Journal of Management & Organization, 20:6 (2014), pp. 832–850

doi:10.1017/jmo.2014.56

Strategic and architectural dimensions of the decision-making processes in South African multinational corporations

John M Luiz, and Grant Visser

Abstract

We examine the manner in which South African-owned multinationals devolve power to their international subsidiaries in Africa, and the resulting effects of the interaction between strategy and structure. The research suggests that a dynamic process of power distribution may develop, in terms of the following: (1) the performance of the subsidiary, its expertise and experience to adapt to local market demands; and (2) the multinational's need to manage the risks propagated by the African operating environment in which it operates. There is a dual facet to power devolvement, one in which South African multinationals opt for risk mitigation through long-standing control, often at the expense of operational adaptation. In contrast with the literature, which sees multinational corporations as differentiated networks, in the South African case we find a more traditional approach with clear headquarters and 'miniature replica' subsidiaries. This suggests that South African multinational corporations are still emerging and that it will take time to develop differentiated networks.

Keywords: multinational corporations, Africa, South Africa, MNC–subsidiary relationships

Received 17 August 2013. Accepted 18 February 2014

INTRODUCTION

Firms are faced with a myriad of considerations when entering new markets. These include the ownership method of entry, the location or geographical advantages of the firm and the integration of the operations into foreign markets. Firm involvement in foreign markets generally start in a manner that is more risk averse, and proceed to more resource intensive allocation as time progresses. Multinational corporations (MNCs) set up subsidiaries to affect transfers of knowledge in both directions; that is from the headquarter (HQ) to the subsidiary in a mechanism of 'forward flow' and the reverse (Ambos, Ambos, & Schlegelmil, 2006; Badinger & Egger, 2010). Subsidiaries possess local knowledge that allows MNCs to capitalize thereon and thereby learn to meet the localized demand of foreign markets (Ambos, Ambos, & Schlegelmil, 2006; Alcácer & Chung, 2011). Recent literature conceptualizes the global firm as loosely coupled networks where knowledge and power are distributed across subsidiaries and HQs (Alfoldi, Clegg, & McGaughey, 2012; Ciabuschi, Dellestrand, & Holm, 2012; Gammelgaard, McDonald, Stephan, Tüselmann, & Dörrenbächer, 2012; Mahnke, Ambos, Nell, & Hobdari, 2012; Vahlne, Schweizer, & Johanson, 2012; Chiao & Ying, 2013). The question is whether this conceptualization of MNCs as differentiated networks is equally applicable to subsidiaries in less developed countries where capacity is often in limited supply or whether the older literature on

Graduate School of Business, University of Cape Town, Cape Town, South Africa
Corresponding author: john.luiz@gsb.uct.ac.za

HQs and subsidiaries is more appropriate? Related to this issue, which arises during the process of setting up subsidiaries, is the correct balancing of the centralization of decision making and subsidiary autonomy, which is the subject of this paper.

Although investment in emerging markets has been on the increase and accounted for over 50% of global foreign direct investment flows in 2010 (UNCTAD, 2012), the low preponderance of African firms in this group, means that there is little academic literature focused on the latter. However, interest in the continent is increasing not only because of the abundance of natural resources but also because of the realization that a real untapped market exists. It is with this in mind that we focus on Africa. South Africa, in turn, has a specific role to play with respect to generating and conveying foreign direct investment into Africa and has consistently been the single largest investor on the continent. This is shown by the multitude of companies that have made the strategic step of first investing in South Africa as an entry point into Africa owing to its sound institutions and infrastructure. In this sense South Africa's strong financial and governance procedures help to mitigate the various risks associated with entering into unchartered emerging market territory (Luiz & Charalambous, 2009; Luiz & Stephan, 2012; Luiz & Ruplal, 2013). South Africa, effectively, acts as a gateway to the rest of Africa.

The purpose of this research is twofold. The first is to investigate the interaction between South African MNCs' international business strategy and their organizational architecture. The second is to gauge the resultant outcome of this interaction on the devolution of decision making from HQs to subsidiaries, specifically with respect to South African-owned companies diversifying into Africa. These two issues in turn inform the discussion on whether South African MNCs are different to those in other parts of the world, and whether it is appropriate to use the more recent international business literature on MNCs as differentiated networks in a region like Africa, which is severely underdeveloped. The paper is structured as follows: next section provides a literature review and sets up the research questions; this is followed by a discussion of the research methodology; the penultimate section provides the results and discussion; while the last section concludes. The primary finding of the research suggests that there is a dual facet to power devolvement, one in which South African multinationals opt for risk mitigation through long-standing control, often at the expense of operational adaptation. This is performed in order to manage the prevalence of institutional voids, the absence of a developed regulatory environment and a lack of managerial expertise, which are characteristics of the African operating environment. This is likely to apply to similar contexts in other developing countries with comparable institutional environments.

LITERATURE REVIEW

Power, decision making and span of control

HQ and subsidiary relationships involve balancing the need for global integration and that of local responsiveness. The span of control therefore needs to be traded off against the need to meet localized demand (Doz & Prahalad, 1984; Ghoshal & Wheatley, 2005; Alonso, Dessien, & Matouschek, 2008). However, there is no universal mechanism by which to do this, and the level of coordination and amount of trade-off that is needed is dependent on the firm and the surrounding environment that it finds itself in (Tonks & Dowling, 2002; Ghoshal & Wheatley, 2005; Zaheer & Hernandez, 2011). In this sense, there is often 'tension' between MNC integration and the level of responsiveness chosen by MNCs. Despite the wealth of research conducted on the topic, knowledge of control within MNCs still remains scattered (Ghoshal & Wheatley, 2005).

A strong imposition of control from the HQ may limit the scope, experimentation and self regulation for subsidiaries on an operational level. This constrains innovation and limits the subsidiaries

https://doi.org/10.1017/jmo.2014.56 Published online by Cambridge University Press

ability to meet localized demand of their environment. Therefore, the manner in which an organization is structured 'architecturally' has a considerable impact on the control that is exerted and the way that the organization is able to actualize its capabilities (Ferner et al., 2011). Centralized structures are often put in place to control rare resources such as finances, while decentralization is put in place for creativity as well as to enable the MNCs to make decisions quickly (Brook, 1984).

