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Getting the seal of approval: Pathways to subsidiary initiative acceptance

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ABSTRACT

Multinational corporations (MNCs) are proactive, entrepreneurial, and decentralized organizations. They seek to incorporate and leverage knowledge from their foreign subsidiaries. Initiatives in which subsidiaries pursue new business opportunities are one way that subsidiaries contribute to MNCs' knowledge stocks, but prior research suggests that few subsidiary initiatives secure headquarters approval. We argue that the extent to which initiatives are accepted by the headquarters of an MNC depends on a range of relational and contextual conditions that configure in complex ways. Using a neoconfigurational approach, we identify five equifinal configurations associated with the acceptance of subsidiary initiatives. We advance theory of subsidiary management by uncovering how subsidiary activities gain traction within the MNC.

1. Introduction

Subsidiary initiatives, “a discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources” (Birkinshaw, 1997: 207), have attracted widespread scholarly attention in recent decades (Schmid et al., 2014; Strutzenberger and Ambos, 2014). Through initiatives, foreign subsidiaries can develop new products and processes, contribute to the knowledge stocks of the multinational corporations (MNCs) to which they belong, and improve the internationalization success of those MNCs (Birkinshaw, 2000; Rabbiosi and Santangelo, 2013; Zellmer-Bruhn and Gibson, 2006). For example, a French subsidiary of a German agricultural MNC developed and manufactured a self-propelled lawnmower for its local market and, due to the initiative's later success, the product was adopted throughout the organization (Dörrenbächer and Gammelgaard, 2016). Thus, subsidiaries and their activities are central to understanding MNC success abroad.

However, although initiatives are often important, they are “relatively rare” (Birkinshaw, 1997: 208) and seldom fully realized. Prior research suggests that subsidiaries struggle against organizational structures and systems that resist initiatives (Birkinshaw and Ridderstråle, 1999; Schweizer and Lagerström, 2019; Schotter and Beamish, 2011). Moreover, initiatives are costly and their outcomes are rarely certain, so endorsing them brings high opportunity costs (Ambos et al., 2010; Williams, 2009). Even though MNCs have become proactive, entrepreneurial, and decentralized organizations that seek to assimilate, incorporate, and leverage knowledge from their subsidiaries (Andersson et al., 2002), few subsidiary initiatives are ever accepted by headquarters, while most fail.

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To better understand this reality, we draw upon the extant literature of subsidiary management to identify a set of theoretically relevant conditions to explore the question of when headquarters accept subsidiary initiatives. Specifically, we leverage two relevant bodies of research, one that identifies three relational conditions and the other that identifies two contextual conditions. First, research situated at the headquarters-subsidiary interface emphasizes *relational* conditions, including the communicative attention the subsidiary receives from the MNC's headquarters – henceforth referred to in the paper as *headquarters attention* (Ambos et al., 2010) – the degree of a subsidiary's *decision-making autonomy* (Ambos and Birkinshaw, 2010), and the subsidiary's *track record* (Dörrenbächer and Gammelgaard, 2016). The second body of research points to two *contextual* conditions, namely *institutional distance* (Bouquet and Birkinshaw, 2008) and *establishment mode* (Rabbiosi and Santangelo, 2013), whether the subsidiary was acquired or founded as a greenfield venture. These contextual conditions directly influence the acceptance of the initiative and indirectly affect the aforementioned relational conditions (ul Haq et al., 2017); for instance, Hendriks et al. (2018) find that increased institutional distance between an MNC home and subsidiary host-country negatively affects the distribution of headquarters' attention. In this way, each of these five conditions seems to be relevant on its own, and they also seem to be interrelated, suggesting that subsidiary initiative acceptance is a causally complex phenomenon.

Accordingly, we amalgamate these two sets of conditions into a coherent framework using a neoconfigurational approach. This approach lies on understanding how multiple conditions combine to explain a phenomenon and is thus well-suited to account for the complexities associated with our outcome, including the “extent, form, and pattern” of each condition and its influence on the acceptance of a subsidiary initiative (Fainshmidt et al., 2020: 455). We then empirically explore configurations of our conditions utilizing fuzzy-set qualitative comparative analysis (fsQCA) and survey data on 101 foreign-owned subsidiaries operating in Sweden. We find five equifinal pathways to the acceptance of subsidiary initiatives, providing a proper theoretical answer to the question of when headquarters accept subsidiary initiatives. The patterns we identify help develop a configurational theory of foreign subsidiary initiatives.

This study makes two key contributions. First, we respond to recent calls to better understand how entrepreneurial activities emerge from subsidiaries (O'Brien et al., 2019; Gillmore et al., 2020), particularly in the context of geographically disperse multinational firms. We find that a headquarters' decision regarding a proposed initiative by a subsidiary is conditioned by its relationship with that subsidiary, including by the circumstances of the subsidiary's initial establishment – the host country location choice and whether it was purchased or founded by the MNC. Second, we advance theory of subsidiary management by accommodating the gestalt-like nature of subsidiary initiatives through novel configurational theorizing (Geleilate et al., 2020). Although international business (IB) research has been relatively slow to embrace this theoretical approach (Fainshmidt et al., 2020), we demonstrate how configurational logic can further scholarly understanding of subsidiary activities and, by extension, MNC behavior abroad.

2. Literature review

2.1. Foreign subsidiary initiatives

Foreign subsidiaries are increasingly viewed as key contributors in shaping the success of MNCs abroad (Meyer et al., 2020). Extant literature seeks to understand how headquarters manage their subsidiaries to facilitate the growth of those subsidiaries and their contributions to the MNC (Ambos and Birkinshaw, 2010; Bouquet and Birkinshaw, 2008). Subsidiaries can play an active role as well, developing new competencies, resources, and capabilities that can be leveraged across the organization (Andersson et al., 2002; Cantwell and Mudambi, 2005; Rugman and Verbeke, 2001). This study focuses on the interaction of headquarters' management and subsidiaries' activities, namely when headquarters accept their subsidiaries' initiatives.

A review of prior research points to several costs and benefits associated with foreign subsidiary initiatives. For instance, initiatives often result in the development of unique resources and capabilities (Rugman and Verbeke, 2001). When subsidiaries pursue initiatives, they actively explore their local markets and reconfigure resource pools, subsequently introducing new products and processes (Birkinshaw, 1997; O'Brien et al., 2019). In some cases, initiatives may create entirely new lines of business for the MNC (Regné, 2003; Verbeke et al., 2007).

