

Małgorzata Szalucka
Uniwersytet Mikołaja Kopernika

Decision-making subsidiary autonomy in Polish multinational enterprises: Results of an empirical study

The aim of this paper is to empirically investigate the level of subsidiary autonomy in various decision areas relating to after-sales service, distribution, sales and marketing, procurement, production, research and development, and finance. The paper presents the results of a field survey carried out in 2012 through the direct interview and questionnaires sent by mail to Polish MNE subsidiaries operating abroad. The research results revealed that the subsidiaries of Polish MNEs are given a significant degree of decision-making freedom. In the majority of the listed areas the subsidiaries possessed a high degree of autonomy, claiming to take full or partial responsibility for their decisions. Only financial decisions remained predominantly under the control of the parent company. The empirical findings also showed that the age of the subsidiary influenced the extent of autonomy delegated to the subsidiary – foreign units with a longer period in the host country markets had a greater degree of autonomy.

Keywords: autonomy, subsidiary, multinational enterprise, Polish multinationals

JEL classification: F21, F23

Poziom autonomii filii zagranicznych polskich przedsiębiorstw. Wyniki badań empirycznych

Celem artykułu jest przedstawienie wyników badania nad stopniem autonomii przedsiębiorstw bezpośredniego inwestowania powstałych w efekcie aktywności inwestycyjnej polskich przedsiębiorstw za granicą. Zaprezentowane badanie przeprowadzono w 2012 roku przy wykorzystaniu metody wywiadu bezpośredniego i ankiety pocztowej. Wyniki badania ujawniły, iż filie zagraniczne polskich przedsiębiorstw cechują się relatywnie wysokim stopniem autonomii. W większości poddanych analizie obszarów decyzyjnych zaobserwowano wysoki stopień niezależności filii. Jedynie decyzje w obszarze działalności finansowej pozostawały głównie pod kontrolą spółki macierzystej. Wyniki badania wskazały również, iż poziom autonomii filii różni się w odniesieniu do jej wieku – filie działające najdłużej na rynkach zagranicznych cechowały się najwyższym stopniem autonomii.

Słowa kluczowe: poziom autonomii, filia, przedsiębiorstwo międzynarodowe, polskie przedsiębiorstwa

Klasyfikacja JEL: F21, F23

Introduction

Over the last three decades the degree of autonomy at the subsidiary level has been an important topic in international business research [Birkinshaw, Pedersen, 2008; Johnston, 2005; Paterson, Brock, 2002]. The appropriate balance between centralized parental control over foreign subsidiaries and subsidiary autonomy has also been identified as one of the critical contemporary issues for practitioners [Young, Tavares, 2004]. The rapidly changing business environment and globalization of economic activities have greatly expanded the growth opportunities for enterprises and increased diversification and complexity of value-creating activities within multinational enterprises. Understanding of the relationship between headquarters and subsidiaries has become crucial for the functioning and, within it, the managing of the MNEs. With increasing globalization and regionalization, we can observe significant changes in the roles subsidiaries play in today's MNEs. There are two parallel trends in the change of subsidiary roles. On the one hand, the subsidiaries have been taking more strategic initiatives and playing more important role in generating competitive advantage for the MNEs [Birkinshaw, 1997; Birkinshaw, Hood, Jonsson, 1998; Andersson, Bjorkman, Forsgren, 2005; Cantwell, Mudambi, 2005; Ambos, Ambos, Schlegelmilch, 2006], which translates into a higher level of subsidiary autonomy. On the other hand, globalization seems to require greater centralization of value-creating activities, resulting in a shift towards more integrated and interdependent subsidiaries where the global integration of activities within the MNE implies a complex coordination process and cooperation in a shared decision-making process [Birkinshaw, Morrison, 1995].

