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Reverse Dependency- A longitudinal case study investigation into Headquarter-Subsidiary relationship in the context of an emerging country

Abstract

This paper concerns the Headquarter - Subsidiary relationships in terms of their dependency on each other. It provides a conceptual framework and typology to measure headquarter and subsidiary dependency on capabilities and resources. It highlights a novel phenomenon called 'reverse dependency' and offers avenues for future research. Using an in-depth longitudinal case study approach evidence suggests that headquarters dependency on its subsidiary was rising. This is an emerging phenomenon, especially in the scenario of increased globalisation and convergence of the world economy. The paper has some important managerial implications by aiding managers in understanding the implications of subsidiary entrepreneurship and location embeddedness. This can be useful in bargaining and negotiating decision making within the multinational corporation. It can also create healthy competition between various subsidiaries.

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Introduction

Increasingly, multinational enterprises (henceforth MNEs) from advanced countries are seeking knowledge and strategic resources from firms in emerging countries. The Headquarters' (HQ) traditional role 'as prime source of knowledge, resources and competencies' is shifting as HQ's are also acting as 'a receiver of knowledge from their internationally dispersed subsidiaries' (Ambos, Ambos and Schlegelmilch, 2006).

In the context of the changing power balance between HQ and subsidiary, this paper examines the HQ dependence on its subsidiaries in the context of the location where the subsidiary is embedded. This paper argues that when the subsidiary is based in an emerging country, such as India, where the strategic assets and institutions are evolving, HQ benefits immensely from the knowledge transfer, strategic resources and competencies of the subsidiary (see for e.g. Ramamurthy, 2012). It is in this context that this paper envisages that HQ's dependence on its subsidiary may increase to an extent that the HQ becomes dependent on its subsidiary.

This paper offers two main contributions to the existing literature. First, we provide a theoretical framework which provides a typology of HQ-subsidiary dependence and allows for mapping of different degrees of dependence. Second, we extend the literature on HQ-subsidiary relationship by exposing the circumstances when the subsidiary gains a degree of importance and control such that the HQ then tends to depend on the subsidiary. Mudambi, Pedersen and Andersson (2013) have recently explained how subsidiary gain power in multinational corporations. Taking that argument further this article proposes the consequence of such an eventuality i.e., where a subsidiary gains importance and control within a MNE, and the HQ may become dependent on the subsidiary.

Finally, this paper has implications for the resource dependence theory and suggestions for managers of MNEs. It identifies that they should actively identify the subsidiary which possesses knowledge, strategic resources and capabilities significant enough for the HQ to be dependent on its subsidiary. This paper also takes a closer examination on the processes and drivers that provide power to the subsidiary within the MNE. There is a gap in the processes and drivers of subsidiary evolution in the literature and the implications this has on theory. Thus this paper presents important knowledge useful for researchers and managers.

Empirical evidence is thus provided through an in-depth examination of two longitudinal case studies involving four subsidiaries of foreign MNEs in India. The illustration through case studies enables us to provide the findings that are closer to practice and can be easily understood by managers in MNEs.

Literature Review

An organisation which controls and manages subsidiaries located in at least two countries can be termed as an MNE (Teece, 1985). The headquarters assigns different types of managerial activities, transfer knowledge and resources to its subsidiaries and creates an appropriate structure within the organisation. The aim of the HQ is to create a network that revolves around Williamson's (1981) transaction cost economics (TCE). Thus TCE suggests maximisation of MNE performance through the reduction of transaction costs. This brings into perspective a strong focus on HQ network role (Dellestrand, 2011).

The extant literature in international business and strategy identifies different models of HQ-subsidary relationships. The traditional centralisation based models (e.g. Van de Ven 1976) suggests that HQ is a pool of knowledge and resources of the MNE (for details see Rodrigues, 1995; Ghoshal and Nohria, 1989). It is traditionally suggested that the competitive advantages of the MNE are directly related to the knowledge, resources and capabilities which should remain centralised, preserved and controlled by the MNE's HQ (Bates and Flynn, 1995).

Tallman and Fladmoe-Lindquist (2002) suggest that the HQ usually follows capability recognition strategies. The HQ recognises the subsidiary's current capabilities and distributes knowledge and resources on a need to know basis. Thus, the HQ controls the amount of knowledge and resources that gets transferred to its subsidiary. However, such models seem to be inadequate to represent the MNE's activities due to an increase in the globalisation and internationalisation of businesses, especially the involvement of emerging country subsidiaries.

Subsidiaries that become centres for excellence (Holm and Pedersen, 2000) tend to influence different functional areas of the MNE and actively shape its strategies (Bartlett and Ghoshal 1989; Birkinshaw and Hood, 1998). Costello and Costello (2009; 2010) have developed a theoretical framework which explains the nature and design of HQ-subsidary governance

relationships. This framework is useful in examining the 'types of bundles' of governance mechanisms which are used for better alignment of subsidiaries with headquarters and the reasons why these governance mechanism are adopted by a particular multinational enterprise. Their studies suggest that three types of subsidiary bundles of governance are used by MNEs. Costello and Costello (2009; 2010) also posits that the MNE's international strategy, its subsidiary's importance, environmental uncertainty faced by its subsidiary and the subsidiary's age are helpful in predicting the 'type of bundle' they use to align the interests of headquarters with a subsidiary.

Nohria and Ghoshal (1994) have examined two different approaches namely 'differentiated fit' and 'shared values' for managing the relations between HQ and subsidiary in MNEs. The 'differentiated fit' approach is based on contingency theory and necessitates an understanding of specific control problems presented by context of each subsidiary. It suggests that the MNE should make use of the right combination of formal structural elements to manage these contingencies.