Concurrently, research points to several challenges with initiatives. Sometimes relationships between headquarters and subsidiaries deteriorate (Ambos et al., 2010; Williams, 2009). Headquarters will also need to spend money monitoring subsidiary activities, and may want to recover that and the other money invested in the initiative (Birkinshaw, 1997). A failed initiative may even result in the isolation of the subsidiary and its being perceived as a bad corporate citizen (Bouquet and Birkinshaw, 2008; Conroy and Collings, 2016). Thus, while initiatives can drive the success of a subsidiary and its MNC (Birkinshaw, 2000), there are uncertainties associated with their pursuit.

Thus, headquarters do not always accept foreign subsidiary initiatives. Prior research offers preliminary insights into factors that make up the decision, such as the attention that the headquarters pays to the subsidiary (e.g., Gorgijevski et al., 2019) and the level of autonomy that the subsidiary has in its decision-making (Birkinshaw, 1997). We contend that these factors are only the beginning. In the next section, we posit that research is still nascent in accounting for the context-dependent and interrelated nature of the drivers of the acceptance of foreign subsidiary initiatives, as well as in accounting for the presence of multiple pathways to the approval of those initiatives.

2.2. An exploratory framework of subsidiary initiative acceptance

Building upon recent reviews of the extant subsidiary initiative literature (Strutzenberger and Ambos, 2014; Schmid et al., 2014),

we base our framework on two themes: *Relational* and *contextual conditions*. The former emphasizes various intra-organizational features at the interface between the headquarters and the subsidiary, and the latter focuses on differences in the environments of the headquarters' home country and the subsidiary's host country as well as initial establishment mode choice. We present our conceptual model in Fig. 1.

First, prior research highlights the importance of the attention that the headquarters pays to the subsidiary (Ling et al., 2005). As the managers who work in headquarters focus their selective attention, they influence the firm's strategic behavior and performance (Ocasio, 1997). Subsidiaries to whom less attention is paid may have their initiatives automatically filtered out, especially as managers' capacity to engage with dissonant ideas and information is limited (Monteiro, 2015; Conroy and Collings, 2016). By contrast, when subsidiaries frequently communicate and interact with their headquarters, they are more likely to receive support for, and approval of, their initiatives (Ambos and Birkinshaw, 2010; Gorgijevski et al., 2019). Even so, some subsidiaries may pursue initiatives while flying under the radar of their headquarters, suggesting that attention is only a partial explanation of initiative acceptance (Dellestrand, 2011).

Several studies also point to the importance of decision-making autonomy as a driver that enables subsidiaries to pursue entrepreneurial activities (Cantwell and Mudambi, 2005). Prior research posits that giving subsidiaries enough autonomy to make independent strategic decisions can facilitate the identification of new ideas and the subsequent pursuit of initiatives (Birkinshaw, 1997). Subsidiary autonomy is seen as a signal of trust from headquarters, allowing a subsidiary to embed itself in its local area, to generate knowledge, and to build competitive advantage. At the same time, decision-making centralization may also be conducive to the acceptance of initiatives. Through centralization, the MNC can more easily observe and evaluate subsidiary capabilities, reducing uncertainty when presented with an initiative. In this way, both autonomy and centralization are theoretically relevant to subsidiary initiative acceptance.

The evaluation and acceptance of initiatives might also be driven by a subsidiary's track record (Dörrenbächer and Gammelgaard, 2016). Headquarters derive positive information from a subsidiary when it performs well (Birkinshaw and Hood, 1998); this process reduces the problem of information asymmetry between the two parties, because information is continually flowing between them. In addition, a strong track record can give the subsidiary a reputation as a trustworthy partner within the corporate network (Bouquet and Birkinshaw, 2008). Headquarters may actively support subsidiary initiatives from well-performing subsidiaries, in some cases contributing resources to facilitate their various entrepreneurial pursuits (Birkinshaw, 1997; Birkinshaw and Fry, 1998).

The second set of conditions relate to contextual characteristics. MNCs increasingly find themselves operating in markets "characterized by uncertainty and ambiguity, high economic and political risks, unusual complexity, and major deficiencies" (Kostova et al., 2020: 468). The greater the dissimilarity between the contexts of the headquarters' home country and the subsidiary's host country, the more gaps headquarters will have in its knowledge of the subsidiary's host country's market conditions (Dellestrand and Kappen, 2012). In such cases, it may be challenging to evaluate subsidiary initiatives, provide focused attention, and accept initiatives for use within the MNC. In contrast, the greater the similarity between the headquarters' country and that of the subsidiary, the more complete

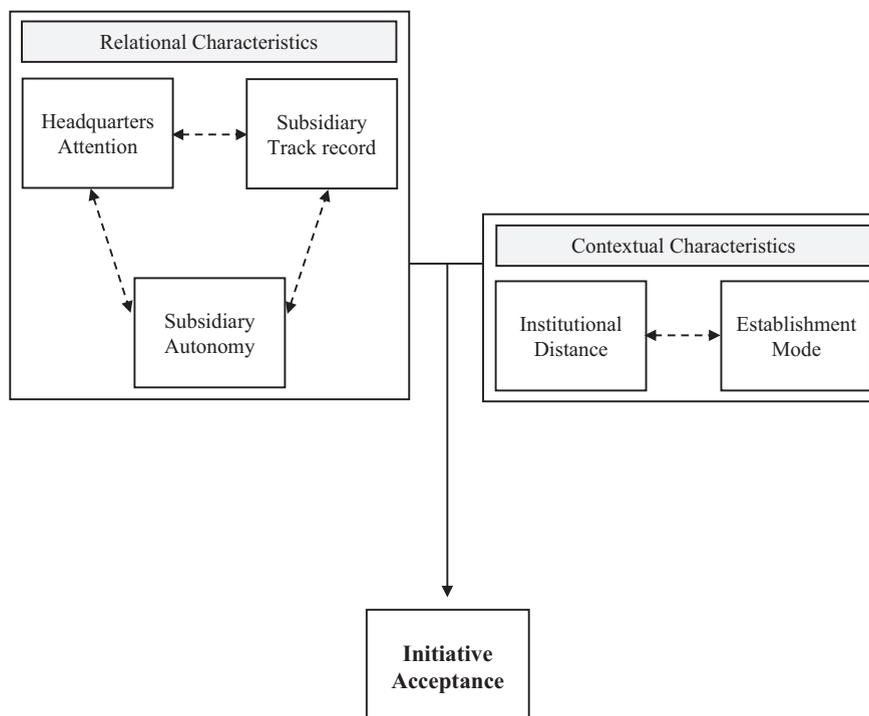


Fig. 1. Conceptual model of initiative acceptance notes: Dotted arrows are introduced to illustrate the interdependencies among constructs.

the information the headquarters will have, enabling it to evaluate the subsidiary and its initiatives more fully (Morschett et al., 2010). However, subsidiaries operating in similar environments might be under increased scrutiny because headquarters managers can more easily monitor subsidiary behavior. In this sense, the similarities between home- and host-country contexts matter as well, but it is unclear whether the total effect of similarity on initiative approval is beneficial or not.

