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**ORGANIZATION, COGNITION AND POLITICS IN MNCs.
Longitudinal Evidence from an Italian Family-Owned Multinational Corporation**

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CHAPTER 1

INTRODUCTION

Multinational corporations (MNCs) are powerful economic actors operating on a worldwide basis. MNCs emerged in the second half of the twentieth century and, since then, they have generated a growing interest among both academics and practitioners. In order to understand the reasons behind the increasing attention devoted to this topic, it is worth to have a look to what happened to foreign direct investment (FDI) flows and stock in the last decades: according to the United Nations Conference on Trade and Development (UNCTAD, 2013), the world FDI flows were 13.346 million \$ in 1970, and 1.350.926 million \$ in 2012 (+10.122,33%); similarly, the world FDI stock, was 697.913 million \$ in 1980, and 22.812.680 million \$ in 2012 (+3.268,70%).¹

Moreover, MNCs have some distinguishing features making them an interesting object of analysis. First, the management of the headquarter (HQ)-subsidiary relationship - one of the central topics of interest (for a review of the literature see Paterson & Brock, 2002) - is not a simple issue, especially in the case of cross-border mergers and acquisitions. Particularly, perception gaps related to how HQ's and subsidiaries' managers perceive the subsidiary's role (Birkinshaw & Morrison, 1995) are a common phenomenon – because HQ and subsidiary's interests and perceptions are often not aligned with one another (Ghoshal & Nohria, 1989; Nohria & Ghoshal, 1994) - and a critical one - since differences in perception impact on the management of the HQ-subsubsidiary relationship and can create dysfunctional tensions in the MNC (Birkinshaw, Holm, Thilenius & Arvidsson, 2000). At the same time, however, the HQ-subsubsidiary perception gap is still under-researched (Schmid & Daniel, 2011). The few contributions existing on this topic have almost exclusively treated HQ-subsubsidiary perception gaps as cognitive in nature (Birkinshaw et al., 2000; Asakawa, 2001; Chini et al., 2005), while their institutional derivation and political dynamics have gone unnoticed.

Second, MNCs are characterized by complex organizational designs which have to promote and support the worldwide transfer of knowledge, people and resources (Bartlett & Ghoshal, 1989). Organizational design can be defined as the overall

¹ US Dollars at current prices and current exchange rates in millions.

configuration of structures, practices, information and processes related to the organization of people and resources with the aim to collectively achieve desired ends. While early theorists explicitly recognized the importance of organizational design (Thompson 1967, Burns and Stalker 1961, March 1965; just to cite few examples), nowadays this topic has been increasingly neglected by researchers or referred to in a simplistic or abstract way, also due to the perceived complexity of the task. Simultaneously and paradoxically, the relevance of organizational design is becoming more and more apparent as a result of the challenges today's organizations are confronted with, first of all globalization and the internationalization of economic activities (Miller, Greenwood and Prakash 2009; Greenwood and Miller 2010). With a particular reference to MNCs, a more holistic consideration of the meso-level of subsidiaries' organizational design is missing.

Finally, MNCs are characterized by a deep and intricate internal political life (Morgan & Kristensen, 2006; Kostova, Roth & Dacin, 2008; Dörrenbächer & Geppert, 2011). In other words, they can be viewed as a 'contested terrain', namely the sum of social actors with different interests and powers (Edwards & Bélanger, 2009; Morgan, 2011). Whereas the political dimension of MNCs has hitherto been analyzed mainly by international business scholars through agency theory, or resource dependence theory, "a more nuanced sociological understanding of power and politics" is missing in the debate on MNCs (Geppert and Dörrenbächer, 2011: 4; see also Kostova et al., 2008).

Bridging ideas from both the international business and the institutional approaches, this thesis fits into this debate and offers a holistic perspective of the HQ-subsidary relationships and the related, institutionally embedded, cognitive, organizational and political concerns. In other words, this thesis portrays MNCs as places in which cognitive, organizational and political issues dynamically coexist and interact. The relevance of specific national institutional contexts for MNCs is highlighted.

Drawing on a qualitative, single case research design with embedded multiple units of analysis - an Italian MNC performing two cross-border acquisitions - the present work focuses on one of the key challenges faced by MNCs dealing with the management of the HQ-subsidary relationship, namely the emergence and evolution of a HQ-subsidary perception gap, as well as its metamorphosis into a tool politically managed by the actors of the dyad. The research questions, accordingly, are framed as

follows: What explains the emergence of a perception gap between the HQ and the acquired subsidiary? How can we explain the evolution and metamorphosis of the emerged perception gap? Unlike previous contributions which used cross-sectional data and focused on established HQ-subsidary relationships (Birkinshaw et al., 2000; Chini, Ambos & Wehle, 2005), the perception gap is here explored longitudinally during a process of cross-border, post-acquisition integration, that is in a situation in which power and politics are particularly important (Vaara, 2003; Mtar, 2010; Clark & Geppert, 2011; Monin, Noorderhaven, Vaara & Kroon, 2013).

Moreover, a longitudinal and comparative study of the organizational configurations and the boards of directors composition of the seven subsidiaries belonging to the same Italian MNC, but located in different countries - France, Germany, Italy and the US - is performed. The analysis builds upon and extends the study by Maurice, Sorge, and Warner, published in the first issue of *Organization Studies* (1980) and is aimed to answer the following questions: To what extent and how national societal differences influence the organizational design of subsidiaries controlled by the same MNCs but located in different countries? To what extent and how these differences vary over time? The meso level of subsidiaries' organizational design is conceptualized in terms of both organizational configurations shaping processes of integration and differentiation, and governance models.

The findings suggest that organizational distance and institutional distance are the key dimensions explaining the emergence of a perception gap between the HQ and the acquired subsidiary, but also that this relationship is moderated by some other features of the HQ and the acquired subsidiary which define the directionality of the distance - the status differential between the two organizations and the two countries. Furthermore, the empirical analysis shows that the HQ-subsidary interactions, ranging from complying and influencing to co-opting and challenging, and the quality of the HQ-subsidary relationship, developing from cautious to conflictual and consensual, are central explanatory dimensions to describe the evolution and metamorphosis of the emerged HQ-subsidary perception gap. Such evolution and mutation involve three different patterns – stabilizing, polarizing and neutralizing – according to which, at first, the gap emerges as a cognitive phenomenon, then it gets mutated into a 'politicized perception gap', while at the same time it splits in two due to a polarization process

among workers and managers and, eventually, it is neutralized in a general consensual truce. During this process, actors were not completely free to choose their actions, but they were enabled and constrained by the institutional context in which they were embedded. Particularly, institutional-bound governance models were both antecedents and outcomes of the micro-political dynamics characterizing the process of perception gap emergence, evolution and metamorphosis. Concerning the longitudinal and comparative analysis of subsidiaries' organizational design, the results suggest the persisting relevance of national societal differences and the strengthening effect played by the crisis.

This thesis theoretically contributes by flashing out the political dimension of the HQ-subsidary perception gap and by showing that the latter can go beyond cognition and turn out to be a political tool used by the HQ or the subsidiary actors to pursue their own interests. Moreover, the observed split in the HQ-subsidary perception gap between managers and workers suggests that the uniformity of the HQ or subsidiary's interests and perceptions should not be taken for granted and that the role of national institutions be considered: corporate governance models grant different rights, duties and identities to internal stakeholders and thus define the uniformity or non-uniformity of the perception. The present research also contributes to the institutional distance perspective distinguishing and emphasizing two concepts now conflated in the institutional distance construct (Kostova, 1999; Kostova & Zaheer, 1999; Kostova & Roth, 2002), namely *extent* and *directionality*, as well as suggesting some scope conditions for the idea of MNCs' 'institutional freedom' (Kostova, Roth & Dacin, 2008). Finally, the present work highlights the enabling and constraining effect played by the different national institutional contexts on MNCs' organizational design at the meso level of subsidiaries, and, hence, the need and opportunity to bring organizational design back in for cross-national research and research on multinational corporations.

The next chapter provides a review of the literature on the HQ-subsidary relationship. Chapter 3 describes the research context on which the analysis is carried out, as well as the methods of analysis. The two following chapters report the findings concerning the perception gap emergence, evolution and metamorphosis (chapter 4), and the longitudinal analysis of subsidiaries' organizational configurations and boards

of directors composition (chapter 5). Theoretical and practical contributions are portrayed in chapter 6, together with limitations and suggestions for future research.

CHAPTER 2

THEORETICAL CONTEXT

This chapter is dedicated to the review of the literature concerning the HQ-subsiidiary relationship. The study of MNCs has, indeed, experienced a profound development during the last decades. Particularly, the theoretical approaches to the study of the HQ-subsiidiary relationship can be subdivided into two groups: the first relates to international business (IB) studies and includes the evolutionary thesis of Bartlett and Ghoshal (1989), and Birkinshaw and Morrison subsidiary mandate framework (1995); the second group is more sociologically oriented and covers three institutional approaches: the comparative institutional analysis (Morgan, Campbell, Crouch, Pedersen & Whitley, 2010), the institutional distance framework (Kostova, 1999; Kostova & Roth, 2002), and the more recent research stream of micro-political dynamics (Morgan & Kristensen, 2006; Dörrenbächer & Geppert, 2011). The core characteristics of each of these theoretical approaches are described and for each of them the most known contributions are illustrated. The chapter ends with a section devoted to the existing literature on the topic of HQ-subsiidiary perception gap.

2.1 - International business studies

2.1.1 - Evolutionary approach

Research in international business (IB) has been for a long time left to economists drawing on ideas of transaction cost economics to explain why and how firms internationalize (Dunning, 1981; Vernon, 1966). A highly influential approach in this area is Dunning's 'eclectic paradigm' according to which the existence of MNCs and, particularly, of foreign direct investments (FDI) depends on the combination of 'ownership', 'location' and 'internalization' advantages – the OLI paradigm - (Dunning, 2000).

While the economic theories of the firm conceptualize MNCs as HQ dominated and rational economic actors making efficient decisions in order to minimize transaction costs and increase economic performance, starting from the 1980s the so-called

evolutionary studies of the MNC have focused on how MNC's strategies and organizational design should be selected by the MNC's management in order to fit specific environmental contingencies (Bartlett & Ghoshal, 1989). The main concern was the search for more flexible structures as alternatives to the traditional hierarchical model which was unable to effectively represent the complexity of MNCs.

Bartlett and Ghoshal (1989), for example, building on in-depth case studies of nine MNCs – 3 in Europe, 3 in Japan and 3 in the US - identify three distinctive models of MNCs. The three typologies are the multinational, the global and the international and each of them is conceptualized in terms of strategic positions, organizational structures and management processes. While 'multinational' companies build strong local presence through sensitivity and responsiveness to national differences, 'global' companies pursue cost advantages through centralized global-scale operations. Finally, 'international' companies exploit parent company knowledge and capabilities through worldwide diffusion and adaptation. Moreover, the authors describe a fourth model – the 'transnational' - representing the direction in which several firms, as a response to the increasing complexity of the international business environment, seem to be moving. According to Bartlett and Ghoshal, the transnational model "is not a specific strategic posture or a particular organizational form. [It] is a new management mentality" (Bartlett & Ghoshal, 1989: 17). The transnational MNC combines characteristics of both the global and the multinational models, tries to respond simultaneously to the needs for global integration and local responsiveness (see also Nohria & Ghoshal, 1994) and in doing so it gives rise to an interdependent network. Bartlett and Ghoshal's theoretical approach is, nevertheless, characterized by a bias towards a top-down power structure and frames the MNC as a unitary actor rationally led by the HQ: key subsidiary actors are not looked at and resistance to the HQ is not contemplated (Paterson & Brock, 2002; Bousseba, 2009, Geppert & Dörrenbächer, 2011, 2013).

A similar focus on the MNCs' structure characterized the work of Hedlund (1986), who conceptualized the MNC as a 'heterarchy', namely a "reality being organized non-hierarchically" (Hedlund, 1986: 9). The heterarchy distinguishes itself from the hierarchical model for three aspects. First, resources, managerial capabilities and decision-making are dispersed throughout the organization rather than concentrated at

the top. Monitoring, accordingly, is realized through normative control systems, whereas bureaucratic control is still necessary, but of secondary importance. Second, while in the hierarchical models of organization lateral relationships – such as product, people and knowledge flows - are avoided to keep complexity and coordination costs low, in heterarchies lateral links between subsidiaries exist and are encouraged. Finally, activities are coordinated along multiple dimensions, such as market location, product and function. The work of Hedlund (1986) was pioneering, because it prompted several IB scholars to see both HQ and subsidiaries as relevant actors:

“A key idea in the conception of a heterarchical MNC is that subsidiary managers are also given a strategic role, not only for their ‘own’ company, but for the MNC as a whole.” (Hedlund, 1986: 22)

2.1.2 - Subsidiary mandate framework

Starting from the ‘90s and encouraged by the diffusion of new conceptualizations of the MNC’s structure - such as the ‘interorganizational network’ (Ghoshal & Bartlett, 1990), or the ‘heterarchy’ (Hedlund, 1986) - several authors began to reflect on the fact that MNCs cannot be considered as the sum of homogeneous organizational units centrally controlled by the HQ, since subsidiaries themselves have unique resources and capabilities. This led to conceive each subsidiary as a unit of analysis and to focus on the different strategic roles that subsidiaries assume within the greater organization, as well as on the initiatives they can carry out (Birkinshaw 1996, 1997, 2000; Birkinshaw & Morrison 1995; Birkinshaw & Ridderstråle 1999; see also Paterson & Brock 2002). Based on a review of the literature, Birkinshaw and Morrison (1995) identify three subsidiary role typologies: ‘local implementer’, ‘specialized contributor’ and ‘world mandate’. Whereas the first responds to local environment and the second integrates the competitive positions across national markets, the third tries to manage local responsiveness and global integration simultaneously.

A dynamic perspective was then introduced and some authors started to investigate the subsidiary evolution, namely the processes of change in subsidiaries’ roles (Birkinshaw & Hood, 1998; Birkinshaw, Hood & Jonsson, 1998). Birkinshaw and Hood (1998), for example, provide careful explanations of how the subsidiary’s role at a given point in time is determined by the interaction of three mechanisms: HQ assignment of

roles, subsidiary choice and local environment determinism. The subsidiary's role, in turn, impacts on all the mechanisms previously mentioned and this creates a cyclical process of change. Even if subsidiary choice is considered a possible source of entrepreneurship within the MNC and the HQ starts to lose its centrality in a more heterarchical view of the organization (Paterson & Brock, 2002), the latter is nonetheless treated as the ultimate holder of power (Geppert & Dörrenbächer, 2011). Particularly, the HQ–subsidiary relationship is usually conceived as a principal-agent structure where the headquarter is the principal and the subsidiary management is the agent:

“As the principal, the headquarters cannot effectively make all the decisions in the MNC since it does not possess and must, therefore, depend on the unique knowledge of the subsidiaries. At the same time, the headquarters cannot relinquish all decision-rights to the subsidiaries since the local interests of subsidiaries may not always be aligned with those of the headquarters or the MNC as a whole.” (Nohria & Ghoshal, 1994: 492; see also Gupta & Govindarajan, 1991; Roth & O'Donnell, 1996; Kim, Prescott & Kim, 2005; Du, Deloof & Jorissen, 2011; Filatotchev & Wright, 2011)

Next to agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983a, 1983b; Eisenhardt, 1989a), another theoretical perspective used to frame the HQ-subsidiary relationship by IB scholars is resource dependency (Pfeffer & Salancik, 1978). According to it, subsidiaries are considered as interdependent with other units within the MNC in terms of resource exchanges, as well as instruments used by the headquarters to seek resources from the external environment (Doz & Prahalad, 1984, 1991; Gupta & Govindarajan, 1991; Birkinshaw & Morrison, 1995; O'Donnell, 2000; Ambos & Schlegelmilch, 2007; Du, Deloof & Jorissen, 2011).

Within the IB perspective, the recent works of Bouquet and Birkinshaw (2008a, 2008b), offer a broader view on power dynamics within MNCs. In an empirical paper (2008a), they investigate how foreign subsidiaries gain attention from corporate headquarters. They discover the existence of both a ‘top-down structural process’ through which HQ's attention is distributed according to subsidiary's weight in the MNC, and a ‘bottom-up relational process’ whereby it is subsidiary's voice in the MNC to determine the attention gained by the HQ. Similarly, in a conceptual paper Bouquet and Birkinshaw (2008b) combine the IB literature with the sociological theories on power and influence in MNCs – institutional theory, social network theory,

organizational learning and resource-based view -, in order to show how and why subsidiaries – usually conceived as low-power actors within the MNC network - increase the influence they have on the decisions made by the MNC. These two works create a bridge to institutional studies and particularly to the micro-political dynamics perspective.

2.1.3 - Summary

IB scholars have devoted their attention to some key aspects of MNCs and have outlined several of their main features. What is common to all the IB studies, however, is that the role of the institutional context is neglected or limited to the examination of the local task environment, where the latter is defined from a contingent perspective (Birkinshaw & Hood, 1998; Birkinshaw, Hood & Jonsson, 1998; Harzing, 2000). National institutions are, instead, the main focus of the institutional approaches (Morgan et al., 2010; Boussebaa, Morgan & Sturdy, 2012).

2.2 - Institutional studies

2.2.1 - Comparative institutional analysis

Unlike IB theories, comparative institutional analysis claims that organizations can be understood only by considering their social embeddedness, and thus emphasizes the role of the broader institutional context for the social constitution of the MNC. Particularly, the focus is on how national institutions - such as training systems, legal systems, political systems and educational systems – holistically shape HQ and subsidiaries' ways of working and organizing in different countries and how this impacts on their performance outcomes (Morgan, Campbell, Crouch, Pedersen & Whitley, 2010; see also Djelic, 2010). This perspective thus compares firms, institutions and processes in different countries, gives attention to historical processes and favors longitudinal frames of analysis.

The comparative institutional analysis embraces a variety of theoretical perspectives: the ‘varieties of capitalism’ (Soskice, 2000; Hall & Soskice, 2001), the ‘national business systems’ (Whitley, 1992, 1994, 1999) and the ‘societal effect approach’ (Maurice, Sellier & Silvestre, 1977; Maurice, 1979; Maurice, Sorge & Warner, 1980; Sorge and Warner, 1986).

The basic assumption of the varieties of capitalism approach (Soskice, 2000; Hall & Soskice, 2001) is that national political economies can be compared referring to the way in which firms resolve the coordination problems they face in five spheres of relationships - industrial relations, vocational training and education, corporate governance, inter-firm relations and firm-employee relations. These authors distinguish ‘liberal market economies’, such as the US, where relations between firms and other actors are coordinated mainly by markets, and ‘coordinated market economies’, for example Germany, where coordination is more strategic. The kind of coordination chosen by firms – market relations or strategic interactions - depends on the national institutional setting. They also explore how the institutional complementarities in these economies lead to distinctive forms of innovation, comparative institutional advantages and, therefore, to systematic differences in corporate strategy. A complementary perspective to the varieties of capitalism approach is the one developed by Hollingsworth and Boyer (1997) and Hollingsworth (2000) who link the institutional configuration of a society with its style of innovativeness and identify specific social systems of production.

The national business systems approach is mainly represented by Whitley’s works (1992, 1994, 1999). According to this author, every country has a specific, historically grown institutional framework that comprises four key factors: the political system, the financial system, the education and labor system and the cultural system. These institutional features shape and constitute what he calls a ‘national business system’, namely a dominant pattern of economic organization and control. The latter, in turn, results in diverse configurations of the nature of the firm, the organization of market processes, as well as the coordination and control systems, in different institutional contexts. Comparing business systems means, therefore, studying “how distinctive institutional contexts influence and help to reproduce particular combinations of business-system characteristics which result in different kinds of business structures and

practices becoming established” (Whitley, 1994: 178). Compared to similar theoretical perspectives, such as the varieties of capitalism, the business systems approach focuses in particular on the micro–macro links between institutions and the organization of economic activity and can thus differentiate among a greater number of distinctive types of market economies (Hotho, 2013). Within the broader national business system perspective, another institutionalist approach - the societal effect approach (SEA) - is usually included.

The SEA is a process-oriented theory that considers firms harnessed in a social environment and observes how these firms are socially constituted by it (Maurice, Sellier & Silvestre, 1977; Maurice, 1979; Maurice et al., 1980; Sorge & Warner, 1986). The two subjects involved in this construction process are actors and society, and they are viewed in a dynamic two-way relationship. A multi-level approach distinguishes this theoretical perspective: organizational forms can be explained only taking into account the interactions between micro influences, namely relational properties of the unit’s internal division of labor and macro elements, such as national training and education patterns, social mobility, industrial relations (Maurice et al., 1980). The development of the SEA during the last thirty years occurred via comparative studies of manufacturing units in European countries (France, Germany and UK), using matched-pair designs (Maurice et al., 1980; Sorge & Warner, 1986). Three are the dimensions investigated: ‘configuration of the organization’, that is the breakdown of the labor force into categories; ‘work structuring and coordination’, namely the joining of individual tasks into work positions, and the coordination of work activities; finally, ‘qualification and career systems’, that is the acquisition of qualifications and competences, and the progression of individuals within typical careers (Maurice et al., 1980). Through the analysis of institutional factors, such as the educational system, the system of industrial relations, and the role of the state, the authors discovered that the “organizational processes of differentiation and integration consistently interact with processes of educating, training, recruiting, and promoting manpower, so that both develop within an institutional logic that is particular to a society, and bring about nationally different shapes of organization” (Maurice et al., 1980: 59). The main results concerning the organizational configurations showed German companies being less laterally and hierarchically differentiated, with structurally simple design and a

tendency to restrain the growth of components separate from direct production and the line of authority; French organizations came across as having tall hierarchies with managerial, supervisory, administrative and specialist positions especially consistent; British firms tended to hold an intermediate positions between the two. These differences did find corresponding characteristics in the way qualifications and competences were acquired in the three countries, and in the way individuals progressed within typical careers (Delmestri, 1997). In later studies, Maurice and Sorge (1989) confirmed these results by comparing the French and German machine-tool industries and Delmestri (1997, 1998) replicated the complete approach in a pair-matching comparison between 18 manufacturing units in Italy and Germany.²

The comparative institutional analysis, using country's institutional rather than cultural characteristics, presents itself as a more comprehensive alternative to the culture-based approach, which hitherto dominated international management research. Particularly known is the work of Geert Hofstede (1980, 1983, 1997, 2001), who proposed five dimensions on which the differences among national cultures can be understood - individualism versus collectivism; large or small power distance; strong or weak uncertainty avoidance, masculinity versus femininity; long term versus short term orientation.

