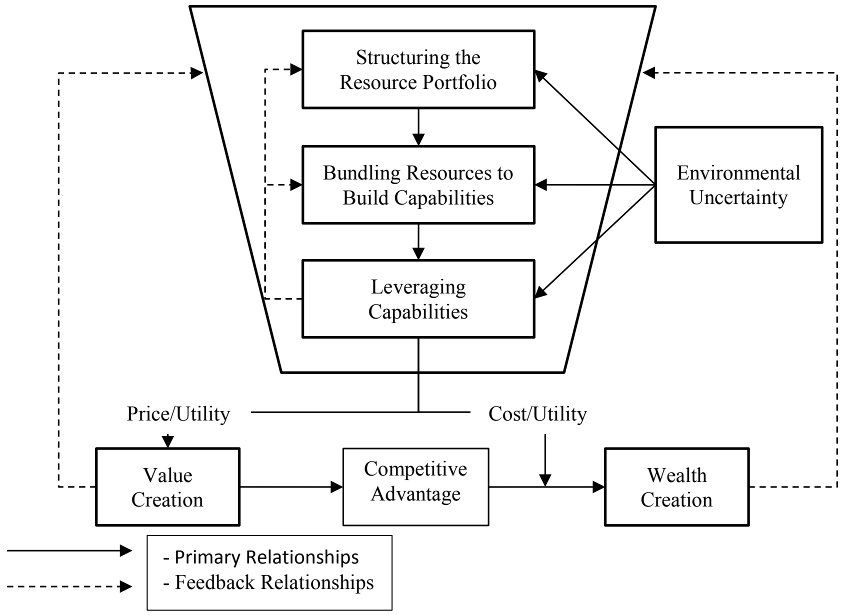
2.4.2 Environmental Uncertainty and Competitive Advantage

The perceived uncertainty by a business unit's management stems from the local environment and is created by the lack of stability in it (see Figure 2). Instability in the local environment results from the lack of being able to understand the 'cause-and-effect relationships' of measure and countermeasure activities by other firms in the environment (Sirmon et al., 2007). For instance, the activities of a competitor might demand that a business unit develop countermeasures; however, knowing how to gather the 'correct' resources, how to bundle those resources into capabilities, and how to leverage potential capabilities creates uncertainty. The potential to create value is affected by both the uncertainty of activities occurring outside of a business unit and the degree of environmental munificence in the local environment. Environmental munificence is based in the scarcity or abundance of critical resources that are sought by a business unit such as a subsidiary. Local environmental munificence, together with uncertainty concerning external activities, simultaneously affects the potential realization of value added to customers, as local environmental munificence affects the activities and value created by competitors (Sirmon et al., 2007). The RMF assumes a contingency approach, where environmental uncertainty forces a business unit to continuously strive to fit with the local environment (Sirmon et al., 2007). A strive to fit enhances a business unit's awareness of how resources can potentially be managed in order to optimize value creation through interaction with other firms (cf. Sirmon et al., 2007). Due to the dynamics of the local environment, creating superior value as an indication of competitive advantage is very difficult to sustain over time, and business units are much more likely to achieve a series of temporary sequences of superior value over time, which can explain the slack that is required in order to give space to comprehend what resources and capabilities are needed to achieve temporary sequences of superior value (Sirmon et al., 2010). Therefore, business units engage in continuous processes of resource structuring, bundling and leveraging, which are necessary for enhanced value to be created, as described below (Sirmon et al., 2010).

2.4.3 Structuring Resources

The structuring of resources includes the process of acquiring, accumulating and divesting resources, as depicted in Figure 2. Resources consist of physical capital resources, organizational capital resources and human capital resources (Barney, 1991), which are very difficult for any other business unit to imitate due to the tacit knowledge that resides in the resources (cf. Teece et al., 1997). Acquiring resources means buying resources from the environment (Barney, 1986) or acquiring resources from the internal network (Tregaskis, 2003).

Figure 2 A Dynamic Resource Management Model of Value Creation



Source: Sirmon et al. (2007, p. 276)

Uncertainty over the possibility of acquiring resources from the local environment (Sirmon et al., 2007) or from the internal network (cf. Li, 2005; Monteiro et al., 2008; Birkinshaw & Hood, 1998) can result in a situation where resource structuring occurs through accumulation, which includes the buildup of managerial knowledge and skills of employees through learning (cf. Sirmon et al., 2007). Thus, accumulation consists of the development of resources (Sirmon et al., 2007). Learning can help to buffer potential future possibilities and needs, and it provides *"…a potential capacity for strategic flexibility and the degrees of freedom to adapt and evolve"* (Sirmon et al., 2007, p. 275). An example of learning is how relatively inexperienced employees can be directed to work with experienced managers. Structuring resources also includes divesting, which consists of detaching resources in order to allow for the possibility of acquiring or accumulating resources, which can help to create better capabilities (Sirmon et al., 2007).

2.4.4 Bundling

The second step in Figure 2 concerns the bundling of resources into capabilities, which consists of stabilizing, enriching or pioneering activities. Stabilizing consists of incremental improvements to existing capabilities. As an example, employees receive adequate and continuous training in order to maintain value toward customers (Sirmon et al., 2007). This training is often situated within a specialized activity, such as a functional unit, rather than across specialized activities (cf. Day, 1994; Collis, 1994).

Enrichment consists of extending an existing capability, where a capability is added to the existing capability portfolio through learning, or adding a new resource to the 'bundle' (Sirmon et al., 2007). Learning with regard to enrichment can extend across specialized activities in order to create more value for a certain activity (Day, 1994; Collis, 1994). Thus, enrichment of capabilities means the modification of an existing capability, which can involve the acquisition of resources from the internal network (Ozsomer & Gencturk, 2003) or from external actors (Li et al., 2010).

Finally, pioneering means the creation of new capabilities in which exploratory learning is necessary (March, 1991), where, for example, resource accumulation that significantly differs from the existing resources in a business unit enables completely new sets of capabilities to develop. The existing knowledge base in the business unit is emphasized as essential for creativity in order to *"…be able to identify unique, value-enhancing ways of integrating the functionalities of individual capabilities"* (Sirmon et al., 2007, p. 282).

2.4.5 Leveraging

Leveraging, as the last stage of the RMF (see Figure 2) consists of the mobilization, coordination and deployment of capabilities for a business unit, such as a subsidiary, to realize value for customers. Leveraging is highly related to the subsidiary's human capital resources and the potential that is individually perceived to exploit opportunities in the environment (Sirmon et al., 2007). Although leveraging is described as a sequence of mobilizing, coordinating and deploying, a business unit can over time learn where potential for enhanced efficiency and effectiveness for value realization is found, as well as how, in practice, the sequence of leveraging activities can be scrambled (cf. Sirmon et al., 2007).

Mobilization implies the creation of strategies to ensure that opportunities are exploited through the identification of capabilities necessary for enhanced value maximization; the awareness of the possibility to design the necessary capabilities; and knowledge of environmental opportunities. Mobilization consists of three strategic alternatives: resource advantage strategy, market opportunity strategy, and entrepreneurial strategy. Resource advantage strategy is the ability to utilize existing resources within a business unit to create capability configurations that provide value superior to that provided by competitors. Market opportunity strategy consists of accurate environmental analysis activities that spot opportunities for which a business unit's capabilities can be configured in order to maximize value. Entrepreneurial strategy consists of creating new market offerings that can be useful in new fields through the development of new capability configurations (Sirmon et al., 2007). Mobilization strategies do not occur in isolation, as they require good inside-out and outside-in abilities to be able to adjust market offerings depending on the potential that exists within a business unit, and potentially within the MNC network, as well as in the environment. This implies that boundary spanning capabilities are required for effective mobilization possibilities (Day, 1994; Hult, 2011). The choice between mobilizing strategies means a focus on a strategy that is believed to maximize the value that can be created from the resources that are available for a business unit such as a subsidiary. Therefore, mobilizing within the RMF resembles the importance of planning activities as described in Section 2.3.3, Subsidiary Decision-making.

Coordination is the implementation of a leveraging strategy, integrating several individual capabilities that have been mobilized within a business unit into executable capability configurations that allow for value to be generated toward customers. The capability configuration is the assembly of capabilities that are required to realize value. Thus, coordination, as an element of leveraging, resembles coordinating for capability development through resource bundling, with the exception that the emphasis is on ensuring that value is warranted to customers in the leveraging stage.

Deployment means that capability configurations are physically delivered to external actors where value is realized (Sirmon et al., 2007). The importance lies in the ability to appropriate from the value that is created in order to ensure that the exchange value, that is, the monetary exchange that is provided from a business relationship, corresponds to the use value for the external actor in that relationship (Lepak et al., 2007). If it does not correspond, value slippage occurs (Lepak et al., 2007). In these instances, network relationships are important as established exchange relationships that ensure the continuous creation and appropriation of value among actors, where the possibility to appropriate value is not necessarily equal among network actors (Lavie, 2007).

2.4.6 Knowledge-based Insights on Capabilities and Learning to Create Value

As described previously, a subsidiary can include a multitude of different functional units that have specialized knowledge domains. For instance, the value that is offered to customers involves a refinement process, and a critical component of that process is specialized knowledge (Grant, 1996). Specialization is necessary among individuals due to their limited capacity to store, accumulate and refine all knowledge (Simon, 1955), which sets individual boundaries throughout the creation of knowledge. However, research on specialization and interaction between individuals who possess knowledge shows that all individuals within a business unit do not need to know all details of a service, product or activity in order to understand its purpose (Nelson & Winter, 1982). Thus, it is important to distinguish between the role of operational specialists, who create value, and managers, who can direct and plan those value-creating activities. The process by which business units utilize knowledge is through the organizational memory, consisting of procedures, norms, rules and forms (March, 1991) that result in the routinization of a business unit's knowledge over time. Routinization affects operational activities, rules and resources, which in turn affect behaviors within a business unit (cf. Grant, 1996), where a routine is *"…behavior that is learned, highly patterned, repetitious, or quasi-repetitious…"* (Winter, 2003, p. 991). In a business unit such as a subsidiary, capabilities are higher-order routines related to the ability of human resources to carry out an activity. Therefore, capabilities can be described as a set of complex routines that, through the act of carrying out those routines, allow for enhanced value to be developed (Collis, 1994; Winter, 2003).

In order to create routines and capabilities that can enhance value, learning must occur. Learning in a business unit such as a subsidiary occurs through either the acquisition of new individuals who have knowledge that the business unit did not previously have or through learning that occurs within individuals (cf. Simon, 1991). Therefore, learning within a business unit and across individuals is to a large extent a social phenomenon that is realized through knowledge-sharing activities (Simon, 1991). Enabling knowledge sharing across specialized individuals requires the establishment of integrative coordinating mechanisms among specialists (Grant, 1996). These coordinating mechanisms exist in the bundling and leveraging stage in the RMF (Sirmon et al., 2007). Coordination mechanisms are established to respond to different types of interdependence that can occur among individuals. Importantly, interdependence is viewed as an *"…element of organizational design and the subject of managerial choice"* (Grant 1996, p. 114). In a later study, Grant (1997, p. 452) emphasizes facilitating activities by managers when describing the implications of the knowledge-based view of management practice, where: *"The principal management challenge is not reconciling divergent goals, but establishing the mechanisms by which* *cooperating individuals can coordinate their activities in order to integrate their knowledge into productive activity."*

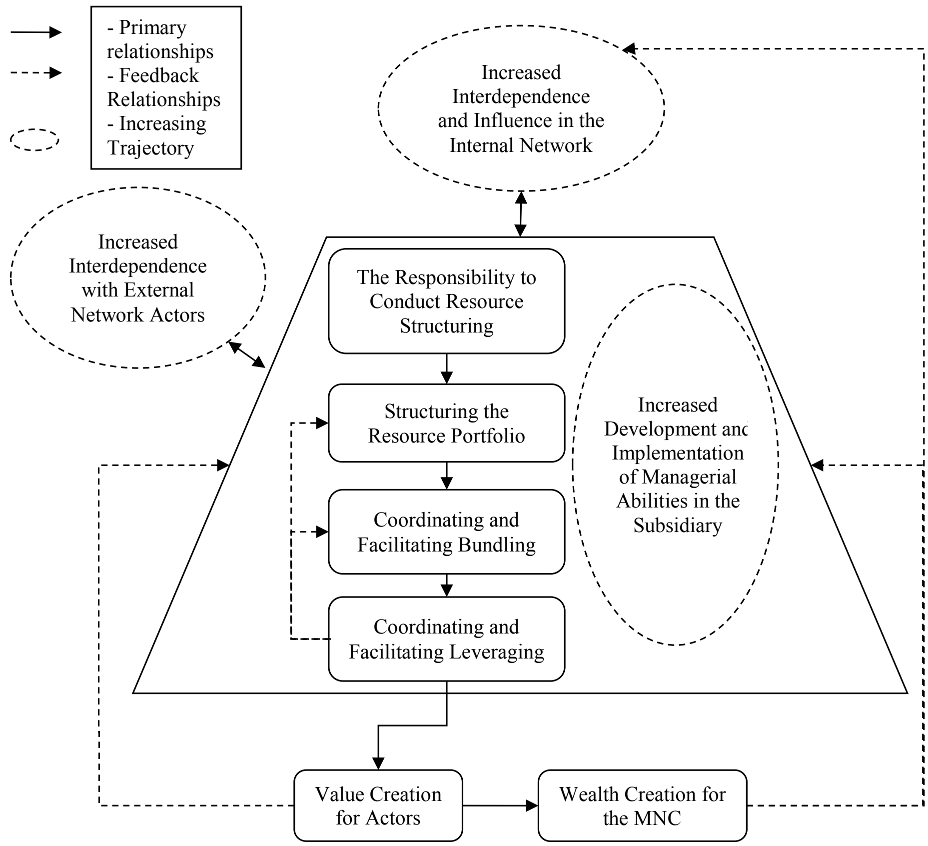
2.5 A Conceptual Framework for the Evolutionary Growth of a Subsidiary

Following the description of the traditional subsidiary evolutionary framework, the RMF and the knowledge-based insights, the following sections presents a conceptual framework that can help to increase the understanding of a subsidiary's evolutionary growth. The sequences of the RMF model as depicted in Figure 2 continuously emphasize a manager's role in the process of creating value (Sirmon et al., 2007). Nevertheless, the importance of specialized individuals is essential, as specialized individuals are crucial for a subsidiary's value creation and for the development of capabilities. Resources require management in order to create and develop capabilities that constitute the evolutionary growth of a subsidiary. Therefore, knowledge must be managed in order to create value, where specialization enables possibilities as well as boundaries in terms of how a subsidiary can create value. Consequently, the management of resources not only requires knowing how to manage resources, but also knowing what resources are required to develop resources. The management of resources also cognizance regarding the lack knowledge and the differences that exist among specialized sets of knowledge within a subsidiary. Managers are essential as planners of change, and therefore managerial abilities, the management of resources and specialization constitute activities that are necessary in order to better understand and establish an enhanced conceptual framework for recognizing the evolutionary growth of a subsidiary, where capability development results in increased value creation. Furthermore, a subsidiary's capability development occurs within a subsidiary's decision-making context, which includes the internal network, the external network and the local environment. In order to recognize how resources are managed for capability development and value creation, complementary aspects concerning the role of internal and external networks from the traditional subsidiary evolutionary framework are included in the conceptual framework for the evolutionary growth of a subsidiary to account for the interdependent nature of a subsidiary and actors.

2.5.1 The Purpose of a Subsidiary

HQs are providers of resources and establishers of subsidiaries, and they therefore establish the initial purpose of a subsidiary. HQs also add legitimacy to the activities undertaken by subsidiaries within the internal network (Ambos et al., 2010). A subsidiary is established with a value-creating purpose where resources need to be developed and appropriated by the subsidiary's employees in order to fulfill that purpose, that is, the subsidiary's operationalization of an HQ's organizational goals (Cyert & March, 1963). The relationship between management and purpose is described by Simon (1955, p. 4), where: *"...purposiveness brings about an integration in the pattern of behavior, in the absence of which administration would be meaningless; for, if administration consists in "getting things done" by groups of people, purpose provides a principal criterion in determining what things are to be done."* Within a subsidiary, a subsidiary manager is appointed by HQs (Zeira & Banai, 1985; Harzing, 2001; Pérez & Pla-Barber, 2005) and is therefore given the decisive responsibility of managing the subsidiary and directing activities that must be undertaken (see trapezoid in Figure 3).

Figure 3 A Dynamic Resource Management Model of an Evolutionarily Growing Subsidiary



Source: Author's elaboration inspired by Sirmon et al. (2007)

Managing activities in a subsidiary also means that its managers' environmental uncertainty is twofold, as they might be aware of what to do but not how to act in an uncertain local environment (Sirmon et al., 2007) while experiencing uncertainty about the internal network (Bouquet & Birkinshaw, 2008). The latter is important, as activities in the internal network affect the potential to gain and compete for resources (Birkinshaw & Hood, 1998) and the possibility to develop capabilities and create value (Li, 2005; Monteiro et al., 2008; Roth et al., 2009). Uncertainty about a newly established subsidiary is complex, as it needs to overcome what is referred to as the 'liability of internal isolation,' which indicates the lack of relationships and influence within the internal network (Monteiro et al., 2008). Simultaneously, a subsidiary must ensure that the responsibilities of the subsidiary's charter are fulfilled through interaction with a relatively unknown local environment and the internal network (cf. Birkinshaw & Hood, 1998).

2.5.2 Business Performance and Structuring Activities

Regarding the structuring of resources, the possibility for a subsidiary to acquire and accumulate resources (Sirmon et al., 2007) cannot be taken for granted, as controlling resources is a power-holding mechanism of HQs (Bouquet & Birkinshaw, 2008), which corresponds with why young subsidiaries have a high degree of dependence on HQs (Prahalad & Doz, 1981; Birkinshaw et al., 1998). However, subsidiaries that survive over time are shown to have received considerable resources from the initiation of the subsidiaries (Delios & Makino, 2003; Slangen & Hennart, 2008; Dikova, 2009), enabling resource-structuring activities.

An established subsidiary must create value for actors in relationships, which in turn creates wealth for the MNC, as portrayed in Figure 3 (bottom). Improving business performance is among the most important goals for subsidiaries (Hillman & Wan, 2005; Chang et al., 2009; Mahnke et al., 2009). A positive track record toward HQs also has a positive influential impact on the potential to receive resources from HQs in order to engage in continuous and enhanced resource-structuring activities (Bouquet & Birkinshaw, 2008). It is reasonable to assume that business performance as a criterion for a subsidiary's charter is more important for a young subsidiary than engaging in reformation activities by developing dynamic capabilities. Furthermore, dynamic capabilities require that reformation is made to existing capabilities and routines within a subsidiary. In a young subsidiary, routines have not matured in terms of becoming highly patterned (cf. Winter, 2003). Rather, young business units such as subsidiaries could be expected to be situated in trial-and-error activities and/or fire-fighting activities (Greiner, 1972; Churchill & Lewis, 1983). The lack of matured routines and limited capabilities might be a reason why young subsidiaries are initially internally focused toward the MNC (Birkinshaw et al., 2005) in order to receive support, share knowledge, and learn from internal actors (Li, 2005; Venaik et al., 2005), as learning is easier within the internal network than in the local environment (Kogut & Zander, 1993). Overall, the structuring of resources for a young subsidiary is expected to be directed toward the creation of substantive capabilities that ensure business performance (cf. Collis, 1994; Winter, 2003).

2.5.3 Coordinating and Facilitating Bundling Activities

Within the framework of the evolutionary growth of a subsidiary, it is anticipated that managers are the coordinators and facilitators of bundling and leveraging activities toward actors (see Figure 3), as operationally specialized individuals learn, entail and realize the value-adding knowledge that is leveraged to actors (cf. Grant, 1996). In order to create value and to appropriate from the created value, a subsidiary needs to establish a balance between explorative and exploitive activities (cf. March, 1991), where that balance is a responsibility that falls to the subsidiary's managers. Therefore, managerial (vertical) specialization, in contrast to operational (horizontal) specialization, could be argued to be required in order to facilitate (Grant, 1996) and coordinate (Sirmon et al., 2007) through influential rather than authoritarian activities in a subsidiary, as *"…vertical specialization is absolutely essential to achieve coordination among the operative employees…so vertical specialization permits greater expertize in the making of decisions"* (Simon, 1955, p. 9). Managerial specialization also permits operationally specialized employees to be held accountable for their activities (Simon, 1955). Allowing a subsidiary's managers to focus on managerial specialization also enables managerial abilities to be used for decision-making, as managerial specialization includes information gathering and processing across specialized operational activities (Simon, 1955, Barney, 1991). Managerial information gathering and processing is important, as a subsidiary manager is responsible for decisions implemented across a subsidiary and to a varying extent influence and are influenced by operationally specialized activities (cf. Simon, 1955). Vertical as well as horizontal communication and cooperation promote information sharing (Simon, 1955) and permit for the possibility to direct a subsidiary's activities (cf. Wright et al., 1994; Delmar & Shane, 2003). Communication between operational specialists and subsidiary managers places those subsidiary managers under scrutiny, as knowledge levels differ (cf. Grant, 1996). However, subsidiary managers do not necessarily need the technical details of what is required from specialists to understand the requirements for operational capability development (cf. Nelson & Winter 1982). Self-determination and teamwork motivators among subsidiary employees (Mudambi et al., 2007) and common knowledge within a subsidiary and within the internal network (cf. Grant, 1996) is expected to allow subsidiary managers and operational specialists to overcome knowledge barriers. Taking into account a functional perspective on how MNC networks conduct business (Rugman et al., 2011), each specialized activity is also anticipated to require that resources are structured, bundled into capabilities, and eventually leveraged.

It is reasonable to assume that a subsidiary that is establishing routines and primarily substantive capabilities in order to ensure business performance (Winter, 2003; Zahra et al., 2006), would focus on stabilizing and enriching capabilities (cf. Sirmon et al., 2007). This implies that a subsidiary's managers are facilitators and coordinators of bundling activities, as managers select and help to develop and deploy specialized human capital resources that improve a subsidiary's learning and performance (cf. Hatch & Dyer, 2004). Throughout the bundling process, and following Sirmon et al. (2007), it is anticipated that feedback loops occur in order to adjust recently established routines and capabilities, as both develop simultaneously and can affect each other, as illustrated in Figure 3.

2.5.4 Coordinating and Facilitating Leveraging Activities

Leveraging consists of mobilizing, coordinating and deployment activities in the RMF and is primarily an operationally specialized activity that realizes value toward actors (Sirmon et al., 2007). For a subsidiary manager, coordinating and facilitating leveraging (see Figure 3) could be argued to be a priority in order to deliver the performance targets that are included in a subsidiary's charter and that can enable future resources (Hillman & Wan, 2005; Chang et al., 2009; Mahnke et al., 2009). Significant mobilization is anticipated to require communication between subsidiary managers and operational specialists, as it relates to the identification of needed capabilities and the establishment of strategies (e.g. resource advantage strategy, market opportunity strategy, and entrepreneurial strategy) for the deployment of capability configurations (cf. Sirmon et al., 2007).

For a subsidiary that does not have mature routines and needs to establish substantive capabilities to perform business activities (cf. Collis, 1994; Winter, 2003), a mobilization strategy would probably be focused on resource advantage strategy and market opportunity strategy rather than entrepreneurial strategy in order to faster ensure business performance and take advantage of the knowledge that resides in the MNC network (Kogut & Zander, 1993). It is possible to assume that as a young subsidiary needs to reach performance targets, the time it takes to build up resources, routines and capabilities to create value hinders the possibility to immediately engage in entrepreneurial activities.

2.5.5 Managerial Developments as a Subsidiary Evolutionarily Grows

Managerial activity developments could be expected to occur with the evolutionary growth of the subsidiary (see Figure 3). Managerial decision-making is dependent on knowledge-sharing (Simon, 1991; Grant, 1996) and information-collecting activities (Simon, 1955; Barney, 1991). Knowledge sharing and information collecting help a subsidiary's managers synthesize knowledge (Kogut & Zander, 1992) in order to direct (Delmar & Shane, 2003), coordinate, and facilitate activities (Helfat et al., 2007; Grant, 1997), which consequently affects the behaviors of the subsidiary's employees (cf. Wright et al., 1994). Consequently, the developments of managerial activities should be interdependent with the effects and development of a subsidiary's evolutionary growth.

Contemporary managerial tasks are often argued to revolve around planning, leading, organizing and controlling (Parker & Ritson, 2005). Influence was described previously as an alternative to control, and facilitation, coordination and structuring, were described with regard to organizing. Hence, planning and leading, are emphasized below. Planning for change (Zahra et al., 2006) is differentiated from ad-hoc, problem-solving behavior (Winter, 2003; Zahra et al., 2006) that is tied to the fragmented nature of managerial work (Carlson, 1951; Florén, 2005; Arman, 2010). Planning is important, as it increases the likelihood of survival and business performance in a business unit such as a subsidiary (Delmar & Shane, 2003). Planning also establishes a direction for employees of in terms of where their activities should be headed (Delmar & Shane, 2003). Facilitating for leveraging activities is anticipated to be of outmost importance for a subsidiary in order to ensure a solid performance record.

Managerial tasks have limited contributing force to coordinative activities if the possibility to utilize managerial abilities (Holcomb et al., 2009) for coordinative activities is constrained as a consequence of, for example, facilitating leveraging activities. For instance, a subsidiary that has difficulties achieving its performance targets might require amplified leveraging facilitation from a subsidiary manager. A growing amount of activities at a subsidiary that can be a consequence of charter establishment can also imply that increased managerial fragmentation occurs. Thus, if first the charter obligations are fulfilled and (Birkinshaw & Hood, 1998), second, a positive track record toward HQs is established (Bouquet & Birkinshaw, 2008), and third, more efficient subsidiary activities as routines become increasingly mature (cf. Grant, 1996; Winter, 2003), these accomplishments can lead to amplified human capital resources and human resources (Bouquet & Birkinshaw, 2008; Dederichs, 2010). With the growth of human resources, an increased need for managerial specialization (Simon, 1955) is expected to be important. Otherwise, the possibility to facilitate an escalation in leveraging activities, for example, may be limited. Either the reformation of capabilities through explorative activities (that do not jeopardize charter fulfillment) or the increase of managerial human capital resources (through, for instance, a positive track record toward HQs) may enable managerial capacity, which in turn allows for the implementation of managerial abilities.

Managerial capacity as a resource is important for the implementation of managerial abilities and is founded in 'organizational slack.' Organizational slack is defined as the *"…disparity between the resources available to the organization and the payments required to maintain the coalition"* (Cyert & March, 1963, p. 36). Those 'payments required' can be translated to a subsidiary's charter fulfillment, as organizational slack allows for planning activities to take place, which is also a prerequisite for change as a consequence of dynamic capabilities (Zahra et al., 2006; Sirmon et al., 2007). Managerial capacity consequently opens up the potential to utilize managerial abilities to engage and develop dynamic capabilities. Dynamic capabilities are therefore expected to be the capabilities that profoundly affect charter change, in contrast to the substantive capabilities developed in a subsidiary to fulfill business performance targets.

The rise of managerial capacity to exploit managerial abilities that consist of the managers' skills and experience (Holcomb et al., 2009) is achieved through the recruitment or establishment of middle managers through training activities (Simon, 1955; Barney, 1991). Managerial tasks are often delegated to middle managers who oversee managerial human resource capital and who often take responsibility for facilitating and coordinating leveraging activities (Dederichs, 2010). It is reasonable to assume that with the increase in the development of managerial human resource capital, and as the delegation of managerial tasks increases, there will be increased specialization of managerial tasks, which will lead to the implementation of differentiated managerial abilities. Through the establishment of middle managers, a subsidiary is anticipated to increasingly be able to engage in planning activities, as the subsidiary's top management engages in leadership activities concerning change processes across the subsidiary (Dederichs, 2010). Leadership as a managerial task primarily concerns constructive or adaptive change (Kotter, 1990) and is also a prerequisite of dynamic capabilities (Rosenbloom, 2000; Salvato, 2003).

Overall, the evolutionary growth of a subsidiary is expected to increase the potential for developing boundary spanning capabilities (Day, 1994; Hult, 2011) and strategy formation capabilities (Slater et al., 2006) as part of a subsidiary's dynamic capabilities, where planning and leadership activities are essential. Those activities are dependent on the development and implementation of managerial abilities. An increase of managerial capacities and abilities is likely to require that information-gathering and coordination activities are progressively managed, as an increased amount of lag occurs with every managerial layer established in a subsidiary (Cyert & March, 1963). The efficient facilitation of information-gathering and coordination activities requires administrative routines (Collis, 1994; Grant, 1997; Winter, 2003) that function as 'trust' between employees. Administrative routines are also difficult to change due to employee resistance to break that trust (Nelson & Winter, 1982). Therefore, with the increase of managerial human resources in a subsidiary, the lag in implementing organizational change could increase and thus inhibit the implementation of dynamic capabilities.

With increased managerial capacity and ability, as well as increased operational specialization through evolutionary growth, the potential to engage in pioneering activities as a part of bundling (Sirmon et al., 2007) may be enhanced, as pioneering is dependent on a certain level of subsidiary autonomy in order to engage in innovative activities (Venaik et al., 2005). The role of subsidiary management is anticipated to be important for pioneering activities, as a subsidiary's self-determination (through active resource accumulation, explorative marketing or product development, and process developments through training), together with the subsidiary's teamwork motivators, is essential for innovative activities (Mudambi et al., 2007). Thus, resource accumulation, motivation, training and the coordination of heterogeneously specialized employees, ought to fall under a subsidiary's managerial tasks in order to enhance the potential for capability creation or development (Felin & Hesterly, 2007; Chang & Rosenzweig, 2009).

2.5.6 Increased Internal Network Interdependence as a Subsidiary Evolutionarily Grows

HQs' control and influence over subsidiaries is argued to decrease over time (Prahalad & Doz, 1981; Andersson & Forsgren, 1996; Birkinshaw & Hood, 1998). One reason for decreased HQ dependence could be related to increased collaboration with actors in the internal network, where knowledge sharing is prominent when subsidiaries are young (Li, 2005), as a probable consequence of the ease of sharing knowledge in the internal network rather than on the market (Kogut & Zander, 1993). Collaboration with other subsidiaries also increases a subsidiary's performance (Asmussen et al., 2009). The increase of capabilities and resources as a part of evolutionary growth is expected to enable a subsidiary to increase its amount of functional units, which corresponds to the internal network that entails specialized functional networks (Rugman, Verbeke, & Yuan, 2011). For instance, cross-subsidiary functional collaboration concerning marketing activities increases performance within subsidiaries' marketing units and therefore exemplifies an increased interdependence among functional units across subsidiaries (Roth et al., 2009). The increase of human capital resources is also anticipated to increase a subsidiary's absorptive capacity for knowledge, as absorptive capacity is a combination of employees' abilities and their motivation, where the abilities and motivation cannot be separated as determinants for absorptive capacity (Minbaeva et al., 2003). Thus, the management of resources and the managerial abilities through planning behavior (Zahra et al., 2006) that give direction to subsidiary employees (Delmar & Shane, 2003; Wright et al., 1994) enhance the possibility for a subsidiary to absorb knowledge from other subsidiaries in the internal network (Minbaeva et al., 2003). Moreover, the increase of human capital resources, in combination with absorptive capacities, initiates the motion of knowledge sharing in the internal network (Monteiro et al., 2008) and therefore ought to result in increased subsidiary interdependence with the internal network as a subsidiary evolutionarily grows (see Figure 3).

2.5.6.1 *Increased Influence on and from the Subsidiary with Amplified MNC Interdependence*

Consequences of increased collaboration, coordination and interdependence in the internal network may include an increased influence on and from a subsidiary within the internal network (Birkinshaw et al., 2005; Luo, 2005) and an increased awareness of the potential contributions of collaborating with other subsidiaries, as seen in Figure 3 (Roth et al., 2009). A rise in operational specialization and an increase of functional units within a subsidiary, which enhance interaction throughout the internal network (Rugman, Verbeke, & Yuan, 2011), could also enable a stronger structural position and greater 'weight' for the subsidiary, as 'weight' is measured on the basis of subsidiary activities on which other subsidiaries are dependent (Bouquet & Birkinshaw, 2008). It is also reasonable to assume that a rise in managerial capacity would enable a stronger 'voice' (Bouquet & Birkinshaw, 2008) toward managerial layers at HQs, as the ability of the management to engage in managerial tasks is increased. Furthermore, the rise of human capital resources could increase a subsidiary's tacit knowledge flows within the internal network, which is the basis for the subsidiary's bargaining power. However, this holds true only if knowledge created in the subsidiary is perceived as valuable by other subsidiaries or by HQs (Mudambi & Navarra, 2004; Ambos et al., 2010).

2.5.6.2 *Continuous HQs – Subsidiary Collaboration*

Although evolutionarily growing subsidiaries become increasingly autonomous (Birkinshaw & Hood, 1998), which is realized through a subsidiary's initiative taking, as exemplified by pioneering activities mentioned above, the increase of initiatives and autonomy by a subsidiary also increases HQs' monitoring of the subsidiary (Ambos et al., 2010). HQs can still withhold critical resources from subsidiaries (Bouquet & Birkinshaw, 2008). Thus, a subsidiary does not become fully autonomous from HQs (Birkinshaw & Hood, 1998). Furthermore, large geographical distances and the potential failure to provide historical information regarding the achievement of performance targets, as well as a lack of commitment towards HQs by not following the agreed-upon charter, reduce attention from HQs and the potential to receive resources (Bouquet & Birkinshaw, 2008). Thus, even with increased human capital resources and evolutionary growth, a subsidiary would still be required to correspond to the charter and to recognize the importance of continuous collaboration with HQs.

A reason for giving subsidiaries a certain degree of autonomy and imposing influence rather than control, as discussed previously (cf. 2.3.2. HQ Assignment and Internal Network Developments), might be linked to the dependence of HQs on the capability developments and innovations within subsidiaries that are essential for MNC growth and survival, which means that HQs support subsidiaries as they evolve (Hewett et al., 2003; Regnér, 2003; Andersson et al., 2005; Cantwell & Mudambi, 2005). HQ-subsidiary collaboration creates a basis for increased subsidiary learning and can lead to enhanced subsidiary performance (Ozsomer & Gencturk, 2003). HQ-subsidiary interaction can also be temporarily beneficial for a subsidiary, as different characteristics of knowledge that are fully or partially shared between HQs and subsidiaries have different temporal (short-term vs. long-term) consequences on the subsidiaries' performance over time (Fang et al., 2007). As an example, MNC internationalization experience and host country familiarity have a short-term benefit for a subsidiary when provided by HQs, whereas context-specific marketing knowledge, which is a blend of marketing knowledge derived from HQs that is adapted to the local environment where subsidiaries are operating, has a positive long-term effect (Fang et al., 2007). The long-term effect demonstrates the importance of collaboration between HQs and a subsidiary over time and also portrays how a subsidiary needs to evolve and develop an understanding of the local environment in order for the HQs' support to be beneficial in the long term.

Collaboration with HQs can also differ within a functional unit, such as a subsidiary's HR unit, where differentiated activities can either correspond to the local environment, such as recruitment methods, or to HQs, such as training activities (Bjorkman et al., 2008). HQ-subsidiary collaboration also consists of oscillating interaction (Ferner et al., 2004), where, for example, the use of expatriates and the use of locally employed staff who interact with HQs can oscillate and change over time as subsidiaries evolve in order to optimize capability development and performance (Gong, 2003; Paik & Sohn, 2004; Li et al., 2006; Gaur et al., 2007).

Similarly, there are indirect effects from activities that HQs can take that may affect the relationship between HQs and subsidiaries. For instance, the acquisition of a firm by HQs can result in the necessity of capability development among sales-oriented subsidiaries if the market offering is changed (Hobday & Rush, 2007). Therefore, continuous mutual understanding between HQs and subsidiaries is anticipated to be important for subsidiary performance and evolution (Luo, 2003) and falls under interdependence with internal actors in Figure 3.

2.5.7 The Increase of External Interdependence

With the evolutionary growth of a subsidiary, it is also expected that an increased creation of external relationships, as shown in Figure 3, will occur (Andersson & Forsgren, 1996; Forsgren et al., 2005). Through collaboration with external actors, knowledge can be jointly created by the actors and can be absorbed by subsidiaries (Håkansson & Snehota, 1989; Li et al., 2010), which increases the subsidiary's performance (Andersson et al., 2007; Andersson et al., 2001; Roth et al., 2009). External network relationships require more time to be built than internal network relationships, but the former are important for a subsidiary's knowledge development (Li, 2005) and for the possibility to increase the scope of value that is created toward external actors (Birkinshaw et al., 2005). Interestingly, and with regard to the abovementioned discussion on internal interaction, subsidiary learning is focused upon interactions within the internal network, whereas innovation to a larger extent occurs when a subsidiary interacts with external actors, as the latter means that knowledge which stems from the outside of an MNC is novel and can have a direct effect on the capability development that combines what is learned within a subsidiary with what is learned from external actors (Almeida & Phene, 2004; Venaik et al., 2005; Phene & Almeida, 2008). Learning from internal actors and innovating with knowledge stemming from external actors are argued to be *"…competing, independent alternatives involving trade-offs rather than complementary, interdependent strategies for improving performance"* (Venaik et al., 2005, p. 669) within subsidiaries. The trade-off can be linked to the difficulties of balancing explorative and exploitive activities as a foundation for business unit survival and growth (March, 1991), as both learning and innovative activities imply explorative behavior to enhance performance, which is a consequence of exploiting that which is learned or innovated. Nevertheless, the potential to absorb knowledge from actors in the external network is dependent on the potential for a subsidiary to create sourcing and absorption capabilities (Phene & Almeida, 2008), which means that a subsidiary should evolve through the establishment of sourcing and absorption capabilities.

2.6 Summarizing the Evolutionary Growth of a Subsidiary

The evolutionary growth of a subsidiary is expected to depict the interrelatedness between the increase of substantive capabilities that ensure market performance through the development of managerial capacity, which can then realize managerial abilities to facilitate, coordinate, direct, lead and plan for future activities and capability developments in the subsidiary. Thus, it is expected that during the early stages of evolutionary growth, the importance of leverage is highlighted within a subsidiary, as leveraging not only is crucial in order to achieve performance targets toward HQs, but also to ensure that routines and capabilities are matured to give space for potential organizational slack.

The potential increase of resources as a consequence of achieving performance targets (Bouquet & Birkinshaw, 2008), together with potential organizational slack as a consequence of maturing routines and capabilities, allows for enhanced planning and leadership in a subsidiary to impose changes in a subsidiary. In that regard, planning and leadership provide direction in terms of where explorative and exploitive activities among a subsidiary's employees could be conducted, which gives purpose for subsidiary employees in creating relationships with the internal and external network. Therefore, communication between managers and operational specialists within a subsidiary may not only function as a means to coordinate activities, but also to learn where a planned direction of the subsidiary should be heading in order to make use of the resources in the subsidiary, to be able to continuously deliver results and to create a charter that is perceived as meaningful for subsidiary employees and that is accepted by HQs. The importance of meaningfulness is related to the motivation of the subsidiary employees (Minbaeva et al., 2003) and the potential to overcome the individual boundaries of the employees' specialized knowledge for them to engage in bundling activities and develop capabilities. If capability development does not occur, the potential to compete in an environment where competitors are continuously developing their capabilities will become increasingly difficult and create an imbalance between explorative and exploitive activities in which survival and prosperity cannot be ensured (March, 1991).

3 Methodology

The study aims to unfold the internal processes of an evolutionarily growing subsidiary. Consequently, in order to understand the evolutionary growth of a subsidiary, the research approach employed in the study is a case study approach. This chapter begins with a discussion explaining why such an approach has been chosen. Thereafter, the chapter elaborates on the sampling of the chosen case study, which is a sales subsidiary located in the Middle East (ME). The chapter further outlines how empirical data has been collected and from what sources that data has been gathered. Next, the chapter offers insights on the analysis of the collected data. The analysis process consists of detailed empirical data analysis, which affected the theoretical development of the study.

The description of the analytical process of the study also includes a depiction of how the analysis process helped to develop a conceptual model, the formal structure of the study, as well as how the conceptual model was set against the empirical findings throughout the final stages of the analysis process. The description of how this study was conducted, together with the contents provided in the study, establishes a reference point to be able to evaluate the quality of the study and the degree to which the study is suitable for theory development on the evolutionary growth of a subsidiary. As with all studies, the study also has its limitations. These limitations are described, together with the measures that have been taken in order to overcome the limitations.

3.1 Research Approach

The theoretical foundations of the study are primarily grounded in the subsidiary evolutionary literature (Birkinshaw & Hood, 1998) and in research on how the management of resources is a necessity for the creation and leveraging of capabilities (Sirmon et al., 2007). The latter is important, as previous research on subsidiary evolution has not emphasized the implications of the management of resources (Birkinshaw, Hood, & Young, 2005). The theoretical foundations are important for the purpose of the study, as the internal processes for the evolutionary growth of a subsidiary are constituted by the creation and development of capabilities, as emphasized by Birkinshaw & Hood (1998), where the creation and development of capabilities require the management of resources, following Sirmon et al., (2007).

The sub-research questions concern the development of the management of resources, the creation and development of capabilities, and the development of value-creating activities with the evolutionary growth of a subsidiary. The development of value-creating activities is relevant because of the interdependent nature of internal and external actors in the subsidiary, which influences the potential for a subsidiary to evolutionarily grow (Andersson & Forsgren, 1996; Birkinshaw et al., 2005; Luo, 2005).

Uncovering the internal processes of evolutionary growth, including the creation and development of capabilities and the management of resources, as well as the inclusion of the development of value-creating activities, is important, as research within the field of international business (IB) has tended to treat business units such as subsidiaries as black boxes and has neglected the role of management (Aharoni, 2011). Since this thesis deals with a topic that hitherto has been neglected, a qualitative research approach has been employed (Merriam, 1998; Hunt, 2010).

The study depicts a 'contextualized understanding' of how internal developments occur within a subsidiary, setting these developments against theoretical reasoning primarily linking together subsidiary evolutionary literature with resource management literature (cf. Pettigrew, 1992; Piekkari & Welch, 2011; Welch et al., 2011). Such a 'contextualized understanding' allows for the possibility of explaining the fundamentals of the purpose of the study through an empirical description of a subsidiary's evolutionary growth and an explanation of how evolutionary growth unfolds, which is guided by and develops theoretical reasoning around the subject of evolutionary growth (cf. Welch et al., 2011). As the main research question focuses on understanding how internal processes unfold, a case study approach is chosen that allows for the possibility to answer the research question using the rich empirical understanding that a case study offers, together with existing theoretical literature that can support theorizing (Welch et al., 2011). Thus, a case study provides the explanatory power as well as a rich empirical description, which are necessary for theory development in research that studies developments and evolution over time (Dubois & Gadde, 2002; Siggelkow, 2007; Welch et al., 2011).

3.2 The Single Case Study

The study employs a single case study approach. The reason for this is that such an approach allows for an in-depth empirical data focus and a detailed understanding of how internal processes are uncovered as a subsidiary evolutionarily grows (cf. Dyer & Wilkins, 1991; Siggelkow, 2007; Fletcher & Plakoyiannaki, 2011). A single case study must be empirically descriptive, particularistic and heuristic (Merriam, 1998). The study is descriptive, as it thoroughly describes a subsidiary that was going through a business transformation which forced the subsidiary to develop capabilities, and where the management of that subsidiary was affecting and was also affected by that transformation. Furthermore, the complexities of the business transformation and what it meant for the subsidiary's employees are described. The focus on an evolving subsidiary and the developments that occurred within the subsidiary over time made the study particularistic, as evolutionary growth and management of resources were studied within the 'particular' case study. Finally, the outline of the study, through the description of relevant theoretical developments, the empirical description of the subsidiary, and the following analysis strive to provide a better explanation of the internal processes that constitute the evolutionary growth of a subsidiary. The outline of the study establishes its heuristic quality, where heuristic quality is the illumination of a *"…reader's understanding of the phenomenon under study"* (Merriam, 1998, p. 30).

In order to study and describe the internal processes of a subsidiary's evolutionary growth, including the creation and development of capabilities and the developments of the management of resources, as well as the value-creating activities throughout that evolution, a longitudinal case study is needed (cf. Pettigrew, 1990). The research design used in the study was a punctuated longitudinal case study (PLCS), where visits and revisits took place during certain sequences in time at the subsidiary, and in which real-time as well as retrospective data were gathered (Soulsby & Clark, 2011). The empirical data created a foundation to describe the evolutionary developments within the subsidiary over time. Indeed, the PLCS, through theoretical reasoning and rich empirical data, has contributory power in the field of IB, as longitudinal studies that research the evolution of MNCs and, more specifically, long-term behaviors of subsidiaries, are needed in IB research (Blazejewski, 2011, Chang & Rosenzweig, 2009).

3.2.1 **Choosing the Case Study**

Cases are chosen on the requisite that new insight can be gained from a case as the case must fit the purpose of the study and allow for the possibility to answer the research question (Merriam, 1998). In the initial stages of the study, the research focused on understanding how expanding business developments influenced an MNC's behavior in a market. The study targeted MNCs that had operations that potentially were subject to dynamic environments, which allowed for increased expansion. MNCs that had operations in the Middle East (ME) were contacted. Information about MNC operations was gathered from the MNC's websites and from secondary data provided on the Internet from the Swedish Export Council. The choice of the ME was due to the fact that countries in this region are considered emerging economies that are *"…low-income, rapid-growth countries using economic liberalization as their primary engine of growth"* (Hoskisson et al., 2000, p. 249) and therefore well-suited to study how expanding business developments influence an MNC's behavior in a market.

Moreover, MNCs with a Swedish heritage were sought to increase the likelihood of cooperation and access. From the contacted MNCs, a sales subsidiary in the Middle East (ME) that was part of a division[2] (ITT WWW[3]) of a large American conglomerate (International Telephone & Telegraph - ITT), with its corporate HQ in the U.S., showed great interest in participating in the study and opened up the possibility to thoroughly understand business operations from division HQ to the subsidiary, as well as the subsidiary's local actors in the ME region. ITT WWW was experiencing great turbulence as a shift in business operations was taking place, where the division was transforming from a pure product provider to a process and systems provider that included four differentiated brands (Flygt, Leopold, Sanitaire and Wedeco) within the water and wastewater industry. The business transformation affected operations on a global scale and therefore also the subsidiaries.