Finally, the way a subsidiary was established might influence how headquarters evaluate initiatives. Acquired subsidiaries are pre-existing units with their own managerial practices and organizational structures. Meanwhile, greenfield subsidiaries are built from scratch with minimal technical knowledge, few local relationships, and increased dependence on the headquarters (Harzing, 2002; Shimizu et al., 2004). Prior research argues that such establishment conditions can shape the heuristics used to evaluate initiatives (Marquis and Tilcsik, 2013). For instance, headquarters managers may be more involved in greenfield subsidiaries than in acquired subsidiaries (Slangen and Hennart, 2008), potentially resulting in favoritism in the evaluation process. Alternately, an MNC may acquire a subsidiary to access unique resources and competitive advantages in a specific marketplace (Tihanyi et al., 2005). Thus, while being a greenfield subsidiary might help facilitate initiative acceptance in some contexts, so too may being an acquired subsidiary.

Although existing research has helped to substantiate each condition's importance, we argue that these conditions are interrelated, and accommodating that interrelatedness is needed for a better theoretical understanding of initiative acceptance. Apart from a few notable exceptions (e.g., Nohria and Ghoshal, 1994), few theorists have addressed the question of how each set of conditions might configure in complex ways. For instance, although headquarters attention is said to be valuable for initiative acceptance (Bouquet and Birkinshaw, 2008), attention may also depend on the institutional distance between the headquarters' home country and the subsidiary's host country (Hendriks et al., 2018). Moreover, attention may also vary depending on the subsidiary's decision-making autonomy (Ambos et al., 2010), establishment mode (Rabbiosi and Santangelo, 2013), and track record (Conroy and Collings, 2016; Barsoux and Bouquet, 2013). All these observations point to the complex, context-dependent nature of our conditions to facilitating initiative acceptance.

There are likely to be combinatory effects that further influence pathways to the acceptance of subsidiary initiatives. For instance, headquarters may allocate autonomy in distant environments to cope with knowledge gaps, but that autonomy may also result in the misallocation of resources and/or opportunistic behavior (Kostova et al., 2018). Without complete information on the activities of a subsidiary with high autonomy, headquarters may be more critical in evaluating its initiatives. Acquired subsidiaries are also more likely to engage in entrepreneurial initiatives (Birkinshaw and Hood, 1998) as well as to exhibit higher degrees of decision-making autonomy allocated to them by headquarters (Geleilate et al., 2020). However, it is unclear how their initiatives will be evaluated if they have an unproven track record with their current MNC.

As we can see, there are several factors influencing initiative acceptance, yet each provides only a partial explanation. Accordingly, we suggest that theory can benefit from exploring configurations among relational and contextual conditions to better understand the complexities of initiative acceptance. Toward that end, we empirically probe what configurations of conditions are associated with headquarters' acceptance of foreign subsidiary initiatives.

3. Methodology

3.1. Data collection and sample

To obtain data at the headquarters-subsidiary interface, we administered a survey in two waves during 2016. First, we used ORBIS by Bureau van Dijk (BvD) to draw an initial list of foreign, wholly owned subsidiaries in Sweden with at least 15 employees and operating revenues exceeding one million euros. This sampling screen helps ensure that only one MNC headquarters is involved in each subsidiary's operations and overcome biases against small entities that may overestimate the role of the headquarters (Birkinshaw and Hood, 1998).² Our initial screened sample consisted of 616 foreign-owned subsidiaries operating in Sweden.

We then developed our questionnaire by drawing upon survey items from prior studies (e.g., Ambos et al., 2010; Ambos and Birkinshaw, 2010; Bouquet and Birkinshaw, 2008). We invited several scholars who work in the field of subsidiary management to review the preliminary draft, helping validate questions and resolve any ambiguities or biases. During this review stage, we dropped several questions due to issues raised by the scholars. Next, we carried out a pilot study in which ten headquarters managers responded to the questionnaire, giving feedback where additional clarification was needed. We asked our pilot participants to respond to the questions from the outlook of the subsidiary, helping to avoid issues related to social desirability bias (e.g., O'Brien et al., 2019; Schotter and Beamish, 2011). After confirming our final set of survey items, we sent the questionnaire to all 616 subsidiaries in our screened sample.

The survey was sent to key informants, such as the subsidiary's CEO, as we believe they would be most knowledgeable of and involved in local strategic decision-making and planning. Respondents were contacted by e-mail and were informed that participation was voluntary and that personal and organizational identities were anonymous. The initial round of the survey yielded a low response rate (8.3%); hence, we sent a reminder to the original recipient, along with a second round of questionnaires. In the second wave, we widened our scope of informants to include top managers in the non-responding subsidiaries, such as R&D managers and chief

² Some prior studies have considered partially and wholly owned foreign subsidiaries (Kim et al., 2005), an approach that may result in an unclear hierarchical relationship between a subsidiary and its headquarters. For instance, a subsidiary might be jointly owned by two parents, making unclear which headquarters is making the judgment call about the subsidiary's initiative.

operations officers. The two waves together generated responses from 114 subsidiaries (18.5%). We dropped 13 responses due to missing or incomplete data. The final sample consists of 101 foreign-owned subsidiaries operating in Sweden.³ The most common type among these subsidiaries is a well-established manufacturing unit owned by a Western European or North American MNC.

3.2. Construct measurement

Our outcome variable, *initiative acceptance*, is based on three questions concerning the acceptance and market use of initiatives. Subsidiary initiatives were defined as “any business opportunity identified by the subsidiary that seeks to change, expand or renew the operations of the subsidiary and/or the multinational corporation.” Using a seven-point Likert scale (1 = strongly agree, 7 = strongly disagree), we asked subsidiary managers if their headquarters have accepted a subsidiary initiative for use in either the (a) local, (b) regional, or (c) global market (Birkinshaw, 1997). We took the max value of the three scores to arrive at an overall initiative acceptance measure. Our variable measures the degree to which a subsidiary's initiative (or parts thereof) has been recognized and accepted by the headquarters (Ambos et al., 2010).⁴ We explore the operationalization of our outcome in more detail in a series of additional analyses.