Moreover, the comparative institutional analysis, whose key contribution is to show how managerial decisions are influenced by home and host country institutions, differs from the 'world polity' institutionalism and the transnational approach which emphasize the global convergence of organizational strategies and structures. The former is based on the idea that "many features of the contemporary nation-state derive from worldwide models constructed and propagated through global cultural and associational processes" (Meyer, Boli, Thomas & Ramirez, 1997: 144-145; see also Meyer, Boli & Thomas, 1987; Drori, Jang & Meyer, 2006). According to these authors, nation-states show great levels of isomorphism in their structures and policies, and experience extensive structuration in standardized ways. Nation states must thus be understood as outputs of a common wider culture called 'world polity', while differentiation is interpreted in terms of differential rates of change downplaying the possibility of unique local adaptation. Similarly, the transnational approach emphasizes the growing importance of

² Results obtained in the studies so far conducted comparing Italy, Germany, Great Britain and France are briefly depicted in Appendix A.

transnational organizations and communities, namely organizations and communities that reach across national borders. Particularly, these authors argue that economic and social life are not only influenced by local, national institutions, but rather embedded in and shaped by transnational logics and dynamics (Djelic & Sahlin-Andersson, 2006; Djelic & Quack, 2008, 2010).

The core idea developed by comparative institutional analysis' scholars, namely that societal institutions affect the organization of economic activities as well as their outcomes, has been picked up and further elaborated by two complementary streams of research. The first focuses on the concept of 'institutional distance' and on the transfer of practices between HQ and subsidiaries, while the second emphasizes the 'micro-political dynamics' within MNCs.

2.2.2 - Institutional distance approach

The institutional distance approach combines comparative institutional studies with the new institutional theory and has mainly been established by North American scholars (Kostova, 1999; Kostova & Zaheer, 1999; Kostova & Roth, 2002). These authors focus on the transfer of practices between HQ and subsidiaries and conceptualize this problem as the management of 'institutional distance'. Institutional distance refers to the similarity or dissimilarity between the regulatory, cognitive and normative institutions of two countries. Since countries differ in their institutional characteristics, and organizational practices reflect the institutional context of the country where they have been developed and established, when practices are transferred from one country to another, they may not 'fit' with the host institutional environment (Kostova, 1999). The authors propose, thus, that the greater the institutional distance, the more problematic is the transfer of a given practice within MNCs. A related concept developed by the same authors is 'institutional duality', the situation in which an actor – the subsidiary - is subject to conflicting institutional demands and needs to conform to both the host country and the MNC pressures for legitimacy when adopting organizational practices (Kostova & Zaheer, 1999; Kostova & Roth, 2002). Despite this being a fruitful theoretical perspective through which to investigate the headquarter-subsidiary relationship, the 'institutional distance' framework leaves behind some unanswered

questions (Shenkar, Luo & Yeheskel, 2008; Geppert & Dörrenbächer, 2011; Boussebaa, Morgan & Sturdy, 2012; Ferner, Edwards & Tempel, 2012). In particular, ‘old institutionalism’ issues, such as the role of power, coalitions, interests and competing value systems (Greenwood & Hinings, 1996), are only addressed in a limited way.

2.2.3 - Micro-political dynamics perspective

A recently developed institutional research agenda has recognized the need to move towards a more dynamic and political view of MNCs (Morgan & Kristensen 2006; Geppert & Dörrenbächer 2011, 2013; see also Kostova, Roth & Dacin 2008). MNCs, accordingly, have been re-conceptualized as ‘micro-political systems’ - that is as an array of relationships between a variety of actors with their own powers and interests constituted within their original institutional contexts (Morgan, 2011). Power relations between HQ and subsidiaries, accordingly, are seen in a dynamic, relational and interactive way (Geppert & Dörrenbächer, 2011).

This stream of research takes into account both the structuring influence of national institutional contexts and the micro-institutional dynamics. Morgan and Kristensen (2006), for example, posit that institutional duality leads to the emergence of micro-political processes within MNCs and that local subsidiaries can act as ‘Boy Scout’ or as ‘subversive strategist’ in this processes. The key actors under observation are mainly HQ and subsidiary executives with their peculiar identities, interests and ideologies. The role of their career patterns and ambitions, resource mobilization strategies, as well as political sensemaking approaches is highlighted. Dörrenbächer and Geppert (2009), for instance, highlight how top foreign subsidiary managers actively influence subsidiary initiative-taking and the subsequent HQ-subsidiary negotiation, and what role their socio-political and biographical backgrounds play. Dörrenbächer and Gammelgaard (2011) further emphasize the role of key foreign subsidiary managers and, particularly, of their micro-political bargaining power. Similarly, Clark and Geppert (2011) examine how newly acquired subsidiaries become integrated into the MNC. This process is conceptualized in terms of identity reconstruction and institution building, politically accomplished through the senior managers’ sensemaking and sensegiving activity.

2.2.4 - Summary

Whereas IB scholars tend to disregard the role of the national institutional context, the focus on home and host country institutions is the core characteristic of the institutional studies. However, the institutional approaches seem to have overlooked the meso-level of subsidiaries' organizational design. Meso level conceptualizations, indeed, have been limited to the investigation of the institutional conditions affecting practice transfer between headquarters and subsidiaries, whereas a more holistic consideration of the meso-level of organizational design within MNCs is missing.

Moreover, both IB and institutional approaches have neglected the issue of HQ-subsubsidiary perception gap, namely the difference in perception between subsidiary and HQ managers regarding the subsidiary's role within the MNC's organizational model. This is a widely diffused phenomenon, because HQ and subsidiary managers have often diverse perceptions about the role of the subsidiary, and a critical one, because such differences influence the management of the HQ-subsubsidiary relationship. At the same time, the HQ-subsubsidiary perception gap is still an underexplored topic and, accordingly, it needs to be further investigated. The last section of this chapter describes the existing literature on HQ-subsubsidiary perception gap.

2.3 - Literature on HQ-subsubsidiary perception gap

Theories of perception are interested in the way in which individuals analyze, select, organize and interpret an input in order to make sense of it (Nicoletti & Rumiati, 2006). To some degree, each of us has a different perception of reality and, since our action is based on our perceptions, some scholars started to investigate the causes of perception differences among individuals (Tversky & Kahneman, 1974; Simon, 1977; Kahneman & Tversky, 1982).

Perception gap is a construct often used in marketing research to identify differences between customer expectations and management perceptions of customer expectations, or, in other words, the difference between what customers want and what executives think they want (Parasuraman, Zeithaml & Berry, 1985). In the context of MNCs, the HQ-subsubsidiary perception gap is defined as "the difference in perception between the

HQ and a subsidiary concerning the management processes of the MNC” (Chini, Ambos & Wehle, 2005, p. 146; see also Asakawa, 2001), or, in a more focused way, “the extent to which subsidiary managers overestimate the strategic role of their subsidiary *vis-à-vis* HQ managers” (Birkinshaw et al., 2000, p. 322).

IB scholars have focused on the antecedents of perception gap emergence, as well as on its links with control and cooperation within the MNC (Birkinshaw et al., 2000; Asakawa, 2001; Chini et al., 2005). Birkinshaw et al. (2000), for example, report three main antecedents of the HQ-subsidary perception gap – first, the different experiences of subsidiary and HQ managers influencing the level of information they have, but also how they interpret that information; second, the imperfect flow of information inside the MNC; third, the subsidiaries’ decreasing dependence on HQ – and observe that perception gap increases the HQ control over the subsidiary which, in turn, reduces the level of HQ-subsidary cooperation. Their data were collected through questionnaires submitted to 89 HQ–subsidiary dyads. All the dyads belonged to Swedish MNCs mainly operating in the manufacturing industry and the sample of subsidiaries was selected to ensure that the relationship between the HQ and the subsidiary was well established. The authors speculate on issues of power and interest in relation to the concepts of control and cooperation; however, their treatment is peripheral, since the emphasis is on the HQ-subsidary perception gap as a cognitive phenomenon. The model is further enriched by Chini et al. (2005) who, drawing on data collected through questionnaires submitted to HQ and subsidiary managers from multiple divisions of a leading European MNC, add the moderating role of the strategic context for the emergence of the perception gap, as well as a link between perception gap and managers’ dissatisfaction.

Institutional approaches and, particularly, the micro-political dynamics perspective, have been interested in the association between perception gap and HQ-subsidary conflict (Schmid & Daniel, 2011; Schotter & Beamish, 2011). Schmid and Daniel (2011), for example, developed a conceptual framework that explains conflict in the MNC as a consequence of the HQ-subsidary perception gap concerning the subsidiary’s role.

So far, thus, the HQ-subsidary perception gap has been studied through cross-sectional data collected using questionnaires (for an exception, see Asakawa, 2001), and

understating the role of power and politics as both antecedents and consequences of a HQ-subsidiary perception gap emergence and evolution.

CHAPTER 3

RESEARCH CONTEXT AND METHODS

3.1 - Research design

The research design is the logical sequence that links the original research questions of the study with the empirical data to be collected, as well as with the conclusions to be drawn (Yin, 2009).

The research design for this thesis is a single case study with embedded multiple units of analysis (Yin, 2009) that is based on qualitative data - interviews, documentation, observations and configuration data - analyzed through qualitative methods.

The choice of the research method reflects the nature of the research questions and, in this thesis, the qualitative methodology has the benefit of getting an in-depth understanding of what is going on in the MNC. Moreover, the focus on the complex issue of HQ-subsidiary relationships and on the related organizational, cognitive and political concerns poses significant methodological problems demanding close-range and detailed studies where access to data could be difficult to obtain (Miller, Greenwood & Prakash, 2009; Greenwood & Miller, 2010).

A case study is one of several ways of doing research. Case studies are widely used as a research method in many disciplines, such as psychology, sociology, political science, anthropology, social work, business, marketing, accounting and education (Yin, 2009). Focusing on understanding the dynamics present within single settings, case study research strategy is particularly useful when a) the research questions are aimed at explaining “how” a certain phenomenon takes place, rather than highlighting causal relationships; b) when little is known about a social phenomenon; and c) when current perspectives seem inadequate or they conflict with each other or with common sense. In sum, a case study research design is particularly suitable when the aim of the researcher is to build theory, rather than to test it (Eisenhardt 1989b; Eisenhardt & Graebner 2007; Pratt 2009; Yin 2009).

Four types of designs for case studies are acknowledged by the literature: single-case (holistic) design, single-case (embedded) design, multiple-case (holistic) design,

multiple-case (embedded) design (Yin, 2009). In the following I will focus on the second typology - single-case (embedded) design -, namely the one employed in this thesis.

The single-case design is more appropriate than the multiple-case study upon the occurrence of at least one of the following circumstances: where the case chosen for the study (i) represents the ‘critical’ case for testing a well-formulated theory; (ii) represents an ‘extreme’ case or a ‘unique’ case; (iii) is the ‘representative’ or ‘typical’ case, so that the lessons learned from it are assumed to be informative about the experiences of the average person or institution; (iv) is the ‘revelatory’ case, meaning that the researcher has access to a situation previously inaccessible to scientific observation; (v) is the ‘longitudinal’ case, that is a single case studied at two or more different points in time (Yin, 2009). Particularly, a single-case (embedded) case study is a single-case study involving more than one unit of analysis. In other words, attention is given to one or more sub-units within the main unit of analysis. The identification of sub-units, either by sampling or clustering techniques, allows for a more detailed level of inquiry (Yin, 2009).

As mentioned before, this thesis focuses on a single-case (embedded) study that is mainly based on qualitative data. Miles and Huberman in the book “*Qualitative data analysis. A sourcebook of new methods*” (1984: 15) describe qualitative data as follows:

“Qualitative data are attractive. They are a source of well-grounded, rich descriptions and explanations of processes occurring in local contexts. With qualitative data one can preserve chronological flow, assess local causality, and derive fruitful explanations. Then, too, qualitative data are more likely to lead to serendipitous findings and to new theoretical integrations; they help researchers go beyond initial preconceptions and frameworks.”

At the same time, however, the authors admit that conducting a qualitative research is a demanding task, a labor-intensive operation which could last for years. There are other weaknesses often associated with this kind of data: first of all the issue of generalizability of qualitatively derived findings; second and related to the previous one, the question of sampling, namely the representativeness of the case or cases examined; finally, the replicability of the analysis. Particularly, four tests have commonly been used to establish the quality of any empirical research: (i) construct validity, identifying correct operational measures for the concepts object of the study; (ii) internal validity, trying to establish a causal relationship, whereby certain conditions are believed to lead

to other conditions; (iii) external validity, delineating the domain to which the results of the study can be generalized; (iv) reliability, demonstrating that the activities of a study (e.g. data collection procedures) can be repeated, with the same results (Yin, 2009).

Assessing the accuracy of qualitative findings, however, is not easy and the traditional criteria for ensuring the credibility of research data cannot be strictly applied to the qualitative paradigm. Nevertheless, there are several possible strategies and criteria that can be used to enhance the “trustworthiness” of qualitative research findings (Lincoln & Guba, 1985). Lincoln and Guba (1985), for example, suggest four strategies: credibility, transferability, dependability and confirmability. Credibility is analogous to internal validity and is defined as the extent to which research findings match reality. Transferability corresponds to external validity and indicates if findings can be generalized, namely if they fit into new contexts outside the actual study context. Dependability is analogous to reliability and refers to the extent to which research findings can be replicated with similar subjects in a similar context. Finally, confirmability is the degree to which the research findings can be confirmed or corroborated by others. Among the procedures to concretely use in order to establish the trustworthiness of qualitative data there are: prolonged exposure to the setting, use of multiple sources of data (triangulation), external check on the inquiry process (peer debriefing), and feedbacks from insiders on emerging interpretations (member-check) (Lincoln & Guba, 1985).

As already highlighted by Miles and Huberman (1984), qualitative data seem to be particularly useful and appropriate for understanding processes, because of their capacity to grab temporally evolving phenomena (Langley, 1999; Langley & Abdallah, 2011). Actually, a growing number of management scholars is studying process questions of how and why things emerge, develop, grow, or terminate over time and answering to these questions is considered increasingly important in order to advance management knowledge (Langley, Smallman, Tsoukas & Van de Ven, 2013).

In order to address the dynamic and longitudinal nature of the above mentioned research questions, this thesis deals with process data. Process data, namely longitudinal qualitative data that investigate how processes unfold over time, usually include a combination of in vivo observations (meetings, conversations, events, etc.), memories and interpretations (real time or retrospective interviews, focus groups, questionnaires,

diaries, etc.) and artifacts (minutes, plans, reports, archival records, etc.) (Langley, 1999; Langley & Abdallah, 2011). Since process data tend to be complex, messy, eclectic, and with varying degrees of temporal embeddedness (Langley & Abdallah, 2011), Langley (1999) proposes seven strategies for making sense of them. The first strategy that can be used to address this challenge, according to the author, is the 'narrative strategy' and involves the creation of a detailed story from the raw data. At the opposite end of the continuum is the 'quantification strategy'. In this case researchers, listing and coding qualitative incidents according to predetermined characteristics, progressively reduce the complex bulk of information to a set of quantitative time series that can be further analyzed using statistical methods. The third sensemaking strategy consists in using 'alternate theoretical templates', namely proposing several alternative explanations of the same events based on different but internally coherent sets of a priori theoretical premises. The 'grounded theory strategy', instead, starts from the original evidences and, through the systematic comparison of small units of data and the gradual construction of a system of categories describing the phenomena under observation, results in the identification of a small number of core categories. The latter integrate all the theoretical concepts into a coherent whole firmly 'grounded' in the initial evidences (Glaser & Strauss, 1967). Another sensemaking strategy suggested by Langley (1999) is 'visual mapping' and consists in the manipulation of matrices and graphical forms in order to present large quantities of information in relatively little space. These tools can also be useful for the development and verification of theoretical ideas. 'Temporal bracketing' is a sensemaking strategy involving the decomposition of data into successive adjacent periods so that there is a certain continuity in the activities within each period and there are certain discontinuities at its frontiers. This strategy enables the explicit examination of how actions of one period lead to changes in the context which, in turn, will affect actions in the subsequent periods. Finally, through the 'synthetic strategy' the original process data are transformed from stories composed of events to variables that summarize their critical components (Langley, 1999).

Acknowledging that qualitative methods are associated with a variety of different epistemological assumptions and that the latter may have significant implications for the way in which data are analyzed, as well as for the theoretical contributions emerging

from the analysis, in this thesis I'm using the so called 'Gioia template' for qualitative studies (Langley & Abdallah, 2011). Together with the 'Eisenhardt method'³, it is considered a "somewhat institutionalized approach" to qualitative research (Langley & Abdallah, 2011: 230). Whereas the 'Eisenhardt template' is founded on positivist assumptions, is oriented toward induction and aims at developing theory in the form of testable propositions (Eisenhardt, 1989b), the 'Gioia template' is based on an interpretive conceptions of reality and knowledge development, builds on grounded theory (Glaser & Strauss, 1967) and its purpose is to capture and model people's understanding of the changes they are both instigating and dealing with (see for example Gioia & Chittipeddi, 1991). Because of their revelatory potential and richness of data, the 'Gioia method' favors single case studies - multiple cases are usually chosen if using the 'Eisenhardt template' - and prefers interviews and observations as methods for data collection. Moreover, the key characteristic of this approach to qualitative research is the hierarchical 'data structure' that is presented, usually in the form of a horizontal tree-shaped figure, as an output of the research (see for example Corley and Gioia, 2004; for a revisitation of the structure more similar to the one used in this thesis, see Smets, Morris and Greenwood, 2012). At the base of the so called 'data structure', there is a process of gradual abstraction starting with first-order (participant-based) codes and then building to second-order themes and aggregate dimensions situated at a progressively higher level of abstraction. The aggregate dimensions or core concepts summarize the elements of an emerging process model (Langley & Abdallah, 2011).

3.2 - Research context

The case study under investigation is an Italian family-owned MNC and it was chosen for different reasons: first, its subsidiaries are all operating in the same industry and manufacture the same product using similar technologies; second, they are located in different European countries (France, Germany, Italy) and in the US; third, access to data was allowed. If the technical similarity among the observed subsidiaries favors their comparison, it also means that any organizational, or managerial, or strategic variation caused by the different national institutional contexts in which the subsidiaries

³ The labels of the two models refer to the surnames of their originators.

are embedded is even more significant. Moreover, the Italian context is particularly suitable for the purpose of this study because Italy is a developed economy with a distinctive corporate governance system involving substantial numbers of family-owned firms, and many Italian manufacturing firms are characterized by high levels of internationalization (Majocchi & Strange, 2012).

The holding company is located in Lombardy (Italy) and was established in 2004 from the merger of four Italian and one French manufacturing companies (see figure 1). The consolidated financial statement drawn up at the end of that year recorded a turnover of about 100 million euro with an EBITDA of 9,60% (see table 1 and 2). The number of employees was of 668 (see table 3).

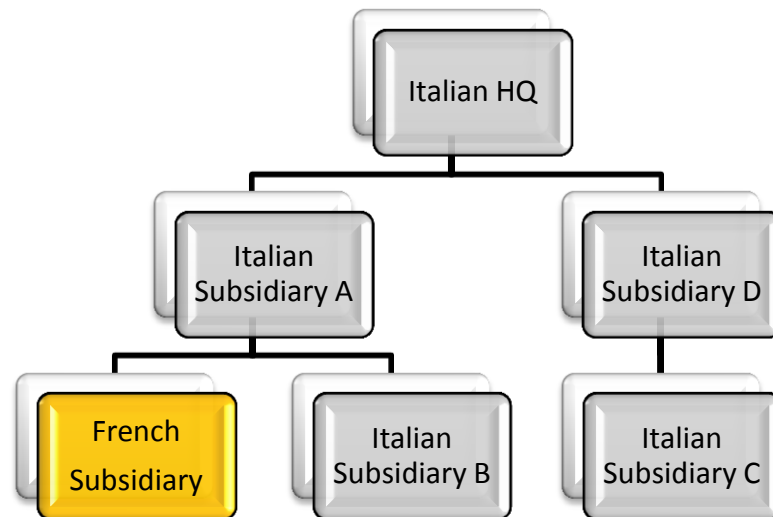


Figure 1. Holding company's organizational chart (2004)

	2004	2006	2008	2009	2011
HQ (consolidated financial statement) ⁴	€ 101.349.787	€ 247.864.275	€ 381.214.339	€ 183.601.102	€ 305.054.064
Italian Subsidiary A	€ 28.971.510	€ 36.955.388	€ 42.848.602	€ 22.025.738	€ 40.453.488
Italian Subsidiary B	€ 5.322.216	€ 6.403.774	€ 6.457.293	€ 3.211.234	€ 4.437.187
Italian Subsidiary C	€ 8.817.015	€ 7.571.571	€ 11.073.945	€ 8.256.567	€ 8.424.293
Italian Subsidiary D	€ 23.581.442	€ 31.783.524	€ 42.076.227	€ 21.116.831	€ 37.175.365
French Subsidiary	€ 16.261.000	€ 18.598.000	€ 19.695.000	€ 18.824.000	€ 19.400.000
German Subsidiary	NA	€ 143.158.869	€ 174.480.837	€ 70.445.922	€ 120.046.878
US Subsidiary	NA	NA	\$ 13.315.562	\$ 6.832.831	\$ 7.534.396

Table 1. Turnover evolution

⁴ The consolidated value does not correspond to the sum of the subsidiaries values, because I considered only the subsidiaries belonging to the core division of the Italian MNC. The same is valid for the following tables showing consolidated figures.

