

**42** 2013 February

**Entrepreneurial Aspiration and  
Flexibility of Small and Medium-  
Sized Firms:  
How Headquarters Facilitate Business  
Model Innovation at the Subsidiary  
Level**

**Yangfeng Cao, Peter Ping Li, Peter  
Skat-Rørdam**

©Copyright is held by the author or authors of each Discussion Paper.

Copenhagen Discussion Papers cannot be republished, reprinted, or reproduced in any format without the permission of the paper's author or authors.

**Note:** The views expressed in each paper are those of the author or authors of the paper. They do not represent the views of the Asia Research Centre or Copenhagen Business School.

**Editor of the Copenhagen Discussion Papers:**  
Associate Professor Michael Jacobsen

**Asia Research Centre**  
Copenhagen Business School  
Porcelænshaven 24B  
DK-2000 Frederiksberg  
Denmark

Tel.: (+45) 3815 3396  
Email: [mj.int@cbs.dk](mailto:mj.int@cbs.dk)  
[www.cbs.dk/arc](http://www.cbs.dk/arc)

# **Entrepreneurial Aspiration and Flexibility of Small and Medium-Sized Firms:**

## **How Headquarters Facilitate Business Model Innovation at the Subsidiary Level**

**Yangfeng Cao**

Ph.D. Fellow

Asia Research Centre, CBS, Denmark

fc.int@cbs.dk

**Peter Ping Li**

Professor

Asia Research Centre, CBS, Denmark

pli.int@cbs.dk

**Peter Skat-Rørdam**

Universe Foundation, Denmark

psr@universefonden.dk

### **Abstract**

Primarily due to the large gaps in economic and institutional contexts between the developed and emerging markets, business model innovation (BMI) at the subsidiary level plays an important role for the success of small and medium-sized firms (SMEs) from the developed markets operating in the emerging markets as top-down venture. While some studies claim that the direct involvement of headquarters (HQ) of SMEs in the activities of their subsidiaries is essential, surprisingly little is known about how HQ specifically facilitates BMI at the subsidiary level, especially in the context of top-down venture. Adopting the method of comparative and longitudinal case study, we tracked the BMI process of six SMEs from Denmark operating in China. The emergent framework indicates that entrepreneurial aspiration and flexibility at the HQ level

are two primary facilitators of BMI at the subsidiary level via the mechanisms of commitment and cooperation. We also found that BMI performance would influence the two facilitators in a feedback loop. Hence, we can contribute to the literatures on international entrepreneurship and strategic entrepreneurship by integrating the two previously separated research streams via their shared theme of accelerated learning. In particular, this study helps solve the puzzle concerning fast and successful international venture.

**Keywords:** *Business Model Innovation; International Strategic Entrepreneurship; Headquarters-Subsidiary Link; Aspiration; Flexibility; Emerging Markets.*

## INTRODUCTION

Business model plays a crucial role in explaining firms' value creation, competitive advantage, and overall performance, so it has received a growing attention from both scholars and practitioners (e.g., Hamel, 2000; Thompson and MacMillan, 2010; Zott and Amit, 2009; Zott, Amit and Massa, 2011). Firms often choose to compete by designing novel business models as the potential source of new competitive advantages (Casadesus-Masanell and Ricart, 2010; Markides and Charitou, 2004; Morris, Schindehutte, and Allen, 2005). Further, business model can be only effective if it is designed properly for the specific context. In that sense, the business model for the context of international business must be distinctive from the business model for the context of domestic business. Similarly, the business model for large firms with sufficient resources tends to differ from the business model for small and medium-sized enterprises (SMEs) with limited resources.

Largely due to the large gaps or distances in the economic and institutional contexts between the developed and emerging markets, the successful venture by any firm from the developed markets to the emerging markets, which we refer to as *top-down venture*, will largely depend on the business model designed for those markets (Cavusgil and Agarwal, 2002; Hansen, Petersen, and Wad, 2011; Khanna and Palepu, 2010). When venturing into the emerging markets, such firms often need to substantially change their prior business models designed for their home markets as the developed economies so as to

adapt to the distinctive contexts in the host markets as the emerging economies, especially when the emerging markets are so dynamically changing that a continuous adjustment in the business model is imperative. Hence, the striking contrast between the developed and emerging markets implies that constant innovation in business model for an emerging market is a special capability for firms to ensure their long-term success in the emerging markets (cf. Luo, 2003; McGrath, 2010; Sosna, Treviño-Rodríguez, and Velamuri, 2010). That is why top-down venture could be as difficult as the reverse bottom-up venture by the latecomer firms from the emerging markets into the developed markets. However, this perspective is counterintuitive because the mainstream literature in international business assumes the top-down venture should be easy, while the bottom-up venture should be difficult (e.g., Dunning, 1995, 2001; Dunning and Narula, 2004). Further, the traditional views assume the salience of exploiting existing advantages rather than exploring new advantages. However, these views are being challenged by the emerging perspective of the *second-home venture* that can be pursued by both established and emerging multinational enterprises (MNEs). This new view argues that both top-down and bottom-up ventures will be similarly risky due to the unfamiliar gaps or distances in economic and institutional contexts between the developed and emerging markets. It is such risks that qualify both top-down and bottom-up ventures as entrepreneurial in contrast to the notion of any cross-border venture as entrepreneurial (cf. Oviatt and McDougall, 2005).

Specifically for innovation in general and business model innovation (BMI) in particular at the subsidiary level, the research on the headquarters-subsidiary relationship (HSR) has two distinctive perspectives on the involvement of headquarters (HQ) in the process: (1) *rationality perspective*, and (2) *ignorance perspective* (Ciabuschi, Forsgren and Martí'n, 2011). The rationality perspective posits that the involvement of HQ in the innovation process at the subsidiary level should match the extent of HQ's knowledge concerning the subsidiary's operating context. In contrast, the ignorance perspective assumes that HQ lacks the relevant knowledge so that HQ is likely to be "groping in the darkness", thus unable to be effective (Ciabuschi *et al.*, 2011). Due to the major distinction

between these two perspectives, there is little consensus regarding the proper role or function of HQ in the innovation process at the subsidiary level. Further, the research on HSR tends to neglect the impact of host context on the roles of HQ or subsidiaries (e.g., Gupta and Govindarajan, 1991; Harzing and Noorderhaven, 2006). Finally, as compared to large firms, SMEs tend to face a special challenge of developing the special capability for top-down venture due to the general lack of resources.

Hence, there is a critical gap in the literature regarding the possible impact of HQ on BMI at the subsidiary level, especially in the context of top-down ventures engaged by SMEs. To fill this gap, the purpose of this study is to explore how SMEs' HQ facilitates BMI at the subsidiary level for top-down ventures. As a comparative and longitudinal case study, this article focuses on simply one research question: How does SMEs' HQ facilitate their subsidiaries' BMI for top-down ventures, especially in an accelerated pattern? Consistent with the extant literature, we refer to *business model* (BM) as a system of highly interdependent business activities both within and beyond the formal boundaries of a focal firm (see Zott and Amit, 2010 for a review). Further, we refer to HQ as the overall executive management responsible for the rest of the company as a whole at the corporate level, thus distinctive from the divisional HQ for only part of the company (Ciabuschi *et al.*, 2011; Collis, Young, and Goold, 2007). Finally, given the lack of theories on HQ's facilitation of subsidiary's BMI as well as our focus on the process issues, we choose the method of case study for theory-building (Eisenhardt, 1989; Pettigrew, 1990). The theoretically sampled cases for our study are six SMEs from Denmark, all of which have their subsidiaries that have engaged in BMI projects in China. The primary contribution of this study is the process framework where entrepreneurial aspiration and flexibility at the HQ level serve as two salient facilitators of BMI at the subsidiary level via the mediating mechanisms of commitment and cooperation for accelerated top-down ventures. Further, this study identifies the opportunities for integrating several related research streams into one inter-disciplinary domain, which is international strategic entrepreneurship.

The rest of this study is organized into four sections. First, we will review the relevant literatures to seek for some theoretical guidance. Second, we will describe the method and the cases. Third, based upon the case evidence and comparing it with the extant literatures, we will present two sets of propositions about HQ's facilitation of subsidiary's BMI. Finally, we will discuss the emergent theoretical framework with its critical implications for future research, and we conclude at the end.

## **THORETICAL BACKGROUND**

Several literatures have the potential to provide needed insights into our research question. First, the literature on BMI is relevant to our research question. Even though there is no widely accepted definition of BM, there is one shared theme, i.e., value proposition (Amit and Zott, 2001; Zott and Amit, 2010). For the purpose of this study, we define BMI as a process where a firm adopts a novel value proposition to explore and exploit its resources, both current and future (cf. Gambardella and McGahan, 2010; Nelson, 1993; Teece, 2007). For most firms, BMI rarely happens automatically. Firms often introduce BMI due to contextual changes (e.g., competition or deregulation) or internal choices (e.g., to gain competitive advantages or to increase operating efficiency) (Wischnevsky, Damanpour and Me´ndez, 2010). BMI always requires the special capabilities to manage ambiguity and uncertainty in the process. More specifically, Osterwalder and Pigneur (2010) proposed that BM design process should have five phases: mobilize, understand, design, implement, and manage. Across the entire process, two sets of salient parameters for BMI are *design elements* (e.g., content, structure and governance that describe the architecture of BMI) and *design themes* (e.g., novelty, lock-in, complementarities, and efficiency that describe the sources of BMI (Zott and Amit, 2010). However, there is no theory applicable directly to our research question concerning BMI by SMEs' subsidiaries for top-down ventures, especially the role of HQ. We have to look elsewhere for the theoretical guidance.

Because we focus on the cross-border operation of SMEs, the literature on international business could be the second potential area to explore. Unfortunately, much of the literature on international business has little to do with our research question because it seldom covers the issue of BMI, let alone the refined issue of BMI by SMEs for top-down ventures. In the literature on international business in general and that on MNE in particular, the research on HSR seems the most relevant to our research question. The research on HSR focuses on explaining the roles or functions of HQ and subsidiaries to gain or strengthen competitive advantages either at the level of HQ or at the level of subsidiary, or both within a single multinational enterprise (MNE). Some scholars classify the roles of HQ into “entrepreneurial” (value creating) and “administrative” (loss preventing) (Birkinshaw et al., 2006; Chandler 1991). In contrast, other scholars claim that it is difficult for MNEs’ HQ with its operations in a multitude of national contexts to perform both the loss-preventing (administrative) and value-creating (entrepreneurial) roles, so HQ is advised to concentrate on only one of the two functions (Ciabuschi et al, 2012; Doz and Prahalad, 1981). Due to information overload (Egelhoff, 1991, 2010), radical uncertainty (Forsgren and Holm, 2010), sheer ignorance (Forsgren et al., 2005), and “bounded reliability” (Verbeke and Greidanus, 2009), HQ tends to be ill-informed of the unique contexts of its subsidiaries, thus prone to various errors in decision-making, such as the failure to recognize the potential synergy between subsidiaries, implementing ill-designed reward systems, and cannibalizing product offerings (Foss, Foss, and Nell, 2012). However, the impact of HQ on subsidiary’s innovation in general and BMI in particular has received little attention in the mainstream MNE theories (see Ciabuschi et al, 2011). Further, the HSR research on the role of subsidiary often neglects the impact of host context (Gupta and Govindarajan, 1991; Harzing and Noorderhaven, 2006). In other words, the mainstream research on MNEs has little to offer concerning entrepreneurship in the contexts of top-down and bottom-up ventures. Hence, we fail to find much theoretical guidance from the mainstream literature on MNEs.