In the decision-making process, conflicts between the HQ and subsidiary occur. Conflict in its dysfunctional form (e.g. Pondy, 1967), is conceptualised to be unhealthy and associated with negative outcomes, e.g. distortion and withholding of information to the detriment of others within the organisation, hostility, and distrust during interactions (Thomas, 1990; Zillman, 1988). It is also argued that dysfunctional conflict is associated with opportunistic behaviour (Barclay, 1991), information gatekeeping (Jaworski & Kohli, 1993), and the creation of obstacles to decision-making. In contrast, functional conflict is believed to have beneficial effects which flow from the consultative interactions that occur when functional conflict is present (e.g. Cosier, 1978; Schwenk, 1989). Where functional conflict is present, people feel free to express their opinions, and to challenge others' ideas, beliefs, and assumptions (e.g. Baron, 1991). Thus, functional conflict positively affects the organisation's performance whilst dysfunctional conflict negatively affects its performance (Menon et al., 1996). Perceptions of both academics and managers regarding inter-organisational conflicts between HQ and their foreign subsidiaries in MNE have undergone a transformation and as a consequence these conflicts are no longer viewed as dysfunctional, but a natural consequence of globalization (Schotter and Beamish, 2011).

The 'shared values' approach (Parsons, 1956; Barnard, 1939; Etzioni, 1965) could facilitate the creation of a common set of values and goals and minimise the divergent interests among the actors. Such an approach could also create a feeling of mutual interdependence. This idea confers to the resource dependence theory (Salancik and Pfeffer, 1977) which in the context of a MNE states that (sub) units in an organisation depends on other (sub) units to stabilise the flow of resources.

MNEs allow flow of knowledge and resources within different subsidiaries that allows for the "smooth global operations, gain more market power, and achieve faster market entry" (Xia, 2011 p. 229). The role of human resources in the flow of knowledge and skills among subsidiaries is particularly noted in the literature (see for e.g. Lado and Wilson, 1994; Wright, McMahan and McWilliams 1994).

Further the HQ orchestrates the flow of resources and skills between subsidiaries (Dellestrand, 2011). However, in certain circumstances, such as when the pressure of global integration is low and local responsiveness is high, the HQ mandate for subsidiaries is to localise (Bartlett and Ghoshal, 1989). It is in these situations that subsidiary entrepreneurship and autonomy emerge.

While localising the subsidiary embedded within host location seeks to access foreign technology, skills and local market knowledge that are location bound in order to carry on its operations successfully (Bartlett and Ghoshal, 1989). In localisation strategy, the HQ tends to preserve the subsidiary's autonomy because the subsidiary does not draw upon the HQ's central reserve of knowledge and resource. Thus, in such situations the subsidiary and HQ have low dependence on each other.

Figure 1, below shows our conceptual model and maps the existing literature on HQ-subsidary dependence. We call *Cell 1.1* 'preservation' as it shows the scenario when the HQ and subsidiary act independently, preserving their autonomy. Preservation strategy closely refers to Bartlett and Ghoshal's (1989) multi-domestic (or localisation) strategies in the integrative responsiveness model. This type of strategy is particularly relevant when the pressure of localisation is high and pressure of standardisation is low. The MNE's subsidiary focuses on the local market adaptation and HQ interference is kept low. An excellent example of where preservation is utilised as a

strategy is the MNE Unilever. Different subsidiaries of Unilever across the world preserve their autonomy, in almost every functional area of management.

Cell 3.1 is called ‘dependence’ as this shows the traditional case of HQ centred strategy, where the subsidiary is dependent upon the HQ. This refers back to Van de Ven’s (1976) type of centralisation based governance model of MNE, where resources and capabilities are controlled by the HQ. This type of strategy will be more applicable to MNEs which deals with standardised products, for instance electronic equipments. In such cases, the subsidiary only performs the mandate given by the HQ and remains dependent on the HQ.

The traditional or conventional view of knowledge transfer suggests that knowledge transfer is likely to be either “transplantation” or “supplantation” (Mudambi, 2002). When a MNE’s primary objective was to exploit local markets, it would infuse knowledge from HQ to either transplant a degree of its own knowledge or to supplant the subsidiary’s existing knowledge. Transplantation is essentially represented in *cell 3.1* of our model. However, supplantation on the other hand represent *cell 2.2*, where the subsidiary supplement its own existing knowledge and resources to the ones transferred by the HQ. Gupta and Govindarajan (2000) suggests that subsidiaries may be motivated to transfer knowledge to their HQ as it could strengthen their strategic position in the organisation. However, the HQ would only be interested in transfers when it deems it to be beneficial from its point of view.

Cell 2.2 is thus called ‘best of both’ as this portrays that in certain scenarios HQ and subsidiary can mutually exploit the capabilities and resources of each other. Tallman and Fladmoe-Lindquist (2002) referred to such a scenario as a 'capability driven' strategy. It means the HQ and subsidiary builds, protects and mutually exploit their capabilities. For instance, the network of the subsidiary can further leverage the internationalisation of the MNE and gain access to resources not otherwise accessible to the HQ. Thus, subsidiary and its network resources not only provide competitive advantage to the MNE but also become a basis for their mutual existence.

Insert Figure 1 about here

Moreover, reverse knowledge transfer can be beneficial to the HQ in terms of accessing local knowledge, coordinating a global strategy, improving processes in the MNE's network, and providing new products. Another way for looking at this HQ-subsubsidiary relationship of knowledge transfer can be through what Cantwell and Mudambi (2005) term competence creation versus competence exploitation. On one hand HQs expect competence-creating subsidiaries to introduce new, unique and valuable knowledge that can be used by other corporate units and for example become centers of excellence (Holm and Pedersen, 2000). On the other hand, competence-exploiting subsidiaries are expected to transfer and adapt knowledge from their HQ to local markets.

Previously too Yang, Mudambi and Meyer (2008) looked at leveraging knowledge from 'geographically disparate' subsidiaries. They found that 'knowledge' transfers to and from geographically dispersed subsidiaries were a crucial source of competitive advantage for MNEs. Findings in the study also revealed that organisational characteristics are important in conventional knowledge flows from headquarters, so that subsidiaries acquired with competence-creating objectives receive significantly larger inflows. They concluded that knowledge characteristics are important in reverse flows to headquarters so that subsidiaries whose knowledge is more relevant are able to transmit significantly larger outflows.