	2004	2006	2008	2009	2011
HQ (consolidated financial statement)	9,60%	8,60%	9,00%	-7,20%	8,10%
Italian Subsidiary A	15,50%	18,24%	16,72%	2,39%	13,00%
Italian Subsidiary B	11,10%	7,49%	9,13%	-4,59%	2,94%
Italian Subsidiary C	-29,56%	1,66%	3,00%	-12,26%	-7,60%
Italian Subsidiary D	17,97%	15,61%	15,01%	0,74%	10,39%
French Subsidiary	0,94%	5,15%	-4,81%	-1,26%	-12,80%
German Subsidiary	NA	4,72%	7,21%	-21,22%	8,73%
US Subsidiary	NA	NA	22,94%	6,92%	12,09%

Table 2. EBITDA evolution

	2004	2006	2008	2009	2011
HQ (consolidated financial statement)	668	1.201	1.686	1.581	1.380
Italian Subsidiary A	174	180	181	180	161
Italian Subsidiary B	24	28	30	30	26
Italian Subsidiary C	113	60	61	61	62
Italian Subsidiary D	115	108	118	116	107
French Subsidiary	98	84	80	81	87
German Subsidiary	NA	687	705	708	517
US Subsidiary	NA	NA	58	48	43

Table 3. Number of employees evolution

The idea behind the creation of the holding company was the establishment of a ‘network’ of independent and entrepreneurial companies, learning from each other, helping each other, but also competing with each other. The word ‘network’ was the one used by the Italian Chairman of the HQ board of directors to describe what he had in mind with regard to the MNC he was going to create:

“Here are the business cards of the companies that gave rise to the group – even if we prefer to call it a ‘network’.” (Italian Chairman of the HQ board of directors, HQ Newsletter, June 2005).

Particularly, each subsidiary retained its legal, administrative, commercial and managerial independence, as well as its original name, whereas the role of the holding company was that of steering, coordinating and controlling, providing administrative assistance, financial, legal and managerial services. The control of the headquarter on the subsidiaries consisted in the approval by the HQ’s board of directors of the subsidiaries’ three years business plan, one year investment plan and top management’s recruitment decisions. In line with the conception of the group as a ‘network’ of independent and entrepreneurial companies, the HQ formally planned no practice

transfer, while an autonomous development of synergies among subsidiaries was encouraged. In the same spirit, all the transactions with and among subsidiaries – exchange of goods, services or financial resources – were regulated at market conditions. Concerning the financial aspects, subsidiaries acted autonomously in their relationship with the banks and only in a few cases they benefited from short term loans from the parent company. At the same time, all the subsidiaries were sharing a common mission – to create value through a ‘network’ model, which develops synergies in order to generate ever more innovative and competitive products and services -, the same corporate brand, a common space at trade fairs and the same newsletter, as well as they were all participating to an annual meeting organized by the Italian holding company:

“Under this common membership, all the subsidiaries will continue to operate as autonomous and independent companies, with their own production and commercial structures, sharing with the others a common mission.” (Italian Chairman of the HQ board of directors, HQ Newsletter, February 2005 and Report of the HQ board of directors, Consolidated financial statement, 2004).

Right after the establishment of the holding company, the executive committee and the board of directors at the headquarter level started to think about the opportunity to acquire a division of a large German MNC. The manufacturing unit was located in the *Land* (the regional state) of North Rhine-Westphalia. It was specialized in the same niche activity of the Italian group, whereas it didn’t match the core business of the German corporation, it wasn’t considered a strategic asset and, accordingly, it was not exploited within it. For the Italian group “the main strategic interest [was] represented by the industrial aspects of the operation” (Minute of the HQ board of directors, May 2005). The German plant, as a matter of fact, was operating in the same industry of the other subsidiaries and was characterized by the simultaneous presence of three different technologies used to obtain different typologies of the same product. Two of these technologies were the ones used by the Italian and French subsidiaries, while the third one was peculiar to the German manufacturing unit and offered an opportunity of technological diversification to the group. The acquisition of the 75,1% of shares was performed at the end of 2005 and the German subsidiary formally joined the group on January 1st, 2006 (see figure 2). After this acquisition the consolidated turnover and the number of employees more than doubled and the group took on the appearance of a real, even if “pocket-size”, MNC (Interview with an Italian HQ manager, July 2012) (see

table 1 and 3). The previous owner retained the remaining 24,9% of shares of the German subsidiary, but with the possibility for the Italian MNC to exercise a call option at any time. In July 2006, the HQ executive committee approved the exercise of the call option that became effective in January 2007. The German subsidiary was, at that point, 100% owned and controlled by the Italian holding company.

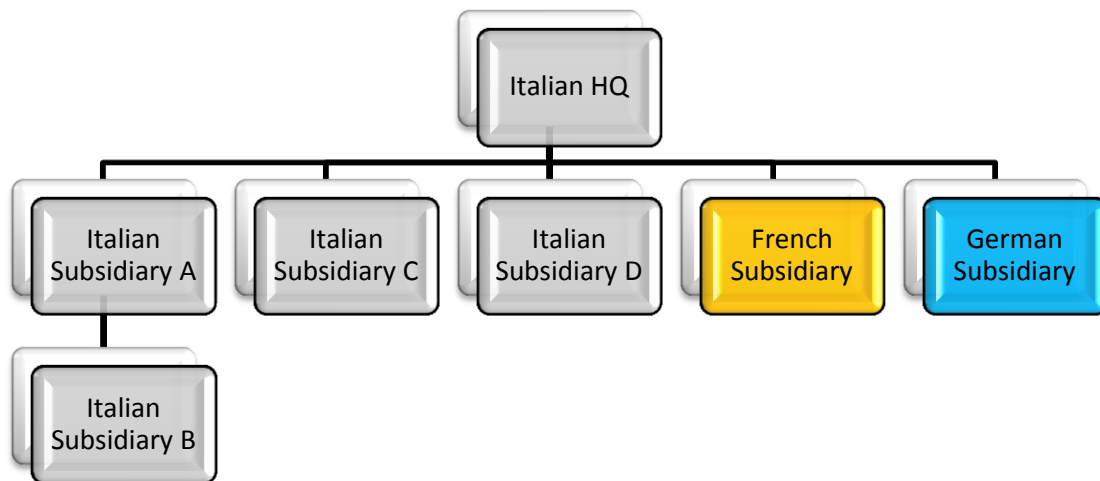


Figure 2. Holding company's organizational chart (2006)

The years following the acquisition of the German company were characterized by significant investments in the newly acquired subsidiary (see table 4), and by a series of other extraordinary operations which culminated in 2008 with a US manufacturing unit joining the 'network' (see figure 3). The company was located in Massachusetts and operated mainly in the North American market with one of the technology used by the other companies in the group. It was, hence, acquired to enter more easily in that geographical area hitherto poorly guarded:

“For the [Italian holding company] group [the US subsidiary] is an opportunity to be used in North America.” (Interview with a US subsidiary board of directors member, August 2012)

	2004	2006	2008	2009	2011
HQ (consolidated financial statement)	€ 5.244.000	€ 15.470.857	€ 51.538.116	€ 26.101.807	€ 6.255.109
Italian Subsidiary A	€ 2.772.000	€ 3.824.795	€ 7.109.998	€ 2.884.954	€ 1.339.295
Italian Subsidiary B	€ 98.000	€ 1.771.592	€ 310.625	€ 42.069	€ 59.675
Italian Subsidiary C	€ -	€ 295.403	€ 3.703.258	€ 4.340.647	€ 128.611
Italian Subsidiary D	€ 290.000	€ 978.909	€ 3.083.268	€ 2.202.428	€ 1.169.835
French Subsidiary	€ 1.271.000	€ 4.062.648	€ 10.178.112	€ 428.335	€ 537.924
German Subsidiary	NA	€ 4.323.887	€ 16.306.264	€ 14.034.991	€ 1.903.870
US Subsidiary	NA	NA	€ 5.948.541	€ 258.961	€ 252.186

Table 4. Investment evolution

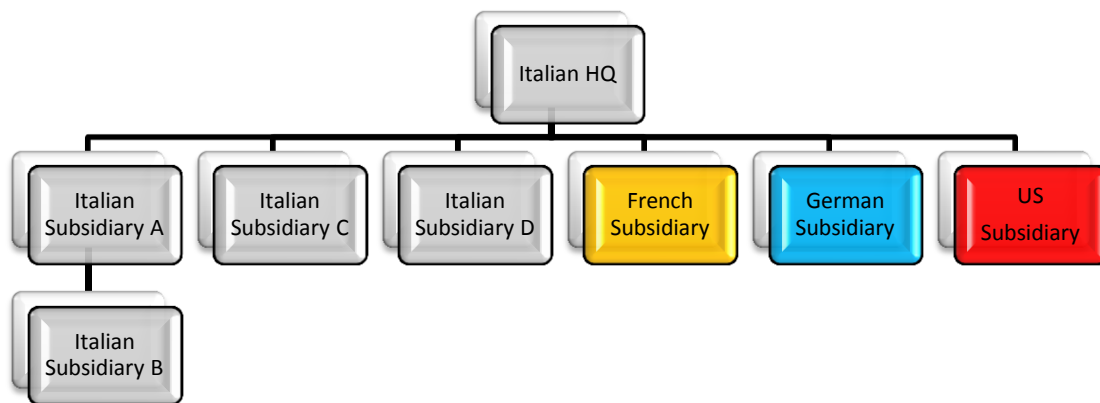


Figure 3. Holding company's organizational chart (2008)

In both the two cross-border acquisitions - German subsidiary and US subsidiary - and consistently with the 'network' model, the integration strategy used was 'symbiosis', namely an integration strategy which aims at complementing existing technical capabilities and is characterized by a high degree of strategic interdependence between the HQ and the subsidiary, but at the same time by a high degree of organizational autonomy (Haspeslagh & Jemison, 1991; Håkanson, 1995).

At the end of 2008 the group's turnover and number of employees reached a peak (slightly less than 400 million euro the former, around 1.700 units the latter - see table 1 and 3). 2009, instead, was the year of the financial crisis. The consolidated financial statement recorded a severe reduction of turnover and EBITDA, and negative results were registered in the same period in each subsidiary (see table 1 and 2).

At the HQ level, the difficulty of the situation emerged already in the late 2008's meetings of the HQ executive committee and board of directors, when some family

members started to push towards a stricter policy of control of current expenditure, a less risky and more conservative strategy aimed at debts reduction, as well as towards the search for an industrial or financial partner willing to invest in the holding company or in one or more of the controlled units. In May 2009 the pool of Italian lending banks imposed the intervention of an external advisor to validate the business plan of the group. The advisor was chosen, following the advice of the banks, for its reputation - a most prominent American advisory company - and for its specialization in the industry. In the following months the financial and economics results of the group worsened and the holding company, burdened by the huge amount of debts in which it was incurred after the acquisitions and the investments pursued in the previous years (see table 5), was pushed by the Italian lending banks in a restructuring process. The strategic restructuring process of the group was aimed at rebalancing the debt situation of the group, strengthening markets and volumes, as well as increasing the operating profitability of each subsidiary.

	2004	2006	2008	2009	2011
HQ (consolidated financial statement)	€ -2.635.000	€ -35.877.134	€ -125.328.696	€ -150.107.591	€ -172.870.611
Italian Subsidiary A	€ -1.050.000	€ -1.474.943	€ -8.623.108	€ -9.981.535	€ -16.293.260
Italian Subsidiary B	€ 417.000	€ -1.473.412	€ -2.170.052	€ -2.567.234	€ -2.112.834
Italian Subsidiary C	€ -6.377.220	€ -1.585.694	€ -1.302.133	€ -1.930.325	€ -2.105.605
Italian Subsidiary D	€ -5.034.268	€ 945.498	€ -4.463.729	€ -6.053.327	€ -6.695.220
French Subsidiary	€ -1.177.000	€ -2.251.000	€ -9.718.394	€ -10.010.795	€ -7.946.211
German Subsidiary	NA	€ -18.158.412	€ -25.245.168	€ -41.473.618	€ -62.242.001
US Subsidiary	NA	NA	\$ -12.078.416	\$ -11.269.558	\$ -10.304.492

Table 5. Net financial position evolution

Whereas the Italian and French units accepted the group's strategic restructuring plan, the German subsidiary conducted a completely independent process. Finally, in the US subsidiary specific negotiations were performed with the American lending bank.

The restructuring agreement of the German company was signed in May 2010 and became effective in August of the same year. The group restructuring agreement, instead, was formally ratified on May 2011. Several operative decisions remained nevertheless open, such as the implementation of the new organizational structure based on the concept of business unit (only one of the business unit had been created by

consolidating the smaller manufacturing units into the biggest one using the same technology, but, in compliance with the ‘network’ model, the formers maintained their legal, administrative, commercial and managerial independence and no centralization attempt were made - see figure 4). At the end of 2011 the consolidated financial statement recorded a turnover of around 300 million euros, the consolidated EBITDA was again positive and nearly at the pre-crisis level and the number of employees in the group was of 1.380 (see table 1, 2 and 3).

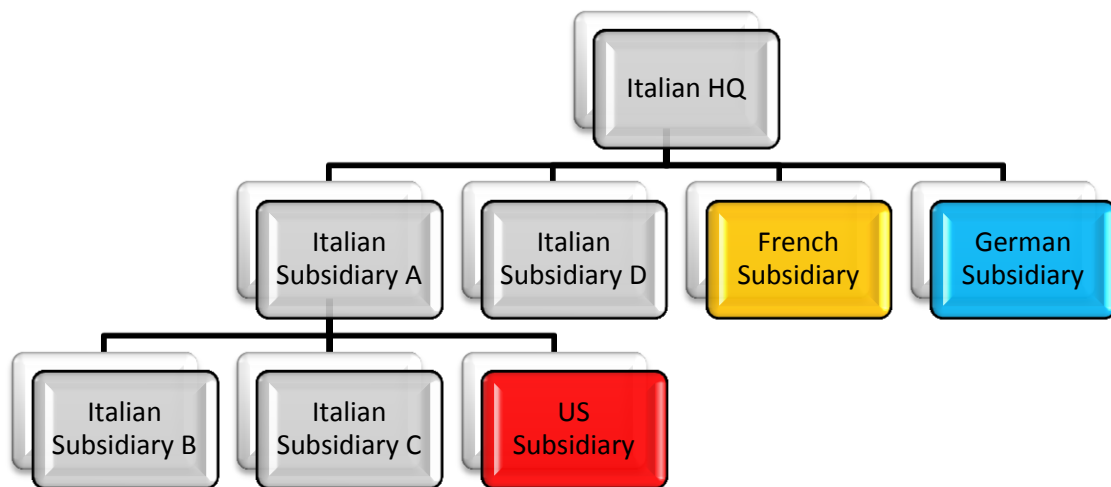


Figure 4. Holding company’s organizational chart (2011)

3.3 - Data collection and analysis

3.3.1 - Perception gap emergence, evolution and metamorphosis

In order to address the issue of HQ-subsidary perception gap emergence, evolution and metamorphosis I investigated and compared the two cross-border acquisitions performed by the core division of the Italian MNC. The objects of analysis are, accordingly, two HQ-subsidary dyads: ‘Italian HQ-German subsidiary’ and ‘Italian HQ-US subsidiary’. The level of analysis is organizational (*meso-level* according to Geppert & Dörrenbächer, 2011, p. 5) and, particularly, I’m looking at the perception gap experienced by the HQ versus the subsidiaries’ boards of directors and top managers.

Data collection was intensive and different kind of qualitative, longitudinal data were collected for both the parent company and the two subsidiaries: interviews, archival data and observations. Details of interview, documentation and observation data are described in tables 6, 7 and 8.

HQ/Subsidiary - Position	Nationality	Language used	Where	When	Length	Transcription	Vignette provided
HQ - Shareholder and Chairman of the board of directors Italian Subsidiary B - Chairman of the board of directors Italian Subsidiary A - Chairman of the board of directors Italian Subsidiary D - Board of directors member Italian Subsidiary C - Board of directors member German Subsidiary - Supervisory board member/Chairman of the board of directors US Subsidiary - Chairman of the board of directors French Subsidiary - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	3h 24min	yes	
HQ - General Counsel and Human Resources manager Italian Subsidiary C - Board of directors member French Subsidiary - Board of directors member Other controlled subsidiaries - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	1h 15 min	yes	X
Italian Subsidiary B - Sales manager Other controlled subsidiaries - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	57min	yes	X
HQ - Corporate Development manager US Subsidiary - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	1h 14min	yes	
HQ - Controlling manager Italian Subsidiary C - Board of directors member US Subsidiary - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	1h 21min	yes	X
HQ - Financial manager Italian Subsidiary B - Board of directors member Italian Subsidiary C - Board of directors member German Subsidiary - Supervisory board member US Subsidiary - Board of directors member Other controlled subsidiaries - Board of directors member	Italian	Italian	Italy	July, 18 th 2012	1h 07min	yes	X
Italian Subsidiary D - Chairman of the board of directors HQ - Shareholder and Board of directors member German Subsidiary - Supervisory board member	Italian	Italian	Italy	July, 20 th 2012	48min	yes	
Italian Subsidiary D - Board of directors member French Subsidiary - Board of directors member	Italian	Italian	Italy	July, 20 th 2012	48min	yes	X

French Subsidiary - Chairman of the board of directors HQ - Board of directors member Italian Subsidiary D - Board of directors member	French	English	Italy	July, 20 th 2012	1h 23min	yes	
French Subsidiary - General Manager Italian Subsidiary D - Board of directors member German Subsidiary - Executive manager	French	English	Italy	July, 20 th 2012	1h 26min	yes	X
Italian Subsidiary A - Board of directors member	Italian	Italian	Italy	July, 24 th 2012	32min	yes	
Other controlled subsidiaries - Executive manager	Italian	Italian	Italy	July, 26 th 2012	1h 15min	yes	
Italian Subsidiary B - Shareholder and Board of directors member	Italian	Italian	Telephone interview	July, 26 th 2012	18min	yes	
Other controlled subsidiaries - Chairman of the board of directors	German	English	Italy	July, 26 th 2012	36min	yes	
HQ - Board of directors member	Italian	Italian	Italy	July, 27 th 2012	34min	yes	
HQ - Board of directors member	Italian	Italian	Italy	July, 27 th 2012	33min	yes	
HQ - Shareholder and Board of directors member	Italian	Italian	Italy	July, 27 th 2012	40min	yes	
German Subsidiary - Executive manager	German	English	Germany	July, 31 st 2012	41min	yes	
German Subsidiary - Executive manager	German	English	Germany	July, 31 st 2012	1h 04min	yes	X
German Subsidiary - Supervisory board member	Italian	Italian	Germany	July, 31 st 2012	26min	yes	
German Subsidiary - External workers' representative	German	German and Italian (with a translator)	Germany	July, 31 st 2012	30min	yes	
German Subsidiary - Internal workers' representative	German	German and Italian (with a translator)	Germany	July, 31 st 2012	59min	yes	
German Subsidiary - Internal workers' representative	German						
US Subsidiary - President	American	English	Skype interview	August, 2 nd 2012	1h 03min	no	
US Subsidiary - Board of directors member	American	English	Skype interview	August, 30 th 2012	41min	yes	
HQ - Shareholder	Italian	Italian	Telephone interview	August, 31 st 2012	41min	yes	
Italian Subsidiary C - Chairman of the board of directors HQ - Shareholder and Board of directors member Italian Subsidiary D - Board of directors member German Subsidiary – Supervisory board member	Italian	Italian	Italy	August, 31 st 2012	52min	yes	X

HQ - Marketing manager	Italian	Italian	Italy	August, 31 st 2012	1h 37min	yes	
Other controlled subsidiaries - Board of directors member	American	English	Skype interview	September, 4 th 2012	38min	yes	
Other controlled subsidiaries - Chairman of the board of directors	Italian	Italian	Italy	September, 6 th 2012	1h 01min	yes	
HQ - Corporate Development manager US Subsidiary - Board of directors member	Italian	Italian	Italy	September, 6 th 2012	1h 33min	yes	
HQ - Corporate Development manager US Subsidiary - Board of directors member	Italian	Italian	Skype interview	March, 22 nd 2013	1h 23min	no	

Table 6. Details of interview data

HQ/Subsidiary	Documentation typology	Years	Language
HQ	Newsletters	2004-2011	Italian/English
	Minutes of the board of directors meetings	2004-2012	Italian
	Minutes of the shareholder meetings	2004-2012	Italian
	Minutes of the executive committee meetings	2004-2012	Italian
	Consolidated financial statements	2004-2011	Italian
	Presentation of the group	2012	English
Italian Subsidiary A	Minutes of the board of directors meetings	2004-2012	Italian
	Financial statements	2004-2011	Italian
Italian Subsidiary B	Minutes of the board of directors meetings	2004-2012	Italian
	Financial statements	2004-2011	Italian
Italian Subsidiary C	Minutes of the board of directors meetings	2004-2012	Italian
	Financial statements	2004-2011	Italian
Italian Subsidiary D	Minutes of the board of directors meetings	2004-2012	Italian
	Financial statements	2004-2011	Italian
French Subsidiary	Minutes of the board of directors meetings	2004-2012	French
	Financial statements	2004-2011	French
German Subsidiary	Minutes of the supervisory board meetings	2006-2012	Italian
	Financial statements	2006-2011	Italian
US Subsidiary	Minutes of the board of directors meetings	2011-2012	English
	Financial statements	2008-2011	English

Table 7. Details of documentation data

Meeting observed	Where	When	Language used
Group meeting	Italy	October, 18 th and 19 th 2010	English
Group meeting	Italy	July, 1 st 2011	English
Group meeting	Germany	October, 26 th , 27 th and 28 th 2011	English
Board of directors meeting - HQ	Italy	July, 27 th 2012	Italian
Board of directors meeting - Italian Subsidiary A	Italy	July, 24 th 2012	Italian
Board of directors meeting - Italian Subsidiary D	Italy	July, 20 th 2012	Italian
Board of directors meeting - French Subsidiary	Italy	July, 20 th 2012	French
Supervisory board meeting - German Subsidiary	Germany	July, 31 st 2012	German and Italian (with a translator)

Table 8. Details of observation data

Particularly, 31 interviews to board members and key executive managers were conducted in the second half of 2012 and early part of 2013. The interviews were semi-structured and became increasingly focused over the course of the study. Each interview centered on the educational and professional background of the interviewee; his/her role within the MNC; the strategic challenges faced by the HQ, the subsidiary or the MNC in general; the relationship between the HQ and its subsidiaries.⁵ The interviews were recorded and transcribed verbatim (only for two of them recording was not possible, but detailed notes were taken throughout). The majority of the interviews were carried out in Italian (see table 6), but some excerpts were translated in English for the purpose of this thesis. Moreover, notions in square brackets were added to ensure readability/anonymity.