The purpose of this paper is to empirically investigate the level of subsidiary autonomy in decisions relating to after-sales service, distribution, sales and marketing, procurement, production, research and development, and finance. The empirical work is based on a field survey of 50 Polish MNE subsidiaries operating abroad. The paper is structured as follows. It begins with a brief discussion of the theoretical approach to subsidiary autonomy. Particular attention is paid to how autonomy is linked with different variables such as the age of the subsidiary and the decision area. Next, the author presents the empirical methodology and the results of a research carried out in 2012 among Polish MNE subsidiaries operating abroad. The research focuses on the degree of autonomy possessed by the subsidiary and its linkages with the age of the subsidiary. Finally, some conclusions are drawn.

1. Subsidiary autonomy: Theoretical background

In the literature we can find many different approaches to understanding subsidiary autonomy. Taggart and Hood [1999, p. 228] state that autonomy is 'a decision-based process that evolves through bargaining between centre and periphery in an organization'. O'Donnell [2000, p. 528] relates the subsidiary decision-making autonomy to 'the degree to which the foreign subsidiary of the MNEs has strategic and operational decision-making authority'. According to Hamermesh and White [1984, p. 104], subsidiary autonomy refers to 'the degree to which business unit managers can make decisions independent of other parts of the company, especially the corporate head office'. In this paper, we consider subsidiary autonomy as the degree to which the subsidiary managers can make decisions in relation to strategic and operational areas independently of the parent company.

In managing headquarters–subsidiary relationships, there are the two opposing forces working simultaneously, often described as a mixed-motive dyad [Johnston, 2005; Homburg, Prigge, 2014]. On the one hand, subsidiaries usually aspire to achieve a higher level of autonomy with decentralized decision-making. On the other hand, parent companies want to have a high degree of control with centralized decision-making, strong planning, and control systems. Both subsidiary autonomy and control of the parent company have their benefits and drawbacks, which is why it is essential for the MNEs to find the appropriate balance between centralized parental control over foreign subsidiaries and subsidiary autonomy adjusted to the specific circumstances under which foreign subsidiaries could maximize their value-creating roles.

One of the most frequently indicated results of autonomy is its positive effect on a subsidiary's innovation potential. Ghoshal and Bartlett [1988] claim that the high level of autonomy facilitates the creation and diffusion of locally developed innovations. Birkinshaw and Hood [1998] observed that the subsidiaries with a greater degree of autonomy were more likely to contribute to the development of firm-specific advantages of the MNE. It is assumed that the positive impact of autonomy on a subsidiary knowledge development results from the subsidiary management's greater knowledge of the host country environment which allows them to explore the opportunities more effectively and exploit resources and capabilities of the MNE and the subsidiary. Furthermore, the more autonomous subsidiaries tend to have higher motivation to engage in innovative activities. They are also less limited by the views and constraints of the parent company. Bartlett and Ghoshal [1989] also suggest that autonomy enables to exploit local market opportunities more effectively. The subsidiary management's local knowledge of the markets condition allows not only to adopt the marketing strategy to the local needs and preferences, but also to react rapidly to the constantly chang-

ing market conditions. Young and Tavares [2004] report that subsidiary autonomy constitutes subsidiary entrepreneurial competencies. Greater autonomy may also enable the subsidiaries to be more embedded with external business networks and industry clusters, which is regarded as a critical factor in the enhancement of subsidiary resources and capabilities [Young, Tavares, 2004; Chiao, Ying, 2013]. However, subsidiary autonomy and its high embeddedness with external business networks and industry clusters may also disassociate the subsidiary from the other units in the MNE group and create a risk of isolation. From the headquarters point of view, the contributory role of such a subsidiary would be minimal. High autonomy is also likely to limit headquarters–subsidiary cooperation and the intra-MNE flows of resources, capabilities and knowledge [Young, Tavares, 2004]. Delegating decision-making power to local subsidiary managers may increase a distribution of profits non-optimal from the perspective of the MNE. Decisions made by too autonomous subsidiaries do not have to be the most appropriate from the point of view of the MNE group. The increase of autonomy also leads to higher control and coordination costs and reduces the possibility of global integration.