Finally, the literature of entrepreneurship is salient since BMI in general and BMI for top-down ventures in particular is directly related to entrepreneurship at its core. Entrepreneurship is often defined as the process of creating or recognizing market opportunity and pursuing it in a venture to innovatively apply the available resources (Timmons, 1994: 7). In the domain of entrepreneurship, the specific topics of *international entrepreneurship* (IE) and *strategic entrepreneurship* (SE) seem to be the most relevant to our research question. At the intersection of international business and entrepreneurship, IE refers to the discovery, enactment, evaluation, and exploitation of cross-border opportunities to create future goods and services (Oviatt and McDougall, 2005). The problem of IE for our study is that IE tends to focus mostly on the so-called “born-global” (i.e., those new startup firms with any cross-border ventures in the early days of their business development) rather than the mature firms with top-down ventures as the focus of our study (Autio, 2005; Keupp and Gassmann, 2009; cf. Oviatt and McDougall, 1994; McDougall & Oviatt, 2000). Further, not only confined to the “born-global” new ventures, the IE research is also fragmented, inconsistent, and lacking in any unifying theories (see Keupp and Gassmann, 2009 for a review). Similarly, SE has its own share of problems. At the intersection between strategic management and entrepreneurship, SE refers to the entrepreneurial effort of mature firms, but SE seldom covers cross-border ventures, let alone those top-down ventures engaged by SMEs (see Hitt, Ireland, Sirmon and Trahms, 2011; Ireland, Hitt and Sirmon, 2003, for reviews). However, due to the huge contextual distances between the established and emerging markets, we believe that the required effort for top-down ventures engaged by SMEs qualifies as entrepreneurial, but this type of entrepreneurship is so unique that it differentiates from the typical types of IE or SE. Hence, we fail to find much theoretical guidance from the literature on entrepreneurship.

In sum, although the extant literature can give us some useful insights, we fail to find the relevant theoretical guidance for our study on the role of SMEs’ HQ to facilitate BMI at the subsidiary level for top-down ventures. For top-down ventures engaged by SMEs, the contextual gaps or distances between the developed and emerging markets provide both unique opportunities and unique

threats (Hansen *et al.*, 2011). To understand the specific roles of HQ to maximize the opportunities as well as minimize the threats, we need to develop new theoretical constructs and a process framework to fill in the gap in the literature.

## **METHOD**

Building new theories from one or more cases is a research strategy to develop new theoretical constructs, propositions, and/or mid-range theories from case-based empirical evidence (Eisenhardt, 1989). Further, creative insights often arise from the juxtaposition of contradictory or paradoxical evidence from cases (Pettigrew, 1990). In this research, we adopted the method of comparative and longitudinal case study for theory-building due to the lack of related theories and the specific focus on process issues which case study is best at (Eisenhardt, 1989; Pettigrew, 1990).

A case study can involve either a single or multiple cases at various levels of analysis (Yin, 1994). Multiple cases are more effective than a single case because they enable collection of comparative data, and so are likely to yield more accurate and generalizable theory than a single case (Eisenhardt, 1991; Yin, 1994). Our research design is a multiple-case study that will allow the replication logic that treats a series of cases as a series of related laboratory experiments. Each case serves to confirm or disconfirm the inferences drawn from other cases (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Yin, 1994). For the purpose of theory-building, we selected cases in line with the theoretical sampling, which means the cases are selected because they are particularly suitable for illuminating and extending possible causal links among constructs (Eisenhardt and Graebner, 2007).

The research setting is SMEs that are based in the developed economics but with their operations in the emerging economies as top-down ventures. SMEs play a critical role in international business but the actual internationalization process of SMEs has attracted little scholarly attention, thus in an urgent need for research (Lamb, Sandberg, and Liesch, 2011). To fill the gap, we selected

six SMEs based in Denmark with subsidiaries in China as their first market for top-down ventures (see Table 1 for more details). Their prior business models were designed for the developed markets, so they had to engage in BMI for their new top-down ventures in the emerging markets. In particular, they wanted to target the mid-end market segment in China as the most attractive given the potential size and fast growth (Tse, Russo, and Haddock, 2011). In this sense, the core of top-down venture lies in the target of mid-end market segment in the emerging markets. Due to the acute resource deficiency, SMEs tend to face the challenge of BMI bigger than that confronted by large MNEs. We focus on the process where SMEs' HQ facilitates BMI at the subsidiary level for top-down ventures. BMI performance is measured by both effectiveness and pace of BMI at the subsidiary level. Following Daft (1998) and Ciabuschi and colleague (2011), we refer to the *effectiveness* and *pace* as the extent and the lapse of time BMI has been implemented with the initial market success, see Table 1).

**Table 1 - Descriptions of Six Cases**

Firm	Industry	Founding Date(Year)	Revenue in 2010(M, DKK)	Number of Employees global	Established Subsidiary in China(Year)	Interviews		Performance of BMI	Key outcomes and evidence
						TMT	Others		
DES	Pumps	1834	623	484	2005	11		High	<ul style="list-style-type: none"> <li>•Developed new product</li> <li>•Launched new product</li> </ul>
						2	9		
GAB	Fabrics	1851	200	63	2003	11		High	<ul style="list-style-type: none"> <li>•Developed new product</li> <li>•Had the clear plan to Launch new product</li> </ul>
						3	8		
MMI	Beer installations	1953	900	573	1994	6		Moderate	<ul style="list-style-type: none"> <li>•Designed new product prototype</li> </ul>
						2	4		
MAR	Lights	1987	714	655	2003	6		Low	<ul style="list-style-type: none"> <li>•No significant progress</li> </ul>
						2	4		
KRU	Veterinary equipment	1896	752	220	2006	6		Low	<ul style="list-style-type: none"> <li>•No significant progress</li> </ul>
						2	4		
GNO	Hearing Equipment	1869	650	460	1994	8		Low	<ul style="list-style-type: none"> <li>•No significant progress</li> </ul>
						2	6		

## **Data Collection**

We collected our case data in two phases. In the first phase (i.e., during May-August, 2011), we conducted a series of semi-structure interviews within each firm before the firm joined the project on BMI project sponsored by a private research group. The interviews were conducted with CEOs. The purpose of the initial interviews was to learn about the participating firm's strategy for China and also seek the firm's commitment on the BMI project. Interviewees were asked to describe their goals and plans of their BMI project, and also their challenges and barriers to their project. All of these six firms were committed to the special BMI for the Chinese mid-end markets across six key distinctive industries.

All the six firms began to engage in their initial phase of BMI in October, 2011 when the project was formally launched. Since then, we tracked the BMI progress in each firm. In the second phase, we collected two types of data: (1) regularly scheduled data, and (2) real-time data. To collect the regularly scheduled data, we relies on several different data sources, including: (1) quantitative and qualitative data from semi-structure interviews with CEOs and other informants in each quarter; (2) archival data, including innovation project reports and other internal documents; (3) phone calls, e-mails and follow-up interviews. The main source of data is semi-structured interviews within each of the six firms. We had two types of informants. The first was the top managers who were defined as those individuals have directly control over the BMI project and overall corporate strategy (e.g., chairman, CEO, general manager, and vice presidents). The second was the team members of the BMI projects who directly managed the project. Having the informants from multiple hierarchical levels can greatly reduce the potential information bias (Bingham and Haleblan, 2012; Golden, 1992; Miller, Cardinal, and Glick, 1997).

Each interview was conducted by two investigators, with one investigator primarily responsible for the interview, another investigator responsible for taking notes. After the interview, we followed the "24- hour rule" that the detailed interview notes and impressions were completed within one day after the

interview (Bourgeois and Eisenhardt, 1988; Yin, 1994). We also developed questionnaires to collect regularly scheduled data in each quarter, including such variables as BMI effectiveness, team performance, resource scarcity, decision-making process, and team leadership.

Finally, to collect the real-time data, we conducted field observations in each month to track the BMI process. The first-hand observations helped us to learn how specific progresses occurred over time. As some scholars argued that to understand how innovation actually occurred over time, it was necessary to supplement the regularly scheduled data collection with the intermittent real-time data (e.g., Van de Ven, Angle, and Poole, 2000)

## **Data Analysis**

Following the recommendations for multiple-case theory building (Eisenhardt, 1989; Eisenhardt and Graebner, 2007), we used both within-case and cross-case analyses with no priori hypotheses. We began by writing up each BMI story based on the interviews, surveys, and archival data we got for each case (Eisenhardt, 1989; Yin, 1994). Each BMI story provided the mapping of all relevant events in each BMI process. After the initial write-up of each BMI story, the co-authors discussed each BMI story as a team. For any missing details, we conducted additional interviews via either e-mails or Skype phone calls. Finally, we synthesized all the data into one finished BMI story.

For the within-case analysis, we took each specific case (in the form of BMI story) as the unit of analysis. At this stage, we focused on identifying the unique pattern of BMI process so as to achieve the good knowledge about each BMI story. From the emerging patterns out the within-case analysis, we developed our tentative theoretical constructs. Second, using the replication logic, we conducted the cross-case analysis. We used both tables and charts to look for the emergence of shared themes across multiple cases (Eisenhardt, 1989). We iterated between theory and data to clarify our specific findings and theoretical arguments so as to refine our tentative theoretical constructs. Finally, these above activities helped yield our final theoretical framework.

## **Modeling the Impact of HQ on BMI at the Subsidiary Level**

Given our focus on the impact of HQ on BMI at the subsidiary level for top-down ventures, we compared the case evidence with the relevant literatures to develop a set of two constructs toward a theoretical framework. Specifically, we identified the entrepreneurial aspiration and flexibility of HQ as two primary facilitators or drivers for HQ to positively influence BMI at the subsidiary level. *Entrepreneurial aspiration* refers to the motive of HQ to enable BMI at the subsidiary level, while *entrepreneurial flexibility* refers to the capability of HQ to enable BMI at the subsidiary level. The two facilitators are consistent with the *learning-based view* of internationalization with the focus on the salient roles of learning motive and learning capability for a balance between exploration and exploitation in an accelerated process of internationalization. The two facilitators are also consistent with the awareness-motivation-capability perspective (Chen, 1996, 2007). In particular, we emphasized the impact of HQ on the accelerated process of BMI as a salient criterion for BMI performance in addition to the other criterion of BMI's effectiveness.

## **Entrepreneurial Aspiration as the Primary Motive for BMI**

According to the extant literature, organizational aspiration is central to strategic decision-making, organizational change, and organizational performance (e.g., Ansoff, 1979; Cyert and March, 1963; Lant, 1992; Shinkle, 2012). In this study, we found that BMI performance at the subsidiary level was influenced by HQ's organizational aspiration as a major driver for the accelerated process of BMI at the subsidiary level for top-down ventures. To accelerate BMI, *entrepreneurial aspiration* refers to the high expectation from HQ on its subsidiary to have an effective BMI for top-down ventures in a shortest time possible after its initial entry into the emerging market. Based on our case evidence, we found that the salient impact of entrepreneurial aspiration on BMI performance is mediated by the behavioral mechanism of commitment. Specifically, we found two components to constitute the mechanism of commitment from HQ and to reflect HQ's entrepreneurial

aspiration as it is applied to BMI: granting mandate, and prioritizing investment. It is worth noting that the theme of aspiration and commitment is the transfer of power and resources from HQ to key subsidiaries to enhance the autonomy of subsidiary. Further, in a feedback loop, the resulted BMI performance will be able to reciprocally facilitate the subsequent entrepreneurial aspiration of HQ in a virtuous cycle. The specific case evidence for entrepreneurial aspiration and the related mechanism of commitment is summarized with the representative quotes in Table 2.