Owing to the vast geographical span of MNCs, their methods of coordination are complex (Ghoshal & Wheatley, 2005). The level of control that is exerted by HQ dwindles as the subsidiary develops enough skills, resources and expertise to manage itself (Baliga & Jaeger, 1984). This allows for companies to become locally responsive, enables them to make decisions close to the source of information and assists in developing subsidiary managers (Dörrenbächer & Gammelgaard, 2011). Furthermore, subsidiary autonomy should increase relative to subsidiary size and complexity of product development and decrease proportionally to the parent's international experience (Taggart & Todd, 1999). The struggle for subsidiary autonomy often leads to power battles between the HQ and subsidiary. In using a structured relationship system, the HQ implements reporting systems as a mechanism of control and creates a uniform information system between HQ and the subsidiaries. It is widely understood that the role of corporate HQ is to define policies and procedures, allocate resources and develop a guiding overarching strategy for the company. Subsidiary power, in turn, is directly proportional to the dependency of the HQ on the skills and competencies of the subsidiary because the success of most operations is determined by the ability of the subsidiary to adapt to the local demand of the host country, to develop resources which aid in creating a sustainable competitive advantage and to develop business opportunities (Dörrenbächer & Gammelgaard, 2011). MNCs may not see subsidiaries as mere implementers and may incorporate their uses for 'upstream' functions such as research and development, strategic and other support roles (Mudambi & Navarra, 2004: 385).

Equally relevant to MNCs operating in Africa or other developing regions is the effect of a fluid institutional environment where the rules of the game are not set, which creates risk for the HQ (Meyer, Estrin, Bhaumik, & Peng, 2009). This makes a strong case for centralization in corporate subsidiaries, as it reduces the autonomy of managers in regions of high uncertainty and protects the corporation from poor decision making in volatile situations (Brook, 1984). It is therefore difficult to design a structure that enables autonomy for local subsidiaries because of the external, hostile environmental pressures, even though the environment calls for intricate localized response. This tension between HQ and its subsidiaries results in power conflicts and affects the devolution of decision-making responsibility, resulting in our first research question.

> Research Question 1: How do South African MNCs devolve decision-making responsibilities to their subsidiaries?

Architecture, centralization and decentralization

Centralization is a key concept in the notion of organizational architecture (Ferner et al., 2011). Bryan and Joyce (2007) state that the value of centralization is in coordinating and facilitating decisions that are consistent with organizational objectives, while decentralization allows for the reduction of the burden on top management and increases motivation and flexibility thereby improving decision making. There is no universal standard for the optimum level of centralization as organizational architecture is often the product of adaptation by the MNCs to external pressures (Doz & Prahalad, 1984; Ghoshal & Nohria, 1993; Smith, 2001; Ciabuschi, Dellestrand, & Holm, 2012). Various factors overload centralized decision making and cause decentralization. Focusing specifically on the effect of volatile and changing environments within Africa, the choice for decentralization can be made in order to respond to changes in the institutional environment (King & Sethi, 1999). Achcaouchaou, Bernardo, and Castan (2009) further explain the choice of organizational structure from the point of view of two theories: (a) framework of contingencies and (b) strategic choice. The framework of contingencies theory states that researchers need to study the influences on circumstantial surroundings of the firm in order to understand what drives its choice of structure. The strategic-choice approach highlights the decisions made by the organizational leaders specifically with respect to products and markets and how these impact choices of organizational forms. This is a more integrated model as it incorporates the effect of strategy and policymakers on the process. Achcaouchaou, Bernardo, and Castan (2009) state that the contingency framework highlights that centralized or bureaucratic structures work best for predictable environments, while decentralized structures work best in changing and unpredictable environments. They affirm that companies that match their internal characteristics to the external environment outperform others.

Moving to the structural patterns that many MNCs use when devising control mechanisms, Ghoshal and Nohria (1993) argue that there are four primary types of control mechanisms. First, structural uniformity, which offers little variance in how subsidiaries are managed. Second, differentiated fit, in which companies adopt different governance procedures for each company context with the differentiation noted according to local environment complexity and available resources. Third, integrated variety, which is the use of a differentiated fit but preferring structured relationships over integrated ones. Finally, *ad hoc* variation, which is neither a dominant integrative (centralized) nor differentiated (decentralized) method for control. The authors state that for effective performance, the MNC's organizational structure should fit its overall environmental context and therefore all four should be mentioned as possible choices with respect to business environments. They propose that structural uniformity is best suited to global environmental conditions, differentiated fit to multinational environments, integrated variety to transnational environments and *ad hoc* variety to international environments (Ghoshal & Nohria, 1993).

Some MNCs tend to exert similar controls on foreign subsidiaries to those of their country of origin, irrespective of their broader contexts (Moore, 2011). These allow the MNC to enforce the same decision making and coordinating abilities that are entrenched in the business strategy of the home country. Moore (2011) finds that formal institutions may create a need for predetermined and formalized methods of control. These formalized methods of control aim to improve coordination and communication, thereby making a structure efficient and aligning it with the HQ strategy.

> Research Question 2: Why and how do South African MNCs impose structural controls on their subsidiaries?

Strategy versus structure

Vahlne, Schweizer, and Johanson (2012: 230) theorize the global firm as a 'loosely coupled network of far-flung subsidiaries and a hierarchically acting HQ that tries to design a global organization to ensure support for its global strategic agenda.' They reach this conceptualization as a result of the limitations of earlier work which either in the 1980s predominately assumed that 'HQs possess sufficient knowledge of the subsidiary-level situation so as to effectively manage it,' or from the 1990s onward moved to the other extreme assuming that 'HQs lack knowledge or can be even ignorant of their own subsidiary-level situation.' This literature has by-and-large emerged from the experience of MNCs operating in developed or emerging markets where both host and home country have sufficient capacity to contribute toward an integrated network of offerings. However, such networks take time to develop and assume capabilities at both HQ and subsidiary level. In our case of South African MNCs operating in the highly volatile context of African markets, they may not have developed the capacity to respond to the local contextual requirements and may centralize because it appears more appropriate or indeed because the exceptionally low levels of development and skills in host countries do not yet allow for significant networks to emerge.

https://doi.org/10.1017/jmo.2014.56 Published online by Cambridge University Press

For most subsidiaries, the HQ will define a structure that best suits the need of the corporate strategy and therefore structure the subsidiary to operate in accordance with the specific contexts of its external environment. However, research also suggests, perhaps conflictingly, that the 'autonomous' actions of a subsidiary may shape its structure. The reality of the relationship between strategy and structure is, therefore, 'reciprocal and non linear' (Birkinshaw & Morrison, 1995: 730). Herbert (1984) states that strategies are best carried out using specific structures and that as the environment and needs of an organization change, so the strategy to service that environment should change with a resulting structure to suit. Furthermore, for effective performance, the MNCs organizational structure should fit the overall environmental context (Ghoshal & Nohria, 1993). However, and somewhat paradoxically, many MNCs strategic global strategies are in direct conflict with maximizing the economic positions of their subsidiaries. This may be explained by the fact that the interrelationship of strategy and structure may be bi-directional. Corporate strategies are often developed around the need of the company to grow while on the other hand certain structures affect the development of corporate strategy owing to the regulation of information flow and control (Burgleman, 1983; Amitabh & Gupta, 2010).