Based on the subsidiary development literature we can identify three main drivers of subsidiary development and, at the same time, indirect determinants of subsidiary autonomy. The subsidiary evolution process might be shaped by head office assignment, subsidiary choice and local environment determinism [Brinkinshaw, Hood, 1998]. In relation to subsidiary autonomy, Simoes, Biscaya and Nevado [2002] suggested defining them as subsidiary competences, corporate embeddedness and local embeddedness. Both perspectives are closely linked, as they assume that the degree of subsidiary autonomy (or autonomous subsidiary role) is shaped by the combination of three, same by nature, forces, and is tailored to the specific circumstances of the subsidiary. It is also important to emphasize that subsidiary autonomy should not be taken for granted. Due to the rapidly changing environment, the degree of subsidiary autonomy evolves over time and is very context-sensitive [Birkinshaw, Pedersen, 2008].

The level of authority devolved to subsidiaries varies considerably. Partly, it might be a function of the size and age of the subsidiary, nationality, diversification and international strategy of the MNE, complexity of technology, the parent's and subsidiary's international experience [Pisoni, Fratocchi, Onetti, 2013; Young, Tavares, 2004]. Furthermore, there appears to be a significant difference in subsidiary autonomy depending on subsidiary functions and decisions areas. It also varies across entry mode and subsidiary embeddedness within local and corporate relationships. For the purpose of this paper and the study below, the author focuses only on two variables – the age of the subsidiary and decision areas – and explains the linkages between them and the degree of autonomy in more detail.

Hellund's study [1981] indicated that subsidiary autonomy varies across decision areas. The degree of freedom seems to be the highest in relation to human re-

sources decisions and the lowest for finance decisions. The relationship between autonomy and decision areas was also pointed out by De Jong, van Dut, Jindra and Marek [2015], Schüler-Zhou and Schüller [2013], Edwards, Ahmad and Moss [2002], Bowman, Duncan and Weir [2000], Van Den Buckle and Halsberghe [1984] and Young, Hood and Hamill [1985]. In general, most of the studies confirm that financial decisions tend to be by far the most centralized, whereas employment and personnel decisions are among the most decentralized ones. Relatively high centralization of decisions is also observed in the research and development area, which is essential for knowledge creation and the competitive advantage of the MNEs. These decisions tend to be subject to a higher degree of autonomy than finance ones. Furthermore, a significant change in the approach of the MNEs to research and development can be observed in recent years, closely linked with globalization process, a need for local responsiveness, and emergence of centres of excellence. There is a general trend toward decentralization of research and development decisions, at least in certain aspects. In terms of production and marketing decisions, subsidiaries seem to have significant control over them [Young, Hood, Hamill, 1985; Bowman, Duncan, Weir, 2000], though it varies decidedly depending on the international strategy of the MNE. Moreover, it is important to emphasize that regardless of the decision area, the level of subsidiary autonomy or parental control varies depending on the importance of the decision made. The subsidiaries are likely to have greater autonomy over operational decisions, while strategic decisions tend to remain very much under the control of the parent company [Bowman, Duncan, Weir, 2000].

The literature also suggests the association between the subsidiary autonomy and the subsidiary age. The longer the period since the subsidiary has begun operating on the host country market, the greater the degree of its autonomy. It is the result of the subsidiary's experience gained in the host country market and its negotiating position developed within the MNE group [Young, Tavares, 2004]. This positive relationship was stated by Schüler-Zhou and Schüller [2013], Taggart and Hood [1999], Harzing [1999], and Van Den Buckle and Halsberghe [1984].

Based on the discussion above, in the study below the author investigates the link between the autonomy, the subsidiary age, and different decision areas in relation to Polish-owned subsidiaries, expecting that the level of autonomy varies across decision areas; there is, however, no certainty as to whether it follows the trends set by large and mature Western corporations. The theoretical approach and empirical findings also allow to assume that the degree of autonomy of Polish-owned subsidiaries is a function of their age, and thus that foreign units with a longer period on the host country markets are characterized by a greater degree of autonomy.