The business transformation within the division was not known prior to the initial contact with the sales subsidiary. As a matter of fact, the research interest and question of the study evolved through experiences gained when studying the subsidiary's efforts during the transformation process. The researcher then realized that the subsidiary, coupled with the ongoing changes, offered an ideal set-up to study how capabilities are created and developed with the evolutionary growth of that subsidiary. Hence, the choice of case influenced the focus of the study toward the subsidiary's developments and therefore choices concerning the usage of the informants' shared experiences. Thus, with the benefit of hindsight, the study followed Fletcher and Plakoyiannaki's (2011, p. 182) view on multilevel sampling when studying dynamic phenomena over time, as *"…the researcher's experience in the field is vital for initial selection of the case, its context and unit of analysis, as well as within-case sampling in terms of choosing respondents, observation sites and archival documents for further investigation."* The subsidiary had primarily focused on selling products, but due to the transformation within the ITT WWW division, was forced to correspond to division HQ to become a process and systems provider. At the same time, the subsidiary was also trying to manage and expand its existing operations and business relationships in the ME. Hence, the

[2] The division had its HQ in Sweden
[3] International Telephone & Telegraph Water and Wastewater

choice of case, together with the variety and amount of respondents, offered the opportunity to add to and extend existing and emerging theory on subsidiary evolution (cf. Eisenhardt, 1989) and to reveal an unusual phenomenon (Eisenhardt & Graebner, 2007): that is, the possibility to theorize and describe how evolutionary growth unfolds in a foreign subsidiary that is affected by several HQs (corporate and division) and must correspond to and influence actors in its local environment.

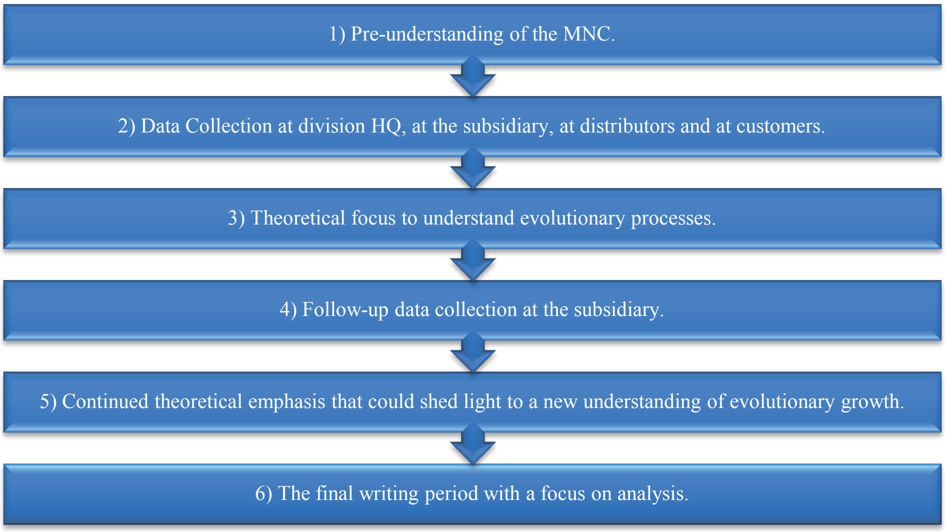
Employing the teachings of Yin (2003), the case studied can be understood as a critical case, as the subsidiary was subject to a dynamic local environment and the business transformation, to which the subsidiary was required to correspond. Similarly, the choice of case can be seen as an example of convenient sampling due to the willing cooperation from the division HQ, the subsidiary and external actors, allowing for necessary wide-ranging access (Merriam, 1998).

3.3 The Research Process

The research process of the study consisted of two periods of data collection and three periods of theoretical elaboration, where theoretical and empirical understandings evolved over time (see Figure 4). The initial time period of the study (phase 1-2 in Figure 4) involved a more holistic contextual understanding of the division (ITT WWW), the subsidiary, and the Middle East (ME) environment, including customers and distributors, as visits to division HQ and field work in the ME took place. It was during this period when the final research question of the study emerged.

A previous study on the implications and dynamics of change in inter-organizational relationships (Jakobsson, 2011) that studied the ME subsidiary provided a solid understanding primarily of the subsidiary. The previous study also initiated the demand to create a better understanding of theoretical developments concerning the evolution of subsidiaries (phase 3 in Figure 4). Following this, new field work at the ME subsidiary (phase 4 in Figure 4) took place, focusing on the internal processes that occurred within the subsidiary. The collected empirical data from the two data collection periods shed light on the necessity to understand how resources were managed internally within a subsidiary as a means to create and develop capabilities, which combined constitute the internal processes for evolutionary growth. Therefore, a new emphasis on finding theoretical insights that could aid in understanding and structuring the empirical data was sought and resulted in the inclusion of the resource management framework (Sirmon et al., 2007) (phase 5 in Figure 4). The final writing period of the study consisted of writing and rewriting chapters and analyzing the empirical data in order to develop the theoretical understanding of the evolutionary growth of a subsidiary (phase 6 in Figure 4).

Figure 4 Research Process



3.4 Data Collection

Primary data form the basis of the empirical data for the study. A description is provided of the locations from which the primary data was collected and also how the data was gathered. Following the data gathering, measures taken to describe and understand the developments at the subsidiary are presented. Thereafter, methods for gathering secondary data are described, together with reasoning for why it was collected.

3.4.1 Primary Data

The study's primary data was gathered in 2009 and in 2012 following a PLCS. The commencing contact was made with the ME subsidiary manager, who ensured access and contacts to his superiors and other managers at division HQ. The subsidiary manager also enabled an initial factory visit in Sweden in order to gain an understanding of the division's products. Empirical data was gathered during one month in 2009 at division HQ and at the factory in Sweden, allowing for a broad and thorough understanding of the division and effects of the occurring business transformation from a product-oriented market approach toward a process- and systems-oriented approach. More importantly, the empirical data collection at division HQ allowed for an understanding of how directors and managers, who influenced the ME subsidiary through their roles and the units they represented, perceived the direction in terms of how the division, subsidiaries in general, and specifically the ME subsidiary would and should operate. Therefore, the empirical data gathering at division HQ enabled the possibility to comprehend the division HQ's understanding of the ME region and operations.

Later in 2009, month-long field work took place in the Middle East. In the Middle East, one-to-one interviews were conducted with primarily employees and managers at the subsidiary. Interviews also took place with distributors in the United Arab Emirates (UAE), Qatar, Egypt and Saudi Arabia. Furthermore, interviews were conducted with customers in UAE, Qatar and Egypt. During the field work, an office space was provided at the subsidiary, which allowed for continuous and immediate access to informants if clarification was needed concerning the matters discussed during the interviews. This clarification could be related to technical abbreviations and industry terminology that were used among the informants. Overall, almost all empirical data was collected in the informants' working environment. In other words, the empirical data that was gathered in 2009 from the employees at division (ITT WWW) HQ, the ME subsidiary, distributors and customers were gathered in the informants´ respective countries and offices (with the exception of one distributor in Saudi Arabia – phone interview due to visa problems).

The collection of primary data in 2012 specifically focused on the internal processes and the evolutionary developments that occurred within the subsidiary. The number of informants within the subsidiary increased as the subsidiary had grown. Again, one-to-one interviews were conducted with the exception of one phone interview that was made with an expatriate who was located in Qatar. The interviews were held during a week at the subsidiary in UAE, where again an office space was provided. The interviews took place locally with employees from all functional units within the subsidiary. Once again, an opportunity was provided to go through the notes and transcriptions from the interviews locally at the subsidiary in order to receive clarification.

In total, 44 interviews, constituting approximately 70 hours, were conducted (see Table 1). The 44 interviews included one follow-up interview in 2009 at division HQ and one extra interview in 2012 concerning the software that was implemented at the subsidiary. Interviews were held in English, with the exception of four interviews that were conducted in Swedish at division HQ in 2009. When permission was granted from informants, interviews were recorded, with the exception of one interview at the subsidiary in 2009 and one interview in 2012. Concerning the interviews with distributors and customers, these were not recorded after discussions with staff at the sales subsidiary who gave advised not to record the interviews as this action would offend the distributors' and customers' cultural integrity. During all interviews, notes were taken continuously in order to better pose follow-up questions and to facilitate transcription. All recorded interviews were transcribed. The notes from the interviews with customers, distributor personnel and employees at the subsidiary, who did not consent to recordings, were documented as soon as possible to minimize misinterpretations.

For a list of informants of the study, see Table 1 below. For a complete list of all individuals who were interviewed, see Appendix 4, and for the topics covered during the interviews, see Appendix 5.

Table 1 Informants of the Study

Location of Interviews	Informants in 2009	Informants in 2012
Subsidiary	• Subsidiary Manager • Area Manager UAE • Area Manager Egypt and Saudi • Area Manager Qatar • Wedeco Sales Manager • New Focus Segment Manager • Sales Support Manager • Business Development Director Global Projects • Leopold Development Manager EMEA	• Subsidiary Manager • Business Unit Manager Transport, Dewatering and Aftermarket • Area Manager UAE • Area Manager Saudi Arabia • Area Manager Qatar (new informant) • Wedeco Sales Manager • Business Development Manager • Sales Support Manager • Business Development Director Global Projects • HR Manager • Leopold Sales Engineer
Division HQ and Factory	• Regional Manager for EMEA sales unit • Regional Sales Director East • Manager of Sales Development & Support EMEA • Director for Business Development • Director for Global Projects • Former Expatriate at the Subsidiary Sales Development • Factory Project Manager Group Logistics	
Egypt	• Distributor Chairman • Distributor Department Manager • Chief Mechanical Engineer • Project Manager	

Qatar	• Distributor CEO & COO • Distributor Division Manager • Product Sales Manager • Senior Design Engineer and ICA Designer
Saudi Arabia	• Distributor Product Manager
UAE	• Distributor Managing Director • Distributor Product Sales Manager • Construction Group – Senior Project Manager • Head of Maintenance • Head of Network Department • Swedish Trade Council – Associate Middle East and Africa

In order to increase flexibility when collecting data, thereby enabling a better understanding of developments within the division and the subsidiary, the roles of informants, and the informants' interactions within the subsidiary, within the MNC and with external actors, a semi-structured interview format was used (Bryman & Bell, 2011). Hence, the first semi-structured interview guides that were used at division HQ in 2009 were initially based on theoretical insights concerning how market knowledge was managed and how and why business operations were managed in a certain manner in the ME. However, often the interviews led to interpretive follow-up questions, as well as open-ended questions, in order to gain an in-depth understanding of the contextual situation that the informants at the subsidiary and division HQ were facing. Therefore, the interviews captured the developments that occurred through first-order narratives. First-order narratives stem directly from the informants (Eriksson & Kovalainen, 2008, Elliot, 2005) as a form of diachronic data that is defined as data, which conveys *"…information about temporal events and how (possibly why) they unfolded in a particular sequence; that is, they contain 'time'"* (Soulsby & Clark, 2011, p. 283).

The same interview approach and similar questions were posed to informants in 2012 as in 2009, with the exception that prior to the second round of field work, the entire empirical data material from 2009 was read to make certain not to omit any essential details and to be able to ask in-depth follow-up questions that could clarify developments that had occurred within the subsidiary and the employees' roles over time. The pre-reading of empirical data from 2009 also allowed for the framing of better 'now vs. earlier' questions, such as 'How does your role look like now compared to 2009?' This is important in order to collect synchronic data (Soulsby & Clark, 2011). Synchronic data is comprised of *"…both qualitative and* *quantitative data that describe aspects of the current state of organizational affairs"* (Soulsby & Clark, 2011, p. 285). Concerning the pre-readings and the questions that were posed, precautions were taken not to lead the informants by posing questions where 'previously stated arguments' were enforced on the informants, as many interviews were held with the same employees. In 2012, as in 2009, the informants' descriptions of events could alter the developments of the interviews, as the answers could imply that new activities had been undertaken by the informants that required other follow-up questions or ruled out the questions in the interview guide.

For instance, in 2009 the subsidiary's employees were often discussing the role of distributors versus the possibility for the subsidiary to act directly towards customers. In 2012, the managers and employees had managed to engage in direct business with the approval of local actors, which meant that the interviews took another trajectory in order to understand how the subsidiary managed the direct business activities. Furthermore, several new functional units had been established at the subsidiary in 2012, which meant that specialized human resource (HR) activities and business development activities were taking place at the subsidiary. Thus, such new findings imposed the requirement for open-ended questions in order to receive descriptions of the developments and the effects of these activities from all informants, as the new functional units were not isolated in the subsidiary but affected other activities within the subsidiary. The informants were asked to describe the developments at the subsidiary over time through narratives, which also gave insights concerning the extent to which the establishment of new functional units was perceived to affect an individual informant's activities.

3.4.2 **Secondary Data**

Several sources of secondary material also created a foundation for the clarification and understanding of the developments within the ITT WWW division and the subsidiary (see Appendix 5 for a list of documents). In 2009, documents and internal presentations were provided by division HQ concerning the division's strategy, different products and market offerings, as well as the strategic shift from product orientation to a process- and systems-orientated approach. Moreover, templates and documents concerning how subsidiaries across the world apply for resources from division HQ, as well as numerous old business development plans and templates describing the development and organizational structure of the ME subsidiary before 2009, were provided by division HQ. At the subsidiary, business plans for the ME markets, distributor contracts, and the draft of a new distributor contract were collected.

In between the two main data collection periods, secondary data was gathered concerning activities that took place within the MNC, which filled in potential blanks concerning the business transformation and the developments at ITT HQ. This secondary data was gathered from annual reports as well as news articles that contained interviews with ITT's top management, among others, providing explanations concerning the reasoning behind the business transformation. Furthermore, annual reports gave insights into the developments that affected the division's business activities, including, among others, acquisitions as well as a spin-off, which ITT executed in 2011 and which included the ITT WWW division (see appendix 5).

In 2012, the subsidiary allowed access to presentations that the subsidiary had created and that were used with managers from division HQ and from ITT HQ. These presentations included information on the subsidiary's sales developments and expansion, employee growth, future strategies and the subsidiary's requests to division and ITT HQs. The subsidiary also provided charts explaining the organizational structure. Documentation and explanations were also given regarding new software that was used at the subsidiary to process market information and develop business plans.

The secondary material from the division HQ, and specifically from the subsidiary, offered the opportunity to cross-check information provided by the informants, gain insights concerning the effects of capability developments (for instance, the implementation and usage of software, the presented developments of market offerings, the development of what managers presented toward HQs, etc.), and enrich the understanding of the direction of believed future development.

3.5 Analysis Process

The analysis process includes an empirical analysis and an interrelated ongoing theoretical analysis. The analysis process portrays how the empirical analysis was structured through theoretical frameworks and simultaneously shows how the developments of the empirical reasoning resulted in an increased requirement to fine tune and develop the theoretical framework in order to explain the evolutionary growth of a subsidiary. Ultimately, the analysis process results in the study's findings and the development of the study's written structure, which are described below.

3.5.1 **Empirical Analysis**

As with any process study there is a risk of creating a 'data beast' (Soulsby & Clark, 2011), that may lead to problems when structuring and analyzing the empirical data. In order to avoid such problems, after the second field work Nvivo 10 was used as a coding mechanism to structure the vast amount of data. The coding of data was primarily managed by creating nodes using the subsidiary evolution framework (Birkinshaw & Hood, 1998) that divided the empirical data into three main groups: (1) activities and linkages to and from HQs; (2) the interaction from the subsidiary with primarily distributors; and (3) the activities occurring within the subsidiary. Thus, the initial coding and analysis of the data followed a deductive thematic approach (Fereday & Muir-Cochrane, 2006; Bryman & Bell, 2011). During the empirical analysis, interviews were read carefully and as the work progressed a certain degree of inductive thematic coding emerged (Fereday & Muir-Cochrane, 2006; Bryman & Bell, 2011) to capture re-occurring features that were brought up by the informants that did not fit in the traditional and relatively broad subsidiary evolution framework. These nodes regarded for instance, the lack of resources, time constraints, knowledge constraints, and communication towards external and internal actors (For a list of nodes see Appendix 6).

The nodes for the empirical data were kept separate in order to pinpoint differentiation and developments in 2009 compared to 2012. For instance, all sales employees emphasized the lack of knowledge and resources in 2009 since they were involved in a broad number of activities that they had limited experience from. In 2012, the sales employees were increasingly specialized in activities for which they had experience and did not perceive the same degree of 'lack of resources' or 'knowledge.' The lack of knowledge and resources was rather merely emphasized by the increasing number of managers at the subsidiary in 2012. Therefore the data was initially structured following a synchronic data approach (Soulsby & Clark, 2011).

A vast amount of nodes were created and in some cases, due to the narrative format of descriptions from informants, a quote that stemmed from one informant could have consequences for several nodes which made the content of the nodes fragmented and in some cases very vast. Furthermore, the narratives provided by the informants that explained how developments occurred over time within the subsidiary became fragmented, reducing the narratives' explanatory power (Coffey & Atkinson, 1996). The nodes, therefore, functioned as indications of what was emphasized during 2009 and 2012 and also highlighted who within the subsidiary that emphasized the topics of the nodes in 2009 and 2012. The described coding process resulted in the realization that evolutionary growth included the dynamics of capability creation and development, the management of resources, and the consequences of managing resources, which were aspects that needed to be explained better and initiated a search for theory that better accounted for the internal resource management processes leading to the creation and development of capabilities.

3.5.2 The Theoretical Analysis Process

The research process could be perceived as a relatively straightforward path between stages of theory and empirical data gathering. However, the study's emphasis on theory development meant that understanding the empirical data and the parallel ongoing theoretical developments evolved continuously through analysis. As described previously, the two periods of field work and the time sequence in between the two periods was influenced by and focused on gaining an in-depth understanding of the subsidiary evolutionary literature. Similarly, the empirical analysis was important as a comparison of the empirical findings with existing theories concerning subsidiary evolution. The comparison guided the search for new theoretical fields that could be used in order to better understand the foundations for the evolutionary growth of a subsidiary. Thus, from the empirical analysis, the insight to use the resource management framework (Sirmon et al., 2007) within a subsidiary evolutionary framework emerged (Birkinshaw & Hood, 1998). Similarly, as a means of trying to understand how the subsidiary's management had the capacity to influence capability development, knowledge-based theoretical insights were included (cf. Kogut & Zander, 1993; Grant, 1996). The knowledge-based theoretical insights were included, as findings from the empirical data depicted deeply specialized activities among the informants, which affected the possibility for managers to intervene in those activities to develop capabilities. Three theoretical frameworks were used in order to create a new theoretical framework and a conceptual model that emphasized the evolutionary growth of a subsidiary, which accounted for the management of resources. The continuous search for theories that could add insight to a subsidiary's evolutionary growth was related to the importance of being able to better structure the data and more accurately perceive the potential theoretical contributions through analytical reasoning between theory and empirical data (Dubois & Gadde, 2002; Eisenhardt & Graebner, 2007; Van Maanen et al., 2007). Thus, the comparison of theory and empirical data in the research process was also a means to create the important feature of heuristics (Merriam, 1998) or plausibility between theory and empirical data (Van Maanen et al., 2007).

The ongoing process of creating a theoretical framework also allowed for better structuring of the empirical data that formed the study's empirical chapter. First-order narratives were used to move from the empirical analysis, which consisted of synchronic data, to a comprehensive explanation of the evolutionary developments at the subsidiary. Therefore, the diachronic data that to a large extent was based on first-order narratives, the synchronic data and the secondary data were used to create a second-order narrative. The second-order narrative, understood as the researcher's construction of the empirical story (Elliot, 2005), explains the evolutionary growth of the subsidiary, where capability developments and the management of resources are emphasized. Quotes were used to strengthen and highlight the sequences of the second-order narrative and the developments of the evolutionary growth of the subsidiary. Therefore, the second-order narrative provided an interpretive and explanatory description of events (Langley, 1999; Soulsby & Clark, 2011).

In the final stage of the analysis process, the conceptual model was compared with the empirical data in order to better understand the internal processes concerning the creation and development of capabilities and the management of resources within an evolutionarily growing subsidiary. Obviously, the comparison of the conceptual model with the empirical findings also allowed for the possibility to reject aspects of the conceptual model, as misfits do occur between theory and empirical data, as theory is a simplification of reality (Van Maanen et al., 2007; Hunt, 2010). Thus, the analysis of the conceptual model against the empirical data followed a form of pattern comparison (Yin, 2003). The term 'pattern comparison' is used as the intent of this stage of the analysis process to refine the conceptual model that was developed in the theoretical chapter through a focused analysis and comparison with the established and structured empirical findings that were outlined in the empirical chapter. However, the patterns in the empirical data did not always fully conform to the patterns from the conceptual model, and in these cases complementary theoretical reasoning was added to the extent possible to the analysis in order to enhance the explanatory power of the findings in the study. Ultimately, the study presents a refined model of the evolutionary growth of a subsidiary that takes into account how capabilities are created and developed within the subsidiary. The refined model offers the opportunity to use the framework in other subsidiary contexts to continue developing theory on the subject of the evolutionary growth of a subsidiary.

3.6 Quality of the Study

The quality of the study is discussed below in terms of dependability, credibility, confirmability and transferability in order to portray the trustworthiness and focus on different quality measures that must be taken in order to ensure that the study, which is based in a qualitative research tradition, is able to answer the research question (Guba, 1981) and is also able to add to the existing subsidiary evolutionary literature.

3.6.1 Dependability

A qualitative research process is difficult for another researcher to replicate, as the stages in the research process follow a hermeneutical circle that guides the process for how a researcher conducts a study and chooses to present a study (Guba & Lincoln, 1994; Eriksson & Kovalainen, 2008). The research process, including the analytical process as described above, explains how the study was conducted and not how it is presented. Therefore, the research process (including the analytical process) provides a detailed explanation of the methods, when these methods were used, and why these methods followed the sequence as presented above. The process of how the study was conducted is explained to persuade the reader regarding the measures taken through the description of continuous analytical reasoning between theory and empirical data throughout the research process, following Guba & Lincoln (1994) and Shenton (2004) as dependability regards the potential to track the development of insights and the analytical process that is applied in a study (Guba, 1981). The amount and quality of empirical data that was collected from informants in various positions and on different levels at the subsidiary and at division HQ established a foundation for the study's empirical dependability, as the data provides the possibility to triangulate findings in order to ensure that evolutionary growth did occur following Merriam (1995) who emphasizes the importance of ensuring that the results of research are consistent with the empirical data. The data also allows for auditing and examinations concerning the study's authenticity, as audio recordings, transcriptions, field notes and secondary material were stored, which accommodates examination following the study's completion (Bryman & Bell, 2011).

3.6.2 Credibility

Credibility includes the potential of describing a congruent explanation of empirical events (Shenton, 2004). The measures that were taken throughout the study in order to increase the credibility of the empirical data included an early understanding of the MNC and the products through visits to division HQ and a factory in Sweden. Further, and importantly, the month-long field work in 2009 allowed for a better understanding of the developments at the subsidiary and diminished the researcher's theoretically biased perceptions of subsidiary activities. The month-long field work also diminished the researcher's distortion of the subsidiary, as the subsidiary's employees could adjust to the presence of the researcher, which also meant that interviews and discussions with informants during 2012 were very open and benefitted from the previously established familiarity. Thus, the month-long field work ensured a high degree of credibility (Lincoln & Guba, 1986). Another means to increase credibility is triangulation (Lincoln & Guba, 1986; Shenton, 2004). In the study, triangulation was used in two distinctive ways. First of all, the information that was collected during the study stemmed from a wide array of informants, which allowed for narrative comparisons concerning the subsidiary's evolutionary developments. As a result, potential biases of informants concerning the subsidiary's developments could be considered (cf. Soulsby & Clark, 2011, Eisenhardt & Graebner, 2007). The different informants also allowed an understanding of how diverse units within the subsidiary referred to capability development and the role of resources within the employee's working domains. Second, both non-published as well as published secondary sources of data were used to triangulate the informants' descriptions of the developments within the subsidiary. Member check is also a means of increasing the credibility of the empirical data (Lincoln & Guba, 1986; Shenton, 2004). In 2012, a presentation of the developments of the study and the researcher's understanding of events during 2009 was provided to the subsidiary's management team. The presentation was followed by a discussion with the three participants concerning the researcher's interpretation of developments that had taken place within the division and the subsidiary. In 2014, a draft of the complete empirical chapter was sent to the Subsidiary Manager and was followed by a phone conversation a couple of weeks afterwards to ensure that the interpretation of the developments at the subsidiary was adequate. Furthermore, the empirical chapter includes a rich description of the developments within the subsidiary in order to give a non-informed reader the possibility to appraise the empirical findings and the analytical reasoning.

3.6.3 **Confirmability**

Confirmability concerns the researcher's investigative bias and how measures are taken by a researcher to decrease that bias (Guba, 1981). The measure that decreased the researcher's investigative bias concerning the empirical data was the triangulation of empirical data from different informants and secondary data, which limited the possibility of basing empirical findings on input from only certain individuals (Guba, 1981, Langley, 1999). Furthermore, the continuous search for theories in order to better describe and develop theorization on evolutionary growth of a subsidiary also demonstrates the measures taken to decrease investigator bias where the empirical analysis created a momentum to move outside of the investigator's known theoretical understanding in order to better understand capability creation and development (cf. Shenton, 2004). The detailed description of the measures taken throughout the study is a means to allow for trail auditing, which enables the possibility to follow the path of decisions and choices the researcher took throughout the study (cf. Shenton, 2004).

Confirmability is also related to the product of the study (Guba & Lincoln, 1994) and therefore includes the plausibility (Van Maanen et al., 2007) and heuristics (Merriam, 1998) between theory, empirical findings and analysis within the study. The final outline and the fine-tuning of the study's written structure were conducted during the sixth phase of the research process (see Figure 4), where the study was written following a deductive tradition beginning with an initial understanding of theoretical developments on subsidiaries, theorization on subsidiary evolution as well as resource management, which were refined and combined to create a theoretical framework, followed by the presentation of empirical data and the analysis. The formal structure of the study and the interconnectedness between chapters define the study's heuristic quality (cf. Merriam, 1998). A certain degree of heuristic quality was sought during the study through peer reviews during the final stages of the study, which concerned the line of thought throughout not only individual chapters but also the study as a whole. The line of thought pertained to the interconnectedness between the theoretical reasoning leading to the conceptual model, the outline of the empirical chapter, and the analysis of the study. Peer reviews helped to shape the chapters of the study, as the input provided indications of a necessity to reformulate or re-structure parts of the chapter. Significantly, the extensive elaboration of the developments in the subsidiary in the empirical chapter required a well-established structure in order for readers to understand the linkages between theory and empirical findings.

3.6.4 **Transferability**

Through the intense theoretical elaboration and foundation, as well as the dense description of a subsidiary, the study provides the potential for analytical generalizability (Yin, 2003). As mentioned previously, the study concerns theory development and therefore does not make any claims about theory justification (Hunt, 2010, Dubois & Gadde, 2002). The importance of theory development within case studies lies in bringing forward conclusions and findings that increase the understanding of an overarching process framework, which is useful for others while not betraying *"…the richness, dynamism and complexity of the data"* (Langley, 1999, p. 694). In the study, the overarching process concerned the internal processes of a subsidiary's evolutionary growth, including the creation and development of capabilities and the management of resources for capability creation and development. The finalized conceptual model in the study describing the internal processes of how a subsidiary evolutionarily grows was developed through analytical reasoning, and enabled analytical generalizability to the extent that the findings could be transferred to other studies of subsidiary evolution (cf. Bryman & Bell, 2011).

3.7 Limitations

This study has a number of limitations related to empirical data collection, the case study, and the subsidiary evolutionary literature and environmental as well as industry effects, which are described below, together with the measures that were taken to overcome the limitations.

First, the data gathering was primarily conducted during two stages over time (in 2009 and 2012) as a punctuated longitudinal case study (PLCS), which limited the synchronic data that was independently gathered by the researcher. The triangulation of diachronic data that the informants provided, together with the secondary empirical data, helped to circumvent the problem of the lack of continuous sequences of independent synchronic data. Furthermore, the empirical data focuses on the development of a subsidiary during a certain sequence of time beginning with the business transformation during the end of 2007 until the last empirical data gathering in 2012. Several contingent effects from the environment, such as the 'financial crisis' that hit the ME region during 2008-2009, as well as the 'Arab Spring' in 2011, and contingent effects from within the MNC, such as an acquisition and a spin-off, affected the subsidiary's evolutionary growth and resource management in terms of the possibility to expand to certain countries in the region, and through the changes that occurred in the market offering as a consequence of the acquisition. These contingent effects might not have occurred during other sequences in time and for other subsidiaries. However, contingent effects continuously occur, and the empirical data described periods of: (1) difficulties for the subsidiary, including sequences of 'frozen headcount' when the subsidiary requested recruitment approvals, and (2) opportunities, such as the sudden approval of almost all recruitment requests. The differentiated situations meant that the subsidiary needed to adjust to both periods of resource limitedness and resource availability, which does not create an either or bias of contingent effects. Hence, although the subsidiary evolutionarily grew, the empirical description depicts variations in terms of how resource management activities occurred at the subsidiary in order to comply with the different stages of resource availability for capability development. This in turn allows for theory development to occur, which can account for these stages.

Second, the field work in 2012 was only conducted at the subsidiary, which was a result of the focus on subsidiary evolution and capability developments at the subsidiary. It is obvious throughout the case description that division HQ, other subsidiaries' developments, and external business network relationships were affected by and also affected the evolutionary growth of the focal subsidiary. The information provided at division HQ in 2009 provided an understanding of the implications of the business transformation from a product- to a process- and systems-oriented provider and also provided insights on differentiated perspectives on how the subsidiary should develop. The information from division HQ did not explicitly describe how capabilities developed within the subsidiary, and therefore no interviews were conducted during the second round of field work at division HQ. However, if interviews would have been conducted, these insights could have given an unbiased perspective of the developments at the subsidiary as it evolutionarily grew. Capability creation and developments and the management of resources occur within the subsidiary, and therefore the effects on and from the internal and the external actors were described by the informants at the subsidiary. The descriptions from within the subsidiary concerning events that took place outside the subsidiary and that affected and were affected by the subsidiary were collected and triangulated together with secondary data in order to describe those external events and to diminish bias.

Third, the study focused on theory development and added to the literature on subsidiary evolution as it investigated the evolutionary growth of a subsidiary and how capabilities are created and developed during that process. The empirical findings did not describe the decline of capabilities in a subsidiary over time, and therefore the study could not add to that section of the subsidiary evolutionary literature. Nevertheless, the research focus was on explaining the internal processes of an evolutionarily growing subsidiary involving capability creation and development, as well as the management of resources as a part of the subsidiary evolutionary literature.

Fourth, the subsidiary typology and the activities undertaken at the subsidiary can also be expected to affect its evolutionary growth, capability developments, and resource management activities. The study followed a sales subsidiary over time and not any other type of subsidiary, such as a more specialized CoE or a production facility, which could imply differentiated evolutionary developments. However, the evolutionary growth of the sales subsidiary described not only how functional sales units developed within the subsidiary, but also how other functional units emerged throughout the process of evolutionary growth, such as business development and HR. Therefore, the increase of specialized units within the subsidiary increases the potential to utilize the findings of the study in other studies concerning the evolutionary growth of a subsidiary, as the management of resources within the subsidiary spanned across several functional units.

Fifth and sixth, the ME region established an environment where the subsidiary was subject to a specific business context not only related to cultural barriers, but most significantly with regard to the legal requirements that existed in several ME countries concerning, for instance, the necessity of having a local actor when conducting business. Similarly, the wastewater industry the subsidiary was located in also affected how actions were taken in the ME subsidiary concerning, for instance, the degree of collaboration with other subsidiaries within the MNC. Thus, the ME environment and the wastewater industry might have constituted specified business contexts that had differentiated effects on evolving subsidiaries when compared to subsidiaries in other environments and industries. Nevertheless, the study focuses on internal processes within an evolutionarily growing subsidiary. Hence, environmental and industrial effects on subsidiaries' business activities should be studied separately from the internal processes of how a subsidiary evolutionarily grows, which was the focus of the study.

The presentation of the limitations, together with the continuous emphasis on the purpose of the study – theory development concerning the internal processes of the evolutionary growth of a subsidiary, which includes the creation and development of capabilities and the management of resources – describes how the study offers the possibility to extend the current understanding of the internal processes within an evolving subsidiary. The rich material provided in the study, together with the extensive theoretical elaboration, provides a unique opportunity to examine a subject that to some extent has been neglected within the field of IB. Thus, the study provides an excellent opportunity to challenge the limited research on the internal developments within an evolving subsidiary and uncover a very important topic for academia and for firms that have subsidiaries across the world.

4 The Evolving and Growing Middle East Subsidiary

This chapter describes an evolving subsidiary in the Middle East (ME). The structure of the empirical chapter holistically follows a time sequence where three sections are outlined, beginning with the developments at HQs in each section, as changes at HQs directly affected the subsidiary over time. Thereafter follows a description of the activities and developments occurring in the subsidiary. These subsidiary developments initially concern the managerial situation, followed by the operational specialists' situation. Over time, and as the number of specialized activities increase in the subsidiary, these developments within the subchapters do not strictly follow a time sequence as they describe capability developments. Significantly within the third section, the text and subheadings concerning the developments of activities are structured with regard to managerially or operationally specialized activities, where the performed capabilities occur simultaneously.

The first section describes the corporate setting and how the studied subsidiary is part of a product-oriented division in the wastewater industry. The early developments of the ME subsidiary are summarized, from its initiation in 2004 until 2008. The second section begins with the changes at the corporate level in late 2007, when a new division was created from two existing divisions. The new division involved initiating a business transformation from a product- oriented organization to a process- and systems-oriented organization. Thus, the details of that transformation at division HQ are presented, also indicating the differentiated perspectives at division HQ in terms of how the transformation would be operationalized at a subsidiary level. Importantly, the ME subsidiary and its existing activities are described to demonstrate where the effects of the transformation were felt and needed to be taken into account for the future direction of the subsidiary. The third section describes how an acquisition and a spin-off decision taken at the corporate level in 2011 primarily affected activities within the division and how the subsidiary was forced to correspond to the effects of that acquisition and spin-off. Importantly, the third section also depicts the development of activities and managerial decision-making as the subsidiary grew.

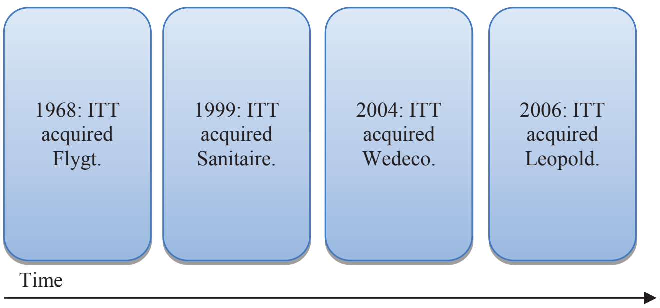
Overall, the chapter describes how the evolution of the subsidiary was affected by managerial capacity and the ability to plan activities, and how the subsidiary's management of resources affected how capabilities increased and evolved within the subsidiary.

4.1 The Product-oriented Time Period until 2008

At the beginning of 2007, the International Telephone and Telegraph (ITT) Corporation was a large multinational corporation (MNC) with nearly 37,500 employees in 52 countries. ITT designed and manufactured a wide range of engineered products and services. Within ITT's wide range of activities, the MNC had two divisions that focused on wastewater-related products and processes. The 'ITT Flygt' division was producing products related to the transport[4] of wastewater, primarily wastewater pumps from essentially the 'Flygt' brand; and the 'Advanced Water Treatment' (AWT) division included brands that designed differentiated wastewater treatment processes for a variety of different brands. Within AWT, three brands stood out as important treatment process providers: Leopold for designing and producing filters; Wedeco for designing and producing ultra violet (UV) and ozone-cleaning apparatus; and Sanitaire for developing aeration and biological treatment processes. Even though these four brands (Flygt, Leopold, Wedeco and Sanitaire) were housed in two different divisions, their relationship due to their focus on the wastewater industry became significant in the later stages, as ITT HQ held to a strategy that included all four brands (mentioned below).

All four brands conducted business operations independently and did not work across any other brand within the company, even though the three treatment brands were similarly positioned in the same AWT division. The reason for this independence was clearly related to the fact that the brands had not been built up organically within ITT. Rather, all four brands had been acquired during different time sequences, as illustrated in Figure 5.

Figure 5 ITT Acquisitions



Flygt had experienced a considerable global expansion during its 100+ year history, and it had established itself in more than 100 countries. Flygt was considered a pioneer in terms of quality and durability, but the brand was also experiencing increased competition from

[4] Transport stems from the ability of a pump to transport water.

cheaper transport brands. Although several transport products and treatment processes constituted necessary and important parts of a wastewater treatment plant, ITT HQ highlighted the significance and importance of Flygt compared to any other transport- or treatment-related brand in ITT's 2006 Annual Report (p. 2) by stating that Flygt formed *"…the heart of many of the world's sewage and wastewater treatment facilities."*

The strategy that ITT HQ was pushing was for the company to become a 'solution' provider within the water and wastewater industry. Being a solution provider meant having a strategy that would provide a combination of transport products and treatment processes. Thus, the recent acquisitions of Wedeco and Leopold were completed to facilitate that very strategy according to ITT's 2006 Annual Report.

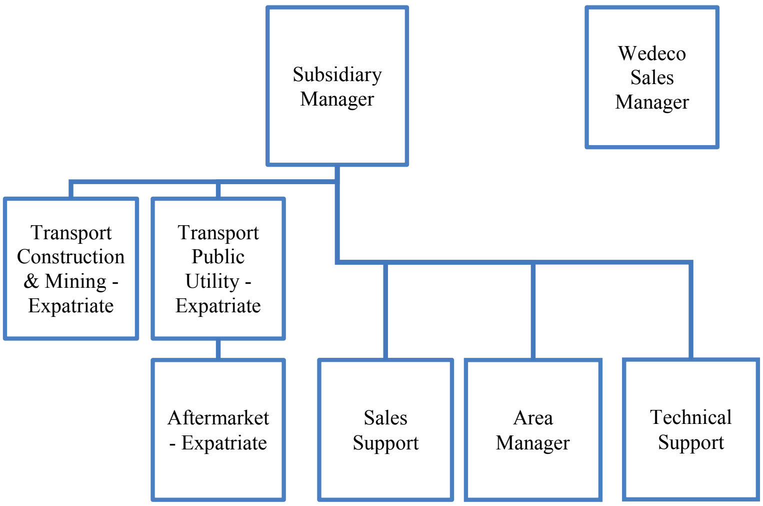
Compared to the treatment brands, ITT Flygt's division HQ had created a vast network of sales subsidiaries across the world. The management of these sales subsidiaries was handled by the sales functions at the division HQ. The sales function was divided into three regional sales units: The Americas, Asia Pacific (APAC) and Europe, the Middle East and Africa (EMEA). The ME subsidiary reported to the sales unit EMEA, and that unit also managed and constituted most ME Subsidiary Manager direct contact with the division HQ. The EMEA sales unit was also involved in activities of a formal nature in the ME region, for example, the initiation and closure of distributor relationships and the granting of ME subsidiary recruitment requests; the latter was coordinated with the HR function at the division HQ.

4.1.1 Early Subsidiary Developments

In 2004, the Middle East (ME) subsidiary was formally established in the United Arab Emirates (UAE) by a Subsidiary Manager and three business development expatriates. The subsidiary was established as a support office for Flygt and included a business development team of expatriates who focused on developing the transport business. Once established, the subsidiary was located in the same office where a sales manager for Wedeco was independently handling sales in the ME region, but there was no collaboration with the transport (Flygt) employees. The Wedeco Sales Manager (WSM) had already been located in the ME for a year when the ME subsidiary was formally established. Over time, transport sales increased, and the subsidiary needed to support its distributors in the ME region. Therefore, three technical and sales support employees and an area manager with the responsibility of managing and supporting transport sales in the ME region were employed locally in 2006. In 2006, the subsidiary thus consisted of seven transport employees and one independent treatment employee (the WSM), as illustrated in Figure 6.

The subsidiary had few employees in 2006, so therefore, 'everybody was involved in everything' according to the Sales Support Manager (SSM). During 2006-2007, ITT Flygt division HQ was perceived as having a limited understanding and a 'backwater' perspective of the ME markets according to a former expatriate who was then located at the subsidiary. For example, the former expatriate described how each subsidiary worldwide had to establish three-year business plans for their respective markets. These business plans were the basis for increased investments from ITT Flygt division HQ and had to be set precisely without any consideration for the maturity of the markets. This fixed form of a business plan made it very difficult to react quickly to changes in immature markets such as the ME markets, which, for example, boomed during 2006-2007.

Figure 6 Organizational Structure of the ME Subsidiary in 2006



Additionally, since its establishment, the subsidiary had requested increased resources to correspond with the growing ME markets; however, the subsidiary had received very limited responses from division HQ. The need to invest was continuously communicated to the EMEA sales unit. As an example, the first priority outlined in the strategic agenda for the subsidiary in the 'Middle East Business Plan 2006' and presented to the EMEA sales unit stated: '*Establish strong presence in a fast-growing region where we have limited presence today.*' The business plan explained how the increase in employees would enable further market research activities in the ME markets and the industry sectors in the ME region. An increased employee base also meant that the subsidiary was striving to conduct 'direct' business without active distributors in the region through the use of 'sleeping actors,' as local actors were a necessity to be able to conduct business in the ME markets. A direct business approach would also mean that increased control of business activities would be ensured. However, in 2007, the ‘direct’ business approach was put on hold due to insecurity over severance payments if a conflict with a distributor should be drawn into court, and also as a result of the sudden death of the regional manager for the EMEA sales unit at division HQ, who was replaced by the former regional manager who returned from retirement.

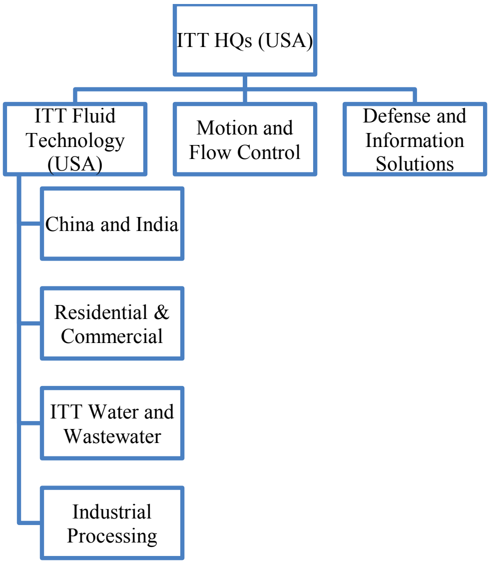
At the end of 2007, two additional area managers and an office manager who handled minor administrative duties were finally employed at the subsidiary. At that time, the subsidiary also employed a sales manager who had started to engage in trials for a certain niche of transport products. The three area managers divided the ME markets between them and primarily focused on managing distributor relationships in key markets, such as UAE, Qatar, Egypt, and Saudi Arabia. During 2008, the expatriates and the Subsidiary Manager were repatriated back to ITT’s Flygt division HQ or took other positions in subsidiaries worldwide. According to the Sales Support Manager, the area managers who had started to focus on and work with distributors during 2008 began to realize the limitations of these distributors: *“The area managers came to know about the distributors’ weaknesses and where we needed to strengthen them.”* This realization was communicated to the EMEA sales unit, while vast changes were already taking place at ITT HQ and at the division level.

4.2 The Transformation toward a Process and Systems Orientation

The strategy to become a ‘solution’ provider, as described above, was implemented at the end of 2007 when ITT HQ reorganized the four water- and wastewater-related brands (Flygt, Leopold, Wedeco and Sanitaire) into a newly created ITT water and wastewater (ITT WWW) division, as portrayed in Figure 7. The new division was striving to become a wastewater-focused treatment organization that sold differentiated treatment processes and transport (pump) products. The brands included (Flygt, Leopold, Wedeco and Sanitaire) had relatively similar customer bases and were considered premium brands by ITT HQ, which saw the rationale for combining the brands into a single division in the first place.

Within this division, a new unit, Global Projects, was created to manage systems sales, that is, combine transport products and treatment processes. Global Projects worked across the four brands and was based at the division HQ located at ITT Flygt’s old division HQ in Sweden. Within this division’s brand portfolio, Flygt was perceived as the most promising brand, and the division planned to utilize Flygt’s extensive sales channels throughout the world for all four of the brands. Compared to the treatment brands, Flygt was the only transport brand and was considered to be the only brand that made a profit. Wedeco sales were one-tenth of Flygt sales, and Leopold sales were even less, according to managers at the Flygt-dominated ITT WWW division HQ.

Figure 7 ITT's Organizational Structure in 2008



4.2.1 The EMEA Sales Unit Responses to the Organization Transformation

In 2008, the transformation to treatment created a new situation for the EMEA sales unit, as the unit now was responsible for the sale of treatment processes in the EMEA region. The managers at the EMEA unit, who had a transport background, expressed uncertainty about what transformation to a treatment organization would mean for their sales activities globally. The transformation affected functions (such as logistics) developed for the transport business, which in turn affected subsidiary operations, according to the Regional Manager of the EMEA sales unit: *"The transformation affects logistics and our databases. We are good at producing a product and include that into the data system. Suddenly we have market offerings with completely different chains of data that do not fit at all with our databases. It is a little chaotic. We don't really know what this is. We are confronting a rather large transformation. This has affected our subsidiaries…"* The subsidiaries had to engage in the sale of treatment processes, and in 2009, the uncertainty of how treatment sales would be operationalized periodically led the EMEA sales unit managers to influence sales employees at the subsidiaries to focus on transport- rather than treatment-related operations. For instance, one of the local area managers at the ME subsidiary who primarily worked with transport sales had first received directives to work on gathering market information for treatment. After a couple of months, the area manager was given new directives to withdraw from gathering treatment-related market information and return to managing transport sales through distributors. This withdrawal was because the EMEA sales unit managers were skeptical about how the treatment unit at the ME subsidiary was going to use the market information.

At the same time, the EMEA sales unit was aware of the troublesome route toward treatment the ME subsidiary was traversing, as several of the EMEA sales unit managers had visited the subsidiary and also had continuous interaction with the Subsidiary Manager. The managers at the EMEA sales unit acknowledged that the transformation created an extra burden on the employees at the ME subsidiary. However, it was also expected that the subsidiary employees would cope with these changes and the experienced uncertainties. It was the lack of employees with treatment experience and the uncertainty for which transport employees had to engage in treatment sales that became complicated issues for the ME subsidiary, according to both area managers at the subsidiary and the Subsidiary Manager. A solution to the problems initiated by the EMEA sales unit was to reposition treatment staff from other locations in the division to the ME subsidiary to engage in treatment sales. For example, a Sales Manager for Leopold in the U.S. was to be relocated to the ME subsidiary.

