Direct Employment of Skilled Labour by Foreign Owned Subsidiaries and the Development of Autonomy and Intra and Inter Organizational Relationships

Jens Gammelgaard, Copenhagen Business School,

Frank McDonald, Hull University Business School

Heinz-Josef Tüselmann, Manchester Metropolitan University Business School

Christoph Dörrenbächer, Social Science Centre Berlin.

Andreas Stephan, Europa Universität Viadrina

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Abstract

This paper develops a conceptual framework on the strategic development of subsidiaries and the direct employment of skilled labour. The framework is based on autonomy, and intra and inters organizational relationships. The conceptual model outlines the conditions that are likely to lead to too much, or too little, autonomy and intra and inter organizational relationships. This model is then used to develop propositions on the links between autonomy and intra and inter organizational relationships and direct employment of skilled labour.

Introduction

The process of globalisation has generated a powerful backlash based on the view that the ruthless desire by multinational corporations (MNCs) to generate profits is leading to harmful effects on physical and social environments (Bakan, 2004; Mander and Goldsmith, 1997). The pursuit of profits, in a world increasingly open to international business transactions, is often regarded to be a major driver of the degradation of the physical environment, and the deskilling of large parts of the labour force and the lowering of wages as MNCs locate and re-locate their activities to lower labour cost countries. These factors are said to have led to costs that often outweigh the benefits of globalisation (Giddens, 2000: Hutton and Giddens, 2001; Korten, 2001). A strong case for the benefits of the globalisation process have been made by highlighting some of the omissions and under valuations of the benefits from increased international trade and investment that are often contained in the anti-globalisation case (Bhagwati, 2004). However, even advocates of the benefits of globalisation, have highlighted disadvantages from the globalisation process arising. These include the high adjustment costs that accompany the development of international trade and investment flows, which encourage firms, especially MNCs, to introduce new products, production processes, and to locate their operations on a global basis (Stiglitz, 2003). These adjustment costs, it is argued, often fall on labour as globalisation leads to large-scale redundancies and the loss of demand for skilled labour as operations are located and relocated to lower labour cost locations (Hutton and Giddens, 2001).

The impact of direct foreign investments (DFI) on employment has been examined (Barrell and Pain, 1997; Driffield and Taylor, 2000; Driffield and Munday, 2000; Lim, 2001). These studies examine direct employment (labour directly employed by foreign owned subsidiaries) but especially indirect employment (labour employed by other companies that is associated with DFI inflows – spillover employment effects). These macroeconomic studies established that, in general, positive employment effects in host locations emerge from DFI inflows. However, these surveys rarely concentrate on skilled employment effects though Velde (2003) provided the insight, through an investigation of British establishments using microelectronic technologies, that foreign-owned establishments – compared to domestic companies – typically were early adopters of new technologies and in general employed more non-manual workers. Moreover, the literature on DFI and employment effects tends to neglect the type of strategic issues associated with the strategic development of foreign owned subsidiaries. There are a few studies that have investigated the direct employment effects associated with increased autonomy and the development of embeddedness in host locations (McDonald, *et al.*, 2003; Tüselmann, *et al.*, 2003). These studies find that in foreign owned subsidiaries in the UK that increased autonomy and the development of intra and inter organizational relationships are associated with enhanced employment of skilled labour, such as professional and managerial staff, technicians, and skilled craftsmen. Furthermore, Holm, *et al.* (2003) found that access to skillful personnel was negatively related to headquarters control, though positively related to the subsidiary competence level. However, there are no well-developed conceptual frameworks on the links between the strategic development of subsidiaries and direct skilled employment effects. This means that it is difficult to set research agendas that can help to increase our understanding on the employment implications of changing the organizational and management structures of the subsidiaries of MNCs, and of the regional development implications of such changes.

The international business literature suggests that the strategic objectives of MNCs are likely to have significant implications for subsidiary development and by extension on employment in host locations. Resource-based theories of MNCs indicate that they seek to strategically develop some of their subsidiaries by granting them autonomy to embed into their host locations by establishing links with other firms and agencies to acquire desirable assets and knowledge that help to promote the objectives of companies (Andersson *et al*., 2002; Andersson and Forsgren, 2000; Birkinshaw *et al*., 1998; Moore, 2001).

Another distinguishing characteristic of foreign subsidiaries is that they have significant intra and inter-organizational relationships. Intra-organizational relations are the links that the subsidiary has with the headquarters and other subsidiaries within the MNC. Inter-organizational relations are the links that the subsidiary has in its host location and including, customers, suppliers, competitors and supporting agencies such as governmental and quasi-governmental agencies. These concepts can be considered as internal environments - intra-organizational relationships, and external environments - inter-organizational relationships (Birkinshaw, 2000; Birkinshaw *et al*., 2005; Holm *et al*., 2003). Although increasing autonomy and the development of intra and inter organizational relationships are not necessarily linked to beneficial affects for host locations (Young and Tavares, 2004) or for the MNC as a whole (Almeida *et al*., 2004; Mudambi and Navarra, 2004), developing subsidiaries by granting mandates to make strategic decisions and to expand operations and to extend intra and inter organizational relationships are potentially important elements for the performance of subsidiaries and subsequently for their impact on direct skilled employment in host locations.