**Table 2 - Entrepreneurial Aspiration of HQ as Its Primary Motive**

Firms	Overall Aspiration	Primary Behaviors	Specific Aspiration In Each Domain	Representative Informants Quotes
DES	High	Subsidiary Mandate	High	"DES China plays an important role in DES global market. HQ has strong ambition on Chinese markets. Our Chinese subsidiary has changed its mandate several times."
		Prioritizing investment	High	"HQ has transferred its key resource to Chinese subsidiary. For example, we built global R&D center and product line in China. "
GAB	High	Subsidiary Mandate	High	"In 2004, the Chinese subsidiary mandate was resource seeking. ....This low mandate has been changed. Chinese subsidiary plays very important role in targeting middle market in China."
		Prioritizing investment	High	"...we have transferred product development and product line to China."
MMI	Moderate	Subsidiary Mandate	Moderate	"The Chinese factory only focuses on manufacturing...Maybe in the future, we will change its mandate."
		Prioritizing investment	Moderate	"We just closed our factory in China that has been rented for the last 5 years and make a new factory which is going to manufacture 1/3 of the production of MMI."
KRU	Low	Subsidiary Mandate	Moderate	"Chinese subsidiary mandate is only resource seeking. HQ lacks knowledge about Chinese market. They (top managers) do not have long term and

				ambitious strategy and goal for China...”
		Prioritizing investment	Low	“Subsidiary lacks of resource, only focuses on buy resource in China.”
GNO	Moderate	Subsidiary Mandate	Moderate	“The Chinese subsidiary is only sales office. We focus on sales and service. The mandate is very low. But the top managers have ambitions on Chinese market.”
		Prioritizing investment	Low	“The activities such as product development and manufacturing are retained in Denmark. Local production set-up is progressing well...”
MAR	Low	Subsidiary Mandate	Low	“The innovation project did not have high priority...Our focus is to consolidate on our existing mature markets...The subsidiary was closed.”
		Prioritizing investment	Low	“...we are running the project at low resources,...as there are other more important priorities we should to do.”

## Granting Mandate to Subsidiary

In the six firms, the performance of BMI of DES and GAB is higher than other four firms. For example, both DES and GAB have identified their value propositions and designed their new products for middle markets. In contrast, the four other companies (MMI, GNO, MAR, and KRU) in BMI have not made significant progress. Based on our data, we found that DES and GAB explicitly show their shared feature of granting mandate to subsidiary in China.

A good example is GAB firm. In 2003, following its big global customers, GBA established its subsidiary in Beijing. From 2003 to 2010, the mandate of GAB China was to sell premium products to its old customers, and to purchase raw materials for HQ. Due to the high growth of local market, GAB China got more and more attention from the HQ. In 2011, the HQ in Denmark upgraded the mandate of GAB China. They started to design new business model at subsidiary in which the portfolio of products of GBA China would cover customers both on high end market and middle end market. As one manager said,

*“Now, HQ has high ambitious goals for the Chinese market. The growth of local market is very fast. Within the last 7 years, GBA China had not developed any new product. I believe it is related to HQ strategy for China. Under the new mandate, GAB china will focus on both old customers and new local customers. We will develop the low price product for Chinese middle market.”*

Due to the enhancement of GAB China positioning, it got more support and resource from HQ on the new business model innovation. For example, the designer from HQ joined the local team, worked with local designers, and visited local customers with Chinese employees. These activities accelerated the process of new business model.

In MAR firm, the situation on Chinese subsidiary is different. In 2003, MAR built a factory in China and produced products for global market. MAR's business principles are very much based on western standards. In 2011, MAR managers at HQ saw great potential in emerging markets and were aware of

the need of a new product line targeted for the Chinese middle markets. As one manager said:

*“Designing new business model is not only necessary for being successful in China, we also experience that we lost projects in the western countries because our products are too expensive. We see growth potential in the emerging countries. However, our main commitment and strategic focus is not sufficient for China as compared to the other countries.”*

Although the top managers at HQ saw potential growth in China, they lack of commitment and knowledge about Chinese customers, even they misunderstood and complained Chinese market when MAR faced big challenge in China. For example, due to the weak of the protection of IPR, MAR’s products were copied by local competitors. For many MNEs, most of them have faced the same questions. Normally, the best way is to combat the piracy in cooperation with local government. In fact, MAR did not take any actions to solve the issue to protect the brand. In contrast, it closed the subsidiary in China in 2012, and weakened the mandate of the subsidiary. Compare to other countries, Chinese market has low priority. These actions slowed down the process of its new business innovation for Chinese middle market.

### **Prioritizing Investment to Subsidiary**

According to Zott and Amit (2010), business model is a system of interdependent activities that transcends the focal firm and spans its boundaries. The activity system enables the firm, in concert with its partners, to create value and also to appropriate a share of that value. For SMEs, the goal of business model innovation at subsidiary is to exploit a business opportunity by creating value for local customers and partners. In order to create the value and accelerate the process of BMI, prioritizing investment to subsidiary in host country is very salient. We found that DES and GAB who have better BMI performance than other four firms explicitly show their shared feature of prioritizing investment to subsidiary in China.

A good case is DES firm. In 2005, DES built its subsidiary in Suzhou, China. Top managers at HQ have strong aspirations, clear and long term strategy for Chinese markets, and gave prioritizing investment to China. In around 2009, DES built R&D department for global market in China. Until now, DES has transferred the main value chain activities to Chinese subsidiary. All of these activities are very important for its business model innovation. As one manager said,

*“If the HQ lack of ambition on Chinese market, it is impossible to transfer key resource and knowledge to China. DES is different. The HQ has long term strategy for China. It has invested a lot of money in China. Now, we are building another big factory in China.”*

Due to DES has built the whole value chain in China, it has resource and capability to perform its business model innovation. Within the six firms, the speed of process of BMI in DES is the fastest.

A comparative case is KRU. The Chinese subsidiary only focuses on the sourcing of existing products in China. The HQ reviews China as one good sourcing platform, ignores other emerging new opportunities. The HQ does not intend transfer key value chain activities to China, even the HQ sales are not willing to put local people on the task, and the HQ sales persons do not have the right understanding when they get to China, they spend far too little time on China to understand the market, the sales & distribution and the customers. Concerning the new business model, the speed is so slowly. Within around 11 months, they have still not decided upon what product assortment to go for China. As one manager said,

*“I had made a proposal for the HQ and Board in Denmark showing what it would take to increase sales and still get a satisfactory contribution. HQ management and the board nodded, but no action or decision has been made yet, which frustrated me a bit. ...I just don't like to let this opportunity go. So many opportunities for KRU in China... I believe a change in the HQ needs to be made to innovation.”*

In our study, all the six cases demonstrate the salience of entrepreneurial aspiration in BMI, and the salient impact of entrepreneurial aspiration on BMI performance is mediated by the behavioral mechanism of commitment. Granting mandate and prioritizing investment are two important components to constitute the mechanism of commitment from HQ and to reflect HQ's entrepreneurial aspiration as it is applied to BMI. A key observation is that, if the HQs have low commitment they do not intent to transfer of power and resources from HQ to key subsidiaries to enhance the autonomy of subsidiary.

For example, the BMI performance in GNO is very low. The general manager in subsidiary has changed his ideas several times. The main reason is that, although the HQ has high aspiration, HQ lacked commitment on the new business model and refused to transfer key resource to China. As the manager said,

*"I really believe that HQ has high aspiration on Chinese markets. But, HQ lacks of commitment on new business model because the top managers worry about the risk of new business. So that HQ refused to transfer power to subsidiary. We do not have resource to test and try our ideas about new business model."*

For SMEs, Chinese markets are characterized by high growth, uncertainty, and risky environment. High economic growth and huge market opportunities are easily to increase HQ aspirations on subsidiary in China. But, high uncertainty and risk are easily decline HQ commitment on new business model. For the successful SMEs in BMI, granting mandate and prioritizing investment represent a higher level of commitment.

In sum, we found that HQ's entrepreneurial aspiration, as reflected by the mediating mechanisms of granting mandate and prioritizing investment as the components of commitment, facilitated BMI at the subsidiary level for top-down ventures. For SMEs, the primary reason for the entrepreneurial aspiration of HQ to facilitate BMI at the subsidiary level in an effective and fast manner is that entrepreneurial aspiration triggers the mediating mechanisms of granting mandate and prioritizing investment toward the autonomy of subsidiary, which

are tied to risk-taking strategic reorientation (Bromiley, 1991; Fiegenbaum & Thomas, 1988; Shinkle, 2012). Hence, HQ's entrepreneurial aspiration plays a salient role in strategic orientation, which can be defined as a major shift in the form, quality, or state in a firm over time that will alter the firm's alignment with its context, both internally and externally (Hutzschenreuter, Kleindienst, and Greger, 2012). In fact, strategic orientation can be taken as a form of BMI.

Specifically, each BMI to reflect a contextual shift defines strategic orientation, which is a critical decision for a mature firm, especially mature SMEs, and perhaps the most difficult decision for the top executives who are responsible for designing the right business model for their firms (Zott and Amit, 2010). However, the special challenge to mature firms is that BMI is often confronted by the strong resistance due to the conflict between new and prevailing business models, especially when the underlying configuration of assets is embedded in the prevailing business model (Zott and Amit, 2010). Further, the resistance will be much stronger if the new business model involves a high-level uncertainty (Chesbrough, 2010). According to Chesbrough (2010), whether the biggest challenge is obstruction (as in the case of paradigm conflict between new and old business models) or confusion (as in the case of high uncertainty for the new business model), the only way moving forward is the mechanism of commitment to experimentation. "Undertaking active tests to probe nascent markets with new potential configurations of the elements of a business model can allow a firm to learn ahead of the rest of the market, and to begin to generate the new data that can power its change process" (Chesbrough, 2010: 359). This view is consistent with the notion of exploration as a path-breaking search for innovation (Levinthal and March, 1993; March, 1991), which is at the core of entrepreneurship in general (Teece, 2007). In particular, in the above two scenarios, SMEs are more vulnerable than large firms due to the lack of resources to bear the possible negative impact of BMI. For SMEs, entrepreneurial aspiration and the mediating mechanism of commitment are more salient than for large firms.

*Proposition 1: For SMEs, the high entrepreneurial aspiration of HQ will accelerate BMI at the subsidiary level for top-down ventures in the host emerging market.*

*Proposition 2: For SMEs, the high entrepreneurial aspiration of HQ will accelerate BMI at the subsidiary level for top-down ventures via the mediating mechanism of commitment (specifically via the sub-mechanisms of (a) granting mandate and (b) prioritizing investment).*

### **Reciprocal Feedback from Subsidiary to HQ**

According to behavioral theory, organizations adjust their aspirations based on past experience and performance (Cyert & March, 1963; Lant and Shapira, 2008; Shinkle, 2012). In this study, there are some evidences to support the behavioral theory. We found that the resulted BMI performance at subsidiary level reciprocally facilitates the subsequent entrepreneurial aspiration of HQ in a virtuous cycle.