This phenomenon is further investigated by Birkinshaw and Morrison (1995) who specify three strategies that are most often used by MNCs. The first, the local implementer, enjoys limited scope in usually one country. The subsidiaries in this strategy are seen as mini replicas of the home-country business as they offer the full range of products and services that the home-country does. The role of the subsidiary is to adapt home-country products to meet the needs of the host country. The subsidiary generally enjoys a high level of autonomy. Second, the specialized contributor possesses specific skills and value-adding functions, but is tightly controlled by the HQ. Here there is little subsidiary autonomy and high interdependence on other subsidiaries. The third, the world mandate, works closely with HQs to implement strategy. It achieves decentralized centralization by managing products worldwide, but from the subsidiary and not head office (Birkinshaw & Morrison, 1995). These strategies are paired with specific structures that enable the MNC to effectively implement a chosen business model (King & Sethi, 1999). MNC structures become more complex in order for them to cope with an increase in environmental complexity. Therefore, a MNCs ability to coordinate its activities becomes important when it has to refine its strategy going forward, specifically when coping with change (Ciabuschi, Dellestrand, & Holm, 2012).

The effectiveness of these strategies are co-dependent on the ability of the MNC's structure to control this complex coordination of power and resources in order to ensure that cross-business interdependencies are managed in an advantageous manner (Seeck & Kantola, 2009; Badinger & Egger, 2010). In relation to this, it has been stated that as the strategy of a MNC changes, the firm would do well to realign its structure in order to be able to better implement the new strategy (King & Sethi, 1999) This realignment is reiterated by Dörrenbächer and Gammelgaard (2011: 31) in their notion that subsidiary roles and regulations that are initially assigned and controlled by HQ are soon abandoned by their subsidiaries. This modification of the subsidiary strategy is seen as 'subsidiary strategizing.' This may be because of the subsidiary acknowledging changes in the external environment. This change may manifest itself through a different need and mode of coordination, which in turn leads to a change in structure.

When understanding the dynamics between the relationship of strategy and structure and the interplay between the two over the lifespan of an MNC, the notion of isomorphism becomes central to the argument. Isomorphism can be explained as 'units subjected to the same environmental conditions acquire a similar form of organization' (Duysters & Hagedoorn, 2001: 347). In this sense, organizational isomorphism is the result of an international homogenous environment, which gives rise to a homogenous group of companies. These are companies in comparable geographical locations that employ parallel structures (Ming Lau & Yue Ngo, 2001). Isomorphic pulls therefore disjoin subsidiaries structure from HQ strategy as they evolve over time. More definitively, local isomorphism occurs when the local institutions impose similar environmental restrictions and pressure on MNC subsidiaries (Ming Lau & Yue Ngo, 2001). Noteworthy is the fact that isomorphism, and its driver, adaptation, are positively related to increases in competition as firms adapt both strategy and structure to meet the needs of the environment (Duysters & Hagedoorn, 2001). Finally, MNCs often find themselves in a circumstance of 'institutional duality' that explains how they deal with the isomorphic pulls of maintaining their status with both the host and parent company (Molz, Ratiu, & Taleb, 2010). It is within this duality that strategy and structure may lose their symmetry with each other, and over time may appear at loggerheads, imperfectly serving the functions of the home-country HQ.

Research Question 3: How do the structures and devolution of decision-making responsibilities at South African MNCs modify over time in response to changes in the host country business environment?

RESEARCH METHODOLOGY

The population as delimitated in this study was restricted to South African-owned companies that have subsidiaries outside of South Africa on the African continent. The 'Who owns Whom' database was used in order to determine the population. According to the database, the available population consisted of >60 MNCs across 20 industries. It is noted that the primary limitation of this database is that it is not exhaustive owing to the selection criteria, which includes size, number of employees, market share and public listing. The database therefore incorporates only the largest South African MNCs according to the aforementioned criteria, narrowing the pool of sample possibilities. Using this database, we approached those MNCs that had the most extensive representation on the African continent in their sectors. Of these, 16 MNCs agreed to participate, spanning nine sectors. The list of MNCs interviewed is presented in Appendix 1, which denotes the MNC name, industry classification and subsidiary location for each. Where possible, the names of the companies are mentioned. Where the names of the company were asked to be kept anonymous, they are alluded to by letter only. A total of 16 interviews were conducted at the head office and an additional five at country level. A total of 13 interviews were conducted with C-level group executives, three were conducted with head office business unit directors responsible for Africa, and five were conducted with the country heads of subsidiaries of the group company. The latter is a limitation noted in Limitations and future research section.

In addition, we use a seven 7-Likert scale to examine the degree of agreement or disagreement with statements linked to the research questions. Each Likert response was expanded upon through the use of semi-structured questions, which were placed directly after the Likert scales on the instrument. These aimed to create an opportunity for the respondent to elaborate, clarify and construct meaning for each of their previous responses. The 'deep' value of the analysis was drawn from the content analysis of the semi-structured and open-ended questions, which supported the Likert scales. The interviews gave the respondents the opportunity to elaborate on their experience and created value for the content analysis that followed.

Each conversation was recorded for future transcribing. Every respondent received telephonic and electronic communication before the interview, upon which a suitable date and time was set. All interviews were conducted between August and October of 2012. Each respondent was sent the questionnaire ahead of schedule in order to prepare for the interview. It was of importance that the respondents did not respond in writing on the questionnaire, or respond when unsupervised, as the act of response and the actual interactive situation was of value to the procedure of data collection.

Given the qualitative character of the research, the findings are inherently context specific and the aim of the research was not to generalize beyond the participants. As the research emphasis was on

https://doi.org/10.1017/jmo.2014.56 Published online by Cambridge University Press

interpreting and explaining the phenomena surrounding the research problem and sub problems, the notion of cause and effect was not pertinent to this particular study. Credibility of this research was assured through the scope of the initial literature review, the robustness and integrity of the data analysis phase and maintaining the reliability in the interpretation of the analysis. All participants were senior executives within the MNC with direct knowledge and decision-making power as regards the structure and strategy of the MNC. In terms of dependability, the notions of uniformity and consistency were implemented throughout the data collection phase. In this sense, the same research instrument was used for each respondent, as was the method of conducting the interviews and the order in which the research questions were presented within the interview. Finally, each of the interviews was conducted by the same researchers and the resultant transcriptions were performed by the same transcribers. The coding was further completed by the same researchers based upon content analysis.

PRESENTATION AND DISCUSSION OF RESULTS

Devolution of decision making within South African MNCs

Respondents were asked, using a Likert scale, the extent to which they agreed or disagreed with the following statement linked to research question 1: 'Home country HQs will centralize decision-making responsibilities of subsidiaries to limit the perceived risk of the firm unless the subsidiaries possess high levels of expertise in serving local needs.'