This paper develops a conceptual framework on the strategic development of subsidiaries and the direct employment of skilled labour. The framework is based on autonomy (decision rights for strategy issues and for operational matters), and intra and inters organizational relationships. The conceptual model outlines the conditions that are likely to lead to too much, or too little, autonomy and intra and inter organizational relationships. This model is then used to develop propositions on the links between autonomy and intra and inter organizational relationships and direct employment of skilled labour.

Literature Review on Subsidiary Development Effects on Autonomy and Inter/Intra Organisational Relationships

Initially, autonomy can be defined as "the degree to which the foreign subsidiary of the MNC has strategic and operational decision making authority" (O'Donnell, 2000, p. 528). Emphasis is put on the strategic role of the subsidiary, and how it influences decision making processes on an overall level in the MNC, and simultaneously its freedom to conduct daily business activities without asking for permission (Birkinshaw *et al.,* 2005). In general autonomy reflects how the subsidiary can make a "range of decisions without interference from headquarters", as measured by Birkinshaw *et al.* (2005, p. 237).

Defining subsidiary relationships: Intra organizational relationships are connected to the internal business environment (that is, the relationships within the MNC) of foreign owned subsidiaries. Whereas inter organizational relationships are based on the external business environment of subsidiaries in their host locations. Both of these relationships exert influences on the performance and, therefore, the employment effects of foreign owned subsidiaries. Intra organizational relationships are based on relationships with suppliers, customers and competing entities within the MNC (Birkinshaw *et al*., 2005) that indicates a competing as well as a collaborative internal arena. They have also been identified with intra-organizational networks (Holm and Pedersen, 2000; Holm, *et al*., 2003; Schmid and Schurig, 2003).

The foundation of subsidiary development is also of interest, since these processes obviously influences decisions concerning employment on the one hand, and autonomy and relationships on the other. The level and type of strategic development subsidiaries is an outcome of assignment by head office, decisions taken by subsidiary management, and local market conditions (Birkinshaw and Hood, 1997; Crookell and Morrison, 1990; Hood and Taggart, 1999; Rugman and Verbeke, 2001). Therefore, the role of subsidiaries, and as an effect, the type of individuals they employ, is not just a reflection of the external business environment, but also an outcome of strategic choices of headquarters and subsidiary managers (Morrison and Roth, 1993).

Subsidiary managers are therefore more than just executive organs of a given business environment, they also influence the behaviour of headquarters and other subsidiaries. Given the large behavioural differences between national and expatriate managers (Peterson, 2003), the level of autonomous action of a subsidiary also depends on whether the subsidiary is managed by a local manager or an expatriate. To give one example, a study made by Blazejewski and Dorow (2003), showed that subsidiaries managed by expatriates were more likely to develop its mandates over time. The behaviour of both subsidiary and headquarters' managers can also be influenced by individual career orientation (Schein, 1993), a variable that varies according to age, family status, firm-specific career opportunities, and other factors.

Given that subsidiary development is a contested issue in most MNCs, the reputation gained in former conflicts (Pfeffer, 1992), the specific allocation of "zones of uncertainty" (Crozier and Friemann, 1979) and organizational politics (Dlugos, *et al*., 1993) should also be taken into consideration. This is especially true in the case of mergers and acquisitions where relatively unknown entities join the MNC's network of subsidiaries. The MNC is, so to say, also a political oriented organization (Forsgren, 1989), and organizations and sub-organizations behave in accordance with their self-interest (Schmidt and Kochan, 1977). In their seminal paper, Ghoshal and Bartlett (1988) provided one example hereof, since they only saw indirect effects of autonomy on innovation. Consequently, autonomy leads to conflicts and needed to be mediated by normal integration, i.e. shared organizational values, and communication, before influencing innovation. Autonomy is then associated with the subsidiary cooperation with headquarters (Taggart, 1999) like shown by Picard (1980) were good relationships among executives increased operational flexibility.

Furthermore, autonomy and the level of intra and inter organizational relationships is often reflected by the role – i.e. the scale and scope of activity, geographical market orientation, and strategic responsibilities - subsidiaries play in the

MNC. This can range from a miniature replica, a duplicated microcosm of the headquarters that produces and markets some of the parent's products, to a strategic independent unit with the freedom and resources to develop products for global markets (Poynter and White, 1985). The reason for this multiplicity is the differentiation in the resources possessed by subsidiaries that derive dissimilar roles and responsibilities. In addition the size, the history and geography of MNCs varies a lot including both simple and complex organisational structures (Nohria and Ghoshal, 1997).

The effects of these factors on host locations depends on whether the subsidiaries remain stable, or whether strategic development leads to an extension or demotion of subsidiary business activities. A survey by Jarillo and Martínez (1990) revealed that some subsidiaries become more enmeshed into intra-organizational activities over time. A follow up study by Taggart (1998b; 1998c) confirms the result. Another study, building on Poynter and White (1985), terminology, found that 40 % of subsidiaries with lower level strategic autonomy experience an upgrade in responsibilities within a 5 year period (Taggart, 1999).