Concerning their primary aspirations and subsidiary mandate, all of the six cases explicitly show their shared feature of incentives or reasons for entering and targeting the Chinese market which were to seek resource in China, to export and sell their existing premium products in European market to the Chinese high-end segment. In general, all the firms have had three different approaches to enter to China. The first one is “customer driven approach” by which the companies have entered China to follow their big global customers. For example, DES, MMI, and GAB have all started up in the high-end segment delivering existing premium products to their customers. The second one is “market driven approach” by which the companies have entered China to exploit the huge growth opportunity. For example, MAR, and GNO have entered the market by finding new local customers and selling their existing high-end products to them. KRU used the third approach that is called as “source driven approach” by which the KRU sought resource for its HQ in China.

A key observation is that the HQs entrepreneurial aspiration on Chinese market is one key determinant on the evolution of subsidiary mandate and

subsidiary priority in SMEs global network. Within the process of BMI, some firms' HQs constantly and dynamically have adjusted their aspirations based on their subsidiaries' performance. For example, firms such as DES, GAB, and MAR have adjusted their subsidiaries mandates and priorities based on their performance in Chinese markets.

Based on high BMI performance, both DES and GAB have increased their aspirations level on Chinese markets. In their new business model, they develop the portfolio of products that cover customers both on high end market and middle end market. At the same time, subsidiaries have got priorities from HQ. As one director of R&D at DES noted,

*“DES China has good situation and priority in DES global market because we have obtained good performance in China. Chinese market is huge. Now, we are in a virtuous cycle. Better performance, ...,higher aspiration, ...,and more investment.”*

A contrasting case is MAR. Due to bad performance in China, MAR declined HQ's aspiration level on BMI, and positioned the business model project as “learning project” in which it can learn how to target the Chinese market. So, MAR is running the business model project at low resources, as there are other more important priorities. As one manager said,

*“The new business model project does not have high priority at this moment. Our focus is to consolidate on our existing mature markets, and to get a positive cash flow here.”*

To summarize, in MAR, past performance in China shapes its strategic behavior, which in turn influences its future performance of BMI.

In sum, we found that subsidiary's BMI performance influences the HQ's aspiration. Our findings support the domain views that recognize historical performance as an antecedent to aspiration levels and assume organizations, or more precisely their managers, learn from experience (Shinkle, 2012). Recent work also acknowledges that commitment may decline, or even cease, if performance and prospects are not sufficiently promising (Benito et al., 2009; Johanson & Vahlne, 2009). Due to big gap between developed markets and

emerging markets, SMEs have faced big challenges in the BMI. If BMI performance is judged as below aspirations, SMEs are expected to select new strategies and adjust their aspirations to increase performance. The dominant view of subsidiary mandates also shows that the subsidiary mandates are the outcome of a process of subsidiary evolution (Cantwell and Mudambi, 2005). For example, Hansen *et al* (2011) reviewed the prior researches and argued that the evolution of subsidiary mandate is from low commitment to high commitment; from resource seeking-via market seeking - to efficiency and, eventually, asset seeking; from competence exploitation to competence creation; and from low linkage to deep linkage intensity with local industry (Dunning and Narula, 2004; Cantwell and Mudambi, 2005; Scott-Kennel and Endeck, 2006). Overall, these observations lead to our proposition.

*Proposition 3: For SMEs, the high BMI performance at the subsidiary level in the host emerging market will positively affect the subsequent entrepreneurial aspiration of HQ concerning the host market as increasingly more strategic.*

### **Entrepreneurial Flexibility as the Primary Capability for BMI**

The research stream on organizational flexibility shows that flexibility creates special values for firms (Allen and Panzalis, 1996; Lee and Makhija, 2009; Tang and Tikoo, 1999), and operational flexibility is often one of the key goals for internationalization (Fisch and Zschoche, 2012). In our study, we found a special type of organizational flexibility beyond the typical operational one, i.e., the flexibility for BMI, which we refer to as entrepreneurial flexibility in contrast to the notion of organizational routine (Bingham and Eisenhardt, 2011; Nelsen and Winter, 1982; Pentland and Rueter, 1994). More specifically, we define *entrepreneurial flexibility* as the special capability of nimbly adapting to major contextual changes (cf. De Toni and Tonchia, 2005). Based on our case evidence, we found that the impact of entrepreneurial flexibility on BMI performance is mediated by the behavioral mechanism of cooperation. Specifically, we found three components to constitute the mechanism of cooperation from HQ and reflect HQ's entrepreneurial flexibility as it is applied

to BMI: cooperative strategic decision-making, cooperative product development, and cooperative HRM. Further, in a feedback loop, the resulted BMI performance will be able to reciprocally affect the subsequent entrepreneurial flexibility of HQ in a virtuous cycle. The specific case evidence for entrepreneurial flexibility and the associated mechanism of cooperation is summarized with the representative quotes in Table 3. It is worth noting that entrepreneurial flexibility differs from entrepreneurial aspiration with two distinctive themes. While *transferring* both power and resources is the theme for entrepreneurial aspiration via the mediating mechanism of commitment, *sharing* both power and resources is the theme for entrepreneurial flexibility via the mechanism of cooperation. This distinction bears key implications for HSR as a special type of partnership beyond the traditional argument for subsidiary autonomy, which will be discussed later.

**Table 3 - The Capability of HQ: Policy Flexibility**

Firms	Overall Flexibility	Policy Domain	Specific Flexibility In Each Domain	Representative Informants Quotes
DES	High	Cooperative Strategic Decision-Making	High	<i>"..... innovation needs flexibility. At our HQ, the process of decision making is very flexible. .... DES China has enough resource and power to design, test, and revise the new business model."</i>
		Cooperative Product Development	Middle	<i>"....., Chinese R&amp;D has the capability to design new products for local customers. R&amp;D at HQ makes the product strategy for global market."</i>
		Cooperative HRM	High	<i>"The HR process at HQ is very flexible. In China, we have local HR department. We can hire, evaluate, and fire the employees. It is very important for our innovation because we can make fast decision on HR policy."</i>
GAB	High	Cooperative Strategic Decision-Making	Middle	<i>"The process of decision making at HQ is complex, not very flexible. It is ok. Comparing to local competitor, the decision making speed is very slow."</i>
		Cooperative Product Development	Middle	<i>"Our tactic of product development is 'customer driven.' ..... During the whole process, we involved designers from HQ and our local customers in each stage".</i>
		Cooperative HRM	High	<i>"Concerning big decision, we share power. We also can make HR policy by ourselves. And we can hire, and fire employees. The HR process is flexible in Denmark."</i>

MMI	Low	Cooperative Strategic Decision-Making	Low	<i>"The project manager has no any autonomy...Top managers controlled the project."</i>
		Cooperative Product Development	Low	<i>"...they (designers) at HQ do not know what are the customers' real needs."</i>
		Cooperative HRM	Low	<i>"In China, MMI has no local HR department. The HQ makes HR any policies for subsidiary."</i>
KRU	Low	Cooperative Strategic Decision-Making	Middle	<i>"...they (managers at HQ) spent far too little time on China to understand the market, the sales &amp; distribution and the customers. They have still not decided upon what product assortment to go for in China!"</i>
		Cooperative Product Development	Low	<i>"KRU is only a broker who sells the product...The process of product development is complex."</i>
		Cooperative HRM	Low	<i>"Sales not progressing...It is the wrong people who are the main cause. HQ sales are not willing to put local people on the task, and the HQ sales persons do not have the right understanding when they get to China..."</i>
GNO	Low	Cooperative Strategic Decision-Making	Middle	<i>"The only one thing what I can do is waiting. The decision speed is so slow... They try to control everything by ERP system."</i>
		Cooperative Product Development	Low	<i>"The process of product development is managed and controlled by HQ...It is a complete copy-paste solution, not adapted at all to local conditions. HQ fears that they lose control of quality..."</i>

		Cooperative HRM	Low	<i>"I have no power to hire new employee and to adjust HR policy at subsidiary. I want to build a new team to research how to innovation the new business model, but, I can't do it because the manager at HQ did not agree with me".</i>
MAR	Low	Cooperative Strategic Decision-Making	Low	<i>"No mechanism to share information and power with subsidiary. HQ makes main decisions."</i>
		Cooperative Product Development	Low	<i>"The principles of production development are very much based on western standards."</i>
		Cooperative HRM	Low	<i>"The policy of HRM is rigid. It is limited the managers power, and slowed down our innovation speed."</i>

## Cooperative Strategic Decision-Making

For SMEs, how to make flexible and fast strategic decisions at HQ level is a big challenge. In general, SMEs have not built the total value chain in host country. The subsidiary in host country only has partial functions such as sales, purchase resource. The HQ remains some key functions such as product design, manufacture, and human resource management. In the process of business model innovation at subsidiary level, the majority decisions are made by the HQ executives who are far away from customers. Managers in the host country who understand market deeply have no space and resource to make any strategic decisions.

A good example is DES firm whose speed of BMI is fast. Within only 10 months, DES not only launched its new product, but also sold more than 200 units. The strategic decision-making speed is also fast because it has established a cooperative decision-making mechanism between HQ and subsidiary. As one manager said,

*“I believe that innovation needs flexibility. At our HQ in Denmark, the process of decision making is very flexible. We share information about strategic decision, and cooperate to make strategic decisions. This mechanism helps DES China has enough resource and power to design, test, and revise the new business model.”*

A contrasting case is GNO firm. The general manager in host country has strong entrepreneurship and good experiences for Chinese market. In the beginning of business model innovation project, he had strong confidence on it and believed that GNO could design novel business model for middle market because he had so many good ideas and insights on the new business model. Unfortunately, he can't share power on new business model and has no resource or power to test his insights, to convert ideas to actions and to accomplish plans because the top managers at HQ try to control everything. The long, complex and rigid decision making process at HQ limited his actions for innovate new business model. As the manager said,

*“The only one thing what I can do is waiting. The decision speed is so slow. Maybe, they (top managers at HQ) do not trust me. I can’t share power. They try to control everything at Chinese office by ERP system. I have no resource, money, people to try, test and implement. So, you can understand why the procedure of innovation is very slow.”*

This is a very interesting phenomenon. From the general manager perspective, he explained the reason why he has no opportunity to share power is that top managers from HQ don’t trust him. In contrast, when we interviewed one top manager at HQ, he said, *“Definitely, we trust him. It is no doubt. According our decision making process, we just need much more data and evidence to decide if we can do it.”*

There is a significant conflict between HQ and subsidiary on how to make strategic decision quickly. On one hand, top managers claim much more information, much more detail actions plans, and much more performance commitment from general manager in host country to support their decisions because they lack knowledge about local market. On the other hand, for the general manager at local subsidiary, it is very difficult to obtain actions in detail and performance commitment because the environment is complex and uncertain. The general manager believed that the important thing for BMI is to try and test ideas.