Figure 1 demonstrates that the results are uni-modal with 13 respondents strongly agreeing with the statement resulting in a mode of 6 on the 7-point scale. Below we discuss the most prevalent themes that arose during the interviews.

Centralization for risk mitigation

The first method by which South African MNCs limited risk to the group and African subsidiaries was through the implementation of multiple levels of authority within the organizational structure. The explanations highlighted that, in most instances, the South African HQs instituted an electronic requisition system and a 'sign off' limit on all decisions, specifically those of a financial nature. Decisions that fell outside of the scope of the predefined level of authority were monitored and ultimately fell under the supervision and auspice of the Board of Directors in South African HQs:

> The global head will make decisions [regarding risk management] and these will flow down to the regional heads and then to the country heads and through this multilayer approach to vetting and decision making we manage to limit our risk … instructions will come from higher up and flow down to the regional subsidiaries. (EXCO Member, Banking and Financial Sector)

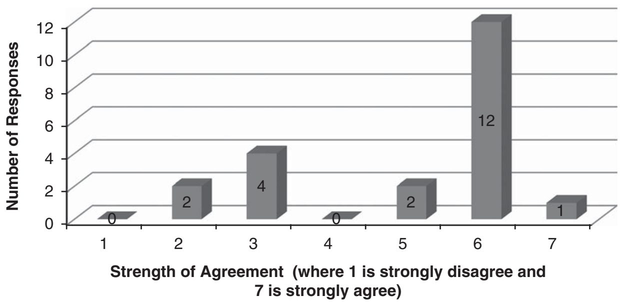

FIGURE 1. RESULTS FOR LIKERT RESPONSES TO THE STATEMENT LINKED TO RESEARCH QUESTION 1

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The 'thresholds' of the levels of authority are adjusted according to the risk profile of the project and the African country, thereby showing the influence of both the external operating environment and the resultant need to manage risk according to commensurate country profiles.

The second method of limiting risk to the group and African subsidiaries was through the centralization of HQ control of subsidiary risk policy in order to better control the subsidiary response to risk mitigation and to leverage off the knowledge and expertise of the South African HQ. This mechanism was mentioned by 16 respondents of the sample. It was evident from the sample that the South African HQs had a strong supervisory role to play in both the determination and monitoring of the group risk policy that was devolved to their African subsidiaries:

> The group standardized the [risk] templates and each and every business unit has to use exactly the same. (Director, Construction and Materials Sector)

The responses suggest that South African HQs manage risk on a project basis, ultimately developing risk matrices in concordance with and in relation to, the risk profile of each of the respective projects within African regions. In this sense, the rules and regulations that are imposed are developed to combat any irregularities that arise from the local context. Furthermore, though the rules, policies and regulations are enforced, limiting the decision-making power of the subsidiaries through structural control, the policies are developed using the knowledge of the subsidiaries in question, thereby allowing more adaptation to the operating environment.

The third method used for limiting risk to the group and African subsidiaries was through the use of expatriates in key management positions that was seen by 14 respondents as an effective means of monitoring and controlling decision making at a subsidiary level. The key reason for the use of expatriate employees was to entrench South African operating procedure in subsidiaries in terms of risk mitigation as well as culture and control. Many of the South African MNCs used expatriate control as a tool to monitor and evaluate risk mitigation within the subsidiaries as well as to take decisions that would possibly place the subsidiary and the group firm at risk:

> … our expats are the people that ensure that the discipline we are looking for is implemented … so what we have done is [to] make sure that the people that come from South Africa [expats] are well versed in the group policies so that when they go and engage, they are constantly aware of what the group is looking for. (Director, Insurance Sector)

The sample further alluded to the fact that a mixture of local and national employees is used in order to increase operational effectiveness:

> The decisions that are taken at [the] Rest of Africa [division] are the overarching group decisions that we need to vet in terms of those that exceed the delegated levels of authority in our African subsidiaries. The basic operations decisions are still decentralized to country and taken by the regional managers … our operations manager and up would be South African and then from the regional manager down would be local. (EXCO Member, General Retail Sector)

Finally, a large proportion of the respondents of the sample suggested that the absence of skills in particular areas affect HQ's decision to utilize expatriate employees in key positions. The lack of high level skills in many African countries is acute and thus staff from HQs are often seconded to local operations.

Finally, the fourth method used for risk mitigation was the imposition of brand and international image regulation, which was used as a means to standardize the group brand image across multiple

https://doi.org/10.1017/jmo.2014.56 Published online by Cambridge University Press

countries in order to limit risk of the African subsidiary and the South African MNC. The notion was supported by 14 respondents of the sample:

> Let me put it to you this way, if you walked into one of our stores in an African subsidiary, apart from the price tag, you could be in South Africa. (EXCO Member, General Retail Sector)

The sample further suggested that they did allow leeway on certain operational issues. However, these decisions were made in conjunction with pertinent 'non negotiable' operational procedures, of which one was brand and image regulation.

> We like to apply a push system where we say we want the following representation in our stores, but the local market is going to react differently to that … so their lifestyles, the way they react to products, the way they dress, it's all different. So, unfortunately we can't use the push system. So we say 'you use these brands, it is not negotiable' and we will allow you to tweak and twist on other issues. (EXCO Member, General Retail Sector)

Devolution of decision making and subsidiary expertise

Based on the responses it is apparent that South African MNCs devolve more decision-making responsibility to subsidiaries that have high skills in serving their respective local areas. This notion releases the structural control that South African MNCs have on their subsidiaries:

> The high skills are synonymous with our decision-making powers, so it is of great importance that the decisions taken serves the best interests of the subsidiary and the clients, as well as the best interests of the HQ … the skills in the subsidiary need to be high in order to serve the areas that the subsidiary was created for. (Director, Chemicals Sector)

The importance of this theme is highlighted by the diverse operating environment that Africa possesses. The continent is fragmented into 'pockets' of similarities and differences which have to be dealt with first on a granular basis and then summarily, at a broader strategic level. The devolvement of decision making is manifested through the increase in delegated levels of authority as well as an expectation of the in-country staff to form strong relationships with regulatory bodies within the countries.

The responses illustrate the increased power that is devolved to the African subsidiaries as a result of their performance in swiftly and effectively serving their local clients in a profitable manner. The notion that the African subsidiaries are able to operate within the business frameworks as specified by HQ, while turning a profit, allows for an increase in trust. Furthermore, the intricate need for partnership development in many African countries, specifically in terms of contractor and supplier relationships, creates pressure for South African MNCs to devolve more power to their subsidiaries in these areas. Both of the aforementioned illustrate the effect of African environmental pressures on the business decisions that govern devolvement of power and further illustrate that although more power is devolved to the subsidiaries in these instances, the HQ control is never fully relinquished.