Each interview was preceded by the e-mail request to the interviewee to tell a 'day in the life' (Miles & Huberman, 1984), that is to describe a situation which, from his/her point of view, was well representative of the challenges that the MNC had to deal with due to its international operations, as well as a situation which, from his/her point of view, was well representative of the relationship between the HQ and its subsidiaries. I picked up a total of 8 descriptions - or 'vignettes' as defined by Miles and Huberman (1984) - and interviewees were asked to discuss them during the interview (see table 6).

I also had access to the database of interviews - 65 semi-structured interviews to Italian, French and German, HQ and subsidiaries' managers - conducted in 2007 in the same MNC within a research project involving several faculty members (David Courpasson - EM Lyon; Giuseppe Delmestri - Università di Bergamo; Gili Drori - Stanford University; Olivier Givet - EM Lyon; Peter Walgenbach - Universität Jena).

Archival data were collected from 2004 - year of the holding company's establishment - to July 2012 and consisted in the minutes of the boards of directors and the financial statements for the HQ and the subsidiary, in addition to the HQ newsletters (see table 7).

These data were supplemented by the author's direct and participant observations during some of 2012 HQ and subsidiary's board of directors meetings and the group

⁵ Since the research project has been conducted in parallel to an advisory project aimed at restructuring the MNC's corporate governance model, 28 out of 31 interviews were conducted together with an external advisor responsible for the restructuration of the MNC's corporate governance model and the last part of each interview was devoted to the critical issues of the board of directors composition and functioning, the strengths and weaknesses of the current corporate governance model.

meetings organized by the holding company for the HQ and the subsidiaries' managers in 2010 and 2011 (see table 8). In each meeting, I took verbatim notes, as far as possible, of what was said and by whom.

All materials have been imported into a database using MAXQDA11 qualitative data analysis software – I chose this software because of the necessity to code pdf scanned files. The software enabled me to code passages within documents, query and it also served as a repository for regular memos as I analyzed data throughout the study period.

The approach to data analysis was “abductive” in nature (Peirce, 1931-1958; see also Suddaby, 2006; Reichertz, 2007), that is, data analysis proceeded in stages, where specific theoretical ideas were developed alongside increasingly accurate mapping of the case. In other words, the interpretation of the data was not finalized at an early stage, but new themes, dimensions and theories were developed and redeveloped in a recurrent way (Reichertz 2007). Particularly, the analysis involved three steps.

First, I started with the reconstruction of a chronological narrative of the episodic events (Langley, 1999). The result was the identification of two main events after the establishment of the holding company – two cross-border acquisitions - and case stories were written. Once the stories were developed they were used for both within-case and cross-case analysis. Within-case analysis centered on the identification of the dimensions explaining the emergence of the perception gap and, in case of perception gap emergence, on the investigation of the process of perception gap evolution and metamorphosis. This last stage of analysis involved temporal bracketing (Langley, 1999) and led to the recognition of three relevant patterns within the flow of events – stabilizing, polarizing and neutralizing. Cross-case comparison was facilitated by the creation of tables highlighting similarities and differences across cases. At this point of the analysis, I was mainly using the words and phrases coming from the original data.

Events and behaviors that emerged in the first phase were carefully coded in the second one, that is when initial interpretations began to emerge, I identified tentative themes and explicitly explored and checked them for consistency through several iterations between theoretical insights and data. I did grounded coding (Glaser & Strauss, 1967) of key recurrent topics of conversation, such as the different heritage of the companies or the problem of managers' language skills. I also did some theory-

driven coding related to the corporate governance model or the industrial relations. Particularly, the kind of HQ-subsidary interactions were coded following Oliver (1991) classification of strategic responses to institutional processes. For each emerging insight the original data were revisited to further refine the understanding of events. The iteration between theoretical insights and data improved definitions and relationships between constructs. This second step led to further data collection – one additional interview was conducted in March 2013, as well as new documents were required to the holding company and the two subsidiaries.

In the third phase, the continuous iteration between data and theoretical insights led to the identification of more abstract aggregate dimensions and to the clarification of the two emerging models – model of perception gap emergence and model of perception gap evolution and metamorphosis. In order to ensure that my interpretation fitted the real story, I triangulated data from several sources and I used ‘member checks’ (Lincoln & Guba, 1985), namely I presented the emerging models to two HQ managers and to the Chairman of the HQ board of directors in verbal and written form, so they had the opportunity to comment on my understanding of the story. Table 9 summarizes core concepts, empirical themes and the illustrative data from which they were pulled out.

	<p>Interview with an Italian HQ manager, July 2012: “Within the group we have different situations, subsidiaries with different sizes and different governance systems. You cannot compare an Italian small or medium sized subsidiary, with [the German subsidiary] which has more than 500 employees and a system of co-determination with the unions involved in the decision-making process.</p> <p>Interview with the Italian Chairman of the HQ board of directors, July 2012: “It is admirable how things work in Germany. Who is laid off loses its job, but the others lose part of the salary (thirteenth and fourteenth month), all negotiated without a day of strike. [...] and even those who loses the job are not left in the middle of the road as they would do in America, or, partly, here in Italy.”</p> <p>Interview with an American member of the US subsidiary board, August 2012: “In the US, if we need to cut, we cut the employees of 20%.”</p> <p>Interview with an Italian HQ manager, July 2012: “In the US subsidiary they approach problems differently. If there are no orders they say ‘Ok, guys from today onwards no one will work on Friday’ and this is something normal.”</p>
Status differential between the organizations (directionality)	<p><i>Organization relative importance</i></p> <p>Minute of the HQ executive committee, January 2006: “[The Italian Chairman of the HQ board of directors] underlines the importance that the German subsidiary is intended to take within the group, both for its size and type of production, as well as for its geographical location.”</p> <p>Italian Chairman of the HQ board of directors, Minute of the German subsidiary supervisory board, March 2006: “Within the ‘network’, [the German subsidiary] is the company which generates the greatest turnover [...]; it is hence evident the high strategic value of [the German unit], as a place in which all the three technologies are present. [The German subsidiary] will have thus a very important role within a set of realities operating according to common principles.”</p> <p>Interview with an Italian HQ manager, July 2012: “When we acquired [the German subsidiary] it represented half of the group both in terms of number of employees, turnover and hence size and so on. This operation unsettled the organization of [the holding company] who had just constituted.”</p> <p>An American member of the US subsidiary board, HQ newsletter, December 2008,: “[The US subsidiary] is very pleased to be associated with [the Italian holding company]. This brand is known on the main international markets and from this partnership our company can only benefit. [...] The growth of [the US subsidiary] needs additional skills and facilities and it can benefit from the experience and strategic advice of [the holding company]’s experts.”</p> <p>Interview with an American member of the US subsidiary board, August 2012: “Technically, in my opinion, the other [holding company]’subsidiaries are superior. They are technically proficient, better than anything I’ve ever seen. They really know what they are doing.”</p> <p>Interview with an Italian HQ manager, July 2012: “You should consider that [the US subsidiary] has some good numbers with the worst facilities of the group. And they do so because they are good even if they are very small, they are about 50 people including the one who cleans.”</p>
Status differential between the countries (directionality)	<p><i>Country relative importance</i></p> <p>HQ newsletter, July 2011: “Every year, Spring coincides with the leading international trade fairs associated with the industrial technology sectors. Once again in 2011, Germany, and more specifically Hannover, confirmed its position as the main hub for operators from a wide range of sectors.”</p> <p>Interview with an Italian HQ manager, July 2012: “When the German subsidiary was acquired it became the diamond tip because of its size, standing, but also because of Germany, German people, etc. It was thought that they could be the best in terms of accuracy and perfection.”</p> <p>Interview with an Italian HQ manager, July 2012: “They are German, so or they come and do the top leaders, or they don’t come at all.”</p>
<p>HQ-subsidiary interactions:</p> <p><i>Complying</i></p> <p><i>Influencing</i></p>	<p><i>Accepting regulations, corporate governance models and traditions</i></p> <p>Interview with a German subsidiary manager, 2007: “Yes, there have been changes. [...] After having been acquired by [the holding company] all those functions which formerly were managed by the headquarter had to be implemented at the firm level.”</p> <p>Interview with an Italian HQ manager, July 2012: “In the German subsidiary we own the majority of shares. However, it is not a matter of form, but of substance, because if the workers representatives don’t agree with the decision, this can be approved, but the day after we will have a strike. It is for this reason that we have always looked for the unanimity in decisions.”</p> <p>Interview with the Italian Chairman of the HQ board of directors, July 2012: “Some appointments in the German subsidiary corporate governance bodies have been made following the local stakeholders’ orientation and not necessarily what we wanted to do.”</p> <p>German subsidiary supervisory board’s meeting, July 2012 (observation): The new German subsidiary organizational chart is presented to all the people attending the meeting. A specific box with the label ‘[holding company] Networking’ has been introduced in the ‘Market Communication and Business Development’ unit.</p> <p><i>Inducing to adopt a certain behavior or to make a certain decision</i></p> <p>German subsidiary executive manager, Minute of the German subsidiary supervisory board, March 2006: “The goal is to ‘centralize’ this collection scheme of key figures within the group, in order to be able to work (within three years) on group strategies.”</p>

<p><i>Challenging</i></p> <p><i>Co-opting</i></p>	<p>Italian HQ manager, HQ Newsletter, May 2007: “[The Italian Subsidiary], following the footsteps of [the German subsidiary] and with a gradual alignment of all the members of the [Italian holding company] network in mind, has decided to start using an ERP management system.”</p> <p>Italian HQ manager, Observation of a group meeting, July 2011: “In order to make the [German subsidiary] aware of its belonging to a group and of the presence of the holding company, we are going to organize the annual meeting of the group in Germany.”</p> <p><i>Objecting or denying decisions and powers</i></p> <p>Minute of the HQ board of directors, February 2010: “The Chairman submit to the board of directors the request coming from [the German subsidiary] related to the fees’ rescheduling. [...] The Chairman also anticipates that it is very likely that the restructuring agreement of the German subsidiary will sharply reduce the amount of fees paid by the subsidiary.”</p> <p>Interview with the Italian Chairman of the HQ board of directors, July 2012: “[Referring to the payment of fees to the holding company] German people said that not a single euro would have left Germany.”</p> <p>Minute of the German subsidiary supervisory board, October 2010: “The Chairman [of the German subsidiary supervisory board] refers that [the holding company] has decided to use the same audit company in all the subsidiaries. [...] [The Italian Chairman of the HQ board of directors] specifies that starting from 2011 [the German subsidiary] will have to appoint the same audit firm, or it can choose to maintain the current local audit company, but with an increase in costs. [The Chairman of the German subsidiary supervisory board] and the CRO propose to confirm [the local audit company]. The decision is taken at the unanimity.”</p> <p><i>Importing an influential constituent in the corporate governance bodies</i></p> <p>Minute of the German subsidiary supervisory board, July 2012: “[The external workers representative] reminds to all the people attending the meeting that they need to appoint the new Chairman of the supervisory board. Upon request by the workers’ representatives and the shareholders’ representatives, he suggests to appoint [the Italian Chairman of the HQ board of directors] as Chairman of the supervisory board, describing the latter as the best choice.”</p>
<p>Quality of HQ-subsidiary relationship: <i>Cautious</i></p> <p><i>Conflictual</i></p> <p><i>Consensual</i></p>	<p><i>‘Sniffing’ and trying to understand each other</i></p> <p>Minute of the HQ board of directors, April 2005: “Some of the HQ board of directors family members express concerns for an operation which is between, on the one hand a family-owned group and on the other a powerful MNC, in addition to the complexity resulting from the need to manage an industrial site with such a relevant size in a foreign country.”</p> <p>Interview with a German subsidiary manager, 2007: “Today many employees and managers deliberately wear a sticker with the [holding company] logo on the jacket. However, most employees perceive themselves as members of [the German subsidiary] and not so much as members of [the holding company]”</p> <p>Interview with a German subsidiary manager, 2007: “There has been no change in the self-perception of employees. They don’t regard themselves as [member of the holding company], but still they feel as [member of the German subsidiary]. However, it was appreciated by all employees that [the Italian Chairman of the HQ board of directors] spoke German in his speeches.”</p> <p><i>Being increasingly apart from one another</i></p> <p>Italian Chairman of the HQ board of directors during a group meeting, July 2011 (observation): “In Germany we have strong difficulties arising from the fact that [the German subsidiary]’s restructuring process has been conducted by a local advisor [...]. The [holding company] has been divested of ownership on certain decisions, being reduced to a mere shareholder.”</p> <p>Interview with an Italian HQ manager, July 2012: “[...] the underlying conditions have changed, the market has changed, the holding company faced a restructuring process. Meanwhile, also the relationship with subsidiaries has changed. I’m talking about subsidiaries such as the most important [the German subsidiary].”</p> <p>Italian Chairman of the HQ board of directors during one Italian subsidiary board of directors’ meeting, July 2012 (observation): “The most critical situation was in Germany where German people went on their own. The restructuring process was handled by them with the intervention of [the local bank] and the Land guarantees. [...] Actually, we lost control.”</p> <p>Interview with an Italian HQ manager, July 2012: “The shareholder did what he could, he increased the equity, reduced fees, accomplished the restructuring, helped for what he could, but probably for the people there it was not enough and a sort of detachment happened.”</p> <p><i>Coming together and expressing general agreement</i></p> <p>German subsidiary executive manager, Minute of the German subsidiary supervisory board, March 2011: “Another very important aspect to take care of will be the integration with the other companies of the group.”</p> <p>Interview with a German subsidiary manager, July 2012: “I would like to have more exchange of information [...]. We need to exploit better our synergies.”</p> <p>Italian Chairman of the HQ board of directors during the German subsidiary supervisory board, July 2012 (observation): “In the future, we should reflect on how to improve coordination among subsidiaries and the role of [the German subsidiary executive manager devoted to integration] should foster these technical and commercial synergies.”</p>
<p>Perception gap: <i>HQ</i></p>	<p><i>Conceiving the MNC’s organizational model as a ‘network’ of independent and entrepreneurial companies</i></p> <p>HQ Newsletter, February 2005: “The Network represents a new way of approaching the market: a network of independent companies, rather than a highly centralized structure.”</p> <p>Italian Chairman of the HQ board of directors, Minute of the German subsidiary supervisory board, March 2006: “[The German subsidiary] will have a critical role in a group of independent realities operating following common principles: the common mission is to be the most effective and efficient manufacturer of [kind of product] worldwide; the strategies to accomplish the mission will be elaborated autonomously by each company; the knowledge will be shared and all the potential synergies developed.”</p>

<i>German subsidiary</i>	<p>Report of the HQ board of directors, Consolidated financial statement, 2008: “The group pursues its objectives imprinting the relationships among subsidiaries on a ‘network’ model, in which they found the essential synergies for the development and maintaining of new and increasingly competitive products and services.”</p> <p><i>Perceiving a lack of clear strategic direction and leadership from the HQ</i></p> <p>Interview with a German subsidiary manager, 2007: “It was good for [the German subsidiary] that they have been sold to [the holding company]. However, I’m skeptical to some extent. This is because the strategy is not clear to me.”</p>
<p>Politicized perception gaps:</p> <p><i>HQ</i></p> <p><i>German subsidiary's workers</i></p> <p><i>German subsidiary's managers</i></p>	<p><i>Continuously supporting the ‘network’ model in order to generate synergies among the subsidiaries</i></p> <p>Italian Chairman of the HQ board of directors, HQ Newsletter, December 2009: “We have made a clear, fully supported decision to renew our commitment to the ‘network model’.”</p> <p>Letter to the shareholders, Consolidated financial statement, 2009: “Today, while all over the world people are struggling on the real meaning of terms like ‘synergy’ and ‘aggregation’, we have the opportunity to test the strategic effectiveness and the reaction ability of our network and we can say that it has contributed and will contribute in the future to effectively mitigate the blows of the crisis, dynamically reshaping itself.”</p> <p><i>Supporting the holding company with the aim to ensure the survival of the subsidiary</i></p> <p>Minute of the German subsidiary supervisory board, February 2010: “Both [the external workers representative] and [the Italian Chairman of the HQ board of directors] are convinced that they want to save the company and to maintain it within the [Italian holding company]. This is the best solution, because the group can support [the German subsidiary] in terms of brand image and know-how.</p> <p>Interview with an Italian HQ manager, March 2013: “The employees didn’t feel safeguarded, since banks representatives could not manage the industrial part of the company that is crucial in our industry. The employees, moreover, feared that the banks were looking for a new shareholder and that they would have come back to a situation similar to the one existing before the acquisition by the Italian holding company, when the German subsidiary was at the edge of the group.”</p> <p><i>Supporting the situation of dependence from local stakeholders in order to gain more autonomy</i></p> <p>Interview with a German subsidiary executive manager, July 2012: “I had reproach from my shareholder that I should not fire somebody, but I’m the managing director, I have to decide what to do, it’s not the job of the shareholder to decide the strategy of the company and this was not understood by [the Italian Chairman of the HQ board of directors].”</p>
<p>Truce:</p> <p><i>HQ</i></p> <p><i>German subsidiary's workers</i></p> <p><i>German subsidiary's managers</i></p>	<p><i>Trusting the ‘network’ model as the right organizational model to strengthen the link among subsidiaries</i></p> <p>Letter to the shareholders, Consolidated financial statement, 2011: “The Network model remains the essential element to maintain the role of the group as ‘worldwide leader’. [...] The [holding company] increasingly plays the role of strategic guide, activities’ coordinator and supervisor, ensuring consistency and stability to the evolution of the group.</p> <p>Italian Chairman of the HQ board of directors during a group meeting, July 2011 (observation): “Now we have to think of our future and we need to be sure that our business model which speaks about independency of the companies and about each company defining its strategy to fulfill the mission which is given by the group, but using synergies, we have to see how this model can be sustained. [...] The very important job we did during these last months with [the external advisor] was to rethink to check and to make an inductive process to see whether this model [the ‘network’ model] can fit the new business environment which has been completely changed by the crisis and then today we are here to say ‘Yes, we are convinced that this is the good model for the future organization of the group’.”</p> <p><i>Supporting the creation of links and the development of synergies between the subsidiary and the HQ</i></p> <p>Interview with an Italian HQ manager, March 2013: “[The Italian Chairman of the HQ board of directors] has been applauded at the meeting of all the German employees in December [2012] even though it talked about reducing wages and other sacrifices. This is positive because it means that they still believe in the [holding company] industrial project and in the shareholder. It is an appreciation for having brought forward the industrial project despite the crisis and all the other difficulties.”</p> <p>Interview with an Italian HQ manager, July 2012: “I believe that from the other side [referring to workers representatives] there is the awareness that [the German subsidiary] cannot survive alone on the market and, thus, they want to reach an agreement and... do it together.”</p> <p><i>Supporting the creation of links and the development of synergies between the subsidiary and the HQ</i></p> <p>Interview with a German subsidiary executive manager, July 2012: “I’m glad that [the Italian Chairman of the HQ board of directors] now is the Chairman of our supervisory board, because with him I can exchange views, ideas, he is an excellent strategic mind and that is what I need more, so yes I feel supported.”</p>

Table 9. Summary of core concepts, empirical themes, and illustrative data

3.3.2 - Longitudinal and comparative analysis of subsidiaries' organizational design

Building upon and extending the study by Maurice, Sorge, and Warner, published in the first issue of *Organization Studies* (1980), I investigated the organizational configurations of the seven subsidiaries belonging to the Italian MNC but located in different countries - 4 in Italy, 1 in France, 1 in Germany and 1 in the US - in two points in time - 2008 and 2010, namely before and after the occurrence of the economic and financial crisis - (see table 10). Compared to Maurice and colleagues' work, I added two new countries - Italy and the US, the latter replacing Great Britain in the original study - and I compared organizational units belonging to the same holding company - in previous studies the units investigated belonged to different companies. This latter condition made the test of the societal effect approach even more difficult, given that MNCs tend to homogenize, at least partly, their practices, procedures and structures.

COMPANY	PRODUCT	TECHNOLOGY ⁶	SIZE (N° of employees)		LOCATION	DEPENDENCE
			2008 ⁷	2010		
Italian Subsidiary A	X	1	182	173	Italy	Controlled by the Italian holding company
Italian Subsidiary B	X	1	30	ND	Italy	Controlled by the Italian holding company
Italian Subsidiary C	X	1	62	62	Italy	Controlled by the Italian holding company
US Subsidiary	X	1	57	44	US	Controlled by the Italian holding company
German Subsidiary	X	1, 2 and 3	700	509	Germany	Controlled by the Italian holding company
Italian Subsidiary D	X	2	122	109	Italy	Controlled by the Italian holding company
French Subsidiary	X	2	80	77	France	Controlled by the Italian holding company

Table 10. The investigated subsidiaries

⁶ All technologies are small batch production, except for technology 3 that is a large batch production

⁷ The figures reported in this column do not correspond to the ones in table 3 because these data have been collected before December, 31st.