We capture three relational conditions using reflective survey items. First, we measure *headquarters attention* ($\alpha = 0.79$) by identifying the positive support and interaction frequency between the headquarters and subsidiary (Ambos and Birkinshaw, 2010; Birkinshaw et al., 1998). Subsidiary managers responded (1 = strongly disagree, 7 = strongly agree) to three statements: (a) “Headquarter managers frequently communicate with the counterparts in your subsidiary,” (b) “Headquarter managers make business trips frequently to your subsidiary,” and (c) “Headquarter managers interact and share ideas frequently with your subsidiary.” Our measure captures the differential levels of time and effort a headquarters allocates to a focal subsidiary and its operations (Conroy and Collings, 2016).

Next, we measure *subsidiary autonomy* ($\alpha = 0.79$) by asking to what extent (1 = not at all, 7 = high extent) the subsidiary makes the following operational and strategic decisions without consulting headquarters: (a) “Develop a major new product/service offering,” (b) “Develop a new major process,” (c) “Develop a new technology,” (d) “Restructure the organizational structure,” and (e) “Develop new work- and management practices.”

Third, we measure a subsidiary's *track record* ($\alpha = 0.83$) by assessing the extent (1 = strongly disagree, 7 = strongly agree) to which a subsidiary has a history of (a) delivering what is promised, (b) strong and internationally respected managers, (c) credibility at headquarters, and (d) helping to expand the MNC resources and capabilities (Birkinshaw and Hood, 1998). Our composite measure captures whether “the subsidiary is a reliable and trustworthy actor” (Bouquet and Birkinshaw, 2008: 583) as well as a subsidiary's commitment to its MNC and relationship with headquarters managers (Dörrenbächer and Gammelgaard, 2016). All of our reflective measures loaded onto their respective latent factors (Eigenvalue ≥ 1.00) and exhibited satisfactory reliability ($\alpha \geq 0.70$) (Jarvis et al., 2003). For headquarters attention, subsidiary autonomy, and a subsidiary's track-record we obtained standardized factor scores.

To capture our contextual conditions, we first include *institutional distance* using the six world governance indicators (WGI) from the World Bank – Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (Rabbiosi and Santangelo, 2019). Then, following Belderbos et al. (2020), we further include the World Bank's GDP per capita data at purchasing power parity as a seventh dimension. This approach results in a composite measure that captures both the administrative and economic differences between the headquarters home-country and subsidiary host-country environments (Beugelsdijk et al., 2017).

However, several recent studies have argued that there are important conceptual differences between formal and informal measures of institutional environments (Tung and Verbeke, 2010) as well as unique effects across geographic distances (Beugelsdijk and Mudambi, 2014). Although we find that institutional, cultural, and geographic distance measures are highly correlated ($r = 0.59$ to 0.67), there may still be aspects that each construct does not capture. For instance, institutional distance accounts for the broader differences in formal contexts, such as regulatory and economic environments (Kostova et al., 2020). Meanwhile, cultural distance reflects differences in social values, beliefs, and norms, which may be related to but are also distinct from formal institutional elements (Hutzschenreuter et al., 2014). Dellestrand and Kappen (2012) also note that the quality of headquarters-subsidiary relationships might depend on geographic distance, such that high distance may impede headquarters involvement in subsidiary operations. Therefore, we explore the implications of our distance measure in a series of additional analyses below.

Lastly, we measure *greenfield entry* as a dichotomous variable where “1” represents a greenfield subsidiary and “0” otherwise. Prior research suggests that each establishment mode is associated with different relational patterns and treatment from headquarters (Slangen and Hennart, 2008).

³ We tested for differences in our sample and the non-responding subsidiaries concerning firm size, age, and turnover. Our results suggest no statistical differences between the samples ($p \geq 0.10$). We further conducted an extrapolation check between the two rounds of surveys and found no statistically significant differences. Finally, we observe no differences in the responses of informants from various positions (e.g., subsidiary CEO, R&D manager).

⁴ Subsidiaries might informally and discretely pursue initiatives, attempting to avoid the corporate immune system (Birkinshaw and Ridderstråle, 1999). For instance, when subsidiaries and their headquarters have different perceptions about the subsidiary's role and various corporate goals, subsidiaries may autonomously pursue an initiative without seeking approval of its headquarters. While these types of initiatives are of interest to IB research (Strutzenberger and Ambos, 2014), they are beyond the scope of our study as we seek to identify formal attempts by subsidiaries to pursue business opportunities and receive approval from headquarters. We thank an anonymous reviewer for highlighting this distinction.

3.3. Analytical technique

In this study, we use fsQCA, “a set-theoretic method for establishing which conditions are sufficient (and in some instances also necessary) to produce a given outcome” (Fainshmidt et al., 2020: 456). FsQCA allows us to assess the extent to which headquarters attention, subsidiary autonomy, track record, institutional distance, and establishment mode are associated with headquarters acceptance of foreign subsidiary initiatives. The method relies on Boolean algebra to “allow logical reduction of numerous, complex causal conditions into a reduced set of configurations that lead to the outcome” (Fiss, 2011: 402). Moreover, fsQCA provides an alternative to traditional linear regression, which assumes singular causality and does not allow for exploring a complex phenomenon in the way that our study suggests.⁵

FsQCA provides two notable advantages. First, the method uses conjunctural causation, whereby groups of causal conditions are assessed in concert rather than individually. Second, it allows for equifinality, which means that “different configurations of causal conditions (paths) can lead to the same outcome” (Fainshmidt et al., 2020: 458). In contrast, traditional correlational methods are based on linear and symmetric relationships between constructs instead of combinations of conditions (Fiss, 2007, 2011). Because headquarters managers' decisions, such as initiative acceptance, are seldom if ever taken based on one pre-determined variable while holding a series of control variables constant, fsQCA is well-suited to explore complex phenomena that underpin headquarters-subsidary research.

FsQCA requires that the raw data be calibrated into conditions by assigning so-called membership scores. The scores range along an interval of “0” to “1,” where “0” represents complete non-membership and “1” full membership. First, *greenfield entry* is dichotomous, and, therefore, we calibrated subsidiaries as either full members (greenfield) or full non-members (acquisitions). Second, *initiative acceptance* is a multi-item construct, but we take the three items' max score to come to an overall acceptance score. This approach allows for a natural grouping (Pajunen, 2008): A score of “7” is full membership, a score of “4” is the crossover point, and a score of “1” is full non-membership. Finally, *headquarters attention*, *subsidiary autonomy*, *track record*, and *institutional distance* are standardized scores and, thus, the natural anchors of survey items are lost. Here, we use the 75th (full membership), 50th (crossover point), and 25th percentiles (non-member) to calibrate each construct.