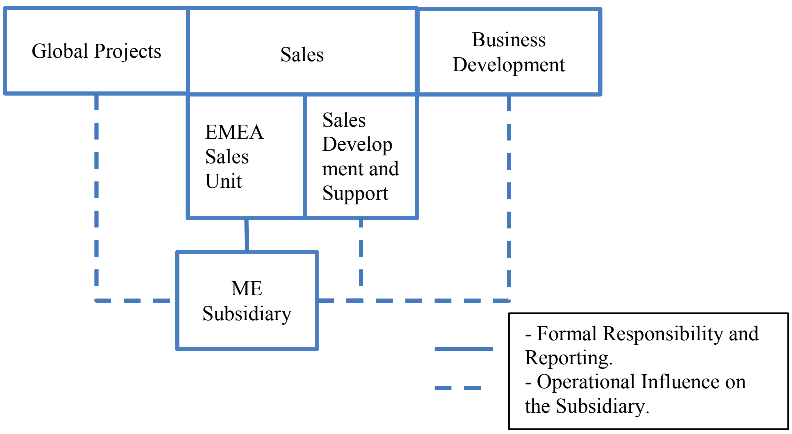
The ME subsidiary was not believed to be able to reach the sales targets for 2009, and the financial crisis during 2008 and 2009 undeniably had an impact on sales in the ME. The biggest problems with the low sales figures were explained by problems with uncommitted distributors in some key markets in the ME – problems of which the EMEA managers were aware. Whereas the EMEA sales unit managers initially planned to put pressure on the subsidiary to implement the transformation to treatment, increased knowledge about the noted local difficulties resulted in a change of plans. Managers at the EMEA sales unit realized that the ME subsidiary needed more individual employee training and development, and the ME subsidiary itself needed more time and commitment to embrace the concept that it had to become more treatment-oriented. Indeed, as described by one EMEA sales unit manager: *"The knowledge and understanding is not prevailing at the subsidiary. We are not pushing the organization yet because they are struggling to breathe at the moment."*

4.2.2 The Implications of a Treatment Organization: Three Diverging Division HQ Perspectives

The overarching strategic plan of the ITT WWW division HQ was to move away from the use of distributors, but that plan was disregarded by the EMEA unit managers, who instead saw potential in assigning new distributors with a treatment focus. As argued by an EMEA manager, *"If we could find other distributors that would have more treatment capabilities, then I would be far more supportive of using a distribution model for treatment sales."* The EMEA sales unit managers' idea of using distributors for treatment sales would mean having a product-oriented mindset in the sales of treatment processes. It is interesting to note that – as will be discussed in detail further on – also within the division HQ, the transformation to a treatment focus had different implications, which resulted in different views on the exact nature of the transformation to treatment.

In the following discussion, the varying positions of 1) the business development unit responsible for the division's operational and strategic plan; 2) the sales development and support unit responsible for communicating future needs to the four brand CoEs (Centers of Excellence) and for rolling out new products or processes from the CoEs into market offerings for the division subsidiaries; and 3) the Global Projects unit responsible for the sales of systems are described. It is important to note that the responsibilities of the three ITT WWW division units indeed meant they had an influence over how operations should and could be conducted throughout the sales network, including the ME subsidiary (see Figure 8).

Figure 8 Units at Division HQ that Influence Operations at the ME Subsidiary



4.2.2.1 *A Business Development Unit Perspective*

The business development unit at division HQ originated from the previous Flygt organization. In addition to activities related to operational and strategic planning, the business development unit was responsible for acquisitions (e.g., of sales actors) and operational improvement.

As implied above, the EMEA sales unit saw potential for the use of transport employees who could sell treatment processes, and that line of thought also existed in other units at division HQ. The transport employees were deeply specialized in transport products and therefore required more education to engage in treatment sales. In 2009, the business development unit had engaged in what was described as a 'gigantic educational process.' The business development unit was aware that educating transport employees would be a difficult task, since the employees had a mindset based on 'making money on transport sales.' That mindset was further fortified by the existing bonus system, which was based on transport sales. Transport sales were high in quantity but relatively low in exchange value. The opposite could be said about treatment sales, which were low in quantity and high in exchange value, making them more difficult to predict and to be held accountable for on a short-term basis. In particular, the operational improvement activities for the business development unit were based in the nature of the transport business and the potential to measure and predict continuous sales in order to increase the efficiency of transport sales. As a result, the nature of treatment sales created frustration at the business development unit, as described by the Director of Business Development: "*Sometimes we are driving blind where we shouldn't. If you don't have a clear financial responsibility, then you cannot really see what a certain business generates."* The Director of Business Development mentioned a concern regarding the potential of a transport employee to sell treatment processes for Wedeco, for example: *"I cannot ask someone to try to sell more Wedeco if I cannot show that it can give something in return."*

While education was a driving force in changing how transport employees would manage treatment sales, the Director of Business Development also indicated the necessity of enhanced measurement capabilities in order to measure sales and profit per end customer, per product type, per application and geographical market for all brands within the portfolio. The development of measurement capabilities for the treatment brands, however important for operational improvement, was problematic, and thus, the Business Development Director perceived some difficulties, such as: *"...we have worked against the wind. The problems* *relate to IT (information technology) systems, integrated ERP (enterprise resource planning) and standardization. We have not really succeeded in that regard, and we are not in a good position."* The difficulties indicated the business development unit's uncertainty in managing the transformation to the treatment business.

4.2.2.2 ***A Sales Development and Support Unit Perspective***

The division's (ITT WWW) sales unit included a new sub-unit, sales development and support, as outlined in Figure 8. The Manager of Sales Development and Support for EMEA had 30 years of transport experience, had been the Subsidiary Manager in France, and also had some treatment experience. Within the sales development and support team, employees came from all four brands (Flygt, Sanitaire, Wedeco and Leopold), and the employees were continuously travelling to and interacting with subsidiaries and the Centers of Excellence (CoEs) for the four brands. Treatment sales depended on support from the treatment brand CoEs, and for a treatment tender, there was a continuous flow of communication between a treatment brand sales employee and the respective brand CoE. In contrast, the Manager of Sales Development and Support mentioned that the opposite was true for transport sales: *"If you potentially need help from the CoE for Flygt sales, it is very specific."*

There was no similarity in the business approach between transport and treatment. The Manager of Sales Development and Support explained that Leopold was purely a project-oriented business selling processes for a few large projects around the world to gain considerable revenues on each project. Wedeco sales were also based primarily on large-scale projects.

Further, it was not possible to ask any sales employee to sell all products and processes from the four brands according to the Sales Development and Support Unit Manager, who argued that the prevailing problem at division HQ was the belief that it was possible for a solitary transport employee to engage in treatment sales: *"We at Flygt find it incredibly difficult to understand the difference between transport and treatment sales, as we do 99.9 percent of our tenders completely by ourselves."* Thus, the independent nature of transport sales affected the belief at division HQ regarding how sales operations for treatment sales were conducted.

This misleading belief, together with the educational surge initiated by the business development unit, created some frustration at the sales development and support unit, as it was impossible for any sales employees to gain all the knowledge required to sell all treatment processes and products. The Sales Development and Support Manager also drew parallels to the ME and the transport employees at the subsidiary, saying: *"It is a large leap to do a Wedeco tender all by yourself if you operate in the Middle East. The Wedeco employee at the subsidiary knows that it is impossible, but a Flygt employee could very well believe that as soon as he or she receives training, it is possible to start to sell. They believe the same for Leopold…but that is not the way it works."*

4.2.2.3 ***A Global Projects Perspective***

The Global Projects unit was based at the division HQ and worked globally across the division. The role of Global Projects was to design and deliver systems. Every systems tender differed due to the different products and/or processes that were combined. Competition varied for every tender, and the competition could be local as well as global, in contrast to competition for transport, which often was only local.

According to the director for Global Projects, the transport-dominant subsidiaries needed support from division HQ when transitioning from selling transport products to selling treatment processes. That division's HQ support meant educating the subsidiaries to initiate treatment negotiations with customers and thereafter ensuring that the subsidiaries collaborated with the CoEs for the different treatment brands that delivered the processes. Part of educating the subsidiaries to initiate treatment negotiations related to the fact that Global Projects had limited manpower compared to transport, and it was difficult for Global Projects to engage in marketing activities and also make first contact with customers. These initial treatment negotiations required the subsidiaries to build new treatment capabilities according to the Director of Global Projects: *"The objective is that the subsidiaries will build up the capability to take on projects with the support needed from technical centers of excellence, which provide process knowledge, design and engineering."* The capabilities subsidiary transport employees primarily required were described at the Global Projects unit as simply, *"You need to understand what creates a project and how to develop projects through the contacts that you have to make. You have to know how to be proactive, and you have to know what you are talking about when you meet the customers."* The Global Projects Director communicated with the Subsidiary Manager in the ME and did understand the transformation concerns that the subsidiary was facing: *"The Subsidiary Manager is really trying to build up the treatment capability, and you have to take into consideration that the division is only 18 months old, and [such] things take time."*

At the beginning of 2009, the Global Projects unit sent two expatriates to the ME subsidiary, as the unit saw great opportunities for systems sales in the ME region. The expatriates were going to help the subsidiary and start to engage in system sales. The Global Projects Director also described precisely how the expatriates would work with the employees at the ME subsidiary, which eventually would increase the ME subsidiary's 'project capabilities,' as the subsidiary was struggling with comprehending the transformation, as described below.

4.2.3 HQ Matters Hindering Subsidiary Development: a Subsidiary Manager's Perspective

At the beginning of 2009, as a new Subsidiary Manager had just started at the subsidiary, the subsidiary experienced difficulties in responding to the developments in the ME markets due to three matters related to the division's (ITT WWW) HQ: (1) the lack of a clear treatment strategy; (2) a lack of understanding of the ME markets at the division's HQ; and (3) the bureaucratic heritage stemming from ITT.

The first aspect that obstructed growth in the ME markets was a lack of clear structure and strategy provided by the division HQ in terms of how the movement toward a treatment organization was actually going to be operationalized. The lack of that clear guidance was based in the division HQ's sense of ambiguity regarding to what extent transport employees would engage in treatment sales. The subsidiary was forced to move toward treatments, which was established on an operational requirement to engage in treatment sales. At the same time, the subsidiary had to attain the established sales targets, which the subsidiary was struggling to do. The targets were fundamentally based on transport sales that the subsidiary had to reach with only the limited amount of employees working at the subsidiary. The operational requirement and the sales target that was established between the subsidiary and division HQ created a 'big mismatch' between the expectations from division HQ and what was actually deliverable from the subsidiary according to the Subsidiary Manager. There was, however, no 'us vs. them' perspective from the Subsidiary Manager toward division HQ. The Subsidiary Manager perceived the subsidiary as part of the entire division, with joint responsibility for how treatment sales were going to be conducted: *"We have to review how we structure our business to optimize the opportunities in the region."*

Second, division HQ as a whole lacked a proper understanding of the special conditions of ME markets according to the Subsidiary Manager. The EMEA sales unit was aware of some of the distinctive conditions of the various ME markets through predominantly having access to the existing business plans for the ME markets that focused on the transport business rather than the treatment business. The EMEA sales unit managers had also met several of the distributors in the ME region and had become aware of the legal necessity to have local actors in order to be able to sell products in the ME markets. This necessity was in direct conflict with the overall strategic plan that had been set up by the Division's business development unit at division HQ, so obviously the strategic plan created some uncertainty concerning the management of business operations and distributor relationships in the ME. However, the EMEA sales unit, in addition to the other units in the division, needed to gain a better understanding of the opportunities for all the brands within the division, as well as differences in the ME markets that would affect future business activities according to the Subsidiary Manager: *"The division needs to better understand the opportunities for further growth in this region. In reality there are extreme differences between the different Middle East markets, and these differences require different approaches."*

Finally, the bureaucratic heritage that originated from ITT and permeated the entire division slowed down the decision-making processes. The Subsidiary Manager had very little decision-making power to acquire new resources independently, and therefore any resources needed by the subsidiary had to go through division HQ and sometimes ITT HQ. Located in the Jebel Ali Free Zone Area (JAFZA), the subsidiary did not have a bank account to finance sales or pay potential suppliers, and all purchases went through division (ITT WWW) HQ.

For example, when a customer purchased a product from a distributor, the latter interacted with the subsidiary for support, and thereafter the subsidiary interacted with division HQ, which bore the cost of the sales until payments were made by the customer. Hence, division HQ set a margin on sales for financing the products sold in the ME, which further decreased the performance of the subsidiary. Simultaneously, distributors had a margin on sales, which also decreased the subsidiary's performance. Furthermore, a recruitment process could take several months, and that task limited the possibility for the subsidiary to react quickly to new opportunities in the markets.

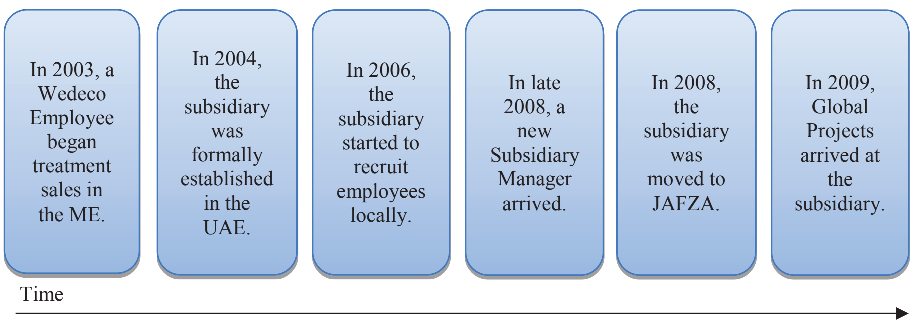
The ME Subsidiary Manager had requested recruitment approvals for the transport business from the EMEA sales unit and HR at the beginning of 2009. In particular, technical staff with transport knowledge and an expat were the preferred choices. In contrast, the managers at the EMEA unit argued that these positions could be filled by locals, since the main requirement was that the transport employees were able to manage business relationships and drive business forward. Furthermore, expatriates were seen as too expensive, since the EMEA managers were doubtful of whether the ME subsidiary would reach the sales targets for 2009. Thus, the approval of recruitments depended on the subsidiary's ability to reach performance targets. In any case, the Subsidiary Manager argued that the subsidiary would require employees from the treatment brands if the subsidiary was to be able to offer the entire range of diverging products and processes.

For the subsidiary, the three matters mentioned above hindered the Subsidiary Manager from taking the necessary action to better leverage existing opportunities in the ME markets. Further, the Subsidiary Manager indicated that the subsidiary was 'off the radar' from the ITT HQ due to the limited sales in the ME, and because the Chinese and Indian markets were being given much more attention. Despite these hindering factors, the Subsidiary Manager remained under pressure from division HQ to reach the relatively high performance targets, which the subsidiary continued to struggle to fulfill. To comprehend the struggles, the Subsidiary Manager's situation, as well as the transport employees' situation, is described below.

4.2.4 Managerial Activities at the Subsidiary

Despite the difficulties the Subsidiary Manager was facing with division HQ, the Sales Support Manager indicated that with the arrival of the new Subsidiary Manager, who had previously worked with growing transport operations in Scotland, employee roles were starting to be established according to the positions the employees formally held in the subsidiary. During the same time in late 2008, the subsidiary location was moved from central Dubai to the Jebel Ali Free Zone Area (JAFZA) in the UAE to better accommodate the increasing number of employees caused by the increase in treatment employees who had relocated to the ME subsidiary. At the beginning of 2009, the two expatriates from Global Projects arrived at the subsidiary, as shown in Figure 9. As the financial crisis hit the ME markets, the subsidiary grew from three persons to eleven. Preparations were also being made for the arrival of the Sales Manager from Leopold.

Figure 9 Timeline of Subsidiary Developments



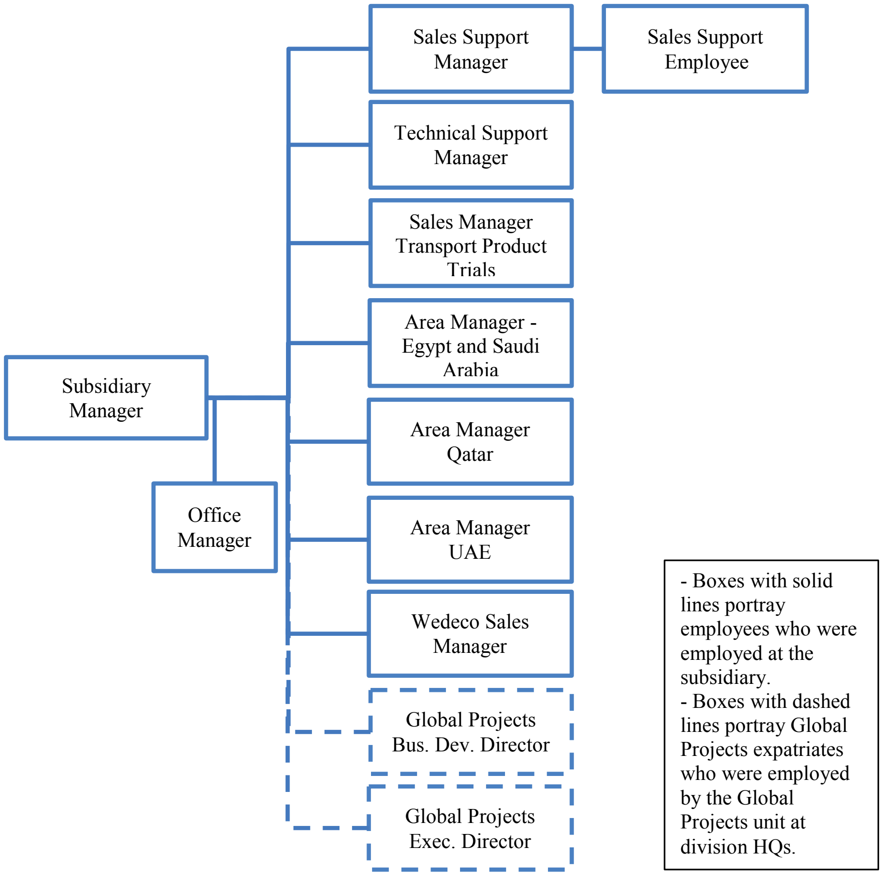
The Subsidiary Manager's work included reporting results; primarily ensuring that employees were able to conduct their operations; trying to gain an understanding of how to become a treatment-oriented subsidiary; and becoming involved in managing the more difficult distributor relationships in the region. Results were reported for all of the existing brands at the subsidiary on a monthly, quarterly and yearly basis by the Subsidiary Manager, which meant that continuous sales control was managed primarily by the EMEA sales unit at Division HQ.

The importance of ensuring that subsidiary employees were focusing on sales led the Subsidiary Manager to take on administrative duties, so that employees could manage their jobs. For an organizational chart on the ME subsidiary in 2009, see Figure 10 (Wedeco Sales Manager and Global Projects boxes indicate treatment specialists). The administrative activities of the Subsidiary Manager were basic tasks that necessitated immediate attention and required much time, and nobody else at the subsidiary had the responsibility to perform these tasks. As described by the Subsidiary Manager: *"I am doing everything from paying bills; to being involved in organizing cleaners for the office; doing all the HR; and even trying to get hold of all the IT people to get IT support for the business. I have had to spend hours and hours over the phone resetting servers. It is very much a 'hands-on job,' as if you are running your own business."*

In 2009, the Subsidiary Manager tried to outline a framework for future developments of the subsidiary. The Subsidiary Manager had written a list of issues that needed to be known to outline that framework clearly. The list included, among others, knowing the legal barriers that hindered regional expansion and the necessary investments for expansion. The list also included a desire to understand whether investments were necessary in the short or the long term. Importantly, the Subsidiary Manager emphasized how the subsidiary needed to acquire more reliable local market information, as most of the subsidiary's market information stemmed from distributors in the ME region.

The Subsidiary Manager also strove to comprehend what the actual transformation to a treatment organization meant for the subsidiary in terms of what the subsidiary was supposed to offer the ME region. There was an obvious risk that the subsidiary would portray a fragmented market offering that was constituted by offerings stemming from independent teams working toward the ME region, according to the Subsidiary Manager. The Subsidiary Manager perceived Global Projects' systems sales by combining different products and processes to potentially represent the only binding force that could circumvent the risk of a fragmented market offering: *"The essence of the division relates to the possibility that Global Projects is able to offer systems. At least that is what I have heard division HQ call it."*

Figure 10 Organizational Structure of the ME Subsidiary in 2009



In 2009, the Subsidiary Manager started to engage in discussions with certain distributors in key markets that were not committed to sales. These discussions were often problematic, since many of the distributor contracts were exclusive and very often self-renewing, meaning that the terms of the contracts did not necessitate renegotiations. Therefore, discussions had to take place with distributors to persuade them to accept renegotiations of the contracts without bringing the matter to Court. The Subsidiary Manager indicated that unfortunately, the terms of these contracts were not heavily emphasized when they were written. For example: *"The contracts were written during an era when the Middle East was much more of a backwater region, and our focus from 'Flygt HQ' was that the Middle East was just some extra business* *that did not require too much extra commitment. A little bit of a cash cow."*

4.2.5 Transport Employees' Situation

In 2009, the daily work of the distributors was managed by area managers at the subsidiary, who had the responsibility to develop the ME markets primarily for transport sales. The area managers created the business plans with the distributors. Often the area managers visited the distributors and met with customers and also with the distributor's employees.

Transport employees received continuous inquiries from the distributors to help them establish technical specifications or respond to pricing matters. The inquiries were normally managed by sales and technical support. The SSM describes how she was not able to develop sales support activities due to the large number of inquiries being received: *"I am not able to concentrate on the development of support processes. We are just working on the distributors, which means finishing the inquiries as quickly as possible, and we are only two persons sitting and trying to do all that work."* The magnitude of inquiries from the distributors forced area managers to engage primarily in sales support rather than developing the ME markets. Tasks such as marketing, which were normally a part of the area manager's work, were compromised, as described clearly by an area manager: *"We know that we have to work with marketing issues, but that work is secondary."*

The key problem with many of the distributors was a lack of technical knowledge among the distributors' sales employees, which among other issues meant that the distributors were not able to set the right specifications and then choose the best products to fulfill their customers' needs. Indeed, the transport products were regarded as premium products, and they necessitated a high degree of technical knowledge in order for sales employees to set accurate specifications. Thus, transport products were meant to be sold on the basis of quality rather than price, and according to one area manager, the distributors continuously focused on price, which resulted in continuous phone calls from the distributors on pricing matters: *"Right now we are losing or winning the orders based on the prices. There is such a panic. In the very last stage, the distributors come to us and say that competitors are X percent cheaper. It comes down to price, and we are not selling a cheap product. It should not be like that."*

The large number of pricing matters also delayed transport employee response time to distributor enquiries, both with regard to the difficult and the well-performing distributors who had the required technical knowledge. One of the well-performing distributors argued that the subsidiary needed to respond much faster to their inquiries, as the distributor could not keep customers waiting: *"Although we are strong technically, we always need support, especially in pricing. This takes time. We have been waiting to complete a tender, and we have been waiting for two months."* The possibility to take action to influence the distributors was based on market information; however, the subsidiary was experiencing difficulties with the gathering and utilization of actual reliable market information, as described below.

4.2.5.1 ***The Importance and the Effects of Market Information***

According to the area managers, most of the market information originated from distributors who also withheld market information. From an area manager's viewpoint, reliable market information on market size, the number and activities of competitors, and customers was missing: *"We are blind when it comes to the markets."* The need for continuous work in supporting and managing the distributors in the region limited the possibility for the area managers to gather market information themselves. Further, the area managers did not have access to databases where reliable data could be found. As mentioned by one area manager: *"In order to gather market information, you need to have the time or the sources to do so."*

Reliable market information would give the subsidiary the power to take necessary future actions for potential market establishments and allow the subsidiary to put pressure on the distributor. The subsidiary was described by an area manager as 'absolutely powerless' in relation to the distributors. The aspect of power and the problems caused by the lack of market information were especially important during negotiations with the distributors on business plans and sales targets. In these negotiations, an area manager described how the area managers had to be the driving force to work with distributors: *"We have to come up with the market information and demonstrate potential. We have to prove the potential with figures and facts. We need more information."*

Lack of adequate market information also meant that the business plans passed upward to the EMEA sales unit at division HQ were not trustworthy. As described by an area manager: *"The information and knowledge of the markets is limited. Yet, we are passing on that information upward throughout the division."*

While the lack of market information influenced the work with and toward the distributors, the degree of technical transport knowledge at the subsidiary also affected efficiency and the possibility of supporting the distributors, as depicted below.

4.2.5.2 *The Lack of Technical Transport Knowledge in the Subsidiary*

The more difficult distributors needed help with specifications for customers; however, the subsidiary had problems providing that required technical knowledge, as the expatriates who possessed that knowledge had left, and in 2009 there was only one technical support engineer, and only one out of the three area managers had the required technical knowledge. Specifications meant adjusting a transport product and, among other variables, often took into account water typology (storm water, wastewater etc.); water composition (e.g., the amount of sand or other solids in the water); impeller typology (e.g., the possibility to chop or grind particles in the wastewater); and the setting of correct frequencies of the spinning impeller to solve a customer's needs in the best way. Because price of course affected sales, the previous expatriate who had been located at the subsidiary reflected on the importance of technical knowledge and its connection to pricing, arguing that, *"Knowledge is extremely important because it helps the area manager or distributor to choose the transport product that in the cheapest manner will supply the customer with his or her demands."*

The other two area managers, who managed primarily Qatar, and Egypt and Saudi Arabia, respectively, had to interact with the Flygt CoE to get help with the specifications. The interaction with the Flygt CoE at division HQ also delayed response times to distributors' technical enquiries. The area managers were aware of their lack of technical knowledge and feared they were doing their competition a big favor, as customers might receive failing products that were not properly adjusted to their needs because the area managers could not control distributor specifications. The area managers questioned the level and degree of support they actually could provide their distributors. In particular, the difficult distributors needed help, as technical knowledge was especially crucial in their negotiations with customers. An area manager described how the distributors were very happy with one of the previous expatriates who had worked well with the distributors and visited customers. In contrast, and at this point in time in 2009, the subsidiary could not fully provide the technical knowledge needed according to an area manager: *"The technical knowledge is lacking all the time; the distributors need somebody with technical knowledge to work along with them. I do feel for the distributors. In the short term, the technical knowledge should be provided to the distributors from our side."* An area manager depicted the frustration she felt with regard to her lack of technical knowledge and the role the area managers were playing between division HQ, which financed the sales as well as where the Flygt CoE was located, and the distributors: *"We are as a postbox. What value are we adding? The distributors could contact division HQ directly, so what is the point for us to be here?"*

The only area manager who had technical knowledge argued that the experience of setting specifications for customers makes a difference and is the decisive factor in customer negotiations, as the technical details ensure a certain degree of performance for the customer: *"It is a matter of how much technical confidence is conveyed to the customer, which helps customers make [their] decision."* However, that area manager was only occasionally meeting customers because the distributor was managing most of the interactions with customers in the ME market. Furthermore, the possibility of setting specifications not only meant working closely with the distributors; it also opened up the possibility to meet and map customers in the ME markets as the previous business development expatriate explained.

The lack of technical knowledge obviously also influenced strategies discussed at the subsidiary on any potential direct business approach toward customers using 'sleeping actors.'

4.2.5.3 *Transport Strategies – The Question of Using Distributors*

In 2009, the work on renegotiating distributor contracts also affected area managers. For instance, one of the area managers was working on a new standard contract for the distributor agreements in the ME that did not include an exclusivity clause. The new standard contract was also much more specific, as the old contracts were very open in terms of the possibility of holding distributors accountable for their performance. If exclusivity were removed from the distributors, then the subsidiary would be afforded the possibility of managing specifications directly with customers with the approval of any local actor. The area managers differentiated between working 'indirectly' through distributors with customers or working 'directly' with customers without any necessary operational involvement of distributors. The area managers had continuously discussed this issue of 'direct' versus 'indirect,' and indeed, an area manager noted that, *"We have discussed going direct so many times, and going direct could be an option for us."*

The subsidiary's lack of technical knowledge created ambiguity among the area managers regarding their possibility to work directly with customers. This ambiguity was related to the time it would take for the subsidiary to build up the technical knowledge, as the subsidiary would simultaneously be dependent on the ME distributors for sales. If the distributors discovered the subsidiary was initiating plans to go direct, that could severely damage distributor relationships according to an area manager: *"I find it very hard even to mention* *and talk about the idea of going direct because we are very dependent on the distributors, and we cannot send out a signal where we might lose the distributors' confidence. We are working on their confidence…of course it is good to work directly with customers, but when will we be prepared for that?"*

4.2.5.4 ***The Treatment Effects on Area Managers***

Recapturing the abovementioned description from the area managers, daily transport tasks related to distributors were consuming much of the transport employees' time. At the same time, in 2009, the transformation toward becoming a treatment organization affected the transport staff, and significantly, the area managers. The effects of the transformation first affected the daily tasks in which area managers were engaged, and second, potential collaboration and thoughts concerning potential collaboration with treatment employees, as described below.

An area manager described how division HQ needed to understand how the transformation was going to be operationalized before launching the treatment strategy: *"At division HQ, they have an idea about the transformation, but the idea has not been studied beforehand. The transformation has to work on the ground."* The area managers were receiving inquiries from division HQ requiring market information for treatment opportunities in the ME markets. The area managers were also encouraged to look for opportunities to sell treatment processes from division HQ while they were managing transport activities, as explained by an area manager: *"So many things are required from us. We have to integrate and sell treatment processes."* The area managers were hesitant about engaging in treatment sales, and according to one area manager: *"When we talk about the transformation and selling the division's entire range of products, there are a lot of complications. Selling all products is not in the interest of everybody."*

This hesitance was primarily related to the necessity of having experience in treatment sales, which the area managers lacked. The lack of that treatment experience was twofold. First, area managers did not know how or with whom to communicate within the treatment brands' CoEs if the area managers did come across a project where treatment processes could be sold. As mentioned by an area manager: *"If there is a treatment project, where do I go from that? What is the second step? Where do I have to go for technical clarification or commercial help?"* Second, the area managers did not have the technical knowledge needed to engage in treatment sales. The area managers tried to conduct treatment sales, but they were struggling with the most elementary aspects of the technical language used in treatment inquiries according to an area manager: *"I feel uncomfortable, and I am struggling with the basics. The treatment brands use abbreviations which are totally unfamiliar, and I am lost. I am not trained for this. Maybe this is within the division's business, but these treatment products are totally different products for me."*

The consequences of the lack of technical treatment knowledge and engagement in treatment sales represented the perceived negative effects that treatments sales would have on transport sales according to the area managers. Although the transport employees were struggling with transport operations, they had experience from managing transport sales through distributors, so transport sales was the backbone of the subsidiary business. Ultimately, the area managers would be held accountable for the results of the subsidiary, and the risks of failure were higher if the area managers compromised transport activities for treatment activities, as explained by an area manager: *"At the end of the day, we are gazed at through the figures. If I take any treatment initiative and the daily business is compromised, then I have to be responsible for what I have done."*

4.2.5.5 ***The Potential for Collaboration with the Treatment Brands***

The subsidiary was fragmented between treatment and transport, wherein the SSM offered an example of the work between the transport employees and the Wedeco Sales Manager, who was the only treatment employee with a long presence at the subsidiary. The SSM's example described the lack of collaboration between transport and treatment over time, both prior to the creation of the division (ITT WWW) and after it had been created, where *"We never used to see the WSM much, and whenever he came, he was like a separate unit. Once this division was created, then we understood that the WSM also belongs to our group. We are still not doing anything together. We are a separate unit, and the WSM is working like a separate unit."*

The potential for collaboration between transport employees and treatment employees was difficult according to the area managers. A large infrastructure project could include both products and processes from different brands in the division. The difficulty of collaboration stemmed from the different sequences in time throughout a large infrastructure project when the division's products and processes were tendered. Tendering for treatment processes occurred much earlier than for transport products in a project lifecycle according to an area manager: *"There has not been one single case where we could work with each other at the same time. The WSM is months, if not years, ahead of us in his field of inquiries."*

According to an area manager, the collaboration that was taking place between treatment and transport mainly pertained to information on those upcoming projects where the WSM was providing information to the area managers: *"We speak a lot, and the sales manager is great in giving information."* The information was only communicated from treatment to transport, however, due to the nature of tendering throughout a project life cycle, as described above. Still, the information did mean that the area managers came to know about potential business opportunities for transport.

Support activities toward the distributors and limited experience in knowing how to manage treatment sales, together with the limited collaboration potential between treatment and transport, meant that the area managers were placed in a situation where they had to try to understand and grasp how to manage their activities, while the area managers were put under stress to reach the subsidiary's sales targets. The area manager situation led to the conclusion that the subsidiary required that employees be able to delegate tasks and outline how the employees were to move forward. As summarized by an area manager: *"We are short of people here. I cannot be involved in treatment. Each and every transport inquiry needs time. We are also in a stage where we are learning. I do not think it is good if I am doing everything."*

4.2.6 Fragmented Treatment Activities

While there was confusion concerning transport employees' evolvement into treatment activities in 2009, treatment operations by dedicated treatment employees were on the verge of taking off at the subsidiary. Not only was the Wedeco Sales Manager present at the subsidiary, but two expatriates from Global Projects were as well. Furthermore, a Leopold Development Manager (LDM) from division (ITT WWW) HQ visited the subsidiary to prepare for the arrival of the Leopold Sales Manager and inform employees at the subsidiary about the processes that Leopold was selling. Importantly, and in order to understand the potential development of the treatment brands at the subsidiary, the following treatment-related paragraphs first describe the normal business practices of the treatment brands and how daily activities were conducted or were going to be conducted; second, the presumed future of the treatment brands in relations to the subsidiary's development; and third, the required resources for the treatment brands based on future goals. The importance of the future was related to the difference in beliefs, primarily between Global Projects and the other treatment brands in terms of how activities would be conducted, not only within the brands, but also within the ME subsidiary as part of the treatment transformation.

4.2.6.1 *Outlining Treatment Activities*

Treatment activities across the different treatment brands were similar to the extent that large infrastructure projects were targeted, which in many cases meant large wastewater treatment plant projects. These infrastructure projects could differ depending on which processes and products customers wanted to include. In an infrastructure project, there were three important actors who took part in a project life cycle: The customers who ordered and ultimately paid for the infrastructure; the engineering consultants who drew the specifications for the infrastructure; and the contractors who built the infrastructure. In large infrastructure projects, several consultants and contractors could manage different parts of the same project.

If a customer chose a treatment process from the division's respective treatment brands, the treatment employees would outline the specifications for that process and design a process according to the customer's requirements, but together with the brands' respective CoEs. Thereafter, the designed process was either produced in a factory close to the brands' CoEs and shipped to the ME or produced locally in the ME market where the project was taking place. The financing of sales was handled by the division's HQ. The treatment processes were also imported by the customers, which meant that distributors were not needed for treatment sales. The WSM, LDM, and Business Development Director (BDD) for Global Projects all emphasized that working directly with customers meant that the treatment brands were in control of their businesses, in contrast to the transport employees, who worked through distributors.

One of the most important aspects for all the treatment brands at the subsidiary was to have employees who could follow projects locally over time and continuously interact with and influence customers, as well as the consultants and contractors mentioned above. This interaction emphasized the importance of technical treatment knowledge throughout a sales process and the importance of having treatment employees who continuously met with customers. The LDM, who was responsible for the EMEA region, emphasized that having locally based staff was essential to the success of the treatment business and continuously stated: *"Foot soldiers, it comes down to people at the end of the day."* The LDM also saw the ME as one of the strongest regions for the division. Real synergies were arguably found in the ME, as several of the treatment plants that were planned in the ME markets were going to include treatment processes that could fit the Leopold, Sanitaire and Wedeco processes.

In 2009, the WSM had been present in the ME region for more than five years and was responsible for marketing and development of Wedeco sales for the entire ME region. The

WSM argued that he had not been involved in the design process for any of the other treatment brands. The creation of the division had not affected the WSM's work, and he argued that, *"We were merged with the other brands. Nothing else."* Within the ME region, several projects could run in parallel, and therefore the WSM's work consisted of continuously working with ongoing projects until the deals were closed and interacting with potential customers to make them aware of Wedeco's presence in the ME region. A project cycle could take a couple of years before a deal was closed, and therefore, it was indeed possible to gain knowledge about the main players in the ME markets according to the WSM.

These long project life cycles also meant that treatment sales did not frequently and continuously bring in revenues for the subsidiary. However, if and when a treatment process was sold, it did result in considerable revenues, especially with regard to Global Projects' systems sales. A sold system could potentially double the yearly revenues of the ME subsidiary according to the BDD.

The only aspect that created difficulties for the WSM was after sales, as the subsidiary did not have local support. If there was a complaint from a customer, Wedeco's CoE in Germany had to be contacted, and it could take some time before the CoE would respond and send help. Leopold's filters did not require any after-sales services, as the life cycle for designed filters were measured in decades, and some functioning filters had been running for 37 years according to the LDM. Global Projects had not engaged in systems sales and was uncertain about how to manage the maintenance of systems that comprised several different processes and products. Maintenance was necessary for systems, however, and the BDD argued that he was considering using the transport distributors.

4.2.6.2 ***Future Treatment Activities***

The major differences between the activities among the various treatment brands were found in the prospective future of treatment activities and the future of the subsidiary as a whole. More specifically, the differences were found between Global Projects and the other treatment brands. In order for Global Projects to become a systems provider and provide several combined processes and products, several issues needed to be resolved according to the BDD. The issues first concerned the level of freedom in choosing processes and products for systems; second, the degree of technical knowledge available in the division to create systems; third, the process of executing and setting up a system; and fourth, the effect that systems sales would have on other treatment and transport brands. These four interlinked issues are discussed below, respectively.

A treatment plant can be considered a giant system, and Global Projects was required to use the processes and products from the four brands (Flygt, Leopold, Sanitaire and Wedeco) within the ITT WWW division. This requirement limited the scope of projects that Global Projects could tender, as a customer might prefer systems with alternative process technologies or products from competing treatment and transport brands. Due to this situation, discussions were taking place at division HQ to try to loosen the requirement of using only the division's products and brands according to the BDD, but no decisions had been made.

The division also lacked human resources and engineering knowledge within the brands' CoEs, most significantly for Sanitaire in the United Kingdom (UK), which limited the amount and range of systems that could be offered to customers. According to the BDD: *"To a large extent, we are working with the little experience we have in small CoEs, such as in the UK and in Sweden. We have to work with that knowledge because that is what we've got. Over time, we hope to increase our knowledge."*

The limited scope of systems that could be provided, together with the lack of knowledge and human resources, meant that Global Projects used the term 'sub-systems' as a coined term for the systems that Global Projects could offer.

Global Projects not only sought to design sub-systems, but also to 'execute' sub-systems sales. Executing meant gathering the required processes and systems, building and installing the systems, and maintaining them. In order to purchase the processes and products, install the systems with the help of locally commissioned contractors, and establish relationships with actors that maintained the systems, the subsidiary would have to change its formal structure and establish a local bank account to allow for the purchase of local goods and services. According to the BDD: *"This is the whole point. The subsidiary would be seen as the provider of systems that assembles the system and supplies, installs, commissions, and maintains systems from within the ME region, and that is important for our customers."*

The BDD described how he saw Global Projects becoming a form of a sub-contractor that did not practically build a sub-system but was responsible for it being built, along with a commissioned local contractor. The BDD saw his role in the subsidiary as the person responsible for developing the subsidiary's orientation toward a sub-contracting treatment business. *"We will try to assist them in becoming more of a contracting business as opposed to a traditional product and process sales business, because that is where we see the subsidiary in the future."*

In contrast, the WSM perceived his future activities to be similar to how they were. Concerning the transformation to a treatment organization, the WSM indicated that the individual brands would handle their own negotiations and responsibilities toward customers. The WSM did not see any possibilities for design-related collaboration across brands, but opened the possibility of sharing information on a server in the subsidiary, from which primarily the treatment brands could then add and receive information on projects.

The LDM for Leopold saw collaboration potential between the brands through joint customer offerings, where the design phases would be kept completely separate. In contrast to the Global Projects' systems approach, there would be no performance guarantee for a full 'system,' but, rather, individual performance guarantees for the different processes independently. As simply stated by the LDM, *"If we need Wedeco and can use them in a project, then we can ask them for a design and for them to give us the best process."*

The aspect of becoming a form of a sub-contractor that offered sub-systems was the issue that differentiated Global Projects from the other treatment brands. The issue was how to manage internal competition. If Global Projects and ultimately the subsidiary became a form of sub-contractor that designed sub-systems, that change meant that the other treatment and product brands in the division would be able to sell their products and processes to competing systems providers according to the BDD. The issue was not resolved nor overly discussed; however, the BDD expressed the possibility that the other brands at the subsidiary could and should continue to work independently to saturate the ME markets with products and processes, while the brands would engage in increased collaboration with Global Projects at the subsidiary.

The WSM saw difficulties with the idea of Global Projects' becoming a form of sub-contractor due to the presence of established and strong competitors that offered full systems rather than Global Projects' sub-systems. The LDM offered his perspective on the transformation and the possibility of Global Projects offering sub-systems, viewing it as an attempt that had been 'smashed.' There were several reasons for this failure, wherein the LDM mentioned how the necessary communication to even discuss the sub-system option in the division (ITT WWW) was really bad. This flawed communication was noted by the LDM, who perceived division HQ (where the LDM was located) to have an 'empire' approach, where Leopold and its home base in the U.S. were forgotten. The LDM described how nobody in the division knew where Global Projects was headed. Then again, the LDM did not want to get involved, and he perceived Global Projects' idea of sub-contracting as 'crazy,' because the division HQ's heritage fundamentally stemmed from the transport business. In general, the LDM believed that the treatment brands would increase their presence in the transport-dominated subsidiaries, such as the ME subsidiary, whereas the different brands would mostly work independently: *"I think there eventually will be a treatment and a transport group in every sales office. However, we need to focus on how we will move forward."*

4.2.6.3 ***Required Treatment Resources***

The managers for the treatment brands that were present in the subsidiary argued that employees with technical knowledge who could work on opportunities in the ME markets were needed. The WSM saw the potential to establish after sales and local support and to appoint a sales engineer who would be helpful in order to create a team and in order to conducting more market research and be more proactive in the ME markets.

For Global Projects, the requirements were much larger. The BDD argued that they needed much more technical knowledge to fully engage in sub-systems sales. To train new employees was seen as taking too much of Global Projects' expatriate time. The BDD proposed that it could be possible for the division to acquire an engineering firm with the technical knowledge to work on specifications with the Global Projects team at the subsidiary. The BDD was, however, very aware of the necessity to sell systems as a prerequisite to receiving resources from division HQ: *"Training would take the very limited resources we have. We need orders now in order to build up our resources for the future. It is all very difficult."* If Global Projects were able to execute systems from a local ME base, then human capital resources and an increased autonomy would be necessities, according to the BDD, to be able to provide assurances to customers and to purchase services, products and processes in the ME region. The Subsidiary Manager was the person at the subsidiary who had to drive the interactions toward with division HQ and ensure that the subsidiary would receive the necessary technical employees for treatment. According to the BDD: *"If the Subsidiary Manager can get the experienced resources, he would have Global Projects here as intended."* The BDD was also very aware of the amount of time that daily activities required for all employees based at the subsidiary. That circumstance made it difficult for the subsidiary's employees to understand what becoming a treatment organization actually meant: *"The subsidiary's employees like the idea of a treatment organization but get slightly crushed by the day-to-day daily activities. The subsidiary's employees have their individual responsibilities to take care of as well."*

4.2.7 Slow but Progressing Developments

From the middle of 2009 until the beginning of 2010, the high workload and the similarity of problems prevailed for the subsidiary employees in terms of confusion regarding treatment operations, the lack of technical and market information concerning the potential to develop transport sales, and the relationships with distributors for the transport staff. In terms of treatment, the lack of staff disabled the possibility of developing treatment operations, as the amount of tasks undertaken by the treatment employees to ensure sales in the ME region made it difficult to develop treatment activities. From a management perspective, the Subsidiary Manager described his struggles through the dilemma by means of a 'swamp' metaphor: *"I was in a swamp. Every step required hard work, and I really needed to get out of that swamp to be able to take some proper actions. It took me probably about 18 months before I felt that I started to get out of that swamp. A part of how I got myself extracted from every single day-to-day issue was just by bringing in a few extra highly qualified employees, which meant that I wasn't involved in everything myself."*

The headcount ban was removed at the end of 2009 by division HQ, and that meant that some of the subsidiary's recruitment requests were approved. The highly qualified employees that the Subsidiary Manager related to above were two expatriates – the Sales Manager for Leopold, who was transferred from the U.S., and a Business Unit Manager (BUM), who came from division HQ for transport. The Subsidiary Manager also used a recruitment agency to find some employees for sales support in order to manage the problematic situation with the distributors. Three sales support employees were employed and worked for the Sales Support Manager. All additional employment was secured at the end of 2009 and the beginning of 2010. In the middle of 2010, division HQ once more imposed a complete ban on recruitment approvals, and thus, the subsidiary was not able to employ anybody during the remainder of that year, even though the subsidiary had several recruitment requests already pending. In January 2011, the subsidiary was allowed to recruit another employee, and a strategically oriented Business Development Manager (BDM) was hired. The subsidiary had now grown to 17 employees. However, activities that influenced the entire division, and thus the subsidiary and its ME activities, were occurring at ITT HQ.

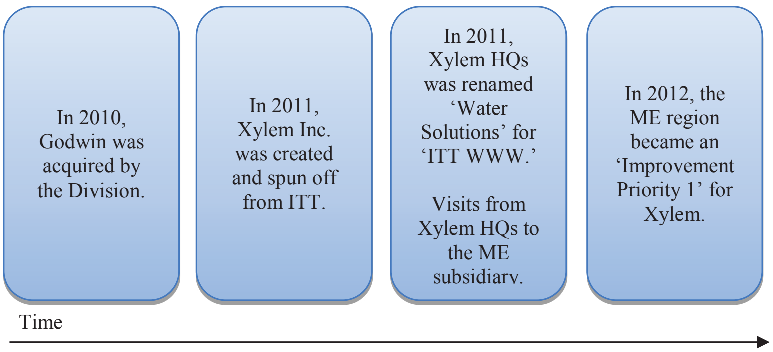
4.3 Profound Corporate and Division Shifts Affecting the Speed of Subsidiary Evolution

In 2010, division HQ acquired another major transport brand (Godwin), which was then included in the brand portfolio alongside the other four brands, as depicted in Figure 11.