The organizational configurations were compared subdividing the workforce of each subsidiary into six categories according to 'personnel status': production workers; maintenance workers and toolmakers; supervision (foremen and superintendents); technicians and engineers (draughtsmen, design and development engineers, quality controllers, industrial engineers, production controllers and planners); clerical, administrative and commercial employees (secretaries, stock and stores clerks, sales people, accountants, personnel officers) and finally managers. The first two categories are referred as 'workers', while the other four as 'staff' (Maurice et al., 1980; Sorge & Warner, 1986).

In order to get to this subdivision, additional data were collected in each subsidiary: organization charts and for each employee statistical data about the role, the grade in terms of applicable collective agreements, the number of collaborators, the age, the seniority, the qualifications as well as the foreign languages known. This data files were supplemented during conversations with informed personnel officers or managers, by information on vocational qualifications and on whether an individual had a position of authority over other employees.

As suggested by Sorge and Warner (1986), however, directly comparing the values of the personnel-status groups is subject to some limitations, while a more appropriate way could be to relate absolute numbers of occupants of one status group to the number of workers employed in the factory. In other words, relating the absolute size of a staff component to the absolute size of workers allows us to obtain a more explicative figure which relates various numerical size of parts of the factories' superstructure to the strength of those doing the actual production work. The index numbers we calculated are here summarized from Maurice and colleagues (1980) and Sorge and Warner (1986):

- *Workers' share of total personnel*: shows the share of the workers as part of the total personnel;
- *Supervision/Workers*: can be expressed as the number of first-line supervisors divided by the workforce and is the reciprocal of the span of control;
- *Ratio of managers to workers*: indicates the relative size of the managerial components of the factories;

- *Administrative and commercial personnel/Workers*: shows the relative size of the administrative and commercial components of the factories and can be measured by the number of junior and senior clerical and commercial staff per workers;
- *Technical staff employees/Workers*: as we are dealing with manufacturing companies, this measure expresses the relative size of technical components. These are the categories of personnel that relate most closely to production and maintenance manpower in the workers, next to supervisions;
- *Authority positions/Workers*: can be expressed as the number of personnel in positions of authority, from the first line of supervision upwards, divided by the workforce;
- *Authority positions/Staff*: can be expressed as the number of personnel in positions of authority, from the first line of supervision upwards, divided by the total number of white-collar employees.

According to Sorge and Warner (1986) I have defined ‘authority position’ such a position that requires that the incumbent tells a certain circle of employees what to do on a fairly regular basis. It is clearly not enough for someone to be counted as having a position of authority if he/she is professionally consulted for advice on certain matters.

Finally, the comparative and longitudinal information on boards of directors composition have been obtained through an in-depth analysis and triangulation of data collected through interviews and documentation. As for organizational configurations, the boards of directors composition is observed in two moments in time - at the end of 2008 and 2010 - and the sample is represented by four Italian, one French, one German and one American subsidiaries, which, in line with the conception of the group as a ‘network’ of independent and entrepreneurial companies, maintained an active board of directors after the acquisition. In countries with a one-tier governance system, I examined the board of directors, whereas in countries with a two-tier governance system, such as Germany, I examined both the supervisory board and the management board (Weimer and Pape, 1999).

CHAPTER 4

FINDINGS: PERCEPTION GAP EMERGENCE, EVOLUTION AND METAMORPHOSIS

Section 4.1 is devoted to the investigation of the HQ-subsidary perception gap emergence and compares the two HQ-subsidary dyads - ‘Italian HQ-German subsidiary’ and ‘Italian HQ-US subsidiary’. Section 4.2, instead, addresses the issue of perception gap evolution and metamorphosis and focuses on the first dyad, that is the one in which a perception gap emerged.

4.1 – Perception gap emergence

4.1.1 - ‘Italian HQ-German subsidiary’ dyad

The acquisition of the German subsidiary was performed in 2006 and gradually a perception gap emerged between the Italian holding company and the cross-border acquired subsidiary concerning the role of the subsidiary within the MNC’s organizational model.

The Italian HQ, as a matter of fact, conceived the MNC’s organizational model as characterized by activities which should have been integrated worldwide, but managed by the subsidiary and hence perceived the German subsidiary as having a ‘world mandate’ (high global integration and high local responsiveness – Birkinshaw & Morrison, 1995). At the same time, however, the German subsidiary perceived itself as a ‘specialized contributor’ whose activities should have been tightly coordinated and integrated with the activities of the other subsidiaries and of the MNC as a whole (high global integration and low local responsiveness – Birkinshaw & Morrison, 1995).

In other words, the organizational model framed and supported by the Italian HQ – the ‘network’ of independent and entrepreneurial companies - was completely disorienting for the German subsidiary, which perceived it as a lack of clear strategic direction and leadership from the HQ:

“In 2005 I was in the States with [the Italian Chairman of the HQ board of directors] and we started to discuss about the acquisition of [the German

subsidiary], very logical to be done. The idea of the ‘network’, of not integrating the subsidiaries that are independent with very few bridges, however, is as if you invest in the stock exchange and you do nothing. If you buy a company you have to impose your strategy and your governance, because you normally know where to go.” (Interview with a German subsidiary executive manager, July 2012)

The emergence of a PG is explained by the fact that the ‘Italian HQ-German subsidiary’ dyad was characterized by considerable organizational differences in terms of heritage and managers’ language skills (see table 11).

		HQ-GERMAN SUBSIDIARY DYAD	HQ-US SUBSIDIARY DYAD
ORGANIZATIONAL DISTANCE (extent)			
Heritage	Family/Entrepreneurial heritage vs Corporate heritage	Family/Entrepreneurial heritage vs Corporate heritage	Family/Entrepreneurial heritage vs Corporate heritage
Managers’ language skills	English proficiency	Low vs fluent English	Low vs mother tongue
INSTITUTIONAL DISTANCE (extent)			
CG model	Stakeholders involvement in control	Unipolar (family capitalism) vs Multipolar stakeholder capitalism	Unipolar (family capitalism) vs Unipolar (shareholder capitalism)
Industrial relations	Employees protection	Strong employees protection vs Moderate employees protection	Strong employees protection vs Low employees protection
	Employees involvement in decision making	No co-determination vs <i>Mitbestimmung</i>	No co-determination vs No co-determination
STATUS DIFFERENTIAL BETWEEN THE ORGANIZATIONS (directionality)			
Organization relative importance	Turnover (Consolidated turnover before the acquisition vs subsidiary turnover in the acquisition year)	€ 93.423.181 vs € 143.158.869	€ 277.747.560 vs \$ 13.315.562
	Number of employees (Consolidated number of employees before the acquisition vs subsidiary number of employees in the acquisition year)	522 vs 687	1.204 vs 58
	Technology availability	2 vs 3	3 vs 1
STATUS DIFFERENTIAL BETWEEN THE COUNTRIES (directionality)			
Country relative importance	Comparison among countries (GDP per capita in the acquisition year - The World Bank)	31.777 vs 35.238	38.563 vs 46.760
	Comparison among countries in the manufacturing sector (Manufacturing value added in % of GDP in the acquisition year - The World Bank)	19 vs 23	18 vs 13

Table 11. Summary of dyad’s characteristics

Particularly, before the acquisition of the German subsidiary, the HQ was the expression of small or medium sized Italian manufacturing units with a familial and entrepreneurial heritage, the only exception being the relatively small French subsidiary – for example, the HQ “plethoric board” represented all the family shareholders and just a few outsiders (Interview with the Italian Chairman of the HQ board of directors, July 2012). The German subsidiary, instead, had a corporate heritage since it belonged to a large and centralized German MNC:

“[The German subsidiary] came from a big German MNC, while [the Italian holding company] was a pocket-size and newly formed MNC. Imagine to put together an Italian person who has always been used to have its own money, to manage its own resources, to make big profits and a German person coming from the world of [the German MNC previous owner of the German subsidiary] and hence rules from the top without any decision-making power, cash pooling system acting as a repairing mechanism in case of losses. So, [the German subsidiary] had never been accustomed to think for itself, while here [in Italy] they were all used to think for themselves.” (Interview with an Italian HQ manager, July 2012)

The organizational distance was evident also in terms of managers’ language skills. The German subsidiary’s managers, indeed, were more skilled than the HQ’s ones in speaking English:

“German people talked English fluently [...]. It was a difficult situation for our Italian managers who were holding a powerful position but with the difficulty of managing it for the language issue. [...] And... then, the fact of not speaking English very well leads to simplify sentences, concepts and then if the translation is not the right one the meaning is misrepresented and this caused some problem of misunderstanding.” (Interview with a HQ manager, September 2012)

The acquired unit was additionally located in a country – Germany - characterized by conspicuous differences in institutional characteristics compared to Italy (see table 11). Whereas the Italian corporate governance model can be defined as unipolar - namely the control is exercised by the family-owner - the German stakeholder capitalism is associated with a principle of multipolar control (Tylecote & Visintin, 2007):

“In Germany you have to be good to play the piano, you have to make sure you do all the right moves and keep everybody happy and communicate, but it’s difficult, because we have several stakeholders, they all have their own interest, they are not all running in the same direction.” (Interview with a German subsidiary executive manager, July 2012)

Strong employees protection and no-codetermination distinguish Italian industrial relations, while the German ones are characterized by a moderate employees protection and the institution of *Mitbestimmung*, the latter implying the direct participation of the workforce to the corporate governance bodies.

Some other characteristics of the HQ and the German subsidiary are relevant in explaining the perception gap's emergence. Particularly, the acquisition and integration process were affected by the relative status of the two dyad's members:

“Some of the HQ board of directors family members express concerns for an operation which is between, on the one hand a family-owned group and on the other a powerful MNC, in addition to the complexity resulting from the need to manage an industrial site with such a relevant size in a foreign country” (Minute of the HQ board of directors, April 2005).

In this respect, it is worth to distinguish between the status of the country where the two actors are located and the status of the organization in itself. Concerning the former and using the GDP per capita and the manufacturing value added in percentage of GDP as proxies (see table 11), Germany had a greater relative importance compared to Italy:

“There is a sort of subjection to foreigners, German people, French people, ... We are Italian and there is this perception of weakness. In the mechanical world I can understand it, but I don't know if it is related also to the culture, the concerts and the classical music.” (Interview with a HQ manager, August 2012)

Regarding the status of the organization, in terms of both size – turnover and number of employees - and technology availability the newly acquired subsidiary was dominating on the rest of the group:

“With [the German subsidiary] it is a little bit different..., more complex because it is first of all a big company and then it has a different reality [the third technology]. It is clear that it is much more complicated.” (Interview with a HQ board of directors and executive committee member, July 2012)

4.1.2 - *‘Italian HQ-US subsidiary’ dyad*

The other cross-border acquisition performed by the core division of the Italian MNC was completed in 2008. As in the case of the ‘Italian HQ-German subsidiary’ dyad, the Italian holding company and the US subsidiary were characterized by considerable organizational and institutional differences (see table 11).

The previous owner of the US unit was, indeed, a large and centralized US MNC:

“[The US MNC previous owner of the US subsidiary] was mainly operating in the US. It was a multi-billion dollar business and there were very structured processes, a very detailed business plan activity. All the financial and HR activities were concentrated at the HQ level. [The Italian holding company], instead, is a family business. It is trying to support us in these activities, but they do not have previous experience.” (Interview with an American member of the US subsidiary board, August 2012)

Furthermore, being in an English speaking country, the US subsidiary’s managers had obviously a language advantage:

“Italians are speaking my language, so I do my best to make sure that there is an understanding from the other side and I pay attention to accent and fluency. This is an important point and communication has to be watched very carefully.” (Interview with an American member of the US subsidiary board of directors, August 2012)

With reference to institutional differences, the Italian unipolar corporate governance model relies on the direct control from the family-owner, whereas in the US the unipolar shareholder capitalism depends on the indirect control from the financial market (Tylecote & Visintin, 2007). Both the countries are characterized by no-codetermination, but the US have a lower employees protection:

“[The US Subsidiary] is the typical US company where, if there is no work for a week, they fire everyone and then hire again. This is the American reality.” (Chairman of the HQ board of director – Observation of the Italian subsidiary A board of directors’ meeting, July 2012)

Despite the described organizational and institutional distance, a perception gap didn’t emerge in this HQ-subsidiary dyad. Rather, the US subsidiary understood the ‘network’ model and there were a lot of opportunity of knowledge exchange and integration:

“Since the acquisition the US subsidiary accepted the network idea and they used to say ‘We are your footprint in the US’.” (Notes from a member checks’ meeting with an Italian HQ manager, July 2013)

“[The President of the US subsidiary] is pushing very much for the network” (Interview with an Italian HQ manager, July 2012)

It is worth to note that, in terms of status and contrary to the German case, the US subsidiary had a very small size compared to the consolidated figures – concerning both turnover and number of employees - and only one technology was available in the US unit. Furthermore, the US had, at the country level, a lower manufacturing value added in percentage of GDP compared to Italy (see table 11). These characteristics contributed

to make the US subsidiary a “follower” of the HQ (Notes from a member checks’ meeting with an Italian HQ manager, July 2013).

4.1.3 - Summary

The interpretation of what happened in the two HQ-subsidary dyads unfolding from a careful analysis of data is that the status differential between the two countries and the two organizations moderated the relationship between organizational and institutional distance and the emergence of a perception gap (see figure 5). In other words, the influence of organizational and institutional distance - the dimensions referring to the *extent* of the difference between the HQ and the acquired subsidiary, and between the home and the host country - on the emergence of a HQ-subsidary perception gap is intensified or neutralized by the dimensions explaining the *direction* of the distance - namely the status differential between the HQ and the subsidiary and between the home and the host country.

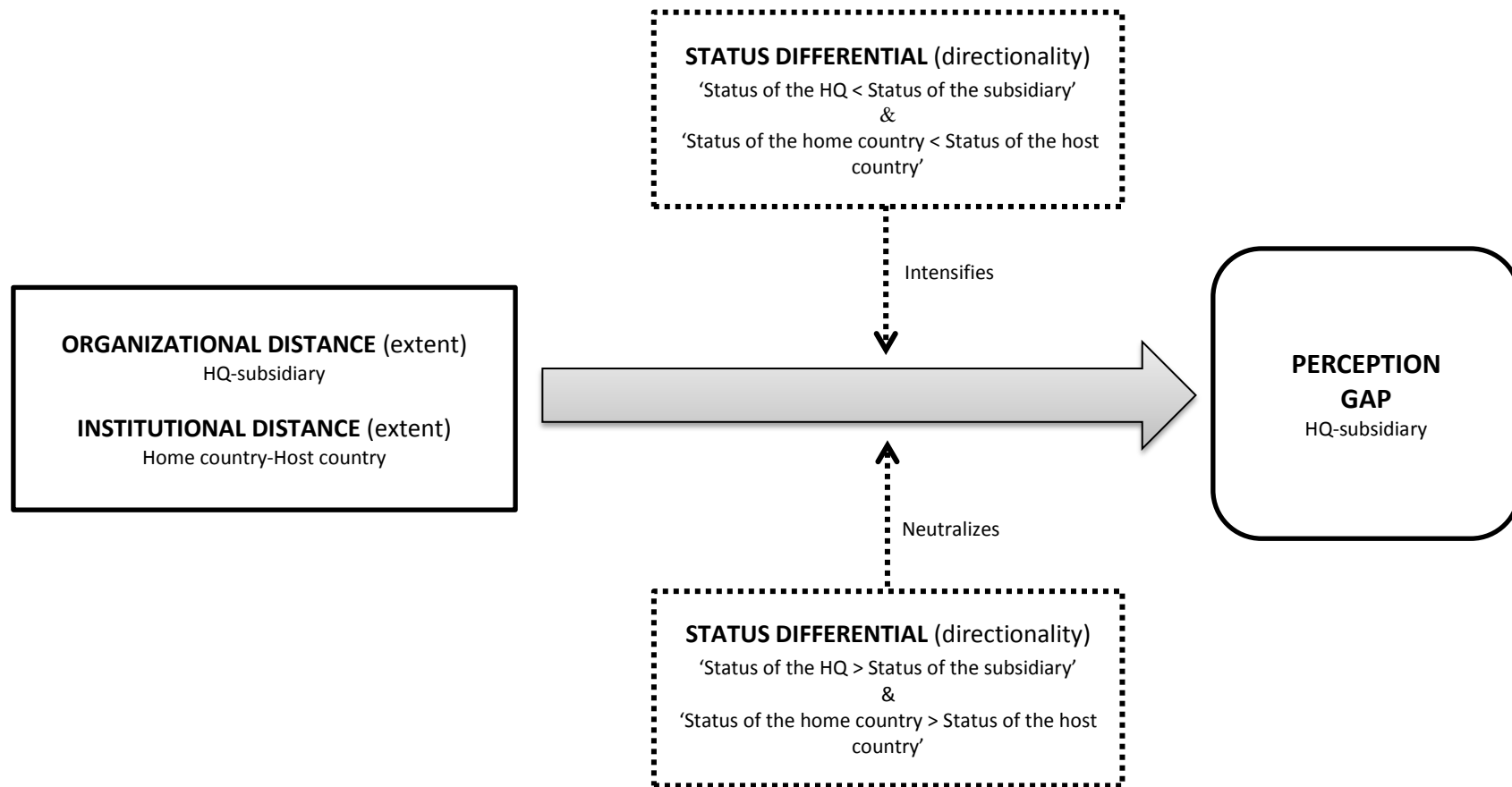


Figure 5. Model of perception gap emergence

Particularly, in the ‘Italian HQ-German subsidiary’ case, the higher status of Germany and of the subsidiary compared to Italy and to the HQ intensified the influence of the organizational and institutional distance on the emergence of a perception gap between the HQ and the subsidiary.

In the ‘Italian HQ-US subsidiary’ dyad, instead, the lower status of the US and of the subsidiary compared to Italy and to the HQ neutralized the impact of the organizational and institutional distance and avoided the emergence of a perception gap between the HQ and the subsidiary.

The following propositions are logically embedded in the model:

Proposition 1a: Organizational and institutional distance are the key dimensions explaining the emergence of a perception gap between the HQ and the acquired subsidiary.

Proposition 1b: The status differential between the two organizations and the two countries moderates the relationship between organizational and institutional distance and the emergence of a perception gap between the HQ and the acquired subsidiary. Specifically, the HQ-subsidary perception gap is more likely to emerge in presence of organizational and institutional distance, if the status of the subsidiary and of the host country are higher than the status of the HQ and of the home country.

The next section of the chapter focuses on the ‘Italian HQ-German subsidiary’ dyad, namely the dyad in which a perception gap emerged, in order to investigate its evolution and metamorphosis during the process of cross-border, post-acquisition integration.

4.2 – Perception gap evolution and metamorphosis

As described in the previous section, the acquisition of the German subsidiary by the Italian MNC in 2006 occasioned the emergence of a perception gap in the HQ-subsidary dyad. This gap mutated from a cognitive to a political phenomenon during the process of cross-border, post-acquisition integration and in 2012 it had evaporated. What has happened and why did the gap change in nature? How can we explain its observed evolution and metamorphosis?

A careful analysis of data suggests that the perception gap between the HQ and the subsidiary was subject to an evolutionary process involving three different patterns – stabilizing, polarizing and neutralizing (see figure 6). It is during the second phase that the perception gap became an instrument of political contention. The HQ-subsidiary interactions and the quality of the HQ-subsidiary relationship proved to be key dimensions to portray the evolution and metamorphosis of the HQ-subsidiary perception gap.

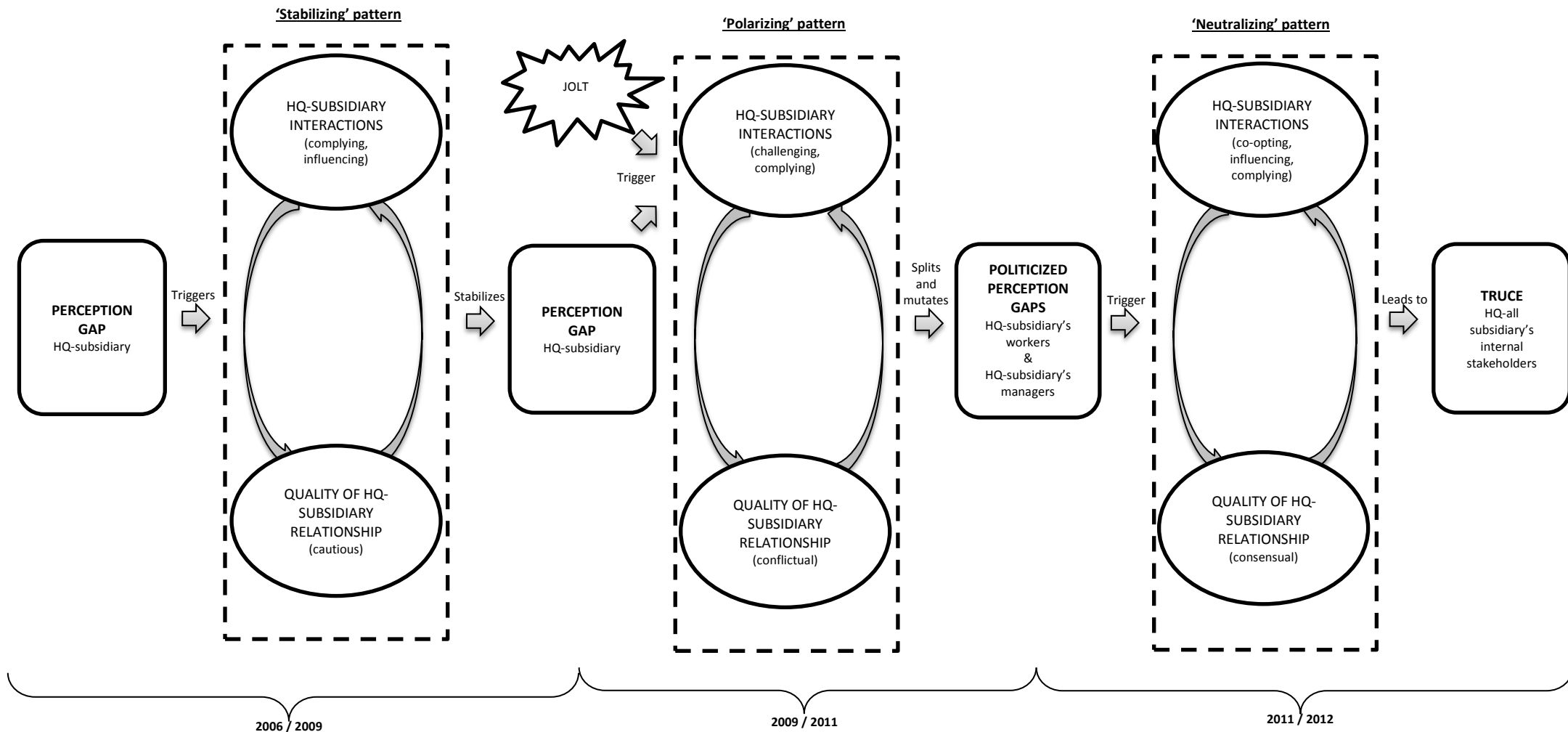


Figure 6. Model of perception gap evolution and metamorphosis

4.2.1 - Stabilizing pattern

The conceptualization of the MNC's organizational model as a 'network' of independent and entrepreneurial companies was perfectly in line with the HQ entrepreneurial and familial conception of doing business and was hence taken for granted by all the Italian subsidiaries, as well as accepted by the almost fully integrated French unit. The same model, however, was completely misunderstood by the German subsidiary and a perception gap gradually emerged between the Italian holding company and the cross-border acquired subsidiary concerning the role of the latter within the MNC's organizational model.