A recent article by Mudambi, Pedersen and Andersson (2013) focused on how power is gained between MNEs and its subsidiaries. More specifically they looked at the intra-organisational network of MNEs, drawing on the Resource dependence literature. They found that mutual dependence and dependence imbalance provide strong explanations for the subsidiary power. Findings from their study also suggested that subsidiary power over strategic decisions in the MNE is gained through functional power. This is more in terms of the possession of technological, rather than business-related power. Further, when it came to both technological and business related power, there was reinforcement between both, as there was strengthening of the subsidiary's strategic power in the MNE network.

Through our conceptual model (Figure 1 above) we have portrayed a novel scenario where the subsidiary tends to gain greater power. In such a situation, consequently, the HQ becomes more

dependent on subsidiary. This situation is converse to the traditional centralisation based models of HQ-subsidary relationship and hence we term it as ‘reverse dependency’ as is shown in **Cell 1.3** (please refer to Figure 1 above). This is a step further to the scenario depicted in *cell 2.2* on HQ-subsidary mutual dependencies because in such a situation the HQ is more dependent on its subsidiary rather than mutual exploitation of knowledge, strategic resources and capabilities. In this paper we further argue that the ‘reverse dependency’ scenario is an emerging phenomenon. A greater number of such cases (where there is higher HQ dependence on subsidiary) are surfacing, due to increased globalisation of the world economy. Thus our argument is as follows. When the subsidiary’s entrepreneurship and other capabilities, knowledge, skills and resources rise to a significant level then it tends to substantially contribute and add greater value in terms of its overall position held in the MNE. For example, greater competencies, lower costs, skills, strategic positioning, client and customer satisfaction levels, and proven new business models are the seven *a priori* themes that emerge from the literature and for the paper. Thus when the subsidiary’s share in the overall performance of the MNE becomes higher, the HQ would naturally tend to be more dependent on the subsidiary’s resources.

Mahlendorf, Rehrign, Schaffer and Wyszomirski, (2012) have studied that the criteria to measure performance of subsidiary established by the HQ tend to influence the decision making of the subsidiary. However, in return when these performance criteria are overachieved the HQ decision making may tends to be influenced by the subsidiary. The phenomenon of ‘reverse dependency’ is also associated with the location where the subsidiary is embedded. If the location of subsidiary has unique immobile advantages (Dunning, 1994) then such dependency would arise. Thus, the locational context is particularly important. This phenomenon has been described using two case studies of foreign MNEs and their subsidiaries in India.

The top right corner of the theoretical framework in Figure 1 shows **Cell 3.3**, which we call ‘transformation’. It shows a situation when the HQ and subsidiary dependency upon each other is higher and mutual. This is a higher level of mutual dependence compared to cell 2.2. It is also posited that the higher order dependence is not one sided as in cell 1.3 or 3.1, which shows that the resources of HQ and subsidiary are mutually exploited by each other to a higher degree. This can be associated with an efficient and effective utilisation of resources that warrants higher interactions and knowledge and resource flow between HQ and subsidiary. We envisage that if

such higher order dependence is followed it can bring in organisational and performance transformation in the MNE.

Having discussed the relevant literature and forming a theoretical framework for our paper, we now move to the methodology section below.

Methodology

In order to investigate this phenomenon of HQ-subsidary relationship in the context of knowledge and resource transfer, we adopt a longitudinal case study approach. The case study component of the research design is grounded in the approach set out by Yin (2009). A case study is defined as ‘an empirical inquiry that ...investigates a contemporary phenomenon in depth and within its real-life context when...the boundaries between phenomenon and context are not clearly evident’ (Yin, 2009:18). According to him, five components of a research design are important: a study’s questions; its propositions if any; its units of analysis; the logic linking the data to the propositions; and the criteria for interpreting the findings. In the context of this research, these have been adhered to. The essence of conducting case-study research is to build or test theory. The aim of this research was to mainly build theory from our two case studies. Eisenhardt, (1989:533) prescribes eight steps towards achieving this. These too have been followed. Thus, this paper follows this approach as a lot of information can be collected through a thorough analysis of few cases. For this paper, we have used two case studies:

1. A pharmaceutical firm’s case: Where the HQ from advanced country becomes dependent on knowledge stock and strategic assets of the subsidiary in an emerging country.
2. A Rural BPO case: Where the HQ from advanced country becomes dependent on entrepreneurial capabilities of the subsidiary in an emerging country.

These are influential and unique case studies (Yin 2009) that meet the goals of our study and generates required information that cannot be otherwise generated from a large number of cases (Seawright and Gerring 2008). We have used two in-depth case studies because of several reasons. First, in-depth case studies are regarded as a better approach when triangulation occurs within data or theories (Snow and Anderson 1991). Second, scholars such as (Welch, Piekkari,

Plakoyiannaki and Paavilainen-Mäntymäki 2010) advocates use of qualitative case studies in theorising novel phenomena, such as HQ-subsidary knowledge sharing strategies, as investigated in this paper. Finally, scholars such as (Birkinshaw, Brannen and Tung 2011, p.573) suggests that in order to understand “the complexities of emergent and evolving phenomena” such as this study which is typical to other topics under investigation in IB, it is often inappropriate to engage in large-scale, cross-sectional studies or reductionist methods in the absence of well-developed theory. Hence, thick description, exploratory research and comparative case analysis that focus on inductive theory building and hypotheses generation is more suitable in the context of this research.