Godwin was a manufacturer of dewatering pumps, and the reasons for the acquisition were the brand's fit with the brand portfolio and the possibility of gaining leverage and engaging in rental services for Godwin's transport product. Godwin's transport business in the ME, however, was not taken over and managed by the ME subsidiary until the middle of 2011, when Godwin's distributors were inherited.

At the beginning of 2011, ITT HQ announced that the entire firm would be divided into three independent and publicly traded companies, and in late 2011, ITT HQ spun off its water-related businesses and created Xylem, Inc.[5], as illustrated in Figure 11. Xylem consisted of three divisions. The ITT WWW division was renamed 'Water Solutions' and became one of Xylem's three divisions. All three divisions within Xylem had some form of water and/or wastewater focus. The Subsidiary Manager indicated that although the 'Arab Spring' was creating much turbulence and affected sales in the ME markets during 2011, there was also an increased interest in the Middle East region from division and Xylem HQs.

Figure 11 Timeline of ITT HQ Affecting the Subsidiary Since 2009



4.3.1 Xylem and Division HQ Impacts on the Subsidiary

There were several impacts of the spin-off and acquisition of Godwin that affected the subsidiary, from Xylem as well as division HQs. The impacts from Xylem meant that the ME region became a high priority region for Xylem as a whole. The acquisition of Godwin meant that division (Water Solutions) HQ then established a new organizational structure that was enforced on the ME subsidiary. The division was also going through a review of how to manage the treatment business. Software tools from division HQ were also imposed on the ME subsidiary. Further, the role of HR was given a higher priority within the division. These

[5] Henceforth referred to as Xylem.

effects on the ME subsidiary from Xylem HQ and division HQ are described, respectively, below.

During 2011, the ME region had risen from 'Improvement Priority 2' to 'Improvement Priority 1' within Xylem HQ's new scheme for prioritizing regions globally, as portrayed in Figure 11. The categorization of the ME region as an 'Improvement Priority 1' in practical terms meant that there was an increased number of visits from several different units within Xylem HQ and the division's (Water Solutions) HQ. These began at the end of 2011 and continued into 2012 according to the Subsidiary Manager: *"I think that over the last couple of years, we have seen Xylem's Chief Executive coming to the ME, as well as more and more of the division's management teams, and a few months ago the strategic marketing council for Xylem held a meeting in Dubai."*

The spin-off and the developments at division HQ through the acquisition of Godwin resulted in a new organizational structure that was forced upon the ME subsidiary. The Subsidiary Manager stated that the organizational structure was not a choice for him: *"It is a 100 percent requirement for us to follow the division's organizational structure. I cannot create an organizational structure for the Middle East that I maybe feel would be a better organizational structure for the ME region."* The organizational structure consisted of four business units, namely, Treatment, Transport, Aftermarket and Dewatering. Global Projects' position in the division's organizational structure was now included in the treatment unit, and thus, Global Projects was no longer an independent unit that ran across all other brands. Furthermore, the creation of the unit meant that treatment activities were now separate from transport activities. It's also important to take into consideration that dewatering products are a simpler form of transport products.

The treatment unit was going through a review at division HQ, as the unit needed a defined role in the division and also required direction on how the treatment business was going to develop and operate globally. According to the Subsidiary Manager: *"The treatment unit is going through an appeal in terms of a review of how that business should operate from division HQ and what the treatment unit means to our division and where the areas for growth are found."* From the Subsidiary Manager's perspective, the importance of the HQ review was related to the importance of decision-making by division HQ on how the treatment unit would conduct business activities. Decision-making was more cumbersome within the treatment unit, as it consisted of several differentiated brands, with influential brand managers who also affected decision-making, and together with, for example, the business development unit at division HQ, that process created a complex decision-making context in which someone needed to step forward and take responsibility. According to the Subsidiary Manager: *"Without a clear leader who is focused and pulls all these parts together, you really find that the development progress for treatment is very painful and very slow. What tends to happen is that you get far too many stakeholders with different opinions who are involved in decision-making, and nobody who is trying to get through and ultimately make the key decisions. It means that we have a treatment unit here at the subsidiary who I feel is not focused and does not really understand what the goal of the treatment unit is and what we want it to develop into."*

Within the division (Water Solutions, formerly known as ITT WWW), several new software tools were also rolled out during 2011, and they affected the ME subsidiary. For transport, division HQ's business development unit rolled out Value-based Commercial Excellence (VBCE) software at the beginning of 2011 as a form of enterprise resource planning (ERP) based on account planning. As the VBCE software was interconnected throughout the division, the software allowed division HQ to enter and examine subsidiary data at any point in time. The VBCE software allowed for market and sales information to be accumulated more accurately and helped the transport business outline potential weaknesses and opportunities within the different ME markets. Thus, the VBCE software helped the area managers better evaluate the ME distributors according to the Business Unit Manager. The VBCE software was, however, dependent on a continuous feed of information to accurately pinpoint areas for improvement. Whereas the VBCE software was enforced from division HQ on the Business Unit Manager and the area managers, the BUM also realized that there were opportunities for sales support. This support could utilize the VBCE software, as it included a Customer Relationship Management (CRM) module. Therefore, sales support implemented the software for its activities as well. Furthermore, a new recruitment system for HR had been rolled out at the end of 2011, and it automatically sent the subsidiary's recruitment requests to all key positions at division (Water Solutions) HQ who needed to approve the requests. The recruitment system vastly speeded up recruitment approval according to the subsidiary's HR manager, who started at the subsidiary in 2011.

At division HQ, HR was also given a more important role within the division, since the spin-off and a new division HR manager responsible for the EMEA region at division HQ had just come on board. The subsidiary HR manager described how she had discussed the changing role of HR in the division with the Subsidiary Manager, wherein, *"The Subsidiary Manager told me that suddenly HR was involved in every single division meeting, where HR did not have any previous presence. That means that HR has been elevated to a more important function within the division compared to earlier."* According to the subsidiary HR manager, the new division EMEA HR manager was implementing a new HR organization throughout the division, which changed the formal HR management structure and excluded the Subsidiary Manager as the subsidiary HR manager's formal supervisor.

This change in HR management structure was questioned by the Subsidiary Manager and the HR manager at the subsidiary, and this created confusion for the subsidiary HR manager whenever she was given directives. As an example, the subsidiary HR manager described how the Subsidiary Manager and the EMEA HR manager gave her opposing directives when the subsidiary's HR manager needed clarification on how HR activities were supposed to be managed at the ME subsidiary. The subsidiary HR manager described how she wanted to visit the EMEA HR manager to discuss HR matters: *"The Subsidiary Manager whom I thought was my formal manager told me to travel to division HQ and talk to the EMEA HR manager. The EMEA HR manager, whom I thought was my informal manager, told me that there was 'no chance' that I was going to travel to division HQ and meet her."*

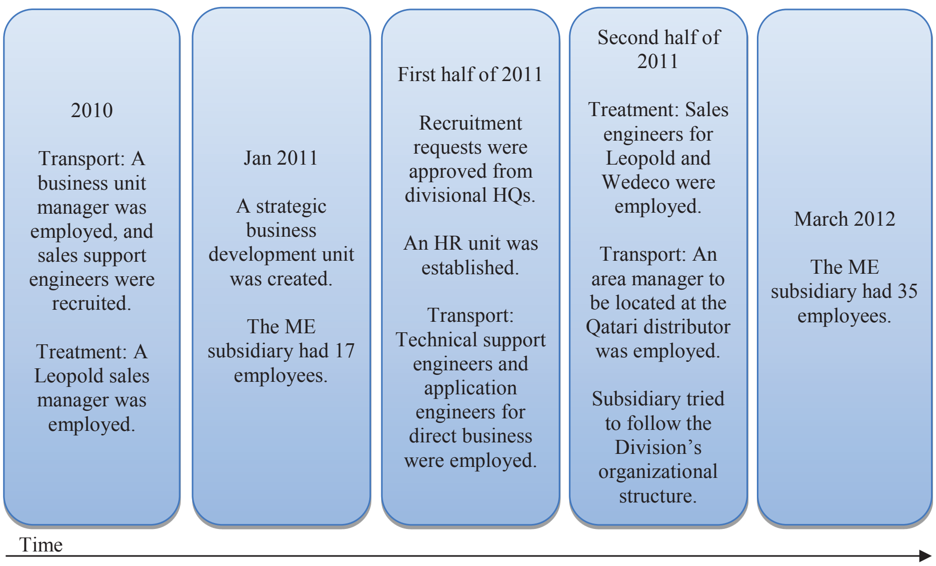
4.3.2 The Rapid Growth of the Subsidiary

The most significant effect on the ME subsidiary from the spin-off was that the subsidiary's recruitment requests were approved at division (Water Solutions) HQ. Thus, during 2011, almost all of the subsidiary's recruitment requests from 2010 were to a large extent accepted. The Business Development Manager described how the subsidiary reactively recognized the need for support functions, and thus, significantly, that a Human Resources unit was necessary at the subsidiary: *"It had been a bottleneck to get the recruitment approvals, and then suddenly almost all approvals were accepted from division HQ. We suddenly realized that we needed somebody who could manage the growth, because the Subsidiary Manager could not handle all of the employments. We needed an HR manager, and an HR manager was employed. For better or worse, it has been very tough, but not in a negative sense. Rather, it has required a lot of work from us."* An HR manager was employed in March of 2011. That HR manager left the subsidiary during the summer, and a new HR manager was employed in July of the same year. Immediately after the new HR manager was employed, a new recruitment process for the subsidiary was initiated, and six to seven additional employees were employed.

As the number of employees recruited increased dramatically, the situation also created turbulence at the subsidiary, and during 2011, the subsidiary lost an area manager and a sales support engineer who resigned, and the office manager, who was fired. During 2011, hires were undertaken at the subsidiary to support different units and support functions. Notably, an employee was recruited for technical support, and two application engineers were employed to engage in direct transport business in the UAE along with the area manager. During the second half of 2011, an expatriate with business development experience from Europe was employed as an area manager for Qatar and located in the local distributor's office in Qatar. In terms of treatment, an after-sales manager and a sales engineer were employed to support the Wedeco Sales Manager, and a project manager and a Leopold Sales Engineer (LSE) were hired to support the Leopold Sales Manager and develop the ME markets for Leopold.

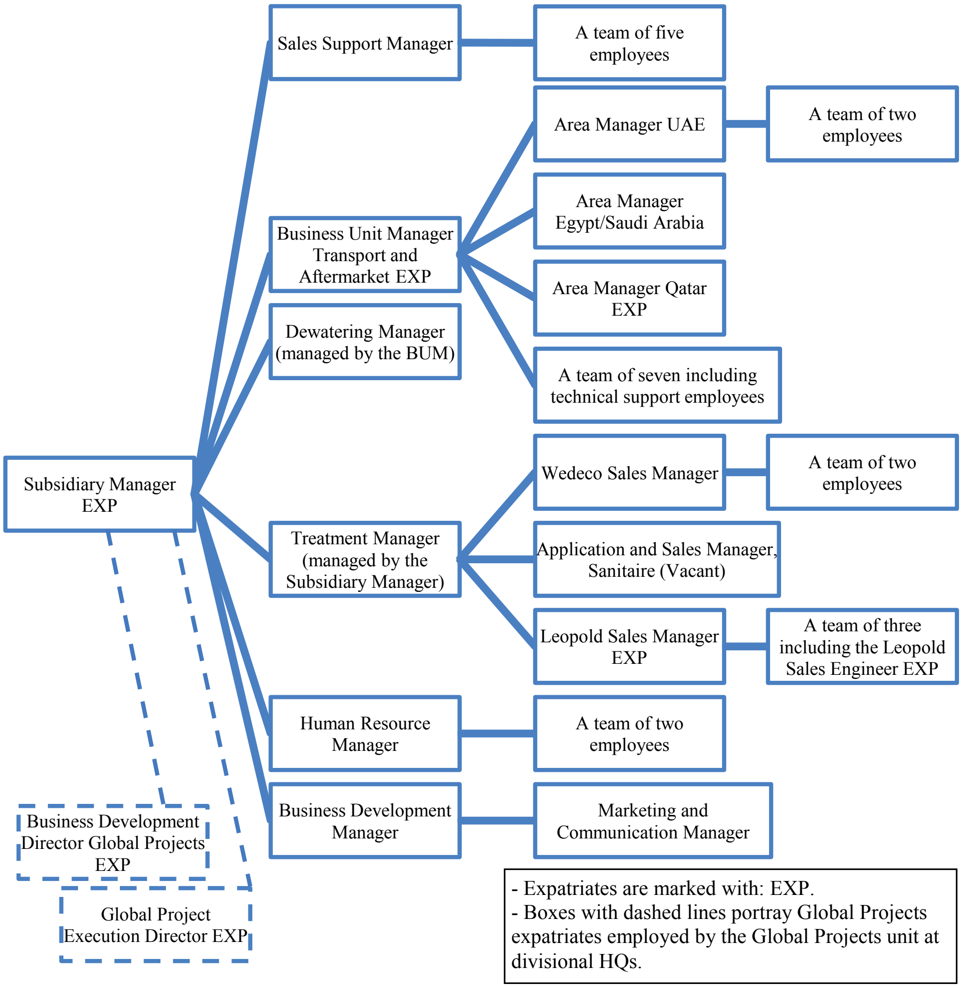
The following figure summarizes the most significant growth events of the subsidiary.

Figure 12 Timeline of Subsidiary Growth, Including Key Changes Since 2009



It was difficult for the subsidiary to follow the new organizational structure of the Water Solutions division due to the lack of experienced employees who could manage the different business units. These units had reporting responsibilities to division HQ, and because several of the management positions for the units were vacant, the Business Unit Manager and the Subsidiary Manager temporarily managed all of the units. Hence, Transport, parts of Aftermarket (technical support) and Dewatering were managed by the BUM. The Subsidiary Manager had responsibility for the Treatment unit. Practically all of the BUM's units were transport-related, and the duties of the transport staff at the subsidiary often encompassed both Flygt and Godwin. Although the subsidiary had not practically established an after-sales and service unit, sales support had grown to comply with the demands from the market and was viewed, as separate as portrayed in the organizational structure of the subsidiary in Figure 13.

Figure 13 Organizational Structure of the ME Subsidiary in February 2012



By the end of 2011, the number of employees at the subsidiary had risen to 27. The plan was to employ another 10 during 2012. Several of these recruitments during 2012 were based on recruitment requests that had been pending since 2011, and there was also an urgency to primarily employ an overarching manager for the treatment brands. By March 2012, the number of employees at the subsidiary had risen to 35 employees. Staff had tripled in the three years since 2009, and revenues from the ME region had doubled since 2009. The increase in employees naturally affected communications with internal and external actors, as described below.

4.3.3 Increased Interaction with the Division, Xylem HQ, and External Actors

As the subsidiary had grown through an increase in employees, the Subsidiary Manager was able to delegate day-to-day activities and focus on corresponding with the amplified interest and influence from division (Water Solutions) and Xylem HQs. The rise in employees also increased communication with external actors in the ME region. The intensified focus on the Middle East required increased reporting and planning activities. According to the Subsidiary Manager, the responsibility for that reporting and planning was his, which was also highly related to the experience he had accumulated from the ME and the business units within the organization: *"The requirements of internal reporting, internal planning, internal forecasting, strategic planning are tasks which take a huge amount of time and effort, and at this stage the responsibilities fall primarily on my shoulders, as I have the most experience in the Middle East among the management team, and I am the only person who really has knowledge across all our business units."*

Even though the Subsidiary Manager had the responsibility for planning and reporting, the recruitments of the BDM and the BUM resulted in the establishment of a management team that took part in the work required by planning and reporting. Furthermore, the management team enabled increased capacity to give presentations that were necessary, as an increasing amount of people from Xylem HQ and division HQ visited the subsidiary and the ME region. The essence of reporting and planning and the content of the subsidiary presentations are described below. Further, the communication effects due to the changed role of HR within the division and the increase in communications in the ME region are described.

4.3.3.1 *Increased Intricacy in Reporting*

Reporting was done for division HQ and was necessary for the subsidiary to acquire resources, as the possibility to acquire resources was still dependent on the delivery of results. For example, the increase of Wedeco employees at the subsidiary was a direct result of increased sales, wherein the Wedeco Sales Manager emphasized the importance of delivering results, *"…so that you can use the results in order to convince division management to increase Wedeco's presence in the subsidiary."*

The figures reported by the subsidiary were sent on a monthly, quarterly, and yearly basis to the EMEA sales unit at division HQ, which was similar to that which occurred previously. The continuous reporting was argued as necessary by the Subsidiary Manager to continuously focus on short-term performance rather than taking a long-term investment approach: *"This is just part of the normal approach within our company that much of the focus still is very much on the short term, and we have to achieve the numbers that are set for us."* Through interaction with the EMEA sales unit, the Subsidiary Manager managed to decrease the expectations of yearly growth as a percentage figure, but the subsidiary was still expected to increase its sales in absolute figures: *"We have reduced the expectation for the operating income that the subsidiary will produce as a percentage; however, each year I am still expected to produce more dollars."*

In contrast with previous protocols, the monthly reporting by the Subsidiary Manager also included a few comments on the developments within each business unit (e.g. transport), which were then forwarded to the different business unit leaders at division HQ. Similarly, the increased interest from division (Water Solutions) HQ meant that the subsidiary separately needed to report a number of key performance indicators (KPIs) on a monthly basis to the business development unit at division HQ.

The increased interest in the ME and the subsidiary was also felt by the sales employees at the subsidiary, where, for example, the Sales Support Manager described how she needed to report her figures in a much more detailed manner than she previously had: *"You need to demonstrate more. You need to show division HQ more of what you are doing. Now everything is more explicit in terms of figures, and division HQ expects from my team that the margins are kept rather than lost. That kind of pressure is present."*

4.3.3.2 ***Planning Developments in the Subsidiary***

Planning was done both for division HQ and Xylem HQ. The subsidiary had to produce a five-year strategic plan for the business development unit at Xylem HQ and a yearly strategic plan for the business development unit at division HQ. The two business development units were not always aware of the dual planning, and that planning was based on the subsidiary's 'best guesses' for the future according to the BDM. The yearly strategic plan was continuously monitored by business development through the monthly reporting, as mentioned above. If the planned KPIs were not met, or if the BDM forgot to report the figures on time, the Division's Business Development unit would contact the subsidiary and require an explanation and potentially an action plan to manage failing KPIs according to the BDM.

4.3.3.3 ***Presentations and Resource Requests***

The Subsidiary Manager explained that part of the reason for the increased interest from Xylem HQ and the division was also related to subsidiary invitations and communication: *"I think what has changed is that we have been knocking on the door constantly and promoting our business plans and inviting the top management to come to the Middle East."* The subsidiary was soon going to present its five-year strategic plan to the chief operating officer from Xylem HQ, and the Subsidiary Manager had just started to collaborate and receive support for the five-year strategic plan from a business development director from Xylem HQ.

An important aspect of communicating to division (Water Solutions) HQ and Xylem HQ through presentations was to present the needs of the subsidiary and also opportunities in the ME region. The Subsidiary Manager described the importance of presenting market sizes, market shares, and forecasts for the ME markets, together with the development of competitors in the ME region and making comparisons. Most importantly, the Subsidiary Manager conveyed the message that division and Xylem HQs had to have a much more long-term approach to the ME markets: *"By identifying the ME market sizes, our market shares and also the forecast growth rates for the ME markets, we've been able to go back with a message to say that there is a much bigger pot of gold at the end of the rainbow, but to do that, we need to be investing far more than we are doing at the moment, far more than the short term."*

For the subsidiary, an important aspect of the presentations was the opportunity to outline what the subsidiary expected from division and Xylem HQs. In just one of the presentations that targeted division HQ, the subsidiary asked for an increased common vision from division HQ; a higher level of commitment to the ME markets; company establishment in the different ME markets with local actors; support from division HQ to implement the division's organizational structure; and faster, more decentralized decision-making.

Presentations also meant that it was possible for the subsidiary to present any developments that had occurred at the subsidiary, wherein the same presentation mentioned above highlighted the implementation of the division's organizational structure; a more robust management of distribution channels; the subsidiary's consistent sales growth; implementation of the VBCE (Value-based Commercial Excellence) software; establishment of direct business in certain ME markets through existing actors; and the removal of distributor exclusivity.

Such increased communication also meant that the subsidiary had to communicate a similar message differently to dissimilar units from division HQ and Xylem HQ, as the units within Xylem as a whole had differentiated interests regarding opportunities in the ME region, according to the Subsidiary Manager: *"You are trying to give the same message to different audiences, but they might have a different perception of what can be achieved."* Delivering messages to different management units within Xylem as a whole was cumbersome from the Subsidiary Manager's perspective, as the subsidiary would likely have only one management unit that could give support and resources and take a single stand on how to manage business operations in the ME subsidiary: *"Our difficulty is just finding one management team within Xylem that we can propose our initiatives to, so that we feel that we can get the backing and a shared common vision."* The Subsidiary Manager described how an increased long-term vision was beginning to be accepted throughout the division and primarily from Xylem HQ. The subsidiary was able to convince Xylem HQ about the potential in the ME region and the necessity to invest there.

The importance of one corresponding management unit within Xylem for the subsidiary was also related to resource requests the subsidiary made. Each resource request, primarily for human resources, meant that the Subsidiary Manager had to identify a specific business unit within the subsidiary with an identified business unit at division HQ that could provide the required resource. As the roles at the subsidiary in many cases overlapped across business units, such as the BUM, who managed three business units (dewatering, transport and aftermarket), it was very difficult to match a business unit in the division with the resources that were needed within the subsidiary according to the Subsidiary Manager.

4.3.3.4 ***Increased External Interaction and Collaboration***

The growth of the subsidiary primarily during 2011 meant that the ME markets as well as North African markets were examined or strengthened in terms of the subsidiary's negotiations with existing or new distributors and meeting with customers in the ME markets. These tasks primarily fell on the BDM, the BUM, and the area managers. The subsidiary also initiated collaboration with the Swedish Trade & Invest Council in the UAE for market research services during that year.

The Subsidiary Manager started meeting with a mentor in 2010. The mentor had been working in roles similar to the Subsidiary Manager and was someone with whom the Subsidiary Manager could talk and receive advice from on how to better handle the Subsidiary Manager role in the ME. According to the Subsidiary Manager, that interaction became a turning point for how he approached his work: *"I was able to get the benefit and the experience of an outside mentor who had not worked for our company, but in similar roles in other firms. He was at the end of his career and had 30 years' experience of working in Asia, South America and the Middle East. He was able to provide a whole lot of support, advice, and coaching, which I think probably was a turning point for me to take a different approach for how I was carrying out this job."*

Similarly, the subsidiary's HR manager discussed with the Subsidiary Manager the importance of letting her network in the ME region with other HR managers in subsidiary organizations to understand how other HR managers coped with the difficulties she faced in the ME region: *"How do they work? How do they solve all these 'headaches,' which we actually have here all the time?"*

4.3.3.5 ***HR Communication Difficulties***

The HR function had now become more important within the division (Water Solutions), which meant that an increased amount of communication was taking place with the division's EMEA HR manager. The Subsidiary Manager had regular meetings with the division's EMEA HR manager to discuss HR issues that needed to be addressed to support growth in the ME. HR communication was also closely related to the subsidiary HR manager, who had no previous experience in the division and had been employed locally. That experience meant that the subsidiary's HR manager did not always know who to contact within the HR function. Much of the subsidiary HR manager's communication to the division's HR unit was therefore based on trial and error. Due to that trial and error situation, the subsidiary HR manager had several discussions with the Subsidiary Manager about the importance of allowing her to travel to division HQ to establish better connections and receive additional training.

4.3.4 Managerial Activity Developments within the Subsidiary

The subsidiary's communication and collaboration with division (Water Solutions) HQ, Xylem HQ and external actors was dependent on the work being carried out in the ME subsidiary. How work was carried out within the subsidiary meant that tasks had to be delegated, prioritized, and conducted within the ME subsidiary and among subsidiary employees and also systematically correspond to internal and external actors. The development of both communication and collaboration had a temporal aspect. The first priority was to recruit employees who would allow planning activities to take place. Thereafter, there were enough employees who could engage in planning activities. Those planning activities simultaneously required groundwork dedicated to the external and internal actors, as the relationships were going to be subject to changes as a consequence and a possibility to implement plans. Prioritizing, groundwork and planning activities are described below.

4.3.4.1 *Prioritizing Activities*

The major change in how the Subsidiary Manager conducted activities at the subsidiary was how he started to focus. He examined how to prioritize, what to prioritize, and specifically when to engage in certain activities according to the Subsidiary Manager: *"It was a question of really having to sit down and identify the priorities and really decide what I could impact, where I was going to put my energy, and where I was going to be very strong and say 'no it's not on our priority list.'"* The Subsidiary Manager explained that as with any other business, it was only possible to focus on a limited number of priorities simultaneously.

The Subsidiary Manager's first priority was to push for resources with division HQ in order to build what the Subsidiary Manager described as 'stronger organizational capacity' and cope with the prevailing workload during 2009-2010. The transport unit was the biggest revenue-creating business. The transport unit also had many problems, most significantly with the distributors as mentioned previously, and these required much attention. The recruitment of a Business Unit Manager who took on the responsibility of the day-to-day transport activities was crucial to be able to plan future activities. According to the Subsidiary Manager, *"A big step forward was bringing in the BUM, who took all the day-to-day responsibilities and meant that I could sit and work on strategy and work on the objectives and the goals of the subsidiary."*

The BUM was also employed to develop the transport activities in the subsidiary through his previous experience. The BUM had previously worked extensively with distributors and also had considerable experience in operational improvement activities within the business development unit at division (Water Solution) HQ. There, the BUM had worked with the sub-unit that had created the VBCE software later implemented in the subsidiary. The Subsidiary Manager emphasized that the BUM's most important managerial attribute was his ability to provide a process mindset for how activities were planned and were going to be conducted within not only the transport unit, but also the ME subsidiary as a whole: *"I particularly selected the BUM through the interview process because he is a very strong process guy, and this business in the Middle East needs processes. It needs the discipline of having regular routines. It needs a strong direction in terms of what we are working on and the areas we are* *focused on, and he was able to bring that experience."* The next stage of prioritizing was to define those activities to prioritize, as the subsidiary needed to respond to and meet the performance requirements coming from division HQ, which implied the necessity of balancing short-term and long-term investments.

Although Xylem HQ had started to accept a long-term perspective on investment, up until 2012, the resources granted from division HQ to the subsidiary were based on subsidiary operating income. The year-to-year basis of these plans, in terms of making sure that the subsidiary would achieve yearly growth in absolute figures toward division HQ and 25 percent annual growth toward Xylem HQ according to the five-year strategic plan, created a situation in which the Subsidiary Manager felt he had to balance short-term vs. long-term objectives. Changes and investments at the subsidiary that were too large could affect continuous operating income and risk the possibility of achieving the yearly targets, which were continuously monitored by division HQ. According to the Subsidiary Manager: *"We need to split long-term investments over several years, and that means that we have to ensure that the yearly short-term investments that we are implementing do not detract from our ability to achieve short-term targets for the Middle East region. If I overinvest and it starts to affect my operating income, then there is a lot of pressure from division HQ to stop investing even for the short term because it might have an impact on the yearly financial results."*

4.3.4.2 ***The Plan and the Required Groundwork on Actor Relationships***

The common denominator for how the subsidiary would move forward in the ME region was based on the subsidiary's 'Growth Initiative' strategy, created by the Subsidiary Manager and the BUM in 2010. The 'Growth Initiative' was centered on getting closer to the market, that is, closer to the customers. The initial phase of the 'Growth Initiative' was to reform the means for how the subsidiary was working with distributors and engage in direct business. The next stage was to increase the subsidiary's presence in the ME by creating a Free Zone Company (FZCO) in the UAE, with a Board consisting of at least one local actor. This FZCO would decrease the subsidiary's sales dependence on division HQ, as the FZCO would facilitate the sales and purchase of services, products, and processes. According to the BUM, the efforts toward this reformation in term of how to work with distributors and how to establish the FZCO were separate activities, but they still fell under the same 'Growth Initiative:' *"The first phase has been to change the way we work toward distributors, and then the next phase will be the FZCO. But I would say that that the FZCO is separate from the distributor part, but [it] still falls under the 'Growth Initiative' heading."*

Changing the formal structure of the subsidiary into an FZCO was believed to enable the possibility to facilitate 25 percent yearly growth according to the five-year strategic plan. The FZCO was therefore argued to give the subsidiary more decision-making autonomy and increase the speed of development at the subsidiary. According to the Subsidiary Manager: *"An FZCO just gives us a lot more control over our business and the direction and the speed of decision- making, and it is a model that our competitors have been following as well."*

The FZCO meant it would be much easier for at least Global Projects to purchase and combine treatment processes, transport products, and services locally into systems. Further, due to the legal requirements in the ME markets, which require individual set-ups with local actors, an FZCO would facilitate the possibility of increasing collaboration with actors in the ME markets and increasing market presence as well, as the subsidiary would have much more decision-making authority. An FZCO would also make the subsidiary responsible for costs that would likely increase as support units, such as a finance unit or a legal unit, were created at the subsidiary.

The possibility to implement plans required managerial facilitative groundwork toward external and internal actors. For instance, the formal nature of relationships with external actors needed adjustments as described below.

Removing the Distributors' Exclusivity and Influencing HQs to register an FZCO

Getting closer to markets meant a future opportunity to engage in more committed collaborations in the ME markets, and also imposed the possibility of managing a direct business approach in the ME markets. Thus, over 18 months until the end of 2011, distributor exclusivity was removed from all but two distributors (20 distributor contracts were altered), primarily through the efforts of the BUM and the Subsidiary Manager. The Subsidiary Manager argued that the removal of exclusivity required a lot of work from him and the BUM, but nevertheless resulted in a much more coherent and structured approach toward their distributors in the ME: *"We are much more focused and have a more standardized approach on how we manage our partners."* The inclusion of Godwin's transport products also meant that three distributors were inherited by the ME subsidiary. Two distributor agreements were terminated through negotiations and within the remaining distributor contract; exclusivity was removed through negotiations conducted by the BUM and the Subsidiary Manager. This work took approximately nine months. Due to the groundwork efforts of renegotiating the distributor contracts, almost no sales of Godwin's transport products occurred. The BUM emphasized, however, that it was necessary to do the groundwork to allow the subsidiary to create a clear strategy in terms of how to handle the sales of Godwin products: *"To be honest, we achieved minimal Godwin sales last year. But we spent a lot of time highlighting all the issues which needed to be resolved, and that was terminating distributor agreements, fixing the lead times, and discussing how we can support the existing distributor… We now have a much better idea and a good, sound base to build from. We have quite a unique position. We have a white piece of paper. We have no exclusive distributors."*

One of the main duties of the Business Development Manager was to conduct the groundwork to change the formal structure of the subsidiary into an FZCO. The BDM described how the groundwork was a slow-moving process, as the possibility to create an FZCO required Xylem HQ to change policies and provide assurances to board members on the new FZCO Board. As the subsidiary was located in the UAE, Sharia law was enforced, which made registered Board members of an FZCO personally accountable for the subsidiary's activities. This regulation constituted a personal risk according to the BDM.

Although the local registration for an FZCO was fast, the BDM had to work through division HQ to Xylem HQ to ensure that a policy was implemented which allowed for the purchase of obligation insurance as well as a local liability policy that would circumvent any personal accountability for the Board members. Furthermore, the BDM had to identify potential Board members from within Xylem for an FZCO. After the local liability policy and the obligation insurance were approved at Xylem HQ, the legal department at division HQ could begin to address the terms of the registration. The BDM described how the tasks of understanding and registering policies in the UAE, receiving approvals from Xylem and finding potential Board members from within Xylem took the BDM 15 months: *"It is incredibly frustrating, and it has been an extremely slow process, and then I am sitting with a strategic five-year plan where we know what is necessary for us to grow but when such a simple decision as the registration of a company is so slow, well….*"

4.3.4.3 *Planning Activities in the Subsidiary*

The sub-headings below depict the planning activities derive from management positions, followed by the importance of information gathering as a part of planning activities. Finally, the extent to which planning activities took place at an operational level and how planning was synchronized from a management to an operational level are described.

With the recruitment of the Business Development Manager in 2011, a management team consisting of the Subsidiary Manager, the BDM and the BUM was created. The management team outlined future strategies for the subsidiary. According to the BUM, the management team meetings resulted in a structured approach for how the subsidiary was going to develop: *"We have started having management meetings. That is something we didn't have before. The BDM has come on, and she has a management position with more of a strategic role. We have built the foundation now, and we should be in a better position to move the subsidiary forward."*

The management team engaged in scenario planning to prepare different actions and strategies for the subsidiary, depending on the development of the distributors; the aspect of exclusivity; the engagement in direct business; the development of dewatering in the ME markets; and the development of an FZCO. For instance, the BDM described how the management team had built different scenarios for how they would manage the subsidiary's distributors and engage in direct business: *"We have spent a lot of work on building up a scenario-based business case. So the work has been done, but now it is all about stepping in and stirring things up."*

In the five-year strategic plan for Xylem HQ, a 25 percent yearly growth rate meant that the subsidiary had to plan how to grow. According to the Subsidiary Manager: *"What we are now facing is the question of how we achieve growth. It is not why we should or when we should grow, it is really the question or really starting to focus on what we need to do, how we are going to get the subsidiary's business to grow 25 percent annually excluding any inorganic growth."* The task of predicting how the subsidiary would grow ultimately fell to the Business Development Manager. The BDM indicated that the increased interest in the ME region from Xylem HQ led to a situation in which the subsidiary was receiving more support and an increased commitment from Xylem HQ for the subsidiary. However, with that increased support and commitment came an increasing amount of demands on the subsidiary: *"Xylem HQ believes that growth will stem from this part of the world, and with that belief, Xylem HQ will devote promises, commitments, investments, and an understanding of our situation, but the increased commitments also come with an extreme amount of demands."*

The BDM explained that the creation of the five-year strategic plan meant that the BDM and the Subsidiary Manager were not only asked to predict the future of transport and treatment activities, but additionally, the BDM and the Subsidiary Manager had to think outside the scope of activities already conducted within the subsidiary, as the subsidiary would need to add an increased number of functional units to support the growing business units: *"Think about it. If you received a blank piece of paper, and somebody had asked you to build an organization that is going to deliver 25 percent year to year, how would you do that? This organization can hardly support the sales that we have promised for 2012, 2013, and 2014 as of now. If we are going to achieve that 25 percent annual target, we will need a finance unit, a legal unit, order and shipment, and order procurement. Those are capabilities that do not exist here. We are talking about massive changes. But that is what is going to be necessary for us to reach the target."*

Information Collection Activities within the Subsidiary and from External Actors

The five-year strategic plan meant that the BDM spoke with both treatment and transport employees and asked what they would need in order to increase sales by 25 percent annually. When the BDM had gathered the information from the transport and treatment employees, the strategic plan was written and finalized with the Subsidiary Manager, who then presented the plan to Xylem HQ. The five-year strategic plan not only required a lot of work by the BDM, but it also meant that a lot of sales-related tasks were diluted for the treatment and transport employees, as they needed to elaborate on what each transport and treatment unit, respectively, would need to grow according to the BDM.

An important aspect of creating plans that was previously lacking was reliable market information from the ME region. In order for the subsidiary to acquire reliable market information and be able to plan for the future and settle on correct actions for the different ME markets, the subsidiary employed the Swedish Trade & Invest Council in the UAE, where the BDM had previously worked on market research activities. The transport and treatment employees at the subsidiary were fully engaged in sales activities in order to attain results, and the BDM did not have the time to work only with market research, which was the reason why a decision was made by the management team at the subsidiary to use the Swedish Trade & Invest Council. According to the Subsidiary Manager: *"We are using the Swedish Trade Council to do market research on our behalf because our biggest problem is that we still have so few people at the subsidiary. The employees in our organization are fully utilized, delivering the growth aspirations for the subsidiary, and it is a big challenge for the employees to be doing the strategic thinking, market research, and the work that is required in order to build plans that can take our business and the subsidiary further."*

Additionally, several of the employees that were recruited came from competitors in the ME region, which gave the subsidiary a better understanding of how its competitors were acting.

Also, during the interview process for new positions at the subsidiary, the subsidiary's HR manager took the opportunity, along with the Subsidiary Manager, to gather information from applicants who had experience with the ME markets and competitors.

Initiation of Transport-Team Meetings

The 'Growth Initiative' also led the BUM to start transport team meetings during 2011. The BUM and his team of area managers had regular weekly meetings and established action plans for the ME markets and the individual ME distributors. Thereafter, the transport team followed the progress of actions and discussed how those actions could be supported or altered. The BUM indicated that the transport team meetings resulted in a much more focused approach for how transport activities were to be managed: *"What has happened now is that we have got much more control of our resources here at the subsidiary and much better control of the distributors. We are much clearer on what we are going to focus on this year because we also have very limited resources."*

The transport team created different scenarios and attempted to outline the different options possible in each ME market in order to get closer to the distributors and the customers. After the different alternatives were discussed, the BUM and the transport employees decided on an action plan for each market. These action plans examined the dewatering business as well as the traditional transport business, and the area managers sometimes prioritized direct dewatering activities in certain ME markets. Distributors often neglected and did not want to take part in the dewatering business, which opened up for area managers in the direct dewatering business in ME markets with the permission of the distributors. Importantly, the dewatering business was considered unstructured by distributors according to one area manager. Further, sales of dewatering products were much simpler, as those products did not require the same amount of technical knowledge as the traditional transport products. According to an area manager, direct dewatering sales also offered the potential for area managers to work more closely with distributors and understand how distributors were working and thus simultaneously open the possibility to conduct sales and also grow closer to customers in the ME markets.

The SSM also became part of the transport team meetings in late 2011, wherein sales support activities and plans were shared and discussed with area managers and the BUM. The transport team meetings led the SSM to learn about the Customer Relationship Management (CRM) module in the VBCE software, which the BUM had told the SSM about.

The Lack of Treatment Meetings

The activities within the treatment unit were much more isolated at the subsidiary, and there was no formal planning and no formal information exchange across treatment brands to try and create a common direction for the treatment unit. Although both Leopold and Wedeco had grown with regard to employees, both brands managed their own businesses, and the Business Development Director for Global Projects argued that a lack of meetings not only within treatment, but also with transport employees, meant that no information was exchanged: *"We have not managed to get ourselves together on a regular basis, which is necessary. Not only just treatment people, not just Wedeco, Leopold, Sanitaire, but Wedeco, Leopold, Sanitaire, Godwin and Flygt. We still have not come to the point where we share enough information. But that is something we have spoken about and something that the BUM and I have spoken about many times."*

The management team did not include any treatment employees due to the lack of a treatment manager for all of the treatment brands. The Subsidiary Manager had temporarily assumed the treatment manager's role, and for him, the role that was related to the creation of an overarching direction for the treatment unit, which he was struggling to establish. The treatment brands necessitated operational direction on how the treatment unit should work as a team. Therefore, the possibility for the Subsidiary Manager to provide operational direction for the treatment unit while he was trying to steer the subsidiary and correspond to Xylem and division HQs was very limited according to the Subsidiary Manager: *"The strategic part of the treatment manager role falls on my shoulders, which means that I am involved directly with the treatment unit heads at division HQ and my own treatment team to try to work out strategies for how we are going to grow the treatment business and what the market opportunities and the potential are for the next five years. This is quite challenging for me, and I don't really have the time to do that justice. However, there is huge pressure from division HQ that we have to have a strong treatment organization if we are going to reach the ambitious growth targets for the Middle East."*

In addition to strategic prioritization and required groundwork and planning activities undertaken within the framework of the 'Growth Initiative,' the establishment of the HR unit was an important aspect of the potential to acquire the necessary human resources as well as plan for the individual development of employees to facilitate future subsidiary activities. The development of the HR unit at the subsidiary is depicted below.

4.3.5 The Development of HR in the Subsidiary: From Extinguishing Fires to Planning HR Activities

The task of recruiting new employees was given to the subsidiary's HR Manager in 2011, who realized there were several other HR aspects related to training and development plans for the employees. These were necessary, according to the subsidiary HR Manager, in order to establish a systematic approach to how the subsidiary managed HR-related matters and thus allow the subsidiary to develop as planned: *"If we do not have a functioning HR locally, then we will never be able to grow as planned."*

During her time at the subsidiary, the subsidiary HR Manager was primarily engaged in the process of recruiting employees, as that was the first and most important factor for her if the subsidiary was to grow as planned. According to the subsidiary HR Manager: *"If we do not grow as planned, then we will never be able to meet the subsidiary's targets, because those are dependent on continuous recruitment of people, and not just people, but that we employ the right people."* The recruitment process was different in the ME region when compared to the recruitment process in a Western context in terms of the magnitude of applicants for advertised subsidiary positions. These applications therefore took a lot of the HR Manager's time: *"When you conduct recruitments in Sweden, you will have a handful of applicants for each position. When we do the actual job posting, we will have 300 to 400 applicants, of which 75 percent are not interesting for us. But that still requires that we have to click through these 300 to 400 CVs to see who might be interesting, and eventually you might only find 25 persons who are interesting."*

The subsidiary HR Manager was also required to establish HR files, leadership plans, bonus plans, job descriptions, and manpower plans, which previously had been neglected or not prioritized. Furthermore, as the office manager was fired during 2011 due to his lack of experience in managing increasingly complicated administrative tasks, some of the duties he was responsible for in terms of certain Public Relations Officer (PRO) tasks fell on her shoulders and had to be managed for the employees to be able to work at the subsidiary and in the ME region. The HR Manager had no previous experience in the PRO tasks, which, together with the focus on recruitment and the difficulties of managing the other HR-related tasks, led to a work situation for the subsidiary's HR Manager which she described as a 'firefighting situation.' The subsidiary's HR Manager had previous HR experience from the ME and described the experience as helpful to her in reducing her frustration, since the experience helped her understand *"...why things do not work when they do not work."*

In 2012, the most intense recruitment period was calming down, and the subsidiary had employed a PRO assistant and an administrative assistant, which meant that the HR Manager was able to begin focusing on job descriptions, bonus plans, and wage spectra for different positions at the subsidiary. There was, however, still the necessity of trying to find a manager for the treatment unit at the subsidiary in order to direct how that unit would work. The subsidiary HR Manager emphasized that the work that was not directly related to recruitment and her lack of experience in the division created some difficulties for her. She felt that she needed to continuously start from scratch rather than utilize what potentially had been created at the HR unit at division HQ. For instance, in terms of job descriptions, the subsidiary HR Manager had not found any generic job description from division HQ and had taken off from where the previous HR manager had begun in working on job description drafts. Further, with regard to the bonus system, there was no clearly defined differentiation between various managers at the subsidiary, as employee roles could span across different business units. The lack of clarity meant that the subsidiary HR Manager had to discuss individuals with the Subsidiary Manager to figure out who was involved in sales and who was engaged in management. The HR unit at division HQ differentiated bonuses for different employee roles. Furthermore, as the subsidiary was growing rapidly and was going to continue to do so according to the established strategic plans, the subsidiary HR Manager had to continuously follow up on what the employees at the subsidiary were doing and compare that description to the initial drafts of employee job descriptions to ensure that the employees were actually doing what their roles said they should do. The subsidiary HR Manager also stated that it was very difficult to engage in the creation of individual development plans and plan for training and development for employees within the subsidiary.

Obviously, these planning activities were dependent on the activities that the subsidiary employees were conducting, as the success of sales activities was decisive in resource accumulation activities and also in future subsidiary growth and activity undertakings. The differentiated developments between transport and treatment sales activities are described below.

4.3.6 Transport Unit Activities: Possibility to Prioritize and Specialize

The increase of transport employees and employment of the BUM produced increased specialization for those transport employees who were detached from any treatment activities. The establishment of transport team meetings enabled the prioritization of activities and increased the focus of transport employee activities. Together with the implementation of the

VBCE software, the understanding of market developments increased among transport employees as well, as described below.

The prioritization of activities affected not only the Subsidiary Manager, but was also an issue that the Business Unit Manager had to understand in order to address concerns regarding transport activities. Prioritization of activities was therefore learned by the BUM: *"The danger here is that there are so many things going on in the ME. It is very easy to take on too many objectives, and if I am self-critical, that is something I am better at now. But it took me two years to learn."*

The activities in the ME region were not only the most influential aspect to consider in terms of transport priorities. The increased interest in the ME region from division HQ and Xylem HQ also influenced ME activities that had to be addressed by the BUM, as units primarily from division HQ insisted on interacting with customers in the ME markets. The BUM indicated that the division HQ meetings with customers meant that the subsidiary's distributors had to coordinate the meetings and disengage from their own sales-oriented activities toward customers. The BUM noted that he was required to engage in a balancing act. The transport staff did not want to be perceived as working against division HQ, while the transport employees needed to take into account the distributors' situations and the fact that the subsidiary's transport employees ultimately had to focus on sales rather than exclusively facilitating meetings in the ME markets for the division: *"We have to be very careful, because we do not want to say 'no.' If we say 'no,' we are going to be seen as fighting against the division. We have to be very tactful and politely say, 'We think with the limited resources we have that we will be concentrating on these three initiatives this year in our transport unit.' We know what we need to be doing in the subsidiary, as we are the ones [who are] measured on the sales."*

Among the transport employees, one example of the developments that occurred was evident in the sales support team. Previously, all sales support activities were managed by the Sales Support Manager and the area managers. The increase in transport employees, most significantly for the support team, meant that the area managers did not engage in support activities. The increase of support employees also meant that as the new support employees became accustomed to their tasks at the subsidiary, the SSM detached herself from the day-to-day tasks and only became involved when specific inquiries were made or when team members needed help. Therefore, according to the SSM, she increasingly started to plan the steps she thought were necessary to build and develop the sales support unit: *"Once I had everybody in place and beginning in 2011, I am able to concentrate on developing sales support processes for the subsidiary. Further, as we grow, I need to plan what steps we need to take. We need to change so many things that we have had in place since 2006 because many sales support processes are a bit old-fashioned. There is no structure for many of our activities."*

4.3.6.1 ***The Use of Software: VBCE and CRM***

The Value-based Commercial Excellence (VBCE) software provided the subsidiary a much more standardized approach to managing distributor relationships. The training and implementation of the software took almost a year until the end of 2011, and it was initially questioned by some of the transport employees according to an area manager. As VBCE was created to primarily manage customers, the software was modified by the transport team at the ME subsidiary so that it was focused on managing distributors.