Consistent with prior studies, we use a consistency threshold of 0.80 (Crilly, 2011) and a PRI consistency of 0.80 (Schneider and Wagemann, 2012). We also set our frequency cutoff to two to ensure that our configurations are not due to a single idiosyncratic case chance and capture at least 75% of the cases (Ragin, 2009). Accordingly, a configuration must have at least two representative cases to be included in further analysis. We present the truth table, frequencies, and consistencies in Table 1.

4. Analyses and results

The first step requires that we conduct a necessity analysis to examine whether our model's causal conditions are necessary for subsidiary initiative acceptance. A condition is considered almost always necessary if its consistency score exceeds 0.90 (Schneider and Wagemann, 2012). Results suggest that neither the presence nor the absence of any of our five causal conditions is necessary for initiative acceptance.

We then conducted a sufficiency analysis to identify those combinations of causal conditions sufficient for subsidiary initiative acceptance. FsQCA produces a complex, parsimonious, and intermediate solution. We display our results using the complex solution. Although the intermediate solution (Fiss, 2011; Ragin, 2009) is often preferred because it accommodates prior theory on the relationships of interest, such as the directionality of effects between causal conditions (e.g., attention) and the outcome (i.e., initiative acceptance), we do not make a priori assumptions about what the relationship between each condition and the outcome should be (i.e., easy counterfactuals). Hence, in our case, the complex and intermediate solutions are identical. We also utilize the parsimonious solution to distinguish core from peripheral conditions (Grandori and Furnari, 2013). However, “an interpretation of core conditions as being theoretically more important than contributing conditions is only relevant when one a priori theorizes about such a distinction” (Dwivedi et al., 2018: 390). In this study, we do not make theoretical predictions a priori; thus, we denote these distinctions for transparency and consistency with prior studies (Witt et al., 2021). We present our results in Table 2.

Our sufficiency analysis resulted in five equifinal configurations that are associated with the presence of initiative acceptance. In Configuration 1 (C1), *track record* is present, and *greenfield entry* is absent, while *headquarters attention*, *subsidiary autonomy*, and *institutional distance* can be present or absent (‘doesn't matter’). Configuration 2 (C2) contains the presence of *headquarters attention* and *subsidiary autonomy* and the absence of *greenfield entry* and *institutional distance*, along with the presence or absence of *track record*. Next, in Configuration 3 (C3), we observe the presence of *headquarters attention*, *track record*, *subsidiary autonomy*, and *institutional distance*, while *greenfield entry* ‘doesn't matter.’ Then, in Configuration 4 (C4), we find the presence of *subsidiary autonomy* and *institutional distance*, the absence of *headquarters attention* and *greenfield entry*, and the presence or absence of *track record*. Finally, Configuration 5 (C5) contains the presence of *headquarters attention*, *greenfield entry*, and *institutional distance*, alongside the absence of *track record* and *subsidiary autonomy*. We discuss each causal condition, our five configurations, and the complementary and substitutive effects in more detail below.

Our results have an overall coverage of 0.62 and a consistency of 0.88, meaning the five configurations explain (account for) most of the membership in the outcome and are highly consistent with it. Of our five configurations, C1 has the highest raw and unique

⁵ Refer to Fainshmidt et al. (2020) for a review of the contributions and applications of fsQCA to IB research as well as Kraus et al. (2018) for a review of its utility in entrepreneurship research.

Table 1
Nested truth table.

Relational characteristics			Contextual characteristics		Descriptive	Outcome		
Headquarters attention	Subsidiary track record	Subsidiary autonomy	Greenfield entry	Institutional distance	# of cases	Raw consistency	Configuration in main results	
1	1	1	1	1	6	0.95	C4	
			0	1	5	0.95	C1, C4	
			0	0	9	0.93	C1, C2	
			1	1	1	0.73	–	
			0	0	3	0.83	–	
	0	1	0	0	1	5	0.89	C1
				0	0	4	0.92	C1
				0	1	2	0.88	–
				0	0	5	0.95	C2
				1	1	2	0.93	C5
0	1	1	0	0	1	0.79	–	
			0	1	5	0.87	–	
			0	0	5	0.94	–	
			1	1	3	0.65	–	
			0	0	1	0.93	–	
	0	1	0	0	1	2	1.00	C1, C3
				0	0	3	1.00	C1
				1	1	3	0.86	–
				0	0	1	1.00	–
				0	1	3	0.92	C1
0	0	1	1	1	1	0.79	–	
			0	0	1	0.81	–	
			0	1	3	0.91	C3	
			0	0	10	0.87	–	
			1	1	4	0.53	–	
0	0	0	0	0	3	0.52	–	
			1	1	6	0.79	–	
			0	0	2	0.75	–	

Notes: we only present rows with at least one case.

Table 2
Sufficiency analysis results.

Condition/configuration	Initiative acceptance				
	C1	C2	C3	C4	C5
Headquarters attention		●	●	⊗	●
Subsidiary track record	●		●		⊗
Subsidiary autonomy		●	●	●	⊗
Institutional distance		⊗	●	●	●
Greenfield entry	⊗	⊗		⊗	●
Raw coverage	0.44	0.19	0.16	0.09	0.04
Unique coverage	0.22	0.05	0.06	0.04	0.03
Consistency	0.88	0.92	0.95	0.91	0.93
Solution coverage			0.62		
Solution consistency			0.88		

Notes: filled circles (“●”) denote the presence of a condition; crossed circles denote the absence of a condition (“⊗”). A larger circle represents a core condition.

coverage of 0.44 and 0.22, respectively. This suggests that C1 is a common pathway to the outcome and explains 44% of the membership in the outcome condition. Meanwhile, C5 has the lowest coverages of 0.04 and 0.03, indicating a less common pathway to subsidiary initiative acceptance.

4.1. Additional analyses

We conducted several additional analyses to test the sensitivity of our results and provide corroborating evidence. Our main analysis set a frequency cutoff of two cases to capture at least 75% of our outcome. We ran an additional sufficiency analysis with a cutoff of three cases to ensure that our main results are not sensitive to configurations with very few cases (Ragin, 2009). Our findings reveal five configurations, and, as we expected, we see a slight decrease in solution coverage (−0.07) while our solution consistency increases marginally (+0.02). The configurations are mostly consistent with our main results, as we find analog combinations to C2

and C4 and subset configurations of C1 and C3. Thus, our frequency cutoff appears not to significantly alter our main findings.