The sample suggests that customer relationships as well as those of suppliers, specifically in the community-centric African landscape, are best coordinated through the local staff that are similar in culture and upbringing to the target market and the supplier base. Although the methods of the MNCs are supported by literature (Smith, 2001; Alonso, Dessien, & Matouschek, 2008) the reasons for implementing these methods are not simply about creating value-adding decisions, but are also closely linked to developing an understanding of the African environment, as well as building relationships with key stakeholders that will increase operating efficiency in these areas. The example below on the retail sector is relevant:

> Retail is a person to person business, if you want to employ expats, they don't really know the customer and they don't know the culture … it is very difficult to inculcate the local culture and the local norms. In some of our rural stores, people are able to pay a deposit on a lounge suite

> using a goat. That is only stuff that you understand if you actually work in that area. Someone will bring it in [the goat] and the store manager will say, 'Ok, here's the goat and we will pay you out of petty cash and I am going to give you this money as the deposit and you are going to pay it back to me as the deposit on the suite.' This allows us to build long-lasting relationships with our customers and we have a lot of repeat business because of that. (Director, General Retail Sector)

The sample further alluded to the up-skilling of the in-country talent through the use of resources from the South African HQs in order to aid the subsidiary in better utilizing its localized skills in serving the demand of the African country. This was suggested, in part, owing to the lack of skills and operating infrastructure in many of the African host countries. It was therefore seen to be more cost effective to merge local expertise with HQ resources in order to diversify in a more efficient manner. Furthermore, they pointed to the utilization of the HQ scale and operational expertise in strengthening the operating prowess of their subsidiaries. In this sense, the support offered by HQ aimed to reduce inputs costs and increase market growth:

> … there is a support desk that sits with [the company] and that will provide support to African countries. Generally because of our scale and sophistication, we are able to provide a lot more skills in terms of product development, marketing strategies, and research which generally lacks a bit in African markets. (Business Unit Head, Insurance Sector)

The mutually beneficial relationship that is formed as a result of merging local expertise with international resources and experience creates a strong argument for the balancing of the power relationship between South African HQs and Africa subsidiaries in order to increase operating efficiency in the African context.

Decentralization to meet local business demands

Respondents highlighted the notion that local adaptation enhances revenue, both in terms of the necessity of subsidiaries being able to respond to isomorphic pressures for survival and the resultant benefits of doing such. The South African MNCs state that because of the diversity of the African business climate and the speed at which it changes, it is impossible to superimpose a standard operating practice or 'one size fits all' mechanism of operation. This is so, as the functional use thereof may very well be outdated once the imposition of such a structure is in place. According to these companies, decentralizing strategic control and allowing for more subsidiary decision-making power in terms of adaptive operating practice increases subsidiary trust and speed of operating adaptation. It further allows for better revenue as a product of serving the diverse customers in a more customer-centric manner. Therefore, though the notion of adaptation, specifically in terms of the volatile operating African landscape, is seen as a means of sustaining a competitive advantage. The sentiments of the sample expressed the core drivers of success when operating in Africa as agility, adaptation and speed:

> Agility is a key thing when being successful in business, so it became necessary to be able to say, let's relax things and make sure that the person in-country is able to make more decisions instead of letting HQ make all of the decisions. This has to do with competency but also a level of trust. This ties in well with being able to find good local people that are able to do a job in the manner that we want it to be done and in line with our strategic and operating culture … if people take our interest to heart we let them run with decisions, because they make us more money than we could make ourselves. (Director, Insurance Sector)

African subsidiaries' have to comply with local and international regulations as a result of isomorphic pressures and imposed compliance. Institutions are still relatively underdeveloped in Africa and this filters through into the legislative and regulatory requirements (including safety and environmental), which are often below the benchmarks set by developed countries (Luiz & Stewart, 2014). It is for this reason that many operating and regulatory benchmarks are imposed on African subsidiaries from South

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African HQs and then monitored for compliance. However, the necessity for operational compliance creates a dichotomy within the argument for centralization and decentralization, and highlights a challenge in the African operating environment. For instance, in order to comply with local operating and regulatory requirements, the sample suggested an increase in the delegated powers to country managers to support the fostering of strong relationships at a local and national level, thereby releasing structural controls of South African MNCs and devolving more decision-making power to their African subsidiaries. However, this devolvement still needs to be managed and grounded in HQ policy and procedure in order to create constant mechanisms of operating best practice. The reason for this is that the current large scale institutional changes in Africa, in terms of anti-corruption, trade liberalization and infrastructure development, yield a dynamic environment in which both subsidiaries and HQ alike find themselves impacted by legislative and customer demands that are nuanced and specific to country expectations. The case of Egyptian regulation was used as an example:

> Egyptian legislation dictates certain procurement requirements at a government level … So there is a certain amount of adaptation that we have to do in order to meet local requirements and to ensure that we do not transgress any local regulations in the countries that we are dealing with … We did not use the procurement committee at HQ, but rather implemented a decentralized one in Egypt, as they are guided by different rules, policies and procedures. All of the decisions made at this level in-country were only sent to our Board for noting. (EXCO Member, Oil and Gas Sector)

Imposition of structural controls as a means of alignment and coordination

Respondents were asked, using a Likert scale, the extent to which they agreed or disagreed with the following statement linked to research question 2 and the results are portrayed in Figure 2: 'MNCs impose structural controls on subsidiaries in order to align them with home country business strategy and to improve coordination between the subsidiary and the HQ.'

The themes below define how the sampled South African MNCs impose structural controls on their African subsidiaries in order to align them with the HQ's business strategy and improve coordination.

The first theme that manifested was that the MNCs' strategy guided subsidiary structure and aided in strategically aligning the African subsidiaries with HQs. This was supported by 19 respondents of the sample. This is consistent with Herbert (1984) and Bryan and Joyce's (2007) work which states that MNC strategy, as a guiding principle, facilitates the alignment of subsidiaries with HQ's organizational objectives. However, the choice of imparting best practices from HQ in order to facilitate better operations across a platform is made more relevant within the African context. The need for transversal operating systems create a sense of operating efficiency and defines an operating culture within the African subsidiaries akin to the knowledge and success propagated by the HQ.