Another element of this research was longitudinal in nature, conducted over a two year period. Longitudinal studies within organisations are relatively rare (Pettigrew 1990:284), being time and resource intensive. Longitudinal research is thus a type of research method used to discover relationships between variables that are not related to various background variables. The longitudinal qualitative case-study method described here thus led to the generation of a large volume of qualitative data and the emergent approach taken to analysis and the issues of cross-checking information provided further challenges. Longitudinal qualitative research, whether short- or long-term, can address a number of issues that are likely to be of interest to qualitative researchers. These issues, as outlined in Farrall (2006), include: differences in the phenomenon being studied between data collection episodes; timing and ordering of change; events and responses leading up to, and following, a turning point; Increase or decrease in a characteristic; effects of the presence or absence of a characteristic; dynamic interactions between an individual and his or her environment; congruence of changes observed with existing HQ-subsidary theories; subjective meaning of change; and symbolic and/or concrete nature of change.

Interview data were recorded (with permission) and extensive summaries were produced from the recordings. A total of 22 interviews were carried out in four locations in the two case study organisations, over the two year research period 2010-2012. The two locations for the first case study were Bangalore and Suratkal and the locations for the second case study were Mumbai and New Delhi. A few interviews for the second case study were conducted in a novel way, through the professional networking site ‘linkedin’, where senior managers in the authors contact lists were tapped into. Others were conducted face-to-face and were tape-recorded and data was

transcribed as is normally done. In both case study organisations, senior managers were interviewed. Details of these interviews are as follows:

Insert Table 1 around here

Further in terms of data analysis, Eisenhardt, (1989:539) states- that ‘Analyzing data is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process’. The process here started with detailed writing up of what Pettigrew, (1990; 1997) calls ‘case history’ for analysis within longitudinal research. Hence within-case analysis typically involved detailed case study write-ups for each of the cases. These write-ups were often simply pure descriptions, but they were central to the generation of insight (Eisenhardt, 1989:540) because they helped the authors ‘to cope early in the analysis process with the often enormous volume of data’ and since ‘there is no standard format for such analysis’.

Data was analysed using King’s (2012) ‘template analyses’. He explains that although this is an inductive process – in reality, a researcher will have some ideas as a result of research questions and the literature and therefore it is possible to project what themes (*a priori* themes) may occur, and then work from a bottom up approach (refer to list of seven *a priori* themes identified in the literature review). Thus in the context of this paper, “themes are recurrent and distinctive features of participants’ accounts, characterising particular perceptions and/or experiences, which the researcher see as relevant to the research question.” (King & Horrocks, 2012-150). The authors were also aware that this method may result in developing themes being overlooked without conscious analysing and that they needed to be flexible to adapt the themes if they are not the most ideal method of depicting the data. The template is a process that can be modified continually through iterative analysis, and this was followed. King (2004; 2008) explains that template analysis is hierarchical in nature but unlike other types of thematic analysis the number of themes is not stipulated by the method of analysis but is developed through the process of analysis of the data for both the themes and sub-themes otherwise referred to as “nested codes”.

Further, following King (2012), validity and reliability were ensured, as the template took into consideration the objectives and methodology of the research project and a sample transcript was analysed noting down problems in clarity of coding definition. Here the assistance of an independent and neutral colleague, as a volunteer, was utilised as suggested by King (2008,

2012). The authors then deliberated on the template themes with this independent colleague, before an agreement was reached. In this context the authors and the independent colleague also oversaw other potential issues that may have arisen. In addition, an audit trail was kept and the authors reviewed the process from the raw data to fully formed ideas. To ensure the validity and reliability of the coding, the quotes that supported the themes were cut onto cards and the initial theme was written on the back, so the volunteer, who was auditing the classification, classified each piece of the data. As this process developed, although there was significant agreement between the authors and the volunteer, some themes were re-defined and their level of salience adapted.

We now discuss the two case study organisations.

Case Description

We utilise two cases, the first a Rural BPO and the second a Pharmaceutical company, to illustrate our findings. The next section provides a brief summary of the companies and provides contexts to the findings, which are discussed in the section following.

Case study 1- ‘Rural BPO MNE’ (hereinafter RBPO A) is a US owned and headquartered niche human resource offshoring (HRO) (part of the larger business process offshoring i.e. BPO) services provider focused on mid-market companies (Hesketh, 2006; Sako and Tierney, 2005; Rowan, 2008). They support HR processes across the entire employee life cycle spanning what they call ‘hire to retire’. The BPO firm's unique vision for its Indian model is “to position rural talent to deliver leading IT solutions to global business by leveraging strengths of rural India supported by best practices established by the growing IT industry” (RBPO A firm’s website). The BPO firm's mission, again for India, is to “build a model development centre at tier 2 and 3 Indian cities, currently starting with Suratkal, South India and Pimpri in Western India with 500+ associates each who could deliver quality IT solutions supported by Centers of Excellence (CoE s) in leading cities”. This they claim in their mission statement, “is the initial stage of our road map to building low cost capacity of 10,000 associates across 15 locations across the Globe”. ‘BPO A’ initially started its BPO business in 2004, with 250 associates in Suratkal, 150 in Pimpri, twelve in Mumbai and eighteen in Bangalore. Two of their operations in India are featured in this research; their ‘centre of excellence’ in Bangalore and their ‘rural’ BPO (RBPO)

operations in Suratkal in South India. During the recession staff numbers fell to 190 in Suratkal and twelve in Bangalore but by April 2010 their numbers had increased 210 in Suratkal and fifteen in Bangalore. It decided on a leaner organisation post-recession.