Increasing autonomy and intra and inter organizational relationships is often assumed to be a prerequisite for significant beneficial effects in host locations (Edwards, *et al.*, 2002). However, increasing autonomy and intra and inter organizational relationships need not lead to benefits to the MNC because of rent-seeking behaviour by subsidiaries (Mudambi and Navarra, 2004) and failure to optimize the balance in managing the utilization of knowledge and assets in the internal and external environments (Almeida and Phene, 2004). Here, subsidiaries are said to be living in a world of institutional duality (Kostova and Roth, 2002) meeting simultaneously requirements from internal and external institutions. Moreover, a fine line may have to tread between cooperation and competition in intra organizational relationships if harmful competition between subsidiaries is to be avoided (Birkinshaw *et al.*, 2005). It appears that effective management of both internal and external business environments, developing an optimal balance between centralized and decentralized control strategies, and the existence of desirable assets in host locations are crucial to making the strategic development of subsidiaries work (Davis and Meyer, 2004; Luo, 2005; Schmid and Schurig, 2003; Young and Tavares, 2005). Figure 1 summarises the reasons for too much, or too little autonomy and intra and inter organizational relationships.

(Figure 1 about here)

Autonomy and Skilled Employment

Autonomy has been identified as one of the most important areas of research in cases where the subsidiary is the unit of analysis (Paterson and Brock, 2002). Resource-based theorists have extensively studied the process of autonomy granted to subsidiaries in host locations (Andersson, *et al.*; 2002; Birkinshaw, *et al*., 1998; Birkinshaw and Hood, 1998; Holm and Pedersen, 2000; Jarillo and Martinez, 1990). The importance of autonomy in subsidiary development has also been investigated using the concept of procedural justice (Kim and Mauborgne, 1993; Taggart, 1996). In general, these studies find that good performance in subsidiaries is related to high levels of autonomy in host locations. Autonomy helps the subsidiary to build up unique and distinguishable knowledge positions by tapping into external networks not accessed by other entities in the MNC. Some studies show a positive relationship between subsidiary autonomy and knowledge creation (Taggart 1997; Taggart and Hood 1999), but opposite results have also been found by Brockhoff and Schmaul (1996) and Ensign *et al*. (2000). Finally, autonomy reflects the diversity of the MNC. Here, Garnier (1982) found that large and diverse MNC granted less autonomy to subsidiaries, in order to impose control and minimize risk. At the same time, subsidiaries needed skillful personnel and freedom to operate in institutional different environments (Prahalad & Doz, 1981) or in the case of diversified organizational structure (Vachani, 1999).

Increased autonomy and the effects on direct employment of skilled labour in host locations can be split into two main components (see Figure 2). Firstly, the autonomy in strategic decisions rights and secondly autonomy related to operational decision making. Strategic decision right is concerned with mandates to make decisions in areas such as R&D, production system developments, product developments, and marketing developments. Secondly, operational decision rights involve the right to make tactical decisions on the type and extent of daily operations. Autonomy granted to subsidiaries differentiates in relation to activity (Birkinshaw, 1999; Birkinshaw and Hood, 2000; Birkinshaw *et al.,* 2005; Ghoshal *et al.,* 1994; Gupta *et al.,* 1999; Holm and Pedersen, 2000; Roth and Morrison, 1992; Taggart, 1999), as found in a survey by Vachani (1999) where subsidiary autonomy was greater for marketing and personnel decisions than for R&D and finance. Subsidiaries will, typically, have greater information on operational issues, and operations like setting wage rates and determining the number of employees were in Edwards *et al.'* (2002) sample in most cases solely made by the subsidiary, whereas strategic decisions regarding the approve of finance for major projects were made by headquarters.

In cases where there is too little autonomy (see figure 2), expanding autonomy by granting increased mandates to develop markets, products, production processes and R&D should lower transaction costs because of the shorter chain command and should enhance the ability to explore new and innovative arrangements that involve higher valued added activities in both internal and external business environments. As Prahalad and Doz (1981) - suggesting a relationship between subsidiary maturity and its ability to afford higher levels of management and investments in R&D - we believe that the increase in explorative activities demand for a higher proportion of skilled labour[1] to carry out R&D activities, developing new markets and products, engaging in innovation, and in general to manage the growth of the establishment. This line of reasoning leads to our first proposition.

Proposition 1a

Subsidiaries that are granted increased strategic decision rights autonomy develop enhanced abilities to innovate and experience lower transaction costs, which leads to increased direct employment of skilled labour.

In general, subsidiaries with weak mandates, like Greenfield sales subsidiaries, do not have the autonomy to hire key personnel (Holm *et al.,* 2003). Likewise, in cases where too much autonomy has been granted (see figure 2) there will be reduction in autonomy, which will lead to curtailment of certain types of higher valued added activities. This, if widespread will lead to no growth in direct employment of skilled labour. Demotion of subsidiary mandates will, at least in the short run, lead to reductions

[1] Increases in autonomy, and in intra and inter organizational relationships, may increase or decrease the overall level of employment, for example an increase in autonomy or the development of intra and inter organizational relationships may induce subsidiary managers to rationalize activities away from lower valued operations and thereby reduce the overall level of employment.

in the non-skilled employees, though widespread and charter losses of long duration will lead to skilled employment cut backs.

Proposition 1b

Subsidiaries that have a reduction in strategic decision rights autonomy will curtail some higher value added activities, which if widespread will lead to no growth in direct employment of skilled labour, and if persistent will lead to reductions in employment of skilled labour.