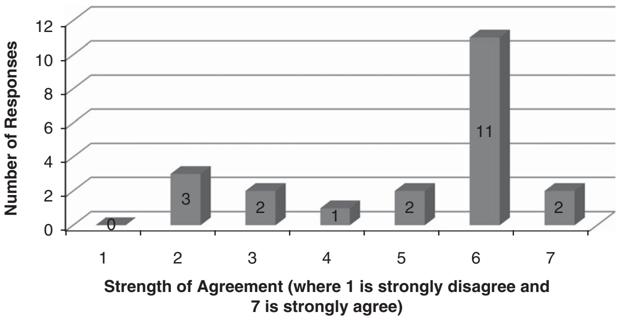

FIGURE 2. RESULTS FOR LIKERT RESPONSES TO THE STATEMENT LINKED TO RESEARCH QUESTION 2

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It was suggested that owing to the developing nature of many of the African business environments, the aforementioned knowledge and culture may not be apparent and therefore guidance from HQ may be more necessary than in First World subsidiary management techniques. Furthermore, the use of personnel as a means of covert control is synonymous with previous themes and acts as an unobtrusive mechanism by which the HQ can impart guidance and knowledge in a community-centric manner.

The second theme that was identified was the alignment of the African subsidiary reporting lines to those of South African MNC HQ in order to improve coordination, institute best practices and create more efficiency within the business operating environment. This was mentioned by 14 respondents of the sample. The sample alluded to the notion that coordination is the product of alignment between HQ and subsidiary:

> If you want to roll out a new way of doing things, it can't be done unless all of the subsidiaries are on-board and unless they are aligned with what we are trying to do. This would make life more complicated, cost more and take more time. You want to drop an idea and have it trickle smoothly like sand, to all of the necessary businesses within your function. If you are going to have different structures in different countries, this is not going to work. (EXCO Member, Banking and Financial Sector)

This highlights the fact that operational decision making and the true value thereof is based on the application of local experience to the context of the local operating environment. Therefore, though the subsidiary decision making is aligned to HQ, thereby increasing HQ's structural mechanism of control, this reduction in subsidiary power may be detrimental to local adaptation and may be met with resistance by the intricacy of the African country operating environment.

The final theme that was gleaned from this section was the development of Africa or emerging market divisions by which South African MNCs better align the strategy of their in-country subsidiaries to that of the home-country HQ. It illustrates the tendency toward centralization of decision making at HQ in order to leverage off of South African MNCs' skills, size, resources and strategic expertise in terms of geographical expansion. Though this method reduces subsidiary decision-making power in terms of strategic impetus, the decisions taken at the Africa/emerging market divisions are weighted in favor of operational expertise in terms of subsidiary needs. This was accentuated by the sample, as many respondents suggested that a large proportion of the constituents of the Africa division had extensive African experience and in most cases had completed tenures in Africa for the firms. Therefore, the decisions taken at the group level are once again guiding in nature and are informed by extensive African operating expertise, emphasizing a symbiotic relationship between the operational skills of the subsidiary and the resource intensive and strategic experience of the HQ:

> Though each division has operating functions and authority, ultimately each division needs to work through our African division, which is centralized at HQ in Johannesburg. So for instance, if our product division in-country wants to extend products in some African countries, they first need to get approval from our HQ African division. (EXCO Member, Banking and Financial Sector)

Strategy and structure and centralized or decentralized decision making

Finally, respondents were asked about the extent to which they agreed or disagreed with the following statement linked to research question 3: 'The international business strategy of the HQ will control the initial structure and devolvement of decision making of its subsidiaries, but these structures will modify over time to respond to changes in the local business environment.' The results can be viewed in Figure 3 and demonstrate a uni-modal response with 13 respondents strongly agreeing with the statement.

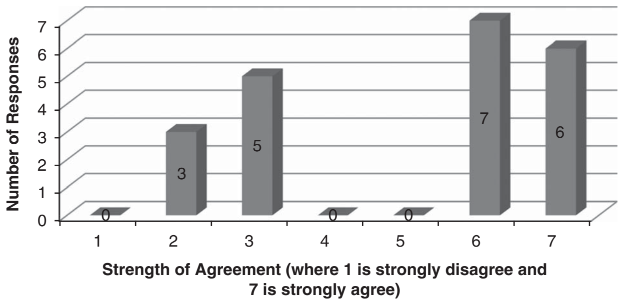

FIGURE 3. RESULTS FOR LIKERT RESPONSES TO THE STATEMENT LINKED TO RESEARCH QUESTION 3

The responses to this theme illustrate a method of implementation that merges initial control at subsidiary inception with more progressive decentralization of power as the subsidiary matures. The sample suggested that the initial imposition of stringency on African subsidiaries aims to enable subsidiaries to gain traction in the market, through best practices and initial branding. This offers an entry point into the market, through the use of the HQ resources, control mechanisms and expertise. The sample further suggested that the strong initial control mechanisms, though limiting initial subsidiary decision-making power, aids in risk mitigation and process stabilization, both to the subsidiary and to the HQ. This was especially important in the case of controlling subsidiary finances.

Respondents indicated that they would reduce control mechanisms based on subsidiary performance:

> … it comes down to 'are we actually meeting whatever the performance targets [of HQ].' I think we would still have quite a lot of centralized control, but if we are significantly exceeding those [targets], then we would look at more decentralized control of the subsidiary. One target would be, 'What is the penetration that we hope for in that particular geography for that particular product?' and the other would be, 'What are the margins that we hope to achieve and where are we in achieving those margins? (EXCO Member, Banking and Financial Sector)

The sample supported the understanding that HQ may not always possess the intricate operating knowledge that is necessary for successful implementation in African subsidiaries. It is for this reason that subsidiary decision making increases proportional to their experience and performance.

> The mothership may not always know the intricacies of the operating environment on the ground. That is why we allow two-way communications, but through set centralized channels which allow for proper decision making at every step in the path … if there is justification for more autonomy and it is proven in the track record and performance, we will allow the subsidiary to go for it but within the scope and definition that HQ delegates. (EXCO Member, Banking and Financial Sector)

The increase in devolution of decision-making power to African subsidiaries as a structural means based on targeted performance is linked intrinsically to other themes within this paper. Decision-making control may be relinquished by the HQ but will still be monitored and evaluated, yielding a guiding principle and mutually inclusive governance relationship between the HQ and subsidiary.