The emergence of a perception gap between the Italian HQ and the German acquired subsidiary triggered a loop of HQ-subsidary complying and influencing interactions and a cautious quality of the HQ-subsidary relationship – what I call the 'stabilizing' pattern.

During and after the acquisition process, the Italian HQ had to comply with local specific regulations, and a particularly tricky aspect to manage was the relationship with the employees of the German subsidiary. According to the German law a company has to reach a prior agreement with the internal work council in case of economic decisions having a direct or indirect impact on employment relationships. The previous owner, accordingly, had to communicate to all the employees the change of employer and they had 30 days to oppose the transfer. None of them did.

Complying behavior from the HQ occurred also in relation to corporate governance issues. According to the German laws, the corporate governance model adopted in the newly acquired subsidiary had to be the dualistic system and contemplated the following corporate bodies: the shareholders' meeting (*Gesellschafterversammlung*); the supervisory board (*Aufsichtsrat*); the *Presidium* - a sort of executive committee; finally, three executive managers (*Geschäftsführung*) (see table 12 for details on each corporate body's power and composition). Particularly, the supervisory board was composed by nine members of which six were to be appointed by the shareholder (five by the Italian MNC and one by the minority shareholder; the HQ had to appoint six supervisory board members after the exercise of the call option and the acquisition of

100% shares) and three - one third of the members - by the work council, as required by the German system of co-determination (*Mitbestimmung*) for companies with more than 500 employees, or public companies.⁸

⁸ For companies with more than 2.000 employees the proportion is one half.

CORPORATE GOVERNANCE BODY	POWER	COMPOSITION 2006/2009	COMPOSITION 2009/2011	COMPOSITION 2011/2012
Shareholders' meeting (<i>Gesellschafterversammlung</i>)	Definition/Change of the corporate object Increase/Reduction of the share capital Approval of the financial statement Decision on the distribution of earnings Disposal/Sale of all or part of the assets or liabilities of the company Selection, appointment and dismissal of executive managers Definition of the power of executive managers Appointment/Dismissal of prosecutors Appointment/Dismissal of the supervisory board's members (in proportion to the shares owned)	Holding company (75,1%) and minority shareholder (24,9%). Only the holding company (100%) starting from 2007	Holding company (100%)	Holding company (100%)
Supervisory board (<i>Aufsichtsrat</i>)	Monitoring of the actions taken by the executive team Appointment of the statutory auditor	A French independent member of the HQ board of director and executive committee (Chairman) Three family members representing the majority shareholder The previous executive director of the company (representing the minority shareholder) Three workers representatives appointed by the work council (the external one is the Vice Chairman) An Italian independent member of the HQ board of director and executive committee	The Chairman of the local bank (Chairman) Three family members representing the majority shareholder (one of them is the second Vice Chairman) Three workers representatives appointed by the work council (the external one is the Vice Chairman) The finance HQ manager The Italian/German lawyer that supported the holding company during the acquisition process	Three family members representing the majority shareholder (one of them is the Chairman) Three workers representatives appointed by the work council (the external one is the Vice Chairman) The finance HQ manager The Italian/German lawyer that supported the holding company during the acquisition process (second Vice Chairman) An Italian group manager
<i>Presidium</i>	Sort of executive committee with the task of discussing urgent and important issues, without waiting for the formal convocation of the supervisory board	Chairman and Vice Chairman	Chairman and the two Vice Chairmen	Chairman and the two Vice Chairmen
Executive team (<i>Geschäftsführung</i>)	Responsible for managing the enterprise Power to jointly represent the company Power to sign (limited by internal rules), but always double signature Specific powers, but jointly and severally liable	A German manager (industrial) An Italian HQ manager (finance and administration) The <i>Directeur Général</i> of the French subsidiary (purchasing and sales)	A new German manager (purchasing, sales and industrial) The <i>Directeur Général</i> of the French subsidiary (no specific powers) One of the local advisor involved in the German restructuring process (Chief Restructuring Officer)	The German manager (purchasing and sales) A new German manager (industrial) The <i>Directeur Général</i> of the French subsidiary (integration in the group) One of the local advisor involved in the German restructuring process (Chief Restructuring Officer)

Table 12. German subsidiary corporate governance bodies

Regulatory institutions were not the only ones to which the HQ had to comply. The Italian holding company had to accept German traditions. For instance, even if the simple majority was formally required for supervisory board's resolutions, the peculiarity of the German system of co-determination always required the unanimity:

“In Germany there is a philosophy of unanimity in these things, so beyond what any rule says, they want that any decision is shared. Absolutely, and, if the decision is not at the unanimity, we rather don't discuss it and we postpone it.” (Interview with an Italian HQ manager, July 2012)

In a more active way, the HQ was, at the same time, trying to shape the values and criteria at the base of the German board of directors functioning:

“The supervisory board meetings were very different before, enormously different, with [the previous owner] they were much more structured. Starting from 2006, they have no longer been so structured, maybe because of the Italian mindset.” (Interview with a German subsidiary workers representative board member, July 2012)

The German subsidiary, in turn, had to comply with some constraints coming from the Italian holding company organizational model. Particularly, before the acquisition, the German unit had no specific loan agreements with banks, but was financed by the German parent company through a cash pool system, namely a centralized management of the MNC's financial requirements. The cash pool system lost validity at the moment of the acquisition and was not replicated by the Italian holding company which, in line with its conception of the group as a 'network' of independent and entrepreneurial companies, was pushing subsidiaries to act autonomously in their relationship with the banks:

“The financial management has changed. Cash-flow has become an important issue. At times we were part of [the German MNC previous owner of the unit], there was always a 'savings bank' with a lot of money in the background.” (Interview with a German subsidiary manager, 2007)

The German subsidiary adopted also a more active behavior in its interaction with the HQ. Whereas there was no practice transfer from the HQ to the subsidiaries, the German subsidiary kept on implementing 'best practices', and pushed for their adoption by the other companies of the group and by the Italian holding company:

“[The Chairman of the German subsidiary supervisory board] explains that the [TQM] project is fully managed by [the town where the German subsidiary is located], but it will be extended to the other companies of the group.” (Minute of the German subsidiary supervisory board, July 2007)

The combination of complying and influencing behaviors put in place by the HQ and the German subsidiary in their interactions was associated with a 'cautious' quality of the HQ-subsidary relationship. As a matter of fact, the Italian HQ and the German subsidiary were 'sniffing' and trying to understand each other:

"[The holding company] is trying to build a corporate identity. We have different accessories with a logo on them, which I gladly and proudly wear. Furthermore, various events at holding level have been organized. But it is not enough. There is no common identity in [the holding company]." (Interview with a German subsidiary manager, 2007)

This quality of the HQ-subsidary relationship led to additional complying and influencing interactions as the ones described before and, hence to a loop which stabilized the extant perception gap. Particularly, the Italian HQ was continuously supporting the 'network' model, while the German subsidiary was looking forward for a clear strategy from the holding company:

"The theory of the 'network' is that the holding has formally been constituted in this decentralized way where the holding is only responsible for strategic direction." (Interview with an Italian HQ manager, 2007)

"It would be nice to have a strategy for the holding as a whole. But we don't know whether there is such a strategy. The headquarters are too far away. We need a guideline on how [the holding company] and their subsidiaries operate and act on a general level." (Interview with a German subsidiary manager, 2007)

4.2.2 - Polarizing pattern

The drop in environmental munificence (Castrogiovanni, 1991) experienced by the MNC in 2009 together with the effect of the existing gap triggered an escalation of the internal political dynamics - increasingly challenging interactions - linked with an increasingly conflictual HQ-subsidary relationship (on the relationship between scarcity-munificence and conflict see March & Simon, 1958 and Staw & Szwajkowski, 1975).

Although a specific restructuring agreement was contemplated by the HQ in compliance with local regulations, the German subsidiary decided to conduct a completely independent strategic restructuring process:

"We were reaching a good level of progress in these activities, when, on December 14th, 2009, the executive managers of [the German subsidiary] gave mandate to [a German advisory company] for the restructuration of the German

unit. This has resulted in the slowdown and redefinition of the entire program of work for the development of the industrial and financial plan, since the German advisor didn't accept to work on the [advisor of the group]'s plan.” (Italian Chairman of the HQ board of directors, Minute of the HQ board of directors, February 2010)

All the stakeholders were involved in the management of the critical situation and the HQ had to accept this. Particularly, the unions declared their support for the adjustment of the structure and the workers expressed their agreement to discuss a restructuring plan for the workforce reduction and the wage cutting, the local banks were asked to maintain the existing credit lines and grant new finance, while the regional state should have provided the relative guarantees. Also customers and suppliers met on a regular basis to keep them updated on the situation of the company. Among the other requests made to the Italian shareholder, there were a sharp reduction of the management fees paid by the German subsidiary to the holding company, the repayment of the loan granted to the HQ a few years before, as well as a capital increase:

“The holding company has received from the German subsidiary the request to repay the loan [...]. In the absence of fulfillment from [the holding company], [the German subsidiary] will reserve the right to bring any appropriate action, even through the courts, for the acknowledgement of its claims.” (Minute of the HQ board of directors, February 2010)

Additionally, if during a crisis period we would expect to see a stronger control, monitoring and transfer of practices from the HQ to the subsidiary, in the case of the German subsidiary the relationship was completely inverted:

“[A member of the supervisory board, independent member of the HQ board of directors and executive committee] asks how this plan will be included in the group's strategic restructuring plan. [The German advisor] answers that the restructuring plan has changed compared to those drawn up in January [2010], since the approach has changed: now we resonate following a bottom-up and no longer a top-down logic (we start by the elaboration of a specific restructuring plan for [the German company] and then we include the results in the global plan of the [holding company]).” (Minute of the German subsidiary supervisory board, February 2010)

The only attempt of centralization performed by the HQ, namely the appointment of the same audit firm – an internationally known company - in all the subsidiaries, failed and the German board confirmed the local audit firm despite an increase in costs.

Major changes happened, furthermore, in the corporate governance structure of the German subsidiary (see table 12). Particularly, the new supervisory board was formally appointed in July 2010 and the Chairman position was assigned to the Chairman of the local bank. Concerning the executive team, the stakeholders involved in the strategic restructuring plan, and particularly the banks and the *Land*, asked for the appointment of a Chief Restructuring Officer (CRO) with the task of monitoring the compliance with the restructuring plan, supporting the executive managers in its execution and managing the relationships with all the stakeholders involved. The person chosen for this role was one of the local advisors that were working at the restructuring project of the subsidiary. Finally, in February 2011, a German manager with a significant international experience in large MNCs and who was very welcomed by the local bank, joined the executive team:

“[The new German executive manager] was recommended by several people, but everything was decided during particular moments in which the company was not allowed to... or this or nothing! You don’t have complete autonomy and everything is a little bit... like that.” (Interview with an Italian HQ manager and German subsidiary board member, July 2012)

The restructuring agreement of the German company was signed in May 2010 and became effective in August of the same year with the issuance by the regional state of the related guarantees. The only shareholder of the German subsidiary, the holding company, had been asked to sign a trustee agreement determining some conditions, the occurrence of which would have determined the loss of the ownership. These arrangements were included in the group restructuring agreement, which was formally ratified on May 2011.

The German subsidiary’s challenging behaviors and the HQ’s complying attitude were associated with a ‘conflictual’ HQ-subsidiary relationship:

“At a certain point [the German subsidiary] was separated, as if it was a separate manor” (Interview with an Italian HQ manager, July 2012)

At the same time, the jolt led to reflexivity that resulted in a change in the nature of the HQ-subsidiary perception gap – the metamorphosis. At that point, indeed, the subsidiary’s actors had understood the HQ’s conception of the subsidiary’s role within the MNC’s organizational model, but the HQ-subsidiary perception gap was kept alive as a ‘politicized perception gap’, that is as a political tool used by the actors of the dyad to pursue their own interests. Giving that interests were not uniform within the

subsidiary - workers aimed at the survival of the company, while managers were looking for more autonomy - the ‘polarizing’ pattern resulted in a split of the HQ-subsidiary perception gap – *HQ-subsidiary’s workers* perception gap versus *HQ-subsidiary’s managers* perception gap.

Particularly, at that moment, the Chairman of the German subsidiary supervisory board, as well as two of its executive managers were an expression of the banks. The employees feared that banks were searching for a new shareholder or for a change in the business strategy and they started to feel threatened by the possible consequences. Despite not having enough financial resources to solve the structural weaknesses characterizing the German subsidiary, the Italian shareholder and its industrial expertise started to be considered by the workers as the best solution for the survival of the company:

"[The external workers representative] intervenes to express once more his support to [the Italian Chairman of the HQ board of directors] and to the shareholder [the holding company] trusting that the restructuring process will be successful. [The internal workers representative] confirms what said by [the external workers representative], adding that the previous owner would have chosen to close the company, whereas [the holding company] is doing its utmost to keep [the German subsidiary] alive." (Minute of the German subsidiary supervisory board, April 2010)

The situation of dependence from local banks was, instead, regarded as beneficial from the managers’ point of view, because banks didn’t know their industrial reality and were not able to question them on operative issues. The HQ-subsidiary perception gap was thus maintained active by managers in order to gain much more autonomy:

“The main problem for me was in 2008 crisis especially in Germany [...] I believe I have made my job to save the company, but I think that today if I should ask to [the Italian Chairman of the HQ board of directors], he believes that the company was not in danger and that even if he doesn’t say, he believes I didn’t do my job because I didn’t follow the shareholder, but there is a point when you cannot follow the shareholder if you believe the shareholder is going to put you into a wall.” (Interview with a German subsidiary executive manager, July 2012)

Finally, the Italian HQ was still supporting the ‘network’ model with the purpose of generating synergies among the subsidiaries:

“The dominant role of the restructuring criticisms and the related financial events [...] didn’t affect the model on which we have based our mission, model that continued to show excellent stability also during the great depression.” (Letter to the shareholders, Consolidated financial statement, 2010)

4.2.3 - *Neutralizing pattern*

The politicized perception gaps and, particularly, the commitment of the German subsidiary's workers to support the industrial project of the holding company with the purpose of ensuring the survival of the German unit, triggered a new pattern of HQ-subsubsidiary interactions and quality of the HQ-subsubsidiary relationship - the 'neutralizing' pattern.

The German subsidiary supervisory board recorded some new relevant changes (see table 12): the local bank representative left the board and the Chairman of the HQ board of directors, an Italian family member, was co-opted and appointed as Chairman of the German subsidiary supervisory board:

Italian Chairman of the HQ board of directors: "In this moment it would be desirable that the Chairman of [the German subsidiary] supervisory board would be a member of [the holding company]'s board of directors." Member of the HQ board of directors and shareholder: "It is useless to beat around the bush, the person who has been requested is [the Italian Chairman of the HQ board of directors]"(Observation of the HQ board of directors' meeting, July 2012)

The bank representative was replaced in the board by an Italian manager working for the group and fluently speaking German. In May 2012 the new Chief Operating Officer of the German subsidiary was appointed. The choice fell on a German manager with a technical educational background, who worked for large MNCs and that, few years before, was the production manager in the German unit. With this nomination, the executive team was recomposed: two German directors and a French one, the latter with the task of integrating the German unit into the group.

Moreover, a specific box in the German subsidiary organizational chart was dedicated to the 'networking' activity with the aim to develop synergies with the other companies in the 'network'.

In an attempt to break the deadlock, in October 2011 the HQ also organized the annual meeting of the group in Germany. It was the first time that the German subsidiary hosted this group event of team building and information sharing.

This co-opting, complying and influencing interactions unfolded together with an increasingly 'consensual' HQ-subsubsidiary relationship. Conflict had been neutralized and a truce among the competing interests occurred:

"Now we have found the right path, the right direction, now we can talk more, we can work together and more and it is also for this that we will appoint [the Italian Chairman of the holding company board of directors] Chairman of the German subsidiary supervisory board and this will be our strength in the future. [...] Now we have a much tighter gear which will help us in the future, since these people are inside the company and understand its reality." (Interview with a German subsidiary workers representative board member, July 2012)

"I think the possibility to have [the Italian Chairman of the HQ board of directors] once a month or twice a month here will be very, very helpful for the understanding of [the German subsidiary] and for our understanding of [the group]" (Interview with a German subsidiary executive manager, July 2012).

The Italian Chairman of the HQ board of directors thanks the supervisory board members that trusted him. He adds that he took this position with a view to strengthen the link between [the German subsidiary] and the other companies of the group, as well as to create an atmosphere of cooperation. He also highlights that this is a sign of attention from [the holding company] to the biggest reality of the group and asks all the other supervisory board members, and especially the external workers representative, to collaborate. (Observation of the German subsidiary supervisory board's meeting, July 2012)

4.2.4 - Summary

The findings suggest that the evolution and metamorphosis of the HQ-subsidary perception gap during a process of cross-border, post-acquisition integration can be explained referring to the loops generated by the HQ-subsidary interactions and the quality of the HQ-subsidary relationship. Particularly, a careful analysis of data reveals three different patterns following one another in time (see figure 6). The 'stabilizing' pattern occurs right after the cross-border acquisition and the emergence of a perception gap between the Italian HQ and the German subsidiary. It is characterized by complying and influencing interactions, a cautious quality of the HQ-subsidary relationship and it results in a stabilized HQ-subsidary perception gap. The 'polarizing' pattern is triggered by the jolt which, together with the effect of the existing perception gap, has two main implications: first, the internal political dynamics are intensified; second, the HQ-subsidary perception gap is endogenized within the internal political process and becomes something more than a cognitive phenomenon. This leads to a split in the perception gap – *HQ-subsidary's workers* perception gap and *HQ-subsidary's managers* perception gap. The politicized perception gaps unleash the third and final

pattern – the ‘neutralizing’ pattern – in which co-opting, influencing and complying interactions occur together with an increasingly consensual HQ-subsidary relationship and culminate in a truce between the HQ and all the internal stakeholders of the acquired subsidiary.

The following general propositions emerge from the model:

Proposition 2a: The evolution and metamorphosis of the HQ-subsidary perception gap are explained by the HQ-subsidary interactions and the quality of the HQ-subsidary relationship.

Proposition 2b: The evolution and metamorphosis of the HQ-subsidary perception gap involve different patterns and are influenced by exogenous events.

Proposition 2c: The HQ-subsidary perception gap can mutate into a political tool used by the HQ or the subsidiary actors to pursue their own interests.

Proposition 2d: The HQ and subsidiary perceptions are influenced by the national institutional contexts in which they are located.

Proposition 2e: Perceptions within the HQ or the subsidiary can be non-uniform also due to the institutional-bound constitution of governance models.

CHAPTER 5

FINDINGS: LONGITUDINAL AND COMPARATIVE ANALYSIS OF SUBSIDIARIES' ORGANIZATIONAL DESIGN

In this chapter I explore to what extent and how national societal differences affect the meso level of organizational design within MNCs and, particularly, the organizational configurations (section 5.1) and the boards of directors composition (section 5.2) of subsidiaries belonging to the same MNC, but located in different countries. I also take a longitudinal perspective examining to what extent and how these differences change following the outbreak of the crisis.

5.1 - Organizational configurations

In line with the SEA tradition, the analysis consisted in a matched-pair comparison, controlling for the following variables: product, technology, size, location and dependence (Maurice et al., 1980). As can be seen in table 10, matching with regard to product, location and dependence is quite successful: all the examined units are active in the production of the same product identified with 'X'; all are localized in industrial high developed regions, such as Lombardy, Massachusetts, Paris *banlieue*, the Ruhr area; all are controlled by the same Italian holding company. Some discrepancies occur, instead, in the technology and size columns, since the manufacturing units use three different technologies and have a different number of employees. In order to overcome this problem I subdivided the sample considering these two variables and, matching for them, I eventually obtained three matched-pair comparisons (see tables 13, 14 and 15). It was not possible to include in the comparative analysis the technology 3, used only by the German subsidiary, and Italian subsidiary B whose size was too small to be compared with the other units.