The VBCE helped area managers structure market information and sales figures, as it clearly visualized whether data was missing or if there was potential for improving the distributors' sales activities. The visualization of business areas that needed attention helped the area managers to better and more structurally portray for distributors why the subsidiary needed to take certain initiatives. According to an area manager: *"The communication toward distributors becomes very smooth, and there is an atmosphere of commitment from both sides. The communication is also more structured than previously."*

At the beginning of 2012, the SSM and the support team also went through training for the Customer Relationship Management (CRM) module within the VBCE software. The application of the CRM module already meant a more structured approach to how the sales support team managed customer inquiries and calculations according to the SSM.

The VBCE software also had direct effects on distributors in the ME region. All distributors in the region went through training on a simplified version of the VBCE software, which the distributors were obliged to bring on board. This training was provided by a previous expatriate who knew the distributors and who had worked in the ME subsidiary before the arrival of the present Subsidiary Manager. The simplified VBCE software required the ME distributors to devote time to the training that occurred in the UAE. The distributors who were fundamentally dependent on sales of transport products from Xylem were very positive toward the VBCE software according to an area manager. However, the response from some of the other distributors who had their own software was mixed, as those distributors enjoyed the training but were not maintaining the software with continuous streams of information. They used their own software according to an area manager.

The heavy use of the VBCE software by the area managers and distributors meant that an adjustment of procedures was needed for formal matters between the area managers and the distributors. The transport team created a business plan template in the VBCE software, which implied that the traditional business plans that were established between the distributors and the area managers had been replaced.

4.3.6.2 ***Area Manager Activities***

Different strategic paths have been taken by area managers concerning the development of the ME markets. The Arab Spring created a lot of turbulence in Egypt, resulting in few incentives for the subsidiary to get closer to the market at that point in time. Therefore, the responsible area manager had to support the distributor to the best extent possible. The subsidiary had also recently employed a new area manager who would focus on the Egyptian market and other ME markets that were not being given the same attention.

For the Saudi market, the 'Growth Initiative' meant that the area manager who previously had managed both Egypt and Saudi Arabia was going to move to Saudi Arabia to work with the distributor. The negotiations with the distributor were tough, and the decisive factor that led to the Saudi distributor's acceptance of the area manager in the distributor's location was the market research provided the Swedish Trade & Invest Council and implementation and usage of the VBCE software, which helped the area manager clearly outline business areas where the distributor could perform better or that had been neglected by the distributor. The neglected business areas fit Godwin's transport products, and the area manager would thus take on that responsibility and develop the Saudi market.

In 2009, the Qatari distributor requested an employee from the subsidiary who could help the distributor better manage business opportunities. As the previous area manager had left the subsidiary in 2011, an expatriate area manager was employed at the end of 2011, mostly to conduct business development activities from the distributor's location. The area manager in Qatar thus increased the understanding as to why the distributor was underperforming and increased the knowledge level among the distributor's transport employees. The area manager described how the distributor's sales team and its business routines were troublesome. The routines were improved through a reorganization taking place at the distributor; however, the distributor's transport employees lacked a proactive approach to sales activities and were spending much of their time simply waiting for phone calls.

Further, many of the specifications provided to customers by the distributor's employees in the Qatari market were incorrect. Therefore, the area manager began to repair damaged customer relationships with some of the most important customers by providing 'proper' specifications to them. These increased meetings with customers meant that the area manager was able to demonstrate to customers that not only the transport unit, but also 'Xylem' as a whole was committed to the Qatari market. According to the area manager: *"The important aspect of meeting customers is to get to know the decision-makers, get my name known in the market, and get Xylem's name known in the market rather than just the distributor's name."*

The subsidiary's 'Growth Initiative' included the establishment of a direct business approach in the UAE market. Even though distributor exclusivity was still being negotiated, the UAE distributor had given the subsidiary an allowance to provide specifications directly to customers. The subsidiary employed two application engineers in 2011, and they worked for the area manager in the UAE to increase sales, enhance the subsidiary's market awareness, and raise brand recognition in the UAE market. Compared to the difficulties in the UAE market prior to 2011, this area manager, who also had responsibility for several minor ME markets, argued that the developments in the UAE market indicated that the subsidiary was 'in a much better position.'

Direct contacts with customers had been significantly established in the UAE through the area manager and the application engineers, and in Qatar, through the area manager. The direct business approach not only increased sales and gathered market information. Additionally, the four subsidiary employees started product training for distributor employees and customers in the ME markets. Customer training was represented by the area managers as important in making customers aware of feature developments for the transport products whenever customers were considering what kind of solutions they would prefer.

4.3.6.3 *Communication with the Treatment Unit*

The area manager in Qatar was also looking for treatment possibilities, primarily for Global Projects in Qatar. Staff from Global Projects at division (Water Solutions) HQ and the Business Development Director for Global Projects at the subsidiary travelled to Qatar to meet customers whom the area manager had researched. The area manager stated that because he lacked treatment knowledge, the interaction with Global Projects consisted primarily of ‘feeding’ Global Projects staff information about potential or ongoing projects in Qatar: *“What I do is I feed information to them. If I hear of certain projects, then I will feed that to Global Projects, and likewise Global Projects will hopefully start to feed some information back to me. We are all one team, and we need to be driving growth in the ME together*.”

4.3.7 The Dispersed and Independent Treatment Unit

In 2012, the Wedeco, Leopold and Global Projects teams were self-running entities that primarily conducted business within their respective areas of the treatment business according to the Leopold Sales Engineer: *“There is some kind of an island behavior in the subsidiary, and that accounts for all treatment brands. Everybody acts more or less on their own instead of going out as one treatment unit, and that partially has to do with the structure of the sales unit in the division, which is transport driven. Treatment is another piece of cake.”*

Marketing and operational business development for the treatment brands was handled in isolation within the treatment brands. The different treatment brands furthermore had no software, such as the VBCE, either jointly as a treatment unit or independently within the brands. For Leopold, the LSE had solely developed a database to manage customer accounts and running projects.

Overall, there was no homogeneous idea for how the business unit was going to develop and potentially create synergies. No such discussions had taken place at the subsidiary according to the BDD. In 2012, the Subsidiary Manager described how he was still not able to direct the orientation of the treatment unit fully, and in terms of the treatment employees, he communicated that he was not able to provide the leadership and direction he had wished to do for them.

The dispersed treatment unit meant that activities were independently taken within the different treatment brands, and therefore there was a differentiated structure in terms of how to approach and develop them, as described below. Furthermore, as depicted below, the treatment unit’s interconnectivity toward other subsidiaries in the division also meant that the prioritization of activities was affected differently when compared to the priorities undertaken by transport employees.

4.3.7.1 *Mixed Treatment Approaches to Specialization*

The Wedeco team consisted of three employees in 2012 (soon four), and according to the WSM, the possibility to be proactive came from the possibility for the Wedeco team to better organize activities among themselves and conduct business development activities, wherein the Wedeco team could develop a business approach toward the ME markets: *"We organize ourselves more and not only manage the daily proposals and customer follow-ups, but we also do business development. We currently share our time between active projects and have created an environment where we create projects and develop business plans. We have gone from running and not really having a full understanding of what is going on in the ME markets to the current phase, where we have a more rational approach to the markets."* As an example of what business development meant, the WSM described how the Wedeco team had started to position itself toward competitors in the ME region, which made it easier to differentiate from competitors when the Wedeco team engaged in negotiations with customers.

The LSE who had been present at the subsidiary for six months described how the Leopold team, which consisted of three employees, had a more ad-hoc approach to the ME markets. The Leopold Sales Manager was travelling around the ME region gathering leads on projects and engaging in discussions with customers and thereafter providing that information to the Leopold team at the subsidiary. With the information provided from the Leopold Sales Manager, the Leopold team set up process specifications and created proposals for customers. The LSE explained that there were no planning activities on the Leopold team in terms of how to develop different ME markets. The Leopold team, according to the LSE, instead focused on one large market in the ME region that comprised many projects, and thereafter the team engaged in proposals and anything else that was considered necessary for that market, including marketing activities and project management.

There had also been a few successful treatment sales in the ME region, which included processes from both Wedeco and Leopold, and these were specified and designed separately by Wedeco and Leopold employees, respectively. Furthermore, Sanitaire still had no presence in the subsidiary.

With regard to Global Projects, the BDD argued that they followed a global initiative throughout Global Projects, which meant that Global Projects had to narrow down the scope of sub-system sales compared to its previous approach: *"We are focusing on specific processes, such as biological treatment and reuse, where we can package a defined process package for customers, which we believe would be easier to market. That will be key for us in the next six months."*

The Global Projects team had not become larger, and that lack of growth was related to the fact that Global Projects in the ME subsidiary had not won any orders in the ME region. Having won no orders meant that the BDD could not engage in market activities to the extent considered necessary according to the BDD: *"I would like to be out visiting the customers more and giving more presentations. If I would have some more local support, I would be able to do more of that."*

The BDD had tendered several projects but emphasized the necessity to follow up and engage in continuous dialogue with customers to build up the business further. The potential effects of one successful tender would completely change Global Projects' situation in the ME according to the BDD, as the one tender that the BDD had recently sent to a customer could increase the yearly revenues for the subsidiary approximately 20-25 percent if won. The BDD explained how the business format for Global Projects was very difficult to accept in a transport- oriented organization, which the division was still considered. There was no steady flow of revenues from Global Projects, and because a system sales cycle could take several years before it was potentially won: *"You either get it all, or you get nothing. This is very difficult to accept in a division like Water Solutions. You can almost forecast transport sales on a monthly basis. That is extremely difficult with Global Projects. It is an issue of trying to understand how the Global Projects business can be incorporated within the product business."*

4.3.7.2 ***Treatment – Globally Bound Operational Independence***

One aspect of the treatment business that necessitated attention and decision-making according to the BDD was the fact that some of the major subsidiaries in Europe had strong treatment and Global Projects capabilities and sold process designs to customers in their respective European markets where customers used the designs for projects in the ME: *"They will sell within their country for a project in the ME and [that] means that we lose out of sales, because we are not set up to deal with it from here to there, but they can deal with it from there to here."* This notion was communicated to the BDM through discussions between the two employees and had led the BDM to take this aspect into account when interacting with HQs as a matter that could hinder the possibility for the subsidiary to reach an annual sales growth rate of 25 percent.

Linked to the above-mentioned possibility of selling designs locally that were used globally was how the BDD often fed information to Global Projects teams in subsidiaries around the globe to support their design activities with customers in their local markets engaged in projects in the ME. The feeding of such information created a delicate situation for the BDD, as the activities helped Global Projects activities globally, but drew a lot of valuable time away from the BDD which could otherwise be spent developing the ME business: *"The daily routine is to try to handle the huge amount of email correspondence that is referring to Global Projects in the ME region, and we have people based in subsidiaries in the U.S., Central America and even in Korea who are dealing with customers in each of those regions who are active in the ME region. The subsidiaries all want little bits of information, and I find myself as a little bit of an information hub trying to assist, if possible."*

The treatment brands were also to varying degrees dependent on the process designs from the CoEs throughout the division, and therefore, there was also a varying need for the treatment brands at the ME subsidiary to keep design capabilities in the CoEs busy. The degree to which design customization and specification were continuously necessary was limited for Wedeco, increasingly necessary for Leopold, and fundamentally necessary for Global Projects. Concerning Global Projects, the BDD described how he had to alter his ME market plans, as he needed to keep Global Projects' CoE running with design operations, as that CoE had gone through a growth transition during 2009 and 2010. Therefore, the BDD had to find any project that the CoE could work on for the CoE to gain experience: *"My work became quite diluted. I had to look at other countries, which I had not intended to look at. I had to keep feeding the design machine at the CoE and give it work to do. We cannot leave them sitting on chairs. The people at the CoE also have to gain experience from the design work. So, that had a significant effect on how I operated here."*

Similarly, the LSE described the Leopold team's dependence on the CoE in the U.S. and how the subsidiary was dependent on the expertise the CoE could provide. Many employees at the Leopold CoE had left after the creation of the division in 2008. The developments at the Leopold CoE meant that the Leopold team at the subsidiary was restrained, as they were dependent on design delivery from the CoE according to the LSE: *"The CoE cannot guarantee their supply of design and processes and also cannot guarantee the level of knowledge and quality. That is something that we were relying upon."*

4.4 Summary and Discussion of Empirical Findings

This chapter described the evolutionary growth of the ME subsidiary and how that subsidiary over time built its capabilities through the management of new and existing resources that accelerated the subsidiary's evolution. During the same sequence in time, the ME subsidiary moved from a focus of selling transport products to a focus of also offering treatment processes. The movement also affected managerial and employee activities over time, as well as how the management of resources was conducted.

The growth of management and support units within the subsidiary increased the ME subsidiary's managerial capacity to establish strategies and prioritize which designated activities would establish the evolutionary direction of the subsidiary. The increase in employees and units with specialized focus areas meant that the broad spectrum of activities that transport employees and the Subsidiary Manager were primarily engaged in during 2009 could be delegated, while ensuring that performance targets were met or surpassed. The delegation led to the possibility for employees within the subsidiary to focus on their best and strongest areas of specialization. For instance, over time area managers were able to detach themselves from both support and treatment activities and focus on direct or indirect transport sales to customers in the ME markets, Additionally, the subsidiary HR Manager was able to undertake necessary HR activities that had not been known or had been neglected at the subsidiary.

The increase in the number of employees, coupled with existing employees' enhanced understanding of the ME markets, also meant that more interaction and collaboration took place with actors in the ME markets. This amplified external collaboration related to sales activities for both treatment and transport and amplified managerial activities – for example, the BDM's prior work at the Swedish Trade & Invest Council, which led the subsidiary to purchase market research services from the Council, and the Subsidiary Manager's choice to utilize a mentor in the UAE to better manage his own role as a Subsidiary Manager.

The chapter also depicted how long-term strategies for the ME subsidiary, including the 'Growth Initiative,' were executed through simultaneous sub-strategies depending on the specialization. For example, the BDM worked with the FZCO, while the BUM worked with the distributors. The long-term strategy also demonstrated how subsidiary strategies were executed in a stage-like manner, where groundwork was necessary to move to the next stage, as the subsidiary was interconnected with units within Xylem or with distributors in the ME region. For example, renegotiations with distributors were necessary to begin to engage in direct business, and the work concerning FZCO toward division and Xylem HQs was necessary for the subsidiary to register a new formal subsidiary structure in the UAE.

The importance of having managers that could handle the overarching strategic orientation of the subsidiary and be able to execute that orientation through operational activities was also described. The BUM was able to transform strategic goals into operational activities with area managers. The BUM’s efforts also meant that he facilitated the learning orientation of the VBCE software among area managers and was also able to conduct scenario planning along with the area managers in the best possible manner to take advantage of each area manager’s knowledge. For instance, the area manager for the UAE, who had technical knowledge, began to engage with direct business in the UAE market with the two application engineers. On the other hand, the area manager for Saudi Arabia, who did not have the same technical background, was going to move to Saudi and work primarily with the simpler Godwin products. Both examples fell under the ‘Growth Initiative’ strategy of the subsidiary, which was utilized to get closer to the ME markets.

In contrast, although two out of three treatment brands increased their presence at the subsidiary, the treatment brands worked independently, and there was limited operational coherence and collaboration across the brands. The Subsidiary Manager’s dual role, which meant that he was also the treatment manager, facilitated the inclusion of a treatment perspective regarding the long-term strategy of the subsidiary and the subsidiary’s development into an FZCO. However, his lack of operational treatment knowledge also hindered him from being able to direct the operational activities of the treatment unit. The treatment unit also demonstrated how the nature of the treatment business was much more interdependent with other treatment units around the world than at first recognized. An example of this is the global interaction between the BDD and other Global Projects teams across the globe. The interdependence is in clear contrast to the transport unit’s sales operations, which were much more localized. As a result, the importance of maintaining and developing global capabilities became important for Global Projects – for example, the BDD’s interaction with Global Projects’ CoE. Global maintenance and development also stood in contrast to the transport team, which had to maintain and develop capabilities locally.

The significance of HQ coherence with operational practices was also highlighted in this chapter. For instance, the short-term investment perspective displayed by division HQ might have been a means to control investments in a purely transport-oriented context. Yet, fundamentally it worked against the subsidiary in possibly developing treatment operations, as the nature of the treatment business completely differs from that of the transport business. Furthermore, the importance and potential of central support units were described in this chapter, where the requirement regarding the VBCE software from division HQ's business development unit eventually helped the transport unit progress and helped transport employees better evaluate distributors and the available potential in the ME markets. In contrast, the treatment unit had not received similar software from the business development unit at division HQ, and that could have helped the treatment brands to share information more easily and become more structured in their approach to the ME markets. For instance, the Leopold team lacked structure in its approach to the ME markets.

The chapter also described how the subsidiary needed to correspond to both division and Xylem HQs, both of which alternately constrained and opened up possibilities for the subsidiary. For instance, Xylem HQ's sudden move to designate the ME region an 'Improvement Priority 1' led several units within Xylem to focus on developing the ME markets and interact with the subsidiary. Likewise, the two HQs were not always synchronized. For instance, their strategic plans differed, which at times doubled the amount of work for the subsidiary, as it had to relate to and correspond with both HQs in its planning and collaboration activities.

5 Analyzing the Evolutionarily Growing Subsidiary

Following the purpose of the study, the analysis strives to answer the main research question and thereby increase understanding concerning the internal processes of an evolutionarily growing subsidiary. The conceptual model emphasizes the development of capabilities through structuring, bundling and leveraging activities (Sirmon et al., 2007) and increased interdependence with internal and external actors as a subsidiary evolutionarily grows. The reasoning in the conceptual model also highlights that bundling and leveraging are coordinated and facilitated by managers, as specialized operational activities are responsible for value-creating activities toward actors. As discussed more in detail below, the operational specialists in the subsidiary handled interactions with external actors in the ME region and ensured the creation of exchange and utility value. The increasing workforce in the transport, sales support, Leopold and Wedeco teams also facilitated enhanced operational specialization of activities in the ME region. An important factor in how the subsidiary managed and planned to manage activities in the subsidiary going forward was the increase of managers in the subsidiary, as exemplified by the Business Unit Manager, the Business Development Manager, and to some extent the Sales Support Manager, who coordinated and directed activities with the external and internal networks. Thus, as operationally specialized capabilities were created and developed, the creation and development of managerial capabilities also occurred over time. These developments did include the evolution of coordinating and facilitating activities (among other managerial activities) over time.

Through a steady comparison with the conceptual model and the expectations derived from the theoretical framework, the first section of the analysis underscores the development of structuring activities and thereafter discusses the interconnectedness and interdependence between operational (horizontal) and managerial (vertical) capability developments. The first part of the analysis also addresses how bundling and leveraging involved the implementation of managerial abilities that did not necessarily directly result in exchange value but influenced the possibility of developing the capacity to increase utility and exchange value, which was arguably a requirement for sustaining and managing continued evolutionary growth. Most importantly, ‘managerial influence’ over the creation and development of capabilities is highlighted in the analysis as a consequence of the development of managerial capabilities. Thus, in the analysis it is argued that as the subsidiary evolutionarily grew, the management of resources evolved into the management of activities through resources and, fundamentally, knowledge as a purposeful resource. The management of activities pertains to when, what and how activities are managed. The impact of managerial capability developments also affected how the subsidiary addressed uncertainty and became influential.

The case description demonstrated how interaction with customers was very important for the subsidiary as it tried to infiltrate the ME markets. Thus, the second part of the analysis emphasizes the subsidiary as a value co-creating entity, which implies that leverage also requires interaction with actors. Value co-creation was not emphasized in the conceptual model; hence, new theoretical perspectives were added in order to better describe the development of value-creating activities as the subsidiary evolutionarily grew. An evolutionarily growing subsidiary as a business unit that is continuously transforming can be described as ‘disequilibrium-seeking,’ which is a term for continuous change-seeking behavior in the market. Therefore, new theoretical reasoning was also added in order to describe why a subsidiary could be argued to continuously evolve in order to be competitive in the market, thereby providing the reasoning behind the dynamics of managerial and operational capability developments over time.

5.1 Structuring Activities within the Subsidiary

In line with the conceptual model, the responsibility to conduct resource-structuring activities ultimately fell to the Subsidiary Manager, who was appointed by the HQs. The structuring of activities primarily concerned the acquisition of human capital resources (recruitments) and physical capital resources (e.g., a new office and functioning IT systems). Organizational capital resources were also structured as the subsidiary received software that helped the subsidiary to structure data, and to plan and coordinate activities. Formal meetings as an organizational capital resource were also initiated, resulting in forums for learning and knowledge-sharing activities. Divestments, also occurred as exemplified by the office manager who was fired.

Structuring activities were initially directed to support the operational teams, and as expected, resource structuring initially focused on developing sales-related activities in order to increase the subsidiary’s business performance (sales), which meant a focus on developing what Collis (1994), Winter (2003) and Zahra et al. (2006) describe as substantive capabilities that are focused on creating output. The importance of the subsidiary’s performance results was that they constituted the determining force for recruitments specifically to the operational teams, as, for instance, the Global Projects team could not receive resources in contrast to the Wedeco, Leopold and Transport teams, which had increased sales and were granted resources.

Because the performance records were crucial to the possibility of being granted resources from HQs, the findings from the case are in line with Chang et al. (2009) and Mahnke et al. (2009), who emphasize the importance of achieving established performance targets, as these constitute an efficiency measure for HQs. The performance record constituted an important determinant regarding the extent to which the subsidiary received resources for capability development from HQs. Thereby, HQs, in line with Bouquet & Birkinshaw (2008), utilized power-holding mechanisms concerning critical resources for the subsidiary.

As anticipated from the conceptual model, when the subsidiary grew in terms of human resources, the magnitude of administrative work also increased, which required specialized managerial activities and units. For example, a business development unit and an HR unit were established, which meant that the subsidiary enhanced its managerial human capital resources and increased its amount of specialized functional units.

Accumulating activities were not specifically discussed in the conceptual model but were described in the theoretical framework and were important for the subsidiary. In the subsidiary, the increase in staff meant that accumulating activities were enabled by those who were recruited or by the employees who were afforded the possibility of conducting accumulating activities within their specialized tasks. Accumulation meant that learning activities were to be conducted throughout several managerial layers in the subsidiary, nuancing Sirmon et al. (2007), who emphasize only those managers having overarching organizational responsibilities in the resource management framework. For instance, the recruitment of sales support staff enabled the SSM to take a step back from the day-to-day activities with distributors and aid her support team. Such aid meant helping the team with tasks of a more difficult nature and therefore accumulating the team's collective understanding of how to manage support activities. An example of how accumulating activities increased as a consequence of recruitments was the hiring of the BUM, who created a structured means for the transport team's activities and shared information and knowledge through meetings. Accumulation, as a part of managerial structuring activities, concerns the development of resources according to Sirmon et al. (2007). However, as learning takes place within the minds of individuals (Simon, 1991), accumulation refers to the managerial enabling of the potential for learning among individuals, as managers cannot conduct learning for others.

5.2 Bundling Activities within the Subsidiary

Bundling activities were expected to involve the stabilization and enrichment of capabilities for a young subsidiary, as these activities would more rapidly result in achieving the performance record rather than engaging in pioneering activities, which would require a higher degree of learning. The increase in staff ensured that an increased specialization through the stabilizing and enriching of operational activities was permitted in the subsidiary. As an example, with the increase in sales support staff, support activities became more stable, as the increase allowed the staff to manage the vast amount of inquiries from distributors. The increase in sales support staff also meant that area managers were relieved from support activities and could focus on increasing sales in the ME region. Stabilization in the RMF is argued to affect the incremental improvement of capabilities that, for instance, can be achieved through continuous training (Sirmon et al., 2007). However, the increase in staff meant that activities within functional units (sales support) as well as across functional units (area managers) of the subsidiary became less fragmented. Less fragmentation meant that specialization was allowed, leading to an enhanced focus on activities within the roles of the employees (sales support or sales), which implied an increased possibility to refine those activities and enhance value creation. The possibility to refine activities is in line with Simon (1955), who argued that specialization is necessary as individuals cannot store, accumulate and refine all knowledge. Following the reasoning above, a similar stabilization of activities occurred on a managerial level as the recruitments of the HR manager and the BUM released the Subsidiary Manager from recruitment and the direct management of the area managers, enabling him to focus on planning activities in terms of how the subsidiary would develop.

The transport team (BUM and the area managers) as well as the sales support team received software training. In addition to stabilizing, which is characterized by Sirmon et al. (2007) as consisting of continuous training within a specific set of capabilities, the software training of support and transport team meant that learning occurred across functional units in the internal network (the software and training stemmed from the business development unit at division HQ). The software training therefore constituted an enrichment of capabilities, as training was provided from a different unit (business development), which is argued by Collis (1994) and Day (1994) to result in the possibility of offering more value, as knowledge accumulation occurs from a differentiated knowledge domain. Similarly, receiving training and software from the business development unit exemplified interaction across the internal network, in line with Ozsomer & Gencturk (2003), who point out that these interactions are undertaken to modify and enhance capabilities. On a managerial level, enrichment activities were not as explicit. However, the HR manager began working with a new recruitment-software and was planning to meet HR managers in the ME region to learn how they managed the HR operations in the ME. Similarly, the Subsidiary Manager met with a mentor in the UAE who had many years of foreign working experience in similar positions in MNCs, and from whom the Subsidiary Manager received support, advice and coaching. Those meetings provide an example of a form of learning/interaction with the external network that is argued by Li (2010) to enhance capability development in subsidiaries. Thus, the structuring and bundling activities as described above were conducted within each specialized team or unit as expected from the conceptual model but could have direct and indirect effects on activities in the subsidiary.

The importance of ensuring results and the difficulty of understanding the transformation into a treatment organization meant that employees within the subsidiary did not engage in activities to which they were not accustomed. Rather, the opposite was evident, as area managers who were asked by division HQ to engage in treatment sales were later removed from those activities by the Subsidiary Manager and the BUM. Rather, new capabilities were initiated through the recruitment of employees with new and specialized skills. For instance, Leopold employees were recruited to establish new treatment capabilities with regard to filters, an after-sale employee and a sales engineer were hired for Wedeco, and application engineers who had specialized knowledge of how to manage direct transport sales were recruited. As the subsidiary grew, and as mentioned above with regard to managerial capabilities, an HR manager as well as a strategically focused BDM were recruited to manage specialized managerial activities within the subsidiary. Thus, specialized recruitments were made as part of pioneering within bundling, in line with Sirmon et al. (2007), as the activities performed by the new recruits initiated new capabilities in the subsidiary. Nevertheless, and as expected from the conceptual framework, pioneering activities that grew out of developments from within the subsidiary rather than as a consequence of recruitments were initiated within the subsidiary's management team and primarily by the BDM, who were planning and conducting the groundwork to transform into a treatment organization and change the subsidiary's formal structure into a, FZCO, which would require new functional units such as a purchasing and a legal unit. Thereby, as the subsidiary evolutionarily grew, both in terms of operational and managerial capability developments, pioneering activities emerged from within the subsidiary.

5.2.1 The Development of the Management of Resources – Prioritizing

A very important aspect that affected capability development in the subsidiary involved decisions concerning ‘when’ and ‘what’ structuring or bundling activities were conducted and ‘how’ capabilities were to be leveraged. In order to understand the development of the management of resources over time, a brief recap of the situation in 2009 is described below, which is followed by a description of those activities that can help to describe ‘when,’ ‘what’ and ‘how.’

The area managers expressed a lack of purpose regarding their activities during 2009, as they did not understand what their roles were and where the subsidiary was heading. There were also many different perspectives from the treatment and transport staff in terms of what the transformation to a treatment organization meant for the subsidiary and for the employees’ roles. The Subsidiary Manager emphasized that he felt he was situated in a swamp during 18 months of managing day-to-day problem-solving activities until 2010, when the BUM was hired. Specifically, the recruitment of the Business Unit Manager in 2010 meant that the Subsidiary Manager expressed that he could ‘take some proper actions.’ Those actions helped to shape the evolutionary growth of the subsidiary and are analyzed below, beginning with ‘prioritization.’

Prioritizing when to conduct an activity in a subsidiary was not an aspect discussed in the theoretical framework, and limited theoretical research related to prioritizing was found. Hence, a primarily empirical analysis is presented. Initial prioritizing represented a means of reactively supporting activities (e.g., enabling IT systems, ensuring cleaners at the office) and building up a necessary knowledge base (e.g., sales support), thereby stabilizing existing sales operations. Prioritizing concerned facilitation of the stabilization and potential enrichment of operational capabilities, as described with regard to bundling above. Reactive prioritizing was a strong force for decision-making when the subsidiary was trying to increase sales and support distributors, which the subsidiary’s employees struggled with. Simultaneously, division HQ wanted the subsidiary to increase its performance record and also wanted the subsidiary and the subsidiary’s transport employees to commit to treatment sales. With the recruitment of managers, the subsidiary’s managerial capacity and abilities increased, which meant that prioritizing was achieved not only reactively (e.g., the recruitment of the HR manager), but also proactively with regard to both structuring activities and the prioritization of activities in order to reach short-term and long-term goals. Therefore, prioritization was related to the timing dimension in terms of when an activity would be conducted.

A proactive approach meant that prioritizing became a foundation for becoming influential in the internal and external networks and also imposed the possibility and the ability to choose among alternatives. Those alternatives concerned, for instance, how to grow in the ME region where the subsidiary chose not to engage in dewatering sales in the entire ME region after the division's acquisition of Godwin, but only in those ME countries (e.g., Saudi Arabia) that were of significant importance to the subsidiary, and where dewatering represented an opening that allowed the subsidiary to get closer to that market in accordance with the distributor. Another aspect that was proactively prioritized above others was the recruitment of a treatment manager who could understand and coordinate activities across the treatment teams.

Learning to balance priorities where the subsidiary was being influenced from the external and internal network, while the subsidiary was trying to increase its influential power, meant that prioritizing as a managerial activity evolved over time. For instance, the BUM required two years on the job before he felt he had learned how to prioritize activities. Likewise, the Subsidiary Manager sought help from an outside mentor to learn how to prioritize. Thus, prioritizing could be argued to be a developing ability. 'Prioritizing' as an ability stems from the known understanding of when certain decisions need to be taken, in line with Holcomb et al. (2009), who argued that abilities constitute a manager's knowledge, skills and experience. Although a manager might have abilities, the possibility to implement these might be constrained and can also be tied to the fragmented nature of managerial work. Managerial work has been found to be fragmented by Carlson (1951) as it pertains to executives' work; by Florén (2005) when studying managers in small and medium-sized firms; and by Arman (2010) when studying managers in the public sector. The Subsidiary Manager's swamp metaphor meant that with the recruitment of the BUM, the scope of managerial activities was shared, implying the possibility to focus on decision-making activities within the responsibilities of the managers. Thus, the BUM focused on managing day-to-day transport activities, whereas the Subsidiary Manager started to work on strategy and the objectives of the subsidiary. The increase of managers in the subsidiary subsequently increased the subsidiary's managerial capacity and decreased the scope of activities for which managers had responsibility, thereby decreasing upcoming problems from a wide array of areas for a single manager, which have been described as fire-fighting and/or trial and error activities by Greiner, (1972), and Churchill & Lewis (1983). Thus, the Subsidiary Manager's initial prioritization of operational and managerial recruitments is in line with Birkinshaw et al.

(2005), who argued that young subsidiaries are internally focused, which also follows the arguments of Li, (2005) that a young subsidiary's initial internal focus on HQs is in order to receive support and knowledge. For the subsidiary that knowledge was sought for through the acquisition of human capital resources.

Over time, prioritizing was conducted in order to focus on key activities that were occurring or were going to be initiated as a part of the subsidiary's planning activities, and that were increasingly initiated as a consequence of developed managerial abilities and the subsidiary's enhanced managerial capacity. Thus, prioritizing moved from a reactive and short-term approach to a proactive approach, where prioritization meant strategic decision-making among alternatives of 'when' subsidiary activities would be initiated or influenced. The possibility to prioritize activities over the short term and long term was tied to the possibility of planning activities that also enabled the direction of activities conducted in the subsidiary, as described below.

5.2.2 The Development of Planning Activities

The subsidiary's establishment of a management team (Subsidiary Manager, BDM and BUM) allowed for increased intricacy in strategy development and greater definition of 'what' the subsidiary was striving to achieve. Planning also involved scenario planning that was developed with the existing knowledge in the subsidiary, which helped to prioritize decisions and revealed the interconnectedness between managerial activities. The planning activities followed a sequence of meetings and implied an increased accumulated understanding of the operational activities within the management team, which is in line with Barney (1991), Simon (1991) and Grant (1996), who argued for the importance of learning and information- and knowledge-sharing in order for a business unit to evolve. The interaction between team members and the elaboration on different scenarios required input from the participants and increased the managers' situational comprehension, allowing them to conduct what Slater et al. (2006) describe as strategic development activities across a business unit. The outcome of the management meetings meant that the subsidiary's 'growth initiative' developed. The growth initiative guided the activities of all employees in the subsidiary to get closer to customers and distributors in the ME markets in the short term, and also the subsidiary's development into a treatment organization in the long term. Therefore, the guidance through the growth initiative created an entrepreneurial vision, described as the second primary source for organizational change (apart from R&D) by Penrose (2008), which meant that individual roles were adjusted primarily for the area managers in the short term, as they had moved or were moving to the distributors' locations in order to learn from the markets and/or conduct direct business. In the long term, the development into an FZCO would still imply that the transport and treatment teams would conduct operations they were knowledgeable about, but the FZCO would also allow the subsidiary to provide solutions as a form of a sub-contractor for the intended initial purpose of Global Projects. The growth initiative established and developed by the management team meant that a foundation for leading and directing activities in the subsidiary was created, where the development of activities in the subsidiary followed a path that was believed to enhance the subsidiary's performance. This is in line with Delmar & Shane (2003) and Zahra et al. (2006), who argued that planning activities in order to change behavior and provide direction for activities is essential for long-term survival. The guidance that created the subsidiary's entrepreneurial vision is also argued to be important for sustained subsidiary evolution (Dederichs, 2010) as a form of transformational guidance over time, which indicates why management meetings continuously took place in the subsidiary.

5.2.3 Directing Activities within the Subsidiary

The entrepreneurial vision needed to be operationalized by specialized units in the subsidiary. The implementation of plans required an acceptance and understanding of changes to activities among the employees. These changes concerned, for instance, the implementation of software and an explanation as to why dewatering would be the focus of certain area managers in their respective markets. For the subsidiary, it was important to overcome discrepancies in terms of what was achievable by the operationally specialized units and teams and to understand individuals' abilities and their degree of specialized knowledge, which is argued by Grant (1996) to be the degree to which individuals can create value through a refinement process. To understand specialized knowledge domains among individuals is difficult due to its tacit nature (Grant, 1996), which was the case in the subsidiary, as the specialized knowledge resided with employees in the diverging teams and units. To understand the operational specialists' individual abilities required a certain degree of operational experience in order to direct their behavior. The BUM had operational experience from managing distributors and also had strong process skills in order to create a structured means for how the transport team would work. Similarly, the area manager for UAE, who had technical knowledge, was granted a team consisting of two application engineers, whom he directed in the UAE market. The SSM was also able to step back and direct her sales support staff. Similarly, the WSM was assigned a sales engineer and an after-sales manager, whom he directed. Therefore, the possibility to direct activities increased over time as managerial capacity and abilities were recruited or freed. The managers described above became increasingly involved in supportive leadership as a form of *'people skills'* (Vie, 2010, p. 189), symbolizing the possibility to overcome discrepancies in abilities and operationalizing goals established through planning behavior, which also involved understanding the nature of operational activities. Supportive leadership was significantly important when it involved directing activities that were specialized within each functional unit and team, and was partly anticipated from the conceptual model with the establishment of middle managers. The reason for the use of the word 'partly' is related to the fact that leadership was not only conducted by the management team, as anticipated, but also by operationally focused middle managers. In this regard, the BUM as well as the SSM, as middle managers, played important roles. In line with prior research, they conveyed information and also served as information processors, sharing their understanding with the management team in subsidiaries and with operational specialists, tasks which are described by Dederichs (2010) as important for middle managers in order for a subsidiary to continuously evolve. Therefore, middle managers can influence and have a role in operationally directing 'how' plans are going to be operationalized, and they also function as important actors in conveying feedback on the operationalization of planned activities.

The BUM and the SSM had to find a means to influence employees in terms of how the existing human capital resources within the specialized teams and units could and would work according to the planned strategy. Therefore, directing a change of activities for the area managers that was dependent on their individual abilities was managed by the BUM. For instance, the area manager for UAE engaged in a direct business approach, whereas the area manager for Saudi Arabia and Egypt was planning to focus on simpler dewatering products and move to Saudi Arabia. Similarly, the BUM, the SSM and the HR manager identified processes within the transport, sales support, and HR teams that needed to be developed, and they also sought to ensure that activities in the teams reached goals or established targets. These developments in changes to activities by the SSM, the BUM and the HR manager formed an important aspect of leadership that, according to Kotter (1990), is constituted by the development of constructive and adaptive change.

Whereas planning created an overarching purpose for activities in the subsidiary, the importance of middle managers (e.g., the BUM and the SSM) was visible through their efforts to direct activities within the specialized teams or units. Therefore, middle managers enacted planned activities in the subsidiary and, as described by Dederichs (2010), middle managers constitute ‘strategizing individuals’ who direct plans toward customers. Hence, as the specialized employees constituted value-creating individuals who interact with customers (Grant, 1996), middle managers constituted individuals who, through their directing activities, were indirectly an important part of leveraging activities, as these activities constituted the value-creating efforts toward actors in the conceptual model.

The lack of directing activities was also visible in at least one instance. Managerial capacity and ability were not effective in directing the treatment unit as a whole across the Leopold, Global Projects, and Wedeco teams. The Subsidiary Manager temporarily assumed the role of managing the treatment unit while he had the overarching responsibility for the subsidiary, and he expressed difficulties in directing the treatment unit. The difficulties of directing treatment operations were related to the Subsidiary Manager’s lack of treatment experience and the struggle to understand how to direct activities, taking into account the differentiated specialization and abilities across the treatment teams. Nevertheless, the managerial activities in the subsidiary were holistically directed toward the long-term vision of a treatment organization and also functioned as guidance for the treatment teams. Managerial planning was conducted in accordance with the knowledge that had been accumulated concerning the purpose of the treatment activities. The Subsidiary Manager and fundamentally the BDM talked with the treatment teams in order to better understand their activities, opportunities that existed in the ME region, and what resources were needed by the treatment teams in order to grow as planned. Thus, the planning of future activities and the development of the growth initiative meant that the managers did not require an understanding of the technical details of treatment activities and thereby were in line with Nelson and Winter (1982), who argued that knowing the purpose of an activity does not imply the necessity to understand the specific details. Knowing the purpose of activities through interaction and learning meant that it was possible to create the growth initiative across the entire subsidiary, which is important according to Wright et al. (1994) and Penrose (2008) in order for a strategy or an entrepreneurial vision to be followed in a business unit such as a subsidiary, where the behaviors of the employees should be in line with that strategy or entrepreneurial vision. However, directing specialized treatment activities that could lead to collaboration across the treatment teams, which could enable systems sales (combined treatment processes across the treatment brands) required an enhanced, specialized technical knowledge, for which the subsidiary did not have the capacity or the abilities to handle. Hence, this was one of the reasons why the subsidiary prioritized the recruitment of a treatment manager.

Overall, and taking into account the reasoning in the conceptual model, where direction was emphasized as an outcome of planning activities (Delmar & Shane, 2003), the analysis above points out a difference where ‘direction’ was provided through the growth initiative as an entrepreneurial vision in the subsidiary. However, ‘directing’ specialized activities meant the provision of leadership as to how the direction would be operationalized in order to create value among specialized units and teams. In this role, middle managers played an important role as conveyors of information and functioned as ‘strategizing individuals’ enacting planned activities.

Although prioritizing, planning and directing activities were important in the subsidiary, facilitative activities were necessary in the subsidiary and across relations with actors in order to allow for decisions that implied a change in the subsidiary’s activities. Such a change of activities constituted facilitation for the development of the subsidiary’s business responsibilities or charter and is described below.

5.2.4 The Facilitation of Activities

The importance of enhancing the performance record meant that managerial activities from 2008 until 2010 were continuously focused on facilitating for operational activities through structuring, as expected from the conceptual framework. Facilitation concerned ‘what’ activities needed to be conducted in order to ensure that activities in the subsidiary could be operationalized. Initially, facilitation therefore involved the structuring of physical and human capital resources in order to ensure that employees in the subsidiary could enhance subsidiary performance.

Managerial facilitation for capability development also took shape over time and consisted of creating a foundation to allow for future activities to occur, as expected from the conceptual model and in line with Grant (1997), emphasizing the necessity to facilitate for the possibility for operational specialists to be able to coordinate activities. Facilitating for future activities in the subsidiary took place as the BDM, who was preparing for the five-year strategic plan, visited with all of the treatment and transport teams in order to understand what they would need to grow as planned, while also trying to grasp the required and non-existing capabilities for the FZCO, in line with Grant’s (1996) argument regarding the importance of overcoming knowledge barriers and differences among specialized employees.

The differentiating aspect of the conceptual model was how facilitation was increasingly executed toward internal and external actors, as these actors constituted interdependent relationships that needed to be adjusted in order to allow for planned subsidiary activities. Facilitation was visible toward external actors, where the closure and renegotiation of contracts with distributors by the BUM and the Subsidiary Manager were required for the subsidiary to get closer to the ME markets and led to differentiated business approaches in the different ME markets. Facilitation within the internal network was specifically visual with the BDM, who worked her way up to Xylem HQ in order to facilitate for an FZCO. The facilitation that followed the outcome of planning activities concerning, for example, the development of an FZCO required increased learning, as facilitation activities were undertaken with the purpose of changing activities within the subsidiary and changing relationship statuses. Learning was visible through knowledge shared within the subsidiary during management team meetings; knowledge that stemmed from external actors (distributors and the Swedish Trade & Invest Council); and knowledge derived from internal actors (corporate and division HQs). Learning was important for facilitating activities on an individual level, and in line with Simon (1991) concerning the importance of interaction among individuals in order to learn, and also in line with Johanson and Vahlne (2009), who argue for the necessity of learning from network actors in order to enhance the possibility of expansion and consequently increase business performance. Learning therefore constituted an enhanced understanding of what facilitative activities were necessary for the development of capabilities within the subsidiary, and also how these facilitative activities needed to be conducted by managers.

Managerial facilitation, planning, direction and prioritizing also meant that coordinative activities were needed to determine ‘how’ to roll out capabilities and changes to activities and to impose changes to the subsidiary’s business responsibilities (charter), as described below.

5.2.5 Coordinating Activities

With the recruitment and promotion of managers in the subsidiary, coordinating activities began to take shape fundamentally concerning how activities would be executed in the different teams and units. Coordinating activities developed and took place by, for example, the BUM in the transport team, the WSM’s activities within the Wedeco team, and the SSM’s activities within the sales support team. Coordination concerned managerial activities as well as operational activities. It was conducted in order to structure activities toward internal and external actors and was therefore part of leveraging. Both managerially and operationally, the management meetings as well as the transport team meetings not only functioned as a means to share information and plan future activities, but also to utilize the knowledge from the team members to coordinate activities through scenario development activities, taking into account the prevailing abilities in the subsidiary. In accordance with Grant (1996) and Sirmon et al. (2007), coordinating exemplified a managerial choice of establishing coordinating mechanisms to make use of the interdependencies among employees. The transport team meetings meant that knowledge was shared, learning occurred, and abilities were implemented in terms of how activities would be conducted by the employees while taking into account the importance of not jeopardizing the possibility to deliver results, following the conceptual model and Grant (1997), which emphasized the importance of business performance when coordinating, and also in line with March (1991) concerning the importance of balancing explorative and exploitive activities. As the transport team coordinated how it would strive to get closer to the ME markets and the management team coordinated how it would strive to become a treatment organization, individual activities were delegated to the employees, who in turn coordinated how that work would be conducted. Thus, the SSM and the area manager for UAE coordinated and managed the activities within their small teams and respective fields of responsibility. Likewise, the HR manager and the BDM coordinated their individual tasks.

As expected from the conceptual model, through interaction and coordination between the operational specialists and the middle managers, the subsidiary engaged in several coordinated mobilizing strategies toward the ME markets regarded as leveraging activities in the RMF. First, the subsidiary made use of employees' individual abilities in order to create strategies. For instance, the area manager in UAE, who possessed technical knowledge, focused on a direct approach; the area manager in Qatar supported and helped the distributor's employees while directly interacting with the customers; and the area manager for Egypt and Saudi Arabia planned to engage in simpler dewatering sales in Saudi Arabia. From a treatment perspective, and as the Wedeco team enhanced its human capital resources (a sales engineer and an after-sales manager), the team coordinated and mobilized its activities and efforts in order to make use of its ability to influence customers more proactively. Thus, the diverging abilities of the area managers and the Wedeco team were used as a foundation for coordinating a mobilizing strategy, which is described by Sirmon et al. (2007) as a resource advantage strategy. The possibility for the area manager to engage in Saudi Arabia was also a consequence of the opportunities that market research had provided about dewatering opportunities in the country. Similarly, the Leopold team focused on ME markets, which were believed to be the most profitable. Hence, opportunities in the ME markets also constituted a foundation for mobilizing strategies for the subsidiary, which Sirmon et al. (2007) describe as a market opportunity approach. As the subsidiary evolutionarily grew, the BDM initiated the planning and facilitating activities for what was believed to be necessary to develop into an FZCO and become a treatment organization, as the possibility to facilitate and plan for new means to conduct operations in the ME region emerged. Hence, and as expected from the conceptual model, entrepreneurial strategies were initiated as abilities and capacities increased in the subsidiary.

In contrast to the conceptual model, there was not a homogeneous mobilizing strategy (resource advantage, market opportunity or entrepreneurial) across the subsidiary. Rather, information- and knowledge-sharing within the subsidiary and across the internal and external network meant that all three strategies were used simultaneously in order to follow an established plan, where entrepreneurial strategies emerged as the subsidiary evolutionarily grew.