Second, our measure of subsidiary autonomy reflects a formal allocation of decision-making latitude from the headquarters. Autonomy often signals more trust in the subsidiary by the headquarters (Kostova et al., 2018), and more autonomous subsidiaries might be expected and, perhaps, encouraged to pursue initiatives (Birkinshaw et al., 1998). However, prior research suggests that subsidiary managers may also discreetly pursue initiatives, such that they can behave autonomously regardless of formal structures and processes (Cavanagh et al., 2017). Therefore, we developed a new autonomy measure to capture informal, autonomous subsidiary behavior. We measure *informal autonomy* ($\alpha = 0.80$) by asking managers (1 = not at all, 7 = high extent) the extent to which their subsidiary actively follows managerial control processes in selling initiatives to headquarters, such as formal rules and directives, formal reports and protocols, and formal communication channels. We took the inverse of this measure to capture higher levels of unsanctioned autonomous subsidiary behavior. We then reran our main sufficiency analysis, replacing autonomy with our informal condition. We find six configurations, and our solution coverage increases (+0.09) while our consistency decreases (-0.02). Our new solution provides one analog configuration to C1 and subset configurations to C1, C2, and C3. We also find a new configuration similar to C5, except autonomy switches from absent to present, but we interpret this configuration with caution due to its low levels of coverage. Thus, our operationalization of autonomy does not substantively change most of the results.

Third, our outcome measure, initiative acceptance, contains responses for acceptance at local, regional, and global market levels. To mitigate the risk of theorizing on trivial initiatives (Birkinshaw, 1997), prior research often focuses on initiatives that exceed the local subsidiary market or those that affect the entire MNC network. Accordingly, we split our outcome variable into two groups: Initiatives for the local market and initiatives for regional or global use. Our solution coverage drops (-21%) for local market initiatives, and we find five configurations. We observe analog configurations to C4 and C5 and then subset configurations to C1 and C2 in the main analysis. We also find a configuration similar to C1, except greenfield entry turns from absent to present. Thus, greenfield subsidiaries with a proven track record are likely to garner headquarters support for their initiatives.

We then ran a sufficiency analysis for regional and global market initiatives. However, we do not find any consistent configurations that lead to our outcome. While there are many reasons that an initiative may be accepted and transcend a subsidiary's local market, we found no consistent pathways in our data. In line with our earlier arguments, successful initiatives by subsidiaries are relatively rare, and thus finding shared patterns for headquarters acceptance of global or regional initiatives is likely idiosyncratic.

Fourth, while our institutional distance measure includes administrative and economic differences, informal factors (e.g., culture) may also help explain initiative acceptance. Therefore, we ran an additional analysis using only a cultural distance measure (Kogut and Singh, 1988), which yielded seven configurations. We find analog configurations to C2, C4, and C5 in our main analysis and subset configurations to C1 and C3. When using a cultural distance measure, we lose 0.05 in solution coverage, but we gain 0.03 in consistency.

Prior studies suggest that geographical distance can influence headquarters-subsidiary relationships, particularly in high distance contexts (Ambos and Ambos, 2009). Beugelsdijk et al. (2017: 255) argue that "the very fact that MNC headquarters must manage affiliates over potentially large geographic distances and across diverse contexts creates unique challenges." Accordingly, we replaced institutional distance with a geographic distance measure (log) between the headquarters and its subsidiary physical location, and then we reran our main sufficiency analysis. Our results yielded six configurations with a solution coverage and consistency of 0.60 and 0.88, respectively. We find analog configurations to C4 and C5 and subset configurations to C1 and C2. We conclude that our composite measure of formal institutional differences closely reflects cultural and geographical distances, at least in our data. We discuss the theoretical significance of our findings and additional analyses below.

5. Theoretical interpretations

We follow Furnari et al. (2020) and Andrews et al. (2021) in structuring our interpretation efforts, whereby we first look at our resulting configurational patterns of subsidiary initiative acceptance. Then, we examine the importance of each condition, and finally, we leverage our configuration patterns to elaborate insights on complementarity and substitution effects among our conditions. Taken together, these efforts help strike a "delicate balance between complexity and parsimony, meaningful detail, and analytical precision" (Greckhamer et al., 2018: 492).

5.1. Configurational patterns for initiative acceptance

We identified five equifinal configurations associated with subsidiary initiative acceptance. First, C1 captures the most common pathway to initiative acceptance. This configuration suggests that acquired foreign subsidiaries with a proven track record are more likely to have their initiatives accepted. Prior research argues that headquarters often acquire subsidiaries to attain new knowledge within a given host-country environment (Cantwell and Mudambi, 2005). Moreover, a consistent track record brings legitimacy to the activities of the acquired subsidiary, which may increase headquarters support and thus the likelihood of initiative approval.

Next, C2 suggests that acquired, autonomous subsidiaries operating in a proximal institutional environment (i.e., where the subsidiary's host country is similar to that of the headquarters' country) with headquarters attention are likely to have their initiatives accepted. In proximal institutional environments, headquarters can more efficiently allocate attention. Furthermore, acquired subsidiaries often exhibit local network linkages, while autonomy enables the subsidiaries to leverage such linkages to identify opportunities and pursue novel initiatives. In addition, because this subset of subsidiaries operates in proximal environments, headquarters can more easily monitor their behavior and evaluate their initiatives even though the subsidiaries operate with a high level of decision-making latitude.

C3 suggests that attention, track record, autonomy, and institutional distance are associated with initiative acceptance. As institutional distance increases, autonomous subsidiaries are more likely to need to have a proven track record for their initiatives to be accepted, regardless of whether they were greenfield subsidiaries or were acquired. The track record provides added legitimacy to subsidiary initiatives, especially in contexts where the headquarters may lack sufficient knowledge of, and be less involved in, subsidiary and host-country operations.

In C4, we find that acquired subsidiaries operating in distal environments will have their initiatives accepted when they operate with increased decision-making autonomy. Although headquarters may have limited access to knowledge in a local marketplace, it can acquire a subsidiary in an institutionally distal setting and give it autonomy, which is often necessary to facilitate local embeddedness and identify unique opportunities. This configuration points to subsidiaries with an independent role within the MNC, especially as headquarters attention is absent.

Finally, C5 indicates that centralized, greenfield subsidiaries operating in distant institutional environments and with headquarters attention will have their initiatives accepted. These subsidiaries lack autonomy from headquarters as well as an established track record; many of them are likely relatively new units. However, because they are greenfield subsidiaries and have a natural linkage to headquarters, easier coordination and integration with the MNC may help them have their initiatives accepted. C5 shows the important combinatory effects of greenfield entry and headquarters attention.