COMPANY	PRODUCT	TECHNOLOGY	SIZE (N° of employees)		LOCATION	DEPENDENCE
			2008	2010		
German Subsidiary	X	2	154	108	Schwerte Germany	Controlled by the Italian holding company
Italian Subsidiary D	X	2	122	109	Talamona (SO) Italy	Controlled by the Italian holding company
French Subsidiary	X	2	80	77	Persan France	Controlled by the Italian holding company

Table 13. Technology 2 - Matching of firms

COMPANY	PRODUCT	TECHNOLOGY	SIZE (N° of employees)		LOCATION	DEPENDENCE
			2008	2010		
Italian Subsidiary A	X	1	182	173	Merate (LC) Italy	Controlled by the Italian holding company
German Subsidiary	X	1	149	107	Schwerte Germany	Controlled by the Italian holding company

Table 14. Technology 1 - Matching of bigger firms

COMPANY	PRODUCT	TECHNOLOGY	SIZE (N° of employees)		LOCATION	DEPENDENCE
			2008	2010		
Italian Subsidiary C	X	1	62	62	Agrate Brianza (MB) Italy	Controlled by the Italian holding company
US Subsidiary	X	1	57	44	Palmer, MA (US)	Controlled by the Italian holding company

Table 15. Technology 1 - Matching of smaller firms

Table 16 shows the results for the first two pair-matched comparisons (technology 1 and 2 - bigger units) with reference to both 2008 and 2010. Comparing the two technologies, the only significant difference is related to the number of production and maintenance workers, the former prevailing in companies using technology 1, the latter dominating in companies using technology 2. The interviews confirmed that this difference was related to the special requirements associated with technology 2.

Focusing on countries, the technology 2 group is the most significant one, including all the three countries - Italy, France and Germany. Results obtained in 2008 for France and Germany support previous studies highlighting national societal differences (see Appendix A for more details on previous results): workers are the leading component in Germany (about 75% compared to 54% in France); whereas the French organizational configuration is dominated by staff employees (46% compared to about 25% in

Germany). Proportions similar to the latter are found for clerical and commercial employees as well as for managers. Technical staff, instead, represents a significant exception if compared to previous studies: about 12% in Germany, 10% in France. Italian data show its closeness to Germany with reference to employees distribution between workers and staff (about 73% the former, about 27% the latter), whereas to France concerning the relative size of managers. Italy holds an intermediate position between the other two European countries considering the number of supervision, clerical and commercial employees. Finally, the Italian share of technicians and engineers is the lowest one.

The impact of the crisis on organizational configurations could be appreciated comparing 2008 and 2010 results. The main changes concerns the French subsidiary where the shares of technicians and workers change following the societal specific tendency described within the SEA. As a matter of fact, the former experience a relative increase in their weight, whereas a relative decrease is recorded for the latter. Italy and Germany show, instead, relative stable shares of personnel, apart from a minor convergence in the relative weight of production and maintenance workers, in accordance with the trend described by Delmestri (1998) for the machine tool industry: in boom years German firms would tend to grow in production areas, such as maintenance, that require the use of higher technical skills created in surplus by the apprenticeship system, while Italian firms, less supported by the educational system, are able to invest on the creation of skills in such areas only during downturns. The spider graphs in figure 7 and 8 further emphasize what has been claimed so far.

		Italy		France		Germany	
	Technology	2008	2010	2008	2010	2008	2010
1-Production workers	2	54,92%	50,46%	40%	38,96%	38,32%	39,85%
	1	65,38%	63,01%			51,67%	53,44%
2-Maintenance workers, toolmakers	2	18,03%	19,27%	13,75%	11,69%	36,69%	33,82%
	1	8,79%	8,67%			24,49%	21,09%
3-Supervision	2	4,10%	5,50%	12,50%	12,99%	2,92%	3,71%
	1	2,75%	2,31%			1,68%	1,88%
4-Technicians, engineers junior	2	5,74%	5,50%	6,25%	11,69%	12,34%	11,68%
	1	7,69%	8,09%			12,39%	11,70%
4*-Technicians, engineers senior	2	0,82%	0,92%	3,75%	3,90%	0,14%	0,20%
	1	1,65%	1,73%			0,14%	0,20%
5-Clerical, administrative, commercial employees junior	2	8,20%	9,17%	13,75%	10,39%	5,36%	5,50%
	1	8,24%	9,83%			5,39%	6,44%
5*-Clerical, administrative, commercial employees senior	2	1,64%	1,83%	5%	5,19%	1,14%	1,38%
	1	2,20%	2,31%			1,14%	1,38%
6-Managers	2	6,56%	7,34%	5%	5,19%	3,08%	3,87%
	1	3,30%	4,05%			3,10%	3,88%

Table 16. Technology 2 & Technology 1 (bigger size) - Share of workforce categories on total workforce

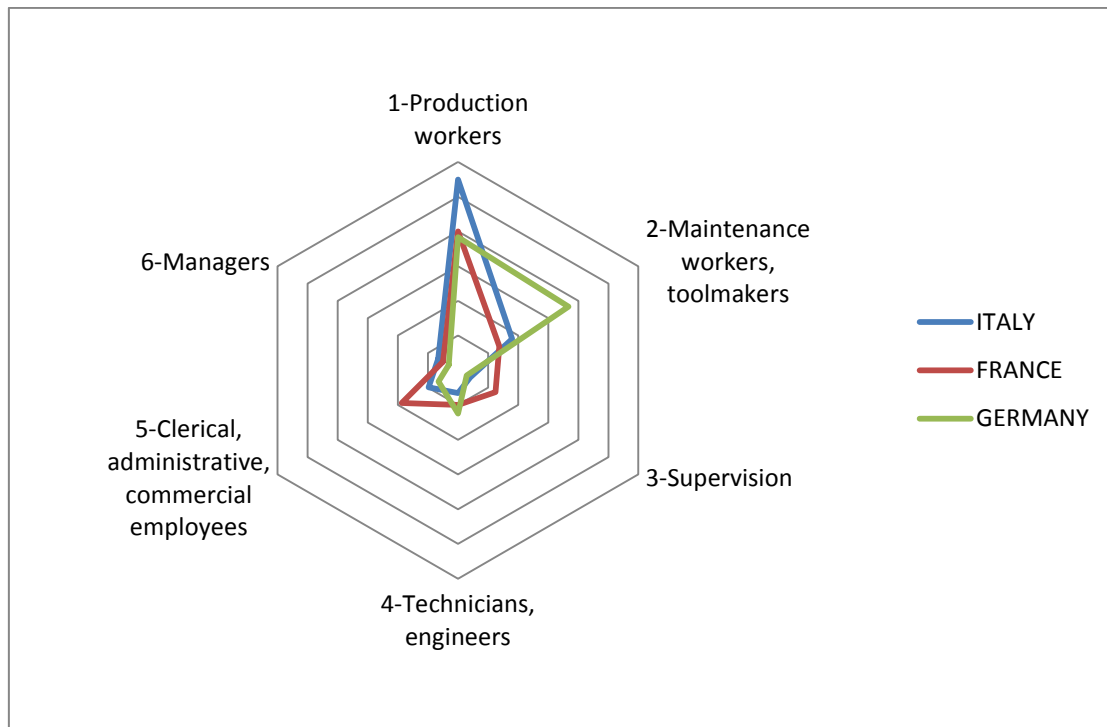


Figure 7. Technology 2 (bigger size) - Share of workforce categories on total workforce – 2008

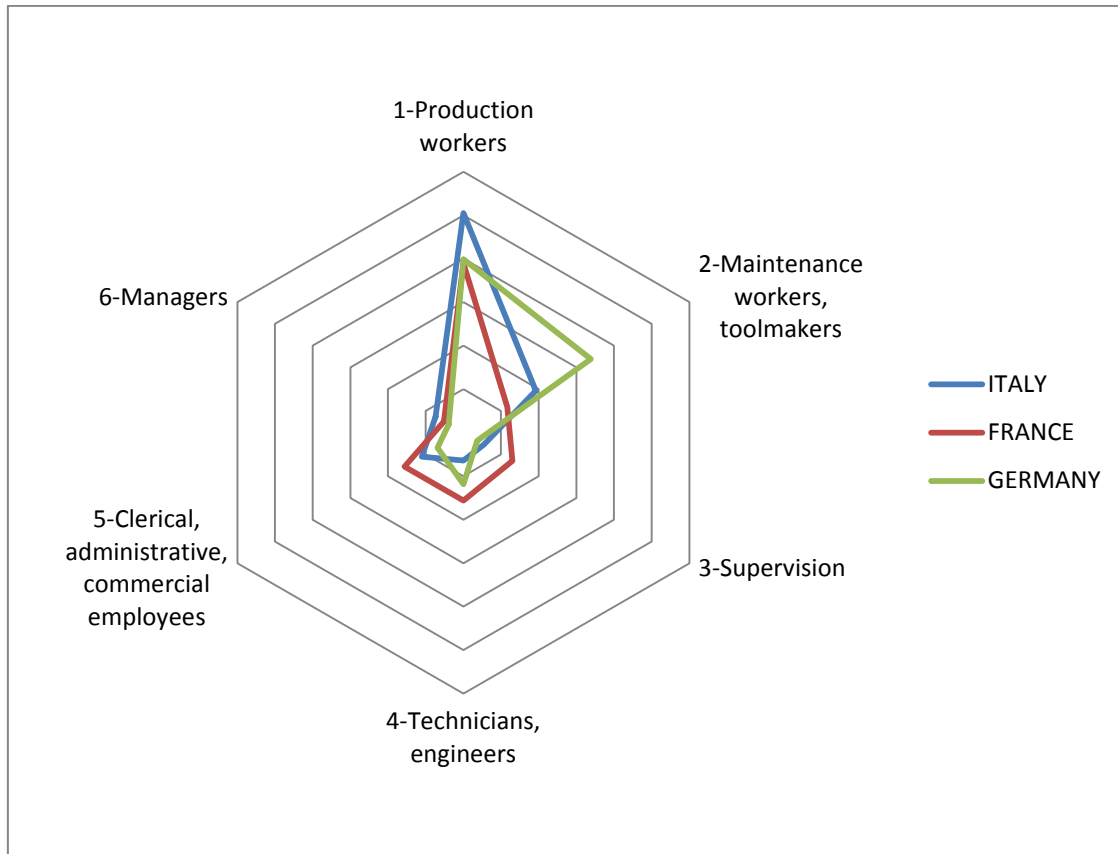


Figure 8. Technology 2 (bigger size) - Share of workforce categories on total workforce - 2010

Table 17 shows the results for the pair-matched comparison between the Italian and the US smaller subsidiaries specialized in technology 1. In 2008 the US subsidiary presents lower percentages of workers and higher ones of supervision, administrative and technical staff. This data, seen in comparisons to the Italian ones, are very similar to the results obtained in previous SEA's studies for Great Britain (see Appendix A for more details on previous results). A deepening of societal characteristics for the US unit can be observed comparing 2008 and 2010: a reduction of the workers' share, as well as an increase in the already relatively high shares of managers, supervision and technical staff employees. Italian figures, instead, remained relatively stable. Also in this case, I used the spider graph tool to highlight the different shape of the two subsidiaries' organizational configurations and their changes in time (see figure 9 and 10).

		Italy		US	
	Technology	2008	2010	2008	2010
1-Production workers	1	62,90%	61,29%	54,39%	52,27%
2-Maintenance workers, toolmakers	1	6,45%	6,45%	7,02%	4,55%
3-Supervision	1	8,06%	9,68%	12,28%	13,64%
4-Technicians, engineers junior	1	8,06%	8,06%	7,02%	6,82%
4*-Technicians, engineers senior	1	0,00%	1,61%	1,75%	2,27%
5-Clerical, administrative, commercial employees junior	1	6,45%	6,45%	8,77%	6,82%
5*-Clerical, administrative, commercial employees senior	1	0,00%	0,00%	0,00%	0,00%
6-Managers	1	8,06%	6,45%	8,77%	13,64%

Table 17. Technology 1 (smaller size) - Share of workforce categories on total workforce

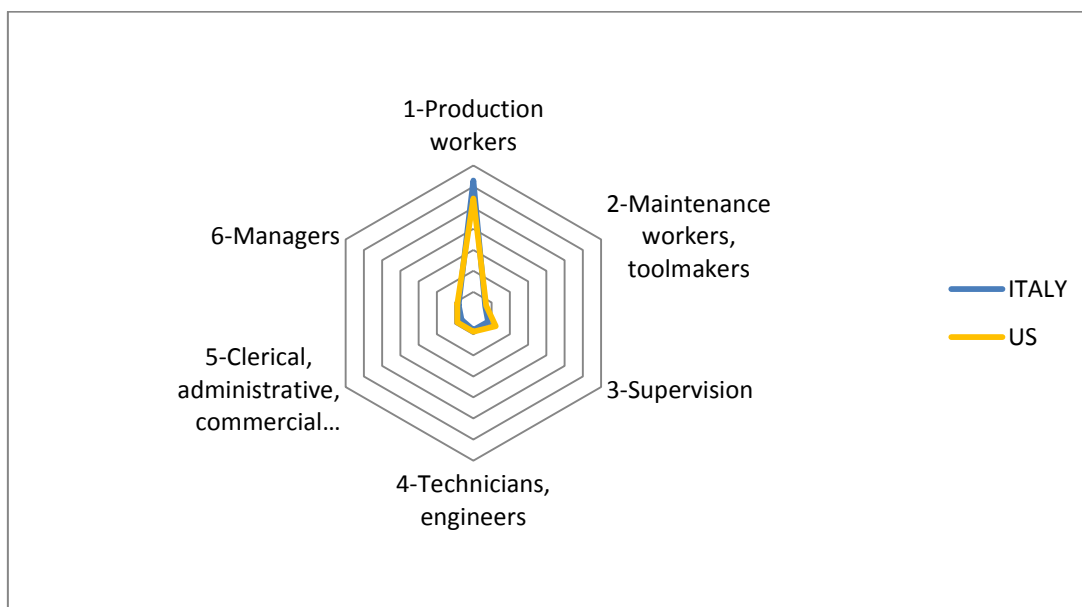


Figure 9. Technology 1 (smaller size) - Share of workforce categories on total workforce – 2008

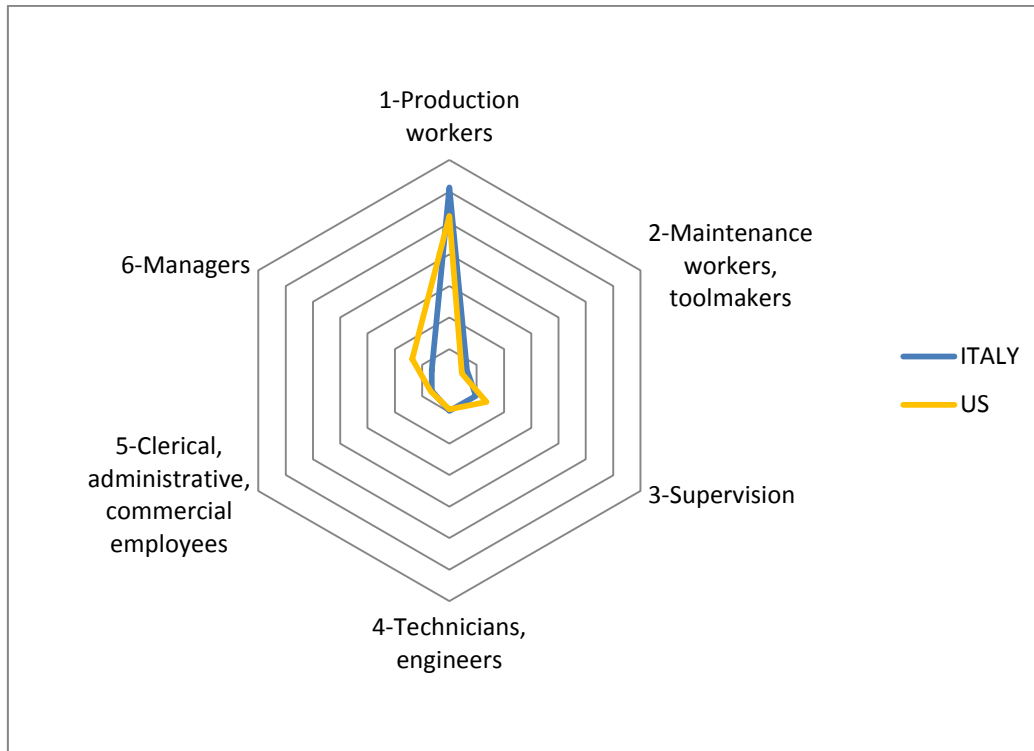


Figure 10. Technology 1 (smaller size) - Share of workforce categories on total workforce - 2010

In order to have a better understanding of the comparisons and as suggested by Maurice and colleagues (1980) and Sorge and Warner (1986), I calculated some index numbers relating the absolute size of each staff component to the absolute size of workers. Starting from the analysis of 2008 Italian, French and German data (see table 18), the first index, partially already commented, underlines the similarity between the Italian and German subsidiaries with reference to workers predominance out of total personnel, as well as the staff relevance in the French organization. The share of supervision/workers confirms a trend emerged in previous analysis: the French unit has the highest value, whereas the German the lowest one. Italy takes an intermediate position, but closer to Germany. We found the same order for clerical and commercial components. Concerning the ratio of managers to workers, if for technology 1 the Italian rate is similar to the German one, confirming previous studies, for technology 2 the Italian and French shares are higher than the German one. Also the relative size of staff technical components shows a different trend compared to Maurice, Sorge and Warner (1980) results: whereas in previous analysis France had the highest share and Germany the lowest one, the firms studied here highlight a similarity between French and German values (19% the former, about 16% the latter). This result reflects the

technical staff percentages of total employees mentioned above. Italy, instead, records the lowest ratio (11% on average).

The latest two indexes introduce the variable authority position. The first one - authority positions/workers - supports Sorge and Warner (1986) results, namely the lowest value for Germany and the highest one for France, and shows for Italy a value in the middle. The weight of authority positions on staff, instead, has some peculiarities corresponding to what observed with reference to the staff technical components: Germany, that in previous studies showed the highest value, takes a position closer to France (an average of 28% for the former, 30% the latter), whereas the highest value is the one recorded in Italian units (an average of 40%). In other words, the share of technical, commercial or other specialists, and of clerical personnel, as part of the total staff personnel which does not carry well-defined regular authority, is greatest in France, smallest in Italy and intermediate, but closer to France, in Germany. This can also be described in terms of varying degrees of hierarchical intensity of staff: the lowest value in France, the highest one in Italy and an intermediate position for Germany.

Comparing 2008 and 2010 we observe some changes: as already highlighted above, in France the share of technical staff employees out of workers records a consistent relative increase; concerning the variable authority position, we can underline a relative rise in the index authority positions on workers, maybe due to the crisis and the resulting reduction of the workforce; the quotient authority positions on staff records a substantial stability in Italy, a relative weak reduction in France emphasizing the tendency of non-hierachization of staff described by Maurice, Sorge and Warner (1980), a relative increase in Germany, more and more close to Italy.

		Italy		France		Germany	
	Technology	2008	2010	2008	2010	2008	2010
Workers' share of total personnel	2	72,95%	69,72%	54%	50,65%	75,01%	73,67%
	1	74,18%	71,68%			76,16%	74,53%
Supervision/Workers	2	5,62%	7,89%	23%	25,64%	3,90%	5,03%
	1	3,70%	3,23%			2,20%	2,52%
Ratio of managers to workers	2	8,99%	10,53%	9%	10,26%	4,10%	5,26%
	1	4,44%	5,65%			4,07%	5,21%
Administrative and commercial personnel/Workers	2	13,48%	15,79%	35%	30,77%	8,67%	9,33%
	1	14,07%	16,94%			8,57%	10,48%
Technical staff employees/Workers	2	8,99%	9,21%	19%	30,77%	16,64%	16,12%
	1	12,59%	13,71%			16,46%	15,96%
Authority positions/Workers	2	15,73%	18,42%	26%	28,21%	10,39%	12,58%
	1	13,33%	14,52%			7,73%	10,06%
Authority positions/Staff	2	42,42%	42,42%	30%	28,95%	31,19%	35,20%
	1	38,30%	36,73%			24,69%	29,45%

Table 18. Structural specialization and differentiation in Italy, France and Germany

We calculated the same indexes with regard to the Italy – US comparison (see table 19). The overall stability of the Italian figures can be compared with a strengthening of societal characteristics for the US unit.

		Italy		US	
	Technology	2008	2010	2008	2010
Workers' share of total personnel	1	69,35%	67,64%	61,40%	56,82%
Supervision/Workers	1	11, 63%	14,29%	20,00%	24,00%
Ratio of managers to workers	1	11,63%	9,52%	14,29%	24,00%
Administrative and commercial personnel/Workers	1	9,30%	9,52%	14,29%	12,00%
Technical staff employees/Workers	1	11,63%	14,29%	14,29%	16,00%
Authority positions/Workers	1	23,26%	26,19%	37,14%	44,00%
Authority positions/Staff	1	52,63%	55%	59,09%	57,89%

Table 19. Structural specialization and differentiation in Italy and the US

5.2 - Boards of directors composition

After having explored the organizational configurations of subsidiaries belonging to the same MNC, but located in different countries, in this section the attention shifts to their boards of directors composition and on how this evolved over time. The board of

directors, indeed, is generally considered the fulcrum of corporate governance and the key organizational body in which the fate of the company is decided (Clarke, 2007).

In reporting the findings of the comparative and longitudinal study on the boards of directors composition, I will focus on three characteristics that are considered important in the literature on corporate governance and that emerged as particularly relevant from the analysis of data: the size of board of directors, the different stakeholders represented in the board and the variety in terms of board members' nationality (see for example Pfeffer, 1972; Goodstein, Gautam & Boeker, 1994; Ruigrok, Peck, & Tacheva, 2007) (see Table 20, 21 and 22).