5.3 From the Management of Resources to the Management of Activities

As the subsidiary evolutionarily grew, the implementation of managerial abilities increased, and the focus of managerial activities either spanned across operational activities as depicted by the subsidiary HR manager's tasks, or focused on managing a specialized set of operational activities within the subsidiary. The latter is exemplified by the BUM's work, which was primarily focused on developing the transport unit. From the description of the different management activities depicted above, managers had an important role in the subsidiary, as they influenced activities in the subsidiary and made use of existing resources in terms of the knowledge regarding 'what,' 'when' and 'how' activities could develop, which affected the activities performed in the subsidiary. Managing activities and resources in an evolutionarily growing subsidiary meant influencing activities by which effects were created through the creation of capabilities, and efficiencies were ensured through the development of capabilities. Managing activities meant that individual responsibilities were assigned to influence activities within the subsidiary that could be directed toward internal and external actors. Influencing activities meant increasing efficiency and creating effects through the outcome of ability implementation, where efficiency concerns what Alchian and Demsetz (1972, pp. 793-794) defined as *"…knowing more accurately the relative productive performances of those resources."* Therefore, 'knowing' constitutes the use of knowledge as a purposeful resource to influence activities. The reason for the use of the word 'activity' is related to how behavior is not necessarily patterned, in line with Winter (2003), who argued that activities require a certain degree of patterned behavior in order to be considered routines or capabilities. Drawing from the case description, the Subsidiary Manager's activities until 2010 were in many cases reactive as a consequence of matters that needed immediate attention (structuring activities). When managerial activities were shared following the creation of managerial positions through recruitments (BUM, BDM, HR manager) or through the transfer of managerial responsibilities among employees (SSM, area manager UAE, WSM), the possibility to structure managerial responsibilities and activities in accordance with prioritizing, planning, directing, facilitating, and coordinating increased. Thus, the five managerial activities above became managerial capabilities as they evolved to be patterned, and they influenced when, what and how activities were to be conducted over the short term and the long term. What differentiates these patterned managerial capabilities from routines is that the information and knowledge that constituted the basis for decisions is continuously in flux, which is one reason why continuous meetings were required at the subsidiary in order to adjust activities or influence the creation of new ones. Thus, as expected from the conceptual model, information gathering and processing was progressively managed through managerial capabilities across the subsidiary as it evolutionarily grew. The development of managerial capabilities constituted what Simon (1955) refers to as managerial specialization in decision-making. These developments meant that the management of resources as fundamentally a structuring activity evolved into the management of activities through resources and, fundamentally, knowledge as a purposeful resource, as the subsidiary evolutionarily grew. This finding stands outside the expectations found in the conceptual model as well as the RMF, as managerial behavior is not described as activities that evolve into capabilities, which could be argued to be required in order to continuously manage and influence activities as a subsidiary evolutionarily grows.

The possibility to develop managerial capabilities was dependent on both managerial capacity and abilities and was directly linked to organizational slack. Organizational slack allowed not only for planning capabilities to develop in the subsidiary, as described in the conceptual framework, but also the possibility to implement managerial abilities as a whole. Over three years between 2009 and 2012, the subsidiary's revenues doubled, whereas the staff trebled in number at the subsidiary, indicating that HQs allowed for a change to the ratio between revenues and the amount of staff. Thus, although the subsidiary was continuously required to increase its business performance, the subsidiary was given more slack in terms of the number of employees versus sales that were generated. Not only did the amount of operational specialists increase, but also the amount of managers. In comparing the organizational charts in 2009 (see Figure 10) and 2012 (see Figure 13), it is obvious that the number of managers (having the responsibility of at least one employee) increased from two managers to eight. As performance results were essential for the continued growth of the subsidiary, activities conducted by operational specialists and managers were interdependent. What the analysis above demonstrates is that it was important to reach performance targets; however, HQs can also provide resources to an extent that organizational slack is increased. Thereby, and nuancing the conceptual model, HQs can provide resources as subsidiaries are developing capabilities that have not necessarily become mature, as resources can be necessary to initiate new capabilities. What the aspect of organizational slack does show and correspond to with regard to the conceptual model is the importance of a continuous mutual understanding between HQs and subsidiaries.

In the conceptual model, organizational slack constituted the *"…disparity between the resources available to the organization and the payments required to maintain the coalition"* (Cyert & March, 1963, p. 36). Whereas the term, 'coalition' could be interpreted as the subsidiary, the importance of the quote is linked to the term 'maintain,' as maintenance concerns the continuous managerial influence to balance exploitive and explorative activities (March, 1991) that affect the disparity between 'resources available' and 'payments required,' which constitutes organizational slack. The development of operational capabilities through the knowledge that existed within the subsidiary was dependent on the believed effects and the potential to implement abilities that could result in enhanced value creation, which required managerial influence. As mentioned previously, abilities were constituted by the knowledge, skills and experience that existed in the subsidiary and that increased through learning, which stemmed from accumulated knowledge and from recruitments of employees who had abilities that were previously unknown in the subsidiary, and this pertained to both operational specialists and managers. In some cases, as with the SSM (from operationally managing distributor inquiries to managing and developing how distributor inquiries would be developed) and the development of activities for the HR manager (from only managing recruitments to planning how to establish training plans for the employees, develop job descriptions, learn from other HR managers in the region) and, importantly, for the Subsidiary Manager, these managers had abilities that they could not utilize, as the pressure to ensure results hindered their managerial abilities and hence, influenced the development of activities into capabilities in the subsidiary. Therefore, and as expected from the conceptual model, organizational slack ensured the managerial capacity to make use of managerial abilities. Similarly, with regard to operational specialists, the possibility to learn and enrich substantive capabilities (software training for transport and support employees) stemmed from organizational slack. Thus, organizational slack also constituted the capacity to learn for all employees. As a consequence, and as an important aspect related to what constitutes a capability, in order for capabilities to develop and be created, abilities need to be realized or implemented to exist as a patterned activity. Thus, in order for a subsidiary to evolutionarily grow, capability creation and development concerns the implementation of a subsidiary's ability to *"...synthesize and apply current and acquired knowledge"* (Kogut & Zander, 1992, p. 384), where 'ability' implies knowing how to synthesize and apply knowledge, and 'implementing' indicates the capacity to realize that ability. Consequently, capability development occurs through learning (Simon, 1991; Sirmon et al. 2007), and/or through that which is known (Grant, 1996), and through implementation, where these activities are interdependent and do not occur in isolation as capabilities are created or developed (Orlikowski, 2002).

Overall, as the subsidiary evolutionarily grew through the creation and development of capabilities, a proactive approach to how to manage uncertainty developed, which is described below.

5.4 The Development of a Proactive Means to Address Uncertainty

From 2008 until 2010, uncertainty prevailed at the subsidiary in terms of not knowing how, when and what activities were going to be performed. The uncertainties concerned, for example, the development of treatment activities, distributor relationships, and a direct business approach. Before the development of managerial capabilities, there was an awareness of difficulties within the subsidiary and the difficulties that prevailed with actors. The transformation toward treatment also imposed changes to the operational activities, most significantly for the transport staff, which meant that the area managers were asked to sell processes for which they lacked the ability to manage. This made it very hard for the employees to estimate what was required from them. Overall, the insecurity over how to manage uncertainty was high in the subsidiary during 2009, where the transport team strongly exemplified resistance to change and followed Marschan et al. (1996), who found that within decentralized MNCs where communications networks become distorted or damaged through structural change, negative effects are created among employees who work against the intended change. The experienced insecurity can be explained by the subsidiary's lack of capacity and abilities, resulting in what Sirmon et al. (2007) described as uncertainty over how to respond to contingent opportunities or threats. Employees' awareness of difficulties constituted their knowledge about difficulties. With the development of managerial capabilities that influenced activities, the awareness turned into a purposeful knowledge that affected decision-making concerning when, what and how activities would be conducted and influenced in the subsidiary, which resulted in specialization of operational activities.

Prioritizing, planning, facilitating, directing and coordinating capabilities meant that the specialized units and teams in the subsidiary conducted and developed capabilities for which that they had a pre-understanding. The evolutionary growth of the subsidiary therefore resulted in an increased and specialized awareness of environmental uncertainty, in contrast to Sirmon et al. (2007) and Sirmon et al. (2010), who emphasized the strive toward temporary fits with the environment. Temporary fits indicate that uncertainty can be decreased. With increased managerial capabilities, together with a more efficient implementation of operational abilities, uncertainty was proactively structured in terms of how the subsidiary would deal with uncertainty, which led to structured identification and collaboration with internal and external actors. For instance, in the transport team, the coordinated and mobilized strategies that followed the growth initiative meant that with market research and the abilities of the area managers, the subsidiary proactively found the means for how the subsidiary was going to be able to work more closely with distributors and be able to interact directly with customers. All area managers had received a better understanding of the distributors and their weaknesses, and this information was utilized to get closer to them and to customers. For instance, the distributors in UAE and Qatar lacked technical knowledge, which meant that direct business was conducted in UAE, and with regard to Qatar, the area manager moved to the country in order to work with the distributor. In Saudi Arabia, the distributor was hesitant to engage in the dewatering business, which was a simpler product and provided an opportunity for the area manager to move to Saudi Arabia and work with the distributor and with customers in the market. Within treatment, proactiveness was emphasized by the WSM, as the Wedeco team had become stronger, which meant that they worked to influence customers rather than responding to inquiries.

Uncertainty was also dealt with in the internal network, as the BDM's strive to facilitate an FZCO led her to interact directly with corporate HQ in order to ensure that policies were created which would not render future board members personally accountable for any potential wrongdoing. The proactiveness relieved tension among the subsidiary's employees, as uncertainty not only was something the subsidiary was aware of, but also a matter that was dealt with. Thus, through the implementation of managerial abilities and the creation of an entrepreneurial vision that was adapted to the prevailing resources in the subsidiary by coordinating and directing activities, an acceptance and willingness to take risk emerged. The acceptance and willingness to take risk is a requirement for successful implementation of an entrepreneurial vision according to Penrose (2008), where, for example, the activities that were conducted primarily by area managers had not previously been part of their core activities. As a consequence and as anticipated from the conceptual model, the influence on activities from developed managerial capabilities leading to an entrepreneurial vision, together with the coordinating and the directing activities, subsequently led to an increase in employees who were striving to overcome knowledge barriers, which was tied to the enhancement of the subsidiary's absorptive capacity, which is described by Minbaeva et al. (2003) as a combination of employees' motivation and their abilities.

Organizational slack as a managerial capacity and a resource for capability development (rather than solely a planning resource, as described in the conceptual framework) nuances Cyert and March (1963), who argue that business units avoid uncertainty while simultaneously avoiding planning activities. The subsidiary was subject to internal and external networks and the local environment, with continuously dynamic actors, and therefore uncertainty continuously prevailed. Taking into account that the developments in the internal network influenced the subsidiary's view of the local environment and its resources (e.g., the division's acquisition of Godwin), business units such as subsidiaries could be argued to try to impose managerial capabilities to the extent that slack is available in order to develop capabilities that ensure survival and direct activities as a means of addressing uncertainty. Thus, Simon's (1955) and Barney's (1991) emphasis on the importance of managerial information gathering and synthesis for business units as an integral part of what Kogut and Zander (1993) and Ambos et al. (2006) describe as learning and knowledge accumulation in MNCs could be argued to be continuously required in order for a subsidiary to develop and create managerial and operational capabilities as a means to proactively address uncertainties over time, taking into account the subsidiary's knowledge domains at one point in time. Thus, the development and direction of the operational capabilities that create organizational slack simultaneously require managerial influence to better be able to leverage operational capabilities and address uncertainty over time.

5.5 From Being Influenced to Becoming Influential

Within the subsidiary, and prior to the increase in managerial capacity and abilities, both the transport and treatment employees described diverging paths of development toward a potential treatment organization. Likewise, from various units within the division, different means of how the ME subsidiary would manage the transition to a treatment organization were brought forward. From the external network, both well-performing and more difficult distributors demanded prioritization. The development of managerial capabilities was essential, as those defined guidance in terms of what, when and how activities would be conducted following the entrepreneurial vision and created a counterbalance toward the influential forces within the subsidiary, in the internal as well as the external network. As anticipated from the conceptual model, the development of managerial capabilities imposed the creation of an influential force within the internal network, described as a subsidiary's voice by Bouquet and Birkinshaw (2008), which is exemplified by the Subsidiary Manager, the BDM and the BUM, who influenced and informed actors within the internal network about the potential of the ME region and what the subsidiary required in order to perform better. The increased interest in the ME region from the internal network meant that the Subsidiary Manager as well as the BDM engaged in increased presentation activities, where the subsidiary strove to ensure that resources would be granted as an influential proactive requisite to growth. The development of a proactive influential force in the subsidiary, in line with Birkinshaw et al. (2005), indicates that the subsidiary was driving what it considered to be its business responsibilities (charter) and, importantly, shows how proactiveness developed toward the internal network, which might be an explanation for the argument by Prahalad and Doz (1981) that HQs' strategic control over subsidiaries decreases over time as subsidiaries 'mature.' Within the internal network, the influential activities meant that with the subsidiary's evolutionary growth, the liability of internal isolation in the internal network, as described by Monteiro et al. (2010), decreased as the Subsidiary Manager described how the subsidiary's influence in the internal network imposed an increased interest in the ME region, as well as how the promotion of the region into an 'Improvement Priority 1' by division HQ implied increased interaction from actors in the internal network toward the subsidiary.

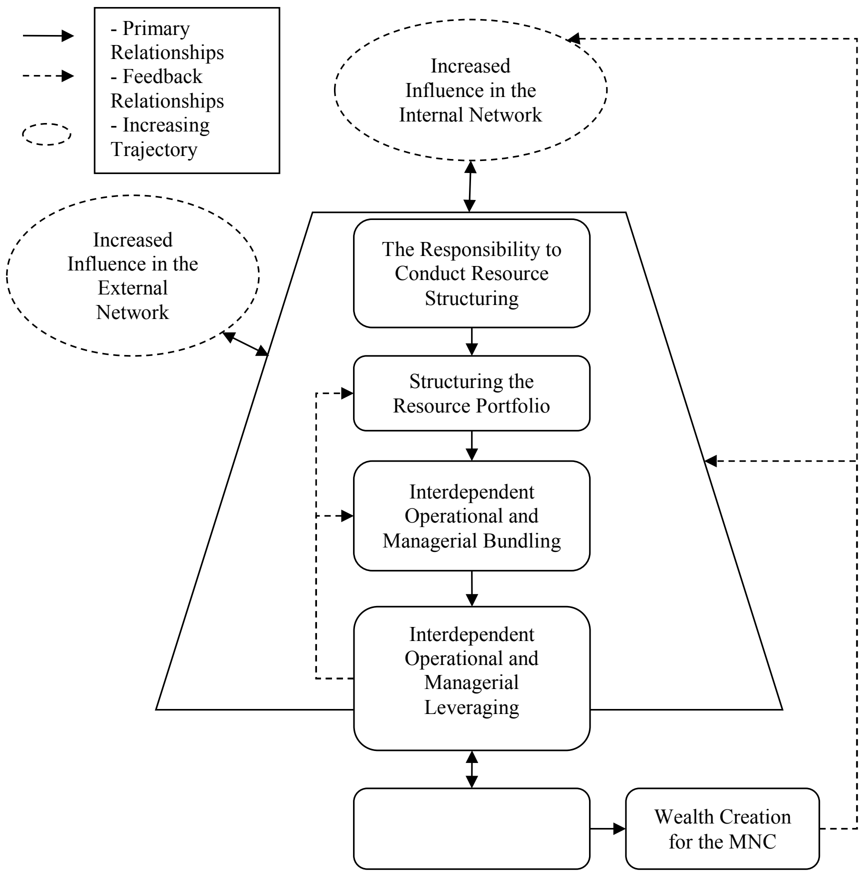
The proactive influential force meant that the awareness of uncertainty was employed as a purposeful resource (described above) in order to perform better toward internal and external actors. Therefore, it could be argued to be a prerequisite to how a subsidiary can integrate more knowledge from actor relationships, as described by Andersson et al. (2001), and also how the variances in evolution among subsidiaries in an MNC can produce differentiated opportunities to appropriate resources from their actor relationships, as described by Forsgren et al. (2005). It could be argued that a subsidiary's realization of strategy as a vector of its influential direction is focused on the balance between short-term obligations and performance requirements, as well as an agenda of what the subsidiary believes will be the best for long-term success. Therefore, the development of capabilities, highlighting the interdependent nature of managerial and operational capabilities that lead to an increased proactive influential force, exemplifies how a certain degree of decision-making autonomy is not necessarily provided by HQs to subsidiaries, as described by Birkinshaw and Hood (1998), but, rather, increases as a subsidiary evolutionarily grows.

5.6 Summing up the Evolutionary Developments within the Subsidiary

To sum up the analysis so far, the evolutionary growth of the subsidiary meant the creation and development of both operational and managerial capabilities over time. The overarching responsibility of structuring fell to the Subsidiary Manager, where the possibility to structure resources was dependent on the subsidiary's performance record and the mutual understanding with HQs. The analysis also demonstrated the structuring and bundling of both operational and managerial capabilities and their interdependent nature. The interdependence was required in order to manage the balance between explorative and exploitive activities over time and to try to create organizational slack, which constituted a basis for learning and enhanced managerial capacity.

Managerial capacity allowed for the implementation of managerial abilities. Whereas 'the management of resources' was important, its development in the management of activities was essential, as the dynamics of the capacity and ability to influence capability creation and development is important in order to evolutionarily grow over time. Managerial capabilities pertain to when, what and how activities will be developed and concern prioritizing, planning, directing, facilitating and coordinating. The management of activities meant that managers had to increase their knowledge about activities, where middle managers played an important role within the subsidiary in order to synchronize activities and create guidance as well as direct guidance in terms of where the subsidiary was heading, which created a purpose for activity developments. The effects of the interdependent (managerial and operational) capability developments meant that the subsidiary increasingly became proactive in terms of its influential toward external and internal actors and also led the subsidiary to address uncertainty rather than merely being aware of uncertainty. The above mentioned is summarized in a partially concluded model (see Figure 14). The reason for the term ‘partially’ is related to leveraging. Whereas leveraging was linked to coordinating and directing capabilities, the final stage of leveraging (deployment) is difficult to conduct without collaboration with actors. The deployment of capabilities that ensured value was evident both toward internal as well as external actors over time and displayed an increased interdependence with actors as the subsidiary evolutionarily grew. Therefore, the importance of value co-creation activities with actors and its relatedness with an increased interdependence in the internal and external network is described below and is important in order to explain how value-creating activities developed over time in the subsidiary.

Figure 14 A Partial Internal Process Model of an Evolutionarily Growing Subsidiary



Source: Author’s own, inspired by Sirmon et al. (2007)

5.7 Continuous Value Development in the Evolutionarily Growing Subsidiary

The following paragraphs will initially outline value co-creating activities and will thereafter address how value co-creating also constitutes knowledge-sharing activities with internal and external actors. The development of value co-creating activities also imposes an influential force of change toward markets described as disequilibrium-seeking behavior, which is dependent on the creation and development of capabilities within a subsidiary. Thus, the analysis will end with the final model emphasizing value co-creating activities, disequilibrium-seeking behavior and the internal processes as a subsidiary evolutionarily grows.

5.7.1 The Co-creation of Value

With evolutionary growth, the number of products and processes that constituted the subsidiary's market offering increased. As described throughout part one of the analysis, the means for how the products and processes were offered to the market changed over time as the subsidiary gained knowledge, created and developed capabilities, and learned about the internal as well as the external actors, the different competitors in the ME region, and market opportunities. The WSM emphasized how the Wedeco team was becoming proactive and was able to differentiate and position themselves in comparison to competitors when interacting with external actors, as the team had a better understanding of the markets and the activities of competitors. The establishment of Leopold in the subsidiary obviously established a new knowledge domain at the subsidiary that previously was non-existent, which created new treatment capabilities that could be deployed. The transport team utilized its abilities and the information provided by distributors and the Swedish Trade & Invest Council in order to create different strategies in the different ME markets. The increase of operational specialists meant that the subsidiary was collaborating much more closely with customers and distributors. Thus, the subsidiary increasingly interacted with actors through means of value co-creation.

Collaboration with actors can be seen as a process where value is generated (Vargo & Lusch, 2004; Vargo & Lusch, 2008), and therefore a business unit *"…can only offer value propositions; the consumer must determine value and participate in creating it through the process of coproduction. If a tangible good is part of the offering, it is embedded with knowledge that has value potential for the intended consumer, but it is not embedded with value (utility)"* (Vargo & Lusch, 2004, p. 11). Business units such as subsidiaries can therefore only compete with other firms through value propositions toward actors. Thus, at any given time, value is created in the present through value co-creation processes. Value is ultimately appraised by the user. Thus, utility and exchange value is established in each value co-creation process (Vargo & Lusch, 2004; Lepak et al., 2007). As mentioned previously with regard to coordinating and directing, the development of managerial capabilities was important, as that development helped to mobilize operational specialists to focus on offering value propositions that could increase exchange and utility value. These propositions were balanced between a relative short-term approach (dewatering, direct business) and a long-term approach. The managerial facilitating activities and the work by area managers to convince distributors about opportunities in the markets were crucial. The long-term approach meant becoming a treatment-oriented subsidiary with increased degrees of decision-making autonomy (cf. Birkinshaw & Hood, 1998) that was believed to increase sales through diverging and enhanced value propositions, including products, processes and services from both external and internal actors, which would be possible through an FZCO. As anticipated from the conceptual model, with increased autonomy and with the development of managerial and operational capabilities, the possibility to create new means of conducting business increased, thereby in line with Venaik (2005) and Cantwell and Mudambi (2005), who argued that with increased autonomy subsidiaries become increasingly innovative. The possibility to co-create value not only increased as a consequence of increased specialization through the creation and development of capabilities, but also introduced the possibility of learning more from actors, which was one of the foundations of the growth initiative. Furthermore, the subsidiary initiated means by which it could share knowledge with distributors and customers to be able to provide greater utility value. Thus, the ability to offer enhanced value propositions was an important influential force toward the market and the external network, as well as a means to enhance interdependence, as value co-creation also constituted a knowledge-sharing activity, not only in the external, but also in the internal network, as described below.

5.7.2 Value Co-creation as a Knowledge-sharing Activity

As capabilities were created and developed within the subsidiary, and with the increase of specialized teams and units, internal network relationships were initiated and developed. The subsidiary's units and teams were recipients of knowledge for capability development, which was exemplified by the knowledge-sharing that subsidiary employees were involved in and received from the business development function and the CoEs for the treatment teams, in line with Rugman et al. (2011), who described conceptual MNCs as having functional networks crisscrossing the internal network. The increased interaction with the internal network meant that the SSM and her team of sales support staff and the team of area managers underwent software training from the internal network that enabled the employees to better manage data streams, make decisions and influence external actors, and co-create value. Thus, learning from the internal network took place as the subsidiary evolutionarily grew, as expected from the conceptual framework and in line with Venaik et al. (2005) and Li (2005), who argued that learning primarily takes place through the internal network. The Subsidiary Manager also collaborated with managers from corporate HQ when developing the new five-year strategic plan. He furthermore helped the HR manager with HR-related matter across the internal network. Similarly, the BUM and the expatriate area manager in Qatar created internal network relationships for the subsidiary, in line with Tregaskis (2003), who argued that expatriates are initiators of network relationships. The establishment of the Leopold team as well as the Global Projects team also spurred interaction with different units within the internal network to conduct sales activities toward external actors and to manage capability developments. Therefore, as anticipated from the conceptual framework, and following Asmussen et al. (2009) and Mahnke et al. (2009), the increase of operational interaction throughout the internal network led to an enhanced collaborative interdependence within the internal network.

The operations of the treatment teams demonstrated how the nature and the degree of complexity of treatment sales necessitated increased internal network interaction, and also how this created an increased weight (dependence) (cf. Bouquet & Birkinshaw, 2008), as the treatment teams significantly enhanced other treatment units' dependence on the subsidiary. For instance, capability development and knowledge sharing were not necessarily bound to the subsidiary, as it was important to maintain and develop capabilities globally. Both the BDD's and the Leopold team's interactions with their respective CoEs was a means to develop the respective CoEs. The BDD also interacted with other Global Projects units to assist them in better co-creating value with customers that conducted business in the ME. Thus, in addition to the expected enhancement of performance for the focal subsidiary through collaboration, the interdependence with internal actors and with the evolutionary growth of the subsidiary led the treatment teams to become providers of information for other subsidiaries to increase performance.

When the transport employees' human capital resources and capabilities developed the increased possibility to learn how the subsidiary would be able to help the distributors, this led to the possibility for knowledge sharing and learning through direct interaction and training with customers in UAE, as well as interaction and training with the distributor and customers in Qatar. Similarly, a simplified version of the VBCE software was provided to the distributors, and the distributors were involved in training sessions provided by the division's business development function, which meant that the distributors would better be able to synthesize market information and focus on those areas that needed improvement. The value co-creation through knowledge sharing with distributors and customers meant that an increased interdependence in the external network was developed, in line with Håkansson and Snehota (1989), Johanson and Vahlne (2009), and Li et al. (2010), as enhanced collaboration with external network actors meant that the possibility to co-create value increased.

The combined effect of the development of value propositions and value co-creating activities as a consequence of the evolutionary growth of the subsidiary meant that a continuous change process was developed over time, which is described below.

5.7.3 The Disequilibrium-seeking and Dynamic Subsidiary

The subsidiary's understanding of the external environment changed over time with capability developments and changes to the value propositions. For instance, being aware of the potential of the dewatering business might not have been a purposeful resource prior to the inclusion of Godwin products in the market offering. However, with the inclusion of Godwin in the market offering, the awareness of the potential for dewatering products became a purposeful resource that was used directly with regard to dewatering, and also for the overarching plan for the subsidiary in the ME region. Learning about a competitive setting and understanding the position of products and processes in the ME markets functioned as a control mechanism, where the subsidiary's knowledge and resources were utilized in order to differentiate and focus on those activities that could deliver the highest amount of utility and exchange value, which consequently was believed to result in an enhanced performance record for the subsidiary. From the conceptual model, and following the resource management framework, the possibility to reach sequences of perceived superior value was argued to be a matter of contingent effects, where subsidiary influence was an effect of a subsidiary's possibility to realize knowledge from its resource domain, which was temporarily better than the influence that competitors could provide (Sirmon et al., 2007; Sirmon et al., 2010). Taking into account the difficulties of achieving a full understanding of the competitive environment and the shifts and developments of the subsidiary's capability portfolio through, for example, the difficulties and opportunities the dewatering business imposed meant that with evolutionary growth, the environment was viewed differently. Due to the complexities of trying to establish temporary sequences of superior value through a fit with the environment found in the RMF (cf. Sirmon et al., 2007) and the complexity surrounding actually determines temporal superiority (cf. Sirmon et al., 2010), the resource-advantage (RA) theory (Hunt & Morgan, 1995) offers the potential to understand competitive behavior over time. The RA theory, as a research stream within marketing called 'resource management' (Vargo & Lusch, 2004), describes how competition drives a continuous struggle for resources to enhance a business unit's competitive position in a market where continuous competition occurs, leading to a situation in which business units act in a manner that imposes disequilibrium to bring about change in markets and increase a business unit's market position (Hunt & Morgan, 1995). Thus, markets with disequilibrium-seeking actors are *"...inherently dynamic. Disequilibrium, not equilibrium, is the norm, in the sense of a normal state of affairs"* (Hunt & Morgan, 1995, p. 8).

The subsidiary made use of market research from the Swedish Trade & Invest Council to examine opportunities in the ME markets and subsequently attempted to appropriate those opportunities. The appropriation measures meant that the subsidiary was trying to influence the market and increase the subsidiary's position in the market according to that which was known at one point in time. The subsidiary as a continuously disequilibrium-seeking entity meant that it required dynamic capabilities. The implementation of managerial abilities that in turn created a portfolio of managerial capabilities (prioritization, planning, directing, facilitating and coordinating) which drove change constituted what Adner and Helfat (2003) describe as managerial dynamic capabilities. However, these managerial dynamic capabilities were interdependent with leveraging through operational capabilities, which combined could be argued to result in the subsidiary's dynamic capabilities. If coordination between operational and managerial capabilities is lacking, the continuous adjustments that are required as a consequence of capability developments within the subsidiary, and through the presence of disequilibrium-seeking actors in the internal and external network, could be argued to lead to non-sustainable business progress across a subsidiary with heterogeneous knowledge domains. Within the subsidiary, the specialized knowledge domains were very divergent and required a managerial understanding of activities in order to establish when activities would be prioritized, what activities were deemed necessary through planning, and what facilitation the internal and external network relationships would require, which would drive how activities were coordinated and directed. Thus, managerial capabilities were a means to managerially balance influential change from the subsidiary with the requirements and influence from external and internal actors. The subsidiary was a heterogeneous entity due to the specialized differences among teams and units. However, it had initiated a transformation to an FZCO that was believed to be better able to make use of its diversity of abilities across the subsidiary in order to create more value. Such heterogeneity is believed to enhance innovativeness, learning and performance, but it requires continuous adjustments, according to Gong (2003), due to the necessity to bridge specialized domains of knowledge (Grant, 1996; Szulanski, 1996). Therefore, the heterogeneity in the subsidiary could have been a reason for the emphasis and development of managerial capabilities to understand, manage and influence activities that spanned the subsidiary. This is also related to the argument that boundary-spanning activities across specialized domains (Day, 1994; Hult, 2011) are resource-intensive (Lagerström & Andersson, 2003) and therefore provide an explanation as to why the subsidiary needed organizational slack in order to create and release managerial capacity that could influence activities across the heterogeneous subsidiary.

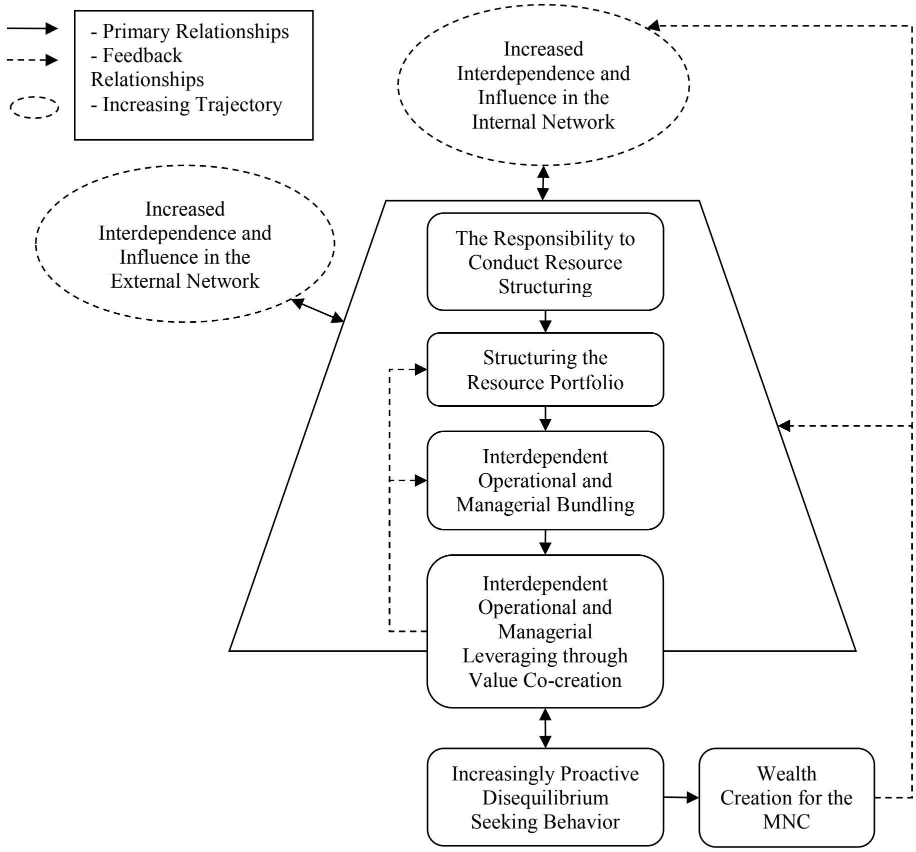
The implementation of the 'Growth Initiative' had not reached a stage where the treatment and transport units collaborated, but the implementation was conducted in a stage-like manner that strove to create a treatment-oriented subsidiary that encompassed all units and activities in the subsidiary. The Subsidiary Manager could not pose the risk of boundary spanning activities that would dilute the operationally specialized capabilities ensuring that sales targets were met, as performance targets constituted an important criterion for HQs' measurement of the subsidiary's efficiency (cf. Hillman & Wan, 2005; Chang et al., 2009; Mahnke et al., 2009), which consequently also establishes wealth creation for the MNC. The business performance record toward HQs was essential in order to receive resources and the responsibilities for an FZCO that would further increase the subsidiary's autonomy in terms of decision-making freedom, which was believed to increase the potential for capability development and value co-creation. That capability development meant the possibility to freely purchase services, products and processes that would constitute systems, which would pose a change of the subsidiary's value propositions as an influence for disequilibrium in the ME region (cf. Morgan & Hunt, 1995). Overall, the speed of dynamicity within the subsidiary could therefore be argued to depend on the potential to implement change.

Nevertheless, the evolutionary growth of the subsidiary, which meant the development and creation of managerial and operational capabilities over time, led to a continuous charter change (cf. Birkinshaw & Hood, 1998), meaning that the subsidiary progressively became an influential disequilibrium-seeking entity that did not strive for a fit with the environment but, rather, tried to ensure continuous development of value propositions to enhance value co-creation. Thus, the changes that took place in the subsidiary were a transformation of when, what and how activities were going to be conducted through managerial influence, following Dederich (2010), who described subsidiary evolution as a process of continuous renewal.

Disequilibrium-seeking for the subsidiary could be argued to be a means to enhance its influential power externally as well as internally through the continuously required development of operational and managerial capabilities. In a setting with disequilibrium, managers strive to act in a manner in which strategies are developed according to available resources (Schweizer et al., 2010), which also implies that the subsidiary in a given moment in time operates according to that which is known (Grant, 1996). However, continuous capability development means that a subsidiary is situated in a continuous but varying state of 'creative value destruction' (Schumpeter, 1942) of existing capabilities, as learning is required, which decreases efficiency at one moment in time. Nevertheless, learning as a knowledge-generating process was required as a means of finding new ways of co-creating value in the ME region, where product (transport) competition was primarily based on price, and where there was a strong presence of systems providers. In accord with Teece et al. (1997) and Barreto (2010), this meant a necessity of dynamic capabilities, as learning is required to survive in an uncertain and dynamic environment, where other firms act similarly but where the level of firm-like influence on the market varies. In this setting, the difference between a continuously evolving substantive capability and a dynamic capability is that the former defined a frame by which to focus on a specific set of primarily operational activities, whereas the latter focused on imposing change throughout the subsidiary organization as a whole. The dynamic capability was exemplified through the implementation of the 'Growth Initiative,' which required the creation, the development and the combining of all managerial and operational capabilities. Substantive capabilities, as argued by Winter (2003) and Zahra et al. (2006), focus on creating output and require continuous development, as otherwise the possibility to be dynamic is decreased and hinders the potential to be proactively disequilibrium-seeking in an environment with actors who behave in a similar manner. If substantive capability development does not occur within the framework of an overarching plan or vice versa, there might be a risk that specialized substantive capability developments create increased independencies among specialized units or teams, hindering the possibility to realize future dynamic capabilities, which can explain why the subsidiary was striving to develop managerial capabilities (also for treatment) that would make use of the potential across the specialized teams and units. This was an idea that the Subsidiary Manager had already mentioned in 2009, when he was concerned about the risk of creating a fragmented business approach toward the ME markets, as the subsidiary could develop into a business unit of independent functional units and teams.

Overall, the importance of value co-creation leading to enhanced interdependence with external and internal actors and the development of value propositions as a proactive disequilibrium-seeking force that is dependent on managerial and operational capability creation and development is portrayed in Figure 15. The analysis unfolds the internal processes as a subsidiary evolutionarily grows, including the creation and development of interdependent managerial and operational capabilities through learning, the knowledge that resides in the subsidiary, and implementation. These activities require the management of resources, which during evolutionary growth leads to the management of activities, fundamentally through knowledge as a purposeful resource. Thus, the study provides answers and reasoning to the main research question and the sub-research questions and fulfills the purpose of the study.

Figure 15 An Internal Process Model of an Evolutionarily Growing Subsidiary



Source: Author's own inspired by Sirmon et al. (2007)

6 Conclusion

The first section of the conclusive chapter outlines the main findings of the study. Following the findings of the study, the theoretical contributions and managerial implications are presented. Finally, the study's limitations and the possibilities for future research are discussed.

6.1 The Main Findings of the Study

The theoretical foundations for the study included the traditional evolutionary framework developed by Birkinshaw & Hood (1998), which presents three drivers for subsidiary evolution, with the internal driver serving to emphasize decision-making and dynamic capabilities. However, the critical process of how resources are assembled into capabilities is not emphasized in the traditional subsidiary evolutionary framework. Thus, the resource management framework developed by Sirmon et al. (2007), which emphasizes the process from the structuring of resources to the bundling and leveraging of capabilities, was included in the study. The study at hand shows that evolutionary growth consists of the creation and development of capabilities over time, where a subsidiary has to correspond to both internal actors (HQs as well as subsidiaries) and external actors. The former is important, as HQs primarily engage in power-holding activities toward a subsidiary, which limits its possibility to develop capabilities through resources. However, HQs are also providers of resources, which enable a subsidiary to develop its business responsibilities. Similarly, external actors are important, as these actors establish the possibility for a subsidiary to create and provide utility and exchange value, which forms an important performance criterion for a subsidiary's efficiency and consequently its possibility to receive resources from HQs. Thus, continuous interactions with external and internal actors constitute important determinants for the business responsibilities that an evolutionarily growing subsidiary undertakes, and in line with Birkinshaw and Hood (1998) and Birkinshaw et al. (2005), external and internal actors influence a subsidiary's charter over time.

The study demonstrates how the evolutionary growth of a subsidiary requires the development of both managerial and operational capabilities, which are interdependent. The creation and development of managerial capabilities impose a proactive influential force throughout a subsidiary and toward internal and external actors concerning the subsidiary's business responsibilities. Throughout the evolutionary growth of a subsidiary, the developments of managerial capabilities evolve from the management of resources into the management of activities through resources and, fundamentally, knowledge as a purposeful resource. The creation and development of capabilities mean that an enhanced interdependence is created with the internal and external network. Leveraging activities (cf. Sirmon et al., 2007) are also argued to not be completely internally bound activities, but, rather, constitute continuous value co-creation processes with actors. Sustained evolutionary growth is shown to require dynamic capabilities as a combination of the interdependent structuring, bundling and leveraging of operational and managerial capabilities. Such a transformation means that a subsidiary continuously strives to impose change on markets as a result of influence that is described as disequilibrium-seeking behavior. The above-mentioned is synthesized in a model presented on p. 154 (see Figure 15) that emphasizes the internal processes within an evolutionarily growing subsidiary. Below, the aspects mentioned in this paragraph are conclusively described as the main findings of the study.

The analysis shows that in order to develop and create capabilities, the management of resources in a small subsidiary initially concerns the structuring of activities through the acquisition of fundamentally human resources. In the study, and in line with the RMF, these resources stabilize and enrich capabilities and enable the development of new capabilities (Sirmon et al., 2007). Capabilities in the study are argued to develop through learning (cf. Simon, 1991; Sirmon et al., 2007), the knowledge that resides in a subsidiary (cf. Grant, 1996), and implementation in order to carry out patterned activities, which when combined are interdependent and are required for capability development (cf. Orlikowski, 2002). Thus, the accumulated knowledge in a subsidiary constitutes abilities, as these are based in individuals' knowledge, skills and experiences (Holcomb et al., 2009). The reason for the distinction between learning and the knowledge that resides in a subsidiary is related to specialization, as an individual cannot store, accumulate and refine all knowledge (Simon, 1955). Structuring resources can therefore increase and also release human resource capital that allows for specialized abilities to be transformed into capabilities. In the study, it is argued that structuring resources can directly and indirectly enrich and stabilize activities across a subsidiary as specialization is allowed. Importantly, learning occurs within the minds of individuals (Simon, 1991), and knowledge sharing between individuals implies the possibility to learn (Sirmon et al., 2007). In this regard, the evolutionary growth of a subsidiary means that managers are not directly part of bundling activities (stabilizing, enriching and pioneering) related to operational capabilities. Rather, the evolutionary growth of a subsidiary consists of the creation and development of operational (horizontal) and managerial (vertical) capabilities over time, where the business responsibilities, that is, the subsidiary's charter, are a direct consequence of those interdependent capability developments.

The development of capabilities requires organizational slack (cf. Cyert & March, 1963) that is either provided by HQs and/or through enhanced subsidiary performance, which means that managerial capacity is enabled to influence the continuous creation and development of capabilities in a subsidiary. As a subsidiary evolutionarily grows, the management of resources evolves into the management of activities through resources. 'Activity' is used as a starting point and as an overarching term for how routines or capabilities can eventually evolve, as both routines and capabilities are considered to constitute patterned behavior (Winter, 2003). As managerial capabilities evolve, these are shown to influence capability development within a subsidiary through resources and, fundamentally, knowledge as a purposeful resource. Thus, accumulated knowledge in a subsidiary can be used for differentiated purposes in the creation and development of activities. The outcomes from patterned managerial specialization in decision-making (cf. Simon, 1955) constitute managerial capabilities rather than routines, as the information and knowledge upon which decisions are based is weighted differently during every moment in time because of continuous change, both within and outside of a subsidiary. The managerial capabilities concern decisions regarding when, what and how activities are going to be formed and influenced. The managerial implementation of abilities is required for continuous development of operational capabilities, as the interdependent nature of a subsidiary with external and internal actors (cf. Andersson et al., 2002; Andersson et al., 2005; Forsgren et al., 2005; Phene & Almeida, 2008) implies that these relationships influence capability development and need to be influenced in order for learned and known operational abilities in the subsidiary to be successfully implemented toward existing relationships over time.

With the evolutionary growth of a subsidiary, managerial activities concern balancing explorative and exploitive activities within and across specialized units, which is argued by March (1991) to be important for the survival or prosperity of a business unit such as a subsidiary. Balancing is also required to allow for enhanced specialization while simultaneously ensuring a certain degree of homogeneity in the direction of activities in order to be able to make decisions that allow for change and capability developments across specialized knowledge domains, which is argued to be important for the survival of a business unit from a knowledge-based perspective (Grant, 1996), a strategic management perspective (Delmar & Shane, 2003), and a dynamic capability perspective (Zahra et al., 2006). The development of business responsibilities also requires balancing the demands of the external and internal network and the value-proposition potential that resources and capabilities existing within a subsidiary can offer. The means of managing this balance is through the managerial capabilities that develop with evolutionary growth, which consist of decision-making activities related to prioritizing (when), planning (what), directing (how), facilitating (what) and coordinating (how). The managerial capabilities are interdependent over time and require the development of organizational capital resources through, for example, forums (meetings) that allow for information and knowledge sharing.

The analysis demonstrates how the development of managerial capabilities means that proactive behavior develops over time, which is driven by the possibility to make choices among alternatives in order to fulfill short- and long-term objectives as a combination of prioritizing and planning activities. The development of managerial capabilities means that an influential and proactive force of what a subsidiary considers to be its business responsibilities is created within the subsidiary and toward the internal as well as the external network. Planning and facilitating play important roles in influencing 'what' activities are to be conducted, where planning results in an entrepreneurial vision of what a subsidiary is striving for and is regarded by Penrose (2008) to be the second primary source of organizational change. Facilitating is required in order to influence interdependent relationships with external and internal actors in terms of what activities a subsidiary is endeavoring to undertake, which results in the need for adjustments to those relationships. Similarly, and as a result of coordinating and directing activities, operational specialists – through the creation and development of capabilities – are able to enhance their ability to provide actors with value propositions, which results in an increased influential force toward markets. Therefore, the development of managerial capabilities in an evolutionarily growing subsidiary shows how its influential power is increased, adding to the research of Birkinshaw et al. (2005), which demonstrated that subsidiaries become increasingly proactive as they evolve.

The development of a proactive approach that drives capability development in a subsidiary means that uncertainty is not simply an understood awareness, but, rather, an understanding that is dealt with accordingly. Uncertainty is addressed as a consequence of the implementation of managerial abilities that enable the development of an entrepreneurial vision. The entrepreneurial vision is shared with the employees of a subsidiary and implies that individual responsibilities are given and undertaken in accordance with that vision. Coordinating and directing activities depending on the type and degree of specialization that employees are knowledgeable of or could become knowledgeable of is important in order to realize the entrepreneurial vision. The possibility to drive business according to an established entrepreneurial vision is dependent on information exchange within a subsidiary, which establishes an understanding of possibilities and liabilities among subsidiary employees. Therefore, the possibility to operationalize the entrepreneurial vision is dependent on middle managers who not only convey information for managerial decision-making, but also take part in the coordination, together with operational specialists, of how activities are going to be formed. With the development of managerial capabilities, awareness of uncertainties is utilized as a knowledgeable and purposeful resource, with the aim of addressing known uncertainties. Thereby, the development of managerial capabilities and the implementation of an entrepreneurial vision throughout a subsidiary leads employees to overcome knowledge barriers, which forms the foundation for increases in a subsidiary's absorptive capacity, as absorptive capacity according to Minbaeva et al. (2003) is comprised of a combination of employees' motivations and their abilities.

A subsidiary's establishment and development of business relationships in the internal and external network is based on the potential to address uncertainty. Thus, a subsidiary can drive the initiation of external and internal relationship building but is also subject to actors approaching the subsidiary. In this regard, the ease of gathering information within the internal network and the interaction within differentiated functional networks, as well as the interaction with the external network, enable a subsidiary to accumulate an enhanced understanding of network activities, as information exchange occurs across functional units within subsidiaries. The development of managerial capabilities is necessary as an information- and knowledge-synthesizing aspect of a subsidiary, as operational capabilities are unceasingly required to focus on realizing continuous utility and exchange value with interdependent actors.

The evolutionarily growing subsidiary – through the creation and development of managerial and operational capabilities, resulting in a proactive means to deal with uncertainty – implies that a subsidiary wants to enhance its market influence as an outcome of the subsidiary's business responsibilities. The enhancement of market influence is a result of what a subsidiary deems to be the best approach to improve its possibility to leverage utility and exchange value on the market, which means a continuous change process described as disequilibrium-seeking behavior (Hunt & Morgan, 1995). Disequilibrium-seeking behavior requires coordination within a subsidiary that combines and takes advantage of existing resources and market opportunities and that creates entrepreneurial activities as strategic alternatives to impose change, which does not necessarily follow one of the three mentioned strategic alternatives described by Sirmon et al. (2007). Nevertheless, the possibility of conducting leveraging activities requires the involvement of actors who ultimately appraise utility and exchange value. Thus, leveraging involves value co-creating processes (cf. Vargo & Lusch, 2004; Vargo & Lusch, 2008) where a focal subsidiary can only present value propositions.