‘BPO A’ provides its clients the opportunity to examine HR in a different BPO form. As the BPO industry has flourished in India, so more and more companies began establishing operations in the metropolitan cities to capitalise on the available human resources and physical infrastructure (NASSCOM, 2010). However, this led to intense competition for available talent and frequent poaching of staff. Also, many employees considered a BPO job as a short-term one and opted for higher education or business management studies once they had earned enough money to support their higher education plans (Kuruville and Ranganathan, 2008; Naronha and D’Cruz, 2009). These factors resulted in high employee turnover and attrition rates and in turn increased recruitment and training costs for many BPO companies (e.g. Taylor and Bain, 2005; Budhwar and Bhatnagar, 2009; Kuruville and Ranganathan, 2010). In response some IT / BPO companies have ‘migrated’ their operations to lower cost destinations. Two low cost options are (NASSCOM, 2010):

1. Shifting operations or a part of the operations to potential low cost areas like China, Malaysia, Philippines
2. Tapping the vast pool of skilled and cheap work force in rural areas in India itself

A number of Indian BPO organisations have chosen option one above (e.g. Some large Indian owned BPOs locating some businesses in China and others assessing Hong Kong and Singapore as an alternative business location). A few BPO companies (including RBPO A, as one of the first) took up the second option and have set up operations in smaller towns and villages. The low cost of operations and lower employee attrition levels are the key benefits that these companies derive from their rural operations. However, the main challenges that the rural BPOs face are under-developed infrastructure facilities; lack of power, and poor telecommunication, transportation, education, and other support facilities. Upgrading the relevant skills of rural BPO staff is also a critical factor for improving service quality levels (Times of India, 2008). To bridge this gap by initiating development at the village level, and to put rural India on a par with major cities, the Government of India has partnered with private

bodies to ensure availability of education facilities and adequate infrastructure to people in rural areas. The establishment of BPOs in villages is expected to result in the development of rural infrastructure, increase in standard of living, and generate better employment opportunities at the village level (NASSCOM, 2010). 'BPO A' was thus one of the first to take this opportunity and advantage of the Indian government's initiatives on RBPO.

After its successful launch in the US (and hence it's US headquartering), 'RBPO A' is witnessing strong growth in demand for "quality HRO IT services at cheaper cost" (company website) and initiated a dedicated offshore centre that went operational in 2005. An expansion of its operations into new, more volatile and potentially lucrative markets like China and the Middle East along with their current clientele in Europe and North America was being planned by the end of 2011. 'RBPO A' have recently acquired and established joint ventures with a few organisations in the Asia-Pacific and North American markets.

In view of the above discussion, it was interesting to explore the challenges and tensions for managing its operations and business in rural areas whilst undertaking BPO work, especially for international clients are met. In contrast to the BPO industry, this case provides an opportunity to compare its subsidiary entrepreneurial initiatives of operating in a rural location, with the BPO firm's Bangalore office becoming, over time, its country specific HQ (Budhwar, 2012).

Case 2 – The *Pharmaceutical Company* (hereinafter Pharma) is a Japanese owned and headquartered firm. The firm focuses on new drug development through discovery of new molecules. The corporate history section on the company website shows that right from its inception the company possessed strong research capabilities, for example, in 1910 it discovered the world's first vitamin B1 from rice bran, which established the basis for the theory of vitamins.

The internationalisation of the firm started in early 1960's with the establishment of wholly owned subsidiaries in North America (New York) and in Europe (Switzerland) (Company Website). Internationalisation alongside the internationalisation of major US firms in 1960's makes the company unique case. Further, to date the company is the 3rd largest Japanese drug maker, with about 30,000 employees and a turnover of 11.5 bn. USD. Its R&D spending equals

19.7% of its sales which makes it one of the largest in the world in terms of R&D intensity (Company Website).

The company entry into emerging markets took place through the acquisition in 2008. It acquired one of the largest Indian Pharmaceutical company for 4.6 bn. USD. This was one of the largest acquisitions of a pharmaceutical firm in India and one of the largest in the world. The pharma company's entry in India has multifaceted dimensions of analysis. This includes acquiring resources which have implications on its performance and sustainability. This case is an exemplary case of an advanced country, Japan, seeking assets/resources, knowledge and skills from an emerging market, India. We called this phenomenon a case of 'reverse asset augmentation' and 'reverse knowledge transfer', as would be established through our analysis and discussion that follows.

In this case the acquired Indian firm highly reputed large pharmaceutical firm in India, with a high R&D spending along with a well-known pool of 1,100 R&D personnel, of which, over 75 percent are qualified scientists. It is also among the top global generic pharmaceutical firms and has internationalised extensively, with sales in about 150 countries in the world has a turnover of over 2 bn. USD (Annual Report). Prior to the acquisition, specialising in generic drug was Indian firm's forte and hence it was into a different field of pharmaceutical production and development as compared to the Japanese firm, which mainly focused on new drug development. However, the acquisition of the Indian firm has not only provided the Japanese firm an entry into an emerging market but also added value in terms of synergies and plans for sustainable growth.

The Pharma Company's unique vision for its Indian model is to benefit from the resources of the Indian firm and the location advantages offered by India both in terms of evolving institutional and cost advantages associated with India.

Findings and Discussion

In what follows below, we discuss the findings from our detailed analysis of the data. Seven major *a priori* themes emerged and were confirmed from data obtained from the respondents of the two subsidiary dominating case study organisations. These were competition, costs, skills, strategic position to control employee attrition, control, client interface and satisfaction, and proven success of business models due to institutional contexts. These are first defined and then evidence from both case studies is provided and discussed below.

- 1. Competition:** This theme is defined as the process of trying to win or do better than other external and internal competitors. Faced with competition and a threat to its current and future existence, the subsidiaries found ways of getting into competitive advantageous positions.

Case study 1 (RBPO A) - Faced with both global and local competition the Indian subsidiary of the US HQ case study organisation had two options. First, to allow the HQ to shift operations or parts of their operations to potentially lower cost areas like China, Malaysia, Philippines, South Africa etc. and second, to tap and exploit the vast pool of skilled and cheap work force in rural areas in India itself, as described in the words of the following respondent, who is the founder member

'...so then I thought it's time to start on my own because I had sufficient exposure and I also wanted to test a new kind of a model which would, prove that rural talent in India can deliver to departments of Global clients..... So I started on this experiment on a very small basis and the easiest way was when we had business and were ready for it. The domestic clients also had access to our services. So that's how I started off with YYY. It's now almost two and a half years. We will be stepping into the third year. So that's the model we are working on.....it is still evolving' (Founder Member, Interview, Bangalore)

Thus the subsidiary pre-empted the move abroad by encouraging the HQ to take the second decision. In affect this helped the subsidiary to become a 'center of excellence' (Holm and Pedersen, 2000) where more strategic work, planning and budgeting took place. This in turn led to the HQ being more dependent upon the subsidiary given that the operations were extended and managed in rural India by the Indian subsidiary. This eventually resulted in a shift in the HQ-subsidiary relationship from a position of 'best of both' (cell 2.2 of our model) to that of 'reverse dependence' (cell 1.3 of our model).