The last theme was the imposition of expatriate employees for initial control. The theme further supports the removal of these expatriates after a period that is defined by the South African HQ. The respondents suggested that sound organizational structure allows their entrepreneurial staff members to mitigate the demands of the African environment in a more functional way:

> After about 18 months to two years, our market share is stable, our growth rates are mature … this is called the maintenance phase of the roll out and this is where our HQ guys go out and we

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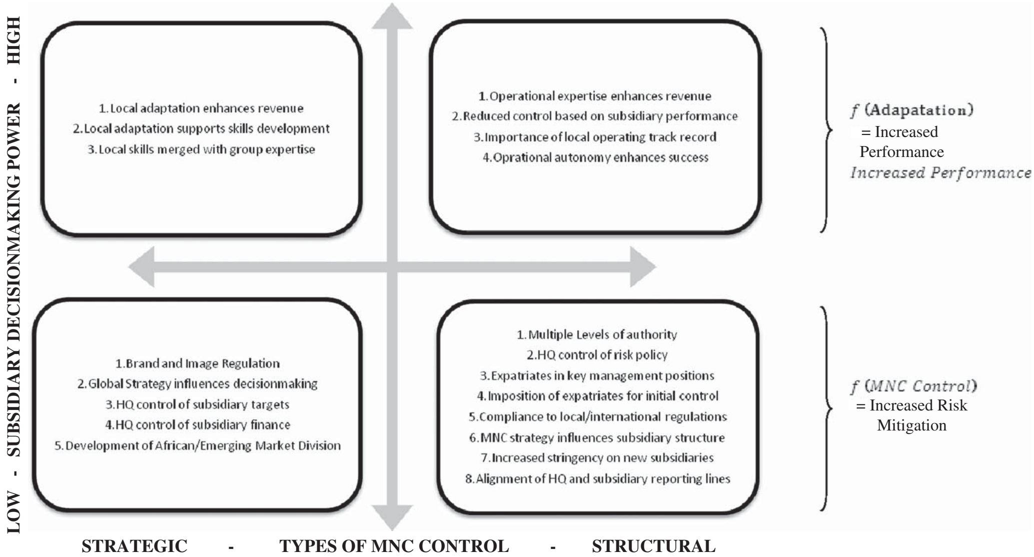

Figure 4. Relationship between African subsidiaries decision making and our sample of South African MNCs in terms of devolution of power. MNC = multinational corporation; HQ = headquarter

> release our controls a little … We generally put our entrepreneurial people in at the beginning of a Greenfield project and these guys are mavericks. So we need some sort of structure to manage the environment so that the mavericks can operate that way. (EXCO Member, Telecommunications Sector)

The sample specifically noted the concept of business readiness, and the need for expatriate placement in terms of ensuring that African subsidiaries are able to 'hit the ground running.' Part of the motivation for the use of expatriates was related to the shortage of managerial skills often found in African countries. They alluded to the fact that after the mandated HQ targets are reached and operating culture is instilled, power is relaxed in terms of covert structural control mechanisms.

CONCLUSION

Theoretical contribution and implications

Theory posits that in areas of institutional deficits or vastly strenuous external and volatile pressures, MNCs generally place more emphasis on structural controls that limit the decision-making powers of their subsidiaries (Ghoshal & Nohria, 1993; Badinger & Egger, 2010). Figure 4 illustrates our findings concerning the relationship between African subsidiaries decision making and South African MNC devolution of power within our sample. Our research is consistent with the theory above in that eight (40%) of the themes are allocated to the quadrant that denotes high structural control with low resultant subsidiary power. The figure also shows the use of heightened decision-making power of subsidiaries as a means of increasing performance of those subsidiaries within the African context. Furthermore, and in opposition to the need for increased performance, is the reduction of subsidiary decision-making power through the use of increased impositions of MNC control in order to mitigate risk within the African context. These forces seem to act in conflict with each other, and the means by

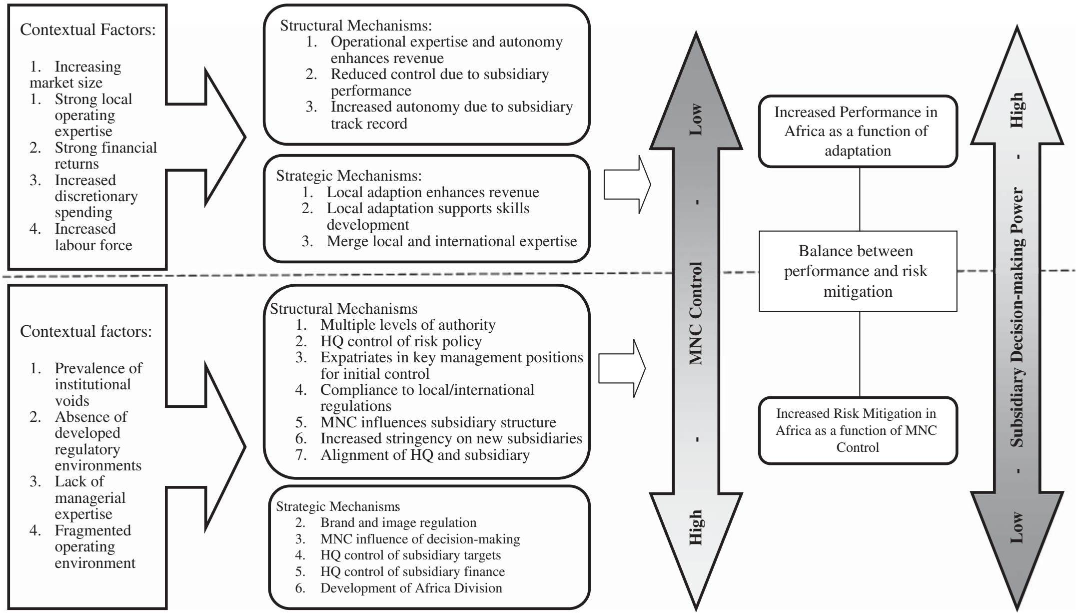

Figure 5. Balancing performance and risk mitigation by our sample of South African MNCs operating within Africa. MNC = multinational corporation; HQ = headquarter

which they are balanced is the product of MNCs' and subsidiaries' interaction with the operating environment in which it is based (see Dörrenbächer & Geppert, 2006).[1]

In order to delve deeper into the relationship between performance and risk mitigation, Figure 5 illustrates the relationship, implied by the research, between the contextual drivers that cause our South African MNCs to opt for either increased subsidiary performance through heightened devolution of subsidiary decision-making power, or the factors which lead MNCs to reduce decision making power to their subsidiaries in order to mitigate risk. We find that the relationship between the two outcomes manifests in a power struggle, one that ultimately yields a trade-off between localized adaptation and performance or prolonged MNC control and risk mitigation. Our results suggest that if South African MNCs opt for increased performance of their subsidiaries, they are more inclined to use both structural and strategic mechanisms of control in varying proportions, in order to devolve more decision-making power to African subsidiaries and thereby increase their ability to meet the localized demands of the African environment and their ability to adapt and prosper within this context. Conversely, if our sample of South African MNCs deems the impact of the contextual African factors too risky, they are more inclined to use predominantly structural mechanisms of control in a prolonged manner, in order to maintain the HQ monitoring impact, thereby reducing the devolvement of decision making to the subsidiary.

The results show that our sample of South African MNCs primarily base their devolvement of decision-making power to their subsidiaries on the impact of the operating African environment and the resultant effect that this context affords the company in terms of two key factors, performance and risk mitigation. The evidence supports Molz, Ratiu, and Taleb's (2010) work that subsidiary decision

[1] See Oh & Oetzel (2011: 676) who investigate the more extreme cases of risk mitigation by MNCs in response to major disasters at the subsidiary level. They argue that 'understanding exactly how country governance can mitigate or exacerbate the effect of major disasters on subsidiaries can help managers better calculate investment risk when formulating their location strategy.'