## **Cooperative Product Development**

Design new product or services for customers is the key factor for business model innovation. Based on our data, we found that flexibility product development processes at HQ are very important to business model innovation at subsidiary level. A good example is GAB. Adopting a highly flexible policy for product development, GAB built a multinational cooperative design team which included two members from the local design department, one designer from HQ, and one member from the local sales department. The product development strategy at GAB was described as “working with key customers.” As one member stated:

*“We have developed a cooperative product development mechanism between HQ and our subsidiary. Our tactic of product development is ‘customer driven.’ We got many ideas about product design from our key customers, and we tested the product prototypes with them. During the whole process, we involved our customers at each stage”.*

In GAB, although the HQ didn't decentralize to subsidiary on new product decision, its cooperative mechanism increased the flexibility and response speed about customer needs. Because the designers from HQ visited and interviewed Chinese customers several times with local members, They got so many useful information and knowledge from local market, and could understand Chinese market in deeply. As one team member said, “Designers at HQ is very important for the product innovation. Their role looks as an information bridge between HQ and Chinese office. With their help, we can communicate and share information with Denmark office very quickly.” Overall, “cooperative product development mechanism” accelerates the business model innovation process in GAB.

A contrasting case is MMI, where product designers and engineers at home country have no any experiences about Chinese market. They also have no motivation to go to China and visit customers, and just claim information about customers from sales people. Based on very limited information, they developed one new product to target market. The solution looks perfect, but, unfortunately, no customer wants to buy it. As one manager said,

*“They (designers) believe the new product can help customers to solve their problems. In fact, they do not know what are the customers’ real needs.”*

In MMI, there is no local designer in China, and no cooperative product development mechanism with local subsidiary. Due to the designers at HQ lack of information and experiences about local market, the solutions is “technological driven” or “product driven”, not “customer driven” or “market driven”. Based on our observation, the product designers who obsess their technology scarcely change themselves. The result of refusing to change is

developing rigid product development process in which the firm could not identify the real needs of customers.

### **Cooperative HRM**

For SMEs, the flexibility of human resource management at HQ is very important for BMI at subsidiary. Based on our data, we found that the firms who have high performance on BMI have established cooperative HRM mechanism between HQ and subsidiary. Due to big institution distance between the home and host countries, how to build cooperative HRM system to support BMI at subsidiaries is a big challenge for SMEs.

DES has overcome this challenge and viewed the institution distance as strategic opportunity to gain competitive advantage. In order to support subsidiary innovation, HQ has changed the process of HRM and improved its flexibility. First, HR department focuses on big decision only and retains the responsibility for hiring the top manager at subsidiary and evaluating the top managers' performance. Second, DES built local HR department in China which is responsible for the formulation of local human resources management policies. As one manager said,

*“The HR process at HQ is very flexible. For big decision, we have cooperative mechanism between Chinese office and HQ. In subsidiary, we have local HR department. We can hire, evaluate, and fire the employees. It is very important for our innovation because we can make fast decision on HR policy.”*

In GNO, the rigid HR policy has slowed down the performance of BMI. Because GNO focuses on very niche market in China and its products are very special, it is very difficult for the employees who have few experiences to sell them. As one informant said, “Special products need special people. We need to hire local talents who have special knowledge and good experiences to sell our products.” In order to accelerate the BMI, the general manager tried to hire experienced professionals and build a local team to operate the innovation project. However, he was unable to fulfill its wish to set up the team. The

general manager explained that the main reason why he could not build local team for the project.

*“Concerning HRM, we have no cooperative mechanism to share power and resource. I have no power to hire new employee and to adjust HR policy at subsidiary. I want to build a new team to research how to innovation the new business model, but, I can’t do it because the manager at HQ did not agree with me”.*

A key observation is that the difference of institutions between Denmark and China constrains the flexibility of HRM process at HQ. GNO HQ is very concerned about hiring too many employees in China because it is very difficult to fire people in Denmark. But, in China, it is different. As one manager said, “Compare to Denmark, you can much more easily hire and fire people out here (China), and they (employees) are still cheap. So risk is rather low”. But GNO HQ does not understand the HR policies in China. Due to concerns about the risk of employment, GNO headquarter retains the power of hiring new employee.

In sum, we found that HQ’s cooperative sharing of power and resources in the areas of strategic decision-making, product development, and HRM facilitated BMI at the subsidiary level for top-down ventures. For SMEs, the primary reason for entrepreneurial flexibility to facilitate BMI at the subsidiary level is that flexibility enables HQ and subsidiaries to share power and resources so as to leverage their respective strengths for synergy at the network level. This special theme of sharing power and resources between HQ and subsidiaries is critical for SMEs in particular and all firms in general (cf. Andersson and Forsgren, 2000; Birkinshaw *et al.*, 1998; Keupp *et al.*, 2011; Tavares and Young, 2006). Putting together, the theme of transferring power and resources from HQ to subsidiaries can effectively supplement the theme of sharing power and resources between HQ and subsidiaries to delineate the unique contribution of this study toward a process framework with the overall duality theme of accelerated learning, which will be discussed later.

*Proposition 4: For SMEs, the high entrepreneurial flexibility of HQ will accelerate BMI at the subsidiary level for top-down ventures in the host emerging market.*

*Proposition 5: For SMEs, the high entrepreneurial flexibility of HQ will accelerate BMI at the subsidiary level for top-down ventures via the mediating mechanism of cooperation (specifically via the sub-mechanisms of (a) cooperative strategic decision-making, (b) cooperative product development, and (c) cooperative HRM.*

### **Reciprocal Feedback from Subsidiary to HQ**

In this study, we found that flexibility is critical organizational competence for achieving and maintaining competitive advantage and superior performance in turbulent business environment. The successful SMEs in BMI increased their entrepreneurial flexibility to keep pace with market evolution as well as to respond rapidly to unpredictable and unexpected market conditions. There is one important question is how and why some firms can improve their flexibility whereas others cannot. Some prior search suggests that flexibility is constrained not only by resource but also by the ways a firm uses the resource (Sanchze, 1995). Based on our data, we found that the resulted BMI performance at subsidiary level reciprocally facilitates the subsequent entrepreneurial flexibility of HQ in a virtuous cycle.

The relevant literature regards organizational learning (OL) as a key strategic capability for explaining why successful firms surpass competitors (Bapuji and Crossan, 2004). In the interactive relationship between entrepreneurial flexibility at HQ and BMI performance at subsidiary, the knowledge that SMEs learned from the innovation process plays an important role. SMEs need knowledge and capabilities of defining, configuring (identifying and structuring), and deploying existing resources through organizational systems and processes (Liu, Li, and Wei, 2009). The greater a firm's accumulated experience and knowledge, the greater its ability to continually restructure and respond effectively to the modern economic environment (Kenny, 2006).

Our data show that if SMEs got enough knowledge from the innovation process, they intend to change their organizational process to improve flexibility. For example, GAB and DES have learned much more knowledge about Chinese markets during the process of design new business model. Based on their knowledge, they changed their processes at HQ to support subsidiaries. In contrast, HQs at MMI and MAR lack of knowledge about Chinese markets, they refused to change their rigid process at HQ. These findings link to the prior researches which have suggested that SMEs face a multitude of different and conflicting institutional pressures, as they attempt to adjust and transfer organizational processes or practices that reflect their unique core competences and knowledge to the foreign subsidiaries to gain competitive advantage (Szulanski, 1996; Kostova, 1999; Kostova and Roth, 2002). Knowledge about host country can help them ease these change pressures. Overall, these observations lead to our proposition.

*Proposition 6: For SMEs, the high BMI performance at the subsidiary level in the host emerging market will positively affect the subsequent entrepreneurial flexibility of HQ concerning the host market as increasingly more strategic.*

## **DISCUSSION AND CONCLUSION**

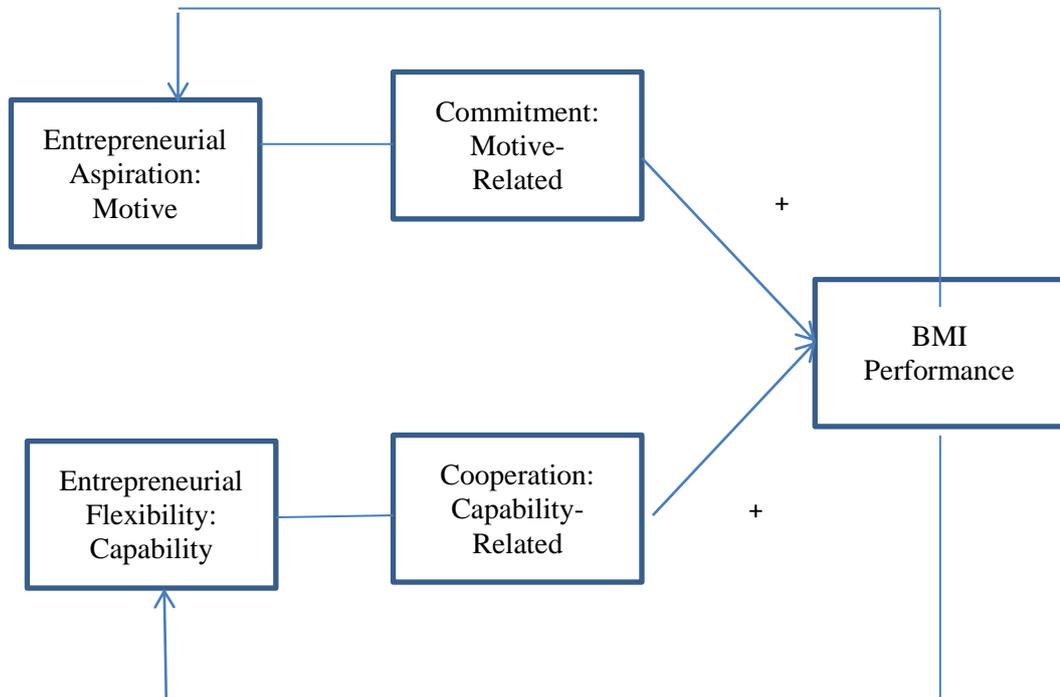
BMI is a relatively new research area across diverse fields of management research, especially those of strategic management, entrepreneurship, and international business. To obtain competitive advantages and create values in top-down ventures, SMEs from the developed economies need to develop a novel business model for the emerging markets due to the large contextual distances or gaps between the emerging and developed economies (Cuervo-Cazurra, 2012; Ghemawat, 2001). The HQ of SMEs plays a central role in BMI at the subsidiary level, yet there is little research on this topic. To fill this gap, the primary contribution of this study is a novel process framework.

## **A Process Framework for HQ's Impact on Subsidiary's BMI**

A primary contribution of this study is an emergent process framework for HQ to facilitate BMI at the subsidiary level for top-down ventures. Figure 1 represents this framework with three sets of interrelated constructs. First, the entrepreneurial aspiration and flexibility of HQ will facilitate BMI at the subsidiary level. Second, the above two facilitators function via the mediating mechanisms of commitment (granting mandate and prioritizing investment) and cooperation (cooperative strategic decision-making, cooperative product development and cooperative HRM). Third, the resulted BMI performance will have a reciprocal effect on entrepreneurial aspiration and flexibility, thus a reverse impact from subsidiary to HQ. While the prior research focuses on the knowledge and capability of HQ to affect subsidiary performance (e.g., Ciabuschi et al., 2011; Foss, 2002; Goodall and Roberts, 2003; Kogut and Zander, 1993). This is especially true for the model of internationalization process (Johanson and Vahlne, 2003, 2006). In contrast, the framework stresses the role of entrepreneurial aspiration as the motive for top-down venture, which is as critical as, if not more than, the capability. Consistent with the learning-based view of internationalization, our framework focuses on the roles of both motive and capability for top-down ventures. Further, in contrast to the typical focus on the separated roles of HQ and subsidiary in the mainstream research, our framework points out the integrated and shared roles of HQ and subsidiary as cooperative partners.