Case study 2 (Pharmaceutical) – The Japanese global MNE, here the pharmaceutical case study organisation, resorted to a strategy of entering India through the acquisition of the Indian organisation. Its main motivations were aimed to augment four major location-bound resources (Dunning, 1994), namely: a) Human Resource; b) R&D centres; c) Brand and Image; d) Distribution Network, as explained by the following quote below

XXX has strong competitive position in India with some very strong brands in the market. About 20 of them are widely known and available in the market. XXX's brands are prescribed by most of the doctors and pharmacists such as ZZZ (a generally used antibiotic); Most of the over the counter drugs such as AAA (a type of Diclofenac); life

style drugs such as BBB are very popular among the consumers. Normally consumers in India know these brands and demand them by name from the chemist shops. Further our employees and distribution system add to our competitive advantage- (Senior Manager, Mumbai)

The above can thus be categorised into technological and marketing resources. In terms of technological resources, the HQ (Japan) acquired skilled human resource, such as scientists and the R&D centres, which would enhance its capabilities to conduct research. The above four areas thus over time became the subsidiary's and overall organisation's competitive forte and thus the dependency on the subsidiary increased. Since most of these resources are location bound and were developed by the Indian firm prior to acquisition, it is likely that post acquisition the autonomy in extending these resources would remain and the HQ (Japan) dependency on the Indian firm would increase.

- 2. Costs:** This theme is defined as a process of calculating and lowering the price or expense of producing goods and/or services in comparison to the competition and previous costs. Thus an ability to deliver goods and services at lower costs put the subsidiaries in an advantageous position.

Case study 1 (RBPO A) - The very basis of the offshore outsourcing phenomenon is cost saving, as the literature explains and suggests through the transaction cost economics (TCE) theory (Williamson, 1981). With increasing costs, over time, the largely metropolitan locations of the operations at the subsidiary were beginning to get very costly, as explained by the following quote.

'...if you look at our rural models which is our big chunk of the employees they are typically falling into a range where it is same like any big MNC at the entry level.... probably we are almost on the same. We pay around one lakh eighty thousand rupees [a hundred and eighty thousand] or something like that. So we typically start at the same range, almost the same range at the entry level. But if we look at a three or four-year period probably our Tier 2, Tier three salaries would be may be about 40% less than what an associate would earn in a big MNC company.' (Board Member, Interview, Suratkal)

Hence for the subsidiary to be cost effective, the decision to move operations to a rural location in India was largely supported by the HQ and the subsidiary. This eventually also led to a greater dependence on the subsidiary.

Case study 2 (Pharmaceutical) – As was the case with case study 1 above, the Japanese pharmaceutical case study organisation too faced immense challenges when it came to R&D, operational and manufacturing costs, as can be explained through the TCE theory (Williamson, 1981). Further, the Japanese MNE found a potential market in India by acquiring the Indian pharmaceutical organisation, which was now its subsidiary and possessed cheaper human resources, R&D centres, and a distribution network as some key strategic assets. Evidence of this is in the following statement.

India has pertinent technological skills. Every year lots of graduates including chemists and scientists come out of universities and technical institutes of India. This skilled workforce is available in abundance and at relatively low wages. The cost of production in FDA approved plants is about 1/3rd than that in Japan or in the USA. – (Senior Manager, Interview, New Delhi)

The low cost operations in India, in both cases, turned out to be the strength of the Indian subsidiaries. Also, in both cases, the HQ seems to have given autonomy to the subsidiary to find ways (as in the RBPO A case) or to carry on (as in the Pharma case) so that the MNE's operations could be performed more efficiently. Thus, the cost reduction pressures were eventually enhancing reverse dependency as suggested in *cell 3.1* of our model.

- 3. Skills:** This theme is defined as the ability to do something well, usually gained through training or experience so as to result in competitive advantage. In this context the subsidiaries built upon their existing skills and strived to improve their skills bases.

Case study 1 (RBPO A) - Even though technology is important, the BPO industry is extremely people oriented and centered and hence the reliance on people's technical, soft and business management skills are extremely important. The above two themes discussed are thus directly affected by the lack of quality and quantity of such skills. The following quote explains this.

'... if you look at the overall spectrum of the work in the Indian IT industry 70% to 75% is very low end services which anybody and everybody can do provided they have a few soft skills and technical knowledge...which they with our help can upgrade themselves. On the other hand, technically three (?) 10% to 25% of an Indian IT company's work force is required to run the high-end consulting and what we call the front end staff. So I think that's the model we are operating upon. Hopefully we should do well in the next couple of years.' (Board Member, Interview, Suratkal)

Therefore to be competitive and cost effective, the numbers and level of such high skilled people becomes paramount (Lado and Wilson, 1994). To cater to these competitive elements, especially in the context of quality, quantity and costs, the HQ had to inadvertently adhere to the decision to move to a greater skill base (a combination of quality, quantity, lower attrition and costs) in rural India.