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making is a function of subsidiary dependence on the parent company. They posit that MNCs find themselves in a circumstance of 'institutional duality' that aims to mitigate the pressures of isomorphic pulls while maintaining subsidiary status with home-country practices, but that this duality is often governed by HQ risk policies. Our study further suggests that a dynamic process of power distribution may develop, based on two key areas: (1) the performance of the subsidiary, its expertise and experience in adapting to local market demands; and (2) the MNCs need to manage the risks propagated by the African operating environment in which it exists.

The research finds that context plays an important role when informing our MNC's power devolvement decisions to their African subsidiaries. Within the sample, MNCs that operate within an African context in which the external factors support adaptation tend to devolve more decision-making capabilities to their African subsidiaries to allow better operating capabilities within the environment. Similarly, MNCs that operate in environments which necessitate risk mitigation tend to increase their structural controls in order to limit their African subsidiaries decision-making power. Ultimately, it suggests that the decisions to opt for structures and strategies that promote either performance or risk mitigation should be weighed against the internal resources of the MNC, in terms of their subsidiaries ability to perform in changing environments, the HQ possession of skills, expertise and financial resources. This should be juxtaposed with the external pressures of the African country in which the MNC has diversified into, in terms of the environment, regulatory or infrastructural risk, as well as possible subsidiary growth based on market adaptation. Although our study focuses on a sample of South African MNCs in Africa, our results have implications for other developing regions where institutional environments are fluid and markets thin posing higher risks. MNCs will face the difficult decision of how much power to devolve to subsidiaries that will understand the context better but not necessarily have the capacity to manage these increased powers.

In contrast with the literature, which sees MNCs as differentiated networks, in our case we find a more traditional approach with clear HQs and 'miniature replica' subsidiaries. This suggests that the South African MNCs within our sample are still emerging and that it will take time to develop differentiated networks. They are at an earlier phase in their evolution and have to engage in highly volatile environments. They may therefore default to a more centralized model because they do not have the capabilities for a more nuanced and flexible approach. Furthermore, because African markets are so thin and underdeveloped this may make reverse knowledge flows more limited and this has implications even for more advanced MNCs wishing to do business in conditions of severe under-development forcing them to adopt a more hierarchical structure. It is, however, important to emphasize that this does not imply that local adaptation is unimportant. In fact the opposite is true but initially the structure will be controlled by HQ as it builds the capacity of the local subsidiaries allowing them to respond to the local business environment.

Limitations and future research

The research focused predominantly on the views and opinions of South African MNC HQs. Only a few of our sample represented the in-country subsidiaries' point of view and a future study with an emphasis on subsidiary data would create a comparable juxtaposition that could yield a more representative understanding of the bi-directional nature and dependency of the power dynamic between MNCs HQs and their subsidiaries.

The second suggestion regards the quantitative testing of the themes identified in this research. The basic understanding of the mechanistic drivers and reasoning behind power devolution has been identified using this study, but analyses of the 'causal' relationships were constrained by the research method and approach. A future avenue could be a factor analysis on the themes and the resulting outcomes posed for each in terms of power devolvement in MNCs.

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Third, given that our focus was on the use of strategy and structure in order to devolve power, the impact that specific antecedent contextual factors have on the decision to use either strategy or structure to devolve more decision-making power to African subsidiaries have not been explicitly identified. Future research would identify which specific contextual factors influence the use of either strategic or structural mechanisms of control (see Amitabh & Gupta, 2010).

Fourth, our paper suggests a relationship between decision-making power and subsidiary expertise, which in part, can be attributed to the operating time these subsidiaries spend in Africa. Therefore, it seems pertinent to state that the effect of time and resulting operating experience on the devolution process could add considerable value. Future research could involve the development of a longitudinal study incorporating South African MNCs, in which their procedures for the devolvement of decision making to their African subsidiaries are measured and studied over time.

Finally, our research focused on the African context but other developing regions face the same constraints and have similar institutional environments that create tension in strategy and structure between control and devolution to more appropriately respond to the local context. Given the high growth currently being experienced in developing and emerging markets, it is an opportune time to more fully investigate how MNCs should be adapting their strategies and structure to more fully exploit the opportunities these regions present.

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APPENDIX. Company profile of respondents

Company	*Sector*	*Subsidiary location*
AECI Ltd	Chemicals	Burkina Faso, Democratic Republic of Congo, Mali, Namibia
Company B	Industrial Engineering	Lesotho, Botswana, Swaziland, Mozambique, Zimbabwe, Namibia, Angola, Zambia, Kenya
Dimension Data Ltd	Software and Computer Services	Algeria, Botswana, Nigeria, Namibia, Kenya, Tanzania, Uganda
Ellerine Holdings Ltd	General Retail	Zambia, Lesotho, Botswana, Namibia, Swaziland
Company E	Banking and Financial	Botswana, Lesotho, Namibia, Swaziland, Zambia, Mozambique
Company F	Construction and Materials	Botswana, Democratic Republic of Congo, Zambia, Burkina Faso, Ghana, Swaziland, Malawi, Namibia, Tanzania, Mauritius, Nigeria, Mozambique
JD Group Ltd	General Retail	Namibia, Botswana, Lesotho, Namibia, Swaziland
Company H	General Retail	Botswana, Ghana, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Uganda, Tanzania, Zambia
Company I	Mobile Telecommunications	Benin, Congo, Ghana, Guinea, Guinea-Bissau, Liberia, Nigeria, Zambia, Sudan, Uganda
Nedbank Group Ltd	Banking and Financial	Benin, Burkina Faso, Burundi, Cameroon, Democratic Republic of Congo, Gabon, Ghana, Guinea-Bissau, Kenya, Malawi, Nigeria, Rwanda, Uganda, Zambia, Zimbabwe
Company K	Life Insurance	Botswana, Namibia, Kenya, Nigeria
Petroleum Oil & Gas Corporation of SA (Pty) Ltd t/a Petro SA	Oil and Gas Producers	Namibia, Egypt, Equatorial Guinea, Sudan
Company M	Life Insurance	Malawi, Tanzania, Nigeria, Botswana, Ghana, Zambia
Standard Bank Group Ltd	Banking and Financial	Botswana, Ghana, Tanzania, Uganda, Zambia, Zimbabwe, Mauritius
Vodacom Group Ltd	Mobile Telecommunications	Lesotho, Democratic Republic of Congo, Tanzania, Mozambique
Company P	General Retail	Mozambique, Tanzania, Kenya, Namibia, Botswana, Lesotho, Nigeria, Uganda
Total companies		16