Figure 1

**A Process Framework of HQ's Impact on Subsidiary's BMI**



Specifically, our framework consists of three sets of constructs. First, entrepreneurial aspiration and flexibility serve as the primary facilitators for BMI for top-down ventures. Our case evidence showed that HQ's entrepreneurial aspiration and flexibility could accelerate BMI at the subsidiary level by triggering the mechanisms of commitment and cooperation. These findings link to the prior research on organization aspiration, which suggests that aspiration is central to strategic decision-making, strategic choice, organizational design, organizational growth, and innovation (e.g., Ansoff, 1979; Cyert & March, 1963; Lant, 1992; Massini, Lewin, and Greve, 2005; Shinkle, 2012). Further, the entrepreneurial flexibility of HQ also influences BMI performance. Based on the resource-based review (RBV), flexibility is divided into resource flexibility and coordination flexibility (Sanchez, 1995, 1997). However, the view of dynamic capability maintains that the RBV has not adequately explained how firms

achieve competitive advantages in a dynamic context (Liu, Li, and Wei, 2009). It is argued that a firm must constantly enhance its capabilities to remain dynamically competitive, thus necessary to explore new resources beyond exploiting extant resources (Li et al., 2008; Teece, Pisano, and Shuen, 1997). Compared with large firms, SMEs are more resource deficient. In this study, we found that HQ's flexibility is a special type of core competency (De Toni and Tonchia, 2005), especially salient to an accelerated BMI performance.

Second, we further found that entrepreneurial aspiration and flexibility only serve as the intended goals that have to be transformed into behavioral acts via the mediating mechanisms of commitment and cooperation. Specifically, the mechanism of commitment consists of the specific components of granting mandate and prioritizing investment, while the mechanism of cooperation consists of the specific components of cooperative strategic decision-making, cooperative product investment, and cooperative HRM. The mediating mechanisms with their specific components open the black boxes of entrepreneurial aspiration as the motive for top-down ventures and entrepreneurial flexibility as the capability for top-down ventures.

Third, we finally found the interactive relationship between HQ and subsidiary. Specifically, the higher BMI performance at the subsidiary level can reciprocally enhance the subsequent level of entrepreneurial aspiration and flexibility at the HQ level. This finding broadens the traditional focus on either the role of HQ or the role of subsidiary by balancing and integrating both roles in a single framework. In particular, our findings suggest that HSR is not only about subsidiary autonomy or HQ control, but also about HQ-subsidary cooperation as a partnership (cf. Gupta and Govindarajan, 1991; Harzing and Noorderhaven, 2006; Kostova, 1999; Kostova and Roth, 2002; Szulanski, 1996). This finding also implies that the anchor of learning and knowledge is not confined to subsidiary or HQ as often assumed; rather, it is the interaction and interdependence between HQ and subsidiary that delineate the scope of firm-wide learning and knowledge (Bartlett and Ghoshal, 1998), which bears far-reaching implications for future research on HSR. In sum, our new process

framework identifies the causal links between three sets of constructs in the context of top-down ventures.

### **Implications for Future Research toward International Strategic Entrepreneurship**

The primary contribution of this study is the development of a process framework concerning the role of HQ in BMI at the subsidiary level for top-down ventures. This contribution bears five major implications for future research. First, the framework bears an implication for enriching the research on IE in three areas. Initially, the framework expands the traditional narrow focus of IE on startup firms toward the broader scope to cover both new startups and mature firms. Further, the framework can sharpen the traditional broad coverage of cross-border ventures toward the narrower focus on only top-down and bottom-up ventures as truly entrepreneurial in the cross-border context. Finally, the framework highlights the salience of BMI and exploration to entrepreneurship, which the extant research on IE largely neglects.

Second, the framework bears an implication for enriching the research on SE also in three areas. Initially, the framework expands the traditional narrow focus of SE on domestic ventures toward the broader scope to cover both domestic and international ventures. Further, the framework can also expand the assumed coverage of large firms toward a broader coverage of both large firms and SMEs. Finally, the framework highlights the salience of BMI and exploration to entrepreneurship, which the extant research on SE largely neglects.

Third, the framework bears an implication for the learning-based view of internationalization in three areas. Initially, the framework can help specify the distinctive roles of HQ and subsidiary in their respective learning processes rather than mixing up the distinctive roles and processes related to different learning motives and capabilities. For example, the anchor of operational learning lies at the subsidiary level with subsidiary as the primary agent of operational learning, while the anchor of strategic learning lies at the HQ level with HQ as the primary agent of strategic learning. Further, it is the mutual trust

between HQ and subsidiary that define the overall relationship quality between HQ and subsidiary, as reflected in the mechanisms of commitment and cooperation. Finally, the framework highlights the salience of BMI and exploration to entrepreneurship, which the extant version of learning-based view fails to explicitly emphasize.

Fourth, the framework bears an implication for the mainstream theories in international business in three areas. Specifically, the traditional model of internationalization path (Johanson and Vahlnes, 2003, 2006) can benefit from the framework by emphasizing more on aggressive exploration-based learning beyond its original focus on conservative exploitation-based learning, especially for top-down ventures (or bottom-up ventures). Further, the model of ownership-location-internalization (Dunning, 1995, 2001) can also benefit from the framework by emphasizing more on exploration beyond exploitation, especially for top-down ventures (or bottom-up ventures). Finally, the research on HSR can benefit from the framework by highlighting the salience of partnership between HQ and subsidiary rather than the traditional approach to HQ and subsidiary as separated agents.

Fifth, the framework implicitly suggests the direction for future research toward an integration of three fields of research at the intersections between international business, entrepreneurship, and strategic management toward an interdisciplinary domain of international strategic entrepreneurship (ISE). It is expected that ISE will have perhaps the best potential for future research.

### **Implications for Future Practices toward HQ-Subsidiary Partnership**

Our study provides different perspectives to explain why some firms should be more able to conduct international entrepreneurship and seek new opportunity rapidly under conditions of resource scarcity than others. First, we argue that entrepreneurial aspiration at HQ plays a paramount role in entrepreneurial actions in host country. Given the contextual distance and competitive asymmetry between developed economics and developing economics, this special form of entrepreneurship for established firms differs

from the focus of international entrepreneurship on the “born-global” firms who never suffer from such constraints (Autio, George and Alexy, 2011; Jones and Coviello, 2005). For example, design new business model in emerging markets for SMEs’ HQ is international entrepreneurship and is a key decision, and a crucial - perhaps more difficult - task because it may be conflict with the prevailing business model or with the underlying configuration of assets that support that prevailing model (Zott and Amit, 2010). The new strategies or business models are generally assumed to involve increased risk (Bromiley, 1991). In general, mature firms are risk averse especially when their performance is good in home country. Aspiration is the driver of risky choices of firms (Bromiley, 1991; Fiegenbaum & Thomas, 1988). If these firms lack of aspiration, they are more inclined to take the conservative behaviors. So, these behaviors will delay or slow down the process of internationalization.

Second, processes flexibility at HQ is a firm-level capability that positively influences firm innovation speed and performance of entrepreneurial process in host country. International entrepreneurship is a process, rather than a static phenomenon (Keupp and Gassmann, 2009). According to learning-based view of internationalization, this process is accelerated learning process in which firms need to ambidextrously balance exploration and exploitation within hierarchy boundaries. Based on organizational learning theory, two major types of learning occur through several avenues including action (called learning by doing) and memory (the constant repetition of an organization’s activities) (Lieberman, 1984; Nelson & Winter, 1982; Zahra et al., 1999). Processes flexibility at HQ is a driver of accelerated learning and very useful to innovation actions and activities in subsidiary. From these actions and activities, firms can get deep and new knowledge about local customers, partners, culture, and institutions in host country. Thus, organizational learning creates knowledge as the source of accelerated internationalization.

In sum, our finding on entrepreneurial aspiration and policy flexibility is important because it helps addresses a primary puzzle in the literature on international entrepreneurship. They are two drivers of risky choices and accelerated learning, and are useful to explain the big research question: how

and why some firms can internationalize early and rapidly whereas others cannot.

## **Limitations**

Similar to most studies, this study has limitations. For example, using the longitudinal data of more than one year, we only followed the initial stage of BMI among the six sampled SMEs from Denmark. Our research is the first step in addressing the empirical challenge of opening the “black box” of BMI process for top-down ventures. Further, this study focuses heavily on the perspective of HQ rather than the perspective of subsidiary. Our future research projects will address the above limitations.

## **Conclusion**

By focusing on how SMEs’ HQ facilitates BMI at the subsidiary level for top-down ventures, this study has the potential contributions to the literatures of IE, SE, learning-based view, and also international business models toward the interdisciplinary domain of ISE. Based upon the rich field data, our primary contribution is a novel process framework with three sets of core constructs with their causal links. In particular, this study has sought to fill the gap in the literature concerning the issue of BMI for top-down ventures engaged by SMEs.

Our process framework bears key implications for both research and practice. This framework showcases the potential to integrate the research streams of IE, SE, and international business with the shared theme of accelerated learning as the core of learning-based view of internationalization toward an interdisciplinary domain of ISE. This framework can help explain and implement BMI for top-down ventures. Future research is required to refine and test the basic research propositions derived from the process framework.

## References

- Allen L, Pantzalis C. 1996. Valuation of the operating flexibility of multinational operations *Journal of International Business Studies* **27**(4): 633–653.
- Amit R, Zott C. 2001. Value creation in e-business. *Strategic Management Journal*. 22:493-520.
- Andersson U, Forsgren M. 2000. In search of centre of excellence: network embeddedness and subsidiary roles in multinational corporations. *Management International Review* **40**(4): 329 – 350.
- Anand BN, Khanna T. 2000. Do firms learn to create value? The case of alliances. *Strategic Management Journal* **21**(3): 295-315.
- Ansoff IH. 1979. *Strategic management*. London: Macmillan.
- Autio E. 2005. Creative tension: The significance of Ben Oviatt's and Patricia McDougall's article "Toward a theory of international new ventures." *Journal of International Business Studies* **36**: 9-19.
- Autio E, George G, Alexy, O. 2011. International entrepreneurship and capability development—Qualitative evidence and future research directions. *Entrepreneurial Practice & Theory* **35**: 11-37.
- Bartlett CA, Ghoshal S. 1998. *Managing across borders: the transactional solution*, 2nd edition. Harvard Business School Press, Boston, MA.
- Baum JR, Locke EA. 2004. The relationship of entrepreneurial traits, skill, and motivation to subsequent venture growth. *Journal of Applied Psychology* **89**: 587-598.
- Bapuji H, Crossan MM. 2004. From questions to answers: reviewing organizational learning research. *Management Learning* **35**(4):397–417.
- Bingham CB, Eisenhardt KM. 2011. Rational heuristics: The 'simple rule' that strategists learn from process experience. *Strategic Management Journal* **32**: 1437-1464.
- Bingham CB, Haleblan J. 2012. How firms learn heuristics: uncovering missing components of organizational learning. *Strategic Entrepreneurship Journal* **6**:152-177.
- Birkinshaw JM, Hood N. 1998. Multinational subsidiary evolution: capability and charter change in foreign-owned subsidiary companies. *Academy of Management Review* **23**(4): 773 – 795.
- Birkinshaw JM, Hood N, Jonsson S. 1998. Building firm-specific advantages in multinational corporations: the role of subsidiary initiative. *Strategic Management Journal* **19**(3): 221 – 241.
- Birkinshaw J, Braunerhjelm, P, Holm U, Terjesen S. 2006. Why do some multinational corporations relocate their headquarters overseas? *Strategic Management Journal* **27**: 681–700.