Case study 2 (Pharmaceutical) – As is the case with the Indian offshore outsourcing industry, the pharmaceutical industry in India too comes within the gambit of a highly knowledge intensive industry. Hence the dependence on highly skilled personnel is paramount for its competitive advantage (Wright, McMahan, and McWilliams, 1994). This aspect is explained through the evidence below

XXX is India's largest pharmaceutical company. XXX has been successfully around for over 50 years in India with worldwide presence and a strong dedicated skilled workforce of over 14,000 employees. With the help of the strong workforce we (XXX) have established 3 research and development centres in India by 2005 and also obtained the India's first USFDA approval. Through all these achievements XXX established itself in the Novel Drug Development Segment (NDDS) in the industry. (Senior Manager, Mumbai)

Thus, the Indian subsidiary possessed skilled human resources, people in R&D centres, and a skilled distribution network as some key strategic assets. Over time, these strategic skills sets as assets became the organisations strength and competitive advantage and hence an increase in dependency by the Japanese HQ on the Indian subsidiary.

- 4. Strategically positioned to control employee attrition levels:** This theme is defined as being strategically positioned in controlling the gradual reduction of the size of a workforce that occurs when staff is lost through retirement or resignation and are not easily replaced. This theme is specific to the RBPO A case study organisation and not to the second case study. Here the subsidiary was in a better and more strategic position than the HQ to control and stem attrition levels.

Case study 1 (RBPO A) – As is well documented in the literature, the Indian BPO industry is fraught with high levels of attrition and the case study organisation too faced this challenge. Thus alongside the increased competition, increasing costs, skills shortages and the increasing attrition levels led the HQ to move operations to the rural location in India. Initially the management's role at the subsidiary was to fire-fight attrition levels but later it then had to control attrition

levels at the rural location, which was lower than its initial urban location. This phenomenon is explained below.

It is definitely a problem. Attrition is a big issue, the reason being if the market picks up, so the demand for quality professionals and experience is always rated highly in the IT sector. So attrition is an issue for any company which is in the mid segment which is from 100 to 400 people. But there are ways and means to try and reduce attrition through various processes, strategies and policies. Our attrition rates last year were about 20%. This year it's gone up to 25% but again this year we are planning to bring it down to about 15% to 18% and slowly reduce it to about 10%. We as the center of excellence are better and more strategically positioned as compared to our HQ to control attrition' (Board Member, Interview, Suratkal)

Moreover, overall responsibility of managing attrition was now the prerogative of the subsidiary and not the HQ. This change in the human resource practices within the MNE led to increased performance of the subsidiary (Fey and Björkman, 2001) and in terms of the relationship between the HQ and subsidiary, the dependence of the responsibility of managing attrition was now on the subsidiary.

- 5. Control:** This theme is defined as an ability or authority to manage or direct something. It also includes the process of limiting or restricting somebody or something, or the methods used in attaining this. Thus overall it is the authority, ability and process to control something and/or somebody successfully. Thus the subsidiaries had greater control over operational activities and decision making.

Case study 1 (RBPO A) - The subsidiary was now not only a center of excellence (CoE), but was also responsible for overall operations, with addition responsibility of strategic decision making, including budgeting and costing. The following quote explains this.

Our Indian operations are now self-sufficient and the center of excellences in Mumbai and Bangalore are in realistic terms our Indian HQ. They have ideally minimised our overall control and are moving into being more strategic partners solely responsible for our rural operations. – (Board Member, Interview, Bangalore)

This led to the strategic development of the subsidiary through subsidiary initiative-taking (Delany, 2000). This arrangement led to the subsidiary having greater control over its Indian operations in comparison to the HQ and hence this increased dependency on the subsidiary. In

essence then the 'control' and power had now shifted to the subsidiary from the HQ. This position is also what Budhwar (2012) calls 'country specific HQ'.

Case study 2 (Pharmaceutical) – The process of the Japanese HQ acquiring technological, and marketing related strategic assets through acquisition of the Indian subsidiary though lead to ownership transferred to the Japanese MNE; however, the operational control over its human resources, R&D centres, brand, and the distribution network remains with the subsidiary. This is explained in the following quote.

"...our goal is to be a global pharmaceutical innovator and provide the opportunity to complement our strong presence in innovation with a new, strong presence in the fast-growing business of non-proprietary pharmaceuticals..... While both companies (Japanese HQ and Indian subsidiary) will closely cooperate to explore how to fully optimize our growth opportunities, we will respect XXX India's autonomy as a standalone company as well." (Senior Manager, Interview, New Delhi)

Having operational autonomy provided the Indian subsidiary to continue in its position of control and manage its Indian operations particularly in the area of generic pharmaceutical business. Given the growth of the Indian pharmaceutical industry, the importance of the generic pharmaceutical business (Munjal, 2013), and the rising numbers of off-patent drugs it is likely that the share of generics in the overall revenue of the Japanese MNE will rise and will raise the HQ's dependence on its Indian subsidiary.

- 6. Client interface and satisfaction:** This theme is defined as the place, situation, or way in which two things or people act together or affect each other, or the point of connection between things and the gratification with the way that this has been arranged or done. This is defined in the context of clients and customers. Thus, higher levels of client or customer satisfaction became the strength for the subsidiaries.

Case study 1 (RBPO A) - When the rural operations took off in this case study organisation, the client had to communicate through HQ and the subsidiary CoE. To bypass these two levels of communication lines and to have direct contact with the operations, the CoE at the subsidiary became the first point of contact for the clients. This is explained in the following quote.

'...most of the work at Suratkal did not require us to possess soft skills. Initially we thought it was a necessity and an industry norm, but later realised it was not really required....clients visited us on few occasions and we put forward our employees that met the criteria of soft skills...that is speaking good English etc... Clients were extremely impressed with the quality of our work...' (Manager, Suratkal, Interview).

Hence, there was direct client interface with the Indian operations, with HQ only getting involved with extremely urgent and quality and time related concerning matters. This arrangement led to increased satisfaction levels by the client, which in turn led to greater dependency levels on the subsidiary.

Case study 2 (Pharmaceutical) – The case study organisation held several knowledge management and medico-marketing initiatives such as advisory board meetings, post marketing surveillance studies and continuous medical education (CME) programmes. The Indian subsidiary and operations personnel and management have been at the fore front in initiating and conducting these programmes. More than 2000 interface programmes, such as symposia and, CME's, are conducted and about 20 clinical papers are published annually. The following quote by a respondent explains this.