A disequilibrium-seeking subsidiary that co-creates value with external and internal actors means that a subsidiary is a business unit among several other units, both within the internal and external network, that are disequilibrium-seeking. Assuming that business units such as subsidiaries are continuously transforming, the possibilities for establishing a fit with the environment is very difficult, if not impossible, as noted by Sirmon et al. (2007) and Sirmon et al. (2010). Consequently, an understanding of the surrounding local environment as well as the internal and external network could be argued to function as a control mechanism to understand situational opportunities and threats as a knowledgeable resource for decisions during a moment in time. A subsidiary's situational understanding during a moment in time is related to transformation within a subsidiary as it evolutionarily grows, where a subsidiary's capabilities and resources change over time. As a result, the purpose of decisions that are made stems from knowledge that is never static, which implies that opportunities and threats are viewed differently with evolution. Thus, the achievement of temporary sequences of superior value, as argued by Sirmon et al. (2007) and Sirmon et al. (2010), might represent sequences in time where a subsidiary is able to impose a high degree of market influence as a result of the combination of managerial and operational capability configurations.

In a context of disequilibrium-seeking business units such as subsidiaries, dynamic capabilities continuously prevail as a consequence of the development of managerial and operational capabilities, which, when combined, result in the speed of dynamicity. Achieving balance between implementation and learning activities requires an understanding of the purpose of operationally and managerially specialized activities that occur within a subsidiary, as well as an understanding of the developments in the internal and external network and environment, as a subsidiary's actor relationships affect subsidiary performance. Thus, a subsidiary's relative dependence on external and internal actors that influence the degree to which organizational slack is available affect the possibility of movement between learning and implementation as a subsidiary evolutionarily grows. If a subsidiary evolutionarily grows, with the assumption of a continuous demand of value co-creating activities from actors, the increasing amount of managerial and operational capabilities and the continuous development of those capabilities imply an increased necessity to prioritize, plan, direct, facilitate and coordinate across activities within a subsidiary in order to establish a guiding entrepreneurial vision across a heterogeneity of specialized knowledge domains. Ensuring that an entrepreneurial vision, as an indication of the charter that a subsidiary is striving for, can be and is implemented is based on a continuously evolving understanding of an increasingly dispersed set of developing specialized knowledge domains. Simultaneously, capabilities must both adjust (being influential) and adjust to (being influenced) interdependent actor relationships, where the increasing possibility to proactively influence actors as a consequence of the creation and development of capabilities and the development of an entrepreneurial vision requiring organizational slack also imply that the amount as well as the disparity of actors who need to be influenced surges. Thus, with the evolutionary growth of a subsidiary, the speed by which changes to a subsidiary's charter occur ought to become increasingly difficult to sustain over time.

6.2 Theoretical Contributions

The internal processes of the traditional subsidiary evolutionary framework are based in decision-making and dynamic capabilities (Birkinshaw & Hood, 1998). The study adds to this aspect of the subsidiary evolutionary framework, as resources are shown to be structured and then bundled into capabilities that are leveraged, which constitutes the internal processes of evolutionary growth (see Figure 15). The study also demonstrates that the evolutionary growth of a business unit such as a subsidiary is constituted by the creation and development of managerial and operational capabilities, thereby adding not only to the subsidiary evolutionary framework, but also to the RMF, as managerial activities are not merely static, but also develop in line with operational capabilities (cf. Sirmon et al., 2007). Thereby, the management of resources is focused on structuring activities when a subsidiary is highly dependent on resources in order to create and develop capabilities. With evolutionary growth, the management of resources evolves into the management of activities through resources, where those resources are constituted by purposeful knowledge. To emphasize knowledge as a purposeful resource is a contribution to the knowledge-based view of the firm (cf. Grant, 1996) as decisions are continuously made through means of knowledge that is accumulated, which implies that different purposes for decisions can be identified from the same knowledge base. Further, knowledge as a resource implies that all knowledge is not weighted equally and is accounted for depending on the purpose of decision-making at one point in time. The evolution of managerial activities is a contribution to the RMF, as the study highlights the importance of the development of patterned managerial behavior as a managerial specialization in decision-making that influences when, what and how capabilities are formed or influenced. Managerial decision-making capabilities are constituted by prioritizing (when), planning (what), directing (how), facilitating (what) and coordinating (how), which are interdependent if they are to manage sustained subsidiary growth, where these capabilities, when combined, shape and drive a subsidiary's entrepreneurial vision, considered to be the second primary source (apart from R&D) for organizational change (Penrose, 2008). Prioritization is an important contribution, as limited theoretical reasoning is found concerning the implications of developing prioritizing activities, which concerns the timing of decisions based in the short term and/or the long term. Similarly, the importance of facilitation is a contribution that not only occurs within a business unit (Grant, 1997) but is also required for change among external and internal network relationships in order to ensure that planned changes can be realized toward and with existing actor relationships. Facilitating toward internal and external actor relationships is an important contribution to the literature on subsidiary evolution, as facilitation highlights the role of subsidiary managers influencing and interacting with actors in order to enable change to a subsidiary's charter.

The effects of the development of managerial capabilities imposes the creation of a proactive influential force that is created and that constitutes the business responsibilities (charter) a subsidiary is striving for, which permeates the subsidiary and is directed toward the internal and external network. The development of a proactive influential force toward external and internal actors provides an increased understanding of how a subsidiary becomes influential and also represents a contribution to research demonstrating that subsidiaries become increasingly influential toward the internal and external network with evolutionary growth (Birkinshaw et al., 2005) and why subsidiaries progressively influence their charters as their autonomy increases (Birkinshaw & Hood, 1998).

Becoming increasingly influential is also related to uncertainty, where the developments of interdependent managerial and operational capabilities that are driven in line with an entrepreneurial vision create a foundation to address uncertainty. Thus, an awareness of uncertainty can, through capability development and an entrepreneurial vision, lead to a situation in which the awareness of uncertainty is formed into a knowledgeable and purposeful resource for how to deal with uncertainty. This notion has important implications for the subsidiary evolutionary literature, as the development of managerial and operational capabilities that are driven in accord with an entrepreneurial vision enhance the understanding of how and why proactive subsidiary initiatives develop toward actors in the external and internal network over time (cf. Birkinshaw, 1997; Birkinshaw & Ridderstråle, 1999). The combination of capability developments and an entrepreneurial vision leading to activities for addressing uncertainty also enhances the understanding of how a subsidiary's absorptive capacity can increase over time in an evolutionarily growing subsidiary, as Minbaeva et al. (2003) describe how absorptive capacity is constituted by a combination of employees' motivations and abilities. For the RMF, the elaboration on how an awareness of uncertainty is created into a knowledgeable and purposeful resource for dealing with uncertainty implies that uncertainty cannot be overcome, as indicated by Sirmon et al. (2007). Thereby, for a subsidiary to be able to be situated in temporary sequences of providing superior value is related to the possibility for a subsidiary to have a higher degree of market influence during a certain sequence in time, as described below.

The combined effect of the development of managerial and operational capability developments, which continuously require adjustment due to capability developments within a subsidiary and developments in the internal and external network, is a market offering that is constituted by value propositions (cf. Vargo & Lusch, 2004; Vargo & Lusch, 2008). Thus, an understanding of the external environment at one point in time (through, for instance, market research) can constitute a form of control mechanism and a knowledgeable resource regarding the market position of a subsidiary's value propositions, and can serve as a resource for decisions concerning the creation and development of capabilities to influence value propositions over time in order to increase market influence. The dynamics of capability development in a subsidiary, the dynamics of the external and internal network and the local environment, and the employment of an understanding of the surrounding networks and environment as a knowledgeable resource at one moment in time to enhance market influence represent a contribution and a nuanced elaboration on Sirmon et al.'s (2007) and Sirmon et al.'s (2010) description of the difficulties of achieving a fit with the environment. In order to realize exchange and utility value from value propositions, value co-creation activities develop with evolutionary growth. Value co-creation as part of leveraging activities is a contribution to the RMF, as value co-creation constitutes the importance of interaction with actors. The interaction means that operational capabilities in a subsidiary are primarily engaged in value co-creation activities with internal and external actors. As a subsidiary evolutionarily grows through the implementation of managerial and operational abilities, an enhanced interdependence is created with actors in order to realize developing value propositions as a consequence of enhanced specialization and a drive to deal with uncertainty in order to share knowledge with actors. The importance of realizing value with actors is related to organizational slack, which is necessary in order to continuously be able to develop capabilities, therefore contributing to the subsidiary evolutionary literature as a requirement and a capacity to sustain evolutionary growth. Value co-creation activities that lead to an enhanced interdependence with actors and the development of value propositions as a proactive influential market force mean that an evolutionarily growing business entity is disequilibrium-seeking as a means to describe change-seeking influence on markets (cf. Morgan & Hunt, 1995). Thus, the continuous transformation of interdependent managerial and operational capabilities constitutes a subsidiary's dynamic capabilities, which in a market of disequilibrium-seeking actors implies that the relative speed of transformation and the relative dependence on actors define the possibility to influence the market and the degree to which a subsidiary can evolutionarily grow.

6.3 Managerial Implications

The evolutionary growth of a subsidiary means the creation of managerial and operational capabilities over time. The study at hand takes its empirical foundation in a small subsidiary, and therefore the scope of activities that employees were responsible for in the subsidiary was relatively large, and resulting in "fire-fighting" behavior in order to manage upcoming issues that emerged from within the subsidiary, from the MNC, and from local customers and distributors in the markets. Thus, the behaviors of the employees were neither structured nor specialized. An important managerial implication from the study is the importance of prioritizing and focusing on activities in order to allow for future activities to take place. Prioritizing can therefore lead to an enhanced specialization and can also enhance a subsidiary's performance record, which is an important criterion for HQs to grant a subsidiary additional resources in order to develop activities. If an increased performance record is achieved and/or resources are granted for a subsidiary from HQs, resources in terms of specifically human resources allow for both the delegation of activities and specialization, as the scope of activities that employees are responsible for decreases. In this regard, middle managers are highlighted in the study as important strategizing individuals, meaning they can convey information for planning activities and also carry out the important function of coordinating and directing the activities of operational specialists in order to sustain a clear approach regarding how activities are going to develop. The formalization of meetings for information exchange is also argued to be important across managerial layers in a subsidiary to ensure that plans can be created taking into account the knowledge and abilities that exist in a subsidiary, and also in order to ensure that feedback is conveyed to allow for the adjustment of plans. Similarly, the study shows how the implementation of plans required middle managers to have an operational understanding of activities, as the middle managers had important roles in directing and coordinating operational specialists and therefore needed to be able to judge how plans could be realized with prevailing abilities.

Middle managers are considered necessary, as this allows for managerial specialization concerning planning and facilitating. Planning is important, as it establishes a framework for the goals a subsidiary is striving for and therefore provides an indication of what business activities the subsidiary will engage in and, together with the important function of middle managers mentioned above, which plans are operationalized. Facilitation is also important in order to ensure that staff within a subsidiary can coordinate their activities. Facilitation is very important in order to change the status of relationships in a local environment and in an MNC in order for planned activities in a subsidiary to be operationalized. Planned activities that need facilitating include how the formal nature of relationships with, for instance, HQs (regarding autonomy) or with distributors (removal of exclusivity) may require adjustments as a subsidiary seeks to increase its business responsibilities.

In the study, managerial capabilities are argued to be continuously needed as changes continuously occur within the subsidiary, in the MNC, and in the local environment, and these changes affect the decisions that are made with regard to prioritizing, planning, directing, facilitating and coordinating at any point in time. If these managerial capabilities are established in coordination with the development of operational capabilities, then the study demonstrates how known possibilities and threats are proactively addressed, thereby imposing an increased possibility to influence and understand the potential for improved business performance. Furthermore, the continuous improvement and development of capabilities that can enhance business performance are also shown to be important in order to prepare for future developments, as learning is required in order to develop activities into capabilities. Nevertheless, that learning can decrease efficiency at one moment in time. Thus, managerial influence over capability development through prioritizing, planning, directing, facilitating and coordinating continuously balances the possibility to exploit existing capabilities or develop capabilities across specialized knowledge domains in a subsidiary.

6.4 Limitations and Future Research

In order to increase the understanding of resources and the development of managerial and operational capabilities in evolving subsidiaries, more research is required that takes into account various industries, geographical contexts, subsidiary typologies and other relevant factors. Differentiated research contexts could deepen theorization on subsidiary evolution and evolutionary growth. Therefore, there is also a need for longitudinal studies that allow for the possibility to follow the development of capabilities over time.

There are two aspects from the research context that might have affected the importance of developing managerial capabilities to the extent emphasized in the study. First, the business transformation generated a surge throughout the division and fundamentally within the subsidiary in terms of how to direct and develop activities, which created a great deal of uncertainty within the subsidiary and required managerial influence. Second, the dependence on actors in the ME region to conduct direct sales required managerial influence in order to grasp how the subsidiary would be able to manage the transition and leverage differentiated value propositions. Obviously, the nature of the subsidiary (as a sales subsidiary) was related to the two aspects mentioned above, and therefore capability creation and development might be different in, for instance, a subsidiary that leverages propositions toward the internal rather than the external network. Thus, the balance and dynamics between managerial and operational capabilities would require increased research attention.

Concerning subsidiary evolution, there is also an increased need to study subsidiaries that are dying in terms of losing resources or to conduct research on subsidiaries with a high turnover of resources in order to better understand potentially negative capability development. The subsidiary that was researched in the study did not have a high loss of human capital resources, which could have negatively affected capability development. Such loss could have added a dynamic feature of oscillating proactiveness and reactiveness concerning, for example, subsidiary influence in internal and external networks.

A number of managerial capabilities are presented in the study, which also means an increased possibility to classify differentiated operational capabilities. In this regard, the role of prioritization as a developing managerial capability should receive an increased amount of research interest, as limited studies were found that could enhance our understanding of the role of prioritization in decision-making. An important point of discussion is whether the number of potential capabilities is infinite in terms of patterned behaviors that are proactive rather than reactive. Proactiveness was proposed to concern the possibility to choose among alternatives over the short term and the long term. For instance, eating is not always planned and prioritized, but is, rather, a notion that comes as a consequence of hunger. Therefore, eating as a reactive measure stills hunger in the short term. An awareness of the necessity of continuous food intake in order to survive means that reactive eating measures that are continuously undertaken as patterned behavior in the long run increases the potential for survival. In this regard, the interconnectedness of patterned activities might require enhanced research concerning operational and managerial capabilities, as prioritizing and planning as a proactive means to visit a supermarket also increase the potential for survival throughout a longer time horizon.

Another aspect that would be relevant for further study is the aspect of administrative heritage, which is described as the combination of an MNC's *"configuration of organizational assets and capabilities that are built up over decades; a distribution of managerial responsibilities and influence that cannot be shifted quickly; and an ongoing set of relationships that endure long after any structural change has been made"* (Bartlett & Ghoshal, 1987, p. 14). The subsidiary developed during a time of great turbulence in the MNC, where the subsidiary's movement toward a treatment organization meant that the development of capabilities primarily occurred during a time in which the subsidiary strove to emulate the treatment strategy that was developed at division HQ. Nevertheless, division HQ had a long product-oriented administrative heritage, which heavily influenced the subsidiary in terms of the effects of the slowly changing capabilities at division HQ, where, for instance, the control measures in terms of the short-term orientation affected the possibility to develop managerial and operational capabilities within the subsidiary. Furthermore, the influential effects from division HQ toward the subsidiary meant that managerial capabilities in the subsidiary had to be prioritized in order to influence decision makers at division and corporate HQs to understand the subsidiary's needs. Administrative heritage could therefore also be bound to the entrepreneurial vision that organizationally prevails in an MNC at one point in time. Subsidiaries develop capabilities during different sequences in time compared to other units in the internal network as a consequence of the diversity in maturity. The initial developments of capabilities in a young subsidiary should strive to resemble the prevailing entrepreneurial vision running through the MNC. Therefore, misfits likely occur among subsidiaries in an MNC, leading to the potential to study the dynamics of how business transformation occurs in differentiated subsidiaries of an MNC depending on their maturity level.

Within the conceptual framework, it was argued that interdependencies with internal and external actors increase as a subsidiary evolutionarily grows. The difficulties of organizational change likely grow as managerial capabilities are increasingly required, when the amount of activities and relationships that need to be facilitated, configured and influenced are amplified. The subsidiary's evolutionary growth had not reached a stage where the speed of organizational change decreased as a consequence of created and developed capabilities, but this does not rule out the possibility of investigating the idea that with evolutionary growth, the speed of organizational change might become increasingly difficult to maintain over time. If the speed of capability development becomes increasingly difficult to sustain over time as subsidiaries evolutionarily grow, the importance for other units in an internal network to understand the direction of capability development in a young and evolutionarily growing subsidiary ought to be high. The potential importance of understanding capability development in young subsidiaries can be related to an awareness of what developments are required in more mature business units throughout the internal network, which could enhance the speed of change throughout the internal network as a whole. Thus, more research would be necessary in order to determine the extent to which such learning behavior exists among business units in internal networks and whether the speed of capability development in a subsidiary can be used as a performance criterion for subsidiaries, and as a learning factor for other units within an internal network. Such research would add to our understanding of reverse knowledge transfers from subsidiaries to HQs and may more fully address HQs' need to establish absorptive capabilities (Ambos et al., 2006).

Furthermore, the implications of decision-making concerning business transformation across MNCs would require more research in order to understand the process of capability creation and development in different internal networks. Thus, the degree to which strategic decisions are made which affect business transformation across MNCs could affect the required speed of that transformation and the possibility to balance explorative and exploitive activities across the internal network, as well as within units in the internal network.

References

Adner, R. & Helfat, C. E., 2003. Corporate Effects and Dynamic Managerial Capabilities. *Strategic Management Journal,* 24(10), pp. 1011-1025.

Aharoni, Y., 2011. Fifthy years of case research in international business: the power of outliers and black swans. In: *Rethinking the Case Study in International Business and Management Research.* Cheltenham: Edward Elgar Publishing Limited, pp. 41-54.

Alchian, A. A. & Demsetz, H., 1972. Production, Information Costs, and Economic Organization. *The American Economic Review,* Volume 6, pp. 777-795.

Almeida, P. & Phene, A., 2004. Subsidiaries and knowledge creation: The influence of the MNC and host country on innovation. *Strategic Management Journal,* 25(8-9), pp. 847-864.

Ambos, T., Ambos, B. & Schlegelmilch, B., 2006. Learning from foreign subsidiaries: An empirical investigation of headquarters' benefits from reverse knowledge transfers. *International Business Review,* 15(3), pp. 294-312.

Ambos, T., Andersson, U. & Birkinshaw, J., 2010. What are the consequences of initiative-taking in multinational subsidiaries?. *Journal of International Business Studies,* 41(7), pp. 1099-1118.

Andersson, M. & Holmström, C., 2000. The Dilemma of Developing a Centre of Excellence - a Case Study of ABB Generation. In: *The Emergence and Impact of MNC Centres of Excellence - a Subsidiary Perspective.* London: MacMillan, pp. 240-258.

Andersson, U., Bjorkman, I. & Forsgren, M., 2005. Managing subsidiary knowledge creation: The effect of control mechanisms on subsidiary local embeddedness. *International Business Review,* 14(5), pp. 521-538.

Andersson, U. & Forsgren, M., 1996. Subsidiary Embeddedness and Control in the Multinational Corporation. *International Business Review,* 5(5), pp. 487-508.

Andersson, U., Forsgren, M. & Holm, U., 2001. Subsidiary Embeddedness and Competence Development in MNCs - A Multi-level Analysis. *Organization Studies,* 22(6), pp. 1013-1034.

Andersson, U., Forsgren, M. & Holm, U., 2002. The Strategic Impact of External Networks: Subsidiary Performance and Competence Development in the Multinational Corporation. *Strategic Management Journal,* Volume 23, pp. 979-996.

Andersson, U., Forsgren, M. & Holm, U., 2007. Balancing subsidiary influence in the federative MNC: a business network view. *Journal of International Business Studies,* 38(5), pp. 802-818.

Arman, R., 2010. *Fragmentation and power in managerial work in health care.* Gothenburg: Bokförlaget BAS.

Asmussen, C., Pedersen, T. & Dhanaraj, C., 2009. Host-country environment and subsidiary competence: Extending the diamond network model. *Journal of International Business Studies,* 40(1), pp. 42-57.

Barney, J. B., 1986. Strategic Factor Markets: Expectations, Luck, and Business Strategy. *Management Science,* 32(10), pp. 1231-1241.

Barney, J. B., 1991. Firm Resources and Sustained Competitive Advantage. *Journal of Management,* 17(1), pp. 99-120.

Barreto, I., 2010. Dynamic Capabilities: A Review of Past Research and an Agenda for the Future. *Journal of Management,* 36(1), pp. 256-280.

Bartlett, C. A. & Ghoshal, S., 1986. Tap your subsidiaries for global reach. *Harvard Business Review,* Volume 64, pp. 87-94.

Bartlett, C. A. & Ghoshal, S., 1987. Managing Across Borders: New Organizational Responses. *Sloan Management Review,* Volume Fall, pp. 43-53.

Bartlett, C. A. & Ghoshal, S., 1987. Managing Across Borders: New Strategic Requirements. *Sloan Management Review,* Volume Summer, pp. 7-17.

Benito, G. R., Petersen, B. & Welch, L. S., 2009. Towards more realistic conceptualisations of foreign operation modes. *Journal of International Business Studies,* Volume 40, pp. 455-470.

Birkinshaw, J., 1996. How Multinational Subsidiary Mandates are Gained and Lost. *Journal of International Business,* 27(3), pp. 467-495.

Birkinshaw, J., 1997. Entrepreneurship in Multinational Corporations: The Characteristics of Subsidiary Initiatives. *Strategic Managment Journal,* 18(3), pp. 207-229.

Birkinshaw, J. & Hood, N., 1998. Multinational Subsidiary Evolution, Capability and Charter Change in Foreign-owned Subsidiary Companies. *Academy of Management Review,* pp. 773-795.

Birkinshaw, J., Hood, N. & Jonsson, S., 1998. Building Firm-Specific Advantages in Multinational Corporations: The Role of Subsidiary Initiative. *Strategic Management Journal,* 19(3), pp. 221-241.

Birkinshaw, J., Hood, N. & Young, S., 2005. Subsidiary entrepreneurship, internal and external competitive forces, and subsidiary performance. *International Business Review,* 14(2), pp. 227-248.

Birkinshaw, J. & Ridderstråle, J., 1999. Fighting the corporate immune system: a process study of subsidiary initiatives in multinational corporations. *International Business Review,* 8(2), pp. 149-180.

Bjorkman, I., Fey, C. F. & Park, H. J., 2007. Institutional theory and MNC subsidiary HRM practices: evidence from a three-country study. *Journal of International Business Studies,* 38(3), pp. 430-446.

Bjorkman, I., Smale, A., Sumelius, J., Suutari, V. & Lu, Y., 2008. Changes in institutional context and MNC operations in China: Subsidiary HRM practices in 1996 versus 2006. *International Business Review,* 17(2), pp. 146-158.

Blazejewski, S., 2011. When truth is the daughter of time: longitudinal case studies in international business research. In: *Rethinking the Case Study in International Business and Management Research.* Cheltenham: Edward Elgar Publishing Limited, pp. 251-276.

Boehe, D., 2007. Product development in MNC subsidiaries: Local linkages and global interdependencies. *Journal of International Management,* 13(4), pp. 488-512.

Bouquet, C. & Birkinshaw, J., 2008. Managing Power in the Multinational Corporation: How Low-Power Actors Gain Influence. *Journal of Management,* 34(3), pp. 477-508.

Bouquet, C. & Birkinshaw, J., 2008. Weight versus voice: How foreign subsidiaries gain attention from corporate headquarters. *Academy of Management Journal,* 51(3), pp. 577-601.

Bryman, A. & Bell, E., 2011. *Business Research Methods.* 3rd ed. Oxford: Oxford University Press.

Buckley, P. J. & Casson, M., 2002. *The Future of the Multinational Enterprise.* 25th Anniversary Edition ed. Basingstoke: Palgrave Macmillan.

Cantwell, J. & Mudambi, R., 2005. MNE competence-creating subsidiary mandates. *Strategic Management Journal,* 26(12), pp. 1109-1128.

Carlson, S., 1951. *Executive Behavior.* Stockholm: Stromberg.

Chan, C. & Makino, S., 2007. Legitimacy and multi-level institutional environments: implications for foreign subsidiary ownership structure. *Journal of International Business Studies,* 38(4), pp. 621-638.

Chang, S.-J. & Rosenzweig, P. M., 2009. Subsidiary Capability Development in Multinational Enterprises: an Empirical Investigation. In: *Managing Subsidiary Dynamics: Headquarters Role, Capability Development, and China Strategy (Advances in International Management).* Bingley: Emerald Group Publishing Limited, pp. 93-121.

Chang, Y., Mellahi, K. & Wilkinson, A., 2009. Control of subsidiaries of MNCs from emerging economies in developed countries: the case of Taiwanese MNCs in the UK. *International Journal of Human Resource Management,* 20(1), pp. 75-95.

Chung, L., Gibbons, P. & Schoch, H., 2006. The management of information and managers in subsidiaries of multinational corporations. *British Journal of Management,* 17(2), pp. 153-165.

Churchill, N. C. & Lewis, V. L., 1983. The Five Stages of Small Business Growth. *Harvard Business Review,* 61(3), pp. 30-50.

Coffey, A. & Atkinson, P., 1996. *Making Sense of Qualitative Data: Complementary Research Strategies.* Thousand Oaks(California): Sage Publications.

Collings, D., Morley, M. & Gunnigle, P., 2008. Composing the top management team in the international subsidiary: Qualitative evidence on international staffing in US MNCs in the Republic of Ireland. *Journal of World Business,* 43(2), pp. 197-212.

Collis, D. J., 1994. Research Note: How Valuable are Organizational Capabilities. *Strategic Management Journal,* Volume 15, pp. 143-152.

Conner, K. R., 1991. A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm?. *Journal of Management,* 17(1), pp. 121-154.

Cui, A., Griffith, D. & Cavusgil, S., 2005. The influence of competitive intensity and market dynamism on knowledge management capabilities of multinational corporation subsidiaries. *Journal of International Marketing,* 13(3), pp. 32-53.

Cui, A., Griffith, D., Cavusgil, S. & Dabic, M., 2006. The influence of market and cultural environmental factors on technology transfer between foreign MNCs and local subsidiaries: A Croatian illustration. *Journal of World Business,* 41(2), pp. 100-111.

Cyert, R. M. & March, J. G., 1963. *A Behavioral Theory of the Firm.* New Jersey: Prentice-Hall Inc..

Day, G., 1994. The Capabilites of Market-Driven Organizations. *Journal of Marketing,* 58(October), pp. 37-52.

Dederichs, J., 2010. *Strategy as Practice, Implementing an External Growth Strategy within a Subsidiary.* Surrey: University of Surrey.

Delios, A. & Makino, S., 2003. Timing of entry and the foreign subsidiary performance of Japanese firms. *Journal of International Marketing,* 11(3), pp. 83-105.

Delmar, F. & Shane, S., 2003. Does Business Planning Facilitate the Development of New Ventures. *Strategic Management Journal,* Volume 24, pp. 1165-1185.

Dicken, P., 2011. *Global Shift: Mapping the Changing Contours of the World Economy.* 6th ed. London: Sage Publications Ltd.

Dikova, D., 2009. Performance of foreign subsidiaries: Does psychic distance matter?. *International Business Review,* 18(1), pp. 38-49.

Dubois, A. & Gadde, L. E., 2002. Systematic Combining: an Abductive Approach to Case Research. *Journal of Business Research,* 55(7), pp. 553-560.

Dunning, J. H., 1980. Toward an Eclectic Theory of International Production: Some Empirical Tests. *Journal of International Business,* 11(1), pp. 9-31.

Dyer, W. G. J. & Wilkins, A. L., 1991. Better Stories, Not Better Constructs, to Generate Better Theory: A Rejoinder to Eisenhardt. *The Academy of Management Review,* 16(3), pp. 613-619.

Dörrenbächer, C. & Gammelgaard, J., 2006. Subsidiary role development: The effect of micro-political headquarters–subsidiary negotiations on the product, market and value-added scope of foreign-owned subsidiaries. *Journal of International Management,* 12(3), pp. 266-283.

Eisenhardt, K. M., 1989. Building Theories from Case Study Research. *Academy of Management Review,* 14(4), pp. 532-550.

Eisenhardt, K. M. & Graebner, M. E., 2007. Theory Building from Cases: Opportunities and Challenges. *Academy of Management Journal,* 50(1), pp. 25-32.

Elliot, J., 2005. *Using Narrative in Social Research: Qualitative and Quantitative Approaches.* London: Sage Publications.

Engelhard, J. & Nagele, J., 2003. Organizational learning in subsidiaries of multinational companies in Russia. *Journal of World Business,* 38(3), pp. 262-277.

Eriksson, P. & Kovalainen, A., 2008. *Qualitative Methods in Business Research.* London: SAGE Publications Ltd.

Fang, Y., Wade, M., Delios, A. & Beamish, P., 2007. International diversification, subsidiary performance, and the mobility of knowledge resources. *Strategic Management Journal,* 28(10), pp. 1053-1064.

Farley, J., Hoenig, S. & Yang, J., 2004. Key factors influencing HRM practices of overseas subsidiaries in China's transition economy. *International Journal of Human Resource Management,* 15(4-5), pp. 688-704.

Feinberg, S. & Gupta, A., 2004. Knowledge spillovers and the assignment of R&D responsibilities to foreign subsidiaries. *Strategic Management Journal,* 25(8-9), pp. 823-845.

Felin, T. & Hesterly, W. S., 2007. The Knowledge-Based View, Nested Heterogeneity, and New Value Creation: Philosophical Considerations on the Locus of Knowledge. *Academy of Management Review,* 32(1), pp. 195-218.

Fereday, J. & Muir-Cochrane, E., 2006. Demonstrating Rigor Using Thematic Analysis: A Hybrid Approach of Inductive and Deductive Coding and Theme Development. *International Journal of Qualitative Methods,* 5(1), pp. 80-92.

Ferner, A., Almond, P., Clark, I., Colling, T., Edwards, T., Holden, L. & Muller-Camen, M., 2004. The dynamics of central control and subsidiary autonomy in the management of human resources: Case-study evidence from US MNCs in the UK. *Organization Studies,* 25(3), pp. 363-391.

Filippov, S. & Duysters, G., 2014. Exploring the drivers and elements of subsidiary evolution in several new EU member states. *International Journal of Emerging Markets,* 9(1), pp. 120-146.

Fletcher, M. & Plakoyiannaki, E., 2011. Case selection in international business: key issues and common misconceptions. In: *Rethinking the Case Study in International Business and Management Research.* Cheltenham: Edward Elgar Publishing Limited, pp. 171-191.

Florén, H., 2005. *Managerial Work and learning in Small Firms.* Gothenburg: Department of project Management; Chalmers University of Technology.

Forsgren, M., Holm, U. & Johanson, J., 2005. *Managing the Embedded Multinational.* Cheltenham: Edward Elgar Publishing Limited.

Furu, P., 2001. Drivers of competence development in different types of multinational R&D subsidiaries. *Scandinavian Journal of Management,* pp. 133-149.

Galbraith, J. R., 1974. Organization Design: An Information Processing View. *Interfaces,* 4(3), pp. 28-36.

Galunic, D. C. & Eisenhardt, K. M., 1996. The Evolution of Intracorporate Domains: Divisional Charter Losses in High Technology Multidivisional Corporations. *Organization Science,* 7(3), pp. 255-282.

Gatignon, H. & Anderson, E., 1988. The Multinational Corporation's Degree of Control over Foreign Subsidiaries: An Empirical Test of a Transaction Cost Explanation. *Journal of Law, Economics and Organization,* 4(2), pp. 305-336.

Gaur, A., Delios, A. & Singh, K., 2007. Institutional environments, staffing strategies, and subsidiary performance. *Journal of Management,* 33(4), pp. 611-636.

Geppert, M., Williams, K. & Matten, D., 2003. The social construction of contextual rationalities in MNCs: An Anglo-German comparison of subsidiary choice. *Journal of Management Studies,* 40(3), pp. 617-641.

Ghoshal, S. & Bartlett, C. A., 1990. The Multinational Corporation as an Interorganizational Network. *The Academy of Management Review,* 15(4), pp. 603-625.

Ghoshal, S. & Nohria, N., 1989. Internal Differentiation Within Multinational Corporations. *Strategic Management Journal,* Volume 10, pp. 323-337.

Gong, Y., 2003. Subsidiary staffing in multinational enterprises: Agency, resources, and performance. *Academy of Management Journal,* 46(6), pp. 728-739.

Gong, Y., 2003. Toward a dynamic process model of staffing composition and subsidiary outcomes in multinational enterprises. *Journal of Management,* 29(2), pp. 259-280.

Grant, R. M., 1996. Toward a Knowledge-Based Theory of the Firm. *Strategic Management Journal,* Volume 17, pp. 109-122.

Grant, R. M., 1997. The Knowledge-based View of the Firm: Implications for Management Practice. *Long Range Planning,* 30(3), pp. 450-454.

Greiner, L. E., 1972. Evolution and Revolution as Organizations Grow; A company's past has clues for managment that are critical to future success. *Harvard Business Review,* Volume July-August, pp. 37-46.

Guba, E. G., 1981. Criteria for Assessing the Trustworthiness of Naturalistic Inquiries. *ERIC/ECTJ,* 29(2), pp. 75-91.

Guba, E. G. & Lincoln, Y. S., 1994. Competing Paradigms in Qualitative Research. In: *Handbook of Qualitative Research.* Thousand Oaks(California): Sage, pp. 105-117.

Gupta, A. K. & Govindarajan, V., 1991. Knowledge Flows and the Structure of Control within Multinational Corporations. *The Academy of Managment Review,* 16(4), pp. 768-792.

Harzing, A.-W., 2001. Who is in Charge? An Empirical Study of Executive Staffing Practices in Foreign Subsidiaries. *Human Resource Management,* 40(2), pp. 139-158.

Harzing, A. & Noorderhaven, N., 2006. Knowledge flows in MNCs: An empirical test and extension of Gupta and Govindarajan's typology of subsidiary roles. *International Business Review,* 15(3), pp. 195-214.

Hatch, N. W. & Dyer, J. H., 2004. Human Capital and Learning as a Source of Sustainable Competitive Advantage. *Strategic Management Journal,* 25(12), pp. 1155-1178.

Hedlund, G., 1986. The Hypermodern MNC - A Heterarchy. *Human Resource Management,* 25(1), pp. 9-35.

Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M. A., Singh, H., Teece, D. J. & Winter, S. G., 2007. *Dynamic Capabilities; Understanding Strategic Change In Organizations.* Malden: Blackwell Publishing.

Hewett, K., Roth, M. & Roth, K., 2003. Conditions influencing headquarters and foreign subsidiary roles in marketing activities and their effects on performance. *Journal of International Business Studies,* 34(6), pp. 567-585.

Hillman, A. & Wan, W., 2005. The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies,* 36(3), pp. 322-340.

Hobday, M. & Rush, H., 2007. Upgrading the technological capabilities of foreign transnational subsidiaries in developing countries: The case of electronics in Thailand. *Research Policy,* 36(9), pp. 1335-1356.

Holcomb, T. R., Holmes Jr, R. M. & Connelly, B. L., 2009. Making the Most of What You Have: Managerial Ability As a Source of Resource Value Creation. *Strategic Management Journal,* Volume 30, pp. 457-485.

Hoskisson, R. E., Eden, L., Lau, C. M. & Wright, M., 2000. Strategy in Emergin Economies. *Academy of Management Journal,* 43(3), pp. 249-267.

Hult, G. T. M., 2011. Toward a theory of the boundary-spanning marketing organization and insights from 31 organization theories. *Journal of the Academy of Marketing Science,* 39(5), pp. 509-536.

Hunt, S. D., 2010. *Marketing Theory; Foundations, Controversy, Strategy, Resource-Advantage Theory.* New York: M.E. Sharpe, Inc..

Hunt, S. D. & Morgan, R. M., 1995. The comparative advantage theory of competition. *Journal of Marketing,* Volume 15, pp. 1-15.

Hymer, S. H., 1976. *The International Operations of National Firms: A Study of Direct Foreign Investment.* Cambridge(Massachusetts): The MIT Press.

Håkansson, H. & Snehota, I., 1989. No Business is an Island: The Network Concept of Business Strategy. *Scandinavian Journal of Management,* 5(3), pp. 187-200.

Håkansson, H. & Snehota, I., 1995. *Developing Relationships in Business Networks.* London: Routledge.

Ireland, R. D., Hitt, M. A. & Sirmon, D. G., 2003. A Model of Strategic Entrepreneurship: The Construct and its Dimensions. *Journal of Management,* 29(6), pp. 963-989.

Jakobsson, J., 2011. *The Industrial Exporter-Distributor Trade Relationship – A Portrayal of the Development Path Derived From Diverging Agendas.* Gothenburg: School of Business, Economics and Law, Gothenburg University.

Jarillo, J. C. & Martínez, J. I., 1990. Different Roles For Subsidiaries: The Case oF Multinational Corporations in Spain. *Strategic Management Journal,* Volume 11, pp. 501-512.

Jaw, B. & Liu, W., 2004. Towards an integrative framework of strategic international human resource control: the case of Taiwanese subsidiaries in the People's Republic of China. *International Journal of Human Resource Management,* 15(4-5), pp. 705-729.

Jindra, B., Giroud, A. & Scott-Kennel, J., 2009. Subsidiary roles, vertical linkages and economic development: Lessons from transition economies. *Journal of World Business,* 44(2), pp. 167-179.

Johanson, J. & Mattsson, L.-G., 1987. *Interorganizational Relations in Industrial Systems: a Network Approach Compared with the Transaction Cost Approach,* Uppsala: Uppsala Univeristy, Faculty of Social Sciences, Department of Business Studies.

Johanson, J. & Vahlne, J.-E., 1977. The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies,* 8(1), pp. 23-32.

Johanson, J. & Vahlne, J.-E., 2009. The Uppsala Internationalization Process Model Revisited: From Liability of Foreigness to Liability of Outsidership. *Journal of International Business Studies,* Volume 40, pp. 1411-1431.

Johanson, J. & Wiedersheim-Paul, F., 1975. The Internationalization of the Firm - Four Swedish Cases. *The Journal of Management Studies,* pp. 305-322.

Johnson, W. & Medcof, J., 2007. Motivating proactive subsidiary innovation: Agent-based theory and socialization models in global R&D. *Journal of International Management,* 13(4), pp. 472-487.

Jones, N. B., Herschel, R. T. & Moesel, D. D., 2003. Using "knowledge champions" to facilitate knowledge management. *Journal of Knowledge Management,* 7(1), pp. 40-63.

Kaufmann, L. & Roessing, S., 2005. Managing conflict of interests between headquarters and their subsidiaries regarding technology transfer to emerging markets - a framework. *Journal of World Business,* pp. 235-253.

Kogut, B. & Zander, U., 1992. Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology. *Organization Science,* 3(3), pp. 383-397.

Kogut, B. & Zander, U., 1993. Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation. *Journal of International Business Studies,* 24(4), pp. 625-645.

Kor, Y. Y. & Mesko, A., 2013. Dynamic Managerial Capabilities: Configurations and Orchestration of Top Executives' Capabilities and the Firm's Dominant Logic. *Strategic Management Journal,* 34(2), pp. 233-244.

Kotter, J. P., 1990. *A Force for Change; How Leadership Differs from Management.* New York: Macmillian Inc..

Lagerström, K. & Andersson, M., 2003. Creating and sharing knowledge within a transnational team - the development of a global business system. *Journal of World Business,* 38(2), pp. 84-95.

Langley, A., 1999. Strategies for Theorizing from Process Data. *Academy of Management Journal,* 24(4), pp. 691-710.

Lavie, D., 2007. Alliance Portfolios and Firm Performance: A Study of Value Creation and Appropriation in the U.S. Software Industry. *Strategic Management Journal,* 28(12), pp. 1187-1212.

Lee, J., Lee, K. & Rho, S., 2002. An Evolutionary Perspective on Strategic Group Emergence: a Genetic Algorithm-Based Model. *Strategic Management Journal,* 23(8), pp. 727-746.

Lee, R., Chen, Q., Kim, D. & Johnson, J., 2008. Knowledge transfer between multinational corporations' headquarters and their subsidiaries: Influences on and implications for new product outcomes. *Journal of International Marketing,* 16(2), pp. 1-31.

Lepak, D. K., Smith, K. G. & Taylor, S. M., 2007. Introduction to Special Topic Forum: Value Creation and Value Capture: A Multilevel Perspective. *Academy of Management Review,* 32(1), pp. 180-194.

Li, J., Poppo, L. & Zhou, K., 2010. Relational mechanisms, formal contracts, and local knowledge acquisition by international subsidiaries. *Strategic Management Journal,* 31(4), pp. 349-370.

Li, J., Yang, J. & Yue, D., 2007. Identity community, and audience: How wholly owned foreign subsidiaries gain legitimacy in China. *Academy of Management Journal,* 50(1), pp. 175-190.

Li, J., Zhou, K., Lam, S. & Tse, D., 2006. Active trust development of local senior managers in international subsidiaries. *Journal of Business Research,* 59(1), pp. 73-80.

Li, L., 2005. The effects of trust and shared vision on inward knowledge transfer in subsidiaries' intra- and inter-organizational relationships. *International Business Review,* 14(1), pp. 77-95.

Lincoln, Y. S. & Guba, E. G., 1986. But Is It Rigorous? Trustworthiness and Authenticity in Naturalistic Evaluation. *New Directions for Program Evaluation,* 1986(30), pp. 73-84.

Ling, Y., Floyd, S. & Baldridge, D., 2005. Toward a model of issue-selling by subsidiary managers in multinational organizations. *Journal of International Business Studies,* 36(6), pp. 637-654.

Luo, Y., 2003. Market-seeking MNEs in an emerging market: How parent-subsidiary links shape overseas success. *Journal of International Business Studies,* 34(3), pp. 290-309.

Luo, Y., 2005. Toward coopetition within a multinational enterprise: a perspective from foreign subsidiaries. *Journal of World Business,* 40(1), pp. 71-90.

Mahnke, V., Ambos, B., Nell, P. C. & Hobdari, B., 2012. How do regional headquarters influence corporate decisions in networked MNCs?. *Journal of International Management,* 18(3), pp. 293-301.

Mahnke, V., Pedersen, T. & Venzin, M., 2009. Does Knowledge Sharing Pay? A Multinational Subsidiary Perspective on Knowledge Outflows. In: *Managing Subsidiary Dynamics: Headquarters Role, Capability Development, and China Strategy (Advances in International Management).* Bingley: Emerald Group Publishing Limited, pp. 123-149.

March, J. G., 1991. Exploration and Exploitation in Organizational Learning. *Organizational Science,* 2(1), pp. 71-87.

Marschan, R., Welch, D. & Welch, L., 1996. Control in Less-hierarchical Multinnationals: the Role of Personal Networks and Informal Communication. *International Business Review,* 5(2), pp. 137-150.

Merriam, S. B., 1995. What Can You Tell From An N of1? Issues of Validity and Reliability in Qualitative Research. *PAACE Journal of Lifelong Learning,* Volume 4, pp. 51-60.

Merriam, S. B., 1998. *Qualitative Research and Case Study Applications in Education; Revised and Expanded from Case Study Research in Education.* California: Jossey Bass Inc..

Miller, S. & Eden, L., 2006. Local density and foreign subsidiary performance. *Academy of Management Journal,* 49(2), pp. 341-355.

Minbaeva, D., Pedersen, T., Bjorkman, I., Fey, C. F. & Park, H. J., 2003. MNC knowledge transfer, subsidiary absorptive capacity, and HRM. *Journal of International Business Studies,* 34(6), pp. 586-599.

Monteiro, L., Arvidsson, N. & Birkinshaw, J., 2008. Knowledge flows within multinational corporations: Explaining subsidiary isolation and its performance implications. *Organization Science,* 19(1), pp. 90-107.

Mudambi, R., Mudambi, S. & Navarra, P., 2007. Global innovation in MNCs: The effects of subsidiary self-determination and teamwork*. *Journal of Product Innovation Management,* 24(5), pp. 442-455.

Mudambi, R. & Navarra, P., 2004. Is knowledge power? Knowledge flows, subsidiary power and rent-seeking within MNCs. *Journal of International Business Studies,* 35(5), pp. 385-406.

Myloni, B., Harzing, A. & Mirza, H., 2007. The effect of corporate-level organizational factors on the transfer of human resource management practices: European and US MNCs and their Greek subsidiaries. *International Journal of Human Resource Management,* 18(12), pp. 2057-2074.

Nelson, R. R. & Winter, S. G., 1982. *An Evolutionary Theory of Economic Exchange.* Cambridge: The Belknap Press of Harvard University Press.

Nonaka, I., 1994. A Dynamic Theory of Organizational Knowledge Creation. *Organization Science,* 5(1), pp. 14-37.

O'Donnell, S. W., 2000. Managing Foreign Subsidiaries: Agents of Headquarters, or an Interdependent Network?. *Strategic Management Journal,* Volume 21, pp. 525-548.

Ohlsson, Ö. & Rombach, B., 1998. *Res Pyramiderna; Om frihetsskapande hierarkier och tillplattningens slaveri.* Stockholm: Svenska Förlaget liv och ledarskap ab.

Orlikowski, W. J., 2002. Knowing in Practice: Enacting a Collective Capability in Distributed Organizing. *Organization Science,* 13(3), pp. 249-273.

Ozsomer, A. & Gencturk, E., 2003. A resource-based model of market learning in the subsidiary: The capabilities of exploration and exploitation. *Journal of International Marketing,* 11(3), pp. 1-29.

Paik, Y. & Sohn, J., 2004. Expatriate managers and MNC's ability to control international subsidiaries: the case of Japanese MNCs. *Journal of World Business,* 39(1), pp. 61-71.