- Brown SL, Eisenhardt KM. 1997. The art of continuous change: linking complexity theory and time-paced evolution in relentlessly shifting organizations. *Administrative Science Quarterly* 42(1): 1 – 34.
- Bourgeois LJ, Eisenhardt KM. 1988. Strategic decision processes in high velocity environments: Four cases in the microcomputer industry. *Management Science* 34: 816-835.
- Bromiley P. 1991. Testing a causal model of corporate risk taking and performance. *Academy of management Journal* 34: 37-59.
- Cameron K, Quinn R. 1988. Organizational paradox and transformation. In R. Quinn & K. Cameron (Eds.), *Paradox and transformation* (pp. 1- 18). Cambridge, MA: Ballinger.
- Cantwell J, Mudambi R. 2005. MNE competence-creating subsidiary mandates. *Strategic Management Journal* 26(12): 1109-1128.
- Casadesus-Masanell R, Ricart JE. 2010. From strategy to business models and to tactics. *Long Range Planning* 43: 195-215.
- Cavusgil SP, Agarwal M. 2002. *Doing business in emerging markets*. London: Sage.
- Chandler A. 1991. The functions of the HQ unit in the multibusiness firm. *Strategic Management Journal* 12: 31–50.
- Chen MJ. 1996. Competitor analysis and inter-firm rivalry: towards a theoretical integration. *Academy of Management Review* 21: 100-134.
- Chen MJ. 2007. Competitive tension: the awareness-motivation-capability perspective. *Academy of Management Journal* 50 (1): 101-118.
- Chesbrough HW. 2010. Business model innovation: Opportunities and barriers. *Long Range Planning* 43: 354-363.
- Ciabuschi F, Forsgren M, Marti´n OM. 2011. Rationality vs ignorance: the role of MNE headquarters in subsidiaries' innovation processes. *Journal of International Business Studies* 42:958-970.
- Ciabuschi F, Dellestrand H, Holm U.2012. The role of headquarters in the contemporary MNC. *Journal of International Management* 18:213-223.
- Collis DJ, Young D, Goold M. 2007. The size, structure, and performance of corporate headquarters. *Strategic Management Journal* 28(4): 383–405.
- Cuervo-Cazurra A. 2012. Extending theory by analyzing developing country multinational companies: Solving the Goldilocks debate, *Global Strategy Journal* 2 (2): 153-167.
- Cyert RM, March JG. 1963. *A behavioral theory of the firm*. Englewood Cliffs, NJ: Prentice Hall.

- Daft RL. 1998. *Organization theory and design*. Cincinnati, OH: South-Western College Publishing.
- De Toni A, Tonchia, S. 2005. Definitions and linkages between operational and strategic flexibilities. *Omega* **33** (6):525–540.
- Dunning JH. 1995. Reappraising the eclectic paradigm in an age of alliance capitalism. *Journal of International Business Studies* **26**: 461–491.
- Dunning JH. 2001. The eclectic (OLI) paradigm of international production: past, present and future. *International Journal of the Economics of Business* **8**:173–190.
- Dunning J, Narula R. 2004. Industrial development, globalization and multinational enterprises: new realities for developing countries. In Dunning JH, Narula R (eds), *Multinational and Industrial Competitiveness*. Cheltenham, UK: Edward Elgar, 38-77.
- Doz Y, Prahalad CK. 1981. Headquarters influence and strategic control in MNCs. *Sloan Management Review* **23** (1):15–29.
- Egelhoff WG. 1991. Information-processing theory and the multinational enterprise. *Journal of International Business Studies* **22** (3):341 –368.
- Egelhoff WG. 2010. How the parent HQ adds value to an MNC. *Management International Review*. **50**:413– 432.
- Eisenhardt KM. 1989. Building Theories from Case Study Research. *Academy of Management Review* **14**(4):532–550.
- Eisenhardt KM. 1991. Better stories and better constructs: The case for rigor and comparative logic. *Academy of Management Review* **16**: 620 – 627.
- Eisenhardt KM, Martin JA. 2000. Dynamic capabilities: what are they? *Strategic Management Journal* **21**(10/11): 1105–1121.
- Eisenhardt KM, Graebner ME. 2007. Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, **50**(1): 25-32.
- Ellis P. 2000. Social ties and foreign market entry. *Journal of International Business Studies* **31**(3): 443-469.
- Fischi JH, Zschoche M. 2012. The role of operational flexibility in the expansion of international production networks. *Strategic Management Journal* **33**: 1540–1556 .
- Fiigenbaum A, Thomas H. 1988. Attitudes toward risk and the risk-return paradox: Prospect theory explanations. *Academy of Management Journal* **31**: 85-106.
- Forsgren M, Holm U, Johanson J. 2005. *Managing the Embedded Multinational*. Edward Elgar, Cheltenham.

- Forsgren M, Holm U.2010. MNC headquarters' role in subsidiaries' value-creating activities: a problem of rationality or radical uncertainty. *Scandinavian Journal of Management* **26**, 421–430.
- Foss NJ. 2002. Coase vs Hayek: Economic organization and the knowledge economy. *International Journal of the Economics of Business* **9**(1): 9–35.
- Foss K, Foss NJ, Nell PC.2012. MNC organizational form and subsidiary motivation problems: controlling intervention hazards in the network MNC. *Journal of International Management* **18**:247-259.
- Gambardella A, McGahan AM.2010. Business model innovation: General purpose technologies and their implications for industry structure. *Long Range Planning* **43**: 262-271.
- Gassmann O, Keupp MM. 2007. The competitive advantage of early and rapidly internationalizing in the biotechnology industry: A knowledge-based view. *Journal of World Business* **42**: 350-366.
- George G. 2005. Slack resources and the performance of privately held firms. *Academy of Management Journal* **48**: 661-676.
- Ghemawat P. 2001. Distance still matters. *Harvard Business Review* **79**: 137–145.
- Golden BR.1992. The past is the past—or is it? The use of retrospective accounts as indicators of past strategy. *Academy of Management Journal* **35**(4): 848–860.
- Goodall K, Roberts J. 2003. Repairing managerial knowledge-ability over distance. *Organization Studies* **24**(7): 1153–1175.
- Gupta AK, Govindarajan V.1991. Knowledge Flows and the Structure of Control within Multinational Corporations, *Academy of Management Review* **13** (4):768-792.
- Hamel G. 2000. *Leading the revolution*. Boston: Harvard Business School Press.
- Hansen MW, Petersen B, Wad P. 2011. Change of subsidiary mandates in emerging markets: the case of Dnaish MNCs in India. *Transnational Corporations Review* **3**(2): 104-116.
- Harzing AW, Noorderhaven NG. 2006. Knowledge flows in MNCs: An empirical test and extension of Gupta & Govindarajan's typology of subsidiary roles, *International Business Review* **15**(3):195-214.
- Hitt MA, Ireland RD, Sirmon DG, Trahms CA. 2011. Strategic entrepreneurship: Creating value for individuals, organizations, and society. *Academy of Management Perspective* **25**: 57-75.
- Hitt MA, Ireland RD. 2002. The essence of strategic leadership: Managing human and social capital. *Journal of Leadership and Organizational Studies* **9**(1): 3–14.

- Hutzschenreuter T, Kleindienst I, Greger C. 2012. How new leaders affect strategic change following a succession event: A critical review of the literature. *The Leadership Quarterly* **23**: 729–755.
- Ireland RD, Hitt MA, Sirmon DG. 2003. A model of strategic entrepreneurship: The construct and its dimensions. *Journal of Management* **29**: 963-989.
- Iyer DN, Miller KD. 2008. Performance feedback, slack, and the timing of acquisitions. *Academy of Management Journal* **51**: 808-22.
- Johanson J, Vahlne JE. 2003. Business relationship learning and commitment in the internationalization process. *Journal of International Entrepreneurship* **1**:83–101.
- Johanson J, Vahlne JE. 2006. Commitment and opportunity development in the internationalization process: a note on the Uppsala Internationalization Process Model. *Management International Review* **46**, 165–178.
- Jones MV, Coviello NE. 2005. Internationalization: Conceptualizing an entrepreneurial process of behavior in time. *Journal of International Business Studies* **36**: 270-283.
- Katila R, Shane S. 2005. When does lack of resources make new firms innovative? *Academy of Management Journal* **48**(5): 814-829.
- Khanna T, Palepu KG. 2010. Winning in emerging markets-a road map for strategy and execution. Boston, MA: Harvard Business School Press.
- Kenny J. 2006. Strategy and the learning organization: a maturity model for the formation of strategy. *The Learning Organization* **13**(4):353–68.
- Keupp MM, Gassmann O. 2009. The past and the future of international entrepreneurship: A review and suggestions for developing the field. *Journal of Management* **35**: 600-633.
- Keupp MM, Palmié M, Gassmann O. 2011. Achieving Subsidiary Integration in International Innovation by Managerial “Tools”. *Management International Review* **51**(2):213-239.
- Kogut B, Zander U. 1993. Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies* **24**(4): 625–645.
- Kogut B. 2000. The network as knowledge, generative rules and the emergence of structures. *Strategic Management Journal* **21**(3): 405-425.
- Kostova T, Zaheer S. 1999. ‘Organizational Legitimacy Under Condition of Complexity: The Case of the Multinational Enterprise,’ *Academy of Management Review* **24**(1):64–81.
- Kostova T, Roth K. 2002. ‘Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects,’ *Academy of Management Journal* **45**(1): 215–233.

- Lamb P, Sandberg J, Liesch PW. 2011. Small firm internationalization unveiled through phenomenography. *Journal of International Business Studies* **42**:672–693
- Lant TK, Mezias SJ. 1992. An organizational learning model of convergence and reorientation. *Organization Science* **3**: 47-71.
- Lant T, Shapira Z. 2008. Managerial reasoning about aspirations and expectations. *Journal of Economic Behavior and Organization* **66**: 60-73.
- Lee SH, Makhija M. 2009. The effect of domestic uncertainty on the real options value of international investments. *Journal of International Business Studies* **40** (3): 405–420.
- Li Y, Liu Y, Duan Y, Li MF. 2008. Entrepreneurial orientation, strategic flexibilities and indigenous firm innovation in transitional China. *International Journal of Technology Management* **41** (1/2), 223–246.
- Lieberman MB. 1984. The learning curve and pricing in the chemical processing industries. *RAND Journal of Economics* **15**: 213–228.
- Liu Y, Li Y, Wei ZL. 2009. How organizational flexibility affects new product development in an uncertain environment: Evidence from China. *International Journal Production Economics* **120**:18–29
- Luo Y. 2003. Market-seeking MNEs in an emerging market: how parent-subsidiary links shape overseas success. *Journal of International Business Studies* **34**:290-309.
- March JG, Simon HA.1958. *Organizations*. New York: John Wiley.
- Markides C, Charitou CD. 2004. Competing with dual business models: A contingency approach. *Academy of Management Executive* **18**: 22-36.
- Massini S, Lewin AY, Greve HR. 2005. Innovators and imitators: Organizational reference groups and adoption of organizational routines. *Research Policy* **34**: 1550-1569.
- Mathews JA, Zander I. 2007. The international entrepreneurial dynamics of accelerated internationalization. *Journal of International Business Studies* **38**: 1-17.
- McDougall PP, Oviatt BM. 1996. New venture internationalization, strategic change, and performance: A follow-up study. *Journal of Business Venturing* **11**: 23-40.
- McDougall PP, Oviatt BM. 2000. International entrepreneurship: The intersection of two research paths. *Academy of Management Journal* **43**: 902-906.
- McGrath RG, 2009. Business Models: A Discovery Driven Approach. *Long Range Planning* **43**:247 -261.
- Miller CC, Cardinal LB, Glick W. 1997. Retrospective reports in organizational research: a reexamination of recent evidence. *Academy of Management Journal* **40**(1): 189–204.