2. Methodology

The research was carried out in 2012 among Polish-owned subsidiaries operating abroad. The research covered the group of direct investment enterprises that had been established as a result of an investment activity of the Polish companies in the form of FDI. The database developed by the research team included 659 companies. A listing of the subsidiaries was compiled from official and industry sources. Postal questionnaires were sent to all of them. The data collection process consisted of initial mailing, a reminder sent by e-mail, and direct interviews conducted by the research team during seminars held in Prague and Kiev with the help of Polish embassies in the second half of 2012. Overall, 50 correctly completed questionnaires were received, representing a return rate of 13.2%. A non-random sampling method was applied, which limited the extent to which the findings can be statistically representative. Additionally, a small sample size was a limitation of the study. Therefore, the findings cannot be generalized to the entire population and the hypothesis can be tested only in terms of initial indications.

The questionnaire, referring to the part of the research presented in this paper, contained only closed questions. During the analysis of the research results, the number of respondents that had answered a specific question was always taken as the basis for any calculations. Frequencies and arithmetic means were used to analyse the data.

The respondents were asked to evaluate the extent to which the subsidiary can make independent decisions in the areas of after-sales service, distribution, sales and marketing, procurement, production, research and development, and finance. For each of the 7 areas listed, the respondents described the subsidiary autonomy on a scale from 1 to 5, where 1 means a decision made fully by the parent company (a decision dictated by the parent, no autonomy of the subsidiary) and 5 – a decision made fully by the subsidiary (full responsibility of the subsidiary, full autonomy of the subsidiary). The degree of subsidiary autonomy was regarded as high if it had a score of 4 or 5, and as low if it had a score of 1 or 2.

The characteristics of respondents are as follows. Almost 47% of the subsidiaries surveyed were established between 5 and 15 years ago (see: Table 1). 29.8% of them were founded over 15 years ago and 23.4% had been active in the marketplace for less than 5 years. The average number of years the subsidiary had been in operation since its establishment was 14.51 with a standard deviation of 13.38. The longest duration of operating in a local market was 62 years and the shortest – 1 year.

The dominating type of economic activity among the companies surveyed was trade (38% of 50 respondents). 32% of the subsidiaries provided services and only 18% represented manufacturing foreign units. 6% of the companies operated in all three sectors: manufacturing, trade and services (see: Table 1).

Table 1. Characteristics of the surveyed subsidiaries

Characteristics	Number of subsidiaries	Percentage of total subsidiaries
Age (years after establishment until 2012)		
Less than 5 years	11	23.4
Between 5 and 15 years	22	46.8
More than 15 years	14	29.8
Total	47	100.0
Type of economic activity		
Production	9	18.0
Trade	19	38.0
Services	16	32.0
Production and trade	3	6.0
Production, trade and services	3	6.0
Total	50	100.0

Source: Compiled by the author on the basis of the research results.

The primary location for the subsidiaries participating in the survey was Europe, where 90% of them were located (see: Figure 1). The subsidiaries were established mainly in the European Union member countries (60%); 20 out of 50 surveyed subsidiaries operated in the 12 new member states (40%), and 10 in the 15 original member states (20%). Another popular location for establishing subsidiaries were other Central and Eastern European countries, where 28% of the respondents were located. The host countries reported most frequently were the Czech Republic (12 respondents), Ukraine (8), the Russian Federation (5), Germany (4) and Romania (3).

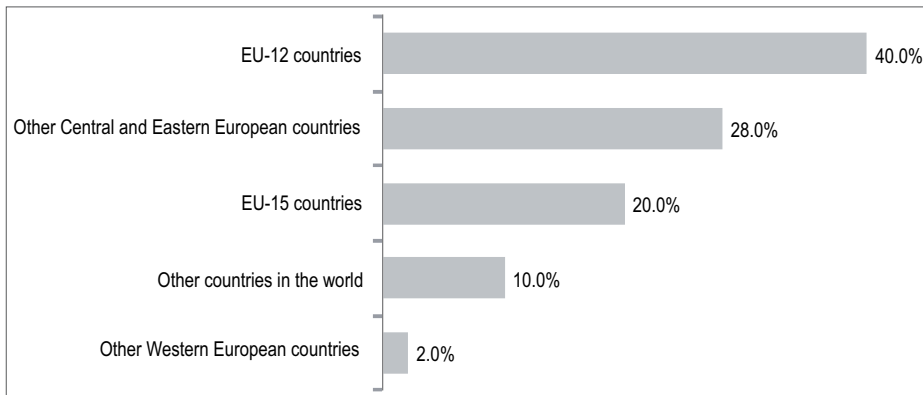


Figure 1. The subsidiaries surveyed by the geographical zones

Source: Compiled by the author on the basis of the research results.