(Figure 2 about here)

Increases in autonomy in operational decision rights should create opportunities for internal economies of scale and scope as well as learning effects as subsidiaries develop their operations using the autonomy that they have been granted in these areas (see Figure 2). As shown by Edwards *et al.,* (2002), these rights typically concerns decisions concerning employment, and, therefore, we advocate for the following proposition.

Proposition 2a

Subsidiaries that are granted increased operational decision rights autonomy will expand the type and extent of their activities that will enhances internal economies of scale and scope, which leads to increased direct employment of skilled labour.

In cases where too much operational autonomy has been granted (see figure 2) there will be reduction in autonomy, which will lead to curtailment of certain types of higher valued added activities. This, if widespread will lead to no growth in direct employment of skilled labour. As in the case of strategic decision rights autonomy continuation of reduced autonomy may permit the headquarters to accelerate rationalization processes that will lead to a decline in the employment of skilled labour.

Proposition 2b

Subsidiaries that have a reduction in operational decision rights autonomy will curtail some higher value added activities, which if widespread will lead to no growth in direct employment of skilled labour, and if persistent will lead to reductions in employment of skilled labour.

Intra and Inter Organizational Relationships and Skilled Labour

Intra and Inter organizational relationships provide the means to access resources within the MNC that can increase organizational learning (Lundvall, 1999), lower transactions costs and build up of trust in intra-organizational activities (Birkinshaw and Hood, 1998a; Dunning, 2000; Hennart, 2001) and increase access to information and knowledge (Holm *et al*., 2005; Schmid and Schurig, 2003). Accessing technological knowledge that can enhance capabilities to innovate is often regarded as being the major benefits that arises from intra organizational relationships (Ivarsson, 2002; Papanastassiou and Pearce 1997; Pearce, 1999; Taggart, 1998a). Figure 3 provides a summary of the relationship between intra organizational relationships and direct employment of skilled labour.

(Figure 3 about here)

In general, wide (large number of intra organizational relationships) and depth (large frequency of intra organizational relationships) are likely to be associated with good subsidiary performance. This leads to the third proposition.

Proposition 3a

Subsidiaries that develop wide and deep intra organizational relationships will experience increased organizational learning, lower transaction cost, higher levels of trust in intra organizational activities, and access to desirable assets from within the MNC, which leads to increased direct employment of skilled labour.

In cases where too much intra organizational relationships have been developed (see Figure 3) there will be reduction in these relationships, which will lead to curtailment of certain types of higher valued added activities. This, if widespread will lead to no growth in direct employment of skilled labour, and if long lasting will induce reductions in the employment of skilled labour.

Proposition 3b

Subsidiaries that have a reduction in width and depth of intra organizational relationships will curtail some higher value added activities, which if widespread will lead to no growth in direct employment of skilled labour, and if persistent will lead to reductions in employment of skilled labour.

Inter organizational relationships are those connections that exist within the external business environment in host locations of foreign owned subsidiaries, and embrace product and capital flows on the one hand, and transfers of information on the other (Andersson *et al.*, 2002). The importance of inter organizational relationships is highlighted by the value attached to locating within local networks to develop international competitiveness. This has been investigated in terms of the role of geographical factors in the internationalisation process (Dunning, 2000; Porter, 1990 and 1994). This literature indicates that the use of local networks composed of other firms, R&D agencies such as universities and government research bodies, local authority agencies, chambers of commerce and other organisations can help subsidiaries to attain their objectives. These local networks enhance the ability to attain collective learning and innovation benefits (Lundvall, 1999) and to acquire spill over benefits associated with proximity (Porter and Sölvell, 1999). These network benefits form the basis for agglomeration benefits. Local networks that provide such benefits are at the core of clusters or industrial districts that have been shown to deliver competitive advantages to foreign owned subsidiaries that locate in these geographical concentrations (Benito, 2000; Driffield and Munday, 2000; Enright, 2000; McNaughton and Green, 2002). Typically, subsidiaries in such leading edge clusters will be more embedded and – because of increased resource dependency for headquarters – be granted more autonomy (Birkinshaw and Hood, 2000; Pfeffer & Salancik, 1978; Prahalad and Doz, 1981). These benefits of external relationships arise from external economies of scale, increased flexibility from proximity to suppliers, customers, and supporting agencies. Moreover, acquisition of desirable locally available assets should be enhanced because of the use of inter organizational networks.