5.2. Importance of individual conditions

Having discussed the five configurations, we now examine each condition's importance as a driver to explaining headquarters' acceptance of subsidiary initiatives. Within our set of relational conditions, we see that headquarters attention is present in three of the five configurations and absent in one. Similarly, subsidiary autonomy is present in three and absent in one, and a subsidiary's track record is present in two configurations and absent in one. First, our results suggest that attention is an important condition in explaining why headquarters accept some initiatives. When headquarters allocate attention, they can more easily observe and evaluate subsidiary activities (Ambos and Birkinshaw, 2010) as well as ensure that initiatives are aligned with broader MNC goals. However, although prior research often emphasizes the importance of headquarters attention to the initiative process (Gorgijevski et al., 2019), we find that it is not always needed: in two configurations, initiatives can be accepted when subsidiaries receive limited attention from headquarters.

Moreover, our results suggest that subsidiary autonomy is also an important condition for initiative acceptance (Ambos and Birkinshaw, 2010). This finding aligns with research suggesting that MNCs often adopt decentralized structural arrangements to help cope with complex multinational operations. Because autonomy enables subsidiaries to explore their local environments for new opportunities, headquarters may be more likely to accept autonomous subsidiaries' initiatives, as the structural arrangement is expected to be used in a way to pursue unique opportunities and generate novel knowledge. Still, we find a configuration where headquarters centralization is associated with subsidiary initiative acceptance, suggesting that autonomy is not always needed. In fact, headquarters involvement can occur through attention or decision-making centralization, which provides an important glimpse into how activities differentially emerge within the MNC.

Next, we find that a subsidiary's track record is an important condition, whereby it is present in the most common pathway (C1) to subsidiary initiative acceptance. A strong track record often creates a positive reputation and helps the subsidiary push its initiatives upwards through the corporate immune system (Birkinshaw and Ridderstråle, 1999); it can be beneficial in four of our five configurations. While we find that it 'doesn't matter' in two configurations and can be absent in one configuration, perhaps suggesting that the novelty of an initiative counts more toward its acceptance than what the subsidiary has accomplished in the past, subsidiaries with a proven track record are largely advantaged when having their initiatives evaluated by headquarters.

Pertaining to our contextual conditions capture decisions made at entry, such as host country location choice and establishment mode, we find that both institutional distance and greenfield entry are theoretically relevant as they are present or absent – implying proximity or acquisition – in four out of five configurations. For instance, institutional distance is present in three conditions and absent in one, suggesting that initiative acceptance can occur in distant and proximal environments. Headquarters are more likely to accept initiatives in distant environments because they expose the organization to novel ideas and opportunities. Comparatively, when home- and host-country environments are similar, it will be more difficult to find new knowledge and opportunities that extend existing MNC operations.

Finally, our results suggest that acquisitions are present in three configurations, aligning with research that posits that MNCs use acquisitions to acquire new competencies (Cantwell and Mudambi, 2005). Because acquired subsidiaries are naturally embedded in their local contexts (Slangen, 2011), they are a good way to generate new ideas to be leveraged by the MNC. Thus, headquarters may be more likely to support acquired subsidiaries' initiatives as they come with a higher chance of novelty for the MNC. We also find one configuration where greenfield subsidiaries can have their initiatives accepted, although this is a relatively uncommon pathway. Overall, we find that each condition matters to subsidiary initiative acceptance and that each configuration contains at least one relational and one contextual condition. Hence, our results support our earlier notion that initiative acceptance is a complex, context-dependent phenomenon.

5.3. Complementary and substitution effects

Our study also provides important insights on complementarity and substitution effects. According to Misangyi and Acharya (2014), complementarity effects occur when at least two conditions' co-presence are needed for a certain outcome to occur, while

substitution effects occur when conditions are mutually exclusive and can replace each other, such that “only one or the other need be present” (p. 1685). In C1, we find complementarity, as a track record and acquisition entry are both associated with initiative acceptance. In C3, we find substitution, as attention and autonomy can replace a strong track record, especially in proximal institutional environments. This second finding suggests that headquarters managers may use track record as an important cue when evaluating initiative acceptance, but in proximal environments, they can become more involved in subsidiary operations through increased attention while also giving a subsidiary the latitude to explore the environment for local knowledge. For nascent subsidiaries without a developed track record (Birkinshaw and Hood, 1998), these findings provide an important pathway to initiative acceptance within the MNC.

As distance increases, we find, in C3, that a subsidiary's track record becomes more important to initiative acceptance. These patterns suggest that headquarters may use their attention to better monitor and evaluate subsidiary initiatives when acquired subsidiaries are autonomous. However, when subsidiaries operate in distant environments, headquarters will also need to draw upon cues of prior success and commitment to the MNC to evaluate each initiative. Because higher distance is often associated with knowledge gaps of subsidiary operations and with local contextual differences (Dellestrand and Kappen, 2012), a track record is an important mechanism to reduce information asymmetry of an initiative's likely viability.

While we demonstrate that the importance of a strong track record might be dependent on the institutional distance between the headquarters home and subsidiary host country, it can also vary by establishment modes: in C5, we find that a greenfield subsidiary in a distant environment does not need a strong track record so long as it receives high levels of attention from headquarters. This insight sheds light on differences in subsidiary strategy and headquarters' evaluation of initiatives. Greenfield subsidiaries have a more natural linkage to MNC operations than acquired subsidiaries do (Slangen and Hennart, 2008), and attention can strengthen the relationship between a headquarters and its subsidiary (Bouquet and Birkinshaw, 2008). Headquarters managers have more complete information on, and involvement in, greenfield subsidiary operations, so they can better evaluate resulting initiatives and accept them for implementation. Meanwhile, acquisitions provide a better opportunity to identify unique local opportunities, especially when complemented with increased autonomy (C4) to drive the pursuit of new knowledge and the development of products and processes. If autonomy enables local responsiveness, our results suggest that initiative acceptance can occur for globally integrated and locally responsive subsidiaries.

In C2, headquarters can allocate decision-making autonomy to facilitate initiative development, while headquarters attention can be used to monitor the subsidiary and maintain alignment. Or headquarters may utilize a greenfield establishment mode to ensure the alignment of the subsidiary with MNC operations. Therefore, although autonomy is often associated with a low degree of connectiveness to the MNC, headquarters can use various coordination mechanisms to ensure alignment over time. Such insight corroborates Ambos and Birkinshaw (2010: 463)'s argument that “subsidiaries that have high autonomy and receive high levels of headquarters' attention at the same time, perform better.” Thus, a headquarters' attempt to balance the cost and benefits of subsidiary autonomy appears to be an important aspect of the initiative acceptance process.