3. Research results

The research results indicate that the Polish-owned subsidiaries possess a significant degree of independence in a large number of listed areas. It was found that in the majority of the analysed areas the subsidiaries were given a relatively high level of decision-making freedom. In all areas apart from finance the mean values were over 3, indicating at least partial responsibility being granted to the subsidiary (Figure 2). The subsidiaries claimed to have a significant degree of autonomy in respect to after-sales service (the mean 4.42), distribution (4.39), and sales and marketing decisions (4.04). Further evidence for decentralization of these areas is confirmed by the frequencies (Figure 3). In relation to after-sales service decisions, 62.2% of the subsidiaries believed that they take full responsibility for the decision process. The distribution decisions also tended to be made by the subsidiary – 60.9% of the surveyed firms confirmed to have a full autonomy in this area. Furthermore, 87.0% of them experienced a high degree of freedom in the distribution area, while in relation to after-sales decisions it was 84.4% (a score of 4 or 5 in total). A slightly lower degree of subsidiary autonomy was identified in respect to sales and marketing decisions – 42.6 % of the firms claimed to be fully responsible for these decisions. In contrast, only in 4.3% of the firms distribution and sales and marketing decisions were fully made by the company. In relation to after-sales decisions, 4.4% of the subsidiaries declared that they remained fully under the control of the parent company. High decentralization of the decision process in these areas does not surprise. In terms of after-sales service decisions, there is a strong need for a direct contact with a customer in order to increase customer satisfaction and enhance the relationship. A high level of decision-making freedom in distribution and sales and marketing decisions is also not unexpected. Facing fast changing market conditions, it is crucial for the companies to react immediately. It would be very difficult to react fast enough if the decision process were to be taking place in the parent company. In this circumstance, the key factor is local knowledge – and it is embedded in the subsidiary, not in the parent company. The subsidiaries' managers are better informed than those located in the parent company or any other geographical location. In these aspects, the high level of control of the parent company could reduce the flexibility of the subsidiary and the knowledge about the local customer.

In contrast, the decisions about finance were very much the domain of the parent company. The mean value in respect to these decisions was only 2.21. 38.3% of the firms claimed that they did not have any autonomy in the decision-making process and that the decisions were fully dictated by the parent company. Furthermore, 61.7% of the subsidiaries experienced a high degree of centralized control (a score of 1 or 2 in total). Total responsibility of a subsidiary was declared

only in 8.5% of firms. This significant centralization of financial decisions is also not unexpected. These results seem to be consistent with many other studies (presented in the theoretical section of the paper), which indicate that financial and research and development decisions are subject to a higher degree of centralized control than decisions in other areas. However, the involvement of the parent companies in the determination of financial issues seems to be relatively high. It can be a result of selective controls on financial matters such as dividend policy or royalty payments, which are the domain of the parent company.