Subsidiaries that are strongly embedded in inter organizational relationships are more likely than lightly embedded subsidiaries to develop competitiveness and to engage in high value added operations and, thereby, to have more beneficial effects in host locations. Such embeddedness can enhance the effectiveness of both backward linkages (to suppliers and agencies that enable effective input supply) and forward linkages (to buyers and agencies that help in the process of marketing and selling). Further, benefits can arise from increased abilities in gathering and processing information that leads to acquisition of knowledge. This type of knowledge acquisition can lead to competitive advantages for the MNC (Davis and Meyer, 2004; Schmid and Schurig, 2003). Although little evidence has been found that high levels of embeddedness in inter organizational relationships are linked to beneficial effects in host locations (Tüselmann *et al*., 2000; McDonald *et al*., 2003 and 2004), in principle, if inter organizational relationships improve the effectiveness of backward and forward linkages this should have a beneficial impact on direct employment of skilled labour in host locations (see Figure 3). However, such beneficial effects are likely to be dependent on the strategic objectives of subsidiaries and the headquarters of the MNC and the amount and quality of locally available assets that can be harnessed by developing inter organizational relationships. Subsidiary managers must also be able to convince headquarters and other major decision makers within the MNC that developing inter organizational relationships will bring benefits to those parts of the MNC that are considered to be central to the corporate strategy of the firm. Further, the depth and the frequency of interactions with local partners further increases these effect. This is embraced in the concept of embeddedness, and includes the level of trust, and the willingness to adapt resources and procedures in both organizations leading to a close relationship. Here, Andersson *et al*., (2002) find a positive correlation between external embeddedness (regarding technical and business relationships) and subsidiary market performance. Following this argumentation, we believe that the wide (large number of inter organizational relationships) and depth (large frequency of inter organizational relationships) are likely to be associated with good subsidiary performance in cases where there is too little inter organizational relationships (see Figure3). This leads to proposition four.

Proposition 4a

Subsidiaries that develop wide and deep inter organizational relationships will experience improved abilities to gather and process information, stimulate learning and innovation, and improve the assets available to the subsidiary, which leads to direct employment of skilled labour.

In cases where too much inter organizational relationships have been developed (see Figure 3) there will be reduction in these relationships, which will lead to curtailment of certain types of higher valued added activities. This, if widespread will lead to no growth in direct employment of skilled labour, and a prolonged retreat from such inter organizational relationships will reduce higher value added activities and thereby lead to a decline in the employment of skilled labour.

Proposition 4b

Subsidiaries that have a reduction in the width and depth of inter organizational relationships will curtail some higher value added activities, which if widespread will lead to no growth in direct employment of skilled labour, and if persistent will lead to reductions in employment of skilled labour.

Links Between Autonomy, Intra and Inter Organizational Relationships, and Skilled Labour

In this paper, we advocate, that in certain conditions, there will be a positive connection between subsidiary development (i.e. increase in autonomy, internal, and external relationships) and increases in the employment of skilled labour. However, autonomy and networks are interdependent variables, and their mutual influence needs to be investigated. Thus far we have assumed that there are no links between changes in autonomy and changes in intra and inter organizational relationships. However, both top down and bottom up effects may be at work to link these factors. Top down effects are when changes in autonomy granted by headquarters to subsidiaries permit them to develop beneficial intra and inter organization relationships. Bottom up effects exist when the development of intra and inter organizational relationships initiated by managers in subsidiaries lead to the granting of autonomy by headquarters.

Top down effects exist when increases in autonomy influence intra and inter organizational relationships because the ability to develop these relationships is often depended on subsidiary managers having the autonomy to develop these relationships (Almeida and Phene, 2004; Birkinshaw el al, 2004). In cases where autonomy leads to development of capabilities, upon which other corporate entities depend (like in the case of center of excellences, see Holm & Pedersen (2000)), more and frequent internal relationships will be established. A more direct effect is the subsidiary's freedom to establish links to other subsidiaries, without asking for headquarters approval to do so (Edwards *et al*., 2002). Increase in autonomy practically lower the level of formal headquarters control, though the subsidiary will to a higher degree be governed though social control mechanisms, and in such cases, headquarters may still be highly influential on subsidiary decisions (Prahalad and Doz, 1981).

Bottom up approaches involve entrepreneurial behavior by subsidiary managers whereby they engage in the development of intra and inter organizational relations, with or without permission from headquarters, that subsequently leads to good performance that leads them being granted autonomy (Birkinshaw, 2000; Birkinshaw *et al*., 1998; Holm, *et al*., 2003; O'Donnell, 2000). This type of behavior has been especially evident in technological developments and in developing innovative procedures and processes (Davis and Meyer, 2004; Manolpoulos, *et al.*, 2005; Papanastassiou and Pearce, 2005; Taggart, 1998a). However, in terms of control, Andersson and Forsgren (1996) found the effect of internal and external embeddedness to be contradictory, since subsidiaries perceived low degree of headquarters control when having high degree of external embeddedness, and opposite high degree of internal embeddedness led to high degree of perceived control by headquarters.

Complex interactions between increasing autonomy and increasing intra and inter organizational relationships may be at work. In subsidiaries with too little autonomy and organizational relationships these interactions may lead to two-way interaction between increasing autonomy and intra and inter organizational relationships with subsequently boosting of direct employment of skilled labour. Alternatively, the link between autonomy and organizational relationships may be one way that is either top down, or bottom up. This is illustrated in Figure 4.

(Figure 4 about here)

In cases where there is too little autonomy and/or intra and inter organizational relationships there will exist incentives for steps to be taken to increase these factors. This may come about by top down, or bottom up, or a complex interaction between these two approaches. Hence, there is likely to be links between increases in autonomy and increases in intra and inter organizational relationships. Enhancement of these factors will lead to deeper and wider intra and inter organizational relationships, and increases in decision rights to make strategic choices and to extend and deepen operational activities. These changes will in turn lead to improvements in costs, learning and innovation, and in the quality of assets that will induce increases in higher value added activities. This will result in increases in direct employment of skilled labour. This process is illustrated in Figure 4, and leading to our fifth proposition:

Proposition 5

Interaction between autonomy and intra and inter organizational relationships may run from increased autonomy to increased organizational relationships, or run in the opposite direction, or flow in both directions. In cases where there is too little autonomy and/or organizational relationships the interaction will lead to increased direct employment of skilled labour.