Parker, L. D. & Ritson, P. A., 2005. Revisitng Fayol: Anticipating Contemporary Management. *British Journal of Management,* Volume 16, pp. 175-194.

Paterson, S. L. & Brock, D. M., 2002. The Development of Subsidiary-Management Research: Review and Theoretical Analysis. *International Business Review,* Volume 11, pp. 139-163.

Penrose, E., 1959. *The Theory of the Growth of the Firm.* 4th ed. Oxford: Oxford University Press.

Penrose, E., 2008. Strategy/Organisation and the Metamorphosis of the Large Firm. *Organization Studies,* 29(8-9), pp. 1117-1124.

Pérez, J. B. & Pla-Barber, J., 2005. When are International Managers a Cost Effective Solution? The Rationale of Transaction Cost Economics Applied to Staffing Decisions in MNCs. *Journal of Business Research,* 58(10), p. 1320–1329.

Perlmutter, H. V., 1969. The Tortuous Evolution of the Multinational Corporation. *Columbia Journal of World Business,* 4(4), pp. 9-18.

Pettigrew, A. M., 1990. Longitudinal Field Research on Change: Theory and Practice. *Organization Science,* 1(3), pp. 267-292.

Pettigrew, A. M., 1992. The Character and Significance of Strategy Process Research. *Strategic Management Journal,* Volume 13, pp. 5-16.

Phene, A. & Almeida, P., 2008. Innovation in multinational subsidiaries: The role of knowledge assimilation and subsidiary capabilities. *Journal of International Business Studies,* 39(5), pp. 901-919.

Piekkari, R. & Welch, C., 2011. Pluralism, in international business and and international management research: making the case. In: *Rethinking the Case Study in International Business and Management Research.* Cheltenham: Edward Elgar Publishing Limited, pp. 3-23.

Porter, M. E., 1990. The Competitive Advantage of Nations. *Harvard Business Review,* Volume March-April, pp. 73-93.

Prahalad, C. K. & Doz, Y. L., 1981. An Approach to Strategic Control in MNCs. *Sloan Management Review,* 22(4), pp. 5-13.

Provan, K. G., 1983. The Federation as an Interorganizational Linkage Network. *The Academy of Management Review,* 8(1), pp. 79-89.

Pudelko, M. & Harzing, A., 2007. Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries. *Human Resource Management,* 46(4), pp. 535-559.

Regnér, P., 2003. Strategy Creation in the Periphery: Inductive Versus Deductive Strategy Making. *Journal of Management Studies,* 40(1), pp. 57-82.

Rosenbloom, R. S., 2000. Leadership, Capabilites, and Technological Change: the Transformation of NCR in the Electronic Era. *Strategic Management Journal,* Volume 21, pp. 1083-1103.

Roth, M., Jayachandran, S., Dakhli, M. & Colton, D., 2009. Subsidiary Use of Foreign Marketing Knowledge. *Journal of International Marketing,* 17(1), pp. 1-29.

Rugman, A., Verbeke, A. & Yuan, W., 2011. Re-conceptualizing Bartlett and Ghoshal's Classification of National Subsidiary Roles in the Multinational Enterprise. *Journal of Management Studies,* 48(2), pp. 253-277.

Salvato, C., 2003. The Role of Micro-Strategies in the Engineering of Firm Evolution. *Journal of Management Studies,* 40(1), pp. 83-108.

Samiee, S., Jeong, I., Pae, J. & Tai, S., 2003. Advertising standardization in multinational corporations - The subsidiary perspective. *Journal of Business Research,* 56(8), pp. 613-626.

Schumpeter, J. A., 1942. *Capitalism, Socialism and Democracy.* 5th ed. London: Routledge.

Schweizer, R., Vahlne, J.-E. & Johanson, J., 2010. Internationalization as an entrepreneurial process. *Journal of International Entrepreneurship,* Volume 8, pp. 343-370.

Shenton, A. K., 2004. Strategies ensuring trustworthiness in qualitative research projects. *Education for Information,* Volume 22, pp. 63-75.

Siggelkow, N., 2007. Persuasion with Case Studies. *The Academy of Management Journal,* 50(1), pp. 20-24.

Simon, H., 1955. *Administrative Behavior; A study of Decision-Making Processes in Administrative Organization.* New York: The Macmillan Company.

Simon, H., 1991. Bounded Rationality and Organizational Learning. *Organization Science,* 2(1), pp. 125-134.

Sirmon, D. G., Gove, S. & Hitt, M. A., 2008. Resource Management in Dyadic Competitive Rivalry: The Effects of Resource Bundling and Deployment. *Academy of Management Journal,* 51(5), pp. 919-935.

Sirmon, D. G., Hitt, M. A., Arregle, J.-L. & Campbell, J. T., 2010. The Dynamic Interplay of Capability Strengths and Weaknesses: Investigating the Bases of Temporary Competitive Advantage. *Strategic Management Journal,* Volume 31, pp. 1386-1409.

Sirmon, D. G., Hitt, M. A. & Ireland, R. D., 2007. Managing Firm Resources in Dynamic Environments to Create Value: Looking inside the Black Box. *Academy of Management Review,* 32(1), pp. 273-292.

Slangen, A. & Hennart, J., 2008. Do multinationals really prefer to enter culturally distant countries through greenfields rather than through acquisitions? The role of parent experience and subsidiary autonomy. *Journal of International Business Studies,* 39(3), pp. 472-490.

Slater, S. F., Olson, E. M. & Hult, G. T. M., 2006. The Moderating Influence of Strategic Orientation on the Strategy Formation Capability-Performance Relationship. *Strategic Management Journal,* 27(12), pp. 1221-1231.

Soulsby, A. & Clark, E., 2011. Theorizing process through punctuated longitudinal case study research. In: *Rethinking the Case Study in International Business and Management Research.* Cheltenham: Edward Elgar Publishing Limited, pp. 277-297.

Szulanski, G., 1996. Exploring Internal Stickiness: Impediments to the Transfer of Best Practice Within the Firm. *Strategic Management Journal,* Volume 17, pp. 27-43.

Tarique, I., Schuler, R. & Gong, Y., 2006. A model of multinational enterprise subsidiary staffing composition. *International Journal of Human Resource Management,* 17(2), pp. 207-224.

Taylor, C. & Okazaki, S., 2006. Who standardizes advertising more frequently, and why do they do so? A comparison of US and Japanese subsidiaries' advertising practices in the European Union. *Journal of International Marketing,* 14(1), pp. 98-120.

Teece, D. J., Pisano, G. & Shuen, A., 1997. Dynamic Capabilities and Strategic Management. *Strategic Management Journal,* 18(7), pp. 509-533.

Tempel, A., Edwards, T., Ferner, A., Muller-Camen, M. & Wachter, H., 2006. Subsidiary responses to institutional duality: Collective representation practices of US multinationals in Britain and Germany. *Human Relations,* 59(11), pp. 1543-1570.

Tregaskis, O., 2003. Learning networks, power and legitimacy in multinational subsidiaries. *International Journal of Human Resource Management,* 14(3), pp. 431-447.

Uhlenbruck, K., 2004. Developing acquired foreign subsidiaries: the experience of MNEs in transition economies. *Journal of International Business Studies,* 35(2), pp. 109-123.

UNCTAD, 2013. *World Investment Report 2013; Global Value Chains: Investment and Trade for Development,* Geneva: United Nations Publications.

UNCTAD, 2014. *UNCTAD Statistics.* [Online]
Available at: http://unctad.org/en/Pages/Statistics.aspx
[Accessed 6 June 2014].

Van Maanen, J., Sörensen, J. B. & Mitchell, T. R., 2007. Introduction to Special Topic Forum: The Interplay between Theory and Method. *The Academy of Management Review,* 32(4), pp. 1145-1154.

Wang, P., Tong, T. & Koh, C., 2004. An integrated model of knowledge transfer from MNC parent to China subsidiary. *Journal of World Business,* 39(2), pp. 168-182.

Vargo, S. L. & Lusch, R. F., 2004. Evolving to a New Dominant Logic for Marketing. *Journal of Marketing,* 68(1), pp. 1-17.

Vargo, S. L. & Lusch, R. F., 2008. Service-dominant logic: continuing the evolution. *Journal of the Academy of Marketing Science,* 36(1), pp. 1-10.

Welch, C., Piekkari, R., Plakoyiannaki, E. & Paavilainen-Mäntymäki, E., 2011. Theorising from case studies: Towards a pluralist future for international business research. *Journal of International Business Studies,* Volume 42, pp. 740-762.

Welch, L. S., Benito, G. R. G. & Petersen, B., 2007. *Foreign Operation Methods - Theory, Analysis, Strategy.* Cheltenham: Edward Elgar Publishing Limited.

Venaik, S., Midgley, D. & Devinney, T., 2005. Dual paths to performance: the impact of global pressures on MNC subsidiary conduct and performance. *Journal of International Business Studies,* 36(6), pp. 655-675.

Wernerfelt, B., 1984. A Resource-based View of the Firm. *Strategic Management Journal,* 5(2), pp. 171-180.

Vernon, R., 1966. International Investment and International Trade in the Product Cycle. *The Quarterly Journal of Economics,* 80(2), pp. 190-207.

White, R. & Poynter, T., 1984. Strategies for foreign owned subsidiaries in Canada. *Business Quarterly,* 48(4), pp. 59-69.

Vie, O. E., 2010. Have post-bureaucratic changes occurred in managerial work?. *European Management Journal,* pp. 182-194.

Winter, S. G., 2003. Understanding Dynamic Capabilities. *Strategic Management Journal,* p. 991–995.

Wright, P. M., McMahan, G. C. & McWilliams, A., 1994. Human resources and sustained competitive advantage: a resource-based perspective. *International Journal of Human Resource Management,* 5(2), pp. 301-326.

Yin, R. K., 2003. *Case Study Research; Design and Methods.* Thousand Oaks: SAGE Publications Inc.

Zahra, S. A., Sapienza, H. J. & Davidsson, P., 2006. Entrepreneurship and Dynamic Capabilities: A Review, Model and Research Agenda*. *Journal of Management Studies,* pp. 917-955.

Zaidman, N. & Brock, D., 2009. Knowledge Transfer Within Multinationals and Their Foreign Subsidiaries A Culture-Context Approach. *Group & Organization Management,* 34(3), pp. 297-329.

Zander, U. & Kogut, B., 1995. Knowledge and the Speed of the Transfer and Imitation of Organizational Capabilities: An Empirical Test. *Organization Science,* 6(1), pp. 76-92.

Zeira, Y. & Banai, M., 1985. Selection of Expatriate Managers in MNCs: the Host Environment Point of View. *International Studies of Management & Organization,* 15(1), pp. 33-51.

Appendix 1 Table of the 91 Highest-ranked Articles Gathered on the 15th March 2013

Ranking	Times Cited in Web of Science March 15 2013	Total Times Cited March 15 2013	Authors	Year	Title	Journal
1	177	190	Minbaeva, D; Pedersen, T; Bjorkman, I; Fey, CF; Park, HJ	2003	MNC knowledge transfer, subsidiary absorptive capacity, and HRM	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
2	143	143	Cantwell, J; Mudambi, R	2005	MNE competence-creating subsidiary mandates	STRATEGIC MANAGEMENT JOURNAL
3	143	144	Mudambi, R; Navarra, P	2004	Is knowledge power? Knowledge flows, subsidiary power and rent-seeking within MNCs	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
4	120	123	Almeida, P; Phene, A	2004	Subsidiaries and knowledge creation: The influence of the MNC and host country on innovation	STRATEGIC MANAGEMENT JOURNAL
5	72	72	Andersson, U; Forsgren, M; Holm, U	2007	Balancing subsidiary influence in the federative MNC: a business network view	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
6	66	66	Feinberg, SE; Gupta, AK	2004	Knowledge spillovers and the assignment of R&D responsibilities to foreign subsidiaries	STRATEGIC MANAGEMENT JOURNAL
7	61	66	Wang, P; Tong, TW; Koh, CP	2004	An integrated model of knowledge transfer from MNC parent to China subsidiary	JOURNAL OF WORLD BUSINESS
8	59	59	Bouquet, C; Birkinshaw, J	2008	Weight versus voice: How foreign subsidiaries gain attention from corporate headquarters	ACADEMY OF MANAGEMENT JOURNAL
9	58	59	Luo, Y	2003	Market-seeking MNEs in an emerging market: How parent-subsidiary links shape overseas success	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
10	57	58	Gong, YP	2003	Subsidiary staffing in multinational enterprises: Agency, resources, and performance	ACADEMY OF MANAGEMENT JOURNAL
11	55	55	Ferner, A; Almond, P; Clark, I; Colling, T; Edwards, T; Holden, L; Muller-Camen, M	2004	The dynamics of central control and subsidiary autonomy in the management of human resources: Case-study evidence from US MNCs in the UK	ORGANIZATION STUDIES
12	45	45	Ambos, TC; Ambos, B; Schlegelmilch, BB	2006	Learning from foreign subsidiaries: An empirical investigation of headquarters' benefits from reverse knowledge transfers	INTERNATIONAL BUSINESS REVIEW
13	44	44	Bjorkman, I; Fey, CF; Park, HJ	2007	Institutional theory and MNC subsidiary HRM practices: evidence from a three-country study	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
14	43	43	Gaur, AS; Lu, JW	200	Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience	JOURNAL OF MANAGEMENT

				7		
15	43	43	Geppert, M; Williams, K; Matten, D	2003	The social construction of contextual rationalities in MNCs: An Anglo-German comparison of subsidiary choice	JOURNAL OF MANAGEMENT STUDIES
16	42	42	Monteiro, LF; Arvidsson, N; Birkinshaw, J	2008	Knowledge flows within multinational corporations: Explaining subsidiary isolation and its performance implications	ORGANIZATION SCIENCE
17	41	43	Hillman, AJ; Wan, WP	2005	The determinants of MNE subsidiaries' political strategies: evidence of institutional duality	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
18	40	40	Phene, A; Almeida, P	2008	Innovation in multinational subsidiaries: The role of knowledge assimilation and subsidiary capabilities	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
19	40	40	Birkinshaw, J; Hood, N; Young, S	2005	Subsidiary entrepreneurship, internal and external competitive forces, and subsidiary performance	INTERNATIONAL BUSINESS REVIEW
20	40	40	Uhlenbruck, K	2004	Developing acquired foreign subsidiaries: the experience of MNEs in transition economies	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
21	39	42	Li, L	2005	The effects of trust and shared vision on inward knowledge transfer in subsidiaries' intra- and inter-organizational relationships	INTERNATIONAL BUSINESS REVIEW
22	39	39	Benito, GRG; Grogaard, B; Narula, R	2003	Environmental influences on MNE subsidiary roles: economic integration and the Nordic countries	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
23	38	38	Gaur, AS; Delios, A; Singh, K	2007	Institutional environments, staffing strategies, and subsidiary performance	JOURNAL OF MANAGEMENT
24	37	37	Miller, SR; Eden, L	2006	Local density and foreign subsidiary performance	ACADEMY OF MANAGEMENT JOURNAL
25	37	37	Tarique, I; Schuler, R; Gong, YP	2006	A model of multinational enterprise subsidiary staffing composition	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
26	37	38	Venaik, S; Midgley, DF; Devinney, TM	2005	Dual paths to performance: the impact of global pressures on MNC subsidiary conduct and performance	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
27	35	36	Chan, CM; Makino, S	2007	Legitimacy and multi-level institutional environments: implications for foreign subsidiary ownership structure	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
28	33	33	Pudelko, M; Harzing, AW	2007	Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries	HUMAN RESOURCE MANAGEMENT
29	32	32	Andersson, U; Bjorkman, I; Forsgren, M	2005	Managing subsidiary knowledge creation: The effect of control mechanisms on subsidiary local embeddedness	INTERNATIONAL BUSINESS REVIEW
30	32	33	Luo, YD	2005	Toward coopetition within a multinational enterprise: a perspective from foreign subsidiaries	JOURNAL OF WORLD BUSINESS
31	31	31	Hewett, K; Roth,	2	Conditions influencing headquarters and	JOURNAL OF

			MS; Roth, K	003	foreign subsidiary roles in marketing activities and their effects on performance	INTERNATIONAL BUSINESS STUDIES
32	31	31	Gong, YP	2003	Toward a dynamic process model of staffing composition and subsidiary outcomes in multinational enterprises	JOURNAL OF MANAGEMENT
33	29	29	Slangen, AHL; Hennart, JF	2008	Do multinationals really prefer to enter culturally distant countries through greenfields rather than through acquisitions? The role of parent experience and subsidiary autonomy	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
34	29	29	Chung, CC; Beamish, PW	2005	The impact of institutional reforms on characteristics and survival of foreign subsidiaries in emerging economies	JOURNAL OF MANAGEMENT STUDIES
35	27	27	Park, HJ; Mitsuhashi, H; Fey, CF; Bjorkman, I	2003	The effect of human resource management practices on Japanese MNC subsidiary performance: a partial mediating model	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
36	27	28	Ozsomer, A; Gencturk, E	2003	A resource-based model of market learning in the subsidiary: The capabilities of exploration and exploitation	JOURNAL OF INTERNATIONAL MARKETING
37	26	26	Fang, YL; Wade, M; Delios, A; Beamish, PW	2007	International diversification, subsidiary performance, and the mobility of knowledge resources	STRATEGIC MANAGEMENT JOURNAL
38	25	25	Cui, AS; Griffith, DA; Cavusgil, ST; Dabic, M	2006	The influence of market and cultural environmental factors on technology transfer between foreign MNCs and local subsidiaries: A Croatian illustration	JOURNAL OF WORLD BUSINESS
39	25	25	Cui, AS; Griffith, DA; Cavusgil, ST	2005	The influence of competitive intensity and market dynamism on knowledge management capabilities of multinational corporation subsidiaries	JOURNAL OF INTERNATIONAL MARKETING
40	24	24	Hong, JFL; Easterby-Smith, M; Snell, RS	2006	Transferring organizational learning systems to Japanese subsidiaries in China	JOURNAL OF MANAGEMENT STUDIES
41	24	24	Farley, JU; Hoenig, S; Yang, JZ	2004	Key factors influencing HRM practices of overseas subsidiaries in China's transition economy	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
42	23	23	Gooderham, P; Nordhaug, O; Ringdal, K	2006	National embeddedness and calculative human resource management in US subsidiaries in Europe and Australia	HUMAN RELATIONS
43	23	23	Harzing, AW; Noorderhaven, N	2006	Knowledge flows in MNCs: An empirical test and extension of Gupta and Govindarajan's typology of subsidiary roles	INTERNATIONAL BUSINESS REVIEW
44	22	22	Fenton-O'Creevy, M; Gooderham, P; Nordhaug, O	2008	Human resource management in US subsidiaries in Europe and Australia: centralization or autonomy?	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
45	22	22	Taylor, CR; Okazaki, S	2006	Who standardizes advertising more frequently, and why do they do so? A comparison of US and Japanese subsidiaries' advertising practices in the European Union	JOURNAL OF INTERNATIONAL MARKETING
46	22	23	Samiee, S; Jeong, I; Pae, JH; Tai, S	2003	Advertising standardization in multinational corporations - The subsidiary perspective	JOURNAL OF BUSINESS RESEARCH
47	21	21	Jindra, B; Giroud,	2	Subsidiary roles, vertical linkages and	JOURNAL OF WORLD

			A; Scott-Kennel, J	009	economic development: Lessons from transition economies	BUSINESS
48	21	21	Ruta, CD	2005	The application of change management theory to HR portal implementation in subsidiaries of multinational corporations	HUMAN RESOURCE MANAGEMENT
49	21	21	Gomez, C	2004	The influence of environmental, organizational, and HRM factors on employee behaviors in subsidiaries: a Mexican case study of organizational learning	JOURNAL OF WORLD BUSINESS
50	20	20	Tempel, A; Edwards, T; Ferner, A; Muller-Camen, M; Wachter, H	2006	Subsidiary responses to institutional duality: Collective representation practices of US multinationals in Britain and Germany	HUMAN RELATIONS
51	20	20	Paik, Y; Sohn, JD	2004	Expatriate managers and MNC's ability to control international subsidiaries: the case of Japanese MNCS	JOURNAL OF WORLD BUSINESS
52	19	19	Lee, RR; Chen, Q; Kim, D; Johnson, JL	2008	Knowledge transfer between multinational corporations' headquarters and their subsidiaries: Influences on and implications for new product outcomes	JOURNAL OF INTERNATIONAL MARKETING
53	19	20	Li, JT; Yang, JY; Yue, DR	2007	Identity community, and audience: How wholly owned foreign subsidiaries gain legitimacy in China	ACADEMY OF MANAGEMENT JOURNAL
54	18	18	Mudambi, R; Mudambi, SM; Navarra, P	2007	Global innovation in MNCs: The effects of subsidiary self-determination and teamwork*	JOURNAL OF PRODUCT INNOVATION MANAGEMENT
55	17	17	Li, JJ; Poppo, L; Zhou, KZ	2010	Relational mechanisms, formal contracts, and local knowledge acquisition by international subsidiaries	STRATEGIC MANAGEMENT JOURNAL
56	17	17	Asmussen, CG; Pedersen, T; Dhanaraj, C	2009	Host-country environment and subsidiary competence: Extending the diamond network model	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
57	17	17	Ling, Y; Floyd, SW; Baldridge, DC	2005	Toward a model of issue-selling by subsidiary managers in multinational organizations	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
58	17	17	Chen, SJ; Lawler, JJ; Bae, J	2005	Convergence in human resource systems: A comparison of locally owned and MNC subsidiaries in Taiwan	HUMAN RESOURCE MANAGEMENT
59	17	18	Engelhard, J; Nagele, J	2003	Organizational learning in subsidiaries of multinational companies in Russia	JOURNAL OF WORLD BUSINESS
60	16	16	Garcia-Pont, C; Canales, JI; Noboa, F	2009	Subsidiary Strategy: The Embeddedness Component	JOURNAL OF MANAGEMENT STUDIES
61	16	16	Tregaskis, O	2003	Learning networks, power and legitimacy in multinational subsidiaries	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
62	15	15	Roth, MS; Jayachandran, S; Dakhli, M; Colton, DA	2009	Subsidiary Use of Foreign Marketing Knowledge	JOURNAL OF INTERNATIONAL MARKETING
63	14	14	Bjorkman, I;	2	Human resource management in foreign-	INTERNATIONAL

			Budhwar, P; Smale, A; Sumelius, J	0 0 8	owned subsidiaries: China versus India	JOURNAL OF HUMAN RESOURCE MANAGEMENT
64	14	14	Li, JJ; Zhou, KZ; Lam, SSK; Tse, DK	2 0 0 6	Active trust development of local senior managers in international subsidiaries	JOURNAL OF BUSINESS RESEARCH
65	14	14	Jaw, BS; Liu, WN	2 0 0 4	Towards an integrative framework of strategic international human resource control: the case of Taiwanese subsidiaries in the People's Republic of China	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
66	13	13	Rugman, A; Verbeke, A; Yuan, WL	2 0 1 1	Re-conceptualizing Bartlett and Ghoshal's Classification of National Subsidiary Roles in the Multinational Enterprise	JOURNAL OF MANAGEMENT STUDIES
67	13	13	Ambos, TC; Andersson, U; Birkinshaw, J	2 0 1 0	What are the consequences of initiative-taking in multinational subsidiaries?	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
68	12	12	Fey, CF; Morgulis-Yakushev, S; Park, HJ; Bjorkman, I	2 0 0 9	Opening the black box of the relationship between HRM practices and firm performance: A comparison of MNE	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
69	12	12	Arregle, JL; Beamish, PW; Hebert, L	2 0 0 9	The regional dimension of MNEs' foreign subsidiary localization	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
70	12	12	Bjorkman, I; Smale, A; Sumelius, J; Suutari, V; Lu, Y	2 0 0 8	Changes in institutional context and MNC operations in China: Subsidiary HRM practices in 1996 versus 2006	INTERNATIONAL BUSINESS REVIEW
71	12	12	Hobday, M; Rush, H	2 0 0 7	Upgrading the technological capabilities of foreign transnational subsidiaries in developing countries: The case of electronics in Thailand	RESEARCH POLICY
72	12	12	Kaufmann, L; Roessing, S	2 0 0 5	Managing conflict of interests between headquarters and their subsidiaries regarding technology transfer to emerging markets - a framework	JOURNAL OF WORLD BUSINESS
73	12	12	Manolopoulos, D; Papanastassiou, M; Pearce, R	2 0 0 5	Technology sourcing in multinational enterprises and the roles of subsidiaries: An empirical investigation	INTERNATIONAL BUSINESS REVIEW
74	11	11	Puck, JF; Holtbrugge, D; Mohr, AT	2 0 0 9	Beyond entry mode choice: Explaining the conversion of joint ventures into wholly owned subsidiaries in the People's Republic of China	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
75	11	11	Chang, YY; Mellahi, K; Wilkinson, A	2 0 0 9	Control of subsidiaries of MNCs from emerging economies in developed countries: the case of Taiwanese MNCs in the UK	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
76	11	11	Delios, A; Xu, D; Beamish, PW	2 0 0 8	Within-country product diversification and foreign subsidiary performance	JOURNAL OF INTERNATIONAL BUSINESS STUDIES
77	11	11	Colakoglu, S; Caligiuri, P	2 0 0 8	Cultural distance, expatriate staffing and subsidiary performance: The case of US subsidiaries of multinational corporations	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
78	11	11	Reiche, BS	2 0 0 7	The effect of international staffing practices on subsidiary staff retention in multinational corporations	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
79	11	11	Chung, LH; Gibbons, PT;	2 0	The management of information and managers in subsidiaries of multinational	BRITISH JOURNAL OF MANAGEMENT

			Schoch, HP	0 6	corporations	
80	11	11	Zhang, Y; George, JA; Chan, TS	2 0 0 6	The paradox of dueling identities: The case of local senior executives in MNC subsidiaries	JOURNAL OF MANAGEMENT
81	11	11	Delios, A; Makino, S	2 0 0 3	Timing of entry and the foreign subsidiary performance of Japanese firms	JOURNAL OF INTERNATIONAL MARKETING
82	10	10	Zaidman, N; Brock, DM	2 0 0 9	Knowledge Transfer Within Multinationals and Their Foreign Subsidiaries A Culture-Context Approach	GROUP & ORGANIZATION MANAGEMENT
83	10	10	Dikova, D	2 0 0 9	Performance of foreign subsidiaries: Does psychic distance matter?	INTERNATIONAL BUSINESS REVIEW
84	10	10	Estrin, S; Meyer, KE; Wright, M; Foliano, F	2 0 0 8	Export propensity and intensity of subsidiaries in emerging economies	INTERNATIONAL BUSINESS REVIEW
85	10	10	Boehe, DM	2 0 0 7	Product development in MNC subsidiaries: Local linkages and global interdependencies	JOURNAL OF INTERNATIONAL MANAGEMENT
86	10	10	Myloni, B; Harzing, AW; Mirza, H	2 0 0 7	The effect of corporate-level organizational factors on the transfer of human resource management practices: European and US MNCs and their Greek subsidiaries	INTERNATIONAL JOURNAL OF HUMAN RESOURCE MANAGEMENT
87	10	10	Garg, M; Delios, A	2 0 0 7	Survival of the foreign subsidiaries of TMNCs: The influence of business group affiliation	JOURNAL OF INTERNATIONAL MANAGEMENT
88	9	9	Chen, G; Kirkman, BL; Kim, K; Farh, CIC; Tangirala, R	2 0 1 0	When Does Cross-Cultural Motivation Enhance Expatriate Effectiveness? A Multilevel Investigation of the Moderating Roles of Subsidiary Support and Cultural Distance	ACADEMY OF MANAGEMENT JOURNAL
89	9	9	Collings, DG; Morley, MJ; Gunnigle, P	2 0 0 8	Composing the top management team in the international subsidiary: Qualitative evidence on international staffing in US MNCs in the Republic of Ireland	JOURNAL OF WORLD BUSINESS
90	9	9	Johnson, WHA; Medcof, JW	2 0 0 7	Motivating proactive subsidiary innovation: Agent-based theory and socialization models in global R&D	JOURNAL OF INTERNATIONAL MANAGEMENT
91	9	9	Wade, MR; Gravill, JI	2 0 0 3	Diversification and performance of Japanese IT subsidiaries: a resource-based view	INFORMATION & MANAGEMENT

Appendix 2 Table of the 150 Most Common Words Found in the Abstracts

Ranking	Word	Length	Count
1	subsidiary	10	186
2	attention	12	172
3	knowledge	9	115
4	foreign	7	71
5	local	5	71
6	multinational	13	68
7	country	7	59
8	performance	11	55
9	mnc	3	53
10	study	5	52
11	practices	9	47
12	mncs	4	45
13	parent	6	41
14	management	10	40
15	transfer	8	40
16	host	4	38
17	market	6	37
18	organizational	14	36
19	research	8	36
20	based	5	35
21	paper	5	34
22	firms	5	33
23	level	5	33
24	firm	4	32
25	institutional	13	32
26	resource	8	32
27	results	7	32
28	control	7	31
29	managers	8	31
30	headquarters	12	30
31	international	13	30
32	learning	8	30
33	countries	9	29
34	cultural	8	29
35	model	5	29
36	strategy	8	29
37	also	4	28
38	environment	11	28
39	hrm	3	28
40	influence	9	28
41	data	4	27
42	different	9	27
43	factors	7	27
44	theory	6	27
45	within	6	27
46	relationship	12	26
47	japanese	8	25
48	national	8	25
49	using	5	25
50	article	7	23
51	findings	8	23
52	global	6	23
53	two	3	23
54	effect	6	22
55	examine	7	22
56	owned	5	22
57	distance	8	21
58	china	5	20
59	development	11	20
60	effects	7	20
61	mnes	4	20
62	resources	9	20
63	technology	10	20
64	business	8	19
65	capabilities	12	19
66	network	7	19
67	staffing	8	19
68	suggest	7	19
69	competitive	11	18
70	corporate	9	18
71	extent	6	18
72	innovation	10	18
73	role	4	18
74	use	3	18
75	levels	6	17
76	literature	10	17
77	mne	3	17
78	strategic	9	17
79	corporations	12	16
80	embeddedness	12	16
81	find	4	16
82	human	5	16
83	important	9	16
84	indicate	8	16
85	sample	6	16
86	specific	8	16
87	analysis	8	15
88	companies	9	15
89	environmental	13	15
90	greater	7	15
91	internal	8	15
92	multinationals	14	15
93	positive	8	15
94	product	7	15
95	support	7	15
96	test	4	15
97	advertising	11	14
98	affect	6	14

99	associated	10	14
100	empirical	9	14
101	external	8	14
102	hypotheses	10	14
103	may	3	14
104	operating	9	14
105	ownership	9	14
106	roles	5	14
107	show	4	14
108	significant	11	14
109	units	5	14
110	value	5	14
111	well	4	14
112	across	6	13
113	activities	10	13
114	expatriates	11	13
115	new	3	13
116	power	5	13
117	strategies	10	13
118	survey	6	13
119	trust	5	13
120	cross	5	12
121	enterprise	10	12
122	european	8	12
123	evidence	8	12
124	examines	8	12
125	experience	10	12
126	found	5	12
127	importance	10	12
128	likely	6	12
129	marketing	9	12
130	process	7	12
131	related	7	12
132	standardization	15	12
133	wholly	6	12
134	capability	10	11
135	changes	7	11
136	conditions	10	11
137	context	7	11
138	corporation	11	11
139	dependence	10	11
140	differences	11	11
141	economies	9	11
142	expatriate	10	11
143	framework	9	11
144	however	7	11
145	influences	10	11
146	nationals	9	11
147	outcomes	8	11
148	self	4	11
149	survival	8	11
150	systems	7	11

Appendix 3 Interviews – Topics Covered

Interview Topics in 2009

Interview Topics HQs – Flygt/Global Projects Directors and Managers

1. Informants' Background
2. Informants' Position and Daily Concerns
3. Business Developments – Overall and ME
4. Understanding about ME subsidiary – Interaction/Cooperation
5. Business Expansion Strategies
6. Understanding about Business Channels in ME

Interview Topics – Subsidiary 2009

1. Informants' Background
2. Informants' Position and Daily Concerns
3. Informants' Understanding of ME Markets
4. Market Developments
5. Understanding of Distributor Relationships
6. Distributor Developments
7. Strategies
8. Effects of the Business Transformation

Interview Topics – Distributors 2009

1. Informants' Background
2. Description of Distributors' Organisation
3. Market Developments
4. Informants Daily Activities – Activities with ITT WWW products
5. Relationship Developments with Subsidiary
6. Understanding of ITT WWW Business Transformation

Interview Topics – Customers 2009

1. Informants' Background
2. History with ITT WWW Products
3. Relationships Developments with Distributor
4. Usage of Distributors for the Sourcing of Products
5. Potential Interaction with ITT WWW Affiliates/Subsidiaries
6. Understanding about ITT WWW

Interview Topics - Swedish Export Council 2009

1. Effects of the Financial Crisis in the Region
2. Infrastructure Industry Developments
3. Typical Establishment Patterns in the UAE
4. Changes to those Patterns Over Time
5. Use of Distributors in the ME
6. Legal Aspects Affecting Trade in the Region

Interview Topics 2012

Interview Topics - Transport - Area Managers/Business Unit Manager/Sales Support Manager 2012

1. Informants' Background (Depending on Previous Interviews)
2. Informants' Position and Daily Concerns
3. Description of Subsidiary Developments
4. Effects of the Developments
5. Interaction within the Subsidiary
6. Interaction with other Units Within Xylem/Water Solutions
7. Effects of the Business Transformation
8. Informants Understanding of ME Markets
9. Market Developments
10. Understanding of Distributor Relationships
11. Distributor Developments
12. Strategies

Interview Topics – Treatment – Business Development Director (Global Projects)/Leopold Sales Engineer/ Wedeco Sales Manager

1. Informants' Background (Depending on Previous Interviews)
2. Informants' Position and Daily Concerns
3. Description of Subsidiary Developments
4. Effects of the Developments
5. Interaction within the Subsidiary
6. Interaction with other Units Within Xylem/Water Solutions
7. Effects of the Business Transformation
8. Informants Understanding of ME Markets
9. Market Developments
10. Strategies

Interview Topics - Subsidiary Manager/Business Development Manager 2012

1. Informants' Background (Depending on Previous Interviews)

2. Informants' Position and Daily Concerns
3. Description of Subsidiary Developments
4. Effects of the Developments
5. Interaction within the Subsidiary
6. Interaction with other Units Within Xylem/Water Solutions
7. Changes within Xylem/Water Solutions
8. Effects of the Business Transformation
9. Informants' Understanding of ME Markets
10. Market Developments
11. Distributor Developments
12. Interaction with other Units in the ME
13. Strategies

Interview Topics - Subsidiary HR Manager 2012

1. Informant's Background
2. Informant's Position and Daily Concerns
3. Description of Subsidiary Developments
4. Effects of the Developments
5. Interaction within the Subsidiary
6. Interaction with other Units Within Xylem/Water Solutions
7. Changes within Xylem/Water Solutions
8. Interaction with other Units in the ME
9. Strategies

Appendix 4 Informants

HQs 2009

Regional Manager EMEA (2009) Interview considering the division's current status and future development [Personal interview] Regional Manager EMEA (Personal Communication, February 1, 2009)

Regional Sales Director East (2009) Interview considering the division's current status and future development in the ME [Personal interview] Regional Sales Director East (Personal Communication, February 10, 2009)

Regional Sales Director East (2009) Follow up Interview considering the division's current status and future development in the ME [Personal interview] Regional Sales Director East (Personal Communication, March 31, 2009)

Manager Sales Development & Support EMEA (2009) Interview considering the division's current status and future development [Personal interview] Manager Sales Development & Support EMEA (Personal Communication, January 19, 2009)

Director for Business Development (2009) Interview considering the division's current status and future development [Personal interview] Director for Business Development (Personal Communication, January 25, 2009)

Former Expatriate at the Subsidiary Sales Development (2009) Interview considering the early historical developments of the subsidiary and distributor relationships [Personal interview] Former Expatriate at the Subsidiary Sales Development (Personal Communication, March 31, 2009)

Director Global Projects (2009) Interview considering the division's current status and future development [Personal interview] Director Global Projects (Personal Communication, February 10, 2009)

Factory Project Manager Group Logistics (2009) Visit and Conversation considering the logistics of ITT WWW's products [Personal interview] Project Manager Group Logistics (Personal Communication, January 10, 2009)

Subsidiary 2009

Subsidiary Manager (2009) Interview considering the operations in the ME and future aspirations [Personal interview] Subsidiary Manager (Personal Communication, February 25-March 20, 2009)

Area Manager Qatar (2009) Interview considering the operations in UAE and Qatar [Personal interview] Area Manager (Personal Communication, March 2, 2009)

Area Manager Saudi Arabia and Egypt (2009) Interview considering the operations in Egypt [Personal interview] Area Manager Saudi Arabia and Egypt (Personal Communication, March 15, 2009)

Area Manager UAE (2009) Interview considering the operations in UAE [Personal interview] Area Manager (Personal Communication, March 5, 2009)

Business Development Director Global Projects (2009) Interview concerning ITT WWW and Global Projects [Personal interview] Business Development Director Global Projects (Personal Communication, March 5, 2009)

Sales Support Manager (2009) Conversation considering support [Personal interview] Sales Support Manager (Personal Communication, March 18, 2009)

New Focus Segment Manager (2009) Interview considering the new focus segment for FLYGT [Personal interview] New Focus Segment Manager (Personal Communication, March 5, 2009)

Wedeco Sales Manager (2009) Interview considering the sales and development of in the ME [Personal interview] Wedeco Sales Manager (Personal Communication, March 4, 2009)

Leopold Development Manager EMEA (2009) Interview concerning ITT WWW and the role of Leopold in the organization [Personal interview] Leopold Development Manager EMEA (Personal Communication, March 18, 2009)

UAE 2009

Distributor Managing Director (2009) Interview considering ITT WWWs current and future position on the market and the collaboration with subsidiary [Personal interview] Distributor Managing Director (Personal Communication, March 3, 2009)

Distributor Product Sales Manager ITT WWW (2009) Interview considering ITT WWWs current and future position on the market and the collaboration with subsidiary [Personal interview] Distributor Product Sales Manager (Personal Communication, March 3, 2009)

Construction Group UAE - Senior Project Manager (2009) Conversation considering ITT WWW's market position [Personal interview] Senior Project Manager (Personal Communication, March 1, 2009)

Head of Maintenance (2009a) Conversation considering ITT WWW's market position [Personal interview] Head of Maintenance - Municipality UAE (Personal Communication, February 23, 2009)

Head of Network Department (2009b) Conversation considering ITT WWW's market position [Personal interview] Head of Network Department - Municipality UAE (Personal Communication, February 23, 2009)

Swedish Trade Council UAE (2009) Interview considering business setups in UAE [Personal Interview] Swedish Trade Council UAE - Associate - Middle East & Eastern Africa (Personal Interview, March 4, 2009)

Qatar 2009

Distributor Chief Executive Officer and Chief Operating Officer (2009) Interview considering Flygt's current and future position on the market and the collaboration with subsidiary [Personal interview] Distributor Chief Executive Officer and Chief Operating Officer (Personal Communication, March 7, 2009)

Distributor Division Manager (2009) Interview considering Flygt's current and future position on the market and the collaboration with subsidiary [Personal interview] Distributor Division Manager (Personal Communication, March 7, 2009)

Distributor Product Sales Manager (2009) Interview considering Flygt's current and future position on the market and the collaboration with subsidiary [Personal interview] Distributor Product Sales Manager ITT WWW (Personal Communication, March 7, 2009)

Senior Design Engineer and ICA Design Engineer (2009) Conversation considering ITT WWW's market position [Personal interview] Commissioning Manager, Senior Design Engineer and ICA Design Engineer (Personal Communication, March 8, 2009)

Egypt 2009

Distributor Chairman (2009) Interview considering ITT WWWs current and future position on the market and the collaboration with the subsidiary [Personal interview] Distributor Chairman (Personal Communication, March 10, 2009)

Distributor Department Manager (2009) Interview considering ITT WWWs current and future position on the market and the collaboration with the subsidiary [Personal interview] Distributor Department Manager (Personal Communication, March 10, 2009)

Chief Mechanical Engineer (2009) Interview considering ITT WWW's market position [Personal interview] Chief Mechanical Engineer (Personal Communication, March 11, 2009)

Project Manager (2009) Conversation considering ITT WWW's market position [Personal interview] Project Manager (Personal Communication, March 11, 2009)

Saudi Arabia2009

Distributor Product Manager (2009) Interview considering ITT WWWs current and future position on the market and the collaboration with subsidiary [Phone Interview] Distributor Product Manager (Personal Communication, March 18, 2009)

Subsidiary 2012

Area Manager Qatar (2012) Interview considering the informant's activities and the developments at the Subsidiary [Phone Interview] Area Manager Qatar (Personal Communication, March 26, 2012)

Area Manager Saudi Arabia (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Area Manager Saudi Arabia (Personal Communication, March 25, 2012)

Area Manager Saudi Arabia (2012) Interview considering the developments at the Subsidiary and the implementation of VBCE [Personal interview] Area Manager Saudi Arabia (Personal Communication, March 27, 2012)

Area Manager UAE (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Area Manager UAE (Personal Communication, March 28, 2012)

Business Development Director Global Projects (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Business Development Director Global Projects (Personal Communication, March 29, 2012)

Business Development Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Business Development Manager (Personal Communication, March 25, 2012)

Business Unit Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Business Unit Manager (Personal Communication, March 25, 2012)

HR Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] HR Manager (Personal Communication, March 29, 2012)

Leopold Sales Engineer (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Leopold Sales Engineer (Personal Communication, March 29, 2012)

Sales Support Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Sales Support Manager (Personal Communication, March 27, 2012)

Subsidiary Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Subsidiary Manager (Personal Communication, March 26, 2012)

Wedeco Sales Manager (2012) Interview considering the informant's activities and the developments at the Subsidiary [Personal interview] Wedeco Sales Manager (Personal Communication, March 29, 2012)

Appendix 5 Published and Unpublished Sources

<u>Published Sources</u>

Annual Report 2006 ITT Corporation http://www.itt.com/Investors/statements/2012-10-K/

Annual Report 2007 ITT Corporation http://www.itt.com/Investors/statements/2012-10-K/

Annual Report 2012 ITT Corporation http://www.itt.com/Investors/statements/2012-10-K/

Investor & Analyst Day Presentation 2013 XYLEM INC. http://investors.xyleminc.com/

ITT Waterbook ITT's Place in the Cycle of Water 2007 www.xylemwatersolutions.com

Waterworld 2009 Q&A with ITT Fluid & Motion Control's McClain www.waterworld.com

<u>Unpublished Sources</u>

<u>HQs</u>

Acquisition Model Template 2008

Acquisition Reviews 2010

Market Channel Strategy 2009

Market Channel Strategy 2010

Middle East Graph Collection 2008

Middle East Market Size Estimates and Formula 2009

Middle East Sales and Income Template (Break Down) 2008

Organizational Structure Chart EMEA 2009

Resource Acquisition Feedback Survey 2009

Resource Acquisition Process Chart 2009

Resource Acquisition Template 2008

Strategy and Operating Plan 2009

Strategy Discussion Presentation with head of the Division and the head of ITT WWW 2009

<u>Subsidiary</u>

Business Initiatives 2008

Business Plan Egypt 2008

Business Plan Saudi 2008

Business Plan Template 2009

Business Plan UAE 2009

Distributor Account Plan - Strategic Account Template 2012

Distributor Agreement List 2005

Distributor Agreement Qatar

Distributor Agreement UAE

Distributor and Agent List 2006

Distributor and Agent List 2009

Distributor Planning Template 2012

How to Market Flygt 2004

Market Information Template 2006

Middle East Business Plan 2006

Middle East Growth Case 2006

Middle East Organization 2004

Middle East Organizational Chart 2012

Middle East Subsidiary Management Team Action List 2012

New Template for Distributor Agreements 2009

Organizational Requirement List for Expansion 2006

Quarterly Sales Template 2007

Sales Plan Qatar 2009

Strategic Account Template 2012

Strategic Plan 2004

Strategic Presentation Subsidiary Current Status and Future (presented at an internal strategy and growth council meeting) 2011

Strategic Presentation Subsidiary Current Status and Future (presented at a Managing Director conference) 2012

Strategic Presentation Subsidiary Current Status and Future 2011

VBCE Growth Fieldwork Program 2011

VBCE Growth Plan Program 2011

VBCE Workshop Program 2011

Appendix 6 Nodes used in Nvivo

<u>HQs 2009</u>

Expectations from HQs 2009

HQ Budget settlement 2009

HQ Future Strategy of doing business 2009

HQ historical overview 2009

HQ previous view on ME in 2009 and prior as perceived from the subsidiary

HQs view on existing distributor relationships in the ME 2009

HQs view on the Middle East and subsidiary 2009

HQs view on the role of Global Projects 2009

HQs view on the strategic shift from product to process and systems provider 2009

HQs view on the strategy of using distributors 2009

<u>Subsidiary</u>

Development of subsidiary until 2009

Difficulties to lead the organization 2009

Fragmented Organization 2009

Fragmented Time 2009

Lack of subsidiary knowledge to fulfill role 2009

Limited Subsidiary infrastructure 2009

Subsidiary knowledge 2009

Subsidiary view on HQ 2009

Transport 2009

Treatment 2009

Very few Employees and Resources 2009

Visions and strategies for the subsidiary in 2009

<u>ME Region</u>

Distributors 2009

Lack of Subsidiary knowledge of possibilities and limitations in the region 2009

<u>HQs 2012</u>

Communication from subsidiary to HQ 2012

Communication to Xylem HQs 2012

Communication with Units within the Division 2012

New HQ demands and view 2012

<u>Subsidiary 2012</u>

Change in Employee Roles at the Subsidiary 2012

Change in Subsidiary Communication with Stakeholders 2009-2012

Different perspectives from different parts of the division 2012

Effects of growth and change at the Subsidiary 2012

Effects of the Spin-off 2012

Fragmented Time 2012

Future Orientation 2012

Increase of manpower in order to increase knowledge domain 2012

Increase the Manpower to get relief, delegate and lead 2012

Information processing capabilities 2012

Internal Communication within the Subsidiary 2012

Judgment of Priorities 2012

Social Network in the Region 2012

Strategic change over time 2009 - 2012

The Role of Global Projects from 2009 to 2012

Transport Organization 2012

Treatment Organization 2012

ME Region 2012

Changes at the distributors 2012

Effects on Distributors 2012

ME context 2012