		Board members	Number of employees	%
Italian subsidiary A	2008	3	181	1,66%
	2010	3	172	1,74%
Italian subsidiary B	2008	6	30	20,00%
	2010	6	28	21,43%
Italian subsidiary C	2008	5	61	8,20%
	2010	4	62	6,45%
Italian subsidiary D	2008	8	118	6,78%
	2010	8	105	7,62%
French subsidiary	2008	5	80	6,25%
	2010	4	80	5,00%
German subsidiary	2008	12	705	1,70%
	2010	12	531	2,26%
US subsidiary	2008	5	58	8,62%
	2010	5	44	11,36%

Table 20. Board of directors size

		Outsiders		Family members - Majority shareholder representatives		Minority shareholder representative s		HQ managers		Subsidiary managers		Other subsidiaries managers		Workers representatives		Other stakeholders representative s (e.g. Banks, Government)		TOTAL Board members
			%		%		%		%		%		%		%		%	
Italian subsidiary A	2008	2	67%	1	33%													3
	2010	2	67%	1	33%													3
Italian subsidiary B	2008	1	17%	2	33%	2	33%	1	17%									6
	2010	1	17%	2	33%	2	33%	1	17%									6
Italian subsidiary C	2008			2	40%			3	60%									5
	2010			2	50%			2	50%									4
Italian subsidiary D	2008	2	25%	5	62,50 %							1	12,50 %					8
	2010	1	13%	5	63%					1	13%	1	13%					8
French subsidiary	2008	3	60%	1	20%					1	20%							5
	2010	2	50%	1	25%					1	25%							4
German subsidiary	2008	2	16,67%	3	25%	1	8,33%	1	8,33%	1	8,33%	1	8,33%	3	25%			12
	2010	1	8,33%	3	25%			1	8,33%	1	8,33%	1	8,33%	3	25%	2	16,67%	12
US subsidiary	2008	1	20%	1	20%			2	40%	1	20%							5
	2010	1	20%	1	20%			2	40%	1	20%							5

Table 21. Board of director composition by stakeholders represented (gray cells indicate which category includes the Chairman of the board)

		Italian		German		French		American		TOTAL Board members
			%		%		%		%	
Italian subsidiary A	2008	3	100%							3
	2010	3	100%							3
Italian subsidiary B	2008	6	100%							6
	2010	6	100%							6
Italian subsidiary C	2008	5	100%							5
	2010	4	100%							4
Italian subsidiary D	2008	6	75%			2	25%			8
	2010	6	75%			2	25%			8
French subsidiary	2008	3	60%			2	40%			5
	2010	2	50%			2	50%			4
German subsidiary	2008	5	41,67%	5	41,67%	2	16,67%			12
	2010	5	42%	6	50%	1	8%			12
US subsidiary	2008	3	60%					2	40%	5
	2010	3	60%					2	40%	5

Table 22. Board of director composition by nationality (gray cells indicate which category includes the Chairman of the board)

Starting from 2008 data, both French and Italian subsidiaries recorded high percentages of board members compared to the total number of employees (see table 20), and had a large representation of owners on board (see table 21), confirming what claimed by Clarke (2007) for European Latin boards. The highest percentages of family members, however, were found in Italy. Within this almost homogeneous picture, Italian subsidiary A represents an exception and records very low percentages of board of directors members out of the number of employees, as well as a moderate percentage of family representatives on the total board members. This result is related to the difficult situation faced by that subsidiaries in the relationship with the minority shareholders that, during 2008, led to big changes in the board composition: reduction in the number of board members - especially family representatives - and appointment of outsiders. Data collected for this subsidiary in previous years revealed, as a matter of fact, a situation very similar to what recorded in the other Italian subsidiaries (for example, the percentage of family representatives was 71% in 2004 and 2005, 67% in 2006 and 2007). All the Italian and even the French board of directors were Italian people dominated (see table 22). In the Italian subsidiaries the only foreigners were

French people known to the Italian family since before the constitution of the holding company. The percentage of outsiders, namely directors who have no personal connections or business dealing with the firm, was relatively low in all the subsidiaries except for Italian subsidiary A and the French one. The latter was also characterized by the presence of subsidiary managers maintaining a link with the reality existing before the acquisition by the Italian company (see table 21). The Chairman of the board of directors was an Italian family member in all the Italian subsidiaries, whereas in France the role of Chairman was attributed to a French independent member with a technical and entrepreneurial experience in the group's reference industry and who had previously worked for the French MNC from which the French unit was acquired. According to French laws, the Chairman was supported by a '*Directeur Général*' who, in the case of the French unit, was a French engineer, already manager of the subsidiary (see table 21 and 22). Concerning the functioning, the Italian and French subsidiaries had at least three board of directors' meetings per year on a regular basis in order to approve formal documents, such as the financial statement, the six-months financial statement and the budget. Whereas Italian board of directors' meetings occurred in the presence of the board of auditors, the French ones were characterized by the presence of two '*délégués du Comité d'Entreprise*' (work council's representatives) who, nonetheless, didn't have the right of vote or word.

The German supervisory and management boards had a lower percentage of board members out of the total number of employees compared to the other subsidiaries - except for Italian subsidiary A - (see table 20). Moreover, the German boards had a more variegated composition and showed a clear tendency to represent a large number of stakeholders (see table 21). This tendency was also evident concerning the nationality of the boards members: compared to the other subsidiaries, the German unit was the only one where Italian people were not dominating the board (see table 22) . At the moment of the acquisition and up to 2010, the position of Chairman of the supervisory board was assigned to the Chairman of the French subsidiary. As in the case of the other subsidiaries, the supervisory board met at least three times per year on a regular basis in order to approve formal documents. Meetings were very formal and they were held in German and Italian with the support of a translator, while German was defined as the official language for the documentation.

The US subsidiary's board of directors was among the largest in terms of the number of board members out of the total number of employees (see table 20), supporting what argued by Clarke (2007) for US boards. Even if the majority of members was Italian and the Chairman position was entrusted to an Italian family member, compared to the Italian subsidiaries boards, the US one was characterized by a lower impact of family representatives on the total number of board members (see table 21 and 22). Moreover, the President - the person who, according to the US law, has ordinary and extraordinary powers to act in a US company - was an American lawyer, independent outside member of the board. Finally, as in the case of the other cross-border subsidiaries, the US board was characterized by the presence of subsidiary managers ensuring a link with the reality existing before the acquisition by the Italian holding company. Concerning the functioning, the US board of directors' meetings were much more informal compared to what the holding company was used to:

“Since the American board of directors' processes are usually informal, we tried to push them towards more formality, especially for some crucial deadlines, such as the consolidated financial statement.” (Interview with a HQ manager, March 2013)

Moving to a longitudinal analysis, a clear tendency concerns family representatives who increase their relative weight in two Italian subsidiaries and in the French one, while retaining constant percentages in the other companies. Outsiders, instead, reduce their presence either in Italy, France and Germany. There are no changes in the board composition of the US subsidiary, whereas the major changes happens in the German subsidiary where a complete redistribution of power takes place: the Chairman position is attributed to a local bank representative; moreover, the local stakeholders - the banks and the regional state - asks for the appointment of one of the German subsidiary's local advisors as Chief Restructuring Officer. As a result of these changes, German board of directors' members exceed Italian ones (see tables 20, 21 and 22).

5.3 - Summary

Both the results on organizational configurations and boards of directors composition reveal interesting national specificities.

Concerning the former, the results obtained for France and Germany support previous studies: the relative size of workers as part of total personnel is largest in Germany; conversely, staff employees form a more sizeable element in France. Adding the Italian case to this picture, I can underline its closeness to Germany with reference to employees' distribution between workers and staff. Italian organizations have, instead, an intermediate position considering the number of supervision, clerical and commercial employees. These national characteristics are even more noticeable looking at the same organizational configurations in 2010, namely after the outbreak of the crisis. The main changes concern the French unit - a relative increase in the weight of technicians and a relative decrease in the consistency of workers - and are in line with the societal specific tendency described by Maurice and colleagues in 1980. Italy and Germany show, instead, relative stable shares of personnel, apart from a slight convergence in the relative weight of production and maintenance workers. With reference to the Italy-US comparison, the results in 2008 seem very similar to Sorge and Warner interpretation of their British figures (1986). As a matter of fact, the Anglo-American organization presents a lower workers' component and a higher supervision, administrative and technical staff component. Comparing 2008 and 2010, the US subsidiary records an increase in the already relatively high shares of managers, supervision and technicians combined with a relative decrease in the workers share. Also in this case there is, hence, a deepening of societal characteristics.

Similarly, the boards of directors composition in the seven subsidiaries highlights the existence of national societal specificities. For example, the highest percentages of family representatives can be found in Italy, whereas foreign subsidiaries are characterized by a lower impact of family representatives on the total number of board members. Compared to the other subsidiaries, the German board has less member in proportion to the total number of employees, but, at the same time, it is characterized by a bigger variation in terms of stakeholders and nationalities represented. These local peculiarities are even more apparent in 2010, compared to 2008.

Summarizing, I found that each subsidiary, despite sharing the same contingency as the others - product, technology, size, location and dependence -, presented a peculiar organizational and governance 'shape' that was consonant with the societal institutions governing industrial organizations in the countries under investigation - France,

Germany, Italy, and the United States. These differences became even more pronounced following the political dynamics triggered by the crisis.

CHAPTER 6

CONCLUSIONS

6.1 - Contributions

This thesis sheds light on MNCs' rich and multifaceted internal political life and provides a dynamic view of the HQ-subsidary perception gap construct. Whereas previous contributions were based on questionnaires submitted to a plurality of HQ-subsidary dyads at a given point in time (Birkinshaw et al., 2000; Chini et al., 2005), the use of a qualitative, single case research design, together with the collection and analysis of longitudinal data made it possible to observe the emergence, evolution and metamorphosis of the HQ-subsidary perception gap. Moreover, after decades of globalization, this research confirms the enduring relevance of nationally divergent institutional logics (Maurice et al., 1980), as well as the need and opportunity to investigate the meso level of subsidiaries' organizational design.

Drawing from both international business and institutional perspectives on the HQ-subsidary relationship this thesis makes a number of contributions to the current debate on HQ-subsidary perception gap. First and contrary to the existing literature on HQ-subsidary perception gap which focuses on its cognitive dimension and understates its link with power and politics (Birkinshaw et al., 2000; Asakawa, 2001; Chini et al., 2005), I show that perception gaps can become endogenous in MNCs internal political processes and, thus, be used to pursue specific interests. Particularly, the model of perception gap evolution and metamorphosis highlights the role of the actors involved in the MNC's internal political process and the relevance of their interactions to describe the evolution and metamorphosis of the HQ-subsidary perception gap. The present research corroborates thus the micro-political dynamics perspective's view of MNCs as 'micro-political systems' (Morgan & Kristensen, 2006; Geppert & Dörrenbächer, 2011, 2013). At the same time, this thesis proposes a link between the purely cognitive aspects of the HQ-subsidary perception gap and a more structural cultural-cognitive dimension (see Scott, 2001, 2008). The findings, as a matter of fact, suggest that the HQ and the subsidiary perception of the subsidiary's role within the MNC's organizational model is rooted in the institutional and organizational characteristics of the context in which the two actors are located – for example, the

familial/entrepreneurial heritage of the Italian HQ and the corporate heritage of the German subsidiary.

Second, the uniformity of the HQ or subsidiary's interests and perceptions - taken for granted by previous contributions (Birkinshaw et al., 2000; Asakawa, 2001; Chini et al., 2005; Schmid & Daniel, 2011) - is questioned by the split in the HQ-subsidary perception gap which occurs in the MNC within the 'polarizing' pattern. Particularly, the emergence of a *HQ-subsidiary's workers* perception gap together with a *HQ-subsidiary's managers* perception gap demonstrates the need to emphasize the role of the national institutional characteristics, and especially of the national corporate governance model, in shaping relationships and perceptions during international acquisitions (see also Geppert, Dörrenbächer, Gammelgaard & Taplin, 2013). The corporate governance model, indeed, by differently constructing identities and, accordingly, defining the distribution of power within the HQ and the subsidiary, contributes to generate a uniform or not-uniform perception. The interesting question addressed, accordingly, is not just 'perception of what?', but also 'perception of whom?'.

Furthermore, these findings open a promising scenario concerning the underlying negative or positive nature of perception gaps. Whereas the HQ-subsidary perception gap has hitherto been conceptualized as a negative phenomenon - causing a reduction in subsidiaries' autonomy and thus in the HQ-subsidary cooperation, leading to managers' dissatisfaction, as well as to conflicts within the MNC (Birkinshaw et al., 2000; Chini et al., 2005; Schmid & Daniel, 2011) -, the observed evolution and metamorphosis of the HQ-subsidary perception gap result in a positive truce between the HQ and all the internal stakeholders of the acquired subsidiary. In other words, in our case the perception gap occasioned the start of a constructive conflict.

This thesis also offers an opportunity to contribute to the institutional distance perspective (Kostova, 1999; Kostova & Roth, 2002). First, the model of perception gap emergence suggests the need and opportunity to further investigate the notion of institutional distance which has been hitherto defined as the difference or similarity between the institutional profiles of the home and the host country (Kostova, 1999; Kostova & Zaheer, 1999; Kostova & Roth, 2002). Particularly, our findings highlight the need to distinguish and emphasize two concepts now conflated in the institutional

distance construct, namely *extent* and *directionality*, and thus to take into account the status differential between the home and the host country, together with the extent dimension of institutional distance, in order to understand the HQ-subsidiary relationship. In the cases observed, indeed, the status differential between the two countries is one of the dimensions explaining the perception gap emergence and, particularly, moderating the relationship between organizational and institutional distance and perception gap emergence. The need and opportunity to give a direction to distance has already emerged in some recently published works (Zaheer, Schomaker & Nachum, 2012; Belhoste & Monin, 2013; Yildiz, 2013). According to these authors, “by merely considering the magnitude of difference, rather than the direction of distance, we are in effect positing a relationship whereby it doesn’t matter *how* two entities differ, only *how much* they differ” (Zaheer, Schomaker & Nachum, 2012: 23).

Second, this research suggests some scope conditions for the idea of ‘MNCs’ institutional freedom’ proposed by Kostova, Roth and Dacin (2008). In the case examined, indeed, the Italian HQ had to comply with local regulations, institutional-bound governance models, as well as with national specific traditions, such as the German unanimity approach. These findings witness the importance of considering the institutional demands deriving from the different institutional contexts in which the MNCs operate, as well as they suggest the need to take into account the status of the countries in which the HQ and the subsidiary are located. Whereas the concept of MNCs’ ‘institutional freedom’ has been conceptualized within a literature mainly focusing on MNCs with their HQs located in developed, high status countries, future research should explore this construct through the study of MNCs headquartered in lower status or in emerging countries. ‘Institutional complexity’ (Greenwood, Raynard, Kodeih, Micelotta & Lounsbury, 2011) could be a better term than ‘institutional freedom’ to summarize what HQ managers experience in these cases.

With reference to the longitudinal and comparative analysis of the subsidiaries’ organizational configurations, the results obtained confirm the previous SEA’s studies of Maurice and colleagues (1980) and Delmestri (1998). Particularly, the predominance of differences among countries, rather than among technologies supports what argued by Delmestri (1997: 89):

“The results revealed the strong impact of technology, in accordance with contingency theory, but also a strong, and in some cases stronger, societal effect

- meaning that the variance across countries was in some cases higher than across types of technologies.”

Given the tendency of MNCs to standardize practices, procedures and structures, the fact that the examined subsidiaries are all controlled by the same firm, made the test of the societal effect approach even more difficult and valuable. Common ownership, in fact, did not have a homogenizing effect. To the contrary, it pushed managers and employees of the different firms to better define their own identities (Brumana & Delmestri, 2012). The result of this identities’ reciprocal negotiation was a strengthening of the societal differences among the organizational configurations of each firm (Sorge, 1991).

Furthermore, I discovered that the national differences between the organizational configurations and board of directors composition became bigger as a consequence of the crisis. The latter seems, indeed, to have reinforced the trend of societal differentiation confirming thus what suggested by Sorge (1991: 186):

“It is more likely that, under intensified competition, societal specialization along the lines of institutionally founded competitive advantages will increase, and so will the institutional distinctiveness of societies.”

Particularly, the analysis of the Italian-US comparison before and after the outbreak of the crisis suggests the value of further investigating the role of the specific national system of corporate governance. As a matter of fact, the Italian subsidiary, being located in a country characterized by strong employee protection, no co-determination and a unipolar (family capitalism) system of corporate governance, was able to implement only state-regulated early retirement plans. Conversely, the lack of employee protection and co-determination, and the unipolar (shareholder capitalism) system of corporate governance typical of the US economy, let the managers of this subsidiary autonomously dismiss workers.

This thesis also provides some practical implications. Particularly, the model of perception gap emergence is aimed to help managers involved in a cross-border acquisition and in the following integration process to identify and thus pay attention to the key dimensions explaining the emergence or non-emergence of a HQ-subsiary perception gap, namely organizational distance, institutional distance and status differential between the HQ and the acquired subsidiary and between the two countries. The model of perception gap evolution, in turn, suggests that (i) the HQ-subsiary

interactions and the quality of the HQ-subsidary relationship are the relevant aspects to monitor once the perception gap has emerged; (ii) power and politics are two elements that infuse the MNC's internal processes and, accordingly, have to be taken into account even dealing with cognitive phenomena, such as the HQ-subsidary perception gap. Furthermore, what clearly emerges from the analysis conducted in this thesis is the role of institutional-bound corporate governance models in influencing the actors' perceptions and in shaping their organizational design, especially during a crisis period. These findings highlight hence the need to consider and evaluate similarities and differences between the parent company's and the potential subsidiary's corporate governance model, before being involved in the acquisition and integration process.

6.2 - Limitations and future research

This thesis is not without limitations. First, the choice of a single case research design raises questions of generalizability, since the MNC put under observation is located in a specific institutional and organizational context and operates in the manufacturing industry. Future research should explore the phenomena of perception gap emergence, evolution and metamorphosis, as well as the issue of subsidiaries' organizational design observing MNCs located in different contexts and operating in different industries. Moreover, the propositions developed from the models of perception gap emergence, evolution and metamorphosis could be tested using a large sample of HQ-subsidary dyads.

Considering the four types of integration strategies identified by Haspeslagh and Jemison (1991) – holding, absorption, preservation, symbiosis –, the conclusions drawn are valid in the case of 'symbiosis', namely an integration strategy characterized by strong sociopolitical concerns (Monin et al., 2013). Future research may further explore if the findings concerning the emergence, evolution and metamorphosis of a HQ-subsidary perception gap, as well as the subsidiaries' organizational design hold also for the other types of integration strategies, that is upon the occurrence of different degrees of strategic interdependence between the HQ and the acquired subsidiary, and different amounts of organizational autonomy retained by the acquired unit.

In both the two cross-border acquisitions, organizational and institutional distance between the HQ and the acquired subsidiary are high and jointly considered. What if the institutional distance would be high and the organizational distance low, or the other way round? Would it make sense to conceptualize a differentiated effect of organizational and institutional distance on the perception gap emergence as showed by Vaara, Sarala, Stahl and Björkman (2012) with reference to the impact of organizational and national cultural differences on social conflict and knowledge transfer in international mergers and acquisitions? The same considerations are valid for the status dimension and future research could help to shed light on this issue.

Moreover, the observed process of perception gap evolution and metamorphosis covers exactly the years of the economic crisis that spurred the change from the first to the second pattern of HQ-subsidary interactions and quality of the HQ-subsidary relationship. An interesting and promising research area could be thus the investigation of what would happen to the HQ-subsidary perception gap in the absence of an external jolt. Would politicization eventually occur anyhow, given the institutional diversity of the governance model of the headquarters and the subsidiary, or would the initial stabilizing pattern continue indefinitely waiting for an external event to trigger polarization? In the first case the external jolt would just be a precipitating condition of an endogenous process, in the second case it would be its exogenous cause.

Another scope condition of our model of perception gap evolution and metamorphosis is the composition of the HQ management, board of directors and executive committee. The HQ management and the two corporate governance bodies, indeed, underwent light variations from the establishment of the holding company up to 2012 and they are mainly composed by Italian managers and family members. Future research could investigate what would happen to the HQ-subsidary perception gap if the HQ management and corporate governance bodies evolved after the acquisition, welcoming representatives coming from the cross-border acquired subsidiary. Would in this case the polarization pattern be defused? And under what conditions should such involvement of foreign representatives be organized?

Overall, this thesis offers a holistic perspective of the HQ-subsidary relationship and the related, institutionally embedded, cognitive, organizational and political issues. I investigate the emergence and evolution of a perception gap between the HQ and the

acquired subsidiary, as well as its metamorphosis into a tool politically managed by the actors of the dyad, actors that are not completely free to choose their moves, but are enabled and constrained by the institutional environment in which they are embedded. These phenomena are observed longitudinally during a process of cross-border, post-acquisition integration. The models of perception gap emergence, evolution and metamorphosis here developed bridge ideas from both IB and institutional perspectives on the HQ-subsidary relationship and contributes to the current debate on HQ-subsidary perception gap. I also replicate an influential study that has never been fully replicated in the last thirty years, and find societal specific logics continuing to be determinant. Corporate integration was not so deep (at least so far) so as to change the societally anchored organizational and governance configurations and both common ownership and crisis had as an effect a strengthening of national societal differences.

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APPENDIX A

**SUMMARY OF PREVIOUS RESULTS CONCERNING THE SOCIETAL
EFFECT APPROACH**

	Low	Medium	High
Tallness of hierarchy	I; G	GB	F
Functional differentiation	I; G	GB	F
Share of staff employees as part of total workforce	I;G	GB	F
Supervision/workers	G; I	GB	F
Administrative and commercial personnel/workers	G	I; GB	F
Technical personnel/workers	I; G	GB	F
Authority positions/workers	GB	G; I	F
Authority positions/staff	GB	F	G; I

Table A1. Structural specialization and differentiation in Italy, Germany, Great Britain and France - Source: based on Maurice et al. (1980), Sorge & Warner (1986), Delmestri (1997, 1998) - I: Italy; G: Germany; F: France; GB: Great Britain.