This conceptual framework provides a structure, as shown in figure 5, to construct research agendas that could be used to verify the postulated relationships that are derived from the framework, and also provide evidence on the strength of these relationships. Evidence of this kind would be helpful for managers in the headquarters of MNCs to assess the likely effect of developments in the autonomy and intra and inter organizational relationships of their subsidiaries. This type of evidence would also be useful for subsidiary managers, as it would provide guidance on some of the implications of developing autonomy and organizational relationships. Furthermore, the implications of too much autonomy and organizational relationships can be analyzed with this framework. This framework and empirical evidence derived from it could provide useful material for regional development planning because it could indicate likely effects for the direct employment of skilled labour in host locations of the strategic development of foreign owned subsidiaries. Finally, empirical evidence derived from this conceptual framework could provide useful information to illuminate the debate about the impact of the globalization process on the host locations of foreign owned subsidiaries.

Figure 5 about here

Conclusion

The conceptual framework on links between autonomy and intra and inter organizational relationships with the subsequent link to direct employment effects, provides a route to engage in a comprehensive investigation of the direct employment effects in host locations of the development of foreign owned subsidiaries. This framework offers avenues of research on direct employment effects that could enhance the existing macroeconomic studies on the implications of DFI for employment in host locations. Therefore, this framework provides a route to develop research programmes that would add to our knowledge on this important issue. A research programme of this type would be valuable to managers in MNCs at both headquarters and subsidiary level, and for public policy makers to help them to create more effect regional development policies. Research using this type of an approach would also help us to have a better understanding of the complex interplay between autonomy and the internal and external environments of foreign owned subsidiaries.

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Figure 1 Change in Autonomy and Intra and Inter Organizational Relationships