Relatedly, although subsidiary autonomy is conducive to performance outcomes, particularly in high distance contexts, our results suggest that the relationship is not as straightforward for initiative acceptance. We find that autonomy is present in both proximal (C2) and distant (C4) environments, indicating that the headquarters managers consider conditions beyond those relating to structural arrangements when accepting initiatives for use within the MNC. Acquired subsidiaries with autonomy might be expected to pursue initiatives in distant environments, thereby conditioning managers' evaluation of initiatives. Meanwhile, acquired subsidiaries in proximal environments are more prone to headquarters involvement through increased attention and monitoring of local operations. Consequently, a discussion of relational conditions should not be separate from a discussion of contextual conditions because subsidiary strategy and structure can vary according to contextual differences.

Overall, the configurational patterns elaborated above exemplify the complexity of the subsidiary initiative phenomenon. The results have provided equifinal pathways to initiative acceptance and shown that initiative acceptance requires that we accommodate causal complexity rather than theorizing direct relationships. By amalgamating the two interrelated sets of conditions, we have taken the initial steps to develop a configurational theory of subsidiary initiatives. In the next section, we offer more implications for theory and pathways for future research.

6. Conclusions

In this study, we sought to identify the conditions under which headquarters accept foreign subsidiary entrepreneurial initiatives. Although several prior studies have examined drivers to explaining initiative acceptance, such as headquarters attention and institutional distance, we argued that such studies lack conceptual nuance. We suggested that sets of relational and contextual conditions combine in causally complex ways to facilitate subsidiary initiative acceptance. Using a neoconfigurational approach to theorizing and empirical analysis, we find five equifinal configurations, thus providing important detail to existing theory and implications for research on subsidiary initiatives.

First, our study finds that subsidiary initiative acceptance is simultaneously driven by relational and contextual conditions. Prior studies have attempted to examine whether factors within each of our sets of conditions matters to explaining the initiative process (Strutzenberger and Ambos, 2014). For instance, subsidiaries might need to seek early approval for their initiatives before fully committing resources, implying the importance of headquarters attention (Birkinshaw, 1997). However, by incorporating contextual boundary conditions, we illustrate how the importance of relational conditions, such as headquarters attention, may depend on the institutional distance between the headquarters home and subsidiary host country and the establishment mode of a foreign subsidiary. Consequently, our study advances theory by demonstrating when each condition may be most fruitful in explaining subsidiary

initiative acceptance.

Relatedly, we also demonstrate interdependencies within each set of conditions, such as the interplay between headquarters attention, track record, and subsidiary autonomy. For instance, prior research argues that subsidiary autonomy is often beneficial in high distance contexts as it enables the pursuit and identification of unique local opportunities (Andersson et al., 2002). Meanwhile, our study suggests that subsidiaries may still be able to introduce initiatives to headquarters in the absence of decision-making latitude, and that attention and track record may be able to substitute for, or complement, the effects of autonomy. These findings build on the early work of Nohria and Ghoshal (1994), which argues that subsidiaries should be differentiated in a way that balances the cost and benefits of intra-organizational conditions. If MNCs are indeed proactive and entrepreneurial organizations, then subsidiaries should be configured in a way that is most conducive to unlocking their entrepreneurial activities. More broadly, the interplays within and across sets of conditions demonstrate how subsidiary-level phenomena warrant “complementary approaches that embrace complexity rather than eschewing it” (Fainshmidt et al., 2021: 1).

Finally, we advance subsidiary management research by leveraging a neoconfigurational approach to theorizing and empirics (Andrews et al., 2021). Much of IB scholarship acknowledges that subsidiary phenomena are causally complex, driven by patterns of internal and external conditions to shaping structure and strategy. Yet, barring notable exceptions, much of the empirical and conceptual work has assumed linearity and unifinal relationships and focused on reductionist theorizing (Fainshmidt et al., 2020). As our study illustrates, subsidiary initiative acceptance is jointly determined by complex combinations of conditions, which require contemporary configurational thinking that better aligns with the reality of managing foreign subsidiaries (Furnari et al., 2020). For instance, our results suggest that no condition on its own is sufficient for subsidiary initiative acceptance and that each condition appears present and absent in at least one configuration. Thus, a key implication of our study is the importance of conceptualizing and analyzing subsidiary phenomena in configurational terms.

Our study also has several managerial implications, namely equifinal pathways for managers to unlock subsidiary entrepreneurial activities across disperse geographic markets. For instance, MNCs may prefer to acquire a high-performing subsidiary to leverage local competencies and explore new opportunities, as it is challenging to build a greenfield subsidiary from scratch. In this study, we demonstrate how MNC managers can use acquired subsidiaries while also deploying alternative structural arrangements, such as decision-making centralization vis-à-vis increased autonomy, to maintain strategic alignment. We further show when decision-making autonomy may be important to facilitating the subsidiary initiative process. Particularly in local environments dissimilar to the headquarters' home country, autonomy can be beneficial to adapt to local norms and regulations, identify new opportunities, and build local network linkages to drive subsidiary initiatives. Concurrently, headquarters may provide attention to local operations to better evaluate the initiatives for adoption within the MNC. Because headquarters attention is limited, a strong subsidiary track record may act as an alternative mechanism that provides legitimacy to subsidiary activities. Overall, such patterns help shed light on how subsidiary activities emerge as well as how headquarters evaluate such dispersed activities within the MNC.

Finally, our study is not without limitations. First, our findings are based on single-source subsidiary-level data from predominantly Western European MNCs, and thus the patterns we identify may not be generalizable to MNCs in other contexts. Future research may expand our sample to include alternative home- and host-country contexts to test the robustness of our configurations for explaining subsidiary initiative acceptance.

Second, our data includes a broad array of initiatives. While such an approach allows for a broader test, future research may extend and refine our guiding framework to explore the initiative acceptance process for particular types of initiatives.

Third, our analysis does not consider temporal dynamics, such as when the establishment mode occurred or how the importance of conditions may change over time. Because subsidiary initiatives develop over a series of events that may be subject to several evaluation and commitment processes within the MNC (Schmid et al., 2014), we believe it is important that future research take a longitudinal approach to capture the evolving importance of conditions.

Despite these limitations, our study provides a nuanced understanding of when headquarters attention, subsidiary track record, subsidiary autonomy, institutional distance, and establishment mode may result in ‘*getting the seal of approval*’ for subsidiary initiatives. Furthermore, by utilizing a neoconfigurational approach and data on Swedish subsidiaries, we develop a theory of multiple pathways for the approval of subsidiary entrepreneurial activities. In doing so, we advance subsidiary management research and highlight the context-dependent, interrelated nature of subsidiary phenomena.

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Declaration of competing interest

The authors declare that they have no competing interests.

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