... XXX is aware that of the potential market share in the emerging Indian market. The industry is growing @ 10 to 11 percent annually...the Indian market has immense potential for growth, as the per capita consumption of drugs in India is one of the lowest in the world about 3 USD p.a.. The similar figures in developed countries stand too high, for instance, in Japan it is 412 USD p.a.; in USA it is 191 USD p.a., in Germany it is 222 USD p.a. ...Going forward with development it is natural that India's per capita consumption will go up..... With one of the largest population in the world in India, even a smaller change will be big in absolute terms... - (Senior Manager, Interview, Mumbai)

These initiatives have over time resulted in an excellent customer relationship with the medical fraternity. Due to such interfaces and existing networks of the Indian subsidiary, the Japanese MNE HQ was able to enter into the Indian pharmaceutical market. In the absence of a local partner it is difficult to imagine how a foreign MNE would successfully engage with Indian distributors. This dependence is likely to remain or rather increase in the near future given recent evidence of Japanese businesses facing challenges in managing its Indian operations independently (see for e.g. Galib, Munny, Ding, 2011)

- 7. Proven success of business models, due to institutional contexts:** This theme is defined as the achievement of business models that were planned or attempted and that have been tried and tested on earlier occasions and known to work or be satisfactory. This is due to the institutional context of a region/subsidiary. These aspects over time became the subsidiaries strengths.

Case study 1 (RBPO A) - Business development at this case study organisation saw an expansion of business and exportation of this successful RBPO model on shore and offshore, as explained in the following quote by a respondent.

'Our model is going to be a centre of excellences based in cities where you can get thorough bred and high calibre people.... at the same time 75% of our work first will come from tier 2 and tier three cities in the future, that's the model we are going to continue working on.' (Chief Manager, Interview, Bangalore)

Thus its newer subsidiaries, with its CoEs and rural operations would yield greater control and hence dependency levels, as anything contrary would be less competitive and a deterrent to the HQ-subsiidiary relationship.

Case study 2 (Pharmaceutical) – In the context of the Indian pharmaceutical sector, the institutional environment in India has changed due to the introduction of the New Patent Act in 2005. As a result, foreign pharmaceutical companies, such as the Japanese case study organisation in India have increased their patented drugs launched in India. The following quote explains this.

XXX (HQ Japan) has very strategically divided the business between XXX Japan and XXX India.....After takeover XXX India is incorporated to take over the new drug discovery business and core research and development arm of XXX Japan.....units of XXX engaged in research and development of new drug were transferred to XXX India. XXX is concentrating only on contract manufacturing and generic drugs..... XXX has competitive advantage and market recognition in that area therefore it makes sense- (Senior Manager, Interview, New Delhi)

Further, for foreign investors, India presents a huge number opportunities in discovery, production, and growing domestic market. Many other reforms have been introduced by India, such as allowing 100 percent FDI in pharmaceutical industry; providing tax incentives for research and development; and setting up of the special economic zones. The Indian government's "Pharma Vision 2020" programme, aims to make India as one of the leading destination for drug discovery and innovation hub with a target of 'every five out of ten drugs discovered worldwide by 2020 originating from India. Thus, this leads to a unique HQ-subsiidiary relationship model, which has become very attractive.

Conclusions

This paper synthesised and extended the literature on headquarter-subsidary relationship in the context of location embeddedness of subsidiaries. Through a longitudinal ‘unique’ case study approach it suggests that the subsidiary entrepreneurship in locations has immobile location-bound advantages and can raise HQ dependence on the subsidiary. Hence in the context of HQ-subsidary relationship the paper presented different dependence scenarios. In situations where the subsidiary has access to location-bound advantages, the degree of HQ dependence on the subsidiary is likely to increase. These situations contribute to an extension of the resource dependence theory.

The paper also highlighted that local institutional environments (at subsidiary level) positively contribute to MNE success. The findings of this paper are particularly interesting and hence it enhances our knowledge on the subject, given the changing institutional environment in India, an emerging economy. Further, both cases studies are drawn from knowledge intensive and service industries from India. However, the conceptualisation can be generalised to any country that has location bound advantages relative to the industry under examination.

The theoretical contribution of the paper lies in the conceptual modelling and defining the typology of HQ-subsidary dependency scenarios. The ‘transformation’ scenario is highlighted as ideal for HQ-subsidary relations, wherein HQ and subsidiary (with higher degree) depend upon each other. This is an ideal scenario because this brings about optimum utilisation of resources with HQ and subsidiary drawing upon each other’s strengths. We argue that future research is required to provide empirical evidence of ‘transformation’ as an evolving situation that would prevail in MNE success.

Last, but not the least, our research aids managers in understanding the implications of subsidiary entrepreneurship and location embeddedness. This can be beneficial in bargaining and negotiating decision making within the multinational corporation, and it also encourages healthy internal subsidiary level competition.

Figure 1: Dependency scenarios between HQ and Subsidiary

Degree of 'dependence' on HQ	H	Dependency Subsidiary conforms to HQ – <i>Dependence assimilation 1 (top-bottom)</i> (3.1)		Transformation Both the HQ and subsidiary find new ways of sharing – <i>Dependence transformation</i> (3.3)
			Best of Both Additive from both sides – <i>Dependence integration</i> (2.2)	
	L	Preservation Subsidiary retains its independence – <i>Dependence autonomy</i> (1.1)		Reverse Dependency Unusual case subsidiary dictating terms – <i>Dependence assimilation 2 (bottom-top)</i> (1.3)
		L	Degree of 'dependence' on Subsidiary	H

Source: Authors' compilation

Table 1: Data Collection

Case study organisation	Interviews in year 2010-2011	Interviews in year 2011-2012	Interviewee details
Rural BPO A	6	6	2 Directors, 1 General manager and 3 Senior line managers
Pharmaceutical	4	6	3 Senior line managers and 3 Senior scientists
Total interviews	10	12	

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