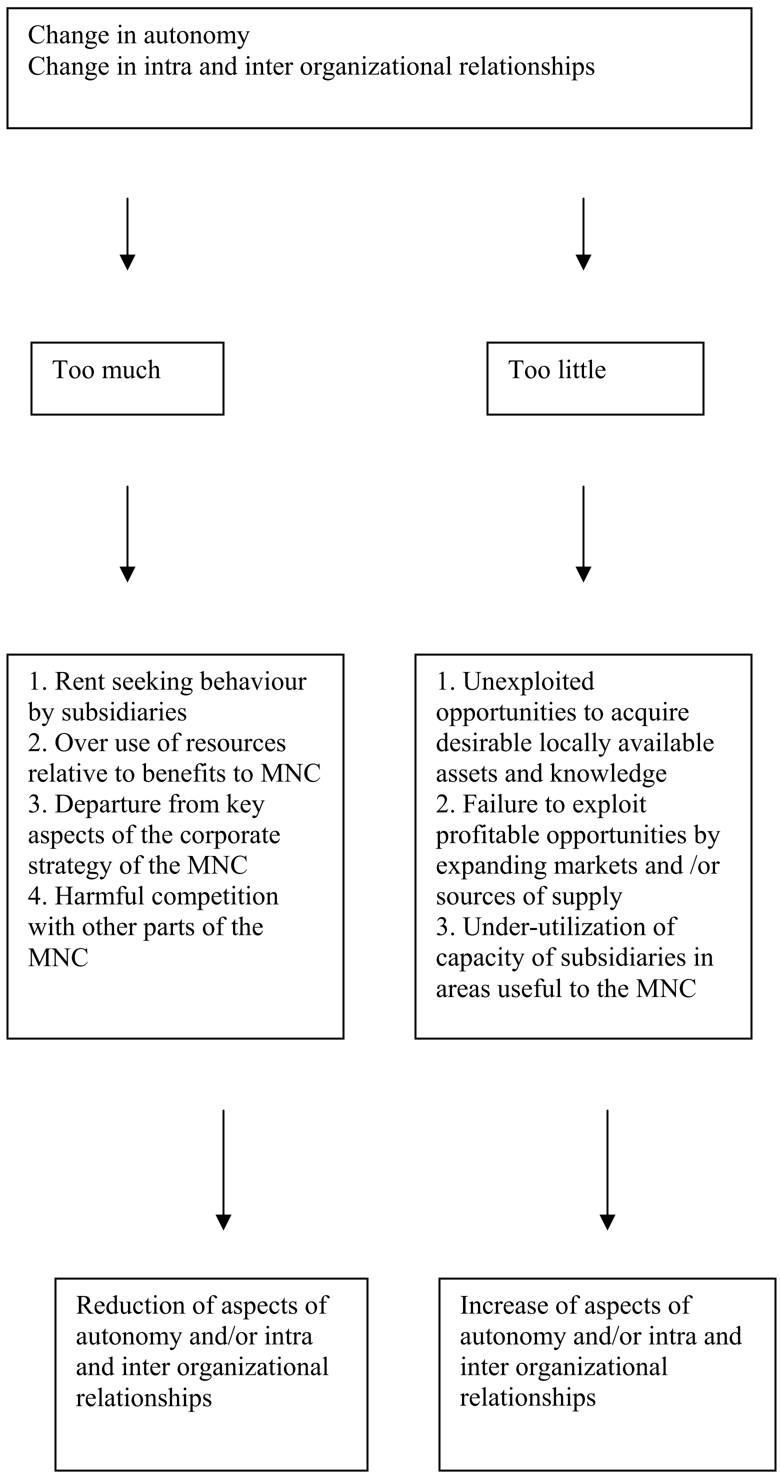

Figure 2 Increased Autonomy and Direct Employment of Skilled Labour

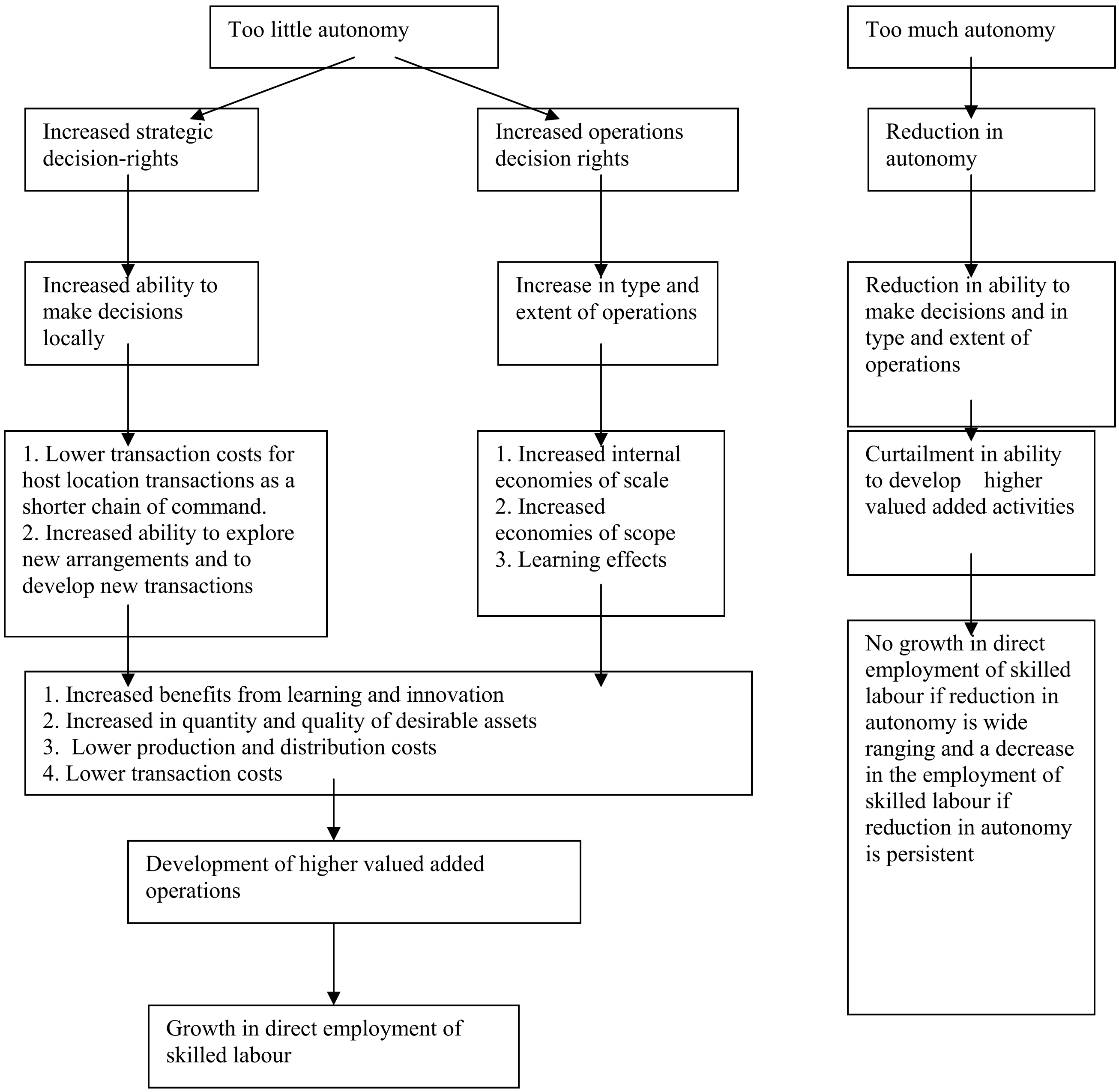

Figure 3 Increased Intra and Inter Organizational Relationships and Direct Employment of Skilled Labour