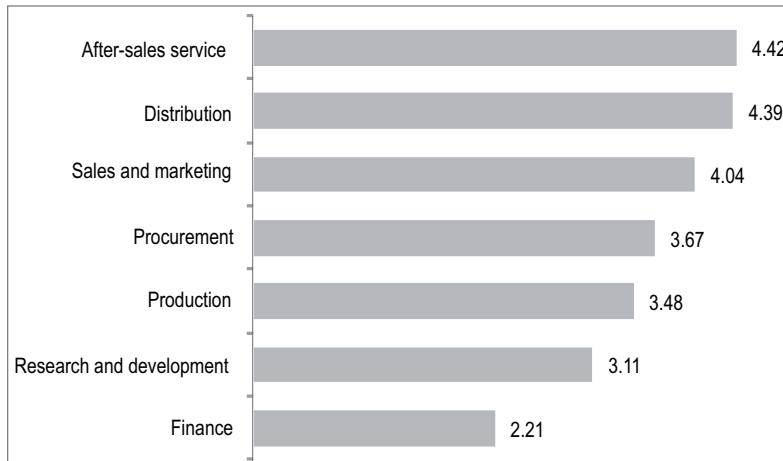


Figure 2. Subsidiary autonomy means for the listed areas

Source: Compiled by the author on the basis of the research results.

Research and development decisions are more devolved to the subsidiary than financial decisions. However, they are still relatively highly centralized in comparison to other listed areas. The mean value in respect to these decisions was 3.11, and almost 20% of the subsidiaries claimed to have no decision-making freedom in the area of research and development. Moreover, fewer than a half of the firms declared to have a high degree of autonomy (41.3%) and only 28.3% thought to take full responsibility for their decisions in this area. The relatively high level of centralization of research and development decisions may result from the nature of these activities, where secrecy and critical mass of research and development resources are needed. These activities are considered high-risk, capital-intensive, and time-consuming, with high market value of potential effects regarded as the source of competitive advantage.

In terms of procurement decisions, the parent company exerted a strong influence in only 15.2% of the subsidiaries; in 2.2% of the firms decisions were made fully by the parent company. It was found that procurement decisions remain pre-

dominantly under the control of the subsidiary (52.2%); there was, however, a relatively high number of firms where the responsibility was distributed equally among the subsidiary and the parent company (32.6%). The mean value in respect to these decisions was 3.67.

It was also found that a considerable degree of autonomy was granted to the subsidiary in terms of production decisions. 56.6% of the firms claimed to take full or partial responsibility for these decisions (37.0% and 19.6%, respectively). However, the mean value was slightly lower than in respect to procurement decisions and amounted to 3.48. This is a consequence of the relatively large number of subsidiaries that experienced significant restrictions on their decisions. 15.2% of the subsidiaries did not have any input in their production decisions – the parent company took full responsibility for dictating production decision without considering the subsidiary opinion.

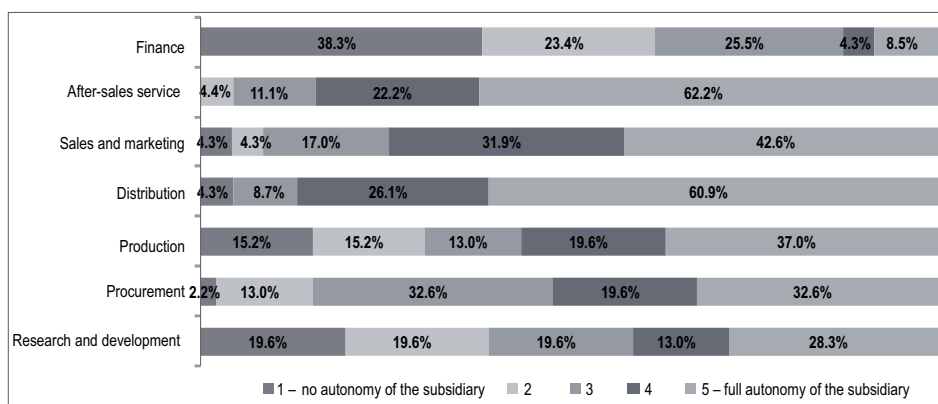


Figure 3. Subsidiary autonomy for the listed areas

Source: Compiled by the author on the basis of the research results.