- Morris M, Schindehutte M, Allen J. 2005. The entrepreneur's business model: Toward a unified perspective. *Journal of Business Research* **58**: 726-35
- Nelson RR, Winter SG. 1982. *An evolutionary theory of economic change*. Cambridge, MA: Harvard University Press.
- Nelson RR.1993. National innovation systems: A comparative analysis. New York: Norton.
- Osterwalder A, Pigneur Y.2010. *Business Model Generation*: John Wiley and Sons, Inc., Hoboken, New Jersey.
- Oviatt BM, McDougall PP. 1994. Toward a theory of international new ventures. *Journal of International Business Studies* **25**: 45-64.
- Oviatt BM, McDougall PP. 2005. The internationalization of entrepreneurship. *Journal of International Business Studies* **36**: 2-8.
- Pentland BT, Rueter HH. 1994. Organizational routines as grammars of action. *Administrative Science Quarterly* **39**(3): 484–510.
- Pettigrew AM. 1990. Longitudinal field research on change: Theory and practice. *Organizational Science*, **1**: 267-292.
- Roberts PW. 1999. Product innovation, product-market competition and persistent profitability in the U.S. pharmaceutical industry. *Strategic Management Journal* **20**(7): 655 – 670.
- Sanchez R.1995. Strategic flexibility in product competition. *Strategic Management Journal* **16** (5):135–159.
- Sanchez R.1997. Preparing for an uncertain future. *International Studies of Management and Organization* **27** (2):71–95.
- Scott-Kennel J, Enderwick P. 2005. FDI and interfirm linkages: exploring the black box of the IDP. *Transnational Corporations* **14**(1): 105-130.
- Scullion H, Collings D. 2006. *Global Staffing*, Routledge, London.
- Shinkle GA. 2012. Organizational Aspirations, Reference Points, and Goals: Building on the Past and Aiming for the Future. *Journal of Management* **38**(1): 415-455.
- Simon HA.1955. A behavioral model of rational choice. *Quarterly Journal of Economics* **69**: 99-118.
- Sosna M, Treviño -Rodríguez RN, Velamuri SR. 2010. Business Model Innovation through Trial -and-Error Learning: The Naturhouse Case. *Long Range Planning* **43**:383-407.
- Szulanski G. 1996. 'Exploring Internal Stickiness: Impediments to the Transfer of Best Practice Within the Firm,' *Strategic Management Journal* **17**:27–43.

- Tang CY, Tikoo S. 1999. Operational flexibility and market valuation of earnings. *Strategic Management Journal* **20** (8): 749–761.
- Tavares AT, Young S. 2006. Sourcing patterns of foreign-owned multinational subsidiaries in Europe. *Regional Studies* 40(6): 583-599.
- Teece DJ. 2007. Explicating dynamic capabilities: the nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal* **28**: 1319–1350.
- Teece DJ, Pisano G, Shuen A. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal* **18** (7):509–533.
- Thompson JD, MacMillan IC. 2010. Business models: Creating new markets and societal wealth. *Long Range Planning* **43**: 291-307.
- Timmons JA. 1994. *New venture creation* (4th ed.). Burr Ridge, IL: Irwin.
- Tse E, Russo B, Haddock R. 2011. Competing for the global middle class. *Strategy+Business* 64: 1-8.
- Verbeke A, Greidanus NS. 2009. The end of the opportunism vs trust debate: bounded reliability as a new envelope concept in research on MNE governance. *Journal of International Business Studies* 40:1471–1495.
- Van de Ven AH, Angle HL, Poole MS. 2000. *Research on the management of innovation: the Minnesota studies*. Oxford University Press.
- Wiggins RR, Ruefli TW. 2005. Schumpeter's ghost: is hyper competition making the best of times shorter? *Strategic Management Journal* **26** (10): 887 – 911.
- Wischnevsky JD, Damanpour F, Francis A, Méndez FA. 2011. Influence of Environmental Factors and Prior Changes on the Organizational Adoption of Changes in Products and in Technological and Administrative Processes. *British Journal of Management* **22**:132–149.
- Yin RK. 1994. *Case Study Research*. Thousand Oaks, CA: Sage.
- Zahra SA, Nielsen AP, Bogner WC. 1999. Corporate entrepreneurship, knowledge, and competence development. *Entrepreneurship Theory and Practice* **23** (3): 169–189.
- Zott C, Amit R. 2009. The business model as the engine of network-based strategies. In P. R. leindorfer & Y. J Wind (Eds.), *The network challenge*: 259-275. Upper Saddle River, NJ: Wharton School Publishing.
- Zott C, Amit R. 2010. Business Model Design: An Activity System Perspective. *Long Range Planning* **43**: 216-226.
- Zott C, Amit R, Massa L. 2011. The business model: recent developments and future research. *Journal of Management* **37** (4): 1019-1042.

## **COPENHAGEN DISCUSSION PAPERS**

### **2005:**

**2005-1 May:** Can–Seng Ooi - Orientalists Imaginations and Touristification of Museums: Experiences from Singapore

**2005-2 June:** Verner Worm, Xiaojun Xu, and Jai B. P. Sinha - Moderating Effects of Culture in Transfer of Knowledge: A Case of Danish Multinationals and their Subsidiaries in P. R. China and India

**2005-3 June:** Peter Wad - Global Challenges and Local Responses: Trade Unions in the Korean and Malaysian Auto Industries

**2005-4 November:** Lenore Lyons - Making Citizen Babies for Papa: Feminist Responses to Reproductive Policy in Singapore

### **2006:**

**2006-5 April:** Juliette Koning - On Being “Chinese Overseas”: the Case of Chinese Indonesian Entrepreneurs

**2006-6 April:** Mads Holst Jensen - Serve the People! Corporate Social Responsibility (CSR) in China

**2006-7 April:** Edmund Terence Gomez - Malaysian Investments in China: Transnationalism and the ‘Chineseness’ of Enterprise Development

**2006-8 April:** Kate Hannan - China’s Trade Relations with the US and the EU WTO Membership, Free Markets (?), Agricultural Subsidies and Clothing, Textile and Footwear Quotas

**2006-9 May:** Can- Seng Ooi - Tales From Two Countries: The Place Branding of Denmark and Singapore

**2006-10 May:** Gordon C. K. Cheung - Identity: In Searching the Meaning of Chineseness in Greater China

**2006-11 May:** Heidi Dahles - ‘Chineseness’ as a Competitive Disadvantage, Singapore Chinese business strategies after failing in China

**2006-12 June:** Émile Kok- Kheng Yeoh - Development Policy, Demographic Diversity and Interregional Disparities in China

**2006-13 June:** Johannes Dragsbaek Schmidt - China's "soft power" re-emergence in Southeast Asia

**2006-14 September:** Michael Jacobsen - Beyond Chinese Capitalism: Re-Conceptualising Notions of Chinese-ness in a Southeast Asian Business cum Societal Context

**2006-15 October:** Ng Beoy Kui - The Economic Rise of China: Its Threats and Opportunities from the Perspective of Southeast Asia

**2007:**

**2007-16 February:** Michael Jacobsen - Navigating between Disaggregating Nation States and Entrenching Processes of Globalisation: Reconceptualising the Chinese Diaspora in Southeast Asia

**2007-17 April:** Émile Kok-Kheng Yeoh, Shuat-Mei Ooi - China-ASEAN Free Trade Area: Implications for Sino-Malaysian Economic Relations

**2007-18 May:** John Ravenhill, Yang Jiang - China's Move to Preferential Trading: An Extension of Chinese Network Power?

**2007-19 May:** Peter J. Peverelli - Port of Rotterdam in Chinese Eyes

**2007-20 June:** Chengxin Pan - What is Chinese about Chinese Business? Implications for U.S. Responses to China's Rise

**2007-21 September:** Charles S. Costello III - The Irony of the Crane: Labour Issues in the Construction Industry in the New China

**2007-22 October:** Evelyn Devadason - Malaysia-China Network Trade: A Note on Product Upgrading

**2007-23 October:** LooSee Beh - Administrative Reform: Issues of Ethics and Governance in Malaysia and China

**2007-24 November:** Zhao Hong - China- U.S. Oil Rivalry in Africa

**2008:**

**2008-25 January:** Émile Kok-Kheng Yeoh - Ethnoregional Disparities, Fiscal Decentralization and Political Transition: The case of China

**2008-26 February:** Ng Beoy Kui - The Economic Emergence of China: Strategic Policy Implications for Southeast Asia

**2008-27 September:** Verner Worm - Chinese Personality: Center in a Network

## **2009:**

**2009-28 July:** Xin Li, Verner Worm - Building China's soft power for a peaceful rise

**2009-29 July:** Xin Li, Kjeld Erik Brødsgaard, Michael Jacobsen - Redefining Beijing Consensus: Ten general principles

**2009-30 August:** Michael Jacobsen - Frozen Identities. Inter-Ethnic Relations and Economic Development in Penang, Malaysia

## **2010:**

**2010-31 January:** David Shambaugh – Reforming China's Diplomacy

**2010-32 March:** Koen Rutten - Social Welfare in China: The role of equity in the transition from egalitarianism to capitalism

**2010-33 March:** Khoo Cheok Sin - The Success Stories of Malaysian SMEs in Promoting and Penetrating Global Markets through Business Competitiveness Strategies

**2010-34 October:** Rasmus Gjedssø and Steffen Møller – The Soft Power of American Missionary Universities in China and of their Legacies: Yenching University, St. John's University and Yale in China

**2010-35 November:** Michael Jacobsen - Interdependency versus Notions of Decoupling in a Globalising World: Assessing the Impact of Global Economics on Industrial Developments and Inter-Ethnic Relations in Penang, Malaysia

**2010-36 November:** Kjeld Erik Brødsgaard – Chinese-Danish Relations: The Collapse of a special Relationship

## **2011:**

**2011-37 April:** Masatoshi Fujiwara – Innovation by Defining Failures under Environmental and Competitive Pressures: A Case Study of the Laundry Detergent Market in Japan

**2011-38 November:** Kjeld Erik Brødsgaard - Western Transitory and Chinese Reality: Some Preliminary Thoughts

## **2012:**

**2012-39 December:** Kjeld Erik Brødsgaard - Murder, Sex, Corruption: Will China Continue to Hold Together?

**2013:**

**2013-40 January:** Sudipta Bhattacharyya, Mathew Abraham and Anthony P. D'Costa - Political Economy of Agrarian Crisis and Slow Industrialization in India

**2013-41 February:** Yangfeng Cao, Kai Zhang and Wenhao Luo - What are the Sources of Leader Charisma? An Inductive Study from China

**2013-42 April:** Yangfeng Cao, Peter Ping Li, Peter Skat-Rørdam - Entrepreneurial Aspiration and Flexibility of Small and Medium-Sized Firms: How Headquarters Facilitate Business Model Innovation at the Subsidiary Level