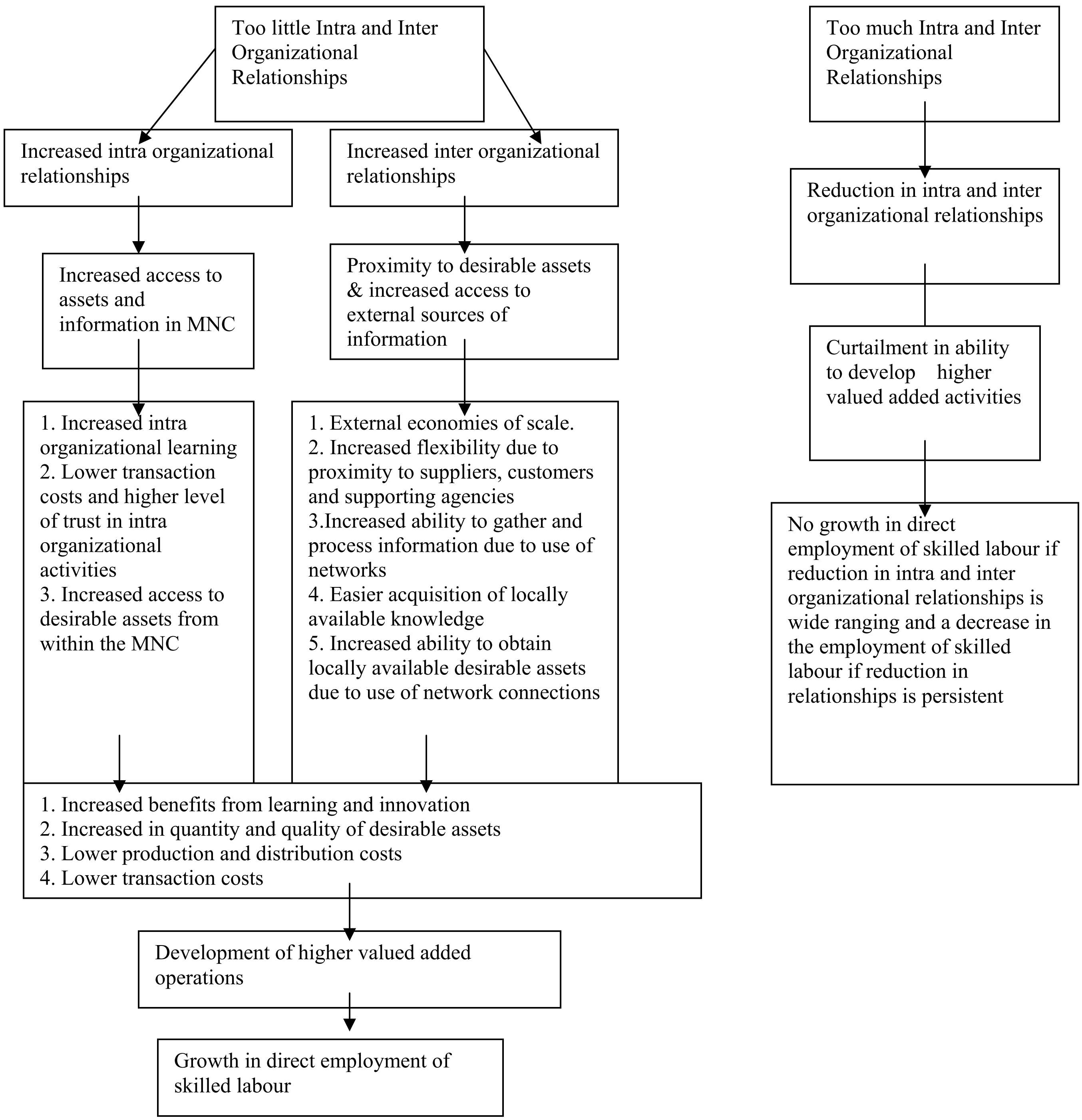

Figure 4 Interaction between autonomy and intra and inter organizational relationships and direct employment of skilled labour

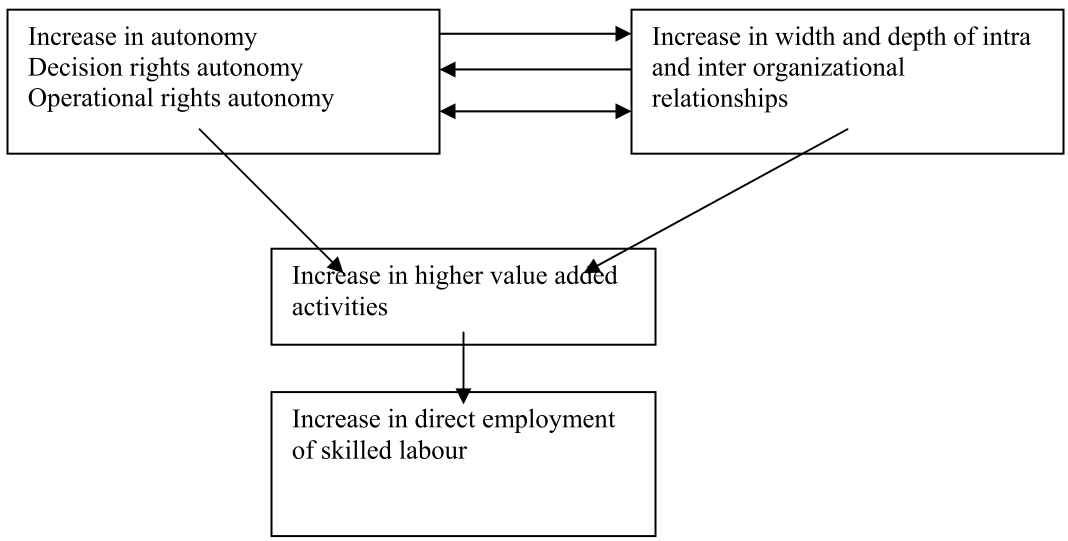

Figure 5
Model of Autonomy and Intra & Inter Organizational Relationships and Direct Employment of Skilled Labour