In terms of differences according to the age of the subsidiary – that is, the time between its establishment and the year 2012 – we found that the subsidiaries operating on the foreign markets for more than 15 years generally had greater autonomy than those foreign units with a shorter record abroad (Table 2). It supports the assumption that the longer the subsidiary operates on a foreign market, the more independent it becomes. The principle applies to all decision areas apart from distribution, where 75.0% of the subsidiaries declared to have a high degree of autonomy. This result was high, but still lower than in the case of both the subsidiaries operating abroad for less than 5 years, and between 5 and 15 years (90.0% and 90.5%, respectively). Interestingly, the subsidiaries with a shorter history had substantially less autonomy with regard to decisions involving research and de-

velopment and finance. In both cases, a half or more than a half of the firms thought that research and development and finance decisions were much the domain of the parent company. 80% of the subsidiaries operating abroad for less than 5 years claimed to have a low degree of autonomy over financial decisions. 50.0% and 52.4% of the subsidiaries with less than 5 years and between 5 and 15 years on a foreign market indicated a low level of freedom in the research and development decision-making process. At the same time, only 20% and 38.1%, respectively, admitted to have a greater autonomy in this area, versus 61.5% in the case of the subsidiaries with the longest record on foreign markets. There were no substantial differences between the subsidiaries in terms of sales and marketing and after-sales services decisions. Surprisingly, in terms of procurement and production decisions the subsidiaries established between 5 and 15 years ago experienced a lower degree of autonomy than those with less than 5 years abroad. Fewer than a half declared to have a high degree of independence.

Table 2. Subsidiary autonomy in the listed areas in respect to the age of the subsidiary

Areas	Total		Less than 5 years		Between 5 and 15 years		More than 15 years	
	Degree of subsidiary autonomy (%)							
	Low	High	Low	High	Low	High	Low	High
Research and development	39.1	41.3	50.0	20.0	52.4	38.1	15.4	61.5
Procurement	15.2	52.2	10.0	50.0	21.1	47.4	7.1	71.4
Production	30.4	56.5	36.4	63.6	31.6	42.1	23.1	76.9
Distribution	4.3	87.0	0.0	4.8	4.8	90.5	8.3	75.0
Sales and marketing	8.5	74.5	10.0	10.0	10.0	75.0	7.1	78.6
After-sales service	4.4	84.4	0.0	10.5	10.5	73.7	0.0	92.9
Finance	61.7	12.8	80.0	66.7	66.7	14.3	38.5	15.4

Source: Compiled by the author on the basis of the research results.

Conclusions

The theory development and MNE business practices confirm that subsidiaries have been playing an increasingly important role in generating advantages for the overall MNE. However, to create new ideas for increasing competitive advantage, the appropriate management of headquarters–subsidiary relationship is crucial. Empirical studies indicate that control–autonomy balance in the relationship between headquarters and subsidiaries is relevant and important for the potential performance benefits of the headquarters and the subsidiary management.

Polish MNEs are recognized as MNEs at the early stages of internationalization; consequently, their foreign units may follow different development paths than subsidiaries of the MNEs from developed countries at late stages of internationalization. At the early stage of international expansion, MNEs are usually less integrated and more open to subsidiary initiative; it can therefore be assumed that their subsidiaries are more autonomous and independent rather than centrally controlled [Kobrin, 2013]. Later, when a company grows and gains new experience, there is a need for a rationalization of the increasing number of operations to improve global efficiency. The high complexity of the business operations imposes a need to increase coordination and centralize control.

The research results seem to support the following statement. They indicate that the subsidiaries of Polish MNEs considered as MNEs at the early stage of international expansion are given a significant degree of decision-making freedom over the different decision areas analysed. In general, after-sales service and distribution decisions were among the most decentralized ones. However, in the majority of the listed areas the subsidiaries possessed a high degree of autonomy, claiming to take full or partial responsibility over their decisions. Only financial decisions remained predominantly under the control of the parent company. A relatively low degree of independence was also observed in respect to research and development decisions. These findings seem to support other empirical studies mentioned in the theoretical section of the paper.

The study also demonstrates that the age of the subsidiary influences the extent of autonomy delegated to the subsidiary. The subsidiaries with the longest record abroad were given greater freedom than the subsidiaries with a short and medium record abroad in relation to all decision areas apart from distribution. The subsidiaries with a shorter history on international markets admitted that their decisions in the field of finance and research and development were much the domain of the parent company, that their independence is low, and that the parental control is tight.

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